

# FX Forecast Update

## An early Christmas present? To SEK, from the Riksbank

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## Forecast review part I

- **EUR/NOK.** Once again, the NOK has weakened in the final months of the year. This time, the move was triggered by souring global risk appetite and falling oil prices. Meanwhile, we still expect the cross to move lower in 2019 on the relatively better growth outlook, valuation and Norges Bank (NB) continuing its hiking cycle. Indeed, at the December NB meeting, the central bank confirmed its intention to hike policy rates twice in 2019 with the next hike due in March; this is more than current market pricing. In addition, we think oil prices are set to move higher on both supply- and demand-related factors. We roll the front end of our forecast profile to 9.50 in 1M (from 9.60) but keep the profile unchanged at 9.40 in 3M, 9.20 in 6M and 9.10 in 12M.
- **EUR/SEK.** November inflation data pushed EUR/SEK higher while it lowered the probability of a December rate hike. We acknowledge this uncertainty, but stick to our call for a 25bp rate hike. If we are right and if the communication is not overly dovish, it should pull EUR/SEK towards and possibly below 10.20, with a test of the December low at 10.16 being feasible. However, the cyclical slowdown in Sweden is a headwind for the SEK and the Riksbank could become hesitant to commit to a hiking cycle as a result. If, contrary to our expectations, the Riksbank leaves rates unchanged this month, it could seriously question the hiking cycle altogether. In that case, EUR/SEK could very well rally towards 10.50 and establish a higher range than we pencil into our base scenario. That said, in our base case of (at least) one Riksbank hike near term, we see EUR/SEK at 10.10 in 1M and keep our forecast profile intact at 10.10 in 3M, 10.00 in 6M and 10.00 in 12M.
- **EUR/DKK.** DKK is relatively more exposed to an escalation in the global trade war, as the Danish economy is small and very open and has significant exposure to global shipping. Furthermore, Denmark has net exposure to the stock market due to, in particular, the Danish Life and Pension (L&P) sector's large holdings of US and euro-area stocks. This, in addition to the easier DKK liquidity situation and negative FX forwards, helps to explain the recent rise in EUR/DKK to the 7.4600 level. We expect the pair to trade around 7.4600 in 1M (revised up from 7.4550), 7.4550 in 3M (revised up from 7.4525) and 7.4550 in 6-12M.
- **EUR/USD.** Although the ECB has now formally ended its asset purchase programme, the December meeting made it clear that rate hikes are not imminent. Meanwhile, the Fed looks determined to get to 'neutral' on rates, which following the recent softer pricing of its cycle, leaves risks tilted towards continued carry and cyclical support for the USD. We maintain the view that EUR/USD is caught in a range of around 1.13 near term, while we still believe ECB 'normalisation' and valuation are set to support the cross on a 6-12M horizon. We maintain our forecast profile and thus continue to see EUR/USD at 1.13 in 1M and 3M, 1.18 in 6M, and 1.25 in 12M.

- **EUR/GBP.** In our main scenario, we still expect a ‘decent’ Brexit and maintain our long-held view that EUR/GBP will break lower if/when the deal is passed by parliament. We target 0.83 in 6-12M. However, the UK House of Commons remains divided on Brexit and while all options are still on the table in relation to the outcome of negotiations, uncertainty is expected to remain high in coming months as clarifications about Brexit drag on. Hence, we expect EUR/GBP to remain volatile and within its recent (wide) trading range near term, targeting 0.88 in 1M and 0.87 in 3M.
- **EUR/CHF.** The Swiss National Bank (SNB) delivered no surprises at its December meeting and with little Swiss inflationary pressure still, it remains alert to any CHF appreciation from Italy and Brexit setbacks. The ECB’s gradual ‘normalisation’ process is a welcome move for the SNB, which has largely run out of policy tools. However, the ECB is not in a hurry and political risks still loom in Europe; this should keep EUR/CHF on the defensive short term. That said, we still see EUR/CHF in a gradual move back towards 1.20 in 12M. We have left our forecast profile unchanged and still look for EUR/CHF to trade at 1.12 in 1M, 1.13 in 3M, 1.16 in 6M and 1.20 in 12M.
- **USD/JPY.** A USD-positive environment should persist in 2019 and keep USD/JPY supported. However, we are vigilant towards recent disinflationary red flags in Japan. We therefore maintain our view on USD/JPY and look for the pair to range trade around 113-115 over the coming year.
- **AUD, NZD, CAD.** Over the past few months, the three commodity currencies have stabilised after the substantial moves during the autumn. All three remain heavily tied to the global growth outlook and its impact on commodity prices. In that light, the near-term potential remains limited even if we expect a stabilisation specifically in China at some point during H1 19. We still expect two hikes from the Bank of Canada and unchanged rates from the Reserve Bank of New Zealand over the next 12 months. Meanwhile, given the latest dovish comments, we change our call to no rate hikes (previously one) from the Reserve Bank of Australia in 2019. We now forecast AUD/USD at 0.71 in 1M (0.72), 0.72 in 3M (0.73), 0.73 in 6M (0.74) and 0.74 in 12M (0.75); NZD/USD at 0.67 in 1M (unchanged), 0.67 in 3M (unchanged), 0.68 in 6M (unchanged) and 0.69 in 12M (unchanged). Finally, we forecast USD/CAD at 1.33 in 1M (1.32) 1.30 in 3M (unchanged), 1.27 in 6M (unchanged) and 1.25 in 12M (unchanged).
- **USD/CNY.** Following the US-China ceasefire agreement, we now see a high likelihood of a trade deal within the next six months (70%). As a halt to CNY depreciation is likely to be part of any deal, we revise our USD/CNY forecast. On top of a trade deal, we expect a weaker USD and Chinese economic recovery from Q2 to underpin the CNY. We now expect USD/CNY to be broadly unchanged in 3M at 6.90 (7.00) and 6.80 in 12M (7.20).

- **EUR/CZK.** Adverse global risk sentiment currently holds the upper hand over strong Czech domestic fundamentals. Eventually, we expect CZK to return to its gradual strengthening path in 2019 – not least due to the positive interest rate differential vis-à-vis the euro area. We see the cross continuing to range-trade around current levels in the near term. We leave our forecasts for EUR/CZK unchanged at 25.90 in 1M, 25.80 in 3M, 25.10 in 6M and 24.80 in 12M.
- **EUR/PLN.** The PLN has traded in a relatively tight range of 4.28-4.33 to the EUR recently amid weak sentiment towards emerging markets (EM) outweighing the relatively strong performance of the Polish economy. Although a China-US trade deal may lift EM sentiment in the spring, we see EUR/PLN remaining within this range on a 3M basis. As a result, our forecast is 4.28 in 1M, 4.26 in 3M (4.24), declining further to 4.22 in 6M (4.20) and 4.18 in 12M.
- **EUR/HUF.** While EUR's weakness on Italian woes could shake the HUF, we still see it as stronger in the short, medium and long term, while adjusting the pair's forecast according to the current EUR exchange rate. We see EUR/HUF at 322.6 in 1M, at 321.0 in 3M, keeping our long-term forecast unchanged at 317.0 in 6M and 310.0 in 12M.
- **USD/RUB.** The RUB has seen some relief as US Congress looks too busy with domestic issues to push through the anti-Russian 'bill from hell' sanctions. Also, the US Treasury extending the deadline for Russian billionaire Oleg Deripaska to give up control of aluminium giant Rusal before penalties come into force has been RUB positive. This is temporary though as we believe the Trump administration is likely to introduce the second stage of anti-Russian sanctions linked to the Sergei Skripal case soon. The biggest short- and medium-term downside risks to our RUB forecasts would be an escalation in the military stand-off between Russia and Ukraine. We see USD/RUB at 69.10 (1M), 72.00 (3M), 73.80 (6M), 75.10 (12M).
- **USD/TRY.** We see falling volatility in the TRY in the medium term, as the Central Bank of the Republic of Turkey is returning to a conventional monetary policy framework. We remain cautious in the medium to long term on pressure from a high oil price, volatile portfolio flows and a wide current account deficit. We see USD/TRY at 5.40 in 1M, 5.90 in 3M, 6.10 in 6M and 6.50 in 12M.
- **Oil.** The OPEC+ decision to cut oil production next year has put a floor under oil prices. However, production cuts will need to work their way through the market, along with an improvement in financial market sentiment before a real recovery in oil prices can take place. We stick to our view that the price on Brent crude should average USD80/bbl in Q4 19 and pencil in a gradual recovery towards this level in Q1-Q3. We forecast Brent to average USD73/bbl next year (revised down from USD85/bbl). There is a particular risk to our forecasts from events taking place in April, where temporary waivers on Iranian sanctions are due to expire and OPEC+ is set to review its output cut deal.

**Danske Bank FX forecasts vs EUR and USD**

	Spot	Forecast				Forecast vs forward outright, %				
		+1m	+3m	+6m	+12m	+1m	+3m	+6m	+12m	
<b>Exchange rates vs EUR</b>										
USD	1.134	1.13	1.13	1.18	1.25	-0.7	-1.1	2.4	6.8	
JPY	128.5	128	128	135	144	-0.6	-0.6	4.7	11.8	
GBP	0.899	0.88	0.87	0.83	0.83	-2.3	-3.6	-8.3	-9.0	
CHF	1.129	1.12	1.13	1.16	1.20	-0.7	0.2	3.0	6.8	
DKK	7.4654	7.4600	7.4550	7.4550	7.4550	-0.1	-0.1	0.0	0.0	
NOK	9.77	9.50	9.40	9.20	9.10	-2.9	-4.1	-6.5	-8.4	
SEK	10.26	10.10	10.10	10.00	10.00	-1.6	-1.6	-2.6	-2.8	
<b>Exchange rates vs USD</b>										
JPY	113.3	113	113	114	115	0.1	0.5	2.2	4.7	
GBP	1.26	1.28	1.30	1.42	1.51	1.6	2.5	11.7	17.3	
CHF	1.00	0.99	1.00	0.98	0.96	-0.1	1.4	0.5	0.0	
DKK	6.58	6.60	6.60	6.32	5.96	0.6	1.0	-2.4	-6.3	
NOK	8.61	8.41	8.32	7.80	7.28	-2.2	-3.0	-8.8	-14.2	
SEK	9.05	8.94	8.94	8.47	8.00	-0.9	-0.5	-4.9	-8.9	
CAD	1.34	1.33	1.30	1.27	1.25	-0.5	-2.6	-4.7	-5.9	
AUD	0.72	0.71	0.72	0.73	0.74	-1.1	0.2	1.4	2.5	
NZD	0.68	0.67	0.67	0.68	0.69	-1.6	-1.7	-0.4	0.7	
RUB	66.52	69.10	72.00	73.80	75.10	3.5	7.1	8.5	7.7	
CNY	6.90	6.90	6.90	6.85	6.80	0.1	0.1	-0.6	-1.0	

*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
<b>Exchange rates vs DKK</b>									
EUR	7.4654	7.4600	7.4550	7.4550	7.4550	-0.1	-0.1	0.0	0.0
USD	6.58	6.60	6.60	6.32	5.96	0.6	1.0	-2.4	-6.3
JPY	5.81	5.84	5.84	5.54	5.19	0.5	0.5	-4.5	-10.5
GBP	8.30	8.48	8.57	8.98	8.98	2.3	3.6	9.0	10.0
CHF	6.61	6.66	6.60	6.43	6.21	0.7	-0.3	-2.9	-6.3
NOK	0.76	0.79	0.79	0.81	0.82	2.9	4.2	7.0	9.2
SEK	0.73	0.74	0.74	0.75	0.75	1.6	1.6	2.7	2.9
CAD	4.92	4.96	5.07	4.97	4.77	1.1	3.8	2.4	-0.4
AUD	4.73	4.69	4.75	4.61	4.41	-0.5	1.2	-1.0	-3.9
NZD	4.48	4.42	4.42	4.30	4.12	-1.0	-0.7	-2.8	-5.6
PLN	1.74	1.74	1.75	1.77	1.78	0.4	1.1	2.7	4.9
CZK	0.29	0.29	0.29	0.30	0.30	-0.4	0.3	3.7	6.1
HUF	2.31	2.31	2.32	2.35	2.40	0.2	0.8	2.3	5.1
RUB	0.10	0.10	0.09	0.09	0.08	-2.8	-5.7	-10.1	-13.0
CNY	0.95	0.96	0.96	0.92	0.88	0.5	1.0	-1.9	-5.3

*Source: Danske Bank*

**Danske Bank FX forecasts vs SEK**

	Spot	Forecast				Forecast vs forward outright, %				
		+1m	+3m	+6m	+12m	+1m	+3m	+6m	+12m	
<b>Exchange rates vs SEK</b>										
EUR	10.26	10.10	10.10	10.00	10.00	-1.6	-1.6	-2.6	-2.8	
USD	9.05	8.94	8.94	8.47	8.00	-0.9	-0.5	-4.9	-8.9	
JPY	7.99	7.91	7.91	7.43	6.96	-1.0	-1.0	-7.0	-13.0	
GBP	11.41	11.48	11.61	12.05	12.05	0.7	2.0	6.2	6.9	
CHF	9.09	9.02	8.94	8.62	8.33	-0.9	-1.8	-5.5	-8.9	
NOK	1.05	1.06	1.07	1.09	1.10	1.3	2.6	4.2	6.1	
DKK	1.37	1.35	1.35	1.34	1.34	-1.5	-1.5	-2.6	-2.8	
CAD	6.77	6.72	6.88	6.67	6.40	-0.5	2.2	-0.3	-3.2	
AUD	6.50	6.35	6.44	6.19	5.92	-2.1	-0.3	-3.6	-6.6	
NZD	6.16	5.99	5.99	5.76	5.52	-2.6	-2.2	-5.3	-8.3	
PLN	2.39	2.36	2.37	2.37	2.39	-1.2	-0.4	0.0	2.0	
CZK	0.40	0.39	0.39	0.40	0.40	-1.9	-1.3	1.0	3.2	
HUF	3.17	3.13	3.15	3.15	3.23	-1.3	-0.7	-0.4	2.2	
RUB	0.14	0.13	0.12	0.11	0.11	-4.3	-7.1	-12.4	-15.4	
CNY	1.31	1.30	1.30	1.24	1.18	-1.0	-0.6	-4.4	-7.9	

*Source: Danske Bank*

**Danske Bank FX forecasts vs NOK**

	Spot	Forecast				Forecast vs forward outright, %				
		+1m	+3m	+6m	+12m	+1m	+3m	+6m	+12m	
<b>Exchange rates vs NOK</b>										
EUR	9.77	9.50	9.40	9.20	9.10	-2.9	-4.1	-6.5	-8.4	
USD	8.61	8.41	8.32	7.80	7.28	-2.2	-3.0	-8.8	-14.2	
JPY	7.60	7.44	7.36	6.84	6.33	-2.3	-3.5	-10.7	-18.0	
GBP	10.86	10.80	10.80	11.08	10.96	-0.6	-0.6	1.9	0.7	
CHF	8.65	8.48	8.32	7.93	7.58	-2.2	-4.3	-9.3	-14.2	
SEK	0.95	0.94	0.93	0.92	0.91	-1.3	-2.5	-4.0	-5.8	
DKK	1.31	1.27	1.26	1.23	1.22	-2.8	-4.0	-6.5	-8.4	
CAD	6.44	6.32	6.40	6.14	5.82	-1.8	-0.4	-4.3	-8.8	
AUD	6.18	5.97	5.99	5.69	5.39	-3.3	-2.8	-7.5	-12.0	
NZD	5.86	5.63	5.57	5.30	5.02	-3.8	-4.7	-9.1	-13.5	
PLN	2.28	2.22	2.21	2.18	2.18	-2.5	-3.0	-4.0	-3.9	
CZK	0.38	0.37	0.36	0.37	0.37	-3.2	-3.8	-3.1	-2.8	
HUF	3.02	2.94	2.93	2.90	2.94	-2.6	-3.2	-4.4	-3.7	
RUB	0.13	0.12	0.12	0.11	0.10	-5.6	-9.5	-15.9	-20.3	
CNY	1.25	1.22	1.21	1.14	1.07	-2.3	-3.1	-8.2	-13.3	

*Source: Danske Bank*



**Danske Bank EMEA FX forecasts**

		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
PLN	<b>17-Dec-18</b>	<b>4.29</b>		<b>3.78</b>		<b>174</b>		<b>239</b>		<b>228</b>	
	+1M	4.28	4.30	3.79	3.78	174	174	236	239	222	228
	+3M	4.26	4.31	3.77	3.77	175	173	237	238	221	227
	+6M	4.22	4.33	3.58	3.76	177	172	237	237	218	227
	+12M	4.18	4.38	3.34	3.74	178	170	239	235	218	227
HUF	<b>17-Dec-18</b>	<b>323</b>		<b>285</b>		<b>2.31</b>		<b>3.17</b>		<b>3.02</b>	
	+1M	323	324	285	284	2.31	2.31	3.13	3.17	2.94	3.02
	+3M	321	324	284	283	2.32	2.30	3.15	3.17	2.93	3.03
	+6M	317	324	269	282	2.35	2.30	3.15	3.17	2.90	3.04
	+12M	310	326	248	278	2.40	2.29	3.23	3.16	2.94	3.05
CZK	<b>17-Dec-18</b>	<b>25.8</b>		<b>22.8</b>		<b>28.9</b>		<b>39.8</b>		<b>37.8</b>	
	+1M	25.9	25.8	22.9	22.7	28.8	28.9	39.0	39.8	36.7	37.9
	+3M	25.8	25.9	22.8	22.7	28.9	28.8	39.1	39.6	36.4	37.9
	+6M	25.1	26.0	21.3	22.6	29.7	28.6	39.8	39.5	36.7	37.8
	+12M	24.8	26.3	19.8	22.5	30.1	28.3	40.3	39.1	36.7	37.7
RUB	<b>17-Dec-18</b>	<b>75.4</b>		<b>66.5</b>		<b>9.9</b>		<b>13.6</b>		<b>12.9</b>	
	+1M	78.1	75.9	69.1	66.7	9.6	9.8	12.9	13.5	12.2	12.9
	+3M	81.4	76.8	72.0	67.2	9.2	9.7	12.4	13.4	11.6	12.8
	+6M	87.1	78.3	73.8	68.0	8.6	9.5	11.5	13.1	10.6	12.6
	+12M	93.9	81.7	75.1	69.8	7.9	9.1	10.7	12.6	9.7	12.2
TRY	<b>17-Dec-18</b>	<b>6.11</b>		<b>5.38</b>		<b>122</b>		<b>168</b>		<b>160</b>	
	+1M	6.10	6.24	5.40	5.48	122	120	166	164	156	157
	+3M	6.67	6.47	5.90	5.66	112	115	151	159	141	152
	+6M	7.20	6.84	6.10	5.93	104	109	139	150	128	144
	+12M	8.13	7.52	6.50	6.42	92	99	123	137	112	132
CNY	<b>17-Dec-18</b>	<b>7.82</b>		<b>6.90</b>		<b>95</b>		<b>131</b>		<b>125</b>	
	+1M	7.80	7.84	6.90	6.90	96	95	130	131	122	125
	+3M	7.80	7.88	6.90	6.90	96	95	130	130	121	124
	+6M	8.08	7.94	6.85	6.89	92	94	124	129	114	124
	+12M	8.50	8.05	6.80	6.87	88	93	118	128	107	123

Source: Danske Bank

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this research report are Christin Kyrme Tuxen (Chief Analyst), Morten Helt (Senior Analyst), Jens Naervig Pedersen (Senior Analyst), Kristoffer Kjær Lomholt (Senior Analyst), Jakob Ekholdt Christensen (Chief Analyst), Stefan Mellin (Senior Analyst), Vladimir Miklashevsky (Senior Analyst), Allan von Mehren (Chief Analyst), Aila Mihr (Analyst) and Joachim Waldemar Bratlie (Assistant Analyst).

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