Emerging Markets View

The reign of risk sentiment

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The increasing number of COVID-19 cases outside China and WHO's assessment of the outbreak as a pandemic triggered risk-off mood in mid-March to levels not seen since the financial crisis in 2008, when recession fears and capital outflow hit EM currencies hard. Our own indicator (EM sentiment index), which we developed to measure risk sentiment in global markets, allows us to compare the current coronavirus-induced sell-off with other episodes of market volatility. The index shows that the current pressure on EM currencies has been the toughest since the 2008 financial crisis. We believe it is premature to claim that the biggest EM sell-off is over until the COVID-19 spread shows signs of stabilisation.

CNY: Bad but not the worst

The CNY will likely face little upside potential versus the USD this year. However, it may outperform most EM FX thanks to better macro conditions, higher yields and central bank support.

RUB: Double blow

The RUB is being hit hard by the current global market developments and risks remain elevated. The collapse of the OPEC+ deal limits the RUB's upside potential even after global markets stabilise.

PLN: Rate cuts and more downside ahead

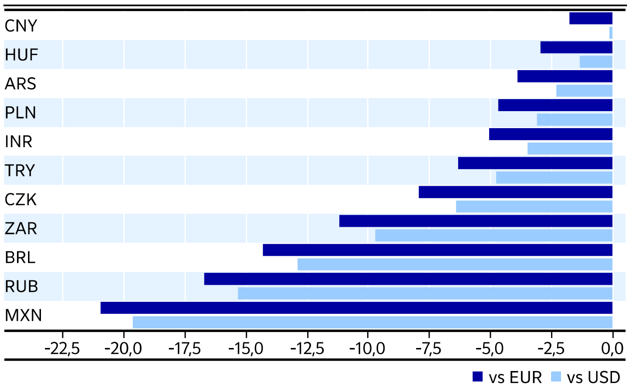
The Polish zloty is facing headwinds due to the coronavirus-related market sell-off. We expect the PLN to fare even worse in the coming months along with rate cuts from the NBP.

BRL: Perfect storm

USD/BRL increased to above 5 for the first time ever in March, and has depreciated by 20% against the USD in 2020. The BRL is set to experience further headwinds in 2020.

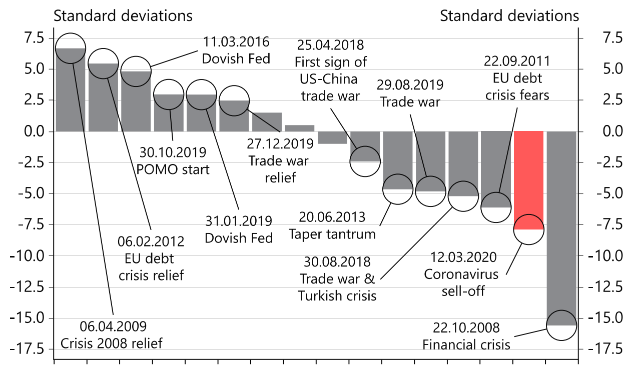
In this publication, we also cover FX hedging considerations, the EM Traffic Light and our financial forecasts.

EM FX PERFORMANCE SINCE LAST EM VIEW (%)



Source: Nordea and Macrobond

BIGGEST DAILY CHANGES OF EM SENTIMENT INDEX DURING VARIOUS EVENTS



Source: Macrobond and Nordea

The reign of risk sentiment

The coronavirus outbreak outside of China has raised the risk-off mood to levels not seen since the financial crisis of 2008. Our own EM sentiment index allows us to compare the current sell-off with other episodes of market volatility.

Risk sentiment is the main driver for the short-term performance of EM currencies

Last year ended up, with a strong performance by most EM currencies as the US and China signed a phase-one trade deal, while the Fed's decision to inject markets with dollar liquidity triggered optimism in the global markets. However, the coronavirus outbreak turned the situation upside down, provoking considerable risk-off sentiment and putting almost all EM currencies under significant pressure in Q1 2020.

Pandemic mood on global financial markets

The increasing number of COVID-19 cases outside of China and WHO's assessment that the situation can be characterized as a pandemic triggered mid-March risk-off mood to levels since the financial crisis of 2008, when recession fears and capital outflow hit EM currencies hard.

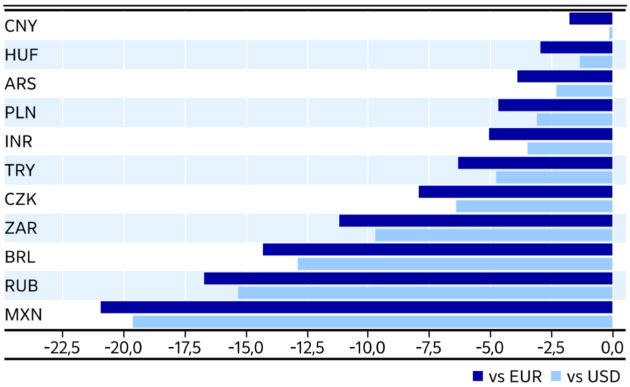
One of the biggest slumps in over two decades

Our own indicator (EM sentiment index), which we developed to measure risk sentiment in global markets, allows us to compare the current coronavirus sell-off with other episodes of market volatility. The index decreased by roughly 7.8 standard deviations on March 12, which was one of the biggest daily slumps of the index in more than 20 years (Chart 2).

Parallels between the current situation and financial crisis of 2008 have become more frequent

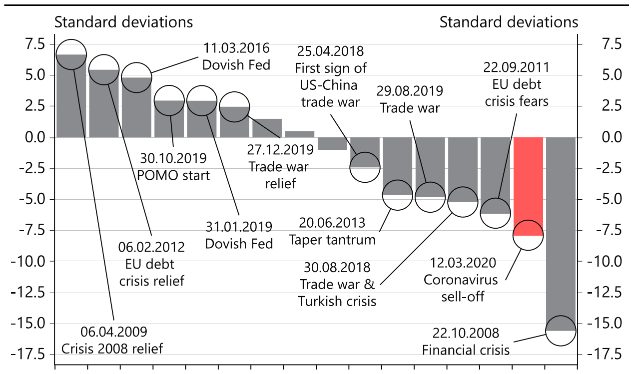
Our index showed that daily changes in the risk sentiment were much more severe during the sell-off peak in October 2008 (around -15 standard deviations). However, we think it is still premature to claim that the biggest EM pressure is over. Furthermore, risk-off sentiment put EM currencies under significant pressure for seven months in a row during the 2008 financial crisis. Thus, we expect that the dynamics of EM currencies will depend on the growth rate of new COVID-19 cases outside of China.

1. EM FX PERFORMANCE SINCE LAST EM VIEW (%)



Source: Nordea and Macrobond

2. BIGGEST DAILY CHANGES OF EM SENTIMENT INDEX DURING VARIOUS EVENTS



Source: Macrobond and Nordea

Looking at our EM sentiment index in more detail

The index is based on 12 normalised EM currencies and expressed in terms of standard deviations. We calculated the 1st principal component (which accounts for as much of the variability in the data as possible) of these currencies and define it as our EM sentiment index.

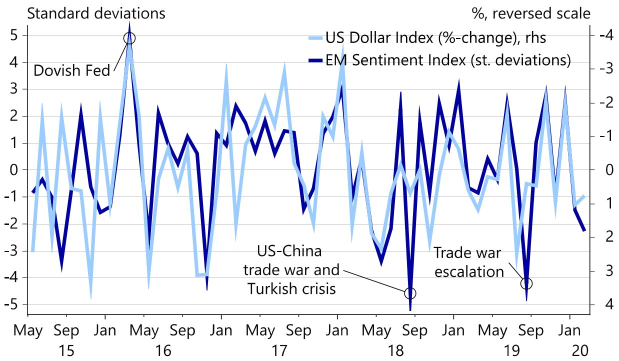
The direction of the index points at risk sentiment change

An increase in the index characterises a risk-sentiment improvement and, consequently, reflects strong performance of high-return assets and EM currencies. On the contrary, if the index heads south, this basically describes the dominance of flight-to-quality-assets mood. The US dollar in such episodes tends to strengthen and, consequently, the EM sentiment index may sometimes be regarded as an antipode to DXY (Chart 3).

We have included the EM sentiment index in our models for short-term forecasting of five currencies

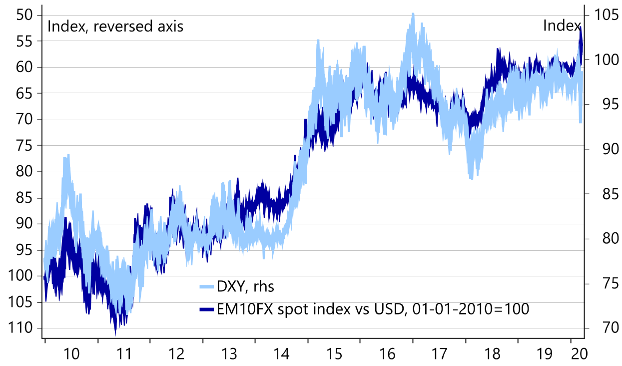
This approach is aimed at making our forecasts much more consistent. To make a long story short, we use hardcore machine learning algorithms as well as traditional econometrics in an attempt to explain monthly changes of a currency with EM sentiment index changes, as well as a few other variables (oil prices for INR, BRL and RUB, EUR and USD changes for PLN).

3. DXY CHANGES AND EM SENTIMENT INDEX



Source: Macrobond and Nordea

4. DXY LEVEL AND EM10FX SPOT INDEX



Source: Nordea Markets and Macrobond

The forecasting power of the model is strong

We estimated our final model prior to May 2019 and made out-of-sample forecast until February 2020. Fortunately, the model managed to forecast changes in EM currencies greatly, assuming that we knew the exact change of the EM sentiment index and other explanatory variables (Charts 5-6). For example, the model correctly predicted ten out of ten monthly PLN changes and nine out of ten RUB changes since May 2019.

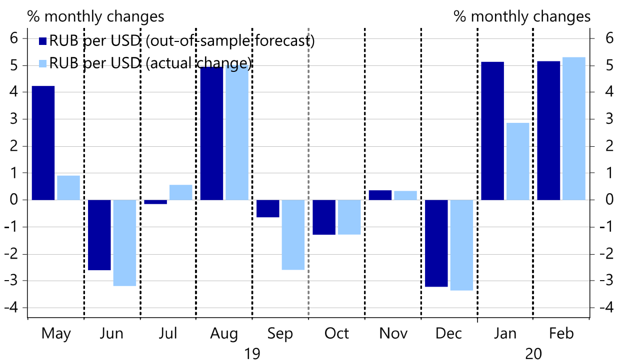
Specific shocks may increase forecast errors

However, the volatility of BRL and CNY was a bit higher than EM sentiment predicted as these currencies have recently been influenced by specific exogenous shocks (rapid monetary policy easing and US-China trade war). Nevertheless, the model correctly predicted the direction of CNY changes in eight cases and BRL changes in seven cases, which is also a quite satisfactory result.

The forecast performance is depend on risk sentiment changes

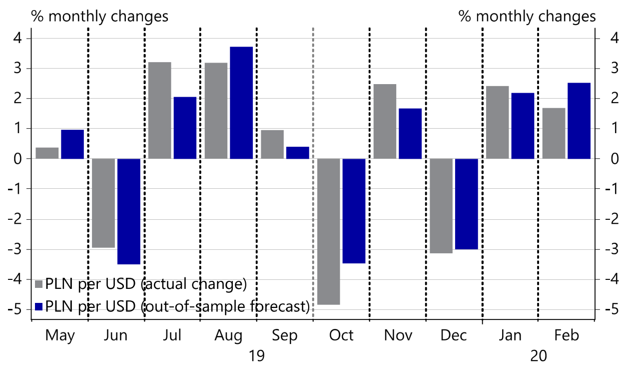
You may say this is a kind of catch-22, as to make forecasts for EM currencies changes, we have to know the future value of the sentiment index as well as oil prices and EUR/USD changes. Well, we are not OZ magicians and agree that to forecast something endogenous we should first make assumptions about independent variables of the model. Consequently, the performance of our FX forecasts will largely depend on our ability to forecast risk sentiment changes.

5. RUB CHANGES (PREDICTED AND ACTUAL)



Source: Macrobond and Nordea

6. PLN CHANGES (PREDICTED AND ACTUAL)



Source: Macrobond and Nordea

Math helps to specify our view numerically

Here is where our expert judgement meets mathematics. We can use previous cases of risk-on and risk-off moods as a guide for our expectations regarding future risk sentiment and, thus, determine the most likely scenario for the coming months.

It might get worse...

We expect risk sentiment to stay negative (from -0.5 to -1.5 st. dev.) in the next month due to high uncertainty on the coronavirus spread outside of China. The index stayed at that level in January 2020 amid tensions between the US and Iran. This scenario would imply some more downward pressure on EM currencies in the coming month ([-0.4%-0.7%] for the CNY, [-0.7-1.3%] for the RUB, [-1.3-2.7%] for the BRL and [-1.0-1.9%] for the INR). The EUR/PLN may move up to 4.50 in the short-term.

...before it gets better

Nevertheless, the spread of the coronavirus is slowing in China and domestic activities are gradually being resumed which points to a recovery in Q2 and Q3. The world economy may also start to recover in H2 2020 if the spread of the coronavirus is shortly taken under control outside of China as well.

By Grigory Zhirnov

CNY: Bad but not the worst

The CNY will likely face little upside potential versus the USD this year. But the CNY may outperform most EM FX thanks to better macro conditions, higher yields and central bank support.

High volatility in the CNY this year

The CNY has had a rollercoaster ride this year. Positive sentiment from the phase one deal with the US was quickly replaced by a month-long slide, triggered by the corona-virus outbreak in mid-January. Now, the rapid spread of the virus on a global scale is overshadowing any positive signs from China on containment and resumption of work.

Sizable downside risk to Chinese growth this year

A sizable global slowdown this year increases the downside risk for China's economy, which we expect to grow by 5%. This estimate takes into account the impact from the domestic lockdowns during February but not what is happening outside of China at the moment. As western governments have just initiated emergency measures, the impact on the world economy is highly uncertain.

The CNY faces little upside

Thus, it is safe to assume very low risk sentiment for some time. The CNY, like most EM FX, is expected to have little upside potential against the safe haven USD.

Return to normal helps the CNY to outperform EM FX

However, the CNY will likely outperform its EM peers for several reasons. With steadily falling new infections, policymakers in Beijing have lifted quarantines and are now focusing on returning to business as usual. Although the economy still faces uncertainty, it is likely much less than in the rest of the world.

It is also supported by relatively higher yields

The pandemic sparked a new round of central bank easing and sent yields to new lows. So far, the PBoC has shown more restraint to cut. Higher yields compared to the other EM with relatively solid fundamentals could attract yield-hungry flows. That would in turn support the CNY.

The authorities are likely to maintain a floor for the CNY

With a highly uncertain external outlook, the Chinese authorities are not interested in a strong CNY that would put further strain on exports. But with the capital outflow crisis in 2015-16 in mind, they see no benefit in a sharp weakening either. They are likely ready to intervene, should the CNY face heavy selling pressure.

By Amy Zhuang

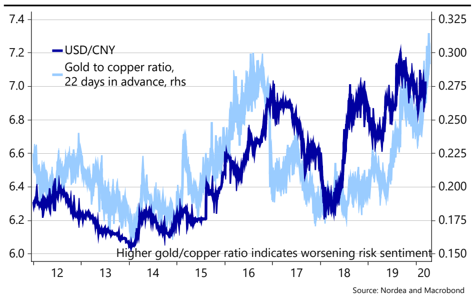
RISK FACTORS

- Slow return to normal activity domestically
- Spillover from global slowdown
- Excessive policy loosening

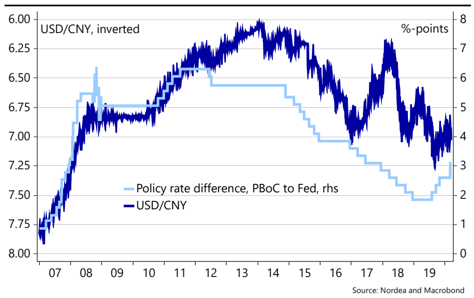
EM TRAFFIC LIGHT

- Risk level: 13% (green, 0 pp from the previous month)

SENTIMENT POINTS TO LITTLE CNY UPSIDE



CNY DOWNSIDE LIMITED BY HIGHER YIELDS



FINANCIAL FORECASTS – CHINA

Against the backdrop of the current market volatility, we fine-tune our USD/CNY forecasts. Elevated uncertainty related to the pandemic and global growth will likely lead to ongoing weakening pressure on the CNY. On the other hand, yield-hungry flows might find Chinese assets attractive on China's relative growth outperformance compared to the rest of the world and provide a floor for the CNY versus the dollar.

Forecasts	Spot	3M	Mid-2020	End-2020	End-2021
Policy rate	4.35	4.10	3.60	3.60	3.60
USD/CNY	7.01	6.90	6.95	6.95	7.10

Source: Nordea estimates

USD/CNY FORECASTS

RUB: Double blow

The RUB is being hit hard by the current global market developments and risks remain elevated. The collapse of the OPEC+ deal limits the RUB's upside potential even after global markets stabilise.

The RUB is an outsider

The RUB has lost more than 17% against the USD and more than 19% versus the EUR since our previous issue of EM View February 20 and is so far among the hardest hit EM currencies in 2020. The RUB probably has suffered the double shock of extreme risk-off across the global markets and a price war among oil-producing countries after a breakdown of the OPEC+ deal.

Vulnerable to further oil market risks

A situation with a price war among oil-producing countries and a completely different structure of the oil market after the breakdown of OPEC+ deal makes a V-shaped recovery in the oil market highly unlikely. In the short term, risks for the oil price are tilted to the downside. We roughly estimate that with an oil price in the range of USD 20-30/bbl, the RUB could fluctuate in the 75-82 range against the USD depending on risk sentiment in the market. The upper bound of this range may be the level where the CBR might be inclined to intervene. In an environment with an oil price of USD 30-40/bbl, we would expect to see the RUB between 69 and 77 versus the USD.

Russian sovereign debt market poses certain risks

A massive capital inflow into Russia was seen last year, making the purchase of RUB-denominated assets very crowded trades in 2019. The current RUB weakness is partly a counterbalance to last year's strength. A potential further exit of foreign investors from the Russian sovereign debt market is another noticeable risk for the RUB.

Monetary policy

Despite the significant RUB depreciation, inflation risks in Russia remain moderate so far. Given the exchange rate pass-through to prices observed over the last five years, inflation could accelerate to 4.5-5% by the end of this year, which we do not yet see as a very significant deviation from the 4% target. The CBR thus does not seem to be under pressure yet to hike the key rate, as has been the case in Russia during previous RUB depreciation episodes.

By Tatiana Evdokimova

RISK FACTORS

- Coronavirus spread accelerates
- Price war in the oil market intensifies
- Foreign investors quit the Russian market faster

EM TRAFFIC LIGHT

- Risk level: 11% (green; -2 pp from the previous month)

RUB STILL VULNERABLE TO FURTHER POSITIONING UNWINDING

Source: Nordea and Macrobond

RUB SENSITIVITY TO OIL PRICE LEVEL

EM sentiment index, st. dev. \ Oil price, $/bbl	20	30	40	50	60
-5	82.7	77.9	73.1	68.2	63.4
-2.5	81.6	76.8	72.0	67.1	62.3
0	80.5	75.7	70.9	66.0	61.2
2.5	79.4	74.6	69.7	64.9	60.1
5	78.3	73.5	68.6	63.8	59.0

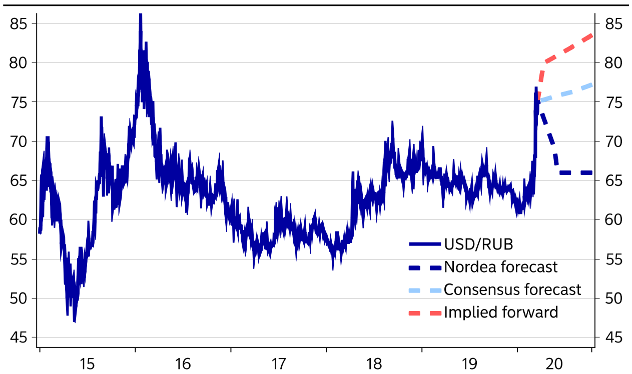
FINANCIAL FORECASTS FOR RUSSIA

We expect downside risks to prevail for the RUB in the coming month with the trajectory of the number of new coronavirus cases being the key determinant of global risk sentiment and RUB dynamics. An unfavourable oil market environment limits the upside potential for the RUB in the coming months even if risk sentiment improves. We still believe the RUB can regain some ground in the second half of the year to levels around 66 against the USD.

Forecasts	Spot	3M	Mid-2020	End-2020	End-2021
Policy rate	6.00	6.00	6.00	5.50	5.50
USD/RUB	75.1	69.0	66.0	66.0	66.5

Source: Nordea estimates

USD/RUB FORECASTS



Source: Nordea estimates and Macrobond

PLN: Rate cuts and more downside ahead

The Polish zloty is facing headwinds due to the COVID-19 market sell-off. We expect the PLN to fare even worse in coming months along with rate cuts from the NBP.

Along with the rest of the EM currencies, the Polish zloty has suffered from the coronavirus market turmoil. In the short term, we do not find many arguments as to why EUR/PLN should not move even higher.

The link to EUR/USD has not been close during the market sell-off

The perhaps only argument for lower EUR/PLN is that USD rates have been slashed and that we expect EUR/USD to move higher in the short term. Hence, EUR/USD has historically been the biggest driver of EUR/PLN (see our cover story). However, at the moment, that correlation appears to be almost broken.

General risk sentiment currently matters more for the PLN

Instead, the general market sentiment and equities have had the highest correlation with EUR/PLN recently (see chart). As we expect more turmoil and volatility ahead, we in turn also expect EUR/PLN to move higher in the short run.

Easing from the NBP usually weakens the PLN in the following one to two months

The PLN should also not expect much help from the monetary policy side. Thus, this week, the NBP slashed rates by 50 bp. This comes on top of liquidity injections into the banking system and purchases of government bonds via its open-market operations. When the NBP cut rates by 50 bp, the PLN has the last six times clearly weakened before seeing some stabilisation two to three months after (see chart). We expect somewhat of the same pattern to unfold in coming months.

We could soon see EUR/PLN at levels around 4.50

Finally, it is clear to us that the German manufacturing industry will fall into a recession (if it is not already in one). This usually spells trouble for the PLN (and the rest of the Polish economy) two to three months after. Overall, we therefore do not find many arguments as to why the zloty should recover in the short term, and we could easily see levels around 4.60, which has otherwise not been the case since 2016.

By Morten Lund

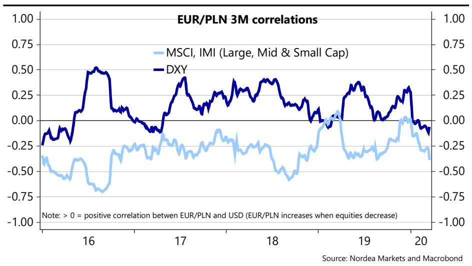
RISK FACTORS

- Weak EM sentiment
- European industrial cycle
- More rate cuts

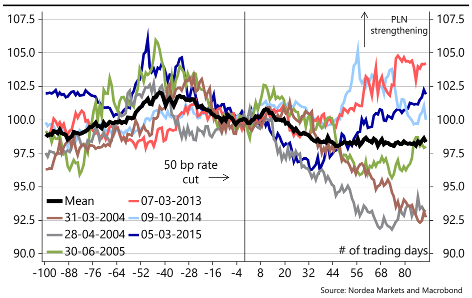
EM TRAFFIC LIGHT

- Risk level: 16% (green, -1 pp from the previous month)

EUR/PLN IS CURRENTLY MORE LINKED WITH EQUITIES THAN THE USD



EUR/PLN AROUND 50 BP RATE CUTS



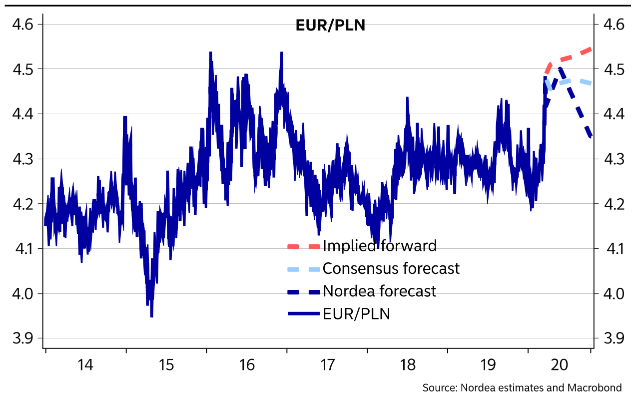
FINANCIAL FORECASTS – POLAND

We expect EUR/PLN to test levels up to 4.60 in the short term. In the second half of the year, we expect a mild PLN appreciation as the market volatility may ease.

Forecasts	Spot	3M	Mid-2020	End-2020	End-2021
Policy rate	1.00	1.00	1.00	1.00	1.25
EUR/PLN	4.48	4.60	4.35	4.30	4.25

Source: Nordea estimates

EUR/PLN FORECASTS



BRL: Perfect storm

USD/BRL increased to above 5 for the first time ever in March, and has depreciated by 20% versus the USD in 2020. The BRL is set to experience further headwinds in 2020.

BRL is amongst the worst performing EM currencies YTD

The real has weakened by 20% against the dollar since the start of 2020, which makes it one of the worst performing EM currencies this year. BRL has traded at record lows in March, hence surpassing the previous record from the economic crisis in 2015. The recipe is found in a mix of falling commodity prices, an unfavourable risk sentiment, dovish monetary policy, slowing growth and the global coronavirus outbreak.

Substantial risks to Q1 GDP from weak external trade

At the end of 2019, the prospects for the Brazilian economy were modestly improving. Growth increased more than expected, a big pension reform was introduced and domestic demand was picking up. Enter the outbreak of the coronavirus in China – Brazil's largest trading partner. Together with the unresolved debt renegotiation in neighbouring Argentina, external demand from approximately one third of Brazil's trading partners is likely to stay submerged for at least the first quarter of this year.

The government cut its growth forecast in March

Furthermore, if the agreed volumes for Chinese purchases of US soybeans in the phase 1 trade deal come to fruition, there is a clear risk that Brazilian soy exports will be crowded out. In light of falling commodity prices and deteriorating terms of trade, Brazil's government said that there is no room for turning on the fiscal taps, and subsequently lowered its growth forecast for 2020 to 2.1% from 2.4%. The current account deficit increased last year, and diminishing external demand could widen the deficit further, though a weak BRL might soften the fall in the near term.

The BCB intervened for the first time since November

Monetary policy likely to remain dovish

The central bank conducted its first spot currency market interventions since November, coupled with ongoing dollar swap auctions. Governor Serra has indicated that the BCB is prepared to support the BRL as long as needed, as well as cutting rates further. Inflation has picked up from the lower bound of the target range to meet the target of 4%, after a series of rate cuts in H2 2019. The February inflation reading was, however, the lowest rate for any February since 2000. Slowing economic activity and muted inflation make it unlikely for the BCB to surrender its dovish stance this year. At the same time, the rapid BRL depreciation remains a headache for the BCB.

By Gustav Helgesson

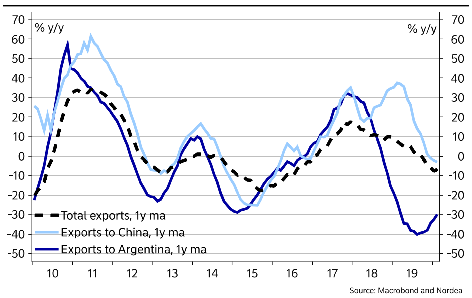
RISK FACTORS

- Soft commodity prices
- Low inflation
- Corona virus outbreak

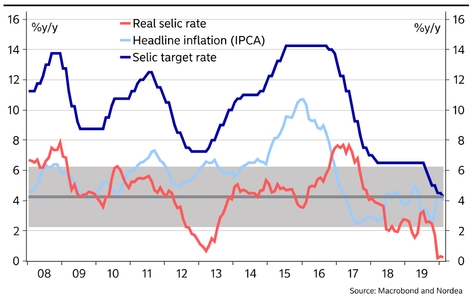
EM TRAFFIC LIGHT

- BRL: 10% (green, -7 pp from previous month)

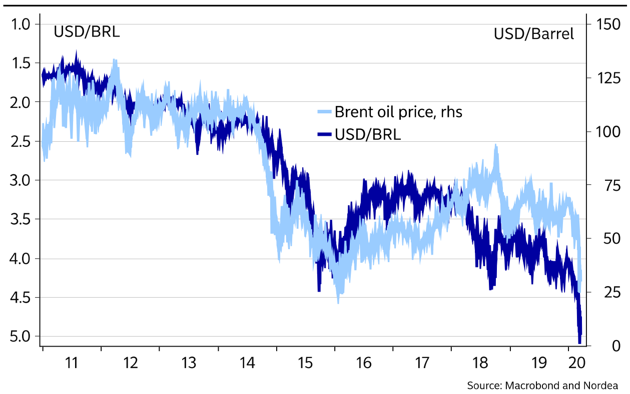
EXPORTS LIKELY TO REMAIN SUBDUED



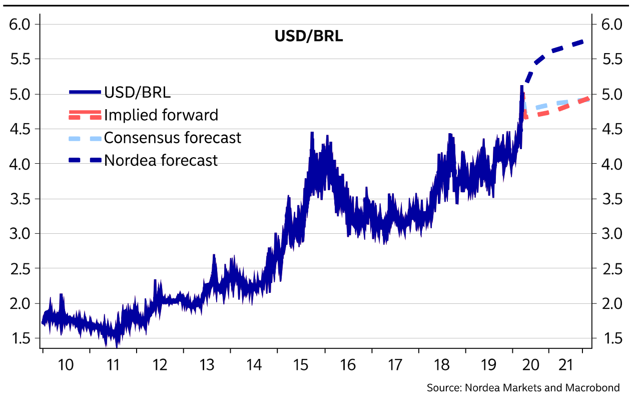
REAL INTEREST RATES APPROACHING ZERO



LOWER OIL PRICE IS BAD NEWS FOR THE BRL



USD/BRL



Hedging considerations

CNY vs EUR

Income

Nordea expects the EUR/CNY to move lower in the short term due to a weaker EUR versus the USD. Hence, we recommend a low hedge ratio for CNY revenue in the short term using zero-cost option strategies as hedging instruments. In the long term, we recommend a high hedge ratio, as we expect the EUR/CNY to move higher. As EUR/CNY forwards are well below Nordea's EUR/CNY forecasts (12-24 month), we recommend FX forwards.

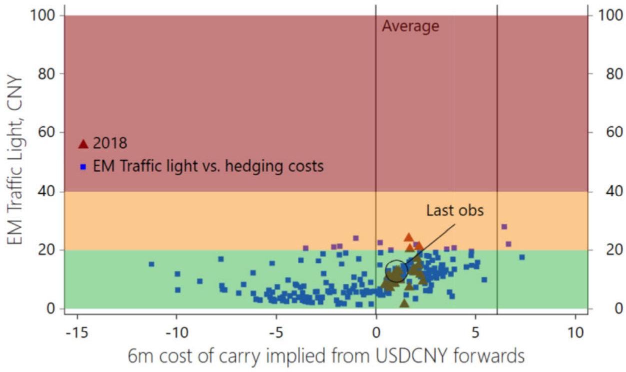
Expenses

A high hedge ratio in the short term, using mainly FX forwards. A low hedge ratio in the long term, and if hedging is required, use mainly zero-cost option strategies (eg participating forwards), as FX forwards are trading much lower than our long-term spot forecast.

Forecasts	Spot	3M	Mid-2020	End-2020	End-2021
Policy rate	4.35	4.10	3.60	3.60	3.60
EUR/CNY	7.69	7.94	8.13	8.13	8.31

Source: Nordea estimates

COST OF CARRY VS RISK LEVEL



Source: Nordea estimates and Macrobond

RUB vs EUR

Income

We expect the EUR/RUB to move lower in the short term due to a weaker EUR versus the USD and a stronger RUB versus the USD. Hence, we recommend a low hedge ratio in the short term using zero-cost option strategies. In the long term (12-18 months), we recommend a high hedge ratio and would suggest a mix of FX forwards and zero-cost option strategies.

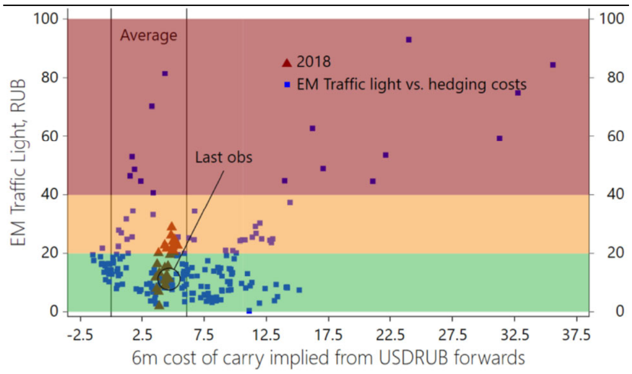
Expenses

A high hedge ratio in the short and long term, using FX forwards benefiting from forward premiums that are much higher than the current spot rate due to a large interest rate differential.

Forecasts	Spot	3M	Mid-2020	End-2020	End-2021
Policy rate	6.00	6.00	6.00	5.50	5.50
EUR/RUB	82.4	79.4	77.2	77.2	77.8

Source: Nordea estimates

COST OF CARRY VS RISK LEVEL



Source: Nordea estimates and Macrobond

PLN vs EUR

Income

We doubt the PLN will continue to strengthen in the short term but expect it to remain strong in the long term. We recommend a medium hedge ratio in the short term and a low ratio in the long term. If hedging is required in the long term, use mainly zero-cost option strategies (eg participating forwards), as FX forwards are trading higher than our forecast. EUR/PLN volatility remains low.

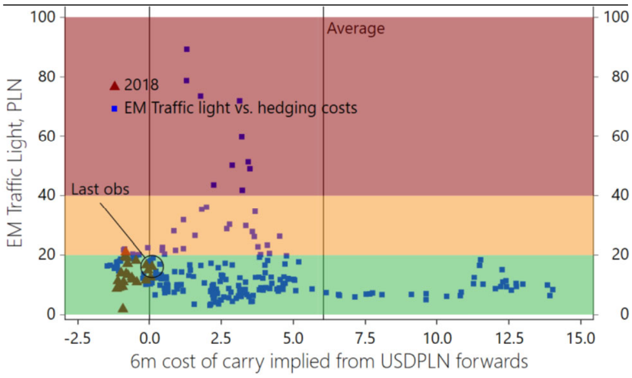
Expenses

A high hedge ratio, especially in the long term, using FX forwards to take advantage of high forward premiums. EUR/PLN volatility is falling back. Implied (six-month) volatility is now around 4% after a short spell above 5% last autumn.

Forecasts	Spot	3M	Mid-2020	End-2020	End-2021
Policy rate	1.00	1.00	1.00	1.00	1.25
EUR/PLN	4.48	4.60	4.35	4.30	4.25

Source: Nordea estimates

COST OF CARRY VS RISK LEVEL



Source: Nordea estimates and Macrobond

EM Traffic Light

EM TRAFFIC LIGHT

ISO	Country	Risk level	Credits	ST external debt	Inflation	GDP	Capital flows	Rating	FX overvaluation	Commodities	Contagion
NGN	Nigeria	26%									
BGN	Bulgaria	26%									
EGP	Egypt	24%									
CZK	Czech Republic	24%									
MXN	Mexico	22%									
TWD	Taiwan	21%									
SAR	Saudi Arabia	20%									
CLP	Chile	20%									
UAH	Ukraine	20%									
SGD	Singapore	19%									
KES	Kenya	17%									
PLN	Poland	16%									
ZAR	South Africa	16%									
MYR	Malaysia	16%									
ILS	Israel	16%									
THB	Thailand	15%									
HRK	Croatia	14%									
HUF	Hungary	14%									
PEN	Peru	14%									
KRW	South Korea	13%									
HKD	Hong Kong	13%									
CNY	China	13%									
RON	Romania	13%									
INR	India	12%									
COP	Colombia	12%									
IDR	Indonesia	12%									
RSD	Serbia	12%									
KZT	Kazakhstan	12%									
RUB	Russia	11%									
PHP	Philippines	11%									
TRY	Turkey	11%									
BRL	Brazil	10%									
ARS	Argentina	8%									
	EM general	15%									

*Note: **The risk level** is the probability of extreme currency pressure in at least one of the next six months, where extreme is a 2 standard deviation weakening (2.5% event). **Credits(+, change)**: The change in the ratio of money supply (M2) to GDP. **Short-term external debt(+, change)**: The ratio of short-term foreign claims on domestic banks over FX reserves. **Inflation (+, change)**: Change in CPI inflation. **GDP (-, change):** Change in real GDP growth. **Capital flows(-, level and +, change):** The level of and change in the ratio of net foreign assets to GDP. **Rating(+, change):** The change in the sovereign rating from S&P. **FX overvaluation(+, level):** The strengthening of FX spot not explained by relative CPI inflation and relative productivity growth. **Commodities (-, change):** The change in the commodities terms of trade, ie the change in export prices less the change in import prices. **Contagion (+, level):** the number of currencies under pressure plus a recent history of pressure on the currency in question.*

Source: Nordea estimates and Macrobond

Latest EM Traffic Light:

- EM Traffic Light: February(3 March)
- New signals: NGN, BGN and SAR to yellow, CLP to green
- Biggest changes: BGN(+10 pp), CLP (-8 pp)

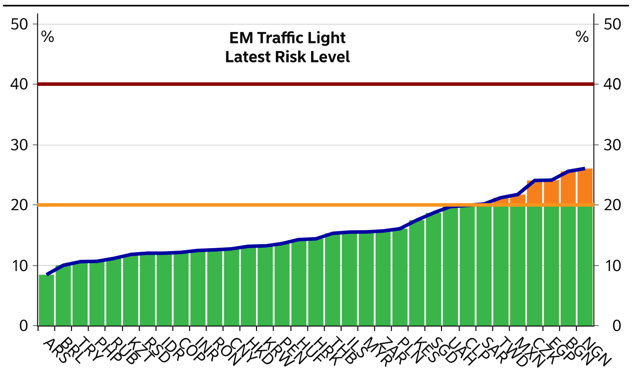
Methodology note:

- EM Traffic Light: Methodology note

Track record:

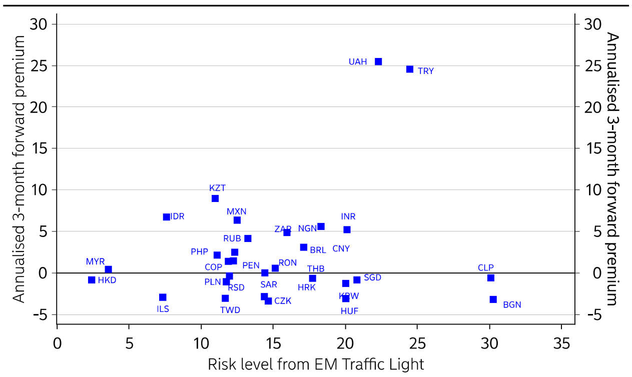
- EM Traffic Light: Track record

OVERALL RISK LEVEL



Source: Nordea estimates and Macrobond

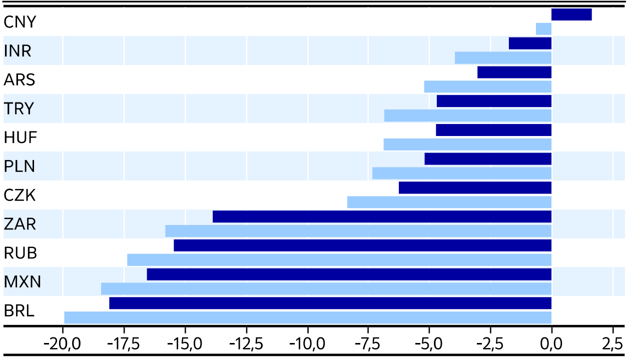
TRAFFIC LIGHT VS COST OF CARRY



Source: Nordea and Macrobond

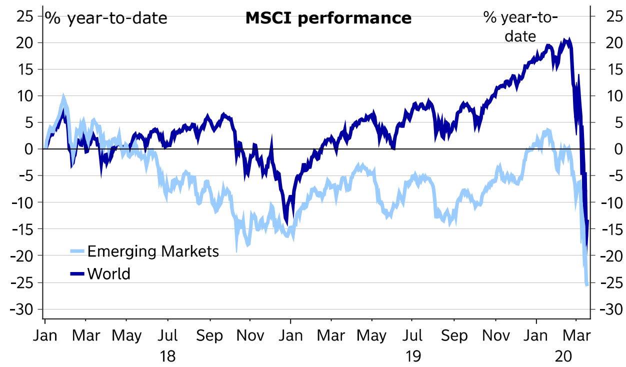
Emerging market performance

YTD EM FX PERFORMANCE (%)



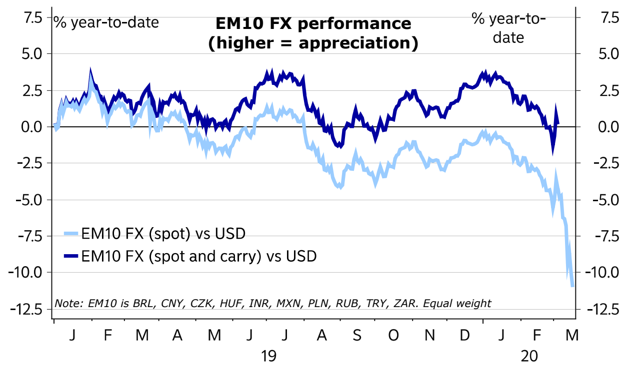
Source: Nordea and Macrobond

EQUITY PERFORMANCE (%)



Source: Nordea and Macrobond

FX PERFORMANCE, CARRY-ADJUSTED (%)

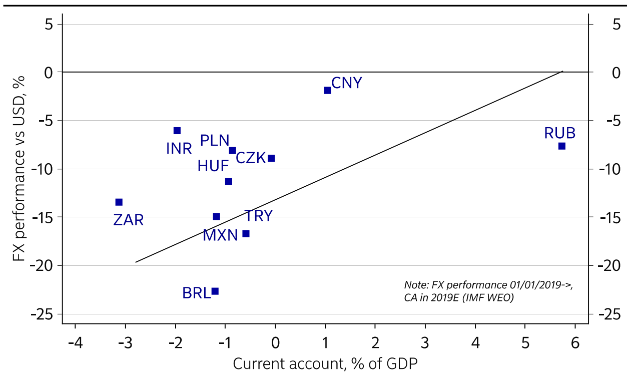


Source: Nordea and Macrobond

SWAPS

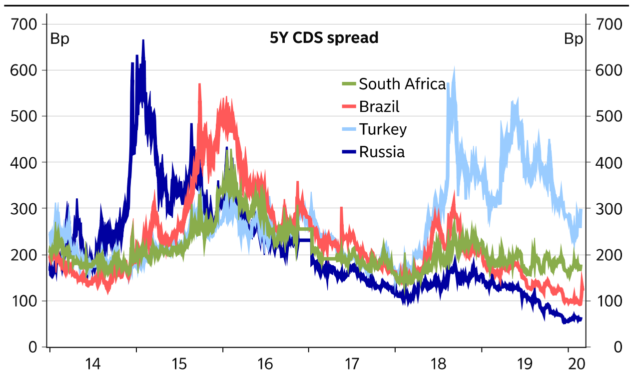
Source: Nordea and Macrobond

FX PERFORMANCE (2019) VS CURRENT ACCOUNT (%)



Source: Nordea and Macrobond

CDS SPREADS (BP)



Source: Nordea estimates and Macrobond

Forecast overview

FX FORECASTS VS EUR

	Spot	3M	Mid-2020	End-2020	End-2021
EUR/BRL	5.507	6.10	6.32	6.55	6.73
EUR/CNY	7.687	7.94	8.13	8.13	8.31
EUR/INR	81.34	81.7	84.2	85.4	85.4
EUR/PLN	4.484	4.60	4.35	4.30	4.25
EUR/RUB	82.43	79.4	77.2	77.2	77.8
EUR/USD	1.097	1.15	1.17	1.17	1.17
EUR/SEK	10.91	10.6	10.4	10.4	10.3
EUR/NOK	11.45	11.0	10.6	10.5	10.4
EUR/DKK	7.473	7.47	7.46	7.46	7.46

Source: Nordea estimates

FX FORECASTS VS USD

	Spot	3M	Mid-2020	End-2020	End-2021
USD/BRL	5.02	5.30	5.40	5.60	5.75
USD/CNY	7.01	6.90	6.95	6.95	7.10
USD/INR	74.1	71.0	72.0	73.0	73.0
USD/PLN	4.09	4.00	3.72	3.68	3.63
USD/RUB	75.1	69.0	66.0	66.0	66.5

Source: Nordea estimates

POLICY RATE FORECASTS, %

Policy rates	Spot	3M	Mid-2020	End-2020	End-2021
Russia	6.00	6.00	6.00	5.50	5.50
Poland	1.00	1.00	1.00	1.00	1.25
Brazil	4.25	4.00	4.00	4.50	5.25
China	4.35	4.10	3.60	3.60	3.60
India	5.15	4.90	4.90	4.90	4.90

Source: Nordea estimates

Brazil

We adjust our USD/BRL after the recent big moves. We still expect the BRL to weaken throughout the entire forecast horizon.

China

Against the backdrop of the current market volatility, we fine-tune our USD/CNY forecasts. Elevated uncertainty related to the pandemic and global growth will likely lead to ongoing weakening pressure on the CNY. On the other hand, yield-hungry flows might find Chinese assets attractive on China's relative growth outperformance compared to the rest of the world and provide a floor for the CNY versus the dollar.

India

No changes.

Poland

We expect the NBP to deliver an emergency rate cut of 50 bp. Moreover, we expect to see the EUR/PLN even higher in the short run.

Russia

We revise our RUB forecast and now expect weaker levels across the forecast horizon. Downside risks prevail for the RUB in the coming weeks while the global markets remain in a panic mode. But we expect that the currency will regain some ground when the COVID-19 spread starts showing signs of stabilisation. We no longer expect key rate cuts from the CBR in 2020, while our previous forecast implied 50 bp cuts in the next six months.

Recent research and profile descriptions

Recent Emerging Markets Research
- China: No signs of a strong rebound yet (17 Mar)
- CBR preview: No more easing in sight (13 Mar)
- EM FX: In the middle of the storm (13 Mar)
- RUB amid coronavirus outbreak (9 Mar)
- China View: Coronavirus raises credit risk (5 Mar)
- Coronavirus : Impact on the global outlook and financial markets (3 Mar)
- China: PMI falling off the cliff (2 Mar)
- Global: Corona vs. previous outbreaks (27 Feb)
- Russia view: Demographic trap (21 Feb)

Previous issues of Emerging Markets View
- Emerging Markets View: Diagnosing coronavirus consequences (20 February)
- Emerging Markets View: What US-Iran and dollar liquidity mean for EM (23 January)
- Emerging Markets View: Trade war is a losing game (19 December)
- Emerging Markets View: Cautious optimism for 2020 (21 November)
- Emerging Markets View: Where the hot money goes, FX follows (24 October)
- Emerging Markets View: Hurdles to growth (19 September)
- Emerging Markets View: Bitter cocktail scuttles EM currencies (22 August)

Latest EM Traffic Light
- EM Traffic Light February 2020 (3 March)

Latest Financial Forecast Update
- Majors forecasts update: Ground zero (10 March)

Latest Economic Outlook
- Nordea Economic Outlook: Proceed with caution (29 January)

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