

FX Forecast Update

SEK revival set to be temporary

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Forecast review part I

- **EUR/NOK.** We still think the relative growth picture, the positive terms of trade shock (higher oil prices) and a Norges Bank set to initiate a moderate hiking cycle should support a stronger NOK this year. However, in the near term, the NOK faces real headwinds, which limits the short-term potential. Also, given that markets are already pricing in a September hike with a high probability, which creates an asymmetric balance of risk towards further data disappointments, better-than-expected data will not lead markets to price in more for September at this stage whereas further disappointments would trigger a postponement of the expected first rate hike, in our view. In light of the recent data disappointments and headwinds, we raise our 6M forecast to 9.30 (9.20 previously) and 12M forecast to 9.20 (9.10), but leave our 1M and 3M forecasts unchanged at 9.60 and 9.40, respectively.
- **EUR/SEK.** Our bearish SEK view has two pillars: first, the inflation outlook makes it hard for the Riksbank to raise rates this year; second, a sharp slowdown in growth due to the housing market. That said, we argued in *FX Strategy: EUR/SEK – pause in ascending trend channel*, 4 May, that EUR/SEK looked overbought and was prone for a correction. Since then, we have seen the sharpest krona recovery since 2015. There is a silly circular reference from a weak SEK to higher inflation to higher rates and then back to a stronger SEK that sort of caps the upside in EUR/SEK. On the other hand, this circular reference is symmetric, where too much SEK appreciation will not be welcomed by the Riksbank given subdued underlying inflation while a slowdown in growth remains a headwind for the SEK. We set our 1M forecast to 10.20 (10.40), 3M to 10.30 (10.50), 6M to 10.50 (unchanged) and 12M to 10.20 (unchanged).
- **EUR/DKK.** Over the coming year, EUR/DKK will be in the hands of government finances as that will be the determining factor for DKK liquidity and thus EUR/DKK FX forwards. We forecast EUR/DKK to stay around 7.4450 on 1-6M and to fall to 7.4425, as there is a clear possibility relatively tight liquidity will continue to support DKK into next year.
- **EUR/USD.** As USD offers a better cyclical story and a favourable carry relative to EUR, we still see a case for EUR/USD downside in the short term. However, our medium-term story remains unchanged: a turn in the capital tide from USD to EUR is brewing as the relative attractiveness of EU vs US assets is on the rise. Alongside valuation, this is set to support EUR/USD in 6-12M. However, risks are increasingly that a dragged-out ECB ‘exit’ postpones the next round of EUR strength. We continue to see EUR/USD at 1.18 in 1M, 1.19 in 3M, 1.23 in 6M, and 1.28 in 12M.

Forecast review part II

- **EUR/GBP.** With an August rate hike still in sight in our view we see relative interest rates as neutral for EUR/GBP for now, but expect GBP to eventually gain support from the rate channel. We target 0.88 in 1M and 0.8650 in 3M. Longer term, Brexit still remains a key driver for GBP, and while uncertainty remains high, we still expect EUR/GBP to eventually trade lower driven by Brexit clarifications and fundamental valuations. The turn in capital flows and FDI flows back into the UK, as indicated in the latest balance of payment data, suggest that a key headwind to GBP seen in Brexit is reversing, supporting the case for additional GBP appreciation over the medium term. We target EUR/GBP at 0.84 in 6M and 0.83 in 12M.
- **USD/JPY.** USD/JPY remains highly correlated with the 10Y US treasury yield and the combination of a neutral speculative JPY positioning and higher US 10Y yields could be a supporting factor for USD/JPY near term. We have thus lifted our 1M and 3M forecast to 109 (107 previously) and 110 (108 previously), respectively. The cross looks increasingly overbought technically, and we reckon that further rally in USD/JPY requires that the sell-off momentum in the US fixed income market is sustained. Over the medium term, we expect USD/JPY to remain underpinned by continued global growth outlook and Fed-BoJ divergence, and we expect the cross to eventually settle in the 110-115 range in 6-12M. We now target the cross at 112 (110) in 6M and 112 in 12M.
- **EUR/CHF.** With trade war tensions easing, geopolitical risks abating slightly and Italian bond markets complacent even with the prospect of an anti-establishment government, CHF strength should be kept at bay for now. However, a significant move above 1.20 is difficult as long as the ECB remains 'normalisation' hesitant. We think the SNB will remain reluctant to change its course, which should allow EUR/CHF to edge firmly into the 1.20s this year as the ECB is keeping its 'exit' process alive. We still look for the cross to trade at 1.19 in 3M, 1.21 in 6M and 1.23 in 12M (all unchanged); we see the cross at 1.19 in 1M.
- **USD/CNY.** We look for the main driver of USD/CNY to continue to be the overall USD development. We keep our forecast of a decline in USD/CNY to 6.20 in 12M. Our forecast for EUR/CNY continues to be for a move towards 7.94 in 12M (forward is 7.91) from the current level of 7.56.

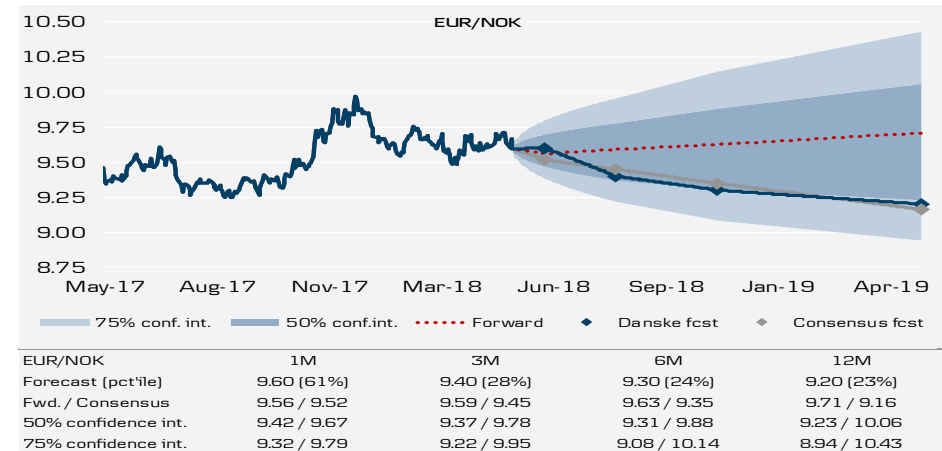
Forecast review part III

- **EMEA.** The zloty has lately been hit harder than we expected by the deterioration from a combination of weakening emerging market sentiment, dovish NBP and renewed uncertainty about Polish/EU relations. We expect EM sentiment to stabilise over time and also EU matters to be less of a market issue, and therefore we see the spot EUR/PLN rate falling to 4.24 and 4.20 over 1M and 3M (previously 4.20 and 4.18). We still expect the strong growth and rise in inflation will give support to the zloty and therefore target the EUR/PLN at 4.16 in 6M and 4.10 in 12M. But the risk for the EUR/PLN is clearly on the upside in 1-3M.
- **AUD, NZD, CAD.** The last month has been characterized by USD strength and further evidence that the global business cycle is heading lower. Also China remains a headwind for the three commodity currencies. In terms of the monetary policy outlook we leave unchanged our 12M calls of two 25bp rates hikes from Bank of Canada and one 25bp rate hike from both the Reserve Bank of Australia (RBA) and the Reserve Bank of New Zealand (RBNZ). Fundamentally, CAD seems slightly undervalued whereas AUD and NZD seem closer to fair value (versus USD). We now forecast AUD/USD at 0.75 in 1M (from 0.78), 0.76 in 3M (0.78), 0.77 in 6M (0.78) and 0.78 in 12M (0.79); NZD/USD at 0.69 in 1M (0.73), 0.70 in 3M (0.72), 0.71 in 6M (0.72) and 0.73 in 12M (0.74). Finally, we forecast USD/CAD at 1.28 in 1M (unchanged) 1.27 in 3M (unchanged), 1.25 in 6M (unchanged) and 1.23 in 12M (unchanged).
- **Oil.** We maintain our forecast of the price on Brent at USD72/bbl in Q4 this year and to average USD70/bbl in 2018 and USD73/bbl in 2019. We await further clarification of the ramifications of the Iran nuclear deal before taking that into account in our forecasts.

EUR/NOK – the near-term NOK headwinds are real

- Growth.** Economic activity data has been on the weak side in Q1 and the latest NAV labour market reports could indicate that for the first time in a long period, Norges Bank may have overestimated capacity utilisation. While more labour market slack could be explained by productivity growth and a participation rate rise, activity data does highlight that growth has been lower than expected. Especially goods consumption has been surprisingly weak amid high consumer confidence, rising real wages and clear signs of the housing market bottoming out.
- Monetary policy.** As expected, Norges Bank kept rates unchanged at the May interim meeting while giving very little news to markets. The central bank concluded that, ‘Overall, the outlook and the balance of risks do not appear to have changed substantially since the March Report’. Back in March, the revised rate path suggested a first rate hike in September alongside an additional two 25bp hikes in both 2019 and 2020. We think the May message primarily reflects that the meeting was a ‘short’ interim meeting with no press conference or monetary policy report. For now, we stick to our call for a September hike, but the risk of a postponement until December has risen recently.
- Flows.** Foreign banks (proxy for speculative flows) have net sold NOK over the past month. Yet, aggregate NOK positioning still leaves the NOK vulnerable to profit taking in the absence of new supportive catalysts.
- Valuation.** From a long-term perspective, the NOK seems fundamentally undervalued. Our PPP model has 8.52 as ‘fair’.
- Risks.** The biggest risk factor to our forecast is broad-based USD strength and/or a global risk-off event, which would weigh on the NOK directly and indirectly via the oil price. Also, the risk that we underestimate the impact of a Chinese slowdown is relevant, as commodity FX in recent years has traded in a remarkably synchronised way, with turning points coinciding with the Chinese cycle.

Forecast: 9.60 (1M), 9.40 (3M), 9.30 (6M), 9.20 (12M)



Source: Danske Bank

- Conclusion.** We still think the relative growth picture, the positive terms of trade shock (higher oil prices) and a Norges Bank set to initiate a moderate hiking cycle should support a stronger NOK this year. However, in the near term, the NOK faces real headwinds, which limits the short-term potential.
- In addition, given that markets are already pricing in a September hike with a high probability, which creates an asymmetric balance of risk towards further data disappointments, better-than-expected data will not lead markets to price in more for September at this stage whereas further disappointments would trigger a postponement of the expected first rate hike. In light of the recent data disappointments and headwinds we raise our 6M forecast to 9.30 (9.20 previously) and 12M forecast to 9.20 (9.10), but leave our 1M and 3M forecasts unchanged at 9.60 and 9.40, respectively.

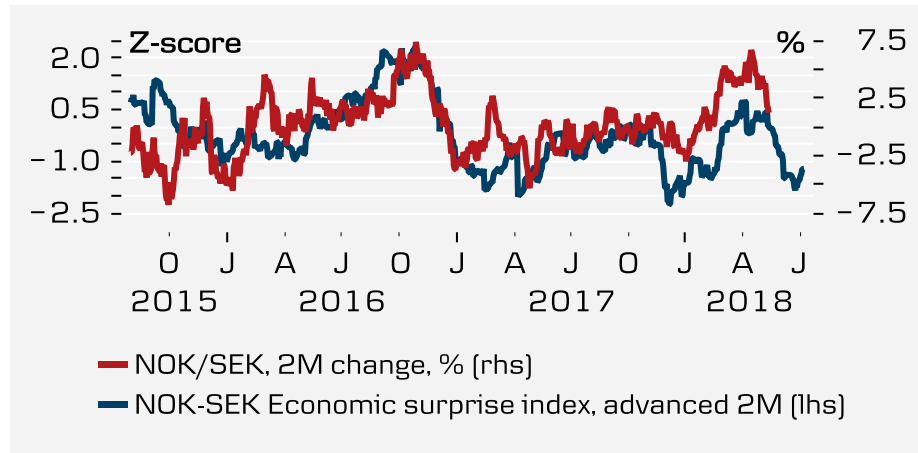
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EUR/NOK – important issues to watch

The near-term NOK headwinds are real

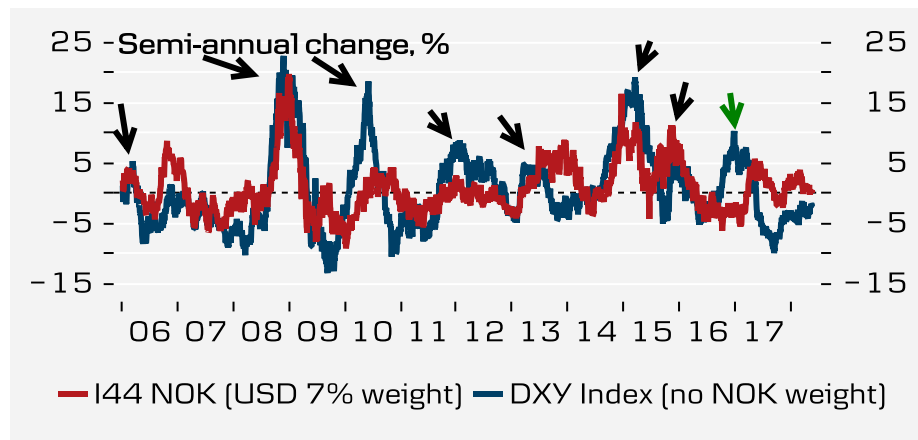
- While we still think the relative growth picture, the positive terms of trade shock (higher oil prices) and a Norges Bank set to initiate a moderate hiking cycle should support a stronger NOK this year, the NOK faces real near-term headwinds, which limits the short-term potential.
- First, despite recent long covering, speculative positioning remains (borderline) stretched. Our feeling is that especially long NOK/SEK remains crowded, which suggests further NOK selling as investors cover their longs (see margin chart). Second, the short end of the NOK curve prices in lower Nibor fixings in the months to come as USD FRA/OIS spreads are expected to tighten and as the structural NOK liquidity tends to improve towards the summer. In isolation, this will lead to lower short-end swap rates, making it less attractive from a carry perspective to invest in NOK relative to peers.
- Third, the balance of risk related to the markets’ pricing of Norges Bank monetary policy is asymmetrically skewed towards a postponement of the first rate hike (see previous slide). Fourth, global growth momentum is set to moderate further on the back of tighter global monetary policy, higher bond yields, lower real wage growth and Chinese authorities’ focus on deleveraging China’s highly commodity-dependent economy. In such an environment, volatility on risky assets tends to rise, which has typically weighed on the NOK. Also, China specifically constitutes a headwind for commodity currencies including the NOK.
- Finally, the broader-based USD strength of the kind we have seen recently has historically been negative for the NOK via global monetary tightening and commodity headwinds a USD rise entails. In the near term, the biggest risk factor for our NOK forecast is a more pronounced USD strength than implied by our 1M EUR/USD forecast.

NOK/SEK positioning a considerable headwind for the NOK



Source: Macrobond Financial, Norges Bank, Danske Bank

Biggest risk factor for our forecast profile is more pronounced USD strength



Source: Macrobond Financial, Norges Bank, Danske Bank

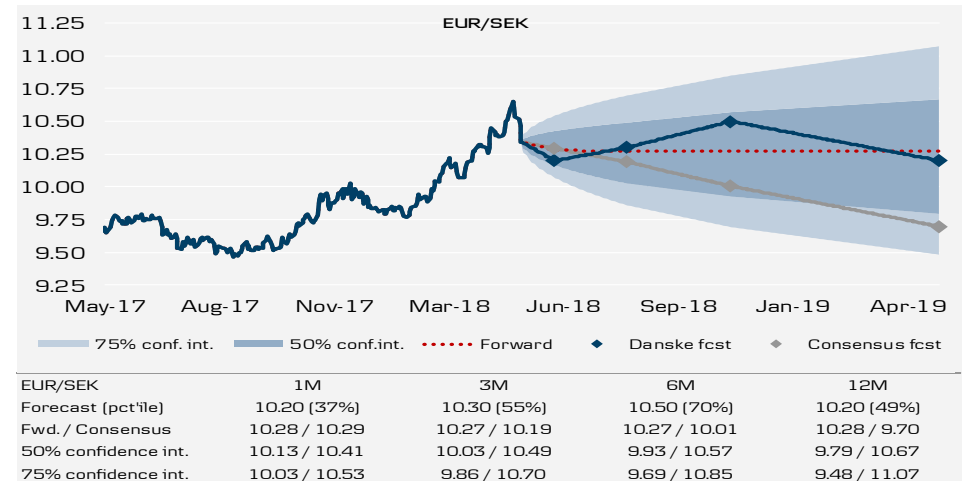
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EUR/SEK – warning for circular reference!

- Growth.** GDP growth in Sweden has peaked and is now set for a sharp slowdown in 2018. Our 1.6% yoy full-year estimate is on the low side of consensus 2.6%. The Riksbank's revised its 2018 forecast to 2.6% (2.8), which is still too optimistic in our view. The drag on growth stems mainly from a sharp slowdown in housing investments and soft private consumption. The slight support that we see from net exports is far from enough to outweigh the negative dynamics from domestic demand. Slower growth normally means weaker SEK (higher EUR/SEK).
- Monetary policy.** We expect the Riksbank to stay on hold throughout 2018. The depreciation of the SEK put upward pressure on imported inflation, and although this gives some welcome respite for the Riksbank it would be odd to raise rates based on that as long as this is only a temporary thing. We have raised our inflation forecast for 2018 and we now expect core inflation to track the Riksbank for the remainder of the year before it collapses in 2019. Headline CPIF will breach 2% on two occasions (summer). This might be enough to keep *market expectations* alive for a hike this year and lend near-term support to SEK (higher short rates). We still expect the Riksbank to eventually delay the first hike beyond 2018 though and, therefore, we still think that EUR/SEK will move higher in the 6M perspective.
- Flows.** While natural SEK buyers may see high EUR/SEK levels as an excuse to raise hedge ratios, negative carry works the other way.
- Valuation.** EUR/SEK is clearly expensive relative to medium- to long-term models, even after the recent correction.
- Risks.** The main risk to our relatively bearish view on the SEK is if we are wrong on inflation. Then, our call of no hike this year will be challenged. Equally, there is an upside risk to EUR/SEK if inflation surprises in the other direction. If global (trade) conflicts turn for the worse, it would make the outlook for the krona even more troubling.

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Forecast: 10.20 (1M), 10.30 (3M), 10.50 (6M), 10.20 (12M)



Source: Danske Bank

- Conclusion.** Our bearish SEK view has two pillars: first, the inflation outlook makes it hard for the Riksbank to raise rates this year; second, a sharp slowdown in growth due to the housing market. That said, we argued in *FX Strategy: EUR/SEK – pause in ascending trend channel*, 4 May that EUR/SEK looked overbought and was prone for a correction. Since then, we have seen the sharpest krona recovery since 2015. There is a silly circular reference from a weak SEK to higher inflation to higher rates and then back to a stronger SEK that sort of caps the upside in EUR/SEK. On the other hand, this circular reference is symmetric, where too much SEK appreciation will not be welcomed by the Riksbank given subdued underlying inflation while a slowdown in growth remains a headwind for the SEK. We set 1M to 10.20 (10.40), 3M to 10.30 (10.50), 6M to 10.50 (unchanged) and 12M to 10.20 (unchanged).

EUR/SEK – important issues to watch

Riksbank needs a weak SEK

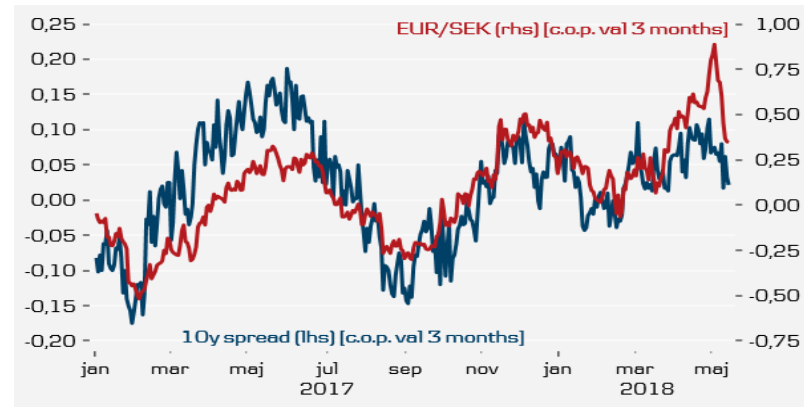
- The word ‘krona’ was mentioned 43 times in the latest Minutes (up from five times in February). Not that the Riksbank is concerned it has become too weak. Indeed not. Instead, the weak SEK is helping to push inflation up slightly. But only temporarily. Especially given that the Riksbank seems to think the SEK weakness is temporary, as always. If it cannot get ‘good’ inflation (driven by higher wage growth), it must settle for bad inflation (imported). As long as the fundamental drivers for higher underlying inflation are absent, it is hard to see a meaningful turnaround from the Riksbank and thus the SEK.
- This is rather silly, in our view. Weak SEK → higher inflation → higher rates → stronger SEK → lower inflation → lower rates → weaker SEK... and so on. It is a sloping spiral for the SEK (a crawling peg in disguise) that may not go away until ‘good’ inflation comes to rescue.

GDP growth a SEK headwind although Q1 is still decent

- Key drivers for SEK weakness so far have been the Riksbank and the housing market. The latter will take a toll on growth, starting in 2018. Growth moderation remains a headwind for the krona throughout this year. The krona’s pro-cyclical properties are visible in the chart to right: EUR/SEK goes higher in downturns (light blue), lower in upturns (dark blue), in 15 out of 18 years since 2000. We see a sharp slowdown in growth in 2018 → reason to be sceptical towards the SEK.
- We expect a decent GDP reading for Q1 (due for release on 30 May), although we look for an outright drop in housing investment. Our preliminary estimate at 3% is slightly below the Riksbank’s 3.5% y/y.
- Growth slowdown typically goes hand in hand with a flattening of the yield curve (e.g. 10Y-2Y). In addition, there is a negative (though weak) correlation between the slope of the yield curve (10Y-2Y) and EURSEK. Hence, a flatter yield curve tends to push EURSEK higher.

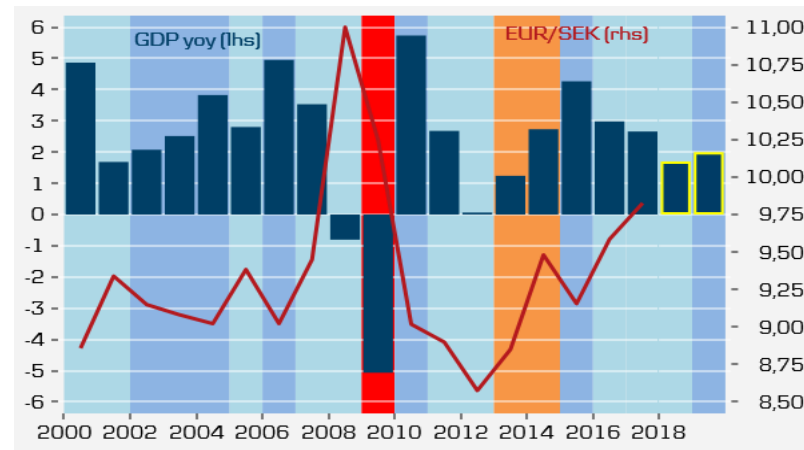
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EUR/SEK tracks relative rates – but April rally was an overshooting



Source: Macrobond Financial, Danske Bank

GDP growth – headwind for the pro-cyclical krona

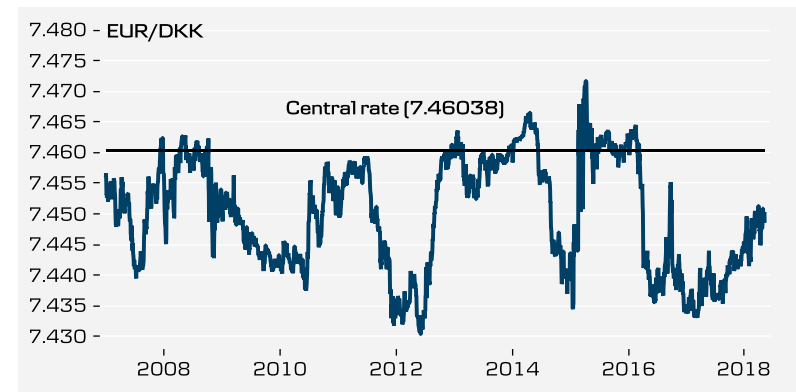


Source: Macrobond Financial, Danske Bank

EUR/DKK – tight liquidity remains a downside risk

- **FX.** It has been another calm month for EUR/DKK. The pair has traded close to 7.4500, while the high level of FX forwards has not really exerted downward pressure. We forecast EUR/DKK at 7.4450 on 1-6M, falling to 7.4425 on 12M – unchanged from last month. We continue to see a risk that liquidity will stay tight into Q1 next year and thus FX forwards continue to stay elevated, cf. paragraph on liquidity.
- **Rates and forwards.** We expect DN to keep the rate of interest on certificates of deposit unchanged at -0.65% on 12M. Should the ECB hike within the forecast horizon (not our base case), we expect DN to mirror the rate increase correspondingly. Shorter-dated EUR/DKK FX forwards are currently trading at relatively high levels owing to tighter DKK liquidity, while the market is pricing in some normalisation on 12M. We see a risk of shorter-dated FX forwards staying relatively high on 12M.
- **Flows.** The Danish current account surplus remains elevated, which creates fundamental support for DKK. A high savings rate and low investment activity will maintain this situation in coming years. Denmark has significant exposure to the US as around a third of the surplus is earned in the US.
- **Regulation.** On 1 January 2018, the liquidity coverage ratio for non-SIFI banks was raised to 100%. From Q1, banks are required to report the net stable funding ratio.

Forecast: 7.4450 (1M), 7.4450 (3M), 7.4450 (6M), 7.4425 (12M)



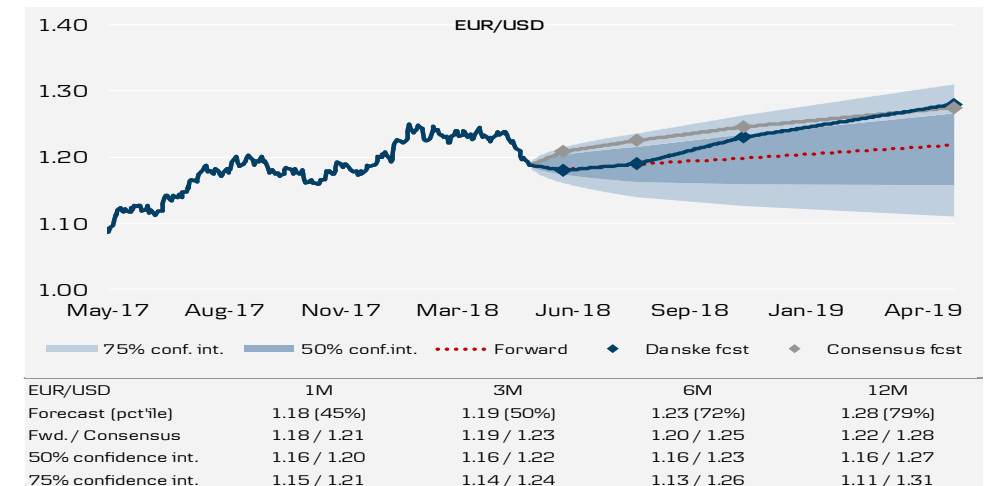
Source: Danske Bank

- **Liquidity.** The net position bottomed around Easter and is set to rise back up during Q2 and rise further in H2. However, this depends on how government net issuance of bonds will evolve and specifically whether government will reach its DKK75-100bn target for government deposits by the end of the year. If not, then DKK liquidity could stay relatively tight into 2019.
- **Conclusion.** Over the coming year, EUR/DKK will be in the hands of government finances as that will be the determining factor for DKK liquidity and thus EUR/DKK FX forwards. We forecast EUR/DKK to stay around 7.4450 on 1-6M and to fall to 7.4425, as there is a clear possibility relatively tight liquidity will continue to support DKK into next year.

EUR/USD – favourable US cyclical position and carry weigh near term

- Growth.** Eurozone growth momentum continues to wear off and data has surprised on the downside recently whereas US releases have managed to keep up well. While the loss of global growth momentum should not leave elevated US PMIs untouched, we maintain that the US economy holds a favourable cyclical position, not least due to the fiscal boost. The eurozone has been surprising on the downside already for some time but past euro strength remains a headwind.
- Monetary policy.** There was no new guidance from Mario Draghi at the April ECB meeting: the ECB acknowledged the recent softer data but kept his strong and broad-based assessment on growth. While we have moved our call on the first ECB hike to December 2019 (from Q2 19 previously), we still see a good chance that the next step in forward guidance will come in July. Crucially, however, risks are increasingly tilted towards a dragged-out ‘exit’ from QE and negative rates. The Fed delivered the widely expected 25bp hike in March, and while we call for two more Fed hikes this year, risks are tilted towards three. Relative rates are thus still in favour of a higher EUR/USD and there has been some evidence of a recoupling of the EUR/USD spot with this factor.
- Flows.** Positioning has become somewhat less stretched on EUR/USD longs during the move lower in the spot since mid-April. We still see a case for eurozone outflows to fade and support the EUR as the ECB ‘normalises’ policy, but this could take longer to materialise as the ECB remains hesitant.
- Valuation.** Our Medium-term Valuation (MEVA) model still suggests 1.28 as ‘fair’ for the cross, not far from our PPP estimate of 1.29.
- Risks.** Tighter USD funding conditions have so far mainly fuelled upward pressure on EUR/USD forwards but more stress in this area has previously (around year ends) led to spot downside.

Forecast: 1.18 (1M), 1.19 (3M), 1.23 (6M), 1.28 (12M)



Source: Danske Bank

- Conclusion.** Short term, as USD offers a better cyclical story and a favourable carry relative to EUR, we still see a case for EUR/USD downside. We would expect good support at the Dec-17 lows around 1.17 though. However, our medium-term story remains unchanged: a turn in the capital tide from USD to EUR is brewing as the relative attractiveness of EU versus US assets is on the rise. Alongside valuation, this is set to support EUR/USD in 6-12M. However, risks are increasingly that a dragged-out ECB ‘exit’ will postpone the next round of EUR strength.
- We revised lower our short-term forecast profile in last week’s *FX Strategy: Use mix of options and forwards to hedge USD exposure*, and keep these intact here, meaning we continue to see EUR/USD at 1.18 in 1M, 1.19 in 3M, 1.23 in 6M, and 1.28 in 12M.

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EUR/USD – important issues to watch

Watch equity flows now (USD pos) – debt flows later (EUR pos)

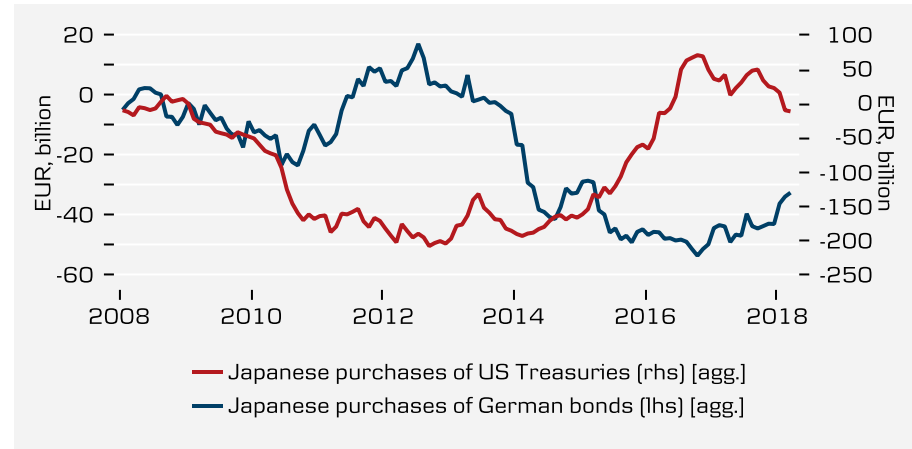
- The recent weakening in the eurozone indicators and possible adverse impact of trade war uncertainty imply that there are significant downside risks to the ECB’s growth forecasts. As a result, risks are thus increasingly tilted towards the next steps in the ‘normalisation’ process being pushed out in time. We currently look for an end date to QE (likely Dec-18) to be announced in June and a first hike in Dec-19.
- Importantly, we think the ECB will want to err on the side of caution, not least with respect to the capital inflows a too quick ‘exit’ risks stirring. Data on Japanese flows, see *Strategy: Japanese investor flows into the US, UK, EU and Scandies for March 2018*, 14 May, for details, increasingly show that investors scrap US Treasuries in favour of European bonds. With some of these debt flows unhedged, this could increasingly prove a source of EUR support in the medium term. Near term, we continue to look for US cyclical outperformance relative to the euro zone which could weigh on EUR/USD from not least an *equity-flow* point of view.

Recoupling with relative rates? Maybe in the long end

- One of the big conundrums in FX markets in recent years has been the apparent decoupling of the relative short-term rate spread with EUR/USD spot. However, while relative longer-term real yields normally only provide a guide to currency movers over rather long horizons, it is noteworthy how in recent months this has seen a strikingly good co-movement with the EUR/USD spot.
- This has mainly been driven by the nominal yield spread favouring USD as notably the US 10Y has been flirting with the 3% level. While US yields (and eurozone ones with it) are likely to continue to rise gradually, our rate strategists see only slight downside to the nominal rate spread over the next year, which limits the potential for this factor to provide USD strength nonetheless.

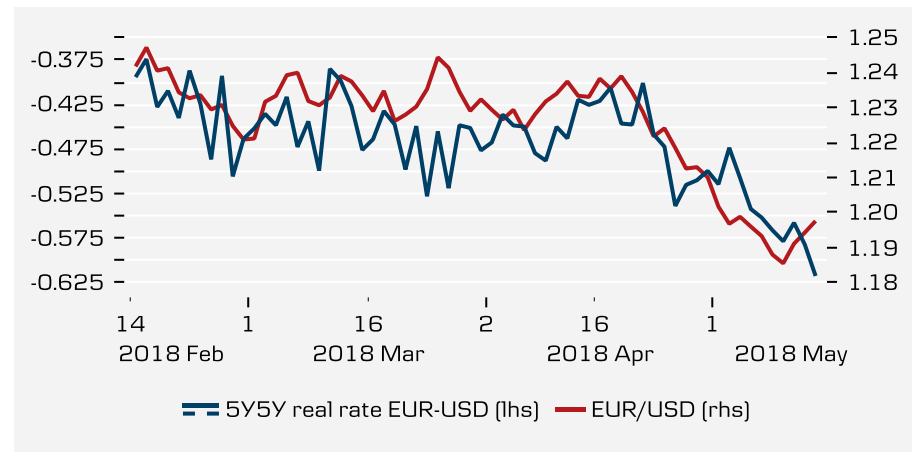
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Japanese investors scrap US in favour of European (here: German) bonds



Source: Macrobond Financial, Danske Bank

EUR/USD recoupling with relative real rate spread recently



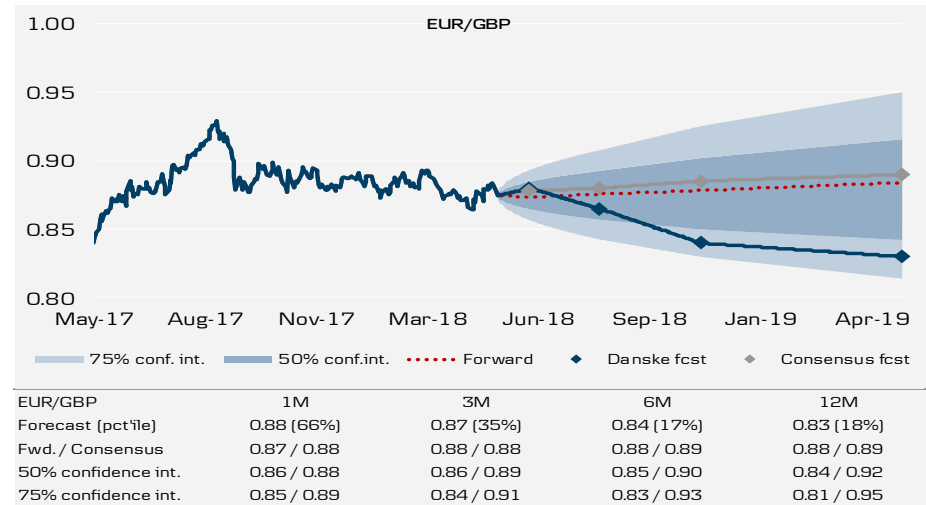
Source: Macrobond Financial, Danske Bank

EUR/GBP – Hiking cycle postponed, not cancelled

- Growth.** Q1 GDP growth was weak but the initial estimate was lower than what indicators like PMIs suggested and we would not be surprised if it is revised up to 0.2% q/q from 0.1% q/q, as we get more information. We also expect growth will be slightly higher later this year although still weak compared to European peers. CPI inflation declined to 2.5% y/y in March from 2.7% in February. While the decline in inflation in March mainly was due to temporary effects such as clothing and footwear, and look for a modest rebound in April, we still expect the downward pressure on CPI inflation to continue this year due to the fading impact of previous depreciation of sterling. We forecast CPI inflation at 2.4% y/y by the end of 2018.
- Monetary policy.** The Bank of England (BoE) kept the Bank Rate unchanged in May (vote count 7-2) as expected. In our view, the BoE signalled that hiking cycle is postponed, not cancelled, but there will be fewer rate hikes than previously thought. We stick to our call with one hike in H2 18 and one in 2019 with the next hike likely in August. Market is pricing around 50% probability of a rate hike in August. See overleaf for more details on BoE.
- Flows.** Non-commercial long GBP positions have been reduced significantly in recent weeks as market's expectations of BoE rate hike in May was reprised. Positioning is now neutral. The UK runs a current-account deficit, notably against EU countries, which is a fundamental supporting factor for EUR/GBP.
- Valuation.** GBP remains fundamentally undervalued: Our G10 MEVA model puts EUR/GBP at 0.77 (our Brexit-corrected MEVA estimate for the cross is around 0.83), while our PPP estimate is 0.76.
- Risks.** In our view, uncertainty regarding Brexit negotiations should keep GBP undervalued and volatile for longer. Timing market's reprising of a Brexit risk premium is nearly impossible.

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Forecast: 0.88 (1M), 0.8650 (3M), 0.84 (6M), 0.83 (12M)



Source: Danske Bank

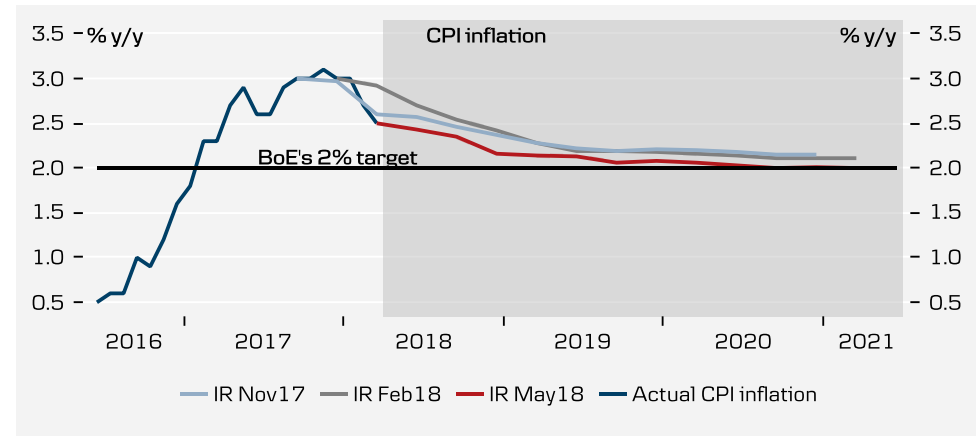
- Conclusion.** With an August rate hike still in sight in our view we see relative interest rates as neutral for EUR/GBP for now, but expect GBP to eventually gain support from the rate channel. We target 0.88 in 1M and 0.8650 in 3M.
- Longer term, Brexit still remains a key driver for GBP, and while uncertainty remains high, we still expect EUR/GBP to eventually trade lower driven by Brexit clarifications and fundamental valuations. The turn in capital flows and FDI flows back into the UK, as indicated in the latest balance of payment data, suggest that a key headwind to GBP seen in Brexit is reversing, supporting the case for additional GBP appreciation over the medium term. We target EUR/GBP at 0.84 in 6M and 0.83 in 12M.

EUR/GBP – important issues to watch

BoE keeps the hiking cycle alive but timing is data dependent

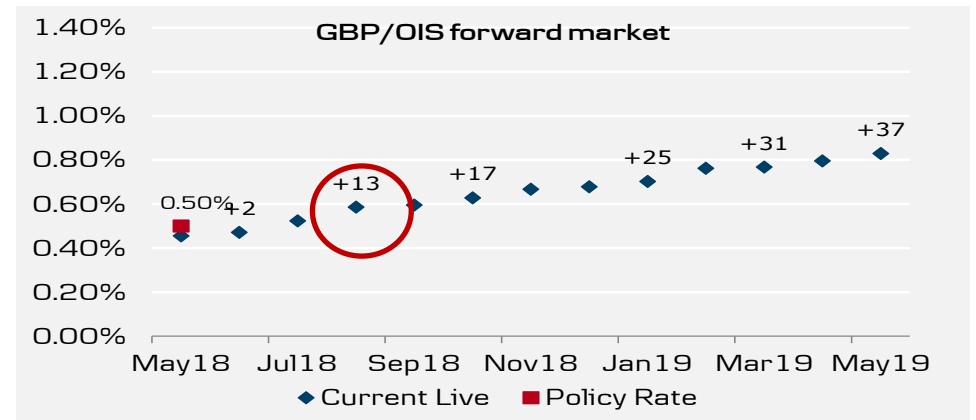
- As expected, the Bank of England decided not to hike the Bank Rate at its meeting on 10 May. The seven members voting for staying on hold thought that it would be good to see “how the data unfolded over the coming months to discern whether the softness in Q1 might persist”, as the “cost of waiting was likely modest” supporting. We interpret this as sign that the hiking cycle is postponed, not cancelled, and
- At the following press conference, BoE governor Mark Carney, highlighted a couple hawkish things: 1) He said that growth only needs to pick up slightly to be above potential (0.25% q/q), which should tighten labour market further and 2) domestic cost pressure is increasing with stronger wage growth. It is interesting that the projections with inflation staying above or at 2% over the forecast horizon and unemployment rate to drop further to 4% are based on the market pricing from before the meeting of approximately one hike a year the next three years.
- Market is pricing around 50% probability of a rate hike in august, while the first full 25bp rate hike is priced to arrive in January 2019.
- Timing of the next BoE rate hike remains highly data dependent, and we see markets pricing as fair for now, with risks skewed to the upside for UK yields and GBP in the coming months, if we are right in our call that the BoE will hike the Bank Rate in August.

BoE inflation projections: lower but still above target



Source: Danske Bank, Macrobond Financial

Market is pricing close to 50/50 (13bp) for a rate hike in August



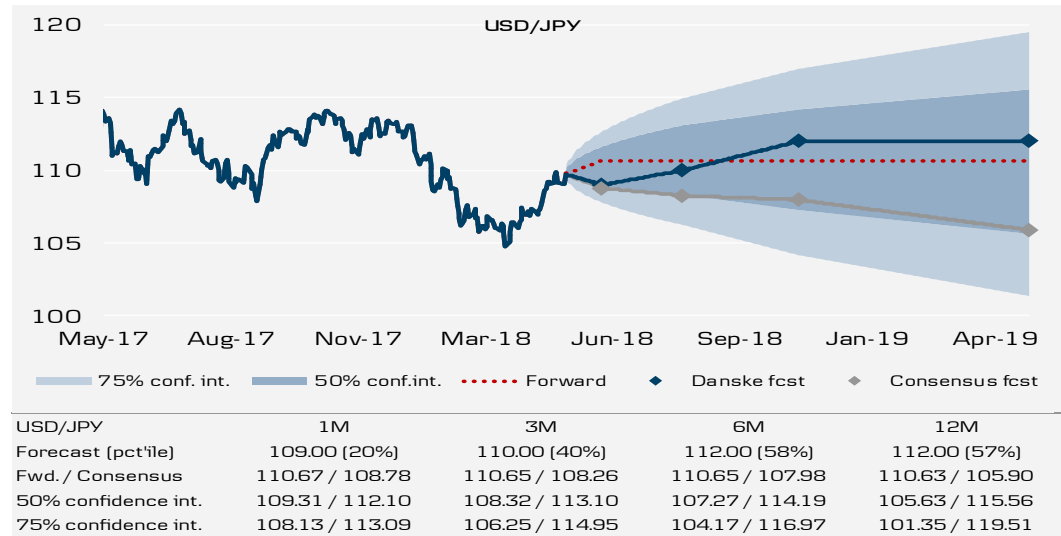
Source: Danske Bank, Macrobond Financial

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USD/JPY – US fixed income market remains the key driver

- Growth.** GDP growth momentum in Japan eased in Q4 2017, and Q1 data has looked weak. We expect the economy to have decelerated markedly in Q1 with annualised q/q GDP growth of 0.3%, down from 1.6% in Q4. Growth is driven primarily by foreign demand whereas private consumption is still looking weak. Recent oil price increases will cause higher inflation in the short run but also deprive consumers of purchasing power. Excluding fresh food and energy, inflation still stands at just 0.5% y/y.
- Monetary policy.** The Bank of Japan kept its monetary policy unchanged in April as expected. The BoJ removed the reference to hitting the 2% inflation target in FY 2019. This is an interesting change and a clear indication that the BoJ expects it to take longer for inflation to reach the 2% target. In our main scenario, we expect the BoJ to keep its current yield curve control unchanged for the next 12 months.
- Flows.** Japan runs a sizeable current account surplus, while the opposite is the case for the US. Short JPY positions have been reduced significantly over the past couple of months, and speculative positioning is now neutral, suggesting that USD/JPY risks have become more symmetrical from a positioning point of view.
- Valuation.** PPP is around 80, while our MEVA model suggests 104 is 'fundamentally' justified.
- Risks.** Concerns about the Trump administrations protectionist agenda and the case for higher inflation in the US represent downside risks to USD/JPY.

Forecast: 109 (1M), 110 (3M), 112 (6M), 112 (12M)



Source: Danske Bank

- Conclusion.** USD/JPY remains highly correlated with the 10Y US treasury yield and the combination of neutral speculative JPY positioning and higher US 10Y yields could be a supporting factor for USD/JPY near term. The cross looks increasingly overbought technically, and we reckon that further rally in USD/JPY requires that the sell-off momentum in the US fixed income market is sustained, which our rate strategists do not expect. We have thus lifted our 1M and 3M forecasts to 109 (107 previously) and 110 (108), respectively.
- Over the medium term, we expect USD/JPY to remain underpinned by continued global growth outlook and Fed-BoJ divergence, and we expect the cross to eventually settle in the 110-115 range in 6-12M. We now target the cross at 112 (110) in 6M and 112 in 12M.

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USD/JPY – important issues to watch

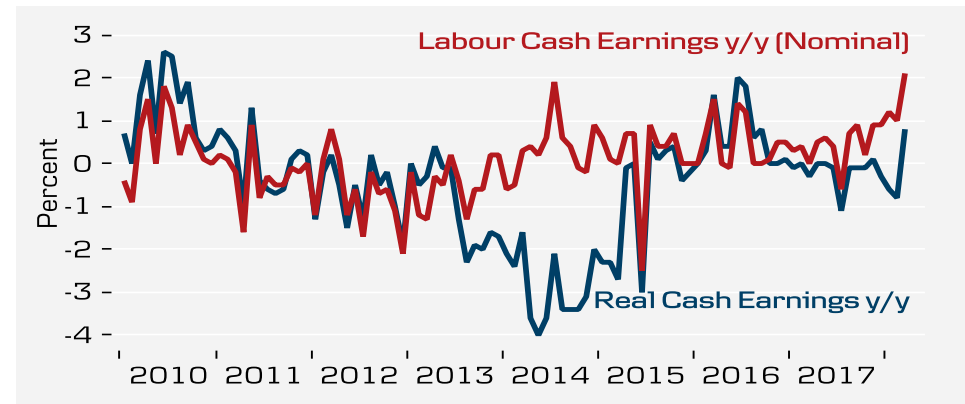
Wages rose strongly in March – encouraging sign for the BoJ

- Japanese wages rose at the fastest pace since 2003 with regular wages jumping 2.1% y/y in March. Many Japanese companies have struggled to find employees due to a very tight labour market, and the gains in regular wages in March were partly the result of companies hiring more permanent, full-time workers who generally receive higher pay.
- Overall, the strong wage figures are an encouraging sign for the Bank of Japan, which still struggles to push inflation higher. We still expect the BoJ to keep its monetary policy unchanged over the next 12 months, but we will monitor the development in the labour market and wages closely for any signs that the wages may accelerate further.

Correlation between USD/JPY and UST has resurfaced

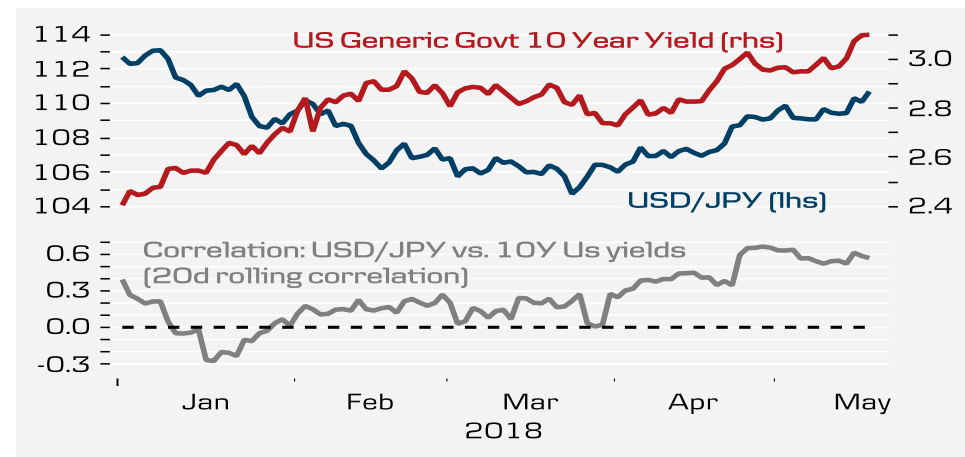
- Correlation between USD/JPY and the 10Y UST yield has recovered strongly over the past month. One important difference from the January-February fixed income sell-off is the still low implied volatility in the US (and European) fixed income market this time around. Going forward, USD/JPY and 10Y UST correlation is likely to remain intact as long as volatility in the US fixed income market remains low, and thus USD/JPY may still benefit from higher US yields.
- Hence, the sell-off in the US fixed income market is likely to remain a key driver for the USD/JPY and while the flattening of the US yield curve remains a challenge for Japanese investors, as the rising FX hedge cost erodes the return in US FI assets, we think that the combination of a neutral speculative JPY positioning and higher US 10Y yields could be a supporting factor for USD/JPY near term (as long as US interest rates volatility does not increase).

Japanese wages jumped in March



Source: Macrobond Financial, Danske Bank

Correlation between USD/JPY and UST has picked up in recent months



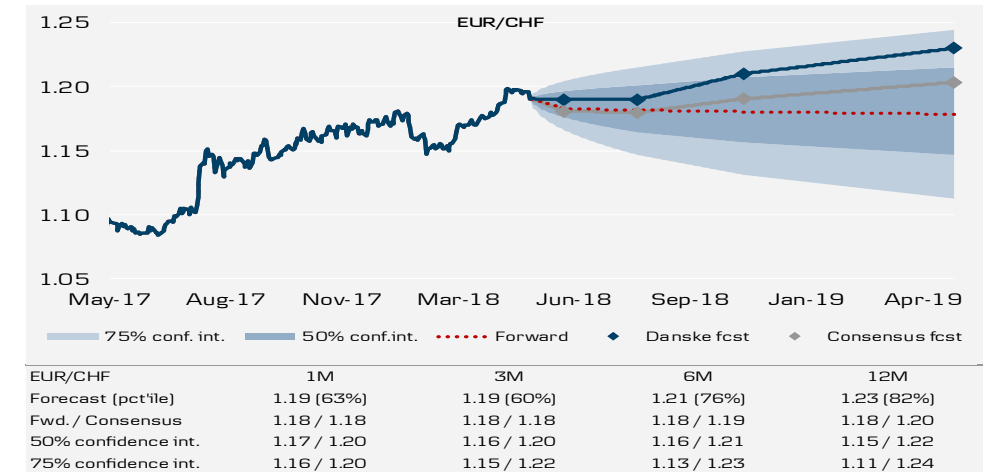
Source: Macrobond Financial, Danske Bank:

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EUR/CHF – set to move slowly higher still – watch out for ‘Vollgeld’ vote

- Growth.** The Swiss economy remains in good shape with both the PMI manufacturing and the KOF leading indicator hovering at elevated levels, even if some weakness has been evident recently. Unemployment remains steadily low and inflation has gradually started to pick up, albeit from very low (deflationary) levels.
- Monetary policy.** The SNB will welcome the latest move higher in EUR/CHF but is also keen not to become less dovish too early as still-fragile inflation remains very dependent on CHF moves. While the central bank has seemingly ceased CHF selling, it confirmed at its March meeting that intervention remains a policy tool and that CHF is ‘highly valued’. Recent USD strength may have changed that picture somewhat but we stress that ceasing intervention is only a first step towards the ‘exit’ for the SNB, the next will be dropping the reference to the CHF as ‘highly valued’. We think the SNB will want to see EUR/CHF make a more firm break of 1.20 and await ECB actions before mulling rate moves.
- Flows.** Speculators are now close to stretched levels on CHF shorts versus less stretched on EUR longs; this makes further EUR/CHF upside more difficult to achieve near term. Switzerland is likely to see some inflows once the SNB moves on rates, but if the SNB is highly alert to this and is unlikely to set such flows free prematurely.
- Valuation.** Both our G10 MEVA and PPP models suggest the cross should move higher over the medium to long term with both at 1.27.
- Risks.** The 10 June Swiss referendum on Vollgeld (sovereign money) is a key event risk. If (contrary to the polls) a ‘yes’ is seen, it would be likely to have wide-ranging consequences for the Swiss economy and reduce banks’ credit creation: the SNB could be challenged in driving inflation higher and be forced to keep rates negative for longer in that outcome. Eventually, this should thus add to the case for a higher EUR/CHF.

Forecast: 1.19 (1M), 1.19 (3M), 1.21 (6M), 1.23 (12M)



Source: Danske Bank

- Conclusion.** EUR/CHF has stayed close to the 1.20 level but has yet to make a firm break of the old SNB floor on the cross. With trade war tensions easing, geopolitical risks abating slightly and Italian bond markets complacent even with the prospect of an anti-establishment government, CHF strength should be kept at bay for now. However, a significant move above 1.20 is difficult as long as the ECB remains ‘normalisation’ hesitant. In any case, the money market remains too optimistic on the timing of a first SNB hike; a key next step will be for the SNB to stop characterising CHF as ‘highly valued’. We think it will remain reluctant to change its course, which should allow EUR/CHF to edge firmly into the 1.20s this year as the ECB keeps its ‘exit’ process alive.
- We still look for the cross to trade at 1.19 in 3M, 1.21 in 6M and 1.23 in 12M (all unchanged); we see the cross at 1.19 in 1M.

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USD/CNY – weaker USD to drive the cross lower

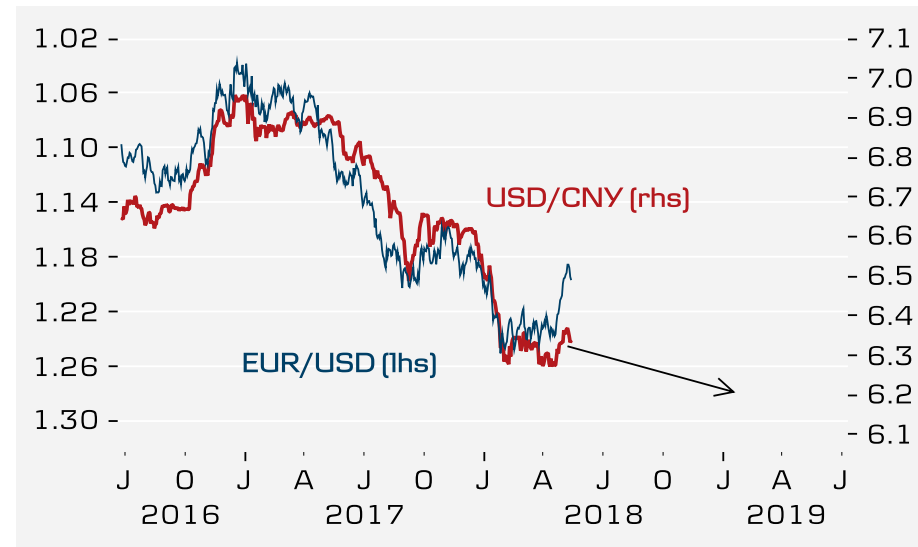
- **Growth.** We look for a moderate slowdown in China as the housing market is set to slow further and export growth also softens. We expect growth to decline to around 6½% from 6.9% in 2017.
- **Monetary policy.** We look for Chinese money market rates to ease further in 2018 following a big rise in 2017 as liquidity was tightened. M1 growth has fallen quite sharply due to the monetary policy and we expect PBoC to ease the foot a bit further from the break. PBoC has cut the Reserve Requirement Ratio to free up some liquidity recently. As US money market rates is set to rise, relative rates will move in favour of the USD. Chinese
- **FX policy.** Continues to be a managed peg against a basket of currencies. The basket has strengthened about 6% over the past year adding some headwind to exports.

Flows. While relative rates move in favour of the USD, flows have been dominating in driving USD weakness. USD/CNY has over the past two years traded with a high correlation with the overall USD movements. Hence, the relative slowdown of the Chinese economy versus the US will probably have less impact than before. We also believe China will work to avoid any weakening against USD to not give any cause for accusations of currency manipulation amid the current trade negotiations. Finally, the high priority in Chinese policy to defuse the debt bomb has reduced outflows as the likelihood of a financial crisis has come down.

- **Valuation.** The CNY is broadly seen as close to fair value.
- **Risks.** EUR/USD has deviated strongly from the development in relative rates over the past year. If relative rates become a driver of EUR/USD again, a potential strengthening of the USD would leave upside risk to our USD/CNY forecast. However, a risk to the downside would be even further weakening of the USD on a worsening US budget outlook, protectionism and softer Fed hiking path.

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Forecast: 6.30 (1M), 6.30 (3M), 6.30 (6M), 6.20 (12M)



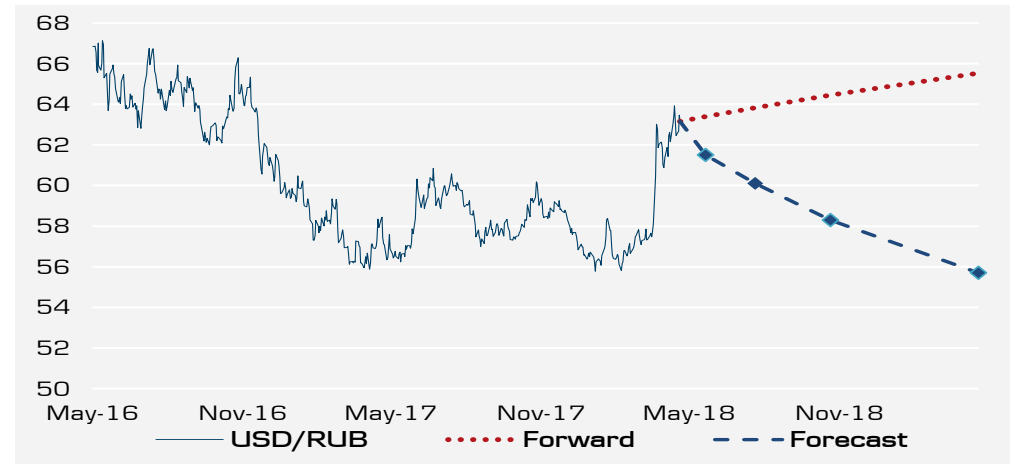
Source: Danske Bank

- **Conclusion.** We look for the main driver of USD/CNY to continue to be the overall USD development. We keep our forecast of a decline in USD/CNY to 6.20 in 12M.
- Our forecast for EUR/CNY continues to be for a move towards 7.94 in 12M (forward is 7.91) from the current level of 7.56.

USD/RUB – keeping geopolitical premium despite good macro

- Growth.** Russian economy probably grew 1.5% y/y in Q1 18 versus 0.9% y/y as gradual monetary easing supported further private consumers see more relief and cold weather boosted gas and electricity production. Expansion in service sectors remains GDP positive. We keep our GDP growth estimates at 2.0% for 2018 and 2.1% for 2019.
- Monetary policy.** Russia’s central bank (CBR) kept the key rate unchanged at 7.25% as we expected, along with Bloomberg and Reuters. Inflation stayed unchanged at 2.4% y/y in April, while the CBR preferred to stop rate cuts on increased volatility due to the new anti-Russia sanctions by the US in April. We expect the CBR to lower the key rate to 6.50% by end-2018 (6.25% previously) and to 5.75% by the end-2019 (5.50% previously). However, we expect the CBR’s monetary easing path to be very gradual throughout 2018-19.
- Flows.** Flows into the RUB have been shaky on recent geopolitical events. Yet, carry trades remain attractive on high real rates and RUB’s potential to strengthen. Russia’s Ministry of Finance is actively absorbing FX flows from increasing oil revenues, while geopolitical tensions are weighing on the RUB inflows.
- Valuation.** The correlation of crude oil and the RUB remain negative. It even might look that the RUB dislikes the rising oil price: while the Brent 30-day average went up 8.5% over the past 30 days, as of 14 May 2018, RUB/USD fell 6.3% over the same period. We see the RUB/USD as strongly undervalued at current oil prices and stable macro.

Forecast: 61.50 (1M), 60.10 (3M), 58.30 (6M), 55.70 (12M)



Source: Danske Bank

- Conclusion.** Given persisting geopolitical risks as a wave of new anti-Russia sanctions could arise anytime, we raise our view on the USD/RUB increasing demanded geopolitical premium. Our new USD/RUB forecasts have been raised to 61.50 in 1M (previously 59.50), 60.10 in 3M (57.30), 58.30 in 6M (56.40) and 55.70 in 12M (54.90). As we remain positive about the crude price and Russia’s macro fundamentals in the long term, we see macro fundamentals supporting the RUB, keeping a geopolitical premium.
- Risks.** Macro fundamentals remain favourable for the RUB’s outlook and oil-price risk points more to RUB upside as the US’s withdrawal from the Iran deal supports crude oil. However, geopolitical risks are present: the RUB is following the emerging market mood closely and the anti-Russian sanctions could hit the RUB anytime.

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USD/RUB – important issues to watch

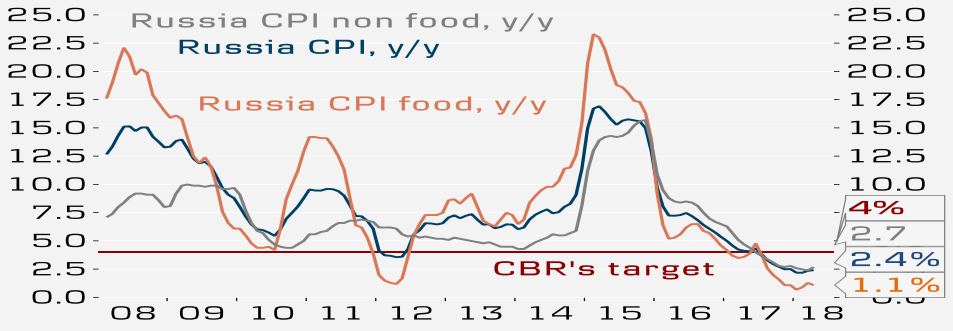
New anti-Russian sanctions against selected Russian businessmen, government officials and corporations

- Although the US Treasury stays positive on Russian’s government debt, geopolitical deterioration on new anti-Russian sanctions by the US, and Russia’s response to them, should be not excluded. New sanctions against Russian public companies would be RUB negative, pushing up FX volatility. Russia’s new bill criminalising the actions of local companies or individuals who follow the EU and the US sanctions could affect the RUB negatively if the new law hits Russian public companies on the stock market.

First steps by Russia’s new government in H2 18

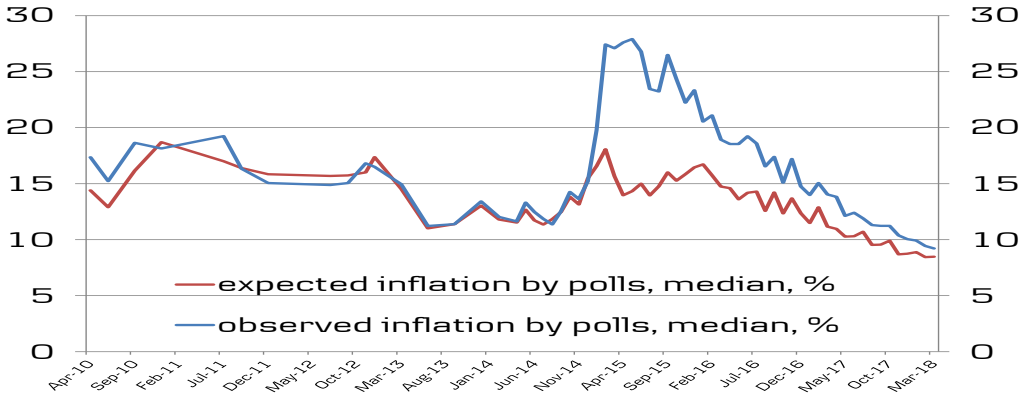
- As we expected, the RUB reaction has been muted to the first news on Russia’s new government. The so-called ‘Kudrin card’ has been played with enough cautiousness: Chief Executive of the Russian Centre for Strategic Research (CSR) and ex-Finance Minister Alexei Kudrin has agreed to become the head of the Accounts Chamber. The Kudrin effect on the RUB has been limited this time, as his new position in the public sector does not allow him to influence possible economic reforms.
- Yet, the new government’s first steps must be followed in order to understand future developments on the fiscal side.

Central bank has room for monetary easing as headline inflation stays below the target. Yet, geopolitics could make monetary easing even more gradual



Source: CBR, Bloomberg, Macrobond Finacial, Danske Bank

Inflation expectations remain sticky, supporting a more cautious stance from the CBR, though not impeding rate cuts



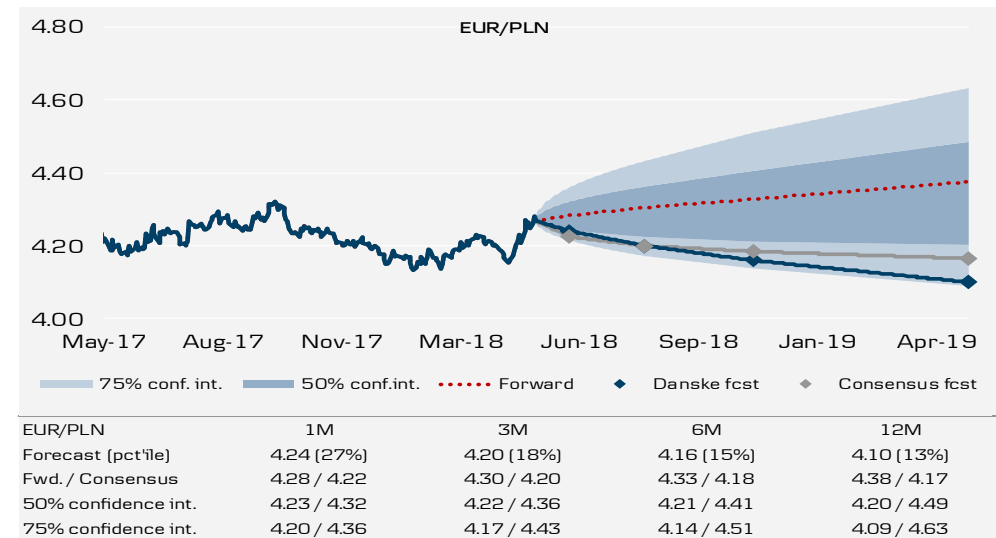
Source: CBR, Danske Bank

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EUR/PLN - EU tensions overshadow strong Polish economic momentum

- Economic developments.** The Polish economy continues to grow strongly. In Q1, real GDP expanded by a staggering 5.1% y/y (or 1.6% q/q sa). Economic growth continues to be supported by private consumption (retail sales expanded by a solid 8.8% in real terms in March) amid low unemployment and fast wage growth (average gross wages grew 6.7% y/y in March) and investment. External demand also remains strong. We maintain our real GDP growth projection for 2018 at 4.0% and our 2019 projection is at 3.6%.
- Political developments.** Tensions between the EU and Poland have resurfaced after the EU presented its new budget proposal, which foresees a reduction in structural funds going to Poland and other Eastern European countries and linking the release to compliance with rule of law (ROL) principles. At the same time, the Polish government has tried to appease EU concerns with changes to its ROL. However, so far, the EU has written off these proposals as 'cosmetic' changes, being insufficient to close the ROL procedure with the EU.
- Monetary policy.** In light of the relatively subdued inflation pressures, the NBP led by Governor Adam Glapiński has sounded relatively dovish, stating that rates could stay unchanged for the next two years. However, headline CPI inflation picked up to 1.6% y/y in April from 1.3% in March (slightly higher than consensus of 1.5%) and we expect it to pick up further in May onwards. Financial markets have scaled back their rate-hike expectations and are now expecting the first hike by Q3 19: However, we see the hike coming earlier in Q1 19 as we see a slightly faster rise in inflation.
- Risks.** The risk is skewed to the EUR/PLN upside, especially from continued strained relations between the EU and Poland and the wobbly EM risk sentiment. Downside risks include still strong Polish macroeconomic indicators and global risk sentiment.

Forecast: 4.24 (1M), 4.20 (3M), 4.16 (6M), 4.10 (12M)



Source: Danske Bank

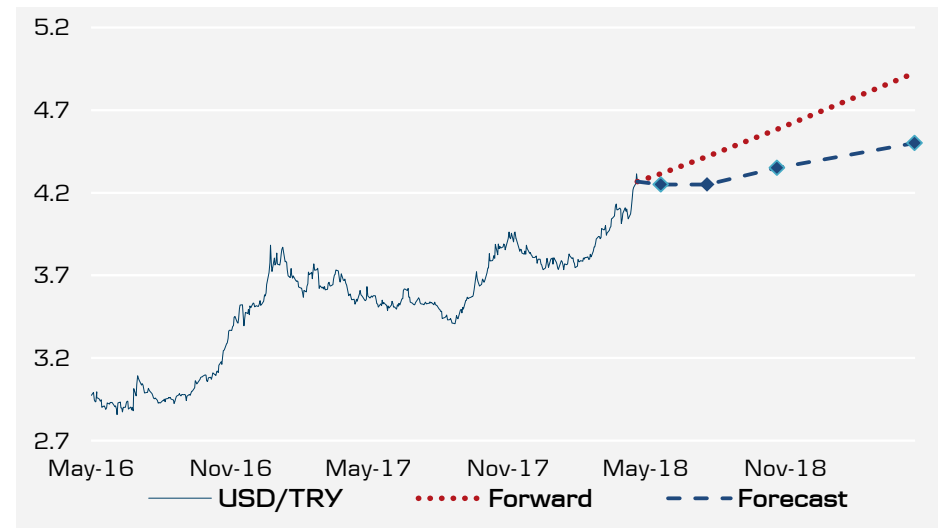
- Conclusion.** The zloty has been hit harder recently than we expected by a combination of weakening emerging market sentiment, dovish NBP and renewed uncertainty about Polish/EU relations. The EUR/PLN broke out of the 4.18-4.23 range. We think the EU uncertainty may fade over time and EM sentiment will improve and see a renewed PLN strength over time. As a result, we see the spot EUR/PLN rate falling to 4.24 and 4.20 over 1M and 3M (previously 4.20 and 4.18). We still expect the strong growth and rise in inflation to give support to the zloty and therefore target the EUR/PLN at 4.16 in 6M and 4.10 in 12M.

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USD/TRY – amid the perfect storm

- Growth.** Turkey's economic growth remains bright despite a slowdown in double-digit territory: GDP expanded 7.3% y/y in Q4 17 versus 11.3% y/y (revised) a quarter earlier. While industrial production data remains solid, the manufacturing PMI index has fallen below 50.0 for the first time since February 2017. Seeing more signs of overheating in Turkish economy, we expect 2018 GDP to grow 3.5% y/y and for 2019 GDP growth to slow down to 3.0% y/y.
- Monetary policy.** Inflation remains very sticky. Elevated TRY volatility has erased hopes of near-term monetary easing (despite President Erdoğan's pressure) and is keeping the central bank hawkish. In April 2018, the Turkish central bank raised its late liquidity lending rate by 50bp to 13.25% and we expect another 100bp hike in June. We expect the benchmark repo rate to remain unchanged in 2018, while the tightening could continue through other monetary policy instruments. Inflation pressure remains high through rising EUR/TRY.
- Valuation.** Net flows into Turkish bonds and stocks were negative as of early May on worsening CA data. According to technical analysis (Relative Strength Index), the USD/TRY is again to the 'overbought' territory signalling TRY's undervaluation. However, high inflation is set to weigh on the TRY further.
- Risks.** Major downside risks to our TRY forecasts include a further exodus from long carry and fixed income positions and a more hawkish Fed later in 2018, a worsening situation in the banking sector and (geo) political turmoil. However, President Erdoğan's convincing victory during the snap election on 24 June would be TRY positive, as the fiscal side could see stronger grip and more cautious approach.

Forecast: 4.25 (1M), 4.25 (3M), 4.35 (6M) and 4.50 (12M)



Source: Danske Bank

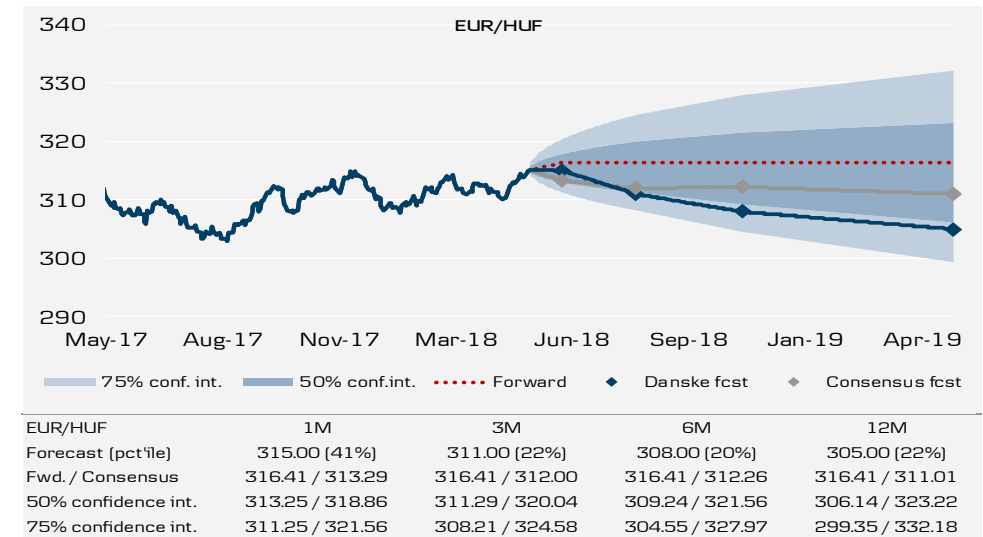
- Conclusion.** We see more volatility in the TRY in the short term as the Fed is likely to hike in summer 2018, staying hawkish for the rest of 2018 and Turkey's snap election could be TRY positive on Erdoğan's overwhelming victory. We remain cautious in the medium to long term on pressure from a high oil price and widening current account deficit, which has hit its deepest level since late 2013. We raise our USD/TRY forecasts due to TRY's vulnerability to shaky macros jeopardised by a high oil price and geopolitical risks: 4.25 (1M) versus 4.10 previously, 4.25 (3M) versus 4.20, 4.35 (6M) versus 4.25 and 4.50 (12M) versus 4.30.

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EUR/HUF – EUR weakness weighs on the HUF

- Growth.** Economic growth continues to be strong, posting 4.4% y/y in Q1 18 versus 4.4% y/y in Q4 17. That was stronger than in Q3 17. Industrial production growth is slightly slowing down on weaker manufacturing expansion. However, growth remains sustainable, supported by growing food output. We continue to be less concerned about a potential overheating of the economy as the output gap is still in the process of closing. Accelerating economic growth, in our view, would increase concern about overheating, should the Hungarian central bank maintain its dovish stance through 2018.
- Monetary policy.** The Hungarian central bank kept rates unchanged at its April meeting and seems to be on hold for now. In April, CPI inflation rose marginally to 2.3% y/y, staying far below the central bank's target. With headline inflation still remaining below the central bank's 3.0% target, we do not see any imminent changes in its dovish stance but we believe the strong economic growth will eventually drive up inflation, leading to a change in policy by the central bank at some point in late 2018. However, if inflation continues to struggle to reach 3.0%, this change in policy could well be a long way off. A strong HUF could also see the central bank remaining dovish for a prolonged period. We expect the first key rate increase in mid-2019.
- Risks.** An upside risk to our EUR/HUF forecast comes now from prolonged EUR weakness. The current economic and political situation back the HUF as the investor-friendly Fidesz party continues to govern. There are also downside risks from stronger-than-expected economic and inflation developments in Hungary.

Forecast: 315 (1M), 311 (3M), 308 (6M) and 305 (12M)



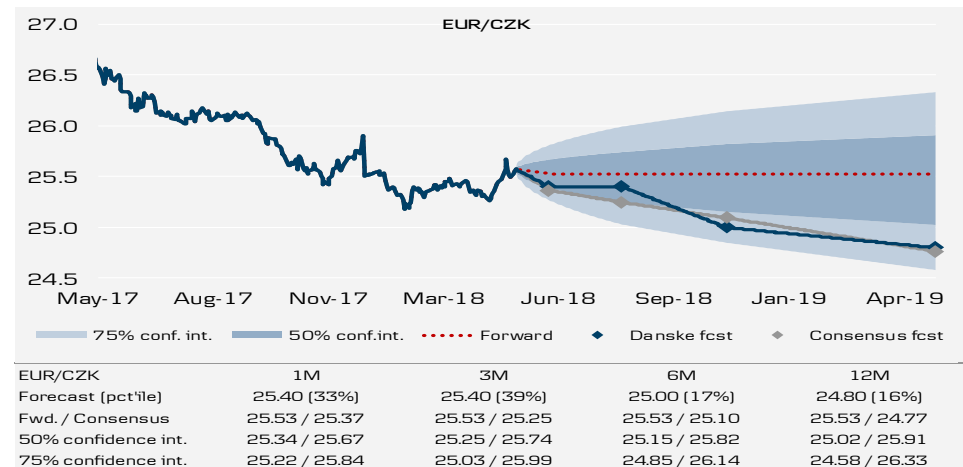
Source: Danske Bank

- Conclusion.** Given the strong support by macroeconomic indicators in Hungary and remaining chance for a more hawkish central bank in the long run, we see the HUF stronger in the medium and long term, while adjusting the pair forecast according to current EUR weakness seeing EUR/HUF at 315 in 1M (309 previously), at 311 in 3M (308 previously), 308 in 6M (305 previously) and 305 in 12M (300 previously).

EUR/CZK – depreciation to continue in H2 18

- Growth.** After strong GDP growth of 4.6% in 2017, driven by a recovery in investment spending, we expect growth in the Czech economy to moderate somewhat to 3.3% in 2018, closer to potential. We expect growth to be supported by strong domestic and foreign demand: the labour market remains tight, boosting wage growth and household spending, while the expansion phase continues in the Czech Republic's key export markets. Recent hard data such as retail sales and industrial production point towards a slight growth moderation in Q1, but we expect this to be partly due to temporary factors and to reverse in Q2 18, not least because PMI manufacturing remains at a high level (57.2 in April).
- Monetary policy.** At the policy meeting in May, the Czech National Bank (CNB) left policy rates unchanged as widely expected, but revised down its inflation forecasts. The CNB expects inflation to remain slightly below the target this year, but rise back towards 2% in 2019 due to higher import prices as the koruna appreciation pace abates. The central bank projects another policy rate hike only towards the turn of the year, but Governor Jiří Rusnok reiterated that the interest rate outlook remains conditional on FX movements and an earlier hike in 2018 cannot be ruled out. CNB forecasts still foresees relatively steep EUR/CZK depreciation to 24.60 by the end of 2018 and 24.30 in 2019. Overall, we expect CNB to be on hold in H1 18, but as we expect CZK to strengthen more moderately than the CNB's forecast, we see room for another 25bp hike in H2 18.
- Risks.** Given the sizable amount of long CZK positions accumulated in the market prior to the floor exit, EUR/CZK is still vulnerable to spikes higher. Continued inflation downside surprises could cause the CNB to become more dovish and reassess the hiking cycle. The Czech economy is characterised by a high degree of openness and hence vulnerable to protectionist measures from abroad.

Forecast: 25.40 (1M), 25.40 (3M), 25.00 (6M), 24.80 (12M)



Source: Danske Bank

- Conclusion.** After a temporary spike back to 25.85 in a thin market, EUR/CZK has returned to trading around the 25.50 level, reassured by the CNB's unaltered positive assessment of the growth outlook and commitment to the hiking cycle despite moderating inflation pressures. We project the cross to continue hover around current levels in the short term in the absence of any immediate changes to the monetary policy outlook, but look for more gradual EUR/CZK depreciation over the medium term based on strong Czech macro fundamentals and relative monetary policy divergence. But with the CNB on hold, and the ECB moving towards gradual policy normalisation, there will be less support from the latter factor going forward, which is also why we expect a more gradual EUR/CZK depreciation pace compared to the CNB forecasts. We leave our short-term EUR/CZK forecast unchanged at 25.40 in 1M and 3M, but 'roll-over' our 6M forecast to 25.00 (25.10 previously) and 12M to 24.80 (25.00 previously).

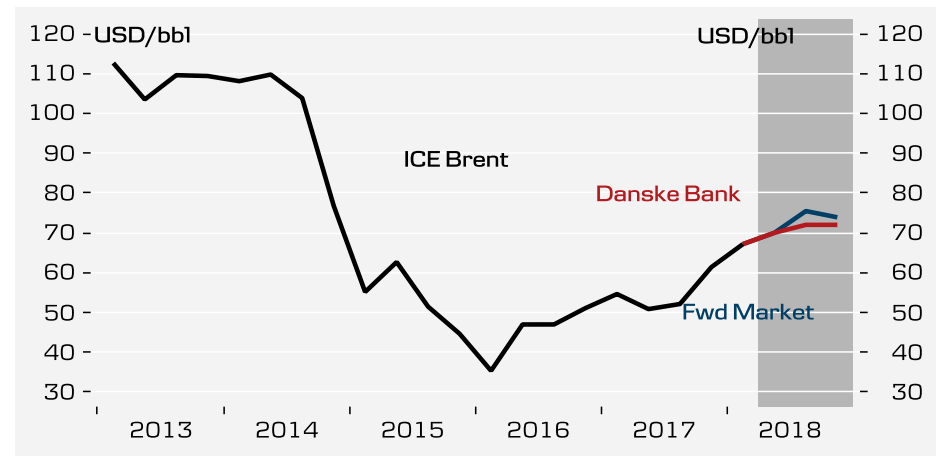
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Oil – US leaves Iran nuclear deal

- Macro.** The outlook for the world oil market balance has started to look tighter. We stress that the demand outlook is still looking positive supported by steady global economic growth and a weaker USD compared to last year. On the supply side, we think estimates for production increases in US are too optimistic. OPEC is set to maintain production cuts the rest of the year and will likely maintain some sort of quota system after 2018 which leaves some room for production increases.
- Venezuela deserves particular attention at the moment. Its output has trended down over the past year as the country has trouble financing maintenance and new investments to maintain oil production. Even if the economic situation should stabilise it will take long time for Venezuela to recover production back to old highs. If anything there is a risk of further production losses.
- It remains unclear to what extent the physical oil market will be affected by US leaving the 2015 Iran nuclear deal. US does not import oil from Iran so it depends on how bilateral trade between, e.g. EU, China, India, Japan and Iran are affected as they are the main importers of Iran oil.
- Forward curve.** The Brent crude oil market forward curve remains in a steep backwardation as the front-end of the curve remains supported by a geopolitical risk premium and the market pricing more supply over the medium-term is keeping the back-end in check.
- Positioning.** Speculative positioning in the oil market remains in stretched long territory.
- Risks.** On 22 June, OPEC is set to meet to review production cuts. The meeting looks set to take place on the back of an oil price above USD70/bbl, which may encourage OPEC to allow more oil to come to the market after 2018. This creates a downside risk to prices if OPEC sets the ceiling too high.

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Forecast: USD67/bbl (Q1), USD70/bbl (Q2), USD72/bbl (Q3), USD72/bbl (Q4)



Source: Danske Bank

- Conclusion.** We maintain our forecast of the price on Brent at USD72/bbl in Q4 this year and to average USD70/bbl in 2018 and USD73/bbl in 2019. We await further clarification of the ramifications of the Iran nuclear deal before taking that into account in our forecasts.

Danske Bank FX forecasts vs EUR and USD

	Forecast					Forecast vs forward outright, %			
	Spot	+1m	+3m	+6m	+12m	+1m	+3m	+6m	+12m
Exchange rates vs EUR									
USD	1.178	1.18	1.19	1.23	1.28	-0.1	0.3	2.9	5.4
JPY	130.3	129	131	138	143	-1.3	0.4	5.6	9.8
GBP	0.874	0.88	0.87	0.84	0.83	0.6	-1.3	-4.4	-6.2
CHF	1.181	1.19	1.19	1.21	1.23	0.8	0.9	2.7	4.5
DKK	7.4473	7.4450	7.4450	7.4450	7.4425	0.0	0.0	0.0	0.0
NOK	9.55	9.60	9.40	9.30	9.20	0.4	-1.9	-3.3	-5.2
SEK	10.28	10.20	10.30	10.50	10.20	-0.7	0.3	2.2	-0.7
Exchange rates vs USD									
JPY	110.6	109	110	112	112	-1.3	0.1	2.6	4.2
GBP	1.35	1.34	1.38	1.46	1.54	-0.7	1.6	7.7	12.3
CHF	1.00	1.01	1.00	0.98	0.96	0.9	0.6	-0.2	-0.8
DKK	6.32	6.31	6.26	6.05	5.81	0.0	-0.3	-2.8	-5.0
NOK	8.11	8.14	7.90	7.56	7.19	0.4	-2.2	-6.1	-10.0
SEK	8.72	8.64	8.66	8.54	7.97	-0.7	-0.1	-0.7	-5.8
CAD	1.28	1.28	1.27	1.25	1.23	0.2	-0.4	-1.9	-3.1
AUD	0.75	0.75	0.76	0.77	0.78	-0.2	1.0	2.3	3.3
NZD	0.69	0.69	0.71	0.71	0.73	0.2	2.7	3.1	5.7
RUB	61.97	61.50	60.10	58.30	55.70	-1.1	-4.1	-7.9	-13.5
CNY	6.37	6.30	6.30	6.30	6.20	-1.2	-1.4	-1.7	-3.8

Note: GBP, AUD and NZD are denominated in local currency rather than USD

Source: Danske Bank

Danske Bank FX forecasts vs DKK

	Spot	Forecast				Forecast vs forward outright, %			
		+1m	+3m	+6m	+12m	+1m	+3m	+6m	+12m
Exchange rates vs DKK									
EUR	7.4473	7.4450	7.4450	7.4450	7.4425	0.0	0.0	0.0	0.0
USD	6.32	6.31	6.26	6.05	5.81	0.0	-0.3	-2.8	-5.0
JPY	5.71	5.79	5.69	5.40	5.19	1.3	-0.4	-5.3	-8.9
GBP	8.52	8.46	8.61	8.86	8.97	-0.6	1.3	4.6	6.6
CHF	6.31	6.26	6.26	6.15	6.05	-0.8	-0.9	-2.6	-4.3
NOK	0.78	0.78	0.79	0.80	0.81	-0.4	2.0	3.5	5.5
SEK	0.72	0.73	0.72	0.71	0.73	0.7	-0.3	-2.1	0.8
CAD	4.95	4.93	4.93	4.84	4.73	-0.2	0.1	-1.0	-2.0
AUD	4.75	4.73	4.75	4.66	4.54	-0.2	0.7	-0.6	-1.9
NZD	4.35	4.35	4.42	4.30	4.24	0.3	2.4	0.2	0.4
PLN	1.74	1.76	1.77	1.79	1.82	1.4	2.7	4.2	7.0
CZK	0.29	0.29	0.29	0.30	0.30	0.6	0.7	2.6	3.7
HUF	2.35	2.36	2.39	2.42	2.44	0.6	1.9	3.1	4.4
RUB	0.10	0.10	0.10	0.10	0.10	1.2	3.9	5.5	9.7
CNY	0.99	1.00	0.99	0.96	0.94	1.3	1.1	-1.1	-1.4

Source: Danske Bank

Danske Bank FX forecasts vs SEK

	Spot	Forecast				Forecast vs forward outright, %			
		+1m	+3m	+6m	+12m	+1m	+3m	+6m	+12m
Exchange rates vs SEK									
EUR	10.28	10.20	10.30	10.50	10.20	-0.7	0.3	2.2	-0.7
USD	8.72	8.64	8.66	8.54	7.97	-0.7	-0.1	-0.7	-5.8
JPY	7.89	7.93	7.87	7.62	7.11	0.6	-0.1	-3.2	-9.6
GBP	11.76	11.59	11.91	12.50	12.29	-1.3	1.5	6.9	5.8
CHF	8.70	8.57	8.66	8.68	8.29	-1.5	-0.6	-0.5	-5.1
NOK	1.08	1.06	1.10	1.13	1.11	-1.1	2.2	5.8	4.7
DKK	1.38	1.37	1.38	1.41	1.37	-0.7	0.3	2.2	-0.8
CAD	6.82	6.75	6.82	6.83	6.48	-0.9	0.4	1.2	-2.7
AUD	6.56	6.48	6.58	6.57	6.22	-0.9	1.0	1.6	-2.7
NZD	6.00	5.96	6.12	6.06	5.82	-0.4	2.6	2.4	-0.4
PLN	2.40	2.41	2.45	2.52	2.49	0.6	2.9	6.5	6.1
CZK	0.40	0.40	0.41	0.42	0.41	-0.1	1.0	4.8	2.9
HUF	3.25	3.24	3.31	3.41	3.34	-0.2	2.2	5.3	3.6
RUB	0.14	0.14	0.14	0.15	0.14	0.4	4.2	7.8	8.8
CNY	1.37	1.37	1.37	1.36	1.29	0.5	1.4	1.0	-2.1

Source: Danske Bank

Danske Bank FX forecasts vs NOK

	Spot	Forecast				Forecast vs forward outright, %				
		+1m	+3m	+6m	+12m	+1m	+3m	+6m	+12m	
Exchange rates vs NOK										
EUR	9.55	9.60	9.40	9.30	9.20	0.4	-1.9	-3.3	-5.2	
USD	8.11	8.14	7.90	7.56	7.19	0.4	-2.2	-6.1	-10.0	
JPY	7.33	7.46	7.18	6.75	6.42	1.7	-2.3	-8.4	-13.6	
GBP	10.93	10.91	10.87	11.07	11.08	-0.2	-0.7	1.1	1.1	
CHF	8.09	8.07	7.90	7.69	7.48	-0.4	-2.8	-5.9	-9.3	
SEK	0.93	0.94	0.91	0.89	0.90	1.1	-2.2	-5.4	-4.5	
DKK	1.28	1.29	1.26	1.25	1.24	0.4	-1.9	-3.4	-5.2	
CAD	6.34	6.36	6.22	6.05	5.84	0.2	-1.8	-4.3	-7.1	
AUD	6.10	6.10	6.00	5.82	5.61	0.2	-1.2	-3.9	-7.0	
NZD	5.58	5.61	5.58	5.37	5.25	0.7	0.4	-3.2	-4.8	
PLN	2.23	2.26	2.24	2.24	2.24	1.8	0.7	0.7	1.4	
CZK	0.37	0.38	0.37	0.37	0.37	1.0	-1.2	-0.9	-1.7	
HUF	3.02	3.05	3.02	3.02	3.02	1.0	-0.1	-0.4	-1.0	
RUB	0.13	0.13	0.13	0.13	0.13	1.6	1.9	1.9	4.0	
CNY	1.27	1.29	1.25	1.20	1.16	1.7	-0.8	-4.5	-6.5	

Source: Danske Bank

Danske Bank EMEA FX forecasts

		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
PLN	17-May-18	4.29		3.64		174		240		223	
	+1M	4.24	4.30	3.59	3.64	176	173	241	239	226	223
	+3M	4.20	4.31	3.53	3.64	177	173	245	238	224	222
	+6M	4.16	4.34	3.38	3.63	179	172	252	237	224	222
	+12M	4.10	4.38	3.20	3.61	182	170	249	234	224	221
HUF	17-May-18	317		269		2.35		3.25		3.02	
	+1M	315	317	265	268	2.36	2.35	3.24	3.24	3.05	3.02
	+3M	311	317	261	267	2.39	2.35	3.31	3.24	3.02	3.02
	+6M	308	317	250	266	2.42	2.35	3.41	3.24	3.02	3.03
	+12M	305	318	238	262	2.44	2.34	3.34	3.23	3.02	3.05
CZK	17-May-18	25.5		21.7		29.2		40.2		37.4	
	+1M	25.4	25.6	21.5	21.6	29.3	29.1	40.2	40.2	37.8	37.4
	+3M	25.4	25.6	21.3	21.6	29.3	29.1	40.6	40.2	37.0	37.5
	+6M	25.0	25.6	20.3	21.5	29.8	29.0	42.0	40.1	37.2	37.5
	+12M	24.8	25.7	19.4	21.2	30.0	28.9	41.1	40.0	37.1	37.7
RUB	17-May-18	73.0		62.0		10.2		14.1		13.1	
	+1M	72.6	73.4	61.5	62.2	10.3	10.1	14.1	14.0	13.2	13.0
	+3M	71.5	74.3	60.1	62.6	10.4	10.0	14.4	13.8	13.1	12.9
	+6M	71.7	75.6	58.3	63.3	10.4	9.8	14.6	13.6	13.0	12.7
	+12M	71.3	78.2	55.7	64.4	10.4	9.5	14.3	13.1	12.9	12.4
TRY	17-May-18	5.24		4.44		142		196		182	
	+1M	5.02	5.31	4.25	4.49	148	140	203	194	191	180
	+3M	5.06	5.46	4.25	4.60	147	136	204	188	186	175
	+6M	5.35	5.69	4.35	4.76	139	131	196	181	174	169
	+12M	5.76	6.20	4.50	5.10	129	120	177	166	160	157
CNY	17-May-18	7.50		6.37		99		137		127	
	+1M	7.43	7.53	6.30	6.38	100	99	137	136	129	127
	+3M	7.50	7.58	6.30	6.39	99	98	137	135	125	126
	+6M	7.75	7.66	6.30	6.41	96	97	136	134	120	126
	+12M	7.94	7.83	6.20	6.44	94	95	129	131	116	124

Source: Danske Bank

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