



DKK v. EUR swap rates

Has the dust settled for Denmark? Hike, cut or nothing?

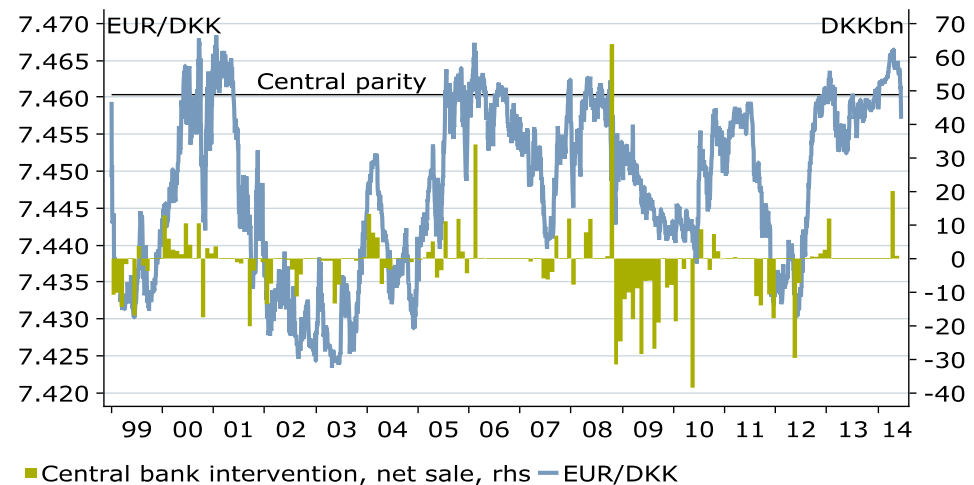
Lars Peter Lilleøre, June 18

DKK v. EUR over the past two months

- Denmark has been subjected to two hikes lately, one explicitly on April 24th and one implicitly on June 5th.
- What happens from here depends very much still on the ECB and perhaps in particular the success of the measures introduced in June.
- As of right now we see EURDKK dead centre in the comfort zone for Nationalbanken, but given the hikes above, the speed with which kronen has appreciated has left some shouting for a cut on behalf of Nationalbanken.
- Such a move is however not supported by the FX cross, nor by any reasonable assumption on central bank policy. Neither is it in market rates, certainly not clearly as of right now. Indeed, leaning heavily on historical relationships, the primary variable pointing in that direction lies with the (non-traded) Cibo fixing.
- We look into the re-pricing of the curves in swap space in these slides, and in particular address the DKK-EUR widenings of late.
- Overall, another hike seems to have been removed from the equation, but on the other hand, an autonomous cut from Nationalbanken is not likely at this time either.

EURDKK & intervention: The long view

- EURDKK is now around 7.456, almost 0.01 down locally since the June 5th ECB meeting. See next slide for developments on the short horizon.
- As the upper chart highlights, in historical terms, this is neither an intervention area, nor an area in which a rate cut is likely to incur.
- Nationalbanken looks to have succeeded in having the ECB doing the chores. We see no need for neither a cut or a hike on the immediate horizon.
- Nationalbanken might actually be comfortable with an increase in the foreign exchange reserve too, cf. lower chart.



Source: Nordea Markets and Macrobond

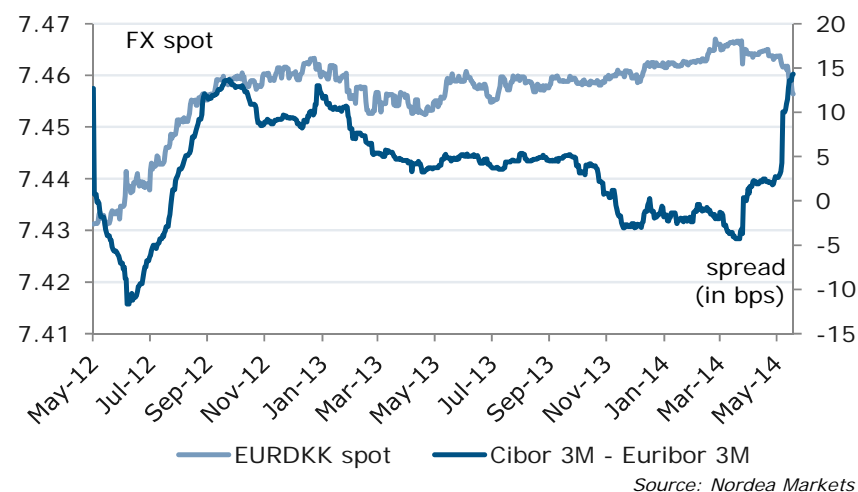
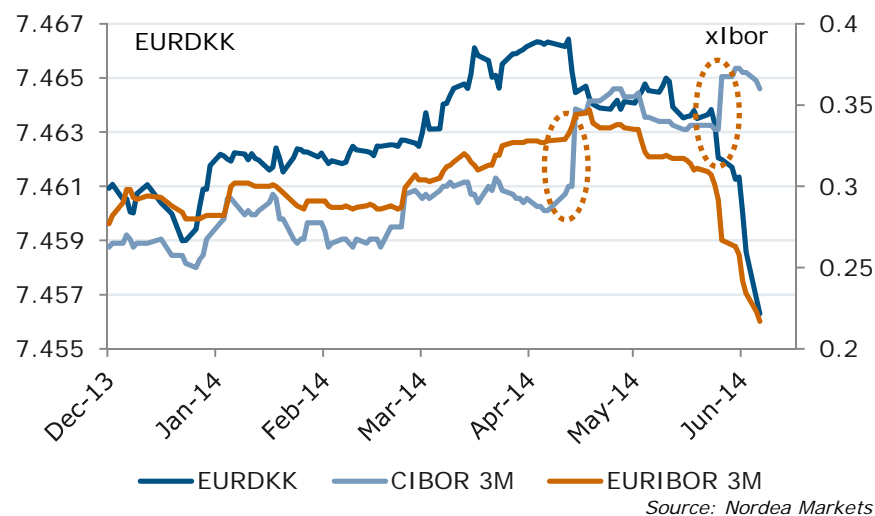


Kilde: Nordea Markets og Macrobond

EURDKK FX spot: Stark appreciation lately

From disappointment (cries for another hike) to something else (some cries for an autonomous cut).

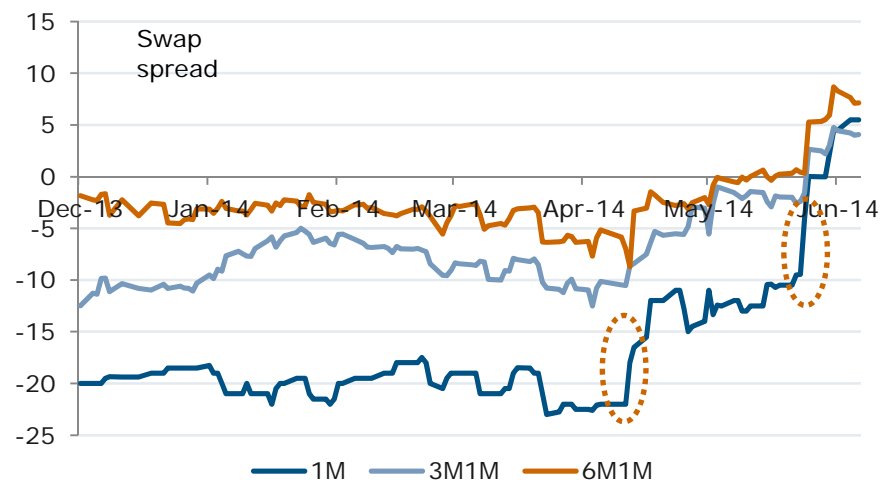
- The 15bp depo-hike on April 24th was a surprise and as such impacted the FX and rate market quite hard at the time.
- The scope of the ECB package on June 5th was seemingly also a surprise to the market with e.g. the 3M Cita swap rate jumping 6.5bps.
- The most critical entity for Nationalbanken is of course the EURDKK Fx spot.
- The fixing gap implied in the upper chart is the main reason for cries of a cut, and the latest move is substantial.
- In a longer perspective (lower chart), the FX is not too strong, at least not yet and certainly not relative to mid 2012.
- What happens with the FX on the immediate horizon is very much derived by the Eonia rates, and how low these will go.



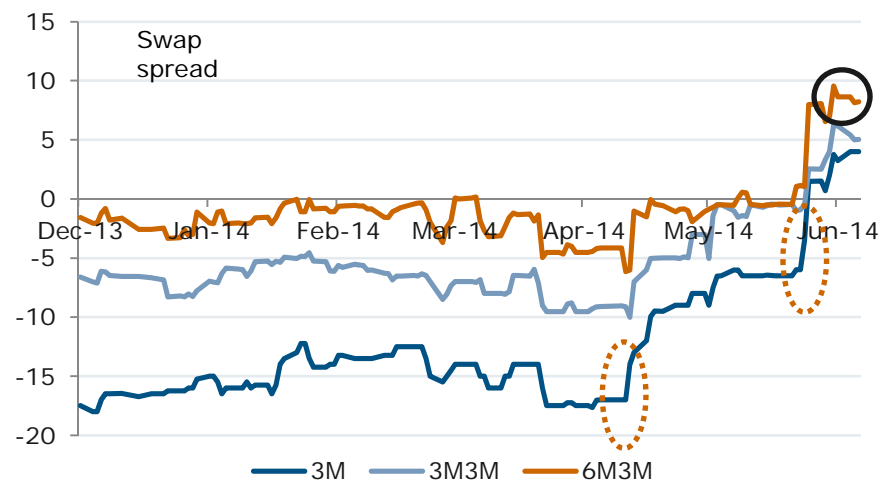
DKK & EUR O/N swaps: Stories to tell

Much uncertainty remains on where Eurozone excess liquidity lands, i.e. how will the new TLTRO mix with redemptions on the old ones, and use of the extant facilities. This is very much unclear, but will be critical for Eonia's

- For details on Eurozone excess liquidity and the uptake potential for the TLTRO (and other things), see [EONIA – less than zero?](#)
- In summation, the EURDKK FX spot has recently been driven in very large part by EUR money market rates. These have moved down a lot since the ECB delivered, and also previously when the market thought the ECB would deliver.
- This is clearly evident in DKK-EUR spreads for short O/N based swaps (Cita v. Eonia), cf charts.
- Again, the timing of the hikes surprised this market, the spot swaps in particular.
- Given the potential temporary nature of a boost to Eurozone excess liquidity, along with an expectation of the ECB being sluggish with more, quotes such as 6M6M or 6M3M Eonia looks low still though they are moving up now.
- On O/N swaps, receiving DKK-EUR 6M3M looks interesting, also with no cut from Nationalbanken



Source: Nordea Markets

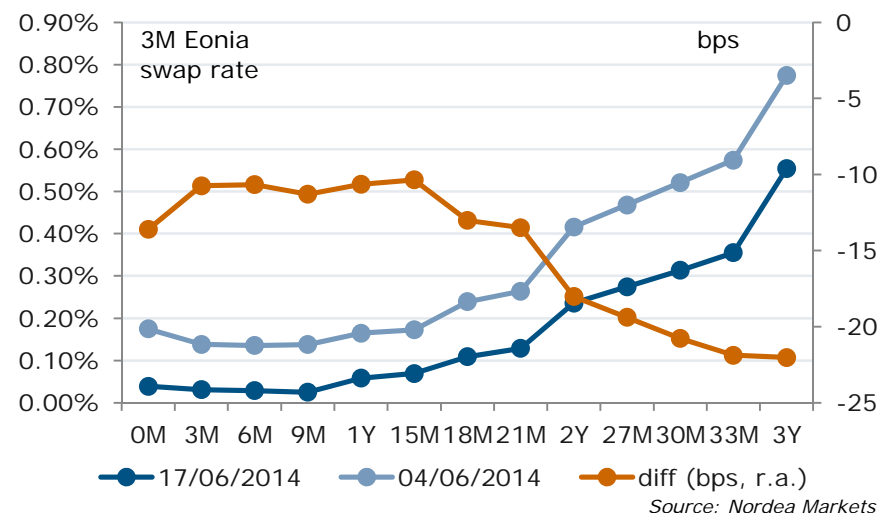
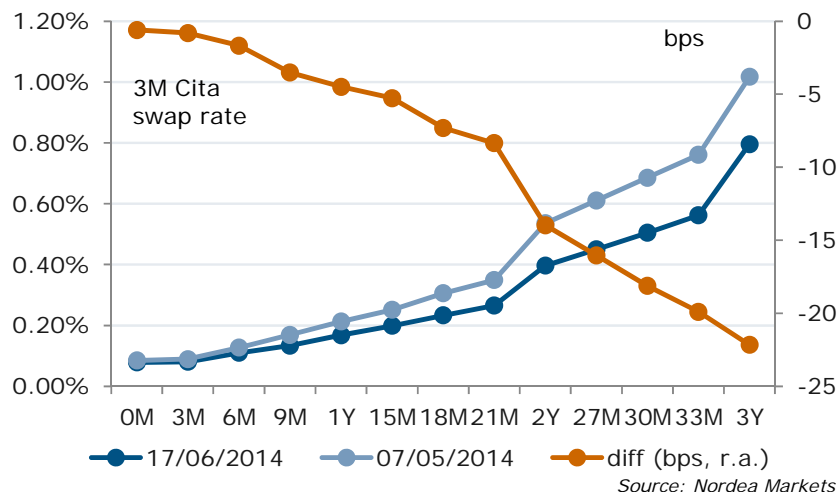
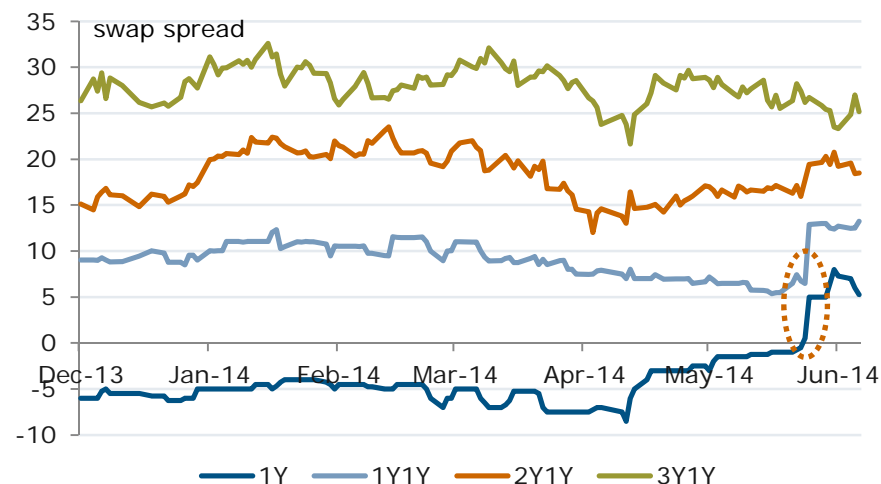


Source: Nordea Markets

DKK & EUR O/N swaps: Stories to tell (2)

Whereas we see value in e.g. 6M3M vs. O/N rates, much of that comes from Eonia rates very likely rebounding from their global lows, the case is not there for e.g. 2y1y.

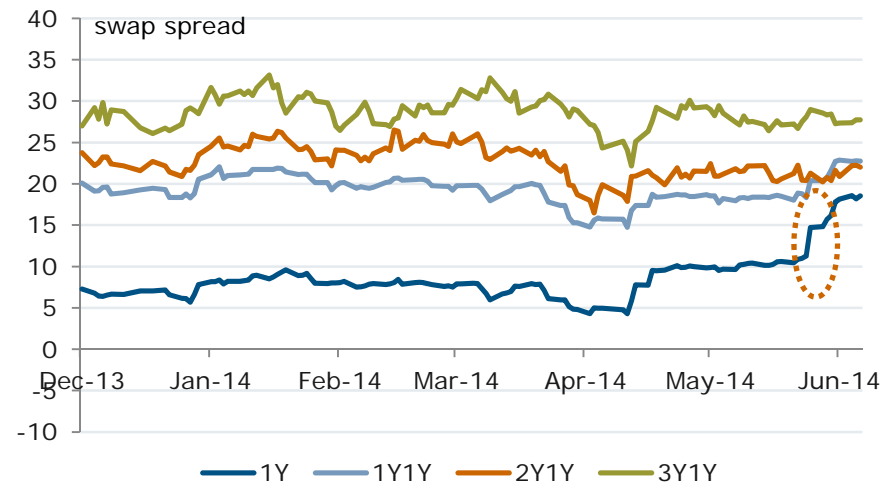
- A bit out on the forward structure the widening evaporates on O/N swaps. For instance, 3Y1Y have actually tightened over the past month.
- The story lies with the term structures for Eonia and Cita respectively (below, and measured relative to early May (before ECB pre-commitment)).
- Front end of Eonia structure has tanked, and again 6M3M and 6M6M looks primed for paying



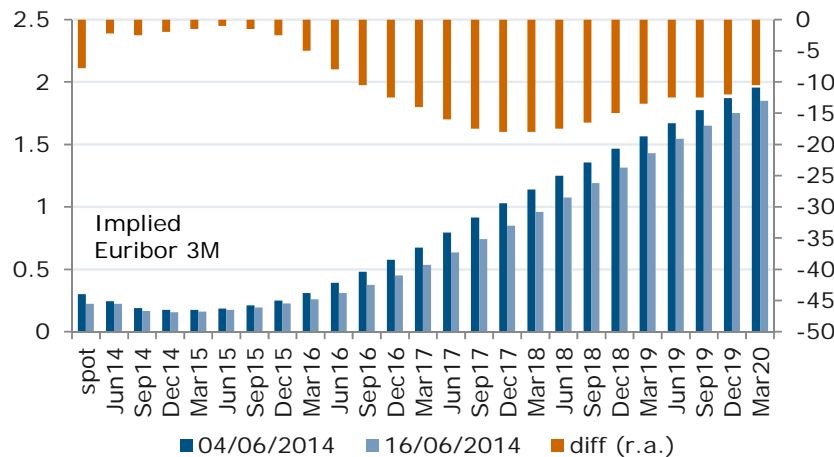
DKK & EUR xlbtor based swaps: Fixings gap

In the Eurozone, Euribor fixings are playing catch-up to Eonia. Cibor-Euribor fixing gaps are again on the rise.

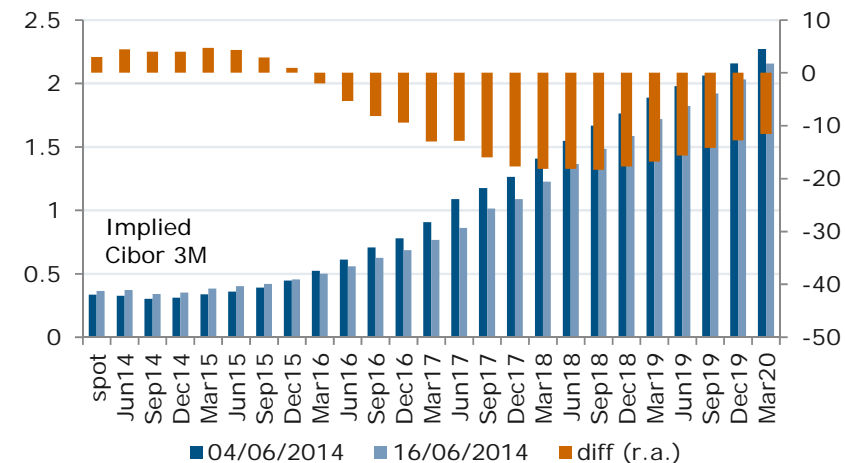
- The forward structure on 1Y swaps vs. xlbtor 3s is displaying a different picture than O/N rates.
- While the 1Y spot reacted starkly, this effect is gone as early as 2y1y, cf. upper chart.
- Much of the move in 1Y spot can be attributed to the fixing gap between Cibor 3M and Euribor 3M.
- Note that only the front Cibors are lifted (bottom right chart): No incentive for receiving 2y1y or 3y1y vs. 3s.



Source: Nordea Markets



Source: Bloomberg

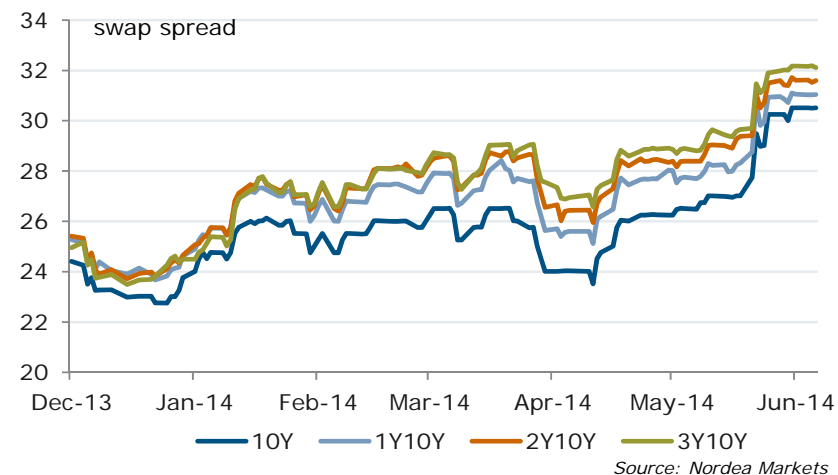
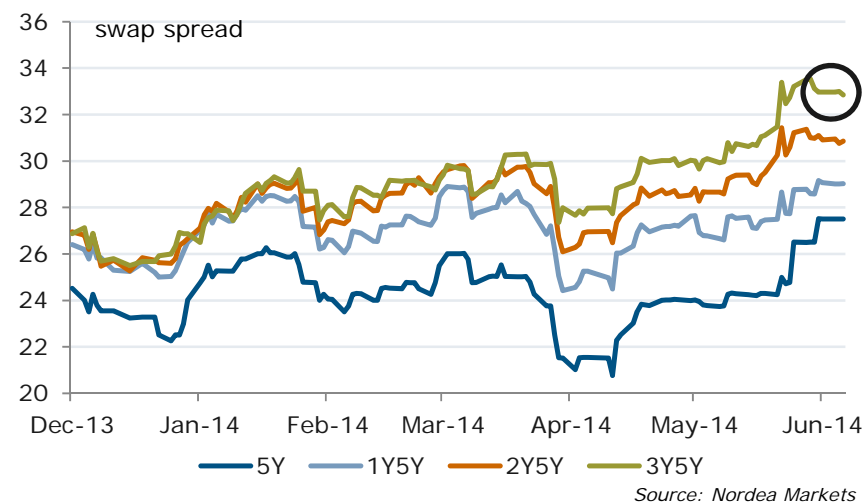
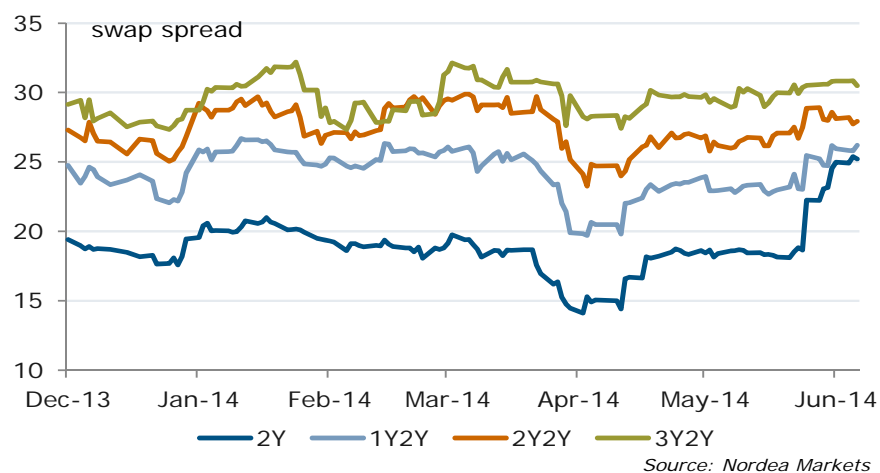


Source: Nordea Markets

DKK & EUR xlibor based swaps: Best value in 5y spreads

For longer swaps, DKK risk is looking increasingly cheap, with or without a cut. These trades also roll strongly (relative to EUR based swaps). The best segment is forward starting swaps on 5Y tails.

- The charts illustrate the recent widening on virtually all DKK swaps relative to EUR.
- The point on the EUR curve that has gotten beaten the most is around 5y-7y.
- Combine this with the roll properties which are clearly best for 2y5y or 3y5y relative to other swap tails.
- The current spread on 3y5y at 33bps corresponds to the all-time high on this EUR-DKK spread



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Thank you!

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