

Denmark

DNB Cuts CD-Rate Deeper into Negative Territory

- Economic Forecast
- Monetary Policy

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- The DNB announced today that, with effect from tomorrow, it cuts the interest rate on certificates of deposit by 25bp to a new all-time low of -0.75%. Meanwhile, the Bank left the lending rate, current account rate and the discount rate unchanged at 0.05%, 0.0% and 0.0%, respectively. The move follows heavy intervention in the FX market, three rate cuts (of 15bp each) and a suspension of government bond issuance in an attempt to halt krone appreciation after the SNB's decision to abandon its peg and the larger-than-expected bond purchase program from the ECB. Despite these measures, the Danish currency remains strong.
- According to the press statement, the rate cut follows "*purchase of foreign exchange in the market*". In January alone, the DNB intervened massively in the foreign exchange market; net-purchase of foreign currency amounted to DKK 106.5bn. The DNB has never bought/sold FX to this extent before, which shows that the krone has been under very significant appreciation pressure. To put this in context, we note that it historically has taken around DKK 10-20bn in intervention over a short period to trigger a unilateral interest rate change (of normally 10bp). It is unclear, at this stage, to what extent the Bank has intervened in the current month (data on currency reserves are published on the second bank day of the month).
- As today's move likely will add to the speculation on whether the DNB could choose to, or be forced to, exit its EUR/DKK peg too, Central Bank Governor Lars Rohde in the accompanying press statement assured that: "*The fixed exchange rate policy is an indispensable element of economic policy in Denmark – and has been so since 1982. Danmarks Nationalbank has the necessary instruments to defend the fixed exchange rate policy for as long as it takes,*" he said, adding: "*There is no upper limit to the size of the foreign exchange reserve. The sole purpose of the monetary policy instruments is maintaining a stable krone exchange rate against the euro. The revenue of Danmarks Nationalbank is positively affected by the increase of the foreign exchange reserves*". As we concluded in a research note, [published earlier today](#), we believe there is little chance that the DNB will follow the SNB and abandon its commitment to exchange rate stability.
- The cut is prompted by the DNB's strong commitment to exchange rate stability (under the ERM II system, the krone is permitted to fluctuate by +/-2.25% around its central parity of 7.46038 per euro, though, in practice the Central Bank keeps an even tighter range), and reflects ongoing strong capital inflows after the SNB decision combined with the larger-than-expected bond purchase program from the ECB. If, as seems likely, inflows to DKK remain high, we reckon the DNB will be forced to continue intervening in the FX market and to cut the CD-rate deeper into negative territory. The DNB may also allow the currency slightly greater flexibility within its ERM II band in order to produce two-sided FX risk. The DNB may also take advantage of additional unconventional measures, for example in the form of QE (buying government and mortgage bonds) or curtailing issuance of Treasury bills.

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Appendix A-1

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