Danske Bank

FX Forecast Update:
ECB stance reintensifies the FX carry hunt

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Forecast review part I

- **EUR/NOK.** After a strong start to the year, February proved to be a difficult month for the NOK, as temporary external factors weighed on the currency. Meanwhile, we think many of these factors are now fading, leaving investor focus on the strong and relatively unique macro case in Norway: a closed output gap, inflation surprising positively from levels already above the central bank target and mainland growth accelerating despite weaker global impulses. We expect Norges Bank's rate hike on 21 March and its revised rate path to create renewed interest in the NOK from foreign investors, who have been net sellers recently. In addition, we expect the global environment gradually to improve, which should directly and indirectly via a higher oil price underpin the NOK. We still expect tighter structural liquidity and higher daily Norges Bank NOK purchases to support the NOK. We leave our NOK forecasts unchanged at 9.60, 9.50, 9.40 and 9.30 in 1M, 3M, 6M and 12M, respectively.

- **EUR/SEK.** The SEK is one of the worst performing currencies in the global universe, which may seem unfair. The SEK has been hit by its attractive funding properties in a low-volatility environment, a deteriorated growth outlook and expectations that central banks will stay soft for longer. The latter two factors may be discounted already, while the carry argument could continue to weigh on the SEK. We think the Riksbank will keep the rate path intact at the April meeting, while lowering the inflation forecast – a hawkish signal, which should weigh on EUR/SEK. We expect the SEK to remain weak throughout our forecast horizon. We raise our 1M forecast to 10.50 (previously 10.40), keep 3M at 10.40 and lift our 6-12M estimates slightly to 10.30 (from 10.20). On balance, we believe the profile conveys a relatively neutral view on the EUR/SEK.

- **EUR/DKK** peaked in December and early January and has headed lower since. The dividend season will continue until the start of April, which could give rise to some temporary EUR/DKK positive flows. We forecast EUR/DKK at 7.4590 in 1M, 7.4570 in 3M and 7.4550 in 6-12M.

- **EUR/USD.** The ECB has introduced an easing risk premium on the EUR, which could increase if the eurozone outlook continues to falter. Further, with the risk of pockets of USD strength from renewed pricing of Fed hikes and a trade deal that will not provide much imminent support, this opens the possibility of a EUR/USD move towards 1.10 near term. Over the medium term, we expect EUR/USD to stabilise and move back into the longstanding 1.12-1.16 range, as the EUR easing discount is priced out; a drift higher this year would derive mainly from positive spillovers to the euro area from a turn in the global (China) cycle. In *FX Strategy – ECB introduces 'easing risk premium' on EUR*, 7 March, we updated and notably flattened our forecast profile and we see EUR/USD at 1.11 in 1M, 1.13 in 3M, 1.15 in 6M, and 1.17 in 12M. This is a marked change in our EUR/USD outlook and we emphasise that it should be seen as a EUR/USD rate that is effectively left without much of a trend this year.

- **EUR/GBP.** With the likely extension of Brexit, we think EUR/GBP will remain in the 0.85-0.87 range for now. We see a risk investors will be disappointed about the progress near term, which could lead EUR/GBP to move to the higher end of the range again. We target 0.86 in 1M. Further out, we build our forecast on the baseline scenario that a deal will pass and that this could happen before the summer holiday, paving the way for a decline in EUR/GBP. We lower our targets to 0.83 in 3M and 0.82 in 6M on the back of the ECB's dovish policy shift (from 0.84 and 0.83, respectively).

- **USD/JPY.** While 2019 does not look particularly USD positive following the recent more dovish tone from the Fed, we are also vigilant to recent disinflationary red flags in Japan. Overall, we keep our USD/JPY forecast unchanged and see the cross at 110 in 1-6M and 112 in 12M, driven by a slight uptick in US yields.

- **EUR/CHF.** The cross has been relatively steady recently, notwithstanding the latest ECB-induced volatility. With the ECB on the sidelines, the case for EUR upside has been postponed – yet again. We expect risk sentiment to improve in the course of H1 led by a trade deal and a 'decent Brexit', which should, everything else being equal, support EUR/CHF but the big move higher will require ECB support, which now seems somewhat far away. We project EUR/CHF at 1.13 in 1M, 1.14 in 3M, 1.15 in 6M and 1.17 in 12M.

- **AUD, NZD, CAD.** All three central banks have clearly stated that they remain on hold until there is more clarity on the state of the global economy. We still pencil in a rebound in the Chinese cycle over coming quarters, which we think will be instrumental for the G10 commodity FX basket moving higher. We stick to our view of two hikes in Canada and unchanged policy rates in New Zealand and Australia over the next 12 months. According to our PPP model, CAD is undervalued, while AUD and NZD are trading close to fair value (versus the USD). We leave our forecast profiles unchanged.

- **USD/CNY.** We still see risks as balanced. A US-China trade deal in Q2 and a Chinese recovery could lead to more strengthening of the CNY than we expect. However, if the US and China fail to reach a trade deal, the CNY is headed for more weakness. We stick to our forecast of 6.60 in 12M. A trade deal with the US and a bottom in growth in H1 would give some tailwind to the CNY. A weaker USD in the medium term will also work in favour of lower USD/CNY.

- **USD/RUB.** The RUB continues to see relief, as US Congress looks too busy with domestic issues to push through the anti-Russian 'bill from hell' sanctions. The RUB is clearly benefiting from the looser monetary stances of the ECB and Fed as global emerging-market sentiment improves and Russia's solid macro combined with attractive carry lures 'yield hunters'. Yet, the sentiment could see a U-turn any moment, if geopolitics get worse. We see the cross at 66.10 (previously 67.40) in 1M, 68.20 (from 70.00) in 3M, 70.00 (from 71.50) in 6M and 71.00 (from 72.00) in 12M.

- **EUR/PLN.** EUR/PLN continues to trade in the 4.28-4.33 range, which it has broadly observed since October. We see headwinds from the global side for the next month but then see a modest recovery in global economy, which should aide the PLN together with the still-solid performance of the domestic Polish economy, also boosted by slightly expansionary fiscal policy. As a result, we keep our forecasts relatively unchanged for EUR/PLN at 4.29 in 1M, 4.27 in 3M, and 4.20 in 6M and 4.18 in 12M.

- **USD/TRY.** We raise our USD/TRY near-term outlook slightly due to upcoming monetary easing in H1 19. We keep our medium- and long-term forecasts unchanged, as we expect large FX debt redemptions by the Turkish private sector and further rate cuts to weigh on the TRY in 2019. Thus, we continue to remain bearish on the TRY in the long term, expecting USD/TRY to be at the following levels: 5.52 in 1M (previously 5.40), 5.55 in 3M, 5.70 in 6M and 6.00 in 12M.

- **Oil.** We expect April to be an important month for the oil market, when the current waivers on Iranian sanctions are due to expire. OPEC+ is also set to review its deal to cut production. We expect oil prices to recover over the course of 2019. We forecast Brent will average USD65/bbl in Q1, rising to USD80/bbl in Q4 19. We expect OPEC+ cuts, a recovery in global growth and a weaker USD to be the main factors underpinning a higher oil price.

EUR/NOK – Norges Bank set to hike rates and signal another 2019 hike

- **Growth.** Over the past month, domestic data releases have confirmed that Norwegian growth is much better insulated against weaker global impulses than was the case back in 2014-16. The reason remains lower breakeven oil prices, petroleum heavy exports, large infrastructure investments and rising real disposable income. The important Regional Network Survey suggested Q1 mainland growth of around 0.72% q/q, which is slightly above Norges Bank's projection. More importantly, the survey's forward-looking index continued to point to growth clearly above trend potential. With the output gap closed, strong shielded domestic growth and inflation surprising to the topside from levels already above target, the case for tighter monetary policy remains intact.

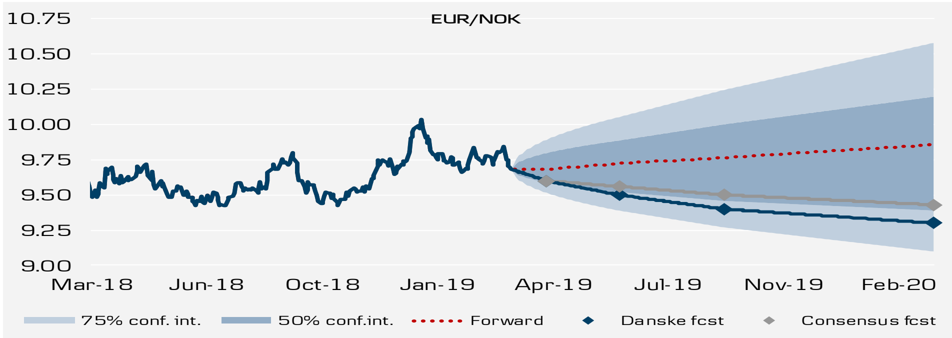
- **Monetary policy.** Norges Bank (NB) is widely expected to hike rates by another 25bp at the forthcoming 21 March meeting. Hence, for markets, it is more important what the central bank signals on future rate hikes. We expect Øystein Olsen and Co. to lower the rate path on lower global yields but, importantly, to maintain the front-end of the rate little changed. This would suggest another rate hike this year – it is likely this could come as soon as September.

- **Flows.** Foreign banks (proxy for speculative flows) have been net selling NOK over the past month. This suggests positioning potential if the global environment stabilises, as it would support the already strong and fairly unique domestic macro case.

- **Valuation.** From a long-term perspective, the NOK seems fundamentally undervalued. Our PPP model has 8.85 as 'fair'.

- **Risks.** We think the biggest risk factors lie in the global environment and if we are wrong on our constructive view on global growth. Any risk-off event would weigh on the NOK directly and indirectly via the oil price. In this regard, we highlight the importance of the Chinese cycle rebounding in coming quarters.

Forecast: 9.60 (1M), 9.50 (3M), 9.40 (6M), 9.30 (12M)



EUR/NOK	1M	3M	6M	12M
Forecast (pct'ile)	9.60 (32%)	9.50 (22%)	9.40 (20%)	9.30 (20%)
Fwd. / Consensus	9.68 / 9.60	9.72 / 9.56	9.76 / 9.50	9.86 / 9.43
50% confidence int.	9.56 / 9.78	9.52 / 9.88	9.46 / 10.00	9.39 / 10.19
75% confidence int.	9.48 / 9.88	9.39 / 10.05	9.27 / 10.24	9.10 / 10.58

Source: Danske Bank

- **Conclusion.** After a strong January, February proved a difficult month for the NOK as temporary external factors weighed on the currency. Meanwhile, we think many of these factors are now fading, leaving investor focus on the strong and relatively unique macro case in Norway: closed output gap, inflation moving surprising positively from levels already above the central bank target and mainland growth accelerating even despite weaker global impulses.

  We expect Norges Bank's rate hike on 21 March and its revised rate path to create renewed interest in the NOK from foreign investors that have been net sellers recently. In addition, we expect the global environment to improve gradually, which should underpin the NOK directly and indirectly via a higher oil price. On top of this, we still expect tighter structural liquidity and higher daily NB NOK purchases to support the NOK.

  We leave our NOK forecasts unchanged at 9.60, 9.50, 9.40 and 9.30 in 1, 3, 6 and 12M, respectively.

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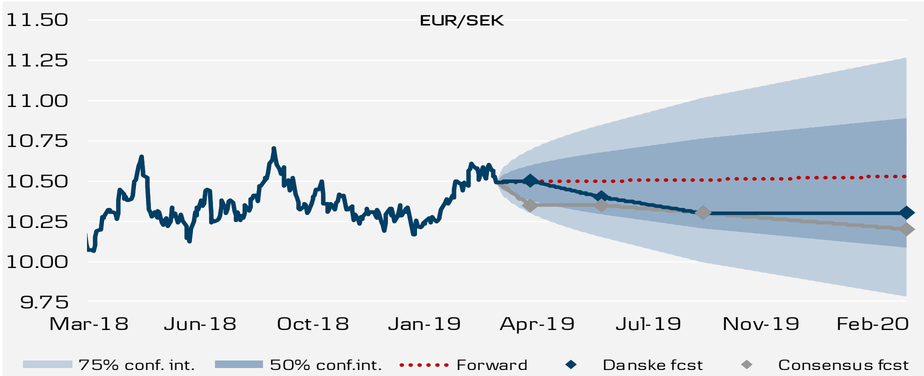
EUR/SEK – SEK weak for longer

- **Growth.** GDP growth in Q4 surprised on the upside, with a strong print at 1.2% q/q and 2.4% y/y. Net exports were the main driver of GDP, while domestic demand, as expected, was actually rather weak. On the back of this, our GDP indicator continues to suggest further weakening of GDP growth in Q1. Our call of a slowdown in 2019 remains intact but it is also Consensus. In particular, the Riksbank's full-year estimate is lower than ours and it still claims that the economy is strong and warrants less accommodative monetary policy ahead.
- **Monetary policy.** The Riksbank argues that it can overlook 'one-off' inflation misses. Nevertheless, the two prints we have seen so far in 2019 have undershot forecasts by 0.3-0.4pp and, in particular, the magnitude of the deviations spells trouble for the Board in the long run. Meanwhile, inflation expectations are close to target, resource utilisation is high and the SEK is weaker than expected. We believe the rate path will be kept intact (and the inflation forecast will be adjusted downward) at the April meeting and maybe through summer, which should be received as slightly hawkish and ought to be SEK-positive.
- **Flows.** Commercial demand for SEK is still muted on the back of negative rates and the significant rate gap versus the US is still holding back incentives for Swedish investors to raise their hedge ratios. The Swedish dividend season is approaching with possible SEK bashing – see *FX Strategy – Dividends, seasonality and the SEK*, 11 March.
- **Valuation.** Recently, EUR/SEK has diverged from short-term fundamentals such as interest rate differentials. In the longer run, shrinking external balances and deteriorating productivity growth have diminished the potential for the SEK, although these factors still point towards the SEK being undervalued.
- **Risks.** The risks are skewed on the upside, especially if the Riksbank Board decides to adjust (lower) the rate path as soon as the April meeting.

Forecast: 10.50 (1M), 10.40 (3M), 10.30 (6M), 10.30 (12M)



EUR/SEK	1M	3M	6M	12M
Forecast (pct'ile)	10.50 (53%)	10.40 (38%)	10.30 (32%)	10.30 (38%)
Fwd. / Consensus	10.49 / 10.35	10.50 / 10.35	10.51 / 10.30	10.53 / 10.20
50% confidence int.	10.36 / 10.61	10.29 / 10.68	10.20 / 10.76	10.09 / 10.89
75% confidence int.	10.28 / 10.71	10.15 / 10.85	9.99 / 11.01	9.78 / 11.26

Source: Danske Bank

- **Conclusion.** The SEK is one of the worst performing currencies in the global universe, which may seem unfair. Its attractive funding properties in a low-volatility environment, a deteriorated growth outlook and expectations that central banks will stay soft for longer have hit the SEK. Much of the latter two factors is probably discounted already, while the carry argument could continue to weigh on the SEK. We think the Riksbank will keep the rate path intact at the April meeting, while lowering the inflation forecast – a hawkish signal, which should weigh on EUR/SEK. We expect the SEK to remain weak throughout the forecast horizon. We raise our 1M forecast to 10.50 (10.40), keep 3M at 10.40 and lift our 6-12M estimates slightly to 10.30 (10.20). On balance, we believe the profile conveys a relatively neutral view on EUR/SEK.

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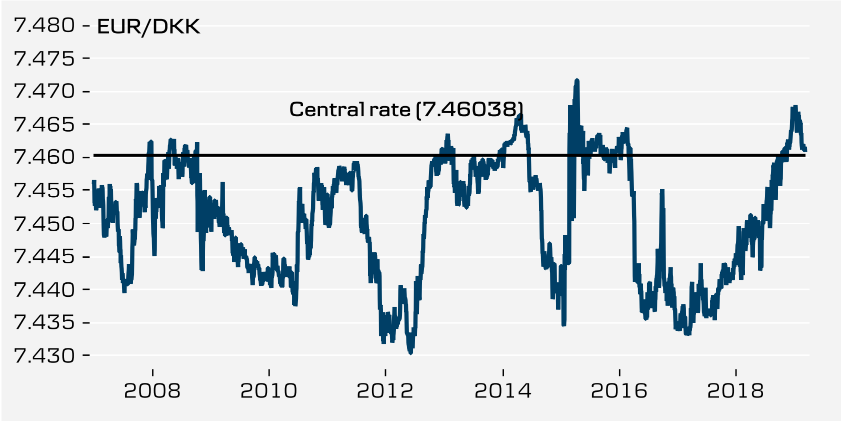
EUR/DKK – DKK depreciation pressure is over

- **FX.** EUR/DKK fell close to the 7.46038 central rate in February and continued to trade around this level in March. It has further ended the need for Danmarks Nationalbank to intervene in the FX market. We forecast EUR/DKK at 7.4590 in 1M, 7.4570 on 3M and 7.4550 in 6-12M. The dividend season continues until the beginning of April, which could give rise to some temporary EUR/DKK positive flows.
- **Rates and forwards.** We expect Danmarks Nationalbank to keep the rate of interest on certificates of deposit unchanged at minus 0.65% in 12M, as we no longer expect the ECB to hike rates. A very high net position has pushed down T/N fixing and front-end EUR/DKK FX forwards.
- **Flows.** The Danish current-account surplus remains large, but has moderated some from the elevated level seen in past years. It still creates fundamental support for DKK. We expect a high savings rate and low investment activity to maintain this situation in coming years. Denmark has significant exposure to the US as around one-third of the surplus is earned in the US. In the near term, we intend to keep an eye on annual dividend flows from end-March to early-April (DKK negative) and bond flows around April's mortgage bond auction (EUR/DKK FX forwards to the left).
- **Liquidity.** The net position is set to fall to around DKK200bn when we get to the Q1 turn. This means there will be ample liquidity around the turn; hence, short-term rates should not rise as we saw in 2018. In April, the net position is set to rise close to DKK250bn, partly on the back of DKK19bn in mortgage bond purchase by the government. Throughout the rest of 2019, the net position should remain high.

Forecast: 7.4590 (1M), 7.4570 (3M), 7.4550 (6M), 7.4550 (12M)



Source: Danske Bank

- **Conclusion.** EUR/DKK peaked in December and early January and has headed lower since. We forecast EUR/DKK at 7.4590 in 1M, 7.4570 in 3M and 7.4550 in 6-12M. The dividend season continues until the beginning of April, which could give rise to some temporary EUR/DKK positive flows.

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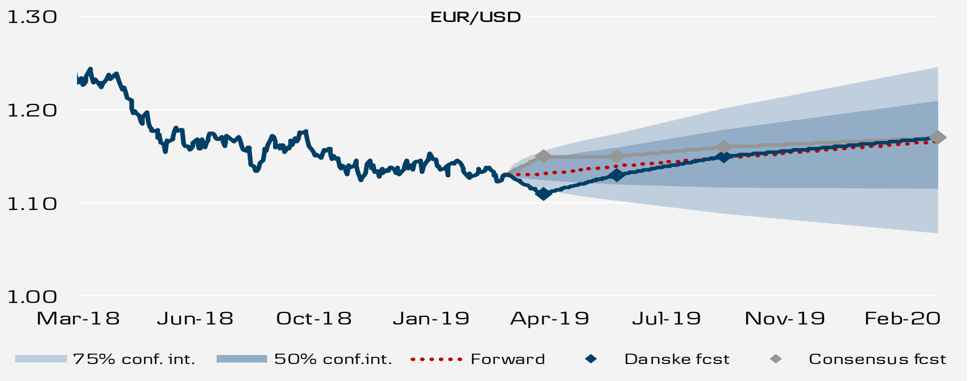
EUR/USD – ECB introduces 'easing risk premium' on the euro

- **Growth.** The US has suffered less from the global loss of growth momentum that gained traction towards end-2018. However, recent US data have surprised on the downside. We see the US economy turning ahead of the eurozone, as the latter needs to wait for China to stabilise first and Donald Trump's continued fiscal boost holds a hand under US activity. In our view, a trade deal and a 'decent Brexit' would eventually be positive for the eurozone and could pave the way for positive surprises later in the year, as a lot of negativity is priced in on the euro political side.
- **Monetary policy.** The ECB certainly surprised us in March: the combination of new TLTROs and rate guidance that now eliminates the likelihood of a first hike this year is a clear indication that the ECB could go in either direction from here. Effectively, this implies that further easing is back on the table and the postponement of an end to negative rates. The Fed has continued its dovish rhetoric, toppled with the elimination of forward guidance on rates at the February meeting. We still look for two more hikes from the Fed this year; this compares with rather dovish market expectations after the Fed has been extensively repriced, with close to a 25bp cut now priced by end 2020.
- **Flows.** External balances, as measured by relative current-account balances, hint at EUR/USD upside medium term but history suggests a deficit such as the US one can be sustained for prolonged periods, notably for a world reserve currency such as the USD. The large eurozone capital outflows, which ECB policy have arguably spurred, have faded but with an end to negative rates deferred, a reversal is not on the cards near term.
- **Valuation.** The USD remains generally overvalued on most measures and our MEVA and PPP estimates for EUR/USD are in the 1.20s, suggesting the direction of gravity should still be higher medium term.
- **Risks.** A trade deal could be a short-term EUR/USD negative if it fuels a US cyclical turn by more Chinese buying of US goods and/or Trump goes for tariffs targeting the EU next.

Forecast: 1.11 (1M), 1.13 (3M), 1.15 (6M), 1.17 (12M)



EUR/USD	1M	3M	6M	12M
Forecast (pct'ile)	1.11 (13%)	1.13 (36%)	1.15 (50%)	1.17 (53%)
Fwd. / Consensus	1.13 / 1.15	1.14 / 1.15	1.15 / 1.16	1.17 / 1.17
50% confidence int.	1.12 / 1.14	1.12 / 1.16	1.12 / 1.18	1.12 / 1.21
75% confidence int.	1.11 / 1.15	1.10 / 1.17	1.09 / 1.20	1.07 / 1.25

Source: Danske Bank

- **Conclusion.** The ECB has introduced an easing risk premium on the euro, which could increase (i.e. negative for the cross) if the eurozone outlook continues to falter. Further, with the risk of pockets of USD strength from renewed pricing of Fed hikes and a trade deal that will not provide much imminent support, this opens the possibility of a EUR/USD move towards 1.10 near term. Medium term, we expect EUR/USD to stabilise and move back into the longstanding 1.12-1.16 range, as the EUR easing discount is priced out; we believe a drift higher this year will derive mainly from positive spillovers to the euro area from a turn in the global (China) cycle. In *FX Strategy – ECB introduces 'easing risk premium' on EUR*, 7 March, we updated and notably flattened our forecast profile and, thus, we see EUR/USD at 1.11 in 1M, 1.13 in 3M, 1.15 in 6M, and 1.17 in 12M. This is a marked change in our EUR/USD outlook and we emphasise this should be seen as a EUR/USD effectively left without much of a trend this year.

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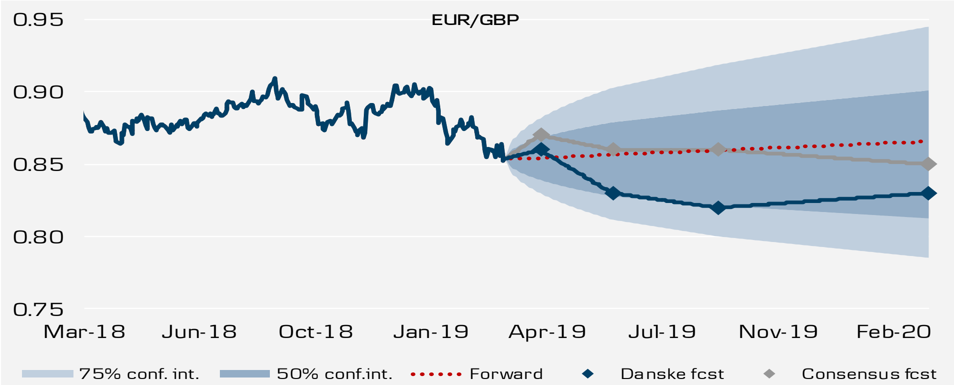
EUR/GBP –waiting for Brexit clarification

- **Growth.** Brexit uncertainties and the slowdown in the rest of Europe continue to weigh on the UK economy. While GDP growth was strong in January, it was mostly a rebound after an extremely weak December. The PMIs suggest GDP growth may be as low as 0.0-0.1% q/q in Q1. Recently, we lowered our GDP forecasts to only 1% this year and 1.3% next year (from 1.2% and 1.4%, respectively). Another worrying sign is that the PMI employment sub-index is below 50, which is usually associated with falling employment.
- **Monetary policy.** The Bank of England does not seem in a hurry to raise rates in the current environment with weaker data in the UK, weakness in Europe and high Brexit uncertainty. With the ECB on hold for at least 12 months, our case for a Bank of England rate hike in November is also under pressure. Markets are pricing a 40% probability of a rate hike in November and a full hike is not priced in before spring 2021.
- **Flows.** The UK runs a current-account deficit, notably against EU countries, which is a fundamental supporting factor for EUR/GBP. However, continued recovery in foreign investors' appetite for UK assets supports the case for a stronger GBP over the medium term.
- **Valuation.** GBP remains fundamentally undervalued: our G10 MEVA model puts EUR/GBP at 0.78 but our Brexit-corrected MEVA estimate for the cross is around 0.83. Our PPP estimate is 0.78.
- **Risks.** Brexit remains the key driver for GBP and we expect uncertainty to keep GBP undervalued and volatile until we get some clarification. As expected, the House of Commons has rejected the new Brexit deal and instead voted in favour of asking the EU 27 for an extension. Our base case is a short two- to three-month extension but the EU may prefer a longer extension, which could postpone GBP strength further.

Forecast: 0.86 (1M), 0.83 (3M), 0.82 (6M), 0.83 (12M)



EUR/GBP	1M	3M	6M	12M
Forecast (pct'ile)	0.86 (60%)	0.83 (26%)	0.82 (23%)	0.83 (35%)
Fwd. / Consensus	0.85 / 0.87	0.86 / 0.86	0.86 / 0.86	0.87 / 0.85
50% confidence int.	0.83 / 0.87	0.83 / 0.88	0.82 / 0.89	0.81 / 0.90
75% confidence int.	0.82 / 0.89	0.81 / 0.90	0.80 / 0.92	0.79 / 0.94

Source: Danske Bank

- **Conclusion.** With a likely extension of Brexit, we think EUR/GBP will remain in the 0.85-0.87 range for now. We see a risk investors will be disappointed about the progress near term, which could lead EUR/GBP to move to the higher end of the range. We target 0.86 in 1M. Further out, we base our forecast on our base case that a deal will pass and that this could happen before the summer break, paving the way for a decline in EUR/GBP. We lower our targets to 0.83 (previously 0.84) in 3M and 0.82 (previously 0.83) in 6M on the back of the ECB's dovish policy shift. If no deal is reached by then, we expect a long extension, which should also strengthen the GBP. In this scenario, we expect EUR/GBP to trade in the range 0.84-0.86. Our 12M target is unchanged at 0.83.

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USD/JPY – back to square one

- **Inflation and monetary policy.** Excess liquidity has started to fall leading to slower money-supply growth and a beginning contraction in nominal GDP. In our view, these disinflationary trends are important to monitor and could quickly turn into deflationary trends. The Bank of Japan continues to emphasise its willingness to keep monetary policy accommodative and we expect no changes before the end of 2020 at the earliest. However, its actions are starting to look contradictory, as, in our view, slowing monetary growth will not bring the Bank of Japan closer to its inflation aim – furthermore, it could start to become a JPY positive.

- **Terms of trade.** Higher oil and metal prices this year are weighing on Japan's terms of trade and thus the JPY. As risk sentiment recovers and a trade deal looms, commodity prices are likely to move higher.

- **Flows.** Japan continues to be a significant capital exporter via its large current account surplus of close to 4% of GDP, which further depresses Japanese real interest rates. Japanese investors have started buying US assets again following more or less constant outflow the year before.

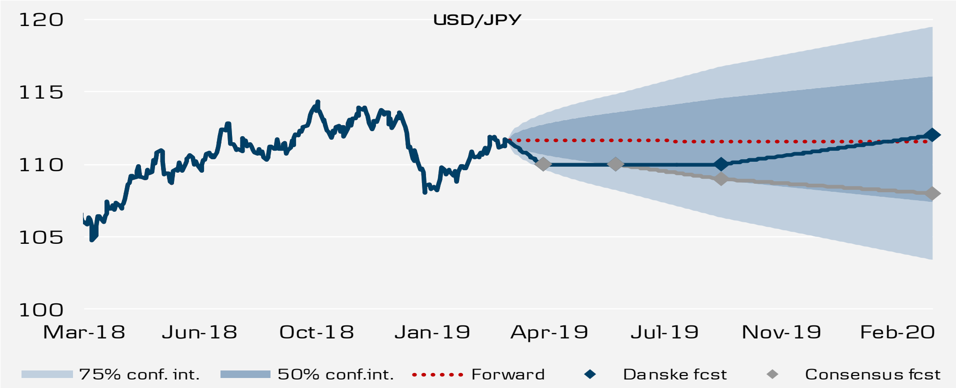
- **Money market.** JPY excess liquidity has begun to fall recently and with the Bank of Japan on hold, it is unlikely to pick up again in the short-term. For Japanese investors and USD/JPY, USD money-market conditions remain more important still. JPYUSD XCCY basis has widened some again.

- **Valuation.** PPP is around 80, while our MEVA model suggests 104 is 'fundamentally' justified.

- **Positioning.** Investors are overall neutral positioned in JPY, long positioned in USD/JPY and slightly short positioned in EUR/JPY and AUD/JPY.

- **Risks.** The recovery in risky assets at the start of 2018 weighed some on the JPY on a broader basis. A renewed setback in risk sentiment would support the JPY. Another risk to keep in mind is the potential for oil prices to overshot if, for example, sentiment on Iran sanctions deteriorate when temporary waivers expire in April. This, in turn, would be JPY negative.

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



USD/JPY	1M	3M	6M	12M
Forecast (pct'ile)	110.00 (15%)	110.00 (25%)	110.00 (32%)	112.00 (50%)
Fwd. / Consensus	111.64 / 110.00	111.62 / 110.00	111.61 / 109.00	111.60 / 108.00
50% confidence int.	110.70 / 112.76	109.95 / 113.58	108.91 / 114.58	107.41 / 116.08
75% confidence int.	109.73 / 113.46	108.24 / 114.84	106.34 / 116.75	103.43 / 119.49

Source: Danske Bank

- **Conclusion.** Overall, 2019 does not look to be particularly USD positive following the recent more dovish tone from the Fed. However, we are vigilant on recent disinflationary red flags in Japan. Overall, we keep our USD/JPY forecast unchanged and forecast it at 110 in 1-6M and 112 in 12M.

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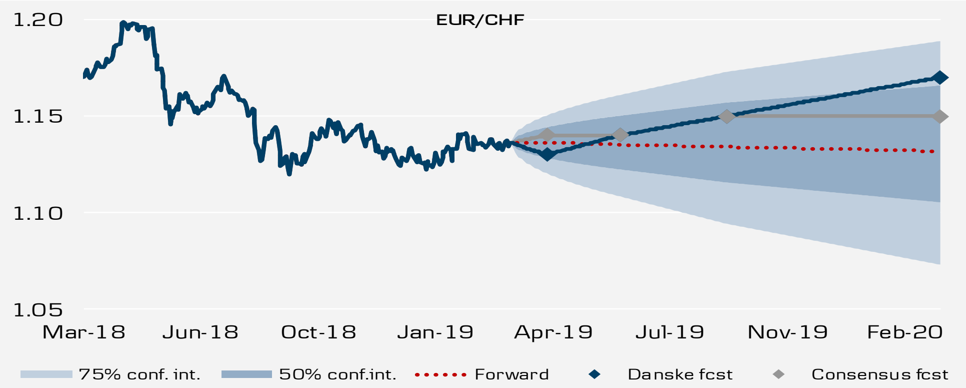
EUR/CHF – SNB waiting for Godot?

- **Growth.** Data out of Switzerland continue to deteriorate with the KOF leading indicator in particular weakening sharply. Unemployment remains low, yet inflation is largely absent, with core CPI at 0.3% in December. Swiss GDP fell back to 1.4% y/y in Q4 but a US-China trade deal – as we look for in H1 – could eventually help stabilise the eurozone growth outlook and Swiss activity with it.
- **Monetary policy.** After the ECB deferred a first hike at the March meeting, we believe SNB will most certainly have to stay put for an extended period. SNB has been on hold at -0.75% on key policy rates since January 2015 and, at the December meeting the SNB, as widely expected, kept both policy rates unchanged. The central bank also maintained its view, saying the franc is 'highly valued' and reserving its right to intervene to curb CHF strength. This said, in our view, it is likely to require a fall in EUR/CHF towards 1.10 for intervention to come into play. We think the SNB will keep its rates and stance little changed at the upcoming March meeting. SNB is currently priced largely on par with the ECB for the next 12M, which seems fair in our view given that it would require a sustained uptick in EUR/CHF before the SNB looks to shift into 'genuine normalisation' mode.
- **Flows.** Speculative positioning remains stretched on EUR shorts but less so on CHF shorts.
- **Valuation.** Both our G10 MEVA and PPP models suggest the cross should move higher over the medium to long term with fundamental estimates in the mid-1.20s.
- **Risks**. While CHF at times showed good resilience to rising Italian debt concerns in 2018, renewed focus/worries over Italian fiscal sustainability could fuel CHF strength considering the lack of SNB policy tools to go firmly against it. However, we believe no-deal Brexit risks are now abating.

Forecast: 1.13 (1M), 1.14 (3M), 1.15 (6M), 1.17 (12M)



EUR/CHF	1M	3M	6M	12M
Forecast (pct'ile)	1.13 (27%)	1.14 (55%)	1.15 (66%)	1.17 (77%)
Fwd. / Consensus	1.14 / 1.14	1.14 / 1.14	1.13 / 1.15	1.13 / 1.15
50% confidence int.	1.13 / 1.14	1.12 / 1.15	1.12 / 1.16	1.11 / 1.17
75% confidence int.	1.12 / 1.15	1.11 / 1.16	1.09 / 1.17	1.07 / 1.19

Source: Danske Bank

- **Conclusion.** EUR/CHF has been relatively steady recently, notwithstanding the latest ECB-induced volatility. With the ECB on the sidelines, the case for EUR upside has bene postponed – yet again. We expect risk sentiment to improve in the course of H1 led by a trade deal and a 'decent Brexit', which should, everything else being equal, support EUR/CHF. However, the big move higher would require ECB support, which now seems somewhat far away. Hence, we believe the SNB will remain reluctant to change its communication in light of the stubbornly subdued inflation. In In *FX Strategy – ECB introduces 'easing risk premium' on EUR*, 7 March, we updated our EUR/CHF profile as, in our view, the SNB remains a derivative of ECB: even if political risks are set to clear in Europe, we see limited upside potential in the cross. We project EUR/CHF at 1.13 in 1M, 1.14 in 3M, 1.15 in 6M, and 1.17 in 12M.

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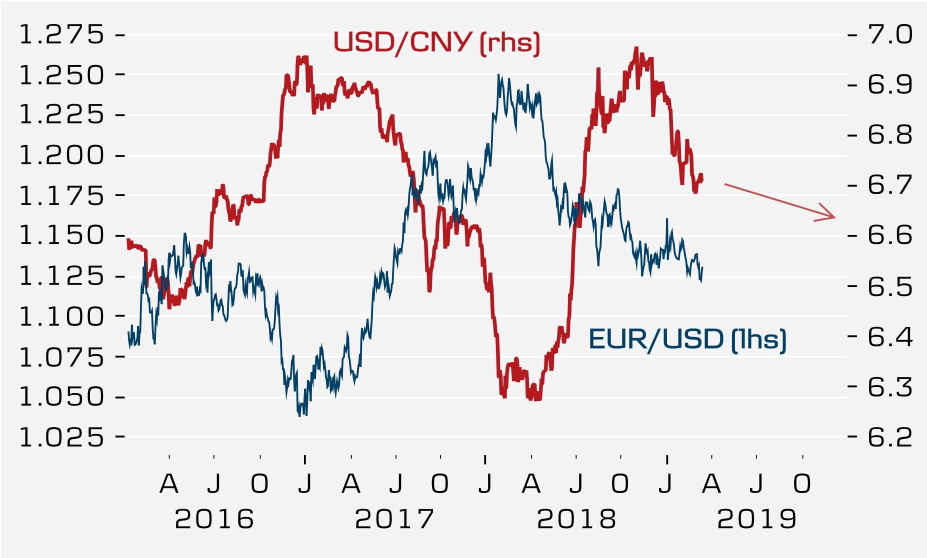
USD/CNY – the tide has turned

- **Growth.** The Chinese economy slowed sharply at the end of 2018 as the trade war weighed heavily on exports and created uncertainty about faith in the economy among consumers and companies. However, China has eased both monetary and fiscal policy and we start to see tentative signs of a bottom. Metal prices are normally a reliable indicator of Chinese activity and we have seen a pickup here recently. We look for a moderate recovery in 2019 on the back of a US-China trade deal and more impact from economic stimulus.
- **Monetary policy.** Chinese bond yields fell sharply in 2018 and have continued to trend lower in 2019, as monetary policy has been eased through different channels for almost a year now. We look for a further reduction in the Reserve Requirement Ratio in Q2, as signalled by the central bank lately. In H2, we look for the central bank to step to the sidelines on signs of economic recovery.
- **FX policy**. CNY continues to be a managed peg against a basket of currencies. The People's Bank of China allows the market to play a bigger role but, at the same time, intervenes occasionally to avoid too rapid movements, which can cause instability. We expect a trade deal with the US to include a chapter in which China commits to not weakening the currency deliberately.
- **Flows.** After signs of moderate outflows in H2 18, flows have calmed down again and FX reserves have increased slightly since October.
- **Valuation.** The CNY is still close to fair valuation. China's current account surplus has declined from the peak at 10% of GDP in 2007 to 0.4% of GDP in 2018.
- **Risks:** We still see risks as balanced. A US-China trade deal in Q2 and a Chinese recovery could lead to more strengthening of the CNY than we expect. However, if the US and China fail to reach a trade deal, the CNY is headed for more weakness.

Forecast: 6.70 (1M), 6.70 (3M), 6.65 (6M), 6.60 (12M)



Source: Danske Bank

- **Conclusion.** We stick to our forecast of 6.60 in 12M. A trade deal with the US and bottom in growth in H1 would give some tailwind to the CNY. A weaker USD in the medium term would also work in favour of lower USD/CNY.

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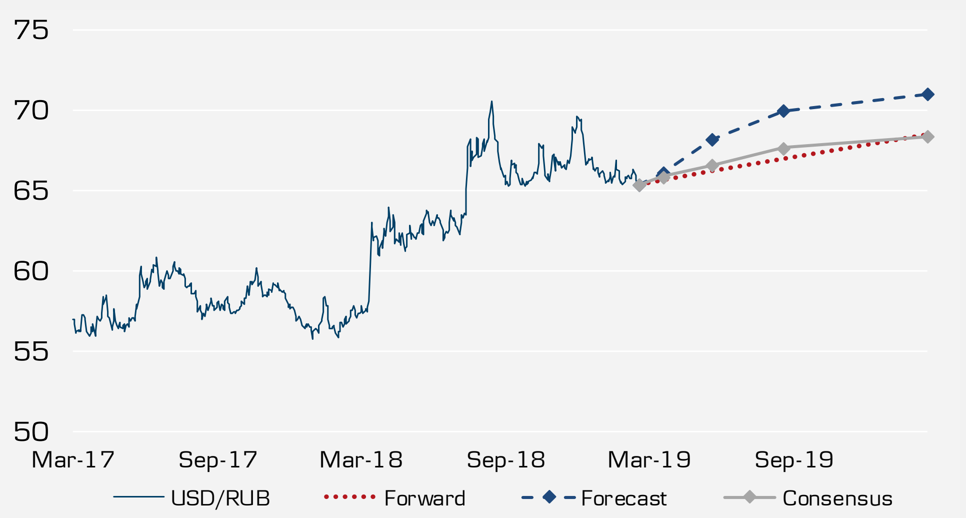
USD/RUB – softening ECB and Fed help the rouble

- **Growth.** Russia's statistical service Rosstat has broadly surprised analysts and economists by revising 2018 construction data and reporting a sudden acceleration of the economy in 2018. According to recent data, 2018 GDP expanded 2.3% y/y versus 1.6% y/y growth in 2017.
- **Monetary policy.** Russia's central bank (CBR) kept the key rate unchanged at 7.75% in February 2018 as we expected together with Bloomberg consensus. The CBR was lucky to face a softened Fed and the US Congress forgetting about anti-Russia sanctions. As inflation acceleration has stopped and risk sentiment has been stable, we believe the CBR is likely to keep the key rate unchanged at 7.75% on 22 March. Under the current global setup, we could see the first cut as soon as 2019.
- **Flows.** On the lack of progressing anti-Russia legislation by the US, non-residents have been returning actively to local debt purchases. The solid macro has supported inflows, as geopolitical risk has not yet realised.
- **Valuation.** The RUB refuses to follow closely the oil price. While the Brent 30-day average climbed 7% over the 30 days to 13 March 2019, RUB/USD gained just 0.2% over the same period, driven mostly by improved risk sentiment and US Congress being silent on anti-Russia sanctions.
- **Risks.** Geopolitical risks remain the major driver ahead. We will be watching closely the election in Ukraine on 31 March and Russia's reaction.

Forecast: 66.10 (1M), 68.20 (3M), 70.00 (6M), 71.00 (12M)



USD/RUB	1M	3M	6M	12M
Forecast	66.10	68.20	70.00	71.00
Fwd./Consesus	65.66 / 65.87	66.20 / 66.60	66.99 / 67.67	68.48 / 68.38

Source: Danske Bank

- **Conclusion.** The RUB continues to see relief as US Congress seems too busy with domestic issues to push through the anti-Russian 'bill from hell' sanctions. The RUB is clearly benefiting from the looser monetary stances of the ECB and the Fed, as global emerging markets sentiment improves and Russia's solid macro combined with attractive carry lures 'yield hunters'. Yet, we believe sentiment could see a U-turn any moment, if geopolitics gets worse.

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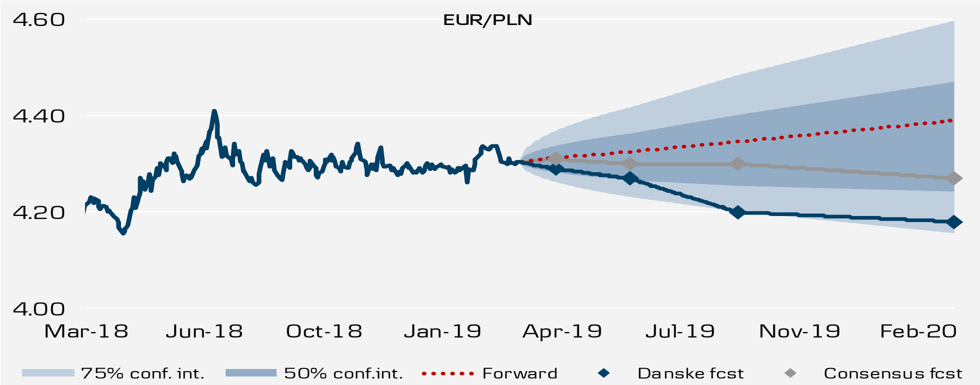
EUR/PLN – fiscal expansion changes central bank metrics

- **Economic developments.** The PiS government has announced new fiscal spending initiatives amounting to up to 1.7% of GDP to boost its election chances. The timing and exact size is still uncertain but it is likely to be felt in both 2019 and 2020. The fiscal expansion plans also come amid a slowing economic momentum. Although showing signs of stabilisation after falling since summer 2018, PMI manufacturing is still below the 50 benchmark (47.6 in February). Construction spending is also showing weakening momentum. However, retail sales are still strong. The likely rebound in the global economy in Q2 is likely to support the Polish export sector. Given the sizeable fiscal expansion, there are upside risks to our real GDP growth forecast of 3.7% in 2019 and 3.1% in 2020.
- **Monetary policy.** At the most recent policy meeting in March, the monetary policy committee (MPC) of the central bank of Poland raised its growth outlook on the back of fiscal spending, while lowering modestly its inflation projection. Due to fiscal stimulus, the central bank has ruled out policy easing, which might otherwise have been in the cards on the back of recent weakening economic momentum. Inflation pressure continues to remain remarkably muted; February headline inflation increased slightly to 1.2% in February, from 0.9% in January, supported by the higher energy prices. The market has priced in a 10bp rate hike in the latter half of 2020, which seems fair.
- **Risks.** Risks are fairly balanced for EUR/PLN in the near term: Among upside risks for the cross are a further deterioration in global risk sentiment, a disorderly Brexit and failure of the US and China to strike a trade deal. Downside risks for the cross include improvement in risk sentiment, a further rebound in the EUR and strong economic releases in Poland leading a more hawkish repricing of the central bank

Forecast: 4.29 (1M), 4.27 (3M), 4.20 (6M), 4.18 (12M)



EUR/PLN	1M	3M	6M	12M
Forecast (pct'ile)	4.29 (34%)	4.27 (26%)	4.20 (12%)	4.18 (15%)
Fwd. / Consensus	4.31 / 4.31	4.32 / 4.30	4.35 / 4.30	4.39 / 4.27
50% confidence int.	4.28 / 4.33	4.27 / 4.36	4.25 / 4.40	4.24 / 4.47
75% confidence int.	4.26 / 4.36	4.23 / 4.42	4.20 / 4.48	4.16 / 4.60

Source: Danske Bank

- **Conclusion.** The EUR/PLN continues to trade in the 4.28-4.33 range. After spiking at 4.33 in late February, the announcement of the fiscal boost and general good global risk momentum drove the EUR/PLN to 4.30. We see the cross trading in this range in the next few months but thereafter we expect the combination of global economic recovery driven by China and a US-China trade deal, as well as the impact of Polish fiscal boost on the economy, to create a tailwind for the PLN in the summer and onwards. As a result, we stick to our forecast of EUR/PLN at 4.29 in 1M, 4.27 in 3M, 4.20 in 6M and 4.18 in 12M.

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USD/TRY – a sooner cut would weigh on the lira

- **Growth.** The Turkish economy has entered recession as we expected previously. Q4 18 GDP shrank 2.4% q/q versus -1.6% q/q in Q3 18, falling -3.0% y/y (we expected -2.5% y/y together with Bloomberg consensus) versus +1.8% y/y (revised) in Q3 18. A big uncertainty now is how the country's authorities (President Recep Erdoğan and the central bank) will react to this ahead of the election on 31 March. We expect 2019 GDP growth to reach 1.1% y/y and 2020 GDP to expand 2.1% y/y.
- **Monetary policy.** Turkey's central bank (TCMB) kept the one-week repo rate at 24.00% in March 2019. Given the slowdown in inflation, which declined by under 20% y/y for the first time in many months, the central bank could start cutting soon in order to support the economy. However, we expect the easing to be cautious and moderate, as sharp moves could hit the TRY badly.
- **Valuation.** Recent net flows into Turkish bonds have been negative, while inflows into stocks have been positive on improved global emerging market sentiment. According to technical analysis (Relative Strength Index), USD/TRY has been oversold, meaning the TRY has more space to weaken in the near term.
- **Risks.** Major downside risks to our TRY forecasts include more aggressive monetary easing than markets are pricing, the Fed becoming more hawkish and geopolitical confrontation with the US on Russian air defence system.

Forecast: 5.52 (1M), 5.55 (3M), 5.70 (6M), 6.00 (12M)

USD/TRY	1M	3M	6M	12M
Forecast	5.52	5.55	5.70	6.00
Fwd./Consesus	5.57 / 5.36	5.75 / 5.59	6.02 / 5.74	6.52 / 5.81

Source: Danske Bank

- **Conclusion.** We raise slightly our USD/TRY near-term outlook due to upcoming monetary easing in H1 19. We keep our medium- and long-term forecasts unchanged, as large FX debt redemptions by the Turkish private sector and further rate cuts are set to weigh on the TRY in 2019. Thus, we continue to remain bearish on the TRY in the long term, expecting USD/TRY to be at the following levels: 5.52 in 1M (previously 5.40), 5.55 in 3M, 5.70 in 6M and 6.00 in 12M.

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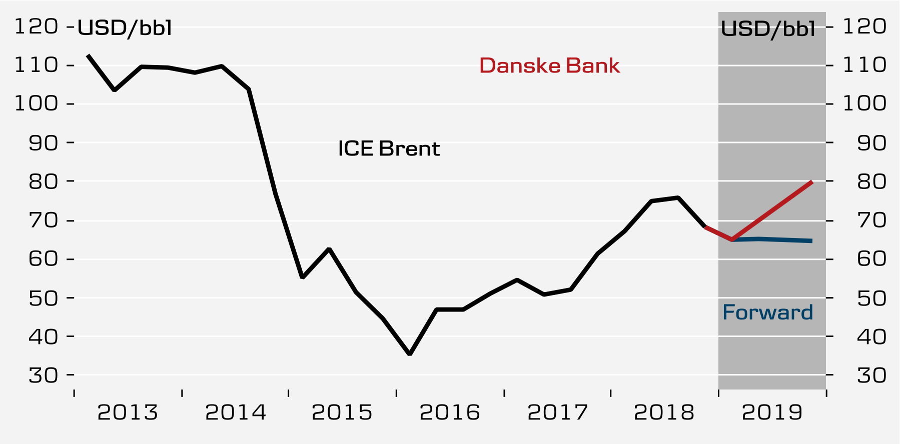
Oil – Trump meddles with oil prices

- **Macro.** In our view, the main reason for the tough ending to 2018 for the oil market was the deterioration in global risk sentiment. While macroeconomic key figures are likely to stay weak through Q1, we believe the more dovish tones from the Federal Reserve and the high likelihood of a trade deal over coming months should underpin oil demand over the medium term. In addition, OPEC+ output cuts are feeding through to markets from the beginning of the year. Overall, this should help keep the oil market fairly balanced. The recent inventory build-up in the US bares monitoring, as this could be a sign of weaker demand.
- **Forward curve.** The Brent crude oil market forward curve has returned to a narrow backwardation this year following the rally in spot prices. Backwardation should widen as spot prices rise further this year in accordance with our forecast.
- **Positioning.** Speculative positioning in oil is long.
- **Risks.** April will be important for the oil market. Here current waivers on Iran sanctions expire. OPEC+ is also set to review its deal to cut production. If waivers are not extended further, we believe it will lead to a large decline in Iran's production and we are likely to see OPEC+ adjust its output cuts accordingly to mitigate this effect. In addition, the US has announced it will draw 5m bbl on its strategic petroleum reserves in Q2. This creates some downside risk to oil prices in May.

Forecast: USD65/bbl (Q1), USD70/bbl (Q2), USD75/bbl (Q3), USD80/bbl (Q4)



Source: Danske Bank

- **Conclusion.** We expect oil prices to recover over the course of 2019. We forecast Brent will average USD65/bbl in Q1, rising to USD80/bbl in Q4. We expect OPEC+ cuts, a recovery in global growth and a weaker USD to be the main factors underpinning a higher oil price.

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Danske Bank

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	1.131	1.11	1.13	1.15	1.17	-2.1	-0.8	0.1	0.3
JPY	126.3	122	124	127	131	-3.3	-1.6	0.1	3.7
GBP	0.854	0.86	0.83	0.82	0.83	0.5	-3.2	-4.6	-4.2
CHF	1.136	1.13	1.14	1.15	1.17	-0.5	0.4	1.4	3.4
DKK	7.4633	7.4590	7.4570	7.4550	7.4550	0.0	0.0	0.0	0.1
NOK	9.68	9.60	9.50	9.40	9.30	-1.0	-2.3	-3.7	-5.6
SEK	10.49	10.50	10.40	10.30	10.30	0.0	-0.9	-2.0	-2.2
Exchange rates vs USD									
JPY	111.6	110	110	110	112	-1.2	-0.7	0.0	3.3
GBP	1.32	1.29	1.36	1.40	1.41	-2.7	2.4	5.0	4.7
CHF	1.00	1.02	1.01	1.00	1.00	1.7	1.3	1.3	3.0
DKK	6.60	6.72	6.60	6.48	6.37	2.1	0.8	-0.1	-0.2
NOK	8.56	8.65	8.41	8.17	7.95	1.2	-1.4	-3.9	-5.9
SEK	9.28	9.46	9.20	8.96	8.80	2.2	-0.1	-2.1	-2.5
CAD	1.33	1.32	1.30	1.27	1.25	-1.0	-2.3	-4.4	-5.5
AUD	0.71	0.71	0.72	0.73	0.74	0.3	1.6	2.9	3.9
NZD	0.68	0.67	0.68	0.68	0.70	-2.1	-0.8	-0.9	1.7
RUB	65.39	66.10	68.20	70.00	71.00	0.6	3.0	4.5	3.6
CNY	6.71	6.70	6.70	6.65	6.60	-0.2	-0.2	-0.9	-1.7

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

Source: Danske Bank

Danske Bank FX forecasts vs DKK

		Forecast				Forecast vs forward outright, %			
	Spot	+1m	+3m	+6m	+12m	+1m	+3m	+6m	+12m
Exchange rates vs DKK									
EUR	7.4633	7.4590	7.4570	7.4550	7.4550	0.0	0.0	0.0	0.1
USD	6.60	6.72	6.60	6.48	6.37	2.1	0.8	-0.1	-0.2
JPY	5.91	6.11	6.00	5.89	5.69	3.4	1.6	-0.1	-3.4
GBP	8.74	8.67	8.98	9.09	8.98	-0.6	3.2	4.9	4.5
CHF	6.57	6.60	6.54	6.48	6.37	0.5	-0.5	-1.4	-3.2
NOK	0.77	0.78	0.78	0.79	0.80	1.0	2.3	3.9	6.1
SEK	0.71	0.71	0.72	0.72	0.72	-0.1	0.9	2.0	2.3
CAD	4.95	5.09	5.08	5.10	5.10	3.1	3.2	4.4	5.6
AUD	4.67	4.77	4.75	4.73	4.72	2.5	2.5	2.7	3.6
NZD	4.51	4.50	4.49	4.41	4.46	0.0	0.1	-1.1	1.5
PLN	1.73	1.74	1.75	1.78	1.78	0.5	1.3	3.5	5.1
CZK	0.29	0.29	0.29	0.30	0.30	0.8	1.5	3.3	5.7
HUF	2.37	2.33	2.34	2.35	2.40	-1.9	-1.4	-0.6	2.3
RUB	0.10	0.10	0.10	0.09	0.09	1.5	-2.1	-4.4	-3.7
CNY	0.98	1.00	0.98	0.97	0.97	2.3	1.0	0.8	1.5

Source: Danske Bank

Danske Bank FX forecasts vs SEK

	Forecast					Forecast vs forward outright, %			
	Spot	+1m	+3m	+6m	+12m	+1m	+3m	+6m	+12m
Exchange rates vs SEK									
EUR	10.49	10.50	10.40	10.30	10.30	0.0	-0.9	-2.0	-2.2
USD	9.28	9.46	9.20	8.96	8.80	2.2	-0.1	-2.1	-2.5
JPY	8.31	8.60	8.37	8.14	7.86	3.5	0.6	-2.1	-5.6
GBP	12.28	12.21	12.53	12.56	12.41	-0.5	2.3	2.8	2.1
CHF	9.23	9.29	9.12	8.96	8.80	0.6	-1.4	-3.3	-5.3
NOK	1.08	1.09	1.09	1.10	1.11	1.0	1.4	1.8	3.7
DKK	1.41	1.41	1.39	1.38	1.38	0.1	-0.9	-2.0	-2.3
CAD	6.96	7.17	7.08	7.05	7.04	3.2	2.3	2.4	3.2
AUD	6.56	6.72	6.63	6.54	6.51	2.5	1.5	0.7	1.3
NZD	6.35	6.34	6.26	6.09	6.16	0.1	-0.9	-3.0	-0.8
PLN	2.44	2.45	2.44	2.45	2.46	0.6	0.3	1.4	2.7
CZK	0.41	0.41	0.41	0.41	0.42	0.9	0.6	1.3	3.3
HUF	3.34	3.28	3.26	3.25	3.32	-1.8	-2.3	-2.5	0.0
RUB	0.14	0.14	0.13	0.13	0.12	1.5	-3.0	-6.3	-5.9
CNY	1.38	1.41	1.37	1.35	1.33	2.4	0.1	-1.2	-0.8

Source: Danske Bank

Danske Bank FX forecasts vs NOK

		Forecast				Forecast vs forward outright, %			
	Spot	+1m	+3m	+6m	+12m	+1m	+3m	+6m	+12m
Exchange rates vs NOK									
EUR	9.68	9.60	9.50	9.40	9.30	-1.0	-2.3	-3.7	-5.6
USD	8.56	8.65	8.41	8.17	7.95	1.2	-1.4	-3.9	-5.9
JPY	7.67	7.86	7.64	7.43	7.10	2.4	-0.7	-3.8	-9.0
GBP	11.33	11.16	11.45	11.46	11.20	-1.5	0.9	1.0	-1.5
CHF	8.52	8.50	8.33	8.17	7.95	-0.5	-2.7	-5.1	-8.7
SEK	0.92	0.91	0.91	0.91	0.90	-1.0	-1.3	-1.8	-3.6
DKK	1.30	1.29	1.27	1.26	1.25	-0.9	-2.2	-3.7	-5.7
CAD	6.42	6.55	6.47	6.44	6.36	2.2	0.9	0.6	-0.5
AUD	6.06	6.14	6.05	5.97	5.88	1.5	0.2	-1.1	-2.3
NZD	5.85	5.79	5.72	5.56	5.56	-1.0	-2.2	-4.7	-4.4
PLN	2.25	2.24	2.22	2.24	2.22	-0.5	-1.0	-0.4	-0.9
CZK	0.38	0.38	0.37	0.37	0.38	-0.1	-0.7	-0.5	-0.3
HUF	3.08	3.00	2.98	2.97	3.00	-2.8	-3.6	-4.3	-3.6
RUB	0.13	0.13	0.12	0.12	0.11	0.5	-4.3	-8.0	-9.3
CNY	1.27	1.29	1.25	1.23	1.20	1.4	-1.2	-2.9	-4.3

Source: Danske Bank

Danske Bank EMEA FX forecasts

		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
PLN	**15-Mar-19**	**4.30**		**3.81**		**173**		**244**		**225**	
	+1M	4.29	4.31	3.86	3.80	174	173	245	243	224	225
	+3M	4.27	4.33	3.78	3.80	175	172	244	243	222	225
	+6M	4.20	4.35	3.65	3.78	178	172	245	242	224	225
	+12M	4.18	4.39	3.57	3.76	178	170	246	240	222	225
HUF	**15-Mar-19**	**314**		**278**		**2.37**		**3.34**		**3.08**	
	+1M	320	314	284	277	2.33	2.37	3.28	3.34	3.00	3.08
	+3M	319	315	282	276	2.34	2.37	3.26	3.34	2.98	3.09
	+6M	317	315	276	274	2.35	2.37	3.25	3.33	2.97	3.10
	+12M	310	317	265	272	2.40	2.35	3.32	3.32	3.00	3.11
CZK	**15-Mar-19**	**25.7**		**22.7**		**29.1**		**40.9**		**37.7**	
	+1M	25.5	25.7	23.0	22.7	29.3	29.0	41.2	40.8	37.6	37.7
	+3M	25.4	25.8	22.5	22.6	29.4	28.9	40.9	40.7	37.4	37.7
	+6M	25.1	25.9	21.8	22.6	29.7	28.7	41.0	40.5	37.5	37.6
	+12M	24.8	26.2	21.2	22.5	30.1	28.4	41.5	40.2	37.5	37.6
RUB	**15-Mar-19**	**73.9**		**65.4**		**10.1**		**14.2**		**13.1**	
	+1M	73.4	74.5	66.1	65.7	10.2	10.0	14.3	14.1	13.1	13.0
	+3M	77.1	75.5	68.2	66.2	9.7	9.9	13.5	13.9	12.3	12.9
	+6M	80.5	76.9	70.0	67.0	9.3	9.7	12.8	13.7	11.7	12.7
	+12M	83.1	79.9	71.0	68.5	9.0	9.3	12.4	13.2	11.2	12.3
TRY	**15-Mar-19**	**6.19**		**5.47**		**121**		**169**		**156**	
	+1M	6.13	6.34	5.52	5.57	122	118	171	166	157	153
	+3M	6.27	6.56	5.55	5.76	119	114	166	160	151	148
	+6M	6.56	6.93	5.70	6.03	114	108	157	152	143	141
	+12M	7.02	7.61	6.00	6.52	106	98	147	138	132	130
CNY	**15-Mar-19**	**7.59**		**6.71**		**98**		**138**		**127**	
	+1M	7.44	7.61	6.70	6.71	100	98	141	138	129	127
	+3M	7.57	7.65	6.70	6.71	98	97	137	137	125	127
	+6M	7.65	7.71	6.65	6.71	97	97	135	136	123	127
	+12M	7.72	7.83	6.60	6.71	97	95	133	134	120	126
ZAR	**15-Mar-19**	**16.4**		**14.5**		**45.6**		**64.1**		**59.1**	
	+1M	15.8	16.5	14.25	14.5	47.2	45.2	66.4	63.6	60.7	58.8
	+3M	17.0	16.7	15.00	14.6	44.0	44.7	61.4	62.9	56.0	58.3
	+6M	16.7	17.0	14.50	14.8	44.7	43.9	61.8	61.8	56.4	57.4
	+12M	16.7	17.7	14.25	15.1	44.7	42.2	61.8	59.6	55.8	55.8
BRL	**15-Mar-19**	**4.37**		**3.87**		**170.7**		**240.0**		**221.4**	
	+1M	4.37	4.39	3.94		170.6	169.8	240.1	238.8	219.5	220.7
	+3M	4.12	4.44	3.65		180.8	168.2	252.2	236.7	230.3	219.1
	+6M	4.08	4.51	3.55		182.6	165.5	252.3	233.2	230.3	216.7
	+12M	3.86	4.64	3.30		193.1	160.5	266.8	226.9	240.9	212.4

Source: Danske Bank

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