

Flash Comment Denmark

The central bank stepped up FX intervention in December

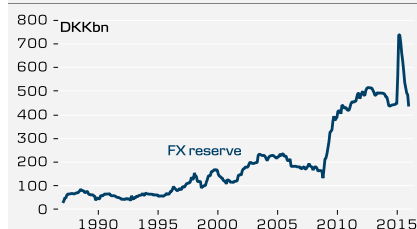
- Denmark's FX reserve fell to DKK434bn in December, following DKK50bn of FX intervention by Danmarks Nationalbank (DN).
- DN thus needed to step up FX intervention in December to cap EUR/DKK upside.
- With the ECB expected to stay on hold, we expect DN to deliver a 10bp rate hike to minus 0.65% in the near-term, perhaps as early as Thursday at 16:00 CET, to support DKK and limit the need for additional FX intervention.
- The government's deposits were DKK157bn in December, in line with the budget projection.

DN has just published December's FX reserve and central bank balance sheet. In December, the FX reserve declined to DKK434bn, from DKK484bn in November. DKK50bn of the decline was due to DN purchasing DKK in FX intervention. DN thus stepped up FX intervention in December to cap EUR/DKK upside – the ECB did not ease monetary policy as much as expected at its 3 December meeting which contributed to the move higher in EUR/DKK.

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. With the ECB expected to stay on hold, we expect DN to deliver a 10bp rate hike to minus 0.65% in the near-term, perhaps as early as Thursday at 16:00 CET, to support DKK and limit need for additional FX intervention.

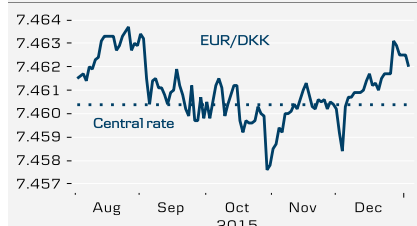
The government's deposits at the central bank were DKK157bn in December, down from DKK162bn in November and less than the budget projection. This could perhaps be due to unexpected revenue from the extraordinary tax on capital pensions or prepayment of taxes scheduled for 2016 to avoid paying a negative interest rate on deposits.

FX reserve has reached 'normal' level



Source: Macrobond Financial

EUR/DKK trades above the central rate



Source: Macrobond Financial

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