Denmark’s currency is starting to feel some Greenland effect

Danish krone’s forwards have started to imply a higher yield in the past few days. That could mirror hedging against the risk of US intervention in Greenland, but we think that potential ongoing FX intervention by the central bank is exacerbating the moves. Ample FX reserves suggest EUR/DKK stability can be defended without a rate hike for longer

The latest headlines about the US's increasing determination to acquire parts of Greenland – potentially with military intervention – have not generated meaningful market reactions. That aligns with the market's mix of difficulty and reluctance in pricing Trump’s geopolitical positions.

Still, direct tensions between the US and Denmark have drawn attention to the Danish krone as a potential barometer of Greenland-related risk. Indeed, January has already seen some unusual moves in EUR/DKK forwards and mild upward pressure on spot. We discuss here how these shifts may reflect central bank intervention and speculation linked to Greenland, but also how they remain far from alarming at this stage.

What's at stake for Denmark?

Greenland is part of the Kingdom of Denmark as an autonomous territory and is not included in Danish GDP. If it were, it would represent just 0.8%, driven largely by fisheries exports. Instead, Denmark provides Greenland with an annual block grant of DKK3.9bn (around US$511m) – around 20% of Greenland's GDP and more than half of its government revenue.

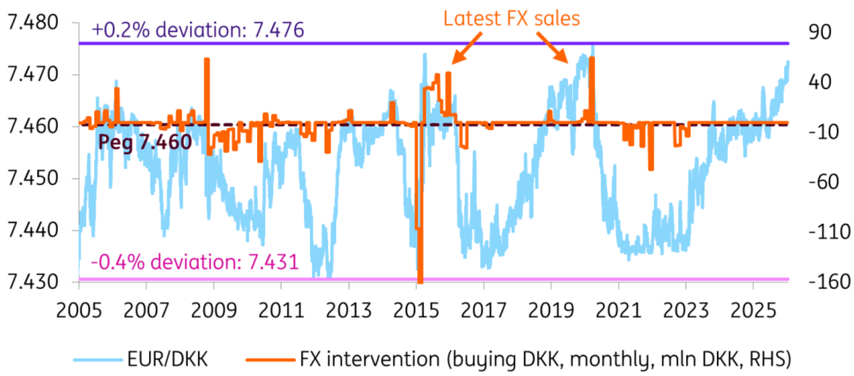
In light of this, the economic risks for Denmark related to US claims on Greenland are mostly indirect. When excluding the black swan risk of direct military confrontation with the US (implications would extend well beyond Denmark and DKK), economic retaliation is probably the main risk.

The US is the largest export market for Denmark (18% of total exports), primarily for pharmaceutical products that have already been on the US protectionist radar.

Spot fluctuations have remained small

The Danish krone is pegged at 7.460 against the euro, with a fluctuation band set at +/- 2.25% by Danmarks Nationalbank (DN) when it joined ERM II in 1999. In practice, EUR/DKK never came close to those limits. As shown below, the past 20 years saw the central bank intervene with direct FX spot operations or occasionally adjusting the rate gap with the ECB to limit fluctuations within around 0.4% on the downside and 0.2% on the upside.

EUR/DKK fluctuations have been historically very small



Source: ING, Refinitiv, DN

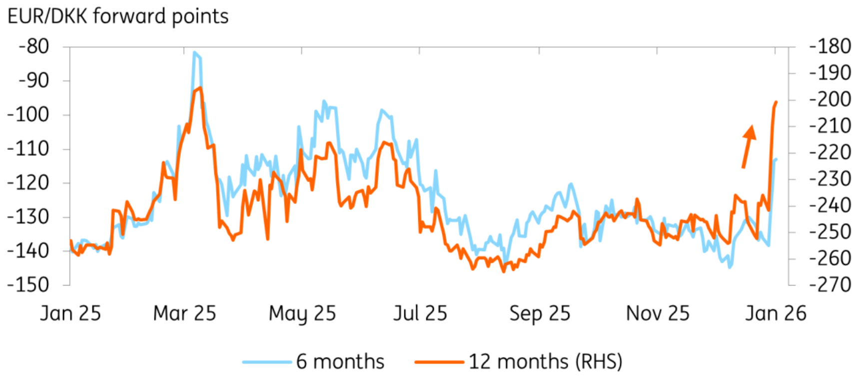
In the past week, EUR/DKK has moved past the 7.470 mark, with an intra-day peak of 7.4728 on 7 January. The move in spot since the start of January remains very contained (less than 0.05%) and is largely in line with a six-month modest upward trend. That trend mostly mirrors capital flow dynamics and the lingering 40bp EUR:DKK positive short-term rate gap, rather than any clear geopolitical risk premium.

Moves in forwards: Greenland speculation or FX intervention?

While spot moves have been very contained, the forward market has shown more unusual moves: a common dynamic in pegged or quasi-pegged currencies. Markets have quite abruptly started to price in a higher implied DKK yield via FX forward, with a 30 swap point jump in 6-month and 12-month forwards since 6 January.

These moves in the forward market may be partly driven by some rush to pay DKK rates to hedge against – or speculate on – the risk of: a) Denmark bond market distress; b) a rate hike to counter excessive pressure on the krone.

Some unusual moves in EUR/DKK forwards



Source: ING, Refinitiv

It's worth noting that in historical terms, this latest jump in forward points remains very small relative to levels that would signal speculation on the peg being broken. For instance, in 2015, after the EUR/CHF floor got pulled, mounting speculation of EUR/DKK devaluation prompted an 800 forward point drop in the 12-month tenor.

Also, we are inclined to think the central bank has started to buy DKK this month, as these are exactly the spot levels for the latest FX-selling intervention in late 2019 and early 2020. As interventions dry up DKK excess liquidity in the market, there is often a knock-on effect on EUR/DKK forwards, which could be exacerbating the moves above.

FX intervention is not an emergency measure, but a standard policy tool in Denmark. Monthly intervention figures for January will be released on 3 February, and only an unusually large intervention would make us consider a rate hike as a peg-defence option. Denmark's FX reserves stood at US$111bn in October 2025, around 25% of GDP and a third larger since they last intervened to buy DKK in 2020. The firepower for intervention is therefore very ample, and we think that will remain the preferred measure before resorting to a rate hike.

No need to worry for now

Whilst somewhat unusual, the magnitude of DKK moves is not alarming. As discussed, some hedging and speculation impact on forwards may be exacerbated by ongoing FX intervention, while spot remains well within the ranges.

Is there a line in the sand for EUR/DKK spot? Looking at the pair's history, DN likes to defend the 7.4730-7.4740 levels with intervention; so a break above those would be symptomatic of somewhat greater tolerance for DKK depreciation under current conditions. That said, given the large intervention firepower, the chances that the peg's resilience will come under severe pressure remain very low.

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