Investment Research

FX Forecast Update – USD to hit new highs, SEK and NOK to hit new lows

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Important disclosures and certifications are contained from page 20 of this report

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FX market overview

Recent developments: diverging monetary and fiscal policy

- Since our last *FX Forecast Update,* 23 September, the UK government has spooked markets by announcing a large deficit funded tax cut-package. Gilt yields subsequently reached 2008-highs and EUR/GBP moved sharply higher, as funding concerns with respect to the UK's current account deficit soared. As G10 central banks continue to tighten monetary conditions, the divergence of monetary and fiscal policy is becoming increasingly evident as fiscal policy makers seek to mitigate the erosion of purchasing power. Meanwhile, the more fiscal policy is eased the more central banks have to tighten. There are now clear signs of fading global demand but we have yet to see weakness spill over into labour markets, which remain strong. Recent developments in the Russia/Ukraine war once again highlights the risk of the conflict explicitly returning as a FX market theme.

FX implications: high volatility across the board

- The past month has been characterised by heightened volatility in FX markets as rising recession risk, balance of payment flows and falling commodity prices have taken centre stage. Heightened uncertainty about UK fiscal policy has resulted in a substantial rise in GBP volatility. Commodity currencies in NOK, NZD and AUD have sold off mirroring the general move lower in commodity currencies. Weaker growth prospects have weighed on SEK, sending the SEK to its weakest level since March 2020. USD/JPY is back trading above 145, which constituted levels that prompted the BOJ to intervene in September.

Outlook: EUR/USD to 0.93 and more Scandi weakness in store

- We lower our forecast profile for EUR/USD and expect the cross at 0.93 in 12M on the back of a substantial negative terms-of-trade shock to Europe vs US, tightening of global financial conditions, broadening USD strength and downside risk to euro area growth. We expect EUR/SEK to move higher over the coming months to 11.20 on the back of rising concerns for global recession and the expectation of a substantial drag on domestic demand and real asset prices. We pencil in a rise in EUR/NOK over the coming 3 months driven by a slowdown in growth, a European recession and volatile asset markets but pencil in an eventual NOK rebound in 2023 – albeit timing is tricky. We forecast EUR/GBP at 0.86 in 12M, but expect fragile risk appetite incl. UK specific concerns to weigh on GBP in the near-term.

Key risks to our forecasts: inflation pressures fading and renewed surge in global industry

- A key assumption behind our FX forecasts is that of a stronger USD and tightening of global financial conditions. Risks to this assumption include global inflation pressures fading fast, renewed focus on China easing, a global capex uptick and/or industrial production increasing, which could underpin a new reflation leg higher.

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EUR/USD – stagflation to take spot even lower

- **Cyclical outlook.** Global demand remains under pressure as high input prices and elevated inflation erodes purchasing power and corporate profits (except for a few select sectors, like energy). In addition, the coordinated tightening of global monetary conditions further adds to cyclical downside.
- **Monetary policy.** Fed focuses on a scenario of substantial rate hikes and unwinding the held bonds. ECB will equally seek to raise rates, though more moderately. In our view, this is set to tighten financial conditions and to ensure inflation peaks out over 2023.
- **External balances.** Fundamentally, the US should continue to be a high(er) interest rate market and equities continue to appeal to foreign investors. This means the US is likely to attract capital, which generally helps the USD.
- **Valuation.** We view fair value for EUR/USD to be in the low 0.90's. At current levels, valuation is a headwind and thus acts as source of gravity for a lower spot. There are a number of scenarios, which could strategically signal or entrench dollar weakness – but we are not seeing such. These include 1) broad (financial) deregulation, 2) a dollar-based credit boom, 3) strong performance in Latin American assets, 4) a dollar-negative terms of trade shock (e.g. commodity prices decline on their own) and 5) a strong rise in European earning expectations versus US. A change in these factors will be key to changing our view on long-term dollar outlook but the lack thereof confirms our view that any dollar weakness is transitory. US is now an energy exporter and EU an importer: the current energy crisis thus strongly favours USD over EUR, as also seen in the exchange rate.
- **Positioning.** IMM data shows positioning is starting to be broadly neutral and we see room for positioning to add to USD strength over coming quarters.

Forecast: 0.97 (1M), 0.96 (3M), 0.95 (6M), 0.93 (12M)

	1M	3M	6M	12M
Danske Bank	0.97	0.96	0.95	0.93
Consensus	0.97	0.97	0.99	1.03
Forward	0.97	0.98	0.98	0.99

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

- **Risks.** The key risk to shift EUR/USD towards 1.15 is seeing global inflation pressures fade and industrial production increase. However, 'transitory' has substantially lost credibility and European industrial production continues to be weak. This will continue as manufacturing PMIs heads below 50. The upside risk also include a renewed focus on easing Chinese credit policy and a global capex uptick but neither appear to be materialising, at present.
- **Conclusion.** The large negative terms-of-trade shock to Europe vs US, a further cyclical weakening among trading partners, the coordinated tightening of global financial conditions, broadening USD strength and downside risk to the euro area makes us keep our focus on EUR/USD moving still lower (targeting 0.93) – a view not shared by the consensus.

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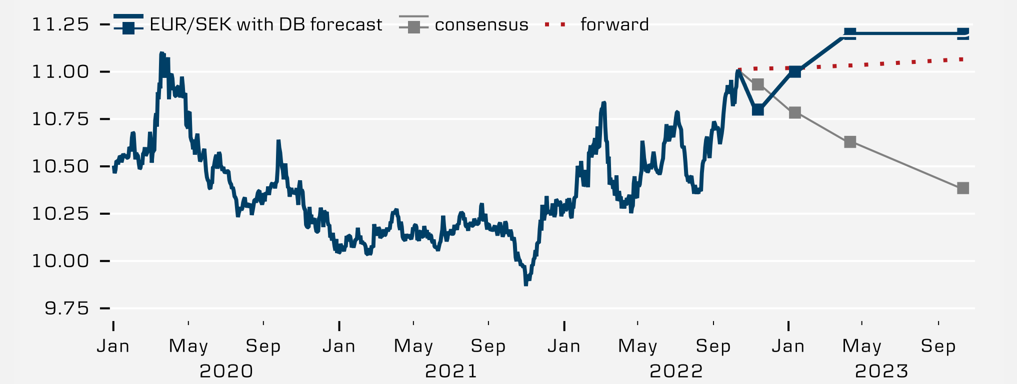
EUR/SEK – the krona hit by triple whammy

- **Cyclical outlook.** After a stronger-than-expected H1, leading indicators are pointing to a sharp deterioration of growth from Q3 and onwards, where especially households' purchasing power is at risk given negative real wage growth, higher interest rates and soaring energy bills. Hardly a surprising development, but still a clear negative for the SEK into 2023.
- **Monetary policy.** The Riksbank outhiking expectations in September failed to spur the SEK, as they still came out as dovish regarding future policy rate path. As for the SEK, the ambiguous approach is getting the thumbs down from markets. We still think pricing on the Riksbank is too aggressive vs the ECB, which if anything would favour the upside in the cross. Furthermore, we acknowledge that Board members continue to treat the falling krona with benign neglect.
- **Flows.** Global equities have turned negative for the SEK once again and we below the trough still lies ahead of us. The Riksbank continues to sell SEK on a daily basis. SNDO announced it will phase out foreign currency exposure. The acceptance period for PMI's Swedish Match deal has been extended to 4 November.
- **Valuation.** Our in-house medium-term models converge around 10.70, indicating that EUR/SEK at current levels is fundamentally justified.
- **Risks.** Sustained rebound in equities and risk attitude is a downside risk to our medium-term forecast. Also, if the Riksbank goes from benign neglect to high alert on the krona is a downside risk. The abovementioned M&A affair is a potential downside risk to our 1-3M forecast. Risks to the upside is mainly related to the global outlook and risk sentiment.

Forecast: 10.80 (1M), 11.00 (3M), 11.20 (6M), 11.20 (12M)



	1M	3M	6M	12M
Danske Bank	10.80	11.00	11.20	11.20
Consensus	10.93	10.78	10.63	10.39
Forward	11.02	11.02	11.03	11.07

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

Source: Macrobond Financial, Danske Bank

- **Conclusion.** We stick to our long-held, non-consensus, negative view on the SEK, which is underpinned by the gloomy global growth outlook, associated negative outlook for global and Swedish equities alike and relative monetary policy - a triple whammy if you like. The Riksbank's 100bp rate hike had no lasting positive impact on the krona. The rate path underwhelmed expectations. In addition, more frontloading will exacerbate the downturn in the Swedish housing market, a headwind for the krona. In all, in line with our reasoning where SEK bulls might be trapped (cf. *Reading the Markets Sweden 16 September*). The Riksbank's currency silence and continued SEK selling have bolstered the uptrend in EUR/SEK (*Reading the Markets Sweden* 26 August). We continue to see strategic downside for the SEK krona vs EUR and USD (see *Reading the Markets Sweden* 7 October).

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EUR/NOK – we still favour the topside

- **Cyclical outlook.** Both hard and soft data show signs of a downswing in the mainland economy. While growth has already slowed, leading indicators are pointing to a further deterioration. Most notably the Regional Network Survey now indicates negative growth for the next 6M. The slow-down has been broad based across private consumption (both goods and services), business investments, residential investments, oil investments and traditional net exports (non-oil). The housing market is also beginning to show signs of weakness with September figures revealing a seasonally adjusted 0.6% m/m decline. Inflation remains elevated but with demand waning amid higher inflation and higher policy rates we expect inflation to peak just north of 5%.
- **Monetary policy.** Norges Bank (NB) has front-loaded monetary tightening bringing policy rates to 2.25%. Meanwhile, in September NB guided towards a move back to "gradual" 25bp hikes; specifically 3 additional 25bp hikes in November, December and March. Markets are pricing an additional 114bp worth of hike while we are leaning towards 25-50bp.
- **External balances.** The fiscal setup in Norway allows for front-loaded buying and selling of NOK although ultimately only the size of the non-oil budget deficit and the expenses of the State's Direct Financial Interest influence the net demand for NOK. The Ministry of Finance seemingly has become more proactive in evaluating the government's funding need, which may entail that oil and gas price fluctuations should impact NOK less going forward.
- **Valuation.** Given the substantial positive terms of trade shock that Norway has experienced over the last year our models indicate that NOK is undervalued. Meanwhile, we still believe that Fed pivoting in a dovish direction is a necessary condition before a more secular trend of NOK strength can play out.
- **Positioning.** We regard speculative NOK positioning to be short.

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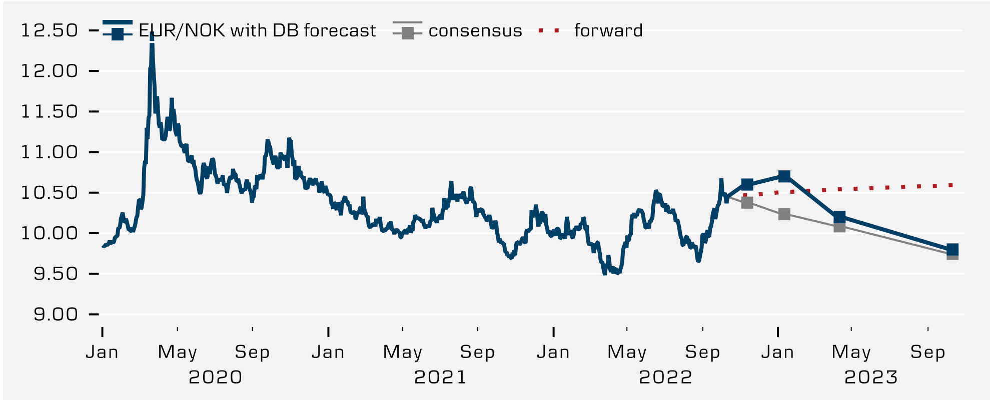
Forecast: 10.60 (1M), 10.70 (3M), 10.20 (6M), 9.80 (12M)



	1M	3M	6M	12M
Danske Bank	10.60	10.70	10.20	9.80
Consensus	10.38	10.24	10.08	9.75
Forward	10.47	10.51	10.54	10.59

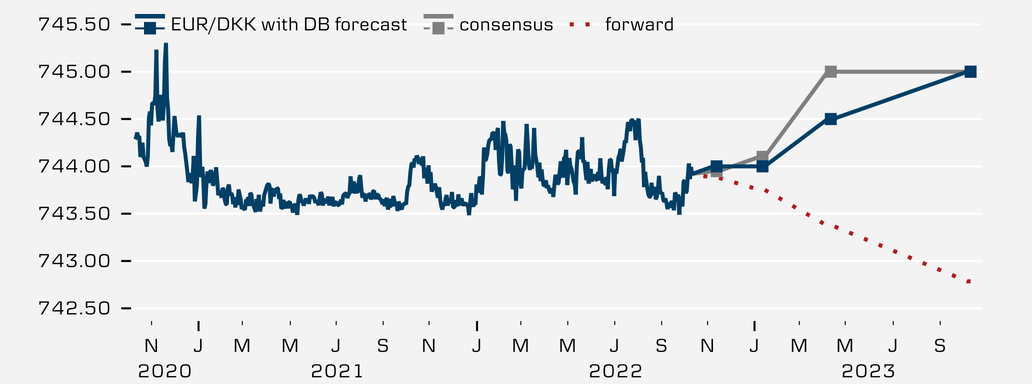
Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

- **Risks.** A severe global recession and a sharp sell-off in risk could send EUR/NOK substantially above our projection. On the other hand, a persistent move higher in oil and natural gas prices combined with an improved growth outlook could send EUR/NOK lower than earlier-than-projected.
- **Conclusion.** We still pencil in EUR/NOK heading higher over the coming 3-6M driven by a slowdown in growth, a European recession, volatile asset markets and spread tightening in the short-end of rates curves. For 2023, we still pencil in a NOK rebound – but timing is tricky. Until we see global central banks and not least the Fed signal a shift of policy towards a more dovish direction we prefer to play the weak leg in NOK. We maintain a "reverse V-profile" and forecast EUR/NOK at 10.60 in 1M (from 10.40), 10.70 in 3M (from 10.60), 10.30 in 6M (from 10.20) and 9.80 in 12M (unchanged).

EUR/DKK – to bounce on wider interest rate spread

- **Cyclical outlook.** The cyclical environment looks neutral-to-negative for EUR/DKK. Equity and bond markets remain fragile, while Danish corporations benefits from high global economic activity and a strong USD. Development in US and in USD/DKK will be important for the earnings potential in the Danish economy in light of the significant net exports of in particular pharmaceuticals, but also the large investment in US stocks.
- **Monetary policy.** Danmarks Nationalbank (DN) followed the interest rate increase from ECB in September 1:1 and raised the key policy rate in Denmark to 0.65%. During September, DN sold DKK23bn in FX intervention to floor EUR/DKK around 7.4363. We expect DN to hike 10bp less than ECB over the coming 3M – most likely by hiking less when ECB most likely hikes at its coming meetings in October and December. Hence, we expect DN to hike to 1.80% by year-end and 2.30% by February next year. Overall, we look for DN to keep EUR/DKK in the 7.43-7.47 range using FX intervention.
- **External balances.** Denmark continues to run a large current account surplus, which materialises in a large investment need abroad. In Q2, the surplus likely rose above 10% of GDP and it has risen further in Q3.
- **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 over the long term.
- **Positioning.** Danish life & pension companies on aggregate increase the EUR and USD FX hedge ratios in Q2. The EUR FX hedge ratio remains low, while to USD hedge ratio rose close historical average. Overall, the L&P sector is not particularly long positioned in DKK.

Forecast: 7.4400 (1M), 7.4400 (3M), 7.4450 (6M), 7.4500 (12M)



	1M	3M	6M	12M
Danske Bank	744.00	744.00	744.50	745.00
Consensus	743.95	744.10	745.00	745.00
Forward	743.88	743.75	743.37	742.79

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 keep EUR/DKK low, while higher long-term bond yields will support a higher EUR/DKK.
- **Conclusion.** We look for EUR/DKK to trade in the 7.4360-7.4500 range the coming year. We look for DN to widen the policy rate spread to ECB 10bp over the coming 3M, which we expect will push EUR/DKK up to around 7.4400. Positioning among Danish L&P funds should be supportive of DKK. Liquidity conditions have eased and should keep EUR/DKK FX forwards anchored around the spread between DN and ECB policy rates.

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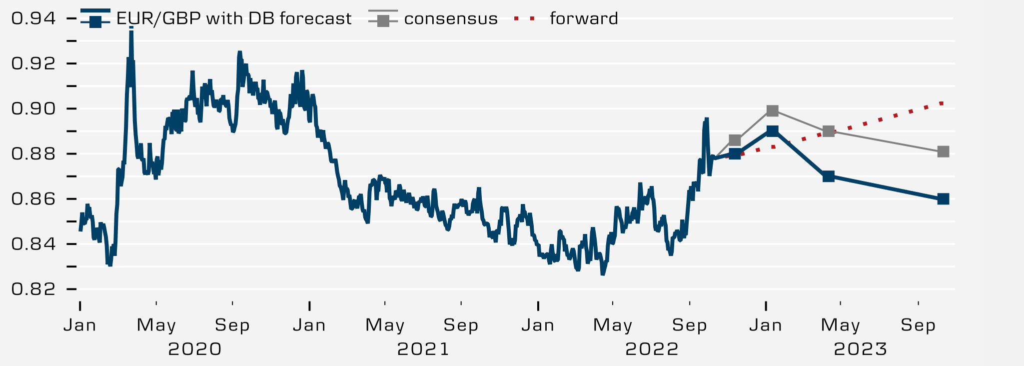
EUR/GBP – liquidity concerns to weigh on GBP in the near-term

- **Cyclical outlook.** The cyclical outlook remains bleak for the UK economy, only further amplified by tighter UK monetary policy and elevated inflation eroding purchasing power. Overall, we do not see the outlook for the UK to be substantially different from the Euro Area.
- **Politics.** The newly elected government's fiscal plans spooked UK markets, triggering a large sell-off in both gilts and GBP. By now, markets have in large priced a watered down version of the fiscal package, which we expect to turn partially funded. EU-UK negotiations on the implementation of the Northern Ireland protocol have resumed with sentiment having overall improved on both sides. At present, there is no effect from negotiations on FX.
- **Monetary policy.** The Bank of England (BoE) has now hiked policy rates by a total of 215bp. We expect BoE to continue to hike policy rates until February next year, with risks skewed to more tightening given the inflationary nature of the fiscal support measures.
- **External balances.** The UK runs a large current-account deficit, which makes GBP vulnerable when capital inflows fade; this keeps GBP at risk vs EUR in wake of a risk sell-off.
- **Valuation.** GBP remains fundamentally undervalued although Brexit still makes it difficult to estimate fair value. Our Brexit-corrected MEVA estimate for EUR/GBP is around 0.83; PPP estimate around 0.76.
- **Positioning.** Non-commercial positioning is short.
- **Risks.** The key risk to see EUR/GBP moving above 0.90 is a sharp sell-off in risk where capital inflows fade and liquidity becomes scarce. This risk has only increased with the outlook of further unfunded fiscal easing. Other risks are the outlook for the UK economy deteriorating sharply compared to the Euro Area and renewed escalations in EU-UK tensions.

Forecast: 0.88 (1M), 0.89 (3M), 0.87 (6M), 0.86 (12M)



	1M	3M	6M	12M
Danske Bank	0.88	0.89	0.87	0.86
Consensus	0.89	0.90	0.89	0.88
Forward	0.88	0.88	0.89	0.90

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

- **Conclusion.** Since our last update, the outcome space for GBP has widened substantially. EUR/GBP went sharply higher as the government announced unfunded fiscal easing. The cross has since largely retraced, currently trading around 0.88. Given the sizeable expected increase in the twin-deficit, we see a level shift having taken place in EUR/GBP, with the cross to trade in a higher range. In the near-term, we expect high volatility in the cross amid crucial BoE meetings and budget presentation. We forecast EUR/GBP at 0.89 in 3M as we expect to see fragile risk appetite, where liquidity concerns weigh on GBP. Further out, we remain cautiously optimistic that the cross will head lower as a global growth slowdown and the relative appeal of UK assets to investors are a positive for GBP relative to EUR.

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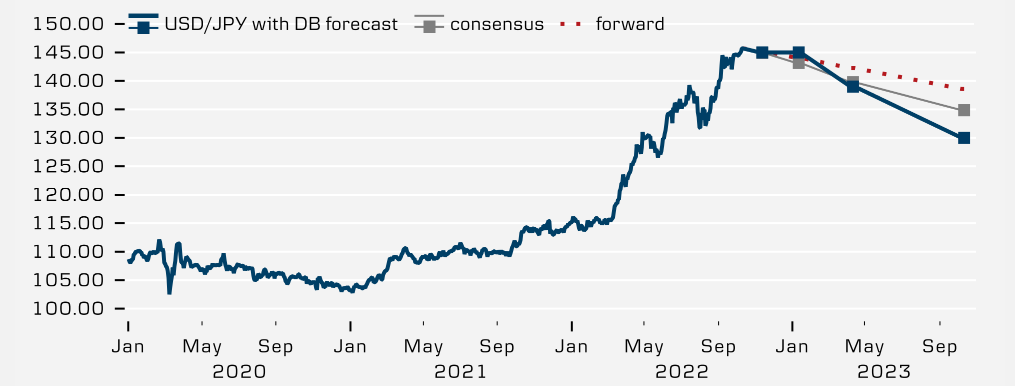
USD/JPY – supporting JPY is an uphill battle

- **Cyclical outlook.** The Japanese economy remains the worst performing G7 economy post COVID. That means there is still some catching up potential relative to western economies. The propensity to consume has not yet recovered in Japan as opposed to the US and ongoing surges in COVID infections will likely continue to push the brakes on service consumption as Japanese consumers abstain relatively more from crowded venues like restaurants.
- **Monetary policy.** As the pressure for higher global yields has gone up, the pressure on the Bank of Japan's (BoJ) yield curve control (YCC) has increased and that has weighed heavy on JPY. It finally became too much for the politicians, which directed BoJ to intervene to support JPY on 22 September. USD/JPY quickly corrected lower, but has edged higher close to pre-intervention levels again since then. The BoJ pursues a monetary policy that sends more yen into the market and propping up the yen at the same time is hardly sustainable. The decision to intervene in FX markets has increased the likelihood that the BoJ will end up giving in to the global pressure for higher yields and abandon the YCC, or allow for a steeper yield curve. The weak JPY is inflationary for the economy and we have seen some indications of an increasing underlying price pressure in Japan, although it remains modest. BoJ's accommodative policy stance will remain in place until wages start to pick up, unless they are implicitly forced by the politicians to exit the yield curve control in order to support the JPY.
- **External balances.** Japan ran a current account deficit in July and August, for the first time in eight years. Japan's terms of trade has plummeted in line with the JPY and surging energy prices. A very restricted tourism sector has also weighed heavy, but there are rays of light for the yen, as travel restrictions have now been lifted significantly. That will add some JPY demand to the market.
- **Positioning.** Speculators are stretched short in JPY.

Forecast: 145 (1M), 145 (3M), 139 (6M), 130 (12M)



	1M	3M	6M	12M
Danske Bank	145.00	145.00	139.00	130.00
Consensus	144.91	143.15	139.77	134.85
Forward	145.26	144.04	142.25	138.58

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

- **Risks.** Upside risks to USD/JPY come from a continued pressure for higher global yields, although intervention will likely cap sudden moves higher. If global slowdown turns into a real recession and speculators unwind short JPY positions, flatter yield curves and cheaper energy can quickly turn the tide for USD/JPY.
- **Conclusion.** The key driver of USD/JPY remains the global inflation outlook and US treasury yields. With the US labour market still in good shape, we are not convinced global inflation pressures are yet turning and thus, in the short run, JPY headwinds will remain in place. Looking further ahead, we do expect the pressure on JPY will wear off. We forecast the cross at 145.0 (1M), 145.0 (3M), 139.0 (6M) and 130.0 (12M).

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EUR/CHF

Forecast: 0.96 (1M), 0.95 (3M), 0.94 (6M), 0.93 (12M)

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

- Since our last update, EUR/CHF has traded fairly volatile, most recently moving back up to 0.97, as improving risk sentiment has proved a tailwind for the cross.
- We expect the SNB to hike by 75bp in December to curtail underlying inflation pressures bringing the policy rate to 1.25%. With the SNB broadly following the ECB, we see relative rates as an inferior driver for the cross. We continue to forecast the cross to move lower on the back of fundamentals and a tighter global investment environment. We continue to forecast EUR/CHF at 0.93 in 12M.
- The key upside risks to our forecast are global yield curves steepening amid a shift in the global investment environment and/or the SNB falling behind the curve.

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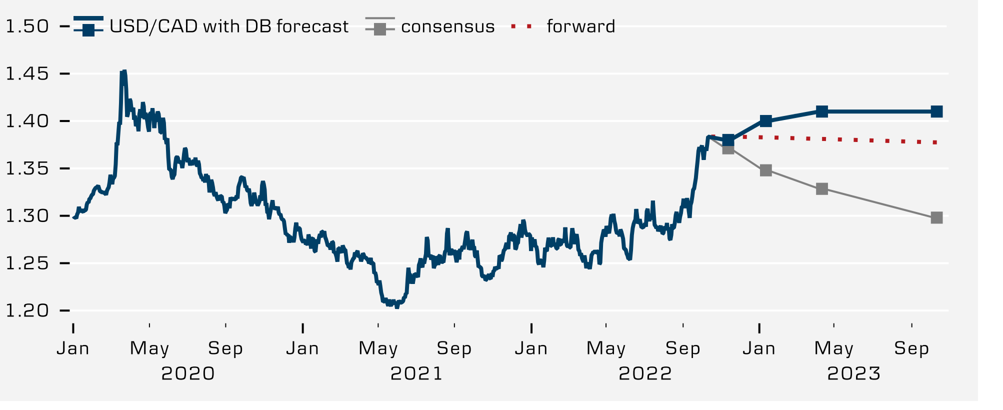
USD/CAD

Forecast: 1.38 (1M), 1.40 (3M), 1.41 (6M), 1.41 (12M)



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

- Amid rising recession fears and commodities generally trading heavy over the last month, USD/CAD has overshoot our forecast profile. Interestingly, despite the recent rebound in oil prices following the OPEC+ announcement to limit production further the spot reaction has been very limited. Bank of Canada (BoC) has been one of the G10 central banks at the forefront of front-loading monetary tightening. BoC has brought the key policy rate to 3.25% but with the real economy slowing, the labour market showing signs of slowdown and the housing market posing a threat to financial stability rates markets are increasingly pricing in a peak in short-end CAD rates. We expect BoC to deliver a 50bp hike in October and a 25bp hike in December brining a peak in policy rates of 4.00%. At this stage a slowing economy counteracts the support from higher CAD rates and we maintain our bullish stance on USD/CAD – partially driven by our overall positive USD view.

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AUD/USD

Forecast: 0.63 (1M), 0.62 (3M), 0.62 (6M), 0.61 (12M)

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

- The combination of rapidly tightening global financial conditions, consequently rising recession risks and further weakness in China have weighed heavily on AUD/USD over the past month.
- The Reserve Bank of Australia (RBA) hiked rates by 25bp in September, less than expected. RBA is nearing the end of its hiking cycle, as the weakening global demand weighs on the domestic growth outlook. While we do not consider relative rates to be a key driver for AUD/USD, interest rate differential could add to the recent weakness in the near-term.
- As Fed continues to push for tighter financial conditions and stronger broad USD, we see the risks still tilted towards further downside. That said, tight natural gas supply and relatively strong domestic economy could provide some support for AUD vs. EUR towards 2023. The uncertainty over Chinese export demand poses two-sided risks for AUD.

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USD/RUB

Forecast: temporarily suspended

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

- **Given the high degree of uncertainty with respect to sanctions and the outlook for RUB markets, we have decided to temporarily suspend our RUB FX forecast.**
- The market is highly dysfunctional at present and our general recommendation is to limit RUB exposure to the extent possible.
- As we get more clarity on the state of Russian markets, sanctions and RUB in the coming months we will revise this decision.

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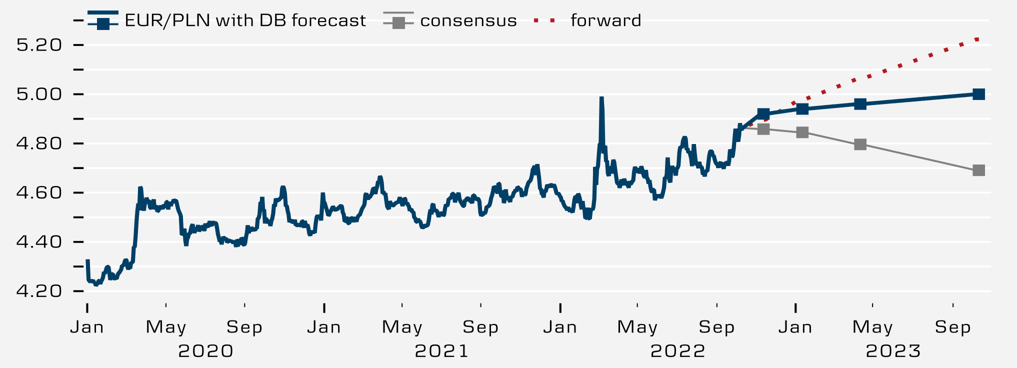
EUR/PLN – approaching 5.0

- **Cyclical outlook.** While economic indicators held up pretty well over the summer, the slump in PMI signals a significant downturn on the way in the Polish economy. Despite the surge in inflation and central bank tightening, construction activity, retail sales (in real terms) and industrial production grew solidly in August. However, the August PMI figure fell sharply, especially the new orders component, which dropped to 33, at par with levels seen during the global financial crisis. This points to significant slowdown in industrial production and economic growth in the coming quarters. Furthermore, geopolitical concerns relating to the war in Ukraine keep intensifying with Russia bombarding Ukraine, including Liyv close to the Polish border, and flagging the possible use of tactical nuclear weapons. Given the close proximity of Poland to Ukraine, this of course weigh on investor confidence.

- **Monetary policy.** Despite the looming slowdown in the Polish economy, headline inflation surprised strongly to the upside in September jumping to 1.6% over the month or 17% in yearly terms. Despite the intense inflation pressure, the Polish central bank surprised on the dovish side at its October meeting by keeping its policy rates unchanged against consensus expectations of a 25bp hike (and market pricing in about 50bp hike). The lack of interest rate hike despite inflation being way above the central bank's inflation target, suggest to us that NBP is starting to become more concerned about the impending growth slowdown than its inflation target, though some hawkish members have stressed the need to raise rates at the upcoming meetings.

- **Risks.** The risk to our forecast for EUR/PLN is skewed to the downside on improving global risk sentiment, particularly if the Fed and other major central bank pivot or if the Polish central bank become significantly more hawkish. The main upside risk is a significant major Russian attack on the west or Ukraine which has material impact on economic functioning of European and the Polish economies and/or shock global risk sentiment.

Forecast: 4.92 (1M), 4.94 (3M), 4.96 (6M), 5.00 (12M)



	1M	3M	6M	12M
Danske Bank	4.92	4.94	4.96	5.00
Consensus	4.86	4.85	4.80	4.69
Forward	4.90	4.98	5.06	5.22

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

Source: Macrobond Financial, Danske Bank

- **Conclusion.** The PLN has been hit hard by a combination of heightened geopolitical risks, global financial tightening and the soft central bank stance at the October meeting. As we think that geopolitical risk may remain at current levels or even escalate further that will keep EUR/PLN at the current elevated levels or even higher, especially near-term. Furthermore, we think it is unlikely that NBP will suddenly become a lot more hawkish given the week state of the economy. The joker is whether the Fed will change to a softer stance over the next 12M, but our base-case is not. Hence we raise our forecast for EUR/PLN to 4.92 on 1M and 4.94 on 3M and then grinding slowly higher to 4.96 on a 6M horizon and further up to 5.00 in12M.

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USD/CNY – policy divergence and USD strength push USD/CNY higher

- **CNY the past month:** USD/CNY has continued higher trading above 7.20 in late September as broad USD strength and policy divergence continues.
- **Growth outlook:** PMI's remain weak and growth headwinds remain strong coming from 1) property crisis, 2) zero-covid policy and 3) falling export demand as US and European demand is weakening. Policy stimulus is keeping a floor under growth, but it is not enough to kick-start the economy. We look for continued below-trend growth in H2 as the headwinds continue followed by a moderate recovery in 2023 on the expectation that the zero-covid policy is eased in Q2 and the property sector recovers somewhat.
- **Monetary policy.** PBOC cut rates in August by 10bp adding to the policy divergence with the Fed but is reluctant to cut much further as it adds to the rate spread and thus weaker CNY. US 12m rates are now 3.05 percentage points higher than Chinese 12m rates coming from a spread of -2.95 percentage points less than two years ago.
- **FX policy.** CNY is a 'managed peg' against a basket of currencies. Since 2016 the market started to play a bigger role and PBOC has made limited direct intervention in the market. Currently, China aims to lean against the wind on the USD/CNY move by setting the daily fixing on the strong side and recently cut the deposit rate on FX reserves from 8% to 6%. We expect PBoC to intervene directly in markets if the currency weakens at a fast pace. It will probably not change the trend, though, but just slow it.
- **Flows.** The CNY has been supported by a big current account surplus. However, weaker exports and little appetite to buy Chinese assets from foreign investors has reduced flows into CNY.
- **Valuation.** We see the CNY as close to long-term fair value. On short term valuation it still looks overvalued compared to relative rates between US and China.

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Forecast: 7.18 (1M), 7.25 (3M), 7.35 (6M), 7.50 (12M)

	1M	3M	6M	12M
Danske Bank	7.18	7.25	7.35	7.50
Consensus	7.15	7.10	7.09	6.94
Forward	7.17	7.15	7.12	7.06

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

- **Risks.** Uncertainty is still very high. In the short term, we continue to see the biggest risk to the upside as USD/CNY remains undervalued relative to the rate spread and new lockdowns could put a further strain on growth. It also puts upside risk to our EUR/CNY forecast.
- **Conclusion.** We keep our forecast broadly unchanged, looking for the rising trend in USD/CNY to continue. However, we have lifted the targets slightly to reflect that time is passing. Our 12M EUR/USD target has been lowered to 0.93 from 0.95 and to reflect the stronger USD view we lift our 12M forecast for USD/CNY as well to 7.50 from 7.40. This compares with a forward pricing of 7.06.

  We continue to look for a broadly flat EUR/CNY just below 7 as it is caught between a rising USD/CNY and a falling EUR/USD.

Oil – political tug of war

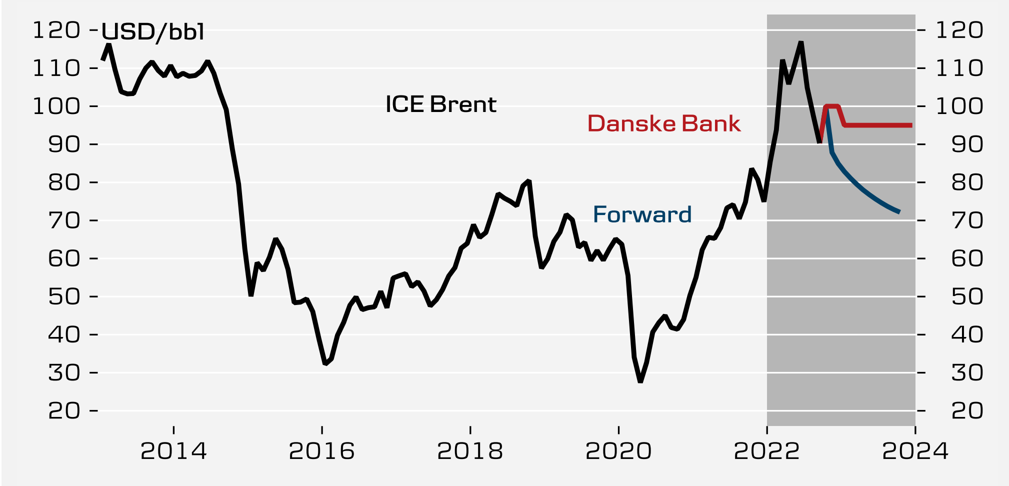
- **Macro.** The oil market currently experience growing political interference. OPEC+ turned around and announced a 2mb/d output at its October meeting. In reality, the output cut is a lot less, probably around 800kb/d, but it still marks a change in stance from OPEC+ after the series of output hikes throughout the year. US continues to investigate ways to get more oil to the market. It still sells strategic reserves and mulls sanctions relief on Iran and Venezuela. Finally, EU looks into the possibility of capping Russian oil prices. Bottom line, the decision from OPEC+ keeps oil supply tighter near-term, but on 1-2Y horizon it opens the door further for new investments from non-OPEC producers.

  On the demand side, outlook for global demand has weakened – in particular from China. It is easier said than done for EU to impose an embargo on Russian oil imports. It turned out to be challenging for EU to impose a widespread ban on insurance of ships out of Russia. Recent import numbers also reveal that EU countries does not look to be in a hurry to divest from Russian oil. High natural gas and coal prices will also keep a hand under oil demand as it functions as a substitute in some places, e.g. power generation.

- **Risks.** Outcome space for oil prices remains wide. Whether or not politicians sign the Iran nuclear deal has the potential to move oil prices. Anxiety will likely grow as the deadline for imposing EU's oil embargo at the end of the year gets closer. Will OPEC+ cut production further? USD volatility remains high and that remains an important factor for oil prices. Finally, recession talk could also spark jitters in the oil market.

- **Conclusion.** We stick our view that oil price will stay around USD100/bbl the rest of the year and then drop ton USD95/bbl next year. A stronger USD, weaker global economy and potential for new suppliers to come to the market and reap the benefit from higher oil prices are the main factors behind our projection.

Forecast: 100 (Q4) 95 (2023)



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:	11-10-2022
Exchange rates vs EUR					
EUR/USD	0.97	0.97	0.96	0.95	0.93
EUR/JPY	141.58	141	139	132	121
EUR/GBP	0.88	0.88	0.89	0.87	0.86
EUR/CHF	0.97	0.96	0.95	0.94	0.93
EUR/SEK	11.03	10.80	11.00	11.20	11.20
EUR/NOK	10.45	10.60	10.70	10.20	9.80
EUR/DKK	7.44	7.4400	7.4400	7.4450	7.4500
EUR/AUD	1.55	1.54	1.55	1.53	1.52
EUR/NZD	1.74	1.73	1.75	1.76	1.75
EUR/CAD	1.34	1.34	1.34	1.34	1.31
EM	**Spot**	**+1m**	**+3m**	**+6m**	**+12m**
EUR/PLN	4.85	4.92	4.94	4.96	5.00
EUR/HUF	429.71	426	430	435	440
EUR/CZK	24.56	24.4	24.3	24.2	24.1
EUR/RUB	62.59	SUSP	SUSP	SUSP	SUSP
EUR/TRY	18.05	18.0	18.2	19.0	20.5
EUR/ZAR	17.64	16.5	16.3	16.2	15.8
EUR/CNY	6.97	6.96	6.96	6.98	6.98
EUR/INR	79.86	79.5	79.7	80.8	80.0

Source: Danske Bank

Danske Bank

Danske Bank FX forecasts vs DKK

G10	Spot	+1m	+3m	+6m	+12m
				Sidste opdateret	11-10-2022
Valutakurser mod DKK					
USD/DKK	7.66	7.67	7.75	7.84	8.01
JPY/DKK	5.26	5.29	5.34	5.64	6.16
GBP/DKK	8.41	8.45	8.36	8.56	8.66
CHF/DKK	7.69	7.75	7.83	7.92	8.01
SEK/DKK	0.67	0.69	0.68	0.66	0.67
NOK/DKK	0.71	0.70	0.70	0.73	0.76
EUR/DKK	7.4386	7.4400	7.4400	7.4450	7.4500
AUD/DKK	4.81	4.83	4.81	4.86	4.89
NZD/DKK	4.28	4.30	4.26	4.23	4.25
CAD/DKK	5.55	5.56	5.54	5.56	5.68
EM	**Spot**	**+1m**	**+3m**	**+6m**	**+12m**
PLN/DKK	1.53	1.51	1.51	1.50	1.49
HUF/DKK	1.73	1.75	1.73	1.71	1.69
CZK/DKK	0.30	0.30	0.31	0.31	0.31
RUB/DKK	11.90	SUSP	SUSP	SUSP	SUSP
TRY/DKK	0.41	0.41	0.41	0.39	0.36
ZAR/DKK	0.42	0.45	0.46	0.46	0.47
CNY/DKK	1.07	1.07	1.07	1.07	1.07
INR/DKK	0.093	0.094	0.093	0.092	0.093

Source: Danske Bank

Danske Bank

Danske Bank FX forecasts vs SEK

G10			Last Update:	11-10-2022	
	Spot	+1m	+3m	+6m	+12m
Exchange rates vs SEK					
USD/SEK	11.36	11.13	11.46	11.79	12.04
JPY/SEK	7.79	7.68	7.90	8.48	9.26
GBP/SEK	12.48	12.27	12.36	12.87	13.02
CHF/SEK	11.40	11.25	11.58	11.91	12.04
EUR/SEK	11.03	10.80	11.00	11.20	11.20
NOK/SEK	1.06	1.02	1.03	1.10	1.14
DKK/SEK	1.48	1.45	1.48	1.50	1.50
AUD/SEK	7.13	7.01	7.10	7.31	7.35
NZD/SEK	6.35	6.24	6.30	6.37	6.38
CAD/SEK	8.23	8.07	8.18	8.36	8.54
EM					
	Spot	+1m	+3m	+6m	+12m
PLN/SEK	2.27	2.20	2.23	2.26	2.24
HUF/SEK	2.57	2.54	2.56	2.57	2.55
CZK/SEK	0.45	0.44	0.45	0.46	0.46
RUB/SEK	0.18	SUSP	SUSP	SUSP	SUSP
TRY/SEK	0.61	0.60	0.60	0.59	0.55
ZAR/SEK	0.63	0.65	0.67	0.69	0.71
CNY/SEK	1.583	1.551	1.580	1.604	1.606
INR/SEK	0.138	0.136	0.138	0.139	0.140

Source: Danske Bank

Danske Bank FX forecasts vs NOK

G10	Spot	+1m	+3m	+6m (Last Update:)	+12m (11-10-2022)
Exchange rates vs NOK					
USD/NOK	10.76	10.93	11.15	10.74	10.54
JPY/NOK	7.38	7.54	7.69	7.72	8.11
GBP/NOK	11.82	12.05	12.02	11.72	11.40
CHF/NOK	10.80	11.04	11.26	10.85	10.54
SEK/NOK	0.95	0.98	0.97	0.91	0.88
EUR/NOK	10.45	10.60	10.70	10.20	9.80
DKK/NOK	1.40	1.42	1.44	1.37	1.32
AUD/NOK	6.75	6.88	6.91	6.66	6.43
NZD/NOK	6.02	6.12	6.13	5.80	5.58
CAD/NOK	7.79	7.92	7.96	7.61	7.47
EM	**Spot**	**+1m**	**+3m**	**+6m**	**+12m**
PLN/NOK	2.15	2.15	2.17	2.06	1.96
HUF/NOK	2.43	2.49	2.49	2.34	2.23
CZK/NOK	0.43	0.43	0.44	0.42	0.41
RUB/NOK	0.17	SUSP	SUSP	SUSP	SUSP
TRY/NOK	0.58	0.59	0.59	0.54	0.48
ZAR/NOK	0.59	0.64	0.66	0.63	0.62
CNY/NOK	1.499	1.522	1.537	1.461	1.405
INR/NOK	0.131	0.133	0.134	0.126	0.123

Source: Danske Bank

Danske Bank

Danske Bank FX forecasts vs USD

Last Update: 11-10-2022

G10	Spot	+1m	+3m	+6m	+12m
Exchange rates vs USD					
EUR/USD	0.97	0.97	0.96	0.95	0.93
USD/JPY	145.84	145	145	139	130
GBP/USD	1.10	1.10	1.08	1.09	1.08
USD/CHF	1.00	0.99	0.99	0.99	1.00
USD/SEK	11.36	11.13	11.46	11.79	12.04
USD/NOK	10.76	10.93	11.15	10.74	10.54
USD/DKK	7.66	7.67	7.75	7.84	8.01
AUD/USD	0.63	0.63	0.62	0.62	0.61
NZD/USD	0.56	0.56	0.55	0.54	0.53
USD/CAD	1.38	1.38	1.40	1.41	1.41

EM	Spot	+1m	+3m	+6m	+12m
USD/PLN	5.00	5.07	5.15	5.22	5.38
USD/HUF	442.67	444	448	458	473
USD/CZK	25.29	25.15	25.31	25.47	25.91
USD/RUB	64.71	SUSP	SUSP	SUSP	SUSP
USD/TRY	18.59	18.60	19.00	20.00	22.00
USD/ZAR	18.18	17.00	17.00	17.00	17.00
USD/CNY	7.17	7.18	7.25	7.35	7.50
USD/INR	82.32	82.00	83.00	85.00	86.00

Source: Danske Bank

Danske Bank

Danske Bank FX forecasts vs GBP

G10	Spot	+1m	+3m	+6m	+12m
				Last Update:	11-10-2022
Exchange rates vs GBP					
GBP/USD	1.10	1.10	1.08	1.09	1.08
GBP/JPY	160.16	160	156	152	141
EUR/GBP	0.88	0.88	0.89	0.87	0.86
GBP/CHF	1.09	1.09	1.07	1.08	1.08
GBP/SEK	12.48	12.27	12.36	12.87	13.02
GBP/NOK	11.82	12.05	12.02	11.72	11.40
GBP/DKK	8.41	8.45	8.36	8.56	8.66
GBP/AUD	1.75	1.75	1.74	1.76	1.77
GBP/NZD	1.96	1.97	1.96	2.02	2.04
GBP/CAD	1.52	1.52	1.51	1.54	1.52

EM	Spot	+1m	+3m	+6m	+12m
GBP/PLN	5.49	5.59	5.55	5.70	5.81
GBP/HUF	486.11	484	483	500	512
GBP/CZK	27.78	27.73	27.30	27.82	28.02
GBP/RUB	70.81	SUSP	SUSP	SUSP	SUSP
GBP/TRY	20.42	20.50	20.49	21.84	23.79
GBP/ZAR	19.96	18.74	18.34	18.56	18.38
GBP/CNY	7.88	7.91	7.82	8.03	8.11
GBP/INR	90.34	90.39	89.53	92.82	93.00

Source: Danske Bank

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