FX Forecast Update –
There is no way around a stronger dollar

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FX market overview

Recent developments: fears of systemic risk in the banking sector

- Since our last *FX Forecast Update,* 10 February, fears of systemic risks in the banking sector has been the most prominent and important market theme. The collapse of the regional US Silicon Valley Bank (SVB) on 10 March triggered stress in markets with yields plummeting and volatility spiking. As a result, the Fed promptly set up an emergency program to avoid contagion to the broader US financial system. Nonetheless, concerns have still spread to European banks with the Swiss National Bank setting up a liquidity facility to support the Credit Suisse Group. European bank stocks have heavily underperformed benchmark indices. Despite a broad repricing lower of major central banks' rate outlooks, the ECB stood its course raising all policy rates by 50bp at the March meeting. Overall, recent events highlight the rising trade-off facing central banks amid the need for a contractionary policy to bring inflation down and the risk of breaking something systemically important.

FX implications: high volatility

- Rising systemic risk fears have unsurprisingly led to higher FX volatility. In majors space, JPY and GBP have benefited while cyclical sensitive currencies have faced headwinds. USD has fluctuated wildly in tandem with US specific news, risk appetite and relative rates moves.. After a temporary February rebound, both SEK and NOK have come under renewed pressure. Lower energy prices have market a hit to the notoriously risk appetite sensitive NOK but also SEK has suffered in recent weeks despite the Riksbank's renewed focus on imported inflation and hence currency weakness. Also the growth outlook and housing markets remain SEK headwinds.

Outlook: we are cautiously optimistic on subsiding systemic risk fears

- In our base case, we are cautiously optimistic on systemic risk fears subsiding although we acknowledge that the outcome space is very wide. We maintain our strategic case for a lower EUR/USD and thus keep our downward sloping profile forecasting EUR/USD at 1.02 in 6-12M. We continue to expect the SEK to struggle over the medium-term horizon on the back of a relatively worse outlook for the Swedish economy compared to peers, valuation as well as an increased risk of overtightening by the Riksbank. In NOK, we acknowledge that the near-term prospects for NOK look more challenging than previously pencilled in and lift the short-end of our forecast profile, but keep the downward trajectory.

Key risks to our forecasts: banking sector crisis and Fed cutting rates aggressively

- At present, the key risk is a more widespread crisis in the banking sector, which would create substantial downward pressure on inflation and growth prospects. A key assumption behind our FX forecasts is that of a stronger USD and tightening of global financial conditions. Risks to this assumption primarily lies in Fed delivering an actual policy pivot – possibly due to systemic risk fears or a weaker US economy than we expect.

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EUR/USD – lower on tighter financial conditions

- **Cyclical outlook.** Activity data on both sides of the Atlantic have kept up better than expected and not least feared. A mild winter, windy and rainy weather have all contributed to easing energy crisis fears in Europe while a reopening of China has contributed to renewed industrial optimism. In the US, the labour market remains much tighter and stronger than what the Fed can feel comfortable with. Financial conditions tightened amid concerns about bank stability, but notably market based inflation expectations have held up. It leaves both Fed and ECB with the classic monetary policy trade off with the choice of whether to continue to fight inflation. Systemic risk fears pose as a substantial downward risk to inflation and growth prospects.
- **Monetary policy.** We expect both Fed and ECB to stay committed to further monetary tightening in order to get inflation down to 2% again. We still pencil in Fed hiking policy rates by 25bp in March and May, which would bring policy rates above 5.0%. As for ECB, we still look for more hikes to bring the deposit rate to 4.00% in July. Volatility in rates market is high as market participants are divided on the outlook for monetary policy.
- **External balances.** Fundamentally, the US should continue to be a high(er) interest rate market and equities continue to appeal to foreign investors.
- **Valuation.** We view 1-3Y fair value for EUR/USD to be in the low 0.90's. At current levels, valuation is a headwind and thus acts as source of gravity for a lower spot. The global energy crisis and Euro Area fiscal policy are two factors to monitor which could alter EUR/USD valuation. If the energy crisis eases and/or Euro Area countries return to a regime centred on fiscal rules, there is room to place a higher fair value estimate on EUR/USD.
- **Positioning.** IMM data shows that non-commercial EUR/USD positioning is long albeit not stretched

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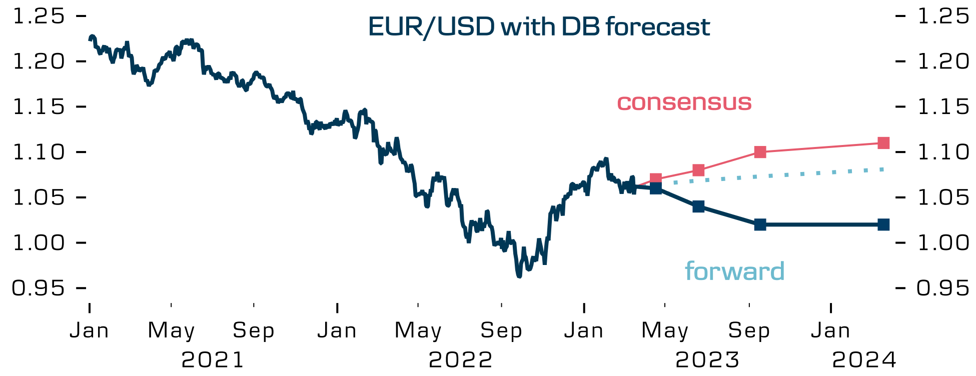
Forecast: 1.06 (1M), 1.04 (3M), 1.02 (6M), 1.02 (12M)



	1M	3M	6M	12M
Danske Bank	1.06	1.04	1.02	1.02
Consensus	1.07	1.08	1.10	1.11
Forward	1.06	1.07	1.07	1.08

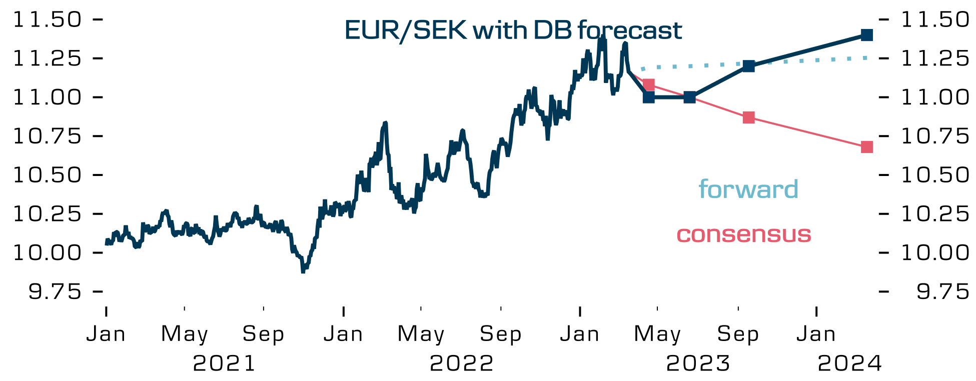
Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

- **Risks.** The biggest risks related to our forecast profile is related to the relative attractiveness of Eurozone assets and hence growth prospects. Systemic risk fears significantly widens the outcome space in both directions.
- **Conclusion.** We have long argued the strategic case for a lower EUR/USD based on relative terms of trade, real rates (growth prospects) and relative unit labour costs. Meanwhile, we increasingly think there is a potential for the cross to also head lower on a short-term horizon driven by the market realisation that financial conditions need to tighten, relative rates as well as relative asset demand. Financial conditions have indeed tightened recently which help explain the drop in EUR/USD, but we think more could come and keep our forecast profile intact. New energy/real rate shocks are required for a return all the way to the September lows.

EUR/SEK – divergent SEK forces set to diverge even more

- **Cyclical outlook.** GDP Q4 was revised higher to -0.2% (-0.6%) but still leaves Sweden vulnerable to a technical recession. The 2022 +2.6% rise hides the fact that the GDP level edged lower during last year. Indicators point towards continued growth slowdown. We forecast a 1.2% contraction in 2023. Higher mortgage costs, higher inflation and negative wealth effects add pressure on households while construction has come to a halt. Swedish GDP growth is set to underperform European peers.
- **Monetary policy.** February inflation was 'not good at all' to quote Flodén. The Riksbank has stressed repeatedly that the job is not done until the uptrend in CPIFEXE is reversed. Well, we have to wait even longer for that to happen as the uptrend accelerated and the March print will probably stay at 9.3%, 1.8p.p. above the RB. Hence, we revised our call to 75bp (50) for April and 50bp (25) for June and the terminal rate to 4.25% (3.75). Based on our forecasts there is room to price in more on the RB, but even more so on the ECB (EUR/SEK positive). Active QT will not have a significant impact on SEK (see *here*). That said, the more they hike now, the worse the outcome for economic activity and the housing market, and the more they will have to cut next year (SEK negative).
- **Flows.** Actual flows in relation to RB selling government bonds will be too small to matter (see link above). For a discussion about AP fund flows, see *RTM Sweden* 3 March. The upcoming Swedish dividend season is covered in *RTM Sweden* 10 March, where we argue against the misperception that they are the reason for SEK-negative seasonality.
- **Valuation.** Short-term fair value (rates and equities) is around 11.00-11.10 and medium-term ditto based on relative macro at around 11.30. Balance of payments data do not suggest SEK is undervalued.
- **Risks.** Risks are two-sided and substantial not least related to inflation and central bank surprises but also in relation to financial turmoil.

Forecast: 11.00 (1M), 11.00 (3M), 11.20 (6M), 11.40 (12M)



	1M	3M	6M	12M
Danske Bank	11.00	11.00	11.20	11.40
Consensus	11.07	11.04	10.87	10.68
Forward	11.19	11.20	11.22	11.25

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

- **Conclusion.** EUR/SEK has traded in tandem with relative rates for long and more tightly recently amid waves of hawkishness from first the ECB (Dec), then the RB and then the ECB again. The Swedish inflation numbers were a disaster which will force the RB to do more than previously indicated. We expect RB pricing will pick up in line with our new call of a 4.25% peak rate but we argue that ECB is even more under-priced (EUR/SEK positive). Meanwhile, the more the RB hikes now the more they have to cut next year as the economy is likely to take a harder hit (SEK negative). Short term, we don't see the dividend season as a hinder for EUR/SEK to drop towards our 11.00 target. However, relative fundamentals still suggest a weaker SEK in the medium term. On balance, while acknowledging that risks are abundant and two-sided, we opt to keep the 1-6M forecasts intact and lift 12M to 11.40 (11.20).

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EUR/NOK – lifting our profile but maintaining a downward trajectory

- **Cyclical outlook.** While realised economic data has kept up better-than-expected in recent months we still firmly believe in mainland growth and employment falling below trend in the quarters ahead. The latest Regional Network Survey pointed to zero-growth in the first half of 2023 and a diminishing pressure on capacity utilisation. In our view, that lowers the medium-term topside risk to inflation as higher unemployment looks set to add a downward pressure on domestic cost pressures. The February inflation print also surprised to the downside with the details revealing a quite broad-based decline. The housing market has kept up better-than-expected and not least feared in recent months but we still expect higher rates and lower real disposable income growth to result in a decline in house prices in the coming year.
- **Monetary policy.** Norges Bank (NB) has slowed its hiking pace from 50bp to 25bp. In December, NB hiked the sight deposit rate to 2.75% whilst indicating a final 25bp hike in March. This message was repeated at the interim January meeting. Given the recent set of data releases, we think things are set for an additional 25bp hike in Q2 which is slightly above current market pricing.
- **External balances.** The fiscal setup in Norway allows for front-loaded buying and selling of NOK although ultimately only the size of the non-oil budget deficit and the expenses of the State's Direct Financial Interest influence the net demand for NOK. We think NB later in the year will have to lower the fiscal NOK sales considerably as a consequence of lower natural gas prices.
- **Valuation.** Given the substantial positive terms of trade shock that Norway has experienced over the last year our models indicate that NOK is undervalued. As long as the global recession does not prove too severe or deep this valuation signal is one reason for our modestly bullish NOK call.
- **Positioning.** We regard speculative NOK positioning to be short.

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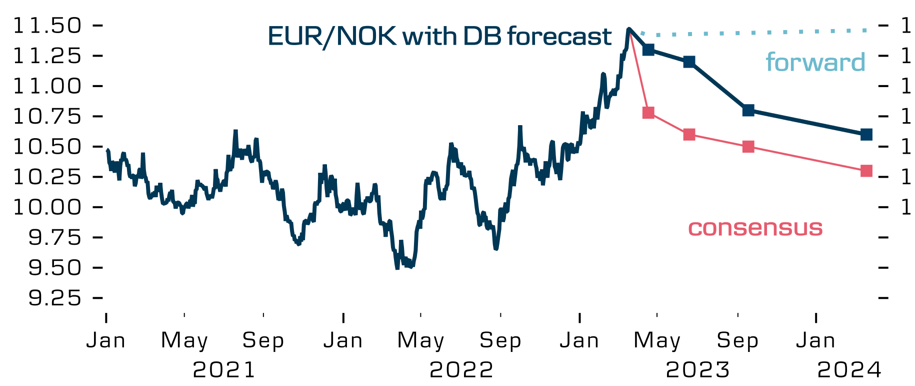
Forecast: 11.30 (1M), 11.20 (3M), 10.80 (6M), 10.60 (12M)



	1M	3M	6M	12M
Danske Bank	11.30	11.20	10.80	10.60
Consensus	10.78	10.60	10.50	10.30
Forward	11.42	11.43	11.44	11.46

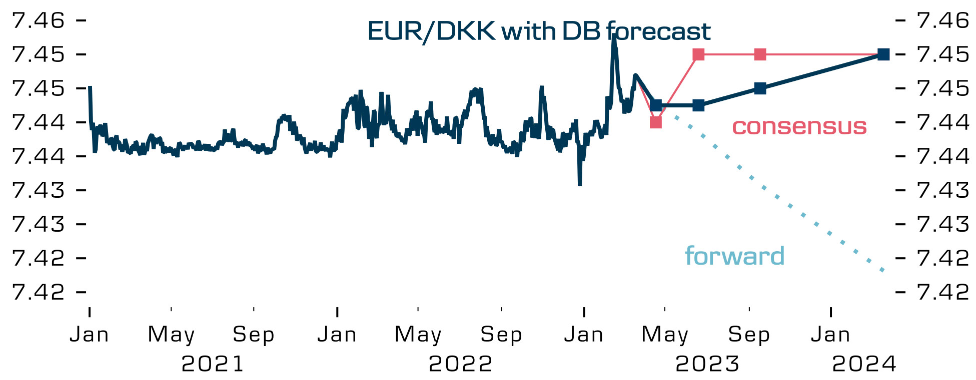
Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

- **Risks.** Near-term risks are closely connected to systemic risk and global recession fears. In particular the NOK is notoriously exposed in sessions of sharp risk-off and sell-offs in equities and commodities.
- **Conclusion.** Our topside risk scenario has played out amid the sharp setback to risk appetite and broadening systemic risk fears. In light of recent events we acknowledge that the near-term prospects for NOK look more challenging than previously pencilled in. In case systemic risk fears spread further NOK still looks vulnerable. However, in the situation that systemic risk fears subside the NOK rebound could also face headwinds down the road as this would opens the door for markets pricing back in central bank rate hikes. For this reason we lift the short-end of our forecast profile. We still firmly believe in a more bullish secular positive case building for the NOK years on commodities incl. energy constituting an outperforming equity sector.

EUR/DKK – range bound

- **Cyclical outlook.** The cyclical environment looks neutral-to-negative for EUR/DKK. Equity and bond markets remain fragile, while Danish corporations benefits from high global economic activity and a strong USD. Development in US and in USD/DKK will be important for the earnings potential in the Danish economy in light of the significant net exports of in particular pharmaceuticals, but also the large investment in US stocks.
- **Monetary policy.** Danmarks Nationalbank (DN) hiked 35bp in February to 2.10% and widened the spread to ECB's policy rate -40bp. EUR/DKK rose above 7.4400 after widening of the spread to ECB and ended the need for FX intervention selling of DKK for now. We expect DN to follow furture ECB rate hikes over the coming months. Overall, we look for DN to keep EUR/DKK in the 7.43-7.47 range using FX intervention.
- **External balances.** Denmark continues to run a large current account surplus, which materialises in a large investment need abroad. In 2022, it was 13% of GDP. The surplus started to narrow some after the drop in freight rates, but remains very high.
- **Valuation.** The strong Danish external balances keep a 'DKK appreciation risk premium' vis-à-vis EUR in the FX forward curve. This in turn forces DN to keep policy rates lower than the ECB over the long term.
- **Positioning.** Danish life & pension companies on aggregate lowered the EUR and USD FX hedge ratios slightly in Q4. The EUR FX hedge ratio remains low, while to USD hedge ratio is close historical average. Overall, the L&P sector is not particularly long positioned in DKK.

Forecast: 7.4425 (1M), 7.4425 (3M), 7.4450 (6M), 7.4500 (12M)



	1M	3M	6M	12M
Danske Bank	7.4425	7.4425	7.4450	7.4500
Consensus	7.4402	7.4498	7.4500	7.4500
Forward	7.4426	7.4387	7.4308	7.4182

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

- **Risks.** EUR/DKK remains exposed to large movements in equity and fixed income markets via the FX hedge rebalancing effect. US equity outperformance will tend to keep EUR/DKK low, while higher long-term bond yields will support a higher EUR/DKK.
- **Conclusion.** We look for EUR/DKK to trade in the 7.4425-7.4500 range the coming year. EUR/DKK now trades with some distance to the 7.4360-65 floor and we expect the wider policy rate spread will end the need for DN FX intervention. Positioning among Danish L&P funds should be supportive of DKK. Liquidity conditions have eased and should keep EUR/DKK FX forwards anchored around the spread between DN and ECB policy rates.

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EUR/GBP – to trade around the 0.88 mark

- **Cyclical outlook.** The cyclical outlook remains bleak for the UK economy. The latest labour market report showed continued tightness as unemployment remained unchanged at 3.7% and unfilled vacancies moved only modestly lower. However, wage growth showed signs of slowing, supporting the BoE's monthly Decision Maker Panel survey which showed that expected year-ahead wage growth seemingly has peaked. Both headline and core inflation came in lower than expected, with core printing below 6% for the first time since last June. Overall, we do not see the outlook for the UK to be substantially different from the Euro Area, although we expect the recession to reach UK sooner.
- **Politics.** The government's Spring Statement delivered a balanced budget aimed at reducing debt as % of GDP and increasing growth and productivity. In February, the EU and UK reached an agreement on the Northern Ireland protocol effectively eliminating the tail risk of an EU-UK trade war, which has weighed on the cross the past many years.
- **Monetary policy.** We expect the Bank of England (BoE) to hike the Bank Rate by a final 25bp in March bringing the policy rate to 4.25%. Market pricing is broadly in line with markets pricing a peak in the Bank Rate at 4.33%. Combined with too dovish pricing on the ECB, we see relative rates as a clear negative for the cross.
- **External balances.** The UK runs a large current-account deficit, which makes GBP vulnerable when capital inflows fade; this keeps GBP at risk vs EUR in wake of a risk sell-off.
- **Valuation.** GBP remains fundamentally undervalued although Brexit still makes it difficult to estimate what fair value is. Our Brexit-corrected MEVA estimate for EUR/GBP is around 0.83.
- **Positioning.** Non-commercial positioning is long EUR/GBP.

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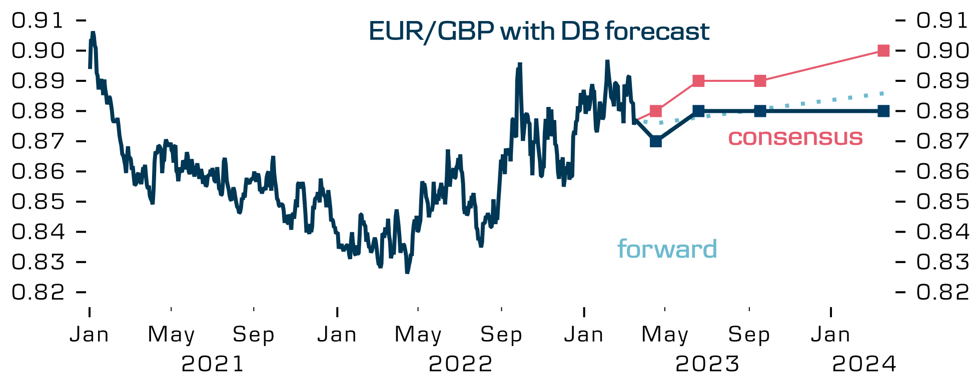
Forecast: 0.87 (1M), 0.88 (3M), 0.88 (6M), 0.88 (12M)



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

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

- **Risks.** The key risk to seeing EUR/GBP substantially above our projection is a sharp sell-off in risk where capital inflows dry out and liquidity becomes scares. Other risks are the outlook for the UK economy deteriorating sharply compared to the Euro Area.
- **Conclusion.** In the very short-term, changes to systemic risk fears will remain the key driver of the cross. Further out, EUR/GBP is, in our view, stuck between opposing forces. On the one hand, we expect relative rates to act as a clear tailwind, while global growth slowdown and the relative appeal of UK assets acts as a headwind. At present, we do not see the relative growth outlook or global investment environment to create significant divergence between EUR and GBP. We thus expect the cross to remain range bound around 0.87-0.88.

USD/JPY – BoJ tightening and valuation to send USD/JPY towards 125

- **Cyclical outlook.** The Japanese economy is generally facing headwinds from external demand and tailwinds from domestic demand. Recent PMI data for February shows that the Japanese service sector is stronger than the manufacturing sector. The former is accelerating as inbound spending and tourism sector continue to improve, while the latter is stabilising at a contractionary level after a downward trend throughout 2022. Overall, Japan is yet to experience an economic rebound post-pandemic as most developed countries, and the economy remains receptive to global factors. The outcome of the ongoing spring wage negotiations for FY2023 will be critical for whether the current inflationary pressures prove to be persistent according to the BoJ. We think annual wage hikes for Japanese employees will broadly be around 3% with risks skewed to the upside and hence inflationary pressures are persistent.

- **Monetary policy.** Markets price a 10bp rate hike by summer and another 10bp rate hike by year-end, bringing the monetary policy rate to 0.1% by year-end 2023. We think tweaks to the YCC are more likely before conventional rate hikes. Changes to the YCC can happen in two ways; i) widening of the YCC band to e.g. +/-100bp (currently +/-50bp), ii) shortening the target maturity of the YCC policy to e.g. 2 or 5 years, from 10 years. Both are essentially tightening of monetary policy, and the former looks more likely in the short-term, as it is easier to explain from the perspective to improve market functioning. We expect the BoJ to tweak the YCC during Q2 and possibly hike the policy rate by 10bp to 0%.

- **External balances.** The Japanese trade balance in conjunction with terms of trade have recently improved significantly but are still around historical low levels caused by the weakening of the JPY and surging energy prices last year. Tourism sector looks to be on a path to recovery, which could add some JPY demand to the market.

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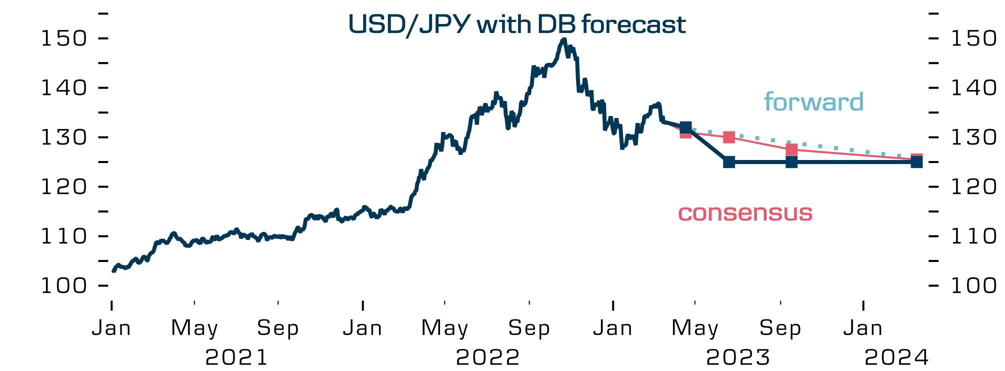
Forecast: 132 (1M), 125 (3M), 125 (6M), 125 (12M)



	1M	3M	6M	12M
Danske Bank	132	125	125	125
Consensus	131	130	128	126
Forward	132	131	129	126

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

Source: Macrobond Financial, Danske Bank

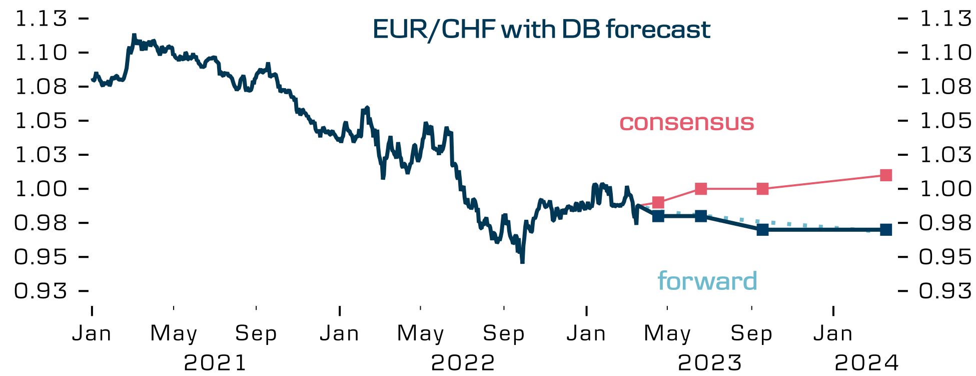
- **Positioning.** Speculators are neutral to slightly short positioned in JPY.

- **Risks.** A rally in global commodity prices is an upside risk to the USD/JPY, as Japan is a net energy importer. Further, any upside surprises to the US CPI is also a topside risk to the cross, as this outcome likely will prompt more Fed hawkishness. Generally, upward moves in US yields for whatever reason continue to be a tailwind for the USD/JPY.

- **Conclusion.** Overall, USD/JPY seems fundamentally overvalued and together with our base case of monetary policy tightening during Q2, we expect the cross to drop to 125 in 3M. Hence, the development in BoJ's monetary policy stance is important to follow beside the usual US yields and oil price.

EUR/CHF

Forecast: 0.98 (1M), 0.98 (3M), 0.97 (6M), 0.97 (12M)



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

- Since our last update, EUR/CHF has been highly volatile as broad risk-off following the collapse of the US bank SVB has weighed on the cross, but conversely concerns with regards to Credit Suisse has pushed the cross higher.
- At present, we do not believe that inflation has come sufficiently down for the SNB to conclude its hiking cycle or allow a significant depreciation of CHF. On the contrary, the latest inflation print for February showed that both headline and core inflation have once again accelerated after moving lower the past months. We thus continue to expect a cap in EUR/CHF of just below 1.01. Further out, we continue to forecast the cross to move slightly lower on the back of fundamentals and a re-tightening of financial conditions. We expect the SNB to hike a final time by 50bp at the March meeting bringing the policy rate to 1.50%.
- If the SNB decides to fully stop intervening, we see upside potential to EUR/CHF in the near-term.

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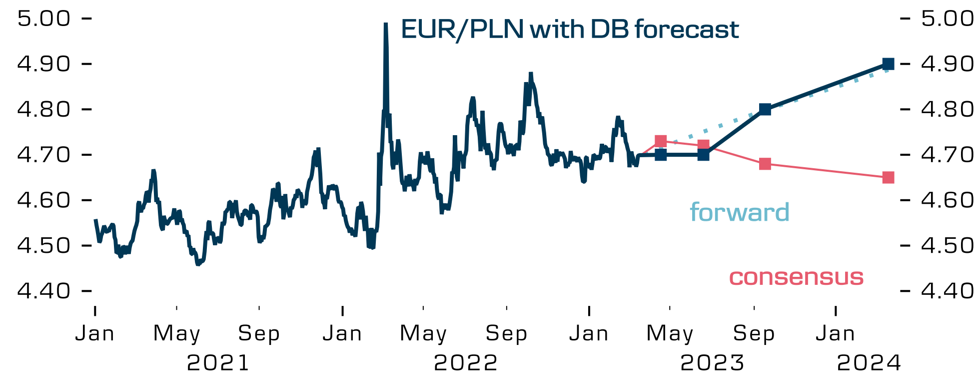
EUR/PLN

Forecast: 4.70 (1M), 4.70 (3M), 4.80 (6M), 4.90 (12M)



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

- For the sixth meeting in a row, NBP left the benchmark rate unchanged at 6.75% and Governor Glapiniski is still 'hopeful that it will be possible to cut rates in the final quarter', however he also emphasize that '[we] need to be certain that inflation is heading swiftly towards its target' before that comes in to play. Money market pricing is still indicative of rate during H2, and has pushed forth the first cut to September on the back of recent financial turmoil stemming from the global banking sector. The very same turmoil has, however, thus far had a limited impact on the Zloty exchange rate, with the 4.70-level continuing to act as a rather strong magnet for EUR/PLN. We continue to expect a gradual weakening of the Zloty from these levels, however, as inflation continues to run hot and the real economy is increasingly starting to feel the burn of higher interest rates. The prospect of imminent rate cuts, as implied by money market pricing and Governor Glapinski alike, would in our view further weigh on the Zloty should they materialize, as we deem it too early to change the policy course.

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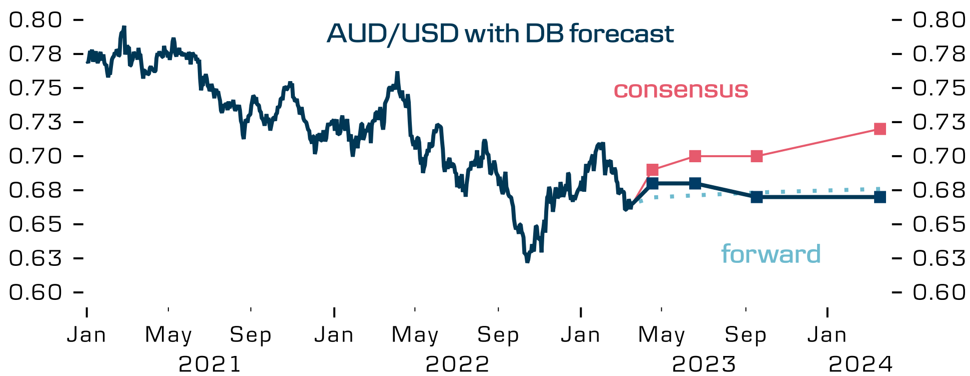
AUD/USD

Forecast: 0.68 (1M), 0.67 (3M), 0.66 (6M), 0.66 (12M)



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

- The uncertainty related to financial stability concerns has weighed on risk sensitive currencies, and not least the Australian dollar.
- The fear of a banking crisis has not spread to Australia to the same extent as it has to the US and the euro area, and as such, relative rates have improved markedly vs. the USD. The Reserve Bank of Australia (RBA) hiked its Cash Rate by 25bp in the March meeting just before the uncertainty began, but markets expect a pause to the hiking cycle in April.
- While reopening in China and the boost to relative rates are supportive for AUD all else equal, we emphasize that the broader risk sentiment remains the main driver for now. Easing financial stability concerns could provide a modest lift to AUD/USD in the near-term, but over the longer horizon, we expect the broad USD strength and push towards maintaining global financial conditions restrictive to weigh on the cross.

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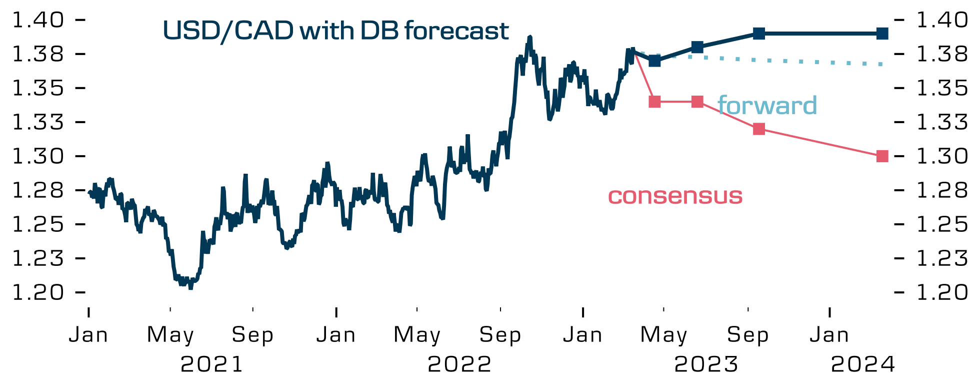
USD/CAD

Forecast: 1.37 (1M), 1.38 (3M), 1.39 (6M), 1.39 (12M)



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

- USD/CAD has rebounded over the last month driven by broad based USD strength, Bank of Canada re-iterating a wait-and-see mode and the general risk off contributing to sending commodity prices lower.
- Looking ahead we still consider USD/CAD to be a low beta version of USD/NOK. The Canadian economy (and asset market) is strongly influenced by energy prices – yet with more than 2/3s of Canadian exports sent to the US, a close connection remains between the USD and CAD.
- While we pencil in broader-based USD strength for the year ahead we also think CAD is in a relatively strong position compared to peers which limits the topside potential in USD/CAD. While the Canadian housing market remains a threat we still think the growth back-drop and the energy-reliance make for a much better cocktail than found in most other asset markets.

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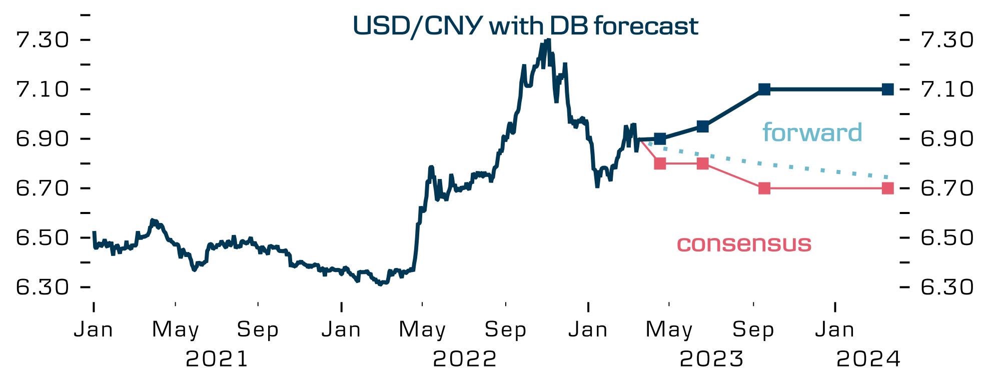
USD/CNY – moderately higher on broad USD appreciation

- **CNY the past month.** USD/CNY is broadly flat since last month around 6.90.
- **Growth outlook.** China's reopening has led to a front-loaded recovery as expected as we've seen a sharp turn higher in PMI's for both the service sector and a strong rebound in home sales in the first two months of 2023. Retail sales have also increased but at a more moderate pace. We look for growth this year to rise to 5.5% growth up from 3.0% in 2022 as pent-up demand in consumption and housing as well as stronger private investments is set to lift activity following the removal of the zero-covid policy. Exports will still be under pressure, though, from weak external growth.
- **Monetary policy.** China may not ease policy further as the economy is likely recover without further help. As the economy rebounds focus will turn to the risk from higher inflation and we could see tightening already in late 2023. Hence the policy divergence (the Fed tightening, PBOC easing) is set to reverse course on a 12M horizon and give more support to CNY.
- **FX policy.** CNY is a 'managed peg' against a basket of currencies. Since 2016 the market has played a bigger role and PBOC has made limited direct intervention in the market. After leaning against the wind to slow the pace of CNY depreciation in 2022, FX policy is again side-lined.
- **Flows.** The tide is turning from a big current account surplus due to a) weaker exports, b) stronger imports, and c) China tourists returning. After an initial equity inflow around the reopening of the economy, flows have been less supportive lately as geopolitical tensions remain high.
- **Valuation.** We see the CNY close to long-term fair value.

Forecast: 6.90 (1M), 6.95 (3M), 7.10 (6M), 7.10 (12M)



	1M	3M	6M	12M
Danske Bank	6.90	6.95	7.10	7.10
Consensus	6.80	6.80	6.70	6.70
Forward	6.86	6.84	6.80	6.74

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

- **Risks.** Uncertainty has increased as financial turmoil has returned this year and weakened overall confidence in markets. It widens the scope of outcomes for financial markets including for the USD/CNY.
- **Conclusion.** We keep our forecast broadly unchanged and still see the path for USD/CNY to be moderately higher on the back of overall USD strength. While EUR/CNY has declined in tandem with EUR/USD, we see scope for a further move lower following the direction of EUR/USD.

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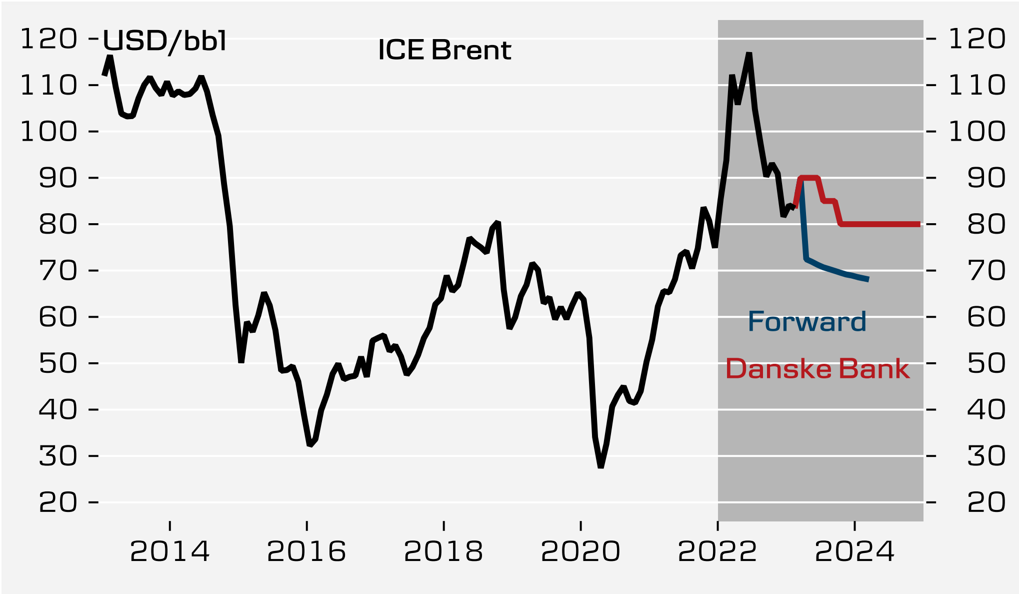
Oil – OPEC, US SPR buying should floor prices

- **Macro.** On the demand side, China reopens faster than what we previously expected. It should support global oil demand over the coming months and quarters. It could also push OPEC+ into reversing its recent decision to slash output. OPEC recently voiced concerns over a potential surplus on the market balance in Q2. Recent stress in the US banking sector has spilled over the oil market due to the potential economic impact and thus impact on global oil demand. US stand ready to both buy and sell oil from/to its strategic reserves depending on the level of prices.
- There is now more clarity in terms of supply conditions. In particular, with respect to supply coming from Russia, where Western sanctions are now in place – both on import curbs and the price cap. It remains to be seen whether Russia retaliates and cut output in response to price cap. Other producers, e.g. in Latin America has increased production this year and mitigated the drop in Russian oil output. If the demand outlook weakens further, we expect OPEC+ to make more output cuts.
- **Risks.** Outcome space for oil prices remains wide. Whether or not politicians sign the Iran nuclear deal has the potential to move oil prices. Will Russia retaliate and cut production? Will OPEC+ cut production further? How big is the demand impact from China's reopening? How about spill over from stress in the banking sector. USD volatility remains high and that remains an important factor for oil prices. Finally, further recession talk could also spark jitters in the oil market.
- **Conclusion.** We look for Brent to average USD90/bbl in H1 this year and fall to USD80/bbl in Q4. Global inflation pressures have started to ease, in particularly in the US and Russia looks able to continue to sell oil to the Asian market. A rebound of USD will further weigh on prices.

Forecast: 90 (Q2) 85 (Q3) 80 (Q4) 80 (2024)



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

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Danske Bank FX forecasts vs EUR

Last Update: 17/03/2023

G10	Spot	+1m	+3m	+6m	+12m
Exchange rates vs EUR					
EUR/USD	1.06	1.06	1.04	1.02	1.02
EUR/JPY	140.26	140	130	128	128
EUR/GBP	0.87	0.87	0.88	0.88	0.88
EUR/CHF	0.99	0.98	0.98	0.97	0.97
EUR/SEK	11.18	11.00	11.00	11.20	11.40
EUR/NOK	11.42	11.30	11.20	10.80	10.60
EUR/DKK	7.45	7.4425	7.4425	7.4450	7.4500
EUR/AUD	1.59	1.56	1.53	1.52	1.52
EUR/NZD	1.70	1.68	1.68	1.67	1.67
EUR/CAD	1.46	1.45	1.44	1.42	1.42

EM	Spot	+1m	+3m	+6m	+12m
EUR/PLN	4.70	4.70	4.70	4.80	4.90
EUR/HUF	397.87	400	400	410	420
EUR/CZK	23.93	23.8	23.9	24.1	24.2
EUR/TRY	20.22	20.5	20.6	21.2	22.7
EUR/ZAR	19.53	19.2	18.5	17.9	17.3
EUR/CNY	7.32	7.31	7.23	7.24	7.24
EUR/INR	87.88	87.5	86.3	85.2	85.2

Source: Danske Bank

Danske Bank FX forecasts vs DKK

G10				Sidste opdateret	17/03/2023
	Spot	+1m	+3m	+6m	+12m
Valutakurser mod DKK					
USD/DKK	7.00	7.02	7.16	7.30	7.30
JPY/DKK	5.31	5.32	5.73	5.84	5.84
GBP/DKK	8.51	8.55	8.46	8.46	8.47
CHF/DKK	7.55	7.59	7.59	7.68	7.68
SEK/DKK	0.67	0.68	0.68	0.66	0.65
NOK/DKK	0.65	0.66	0.66	0.69	0.70
EUR/DKK	7.4451	7.4425	7.4425	7.4450	7.4500
AUD/DKK	4.69	4.77	4.87	4.89	4.89
NZD/DKK	4.38	4.42	4.44	4.45	4.46
CAD/DKK	5.10	5.12	5.19	5.25	5.25
EM					
	Spot	+1m	+3m	+6m	+12m
PLN/DKK	1.58	1.58	1.58	1.55	1.52
HUF/DKK	1.87	0.19	0.19	0.18	0.18
CZK/DKK	0.31	0.31	0.31	0.31	0.31
TRY/DKK	0.37	0.36	0.36	0.35	0.33
ZAR/DKK	0.38	0.39	0.40	0.42	0.43
CNY/DKK	1.02	1.02	1.03	1.03	1.03
INR/DKK	0.085	0.085	0.086	0.087	0.087

Source: Danske Bank

Danske Bank FX forecasts vs SEK

G10	Spot	+1m	+3m	+6m	+12m
				Last Update:	17/03/2023
Exchange rates vs SEK					
USD/SEK	10.52	10.38	10.58	10.98	11.18
JPY/SEK	7.97	7.86	8.46	8.78	8.94
GBP/SEK	12.79	12.64	12.50	12.73	12.95
CHF/SEK	11.34	11.22	11.22	11.55	11.75
EUR/SEK	11.18	11.00	11.00	11.20	11.40
NOK/SEK	0.98	0.97	0.98	1.04	1.08
DKK/SEK	1.50	1.48	1.48	1.50	1.53
AUD/SEK	7.04	7.06	7.19	7.36	7.49
NZD/SEK	6.58	6.54	6.56	6.70	6.82
CAD/SEK	7.66	7.57	7.66	7.90	8.04
EM	**Spot**	**+1m**	**+3m**	**+6m**	**+12m**
PLN/SEK	2.38	2.34	2.34	2.33	2.33
HUF/SEK	2.81	2.75	2.75	2.73	2.71
CZK/SEK	0.47	0.46	0.46	0.46	0.47
TRY/SEK	0.55	0.54	0.53	0.53	0.50
ZAR/SEK	0.57	0.57	0.59	0.63	0.66
CNY/SEK	1.528	1.504	1.522	1.547	1.574
INR/SEK	0.127	0.126	0.127	0.132	0.134

Source: Danske Bank

Danske Bank FX forecasts vs NOK

G10	Spot	+1m	+3m	+6m	+12m
				Last Update:	17/03/2023
Exchange rates vs NOK					
USD/NOK	10.74	10.66	10.77	10.59	10.39
JPY/NOK	8.14	8.08	8.62	8.47	8.31
GBP/NOK	13.06	12.99	12.73	12.27	12.05
CHF/NOK	11.58	11.53	11.43	11.13	10.93
SEK/NOK	1.02	1.03	1.02	0.96	0.93
EUR/NOK	11.42	11.30	11.20	10.80	10.60
DKK/NOK	1.53	1.52	1.50	1.45	1.42
AUD/NOK	7.19	7.25	7.32	7.09	6.96
NZD/NOK	6.72	6.72	6.68	6.46	6.34
CAD/NOK	7.82	7.78	7.80	7.62	7.48
EM	**Spot**	**+1m**	**+3m**	**+6m**	**+12m**
PLN/NOK	2.43	2.40	2.38	2.25	2.16
HUF/NOK	2.87	2.83	2.80	2.63	2.52
CZK/NOK	0.48	0.47	0.47	0.45	0.44
TRY/NOK	0.56	0.55	0.54	0.51	0.47
ZAR/NOK	0.58	0.59	0.61	0.61	0.61
CNY/NOK	1.560	1.545	1.550	1.491	1.464
INR/NOK	0.130	0.129	0.130	0.127	0.124

Source: Danske Bank

Danske Bank FX forecasts vs USD

G10	Spot	+1m	+3m	+6m	+12m
				Last Update:	17/03/2023
Exchange rates vs USD					
EUR/USD	1.06	1.06	1.04	1.02	1.02
USD/JPY	131.90	132	125	125	125
GBP/USD	1.22	1.22	1.18	1.16	1.16
USD/CHF	0.93	0.92	0.94	0.95	0.95
USD/SEK	10.52	10.38	10.58	10.98	11.18
USD/NOK	10.74	10.66	10.77	10.59	10.39
USD/DKK	7.00	7.02	7.16	7.30	7.30
AUD/USD	0.67	0.68	0.68	0.67	0.67
NZD/USD	0.63	0.63	0.62	0.61	0.61
USD/CAD	1.37	1.37	1.38	1.39	1.39
EM	**Spot**	**+1m**	**+3m**	**+6m**	**+12m**
USD/PLN	4.42	4.43	4.52	4.71	4.80
USD/HUF	374.21	385	385	402	412
USD/CZK	22.50	22.45	22.98	23.63	23.73
USD/TRY	19.00	19.30	19.80	20.80	22.30
USD/ZAR	18.37	18.10	17.80	17.50	17.00
USD/CNY	6.89	6.90	6.95	7.10	7.10
USD/INR	82.55	82.50	83.00	83.50	83.50

Source: Danske Bank

Danske Bank FX forecasts vs GBP

G10	Spot	+1m	+3m	+6m	+12m
				Last Update:	17/03/2023
Exchange rates vs GBP					
GBP/USD	1.22	1.22	1.18	1.16	1.16
GBP/JPY	160.34	161	148	145	145
EUR/GBP	0.87	0.87	0.88	0.88	0.88
GBP/CHF	1.13	1.13	1.11	1.10	1.10
GBP/SEK	12.79	12.64	12.50	12.73	12.95
GBP/NOK	13.06	12.99	12.73	12.27	12.05
GBP/DKK	8.51	8.55	8.46	8.46	8.47
GBP/AUD	1.82	1.79	1.74	1.73	1.73
GBP/NZD	1.94	1.93	1.91	1.90	1.90
GBP/CAD	1.67	1.67	1.63	1.61	1.61
EM	**Spot**	**+1m**	**+3m**	**+6m**	**+12m**
GBP/PLN	5.37	5.40	5.34	5.45	5.57
GBP/HUF	454.83	460	455	466	477
GBP/CZK	27.35	27.36	27.16	27.39	27.50
GBP/TRY	23.11	23.51	23.40	24.11	25.85
GBP/ZAR	22.33	22.05	21.04	20.28	19.70
GBP/CNY	8.37	8.41	8.21	8.23	8.23
GBP/INR	100.46	100.52	98.09	96.78	96.78

Source: Danske Bank

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