

Flash Comment Denmark

No FX intervention in March – reserves may start to rise again soon

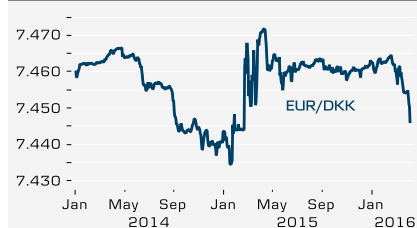
- The Danish FX reserve was DKK412bn in March – down roughly DKK10bn since February due to repayment of foreign government debt. Danmarks Nationalbank (DN) did not need to make FX interventions in March.
- Following a year of focus on DN selling EUR/DKK in intervention, the focus is now on whether we will see DN buying EUR/DKK in intervention to cap EUR/DKK downside following the fall over the past week to around 7.4440.
- We expect EUR/DKK to trade around current levels on 3-12M and DN to keep the key policy rate unchanged at minus 0.65%.

Danmarks Nationalbank (DN) has just published March's FX reserve and central bank balance sheet. In March, the FX reserve was DKK412bn and DN did not need to intervene in the FX market, as EUR/DKK traded close to the central rate. The FX reserve declined DKK10bn from February due to repayment of foreign government debt. The 30bp of accumulated tightening of the spread between the DN and ECB policy rates thus managed to work by halting DN selling of EUR/DKK in intervention.

Over the past week, EUR/DKK has fallen to around 7.4440, which is around the level DN was buying EUR/DKK in intervention in February 2015. Hence, following a year of focus on DN selling EUR/DKK in intervention, the focus is now on whether we will see DN buying EUR/DKK in intervention to cap EUR/DKK downside. We expect DN to cap EUR/DKK to do so not far below current levels. Further, we expect it to take DKK10-20bn in intervention to trigger a unilateral Danish rate cut. However, our main scenario remains for EUR/DKK to trade around current levels on 3-12M and for DN to keep the key policy rate unchanged at minus 0.65% on 12M.

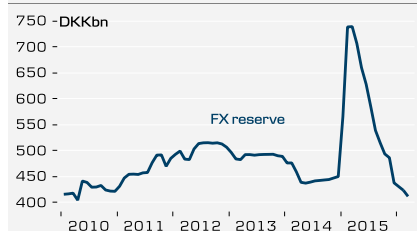
Government deposits at the central bank rose DKK7bn in March to DKK182bn.

Sharp fall in EUR/DKK



Source: Macrobond Financial

FX reserves declined due to repayment of foreign debt



Source: Macrobond Financial

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