Danske Bank

FX Forecast Update

Fed's USD debasement 'paused' – US politics key joker

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FX market overview

What has changed? Fed, US politics, COVID-19 move in less reflationary/recovery-supportive direction

- Since we published *FX Forecast Update (interim): Faith in Fed and FAIT into the fall (of USD* ,on 3 September, notably three things have surprised us.
  - The Fed was not as dovish at the mid-September meeting as we had expected – but also not as hawkish as the market had expected. Actions speak louder than words and the lack of the former means the credibility of the Fed's shift to flexible average inflation targeting (FAIT) has yet to be cemented. This essentially leaves the glass half empty/full when it comes to hopes for reflation of the US and global economy near term. In turn, the case for continued USD debasement is not as clear-cut short term.
  - US politics look increasingly 'messy' and while this may be regarded largely as noise in an FX context, it does suggest that a new fiscal stimulus package would be increasingly difficult to pass near term. This has proved a slight disappointment for risk sentiment recently. The coming weeks look set to be headline-driven leading up to the US elections and while this could steer volatility short term, we stress that in the medium term what matters is whether either party has the majority in Congress, as this in turn decides whether we get a US fiscal boost (or not). Near term also watch for chance of pre-election fiscal relief package which seems to have risen again lately.
  - Lockdowns in Europe have started gaining traction again after a rising number of new COVID-19 cases hit France, Spain, the Netherlands and the UK hardy. While politicians are still reluctant to impose nationwide lockdowns again, some countries are implementing 'local lockdowns light' as new cases and hospitalisations rise.

Outlook: reflation fading as near-term driver; less EUR/USD upside, limited Scandi strength

- While reflation hopes are somewhat on standby – postponed, if not cancelled – the case for sustained USD weakness towards year-end is paused. As a result, we have flattened our EUR/USD profile: we now see the cross peaking in 3-6M at 1.20 (previously 1.23) and for now the cross looks in the 1.15-1.19 range. We have also raised our EUR/Scandies profiles somewhat on similar grounds, as global factors dominate both SEK and NOK.

Key risks to our forecasts: vaccine, Fed, fiscal response – and China – remain key to broad USD direction

- If both the global recovery and reflation gain traction e.g. from a COVID-19 vaccine, Fed actions to drive inflation higher and/or continued fiscal stimulus across jurisdictions, the broad USD could weaken more than we expect.
- If the world slips into a 'classical recession' e.g. due to 'more of the same' that has hit sentiment in recent weeks, China re-starts deleveraging and/or the US surprises positively and decouples from the rest of the world, the broad USD could strengthen again.

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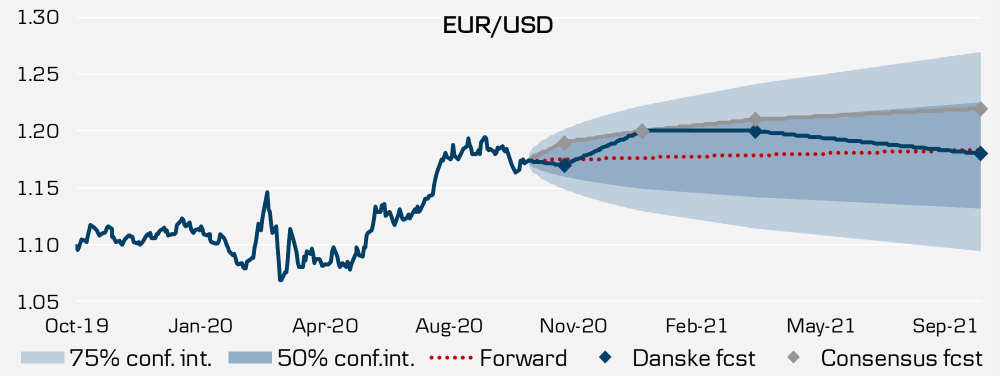
Danske Bank

EUR/USD – one more possibility around year-end for testing of 1.20

- **Cyclical outlook.** We expect the cyclical uptick in Europe (and elsewhere) to continue over the coming months. The introduction of new European lockdowns, a marginally hawkish Fed, mild weakness in the data, verbal intervention from the ECB and a likely postponement of the payments linked to EU fiscal support have caused EUR/USD to take a step back from previous highs (1.18-1.20), to around 1.17.
- **US election.** The best case for EUR optimism would be a president (either Biden or Trump) who takes Congress. If so, we would expect a break in the US fiscal policy deadlock, while the Fed stays sidelined. Currently, this should propel risk assets higher and support the notion of further recovery in the global industries most affected by COVID-19 and, thus, also Europe.
- **Monetary policy.** The Fed has proven itself more hawkish than we expected and, in turn, the USD has strengthened. An equity sell-off is still the fastest way to more USD strength but we would expect the Fed to intervene in this case and thus limit the potential downside in EUR/USD. The ECB remains split over taking more action but we do not expect rate cuts or an increase in QE. On net, relative monetary policy is somewhat USD-positive.
- **External balances.** Fundamentally, we expect the US to remain a high(er) interest rate market and for equities to continue to appeal to foreign investors. This means the US would attract capital and generally this would help the USD.
- **Valuation.** We view the fair value for EUR/USD to be around 1.08. US assets' trend performance continues to be strong relative to their European counterparts and COVID-19 has fast-forwarded the adoption of technology, favouring flows into the US. EUR/USD thus faces structural deprecation due to a lack of competitiveness. The simple path to a valuation reversal (lower EUR/USD) would be a change in the consensus view of a strong European recovery and/or weakness in reflation trends.
- **Positioning.** Speculators are stretched long EUR/USD.

Forecast: 1.17 (1M), 1.20 (3M), 1.20 (6M), 1.18 (12M)



EUR/USD	1M	3M	6M	12M
Forecast (pct'ile)	1.17 (70%)	1.20 (74.6%)	1.20 (68.2%)	1.18 (50.9%)
Fwd. / Consensus	1.17 / 1.19	1.18 / 1.20	1.18 / 1.21	1.18 / 1.22
50% confidence int.	1.16 / 1.19	1.15 / 1.20	1.14 / 1.21	1.13 / 1.23
75% confidence int.	1.14 / 1.20	1.13 / 1.22	1.11 / 1.24	1.09 / 1.27

Note: Past performance is not a reliable indicator of current or future results

Source: Macrobond Financial, Danske Bank

- **Risks.** Upside risks to take us above 1.20 include the EU proving to be an engine of world growth and/or the Fed credibly committing to inflation overshooting (which it has not as of today). The combination of positive progress with US fiscal policy, Brexit, the corona situation and global growth may culminate by year-end. If all goes well, we could see a new test of 1.20.
- **Conclusion.** We see scope for a new test of 1.20 but risks have increased over September, as we have seen a hawkish Fed and Europe has disappointed across data, politics and the handling of corona. We have lowered our 3M-6M projections to 1.20. We note that December includes an unusual number of events that we expect to define the risk and EUR/USD as we go in to 2021. Until we see a firm change in the macro narrative, we expect EUR/USD to range-trade at 1.15-1.19 and for volatility to remain.

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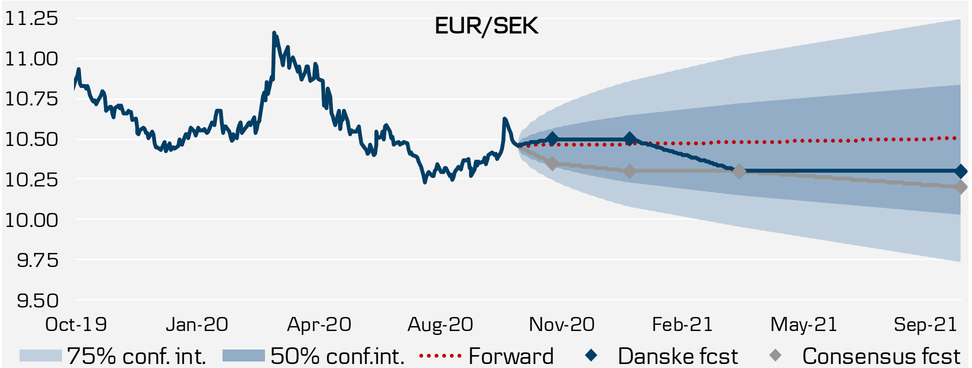
EUR/SEK – the reflation story backfired; now what?

- **Cyclical outlook.** After the Q2 blowout, Q3 looks set to post a decent rebound here and almost everywhere. We believe this part of the reflation narrative has probably passed its most dynamic period though. Going forward, we expect the recovery to lose momentum, which suggests that the best part of the SEK impetus is behind us. That said, as long as the recovery goes the right way, the SEK should still have some friends out there.
- **Monetary policy.** The Riksbank continues to focus on QE measures rather than using the repo rate as a means to support the economy. Inflation is running significantly below target. While 5Y inflation expectations are falling, the Riksbank is satisfied with a level of around 1.7-1.8%. The Riksbank is keeping the door open for a return to negative rates, if the credibility of the 2% target is threatened; this, in our view, limits the downside potential in EUR/SEK. Board members have downplayed the previous SEK appreciation.
- **External balances.** Sweden's current account rose to 4% in 2019 but was only 1.7% adjusted for merchanting. Foreign holdings of Swedish bonds have shrunk below 25% in 2020 but have remained stable in recent months. Foreign interest in Swedish equities has increased in 2020.
- **Valuation.** We have long argued that part of the trend SEK depreciation has been fundamental in nature, which suggests the SEK is not currently substantially undervalued and EUR/SEK at 10.00-10.50 is 'fair' from a longer-term perspective. The Riksbank seems to have reached a similar conclusion, see *Reading the Markets Sweden,* 25 September.
- **Risks.** Continued strong risk-on and one-sided USD bashing may justify a stronger SEK than our forecast. However, if risk sentiment turns nasty, it may send EUR/SEK higher than current levels. After the recent de-reflation sell-off in pro-cyclical currencies such as the SEK, the risk distribution is relatively symmetric around our 1-3M forecasts. Focus is on global sentiment and events such as COVID-19, Brexit and the US election.

Forecast: 10.50 (1M), 10.50 (3M), 10.30 (6M), 10.30 (12M)



EUR/SEK	1M	3M	6M	12M
Forecast (pct'ile)	10.50 (70%)	10.50 (59.3%)	10.30 (38.4%)	10.30 (41.8%)
Fwd. / Consensus	10.46 / 10.35	10.47 / 10.30	10.48 / 10.30	10.50 / 10.20
50% confidence int.	10.31 / 10.58	10.23 / 10.65	10.15 / 10.72	10.03 / 10.84
75% confidence int.	10.21 / 10.71	10.08 / 10.86	9.95 / 11.02	9.74 / 11.24

Note: Past performance is not a reliable indicator of current or future results.
Source: Macrobond Financial, Danske Bank

- **Conclusion.** Question marks over the reflation narrative, signs of a recovery slowdown, not least in Europe, disappointing inflation prints and a Fed that failed to get out the big guns have weighed on the SEK, in particular vs the USD, and taken EUR/SEK a leg higher in its ascending trend since 21 July. We believe part of the SEK sell-off seems overdone though. While the Riksbank is normally a key driver, it is less so now, while global factors dominate. Catalysts for a weaker SEK could be further headwinds for reflation optimism or if the Riksbank, contrary to our base scenario, goes negative again. On the other hand, a strong reflationary comeback could send EUR/SEK back toward 2020 lows, where it would find itself close to medium-term fair value. On balance, we raise our trajectory to 10.50 (10.30) in 1-3M and 10.30 (10.10) in 6-12M.

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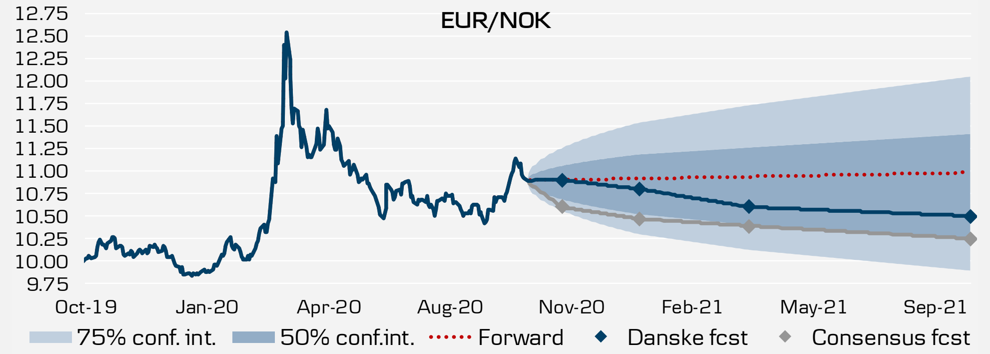
EUR/NOK – more balanced after September rally

- **Cyclical outlook.** After a sharp rebound ahead of summer, mainland GDP is now 'only' 5% below pre-COVID-19 levels. Overall, we expect the recovery to continue but at a somewhat slower pace than before. Norway has experienced a rise in COVID-19 cases over the past months and even if the rise has been modest relative to European peers, new containment measures are likely to dampen growth prospects short term. Total unemployment continues to decline. However, in recent months, we have seen part-time furloughed workers changing status to permanent unemployed, highlighting the longer-term implications of this crisis. The housing market still looks hot and credit growth is on the rise. Finally, core inflation is running close to 4% but this should be temporary in nature and driven by previous NOK weakness lifting imported inflation.
- **Monetary policy.** This year, Norges Bank (NB) has cut policy rates by 150bp: by 50bp on 13 March, 75bp on 20 March and 25bp on 7 May. This has brought the sight deposit rate to a new historical low of 0.0%. In September, NB reiterated its neutral bias that negative rates are unlikely and that the first rate hike looks as of now set for Q3 22. We see top-side risk to that signal and still pencil in the first hike by Q4 21.
- **External balances.** The spring energy price collapse substantially weakened Norway's terms of trade. Meanwhile, the COVID-19-induced fiscal spending is funded via the oil fund, which entails a direct 1:1 buying of NOK conducted by NB. As the recovery has been stronger than expected, the COVID-19 fiscal bill has proved lower than feared. By extension, that means somewhat lower NOK purchases ahead.
- **Valuation.** With the 2020 NOK collapse, we now deem the NOK as undervalued also from a competitive perspective. Prior to COVID-19, we had argued this was not the case (unlike PPP signals).
- **Positioning.** After the September sell-off we think positioning has become more balanced – albeit still absolute long.

Forecast: 10.90 (1M), 10.80 (3M), 10.60 (6M), 10.50 (12M)



EUR/NOK	1M	3M	6M	12M
Forecast (pct'ile)	10.90 (70%)	10.80 (47.8%)	10.60 (36.8%)	10.50 (36.4%)
Fwd. / Consensus	10.90 / 10.60	10.92 / 10.47	10.94 / 10.39	10.98 / 10.25
50% confidence int.	10.64 / 11.09	10.52 / 11.18	10.40 / 11.26	10.26 / 11.41
75% confidence int.	10.50 / 11.32	10.30 / 11.54	10.12 / 11.73	9.89 / 12.05

Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

- **Risks.** The biggest risk factors to our forecasts lie in the global recovery, risk appetite, oil prices and vaccine developments – all of which are interconnected. Better news than in our baseline would drive a reflationary global investment environment underpinning a sharp NOK comeback. On the other hand, a troubled reopening and/or additional waves of COVID-19 could result in a sharper setback.

Conclusion. The NOK remains a high-beta derivative of the global reflation theme. In September, our negative risk scenario played out but looking ahead things seem more balanced. Also, recent headwinds from factors such as positioning have faded. We believe in a stronger NOK over the coming year but emphasise that much of this is down to our view on the global economy/vaccine break-through and much less so that of our constructive view on the domestic economy. We now project EUR/NOK at 10.90 in 1M (from 10.30), 10.80 in 3M (10.30), 10.60 in 6M (10.10) and 10.50 in 12M (10.10).

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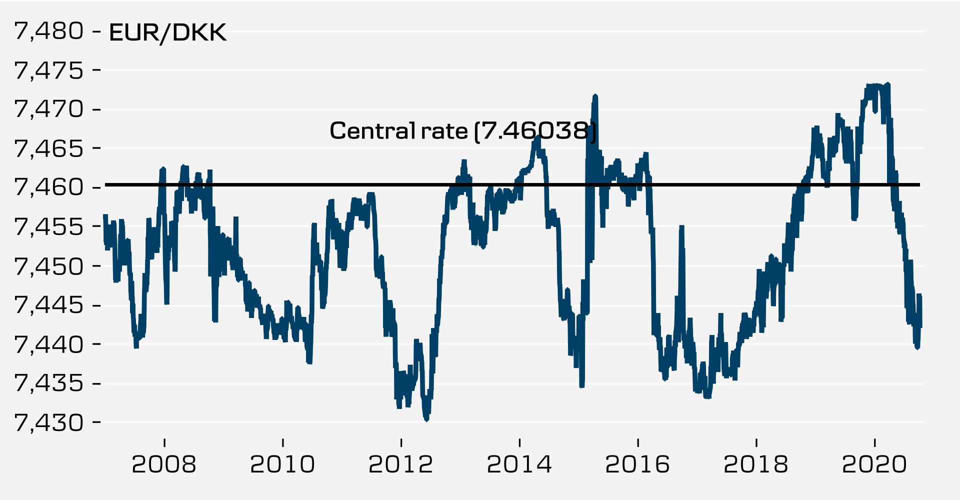
EUR/DKK – firmly at the strong end of the trading band

- **Cyclical outlook.** The cyclical environment is broadly neutral for EUR/DKK as relative DKK-US equity prices and long-term bond yields remain broadly stable. Developments in the US and in USD/DKK are important for the earnings potential in the Danish economy in light of the significant net exports of pharmaceuticals in particular but also due to the large investment in US stocks.
- **Monetary policy.** Danmarks Nationalbank (DN) sold DKK65bn EUR in FX intervention in the first half of March, before raising policy rates 15bp. In April, the need for FX intervention stopped. Tighter liquidity and the rate hike has led to small positive carry on short EUR/DKK positions. We look for DN to keep policy rates unchanged over 12 months. We expect DN to maintain the tight fluctuation band of 7.4325-50 and 7.4730. The decision to use potentially foreign currency issuance to cover the public deficit is a game change for money market, as fiscal policy could directly affect excess liquidity over the coming months.
- **External balances.** Denmark continues to run a large current-account surplus, which materialises in a large investment need abroad for the Danish life and pension sector. The surplus was unaffected by the economic turmoil in March and April. The budget deficit is set to grow significantly this year due to the fiscal measures taken to soften the blow from the COVID-19 crisis but overall we do not expect this to jeopardise the strong Danish economic fundamentals.
- **Valuation.** The strong Danish external balances keep a 'DKK appreciation risk premium' vis-à-vis EUR in the FX forward curve. This in turn forces DN to keep policy rates lower than the ECB's over the long term, resulting in a EUR/DKK forward discount.
- **Positioning.** Danish life & pension companies on aggregate kept their USD hedge ratio unchanged in Q2 and slightly lowered their EUR hedge ratio. The EUR hedge ratio is now at the low end of the historical range.

Forecast: 7.4400 (1M), 7.4450 (3M), 7.4475 (6M), 7.4550 (12M)



Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

- **Risks.** EUR/DKK remains exposed to large movements in equity and fixed income markets via the FX hedge rebalancing effect. US equity outperformance will tend to push EUR/DKK lower, while higher long-term bond yields will support a higher EUR/DKK. Over the coming months, uncertainty prevails over the size of the government's short-term funding need due to uncertainty about corporate tax payments and payout of saved vacation money. We look for a temporary rise in excess liquidity over the coming months, which could push short-term rates lower temporarily.
- **Conclusion.** EUR/DKK dropped below 7.4400 in September. High DKK rates in FX forwards, swaps, short-term government bonds and T-bills have supported the DKK. We forecast EUR/DKK at 7.4400 in 1M (from 7.4450) and 7.4450 in 3M (from 7.4475), 7.4475 in 6M (from 7.4500) and 7.4550 in 12M. Rebalancing effects on the back of relative US and DK equity market performance and the developments in long-term EUR rates have not played a role recently but we believe are still important to watch going forward.

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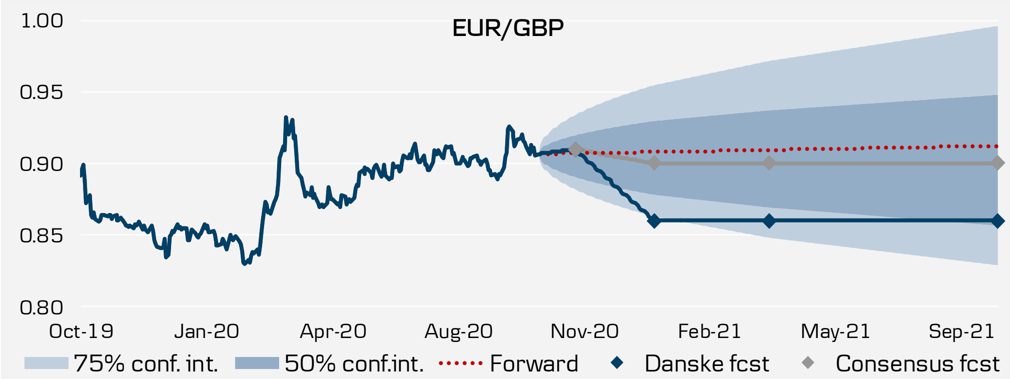
EUR/GBP – Brexit to determine the faith of GBP

- **Cyclical outlook.** UK data have been improving markedly after the reopening of the economy. Unfortunately, the number of new COVID-19 cases is increasing again and restrictions have been tightened as a result. The restrictions are set to remain in place for up to six months and are likely to slow the recovery in coming months. Brexit uncertainty is likely to impose a limit on how fast investments recover in H2 until we get some clarification.
- **Brexit**. In line with our expectations, there has not been any major breakthrough ahead of the EU summit on 15-16 October. Our base case remains a deal but we expect negotiations to extend into November. The main obstacles are still fishing and level playing field conditions (e.g. state aid and taxes)
- **Monetary policy.** The Bank of England (BoE) cut rates in the wake of COVID-19, taking the Bank rate to 0.1%. We expect the BoE to keep policy rates unchanged through our forecast horizon despite growing discussions on whether to go to negative. Recently the BoE has made it clear that negative rates are in the toolbox but not set for immediate use. Despite the pre-summer QE increase, we believe it is likely that the BoE will expand the QE programme by an additional GBP50-100bn in autumn.
- **External balances.** The UK runs a large current account deficit, which makes the GBP vulnerable when capital flows fade such as seen at the height of the COVID-19-driven risk sell-off; this keeps GBP at risk vs surplus EUR in wake of a risk sell-off.
- **Valuation.** GBP remains fundamentally undervalued with a significant Brexit discount attached. Our Brexit-corrected MEVA estimate for EUR/GBP is close to 0.83; our PPP estimate is around 0.76. Thus, if a trade with the EU is eventually sealed, a decent move lower should be in store.
- **Positioning.** Non-commercial positioning is neutral.

Forecast: 0.91 (1M), 0.86 (3M), 0.86 (6M), 0.86 (12M)



EUR/GBP	1M	3M	6M	12M
Forecast (pct'ile)	0.910 (70%)	0.860 (10.2%)	0.860 (18%)	0.860 (26.1%)
Fwd. / Consensus	0.910 / 0.910	0.910 / 0.900	0.910 / 0.900	0.910 / 0.900
50% confidence int.	0.89 / 0.92	0.88 / 0.93	0.87 / 0.94	0.86 / 0.95
75% confidence int.	0.88 / 0.94	0.86 / 0.95	0.85 / 0.97	0.83 / 1.00

Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

- **Risks.** A hit to global risk sentiment could hurt the GBP as sterling has been trading very much as a cyclical currency this year. A restart of the reflation trade may limit how much the GBP weakens due to increasing Brexit fears near term.
- **Conclusion**. We expect EUR/GBP to trade within 0.90-0.92 until we get clarification on Brexit. Our base case remains a simple free trade agreement covering goods and we expect the cross to move lower to around 0.86 when a deal is in sight. We have lowered our 3M forecast to 0.86 (previously 0.88), as we expect a deal some time in November. We keep our 6-12M forecast at 0.86.

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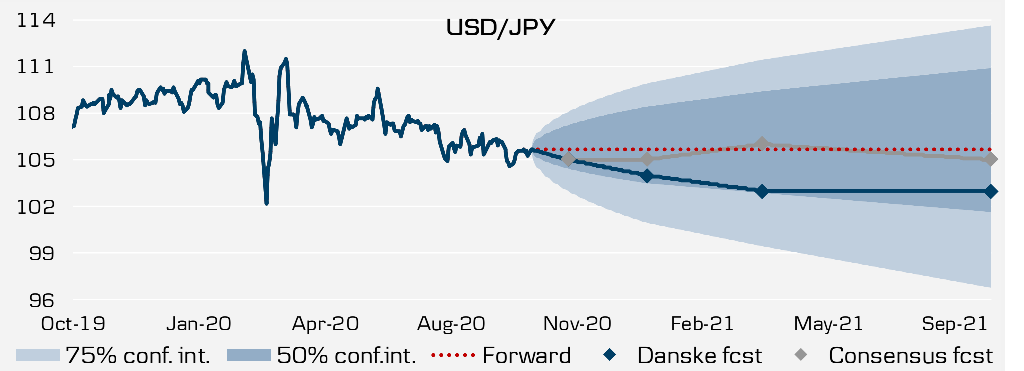
USD/JPY – strong JPY to continue as 'Asia factor' intact

Cyclical outlook. USD/JPY has been thrown back and forth by moves in global risk aversion, commodities and domestic fiscal response on the one side (stronger JPY) and a very weak domestic economy on the other (weaker JPY). Notably, nominal US interest rates have remained largely unchanged amid rising inflation expectations and oil prices have consolidated. In turn, JPY has been left to other drivers. We argue these drivers are an 'Asia factor' and the decline in real rates, which has been USD-negative. These factors are thus USD negative/JPY positive.

- **Monetary policy.** There is plenty of flexibility within the QE-programme and we believe it is more likely, the BoJ will draw on this before cutting rates, which has, arguably, already reached reversal rate levels. The key focus is set to remain on the ability to supply sufficient funds to businesses affected by the crisis.
- **External balances.** Japan runs a current account surplus.
- **The Asia factor.** We are currently witnessing a theme of Asian outperformance given the region's fast recovery from COVID-19, supportive Chinese credit growth and, not least, Asian equities doing well. For Asia in general and, specifically for countries with a close proximity to China, stable political regimes, strong productivity and low debt, while not being commodity exporters, are a boon for a rebound in FX. In this environment, USD/JPY to some degree mirror USD/CNH and other Asian cyclicals. Japanese politics also spell stability: the ruling Liberal Democrats chose the continuity candidate, Yoshihide Suga, to succeed Shinzho Abe as prime minister.
- **Positioning.** Speculators are long JPY.
- **Risks.** To take JPY above 110 we would need a material change in US nominal rates and/or global commodity prices. However, oversupply in the oil market remains a relevant factor, which limits upside risks to oil and thus downside risk to JPY (Japan is a net importer). We also do not see the US 10Y rate rising much above 1% in a best-case macro scenario. A key question is for how long the People's Bank of China (PBoC) will endorse the credit-fuelled Asian recovery.

Forecast: 105 (1M), 104 (3M), 103 (6M), 103 (12M)



USD/JPY	1M	3M	6M	12M
Forecast (pct'ile)	105.00 (70%)	104.00 (28.2%)	103.00 (25.5%)	103.00 (29.5%)
Fwd. / Consensus	105.660 / 105.000	105.660 / 105.000	105.660 / 106.000	105.650 / 105.000
50% confidence int.	104.23 / 107.38	103.49 / 108.42	102.87 / 109.40	101.64 / 110.89
75% confidence int.	102.79 / 108.34	100.94 / 109.90	99.45 / 111.42	96.77 / 113.64

Note: Past performance is not a reliable indicator of current or future results

Source: Macrobond Financial, Danske Bank

- **Valuation.** Our PPP estimate is around 80, suggesting an undervalued JPY, while our medium-term valuation model (MEVA) stands at 108. In our view, USD/JPY is at fair value, as we emphasise the MEVA estimate as a more reasonable estimate.
- **Conclusion.** Amid the lack of a steeper curve for US interest rates, we increasingly shift our expectations towards further JPY strength. This strength is not due to a negative view on global risk but rather that Asian outperformance will help JPY versus USD. In turn, our profile has shifted from upwards sloping (12M at 112) to downwards sloping over the entire forecast horizon. Thus, the key risk to our profile becomes a shock that materially steepens the US yield curve and/or raises oil prices in to the mid-to-high USD50s for Brent and/or substantial USD strength. We attach a low probability to any of this happening. Jointly, this limits upside risk in EUR/JPY from here, as well, in our view.

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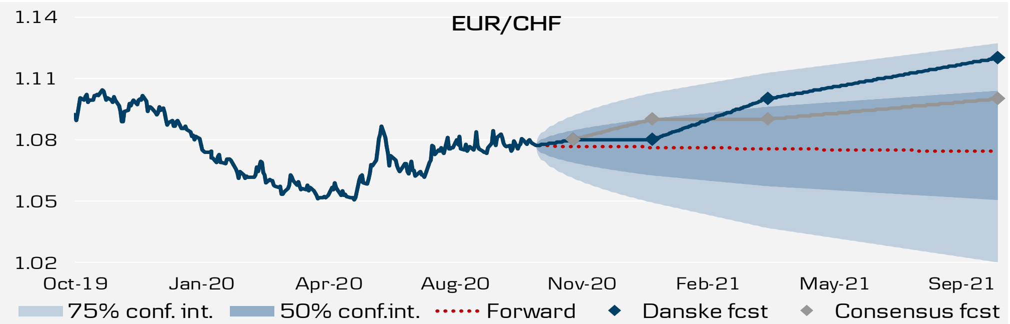
EUR/CHF

Forecast: 1.08 (1M), 1.08 (3M), 1.10 (6M), 1.12 (12M)



EUR/CHF	1M	3M	6M	12M
Forecast (pct'ile)	1.08 (70%)	1.08 (55.9%)	1.10 (77.8%)	1.12 (83.9%)
Fwd. / Consensus	1.080 / 1.080	1.080 / 1.090	1.080 / 1.090	1.070 / 1.100
50% confidence int.	1.07 / 1.09	1.06 / 1.09	1.06 / 1.10	1.05 / 1.10
75% confidence int.	1.06 / 1.09	1.05 / 1.10	1.04 / 1.11	1.02 / 1.13

Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

- The lack of clear reflation support from the Fed has left EUR/CHF with little direction for now. The SNB is preparing to continue to sweat out the deflationary pressure in the Swiss economy (CPI running at -0.8% y/y): intervention remains the key policy tool and the SNB has started to publish quarterly intervention data in a move towards more transparency on this after the US put it on watch for currency manipulation. Policy rates are set to stay unchanged at the long-standing -0.75% for an extended period of time.
- We see EUR/CHF range-bound in the absence of a clear reflation or recovery catalyst, stuck in a 1.07-1.09 range for now. Risks remain asymmetric longer term, as the SNB holds the downside in check and a global recovery in 2021 brings some relief to the undervalued pair. We lower and flatten our forecast profile as we now believe global inflation will arrive more gradually: we thus now see EUR/CHF at 1.08 in 1M (prev. 1.09), 1.08 in 3M (1.10), 1.10 in 6M (1.13) and 1.12 in 12M (1.14).

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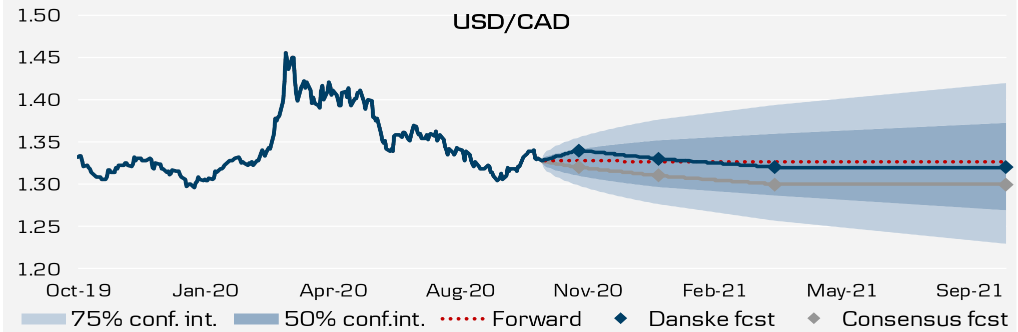
USD/CAD

Forecast: 1.34 (1M), 1.33 (3M), 1.32 (6M), 1.32 (12M)



USD/CAD	1M	3M	6M	12M
Forecast (pct'ile)	1.34 (70%)	1.33 (55.8%)	1.32 (47.9%)	1.32 (49.7%)
Fwd. / Consensus	1.33 / 1.32	1.33 / 1.31	1.33 / 1.30	1.33 / 1.30
50% confidence int.	1.31 / 1.34	1.30 / 1.35	1.29 / 1.36	1.27 / 1.37
75% confidence int.	1.30 / 1.36	1.28 / 1.38	1.26 / 1.39	1.23 / 1.42

Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

- Fundamentally, we like to consider USD/CAD as USD/NOK but with a lower beta to global risk sentiment and oil prices. This is due to the CAD's close connection to the USD (Canada-US trade link) and Canada's lower dependence on oil.
- Consequently, in September we saw USD/CAD rebound – but not as much as USD/NOK did. Looking ahead, the near-term outlook suggest top-side risk to USD/CAD from current spot. However, given our views on the global economy, vaccines and policy responses, we still factor in a lower USD/CAD on a 6-12M horizon.
- We forecast USD/CAD at 1.34 in 1M (from 1.30), 1.33 in 3M (1.28), 1.32 in 6M (1.28) and 1.32 in 12M (1.30).

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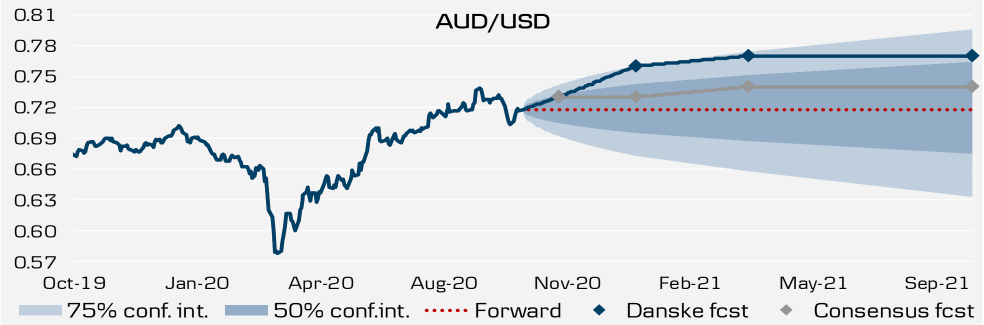
AUD/USD

Forecast: 0.73 (1M), 0.76 (3M), 0.77 (6M), 0.77 (12M)



AUD/USD	1M	3M	6M	12M
Forecast (pct'ile)	0.73 (70%)	0.76 (86.9%)	0.77 (85.2%)	0.77 (77.1%)
Fwd. / Consensus	0.72 / 0.73	0.72 / 0.73	0.72 / 0.74	0.72 / 0.74
50% confidence int.	0.70 / 0.73	0.69 / 0.74	0.69 / 0.75	0.67 / 0.76
75% confidence int.	0.69 / 0.74	0.67 / 0.76	0.66 / 0.77	0.63 / 0.80

Note: Past performance is not a reliable indicator of current or future results

Source: Macrobond Financial, Danske Bank

- The coronavirus outbreak had major negative effects on the AUD in Q1, as Chinese activity and declining industrial metal prices weighed further on the currency. Since March, the AUD has rebounded strongly in line with risk sentiment elsewhere, and remarkably so. Key upside risks include a decline in the broad dollar and upside in industrial metal prices.
- We keep our upbeat AUD/USD profile, as a recovery continues to move ahead and setbacks appear temporary. One thing worth noting is Chinese credit data, which have also picked up pace and generally support the AUD when looking ahead (see CNH strength). Even if short-term sentiment is a bit fragile with resurging COVID-19 worries, we do not expect this to derail the trend of continued global recovery or further upside in the AUD.

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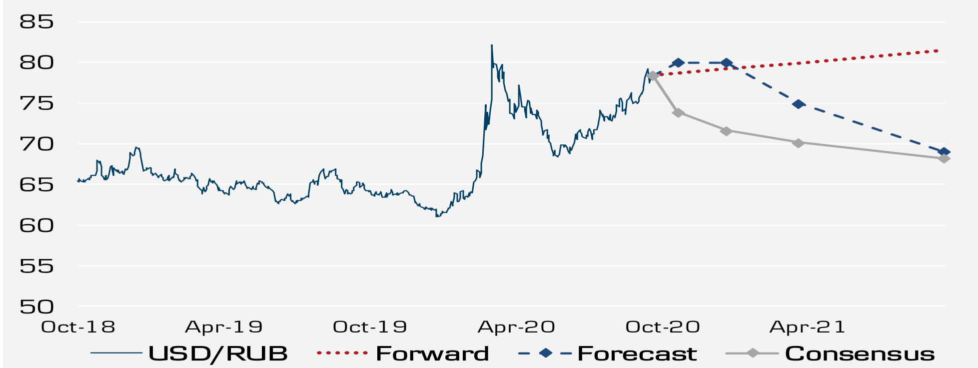
USD/RUB

Forecast: 80.00 (1M), 80.00 (3M), 75.00 (6M), 69.00 (12M)



USD/RUB	1M	3M	6M	12M
Forecast	80.00	80.00	75.00	69.00
Fwd./Consesus	78.66 / 73.95	79.19 / 71.67	79.89 / 70.18	81.52 / 68.21

Note: Past performance is not a reliable indicator of current or future results

Source: Macrobond Financial, Danske Bank

- In our view, the key to understanding USD/RUB is the geopolitical path that Russia has taken (Belarus, Navalny and Afghanistan stories) and now the new proxy war between Russia and Turkey in the Azeri-Armenia conflict. Amid low (or at least not rising) oil prices and low domestic inflation, this all adds up to cyclical factors having become increasingly important. As such, it is not that oil prices have fallen and taken the RUB lower, but rather the stability in oil prices has left other drivers (politics) take over. The Russian easing cycle has probably ended, but it is not a major FX driver.
- We believe the possibility of more RUB strength lies with upside for oil prices, fading sanction risks and stronger-than-expected global demand. For our profile, we have faded a bit of the expected RUB strength over 1-3M as we believe geopolitics are likely to linger for a while and in this light it is probably too early to catch the falling knife in the RUB. For many, the weakness in USD/Scandies will have amplified RUB pessimism.

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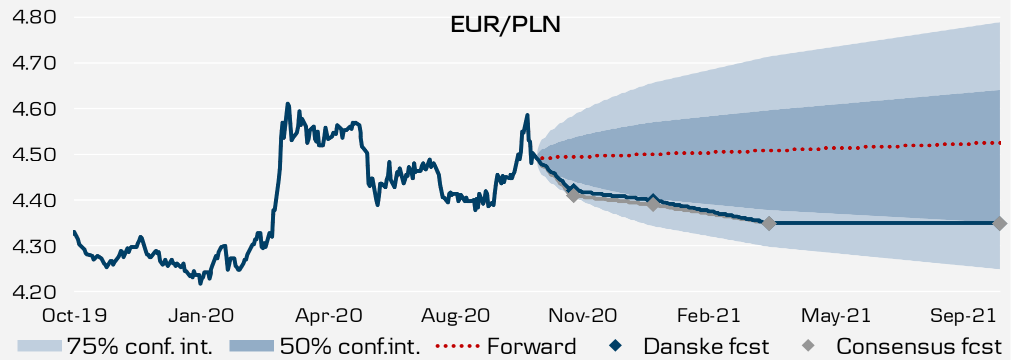
EUR/PLN – in the hands of global risk sentiment and COVID-19

- **Cyclical outlook.** The Polish economy is continuing a modest recovery from the corona shock. Poland is like many other western countries in experiencing a second virus wave but the death rate remains much lower than in the spring, limiting the need for strict lockdowns. Both corporate and consumer confidence remain fragile and not seeing the rebound observed in some of the bigger economies such as the US and Germany. After a fairly strong rebound in July, retail sales slowed in August to a unimpressive 0.5% y/y in real terms, matching the rather weak consumer confidence. PMI manufacturing has also fallen back to around the 50 level. However, as global demand is picking up, the second virus wave is not having a material impact on the Polish economy and monetary and fiscal support remains solid, we believe that growth will remain decent, with 'just' a contraction in 2020 real GDP of 4% followed by a rebound to 3.7% in 2021.
- **Monetary policy.** NBP continues to keep monetary conditions and policy accommodative to mitigate the negative effects of the corona shock, keeping the policy rate at 0.1% and continuing its QE purchases. However, the pace of buying under the QE programme has declined in the recent auctions. Meanwhile, money supply (M3) is growing fast, which is typically associated with higher core inflation that remains at a high level at 4.0%, i.e. at the higher end of the NBP range. However, most of the policy committee has remained on the dovish side.
- **Risks.** Risks to our EUR/PLN profile are slightly to the upside. In the short term, the US election could rock global risk sentiment if President Trump disputes the election result. Furthermore, the coronavirus could prove more difficult to contain and force broader lockdowns in Poland and Europe. Among downside risks to the cross is faster global growth than projected.

Forecast: 4.42 (1M), 4.40 (3M), 4.35 (6M), 4.35 (12M)



EUR/PLN	1M	3M	6M	12M
Forecast (pct'ile)	4.42 (70%)	4.40 (23.3%)	4.35 (18.8%)	4.35 (23.6%)
Fwd. / Consensus	4.49 / 4.41	4.50 / 4.39	4.51 / 4.35	4.53 / 4.35
50% confidence int.	4.43 / 4.55	4.40 / 4.57	4.38 / 4.60	4.35 / 4.64
75% confidence int.	4.39 / 4.60	4.34 / 4.66	4.30 / 4.71	4.25 / 4.79

Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

- **Conclusion.** A significant weakening of global risk sentiment and a second coronavirus wave in Europe caused a lower EUR/USD and with that a higher EUR/PLN, in September alone went from 4.38 to 4.59. The PLN has staged a strong rebound on the back of the improvement in global risk-on sentiment in recent days, sending the EUR/PLN below 4.50. We still believe that EUR/PLN will head lower but given less impetus from the Fed to global reflation, we raise the trajectory a bit. Hence our new profile for EUR/PLN of 4.42 (4.36 previously) in 1M, 4.40 (4.32 previously) in 3M and then 4.35 (4.30) in 6-12M.

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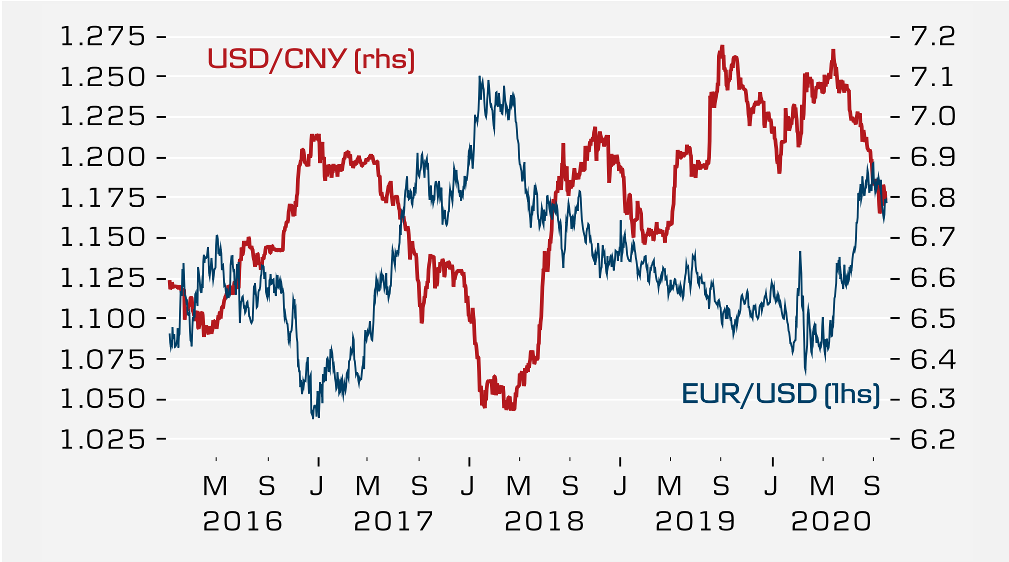
USD/CNY – strong economic momentum pushes CNY higher

- **Growth.** The Chinese economy continues to recover well from the corona shock. PMI has stayed robust and a rise in copper prices signals decent demand. Money growth, the credit impulse and electricity generation point to still relatively strong Polish economy. Home sales have also picked up following the slump during the COVID-19 escalation in February. However, retail sales have still not fully recovered from the COVID-19 slump. Industrial production growth points to GDP growth of almost 5% y/y in Q3. We look for the recovery to continue in Q4 but at a slower pace of around 1.7% q/q, corresponding to an underlying growth pace of around 6% y/y.
- **Monetary policy.** The Loan Prime Rate (LPR) has been reduced to 3.85% but has been unchanged for three months, now signalling an easing pause. Money market rates have increased on the back of better data. Aggregate finance increased sharply over the summer but has started to fall back slightly. We believe that the ongoing economic recovery means the People's Bank of China (PBoC) is curtailing the stimulus.
- **FX policy.** The CNY continues to be a 'managed peg' against a basket of currencies. The PBoC has increasingly let the market determine the CNY rate and has not intervened much in the market, as the central bank is showing more openness to a stronger CNY.
- **Flows.** FX reserves have increased in recent months as capital inflows have resumed amid greater confidence in the Chinese economy.
- **Main drivers:** The two main factors driving USD/CNY are: the overall development of the USD and any risks associated with US-China tensions, such as fears of a flare-up in the trade war. As we look for the US dollar to weaken a bit in the short term and we see the risk of a new flare-up in US-China trade tensions as small in the short term, we expect these factors to support the CNY.
- **Valuation.** The CNY is close to a long-term fair valuation. China's current account surplus has declined from the peak of 10% of GDP in 2007 to around 1% of GDP in 2019.

Forecast: 6.75 (1M), 6.70 (3M), 6.70 (6M), 6.60 (12M)



Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

- **Conclusion.** USD/CNY has fallen in line with our expectations as the interest rate differential has increased and the USD has weakened more broadly. We see slightly more downside for the cross as the global recovery continues and the Chinese economy performs relatively strongly. As a result, we see the USD/CNY trajectory as follows: 6.75 in 1M and 6.70 in 3-6M and further down to 6.60 in 12M.

  Risks: Compared to our forecasts, we see the risks balanced to the upside for the cross, mainly from a weakening global recovery and stronger USD in the short term (3M) and renewed US-China trade tensions after the US elections in the spring 2021.

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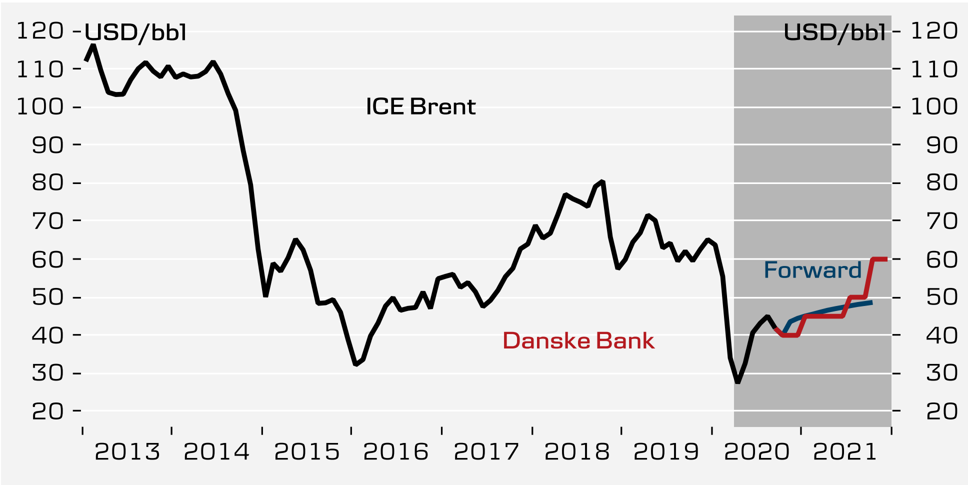
Oil – range-bound for the rest of the year

- **Macro.** The recovery in oil demand has stalled. The recent rebound in the USD has weighed on demand as well. Inventory levels have started to normalise but there is still a significant overhang, which is holding back drilling activity, for example in US shale oil. It remains to be seen how easy it will be to turn on wells that have been shut in. Cracks are starting to show in OPEC+ unity as the big oil producers Saudi Arabia and Russia are growing impatient with the lack of compliance among smaller producers. If the oil price recovers further next year, the commitment may start to falter.
- The return to more normal market conditions is a long uphill ride but we remain optimistic that we will get there eventually. Global macroeconomic momentum is still pointing in the right direction in our view. On a medium- to long-term horizon, the current low investment activity may result in supply shortages.
- **Risks.** The oil market remains in uncharted waters and the coming months could present swift reopening of economies, which would be positive for oil consumption, or further waves of infections could lead to another round of lockdowns and a renewed drop-back in consumption. As mentioned above, OPEC+'s commitment to the output cut deal could also be tested as compliance is challenged – it was not long ago that Saudi Arabia and Russia were on the verge of a price war.
- **Conclusion.** Movements in the USD and global risk appetite have been more important than development in infections. We expect oil prices to stay range-bound for the rest of the year. We keep our forecasts for Brent and look for Brent to average USD40/bbl in Q4, USD45/bbl in Q1 and Q2 21, USD50/bbl in Q3 and USD60/bbl in Q4.

Forecast: (USD/bbl) 40 (Q4 20), 45 (Q1-Q2 21), 50 (Q3 21) and 60 (Q4 21)



Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

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Danske Bank FX forecasts vs EUR

G10	Spot	+1m	+3m	+6m	+12m
				Last Update:	05/10/2020
Exchange rates vs EUR					
EUR/USD	1.175	1.17	1.20	1.20	1.18
EUR/JPY	124.1	123	125	124	122
EUR/GBP	0.907	0.91	0.86	0.86	0.86
EUR/CHF	1.077	1.08	1.08	1.10	1.12
EUR/SEK	10.46	10.50	10.50	10.30	10.30
EUR/NOK	10.89	10.90	10.80	10.60	10.50
EUR/DKK	7.4398	7.4400	7.4450	7.4475	7.4550
EUR/AUD	1.636	1.60	1.58	1.56	1.53
EUR/NZD	1.768	1.73	1.71	1.68	1.66
EUR/CAD	1.559	1.57	1.60	1.58	1.56
EUR	**Spot**	**+1m**	**+3m**	**+6m**	**+12m**
EUR/PLN	4.495	4.42	4.40	4.35	4.35
EUR/HUF	358	354	358	360	370
EUR/CZK	27.1	26.5	26.5	26.2	25.8
EUR/RUB	92.0	94	96	90	81
EUR/TRY	9.10	9.4	9.8	10.1	10.0
EUR/ZAR	19.27	19.1	19.2	18.6	18.3
EUR/CNY	7.98	7.90	8.04	8.04	7.79
EUR/INR	86.1	84	85	85	84

Source: Danske Bank

Danske Bank FX forecasts vs DKK

G10	Sidst opdateret:			05/10/2020	
	Spot	+1m	+3m	+6m	+12m
Valutakurser mod DKK					
USD/DKK	6.33	6.36	6.20	6.21	6.32
JPY/DKK	5.99	6.06	5.97	6.03	6.13
GBP/DKK	8.21	8.18	8.66	8.66	8.67
CHF/DKK	6.91	6.89	6.89	6.77	6.66
SEK/DKK	0.71	0.71	0.71	0.72	0.72
NOK/DKK	0.68	0.68	0.69	0.70	0.71
EUR/DKK	743.98	744.00	744.50	744.75	745.50
AUD/DKK	4.55	4.64	4.72	4.78	4.86
NZD/DKK	4.21	4.30	4.37	4.42	4.50
CAD/DKK	4.77	4.75	4.66	4.70	4.79
DKK					
	Spot	+1m	+3m	+6m	+12m
PLN/DKK	1.66	1.68	1.69	1.71	1.71
HUF/DKK	2.08	2.10	2.08	2.07	2.01
CZK/DKK	0.27	0.28	0.28	0.28	0.29
RUB/DKK	8.08	7.95	7.76	8.28	9.16
TRY/DKK	0.82	0.79	0.76	0.74	0.74
ZAR/DKK	0.39	0.39	0.39	0.40	0.41
CNY/DKK	0.93	0.94	0.93	0.93	0.96
INR/DKK	0.086	0.088	0.087	0.087	0.089

Source: Danske Bank

Danske Bank

Danske Bank FX forecasts vs SEK

Last Update: 05/10/2020

G10	Spot	+1m	+3m	+6m	+12m
Exchange rates vs SEK					
USD/SEK	8.90	8.97	8.75	8.58	8.73
JPY/SEK	8.43	8.55	8.41	8.33	8.47
GBP/SEK	11.54	11.54	12.21	11.98	11.98
CHF/SEK	9.72	9.72	9.72	9.36	9.20
EUR/SEK	10.46	10.50	10.50	10.30	10.30
NOK/SEK	0.96	0.96	0.97	0.97	0.98
DKK/SEK	1.41	1.41	1.41	1.38	1.38
AUD/SEK	6.39	6.55	6.65	6.61	6.72
NZD/SEK	5.92	6.07	6.16	6.12	6.22
CAD/SEK	6.71	6.70	6.58	6.50	6.61
SEK	**Spot**	**+1m**	**+3m**	**+6m**	**+12m**
PLN/SEK	2.33	2.38	2.39	2.37	2.37
HUF/SEK	2.92	2.97	2.93	2.86	2.78
CZK/SEK	0.39	0.40	0.40	0.39	0.40
RUB/SEK	0.11	0.11	0.11	0.11	0.13
TRY/SEK	1.15	1.12	1.07	1.02	1.03
ZAR/SEK	0.54	0.55	0.55	0.55	0.56
CNY/SEK	1.311	1.330	1.306	1.281	1.323
INR/SEK	0.122	0.125	0.123	0.121	0.123

Source: Danske Bank

Danske Bank

Danske Bank FX forecasts vs NOK

G10	Spot	+1m	+3m	+6m	+12m
				Last Update:	05/10/2020
Exchange rates vs NOK					
USD/NOK	9.27	9.32	9.00	8.83	8.90
JPY/NOK	8.78	8.87	8.65	8.58	8.64
GBP/NOK	12.01	11.98	12.56	12.33	12.21
CHF/NOK	10.12	10.09	10.00	9.64	9.38
SEK/NOK	1.04	1.04	1.03	1.03	1.02
EUR/NOK	10.89	10.90	10.80	10.60	10.50
DKK/NOK	1.46	1.47	1.45	1.42	1.41
AUD/NOK	6.66	6.80	6.84	6.80	6.85
NZD/NOK	6.16	6.30	6.33	6.30	6.34
CAD/NOK	6.99	6.95	6.77	6.69	6.74
NOK	**Spot**	**+1m**	**+3m**	**+6m**	**+12m**
PLN/NOK	2.42	2.47	2.45	2.44	2.41
HUF/NOK	3.04	3.08	3.02	2.94	2.84
CZK/NOK	0.40	0.41	0.41	0.40	0.41
RUB/NOK	0.12	0.12	0.11	0.12	0.13
TRY/NOK	1.20	1.16	1.10	1.05	1.05
ZAR/NOK	0.57	0.57	0.56	0.57	0.57
CNY/NOK	1.365	1.380	1.343	1.318	1.348
INR/NOK	0.127	0.129	0.127	0.124	0.125

Source: Danske Bank

Danske Bank

Danske Bank FX forecasts vs USD

G10			Last Update:	05/10/2020	
	Spot	+1m	+3m	+6m	+12m
Exchange rates vs USD					
EUR/USD	1.1750	1.17	1.20	1.20	1.18
USD/JPY	105.6	105	104	103	103
GBP/USD	1.296	1.29	1.40	1.40	1.37
USD/CHF	0.916	0.92	0.90	0.92	0.95
USD/SEK	8.904	8.97	8.75	8.58	8.73
USD/NOK	9.271	9.32	9.00	8.83	8.90
USD/DKK	6.332	6.36	6.20	6.21	6.32
AUD/USD	0.718	0.73	0.76	0.77	0.77
NZD/USD	0.665	0.68	0.70	0.71	0.71
USD/CAD	1.327	1.34	1.33	1.32	1.32
USD					
	Spot	+1m	+3m	+6m	+12m
USD/PLN	3.825	3.78	3.67	3.63	3.69
USD/HUF	305	295	298	300	314
USD/CZK	23.094	22.65	22.08	21.83	21.86
USD/RUB	78.300	80.00	80.00	75.00	69.00
USD/TRY	7.746	8.00	8.15	8.40	8.50
USD/ZAR	16.400	16.30	16.00	15.50	15.50
USD/CNY	6.79	6.75	6.70	6.70	6.60
USD/INR	73.29	72.00	71.00	71.00	71.00

Source: Danske Bank

Danske Bank

Danske Bank FX forecasts vs GBP

G10	Spot	+1m	+3m	+6m	+12m
				Last Update:	05/10/2020
Exchange rates vs GBP					
GBP/USD	1.30	1.29	1.40	1.40	1.37
GBP/JPY	136.90	135	145	144	141
EUR/GBP	0.91	0.91	0.86	0.86	0.86
GBP/CHF	1.19	1.19	1.26	1.28	1.30
GBP/SEK	11.54	11.54	12.21	11.98	11.98
GBP/NOK	12.01	11.98	12.56	12.33	12.21
GBP/DKK	8.21	8.18	8.66	8.66	8.67
GBP/AUD	1.80	1.76	1.84	1.81	1.78
GBP/NZD	1.95	1.90	1.98	1.96	1.92
GBP/CAD	1.72	1.72	1.86	1.84	1.81

GBP	Spot	+1m	+3m	+6m	+12m
GBP/PLN	4.96	4.86	5.12	5.06	5.06
GBP/HUF	394.88	389	416	419	430
GBP/CZK	29.93	29.12	30.81	30.47	30.00
GBP/RUB	101.47	102.86	111.63	104.65	94.67
GBP/TRY	10.04	10.29	11.37	11.72	11.66
GBP/ZAR	21.25	20.96	22.33	21.63	21.27
GBP/CNY	8.80	8.68	9.35	9.35	9.06
GBP/INR	94.93	92.57	99.07	99.07	97.42

Source: Danske Bank

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this research report are Christin Kyrme Tuxen (Head of FX Research), Kristoffer Kjær Lomholt (Chief Analyst), Lars Sparresø Merklin (Senior Analyst), Jens Nærvig Pedersen (Chief Analyst), Jakob Ekholdt Christensen (Head of Macro and EM Research), Stefan Mellin (Senior Analyst), Andreas Mey Kjøller (Assistant Analyst), Mikael Milhøj (Senior Analyst) and Jesper Petersen (Analyst).

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Monthly.

Date of first publication

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