Emerging Markets View

August 2018: Thunderstruck

Welcome to the first edition of the Emerging Markets View, our new flagship monthly focusing on the latest topics of concern for companies with EM FX exposure or general interest in emerging markets.

Emerging markets currencies have sold off massively this year with ARS and TRY in the lead. Domestic politics, trade war rumblings and US sanctions, a stronger USD, and the Fed's balance-sheet reductions make for a fairly bleak outlook in EM FX. That being said, while our EM Traffic Light shows rising risk, this is from still fairly low levels; seven out of 33 EM currencies have a yellow warning light, while the rest are still green. We note that, as many of the risks are political, forecasts are more uncertain than usual, but are generally changing to a more negative view on EM FX.

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CNY: weak, but not too weak

The Chinese yuan will likely face continued pressure in the coming months as the trade war with the US persists. We do not expect Beijing to devalue the yuan at present, as this is associated with larger costs than benefits.

RUB: victim of US relations

The RUB will likely remain extremely vulnerable to the sanctions rhetoric from the US in the run-up to the November mid-term elections. We still do not see the approval of sanctions in their toughest form as our base case scenario but a certain tightening of sanctions is very likely.

PLN: More headwinds

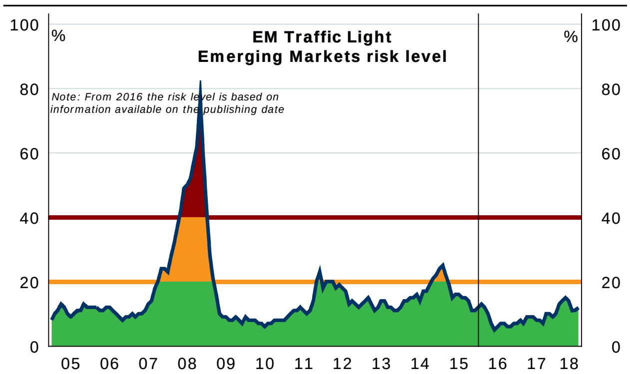
Lukewarm market sentiment keeps pressuring the zloty. Combined with rising political risks and a dovish NBP, the PLN could face more headwinds.

In focus – TRY: A full-blown currency crisis

The lira is pressured on almost every imaginable front. What can stop the TRY from bleeding further? And is Erdogan even willing to take the necessary steps?

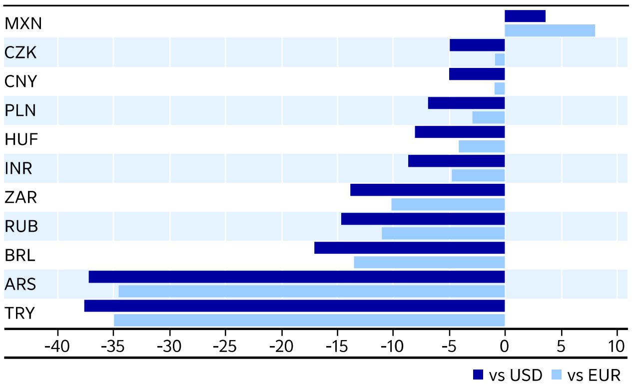
FX hedging considerations, the EM Traffic Light and Financial forecasts are also covered in this publication.

RISING FUNDAMENTAL RISKS FROM LOW LEVELS



Source: Nordea and Macrobond

MASSIVE EM FX SELL-OFF, EM PERFORMANCE YTD, %



Source: Nordea and Macrobond

Thunderstruck

Emerging market currencies have sold off massively this year, with the ARS and TRY in the lead. Domestic politics, a trade war and US sanctions, a stronger USD, and the Fed's balance-sheet reductions make for a fairly bleak outlook.

Several adverse shocks to EM

EM FX has sold off massively this year, and Argentina and Turkey are now in an outright currency crisis with both the peso and lira having lost more than 30% YTD.

ARS and TRY crisis

The lira crisis – we believe – was avoidable. Until a month ago, the central bank would have been able to stabilise the currency with just a few rate hikes, thereby showing the markets that it still had enough flexibility to pursue its inflation target.

Turkey and Argentina share one common problem, namely dollar-denominated debt – a problem that snowballs along with the weakening of domestic currencies.

Lira risks are now very severe: Inflation is set to spike and could push the economy into recession; some companies holding FX-denominated debt could go belly-up and potentially bring about a banking crisis; and capital controls can no longer be ruled out, even if Turkey has not resorted to that option in President Erdogan's era. All are distinct possibilities; that is, if the snowball keeps rolling.

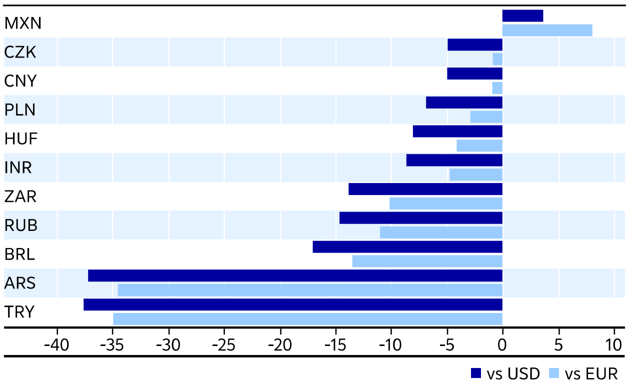
It is too early to talk about limited contagion from Turkey when the end game is not yet clear. In the worst-case scenario, we expect that serious contagion is inevitable.

USD strengthening

USD strengthening is another negative for EM FX. This time, the stronger USD may have been brought about by the Fed's balance-sheet reductions. Thus, investors are selling riskier assets to buy back safer Treasuries from the Fed. To the extent that QE pushed capital to emerging markets in the first place, balance-sheet reductions will prompt a return of capital to the US and a stronger USD.

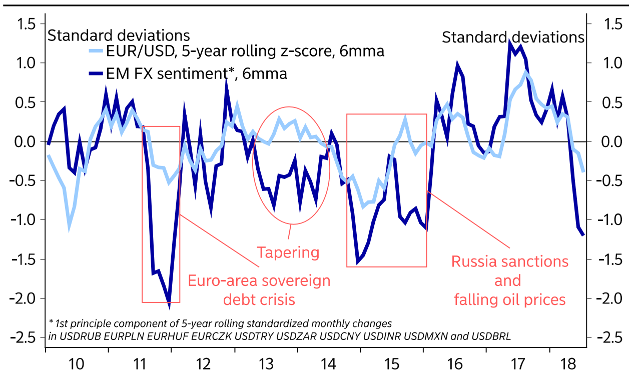
The ARS and TRY crises are likely to have worsened the perception of EM risks, adding to the USD strengthening and thereby indirectly adding even more pressure to EM FX in general.

MASSIVE TRY SELL-OFF



Source: Nordea and Macrobond

NEGATIVE RISK SENTIMENT



Source: Nordea and Macrobond

Looming US sanctions are a major RUB risk this autumn

It is a different story when looking at US sanctions and the trade war, but similar in the sense that they seem far from over and that they may have strengthened the USD.

Several dates will be crucial to the RUB during autumn, as more US sanctions are looming. So far, markets have – rightly so, in our opinion – taken to expect worse times for Russia. The RUB is more than 5% weaker just this month. In the worst-case scenarios, the US bans on Russian sovereign debt and/or on trading with state-owned banks may come into force.

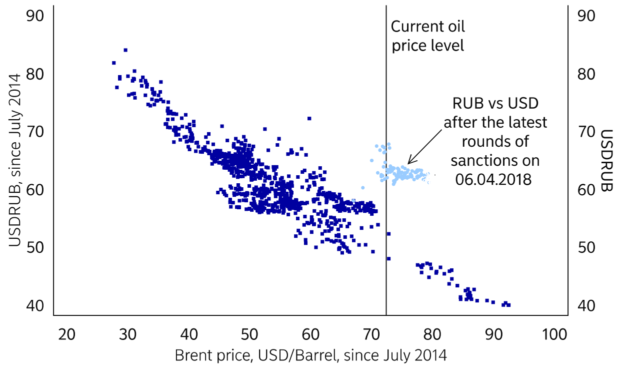
Weak renminbi, but not too weak

The CNY is 7% weaker since the first round of tariffs were announced in mid-June. That is not too much considering the potential blow to the Chinese economy from the US sanctions, especially in the worse-case scenarios. Beijing will likely move to support the economy as well as the renminbi while trying to negotiate with the US. While we doubt the authorities will 'weaponise' the renminbi in a trade war, the markets will likely trade on that risk in the coming months.

NAFTA risks to the MXN

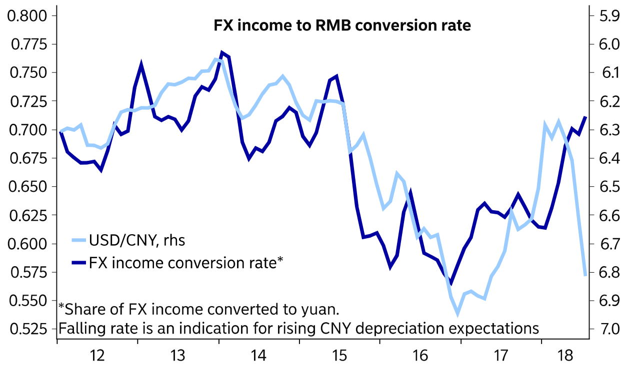
NAFTA renegotiations have been very tough on the MXN since before the US presidential election, but the peso has gained recently on stories that a US-Mexican deal is close, which of course highlights the potential for a recovery in the RUB, the CNY or other EM currencies should trade and sanction risks recede.

WEAKER RUB AFTER SANCTIONS



Source: Nordea and Macrobond

CHINESE EXPORTERS EXPECT WEAKER RENMINBI



Source: Nordea and Macrobond

Bleak outlook for EM FX

All in all, the outlook for EM FX looks bleak. The currency crisis is still unfolding in Turkey, the USD is still strengthening, the Fed's balance-sheet reductions will likely continue to pull capital home, and more US sanctions seem to be coming.

The financial markets sell-off and capital outflows are also likely to weaken EM growth expectations, which could bring more vulnerability to the fore come 2019.

Risks rising from low levels

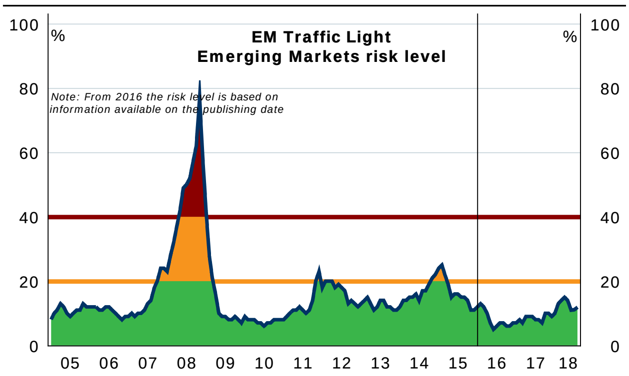
Our EM Traffic Light shows rising risks, but from still fairly low levels; seven out of 33 EM currencies have a yellow warning light, while the rest are still green. Fundamental vulnerabilities have not increased that much yet, in our view, but will likely increase gradually in response to this year's external shocks.

New forecasts

We have revised our EM FX forecasts quite a bit to reflect the rapid sell-offs in recent months. Forecasts are more uncertain than usual given that many of the risks are political. We believe that EM central banks are now less likely to cut rates and more likely to hike rates.

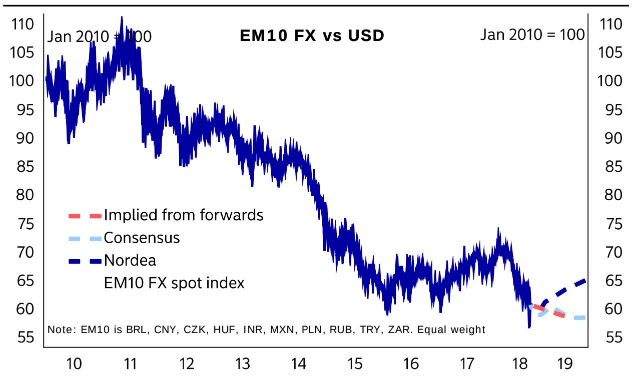
By Anders Svendsen

RISING RISKS FROM LOW LEVELS



Source: Nordea and Macrobond

FORECASTING SLIGHT RECOVERY



Source: Nordea estimates and Macrobond

CNY: Weak, but not too weak

The Chinese yuan will likely face continued pressure in the coming months as the trade war with the US persists. We do not expect Beijing to devalue the CNY at present, since this is associated with larger costs than benefits.

Sell-off pressure persists as trade war lingers

The trade war between the US and China has taken its toll on the Chinese currency. The yuan has lost 7% versus the USD and 5% against the currency basket of its major trading partners since mid-June, when the first round of tariffs were announced. PBoC interventions have provided short-term support but as the trade war is nowhere near an end, Chinese assets will likely face further sell-off pressure.

CNY has weakened more than USD has strengthened

The sharp CNY weakening was not countered by an equally stronger USD. The decoupling reflects the USD's safe haven status – the market expects China to take a bigger hit from the tariff war than the US and the persistent concerns about the Chinese government devaluing the yuan to retaliate against the US.

Little risk of a currency war for now

We maintain our long-held view that Beijing will not weaponise the CNY as retaliation against the US. It is true that a weaker yuan could mitigate the economic blow from the trade war, but it brings with it a number of risks that outweigh the benefit.

CNY devaluation has too many risks

First of all, it could provoke the US and thereby escalate the conflict. China's recent agreement to restart trade negotiations with the US signals its preference to reduce tensions and not heat them up.

Secondly, devaluing the CNY could fuel depreciation expectations and capital flight, as in 2015-16. Given China's high leverage ratio, uncontrollable capital flight poses a large risk to domestic financial stability, a gamble the authorities do not want to take.

Finally, devaluation could cause the market to lose confidence in the CNY and further delay financial liberalisation, which is needed to become a global superpower.

By Amy Yuan Zhuang

RISK FACTORS

- A further escalation of the trade war
- Capital flight initiated by depreciation
- Alarmingly high leverage ratio

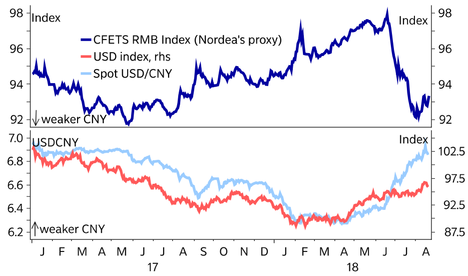
EM TRAFFIC LIGHT

- Risk level: 14% (green, -3 pp from previous month)
- Credit is the main risk

EXCESSIVE CREDIT RISKS

Source: Nordea estimates

RECORD WEAKENING PACE



Source: Nordea estimates and Macrobond

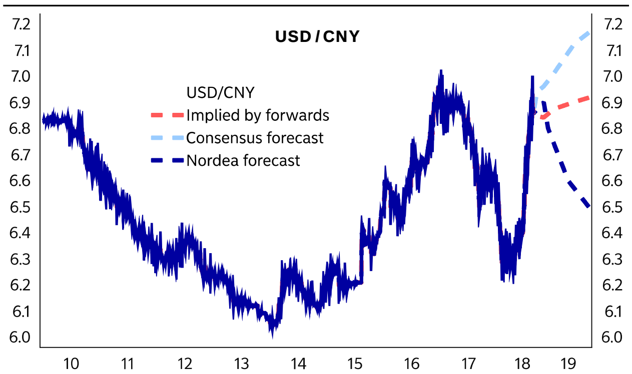
FINANCIAL FORECASTS – CHINA

Despite decoupling in recent months, the USD remains one of the most important drivers for the CNY. Our expectation of a weaker dollar by year-end and into next year is the main reason for our off-consensus forecast for the USD/CNY. Also, the USD/CNY has increased to a level that could trigger capital outflows and jeopardise financial stability. We thus expect more PBoC interventions to counter market pressure.

Forecasts	Spot	3M	End-2018	Mid-2019	End-2019
USD/CNY	6.86	6.90	6.80	6.60	6.50
Policy rate	4.35	4.35	4.35	4.35	4.35

Source: Nordea estimates

USD/CNY FORECAST



Source: Nordea estimates and Macrobond

RUB: victim of US relations

The RUB will likely remain extremely vulnerable to the sanctions rhetoric from the US in the run-up to the November mid-term elections. We still do not see the approval of sanctions in their toughest form as our base-case scenario but a certain tightening of sanctions is very likely.

Tougher sanctions are the biggest threat to the RUB

The RUB is again being hit by a new wave of looming US sanctions meant to punish Russia for the alleged meddling in US elections and as a result of the Scripals case. The most damaging option currently under consideration in the US Senate is a ban on trading in Russian sovereign debt and on all transactions with seven Russian state-owned banks, implying restrictions on USD payments via these institutions. Faced with these sanction threats, the RUB lost 5.5% of its value in August, in addition to a 9.5% depreciation in April in reaction to sanctions against Rusal and a number of other companies. These developments made the RUB the fourth worst performing EM currency since the beginning of the year.

September is expected to be very volatile

The outlook for the RUB remains extremely uncertain given its dependency on political factors. As the US Congress is in recess until the end of August, the RUB seems to be stabilising around a new equilibrium of 67 versus the USD. But the situation may escalate very quickly in September if sanctions bills get more support in the Congress ahead of November mid-term elections. The outcome crucially depends on the lobbying efforts of US companies that could also be harmed by these sanctions.

The CBR is not expected to act to support the RUB

Being aware of the much higher risks to come, the Russian central bank has so far made no attempts to resist the RUB pressure. It has just suspended regular FX purchases made in accordance with the budget rule. FX interventions are likely, but only if sanctions are approved in their toughest mode and the market reaction causes threats to financial stability. A scenario with an interest rate hike next year or even this year in case of tougher sanctions is no longer completely improbable.

By Tatiana Evdokimova

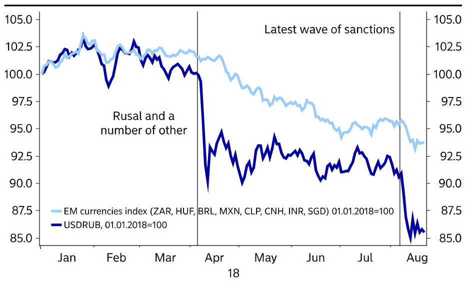
RISK FACTORS

- Introduction of further sanctions
- Generally low risk appetite for EM space
- Secondary trade war effects on the oil price

EM TRAFFIC LIGHT

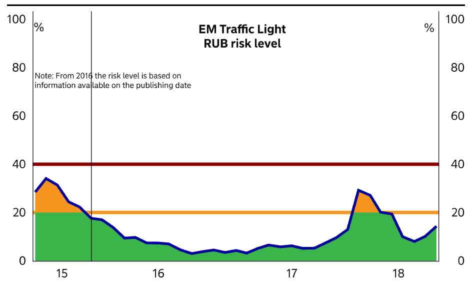
- Risk level: 14% (green, +4% points from previous month)
- Money supply is the main risk

SANCTIONS EXACERBATE SELL–OFF



Source: Nordea and Macrobond

VERY STRONG FUNDAMENTALS



Source: Nordea and Macrobond

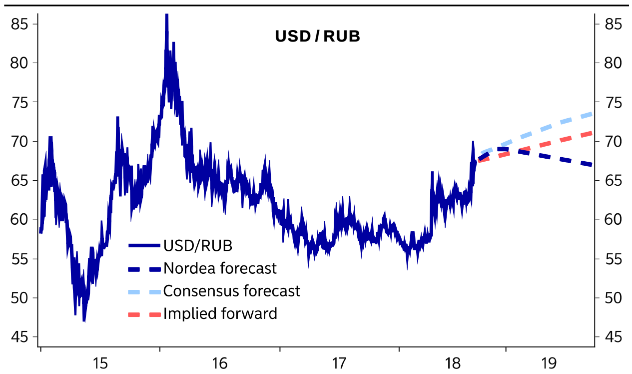
FINANCIAL FORECASTS — RUSSIA

Given the important role of the Russian market in the EM space and concerns of the US Treasury about the adverse spillbacks to the US from tougher sanctions against Russia, we still believe that sanctions will not be implemented in their toughest form. The RUB is likely to depreciate further but avoid extreme scenarios. Once risk aversion abates, the RUB may well benefit from its extremely good macro fundamentals compared with other EM currencies.

Forecasts	Spot	3M	End-2018	Mid-2019	End-2019
USD/RUB	67.43	69.00	69.00	68.00	67.00
Policy rate	7.25	7.25	7.25	7.25	7.25

Source: Nordea estimates

USD/RUB FORECAST



Source: Nordea estimates and Macrobond

PLN: More headwinds

Lukewarm market sentiment is maintaining pressure on the zloty. Combined with rising political risks and a dovish NBP, the PLN could face more headwinds in the coming months.

Market sentiment is the main driver of the PLN

Since spring, the main driver for the Polish zloty has been general market sentiment, as can be seen in the solid positive correlation with the S&P 500 index and strong negative correlation with the dollar index. Consequently, contagion risks stemming from the escalating trade dispute, Russian sanctions, and lately Turkey, have led to upward pressure on EUR/PLN, with a high of 4.40 reached at the beginning of July. There are also a number of domestic factors that are weighing on the currency.

Lacklustre core inflation trend underpins the NBP's dovish stance

Core inflation remains stubbornly low, despite high economic growth and a tightening labour market with wage growth accelerating past 7% y/y. Consequently, the NBP has lowered its inflation projections for the coming years in its latest inflation report, supporting the view of the doves in the MPC that rates would likely remain on hold until the end of 2020. NBP governor Glapinski has even questioned whether rate hikes would at all be needed in this cycle. Judging by the development in unit labour costs, the pressure also looks to be rather modest for now, which in turn indicates that the labour market is not very tight yet – even with last year's lowering of the statutory retirement age. Still, with the already high wage growth and public-sector workers set to push for wage rises in the autumn, it seems as if a rate hike might come sooner than 2020. We, in line with current market pricing, expect a rate hike simultaneously with the ECB in Q4 2019.

Political risks will increase during the autumn

Political jitters are another risk factor limiting PLN appreciation. The European Commission has launched the second phase of the infringement procedure (article 7) against Poland due to the forced retirement of judges in the Polish Supreme Court (and their substitution with judges friendly to the ruling party, PiS). This breach of EU values will likely result in less inflow of EU funds for 2021-27, which will negatively affect public investments, growth and the current account. Political uncertainty will also be looming during the autumn with the likely adoption of the FC loan bill, as well as local elections where the PiS party is expected to increase its power.

By Morten Lund

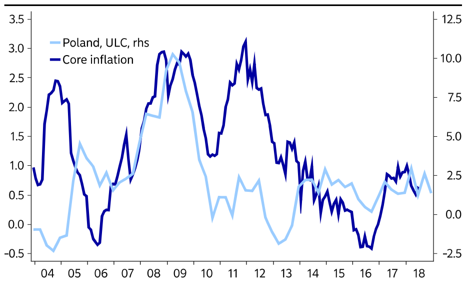
RISK FACTORS

- Weak EM sentiment - US sanctions on German cars
- Politics: ECJ, election & CHF loans
- Low core inflation/dovish NBP

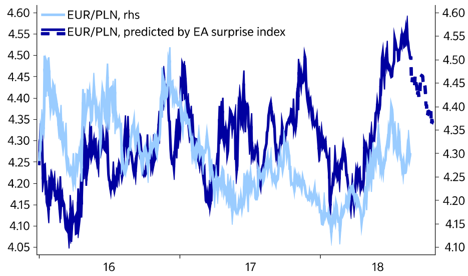
EM TRAFFIC LIGHT

- Risk level: 16% (green, -5% points from previous month)
- Politics is the main risk

ULC NOT INDICATING INFLATION PRESSURE



STABILISED EA SI LIMITING EUR/PLN UPSIDE



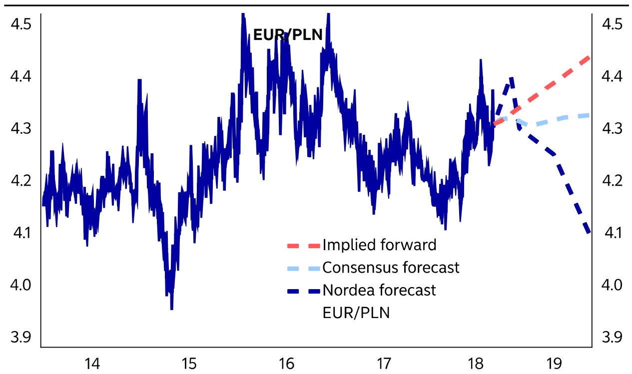
FINANCIAL FORECASTS – POLAND

We expect the lukewarm market sentiment to continue in the coming months and, with a lacklustre inflation trend and rising domestic political uncertainty, we still expect EUR/PLN to keep testing levels up to 4.40 in the short term. However, we do not expect a move above 4.40, as Eurozone economic indicators have stabilised in recent months. Longer out, we expect a mild PLN appreciation as market tensions cool off and the NBP comes closer to a rate hike.

Forecasts	Spot	3M	End-2018	Mid-2019	End-2019
EUR/PLN	4.31	4.40	4.30	4.25	4.10
Policy rate	1.50	1.50	1.50	1.50	1.75

Source: Nordea estimates

EUR/PLN FORECAST



TRY: A full-blown currency crisis

The lira is under pressure on almost every imaginable front. What can stop the TRY from bleeding further, and is Erdogan even willing to take the necessary steps? We are sceptical.

Politics, monetary policy and lack of fiscal austerity have all led to the TRY meltdown

The currency crisis has recently escalated with the TRY now facing a +30% year-to-date loss versus the EUR. Several factors are behind the lira plunge. The markets do not believe that the central bank (CBRT) can act independently. Thus, President Erdogan's growth agenda and unorthodox view that higher interest rates lead to higher inflation have prevented the CBRT from hiking enough, leading to a vicious circle where a weaker currency increases inflation and in turn weakens the currency. There is also a similar vicious circle with regards to the corporate sector, which has a high share of USD-denominated debt, which becomes more and more difficult to service when the USD/TRY keeps rising.

Another problem for the lira is the rising geopolitical tensions between Turkey and the West. The diplomatic relationships with the US have never been colder (due to the Andrew Brunson case and mutual tariffs) and, consequently, fears are now increasing in the markets that the US could impose sanctions on Turkish banks (although we deem it unlikely). This poses a high threat for Turkey, as it is dependent on capital inflows to finance its current account deficit.

What options does Erdogan have to stop the TRY bleeding?

So far, the response from the authorities has been various liquidity measures, restricting short positions and forcing banks to borrow at the O/N lending rate instead of the official repo rate. However, none of the measures will structurally underpin the lira. Instead, rate hikes or stricter capital controls could stabilise the currency, as it is a matter of regaining credibility. However, these options seem very unlikely. Regarding other suggestions – such as indirectly raising rates (as Turkey has already done with the O/N lending rate), an IMF agreement, FX interventions or seeking funding in Russia/China – we do not consider any of these options likely and/or sufficient.

There is a high probability of a recession in the coming quarters

We therefore expect the lira to remain vulnerable and volatile in the short term. In the medium term, the recent financial turmoil will result in a hard landing for the real economy with risks of enterprises defaulting and possible bank failures.

By Morten Lund

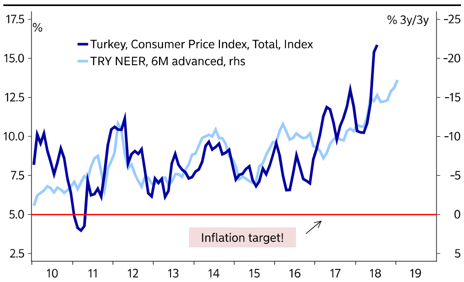
RISK FACTORS

- Erosion of CBRT independence
- Increasing tensions with the US
- Inflation levels and CA
- FX loans in corporate sector

EM TRAFFIC LIGHT

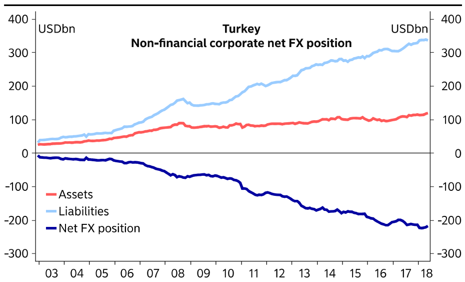
- Risk level: 24% (green, +5 pp from previous month)

VICIOUS INFLATION CYCLE



Source: Nordea and Macrobond

CORPORATES EXPOSED TO FX LOANS



Source: Nordea and Macrobond

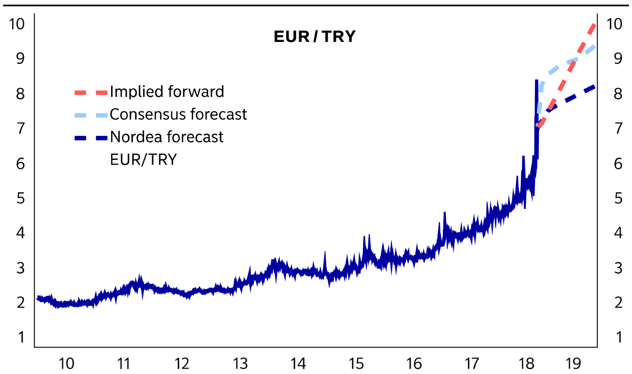
FINANCIAL FORECASTS — TURKEY

Although we think the CBRT will lift the late liquidity window at the next policy meeting (thereby reverting to its former policy framework), this will not be enough to calm the markets, as it indicates that Erdogan will not use conventional measures. Consequently, upside to EUR/TRY will be tested in the short term. Longer out, we expect the lira to suffer from weak fundamentals and a potential recession.

Forecasts	Spot	3M	End-2018	Mid-2019	End-2019
EUR/TRY	7.00	7.50	7.60	7.90	8.20
Policy rate	17.75	17.75	17.75	17.75	17.75

Source: Nordea estimates

EUR/TRY FORECAST



Source: Nordea estimates and Macrobond

Hedging considerations

CNY (vs EUR)

Income

Middle hedge ratio in the short term, using mainly FX forwards. Middle to high hedge ratio in the long term – high share of zero-cost option strategies, eg participating forwards.

Expenses

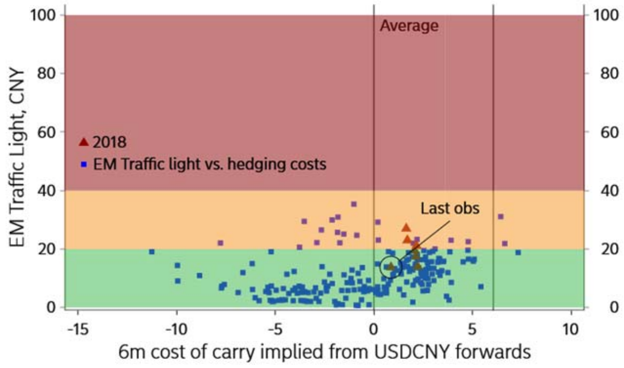
Middle hedge ratio in the short term, using a mix of FX forwards and zero-cost strategies. High hedge ratio in the long term, using FX forwards and benefiting from high forward premiums.

NORDEA ESTIMATES

Forecasts	Spot	3M	End-2018	Mid-2019	End-2019
EUR/CNY	7.89	8.00	7.96	8.05	8.13
Policy rate	4.35	4.35	4.35	4.35	4.35

Source: Nordea estimates

COST OF CARRY VS RISK LEVEL



Source: Nordea estimates and Macrobond

Implied vol (6M)	25D RR (6M)	Forward, CNH (6m)
6.94	0.16	8.085

Source: Bloomberg

RUB (vs EUR)

Income

High hedge ratio in the short term, using mainly FX forwards. Middle to high hedge ratio in the long term, using a mix of FX forwards and zero-cost option strategies, eg forward extra.

Expenses

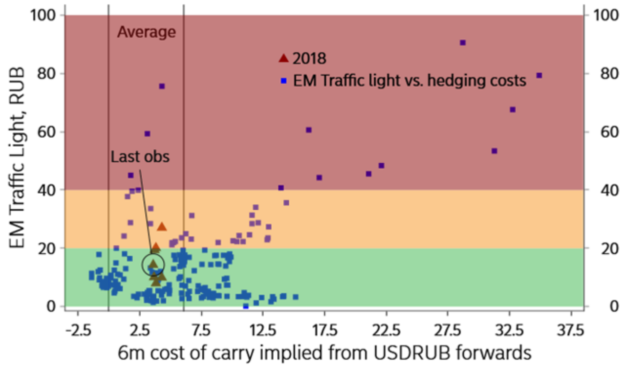
High hedge ratio in the short term, using a mix of forwards and zero-cost option strategies, eg risk reversals, benefiting from cheap RUB calls and expensive RUB puts.

NORDEA ESTIMATES

Forecasts	Spot	3M	End-2018	Mid-2019	End-2019
EUR/RUB	77.66	80.04	80.73	82.96	83.75
Policy rate	7.25	7.25	7.25	7.25	7.25

Source: Nordea estimates

COST OF CARRY VS RISK LEVEL



Source: Nordea estimates and Macrobond

Implied vol (6M)	25D RR (6M)	Forward (6m)
14.95	4.31	82.85

Source: Bloomberg

PLN (vs EUR)

Income

High hedge ratio in the short term, using FX forwards. Low to middle hedge ratio in the long term – high share of zero-cost option strategies, eg participating forwards.

Expenses

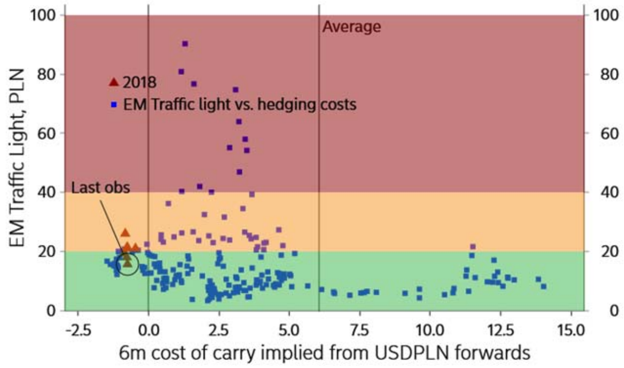
Middle hedge ratio in the short term, using FX forwards. High hedge ratio in the long term, using forwards mainly. Consider using zero-cost risk reversal option strategies – benefiting from RR biased towards EUR calls.

NORDEA ESTIMATES

Forecasts	Spot	3M	End-2018	Mid-2019	End-2019
EUR/PLN	4.30	4.40	4.30	4.25	4.10
Policy rate	1.50	1.50	1.50	1.50	1.75

Source: Nordea estimates

COST OF CARRY VS RISK LEVEL



Source: Nordea estimates and Macrobond

Implied vol (6M)	25D RR (6M)	Forward (6m)
6.46	0.84	4.326

Source: Bloomberg

EM Traffic Light

EM TRAFFIC LIGHT

ISO	Country	Risk level	Credits	ST external debt	Inflation	GDP	Capital flows	Rating	FX overvaluation	Commodities	Contagion
HRK	Croatia	26%									
TWD	Taiwan	26%									
ILS	Israel	25%									
TRY	Turkey	24%									
HUF	Hungary	24%									
SAR	Saudi Arabia	21%									
BGN	Bulgaria	21%									
CLP	Chile	20%									
CZK	Czech Republic	20%									
KES	Kenya	19%									
KRW	South Korea	18%									
ZAR	South Africa	18%									
RSD	Serbia	17%									
BRL	Brazil	16%									
MXN	Mexico	16%									
PLN	Poland	16%									
SGD	Singapore	15%									
INR	India	15%									
RUB	Russia	14%									
UAH	Ukraine	14%									
PHP	Philippines	14%									
CNY	China	14%									
THB	Thailand	14%									
RON	Romania	14%									
COP	Colombia	13%									
PEN	Peru	13%									
HKD	Hong Kong	13%									
MYR	Malaysia	9%									
ARS	Argentina	9%									
IDR	Indonesia	8%									
NGN	Nigeria	5%									
KZT	Kazakhstan	4%									
EGP	Egypt	4%									
	EM general	12%									

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 and Macrobond

Latest EM Traffic Light:

- EM Traffic Light: Overall EM FX has stopped from bleeding, but risks remain high - Aug 2018 (2 Aug)
- **New signals:** CLP and BGN to yellow from green
- **Biggest changes:** UAH (+6% points), the TRY (+5% points) and the MXN (+5% points) as well as the PLN (-5% points).

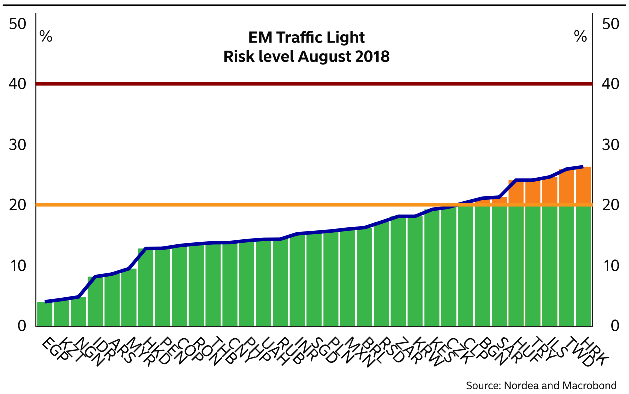
Methodology note:

- EM Traffic Light – methodology note

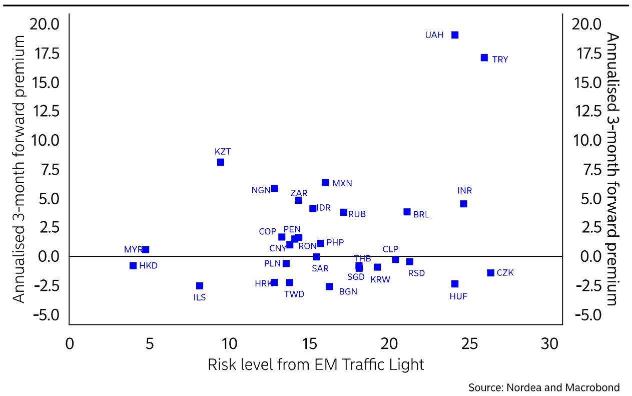
Track record:

- EM Traffic Light – Track record - August 2018

OVERALL RISK LEVEL

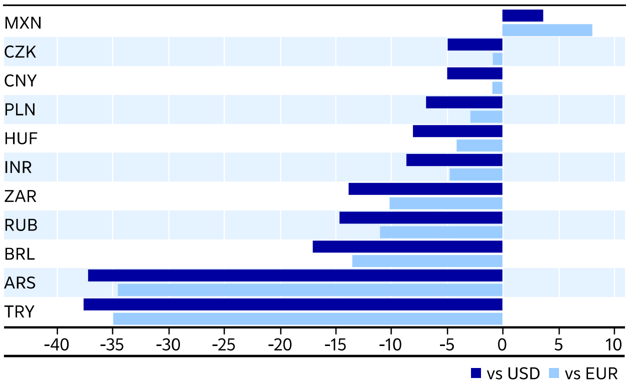


TRAFFIC LIGHT VS COST OF CARRY



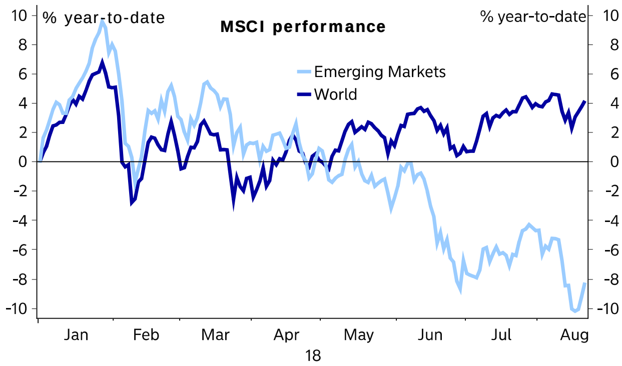
EM performance

YTD EM FX PERFORMANCE



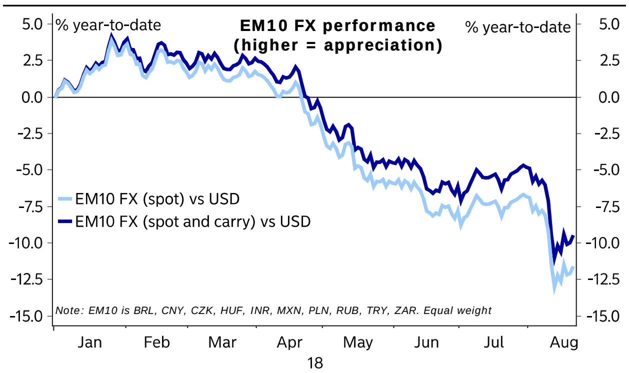
Source: Nordea and Macrobond

YTD EQUITIES PERFORMANCE



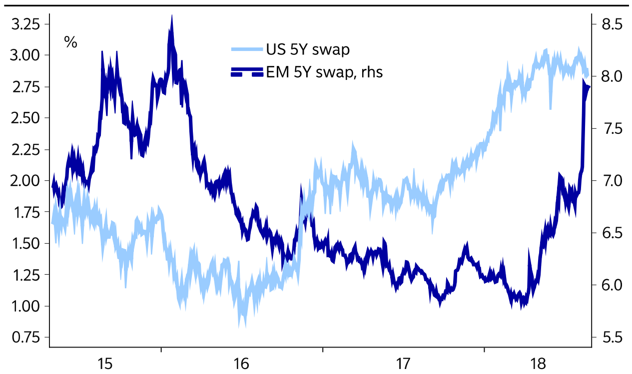
Source: Nordea and Macrobond

YTD FX PERFORMANCE CARRY ADJUSTED



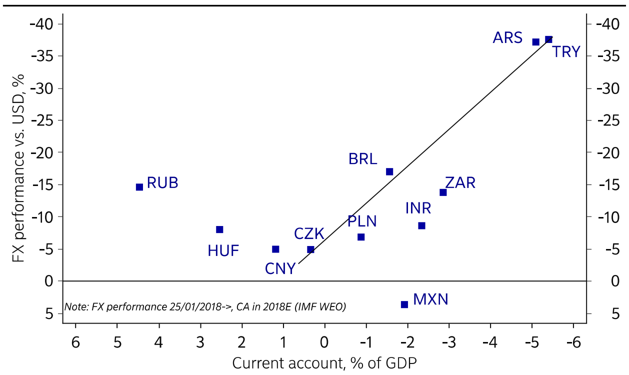
Source: Nordea and Macrobond

SWAPS



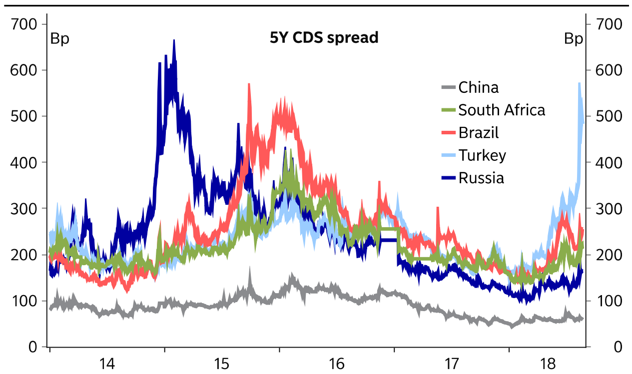
Source: Nordea and Macrobond

YTD FX PERFORMANCE VS CURRENT ACCOUNT



Source: Nordea and Macrobond

CDS SPREADS



Source: Nordea Markets and Macrobond

Forecast overview

FX FORECASTS AGAINST EUR

	Spot	3M	End-2018	Mid-2019	End-2019
EUR/BRL	4.599	4.52	4.45	4.27	4.25
EUR/CNY	7.886	8.00	7.96	8.05	8.13
EUR/CZK	25.75	25.5	25.0	24.8	24.5
EUR/HUF	323.5	325	325	320	315
EUR/INR	80.46	81.2	80.7	81.7	82.5
EUR/PLN	4.297	4.40	4.30	4.25	4.10
EUR/MXN	21.73	23.2	21.1	20.7	20.0
EUR/RUB	77.66	80.0	80.7	83.0	83.8
EUR/TRY	7.003	7.50	7.60	7.90	8.20
EUR/ZAR	16.54	16.8	17.0	18.3	18.8
EUR/USD	1.152	1.16	1.17	1.22	1.25
EUR/SEK	10.52	10.0	10.0	10.0	9.70
EUR/NOK	9.712	9.25	9.15	8.90	8.80
EUR/DKK	7.459	7.46	7.46	7.46	7.46

Source: Nordea estimates

FX FORECASTS AGAINST USD

	Spot	3M	End-2018	Mid-2019	End-2019
USD/BRL	4.183	3.96	3.80	3.50	3.40
USD/CNY	6.843	6.89	6.80	6.60	6.50
USD/CZK	22.09	22.0	21.4	20.3	19.6
USD/HUF	280.3	280	278	262	252
USD/INR	70.97	70.2	69.0	67.0	66.0
USD/MXN	19.15	19.8	18.0	17.0	16.0
USD/PLN	3.685	3.77	3.68	3.48	3.28
USD/RUB	68.29	68.9	69.0	68.0	67.0
USD/TRY	6.763	6.53	6.50	6.48	6.56
USD/ZAR	14.68	14.5	14.5	15.0	15.0

Source: Nordea estimates

POLICY RATE FORECASTS

Policy rates	Spot	3M	End-2018	Mid-2019	End-2019
Russia	7.25	7.25	7.25	7.25	7.25
Poland	1.50	1.50	1.50	1.50	1.75
Hungary	0.90	0.90	0.90	0.90	1.20
Czech Republic	1.25	1.50	1.50	1.75	2.00
Turkey	16.50	17.75	17.75	17.75	17.75
South Africa	6.50	6.50	6.50	6.25	6.00
Brazil	6.50	6.50	6.50	7.00	7.50
Mexico	7.75	7.75	7.75	7.50	7.25
China	4.35	4.35	4.35	4.35	4.35
India	6.50	6.50	6.50	6.75	6.75

Source: Nordea estimates

Brazil

We keep our overall forecast profile intact from last time. Hence, we do not believe the weak BRL will be enough for the BCB to hike the Selic rate this year.

Czech Republic

We expect the CNB to continue its hawkish path with a hike in September (if not, then in November) as inflation and EUR/CZK have increased since the latest policy meeting – a meeting, where governor Rusnok said that the exchange rate was the main reason for the earlier than anticipated hike.

Hungary

The MNB has been sending slightly more hawkish signals in the aftermath of the HUF depreciation in recent months. However, we do not believe the signals will be enough to really initiate a HUF rally. We do not expect to see any material HUF strengthening before a rate hike is approaching. Also, politics and slower growth (especially due to EU funding) will limit likely HUF strengthening.

India

The INR faces limited upside in the near term due to elevated global uncertainties, in our view. But it is oversold against the USD and has a good chance of rebounding when the dust has settled. In the medium term, we see support from solid growth prospects and our expectation of a weaker dollar from the end of this year.

We expect the RBI to keep rates unchanged for the rest of the year to allow a real policy rate return to the preferred range of 1.5-2%. Inflation is forecasted to rise to above 5% in H1 next year, prompting the RBI to hike rates by 25bp.

Mexico

The MXN has strengthened a bit recently as NAFTA negotiation talks have improved and AMLO (as we pre-warned) has taken a more pragmatic, market-friendly approach after the election win. No changes to our current forecast.

South Africa

Contagion risk from the Turkish crisis and trade war talks has put the ZAR under a lot of pressure. The SARB has indicated that hikes could be on the cards in the short to medium term, but with a fragile outlook for growth and public finances combined with still moderate inflation pressure, we are less certain. However, we note that hikes are possible if the pressure on the currency continues, although the SARB so far has not even used FX interventions. We keep our negative ZAR view in the medium-long run.

Recent research and profile descriptions

Recent Emerging Markets Research
- RUB: Sanctions from hell (13 August)
- TRY: A bloodbath (10 August)
- China monthly: A protracted trade war (7 August)
- TRY: The price of central bank independence (24 July)
- CBR preview: Can the key rate rise in 2019? (24 July)
- Putin and Trump: Enemies, allies or competitors? (17 July)
- China's GDP growth: No drama (16 July)
- KZT: Don't expect immediate major support from Clearstream (12 July)
- China-US trade war has escalated (11 July)

Latest EM Traffic Light
- EM Traffic Light: Overall EM FX has stopped from bleeding, but risks remain high (2 August)

Latest Financial Forecast Update
- Majors forecast update: Tensions are yet to hit the US economy (15 August)

Latest Economic Outlook
- Nordea Economic Outlook: The US ripple effect (17 April)

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