

Flash Comment Denmark

Pace of FX intervention slowed in January

- Denmark's FX reserve fell to DKK430bn in January, following DKK7.7bn of FX intervention by Danmarks Nationalbank (DN).
- The 7 January 10bp rate hike has thus eased the need for DN to intervene in the FX market to support DKK.
- 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 EUR/DKK continues to trade above the central rate.
- We forecast EUR/DKK at 7.4550 in 1M-12M.
- The government's deposits were DKK169bn in January, above the budget projection.

DN has just published January's FX reserve and central bank balance sheet. In January, the FX reserve declined to DKK430bn, from DKK434bn in December. DKK7.7bn of the decline was due to DN purchasing DKK in FX intervention. Following the 7 January rate hike the need for DN to intervene in the FX market to cap EUR/DKK upside thus looks to have eased (DN purchased DKK in FX intervention for DKK50bn in December) although we highlight that data does not reveal whether FX intervention took place before or after the rate increase on 7 January.

The 7 January rate hike does seem to have worked in capping EUR/DKK upside and we thus expect DN to mirror a 10bp rate cut from ECB in March, 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, since EUR/DKK continues to trade above the central rate of 7.46038 and since DN might have needed to make some FX intervention after 7 January. If FX intervention reaches the level of DKK10-20bn we expect DN to narrow the interest rate spread to ECB following its normal reaction function. Given the aggressive pricing of ECB there is furthermore the risk that ECB could cut the deposit rate by more than 10bp in March. 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.

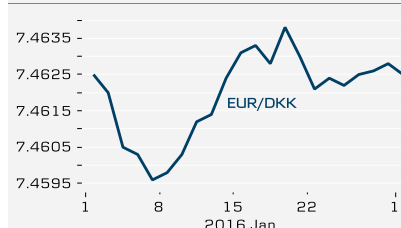
The government's deposits at the central bank were DKK169bn in January, up from DKK157bn in December and above the budget projection. This could perhaps be due to prepayment of taxes scheduled for later in 2016 to avoid paying negative interest rate on deposits.

Small decline in FX reserve



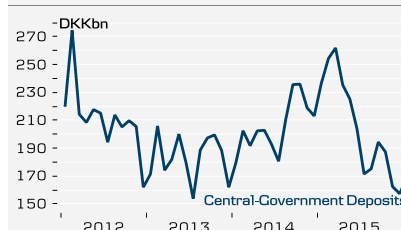
Source: Macrobond Financial

EUR/DKK continues to trade above central rate



Source: Macrobond Financial

Government deposits rose in January



Source: Macrobond Financial

Senior Analyst

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

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