

Flash Comment Denmark

FX intervention continued in February

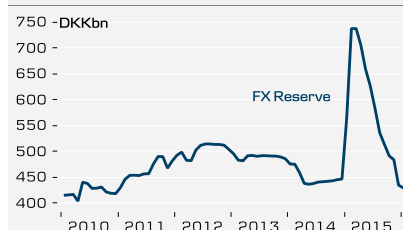
- Denmark's FX reserve fell to DKK422bn in February, following DKK8.4bn of FX intervention by Danmarks Nationalbank (DN).
- FX intervention was thereby roughly at the same level in February compared with January, as DN needed to intervene to cap EUR/DKK upside.
- We expect DN to mirror a 10bp ECB rate cut in March, lowering the key policy rate to minus 0.75%, although we stress that it is a close call given that DN has needed to intervene to support DKK following the 7 January 10bp rate hike.
- We forecast EUR/DKK at 7.4550 in 1M-12M.
- The government's deposits were DKK175bn in February – up from DKK169bn in January.

DN has just published February's FX reserve and central bank balance sheet. In February, the FX reserve declined to DKK422bn, from DKK430bn in January. DKK8.4bn of the decline was due to DN purchasing DKK in FX intervention to cap EUR/DKK upside. DN probably conducted the FX intervention in the first half of February, when EUR/DKK traded at elevated levels.

We expect DN to mirror a 10bp rate cut from the ECB next week, leaving the rate of interest on certificates of deposit at minus 0.75%. However, as previously noted, we stress that it is a close call. On one hand, DN has made FX intervention to support the DKK following the 7 January 10bp rate hike, which provides an argument for an additional narrowing of the DKK-EUR interest rate spread. On the other hand, EUR/DKK has trended lower over the past week and now trades below the central rate at the level DN has preferred historically, which indicates that there is no need to narrow the spread further. The market is pricing an additional tightening of the spread. Given the rising expectation of further ECB easing over the coming year, there is the risk the ECB could surprise and cut the deposit rate by more than 10bp next week. In this case, we do not expect DN to cut the rate of interest on certificates below minus 0.75%, which we view as the lower bound for the key policy rate. We forecast EUR/DKK at 7.4550 in 1M-12M.

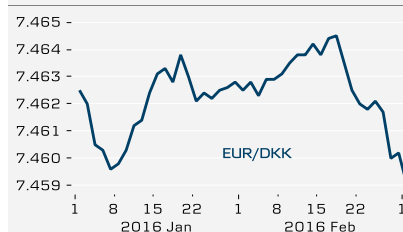
The government's deposits at the central bank were DKK175bn in February, up from DKK169bn in January.

FX reserves declined further in February



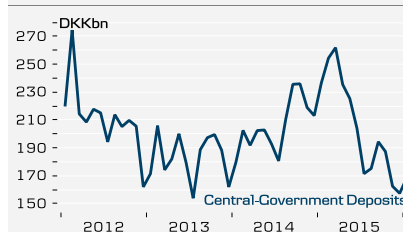
Source: Macrobond Financial

EUR/DKK has fallen below the central rate



Source: Macrobond Financial

Small rise in government deposits



Source: Macrobond Financial

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