23 October 2015

Emerging Markets Briefer

EM economic growth – another round of disappointment

When the IMF published its latest WEO forecast, it also marked the ninth consecutive time that it revised down its EM and developing economies growth forecasts. The continuous downward revisions raise the question of whether the slowdown is only cyclical or whether EMs are experiencing a structural slowdown after a long boom period in the 2000s. According to the IMF's latest projections, EM and developing countries are now expected to grow by 4% this year – 0.2% lower than expected. This is certainly a world of change compared with the average growth rate in excess of 6% experienced in the boom years of the 2000s.

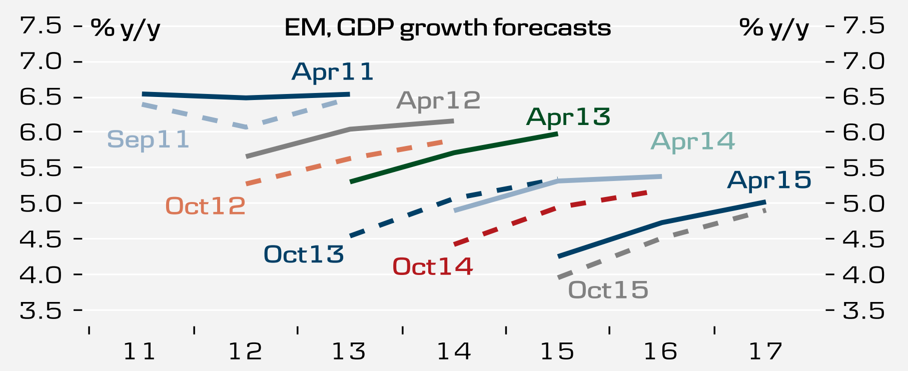
What is the explanation for the latest downward revision? While overestimation of Chinese growth drove previous years' downward revisions, this time around the revisions are caused by sharply lower growth projections for Brazil and more modest adjustments to other commodity-exporting countries in Africa and the former Soviet Union (excluding Russia). In contrast, and to the surprise of many, the IMF held on to its China forecast despite recent events.

Will the downgrades stop here? It is still too early to say. Undoubtedly, many EMs will face further headwind in the short to the medium term; several commodity-producing countries will have to embark on sizeable fiscal adjustment to reduce imbalances, which will weigh on growth. Furthermore, although concerns about a collapse in China have abated, the structural shift in the Chinese economy towards services will continue to curtail commodity import demand. Finally, EMs cannot rely on advanced economies, where the recent data round clearly also signals economic weaknesses.

How should we look at the EM markets? The days of looking at EMs as an aggregate group are certainly over. Investors need to be much more selective in picking; we are certainly seeing pockets of strength in the EM space, such as Mexico, India, the EMEA region and other commodity-importing countries with relatively strong external positions.

How will EM FX perform? We think the weak growth prospects will weigh on sentiment towards many EMs. As discussed in our *Strategy* note, 16 October, the brief rally in many EM currencies has ended and we are now again seeing a weakening trend in many EM currencies.

IMF have continuously revised down its EM growth forecast over the past four years



Source: IMF World Economic Outlooks 2011-15

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Poland – October elections weigh on PLN near term

Macro outlook

- Momentum in Polish GDP growth has been relatively solid, with seven consecutive quarters at an annual growth rate above 3%. As such, real wage growth and lower unemployment indicate continued support for a consumption driven recovery. However, manufacturing PMI dropped further to 50.9 in September from 51.1 in August and retail sales and industrial production both fell short of expectations in August, with a 0.3% y/y decline in retail sales as the most noteworthy indication growth is potentially vulnerable if global growth slows further.

Monetary policy outlook

- As expected, the Polish central Bank (NBP) kept interest rates unchanged at its monetary policy meeting on 6 October. As such, the NBP appears to be relatively complacent about the near-term outlook for the Polish economy although inflation measured on a y/y basis is likely to remain in negative territory in the coming months. The term for eight out of the 10 members of the Monetary Policy Council ends in January and February 2016. Therefore, we see little probability of changes in monetary policy for the rest of 2015. New members of the MPC will be appointed by the new government which increases uncertainty about the medium- to long-term monetary policy outlook.

FX outlook

- We believe that the increased political uncertainty in Poland ahead of the parliamentary elections on 25 October will cause more zloty volatility in the near term and see a risk that EUR/PLN could inch up further. We target the cross at 4.30 in 1M but stress there is a risk that the cross could temporarily overshoot our target around the election day. On a 3-12M horizon, we expect the zloty to remain supported by a more positive outlook for growth in Poland and relative monetary policy as we expect the ECB to extend its QE programme. We expect EUR/PLN to fall back towards 4.10 in 12M.

Risk factors

- Political risks have increased substantially in Poland and the Polish parliamentary elections, which will be held on 25 October. Support for the opposition Law and Justice (PiS) party has increased substantially and the recent polls suggest that PiS is likely to lead the next government. However, it seems less likely that it will win an absolute parliamentary majority and the most likely scenario is a coalition government led by the PiS.

- The political landslide in Poland has raised concerns about a shift towards more populist policymaking. The PiS has, among others, proposed taxes on banks and retailers, and has stated that it wants to increase public spending by lowering income taxes and increasing expenditure on social benefits. Moreover, it has also pledged to roll back the planned increase in the retirement age.

- While the near-term economic impact from a PiS victory is likely to be small – and if anything growth positive due to a looser fiscal policy – concerns are mainly related to the promised populist measures and possibly less structural reform going forward, which could threaten Poland's medium- and long-term growth prospects.

PLN

Credit rating:

S&P: A- (positive)

Currency regime:

Free float (freely convertible)

Inflation target:

2.5% +/-1pp

Macro forecasts

	2014	2015	2016	2017
GDP (% y/y)	3.5	2.9	3.2	3.7
GDP deflator (% y/y)	0.5	1.2	1.7	1.9
CPI (% y/y)	1.0	0.1	-0.4	1.8
Private consumption (% y/y)	3.0	3.4	3.1	3.6
Fixed investments (% y/y)	9.5	6.9	3.5	3.6
Unemployment (%)	13.4	11.0	10.9	10.7
Current account (% of GDP)	-1.3	-1.3	-1.8	-2.4

Source: Macrobond Financial, Danske Bank Markets

Interest rate forecast

National Bank of Poland (NBP)	
Policy rate	1.50
Next meeting	04/11/2015
Next change	Unchanged 2015
End-2015	1.50

Source: Danske Bank Markets

FX forecasts

EUR/PLN		
	Danske	Forward
21-Oct	4.29	
+3M	4.25	4.28
+6M	4.15	4.30
+12M	4.10	4.33
USD/PLN		
	Danske	Forward
21-Oct	3.78	
+3M	3.79	3.83
+6M	3.71	3.84
+12M	3.42	3.85

Source: Danske Bank Markets

Czech Republic – CNB to ward off pressure

Macro outlook

- The Czech economy continues to look robust with the final Q2 GDP estimates revealing an economic growth rate of 4.6% y/y – the highest since 2007. The Czech economy is overall robust, which adds to the appreciation pressure on the CZK. Especially, the significant improvement of the Czech current account in recent years has increased the pressure on the SNB. Currently, the current account surplus amounts to 1.5% of GDP.

Monetary policy outlook

- Data for the FX reserves suggests that the Czech National Bank (CNB) significantly intervened over the summer to fight CZK strength and maintain EUR/CZK above 27.00. The CNB still communicates that it would not discontinue the use of the exchange rate before H2 16, and that there is ‘significant’ room for further intervention. We expect the CNB to maintain the floor for EUR/CZK for the entire 12M forecast horizon.

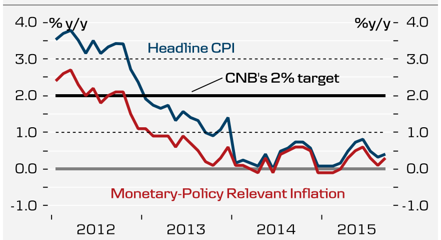
FX outlook

- The CZK remains undervalued from a long-term perspective. To hit the 2% inflation target, the CNB will, in our view, have to keep the currency undervalued.
- The FX option market continues to price in a significant premium on protection against a CZK appreciation. This highlights an overall concern and increased speculation that the CNB in the short term could be forced to remove the EUR/CZK floor in a move resembling the surprise January 2015 SNB move.
- We still believe in the CNB’s dedication to the currency floor in the short term. In particular, we think that recent comments from board members show that the CNB has stepped up the rhetoric with respect to the floor. We expect CNB to maintain its floor on EUR/CZK in the coming 12M.
- As a result, we maintain our EUR/CZK forecast at 27.1 on 1-12M.

Risk factors

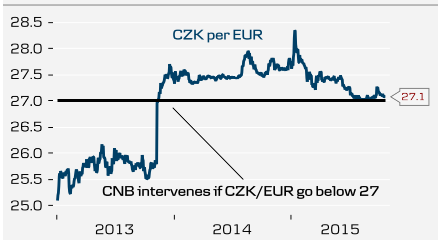
- The biggest risk is significant further easing of ECB monetary policy, which could drive a prolonged and more significant test of the EUR/CZK floor. While it remains our base case that the floor will be maintained, it would increase the risk of a knee-jerk reaction in monetary policy.

The inflation is at low levels



Source: Macrobond Financial

Floor under EUR/CZK to curb deflationary pressures



Source: Macrobond Financial

CZK

Credit rating:

S&P: AA- (stable)

Currency regime:

Free float (freely convertible)

Inflation target:

2% +/-1pp

Macro forecasts

	2014	2015	2016	2017
GDP (% y/y)	2.0	2.7	3.1	3.2
GDP deflator (% y/y)	2.4	1.6	2.0	2.0
CPI (% y/y)	1.4	0.4	0.7	2.0
Private consumption (% y/y)	1.7	1.8	2.8	3.2
Fixed investments (% y/y)	4.5	1.5	2.8	3.2
Unemployment (%)	7.4	7.6	7.3	7.2
Current account (% of GDP)	-0.5	0.6	0.0	0.0

Source: Macrobond Financial, Danske Bank Markets

Interest rate forecast

Czech National Bank (CNB)	
Policy rate	0.05
Next meeting	05/11/2015
Next change	Unchanged 2015
End-2015	0.05

Source: Danske Bank Markets

FX forecasts

EUR/CZK		
	Danske	Forward
21-Oct	27.08	
+3M	27.10	27.00
+6M	27.10	26.94
+12M	27.10	26.84
USD/CZK		
	Danske	Forward
21-Oct	23.85	
+3M	24.20	24.15
+6M	24.20	24.05
+12M	22.58	23.84

Source: Danske Bank Markets

Hungary – strong external position is supportive

Macro outlook

- Growth was slightly slower than we expected in Q2 with GDP expanding only 0.5% q/q. The slowdown in Q2 was primarily due to weaker agricultural output and thus should be a temporarily factor. The near-term growth outlook has become more mixed as manufacturing PMI has recovered further and rose to 55.8 in September, while industrial production fell short of expectations in August. Retail sales also slowed more than expected in August and consumers appear to be less optimistic, suggesting that our 3% GDP growth target for 2015 could be challenged by weaker private consumption in H2.

Monetary policy outlook

- The National Bank of Hungary (NBH) kept its base rate on hold at 1.35% in September in line with expectations after it signaled an end to an easing cycle at the July policy meeting. CPI fell to -0.4% y/y in September but is expected to return to positive territory in Q1 16. In the September inflation report, the NBH acknowledged that inflation is likely to below the central bank's target (3% ±1%) for a longer period and now expects inflation to reach 3% in H2 17 (two quarters later than previously expected). We expect the NBH to keep its policy rate unchanged at least for the rest of 2015, but it is still our view that substantial forint appreciation could trigger further rate cuts.

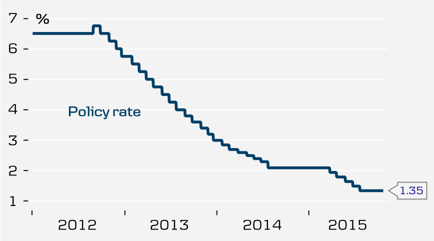
FX outlook

- While the low interest rate in Hungary is likely to keep the HUF attractive as a funding currency within the EM carry trade space, we continue to believe that Hungary's fairly strong external position is likely to be supportive for the HUF in the medium term. We expect EUR/HUF to trade around 310 in the coming one to three months but still look for modest medium-term appreciation against EUR, targeting EUR/HUF at 300 in 12M.

Risk factors

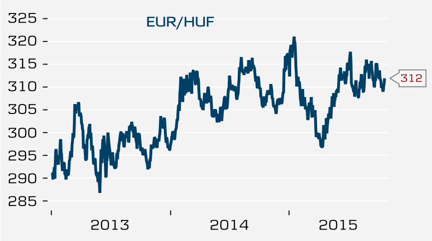
- Current upside and downside risks to the forint seem fairly small and well-balanced.

Is the easing cycle over?



Source: Macrobond Financial

Very stable EUR/HUF



Source: Macrobond Financial

HUF

Credit rating:

S&P: BB+ (stable)

Currency regime:

Free float (freely convertible)

Inflation target:

3% (medium term)

Macro forecasts

	2013	2014	2015	2016	2017
GDP (% y/y)	1.6	3.6	3.3	3.0	2.5
GDP deflator (% y/y)	3.2	3.0	3.2	3.2	3.1
CPI (% y/y)	1.7	-0.2	0.1	3.2	3.1
Private consumption (% y/y)	-0.1	1.6	2.7	3.0	2.6
Fixed investments (% y/y)	2.7	13.6	-5.7	1.5	2.5
Unemployment (%)	7.4	7.1	5.9	5.5	5.3
Current account (% of GDP)	3.0	3.3	2.8	2.5	2.3

Source: Macrobond Financial, Danske Bank Markets

Interest rate forecast

Hungarian Central Bank (MNB)	
Policy rate	1.35
Next meeting	17/11/2015
Next change	Unchanged 2015
End-2015	1.35

Source: Danske Bank Markets

FX forecasts

EUR/HUF		
	Danske	Forward
21-Oct	311.9	
+3M	310.0	312.0
+6M	305.0	312.6
+12M	300.0	314.1
USD/HUF		
	Danske	Forward
21-Oct	274.67	
+3M	276.79	279.11
+6M	272.32	279.09
+12M	250.00	278.96

Source: Danske Bank Markets

Baltics – staying afloat

Macro outlook

- Despite being the most vulnerable economies in terms of dependence on Russia, we do not expect the Baltic economies to be the worst performers in the EU in terms of economic growth this year. We expect Latvia to grow by 2.5%, Estonia by 2.0% and Lithuania by 1.8%.

The worst is behind us for exports

- Exports to Russia continue to contract in all three countries (the average decline for January-August ranges from -23% in Latvia to -37% in Lithuania). Despite this, so far in 2015, in deflated terms Estonia and Latvia managed to increase their exports by 1-2%, while Lithuania experienced a slight overall contraction (-0.3%). However, in our view, in terms of the contraction in exports to Russia, the worst is behind us. As of September, the base effect will have kicked in, as the Russian food embargo was imposed in August 2014.
- If we add the export of services to the picture, we see that overall growth in the export of goods and services in H1 15 was strongest in Latvia (2.7% – due to a stronger performance of goods exports), followed by Lithuania (2.2% – due to the successful reorientation of the transport services towards the EU market) and Estonia (0.3% – as Estonian exports of services, mainly transport and tourism, actually shrank).
- We expect growth in exports to pick up in all three economies at the very end of 2015 and grow by 3-4% in 2016.

Domestic demand remains strong

- In the context of falling unemployment and accelerating wage inflation (which we expect to average 5-6% in the Baltic region this year and next), domestic consumption remains the key driver of growth in all three economies. Private consumption in H1 15 grew by 5.3% in Estonia, 2.5% in Latvia and 4.9% in Lithuania, while volumes of retail trade in July and August indicate that private consumption growth has not slowed in pace.
- Private consumption has also been boosted by the compression of prices, which is largely a result of falling energy prices. Lithuania has been in deflationary territory since December 2014 and its average inflation rate in 2015 is -0.8%. Despite experiencing a second deflationary dip in September, Estonia and Latvia have managed to maintain positive inflation (0.1% and 0.2%, respectively).
- While fixed investment growth in H1 15 was negative in Estonia, capacity utilisation rates have started to climb again recently and business confidence is regaining ground. This gives us reason to believe that investment growth will return to a positive growth path by the end of 2015.

Industrial production most resilient in Lithuania

- Despite the setback to exports to Russia, industrial production remains strongest in Lithuania (+5.3% in January to August). Food production is the only sector suffering from shrinking demand, while other sectors show healthy growth momentum. Estonian industrial production over the same period shrank by 0.8% (reflecting a contraction in demand for locally produced investment goods). In Latvia, industrial production started the year very slowly but then picked up, growing by 4.6% from January to August, as Latvia's largest metallurgical plant *Liepajas Metalurgs* began operating again in March.

Estonia

Credit rating: S&P: AA- (stable)

Currency: EUR since 1 Jan 2011

	2014	2015	2016	2017
GDP (% y/y)	2.1	2.0	2.9	3.1
CPI (% y/y)	0.5	0.1	1.9	2.1
Private consumption (% y/y)	4.6	4.9	4.4	4.5
Fixed investments (% y/y)	-2.8	-3.7	2.8	3.8
Exports (% y/y)	2.6	1.9	3.6	4.4
Trade balance (% of GDP)	1.3	1.2	0.9	0.9
Unemployment (%)	7.4	6.4	6.2	6.1

Source: Danske Bank Markets estimates

Latvia

Credit rating: S&P: A- (stable)

Currency: EUR since 1 Jan 2014

	2014	2015	2016	2017
GDP (% y/y)	2.4	2.5	3.2	3.4
CPI (% y/y)	0.7	0.3	2.0	2.3
Private consumption (% y/y)	2.3	3.7	4.2	4.3
Fixed investments (% y/y)	1.3	1.6	3.9	5.1
Exports (% y/y)	2.2	2.8	3.5	4.3
Trade balance (% of GDP)	-2.9	-2.3	-2.5	-2.7
Unemployment (%)	10.8	9.9	9.2	8.8

Source: Danske Bank Markets estimates

Lithuania

Credit rating: S&P: A- (stable)

Currency: EUR as of 1 Jan 2015

	2014	2015	2016	2017
GDP (% y/y)	2.9	1.8	3.2	3.4
CPI (% y/y)	0.3	-0.5	1.7	2.1
Private consumption (% y/y)	5.6	4.3	4.5	4.4
Fixed investments (% y/y)	8.0	8.7	5.2	5.8
Exports (% y/y)	3.4	1.6	3.8	5.2
Trade balance (% of GDP)	1.1	-2.2	-2.7	-2.6
Unemployment (%)	10.7	9.4	9.0	8.7

Source: Danske Bank Markets estimates

Russia – trough reached

Macro outlook

- According to the final data, Russia's GDP shrank 4.6% y/y in Q2 15 versus -2.2% y/y a quarter earlier. According to the Economy Ministry Russia's GDP contracted 3.8% y/y in January-August 2015. We currently expect the economy to shrink 6.2% y/y in 2015 and expand 0.5% in 2016. We will revise our macro forecasts for Russia as more Q3 15 data continues to flow.
- In September 2015, the dip in fixed investments and industrial production was less than expected (-5.6% y/y and -3.7% y/y, respectively) while the demand side continues to disappoint on the back of the purchasing-power crash. As inflation remained high, real wages growth (-9.7% y/y) shrank the most in 16 years, pushing retail sales to their lowest level since 1998 (-10.4% y/y).
- The unemployment rate fell to 5.2% in September from 5.3% a month earlier, continuing to support demand. We expect it to reach 5.8% in 2015. The devalued RUB is protecting public sector jobs better than in the previous crisis while private sector jobs are supported by the increased flexibility of labour markets.
- The Finance Ministry issued RUB20bn of seven-year linkers offering 2.5% of interest on 14 October, while seeing a fivefold demand over the amount sold as inflation remains in double digits. During the latest auctions of ordinary debt, demand has permanently exceeded supply, as markets expect resumed monetary easing and slowing inflation.

FX and monetary policy outlook

- Russia's central bank (the CBR) kept its key rate unchanged on 11 September at 11.0% as both we and consensus expected. The main reasons given by the central bank to hold rates were 'higher inflation risks amid persistent risks of considerable economy cooling'. We expect the CBR to cut the key rate by 50bp at its next meeting on 30 October as inflation has stopped accelerating.
- Inflation eased to 15.7% y/y in September as the rouble's devaluation stopped and the high base effect is weighing on CPI. The CBR stated that 'the annual consumer price growth rate in September 2016 is estimated to be about 7%, reaching 4% in 2017'. We see 2015 inflation at about 12% y/y (Dec/Dec) and continuing to fall in 2016.
- As we expect the Fed's first hike in Q1 16, we see it as the big mover for USD/RUB along with other emerging markets. RUB still remains vulnerable to oil-price fluctuations; however, in the short run, we see the Russian currency being driven more by sentiment towards EM assets than by marginal changes in the oil price.
- Looking ahead, we expect the rouble weakness to continue although on a more moderate path than seen over the past 12 months, supported by diminishing FX debt redemptions from the corporate side.

Risk factors

- We continue to believe that a sharp decline in the oil price remains the major risk. We base our macro forecasts on the average Brent price in 2015 of USD57/bl. Escalation of the geopolitical situation and an unexpectedly rising 'fear premium' over the operation in Syria and new western sanctions against Russia are further downside risks to our forecasts.

RUB

Credit rating:

S&P: BB+ (negative)

Currency regime:

Free float

Inflation target:

4% in 2017

Macro forecasts

	2013	2014	2015E	2016E
Real GDP (% y/y)	1.3	0.6	-6.2	0.5
Private consumption, real (% y/y)	5.0	1.3	-6.0	0.9
Fixed investments, real (% y/y)	1.4	-2.0	-10.0	-3.0
Exports in USD (% y/y)	-0.8	-4.9	-34.0	9.0
Imports in USD (% y/y)	1.6	-9.8	-44.0	-2.0
Brent oil price (USD, average)	108.7	99.5	57.0	60.0
Brent oil price (% y/y)	-2.7	-8.5	-42.7	5.3
MosPrime 3 months rate (% average)	7.0	10.5	15.0	8.5
M1 (RUB, trn)	7.7	8.3	8.8	9.3
CBR's intl reserves (USD, average)	516	464	340	410
Ruble versus US dollar (% y/y)	-2.6	-21.3	-69.0	5.1
CPI (% Dec/Dec)	6.5	11.4	12.0	7.2
Unemployment (%)	5.5	5.2	5.8	5.7
Budget balance (% of GDP)	-0.5	0.9	-3.3	-1.0
Current account (% of GDP)	1.6	3.2	3.5	3.9

Source: CBR, Rosstat, Bloomberg, Macrobond Financial, Danske Bank Markets estimates

Interest rate forecast

Bank of Russia (CBR)	
Policy rate	11.00
Next meeting	30/10/2015
Next change	- 50 bp
End-2015	10.50

Source: Danske Bank Markets

FX forecasts

EUR/RUB		
	Danske	Forward
21-Oct	71.49	
+3M	78.40	71.91
+6M	76.72	73.88
+12M	86.40	77.60
USD/RUB		
	Danske	Forward
21-Oct	62.96	
+3M	70.00	64.32
+6M	68.50	65.95
+12M	72.00	68.93

Source: Danske Bank Markets

Ukraine – worst dive is behind us

Macro outlook

- Final GDP growth data showed that the recession has reached the bottom: the economy contracted 14.6% y/y in Q2 15 versus a 17.2% y/y fall a quarter earlier. The industrial production drop recovered from the double-digit zone, shrinking 5.8% y/y in August versus -13.4% y/y in July, as the base effect continued to affect the indicators and hryvna devaluation helped local producers. We expect GDP to fall by 8.5% y/y in 2015 and shrink 0.8% in 2016.
- The dive in private consumption is not easing due to a crash in purchasing power and high inflation. Retail sales fell 23.1% y/y in January-August 2015 as inflation remains above 50%. We expect inflation deceleration to be very moderate as further tariff increases will push prices up.
- On 19 October 2015, rating agency Standard & Poor's raised Ukraine's foreign currency sovereign credit ratings to 'B-/B' from 'SD/D' (selective default) and their local currency sovereign credit ratings to 'B-/B' from 'CCC+/C'. S&P's 'D' issue rating on Ukraine's debt not tendered in the exchange remained unchanged. According to the agency, the upgrade followed the completion of Ukraine's distressed debt exchange. It reflected the government's gradual implementation of reforms to support fiscal, financial, and economic stability, alongside improvement in some of Ukraine's external indicators, including its increasing international reserves.
- However, Ukraine is due to pay a USD3bn debt to Russia in December 2015. Russia's Ministry of Finance declined the proposal to restructure the debt as it does not see the debt as private. This is putting additional pressure on Ukraine's economic position and the UAH, in our view.
- The situation in Eastern Ukraine has remained stable as counterparts continued to withdraw weaponry according to the Minsk agreements. On 25 October, Ukraine is holding local government elections which may reshuffle the position of political parties and add to political uncertainty.

FX and monetary policy outlook

- The UAH continued to move around 22.00 against the USD. However, approaching payments on Russia's euro bond may put pressure on the local currency as Ukraine's international reserves will be challenged.
- On 24 September, the National Bank of Ukraine (the NBU) cut the key rate to 22% from the previous 27%, seeking to ease the economic burden after aggressive hikes introduced to help capital controls.

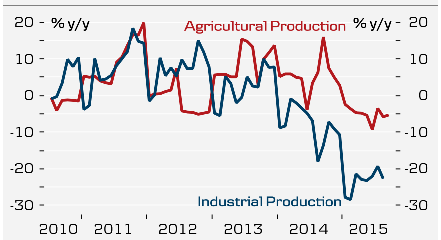
Risk factors

- An escalation of the geopolitical situation and a sovereign default by the country are the major economic risks in the current environment, in our view.

Private consumption freefall stops

Source: Macrobond Financial

Industrial and agricultural production



Source: Macrobond Financial

UAH

Credit rating:

S&P: CC (negative)

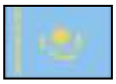
Currency regime:

Managed peg versus USD

FX forecasts

EUR/UAH		
	Danske	Forward
21-Oct	25.29	
+3M	29.12	N/A
+6M	36.96	N/A
+12M	48.00	N/A
USD/UAH		
	Danske	Forward
21-Oct	22.28	
+3M	26.00	N/A
+6M	33.00	N/A
+12M	40.00	N/A

Source: Macrobond Financial, Danske Bank Markets



Kazakhstan – the brakes are on

Macro outlook

- GDP growth slowed sharply to 1.0% y/y in January-August from 2% y/y in H1 15, as the lower oil price continued to weigh on the economy and the energy sector in particular, as the fixed KZT put limits on industrial growth. We keep our growth forecast for 2015 at 1.0% y/y as the oil price remains weak, while seeing significant downside risks to our forecast as the recent rate hike will depress fixed investments.
- Industrial production continued to fall in September, dropping 4.2% y/y from -6.4% a month earlier. Mining and quarrying shrank the most as the oil price slid, while the effects of the KZT devaluation will be seen with a lag. We expect relief to come from the devalued KZT and its free float in 2016.
- Consumer price growth started accelerating on the weaker currency, climbing to 4.4% y/y in September from 3.8% y/y a month earlier, as we expected. We expect price growth acceleration to go on as a 30% devaluation effect is moving into consumer prices. Considering continuing weakening of the KZT, we expect consumer price growth to hit 8.2 y/y in December 2015.

FX and monetary policy outlook

- On 2 October 2015, the National Bank of Kazakhstan (NBK) surprisingly hiked its recently introduced key rate to 16% from 12%. As inflation remained low, we saw plenty of room for a rate cut while the NBK decided to support the aggressively plunging KZT. However, since the decision to hike, USD/KZT climbed 2.5% as of 21 October 2015. We see the recent hike weighing on economic growth in 2016 and as neutral to the KZT path.
- The central bank narrowed the corridor it uses to provide or absorb liquidity for local banks: from previous ‘key rate ± 5pp’ to ‘key rate ±1pp’. The NBK aims to use new monetary tools more actively in order to regulate the floating KZT, but the rates used are not accessible for non-residents who would like to deposit their funds.
- The current account deficit deepened in Q2 15 as foreign direct investment flows plunged and exports remained low. Developments at present in the current account balance will weigh further on the KZT.
- We estimate that the USD/KZT and the RUB/KZT are both starting to approach the fair value levels which would be suitable for local exporters and other producers. Yet, we see room for additional KZT weakening as markets do not expect a significant oil price rebound and Kazakh assets, as with other EM assets, are exposed to the imminent Fed tightening.

Risk factors

- The low oil price and additional monetary tightening are currently two major risks to the Kazakh economy, in our view. Russia’s recession in 2015 and marginal growth in 2016 are set to inflict extra pressure. Political risk has receded due to Nazarbayev’s victory in the elections so the political situation remains unchanged. In the long run, we see upside risks to the current forecasts for USD/KZT due to increased global volatility and pressure on emerging markets from the Fed’s imminent rate hike.

KZT

Credit rating:

S&P: BBB (negative)

Currency regime:

Free float

FX forecasts

EUR/KZT		
	Danske	Forward
21-Oct	315.47	
+3M	358.40	N/A
+6M	380.80	N/A
+12M	444.00	N/A
USD/KZT		
	Danske	Forward
21-Oct	277.84	
+3M	320.00	N/A
+6M	340.00	N/A
+12M	370.00	N/A

Source: Bloomberg, Danske Bank Markets

Turkey – political risk prevails

Macro outlook

- Turkey's final economic growth figures for Q2 15 surprised positively as GDP expanded 3.8% y/y versus 2.6% y/y (revised) a quarter earlier. We expect the economy to grow 2.8% y/y in 2015 while seeing considerable downside risks to our growth forecast as political uncertainty and global EM vulnerability to China's woes and the Fed's upcoming tightening may restrain investment activity further.
- Domestic demand remained the strong driver of economic growth while foreign demand and inventories have been decreasing. However, consumer lending growth is slowing, signalling a cooling down in consumer confidence. Yet, we expect additional support to exports and economic growth coming from the weakened lira and recovery in the EU countries.
- The current account deficit shrank significantly to its lowest level since mid-2004 on the weakening lira and sliding commodity prices as we expected. The August data showed the deficit went to USD0.16bn from USD3.2bn (revised) a month earlier.

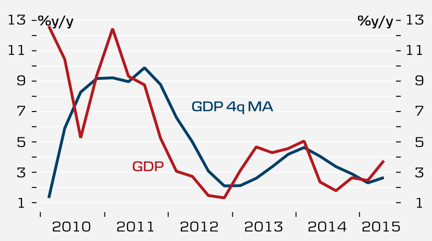
FX and monetary policy outlook

- The CPI acceleration resumed in September, climbing to 7.95% y/y from 7.14% a month earlier. The lira's continuing slide due to political uncertainty and its weak prospects due to Fed tightening are moving into consumer prices.
- On 21 October, the Turkish central bank kept its policy rate unchanged at 7.50% as we expected. We believe that the unstable lira, accelerating inflation and global EM volatility could trigger an emergency rate hike.
- Since the beginning of 2015, the Turkish lira has remained the third-worst performer in the EM universe, losing 19% of spot returns against the USD as of 21 October. We expect the lira to weaken on a three-month horizon as we expect the Fed to hike in Q1 16. However, we forecast a correction in the USD/TRY in the long run on Turkey's sustainable macro indicators.

Risk factors

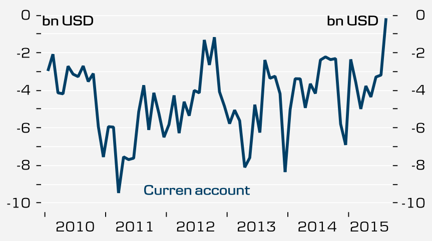
- Uncertainty around the new elections scheduled for 1 November and Turkey's cross-border military operations could fuel further political uncertainty.
- The strengthening of the US dollar and a Fed rate hike are clear risks to the TRY versus the dollar, as appetite for EM assets could deteriorate in the future. A rising oil price would put renewed pressure on the current account. Unexpected central bank rate hikes to curb inflation and support the lira would also be a risk.

Turkey's GDP growth surprises positively



Source: Macrobond Financial

Current account deficit approaches zero



Source: Macrobond Financial

TRY

Credit rating:

S&P: BB+ (negative)

Currency regime:

Free float

Inflation target:

5.0% year-end 2015-17

Macro forecasts

	2013	2014	2015	2016	2017
GDP (% y/y)	4.2	2.9	2.8	3.6	3.8
GDP deflator (% y/y)	6.2	8.5	5.4	5.7	5.7
CPI (% y/y)	7.5	8.9	4.9	5.7	5.9
Private consumption (% y/y)	5.1	1.3	3.3	3.4	3.5
Fixed investments (% y/y)	3.8	-1.0	2.2	3.4	3.5
Unemployment (%)	7.4	10.4	9.5	9.5	9.5
Current account (% of GDP)	-7.9	-5.7	-5.0	-5.5	-5.5

Source: Danske Bank Markets

Interest rate forecasts

C.B. of the Republic of Turkey (TCMB)	
Policy rate	7.50
Next meeting	24/11/2015
Next change	Unchanged 2015
End-2015	7.50

Source: Danske Bank Markets

FX forecasts

EUR/TRY		
	Danske	Forward
21-Oct	3.29	
+3M	3.49	3.30
+6M	3.47	3.39
+12M	3.36	3.57
USD/TRY		
	Danske	Forward
21-Oct	2.90	
+3M	3.12	2.95
+6M	3.10	3.02
+12M	2.80	3.17

Source: Macrobond Financial, Danske Bank Markets

South Africa – weakening growth prospects

Macro outlook

- The growth outlook continues to weaken on the back of the low commodity prices. In its medium-term budget policy update published on 21 October, the South African government lowered its GDP growth projection for 2015-16 to 1.5% and 1.7% from 2.0% and 3.2%, respectively. The IMF has turned even more cautious lowering its projections to 1.4% for both years.
- Inflation has come down in recent months, falling from 5.0% y/y in July to 4.6% y/y in September, owing mainly to lower petrol prices. However, we expect the inflation rate to increase in coming months due to the impact of the large fall in the crude oil price in 2014 starting to wane and the pass-through from the weakening of the ZAR over the past three months by more than 10% (even after taking into account the small appreciation in late September).
- South Africa has a weak external position, with the current account deficit close to 4.2% of GDP. Foreign direct investment in the mining industry has also dried up, which weakens the external position further.

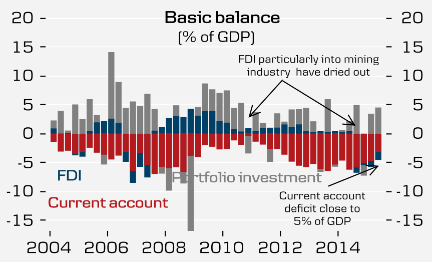
Monetary policy outlook

- As we expected the SARB left its benchmark repo rate unchanged on 23 September. At the meeting, the central bank slightly lowered its near-term inflation forecast, expecting a headline inflation at 4.7% (5.0% at the previous meeting) for 2015, while slightly raising medium-term inflation, expecting inflation to increase to 6.2% (6.1% previously) in 2016. The inflation target is expected to be breached in the first quarter of 2016 and based on the prospect of further depreciation of the ZAR, we continue to expect the SARB to hike by 25bp in Q4.

FX outlook

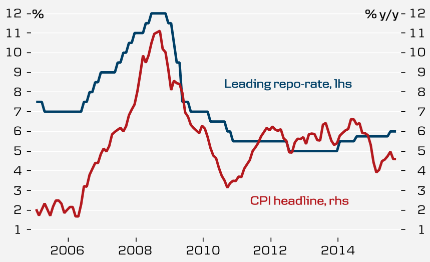
- Similar to other highly volatile EM currencies the ZAR experienced a brief rally in late September and early October. However, as the global risk rally is now fading, the ZAR has resumed its weakening trend. We expect the ZAR to fall further in the coming months ahead of the first Fed rate hike and continuing concerns about the Chinese economy. Hence, we maintain our USD/ZAR forecasts at 13.60 in 3M, 14.00 in 6M and 14.25 in 12M.

Vulnerable external position



Source: Macrobond Financial

SARB to hike again in Q4



Source: Macrobond Financial

ZAR

Credit rating:

S&P: BBB- (stable)

Currency regime:

Free float (freely convertible)

Inflation target:

3%-6%

Interest rate forecast

South African Reserve Bank (SARB)	
Policy rate	6.00
Next meeting	19/11/2015
Next change	+ 25 bp Q4 2015
End-2015	6.25

Source: Danske Bank Markets

FX forecasts

EUR/ZAR		
	Danske	Forward
21-Oct	15.30	
+3M	15.23	15.25
+6M	15.68	15.53
+12M	17.10	16.13
USD/ZAR		
	Danske	Forward
21-Oct	13.47	
+3M	13.60	13.65
+6M	14.00	13.86
+12M	14.25	14.33

Source: Macrobond Financial, Danske Bank Markets

Brazil – more pain ahead

Macro outlook

- The latest bout of confidence indicators point to more economic pain ahead. Business confidence is at record-low levels, although the manufacturing sector's PMI improved slightly in September. The slump in industrial production deepened slightly in August to -9% y/y. Consumer confidence fell sharply in September to its lowest point in 13 years and retail sales decreased by 6.9% y/y in August—the sharpest decline since 2003. Hence, we expect private consumption to increasingly weigh on economic activity going forward. In its latest October WEO forecast, the IMF downgraded its GDP growth forecast by 2 percentage points for both 2015-16. The IMF now expects a contraction of -3% and -1% respectively. We agree with this outlook given the muted outlook for commodity prices and headwinds from fiscal consolidation.

- Both core and headline IPCA inflation have stabilised in the past three months around 9.1% and 9.5% respectively. The stabilisation is supported by a more stable currency and relatively tight monetary policy. However, inflation far exceeds the 6.5% upper limit of the central bank's target band for inflation. We see a more balanced inflationary outlook now than before when we saw more upside risk given the significant slowdown in the economy, which will help mitigate pass-through from potential further BRL weakening.

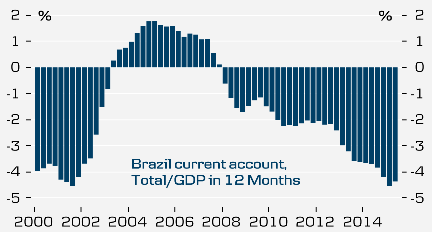
Monetary policy outlook

- After seven rate hikes over nine months through July, the Brazilian central bank (BCB) has kept its leading Selic rate unchanged in the past three rate policy meetings at 14.25%. At its latest October policy meeting, the policy committee flagged the need for continuing tight monetary policy to anchor inflation expectations. We interpret this as a signal that the BCB will keep a cautious policy stance even if the inflationary pressures abate over the coming months.

FX outlook

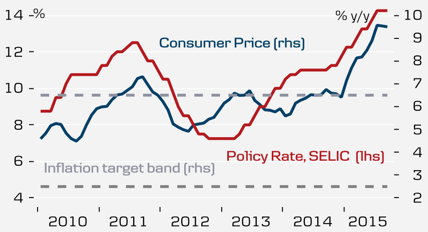
- After a brief period of appreciation in late September and early October, the BRL has resumed its weakening against the USD. We think the weakening will continue for several reasons. (1) Lower commodity prices will continue to weigh in the short run. (2) Brazil is one of the more sensitive emerging markets to US interest rate hikes due to its weak external balances and the large share of foreign investors holding Brazilian bonds. (3) Increasing political uncertainty makes it difficult for the government to implement austerity measures. We have been bearish on the BRL for a long time but the currency has weakened faster than we thought. We believe the BRL will weaken even further from current levels, particularly over the coming three to six months when we expect the Fed to raise interest rates and China concerns to continue to play out. Hence, we now forecast USD/BRL at 4.10 in 1M, 4.20 in 6M and 4.40 in 12M.

External balance deteriorating



Source: Macrobond Financial

Inflation expected to peak soon



Source: Macrobond Financial

BRL

Credit rating:

S&P: BB+ (negative)

Currency regime:

Free float (non-convertible)

Inflation target:

4.5% +/- 2% points

Interest rate forecasts

Central Bank of Brazil (BCB)	
Policy rate	14.25
Next meeting	25/11/2015
Next change	Unchaged 2015
End-2015	14.25

Source: Danske Bank Markets

FX forecasts

EUR/BRL		
	Danske	Forward
21-Oct	4.48	
+3M	4.59	4.55
+6M	4.70	4.68
+12M	5.28	4.96
USD/BRL		
	Danske	Forward
21-Oct	3.95	
+3M	4.10	4.07
+6M	4.20	4.18
+12M	4.40	4.41

Source: Macrobond Financial, Danske Bank Markets

China – rebalancing speeds up

Macro outlook

- GDP growth fell to 6.9% y/y in Q3 from 7.0% y/y in Q2. This was the lowest level since 2009 but close to the government's target of 7% in 2015. However, the underlying economy in China is still very weak, as growth was partly boosted by a decline in the GDP deflator of 0.7% y/y. Nominal GDP growth was thus only 6.2%. Growth is also increasingly being driven by the service sector, whereas the industrial sector is still under severe pressure due to weak exports and overcapacity in the heavy industry. However, stimulus measures and a recovery in housing point to a moderate increase in industrial growth in late 2015 and a rise in Chinese PMI. Beyond 2015, an unavoidable structural slowdown in growth will continue with growth falling to around 6.5% in 2016.

- China's external balances remain healthy and the current account surplus is set to increase to around 3% of GDP due to large terms of trade gains from lower commodity prices. In our view, China still has the policy tools and flexibility to avoid a hard landing despite the substantial credit growth in recent years. The slowdown in China, however, is felt as a hard landing in the rest of the world as the growth is now driven by less import-intensive sectors.

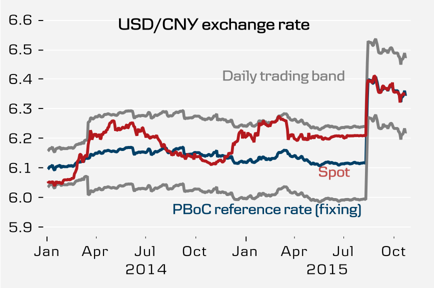
Monetary policy outlook

- The People's Bank of China (PBoC) currently has a clear easing bias and has cut its leading interest rates five times since October 2014. We expect another cut of 25bp in Q3 and a cut in the reserve requirement ratio by 100bp over the coming quarters in order to underpin a moderate recovery into 2016.

FX outlook

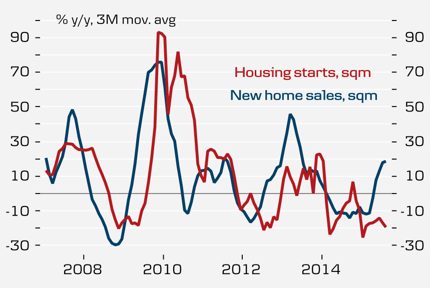
- China's new more market-based exchange rate system announced in August is an important step towards a more floating but still managed exchange rate, in our view. The most important implication is that the link to the USD is now weaker, creating more uncertainty over the outlook for the CNY. The exchange rate will now be more dependent on (a) growth, (b) monetary policy and (c) development in the trade-weighted currency. Relative monetary policy and further liberalisation of the capital account suggest the CNY should continue to depreciate against the USD over the next year. However, the outflows have calmed down a lot, strengthening the CNY recently, and we have adjusted our path for CNY down slightly, although we still look for a weaker currency. Hedging should be done in the CNH market as liquidity in NDF is falling. China has intervened to reduce the CNH-CNY spread and hence basis risk when hedging in CNH has been reduced. We expect the CNY to be included in the SDR in connection with the IMF's review late this year. Ahead of the review, in our view, the PBoC will attempt to act like a responsible stakeholder in the global financial system and limit the depreciation of the CNY.

China moves towards more market-based exchange rate system



Source: Macrobond Financial

Housing market has started to recover



Source: Macrobond Financial

CNY

Credit rating:

S&P: AA- (stable)

Currency regime:

Managed exchange rate versus USD

Inflation target:

3.5% for 2014

Interest rate forecast

People's Bank of China (PBOC)	
Policy rate	4.60
Next meeting	Not announced
Next change	Unchanged 2015
End-2015	4.60

Source: Danske Bank Markets

FX forecasts

EUR/CNY		
	Danske	Forward
21-Oct	7.21	
+3M	7.17	7.16
+6M	7.39	7.20
+12M	7.98	7.29

USD/CNY		
	Danske	Forward
21-Oct	6.35	
+3M	6.40	6.40
+6M	6.60	6.43
+12M	6.65	6.47

Source: Macrobond Financial, Danske Bank Markets

India – the bright spot within EM

Macro outlook

- India continues to be the main positive story within emerging markets. It is well placed for a cyclical recovery in 2015 and 2016 as (1) it is benefiting substantially from the lower oil price, (2) improving external and domestic balances have left room to ease both fiscal and monetary policy and (3) India has a relatively strong government that, at least to some degree, has hastened structural economic reforms. India's GDP growth is likely to be above 7% in the coming years and exceed China's growth.
- The general election in 2014 gave the main opposition party BJP an outright majority in the lower house. Hence, compared with the past two decades, India has a relatively strong government with substantial political room to accelerate economic reforms. India also has a highly credible central bank governor in Raghuram Rajan, former Chief Economist at the IMF.
- India's current account deficit has declined markedly to about 2% of GDP and is likely to decline further due to the sharp decline in the crude oil price. We no longer regard India as one of the 'fragile' emerging markets as imbalances have been reduced markedly over the past two years.

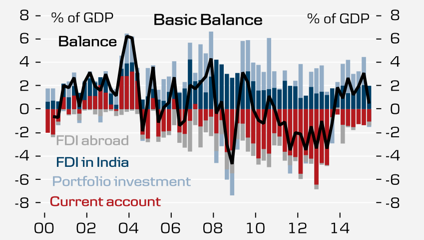
Monetary policy outlook

- In March, the Reserve Bank of India (RBI) moved from targeting wholesale prices to targeting consumer price inflation within a range of 4% +/-2%. This will be a gradual adjustment and, for end-2015, the target is 6%. Inflation has declined much faster than expected (currently 4.4%), partly due to the lower oil price and this left room for RBI to cut interest rates at the end of September by 50bp to 6.75%. This followed three cuts of 25bp since December 2014. While further cuts cannot be ruled out, we believe higher inflation, as favourable base effects fall out, will keep RBI from easing further.

FX outlook

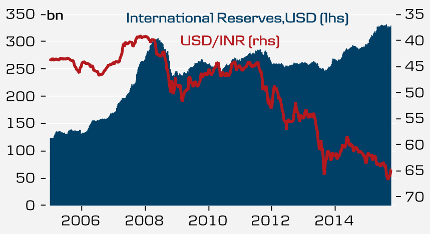
- In line with other emerging market currencies, the INR will remain under pressure against the USD, in our view, but it is no longer one of the fragile EM currencies. The main reasons are (1) a marked improvement in the current account in the wake of the drop in the crude oil price, (2) possible acceleration in economic reforms under a strong new BJP-led government, (3) a credible/hawkish central bank and (4) gradual cyclical recovery domestically. In H2 15, gradual monetary tightening in the US and continued depreciation of the CNY could weigh further on the INR and we look for a further depreciation of around 5% in 12M. However, because the Indian money and bond markets are relatively closed, India should also be less sensitive to higher interest rates in the US than other emerging markets.

Stronger external balances



Source: Macrobond Financial, Danske Bank Markets

FX reserves continue to increase



Source: Macrobond Financial, Danske Bank Markets

INR

Credit rating:

S&P: BBB- (stable)

Currency regime:

Free float

Inflation target:

4% by end-2017

Interest rate forecast

Reserve Bank of India (RBI)	
Policy rate	6.75
Next meeting	01/12/2015
Next change	Unchanged 2015
End-2015	6.75

Source: Danske Bank Markets

FX forecasts

EUR/INR		
	Danske	Forward
21-Oct	73.99	
+3M	75.69	73.25
+6M	76.42	74.56
+12M	83.05	77.30
USD/INR		
	Danske	Forward
21-Oct	65.17	
+3M	67.58	65.52
+6M	68.23	66.56
+12M	69.21	68.65

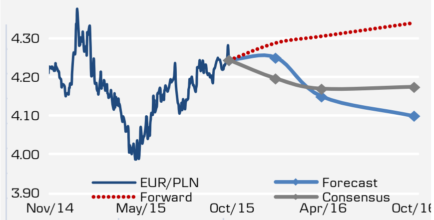
Source: Macrobond Financial, Danske Bank Markets

FX hedging

Polish parliamentary elections a risk factor for EUR/PLN

Political risks have increased substantially in Poland and the Polish parliamentary elections, which will be held on 25 October, represent a near-term upside risk factor for EUR/PLN. Support for the opposition Law and Justice (PiS) party has increased substantially and the recent polls suggest that PiS is likely to lead the next government. The political landslide in Poland has raised concerns about a shift towards more populist policymaking as PiS has stated that it wants to increase public spending and pledged to roll back planned increase in the retirement age.

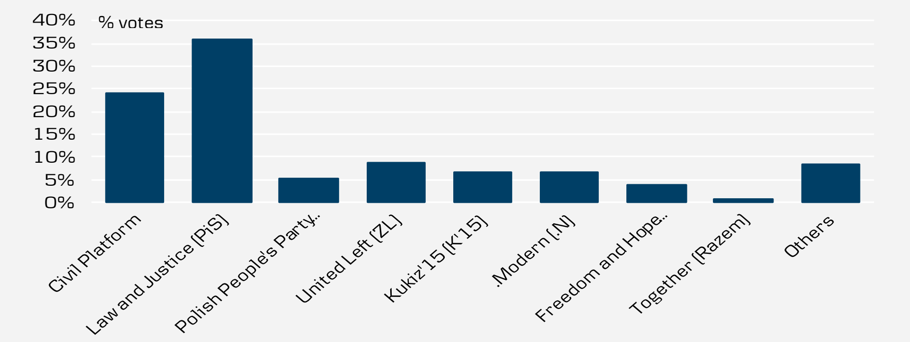
EUR/PLN forecast



	3M	6M	12M
DB forecast	4.25	4.15	4.10
Forward	4.29	4.31	4.34
Cons. Forecast	4.20	4.17	4.17

Source: Bloomberg, Danske Bank Markets

Recent polls suggest that Law and Justice will lead a new government



Average of polls submitted since 1 October 2015

Source: https://en.wikipedia.org/wiki/Polish_parliamentary_election,_2015, *Danske Bank Markets*

The combination of looser fiscal policy and possibly less structural reform going forward could threaten Poland's medium- and long-term growth prospects, which could also increase risk premiums on Polish bond markets and the zloty. We expect EUR/PLN to inch up further near term with risks being that the cross overshoots our 1M and 3M target at 4.30 and 4.25, respectively.

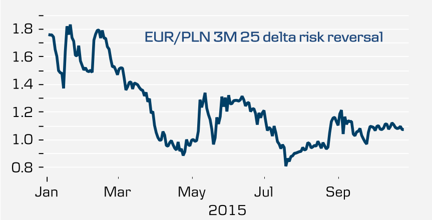
On a 3-12M horizon, we expect the zloty to remain supported by a more positive outlook for growth in Poland and relative monetary policy while volatility stemming from the elections is expected to eventually fade and ease pressure on PLN.

Hedge PLN short-term expenses via risk reversals

We recommend EUR- and DKK-based corporate with expenses to utilise the positive EUR/PLN risk reversal and hedge near-term (0-1M) PLN expenses via risk reversals.

We recommend utilising a possible increase in EUR/PLN to lock in expenses longer term via FX forwards profiting from the relatively large yield spread between the PLN and EUR and DKK, respectively.

Positive risk reversal



Source: Macrobond, Danske Bank Markets

Hedge PLN income via FX forwards short term, knock in forwards longer term

We recommend EUR- and DKK-based corporates hedging PLN-denominated income to lock in EUR/PLN via FX forwards for the coming 0-3M.

Longer term, we recommend strategies that maintain a profit potential if EUR/PLN declines. Specifically, we recommend hedging the next 3-12M income via knock-in forwards.

Danske Bank Markets hedging recommendations: EMEA

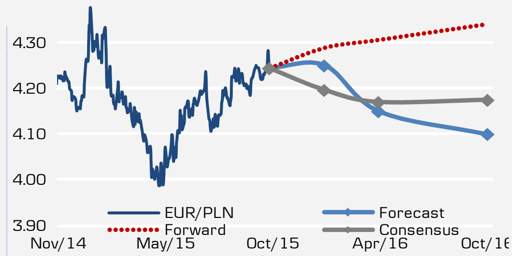
PLN

Instrument – Income: We recommend hedging short term (0-3M) PLN income via forwards. Longer term, we recommend hedging via knock-in forwards.

Instrument – Expenses: We recommend hedging near term (0-1M) PLN expenses via risk reversals. We recommend to utilise a possible increase in EUR/PLN to lock in expenses longer term via FX forwards.

Price indicators

Forecast



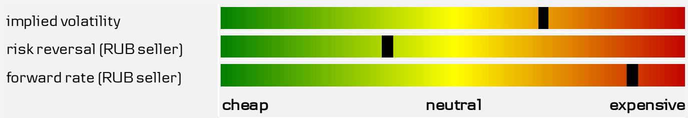
	3M	6M	12M
DB forecast	4.25	4.15	4.10
Forward	4.29	4.31	4.34
Cons. Forecast	4.20	4.17	4.17

RUB

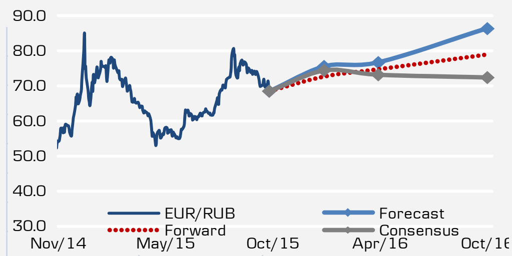
Instrument – Income: We recommend hedging RUB-income via FX forwards.

Instrument – Expenses: Hedge RUB expenses via knock-in forwards.

Price indicators



Forecast



	3M	6M	12M
DB forecast	75.60	76.72	86.40
Forward	72.63	74.65	78.76
Cons. Forecast	74.46	73.21	72.42

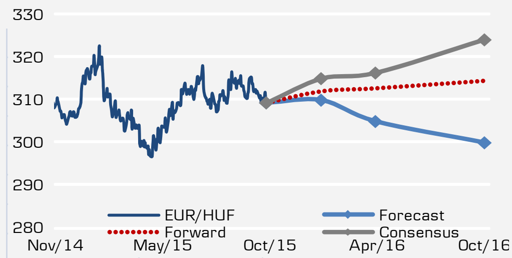
HUF

Instrument – Income: We recommend hedging HUF-income via knock-in forwards. Alternatively consider hedging via seagull structures.

Instrument – Expenses: We recommend hedging HUF-expenses via risk reversals.

Price indicators

Forecast



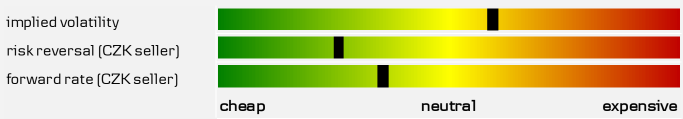
	3M	6M	12M
DB forecast	310.00	305.00	300.00
Forward	311.99	312.64	314.32
Cons. Forecast	315.07	316.38	324.14

CZK

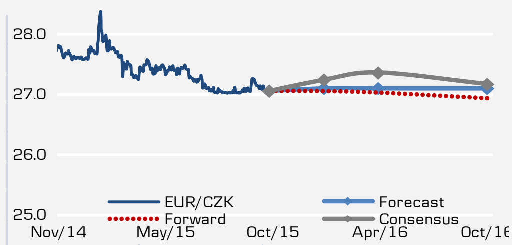
Instrument – Income: We recommend hedging CZK income via a risk reversal strategy.

Instrument – Expenses: We recommend hedging CZK expenses via knock-in forwards. Alternatively consider seagull structures.

Price indicators



Forecast



	3M	6M	12M
DB forecast	27.10	27.10	27.10
Forward	27.05	27.03	26.94
Cons. Forecast	27.24	27.36	27.17

Source: Danske Bank Markets

Danske Bank Markets hedging recommendations: other emerging markets

CNH

Currency: CNH

Instrument – Income: We recommend hedging the coming three months' CNY receivables via seagull structures, which offer some profit potential in the event of CNY appreciation.

Instrument – Expenses: We recommend hedging CNH expenses via FX forwards.

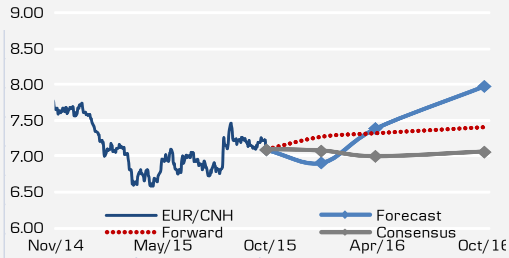
For the longer term, we recommend hedging CNY payables via risk reversals which have become more attractive following the past month's sharp increase in EUR call premiums.

Price indicators

- implied volatility
- risk reversal (CNH seller)
- forward rate (CNH seller)

cheap | neutral | expensive

Forecast



	3M	6M	12M
DB forecast	6.91	7.39	7.98
Forward	7.27	7.32	7.40
Cons. Forecast	7.08	7.00	7.06

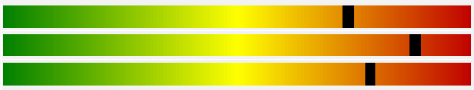
MXN

Currency: MXN

Instrument – Income: Hedge MXN income via knock-in forwards. Consider a window barrier instead of an European knock-in barrier in order to capitalise on the relatively high implied volatility

Instrument – Expenses: We recommend hedging MXN expenses via FX forwards. We are bullish on EUR/MXN in the longer term and we recommend to consider hedging via risk reversals beyond 6 months.

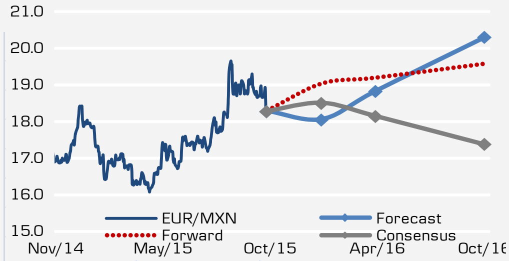
Price indicators



- implied volatility
- risk reversal (MXN seller)
- forward rate (MXN seller)

cheap | neutral | expensive

Forecast



	3M	6M	12M
DB forecast	18.04	18.82	20.29
Forward	19.02	19.18	19.56
Cons. Forecast	18.49	18.13	17.37

ZAR

Currency: ZAR

Instrument – Income: Hedge ZAR income via knock-in forwards. Consider a window barrier instead of a European knock-in barrier in order to capitalise on the relatively high implied volatility.

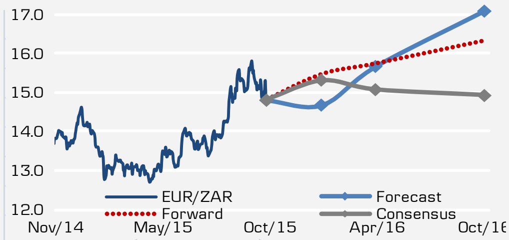
Instrument – Expenses: We recommend hedging ZAR expenses via FX forwards in the coming 6 months. We are bullish on EUR/ZAR in the longer term and we recommend to consider hedging via risk reversals beyond 6 months.

Price indicators

- implied volatility
- risk reversal (ZAR seller)
- forward rate (ZAR seller)

cheap | neutral | expensive

Forecast



	3M	6M	12M
DB forecast	14.69	15.68	17.10
Forward	15.48	15.76	16.35
Cons. Forecast	15.33	15.08	14.93

TRY

Currency: TRY

Instrument – Income: We recommend to hedge near-term TRY income via FX forwards. Beyond 6M we recommend to hedge via knock-in forwards. Consider a window barrier instead of a European knock-in barrier in order to capitalise on the relatively high implied volatility.

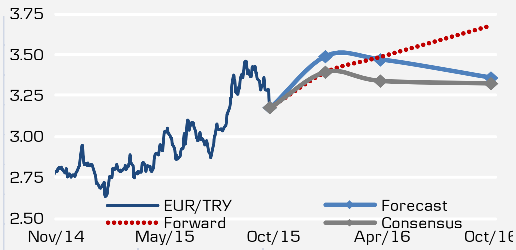
Instrument – Expenses: We recommend hedging TRY expenses via risk reversals in the coming 0-6M. Consider to lock longer term in the event of a move higher in EUR/TRY above 3.50.

Price indicators

- implied volatility
- risk reversal (TRY seller)
- forward rate (TRY seller)

cheap | neutral | expensive

Forecast



	3M	6M	12M
DB forecast	3.49	3.47	3.36
Forward	3.40	3.49	3.68
Cons. Forecast	3.39	3.34	3.32

Source: Danske Bank Markets

FX forecasts

Core – major

		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
EUR	21-Oct			1.14		746.0		943.9		929.0	
	+3M			1.12	1.12	745.5	745.2	940.0	938.2	930.0	926.0
	+6M			1.12	1.12	745.5	744.6	930.0	936.8	925.0	928.4
	+12M			1.20	1.13	745.5	743.9	900.0	936.8	880.0	933.2
USD	21-Oct	1.14				657.0		831.3		818.2	
	+3M	1.12	1.12			665.6	666.6	839.3	839.2	830.4	828.3
	+6M	1.12	1.12			665.6	664.7	830.4	836.3	825.9	828.8
	+12M	1.20	1.13			621.3	660.8	750.0	832.1	733.3	828.8
JPY	21-Oct	136.2		119.9		5.48		6.93		6.82	
	+3M	140.0	134.3	125.0	120.1	5.33	5.55	6.71	6.99	6.64	6.90
	+6M	141.1	134.2	126.0	119.9	5.28	5.55	6.59	6.98	6.55	6.92
	+12M	151.2	134.2	126.0	119.2	4.93	5.54	5.95	6.98	5.82	6.96

Source: Macrobond Financial, Danske Bank Markets

Wider CEE

		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
PLN	21-Oct	4.29		3.78		174.0		220.1		216.7	
	+3M	4.25	4.28	3.79	3.83	175.4	173.9	221.2	219.0	218.8	216.2
	+6M	4.15	4.30	3.71	3.84	179.6	173.1	224.1	217.8	222.9	215.9
	+12M	4.10	4.33	3.42	3.85	181.8	171.7	219.5	216.2	214.6	215.3
HUF	21-Oct	311.9		274.7		2.39		3.03		2.98	
	+3M	310.0	312.0	276.8	279.1	2.40	2.39	3.03	3.01	3.00	2.97
	+6M	305.0	312.6	272.3	279.1	2.44	2.38	3.05	3.00	3.03	2.97
	+12M	300.0	314.1	250.0	279.0	2.49	2.37	3.00	2.98	2.93	2.97
CZK	21-Oct	27.08		23.85		27.55		34.86		34.31	
	+3M	27.10	27.00	24.20	24.15	27.51	27.60	34.69	34.75	34.32	34.30
	+6M	27.10	26.94	24.20	24.05	27.51	27.64	34.32	34.77	34.13	34.46
	+12M	27.10	26.84	22.58	23.84	27.51	27.71	33.21	34.90	32.47	34.76
RON	22-Oct	4.43		3.90		168.4		213.1		209.7	
	+3M	4.45	4.43	3.97	3.96	167.5	168.2	211.2	211.8	209.0	209.1
	+6M	4.40	4.44	3.93	3.96	169.4	167.7	211.4	211.0	210.2	209.1
	+12M	4.40	4.48	3.67	3.97	169.4	166.2	204.5	209.3	200.0	208.5

Source: Macrobond Financial, Danske Bank Markets

CIS

		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
RUB	21-Oct	71.49		62.96		10.43		13.20		12.99	
	+3M	78.40	71.91	70.00	64.32	9.51	10.36	11.99	13.05	11.86	12.88
	+6M	76.72	73.88	68.50	65.95	9.72	10.08	12.12	12.68	12.06	12.57
	+12M	86.40	77.60	72.00	68.93	8.63	9.59	10.42	12.07	10.19	12.02
UAH	21-Oct	25.29		22.28		29.5		37.3		36.7	
	+3M	29.12	N/A	26.00	N/A	25.6	N/A	32.3	N/A	31.9	N/A
	+6M	36.96	N/A	33.00	N/A	20.2	N/A	25.2	N/A	25.0	N/A
	+12M	48.00	N/A	40.00	N/A	15.5	N/A	18.8	N/A	18.3	N/A
KZT	21-Oct	315.5		277.8		2.36		2.99		2.94	
	+3M	358.4	N/A	320.0	N/A	2.1	N/A	2.6	N/A	2.6	N/A
	+6M	380.8	N/A	340.0	N/A	2.0	N/A	2.4	N/A	2.4	N/A
	+12M	444.0	N/A	370.0	N/A	1.7	N/A	2.0	N/A	2.0	N/A

Source: Macrobond Financial, Danske Bank Markets

MEA

		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
TRY	21-Oct	3.29		2.90		226.7		286.8		282.3	
	+3M	3.49	3.30	3.12	2.95	213.6	226.0	269.3	284.5	266.5	280.8
	+6M	3.47	3.39	3.10	3.02	214.8	219.9	268.0	276.6	266.6	274.1
	+12M	3.36	3.57	2.80	3.17	221.9	208.5	267.9	262.5	261.9	261.5
ZAR	21-Oct	15.30		13.47		48.8		61.7		60.7	
	+3M	15.23	15.25	13.60	13.65	48.9	48.9	61.7	61.5	61.1	60.7
	+6M	15.68	15.53	14.00	13.86	47.5	47.9	59.3	60.3	59.0	59.8
	+12M	17.10	16.13	14.25	14.33	43.6	46.1	52.6	58.1	51.5	57.9
ILS	21-Oct	4.39		3.87		169.8		214.9		211.5	
	+3M	4.20	4.32	3.75	3.86	177.5	172.6	223.8	217.3	221.4	214.5
	+6M	4.20	4.32	3.75	3.85	177.5	172.5	221.4	217.0	220.2	215.1
	+12M	4.50	4.30	3.75	3.82	165.7	172.9	200.0	217.7	195.6	216.8
EGP	21-Oct	9.12		8.03		81.8		103.5		101.9	
	+3M	8.77	N/A	7.83	N/A	85.0	N/A	107.2	N/A	106.0	N/A
	+6M	8.77	N/A	7.83	N/A	85.0	N/A	106.0	N/A	105.5	N/A
	+12M	9.40	N/A	7.83	N/A	79.3	N/A	95.8	N/A	93.7	N/A

Source: Macrobond Financial, Danske Bank Markets

Latin America

		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
BRL	21-Oct	4.48		3.95		166.5		210.7		207.4	
	+3M	4.59	4.55	4.10	4.07	162.3	163.9	204.7	206.4	202.5	203.7
	+6M	4.70	4.68	4.20	4.18	158.5	159.1	197.7	200.1	196.6	198.3
	+12M	5.28	4.96	4.40	4.41	141.2	150.0	170.5	188.9	166.7	188.1
MXN	21-Oct	18.91		16.66		39.44		49.90		49.12	
	+3M	18.70	18.61	16.70	16.65	39.86	40.04	50.26	50.41	49.72	49.76
	+6M	18.82	18.77	16.80	16.76	39.62	39.67	49.43	49.91	49.16	49.46
	+12M	20.29	19.14	16.91	17.00	36.74	38.86	44.35	48.94	43.37	48.75
ARS	21-Oct	10.74		9.46		69.46		87.89		86.50	
	+3M	11.20	16.78	10.00	12.50	53.25	44.42	67.14	55.92	82.95	55.19
	+6M	12.88	19.59	11.50	14.60	45.94	38.00	57.31	47.81	72.13	47.38
	+12M	17.52	22.40	14.60	16.70	33.77	33.20	40.77	41.81	53.03	41.65

Source: Macrobond Financial, Danske Bank Markets

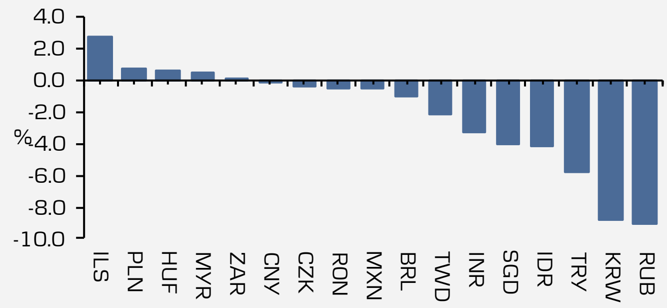
Emerging markets Asia

		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
CNY	21-Oct	7.21		6.35		103.5		130.9		128.9	
	+3M	7.17	7.16	6.40	6.40	104.0	104.1	131.1	131.1	129.7	129.4
	+6M	7.39	7.20	6.60	6.43	100.9	103.4	125.8	130.0	125.1	128.9
	+12M	7.98	7.29	6.65	6.47	93.4	102.1	112.8	128.6	110.3	128.1
KRW	21-Oct	1292		1138		0.58		0.73		0.72	
	+3M	1374	1263	1227	1130	0.54	0.59	0.68	0.74	0.68	0.73
	+6M	1389	1266	1240	1130	0.54	0.59	0.67	0.74	0.67	0.73
	+12M	1498	1272	1248	1130	0.50	0.58	0.60	0.74	0.59	0.73
THB	21-Oct	40.5		35.6		18.4		23.3		23.0	
	+3M	41.2	40.0	36.8	35.7	18.1	18.7	22.8	23.5	22.6	23.2
	+6M	41.5	40.2	37.1	35.9	18.0	18.5	22.4	23.3	22.3	23.1
	+12M	44.8	40.9	37.3	36.3	16.7	18.2	20.1	22.9	19.7	22.8
SGD	21-Oct	1.58		1.39		471		596		587	
	+3M	1.62	1.56	1.45	1.40	459	477	579	601	573	593
	+6M	1.64	1.57	1.47	1.40	454	475	566	597	563	592
	+12M	1.77	1.58	1.47	1.40	422	471	509	593	498	590
HKD	21-Oct	8.80		7.75		84.8		107.2		105.6	
	+3M	8.69	8.66	7.76	7.75	85.8	86.0	108.2	108.3	107.0	106.9
	+6M	8.69	8.68	7.76	7.75	85.8	85.8	107.0	107.9	106.4	107.0
	+12M	9.32	8.72	7.77	7.75	80.0	85.3	96.5	107.4	94.4	107.0
MYR	21-Oct	4.85		4.29		153.9		194.8		191.7	
	+3M	4.79	4.82	4.28	4.31	155.5	154.8	196.1	194.8	194.0	192.3
	+6M	4.83	4.85	4.31	4.33	154.4	153.4	192.7	193.0	191.6	191.3
	+12M	5.22	4.93	4.35	4.38	142.8	150.8	172.4	189.9	168.6	189.2
PHP	22-Oct	52.6		46.5		14.17		17.93		17.65	
	+3M	53.70	N/A	47.95	N/A	13.88	N/A	17.50	N/A	17.32	N/A
	+6M	54.49	N/A	48.65	N/A	13.68	N/A	17.07	N/A	16.98	N/A
	+12M	58.66	N/A	48.88	N/A	12.71	N/A	15.34	N/A	15.00	N/A
IDR	22-Oct	15402		13717		0.048		0.061		0.060	
	+3M	16060	15413	14339	13787	0.046	0.048	0.059	0.061	0.058	0.060
	+6M	16523	15775	14753	14082	0.045	0.047	0.056	0.059	0.056	0.059
	+12M	17869	16519	14891	14672	0.042	0.045	0.050	0.057	0.049	0.056
INR	21-Oct	73.99		65.17		10.08		12.76		12.56	
	+3M	75.69	73.25	67.58	65.52	9.85	10.17	12.42	12.81	12.29	12.64
	+6M	76.42	74.56	68.23	66.56	9.76	9.99	12.17	12.56	12.10	12.45
	+12M	83.05	77.30	69.21	68.65	8.98	9.62	10.84	12.12	10.60	12.07
TWD	21-Oct	36.94		32.53		20.20		25.55		25.15	
	+3M	37.32	36.53	33.32	32.68	19.98	20.40	25.19	25.68	24.92	25.35
	+6M	37.79	36.60	33.74	32.67	19.73	20.35	24.61	25.60	24.48	25.37
	+12M	40.76	36.77	33.97	32.66	18.29	20.23	22.08	25.48	21.59	25.38

Source: Macrobond Financial, Danske Bank Markets

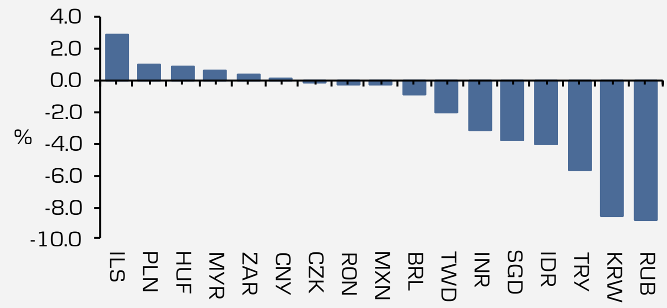
Forecasts vs forwards

3M – base currency EUR



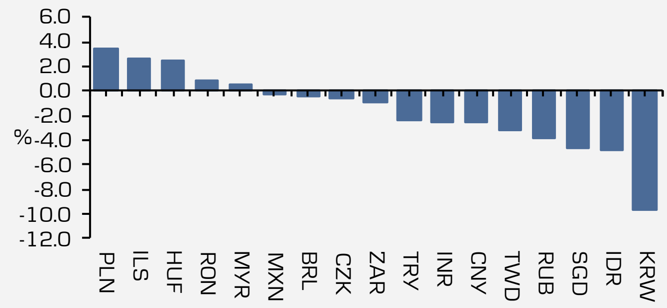
Source: Macrobond Financial, Danske Bank Markets

3M – base currency USD



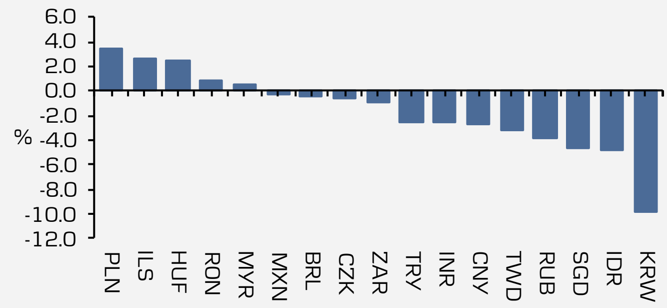
Source: Macrobond Financial, Danske Bank Markets

6M – base currency EUR



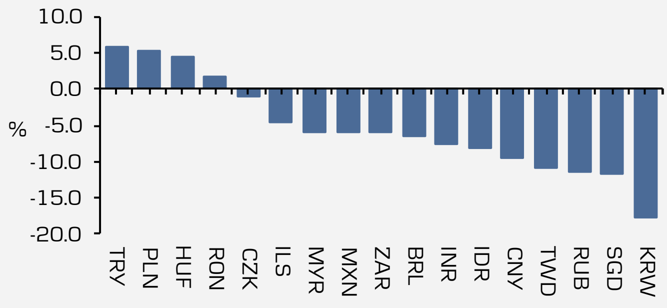
Source: Macrobond Financial, Danske Bank Markets

6M – base currency USD



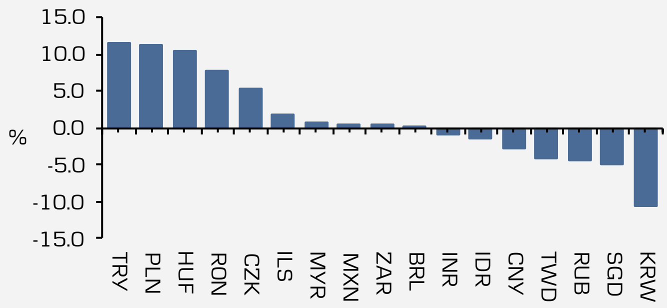
Source: Macrobond Financial, Danske Bank Markets

12M – base currency EUR



Source: Macrobond Financial, Danske Bank Markets

12M – base currency USD



Source: Macrobond Financial, Danske Bank Markets

Monetary policy calendar

Calendar

	Policy Rate (%)	Latest Change		Next Change		Next Meeting	Year-end 2015 (%)
	22 October 2015						
Wider CEE							
PLN	1.50	- 50 bp	Mar, 2015	-	Unchanged 2015	04/11/2015	1.50
HUF	1.35	- 15 bp	July, 2015	-	Unchanged 2015	17/11/2015	1.35
CZK	0.05	- 20 bp	Nov, 2012	-	Unchanged 2015	05/11/2015	0.05
RON	1.75	- 25 bp	May, 2015	- 25 bp	Q4 2015	05/11/2015	1.50
TRY	7.50	-25 bp	Feb, 2015	-	Unchanged 2015	24/11/2015	7.50
CIS							
RUB	11.00	-50bp	July, 2015	- 50 bp		30/10/2015	10.50
MEA							
ILS	0.10	- 15 bp	March, 2014	-	Unchanged, 2015	26/10/2015	0.10
ZAR	6.00	+25 bp	July, 2014	+ 25 bp	Q4 2015	19/11/2015	6.25
LATAM							
BRL	14.25	+ 50 bp	Jul, 2015	-	Unchaged 2015	25/11/2015	14.25
MXN	3.00	- 50 bp	June, 2014	+ 25 bp	Q4 2015	29/10/2015	3.25
EM Asia							
CNY	4.60	- 25 bp	Jun, 2015	-	Unchanged 2015	Not announced	4.60
KRW	1.50	- 25 bp	Jun, 2015	-	Unchanged 2015	12/11/2015	1.50
THB	1.50	- 25 bp	April, 2015	-	Unchanged 2015	04/11/2015	1.50
HKD	0.50	- 100 bp	Dec, 2008	-	Unchanged 2015	Not announced	0.50
MYR	3.25	+ 25 bp	Jul, 2014	+ 25 bp	Q4 2015	05/11/2015	3.50
PHP	4.00	+25 bp	Sep, 2014	+ 25 bp	Q4 2015	12/11/2015	4.25
IDR	7.50	- 25 bp	Feb, 2015	-	Unchanged 2015	17/11/2015	7.50
INR	6.75	- 50 bp	Sep, 2015	-	Unchanged 2015	01/12/2015	6.75
TWD	1.75	-12.5 bp	Sep, 2015	-	Unchanged 2015	31/12/2015	1.75

Source: Danske Bank Markets

Disclosures

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