

Flash Comment Denmark

Dovish ECB to keep Danish central bank on hold

- We now expect Danmarks Nationalbank (DN) to keep all its policy rates unchanged on 12M; hence, keeping the key policy rate at minus 0.75%.
- Should additional easing from the ECB lead to renewed downward pressure on EUR/DKK, we expect DN to cap EUR/DKK around 7.4500 using FX intervention purchases.

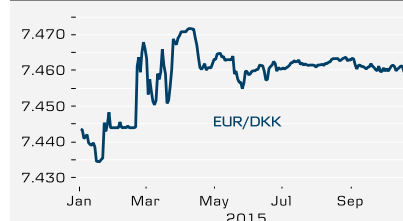
The European Central Bank (ECB) today signalled a clear willingness to ease monetary policy at its next meeting in December. Therefore, we now expect it to cut its deposit rate by 10bp to minus 0.30% and keep the door open for further cuts. On top of this, we expect it to extend its bond purchase programme beyond September 2016.

We do not expect Danmarks Nationalbank (DN) to mirror the interest rate cut, as the rate of interest on certificates of deposits (CD rate) of minus 0.75%, the current account rate of 0.00% and the lending rate of 0.05% are, in our view, all at the effective lower bound. Therefore, we now forecast DN will keep its policy rates unchanged at the above levels on 12M – previously we forecast DN would hike its CD rate by a total of 20bp on 6M.

Should the additional easing lead to renewed downward pressure on EUR/DKK, we expect DN to respond with FX intervention purchases to cap EUR/DKK around the level of 7.4500. FX intervention would further increase banks' net positions and support the pass through of the minus 0.75% CD rate to money market rates. The tomorrow/next fixing is currently around minus 0.45% on average over the week, i.e. there is room to cut rates implicitly in Denmark. Furthermore, DN has the option to reduce banks' current account limits, currently at DKK63bn, i.e. the amount of excess liquidity they can place at the 0.00% current account rate to support further the pass through.

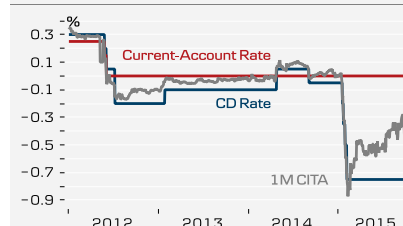
DN used a suspension of government bond issuance as a tool to fend off the strong appreciation pressure on DKK at the beginning of the year. Although DN Governor Lars Rohde recently said it remained a monetary policy tool, the limited deposits on the government's account mean that DN has limited room to fund a new suspension of government bond issuance given the relatively high public financing need for next year. Therefore, do not expect DN to make further use of this tool.

EUR/DKK around central rate



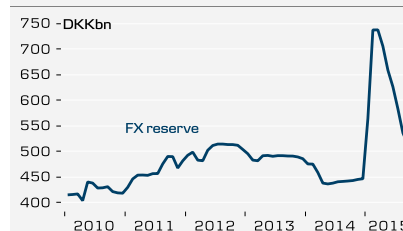
Source: Macrobond Financial

Room for an implicit Danish rate cut



Source: Macrobond Financial

FX reserve has declined since February peak



Source: Macrobond Financial

Senior Analyst

Jens Nærvig Pedersen
+45 4512 8061
jenpe@danskebank.dk

Chief Analyst

Arne Lohman Rasmuseen
+45 4512 8532
arr@danskebank.dk

Disclosures

This research report has been prepared by Danske Bank Markets, a division of Danske Bank A/S ('Danske Bank'). The authors of the research report are Jens Nærvig Pedersen, Senior Analyst, and Arne Lohmann Rasmussen, Chief Analyst.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

The research reports of Danske Bank are prepared in accordance with the Danish Society of Financial Analysts' rules of ethics and the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from and do not report to other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including a sensitivity analysis of relevant assumptions, are stated throughout the text.

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This research has been prepared by Danske Bank Markets (a division of Danske Bank A/S). It is provided for informational purposes only. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change, and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided in this research report.

This research report is not intended for retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

Disclaimer related to distribution in the United States

This research report is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.