

Flash Comment Denmark

Pace of FX intervention slowed in September

- Denmark's FX reserve dropped to DKK514bn in September following DKK22bn of FX intervention by Danmarks Nationalbank (DN).
- Although since April DN has purchased DKK in FX intervention for DKK213bn, EUR/DKK has recently dropped close to the central rate and FX intervention in September slowed, which makes a rate hike less imminent.
- We forecast DN to hike 10bp in 3M and 10bp in 6M to minus 0.55% and EUR/DKK at 7.4610 in 1M and 7.4550 in 3M-6M.
- Government's deposits were DKK194bn in September, in line with the budget projection.

Danmarks Nationalbank (DN) has just published September's FX reserve and central bank balance sheet. In September, the FX reserve declined to DKK514bn from DKK536bn in August. DKK22bn of the decline was due to DN purchasing DKK in FX intervention. DN carried out the FX intervention to cap EUR/DKK upside – for the most part of September EUR/DKK traded above the central rate of 7.46038.

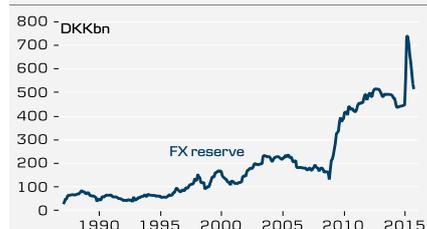
The decline in the FX reserve in September brings it closer to the level at the end of last year of around DKK450bn. DN has in recent comments stressed that the DKK market has gradually normalised, which indicates that DN is probably close to satisfied with the level of the FX reserve.

Since April, DN has purchased DKK in FX intervention for DKK213bn, which means that a unilateral rate hike has drawn closer – we forecast DN to hike its key policy rate, the rate of interest on certificates of deposit, by 10bp in 3M and 10bp in 6M to minus 0.55% and we forecast EUR/DKK at 7.4610 in 1M and 7.4550 in 3M-12M.

However, EUR/DKK has dropped close to the central rate and the need for conducting FX intervention in September eased (in July and August FX intervention topped DKK40bn), i.e. a unilateral rate hike in Denmark does not look imminent. The move higher in short-term DKK money market rates may explain the slight move lower in EUR/DKK, which for now is keeping the cross close to the central rate. As long as rates are at these levels, limiting the negative carry on short EUR/DKK in the front end of the FX forward market, the need for hiking policy rates is less pressing.

The government's deposits at the central bank were DKK194bn in September up from DKK175bn in August and in line with the budget projection. While the government's deposits are ample at present, they are set to drop close to DKK100bn in November when a large DGB redemption is due.

FX reserve to level form end-2014



Source: Macrobond Financial

EUR/DKK trades close to central rate



Source: Macrobond Financial

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