

Flash Comment Denmark

Large-scale FX intervention before rate hike

- **Danmarks Nationalbank (DN) sold DKK65bn in the FX market to cap EUR/DKK upside in March before hiking policy rates by 15bp.**
- **Tightening of monetary policy and stabilisation of global financial markets has eased upward pressure on EUR/DKK and removed the need for further action.**
- **We look for EUR/DKK to continue to trade above the 7.46038 central rate in the short term and for DN to keep policy rates unchanged.**

Danmarks Nationalbank (DN) today published March FX reserve and central bank balance sheet data. The FX reserve dropped DKK57bn to DKK372bn in March as DN sold DKK65bn in FX intervention to cap EUR/DKK upside. Government deposits rose to DKK134bn from DKK115bn.

The DKK faced strong headwinds in March amid the global financial market turmoil. The size and pace of FX intervention in March matches what took place during the financial crisis in 2008. Subsequently, DN raised its policy rates by 15bp and announced EUR and USD FX swap facilities. The action in combination with overall stabilisation in global financial markets has eased the upward pressure on EUR/DKK and removed the imminent need for further action. We look for EUR/DKK to continue to trade above the 7.46038 central rate in the short term and for DN to keep policy rates unchanged at the current -0.35% for the repo rate and -0.60% for the CD rate.

The rise in government deposits was more or less as expected, as the government had large net revenue in March. This will likely decline over the coming months as the government faces an historically large funding need due to fiscal measures announced to ease the negative consequences on the economy of the lockdown – see more in *Reading the Markets Denmark*, 2 April 2020.

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