Danske Bank Markets

21 December 2015

Emerging Markets Briefer

With the first Fed hike behind us, what's next for emerging markets currencies?

After more than two year's anxious wait, the Fed delivered its first rate hike on Wednesday. Unlike the negative market reaction to the taper tantrum in 2013, the response on Wednesday was much more muted, with many emerging market currencies actually strengthening against the US dollar. The big uncertainties are whether the Fed move means that emerging market currencies are finally out of the woods and whether we could see a stronger path in the new year. Our immediate answer is maybe but go very selectively and be prepared for significant bumps along the way.

There is no doubt that the first Fed hike has removed some of the uncertainty, which has left policymakers and investors in emerging markets struggling. We need to keep in mind a point that Janet Yellen reminded us of at her press conference on Wednesday, i.e. that emerging markets usually benefit from strong US growth, which is the background for the higher interest in the US. Another point to keep in mind, which we have highlighted over the past couple of months, is that, unlike in other Fed tightening cycles, this time many emerging markets have more flexible exchange rate systems. This mean their exchange rates have taken the brunt of the adjustment over the past two years, helping to close large external imbalances and eventually overcome the shock faster than holding onto an overvalued peg. However, an issue that we need to keep in mind is the large dollar debt accumulated mainly by emerging market corporates. These have much higher debt service costs, which deters investment and is a drag on growth in some of the most exposed countries.

Looking ahead, we think the Fed rate issue may move down the pecking order in investors' minds over the next couple of months. Instead, we think investor focus will increasingly turn to the impact of sharply lower commodity prices and the fall in the Chinese currency. We expect both of these to have a significant impact on emerging market countries; for oil prices, we expect the shock to strengthen further oil-importing emerging market countries' external balances and their growth prospects, while we expect the opposite to be true for oil exporting countries. The sharply weaker Chinese exchange rate (not our base-case scenario) could send shockwaves through emerging markets as we saw in August.

We cannot exclude Fed anxiety coming back to haunt emerging markets. In our view, the market is interpreting the Fed too softly. If the Fed moves more aggressively than expected by the market, we might well see further emerging market currency pressures. However, for many emerging markets a backlash of weaker currencies would be higher debt service costs, which would hurt.

Hence, our best recommendation for 2016 at this stage is to treat emerging markets highly selectively. We recommend looking for energy-importing emerging markets with large export shares to the US and which have seen a large FX adjustment, such as Asian, some Latin American and Eastern European countries. India is certainly a country that meets the criteria but Mexico and Turkey also look promising. Although we believe commodity producing countries will be under a lot of pressure, we may see a turning point in some of the countries that have allowed large upfront exchange rate adjustments, such as Russia.

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Poland – strong growth set to support the zloty

Macro outlook

- Momentum in Polish GDP growth is still 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 with consumer confidence close to a seven-year high. As a result, we expect private consumption to pick up further in the coming quarters. Manufacturing PMI rebounded to over 52 in October and November from 50.9 in September. Both industrial production and retail sales surprised on the upside in November.

Monetary policy outlook

- As expected, the Polish central Bank (NBP) kept its interest rate unchanged at the monetary policy meeting in the beginning of December. We expect inflation to continue to trend upward as the economy operates close to potential, although the sharp fall in the oil price may pose a downward risk. The term for eight out of 10 members of the Monetary Policy Council ends in January and February 2016, which increases the uncertainty about the future direction of monetary policy. The market is currently pricing in a 25bp cut in Q1 16 but given the strong growth in the economy a rate cut is not our base scenario. Rather we think that the new policy committee will embark on unorthodox policy measures to strengthen credit flows to SMEs similar to the Hungarian central bank.

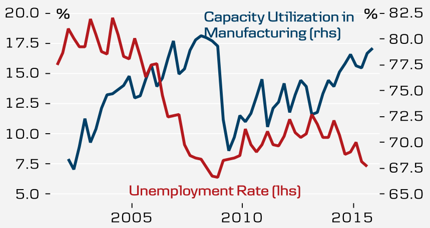
FX outlook

- We believe the December weakness of the PLN can mainly be ascribed to a strong EUR and general risk-off emerging market sentiment. Against the USD, the PLN has remained quite stable and one of the best performing emerging markets currencies. This supports our view that the Polish economy is fundamentally strong. Over the past days, the PLN has rebounded against the EUR as the EUR has weakened and the Polish government has affirmed its commitment to sound fiscal management. On a 3-12M horizon, we expect the PLN to remain supported by a more positive growth outlook and relative monetary policy divergence. Hence, we expect EUR/PLN to fall back towards 4.00 in 12M.

Risk factors

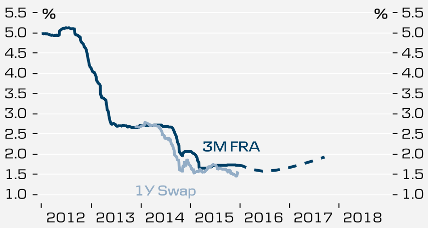
- Political uncertainty regarding fiscal and monetary policy will linger over the next two months. The recent constitutional crisis is a case in point. Despite the reassurance from the new finance minister about sound fiscal management, the impact of the government policies on the fiscal balance is not clear.

Economy operating close to full potential...



Source: Macrobond Financial

but the market is still pricing in a 25bp in NBP policy rates in Q1



Source: Macrobond Financial

PLN

Credit rating:

S&P: A- (positive)

Currency regime:

Free float (freely convertible)

Inflation target:

2.5% +/-1pp

Macro forecasts

	2014	2015	2016	2017	2018
GDP (% y/y)	3.3	3.5	3.5	3.3	3.7
GDP deflator (% y/y)	0.5	0.4	1.8	1.8	1.9
CPI (% y/y)	0.1	-0.8	1.0	1.9	2.0
Private consumption (% y/y)	2.5	3.4	3.8	3.3	3.5
Fixed investments (% y/y)	9.8	5.8	3.4	3.3	3.5
Unemployment (%)	9.0	7.6	7.2	6.8	6.8
Current account (% of GDP)	-1.1	-0.5	-0.9	-1.5	-1.7

Source: Macrobond Financial, Danske Bank Markets

Interest rate forecast

National Bank of Poland (NBP)	
Policy rate	1.50
Next meeting	14/01/2016
Next change	H2, 2016
End-2016	1.75

Source: Danske Bank Markets

FX forecasts

EUR/PLN		
	Danske	Forward
17-Dec	4.28	
+3M	4.20	4.31
+6M	4.15	4.33
+12M	4.00	4.36
USD/PLN		
	Danske	Forward
17-Dec	3.95	
+3M	3.96	3.98
+6M	3.77	3.98
+12M	3.45	3.98

Source: Danske Bank Markets

Hungary – economy steams ahead but slowdown expected next year

Macro outlook

- Growth expanded 0.6% in Q3, slightly faster than expectations. The near-term economic outlook is also fairly strong with industrial production growing almost 13% y/y in October, one of the highest growth rates in Emerging Markets. Manufacturing PMI rose to 56.2 in November from 55.3 in October, while private consumption is boosted by high consumer confidence, record low unemployment (10-year low) and retail sales growing at a relatively healthy rate (4.5% y/y in October).
- However, one of the main drivers of strong growth in Hungary is the large absorption of EU structural funds. The absorption is set to decline sharply in 2016 as the current EU programme draws to an end. Given that absorption will not rebound until 2017, GDP growth will fall somewhat next year.

Monetary policy outlook

- The National Bank of Hungary (NBH) kept its base rate at 1.35% on 15 December, as expected, marking the fifth meeting with unchanged rates after it stated in July that the easing cycle had come to an end. Given the upward trend in CPI inflation (increasing to 0.5% y/y in November from 0.1% in the previous month) and relatively strong growth prospects, we think NBH will maintain its no-easing bias, relying instead on unconventional policy measures to boost lending to SMEs. We do not think the policy stance will be altered by a significant drop in headline inflation from the recent slump in the oil price given that core inflation has remained relatively stable around 1.5%. Hence, we expect the NBH to stay on hold at its next policy meeting on 26 January.

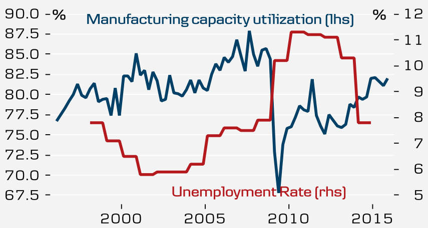
FX outlook

- While the low interest rate in Hungary is likely to keep the HUF attractive as a funding currency within the emerging market carry trade space, we continue to believe that Hungary's fairly strong external position is likely to be supportive for the HUF. However, in the near future the HUF could come under pressure from emerging market risk-off sentiment in relation to the Fed beginning and lower oil prices. Hence we keep our EUR/HUF forecasts for 3M, 6M, and 12M at 310, 305 and 300, respectively.

Risk factors

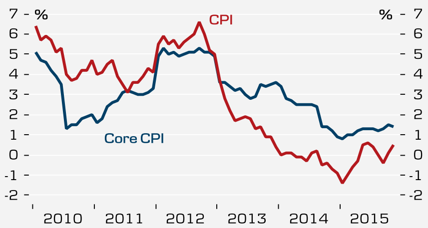
- Current upside and downside risks to the HUF seem fairly small and well balanced.

Capacity utilisation is increasing ...



Source: Macrobond Financial

...and inflation is trending upward, maintaining NBH's no-easing bias.



Source: Macrobond Financial

HUF

Credit rating:

S&P: BB+ (stable)

Currency regime:

Free float (freely convertible)

Inflation target:

3% (medium term)

Macro forecasts

	2014	2015	2016	2017	2018
GDP (% y/y)	3.7	2.9	2.2	2.5	2.7
GDP deflator (% y/y)	3.2	1.7	2.4	2.9	3.1
CPI (% y/y)	0.0	0.1	1.9	2.5	3.1
Private consumption (% y/y)	1.8	3.2	3.1	3.0	3.0
Fixed investments (% y/y)	11.3	2.2	-3.2	2.5	3.0
Unemployment (%)	7.7	7.1	6.7	6.2	6.0
Current account (% of GDP)	2.2	4.3	5.5	6.1	6.0

Source: Macrobond Financial, Danske Bank Markets

Interest rate forecast

Hungarian Central Bank (MNB)	
Policy rate	1.35
Next meeting	26/01/2016
Next change	H2, 2016
End-2016	1.60

Source: Danske Bank Markets

FX forecasts

EUR/HUF		
	Danske	Forward
17-Dec	315.7	
+3M	310.0	317.2
+6M	305.0	318.1
+12M	300.0	320.4

USD/HUF		
	Danske	Forward
17-Dec	291.39	
+3M	292.45	292.58
+6M	277.27	292.54
+12M	258.62	292.46

Source: Danske Bank Markets

Baltics – bouncing back

- The Baltic states are still coping with the negative effects of the Russian food embargo and the general slowdown in the Russian economy. However, signs of the economic bouncing back are already visible and should pave the way for more robust growth in 2016.

Estonia

- Estonian GDP grew by 1.3% in the first three quarters of 2015. The main driver behind growth was private consumption (+4.1% y/y), which was in turn driven by rapid wage growth (averaging 5.9% in Q1-Q3) while average inflation in the same period was neutral at 0%.
- Fixed investment has been experiencing negative growth in Estonia for five consecutive quarters and has already contracted by more than 7% this year. The slowdown in investment has contributed to negative import growth this year. Therefore, even in the context of falling exports, Estonia managed to increase its trade balance by more than EUR150m in Q1-Q3.

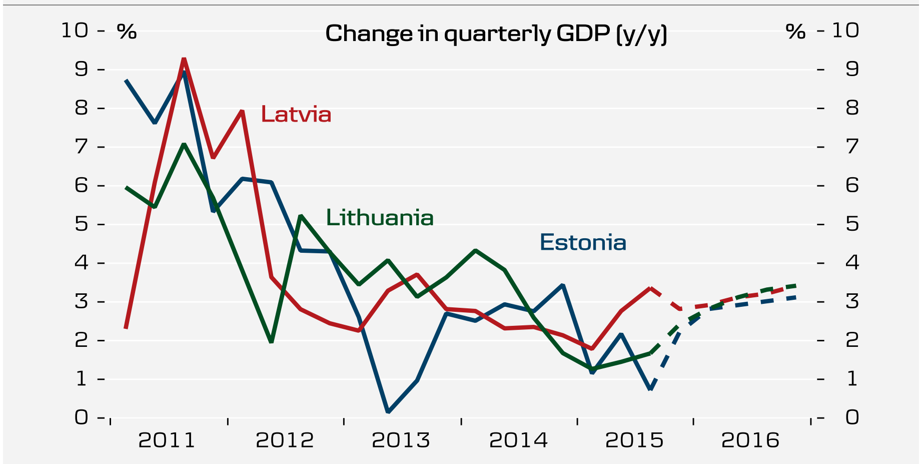
Latvia

- The Latvian economy grew by a healthy 2.7% in Q1-Q3 (in Q3 alone GDP expanded by 3.3%) After a sluggish H1 consumption increased by 4.9% in Q3. Investment growth also picked up in Q3 and grew by 6.4% y/y. Stronger domestic demand contributed to a slight deterioration in the trade balance. On the other hand, despite the fall in exports to Russia, Latvia has managed to maintain relatively strong export growth (+2% y/y).
- Average inflation in January-October was 0.2% while wage growth (6.8%) was strongest among the Baltic states even with relatively high unemployment (9.9%).

Lithuania

- Lithuanian GDP grew by 1.5% y/y in Q1-Q3. Rapid wage growth (+4.8%) and deeply negative inflation (-0.7%) contributed to strong consumption performance (+4.5%). Investment, driven by the construction boom, especially the national renovation programme of the old Soviet multi-flat buildings, increased by an impressive 10.2%.
- Strong domestic demand contributed to a very rapid rise in import growth in Q1-Q3 (+8.2%). Therefore, even in the context of growing exports (+0.8%), the negative change in the trade balance was the main contributor to weaker economic growth.

GDP growth set to bounce back in Q4 15



Source: Macrobond Financial, Danske Bank Markets estimates

Estonia

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

Currency: EUR since 1 Jan 2011

	2014	2015	2016	2017
GDP (% y/y)	2.9	1.8	2.7	2.9
CPI (% y/y)	0.5	0.0	1.5	2.2
Private consumption (% y/y)	3.5	4.9	4.6	4.2
Fixed investments (% y/y)	-2.8	-5.4	1.2	3.8
Exports (% y/y)	2.6	-0.2	3.2	4.1
Trade balance (% of GDP)	1.3	4.2	3.9	3.9
Unemployment (%)	7.4	6.1	5.6	5.4

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)	2.8	2.5	3.0	3.2
CPI (% y/y)	0.7	0.1	1.6	2.3
Private consumption (% y/y)	2.3	4.0	4.8	4.6
Fixed investments (% y/y)	1.3	2.9	3.7	4.6
Exports (% y/y)	2.2	2.1	2.9	3.8
Trade balance (% of GDP)	-2.9	-2.5	-3.1	-3.4
Unemployment (%)	10.8	9.9	9.4	8.8

Source: Macrobond Financial, Danske Bank Markets estimates

Lithuania

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

Currency: EUR since 1 Jan 2015

	2014	2015	2016	2017
GDP (% y/y)	3.0	1.7	2.8	3.3
CPI (% y/y)	0.3	-0.7	1.2	2.1
Private consumption (% y/y)	5.6	4.9	4.5	4.7
Fixed investments (% y/y)	8.0	9.6	2.1	5.8
Exports (% y/y)	3.4	1.0	3.2	3.9
Trade balance (% of GDP)	1.1	-0.7	-0.6	-1.5
Unemployment (%)	10.7	9.2	8.4	8.1

Source: Macrobond Financial, Danske Bank Markets estimates

Russia – forget the Fed, oil is back

Macro outlook

- We raised our 2015 GDP forecast from -6.2 y/y to -3.9% y/y on 20 November 2015 (see *Flash Comment: Russian output and demand – heading for improvement*), as economic contraction, caused mainly by the oil price crash and aggressive monetary policy (rather than the effect of sanctions), is turning out to be more limited than previously expected due to the introduction of the free float regime and the start of import substitution.
- However, the supply-side indicators touched the bottom in Q3 15 and the path of contraction is slowing. Seasonally adjusted data show the economy grew 0.1% m/m in October, while the positive seasonally adjusted dynamics have been uninterrupted over the past four months.
- Growth in private consumption continued to be in negative territory throughout January to October 2015 as the demand-side shock is having a serious impact. High food inflation is weighing heavily on private consumers, posting 18.4% y/y in October and 21.2% y/y for 10M.

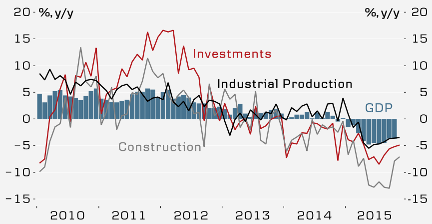
FX and monetary policy outlook

- Russia's central bank (the CBR) kept its key rate unchanged at 11.0% on 11 December, with consensus remaining 'unchanged'. The main reason given by the central bank for holding rates was 'growing inflation risks'. We think the recent rouble weakness and risk of pass-through to inflation may make central bank less likely to cut its policy rate in January.
- Inflation eased to 15.0% y/y in November, from a 15.6% y/y a month earlier, as the rouble's devaluation has already been transferred into prices and the high base effect is weighing on CPI. However, the recent rouble weakness may add to inflation pressures in the economy in the coming months
- As the Fed's 17 December decision to start monetary tightening fulfilled market expectations and Chair Janet Yellen's comments were moderately dovish, the RUB and other emerging market currencies are experiencing some relief. As of now, we believe the oil price and changes in geopolitical sentiment will play a major role for the RUB, reducing the global emerging market story impact.
- Looking ahead, we expect rouble weakness to continue, although on a more moderate path than seen over the past 12 months, supported by fewer FX debt redemptions from the corporate side in 2016 and a solid current account surplus.

Risk factors

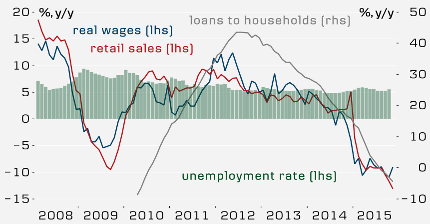
- Potential upside risks to our macro outlook are a higher oil price, easier monetary policy, expansionary fiscal policy under the parliamentary elections and the revoking of sanctions.

Main macro indicators are taking off



Source: Macrobond Financial, Danske Markets

Consumer fairy tale is over for now



Source: Macrobond Financial, Danske Markets

RUB

Credit rating:

S&P: BB+ (negative)

Currency regime:

Free float

Inflation target:

4% in 2017

Macro forecasts

	2014	2015E	2016E	2017E
Real GDP (% y/y)	0.6	-3.9	0.5	1.8
Private consumption, real (% y/y)	1.3	-10.0	0.9	1.6
Fixed investments, real (% y/y)	-2.0	-6.0	-3.0	2.2
MosPrime 3 months rate (% average)	10.5	14.0	8.5	7.1
CPI (% Dec/Dec)	11.4	13.5	7.2	5.8
RUB/USD (% y/y)	-15.7	-37.4	-14.9	4.4
M1 (RUB, trn)	8.3	8.1	9.3	10.2
Unemployment (%)	5.2	5.5	5.7	5.3
Budget balance (% of GDP)	0.9	-3.3	-3.0	-1.0
Current account (% of GDP)	3.2	4.0	3.9	3.2

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

Interest rate forecast

Bank of Russia (CBR)	
Policy rate	11.00
Next meeting	29/01/2016
Next change	-50bp
End-2016	8.50

Source: Danske Bank Markets

FX forecasts

EUR/RUB	Danske	Forward
17-Dec	76.58	
+3M	75.26	78.90
+6M	79.75	81.11
+12M	84.68	84.79

USD/RUB	Danske	Forward
17-Dec	70.68	
+3M	71.00	72.77
+6M	72.50	74.60
+12M	73.00	77.41

Source: Danske Bank Markets

Turkey – improving fundamentals

Macro outlook

- Turkey's economic figures surprised positively again as Q3 15 GDP expanded 4.0% y/y, while consensus expected 2.7% y/y growth. Government spending continued its solid expansion with a build-up of inventories.
- We raise our GDP growth forecast for 2015 to 3.1% y/y, from 2.8% y/y previous. Yet, geopolitical uncertainty linked to the conflict with Russia and Middle East operations and Turkey's corporate sector's vulnerability to the Fed's tightening path could restrain economic activity.
- Turkey's Prime Minister Ahmet Davutoglu has listed a reform package for the new government in order to fulfil pre-election promises aimed at sustaining economic growth. For instance, according to the package, the minimum wage will rise 30%, lifting private consumption and inflation and hurting the corporate sector, weighing on unemployment.
- The current account is benefiting from falling oil prices and real depreciation, posting a USD130m deficit in October 2015 versus USD2.3bn in October 2014. However, we see some downside risks to current account development, as Russia's economic sanctions will weigh on USD20-45bn of bilateral trade annually, hitting the Turkish tourism sector and agricultural exports.

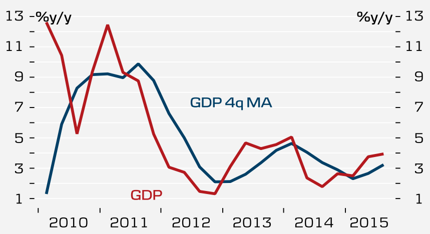
FX and monetary policy outlook

- The CPI acceleration continued in November, climbing to 8.10% y/y, from 7.58% a month earlier. We expect inflation pressure to ease on low energy prices and lira's stabilisation.
- On 24 November, the Turkish central bank kept its policy rate unchanged at 7.50%, as we expected. Lira's stabilisation and lowering inflation are weighing less on the central bank. Politicians who are close to President Recep Tayyip Erdogan continue to demand easier monetary policy in order to support the economy.
- We expect the lira to stabilize in a three-month horizon, as improving fundamentals will be supportive. We forecast a downward correction in the USD/TRY in the long run, on Turkey's sustainable macro indicators and balanced current account.

Risk factors

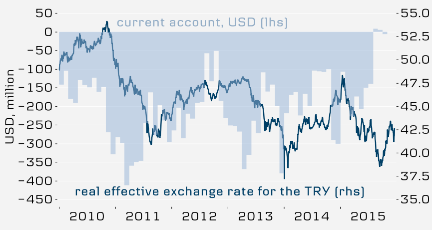
- The strengthening of the US dollar and continuing Fed's tightening are clear risks to the TRY versus the dollar. Geopolitical risks could depress the Turkish economy on the back of Russia's sanctions.

Turkey's GDP growth remains strong



Source: Macrobond Financial

Current account deficit stays reduced



Source: Macrobond Financial

TRY

Credit rating:

S&P: BB+ (negative)

Currency regime:

Free float

Inflation target:

5.0% year-end 2016-17

Macro forecasts

	2014	2015E	2016E	2017E
Real GDP (% y/y)	2.9	3.1	3.6	3.8
Private consumption, real (%	1.3	3.7	3.4	3.9
Fixed investments, real (% y/y)	-1.0	2.3	3.4	3.5
CPI (% Dec/Dec)	8.9	7.7	6.5	5.5
Unemployment (%)	10.4	10.3	10.0	9.5
Current account (% of GDP)	-5.7	-5.2	-5.0	-4.8

Source: Bloomberg, Danske Bank Markets

Interest rate forecasts

C.B. of the Republic of Turkey (TCMB)	
Policy rate	7.50
Next meeting	22/12/2015
Next change	Unchanged 2016
End-2016	7.50

Source: Danske Bank Markets

FX forecasts

EUR/TRY		
	Danske	Forward
17-Dec	3.17	
+3M	3.07	3.25
+6M	3.08	3.34
+12M	3.25	3.53
USD/TRY		
	Danske	Forward
17-Dec	2.93	
+3M	2.90	3.00
+6M	2.80	3.07
+12M	2.80	3.22

Source: Macrobond Financial, Danske Bank Markets

South Africa – political mis-steps add to ZAR agony

Macro outlook

- Over the past week South African assets took a heavy beating after President Zuma decided to replace the generally well-respected minister Nhlanhla Nene with an unknown parliamentarian, only to sack him after four days and then appoint the previous finance minister Pravin Gordhan. The reappointment of Gordhan has helped win back some of the market's confidence but the credibility of the Zuma government has probably suffered lasting damage.
- The political mishap could not come at a worse time. The economy is suffering from mediocre growth and weak fiscal and external balances on the back of a terms of trade shock; the latest economic indicators point to further weakness ahead as manufacturing PMI dropped to a six-year low at 43.3 in November. Retail sales fell short of expectations in September. On 4 December Fitch cut the country's long-term credit rating to just one notch above junk, while S&P lowered its outlook to negative.

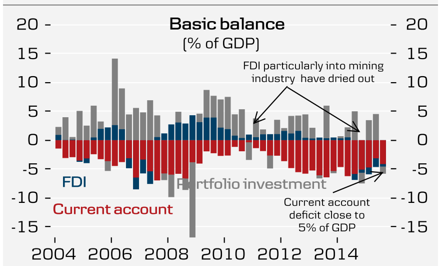
Monetary policy outlook

- As we expected the SARB raised its benchmark repo rate to 6.25% at the 19 November meeting to cap second-round effects from exchange rate depreciation and relatively high core inflation. Despite the rate hike the central bank still regards its monetary policy stance as accommodative. At the meeting, the central bank slightly lowered its near-term inflation forecast, expecting headline inflation at 4.6% (4.7% at the previous meeting) for 2015. The anticipated breach of the upper end of the target range in the first quarter of 2016 is now expected to average 6.4% (6.7% at the previous meeting) as well as lowering the trajectory for the remainder of 2016. However, given the weakening of the ZAR over the past month, inflation projections may be revised up at the next meeting and we expect the SARB to remain on the cautious side and hike rates further by 25bp to curtail higher inflation expectations.

FX outlook

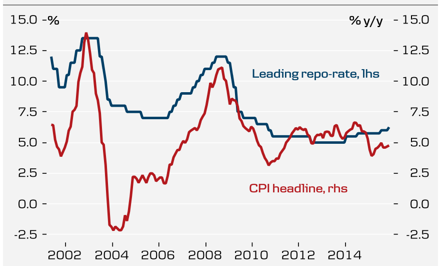
- Following the sharp fall on the back of the change in finance ministers, the ZAR has now regained its value. The immediate reaction to the Fed rate hike has been a strengthening of the ZAR against the USD despite the Fed frontloading its rate hike somewhat. The rally is probably a relief that policy uncertainty has been removed and the market interpreting the Fed as slightly less hawkish. However, we think it is too early to assume a sustained rally and remain cautious in the short term on the ZAR due to domestic weaknesses. However, in H2 16 we might see some strengthening of the ZAR. Hence, we foresee USD/ZAR at 15.10 in 3M, 15.50 in 6M and 15.00 in 12M.

Vulnerable external position



Source: Macrobond Financial

SARB to hike again in Q1



Source: Macrobond Financial

ZAR

Credit rating:

S&P: BBB- (negative)

Currency regime:

Free float (freely convertible)

Inflation target:

3%-6%

Interest rate forecast

South African Reserve Bank (SARB)	
Policy rate	6.25
Next meeting	28/01/2016
Next change	+ 25 bp Jan 2016
End-2016	6.75

Source: Danske Bank Markets

FX forecasts

EUR/ZAR		
	Danske	Forward
17-Dec	16.48	
+3M	16.01	16.72
+6M	17.05	17.04
+12M	17.40	17.76

USD/ZAR		
	Danske	Forward
17-Dec	15.21	
+3M	15.10	15.42
+6M	15.50	15.67
+12M	15.00	16.21

Source: Macrobond Financial, Danske Bank Markets

Brazil – economic contraction bottoming out

Macro outlook

- Although the recession deepened further in Q3, with real GDP falling by 6.18% compared with 4.47% in Q2, leading indicators suggest that the downturn is bottoming out in Q4: Business confidence improved in November albeit from record-low levels, services PMI increased to 45.5 in November from 43 the previous month, while the manufacturing sector's PMI was almost stable, although industrial production weakened slightly. Consumer confidence also stabilised while retail sales fell by less in September than in August.
- On the external front, the current account balance continues to narrow on a seasonally adjusted basis. In October, the deficit was 4.0% of GDP compared with 4.6% in April. The key challenge for the Brazilian economy is the rather high budget deficit and public debt (expected to reach 70% of GDP in this year), especially in view of the weak growth outlook. Fitch lowered Brazil's long-term credit rating to junk status (BB+ with a negative outlook) on 16 December.
- Hence, although the fall in the economy is bottoming out, we think growth could fall short of consensus expectations in 2016 of a decline in real GDP of 1.3% given the muted outlook for commodity prices and headwinds from fiscal consolidation.

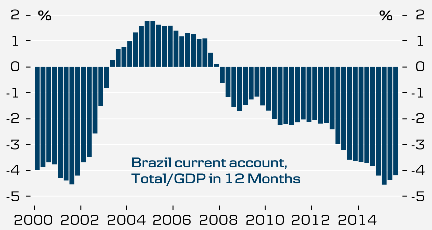
Monetary policy outlook

- After seven rate hikes in nine months through July, the Brazilian central bank (BCB) kept its leading Selic rate constant at 14.25% in the past four rate policy meetings. At its latest November policy meeting, the policy committee flagged a slightly more hawkish monetary policy stance to anchor inflation expectations. Inflation continued to climb in November and December but we think that inflation pressures may well start to abate due to a more stable BRL and economic weakness in the coming months. In the meantime we think that BCB will keep a cautious stance and therefore believe BCB will leave its benchmark rate unchanged at its next policy meeting.

FX outlook

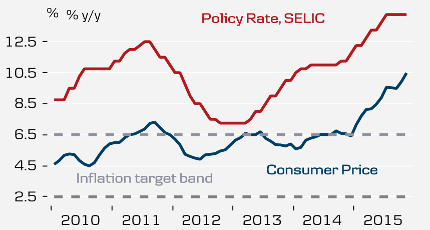
- The BRL has remained relatively stable vis-à-vis the USD since September and actually strengthened following the Fed meeting on 16 December. The BRL has already undergone one of the sharpest adjustments in the emerging market space and relative to long-term average now seems undervalued. We expect the BRL to continue to remain relatively stable versus the USD, although we do recognise downside risks from a potential worsening political crisis and a more hawkish Fed. We forecast USD/BRL at 4.10 in 1M, 4.20 in 6M and 4.30 in 12M.

External imbalances have bottomed...



Source: Macrobond Financial

and monetary policy stance seems reasonably tight



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	20/01/2016
Next change	March 2016
End-2016	14.00

Source: Danske Bank Markets

FX forecasts

EUR/BRL		
	Danske	Forward
17-Dec	4.22	
+3M	4.35	4.31
+6M	4.62	4.44
+12M	4.99	4.71
USD/BRL		
	Danske	Forward
17-Dec	3.89	
+3M	4.10	3.98
+6M	4.20	4.09
+12M	4.30	4.30

Source: Macrobond Financial, Danske Bank Markets

China – signs of moderate recovery

Macro outlook

- GDP growth fell to 6.9% y/y in Q3 from 7.0% y/y in Q2. It was the lowest level since 2009 but close to the government's target of 7% growth in 2015. Growth is under pressure from weak exports, low investment growth and overcapacity in large parts of the industrial sector. However, data for credit, industrial production and PMI surveys are supporting the picture of a moderate recovery driven by stimulus measures and a recovery in housing. China has a strong focus on rebalancing with more growth driven by private consumption and the service sector away from investment and export-led growth. Beyond 2015, structurally growth is heading lower in line with the new target in the Five-Year plan looking for growth around 6.5% in the next five years.
- 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 many parts of the world as growth is now driven by less import intensive sectors.

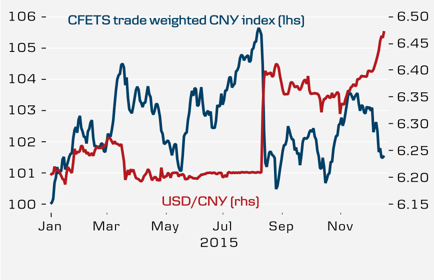
Monetary policy outlook

- The People's Bank of China (PBoC) has a clear easing bias and has cut its leading interest rates six times since October last year. We expect another three cuts over the coming quarters with the next cut of 25bp in early Q1. A cut in the reserve requirement ratio by 50bp is also in store. The measures aim at underpinning a moderate recovery and relieving the high debt burden.

FX outlook

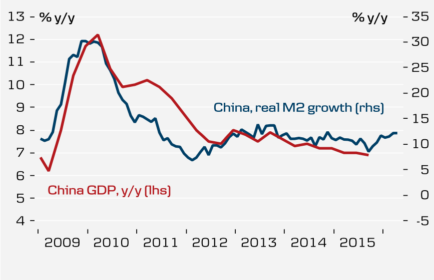
- Since the announcement of a more market-based exchange rate system announced in August the CNY has been under pressure to depreciate versus the USD. In line with our expectations the pressure intensified after China was included in the SDR on 30 November. The beginning of a Fed hiking cycle together with more easing from PBoC also puts pressure on USD/CNY. In November China intervened for around USD50bn to dampen the depreciation of the CNY versus the USD. However, China has also stressed that the currency is managed versus a basket of currencies and not just the USD and that the currency has not weakened when measured more broadly, see *China introduces a trade-weighted RMB index*, 13 December. We look for a further moderate rise of USD/CNY to 6.65 in 12M. A turnaround in the USD versus the EUR will ease the current strong depreciation pressure on the CNY and China will step up intervention if necessary to stem a too fast rise in USD/CNY.

CNY sideways when measured versus basket of currencies



Source: Macrobond Financial

Moderate recovery in H116



Source: Macrobond Financial

CNY

Credit rating:

S&P: AA- (stable)

Currency regime:

Managed exchange rate

Inflation target:

3.5% for 2014

Interest rate forecast

People's Bank of China (PBOC)	
Policy rate	4.35
Next meeting	Not announced
Next change	Q1 2016
End-2016	3.60

Source: Danske Bank Markets

FX forecasts

EUR/CNY		
	Danske	Forward
17-Dec	7.02	
+3M	6.94	7.07
+6M	7.26	7.12
+12M	7.71	7.22

USD/CNY		
	Danske	Forward
17-Dec	6.48	
+3M	6.55	6.52
+6M	6.60	6.54
+12M	6.65	6.59

Source: Macrobond Financial, Danske Bank Markets

India – strong growth ahead

Macro outlook

- India continues to be the main positive story within the emerging market universe. GDP growth has averaged 7.3% in 2015 (higher than Chinese growth around 7%) and industrial production rose 10% y/y in October. India continues to be well positioned for robust growth in 2016 and 2017. (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) it has a strong reform-oriented government progressing with building a stronger role for markets, cutting red tape and opening up the economy. If this continues, there is potential for high growth rates for many years.
- 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 should decline further due to the sharp decline in the crude oil price. We no longer regard India as among the 'fragile' emerging markets as imbalances have been reduced markedly over the past two years.

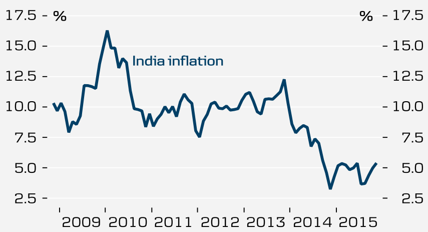
Monetary policy outlook

- In March, the Reserve Bank of India (RBI) moved from targeting wholesales prices to targeting consumer price inflation within 4% +/-2%. It is a gradual adjustment and for end-2015 the target is 6%. Inflation is currently below this at 5.4% and gave room for RBI to cut interest rates further at end-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 away will keep RBI from easing further.

FX outlook

- In line with other emerging market currencies, the INR has weakened against the USD. However, it is no longer one of the fragile emerging market currencies as (1) the current account has improved markedly in the wake of the drop in the crude oil price, (2) there is possible acceleration in economic reforms under a strong BJP-led government, (3) RBI is a credible/hawkish central bank and (4) economic growth is robust. In 2016, gradual monetary tightening in the US and continued depreciation of the CNY could weigh further on the INR. We expect a further depreciation of around 5% in 12M.

Inflation has fallen



Source: Macrobond Financial

Robust growth – now above China

Source: Macrobond Financial

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	02/02/2016
Next change	Unchanged 2016
End-2016	6.75

Source: Danske Bank Markets

FX forecasts

EUR/INR		
	Danske	Forward
17-Dec	71.83	
+3M	71.55	72.50
+6M	75.02	73.81
+12M	80.27	76.64

USD/INR		
	Danske	Forward
17-Dec	66.30	
+3M	67.50	66.87
+6M	68.20	67.89
+12M	69.20	69.96

Source: Macrobond Financial, Danske Bank Markets

FX hedging

CNY depreciation pressure to continue

The Chinese currency has weakened further after the Fed hike on 16 December, and USD/CNY is now at its highest level since 2011 at 6.4837. A clear sign that the pressure on CNY is intact is that the CNH-CNY spread remains high, indicating that foreign selling is taking place in the CNH market.

In line with our expectations the pressure intensified after China was included in the SDR on 30 November. In addition, on 11 December the People's Bank of China announced on its website that the China Foreign Exchange Trade System (also known as CFETS) has introduced a CFETS exchange-rate index for the purpose of guiding market participants to shift their focus from the bilateral RMB/USD exchange rate to the effective exchange rate, which is based on a basket of currencies. The announcement supports our view that the Chinese authorities will allow for a gradual depreciation of the CNY (and CNH) versus the USD. The trade-weighted CNY is very strong from a historical perspective and has substantial room to depreciate versus the USD.

We look for a further moderate rise of USD/CNY to 6.65 in 12M, with the risks being skewed towards a greater weakening of the CNY versus USD as the Fed may have to tighten policy more than we expect. Given our bullish forecast for EUR/USD (we target 1.16 in 12M) we look for a substantial increase in EUR/CNH towards 7.71 in 12M.

Hedge CNY risk via CNH market

We expect the CNH-CNY spread, currently 0.084 points, to remain positive as the continued depreciation pressure is likely to keep the CNH higher than the CNY. For longer-term hedging purposes, however, the CNY-CNH basis risk is priced out in the forward market on a 12-month horizon, and we thus recommend hedging through the CNH market as the liquidity is better than in the CNY NDF market.

CNY hedge recommendations

EUR-based clients

In the short term, we see potential for some downside for EUR/CNH and we recommend EUR-based clients to hedge the coming one to three months' CNY receivables via EUR/CNH seagull structures, which offer some profit potential in the event of CNY appreciation. For CNY receivables on a longer horizon, we recommend EUR/CNH FX forwards.

We recommend hedging short-term CNY expenses via FX forwards. For the longer term, we recommend hedging CNY payables via risk reversals, which have become more attractive following the past months' sharp increase in EUR call premiums.

USD-based clients

We recommend USD-based clients to hedge CNY receivables via USD/CNH FX forwards.

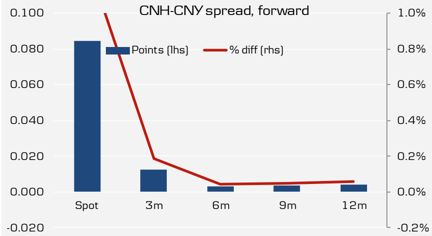
We recommend USD-based clients with CNY payables to position for further medium-term CNY depreciation by hedging exposure via risk reversals. This strategy benefits from the positive carry and the very skewed pricing between 25 delta USD/CNH call and put options.

CNY forecast

EUR/CNY		
	Danske	Forward
17-Dec	7.02	
+3M	6.94	7.07
+6M	7.26	7.12
+12M	7.71	7.22
USD/CNY		
	Danske	Forward
17-Dec	6.48	
+3M	6.55	6.52
+6M	6.60	6.54
+12M	6.65	6.59

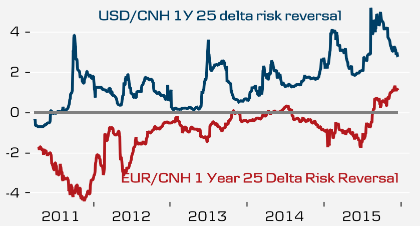
Source: Danske Bank Markets

12M USD/CNY NDF and USD/CNH forwards trade at same level



Source: Bloomberg, Danske Bank Markets

EUR/CNH and USD/CNH risk reversals



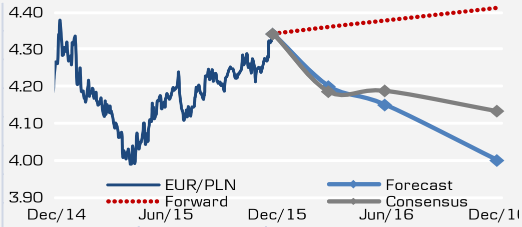
Source: Bloomberg, Danske Bank Markets

Danske Bank Markets' hedging recommendations: EMEA

PLN

Currency	Instrument: Income	Instrument: Expenses
PLN	We recommend hedging PLN income via knock-in forwards.	We recommend hedging PLN expenses via FX forwards.

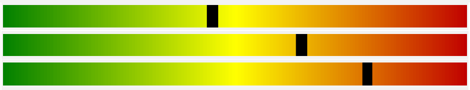
Forecast



	3M	6M	12M
DB forecast	4.20	4.15	4.00
Forward	4.36	4.38	4.41
Cons. Forecast	4.19	4.19	4.13

Price indicators

implied volatility
risk reversal (PLN seller)
forward rate (PLN seller)

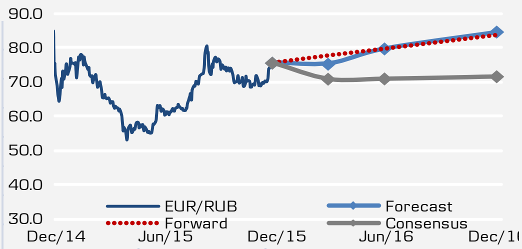


cheap — neutral — expensive

RUB

Currency	Instrument: Income	Instrument: Expenses
RUB	We recommend hedging RUB-income via FX forwards. Alternatively, consider hedging via a 'seagull' structure that allows for some upside potential in case of a stronger RUB against giving up a worst-case rate in case of a strong RUB depreciation.	We recommend hedging RUB expenses via knock-in forwards.

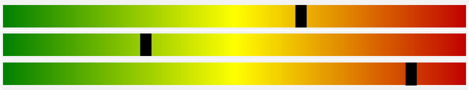
Forecast



	3M	6M	12M
DB forecast	75.26	79.75	84.68
Forward	77.76	79.71	83.73
Cons. Forecast	70.91	70.98	71.61

Price indicators

implied volatility
risk reversal (RUB seller)
forward rate (RUB seller)

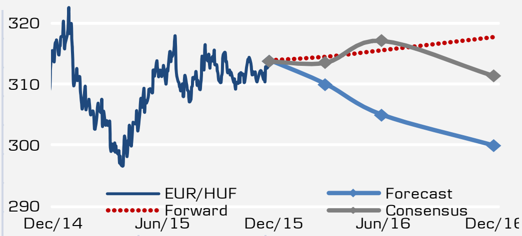


cheap — neutral — expensive

HUF

Currency	Instrument: Income	Instrument: Expenses
HUF	We recommend hedging HUF-income via knock-in forwards.	We recommend hedging HUF-expenses via risk reversals.

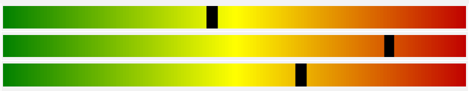
Forecast



	3M	6M	12M
DB forecast	310.00	305.00	300.00
Forward	314.45	315.58	317.86
Cons. Forecast	313.65	317.25	311.46

Price indicators

implied volatility
risk reversal (HUF seller)
forward rate (HUF seller)

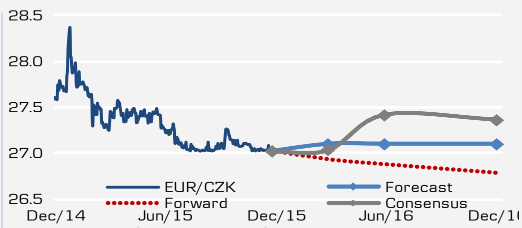


cheap — neutral — expensive

CZK

Currency	Instrument: Income	Instrument: Expenses
CZK	We recommend hedging CZK income via risk-reversal strategies.	We recommend hedging CZK expenses via a knock-in forward strategy.

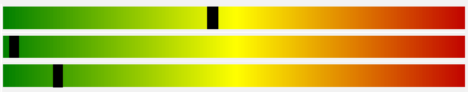
Forecast



	3M	6M	12M
DB forecast	27.10	27.10	27.10
Forward	26.93	26.87	26.78
Cons. Forecast	27.04	27.42	27.36

Price indicators

implied volatility
risk reversal (CZK seller)
forward rate (CZK seller)



cheap — neutral — expensive

Source: Danske Bank Markets

Danske Bank Markets' hedging recommendations: other emerging markets

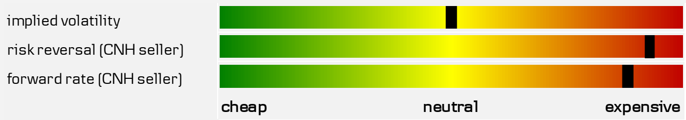
CNH

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. For CNY receivables on a longer horizon, we recommend FX forwards.

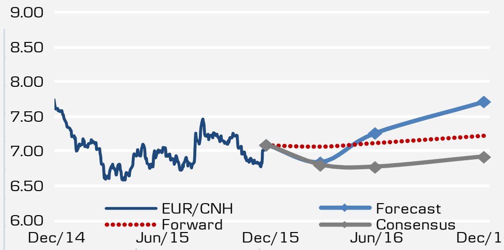
Instrument – Expenses: We recommend hedging short-term CNY expenses via FX forwards.

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

Price indicators



Forecast



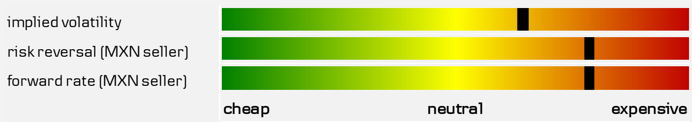
	3M	6M	12M
DB forecast	6.84	7.26	7.71
Forward	7.07	7.12	7.23
Cons. Forecast	6.80	6.77	6.92

MXN

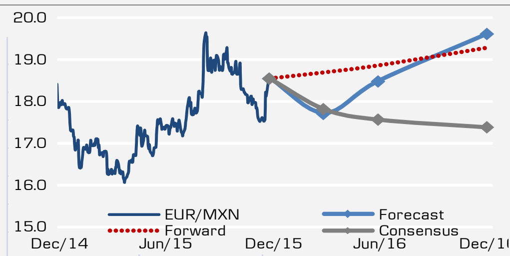
Instrument – Income: Hedge MXN income via knock-in forwards. Consider a window barrier instead of a European knock-in barrier in order to capitalise on the relatively high implied volatility.

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

Price indicators



Forecast



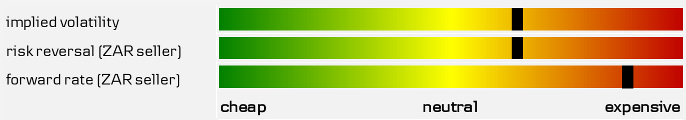
	3M	6M	12M
DB forecast	17.70	18.48	19.62
Forward	18.69	18.86	19.28
Cons. Forecast	17.82	17.57	17.38

ZAR

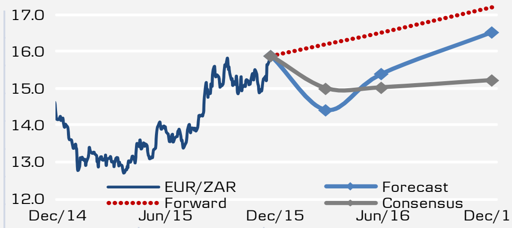
Instrument – Income: Hedge ZAR income via knock-in forwards. Consider a window barrier instead of a European knock-in barrier in order to capitalise on the relatively high implied volatility.

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

Price indicators



Forecast



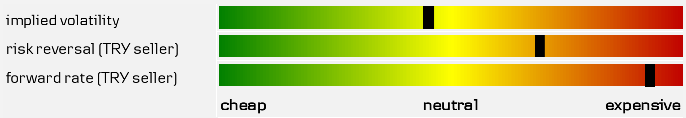
	3M	6M	12M
DB forecast	14.42	15.40	16.53
Forward	16.20	16.52	17.20
Cons. Forecast	15.00	15.03	15.23

TRY

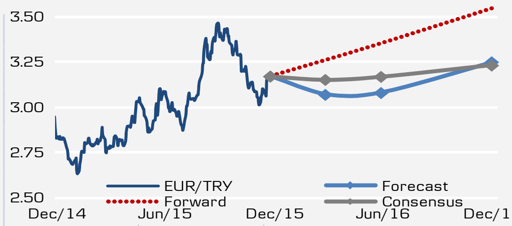
Instrument – Income: Hedge TRY income via knock-in forwards.

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

Price indicators



Forecast



	3M	6M	12M
DB forecast	3.07	3.08	3.25
Forward	3.26	3.36	3.55
Cons. Forecast	3.15	3.17	3.23

Source: Danske Bank Markets

FX forecasts

Core – major

b

Core Majors

		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
EUR	17-Dec			1.08		746.1		927.4		948.1	
	+3M			1.06	1.08	746.0	745.5	920.0	925.4	940.0	951.0
	+6M			1.10	1.09	746.0	744.9	910.0	924.5	925.0	953.5
	+12M			1.16	1.10	746.0	743.8	890.0	924.5	880.0	958.0
USD	17-Dec	1.08				688.6		856.0		875.1	
	+3M	1.06	1.08			703.8	687.6	867.9	853.5	886.8	877.1
	+6M	1.10	1.09			678.2	685.1	827.3	850.3	840.9	876.9
	+12M	1.16	1.10			643.1	679.0	767.2	844.0	758.6	874.5
JPY	17-Dec	132.9		122.7		5.61		6.98		7.13	
	+3M	131.4	132.8	124.0	122.5	5.68	5.62	7.00	6.97	7.15	7.16
	+6M	137.5	132.7	125.0	122.2	5.43	5.61	6.62	6.96	6.73	7.18
	+12M	145.0	132.7	125.0	121.2	5.14	5.61	6.14	6.97	6.07	7.22

Source: Macrobond Financial, Danske Bank Markets

Wider CEE

		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
PLN	17-Dec	4.28		3.95		174.1		216.4		221.3	
	+3M	4.20	4.31	3.96	3.98	177.6	172.8	219.0	214.5	223.8	220.5
	+6M	4.15	4.33	3.77	3.98	179.8	172.0	219.3	213.5	222.9	220.2
	+12M	4.00	4.36	3.45	3.98	186.5	170.6	222.5	212.0	220.0	219.7
HUF	17-Dec	315.7		291.4		2.36		2.94		3.00	
	+3M	310.0	317.2	292.5	292.6	2.41	2.35	2.97	2.92	3.03	3.00
	+6M	305.0	318.1	277.3	292.5	2.45	2.34	2.98	2.91	3.03	3.00
	+12M	300.0	320.4	258.6	292.5	2.49	2.32	2.97	2.89	2.93	2.99
CZK	17-Dec	27.03		24.95		27.60		34.31		35.08	
	+3M	27.10	26.84	25.57	24.75	27.53	27.78	33.95	34.48	34.69	35.44
	+6M	27.10	26.75	24.64	24.61	27.53	27.84	33.58	34.56	34.13	35.64
	+12M	27.10	26.64	23.36	24.32	27.53	27.92	32.84	34.70	32.47	35.96
RON	17-Dec	4.50		4.16		165.6		205.9		210.5	
	+3M	4.45	4.52	4.20	4.17	167.6	164.9	206.7	204.8	211.2	210.4
	+6M	4.40	4.53	4.00	4.17	169.5	164.4	206.8	204.0	210.2	210.4
	+12M	4.40	4.56	3.79	4.16	169.5	163.2	202.3	202.9	200.0	210.2

Source: Macrobond Financial, Danske Bank Markets

CIS

		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
RUB	17-Dec	76.58		70.68		9.74		12.11		12.38	
	+3M	75.26	78.90	71.00	72.77	9.91	9.45	12.22	11.73	12.49	12.05
	+6M	79.75	81.11	72.50	74.60	9.35	9.18	11.41	11.40	11.60	11.76
	+12M	84.68	84.79	73.00	77.41	8.81	8.77	10.51	10.90	10.39	11.30
UAH	17-Dec	25.22		23.28		29.6		36.8		37.6	
	+3M	28.62	N/A	27.00	N/A	26.1	N/A	32.1	N/A	32.8	N/A
	+6M	35.20	N/A	32.00	N/A	21.2	N/A	25.9	N/A	26.3	N/A
	+12M	38.28	N/A	33.00	N/A	19.5	N/A	23.2	N/A	23.0	N/A
KZT	17-Dec	359.4		331.7		2.08		2.58		2.64	
	+3M	374.2	N/A	353.0	N/A	2.0	N/A	2.5	N/A	2.5	N/A
	+6M	396.0	N/A	360.0	N/A	1.9	N/A	2.3	N/A	2.3	N/A
	+12M	429.2	N/A	370.0	N/A	1.7	N/A	2.1	N/A	2.1	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	17-Dec	3.17		2.93		235.2		292.4		298.9	
	+3M	3.07	3.25	2.90	3.00	243.0	229.3	299.7	284.6	306.2	292.5
	+6M	3.08	3.34	2.80	3.07	242.2	222.8	295.5	276.6	300.3	285.2
	+12M	3.25	3.53	2.80	3.22	229.5	210.8	273.8	262.1	270.8	271.6
ZAR	17-Dec	16.48		15.21		45.3		56.3		57.5	
	+3M	16.01	16.72	15.10	15.42	46.6	44.6	57.5	55.4	58.7	56.9
	+6M	17.05	17.04	15.50	15.67	43.8	43.7	53.4	54.3	54.3	56.0
	+12M	17.40	17.76	15.00	16.21	42.9	41.9	51.1	52.1	50.6	53.9
ILS	17-Dec	4.22		3.89		176.8		219.8		224.7	
	+3M	4.03	4.20	3.80	3.88	185.2	177.4	228.4	220.2	233.4	226.3
	+6M	4.18	4.20	3.80	3.87	178.5	177.3	217.7	220.0	221.3	226.9
	+12M	4.41	4.19	3.80	3.82	169.2	177.7	201.9	220.9	199.6	228.9
EGP	17-Dec	8.49		7.83		87.9		109.3		111.7	
	+3M	8.48	N/A	8.00	N/A	88.0	N/A	108.5	N/A	110.8	N/A
	+6M	9.35	N/A	8.50	N/A	79.8	N/A	97.3	N/A	98.9	N/A
	+12M	10.44	N/A	9.00	N/A	71.5	N/A	85.2	N/A	84.3	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	17-Dec	4.22		3.89		176.9		219.9		224.8	
	+3M	4.35	4.31	4.10	3.98	171.7	172.8	211.7	214.5	216.3	220.4
	+6M	4.62	4.44	4.20	4.09	161.5	167.6	197.0	208.1	200.2	214.6
	+12M	4.99	4.71	4.30	4.30	149.6	157.9	178.4	196.3	176.4	203.4
MXN	17-Dec	18.52		17.09		40.29		50.08		51.20	
	+3M	18.02	18.49	17.00	17.05	41.40	40.33	51.05	50.06	52.16	51.44
	+6M	18.48	18.65	16.80	17.15	40.37	39.94	49.24	49.57	50.05	51.12
	+12M	19.49	19.05	16.80	17.39	38.28	39.05	45.67	48.54	45.16	50.29
ARS	17-Dec	10.30		9.80		72.43		90.04		92.05	
	+3M	14.84	19.17	14.00	14.44	40.54	38.89	50.00	48.28	63.89	49.61
	+6M	15.95	18.53	14.50	13.96	37.42	40.20	45.64	49.89	59.44	51.45
	+12M	17.40	24.14	15.00	18.19	34.30	30.82	40.92	38.31	54.49	39.69

Source: Macrobond Financial, Danske Bank Markets

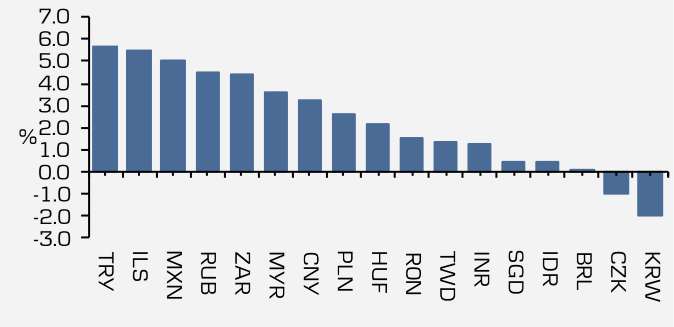
Emerging markets Asia

		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
CNY	17-Dec	7.02		6.48		106.2		132.0		135.0	
	+3M	6.94	7.07	6.55	6.52	107.4	105.5	132.5	131.0	135.4	134.6
	+6M	7.26	7.12	6.60	6.54	102.8	104.7	125.3	129.9	127.4	134.0
	+12M	7.71	7.22	6.65	6.59	96.7	103.0	115.4	128.1	114.1	132.7
KRW	17-Dec	1283		1185		0.58		0.72		0.74	
	+3M	1254	1273	1183	1175	0.59	0.59	0.73	0.73	0.75	0.75
	+6M	1364	1277	1240	1175	0.55	0.58	0.67	0.72	0.68	0.75
	+12M	1448	1287	1248	1175	0.52	0.58	0.61	0.72	0.61	0.74
THB	17-Dec	39.2		36.2		19.0		23.7		24.2	
	+3M	39.0	39.4	36.8	36.3	19.1	18.9	23.6	23.5	24.1	24.2
	+6M	40.8	39.6	37.1	36.4	18.3	18.8	22.3	23.4	22.7	24.1
	+12M	43.3	40.1	37.3	36.6	17.2	18.6	20.6	23.1	20.3	23.9
SGD	17-Dec	1.54		1.42		485		603		616	
	+3M	1.54	1.54	1.45	1.42	485	484	599	600	612	617
	+6M	1.61	1.55	1.47	1.42	463	481	564	597	574	616
	+12M	1.71	1.56	1.47	1.42	437	477	521	593	515	614
HKD	17-Dec	8.40		7.75		88.8		110.4		112.9	
	+3M	8.23	8.40	7.76	7.74	90.7	88.8	111.8	110.2	114.3	113.2
	+6M	8.54	8.42	7.76	7.74	87.4	88.5	106.6	109.9	108.4	113.3
	+12M	9.01	8.47	7.77	7.73	82.8	87.8	98.7	109.2	97.6	113.1
MYR	17-Dec	4.68		4.32		159.5		198.2		202.7	
	+3M	4.56	4.71	4.30	4.34	163.7	158.4	201.8	196.7	206.2	202.1
	+6M	4.71	4.75	4.28	4.37	158.5	156.9	193.3	194.7	196.5	200.8
	+12M	4.95	4.84	4.27	4.41	150.6	153.8	179.7	191.2	177.7	198.1
PHP	17-Dec	51.4		47.5		14.51		18.03		18.43	
	+3M	50.83	N/A	47.95	N/A	14.68	N/A	18.10	N/A	18.49	N/A
	+6M	53.52	N/A	48.65	N/A	13.94	N/A	17.00	N/A	17.28	N/A
	+12M	56.70	N/A	48.88	N/A	13.16	N/A	15.70	N/A	15.52	N/A
IDR	17-Dec	15205		14007		0.049		0.061		0.062	
	+3M	15199	15275	14339	14088	0.049	0.049	0.061	0.061	0.062	0.062
	+6M	16228	15628	14753	14373	0.046	0.048	0.056	0.059	0.057	0.061
	+12M	17274	16380	14891	14953	0.043	0.045	0.052	0.056	0.051	0.058
INR	17-Dec	71.83		66.30		10.39		12.91		13.20	
	+3M	71.55	72.50	67.50	66.87	10.43	10.28	12.86	12.76	13.14	13.12
	+6M	75.02	73.81	68.20	67.89	9.94	10.09	12.13	12.53	12.33	12.92
	+12M	80.27	76.64	69.20	69.96	9.29	9.71	11.09	12.06	10.96	12.50
TWD	17-Dec	35.76		33.01		20.86		25.93		26.51	
	+3M	35.32	35.82	33.32	33.04	21.12	20.81	26.05	25.84	26.61	26.55
	+6M	37.11	35.88	33.74	33.00	20.10	20.76	24.52	25.77	24.92	26.57
	+12M	39.41	36.13	33.97	32.98	18.93	20.59	22.59	25.59	22.33	26.52

Source: Macrobond Financial, Danske Bank Markets

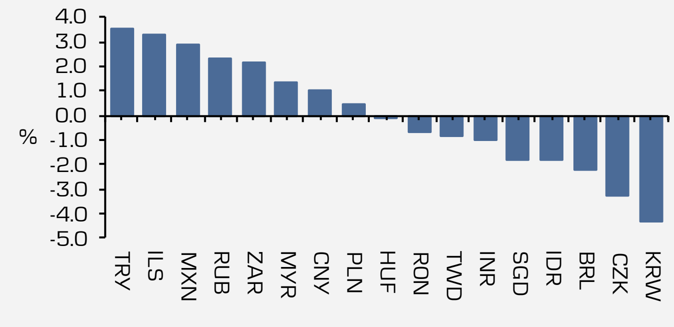
Forecasts vs forwards

3M – base currency EUR



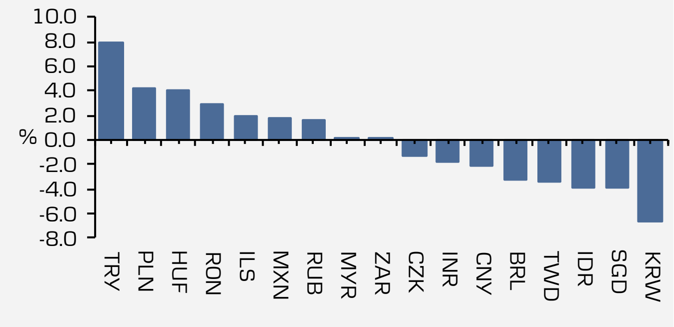
Source: Macrobond Financial, Danske Bank Markets

3M – base currency USD



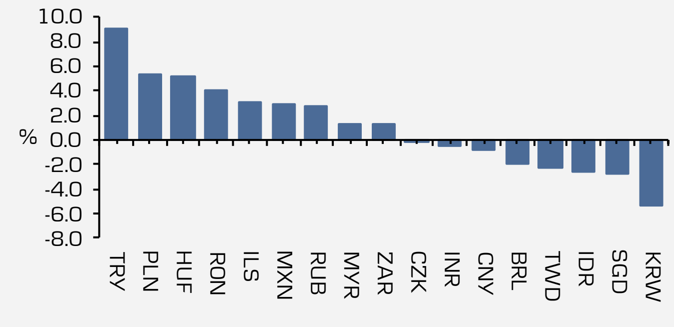
Source: Macrobond Financial, Danske Bank Markets

6M – base currency EUR



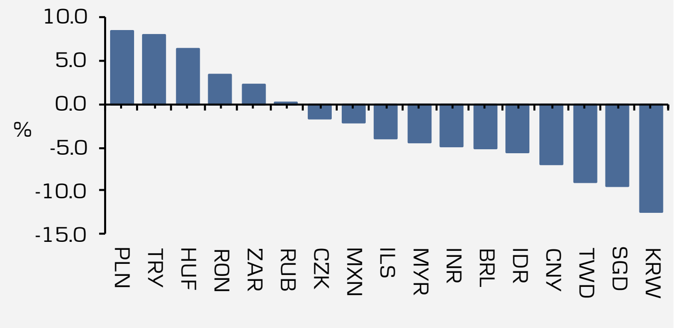
Source: Macrobond Financial, Danske Bank Markets

6M – base currency USD



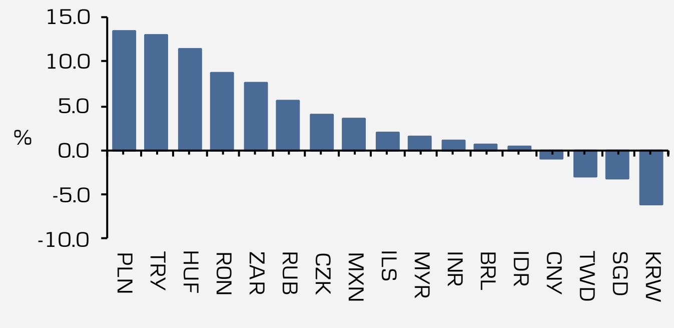
Source: Macrobond Financial, Danske Bank Markets

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 2016 (%)
	18 December 2015						
Wider CEE							
PLN	1.50	- 50 bp	Mar, 2015	+25bp	H2, 2016	14/01/2016	1.75
HUF	1.35	- 15 bp	July, 2015	+25	H2, 2016	26/01/2016	1.60
CZK	0.05	- 20 bp	Nov, 2012	-	Unchanged 2016	Not announced	0.05
RON	1.75	- 25 bp	May, 2015	+ 25 bp	H2, 2016	07/01/2016	1.75
TRY	7.50	-25 bp	Feb, 2015	-	Unchanged 2016	22/12/2015	7.50
CIS							
RUB	11.00	-50bp	July, 2015	-50bp		29/01/2016	8.50
MEA							
ILS	0.10	- 15 bp	Mar, 2014	+20bp	H2, 2016	28/12/2015	0.30
ZAR	6.25	+25 bp	Nov, 2015	+ 25 bp	Jan 2016	28/01/2016	6.75
LATAM							
BRL	14.25	+ 50 bp	Jul, 2015	-25bp	March 2016	20/01/2016	14.00
MXN	3.00	- 50 bp	June, 2014	-	Unchanged 2016	04/02/2016	3.25
EM Asia							
CNY	4.35	- 25 bp	Nov, 2015	-25bp	Q1 2016	Not announced	3.60
KRW	1.50	- 25 bp	Jun, 2015	-	Unchanged 2016	14/01/2016	1.50
THB	1.50	- 25 bp	April, 2015	-	Unchanged 2016	03/02/2016	1.50
HKD	0.75	+ 25 bp	Dec, 2015	-	Unchanged 2016	Not announced	0.75
MYR	3.25	+ 25 bp	Jul, 2014	+ 25 bp	Q1 2016	21/01/2016	3.50
PHP	4.00	+25 bp	Sep, 2014	+ 25 bp	H1 2016	11/02/2016	4.25
IDR	7.50	- 25 bp	Feb, 2015	-	Unchanged 2016	Not announced	7.50
INR	6.75	- 50 bp	Sep, 2015	-	Unchanged 2016	02/02/2016	6.75
TWD	1.75	-12.5 bp	Sep, 2015	-	Unchanged 2016	31/03/2016	1.75

Source: Danske Bank Markets

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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 Jakob Ekholdt Christensen (Chief Analyst), Allan von Mehren (Chief Analyst), Morten Helt (Senior Analyst), Vladimir Miklashevsky (Analyst) and Rokas Grajauskas (Analyst)..

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