

FX Forecast Update

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A 'Sintra accord'? Maybe, but it has yet to be signed by the Scandies

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- **What a difference one month makes.** The attitude of central banks has changed materially since we published *FX Forecast Update: Persistent cyclical risks set to drive FX markets* on 16 June. Summer calm was just about to set in in mid-June as markets paid only limited attention to the ECB removing its rate easing bias in early June. However, the Bank of Canada then hinted at a soon-to-come rate hike. Norges Bank removed its easing bias. Shortly after, the ECB's Mario Draghi used the Sintra conference to speak of the need to change policy (instruments) in order not to change (the effective) policy (stance). The Bank of England's (BoE) Mark Carney joined in on the need for 'normalisation' talk, and the Riksbank removed its easing bias earlier this month. **Currency markets have reacted by generally sending the EUR, SEK and CAD stronger while the JPY, USD and CHF have weakened.**
- **From an FX market point of view, one may dub this seemingly synchronised urge for 'normalisation' among central banks the 'Sintra accord'.** Central bankers now appear complacent enough regarding the inflation outlook to start looking for the exit on policy stimulus and (possibly) leave worries over the deflationary impact of currency appreciation behind. In that sense, the Sintra messages may be viewed as an acceptance of USD weakness ahead and thus provides some associations with the Plaza accord of 1985 (although we stress that this was nowhere near as vocally conveyed in terms of desired FX moves). Whether Sintra will more broadly mark the end of the currency war of recent years – led not least by ECB-induced EUR weakening – and allow for USD weakness as fundamentals call for in our view (see *FX Strategy: Danske G10 MEVA*, 7 July) remains to be seen. **However, to the extent that central banks believe that underlying inflationary forces are picking up, they may be willing to accept currency strength – and not least USD weakness – to a greater extent.** Notably, this could also mark the beginning of the end for the euro as a funding currency.
- **Whether inflation will pick up remains the big question** and is largely down to whether one believes that lower unemployment will spur wage and, in turn, price pressure, i.e. whether the Philips curve remains alive? However, inflation expectations play a key role here and there is a risk that central banks may deliver another blow to these with their current eagerness to 'normalise'. **Cross-country differences in wage-price dynamics – and not least central-bank perceptions of these – are thus set to become crucial for the FX market, as this will determine movements in real-rate differentials ahead.** Near term, this heightens the risk of a BoE rate hike and associated GBP appreciation, it points to continued upside potential in EUR crosses as the ECB has now revealed its worries in terms of falling behind the curve, and it looks set to keep JPY weak for some time as the Bank of Japan (BoJ) has seen little evidence of price pressure despite low unemployment. **Notably, it also suggests that the Scandies will be range bound for a while, as neither Norges Bank nor the Riksbank appear ready to let their currencies appreciate materially; in that sense, the Scandies have yet to sign any sort of 'Sintra accord'.** Longer term, as more central banks are set to follow the Fed in withdrawing stimulus, fundamental factors are set to play a larger role in FX moves, which should weigh on USD vis-à-vis not least EUR and the Scandies.

Forecast review part I

- **EUR/SEK.** The fundamental reasons to be bearish EUR/SEK remain muddled by the Riksbank's easy policy stance. But the July decision to remove the easing bias was a small game changer for the krona and instrumental in reversing the multi-month uptrend. Even 'baby steps' in the policy stance matter for the currency markets as seen with recent moves in relation to ECB policy communication. The much-higher-than-expected Swedish June inflation numbers were another blow to long EUR/SEK positions. Tentatively, we see an increased likelihood that inflation will overshoot the Riksbank over the next few months. Overall, the potential upside risks to EUR/SEK have weakened over the past few weeks. We continue to think that the Riksbank will end its QE programme by year-end and we do not expect any further rate cuts. However, we think that the Riksbank can afford to err on the side of caution in terms of future tightening. Hence, market pricing looks a bit too aggressive, but this is also the case for the ECB. Next week's Riksbank minutes and ECB meeting will set the stage for EUR/SEK over the next few weeks. The above-mentioned factors alongside the risk of correction given that the pair has moved quite substantially in a short period of time lead us to lower our forecasts for the pair to 9.60 in 1M, 9.50 (9.60) in 3M and 9.40 in 6M (9.50) while keeping our 12M forecast at 9.30. More on SEK, see [FX Strategy: SEK responds when the Riksbank moves in baby steps](#) (11 July).
- **EUR/NOK.** As we expected, Norges Bank removed the rate cut probability embedded into the rate path at the June meeting and at the same time signalled that no imminent rate hike is forthcoming (also our call). The March-June weakening of the NOK should support growth and the inflationary outlook and, as such, the cooling housing market is the biggest domestic downside risk factor. However, we do not expect the current correction to have major real effects on the economy and, as such, domestics remain supportive for the NOK. In addition, we have turned slightly more upbeat on the global outlook, which diminishes the external headwinds. We roll our 1M forecast to 9.30 but leave the rest of the profile unchanged at 9.30 in 3M, 9.10 in 6M and 9.00 in 12M.
- **EUR/USD.** The ECB's recent flirt with stimulus exit talk has let the genie out of the bottle for EUR/USD and, as we stated in [FX Strategy: ECB has let EUR/USD out of the bottle](#) (29 June), we no longer expect any substantial dip in the cross near term. While Fed eagerness to tighten more than is priced in for both rate hikes and balance-sheet reduction still has the potential to support the USD near term, we stress that it may induce the need for a tightening pause at a later stage. Speculators are now net long EUR/USD (IMM data), which suggests risks are on the downside for the cross near term. That said, we emphasise that any dips in the EUR/USD are likely to prove shallow and short-lived. Thus, we continue to see the cross in a range of plus/minus a few big figures around 1.13 on a 1-3M horizon. In our view, EUR/USD has the potential to rise towards the 1.20s as Fed-ECB divergence fades but the next move from current levels to, say, 1.20 will be more 'demanding' than the one from below 1.04 to 1.14 seen in H1. We still see the cross at 1.18 in 12M on valuation arguments.

Forecast review part II

- **EUR/DKK.** Danmarks Nationalbank (DN) did not intervene in the FX market in June when EUR/DKK traded in the 7.4350-7.4400 range. The market is pricing DN to mirror a potential rate hike from the ECB next year, which is fair in our view and means that EUR/DKK remains depressed by strong DKK fundamentals, e.g. Denmark is on pace to report a current-account surplus around 8-9% of GDP this year. We still forecast EUR/DKK at 7.4400 on 1-12M. For more on DKK, see [FX Strategy: DKK staying strong amid EUR rally](#) (5 July).
- **USD/JPY.** The JPY has weakened significantly over the past month, as the BoJ has demonstrated its commitment to yield curve control by announcing an unlimited fixed-rate purchase of 10Y JGBs. We have lifted our 1-3M forecasts, both from previously 112 to 114, as we expect relative monetary policy (notably too soft Fed pricing) to support the cross in coming months. Non-commercial short JPY positioning is approaching stretched levels (IMM data), indicating that the rally in USD/JPY could lose momentum near term. We expect the BoJ to maintain its current monetary policy throughout our 12M forecast horizon, and we still see JPY underperforming vis-à-vis the USD and EUR over the medium to long term driven by real interest rates and portfolio outflows out of Japan. We still target USD/JPY at 116 in 6-12M.
- **EUR/GBP.** Recent communications from various BoE MPC members have increased market expectations for a November rate hike. We still expect the BoE to keep its policy rate unchanged over the coming year given that GDP growth is slowing. In the near term, however, we expect market pricing for a November rate hike (50% probability of a 25bp hike priced) to remain intact ahead of the August MPC meeting. We see EUR/GBP continue to trade in the 0.87-0.90 range in coming months, targeting 0.88 in 1-3M (previously 0.87). Longer term, Brexit negotiations remain a key driver for the GBP and, while GBP appreciation potential driven by reduced Brexit uncertainty is less likely to materialise within our 12M forecast horizon, we see risks skewed on the downside relative to our 6-12M forecast of 0.87.
- **EUR/CHF.** In our view, the Swiss National Bank (SNB) will be eager to welcome ECB 'normalisation' in order to end its long-standing suffering from CHF strength, which has kept Swiss CPI weak. We expect the SNB to keep policy rates unchanged for an extended period but key to watch is whether SNB intervention is starting to wear off, as this would be a key indication of whether CHF inflows are starting to fade. A rise in tensions surrounding North Korea is a key downside risk to the cross though, as CHF is the only genuine safe-haven currency in the event of an escalating conflict, see [Research: The rising risk from North Korea - and what it means for markets](#), 27 April. However, in our base case of no conflict escalation, CHF should now embark on a broader depreciation trend as the ECB continues to head, if slowly, for a first rate hike. The cross has broken through 1.10 and we expect it to trade around these levels near term; we see EUR/CHF around 1.11 on a 1-3M horizon (previously 1.10 in 3M). We have also upped our longer-term forecasts for the cross a bit as 'normalisation' draws closer and we now see 1.13 (1.12) in 6M and 1.16 (1.15) in 12M.

Forecast review part III

- **AUD, NZD, CAD.** Since our previous forecast update in mid-June, we have turned a little less cautious on the global business cycle, even though the Chinese slowdown is set to remain a challenge for the commodity currencies. The Bank of Canada's (BoC) July hike marked a substantial turnaround in its communication and has amplified market focus on when the Reserve Bank of Australia (RBA) and Reserve Bank of New Zealand (RBNZ) could follow suit. In our view, market pricing of the BoC has become too aggressive, with markets pricing in another two full 25bp hikes for the coming year. On balance, we therefore see relative rates as CAD negative, even though Canadian monetary policy is highly linked to the Fed. Markets are currently pricing in slightly less than one 25bp hike on a 12M horizon for both the RBA and RBNZ, which we think is fair. Fundamentally, CAD seems undervalued while AUD and NZD seem overvalued vis-a-vis USD. We now forecast AUD/USD at 0.77 in 1M, 0.75 in 3M (0.73), 0.74 in 6M (0.72) and 0.74 in 12M (unchanged), NZD/USD at 0.72 in 1M, 0.71 in 3M (previously 0.69), 0.70 in 6M (0.68) and 0.70 in 12M (unchanged) and finally USD/CAD at 1.28 in 1M, 1.30 in 3M (previously 1.38), 1.33 in 6M (1.37) and 1.34 in 12M (1.36).
- **USD/RUB.** The rouble has seen additional downward pressure recently on surprising Q2 17 data: the current account (CA) surplus deteriorated, switching to a slight deficit on rising imports and crude's price staying under USD50/bbl. We expect the current weakness in RUB to continue in the short and medium term, as dividend payments and increased FX demand from Russian tourists keep the pressure around. Yet, in the long term, rising oil, a restored CA surplus and attractive carry should be supportive. We update the current RUB forecast levels, expecting higher-than-previous levels in USD/RUB: 60.90 in 1M, 61.20 in 3M (previously 59.40), 57.10 in 6M (54.70) and 55.00 in 12M (53.50).
- **USD/CNY.** We keep our forecast for USD/CNY unchanged at 6.9 in 3M, 6.95 in 12M and 7.1 in 12M. We still expect slowing growth in China, Fed hikes and Chinese financial risks to weigh on the CNY. However, the potential risk to our forecasts is on the downside as a weaker USD tends to work as a drag on USD/CNY. EUR/CNY has increased this year and we continue to look for a further rise to 8.38 in 12M (versus 8.08 in the forward market).

Forecast review part IV

- **USD/TRY.** The lira continues its path through external and internal risks: while emerging market resilience and a weakened crude price have supported the lira, worse-than-expected industrial production growth and a steady CA deficit are weighing on the currency. We see short- and medium-term support for the TRY coming from expectations of improving internal policy and good macro numbers. Yet, we see the long-term prospects being gloomier now on a widening CA deficit and global tightening. We keep our USD/TRY forecasts at 3.50 in 1M, 3.65 in 3M, 3.80 in 6M and 4.00 in 12M.
- **EUR/CZK.** At the June meeting, the Czech National Bank (CNB) left its rate guidance unchanged for Q3 17, in light of inflation remaining above target. For now, we maintain our call for a 20bp hike only in Q4 17, due to downside risks to the inflation outlook. However, the CNB's communication raises the risk of an earlier move in Q3. We still think EUR/CZK will struggle to break robustly below 26.0 in the short term before the first CNB rate hike, also in light of recent hawkish ECB comments. Given sizable long CZK positions in the market, EUR/CZK is also still vulnerable to spikes higher. Over the medium term, we look for more gradual CZK strengthening based on robust economic fundamentals as well as relative monetary policy divergence. We leave our forecasts for EUR/CZK broadly unchanged at 26.20 in 1M, 26.10 in 3M, 25.90 in 6M (previously 26.00) and 25.50 in 12M.
- **EMEA.** Both Poland and Hungary are seeing fairly strong momentum driven by expansionary economic policies, record-low unemployment rates and fast wage growth. However, inflationary pressures remain muted in both economies. Furthermore, notably the PLN has been hit by the recent hawkish signals from the ECB and the Fed. We think that inflation will pick up again given the tightness of the countries' labour markets, which will prompt discussion of a likely tightening of monetary policies in both countries in late 2017, supporting the currencies against the EUR. We modify our short-term forecast for EUR/PLN to 4.21 (previously 4.18) in 1M, while maintaining 4.16 in 3M, 4.14 in 6M and 4.12 in 12M. We keep our forecast for EUR/HUF at 308 in 1M, 306 in 3M, 304 in 6M and 300 in 12M.

Danske Bank Markets FX forecasts vs EUR and USD

	Spot	Forecast				Forecast vs forward outright, %			
		+1m	+3m	+6m	+12m	+1m	+3m	+6m	+12m
Exchange rates vs EUR									
USD	1.142	1.13	1.13	1.15	1.18	-1.2	-1.5	-0.3	1.3
JPY	129.3	129	129	133	137	-0.4	-0.5	3.0	5.7
GBP	0.881	0.88	0.88	0.87	0.87	-0.2	-0.3	-1.7	-2.2
CHF	1.105	1.11	1.11	1.13	1.16	0.5	0.5	2.5	5.4
DKK	7.4367	7.4400	7.4400	7.4400	7.4400	0.1	0.1	0.1	0.2
NOK	9.40	9.30	9.30	9.10	9.00	-1.2	-1.4	-3.8	-5.5
SEK	9.54	9.60	9.50	9.40	9.30	0.7	-0.4	-1.4	-2.4
Exchange rates vs USD									
JPY	113.3	114	114	116	116	0.8	1.1	3.3	4.3
GBP	1.30	1.28	1.28	1.32	1.36	-1.0	-1.2	1.5	3.5
CHF	0.97	0.98	0.98	0.98	0.98	1.7	2.1	2.7	4.1
DKK	6.51	6.58	6.58	6.47	6.31	1.2	1.6	0.4	-1.1
NOK	8.23	8.23	8.23	7.91	7.63	0.0	0.1	-3.5	-6.7
SEK	8.35	8.50	8.41	8.17	7.88	1.9	1.2	-1.1	-3.6
CAD	1.27	1.28	1.30	1.33	1.34	0.5	2.2	4.6	5.5
AUD	0.78	0.77	0.75	0.74	0.74	-0.6	-3.1	-4.3	-4.1
NZD	0.73	0.72	0.71	0.70	0.70	-1.6	-2.9	-4.1	-3.7
RUB	59.89	60.90	61.20	57.10	55.00	1.0	0.3	-8.0	-14.1
CNY	6.78	6.90	6.90	6.95	7.10	1.6	1.3	1.7	3.3
CNH									

Note: GBP, AUD and NZD are denominated in local currency rather than USD

Source: Bloomberg, Danske Bank Markets

Danske Bank Markets FX forecasts vs DKK

	Spot	Forecast				Forecast vs forward outright, %				
		+1m	+3m	+6m	+12m	+1m	+3m	+6m	+12m	
Exchange rates vs DKK										
EUR	7.4367	7.4400	7.4400	7.4400	7.4400	0.1	0.1	0.1	0.2	
USD	6.51	6.58	6.58	6.47	6.31	1.2	1.6	0.4	-1.1	
JPY	5.75	5.78	5.78	5.58	5.44	0.5	0.5	-2.8	-5.2	
GBP	8.44	8.45	8.45	8.55	8.55	0.3	0.4	1.8	2.4	
CHF	6.73	6.70	6.70	6.58	6.41	-0.4	-0.5	-2.3	-5.0	
NOK	0.79	0.80	0.80	0.82	0.83	1.2	1.5	4.1	6.0	
SEK	0.78	0.78	0.78	0.79	0.80	-0.6	0.4	1.5	2.6	
CAD	5.11	5.14	5.06	4.86	4.71	0.7	-0.5	-4.0	-6.2	
AUD	5.05	5.07	4.94	4.79	4.67	0.6	-1.6	-4.0	-5.2	
NZD	4.77	4.74	4.67	4.53	4.41	-0.4	-1.3	-3.7	-4.8	
PLN	1.76	1.77	1.79	1.80	1.81	0.5	2.0	3.1	4.7	
CZK	0.285	0.284	0.285	0.287	0.292	-0.4	-0.1	0.4	2.0	
HUF	2.42	2.42	2.43	2.45	2.48	-0.3	0.4	1.1	2.9	
RUB	0.109	0.108	0.108	0.113	0.115	0.2	1.3	9.1	15.1	
TRY	1.83	1.88	1.80	1.70	1.58	4.1	1.9	-0.9	-3.0	
CNY	0.96	0.95	0.95	0.93	0.89	-0.3	0.3	-1.3	-4.2	

Source: Bloomberg, Danske Bank Markets

Danske Bank Markets FX forecasts vs SEK

	Spot	Forecast				Forecast vs forward outright, %			
		+1m	+3m	+6m	+12m	+1m	+3m	+6m	+12m
Exchange rates vs SEK									
EUR	9.54	9.60	9.50	9.40	9.30	0.7	-0.4	-1.4	-2.4
USD	8.35	8.50	8.41	8.17	7.88	1.9	1.2	-1.1	-3.6
JPY	7.37	7.45	7.37	7.05	6.79	1.1	0.1	-4.3	-7.6
GBP	10.82	10.91	10.80	10.80	10.69	0.9	0.0	0.3	-0.2
CHF	8.63	8.65	8.56	8.32	8.02	0.2	-0.9	-3.7	-7.4
NOK	1.01	1.03	1.02	1.03	1.03	1.8	1.0	2.5	3.2
DKK	1.28	1.29	1.28	1.26	1.25	0.6	-0.4	-1.5	-2.5
CAD	6.56	6.64	6.47	6.15	5.88	1.4	-1.0	-5.4	-8.6
AUD	6.48	6.54	6.31	6.05	5.83	1.2	-2.0	-5.4	-7.6
NZD	6.12	6.12	5.97	5.72	5.52	0.2	-1.7	-5.1	-7.2
PLN	2.26	2.28	2.28	2.27	2.26	1.1	1.6	1.6	2.1
CZK	0.365	0.366	0.364	0.363	0.365	0.2	-0.5	-1.0	-0.6
HUF	3.11	3.12	3.10	3.09	3.10	0.3	0.0	-0.3	0.3
RUB	0.140	0.140	0.137	0.143	0.143	0.8	0.9	7.5	12.2
TRY	2.34	2.43	2.30	2.15	1.97	4.7	1.4	-2.4	-5.5
CNY	1.23	1.23	1.22	1.18	1.11	0.3	-0.1	-2.7	-6.7

Source: Bloomberg, Danske Bank Markets

Danske Bank Markets FX forecasts vs NOK

	Spot	Forecast				Forecast vs forward outright, %			
		+1m	+3m	+6m	+12m	+1m	+3m	+6m	+12m
Exchange rates vs NOK									
EUR	9.40	9.30	9.30	9.10	9.00	-1.2	-1.4	-3.8	-5.5
USD	8.23	8.23	8.23	7.91	7.63	0.0	0.1	-3.5	-6.7
JPY	7.27	7.22	7.22	6.82	6.58	-0.7	-0.9	-6.6	-10.6
GBP	10.66	10.57	10.57	10.46	10.34	-0.9	-1.0	-2.1	-3.4
CHF	8.50	8.38	8.38	8.05	7.76	-1.6	-1.9	-6.1	-10.3
SEK	0.99	0.97	0.98	0.97	0.97	-1.8	-1.0	-2.5	-3.1
DKK	1.26	1.25	1.25	1.22	1.21	-1.2	-1.4	-3.9	-5.6
CAD	6.46	6.43	6.33	5.95	5.69	-0.5	-2.0	-7.8	-11.5
AUD	6.38	6.34	6.17	5.86	5.64	-0.6	-3.0	-7.7	-10.5
NZD	6.03	5.93	5.84	5.54	5.34	-1.6	-2.7	-7.5	-10.2
PLN	2.23	2.21	2.24	2.20	2.18	-0.8	0.5	-1.0	-1.2
CZK	0.360	0.355	0.356	0.351	0.353	-1.6	-1.5	-3.5	-3.7
HUF	3.06	3.02	3.04	2.99	3.00	-1.5	-1.0	-2.8	-2.9
RUB	0.138	0.135	0.134	0.139	0.139	-1.0	-0.2	4.9	8.6
TRY	2.31	2.35	2.25	2.08	1.91	2.8	0.4	-4.8	-8.5
CNY	1.21	1.19	1.19	1.14	1.07	-1.5	-1.1	-5.1	-9.6

Source: Bloomberg, Danske Bank Markets

Danske Bank EMEA FX forecasts

		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
PLN	14-Jul-17	4.22		3.70		176		226		223	
	+1M	4.21	4.23	3.73	3.70	177	176	228	226	221	223
	+3M	4.16	4.24	3.68	3.70	179	175	228	225	224	222
	+6M	4.14	4.26	3.60	3.70	180	174	227	224	220	222
	+12M	4.12	4.31	3.49	3.70	181	172	226	221	218	221
HUF	14-Jul-17	307		269		2.42		3.11		3.06	
	+1M	308	307	273	268	2.42	2.42	3.12	3.11	3.02	3.07
	+3M	306	307	271	268	2.43	2.42	3.10	3.11	3.04	3.07
	+6M	304	307	264	266	2.45	2.42	3.09	3.10	2.99	3.08
	+12M	300	308	254	265	2.48	2.41	3.10	3.09	3.00	3.09
CZK	14-Jul-17	26.1		22.9		28.5		36.5		36.0	
	+1M	26.2	26.1	23.2	22.8	28.4	28.5	36.6	36.6	35.5	36.1
	+3M	26.1	26.1	23.1	22.7	28.5	28.5	36.4	36.6	35.6	36.2
	+6M	25.9	26.0	22.5	22.5	28.7	28.6	36.3	36.7	35.1	36.4
	+12M	25.5	26.0	21.6	22.3	29.2	28.6	36.5	36.7	35.3	36.6
RUB	14-Jul-17	68.4		59.9		10.9		13.9		13.7	
	+1M	68.8	68.9	60.9	60.3	10.8	10.8	14.0	13.8	13.5	13.7
	+3M	69.2	70.0	61.2	61.0	10.8	10.6	13.7	13.6	13.4	13.5
	+6M	65.7	71.6	57.1	62.1	11.3	10.4	14.3	13.3	13.9	13.2
	+12M	64.9	74.6	55.0	64.0	11.5	10.0	14.3	12.8	13.9	12.8
TRY	14-Jul-17	4.07		3.57		183		234		231	
	+1M	3.96	4.11	3.50	3.60	188	181	243	232	235	229
	+3M	4.12	4.20	3.65	3.66	180	177	230	227	225	225
	+6M	4.37	4.33	3.80	3.75	170	172	215	220	208	219
	+12M	4.72	4.57	4.00	3.92	158	163	197	208	191	208
CNY	14-Jul-17	7.74		6.78		96		123		121	
	+1M	7.80	7.77	6.90	6.79	95	96	123	123	119	121
	+3M	7.80	7.81	6.90	6.81	95	95	122	122	119	121
	+6M	7.99	7.88	6.95	6.84	93	94	118	121	114	120
	+12M	8.38	8.01	7.10	6.88	89	93	111	119	107	119
ZAR	14-Jul-17	15.0		13.2		49.4		63.4		62.5	
	+1M	15.0	15.1	13.26	13.2	49.7	49.1	64.1	62.9	62.1	62.1
	+3M	15.0	15.4	13.30	13.4	49.5	48.4	63.2	62.1	61.9	61.4
	+6M	15.5	15.7	13.50	13.6	47.9	47.5	60.5	60.9	58.6	60.4
	+12M	16.2	16.3	13.70	14.0	46.0	45.7	57.5	58.6	55.7	58.5

Source: Bloomberg, Danske Bank Markets

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