Danske Bank

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FX Forecast Update

EUR/USD now headed for high 1.20s - dips set to be shallow

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Important disclosures and certifications are contained from page 31 of this report

Forecast review part I

- **EUR/NOK.** We have seen a strong start to 2018 for the NOK as Norges Bank and foreign investors return to the market. Despite the latest appreciation, we still see a fundamentally compelling case for why the NOK should move even higher in 2018. Not least, improved and more broad-based mainland growth means the economy can now cope with the undervalued NOK moving closer to its long-term 'fair value'. Also, we think the positive terms-of-trade shocks stemming from higher oil prices in 2017 are not yet reflected in the NOK. Finally, positioning and relative rates (Norges Bank and Nibor fixings) are also NOK positives in the quarters ahead. We roll the front-end of our forecasts profile to 9.50 in 1M (from 9.60), 9.40 in 3M (unchanged), 9.20 in 6M (unchanged) and 9.10 in 12M (unchanged).

- **EUR/SEK.** Key macro pillars for our bearish SEK view are (1) the inflation outlook, which is on a downward slope and below the Riksbank, and (2) growth momentum, which is deteriorating markedly in 2018 on the back of the slowdown in the housing market and weak private consumption. Both these arguments suggest the Riksbank will not raise rates this year and not as quickly as the market is pricing in and the Riksbank indicates for coming years. While we may feel somewhat less confident in our call, it is still our main scenario and therefore we make only minor changes to our forecast profile. We set EUR/SEK at 9.90 (previously 10.00) in 1M, 10.00 (was 10.10) in 3M, 9.90 (unchanged) in 6M and 9.80 (unchanged) in 12M.

- **EUR/DKK.** We expect EUR/DKK to trade around 7.4450 in 1-6M, with some near-term downside potential on the back of a temporary tightening of DKK liquidity. In the coming year, we look for some positive spill over effects from a higher EUR/USD and forecast the pair at 7.4475 in 12M.

- **EUR/USD.** We emphasise that the potential for relative rates, valuation and flows to support the cross alike remains in place. But, in our view, the market interpretation of the latest ECB communication is not entirely 'fair' and we expect a softer tone at the January ECB meeting alongside the risk of a near-term Fed hike to weigh on the cross somewhat. However, we no longer expect a sustained dip below 1.20 and have upped our forecast profile, partly reflecting the roll of an upward-sloping trend profile in the cross, and partly reflecting recent evidence of the sensitivity of the EUR to ECB rhetoric. We see EUR/USD at 1.20 in 1M and in 3M (previously 1.16), 1.23 in 6M (1.20), and 1.28 in 12M (previously 1.25).

Forecast review part II

- **EUR/GBP.** We still expect EUR/GBP to trade within the 0.8650-0.90 range in the coming months, targeting 0.88 in 1-3M. Longer term, we still see potential for a decline in EUR/GBP driven by possible clarification on Brexit negotiations and valuations targeting 0.87 in 6M and 0.86 in 12M.

- **USD/JPY.** We have lowered our 1M forecast slightly to 112 from 113 as we expect Bank of Japan (BoJ) QE exit concerns and uncertainty about the future BoJ leadership to weigh on USD/JPY in the near term. Over the medium term, we still see USD/JPY trading mostly sideways within the 111-114.50 range, targeting 113 in 3M. We target 114 in 6-12M, with risks increasingly skewed to the downside amid stretched short JPY positioning, further flattening pressure on the US yield curve and a weaker growth outlook in China.

- **USD/CNY.** We revise the cross slightly lower to 6.60 in 1M and 3M horizon (from 6.65) and to 6.65 in 6M (6.70) and 6.70 in 12M (6.75). The correlation with the USD index continues to be very high and the downside risks to growth have declined a bit recently due to strong global growth, which underpins exports. However, we still expect a relatively softer economic cycle compared with the US to work in the direction of a weaker CNY. Hence, the two opposing forces continue to be in play and this is why we do not see a big change in the cross over the next year.

- **EUR/CHF**. As the SNB continues to stress that it remains in the 'no exit now' camp, we still think the central bank will prefer to see EUR/CHF edge towards 1.20 before making a major shift in its policy stance. We have kept our long-term forecast profile unchanged and thus continue to see the cross at 1.23 in 12M, but the latest euro momentum has led us to up our 1M forecast to 1.17, 3M to 1.17 (previously 1.16), and 6M to 1.20 (unchanged).

Forecast review part III

- **USD/RUB.** We still expect the RUB to strengthen in the long term due to improving macro fundamental factors such as outstanding fiscal discipline, the growing economy, a solid current account surplus and prevailing high real rates together with a favourable oil price outlook. Yet, short-term prospects remain shaky, as the US might introduce new anti-Russia sanctions by the end of January 2018. Given the change in emerging market sentiment, weaker USD and the RUB detaching from oil, we lower our USD/RUB levels short and medium term to 57.80 in 1M (previously 59.00), 56.30 in 3M (previously 57.80) and 55.90 in 6M (previously 56.20), keeping our long-term forecast unchanged at 53.50 in 12M.

- **USD/TRY.** We see weaker prospects for the TRY in the long term, as rising commodity prices weigh on the current account deficit and a hawkish Fed would put pressure on the FX exposure of Turkish corporations. We remain cautious on the short and medium term, while the TRY could experience support from emerging market catch up. We lower our USD/TRY forecasts to 3.80 in 1M (previously 3.90) and 3.85 in 3M (previously 3.95), keeping our forecasts for 6M and 12M unchanged at 4.00 and 4.05, respectively.

- **EMEA.** Amid strong global risk sentiment and strong Polish economic numbers and a more pro-Europe Polish government, we have revised down our path for the EUR/PLN, although the PLN rally has probably gone a bit too fast. Longer term, we still think the pricing in of hikes by NBP will aid PLN. As a result, we forecast EUR/PLN at 4.17 in 1M (4.22 previously) and 4.15 in 3M (was 4.20), falling to 4.14 in 6M (was 4.16) and 4.12 in 12M (was 4.14). The Hungarian central bank kept rates unchanged at its December meeting and seems to be on hold for now. With headline inflation remaining below the central bank's 3% target, we do not see any imminent changes in its dovish stance but we believe that the strong economic growth will eventually drive up inflation, leading to a change in policy by the central bank at some point in 2018. We see EUR/HUF at 309 in 1M (previously 311), declining to 308 in 3M (previously 310), 305 in 6M (previously 308) and 300 in 12M (previously 305).

- **EUR/CZK.** The Czech National Bank (CNB) kept rates unchanged at the December meeting and seems increasingly determined not to risk raising rates at too quick a pace. We expect it to raise rates in February but then wait some months before the next hike, as it seems worried about a quick appreciation of the CZK. We change our 1M forecast to 25.50 (previously 25.60) but keep the 3M, 6M and 12M forecasts unchanged at 25.50, 25.30 and 25.30, respectively.

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Forecast review part IV

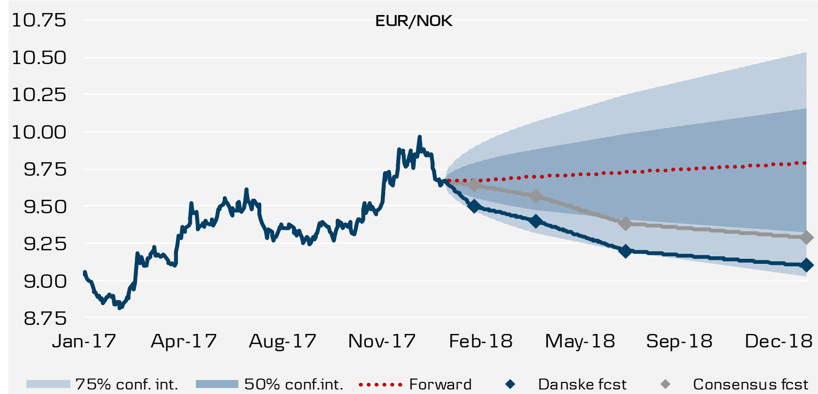
- **AUD, NZD, CAD.** On the surface, global growth is supportive for commodity currencies but we emphasise that the outlook suggesting China – the world's largest commodity consumer – will slow down should act as a headwind. Meanwhile, we think some of the weakness is already priced in, suggesting the outlook seems brighter in the months to come despite modest USD strength. On the central banks, we expect two Bank of Canada (BoC) rate hikes over the coming 12 months and one each from the Reserve Bank of Australia (RBA) and the Reserve Bank of New Zealand (RBNZ). For RBA and RBNZ, this is in line with market pricing, while markets price in an additional hike for the BoC. Fundamentally, the AUD and NZD seem to us overvalued, while the CAD is close to its fair value (versus the USD). We now forecast AUD/USD at 0.78 in 1M (previously 0.76), 0.76 in 3M (was 0.75), 0.78 in 6M (was 0.77) and 0.79 in 12M (was 0.78); NZD/USD at 0.72 in 1M (was 0.69), 0.70 in 3M (was 0.69), 0.71 in 6M (was 0.70) and 0.73 in 12M (was 0.72). Finally, we forecast USD/CAD at 1.26 in 1M (was 1.29), 1.27 in 3M (was 1.28), 1.25 in 6M (unchanged) and 1.23 in 12M (unchanged).

- **Oil.** We forecast the oil price will fall back again from the present elevated level to around USD62/bl in the near term and stay in the USD62-65/bl range in 2018. We see some upside risks to this forecast.

EUR/NOK – it's (still) time to buy NOK

- **Growth.** Data releases continue painting an upbeat picture of the Norwegian economy and the prospects for above-trend-growth in 2018. The manufacturing sector is benefiting from higher oil prices and a weak NOK, unemployment continues to fall, consumer confidence has kept up well despite lower house prices and private consumption seems solid. The biggest risk remains the housing market but we think the December release from Real Estate Norway diminished the risk of a more pronounced decline. December core inflation rose to 1.4% y/y – the highest rate since June 2017 – and we generally expect inflation to edge higher this year supported by, not least, import prices.
- **Monetary policy.** As expected, Norges Bank left the sight deposit rate unchanged at 0.50% at the December meeting. The board also confirmed the near-term 'neutral' stance by stating that: '*The Executive Board's current assessment of the outlook and the balance of risks suggests that the key policy rate will remain at today's level in the period ahead'*. Meanwhile, Norges Bank raised the rate path, now indicating a first 25bp interest rate hike in December 2018 – this is in line with our own view.
- '**Flows.** Foreign banks (proxy for speculative flows) sold NOK significantly in Q4 17. We expect foreign investors to return to the NOK market at the beginning of 2018, which should add to the NOK appreciation pressure.
- **Valuation.** From a long-term perspective, the NOK seems fundamentally undervalued. Our PPP model has 8.57 as 'fair'.
- **Risks.** The biggest risks factor to our forecast are the Norwegian housing market, the effect of a Chinese slowdown having a larger impact on commodity FX than we expect and a global risk sell-off.

Forecast: 9.50 (1M), 9.40 (3M), 9.20 (6M), 9.10 (12M)



EUR/NOK	1M	3M	6M	12M
Forecast (pct'ile)	9.50 (22%)	9.40 (17%)	9.20 (12%)	9.10 (15%)
Fwd. / Consensus	9.67 / 9.64	9.70 / 9.57	9.73 / 9.38	9.79 / 9.29
50% confidence int.	9.52 / 9.80	9.47 / 9.88	9.41 / 9.99	9.32 / 10.16
75% confidence int.	9.42 / 9.92	9.32 / 10.07	9.19 / 10.25	9.03 / 10.53

Source: Danske Bank

- **Conclusion.** The NOK has started 2018 strongly, as Norges Bank and foreign investors return to the market. Despite the latest appreciation, we still see a fundamentally compelling case for the NOK to move even higher in 2018. Not least, higher and more broad-based mainland growth mean the economy can now cope with the undervalued NOK moving closer to long-term 'fair value'. Also, we think the positive terms of trade shock stemming from higher oil prices in 2017 is not yet reflected in the NOK. Finally, positioning and relative rates (Norges Bank and Nibor fixings) are also NOK positives in the quarters ahead.
- We roll the front-end of our forecast profile to 9.50 in 1M (from 9.60), with 9.40 in 3M, 9.20 in 6M and 9.10 in 12M unchanged.

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EUR/NOK – important issues to watch

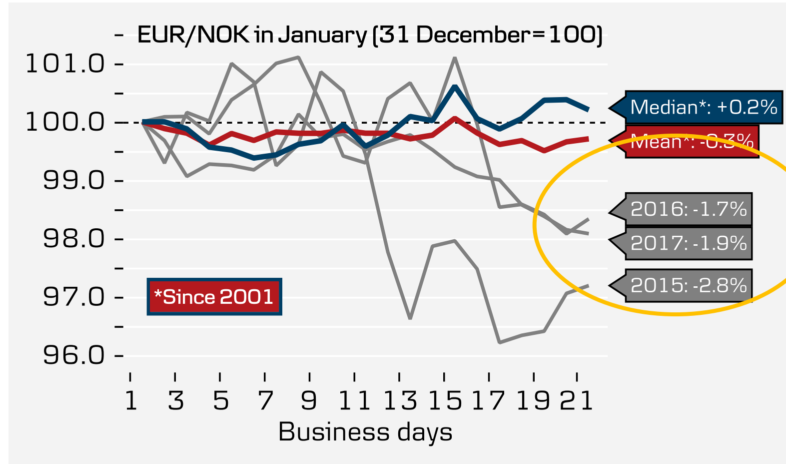
NOK set to outperform peers as investors return

- Last year marked yet another year when the NOK weakened into year-end. Specifically, the NOK weakened almost 4% in November and December, compared with the historical average since 2001 of 2%. In 2017, the move was amplified by Swedish housing market worries spreading to Norway as foreign FX investors left the NOK market in November, while we do not normally see the move before December. Norges Bank again decided to halt its fiscal rule based NOK purchases in the final weeks of the year.
- Meanwhile, the year-end headwind from important buyers leaving the market is now behind us. Norges Bank has resumed its purchases and, although it is only the size of the non-oil budget deficit and the size of the State's Direct Financial Interests expenditures that influence the net demand for NOK, the resumed daily Norges Bank NOK purchases should be a stabilising factor. Also, if we are right in expecting foreign investors to return to the market, the NOK is set to outperform peers as has been the case over the past three years (see chart above right).

Norway inflation surprised on the upside in December

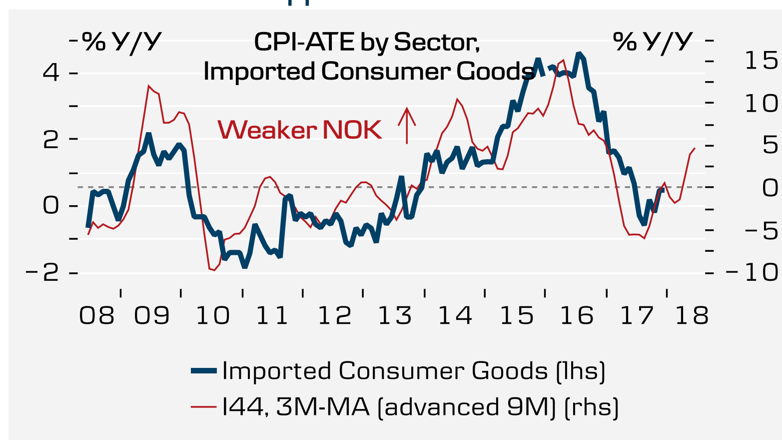
- Core inflation rose to 1.4% y/y in December – not only higher than markets and Norges Bank expected but also the highest y/y print since July 2017. Meanwhile, the surprise was driven very much by the usual volatile components in plane tickets and food prices. As a result, we do not think the release was a game changer as such, even though imported inflation is set to support the core measure in coming months.

Over the past few years, year-end NOK underperformance has been followed by year-start outperformance



Source: Macrobond Financial, Norges Bank, Danske Bank

Weak NOK set to support the inflation outlook



Source : Macrobond Financial, Norges Bank, Danske Bank

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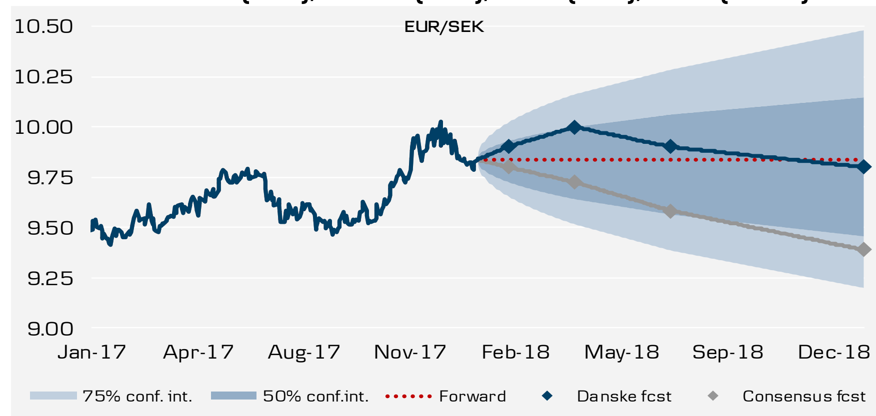
EUR/SEK – inflation, housing and growth momentum

- **Growth.** Growth momentum in Sweden is deteriorating. We believe GDP, which we estimate grew by 2.7% in 2017, will slow to a meagre 1.7% in 2018, as the housing market becomes more of a headwind alongside weak private consumption. Stronger global growth gives a bit of support but is far from enough to offset the negative dynamics.
- **Monetary policy.** The Riksbank has decided to reinvest the SGB1052 redemption (March 2019) starting from January 2018. We view this as QE extension in that the balance sheet continues to expand. The first rate hike is pencilled in from Q3 18. We maintain our view of no hike in 2018 based on the outlooks for inflation and the housing market.
- **Flows.** While natural SEK buyers may see high EUR/SEK levels as an excuse to raise hedge ratios, negative carry works in the opposite direction. Foreign appetite for Swedish debt and equities rebounded marginally in 2017.
- **Valuation.** EUR/SEK is dear relative to medium-term models such as MEVA and PPP but relatively close to fair value as implied by our preferred short-term models.
- **Risks.** Under *SEK in waiting-for-inflation mode* in *Reading the Markets Sweden*, 12 January, we discuss the risks to our macro call and sketch a stylised alternative scenario for EUR/SEK where the Riksbank hikes in Q3, which pushes yields higher and EUR/SEK lower in coming quarters. As this is likely to amplify the downturn in the housing market, there could instead be a delayed sell-off in the SEK.

***Forecasts:* 9.90 (1M), 10.00 (3M), 9.90 (6M), 9.80 (12M)**



EUR/SEK	1M	3M	6M	12M
Forecast (pct'ile)	9.90 (65%)	10.00 (75%)	9.90 (60%)	9.80 (50%)
Fwd. / Consensus	9.84 / 9.80	9.84 / 9.73	9.84 / 9.58	9.84 / 9.39
50% confidence int.	9.71 / 9.95	9.64 / 10.00	9.56 / 10.06	9.46 / 10.15
75% confidence int.	9.62 / 10.05	9.52 / 10.16	9.39 / 10.28	9.20 / 10.48

Source: Danske Bank

Conclusion. Key macro pillars for our bearish SEK view are (1) the inflation outlook, which is on a downward slope and below the Riksbank's estimate, and (2) growth momentum, which is deteriorating markedly in 2018 on the back of the slowdown in the housing market and weak private consumption. Both these arguments suggest the Riksbank will not raise rates this year and not as quickly as the market is pricing and the Riksbank indicates for coming years. While we may feel somewhat less confident in our call (see *Risks* bullet on this page), it is still our main scenario, so we make only minor changes to our forecast profile. We set EUR/SEK at 9.90 (was 10.00) in 1M, 10.00 (was 10.10) in 3M, 9.90 (unchanged) in 6M and 9.80 (unchanged) in 12M.

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EUR/SEK – important issues to watch

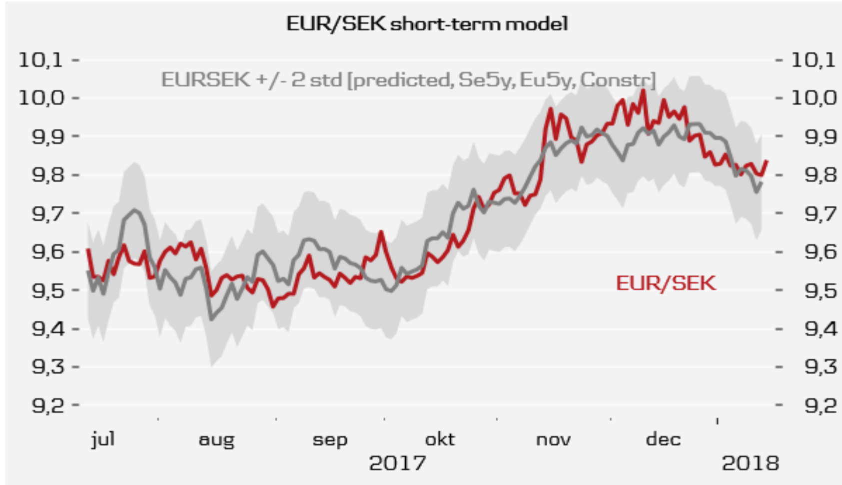
Rates, housing and the krona

- Our augmented short-term model, which in addition to interest rates in Sweden and euroland also takes into account what is happening in the housing market, indicates that fair value EURSEK has come down from peaks (currently around 9.80 versus above 9.90 in December). The decline reflects both Swedish interest rates having risen more than in euroland and that the Swedish construction sector has performed well at the start of this year. The estimated 'housing risk premium' is therefore around 15 figures (see chart).

Growth momentum and the krona

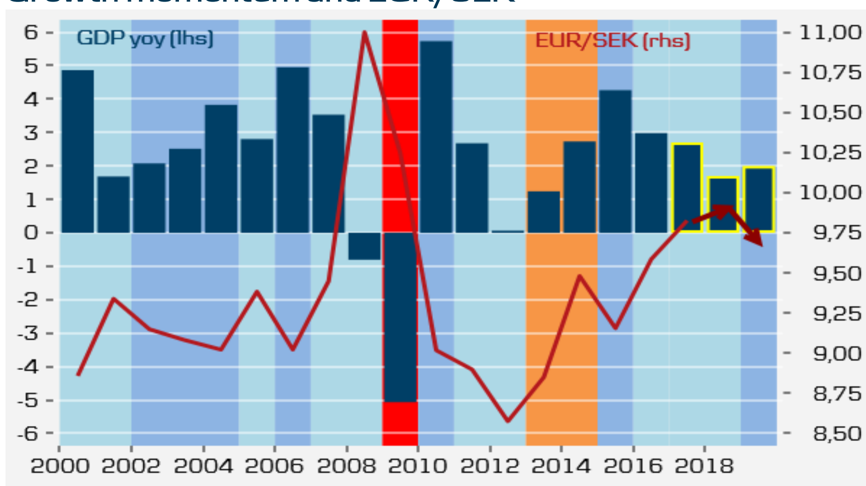
- Growth momentum matters. The SEK is procyclical – most often. When the business cycle strengthens, EURSEK falls and vice versa (blue colors in the chart). This has been the case in 14 of the 17 years since 1999 (82%). The only time when the SEK strengthened while the economy slowed was in 2009 (marked with red in the chart).
- We expect growth around 1.7% in 2018, quite a drastic slowdown compared with 2017 (estimated 2.7%). This would suggest the krona weakening throughout 2018.
- Twice, in 2013 and 2014, the SEK – with the Riksbank's active 'support' – has depreciated when growth accelerated. However, in our view, this will not be the case this year.

Our model captures why EUR/SEK has come down from peaks



Source: Danske Bank, Macrobond Financial

Growth momentum and EUR/SEK



Source: Danske Bank, Macrobond Financial

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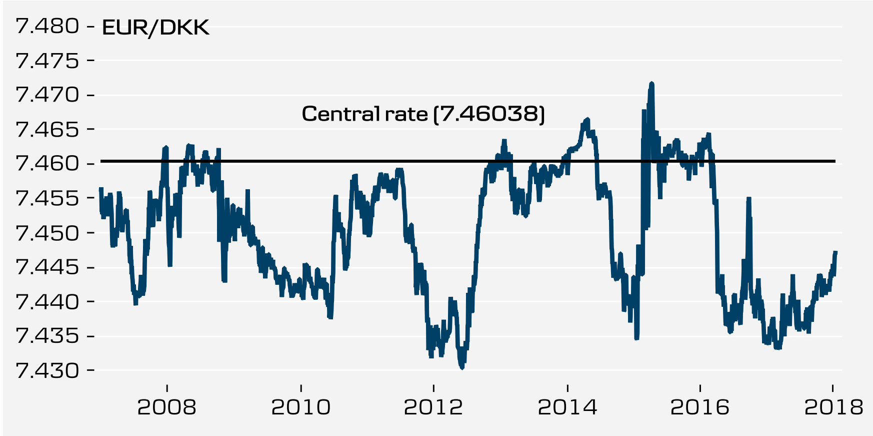
EUR/DKK – breaking out of last year's range

- **FX.** EUR/DKK has moved firmly above the 7.4450 top of 2017's steady trading range. EUR momentum has been strong on the back of a repricing of the ECB in a more hawkish direction and fading euro area political risks ahead of the upcoming Italian election. Danmarks Nationalbank has seen the longest drought in FX intervention since the start of 2014, as it has not been in the market for the past nine months. Short term, we look for recent gains in EUR/DKK to reverse on tighter DKK liquidity. In 12M, the higher EUR/USD should spill over to EUR/DKK to some extent. We forecast EUR/DKK at 7.4450 in 1-6M and 7.4475 in 12M.
- **Rates.** We expect Danmarks Nationalbank to keep the rate of interest on certificates of deposit unchanged at -0.65% in 12M. Should the ECB lift its deposit rate this year (not our main scenario), we would expect Danmarks Nationalbank to increase the certificates of deposit rate correspondingly, as we expect it to value a less negative policy rate more highly than a higher EUR/DKK spot.
- **Flows.** The Danish current account surplus remains high and around 8% of GDP. A further decline in USD/DKK could weigh on the surplus over the coming year. This said, DKK remains well supported by strong external fundamentals. The dividend season in Denmark is nearing – the biggest payments normally take place at end-March and in early April. This tends to be EUR/DKK positive.
- **Regulation.** On 1 January 2018, the general LCR was raised to 100% for European and smaller Danish banks and net stable funding ratio was introduced.

Forecast: 7.4450 (1M), 7.4450(3M), 7.4450 (6M) and 7.4475 (12M)



Source: Macrobond Financial, Danske Bank

- **Liquidity.** DKK liquidity is set to tighten temporarily in Q1 when large tax payments take place. This should add some support to shorter dated EUR/DKK FX forwards and support DKK spot.
- **Conclusion.** We expect EUR/DKK to trade around 7.4450 in 1-6M with some near-term downside potential on the back of a temporary tightening of DKK liquidity. In the coming year, we look for some positive spillover from a higher EUR/USD and forecast the pair at 7.4475 in 12M.

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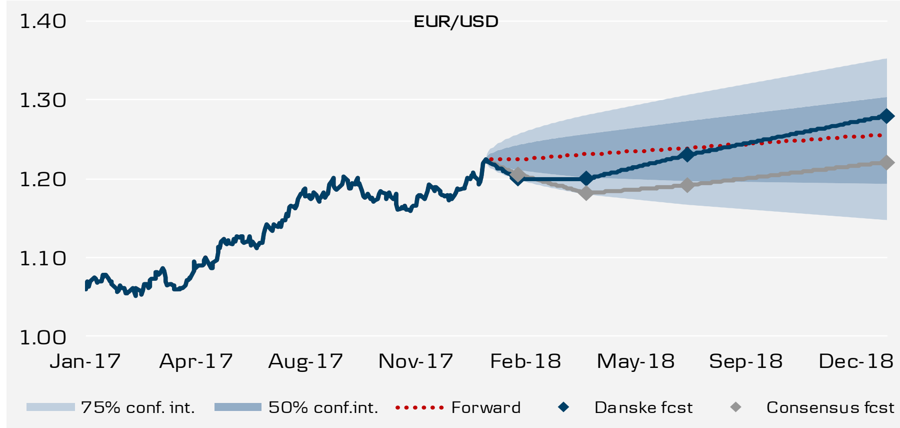
EUR/USD – headed for 'fundamental' levels as ECB fades easing

- **Growth**. Both US and eurozone economic releases have continued to surprise on the upside. That said, eurozone data have seen increasing trouble in keeping up with now high expectations, whereas US data have kept up momentum better in this respect. Our quantitative business-cycle models suggest the US enters the year on a stronger footing than the eurozone, which spells some cyclical downside to EUR/USD near term.
- **Monetary policy. The** ECB, as expected, kept policy measures and guidance unchanged in December, but the meeting minutes came across as surprisingly hawkish. A first ECB hike is priced for Q1 next year, which we think is too early, and we expect ECB president Draghi to strike a dovish tone to counter such expectations at the January meeting. At the same time, we see an increasing risk that the Fed could hike as early as March. This could imply a temporary revival for rates to support USD.
- **Flows.** Positioning has again moved towards EUR longs and CHF shorts. Eurozone equity inflows could fade a bit, as the US cycle looks stronger near term. Longer term, an 'ECB exit'-led reversal in eurozone debt flows should support the euro. The euro area current-account surplus versus a US deficit implies that the 'natural' flow remains EUR/USD positive.
- **Valuation**. The Danske Bank G10 MEVA model suggests that the fair value for the cross is around 1.29; PPP at 1.28.
- **Risks.** If eurozone wages do not pick up in H1, markets could lose faith that the ECB will be in a position to take 'normalisation' to the next level late 2018. The upcoming Italian election could add to a eurozone political risk premium.

Forecast: 1.20 (1M), 1.20 (3M), 1.23 (6M), 1.28 (12M)



EUR/USD	1M	3M	6M	12M
Forecast (pct'ile)	1.20 (19%)	1.20 (23%)	1.23 (46%)	1.28 (65%)
Fwd. / Consensus	1.22 / 1.21	1.23 / 1.18	1.24 / 1.19	1.26 / 1.22
50% confidence int.	1.20 / 1.24	1.20 / 1.26	1.20 / 1.27	1.19 / 1.30
75% confidence int.	1.19 / 1.26	1.18 / 1.28	1.17 / 1.31	1.15 / 1.35

Source: Danske Bank

Conclusion. While at the start of the year we anticipated that the next uptick in EUR/USD would not arrive until Q2, we emphasise that the potential for relative rates, valuation and flows to support the cross alike is clearly in place. Momentum is strong at present and looks increasingly reminiscent of last summer's rally. That said, in our view the market interpretation of the minutes is not entirely 'fair' and we expect a softer tone at the January ECB meeting alongside the risk of a near-term Fed hike to weigh a tad on the cross. But we no longer expect a sustained dip below 1.20, and have upped our forecast profile, partly reflecting the roll of an upward-sloping trend profile in the cross, and partly reflecting recent evidence of the sensitivity of the EUR to ECB rhetoric. We see EUR/USD at 1.20 in 1M and in 3M (prev. 1.16), 1.23 in 6M (1.20), and 1.28 in 12M (prev. 1.25) as an ECB 'exit' takes us towards 'fundamental' levels over the next year.

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EUR/USD – important issues to watch

A major ECB shift in communication now? We doubt it!

- FX markets have historically made significant shifts when central banks *cease* to ease (or tighten) rather than when they *start* to tighten (or ease). ECB is in the process of - signalling - the former, whereas the Fed is well into a process of the latter. The significant rally in EUR/USD on the latest ECB minutes in our view illustrates that sensitivity to ECB rhetoric is particularly elevated at present.
- However, we doubt that the inner circle at the ECB is ready to make a shift on policy just yet, and notably we doubt that 2018 will be the year where the global economy 'reflates' to any great extent, see Strategy - 'Reflation' hype leaves ECB looking overpriced. If we are right, this means that EUR/USD will be vulnerable if ECB president Draghi strikes a soft tone in January, and if, at the same time, the Fed comes for a March hike (not our base case but a key risk scenario).

Broad basic balance of payments key for the euro - but not the dollar

- Two balance-of-payments (BoP) factors are often – separately – cited as key for the euro: the long-standing eurozone current-account balance, and the eurozone capital outflows seen in recent years. Combining these with FDI into a broad basic BoP (BBoP) arguably captures the commercial supply/demand for a given currency.
- The eurozone BBoP moved adversely mid-2014 to late 2016 but has been trending upwards since due to the current-account surplus and a drop in outflows deriving from portfolio (notably equity) and direct investment alike. For the US, the BBoP shows little overall direction, and has notably tracked USD much worse than is the case for EUR.
- The US tax reform should widen the current account deficit, but, at the same time, the US will need to sell more Treasuries to finance a larger fiscal deficit; this leaves the outlook for BBoP a bit blurred. In contrast, we expect the eurozone to see the BBoP continue to move in its favour, as notably the allure of eurozone debt securities rises again.

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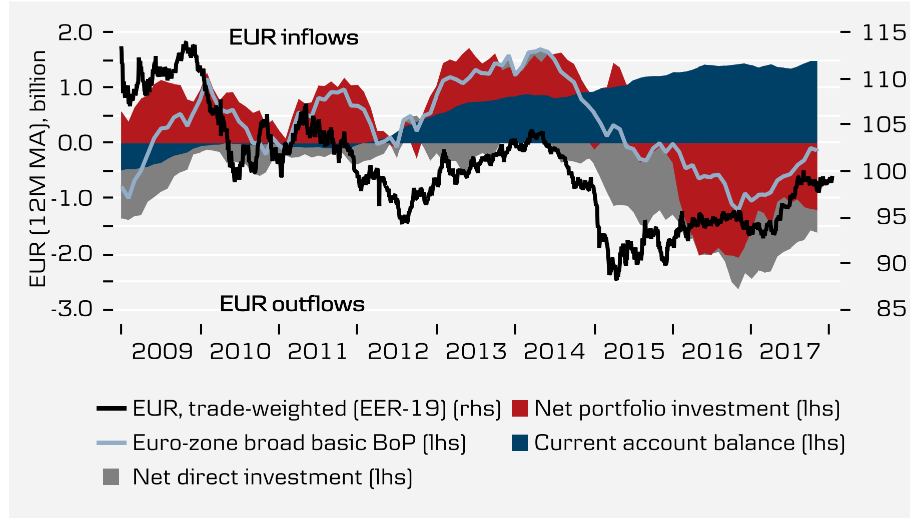
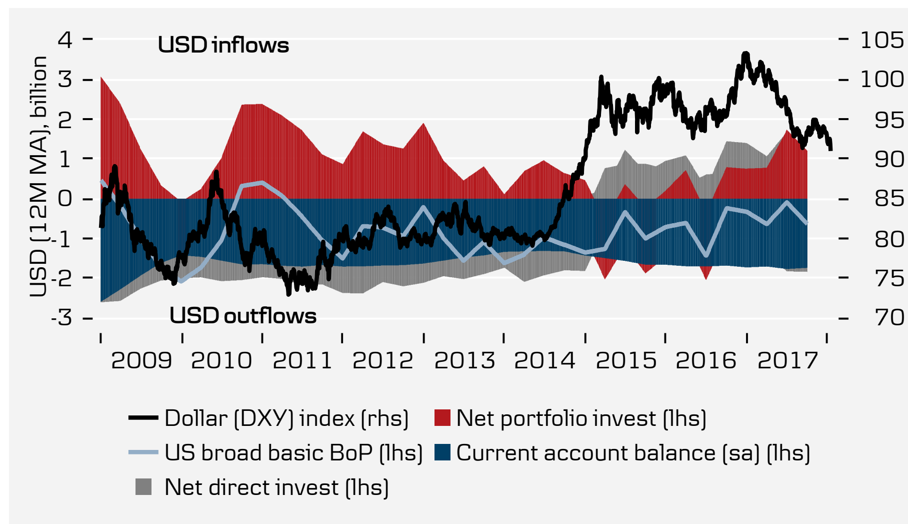
Eurozone BBoP: a decent overall co-movement with EUR



Source: ECB, Bloomberg, Macrobond Financial, Danske Bank

US BBoP: no clear association with the dollar index

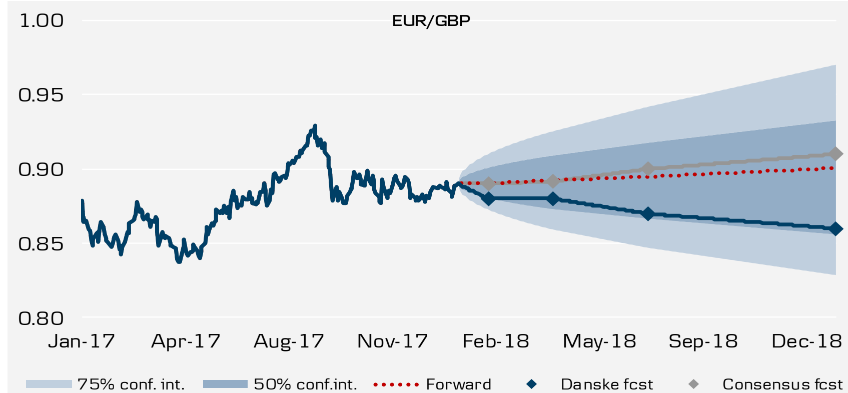


Source: BEA, Bloomberg, Macrobond Financial, Danske Bank.

EUR/GBP – GBP set to recover in 2018 on Brexit clarification

- **Growth.** Economic growth in the UK slowed in 2017 and the country is now among the slowest growing economies in the EU28. The reason is a combination of negative real wage growth, which has slowed private consumption growth (the main growth driver), and political uncertainty, which weighs on business investments. We forecast growth of 1.3% in 2018 and 1.2% in 2019 but stress that uncertainty surrounding our forecast is higher than usual due to Brexit.
- **Monetary policy**. We expect the Bank of England (BoE) to keep interest rates unchanged for the next 12M in a scenario with moderate GBP appreciation. The market is currently pricing in the next 25bp hike in December 2018, which is too early, in our view – unless the GBP weakens considerably. However, we expect the market's pricing to remain intact in the coming months. Hence, UK interest rates are not likely to be a drag on the GBP near term.
- **Flows.** Non-commercial long GBP positions have gradually been rebuilt in 2017 and speculative accounts are slightly long GBP, according to IMM. The UK runs a current-account deficit, notably against EU countries, which is a fundamental supporting factor for EUR/GBP.
- **Valuation.** Our G10 MEVA model puts EUR/GBP at 0.77 (our Brexit-corrected MEVA estimate for the cross is around 0.83), while our PPP estimate is 0.76.
- **Risks.** In our view, uncertainty regarding Brexit negotiations should keep GBP undervalued and volatile for longer.

Forecast: 0.88 (1M), 0.88 (3M), 0.87 (6M) and 0.86 (12M)



EUR/GBP	1M	3M	6M	12M
Forecast (pct'ile)	0.88 (29%)	0.88 (34%)	0.87 (28%)	0.86 (27%)
Fwd. / Consensus	0.89 / 0.89	0.89 / 0.89	0.89 / 0.90	0.90 / 0.91
50% confidence int.	0.88 / 0.90	0.87 / 0.91	0.87 / 0.92	0.86 / 0.93
75% confidence int.	0.87 / 0.91	0.86 / 0.93	0.85 / 0.94	0.83 / 0.97

Source: Danske Bank

Conclusion. We still expect EUR/GBP to trade within the 0.8650-0.90 range in the coming months targeting 0.88 in 1-3M.

The Brexit issue is set to remain the main driver for GBP in 2018 and while uncertainty and fundamentals justify an undervalued GBP for now, we still see potential for a decline in EUR/GBP driven by possible clarification on Brexit negotiations and valuations. What matters for GBP is the future EU-UK relationship and, not least, reassurance that it can avoid a 'cliff-edge Brexit'.

In our view, an agreement on a transitional period would reduce the risk of a 'cliff-edge' scenario and is likely to spur GBP buying. We target 0.87 in 6M and 0.86 in 12M, but stress risks are that a break lower in the cross could come sooner than our forecast indicates, and that the cross might break considerably lower.

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EUR/GBP – important issues to watch

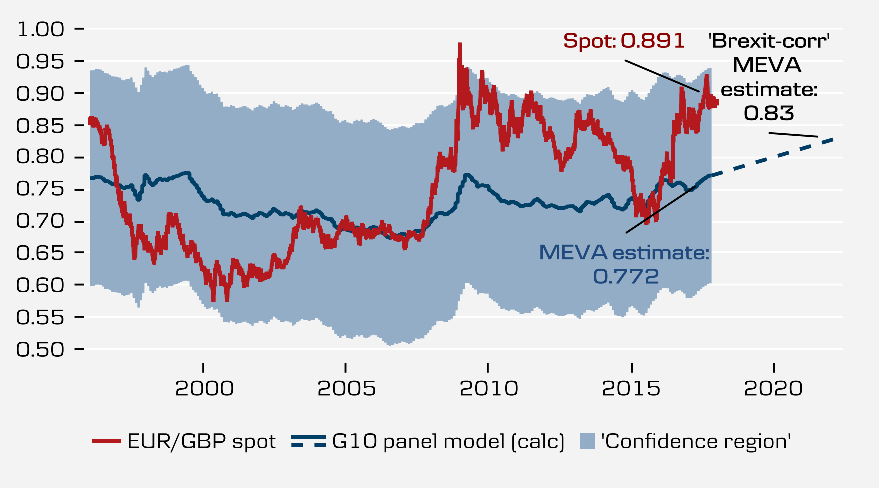
GBP set to recover in 2018 on Brexit clarification

- The Brexit issue is set to remain the main driver for the GBP in 2018 and while uncertainty and fundamentals justify an undervalued GBP for now, we see prospects of a recovery in 2018 as clarification on Brexit increases. This should eventually bring investors back to GBP assets due to attractive valuations.
- What matters for GBP is the future EU-UK relationship and, not least, reassurance that it can avoid a 'cliff-edge Brexit', where there is no deal and no plan when the current 2Y negotiation window ends and the UK formally leaves the EU. An agreement on a transitional period would reduce the risk of a 'cliff-edge' scenario and clearly be GBP positive, in our view.
- While the MEVA currently indicates 0.77 as a fair value over the medium term, a Brexit-adjusted MEVA points to 0.83 as 'fair'. In our view, it is likely the 'true' fair value is closer to 0.83 than to 0.77 but it all depends on the final deal between the EU and UK.

Transition talks start in early 2018 and are aimed to be concluded in March

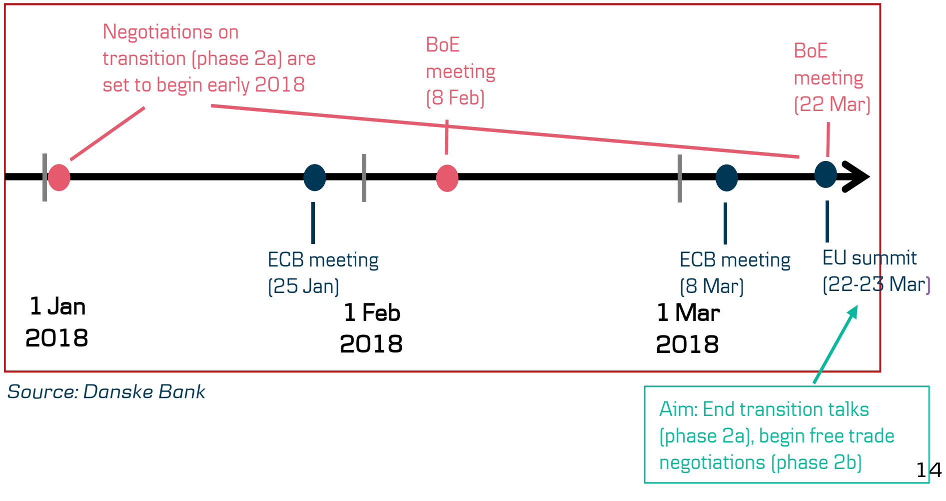
- Transition talks begin in early 2018 and the aim is for them to be concluded in March. The transition phase will take 'around two years' and the EU says the UK must follow all EU rules (also new ones) and be under the jurisdiction of the EU courts.
- After transition talks are concluded, the UK and EU will begin to discuss the future relationship from Q2 18 onwards. Final withdrawal deal must be settled before Oct-18 but negotiations on future relationship are expected to continue during the transition period.

Brexit-corrected MEVA estimate of EUR/GBP likely to be above 0.80



Source: E-views, Macrobond Financial, Danske Bank

Brexit timeline: transition talks begin in early 2018



Source: Danske Bank

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USD/JPY – BoJ's quiet tapering and personnel changes add uncertainty

- **Macro outlook.** Growth momentum in Japan has been strong recently and the economy has now expanded for seven consecutive quarters – the longest economic upturn since the beginning of the 2000s. Growth is being driven primarily by the global economic recovery, which on the back of the relatively weak yen is pushing exports to their strongest streak since the big rebound in the global economy in 2010. Going forward, we expect to see growth closer to trend as fiscal stimulus wanes. We forecast 1.7% in 2018 and 1.0 % in 2019.

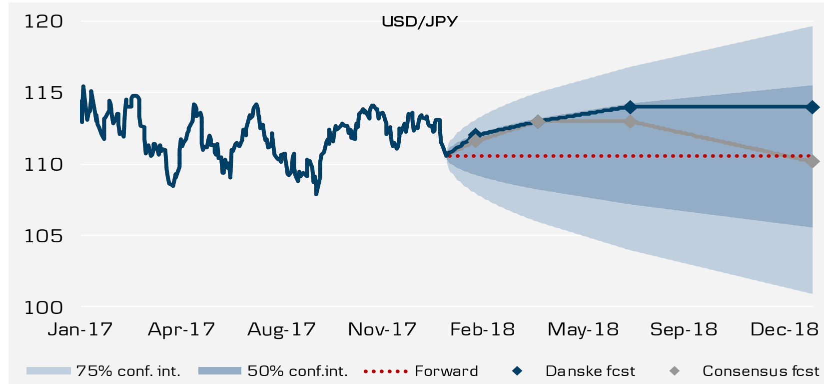
- **Monetary policy.** Our main scenario expects the Bank of Japan (BoJ) to keep its policy unchanged, maintaining the short-term policy interest rate at -0.1% and the 10Y Japanese government bond (JGB) yield at 0% over our 12M forecast horizon, assuming BoJ governor Haruhiko Koruda is reappointed when his term ends in April. See overleaf for more details.

- **Flows.** Japan runs a sizeable current-account surplus, while the opposite is the case for the US. Speculators are very stretched short JPY, suggesting risks are skewed on the downside for USD/JPY from a positioning point of view.

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

- **Risk.** USD/JPY remains highly correlated with yields on 10Y US government bonds and risk appetite. Further escalation in the tension between the US and North Korea could initially lead to JPY appreciation via the risk channel.

Forecasts: 112 (1M), 113 (3M), 114 (6M) and 114(12M)



USD/JPY	1M	3M	6M	12M
Forecast (pct'ile)	112.00 (71%)	113.00 (72%)	114.00 (73%)	114.00 (68%)
Fwd. / Consensus	110.59 / 111.58	110.57 / 113.00	110.57 / 113.00	110.55 / 110.16
50% confidence int.	109.14 / 112.22	108.21 / 113.21	107.18 / 114.25	105.56 / 115.52
75% confidence int.	107.70 / 113.28	105.95 / 115.01	103.98 / 116.79	100.92 / 119.65

Source: Danske Bank

Conclusion. In the near term, US yields and risk sentiment are likely to remain the key drivers for the cross. However, we expect BoJ QE exit concerns and uncertainty about the future BoJ leadership to weigh on USD/JPY, and we have thus lowered our 1M forecast to 112 (previously 113).

Over the medium term, we still see USD/JPY trading mostly sideways within the 111-114.50 range, targeting 113 in 3M. While a continuation of the global recovery and suppressed risk premiums are expected to be JPY negative and as we still expect Fed-BoJ divergence to support USD/JPY, we see little potential for a substantial move higher over the medium term. We target 114 in 6-12M, with risks increasingly skewed to the downside amid stretched short JPY positioning, further flattening pressure on the US yield curve and a weaker growth outlook in China.

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USD/JPY – important issues to watch

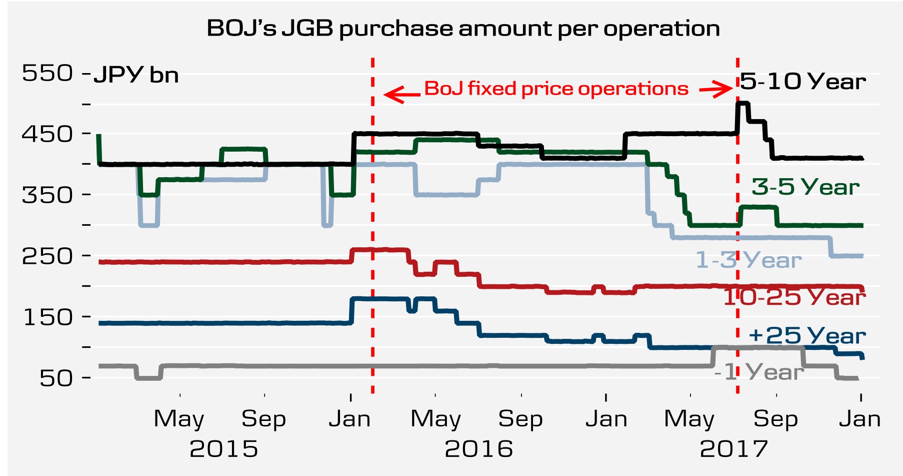
BoJ's quiet tapering increases concerns about QE exit

- On 9 January, the BoJ lowered its bond purchases in the super-long end of the curve (+25Y), which raised concerns that an exit from quantitative easing is drawing closer and spurred a rise in yields on Japanese government bonds (JGB) and JPY appreciation.
- We maintain the view that the BoJ's cutback of purchases is merely a reaction to the recent flattening of the super-long JGB yield curve, as the BoJ is very focused on the shape of the yield curve. The BoJ has *de facto* tapered since the introduction of its current yield curve control on 21 September 2016 and in the absence of a significant upward pressure on JGB yields, the BoJ is likely to continue buying less JGBs going forward.
- In case of an upward pressure on JGB, we still expect the BoJ to announce a fixed price JGB purchase operation, saying it will buy an unlimited amount of 5-10yr JGBs at 0.11%. In 2017, the BoJ announced such operations twice: on 3 February and 7 July.

Focus on BoJ leadership might weigh on USD/JPY near term

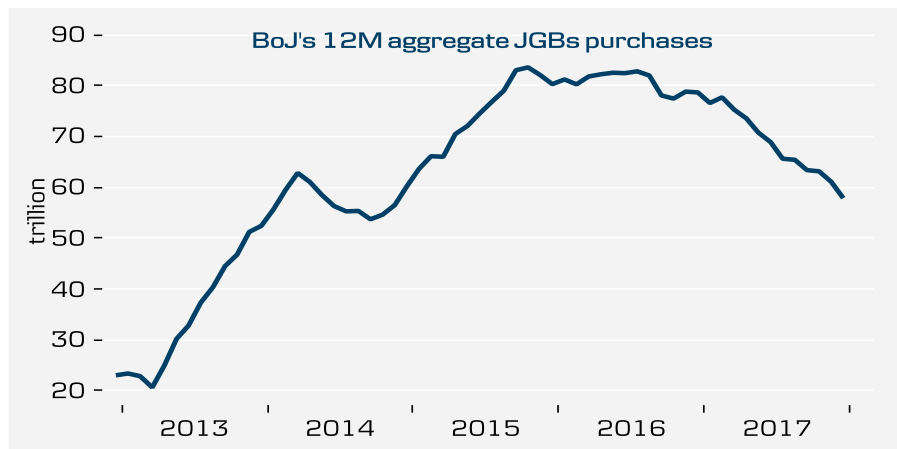
- Focus in the coming weeks is likely to centre on BoJ's personnel changes as Kuroda's term ends on 8 April and Deputy Governor Iwata and Nakaso terms end on 19 March. The cabinet with the consent of the diet appoints the BoJ governor and deputy governors. All three personnel changes are likely to be discussed at the same time (as was the case five years ago when the three were appointed at the same time). It is widely expected that the decision will be made before the end of February.
- Uncertainty about the future BoJ leadership is likely to weigh on USD/JPY in the coming weeks. If Kuroda is reappointed (in line with Danske Bank and consensus), the reaction in JPY should be limited.

BoJ's JGB purchase amount per operation



Source: Bloomberg, Danske Bank

BoJ has de facto tapered JGB purchases since Sep-16



Source: Bloomberg

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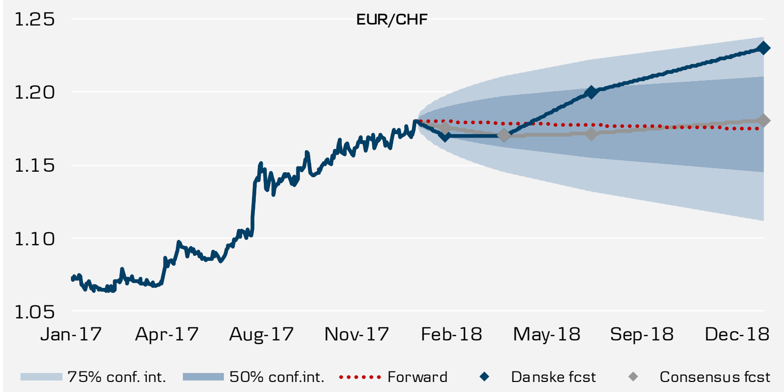
EUR/CHF – 1.20 finally in sight for the SNB

- **Growth.** Swiss economic indicators have continued to strengthen recently with notably a very strong KOF leading indicator and PMI manufacturing. Unemployment remains low and steady at 3.0% (sa) and the Swiss economy has finally escaped deflationary territory with CPI inflation running at 0.8% y/y in December, still far below target though.
- **Monetary policy.** The SNB has been awaiting an ECB exit for some time and this year's shift in rhetoric from the ECB and the associated uptick in EUR/CHF is much welcomed by the SNB. While the central bank has seemingly largely ceased CHF selling, it confirmed at its December meeting that intervention remains a policy tool and that CHF is 'highly valued' even after the recent depreciation. We think the SNB will stick to its negative deposit rate for the foreseeable future, awaiting a move in EUR/CHF likely above 1.20 before starting to become vocal about an 'exit' from negative rates. With the ECB now set to stay in QE mode well into 2018, we see the SNB keeping the Libor target and the sight deposit rate unchanged at -0.75% through a 12M horizon.
- **Flows.** Positioning has yet again moved in favour of EUR longs and CHF shorts. Both Switzerland and the euro area have large current account surpluses and thus there is no clear 'natural flow' in the cross. That said, unwinding negative rates and QE should foster a EUR-supportive/CHF-negative flow reversal.
- **Valuation**. Both our G10 MEVA and PPP models put a 'fair' value for the cross at around 1.26 and 1.28, respectively.
- **Risks.** Geopolitical tensions and a renewed repricing of eurozone political risk (e.g. on Italy) constitute upside CHF risks.

Forecast: 1.17 (1M), 1.17 (3M), 1.20 (6M), 1.23 (12M)



EUR/CHF	1M	3M	6M	12M
Forecast (pct'ile)	1.17 (27%)	1.17 (33%)	1.20 (71%)	1.23 (84%)
Fwd. / Consensus	1.18 / 1.18	1.18 / 1.17	1.18 / 1.17	1.17 / 1.18
50% confidence int.	1.17 / 1.19	1.16 / 1.20	1.15 / 1.20	1.15 / 1.21
75% confidence int.	1.16 / 1.20	1.15 / 1.21	1.13 / 1.22	1.11 / 1.24

Source: Danske Bank

Conclusion. While the ECB has entered 'normalisation' mode, the SNB has been keen to stay out of 'exit' discussions and used every opportunity to stress that it is in no hurry to quit negative rates and that intervention remains a policy tool. Indeed, the SNB is keen to embrace the pricing of an eventual ECB exit from negative rates and QE and a continued uptick in EUR/CHF with it. As the SNB has confirmed it remains in the 'no exit now' camp, we believe the central bank will prefer to see EUR/CHF edge towards 1.20 before making a major shift in its policy stance, as currency help on inflation remains much needed. We have kept our long-term forecast profile unchanged and thus continue to see the cross at 1.23 in 12M. However, the latest euro momentum has led us to up our 1M forecast to 1.17, 3M to 1.17 (previously 1.15) and 6M to 1.20 (unchanged). Thus, the SNB could be ready to make a shift in stance in H2.

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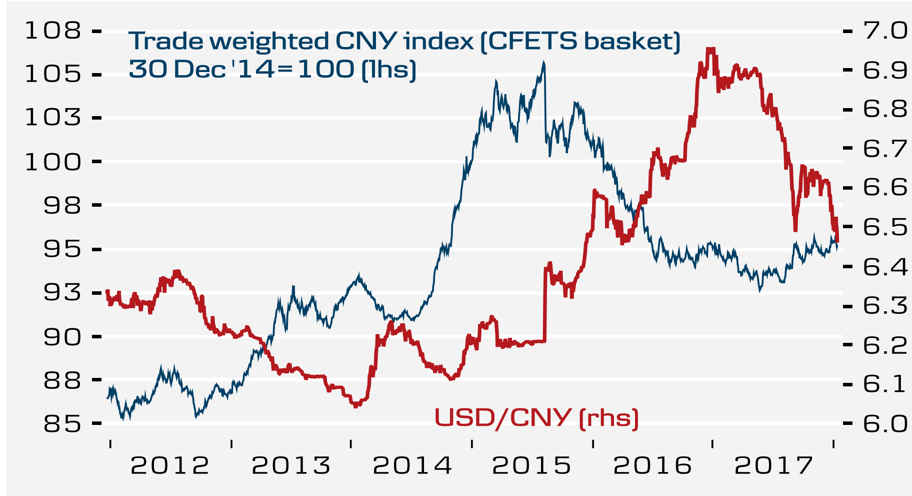
USD/CNY – opposing forces set to continue

- **Monetary policy.** Money market rates continue to be fairly high and offer a good carry versus US rates. Following the China Congress, the crackdown on shadow finance has continued and high money-market rates are used to reduce financial leverage. So far, growth is holding up well due to strong exports and it means China can sustain the tightening a while longer. However, we do expect the drag from the housing market to increase during the year and believe this will lead to lower money-market rates in H2. We expect this to happen alongside higher US money-market rates, putting some downward pressure on the CNY versus the USD.
- **FX policy.** China continues to manage the currency against a basket. It thus allowed USD/CNY to move sharply lower (CNY strengthening against USD) earlier this year, as it mostly reflected broad USD weakness. The CNY basket has been broadly flat over the past two years. We expect China to continue a policy of a broadly stable CNY basket. China has removed the so-called 'countercyclical factor' in the daily fixing mechanism. We do not think this will have any impact on the outlook though, as it is more of a technical factor.
- **Valuation.** We still see China's currency as close to equilibrium – in line with the view of the IMF.
- **Risks.** The risks to USD/CNY are slightly on the downside due to the still-high correlation with the USD index. So far, it seems this force still dominates the cross – hence a weaker USD index could weigh more on USD/CNY than we project.
- **Conclusion:** Two opposing forces continue to affect USD/CNY. On the one hand, relative rates should start to move in favour of a higher USD/CNY. On the other, further weakening of the USD works in favour of a lower USD/CNY.

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



Source: Macrobond Financial, Danske Bank

Hence, we do not expect a big change in USD/CNY over the next 12 months. We have lowered our forecasts slightly , as we see less downside risks to Chinese growth. We now forecast 6.60 in 1M (6.65), 6.60 in 3M (6.65), 6.65 in 6M (6.70) and 6.70 in 12M (6.75).

We expect the CNY-CNH spread to continue trading close to zero but with temporary deviations from time to time.

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USD/RUB – forget oil, eye on sanctions and FX purchases

- **Growth.** Russia's economy continues to grow, although Q3 17 GDP growth data was weaker than expected. The economy expanded 1.8% y/y in Q3 17. Despite solid expansion in agriculture, private consumption and fixed investments data, industrial production grew moderately. According to the estimates of the Ministry for Economic Development, Russia's economic growth slowed to 1.0% y/y in October 2017. Notably, Q4 17 growth looks to be more private consumption driven. We keep our GDP growth estimates at 2.0% for 2018 and 2.1% for 2019.

- **Monetary policy.** Russia's central bank (CBR) cut the key rate by 50bp in December, surprising market economists and RUB traders, who expected a 25bp cut only. Inflation stayed at the lowest post-Soviet level of 2.5% y/y in December, while the decline in inflation expectations resumed. We expect the CBR to cut to 7.50% in February 2018, lowering the key rate to 6.75% by end-2018. However, we expect the CBR's monetary easing path to be very gradual throughout 2018.

- **Flows.** Flows into the RUB have resumed on emerging market positivism and USD weakness despite geopolitical concerns, and Ministry of Finance fiscal rule change expectations. Whether the US introduces sanctions against Russia's debt, inflows would fall.

- **Valuation.** Crude and the RUB's correlation remained weak, staying negative in November and December 2017. While the Brent 30-day average has climbed 4.8% over the past 30 days, as of 11 January 2018, RUB/USD climbed 1.9% over the same period. We see the RUB/USD as strongly undervalued at current oil prices.

Forecast: 57.80 (1M), 56.30 (3M), 55.90 (6M) and 53.50 (12M)

	1M	3M	6M	12M
Forecast	57.80	56.30	55.90	53.50
Fwd. / Consensus	56.62 / 57.24	57.06 / 58.42	57.72 / 57.90	58.91 / 57.05

Source: Danske Bank

Risks. Macro fundamentals remain favourable for the RUB's outlook and oil-price risk points more to RUB upside but other external risks are present: the RUB is closely following the emerging market mood and the anti-Russia sanctions sentiment could return to the picture anytime. If new sectoral sanctions were issued by the US Treasury in late January 2018, flows into the RUB would become negative.

Conclusion. Given the change in emerging market sentiment, weaker USD and the RUB detaching from oil, we lower our USD/RUB levels short and medium term. As we remain positive about the crude price and Russia's macro fundamentals in the long term, we keep our long-term forecast unchanged.

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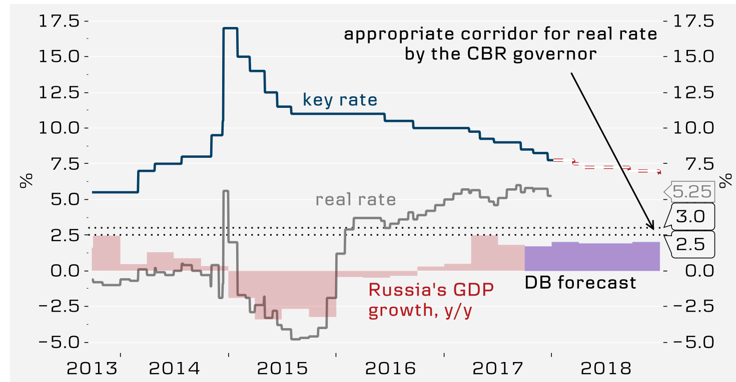
USD/RUB – important issues to watch

Possible new anti-Russia sanctions by end-January and Ministry of Finance's increased FX purchases in 2018

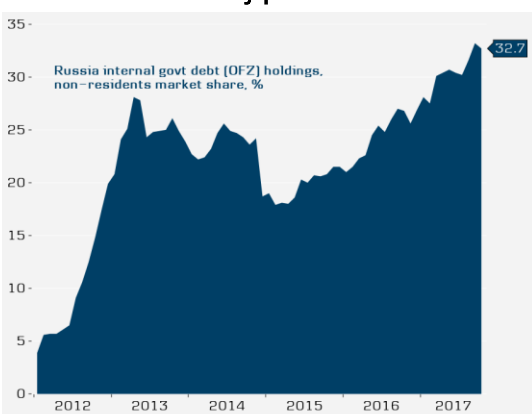
- As the deadline for the US Treasury's assessment of possible sanctions against Russia's government debt is approaching, we do not exclude larger RUB swings, which could remain temporary.
- Russia's Ministry of Finance's FX purchases in 2018 could result in restraining more aggressively the appreciation of the RUB on the rising oil price. Yet, a higher oil price is RUB positive despite increased purchases (up to RUB300bn/month of FX, we estimate).

Central bank gets more room for monetary easing as headline inflation falls to all-time low



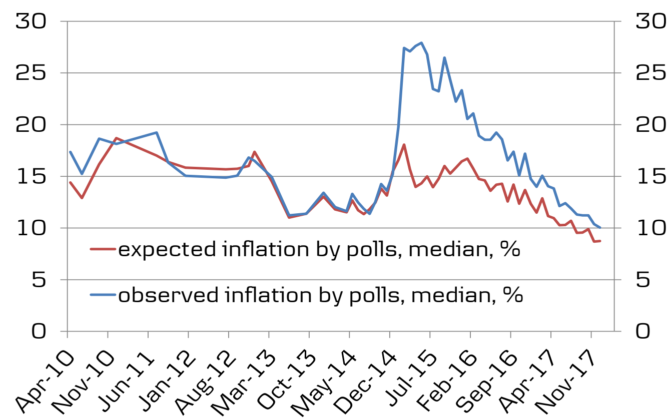
Source: CBR, Bloomberg, Macrobond Financial, Danske Bank

Inflows into RUB could be hit if international investors are hit by possible US sanctions



Source: Bloomberg, Macrobond Financial, Danske Bank

Decline in inflation expectations resumed

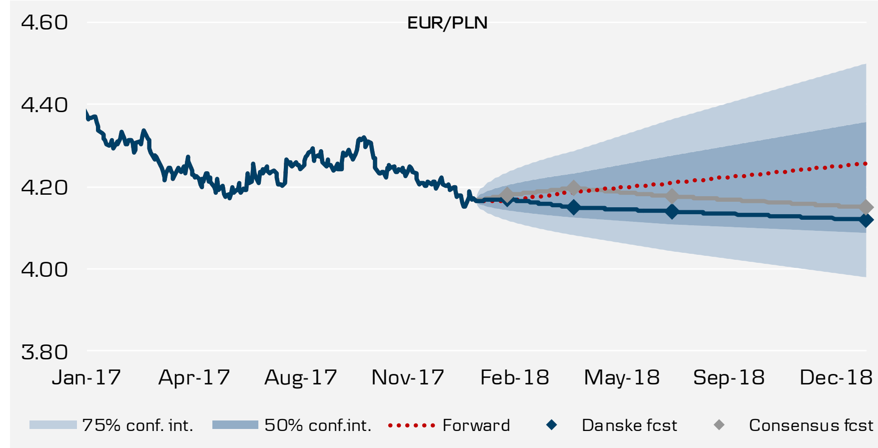


Source: CBR, Danske Bank

EUR/PLN – economic and political tailwinds for PLN

- **Economic and political developments.** There are signs of strong growth in Q4 17; real retail sales expanded by 8.8% y/y in December, pointing to strong private consumption supported by solid wage growth, rising by 6.5% in November. Investment is probably strong due to increased absorption of EU funds, evident from the surge in construction output in December by 19.8% y/y. Hence, there may be upside potential from our estimate of real GDP growth of 1.0 q/q seasonally adjusted in Q4, which may also add upside potential to our 2018 growth estimate of 3.8%. On the political front, the government reshuffling in early January, replacing old-guard ministers, will in our view boost the chances of a less confrontational stance vis-à-vis the EU.
- **Monetary policy.** The National Bank of Poland (NBP) continues to be in no hurry to raise policy rates given its modest inflation projection outlook. At the 10 January meeting, governor Adam Glapiński expressed surprise that financial markets were pricing in a hike by end-2018, maintaining that in his view policy rates will remain unchanged this year. Headline inflation fell back in to 2.0% in December, while core inflation remained modest at 0.9% in November. Financial markets have since then been scaled back a bit, seeing 80% chance of a 25bp rate hike by end-2018, which is a bit dovish in our view, as we expect a hike at end-Q3 18.
- **Risks.** The risk to the EUR/PLN forecast is skewed on the downside given the political risk has fallen a bit and global and Polish economic momentum is strong. However, the cross may move upward should the global risk sentiment deteriorate.

Forecast: 4.17 (1M), 4.15 (3M), 4.14 (6M) and 4.12 (12M)



EUR/PLN	1M	3M	6M	12M
Forecast (pct'ile)	4.17 (55%)	4.15 (36%)	4.14 (33%)	4.12 (30%)
Fwd. / Consensus	4.17 / 4.18	4.19 / 4.20	4.21 / 4.18	4.26 / 4.15
50% confidence int.	4.13 / 4.19	4.13 / 4.23	4.11 / 4.28	4.09 / 4.36
75% confidence int.	4.11 / 4.22	4.08 / 4.29	4.04 / 4.36	3.98 / 4.50

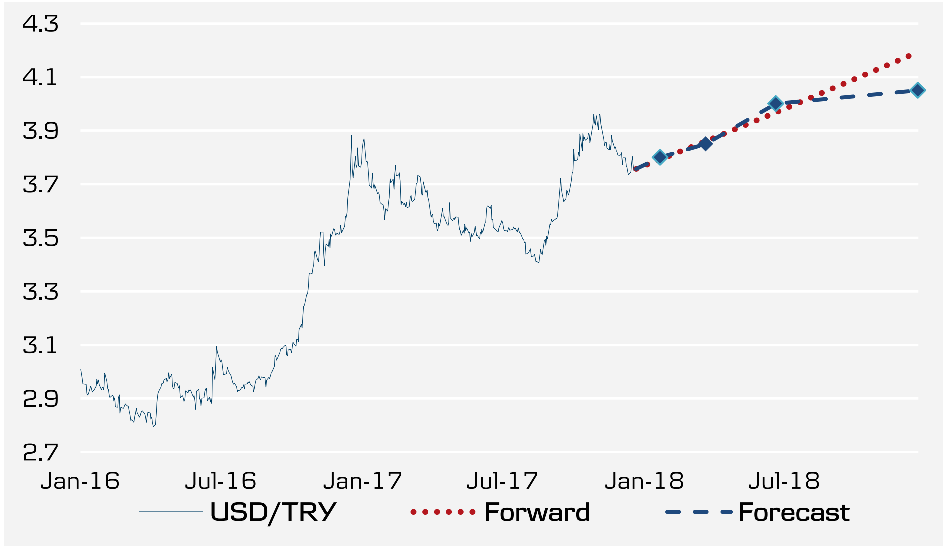
Source: Danske Bank

Conclusion. The PLN has strengthened more than we expected over the past month. One reason is the strong global risk sentiment but strong Polish economic numbers and the change in government has also played a role. Hence, the previous range for the EUR/PLN of 4.20-4.30 has shifted down to 4.15-4.20 near term as long as the global risk sentiment stays strong, although we think the rally has come a bit too far. However, as we expect a rebound in inflation in Q2 18, the EUR/PLN should fall as the market will price in more rate hikes by the NBP. Our forecast for EUR/PLN is 4.17 in 1M (4.22 previously) and 4.15 in 3M (4.20), falling to 4.14 in 6M (4.16) and 4.12 in 12M (4.14).

USD/TRY – TRY gets support from emerging market catch-up

- **Growth.** Turkey's economic growth surprised positively, with GDP expanding 11.1% y/y in Q3 17, the strongest growth since 2011. The best performers on an annual basis were construction and industrial sectors. Seasonally adjusted quarterly data indicate that quarterly growth came from private consumption and fixed investments. Exports also saw double-digit growth in Q3 17. We expect 2018 GDP to grow 3.5% y/y, as export growth has good prospects of remaining in double-digit territory and tourist arrivals are expanding rapidly.
- **Monetary policy.** Accelerated inflation has postponed hopes of near-term monetary easing and is keeping the central bank hawkish despite pressure from President Recep Tayyip Erdoğan. In December 2017, the Turkish central bank kept its benchmark rate unchanged, raising the late liquidity lending rate by 50bp to 12.75% in order to tame acceleration inflation and the TRY's slide. We expect the benchmark repo rate to remain unchanged in H1 18, given the current inflation outlook and the TRY's turbulence. Inflation pressure remains high on EUR/TRY.
- **Valuation**. Net flows into Turkish bonds and stocks are again positive, which has been fuelled by emerging market positivism. According to technical analysis (Relative Strength Index), the USD/TRY is also in 'fair value' territory. Yet, we see the TRY being slightly overbought at current levels and the emerging market catch-up could continue in the short term.

***Forecast:* 3.80 (1M), 3.85 (3M), 4.00 (6M) and 4.05 (12M)**



Source: Danske Bank

Risks. Major downside risks to our TRY forecasts include a mass exodus from long carry positions and a more hawkish Fed after the expected rate hike in March 2018. While we exclude a surprise easing by the TCMB in H1 18, a weak USD and improving macro are further downside risks for the USD/TRY.

Conclusion. We see stabilised prospects for the TRY in the short term. We remain cautious in the medium to long term on pressure from a high oil price and widening current account deficit.

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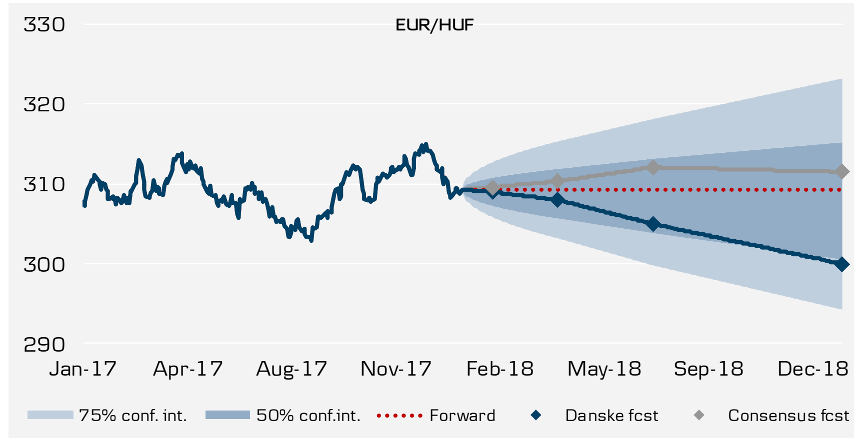
EUR/HUF – central bank on hold until inflation firmly hits 3%

- **Growth.** Growth in Q3 continued the strong form shown in Q2, with GDP growing 3.9% y/y in Q3 (revised up from the 3.6% preliminary number). This is confirmation of the strong signals coming out of Hungary throughout 2017 and could eventually raise concerns about a potential overheating of the economy. In November, retail sales and industrial production grew at 6.4% y/y and 3.4% y/y respectively, which more or less reaffirms the strong numbers for October. With strong growth numbers for the first three quarters, we expect GDP growth for 2017 to be 4%, which, in our view, would increase concern about overheating, should the Hungarian central bank maintain its dovish stance.
- **Monetary policy.** The Hungarian central bank kept rates unchanged at its December meeting and seems to be on hold for now. In December, CPI inflation decreased to 2.1% y/y, while core inflation declined slightly to 2.6% y/y. With headline inflation remaining below the central bank's 3% target, we do not see any imminent changes in its dovish stance but we believe the strong economic growth will eventually drive up inflation, leading to a change in policy by the central bank at some point in 2018. However, if inflation continues to struggle to reach 3%, this change in policy could well be a long way off. A strong HUF could also see the central bank remaining dovish for a prolonged period.
- **Risks.** A clear upside risk to our EUR/HUF forecast is a deterioration in global risk sentiment. However, there are also downside risks from stronger-than-expected economic and inflation developments in Hungary.

Forecast: 309 (1M), 308 (3M), 305 (6M) and 300 (12M)



EUR/HUF	1M	3M	6M	12M
Forecast (pct'ile)	309.00 (49%)	308.00 (44%)	305.00 (30%)	300.00 (23%)
Fwd. / Consensus	309.33 / 309.59	309.33 / 310.33	309.33 / 312.08	309.33 / 311.52
50% confidence int.	307.27 / 310.93	305.68 / 311.87	303.86 / 313.15	300.54 / 315.20
75% confidence int.	305.81 / 312.84	303.20 / 315.32	299.82 / 318.11	294.27 / 323.19

Source: Danske Bank

Conclusion. The Hungarian central bank kept rates unchanged at its December meeting and seems to be on hold for now. In December, CPI inflation decreased to 2.1% y/y, while core inflation declined slightly to 2.6% y/y. With headline inflation remaining below the central bank's 3% target, we do not see any imminent changes in its dovish stance but we believe that the strong economic growth will eventually drive up inflation, leading to a change in policy by the central bank at some point in 2018. We see EUR/HUF at 309 in 1M (previously 311), declining to 308 in 3M (previously 310), 305 in 6M (previously 308) and 300 in 12M (previously 305).

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EUR/CZK – CNB set to hike in early February, then pause hiking cycle

- **Growth.** GDP growth slowed in Q3, growing 0.5% q/q compared with 2.5% q/q in Q2. However, this reflects mainly the strong growth in Q2 and on an annual basis GDP was up 5% in Q3. The strength of the economy continues to show in the labour market, with unemployment at 3.8% in December (slight increase from the record-low of 3.5% in November). Despite the strong labour market, wage growth in Q3 disappointed by increasing 6.8%, below the 7.5% expected by the CNB. We expect the Czech economy to continue to run on all engines throughout 2018.
- **Monetary policy.** At the December meeting the Czech National Bank (CNB) kept interest rates unchanged, as expected by the market. Some speculation was present as to whether it would deliver another hike but on the back of slightly disappointing wage growth in Q3 and dovish comments from the central bank, most economists had pushed their expectation to a later hike before the meeting. In the minutes from the December meeting, the central bank mentions worries about a strong currency and divergence in monetary policy as factors that could slow the hiking cycle. Inflation decreased to 2.4% y/y in December, while unemployment increased slightly to 3.8%. We expect the CNB to continue its hiking cycle and raise rates at its meeting in February.
- **Risks.** Given the sizable amount of long CZK positions accumulated in the market prior to the floor exit, EUR/CZK is still vulnerable to sudden moves. In our view, a risk for the Czech economy is whether the CNB gets the timing of the hiking cycle right in order to avoid on the one hand an overheating of the economy and on the other a too-sudden slowdown.

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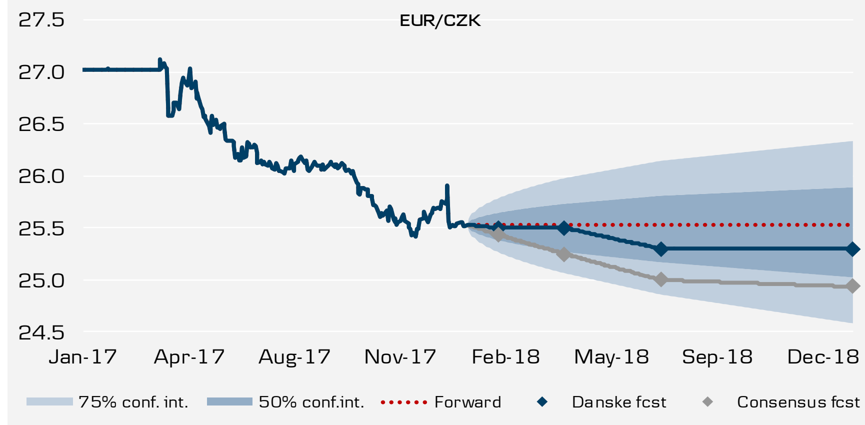
Forecast: 25.50 (1M), 25.50 (3M), 25.30 (6M) and 25.30 (12M)



EUR/CZK	1M	3M	6M	12M
Forecast (pct'ile)	25.50 (49%)	25.50 (51%)	25.30 (33%)	25.30 (38%)
Fwd. / Consensus	25.53 / 25.44	25.53 / 25.25	25.53 / 25.00	25.53 / 24.94
50% confidence int.	25.35 / 25.67	25.27 / 25.73	25.17 / 25.81	25.02 / 25.89
75% confidence int.	25.22 / 25.83	25.07 / 25.98	24.86 / 26.14	24.58 / 26.33

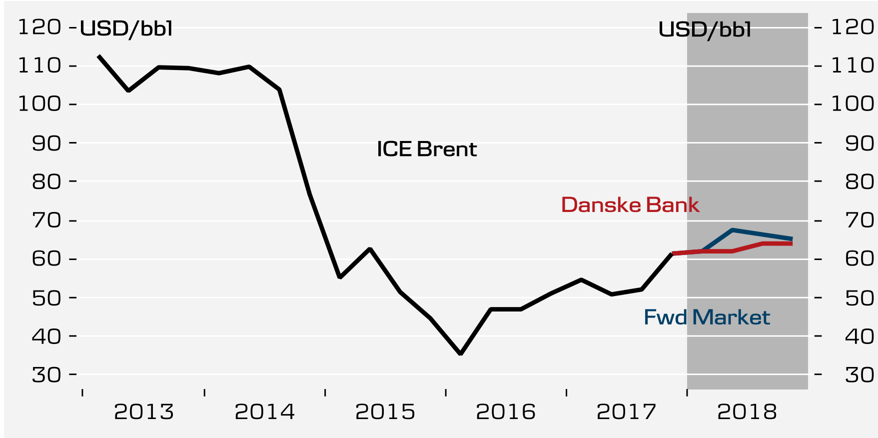
Source: Danske Bank

Conclusion. The CNB kept rates unchanged at the December meeting and seems increasingly determined not to risk raising rates at too quick a pace. We expect it to raise rates in February but then wait some months before the next hike, as it seems worried about a quick appreciation of the CZK. We project that the cross will hover around current levels in the short term and look for more gradual CZK strengthening over the medium term based on robust Czech economic fundamentals and relative monetary policy divergence, as the CNB seems ready to continue its hiking cycle albeit at a slower pace, while we do not expect an ECB hike before 2019. We change our 1M forecast to 25.50 (previously 25.60) but keep our 3M, 6M and 12M forecasts unchanged at 25.50, 25.30 and 25.30, respectively.

Oil – set to correct lower near term

- **Macro.** The fundamental support to oil prices from a sound global macroeconomic backdrop has prevailed into 2018. In addition, the low USD is doing its part for the lifting as well. Furthermore, demand for oil has recently been supported by idiosyncratic factors, which include rising geopolitical risks and freezing US winter weather. On a broad basis, we do not look for further USD weakness this year. Also, we expect global economic growth to stay strong but stop accelerating.
- In the short term, we expect the oil market to watch closely how US shale oil producers respond to the rise in oil prices as they start a new financial year. The rig count has not signalled a further rise in production yet though, so the uncertainty remains whether the cost curve has started to move higher. Otherwise, a major theme for the oil market this year will be whether OPEC ends production cuts early, i.e. at the upcoming June review. Speculation has begun as to whether OPEC will start raising production to cap prices around the USD70/bl level.
- **Forward curve.** Backwardation in the forward market is now at the widest level in around five years. The forward market is signalling a fundamental equilibrium price over the medium term close to USD60/bl.
- **Positioning.** Positioning in WTI crude has been in stretched long territory for some time.

Forecast: USD62/bl (Q1) USD62/bl (Q2) USD64/bl (Q3) USD64/bl (Q4)



Source: Macrobond Financial, Danske Bank

- **Risk.** Swings in output from producers such as Libya, Nigeria and Venezuela pose an ongoing risk to prices in the oil market. At present, we see a greater risk of output falling than vice versa; hence, this is an upside risk to our forecast. A sudden escalation in geopolitical risks, in particular around the conflict between Saudi Arabia and Iran is an important upside risk to our forecasts.
- **Conclusion.** We forecast the oil price will fall back again from present elevated levels to around the level of USD62/bl in the near term and stay in the USD62-65/bl range in 2018. We see some upside risks to this forecast.

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Danske Bank

Danske Bank Markets 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	1.224	1.20	1.20	1.23	1.28	-2.2	-2.6	-0.7	1.9
JPY	135.4	134	136	140	146	-0.8	0.1	3.4	7.5
GBP	0.890	0.88	0.88	0.87	0.86	-1.3	-1.4	-2.8	-4.5
CHF	1.180	1.17	1.17	1.20	1.23	-0.8	-0.7	1.9	4.7
DKK	7.4495	7.4450	7.4450	7.4450	7.4475	0.0	0.0	0.0	0.1
NOK	9.67	9.50	9.40	9.20	9.10	-1.8	-3.0	-5.4	-7.0
SEK	9.83	9.90	10.00	9.90	9.80	0.7	1.7	0.7	-0.3
Exchange rates vs USD									
JPY	110.6	112	113	114	114	1.4	2.7	4.2	5.6
GBP	1.38	1.36	1.36	1.41	1.49	-0.9	-1.2	2.1	6.7
CHF	0.96	0.98	0.98	0.98	0.96	1.4	1.9	2.7	2.8
DKK	6.08	6.20	6.20	6.05	5.82	2.2	2.6	0.8	-1.7
NOK	7.89	7.92	7.83	7.48	7.11	0.4	-0.5	-4.7	-8.7
SEK	8.03	8.25	8.33	8.05	7.66	2.9	4.4	1.5	-2.2
CAD	1.24	1.26	1.27	1.25	1.23	1.5	2.3	0.8	-0.6
AUD	0.80	0.78	0.76	0.78	0.79	-2.0	-4.5	-2.0	-0.8
NZD	0.73	0.72	0.70	0.71	0.73	-1.2	-3.9	-2.5	0.3
RUB	56.36	57.80	56.30	55.90	53.50	2.1	-1.3	-3.1	-9.1
CNY	6.44	6.60	6.60	6.65	6.70	2.3	2.0	2.4	2.5

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

Source: Danske Bank

Danske Bank

Danske Bank Markets FX forecasts vs DKK

	Forecast					Forecast vs forward outright, %			
	Spot	+1m	+3m	+6m	+12m	+1m	+3m	+6m	+12m
Exchange rates vs DKK									
EUR	7.4495	7.4450	7.4450	7.4450	7.4475	0.0	0.0	0.0	0.1
USD	6.08	6.20	6.20	6.05	5.82	2.2	2.6	0.8	-1.7
JPY	5.50	5.54	5.49	5.31	5.10	0.7	-0.1	-3.3	-6.9
GBP	8.37	8.46	8.46	8.56	8.66	1.2	1.4	2.9	4.8
CHF	6.31	6.36	6.36	6.20	6.05	0.8	0.7	-1.9	-4.4
NOK	0.77	0.78	0.79	0.81	0.82	1.8	3.1	5.7	7.7
SEK	0.76	0.75	0.74	0.75	0.76	-0.7	-1.7	-0.7	0.5
CAD	4.90	4.92	4.89	4.84	4.73	0.7	0.2	-0.1	-1.1
AUD	4.84	4.84	4.72	4.72	4.60	0.2	-2.0	-1.3	-2.5
NZD	4.44	4.47	4.34	4.30	4.25	0.9	-1.4	-1.8	-1.4
PLN	1.79	1.79	1.79	1.80	1.81	0.0	0.8	1.7	3.4
CZK	0.29	0.29	0.29	0.29	0.29	0.1	0.2	1.1	1.4
HUF	2.41	2.41	2.42	2.44	2.48	0.0	0.4	1.6	3.4
RUB	0.11	0.11	0.11	0.11	0.11	0.1	3.9	4.0	8.2
CNY	0.95	0.94	0.94	0.91	0.87	-0.1	0.6	-1.6	-4.1

Source: Danske Bank

Danske Bank

Danske Bank Markets FX forecasts vs SEK

	Forecast					Forecast vs forward outright, %			
	Spot	+1m	+3m	+6m	+12m	+1m	+3m	+6m	+12m
Exchange rates vs SEK									
EUR	9.83	9.90	10.00	9.90	9.80	0.7	1.7	0.7	-0.3
USD	8.03	8.25	8.33	8.05	7.66	2.9	4.4	1.5	-2.2
JPY	7.26	7.37	7.37	7.06	6.72	1.5	1.6	-2.6	-7.3
GBP	11.04	11.25	11.36	11.38	11.40	2.0	3.2	3.6	4.4
CHF	8.33	8.46	8.55	8.25	7.97	1.5	2.5	-1.2	-4.8
NOK	1.02	1.04	1.06	1.08	1.08	2.6	4.9	6.4	7.2
DKK	1.32	1.33	1.34	1.33	1.32	0.7	1.7	0.7	-0.5
CAD	6.47	6.55	6.56	6.44	6.22	1.4	2.0	0.6	-1.5
AUD	6.39	6.44	6.33	6.28	6.05	0.9	-0.3	-0.6	-2.9
NZD	5.86	5.94	5.83	5.71	5.59	1.7	0.3	-1.1	-1.9
PLN	2.36	2.37	2.41	2.39	2.38	0.8	2.6	2.4	2.9
CZK	0.39	0.39	0.39	0.39	0.39	0.8	1.9	1.8	0.9
HUF	3.18	3.20	3.25	3.25	3.27	0.8	2.2	2.3	3.0
RUB	0.14	0.14	0.15	0.14	0.14	0.8	5.7	4.7	7.7
CNY	1.25	1.25	1.26	1.21	1.14	0.6	2.3	-0.9	-4.5

Source: Danske Bank

Danske Bank

Danske Bank Markets FX forecasts vs NOK

	Forecast					Forecast vs forward outright, %			
	Spot	+1m	+3m	+6m	+12m	+1m	+3m	+6m	+12m
Exchange rates vs NOK									
EUR	9.67	9.50	9.40	9.20	9.10	-1.8	-3.0	-5.4	-7.0
USD	7.89	7.92	7.83	7.48	7.11	0.4	-0.5	-4.7	-8.7
JPY	7.14	7.07	6.93	6.56	6.24	-1.0	-3.1	-8.5	-13.5
GBP	10.85	10.80	10.68	10.57	10.58	-0.6	-1.6	-2.7	-2.6
CHF	8.19	8.12	8.03	7.67	7.40	-1.0	-2.3	-7.2	-11.2
SEK	0.98	0.96	0.94	0.93	0.93	-2.5	-4.7	-6.0	-6.7
DKK	1.30	1.28	1.26	1.24	1.22	-1.8	-3.0	-5.4	-7.1
CAD	6.35	6.28	6.17	5.98	5.78	-1.1	-2.8	-5.5	-8.1
AUD	6.28	6.18	5.95	5.83	5.62	-1.6	-5.0	-6.6	-9.5
NZD	5.76	5.70	5.48	5.31	5.19	-0.9	-4.4	-7.1	-8.5
PLN	2.32	2.28	2.27	2.22	2.21	-1.7	-2.2	-3.8	-4.0
CZK	0.38	0.37	0.37	0.36	0.36	-1.7	-2.9	-4.3	-5.9
HUF	3.13	3.07	3.05	3.02	3.03	-1.7	-2.6	-3.9	-3.9
RUB	0.14	0.14	0.14	0.13	0.13	-1.7	0.8	-1.6	0.5
CNY	1.23	1.20	1.19	1.12	1.06	-1.9	-2.5	-6.9	-10.9

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-Jan-18**	**4.17**		**3.40**		**179**		**236**		**232**	
	+1M	4.17	4.17	3.48	3.40	179	178	237	236	228	232
	+3M	4.15	4.19	3.46	3.40	179	178	241	235	227	232
	+6M	4.14	4.21	3.37	3.40	180	177	239	234	222	231
	+12M	4.12	4.26	3.22	3.39	181	175	238	231	221	230
HUF	**15-Jan-18**	**309**		**253**		**2.41**		**3.18**		**3.13**	
	+1M	309	309	258	252	2.41	2.41	3.20	3.18	3.07	3.13
	+3M	308	309	257	251	2.42	2.41	3.25	3.18	3.05	3.13
	+6M	305	310	248	250	2.44	2.40	3.25	3.17	3.02	3.14
	+12M	300	310	234	247	2.48	2.40	3.27	3.17	3.03	3.16
CZK	**15-Jan-18**	**25.5**		**20.9**		**29.2**		**38.5**		**37.9**	
	+1M	25.5	25.5	21.3	20.8	29.2	29.2	38.8	38.5	37.3	37.9
	+3M	25.5	25.5	21.3	20.7	29.2	29.1	39.2	38.5	36.9	37.9
	+6M	25.3	25.6	20.6	20.7	29.4	29.1	39.1	38.4	36.4	38.0
	+12M	25.3	25.6	19.8	20.4	29.4	29.0	38.7	38.4	36.0	38.2
RUB	**15-Jan-18**	**69.0**		**56.4**		**10.8**		**14.2**		**14.0**	
	+1M	69.4	69.4	57.8	56.6	10.7	10.7	14.3	14.2	13.7	13.9
	+3M	67.6	70.2	56.3	57.0	11.0	10.6	14.8	14.0	13.9	13.8
	+6M	68.8	71.5	55.9	57.7	10.8	10.4	14.4	13.8	13.4	13.6
	+12M	68.5	74.0	53.5	58.9	10.9	10.1	14.3	13.3	13.3	13.2
TRY	**15-Jan-18**	**4.60**		**3.75**		**162**		**214**		**210**	
	+1M	4.56	4.65	3.80	3.79	163	160	217	211	208	208
	+3M	4.62	4.75	3.85	3.86	161	157	216	207	203	204
	+6M	4.92	4.91	4.00	3.96	151	152	201	200	187	198
	+12M	5.18	5.27	4.05	4.19	144	141	189	187	176	186
CNY	**15-Jan-18**	**7.88**		**6.44**		**95**		**125**		**123**	
	+1M	7.92	7.92	6.60	6.45	94	94	125	124	120	122
	+3M	7.92	7.97	6.60	6.47	94	93	126	123	119	122
	+6M	8.18	8.05	6.65	6.50	91	92	121	122	112	121
	+12M	8.58	8.22	6.70	6.54	87	91	114	120	106	119

Source: Danske Bank

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