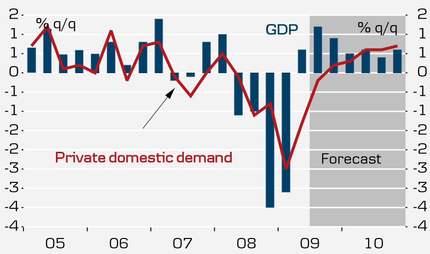
28 October 2009

FX Crossroads

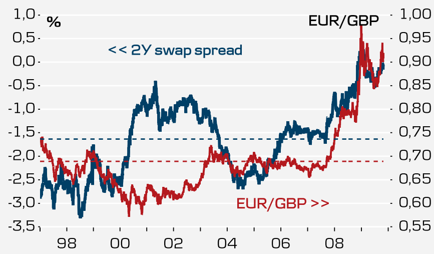
Impressions from the Land of the Rising Sun

Japan: Outlook for GDP and private consumption



Source: Danske Markets

EUR/GBP vs. 2Y swap spread



Source: Danske Markets

News and events

- US earnings surprises on the upside – but sentiment in equity markets not entirely positive
- Oil breaks USD 80/barrel – EUR/USD touches 1.5064 before falling back towards 1.48
- GBP strikes back!
- Central banks divided – first movers, followers and laggards

Our Macro Research team has been in Japan where it met with experts to discuss Japanese economic and financial conditions and prospects. We summarise the impressions from these meetings and look at them from an FX perspective. We conclude that the JPY is too strong in the current financial and economic environment.

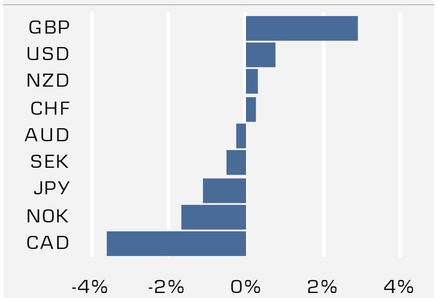
The British pound was immediately punished after the release of last week's horrible GDP numbers and even though it has recovered somewhat in recent days, our short-term financial model indicates that the pound is cheap compared with the risk-adjusted yield spread and market expectations for deposit rates one year ahead. In our view Sterling has sound potential when the BoE leaves its dovish stance.

We see evidence that the relative picture, e.g. the outlook for relative interest rates, is gaining in importance as a driver of the FX market. It is important to focus also on nuances in central bank statements regarding currencies. Within the group of "first movers", differences in rhetoric are likely to benefit AUD relative to CAD and cap NOK strength

Current trading recommendations

- Short CHF/DKK @ 4.90 for 4.70 target, stop @ 5.00
- Long GBP/USD @ 1.6380 for 1.7380 objective, stop @1.60
- Short USD/SEK @6.90 for 6.50 objective, stop @ 7.07
- Buy AUD/USD on dips to 0.90 for a 0.95 objective, stop @ 0.8750

G10: 2W changes against EUR



Source: Danske Markets

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The short view

A key level for **EUR/USD** has been broken since the last edition of FX Crossroads. The psychological important 1.50-level was reached late last week as oil prices soared and several US companies reported better than expected earnings. Joy was however short-lived and in late trading Friday, EUR/USD nose-dived and is now trading below 1.48 at the time of writing.

Our commodity research team has however recently revised its oil price forecast for Q1 USD 5 higher to USD 82 per barrel. This suggests to us that the US dollar will face headwinds from commodity prices. A market rule of thumb is that EUR/USD rises 1% every time the oil price goes USD 10 higher.

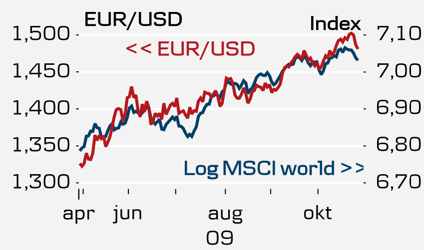
Higher oil prices will most likely also benefit the other commodity currencies – AUD, NOK and CAD. The former two are also supported by attractive carry which is set to increase over the coming quarters which is also why we have a positive bias for both.

In this edition we take a closer look at the JPY as we have gained additional insight into how experts on Japanese financial and economic conditions see the prospects for the Land of the Rising Sun. We find that the recovery in Japan should not be weaker than its developed peers. However, inflation is expected to remain in negative territory well into 2011 and for that reason the monetary tightening cycle will lag Euroland and US. The JPY is in our view still too expensive and our advice is to take advantage of this by positioning for USD/JPY heading towards 95 early next year.

We also check the temperature on sterling, the currency investors have hated the most in the past three weeks, but that now has fought back, perhaps as some investors have realized that the pound sell-off had gone too far and that the upside potential is too large to miss. At the moment, we recommend buying GBP/USD for a move beyond 1.70, where the bearish trend in the pair finally disappears.

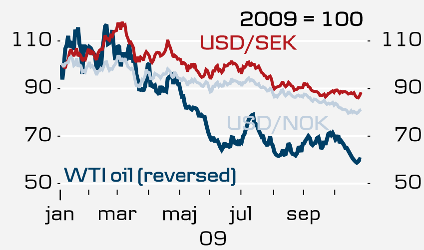
In the last article, we look at the central bank rhetoric as we expect the relative interest rate picture will be an important driver for exchange rates in 2010. We divide central banks into first movers, followers and laggards. Within the former group, differences in rhetoric is likely to benefit AUD relative to CAD and cap NOK strength.

EUR/USD vs. global equities



Source: Danske Markets

USD/SEK and USD/NOK vs. oil



Source: Danske Markets

JPY: Impressions from the Land of the Rising Sun

- *Our Macro Research team has been in Japan where it met with experts to discuss Japanese economic and financial conditions and prospects. We summarise the impressions from these meetings below and look at them from an FX perspective.*
- *One of the key observations was that most experts seem agree that recovery in Japan will not be weaker than its developed peers. However, inflation is expected to remain in negative territory well into 2011, and for that reason the monetary tightening cycle will lag Euroland and the US. In addition, the general view seemed to be that the BoJ purchase of commercial paper and corporate bonds would not be extended beyond 2009, that BoJ intervention was unlikely before in the current environment, and that the new DPJ-led coalition government is not going to be a major game changer.*
- *The impressions from the trip to Japan have not changed our view that the JPY is too expensive in the current environment – both against EUR and USD. Risk reversals in JPY crosses have recently turned less negative, implying that investors are no longer so sure that the JPY will continue to strengthen. Furthermore, we believe that the Japanese inflow is unlikely to continue and that relative rates will drag the yen weaker.*

Trade ideas

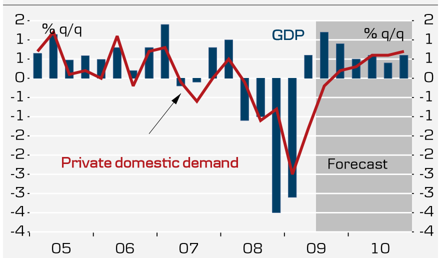
- Our short-term model suggests USD/JPY should adjust towards 95 (current spot 91). Upside potential might be greater as relative rates will be a drag on the JPY going into 2010
- Investors can take advantage of the pricing in the option market by buying USD/JPY risk reversals or seagulls

Consensus on the macroeconomic outlook

During our visit to Japan last week and discussions with local economists, we got the impression that there is a remarkable consensus about the outlook for the Japanese economy. Concerning growth, most seem to expect a couple of reasonably good quarters in Q3 and Q4 this year driven by the positive impact from inventory cycle, fiscal easing and some recovery in exports.

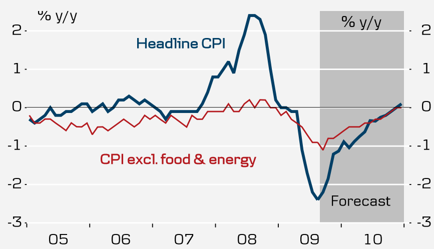
Growth is widely expected to slow early next year, as the positive impact from fiscal easing and the inventory cycle starts to wane. The main message was that next year the recovery would be a 'traditional recovery', mainly driven by exports. Most believe that domestic demand will remain weak, as the weak labour market and considerable excess capacity will continue to weigh on both private consumption and capital expenditures.

Japan: Outlook for GDP and private domestic demand



Source. Danske Markets

Japan: Inflation outlook



Source. Danske Markets

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Deflation continues – BoJ keeps rates low – intervention unlikely

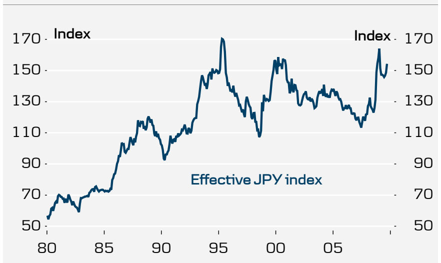
While the recovery in Japan should be broadly in line with its developed peers, the output gap is still only likely to close slowly. With lots of slack in the economy and the recent appreciation of JPY, most of the observers we talked to expected headline inflation to remain in negative territory well into 2011. Most believe that positive year-on-year inflation is a necessary condition for the BoJ to start tightening monetary policy. For that reason, the BoJ is expected to continue to lag the ECB and Fed substantially in the monetary tightening cycle.

Compared with the consensus view, we believe that the Japanese recovery will be somewhat stronger, as the economy should get some tailwind from its larger dependence on the strong emerging markets in Asia, general healthier corporate and household balance sheets, and finally our belief that the global recovery will be stronger than the current consensus. However, we agree that the monetary tightening cycle will lag Euroland and the US because of negative inflation, albeit we believe inflation could turn positive again as soon as late 2010. For that reason, we believe the BoJ could start tightening in early 2011 and perhaps even earlier.

We noted some disagreement about the fate of some of the BoJ's non-conventional measures among experts on Japanese monetary policy. Most believed that the BoJ purchase of commercial paper and corporate bonds would not be extended beyond 2009 and that this might be announced at the November monetary meeting. However, everybody agreed that the size of non-conventional easing has been modest compared with the US, Euroland and the UK and for that reason the unwinding of these measures should be less complex and have little impact. Importantly, the BoJ is not expected to reduce its monthly purchase of government bonds, as this is now regarded as a normal monetary instrument. One economist even argued that purchases of government bonds could be stepped up if bond yields rose significantly and inflation remained solidly in negative territory.

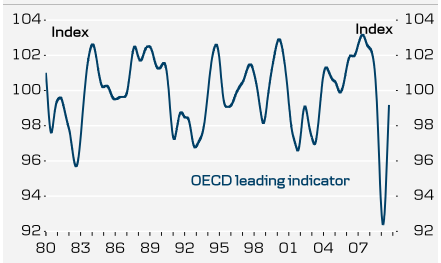
On FX intervention, the message was clear: while not completely ruling out the possibility of FX intervention, nobody believes that the BoJ will actually intervene in the FX market to stem JPY appreciation. Most believe that FX intervention is an ineffective instrument, albeit it could affect the pace of currency movements. In addition, one of the economists argued that it was much easier to intervene in 2004 (when Japan last intervened in the FX market) because at that time Japan was regarded as an isolated basket case. Today FX intervention could be regarded as 'beggar-thy-neighbour' policies and would be harder to accept for other countries.

Effective JPY index



Source. Danske Markets

OECD world leading indicator



Source. Danske Markets

The JPY remains expensive

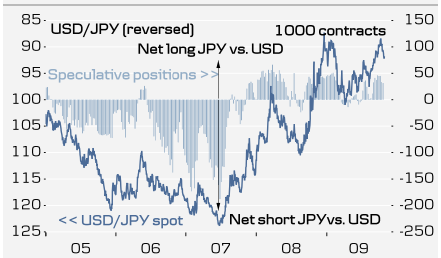
On JPY, the general view is that there is probably was no case for a weaker JPY based solely on domestic Japanese factors. The current problem is a weak USD, not a strong JPY. One analyst even argued the case for a stronger JPY based on some convergence in long bond yield spreads between the US and Japan as the monetary cycle in the two countries would become more similar.

From an historical perspective, the JPY is quite strong at the current level, though. In effective terms, the JPY is in fact stronger than when the BoJ intervened back in 2004. And taking into account that the global economy is in a recovery phase, where the JPY usually struggles, we cannot justify the JPY's strength.

Speculative investors are currently net long JPY against the USD. The tendency is however not overwhelming and should not be seen as an obstacle to JPY depreciation. The net short position can in fact fuel a faster weakening of the JPY when the Japanese currency starts declining.

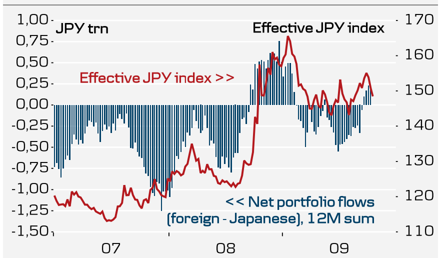
Portfolio flows are currently supporting the JPY as Japanese investors are repatriating funds. This partly explains why the JPY has gained against, for example, the dollar lately, even though equity markets overall have been positive. The average investor from Japan is however unlikely to remain a net seller of Japanese assets and a return to the flow situation experienced in 2007-2008 seems likely. This should lead to renewed pressure on the yen.

Speculative USD/JPY positions



Source. Danske Markets

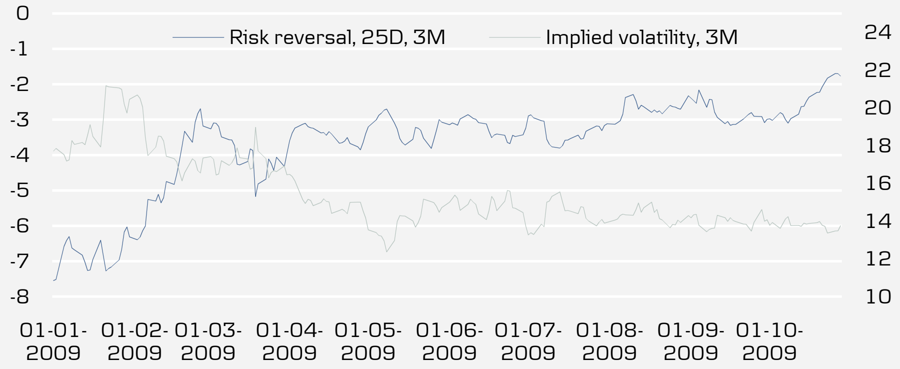
Effective JPY index vs. flows



Source. Danske Markets

Most recently, risk reversals have turned less biased for yen strength against other currencies. This indicates some kind of market consensus that the yen will stop appreciating and perhaps even underperform other currencies going forward. A much less negative risk reversal than currently is probably hard to achieve as yen calls almost always will cost more than equivalent puts to make up for the low Japanese yield.

USD/JPY 25D 3M risk reversal and 3M implied volatility



Source. Bloomberg

Expected JPY volatility (and FX volatility in general) has declined in the past year. The trend is still for lower levels, which is not likely to support the yen. With perceived exchange rate movements diminishing, investors will be inclined to take larger risks and these riskier investments will to some extent be funded in yen.

The final nail in the coffin for the yen is the outlook for relative rates. Throughout our main forecast horizon (up to 12 months), no Japanese rate hikes are on the agenda and we doubt that Japanese market rates will rise much from current levels. For Euroland and perhaps also for the US, we believe that rate hikes will be seen in 2010 and that market rates will anticipate this gradually next year. With a higher yield differential within G10, the yen will most likely fall back into the good old funding currency role and a subsequent weakening.

New government is not expected to be major game changer

Could the new DPJ-led coalition government be a major game changer for Japan? Here the clear answer was no – at least not in the short run. Its fiscal policy initiatives are mainly a redistribution of demand from public investment to household expenditures. DPJ's initiatives might actually have a slightly negative impact on growth this year, as its spending proposals next year will be partly financed by scrapping some public investment projects this year.

On the structural issues, there was some concern among the Japanese economists we spoke to that the new government was even moving in the wrong direction, by increasing the minimum wage, introducing restrictions on temporary employment and freezing the privatisation of Japan Post. However, it is possible that the new government will allow Japan Post to diversify its assets including greater exposure to foreign assets. That said, it cannot be completely ruled out that DPJ will accelerate economic reforms it if wins a majority in connection with the Upper House election next summer and becomes independent of its smaller coalition partners.

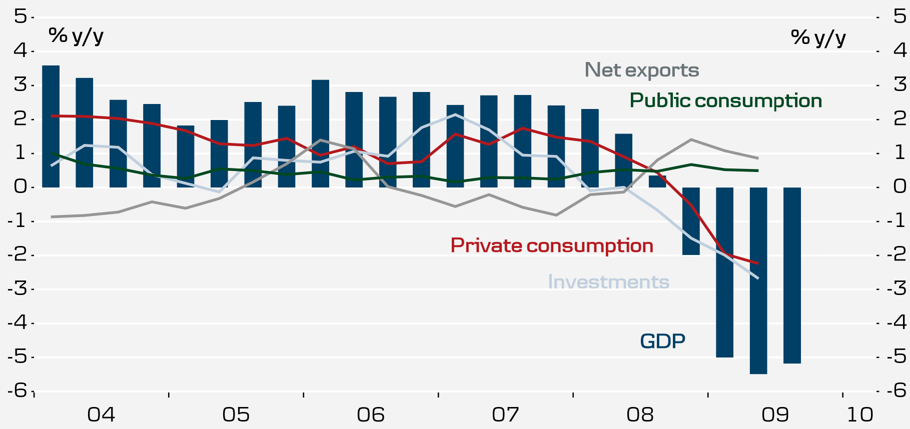
GBP: Long-term potential against EUR and USD outweighs short-term drags

- *Preliminary Q3 GDP numbers disappointed badly last week. Professional forecasters – ourselves included – had expected that the UK escaped from recession in Q3, but actual numbers showed a 0.4% contraction vs. a forecast of a 0.2% expansion. The economic downturn has hit the UK harder than previously thought.*
- *The British pound was immediately punished after the release of the numbers and even though it has recovered somewhat in recent days, our short-term financial model indicates that the pound is cheap compared with the risk-adjusted yield spread and market expectations for deposit rates one year ahead. In our view Sterling has sound potential when the BoE leaves its dovish stance.*
- *A crucial event ahead is the BoE meeting on 5 November when a possible extension of the already voluminous Asset Purchase Facility programme will take centre stage. We see a high risk of an extension, which once again might take EUR/GBP higher, but a stop for QE will remove a large risk premium from the pound and lead to a large decline in EUR/GBP. We think the risk premium eventually will be removed.*

UK remains in recession – the pound gets pounded

Preliminary GDP numbers showed last Friday that the UK economy shrank 0.4% q/q in Q3. Forecasters had expected a 0.2% rise in production The decline in output was due to decreases in all component aggregate series. Output of the service industries decreased 0.2% while output in the production industries decreased 0.7%. Distribution, hotels and restaurants was the largest contributor to the negative growth. GDP decreased 5.2%between 2009 Q3 and 2008 Q3.

Private consumption and investments drag down GDP



Trading recommendation

- Exploit the current dip in GBP/USD: Buy Cable spot @1.6380 for a 1.7380 objective, stop @ 1.60. GBP/USD call options are also attractive as these as are cheaper than equivalent puts (negative risk reversals).
- Current decline in EUR/GBP is still seen as corrective – but sell EUR/GBP on a break of 0.9013 for a first target @ 0.8710 with a stop @ 0.9260. Second target @ 0.84.
- For positioning for exchange rate volatility around the upcoming BoE meeting: Buy 2W EUR/GBP straddle with strike set at current spot level, indicative price 185 GBP pips. Breakeven 0.8895 / 0.9265.

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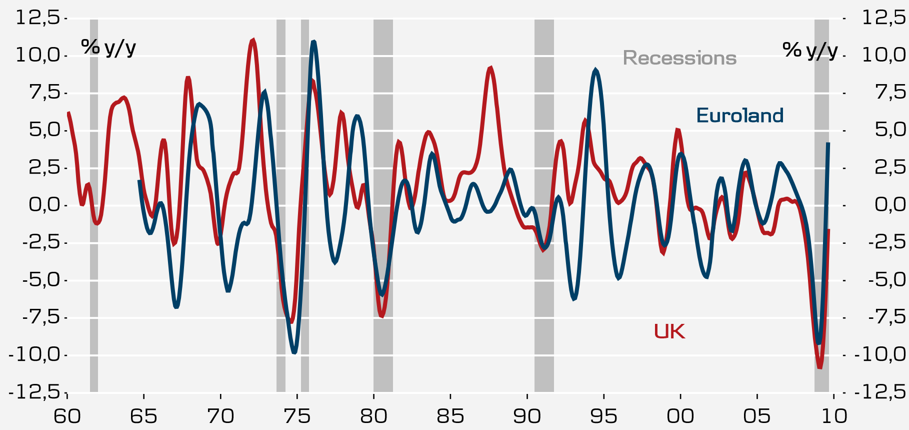
Retail sales for September also fell short of analyst expectations by showing zero-growth, 0.5 percentage points lower than the consensus forecast. Reason was that Britons spent less on food and clothing.

The economic surprise index for the UK, a weighted historical standard deviation of data surprises, has declined massively lately and has underperformed similar indices, for example the US and Eurozone. Forecasters are currently revising their UK forecasts downwards, which opens for some positive UK surprises when the economy starts to pick up again which we expect it will in Q4 and Q1.

The UK is clearly struggling to escape recession, which is also a drag on the pound. With a negative output gap of this magnitude, the BoE can easily justify its almost-zero-rate policy for a longer period than previously anticipated.

Recessions are losing momentum – but UK is lagging Euroland



Source: Reuters Ecowin, Danske Markets

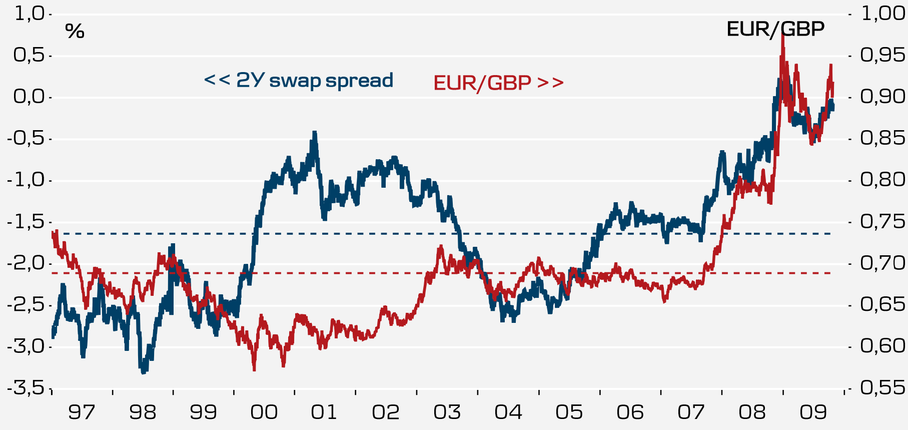
We note however that the economic downturn in the UK is losing steam and that the recession is drawing towards an end. However, this does not change the fact that the UK is lagging Euroland in terms of recovery, as indicated by the chart above. As the previous perception was that the UK was leading Euroland in terms of macroeconomic conditions, we can now better justify why the pound has not been able to outperform the euro.

Sterling heavily undervalued

Exactly how undervalued is the pound against the euro at the moment? That depends entirely on which measures and methods we focus on.

It is clear that most short- and medium-run determinants are pound negative. Trend-following behaviour, investor sentiment and options market positioning all keep sterling weak in the short term, while real interest rate differentials, monetary policy, fiscal policy and current account trends are dragging down on the medium term. The picture becomes however somewhat brighter for sterling when we approach the longer run; prospects of relative economic growth and capital flows favour the pound and factors like purchase power parity, net foreign assets and terms-of-trade all point towards an appreciation of the pound.

EUR/GBP vs. 2Y swap spread – normalisation indicates return to the 0.69-0.75 range



Source: Reuters Ecowin, Danske Markets

Looking at EUR/GBP in the post-BoE independence period and comparing it with the 2Y swap spread, we find that both are close to extremes and deviate heavily from their respective means. While EUR/GBP trades 24(!) big figures above its 1997-average, the EUR-GBP 2Y swap spread is around 160bp above its average. A normalisation of these suggests to us that EUR/GBP should approach the 0.69-0.75 range, where the EUR/GBP PPP estimate of 0.72 is found as well.

Our preferred short-term financial model – see for example FX Market Update – also indicates that the current spot level of EUR/GBP is far too high when comparing with the risk-adjusted yield spread and market expectations for deposit rates one year ahead. The model has fair value around 0.88, a level that has been relatively stable in the past three quarters.

Crucial BoE meeting on 5 November

The BoE meeting on monetary policy on 5 November is clearly the most important event for the pound going forward. Reason is that the MPC stands at a crossroads in terms of quantitative easing (QE) as the asset purchases are approaching the limit of GBP175bn.

Either the MPC will announce an extension of the programme or it will declare the gilt buying over. In the former case, EUR/GBP will probably spike and stay elevated for a period. But if the MPC announces that the programme is finished, a large risk premium will be removed from sterling and we can expect to see EUR/GBP declining sharply, perhaps below our short-term fair value level of 0.88.

Former MPC member Blanchflower said earlier in the week that the asset purchases should be extended to GBP250bn and the British Chamber of Commerce has also said that the BoE should print more money to spend in UK debt markets – so we dare not to be too optimistic. But as we have spelled out on several occasions, we thing the BoE has done more than enough in terms of QE and inflation concerns should soon return to the BoE's radar. It is clear to us that the purchases won't last forever and that the risk premium will be removed from sterling eventually – it is only a matter of time!

We note also that mounting price pressures are beginning to draw attention. In recent minutes, MPC states that "there were differences of view among members of the Committee on the balance of risks to the medium-term outlook for inflation, and how it had shifted in recent months". So our call for a hike in the base rate in late Q2 might not be completely in the woods.

G10: Central bank rhetoric

Since last autumn we have largely applied a cyclical approach to the FX market, i.e. focusing on the outlook for the world economy, developments in risk appetite and access to liquidity in the global market when forecasting currencies. This has helped us foresee the recovery of SEK and NOK since New Year, the strong rise of AUD, NZD and CAD, and the weakening of USD. Now, however, there is evidence that the relative picture has again become more important as the "normalisation" on the equity, bond and credit markets has matured and rate hikes have moved closer. This has manifested itself in a growing influence of relative rates, not least for SEK, NOK, GBP, AUD and CAD. It is, however, important not only to focus on the outlook for the policy rate, but also to note the nuances in central bank statements about their currencies. We see central banks as falling into three categories:

First movers: Reserve Bank of Australia (RBA) is leading the global hiking cycle and Norges Bank is second in line, expected to follow on 28 October. We also see the Bank of Canada (BoC) and the Reserve Bank of New Zealand (RBNZ) as belonging to this group, although neither is expected to hike until Q2 2010. The strong appreciation this year of AUD, NZD, NOK and CAD has revealed different attitudes towards currency strength by the central banks within this group. At one end of the spectrum is the RBA, which has voiced little concern over the level of AUD. In contrast, the BoC is deeply worried that the stronger CAD will offset the nascent Canadian recovery, although outright intervention is still unlikely. In between the RBA and the BoC we have the RBNZ and Norges Bank. The latter is becoming increasingly worried about the appreciating NOK, and is likely to address the level of the currency. Taken at face value, differences in rhetoric within this group suggest that AUD could benefit versus CAD in the coming months and that NOK strength could be capped.

Followers: The economic outlook suggests rate hikes are on the cards around mid-2010 in Euroland, the UK and Sweden – even though the central banks there have not yet tightened their rhetoric. There is, however, a considerable difference in the rhetoric of the central banks with respect to their currencies. While the Europeans, led by the French, have begun to express concern about the strong euro, BoE Governor King stated that the weak pound is part of the solution to the country's structural imbalances. Likewise, the Swedes so far seem unconcerned about SEK's comeback. While the strong euro is moving higher on the European agenda, ECB's Trichet has, however, so far restrained himself to reiterating that, "excess market volatility and disorderly currency movements" have adverse implications for the economy and that the ECB acknowledges the US's "strong dollar policy". As long as a weak dollar supports the recovery in the US and does not hinder the selling of US debt coordinated measures to support the dollar are unlikely. Nonetheless, the debate is likely to intensify if the euro continues to strengthen and this could potentially contribute to slowing the rise in EUR/USD.

Laggards: Rate hikes are unlikely in the US or Japan before the end of 2010 at the earliest. At that time, however, we will likely see the market discount a rapid normalisation of monetary policy. The US has so far been content to repeat the legacy of Greenspan with respect to a "strong dollar policy". As long as the weakening of the dollar is "orderly", we do not expect this to change. Thus, there is no prospect of the dollar getting help from central bank rhetoric anytime soon. The risk of intervention in Japan earlier helped create a ceiling above the yen, but it seems intervention has slid down the agenda following the change of government.

Key points

- We see evidence that the relative picture, e.g. the outlook for relative interest rates, is gaining in importance as a driver of the FX market
- It is important to focus also on nuances in central bank statements regarding currencies
- Within the group of "first movers", differences in rhetoric are likely to benefit AUD relative to CAD and cap NOK strength
- While ECB is likely to hike before the Fed, the strong EUR is moving higher on the agenda
- However, USD is unlikely to get any help from central bank rhetoric unless the decline becomes "disorderly"
- Recent rhetoric from Japanese officials suggest that the risk of BoJ intervention is waning

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Short-term views and forecasts

Short-term views (1-3 months)		
Currency	**View**	**Stance**
EUR	The EUR approaches overvalued territory bun can strengthen further against USD and JPY due to the ongoing economic recovery, oil, stocks and relative rates. Risk appetite favours upside in EUR/JPY. EUR/GBP is likely to correct downwards though.	Neutral/ positive
USD	The USD is the world's preferred funding currency but debate on a credible alternative to the dollar in global reserves in intensifying,. The USD is set to suffer as oil and stocks continue higher. USD will stay negatively affected by positive US data surprises as long as these aren't recognized by the Fed. Massive debt auctions a potential threat to the USD.	Negative
JPY	The Japanese economy is showing some signs of improvement, but this also implies increased demand for foreign securities and hence only limited JPY support. Rather we expect that improving risk appetite and JPY unfavourable rate spread movements will dominate the positives from further financial deleveraging and lead to a JPY depreciation.	Negative
GBP	The BoE's Gilt purchases and dovish stance is weighing down but the pound continues to have good potential and we expect to see EUR/GBP falling further throughout the year. The pound is supported by the levelling-off in the financial crisis and sound economic data, not least in the housing market. Performance probably best at the slightly longer-term horizon.	Neutral/ Positive
CHF	While fundamental support from especially deleveraging flows remains for CHF, we expect SNB to be successful in capping a potential CHF appreciation. CHF is likely to remain range-bound against EUR around 1.52 in the short-term but should depreciate gradually if risk appetite takes further hold.	Neutral / negative
SEK	The SEK has returned from the abyss and performed well the past month as the Swedish economy has improved and the Baltic issue has become less pronounced. We think that the optimism will take further hold and that EUR/SEK will fall towards 10.00 but heightened volatility can be expected.	Neutral/ Positive
NOK	Norges Bank has joined the exclusive club of 'tighteners', together with Reserve Bank of Australia. The NOK enjoys support from higher rates and soaring oil prices. Macroeconomic prospects are good.	Positive
DKK	We believe the Danish central bank will keep the EUR/DKK below 7.45 in the coming months. If the currency inflow continues, the CB will probably lower the current-account rate and the deposit rate a notch further	Neutral
AUD	The AUD is supported by relatively strong domestic fundamentals, favourable interest rate spreads, and not lest the exposure to commodities and China. With renewed investor optimism the AUD can take a further jump upwards but a huge appreciation looks unlikely in the short term. Crowded positioning remains a downside risk.	Positive
NZD	Relatively weaker domestic fundamentals and still large external imbalances are likely to lead to an NZD underperformance relative to the other commodity currencies. Furthermore, speculative long positions in NZD appear somewhat crowded and could prolong the current correction, before NZD moves higher again.	Neutral
CAD	The CAD continues to be driven by changes in equity and commodity prices and should benefit accordingly as the global recovery continues in H209. The BoC has recently signalled that the CAD is too strong which has weakened the loonie somewhat.	Positive

		Forecast				Forecast vs forward outright, %			
	Spot	+1m	+3m	+6m	+12m	+1m	+3m	+6m	+12m
Exchange rates vs EUR									
USD	1,479	1,51	1,55	1,50	1,45	2,1	4,8	1,5	-1,8
JPY	134,71	137	143	145	148	1,7	6,2	7,8	10,5
GBP	0,906	0,92	0,90	0,86	0,80	1,6	-0,6	-5,0	-11,6
CHF	1,512	1,51	1,52	1,52	1,56	-0,1	0,3	0,8	3,8
DKK	7,44	7,45	7,45	7,45	7,46	0,0	0,0	-0,1	-0,1
NOK	8,44	8,30	8,20	8,10	8,00	-1,7	-3,1	-4,7	-6,7
SEK	10,38	10,20	10,10	9,80	9,60	-1,7	-2,6	-5,4	-7,2
Exchange rates vs USD									
JPY	91,1	93	93	96	101	2,1	2,2	5,5	11,4
GBP	1,63	1,64	1,72	1,74	1,81	0,5	5,5	6,9	11,1
CHF	1,02	1,00	0,98	1,01	1,08	-2,1	-4,3	-0,7	5,7
DKK	5,03	4,93	4,81	4,97	5,14	-2,0	-4,7	-1,6	1,7
NOK	5,70	5,50	5,29	5,40	5,52	-3,8	-7,6	-6,1	-5,0
SEK	7,03	6,75	6,52	6,53	6,62	-3,8	-7,2	-6,8	-5,6
CAD	1,07	1,04	0,99	1,04	1,08	-3,1	-7,7	-3,1	0,6
AUD	0,90	0,93	0,96	0,96	0,88	3,1	7,0	8,1	1,5
NZD	0,73	0,73	0,77	0,77	0,72	-0,4	5,5	6,2	1,1

Danske FX Trading Recommendations

Open	Start date	Level	Now	Target	Stop	P/L (incl carry)	Comment
Sell CHF/DKK	*27-03-09*	*4,90*	*4,92*	*4,70*	*5,00*	*0,92*	
Sell USD/SEK	*15-10-09*	*6,90*	*7,03*	*6,50*	*7,07*	*-1,86*	
Buy GBP/USD	*27-10-09*	*1,6380*	*1,6331*	*1,7380*	*1,60*	*-0,30*	

Recently closed	Start date	Level	Exit date	Level	P/L (incl carry)
Buy EUR/JPY	*01-09-09*	*133,70*	*28-09-09*	*130,20*	*-2,59*
Sell USD/SEK	*28-09-09*	*7,00*	*28-10-09*	*6,93*	*1,03*
Sell USD/NOK	*15-09-09*	*5,92*	*28-10-09*	*5,68*	*4,42*

P/L 2009	-4,15%	Open	-1,24%	Closed	-2,92%

# of trades since 2005	147	# of trades in 2009	23
- average net gain	0,36%	- average net gain	-0,18%
- batting average	0,46	- batting average	0,48

Source: Danske Markets

FX correlations

	EUR	USD	JPY	GBP	CHF	SEK	NOK	AUD	NZD	CAD
EUR		-0,32 ↑	-0,31 ↓	-0,49 ↓	0,07 ↓	0,15 ↓	-0,05 ↓	0,31 ↓	0,45 ↑	0,40 ↑
USD	-0,32 ↑		-0,22 ↑	-0,18 ↓	-0,10 ↑	-0,26 ↑	0,16 ↑	-0,06 ↑	-0,49 ↓	-0,64 ↓
JPY	-0,31 ↓	-0,22 ↑		-0,28 ↓	0,21 ↓	-0,37 ↓	-0,25 ↓	-0,87 ↓	-0,48 ↑	-0,48 ↓
GBP	-0,49 ↓	-0,18 ↓	-0,28 ↓		-0,34 ↓	0,06 ↑	-0,20 ↓	0,37 ↑	0,29 ↑	0,22 ↑
CHF	0,07 ↓	-0,10 ↑	0,21 ↓	-0,34 ↓		-0,18 ↓	0,40 ↑	-0,21 ↑	-0,11 ↑	0,07 ↑
SEK	0,15 ↓	-0,26 ↑	-0,37 ↓	0,06 ↑	-0,18 ↓		0,27 ↓	0,37 ↑	0,19 ↓	0,38 ↑
NOK	-0,05 ↓	0,16 ↑	-0,25 ↓	-0,20 ↓	0,40 ↑	0,27 ↓		0,35 ↓	0,07 ↓	0,18 ↓
AUD	0,31 ↓	-0,06 ↑	-0,87 ↓	0,37 ↑	-0,21 ↑	0,37 ↑	0,35 ↓		0,60 ↓	0,59 ↑
NZD	0,45 ↑	-0,49 ↓	-0,48 ↑	0,29 ↑	-0,11 ↑	0,19 ↓	0,07 ↓	0,60 ↓	↓	0,65 ↑
CAD	0,40 ↑	-0,64 ↓	-0,48 ↓	0,22 ↑	0,07 ↑	0,38 ↑	0,18 ↓	0,59 ↑	0,65 ↑	

Note: Table shows 1Y correlations between effective exchange rates on daily observations. Arrows indicate if relationship has risen or fallen compared to past 3 years

Source: Danske Markets

Central bank outlook

	Official policy rate	Current	Last move (bp)		Cycle	since	Prob., next[1]	Prob., 1Y[2]	Next decision	Next move	Danske forecasts 3M	6M	12M
EUR	Minimum bid rate	1,00%	-25	02 apr 09	Ease	08 okt 08	0	88	05 nov 09	Q2 10	1,00	1,00	1,50
USD	Federal funds rate	0,13%	-75	16 dec 08	Ease	17 sep 07	0	83	04 nov 09	Q3 10	0,13	0,13	0,13
JPY	Overnight call rate	0,10%	-20	19 dec 08	Ease	30 okt 08	4	6	30 okt 09	2011	0,10	0,10	0,10
GBP	Base rate	0,50%	-50	05 mar 09	Ease	06 dec 07	-16	80	05 nov 09	50bp Q2 10	0,50	0,50	1,00
CHF	3-month Libor	0,25%	-25	11 mar 09	Ease	08 okt 08	-	-	10 dec 09	Q2 10	0,25	0,25	0,50
SEK	Repo rate	0,25%	-50	21 apr 09	Ease	14 okt 08	-	-	16 dec 09	2010	0,25	1,00	0,25
NOK	Sight deposit rate	1,50%	-50	25 mar 09	Tight	28 Oct 09	-	-	16 dec 09	+25bp Q1 10	1,50	2,00	2,75
CAD	Overnight rate	0,25%	-25	21 apr 09	Ease	04 dec 07	0	89	08 dec 09	Q3 10	0,25	0,25	0,50
AUD	Cash rate	3,25%	-25	07 apr 09	Tight	06 okt 09	125	207	03 nov 09	25bp Q4 09	3,50	4,75	5,00
NZD	Cash rate	2,50%	-25	12 mar 09	Ease	27 jul 08	0	232	28 okt 09	Q2 10	2,50	2,50	3,50

[1] OIS derived percentage probability of a 25bp tightening or easing of monetary policy at next meeting. Positive (negative) number indicates rate hike (cut).

[2] Number of basis points of rate hikes or cuts that are priced for the next 12 months. Positive number represents the markets implied pricing of rate hikes from each central bank. Derived from the OIS curve.

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Source: Danske Markets

Interest rate outlook

	2-year swap spread (bp) Current	3M	6M	12M	10-year swap spread (bp) Current	3M	6M	12M
EUR/USD	39	30 ↓	15 ↓	50 ↑	-1	-30 ↓	-40 ↓	-25 ↓
EUR/GBP	-14	-30 ↓	-35 ↓	-40 ↓	-46	-70 ↓	-75 ↓	-75 ↓
EUR/JPY	116	145 ↑	160 ↑	180 ↑	202	225 ↑	235 ↑	235 ↑
EUR/CHF	95	105 ↑	115 ↑	135 ↑	98	115 ↑	110 ↑	150 ↑
EUR/SEK	5	10 ↑	-35 ↓	-60 ↓	-11	-15 ↓	-35 ↓	-50 ↓
EUR/NOK	-173	-225 ↓	-255 ↓	-95 ↑	-123	-110 ↑	-50 ↑	-45 ↑
EUR/DKK	-64	-60 ↑	-50 ↑	-45 ↑	-27	-25 ↑	-25 ↑	-30 ↓
USD/JPY	77	-155 ↓	145 ↑	130 ↑	204	245 ↑	250 ↑	295 ↑
GBP/USD	52	60 ↑	50 ↓	90 ↑	45	65 ↑	10 ↓	50 ↑
USD/CHF	57	75 ↑	100 ↑	85 ↑	99	145 ↑	165 ↑	175 ↑
USD/SEK	-34	-20 ↑	-50 ↓	-110 ↓	-10	15 ↑	5 ↑	-25 ↓
USD/NOK	-212	-255 ↓	-270 ↓	-145 ↑	-122	-80 ↑	-10 ↑	-20 ↑
USD/DKK	-102	-90 ↑	-65 ↑	-95 ↑	-25	5 ↑	15 ↑	-5 ↑
CHF/DKK	-159	-165 ↓	-165 ↓	-180 ↓	-124	-140 ↓	-150 ↓	-180 ↓
NOK/SEK	178	235 ↑	220 ↑	35 ↓	112	95 ↓	15 ↓	-5 ↓

Source: Danske Markets

Macro outlook

		GDP	Inflation	Unemploy-ment	Current account			GDP	Inflation	Unemploy-ment	Current account
USA	2008	0,4	3,8	5,8	-4,9	Switzerland	2008	1,6	2,4	2,6	9,2
	2009	-2,3	-0,3	9,2	-2,7		2009	-2,7	-0,5	3,9	7,6
	2010	3,2	2,2	9,6	-2,9		2010	1,0	0,7	5,1	8,1
Euroland	2008	0,6	3,3	7,6	-0,8	Denmark	2008	-1,2	3,4	1,8	2,2
	2009	-3,7	0,3	9,4	-1,7		2009	-4,5	1,5	3,5	1,4
	2010	2,2	1,2	10,0	-1,5		2010	1,6	2,1	5,2	1,0
Japan	2008	-0,7	1,5	4,0	3,3	Sweden	2008	-0,4	2,2	6,1	8,3
	2009	-5,3	-1,2	5,2	2,4		2009	-5,1	3,4	8,7	7,0
	2010	3,0	-0,5	5,2	3,6		2010	0,8	-0,3	11,4	7,6
UK	2008	0,7	3,7	2,8	-3,6	Norway	2008	2,1	3,8	2,5	19,0
	2009	-2,7	2,3	5,0	-3,4		2009	-1,0	2,0	3,3	24,9
	2010	1,0	1,5	6,4	-2,9		2010	3,3	1,4	3,7	24,8

Source: Danske Markets

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Disclosure

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