

Flash Comment Denmark

DN increases the deposit rate by 10bp to -0.65%

Danmarks Nationalbank (DN) this afternoon announced a 10bp increase in the interest rate on certificates of deposit from -0.75% to -0.65%. The lending rate, the discount rate and the current-account rate were kept unchanged at 0.05% and 0.00%, respectively. The EUR-DKK monetary policy rate spread is thereby narrowed from -0.45% to -0.35%.

The independent Danish rate hike follows DN's intervention in the FX market to cap EUR/DKK upside and in order to limit the need for additional FX intervention. The latest FX reserve data, released on 5 January showed that DN stepped up FX intervention in December. Since April, DN has purchased DKK in FX intervention for DKK280bn, which has brought the FX reserve down below the level of last year of around DKK450bn and thus to a more 'normal' level.

In addition to the deposit rate increase, DN lowered the current-account limits from DKK63bn to DKK32bn, which actually works somewhat against the increase in the deposit rate, as banks can now place less liquidity on the current account at 0.00%. The reduction in the current account limits is a natural consequence as excess liquidity has dropped substantially.

EUR/DKK spot initially dropped slightly below 7.46 after the announcement but quickly climbed back as the Danish rate hike was widely expected in the market. All in all, today's announcement suggests that we now are back to a more normal situation, and we do not expect any further independent rate increases from DN.

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