

# Danske Bank FX Trading Portfolio

## Lift target on long HUF/CZK

- EUR/CZK continues to tick higher on a dovish CNB.
- The HUF should strengthen on external balances and stable risk sentiment.
- Carry continues to support the HUF versus the CZK; we raise our target and stop-loss.

### Strategy

On 11 November, we recommended buying HUF/CZK (see *Danske Bank FX Trading Portfolio: Buy HUF/CZK*). We based this trade on our expectation of a more dovish Czech central bank (CNB). This has proved right, as the CNB said in its Minutes on 14 November that the CNB board is content with a weaker CZK as it helps inflation and fuels growth further. In our view, this means the CNB prefers the EUR/CZK closer to 28.0 than at the EUR/CZK floor level of 27.0. Our assumption of a more dovish CNB is reflected in our EUR/CZK FX forecast of 28.0 for the one-, three-, six- and 12-month forecast horizons. While we expect the CZK to stay soft, we believe the Hungarian forint should continue to be supported by Hungary's favourable external balances, solid economic growth and positive carry versus the Czech Republic. Furthermore, based on fundamentals, we have recently revised our forecast for the Hungarian forint in a more positive direction. We now forecast EUR/HUF at 305, 300, 300 and 305 in one, three, six and 12 months respectively. Therefore, we lift our stop-loss for HUF/CZK to 9.00 to protect profit. Furthermore, we have also raised our target from 9.15 to 9.20.

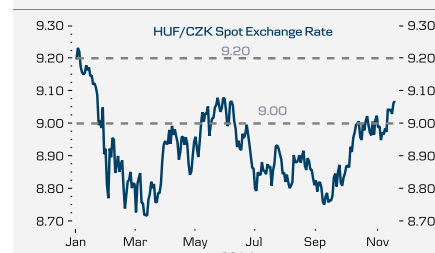
### Fundamentals

The Czech koruna devaluation is efficient enough to avoid outright deflation in the Czech economy and to bring inflation back to the inflation target of 2%. However, while the devaluation effect is positive, it is still less efficient than the CNB assumes (as the external environment is more deflationary). In this respect, we continue to expect the CNB to be fairly dovish. Thus, the risk of a weaker CZK is intact. However, we believe Hungary will benefit from its fairly strong external position and a strong economic recovery. Furthermore, the Hungarian central bank has opted for a fairly neutral stance on monetary policy, which means Hungary should maintain positive carry compared with the very low Czech interest rates levels.

### Buy HUF/CZK

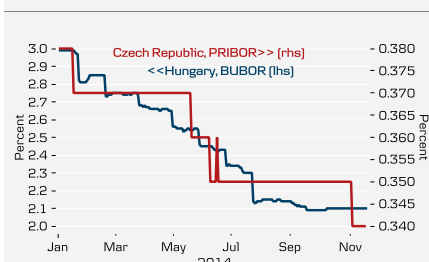
|              |                  |
|--------------|------------------|
| Instrument:  | Spot             |
| Entry date:  | 11 November 2014 |
| Entry level: | 8.97             |
| New target:  | 9.20             |
| New stop:    | 9.00             |

Chart 1. HUF/CZK lifting target and stop-loss higher



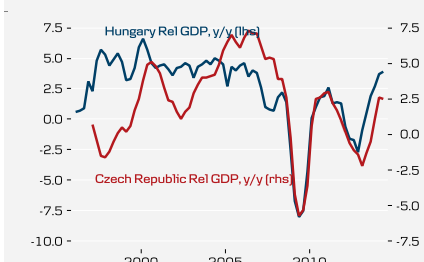
Source: Macro bond Financial, Danske Bank Markets

Chart 2. Positive carry on HUF



Source: Macrobond Financial, Danske Bank Markets

Chart 3. Hungary outperforms Czech economy



Source: Macrobond Financial, Danske Bank Markets

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# Portfolio overview

Table 1. Danske Bank FX Trading Portfolio summary

|             | # | Cumulative Return | Average Return |
|-------------|---|-------------------|----------------|
| Profitable  | 4 | 14.9%             | 3.7%           |
| Loss-Making | 2 | -2.7%             | -1.3%          |
| All Trades  | 6 | 12.3%             | 2.0%           |

Source: Bloomberg, Danske Bank Markets

Table 2. Open FX Portfolio Trades

| Trade        | Rationale  | Target & P/L*         |
|--------------|--|-----------------------|
| Sell NZD/SEK | Short NZD/SEK on valuation and positioning         | Trade type Spot       |
|              |  | Entry date 29-10-2014 |
|              |  | Entry level 5.8240    |
|              |  | Target/Stop 5.59/5.94 |
|              |  | Current level 5.8022  |
|              |  | P/L 0.10%             |
| Buy USD/CHF  | Buy USD/CHF on relative growth and monetary policy | Trade type Spot       |
|              |  | Entry date 10-11-2014 |
|              |  | Entry level 0.9620    |
|              |  | Target/Stop 1.02/0.94 |
|              |  | Current level 0.9587  |
|              |  | P/L -0.34%            |
| Buy HUF/CZK  | Buy HUF/CZK on relative monetary policy and carry  | Trade type Spot       |
|              |  | Entry date 11-11-2014 |
|              |  | Entry level 8.97      |
|              |  | Target/Stop 9.20/9.00 |
|              |  | Current level 9.0851  |
|              |  | P/L 1.28%             |

Source: Bloomberg, Danske Bank Markets

Table 3. Closed FX Portfolio Trades

| Trade        | Rationale  | Target & P/L*                       |
|--------------|--|-------------------------------------|
| Buy GBP/JPY  | Sell JPY against GBP on strong UK economy, employment and housing market.        | Trade type Spot                     |
|              |  | Entry date 18-03-2014               |
|              |  | Entry level 168.20                  |
|              |  | Target/Stop 180.00/162.25           |
|              |  | Close date/level 19-09-2014/ 180    |
|              |  | P/L 7.02%                           |
| Sell EUR/USD | Sell EUR/USD on relative monetary policy and the USD's role as an asset currency | Trade type Spot                     |
|              |  | Entry date 28-05-2014               |
|              |  | Entry level 1.3626                  |
|              |  | Target/Stop 1.20/1.30               |
|              |  | Close date/level 09-10-2014/ 1.2740 |
|              |  | P/L 6.54%                           |
| Sell EUR/NOK | Sell EUR/NOK on growth outperformance, carry                                     | Trade type Forward                  |
|              |  | Entry date 23-10-2014               |
|              |  | Entry level 8.3830                  |
|              |  | Target/Stop 8.20/8.50               |
|              |  | Close date/level 04-11-2014/ 8.577  |
|              |  | P/L -2.31%                          |

Source: Bloomberg, Danske Bank Markets

## FX and Commodities Research

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This research report has been prepared by Danske Bank Markets, a division of Danske Bank A/S ('Danske Bank'). The authors of this research report are Lars Christensen, Chief Analyst, and Stanislava Pravdová-Nielsen, Analyst.

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