Emerging Markets View

Fearing the Fed

The markets have almost completely priced out any Fed hikes in 2019 and US Treasury yields have fallen well below 3%. That should be great news for EM FX. However, EM FX has not seen much benefit and now seems to be sailing in the calm before a storm. Either the Fed will continue according to its plan – bad news – or it won't, and probably because the US economy has slowed down much more than expected, which is also bad news. 2019 could thus prove to be another difficult year for EM FX, where we believe EM central banks are more likely than not to hike policy rates to compensate investors for higher risks and thereby postpone any meaningful recovery in their respective economies.

CNY: The trade war persists

The key driver we see for the CNY are the ongoing talks between US President Trump and China's President Xi. The stop-and-go process has pushed CNY volatility to its highest since 2015. We expect USD/CNY to push through 7, if a ceasefire does not lead to sustained improvements.

RUB: Left hanging in mid-air

Sanctions remain the key driver for the RUB, in our view, keeping the currency on the weak side compared with fundamentals even with oil prices having dropped in recent months. We believe a pre-emptive rate hike and OPEC deal make RUB strengthening more likely, but probably only alongside more clarity regarding upcoming sanctions.

PLN: Worse before it gets better

Politics are also affecting the PLN as the government has accepted a ruling by the European Court of Justice. We believe the first rate hike is coming closer even if core inflation is still surprising to the downside. This should eventually strengthen the PLN.

In focus – ZAR: Challenging times ahead

The ZAR is our focus currency this month. Basically, we see the risks skewed quite heavily to the downside for next year, especially on the fiscal side and with the presidential election coming up.

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

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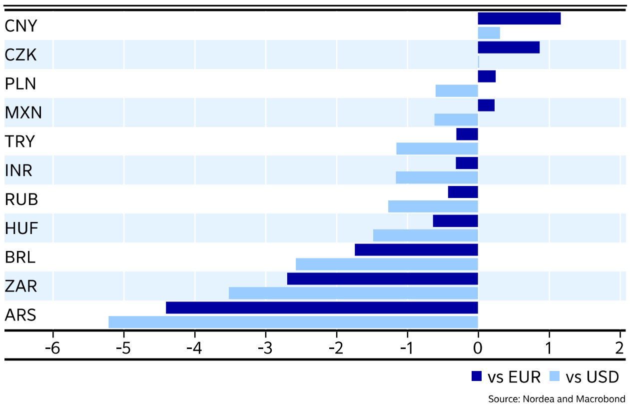
EM FX PERFORMANCE SINCE LAST EM VIEW, %



NEW FX FORECASTS

	Spot	3M	Mid-2019	End-2019	End-2020
USD/BRL	3.893	3.85	3.90	4.00	4.10
USD/CNY	6.905	7.00	6.90	6.80	6.60
USD/CZK	22.82	22.4	21.4	21.3	21.6
USD/HUF	286.5	280	269	263	256
USD/INR	71.96	75.0	74.0	73.0	72.0
USD/MXN	20.34	20.5	20.0	19.0	19.0
USD/PLN	3.799	3.79	3.57	3.46	3.40
USD/RUB	66.71	67.0	66.0	65.0	66.5
USD/TRY	5.379	5.43	5.71	6.00	6.08
USD/ZAR	14.41	14.5	15.0	15.5	16.0

Source: Nordea estimates

Fearing the Fed

EM FX is in a sweet spot, but has not managed to benefit much. 2019 already looks difficult, in our view, and the Fed and a global slowdown could make it worse. We see EM central banks as more likely to be in hiking mode next year, postponing any recovery.

EM FX in the sweet spot...

Emerging market currencies seem to be amid the calm before a storm. Markets have taken a very bearish view on the Fed, pricing in only half a rate hike in 2019, while ten-year US Treasury yields have fallen well below 3% and the USD has paused somewhat from strengthening.

...but has not benefitted much

All this seems like great news for EM currencies, but there is not much to show for it. EM FX has stabilised rather than rebounded despite these tailwinds, supporting our view that EM risks remain elevated going into 2019.

Looking ahead, a lot can go wrong and a lot of what can go wrong seems to be related to the US – there is good reason to fear the Fed.

Hawkish Fed is bad news...

The gap between the Fed's projection of five more rate hikes and the market pricing is quite wide, and we see a clear risk that markets have misunderstood the Fed's communication of more data-dependence for almost no additional rate hikes before the end of the cycle. If that is the case, the USD as well as longer-term US bond yields likely have a lot of upside and EM FX has a lot of downside.

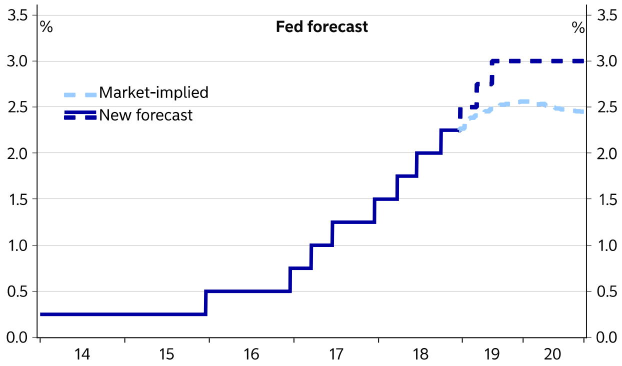
...but a dovish Fed probably comes with a slowing economy

On the other hand, markets could be right. However, if the Fed is really so close to the end of the hiking cycle, then it would probably be because the US economy is weakening much more than the Fed expects. That, too, is negative for EM. Russian central bank Governor Elvira Nabiullina made that exact point on Friday at the press conference following the pre-emptive rate hike: *"It is important that the altered projections of policy revision by key central banks are associated with downgraded next year growth forecasts for major economies."*

Calm before the storm?

Thus, the current mix of strong economic indicators and falling interest rates is a sweet spot for EM, but it probably cannot last.

OUR NEW FED FORECAST STILL WAY ABOVE MARKETS



Source: Nordea and Macrobond

LOWER WORLD GROWTH IS EM FX NEGATIVE TOO

Source: Nordea Markets and Macrobond

Another 2018 in 2019?

Our new Fed forecast sees two hikes in 2019

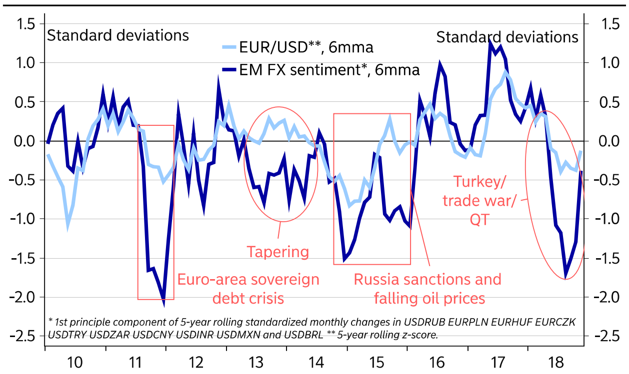
We changed our Fed forecast yesterday and now expect two more rate hikes in 2019. In other words, we believe markets have become too bearish and see clear risks to the upside for yields despite expecting growth to slow over the year. That could spell a new 2018 for EM FX in the first half of 2019.

EM currencies were particularly under pressure between April and mid-August this year, when the probability of four Fed hikes during the year increased from around 30% to around 70%. A stronger USD and higher term premia were especially negative for EMs with high current account deficits and a high share of external debt.

QT could be more important than Fed hikes

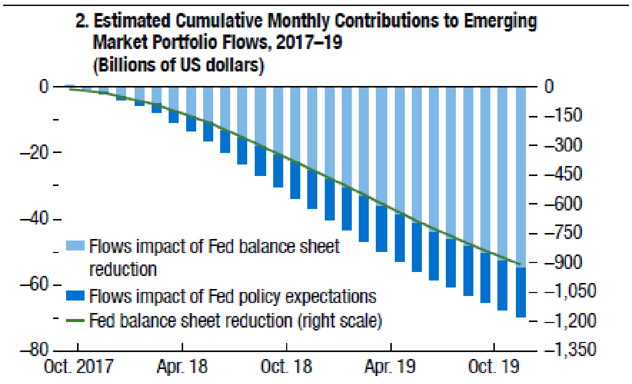
Moreover, the cap on the Fed's monthly balance sheet reductions was increased gradually during this year. According to the IMF, the impact on balance sheet reductions on capital outflows from emerging markets by far exceeds the impact of rate hikes, and we expect the cap on balance sheet reductions to be kept at the current pace of USD 50bn/month throughout 2019.

EM FX SENTIMENT AND THE BIG EM SELL-OFFS



Source: Nordea and Macrobond

QUANTITATIVE TIGHTENING (QT) ACCORDING TO THE IMF



Source: IMF

The "usual suspects" will suffer a hawkish Fed

The softer tone from the Fed in November was most positive to ZAR, CLP and TRY, which we mentioned in our EM View "House of cards" as the most vulnerable to higher USD rates, as they have the highest reliance on FX-denominated debt and short-term external debt, and have the lowest reserves adequacy ratios. Interestingly ARS is not relieved to a sufficient extent and the RUB is rather strengthening due to a softer tone on sanctions.

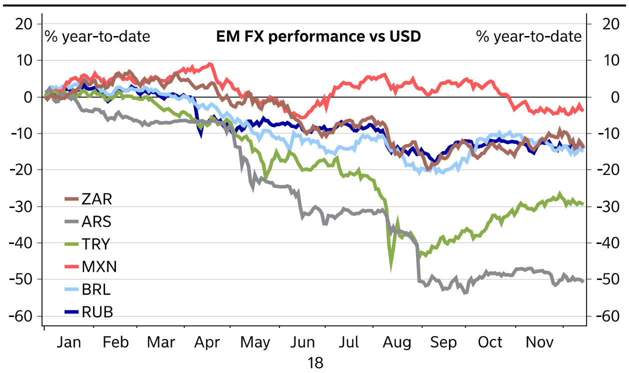
EM policy rates heading higher

Carry-to-risk (implied annualised return from forwards divided by atm vol) remains low, pointing to a 2019 where EM central banks will generally be hiking policy rates, not only because inflation is higher because of higher import prices after this year's FX weakening, but also because volatilities are likely to remain elevated with the Fed's policy normalisation, which would require higher carry to attract portfolio demand.

EM FX recovery still distant

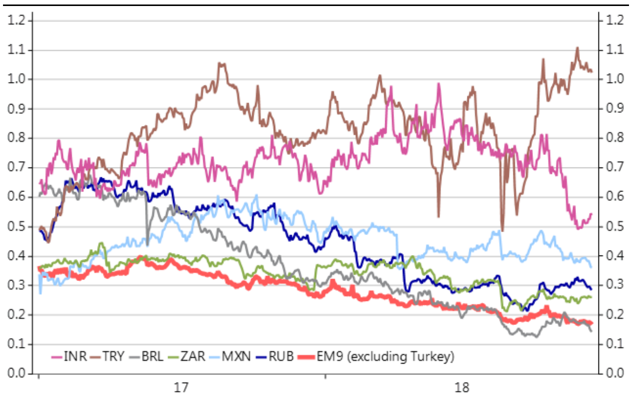
Higher EM policy rates would postpone any meaningful economic recovery, and in that sense a full-scale recovery in EM currencies is unlikely before the Fed slows down the pace of balance sheet reduction, and probably also unlikely on this side of the next US slowdown/recession.

SELECTED EM CURRENCIES PERFORMANCE IN 2018



Source: Nordea Markets and Macrobond

CARRY-TO-RISK STILL RELATIVELY LOW



Source: Nordea and Macrobond

CNY: The trade war persists

It is still unclear whether the US-China ceasefire will result in permanent peace. The CNY faces considerable volatility and more downside risks in the next few months.

The CNY volatility reached a three-year high

The CNY has had a rollercoaster ride since the last EM View. Realised volatility rose to the highest level since August 2015. Stop-and-start progress in the US-China trade talks is to blame for this, and we consider it the most crucial driver in the near term.

The market has not bought into the ceasefire

The 90-day ceasefire following the G20 summit failed to generate a sustained rally in the yuan. 2018 has seen enough trade negotiations failing to warrant market cynicism.

A lasting deal is unlikely as neither China nor the US will budge

We are sceptical that negotiations in the 90-day period will result in a lasting agreement between the US and China. The odds of China making fundamental changes to its state-driven industrial policy are miniscule. China is convinced that its future growth depends on it being a technological giant. It is determined to achieve that goal, regardless of the method it needs to adopt.

On the other hand, the US does not seem to be easing the pressure it is applying on China either. With the detention of Huawei's CFO, the US is signalling that it will no longer accept China's lack of intellectual property protection compared with other major countries.

A no-deal scenario will lead to sell-off and send the CNY tumbling

In the pessimistic scenario, the talks will lead to no progress. The US decides to increase the tariff rate from 10% to 25% and perhaps impose tariffs on the rest of the Chinese imports. In that case, the sell-off would likely resume and the USD/CNY could easily push through 7 before the People's Bank of China intervenes.

Baseline expectation is high volatility and downside risks in the CNY

With little prospects of reaching a compromise, our baseline expectation is that the yuan will face ample volatility and sizeable downside risks in the next few months.

On a longer-term horizon, the yuan finds supports from the end of the dollar rally, Beijing's commitment to maintain growth stability and China's current account surplus.

By Amy Yuan Zhuang

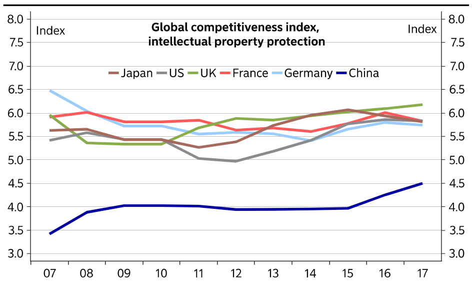
RISK FACTORS

- Negative surprises in trade talks
- Larger-than-expected growth impacts
- Uncertainty hurts confidence

EM TRAFFIC LIGHT

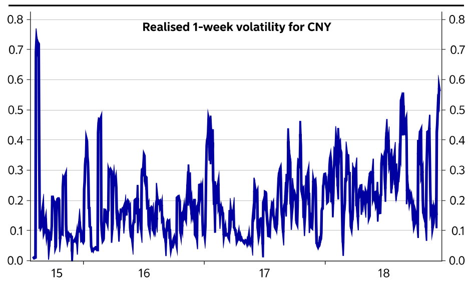
- Risk level: 13% (green, -3 pp from the previous month)
- High credit risk

CHINA IS LAGGING IN IPR



Source: Nordea and Macrobond

VOLATILITY AT THREE-YEAR HIGH



Source: Nordea and Macrobond

FINANCIAL FORECASTS – CHINA

The rollercoaster-like movement in the yuan since the G20 summit shows the market is not fully convinced that the improving US-China relations will last. This is also reflected in the high CNY volatility. Trade talks have taken many dramatic turns this year and there is still room for negative surprises. Thus, the downside risks in the CNY cannot be eliminated. We still forecast the yuan weakening against the dollar in the next three months before recovering gradually again.

Forecasts	Spot	3M	Mid-2019	End-2019	End-2020
USD/CNY	6.94	7.00	6.90	6.80	6.60
Policy rate	4.35	4.35	4.35	4.35	4.35

Source: Nordea estimates

USD/CNY FORECAST

Source: Nordea estimates and Macrobond

RUB: Left hanging in mid air

The RUB is still too weak, even though the oil price is 20% lower than it was a month ago. Uncertainty over sanctions is keeping the currency undervalued and vulnerable to tough rhetoric from the US.

No deadlines to guide the market

Since our previous issue of EM View, the RUB has shifted from the 65-66 corridor versus the USD to the 66-67 range, approaching our three-month-ahead forecast. This move has mainly been triggered by increased tensions between Russia and Ukraine after the Kerch Strait incident. This episode has resurrected fears about tighter sanctions. The market is thus approaching the year-end with very little clarity on sanctions, either regarding deadlines or the essence of potential measures. Geopolitics will be the primary factor behind the RUB trajectory in 2019.

Ready to jump in

The end of November, however, brought confirmation of our hypothesis that appetite for Russian assets may re-emerge quite quickly. News that US sanctions are likely to be postponed until March-April 2019 has caused quite a rapid increase in RUB speculative long positioning. Russian economic fundamentals in combination with relatively high local interest rates look very tempting. If the market gets just a little more clarity on the sanctions outlook, investors who are currently in wait-and-see mode are likely to react very swiftly. According to our estimates, sanction risks are keeping the RUB significantly undervalued relative to its fundamentally justified level (57.8 for the oil price of USD 60/bbl and 61 for USD 50/bbl).

OPEC+ deal limits oil-related risks for the RUB

The OPEC+ meeting was another pivotal event of recent weeks. We believe that the deal limits the downside risks for the oil market rather than providing any significant upside. A new agreement on oil output cuts strengthens the market's conviction in the readiness of OPEC+ countries to act as a balancing player in the oil market. With that in mind, risks related to oil price developments seem to be contained for the time being.

CBR to return to the FX market

The Central bank has announced that starting from January it would resume regular conversion into FX of excess budget revenues (coming from oil price above USD/bbl 40). Given that oil price has lately dropped by around 30% the volume of purchases will be relatively low and won't be the key factor for RUB developments.

By Tatiana Evdokimova

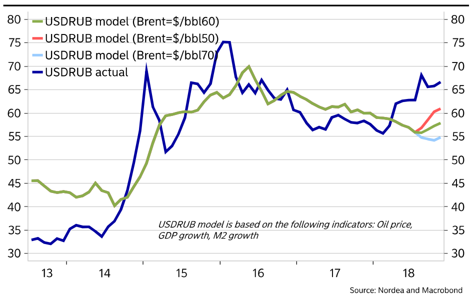
RISK FACTORS

- Tighter sanctions
- New geopolitical tensions with the West
- Market overreaction to resumed FX purchases

EM TRAFFIC LIGHT

- Risk level: 22% (yellow, +4 pp from the previous month)

FUNDAMENTALS POINT TO STRONGER RUB



POSITIONING CONFIRMS WAIT-AND-SEE MODE

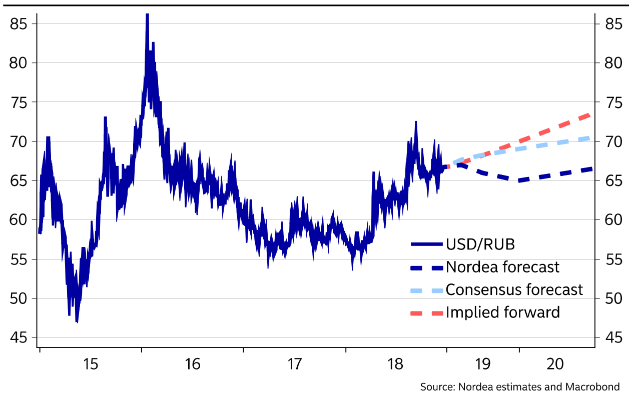
FINANCIAL FORECASTS — RUSSIA

We leave our forecasts unchanged for now and expect more short-term RUB spikes ahead. Risks remain elevated given the geopolitical environment. With no clarity on future modifications of sanctions available, we still forecast a RUB significantly weaker than fundamentally justified levels. But when this information becomes available, the RUB may rebound quite quickly to firmer levels than our forecasts suggest.

Forecasts	Spot	3M	Mid-2019	End-2019	End-2020
USD/RUB	66.7	67.0	66.0	65.0	66.5
Policy rate	7.75	8.00	8.00	7.50	6.75

Source: Nordea estimates

USD/RUB FORECASTS



PLN: Worse before it gets better

Short-term risks are building, as inflation momentum has weakened and political uncertainty lingers. There is, however, light at the end of the tunnel for the Polish zloty.

Poland has accepted the ECJ's ruling concerning the Rule of Law

Several important events have taken place in Poland – events that could have a significant impact on the PLN. First of all, the government has accepted the ruling by the ECJ that the dismissed Supreme Court judges should be reinstated. Although this is a PLN-positive response, we believe the risks stemming from the clash with the EU persist. The reform, which gives the government the power to nominate judges and dismiss heads of ordinary courts, is unchanged. Consequently, we think the risk of Poland missing substantial EU funding after 2020 lingers. We discussed these issues in more detail in the latest EM View.

A corruption scandal has weakened investor confidence

Second, the head of the Polish Financial Supervision Authority has resigned following a large corruption scandal involving the main shareholder of two troublesome banks. This has raised investor concerns about liquidity constraints and spillovers to local banks. Besides the impact on the PLN, the government bond market has also suffered.

Inflation has deteriorated – the NBP is likely to adjust forecast downwards

Finally, inflation figures for November surprised significantly on the downside, with a reading of 1.2% y/y (1.8% in October). Although a large part of the decline was driven by lower energy and food prices, the partial breakdown of the figures indicates that core inflation also underperformed markedly (not published at the time of writing). In our view, this could result in inflation clearly undershooting the NBP's forecast from its November inflation report in the next couple of months, which might lead to dovish MPC comments. Combined with recent high market volatility and lingering emerging markets uncertainty, we think the PLN may face some headwinds in the short term.

First motion to hike the policy rate since 2012

In the medium term, however, we expect the PLN to strengthen. Domestic cost pressure is thus building, with labour shortages pushing up wages. In turn, this could lead the NBP to become more hawkish. In fact, the minutes from the November meeting revealed that one member had submitted a motion to hike wages by 25 bp for the first time since 2012. Although we think the dissenter was Kamil Zubelewicz, the already known hawk, we consider this the first step towards the NBP delivering a rate hike in Q4 2019 – in contrast to Governor Adam Glapinski's signal that "no rate hike is likely in 2019-20".

By Morten Lund

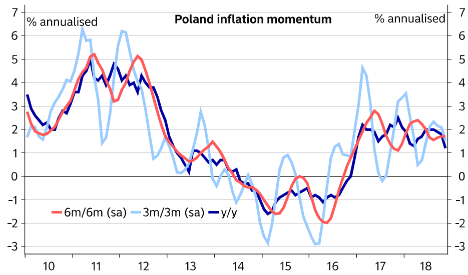
RISK FACTORS

- Weak EM sentiment
- Politics
- Low core inflation/dovish NBP

EM TRAFFIC LIGHT

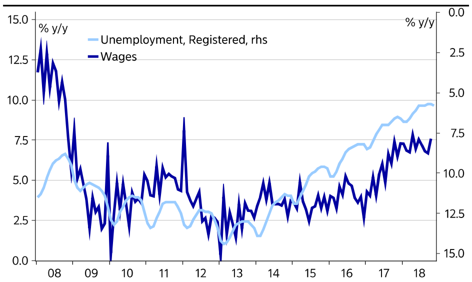
- Risk level: 14% (green, unchanged from previous month)

INFLATION HAS LOST MOMENTUM...



Source: Nordea Markets and Macrobond

...BUT DOMESTIC PRESSURE IS RISING



Source: Nordea Markets and Macrobond

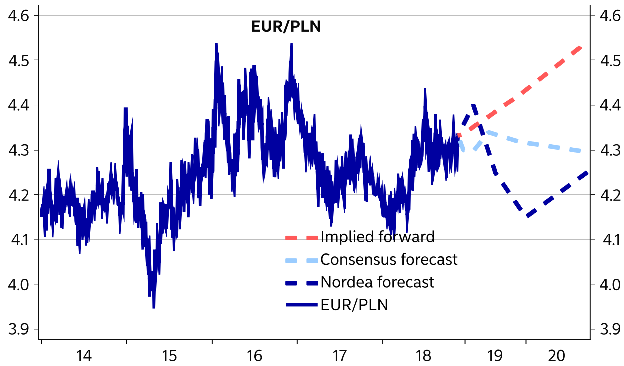
FINANCIAL FORECASTS – POLAND

Due to a combination of lukewarm market sentiment, a dovish central bank and rising political uncertainty, we still expect the EUR/PLN to keep testing levels up to 4.40 in the short term. Longer out, we expect a mild PLN appreciation as the NBP gets closer to a rate hike.

Forecasts	Spot	3M	Mid-2019	End-2019	End-2020
EUR/PLN	4.33	4.40	4.25	4.15	4.25
Policy rate	1.50	1.50	1.50	1.75	2.00

Source: Nordea estimates

EUR/PLN FORECAST



Source: Nordea Markets and Macrobond

ZAR: Challenging times ahead

Although 2018 has been a difficult year for the rand, next year may not offer any relief. A general election is looming and the country's structural socioeconomic problems linger.

Battled recession, but GDP growth is still an issue

Risk of further credit rating downgrades

After combating a recession in the first two quarters of 2018, South Africa's economy expanded in Q3. The outlook for the ZAR, however, remains bleak. South Africa is battling structural problems such as a high debt-to-GDP ratio, a lack of investments and high youth unemployment. On top of this, the ZAR is suffering from political instability and tighter global financial conditions. Consequently, Moody's has the country's rating under review.

Struggling state companies with heavy debt cause turmoil

Potential land reform scares investors

A contributing factor to South Africa's structural problems is poorly performing state-owned enterprises. For instance, electricity company Eskom has asked the government to absorb ZAR 100bn of its debt, constituting ~2% of South Africa's GDP. If the government agrees, it could prove difficult to improve the country's debt-to-GDP ratio and may in turn lead to a trend of bailing out state companies. Another issue is the land reform, which - if approved – would make it easier for the government to expropriate land without payments. Investors are worried it will compromise property rights

New finance minister gives the markets hope

The new, well-respected Finance Minister, Tito Mboweni, has, however, given the markets a glimmer of hope, advocating expenditure reductions and privatisation of state-owned enterprises. In this sense, the next budget in February will be a big test.

New reaction function from SARB resulted in 25 bp rate hike in November

Another recent positive for the ZAR has been the central bank. The SARB hiked the policy rate by 25 bp in November to anchor inflation expectations. We see this indicating a hawkish shift in the SARB's reaction function, with the central bank no longer tolerating inflation at the top of its range (5.5-6%). In our view, however, the rate hike may not be the start of a long hiking cycle, as the central bank could soon be faced with a difficult trade-off between curbing inflation and stimulating growth.

We have a negative view on the ZAR for the next two years

In conclusion, we think the negative risk factors clearly outweigh the positive, on both the domestic and external sides. Consequently, we have a negative view on the ZAR for 2019 and 2020.

By Thea Stensaker

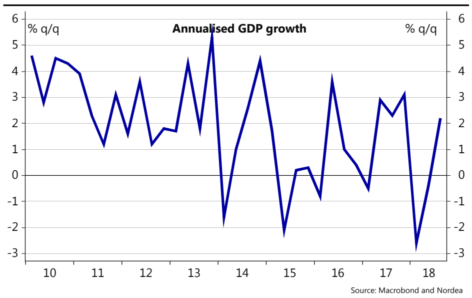
RISK FACTORS

- Upcoming election
- Low economic growth
- Weak EM sentiment

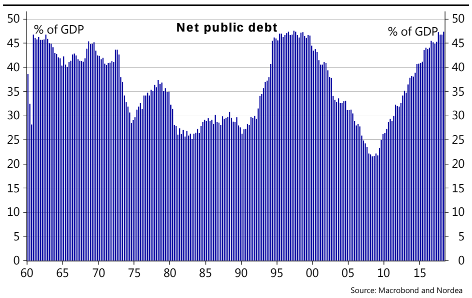
EM TRAFFIC LIGHT X

- Risk level: 25% (yellow, +3 pp from previous month)

GDP GROWTH BOUNCED BACK IN Q3



PUBLIC DEBT IS BALLOONING



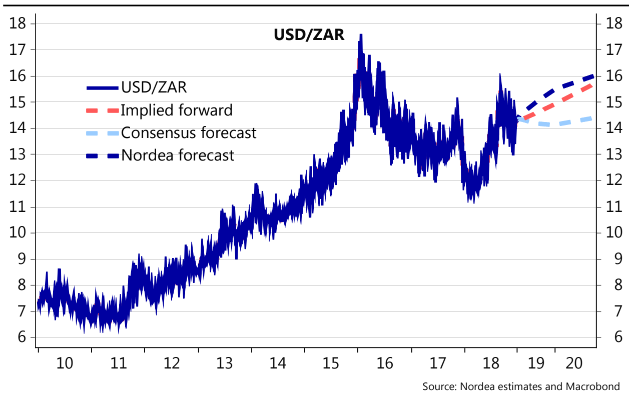
FINANCIAL FORECASTS – SOUTH AFRICA

We have a negative view on the ZAR in 2019 due to election uncertainty, structurally low growth and tighter global financial conditions. A more hawkish central bank should, however, limit downside in the ZAR.

Forecasts	Spot	3M	Mid-2019	End-2019	End-2020
USD/ZAR	14.08	14.50	15.00	15.50	16.00
Policy rate	6.75	6.75	6.50	6.25	6.00

Source: Nordea estimates

USD/ZAR FORECAST



Hedging considerations

CNY (vs EUR)

Income

High hedge ratio in the short term, using mainly FX forwards. High hedge ratio in the long term – using mainly FX forwards and considering zero-cost option strategies, eg participating forwards.

Expenses

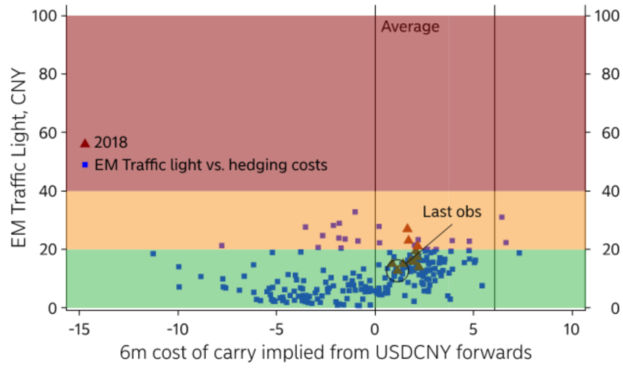
Low hedge ratio in the short term, using a mix of FX forwards and zero-cost strategies. Low hedge ratio in the long term, using mainly zero-cost option strategies, eg participating forwards.

NORDEA ESTIMATES

Forecasts	Spot	3M	Mid-2019	End-2019	End-2020
EUR/CNY	7.80	8.12	8.21	8.16	8.25
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 ATM vol (6M)	25D RR (6M)	Forward (6m)
6.97	0.44	7.99

Source: Bloomberg

RUB (vs EUR)

Income

Middle hedge ratio in the short term, using mainly FX forwards. Middle-to-high hedge ratio in the long term, using a high share of zero-cost option strategies; eg forward extra, taking advantage of high volatility levels.

Expenses

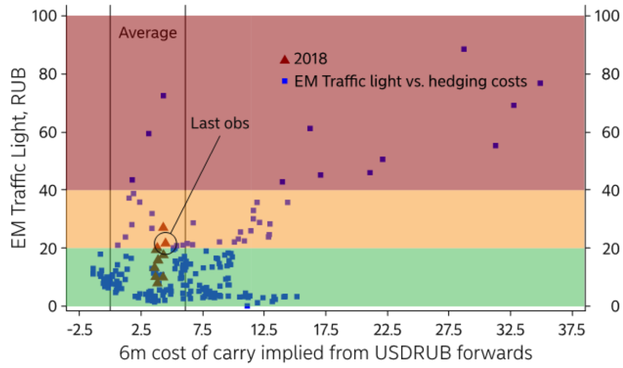
Middle hedge ratio in the short term, using a mix of forwards and zero-cost option strategies; eg risk reversals, benefiting from cheap RUB calls and expensive RUB puts. High hedge ratio in the long term, using mainly FX forwards and benefiting from high forward premiums.

NORDEA ESTIMATES

Forecasts	Spot	3M	Mid-2019	End-2019	End-2020
EUR/RUB	75.4	77.7	78.5	78.0	83.1
Policy rate	7.75	8.00	8.00	7.50	6.75

Source: Nordea estimates

COST OF CARRY VS RISK LEVEL



Source: Nordea estimates and Macrobond

Implied ATM vol (6M)	25D RR (6M)	Forward (6m)
13.39	3.92	78.42

Source: Bloomberg

PLN (vs EUR)

Income

High hedge ratio in the short term (3M), using FX forwards. Low-to-middle hedge ratio in the long term as we expect the PLN to strengthen during 2019. High share of zero-cost option strategies, eg participating forwards as EUR/PLN volatility is rather low.

Expenses

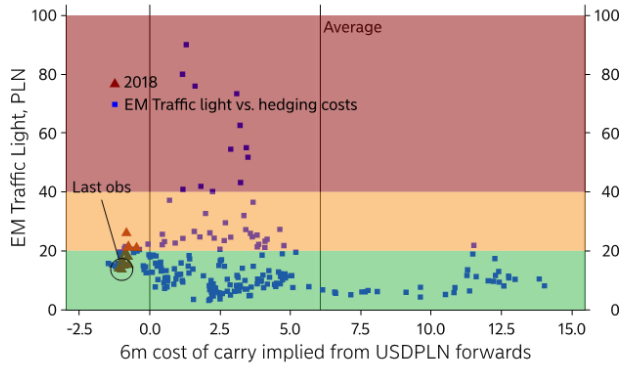
Low-to-middle hedge ratio in the short term, using a mix of FX forwards and zero-cost option strategies. High hedge ratio in the long term, using FX forwards, mainly taking advantage of high forward premiums on EUR/PLN

NORDEA ESTIMATES

Forecasts	Spot	3M	Mid-2019	End-2019	End-2020
EUR/PLN	4.29	4.40	4.25	4.15	4.25
Policy rate	1.50	1.50	1.50	1.75	2.00

Source: Nordea estimates

COST OF CARRY VS RISK LEVEL



Source: Nordea estimates and Macrobond

Implied ATM vol (6M)	25D RR (6M)	Forward (6m)
5.44	1.47	4.33

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
BRL	Brazil	30%									
HUF	Hungary	26%									
ZAR	South Africa	25%									
CLP	Chile	25%									
BGN	Bulgaria	23%									
TWD	Taiwan	23%									
CZK	Czech Republic	22%									
RUB	Russia	22%									
ILS	Israel	20%									
TRY	Turkey	19%									
SAR	Saudi Arabia	19%									
UAH	Ukraine	18%									
RSD	Serbia	18%									
KES	Kenya	18%									
KRW	South Korea	17%									
HRK	Croatia	17%									
RON	Romania	17%									
PEN	Peru	17%									
SGD	Singapore	16%									
COP	Colombia	15%									
PHP	Philippines	15%									
PLN	Poland	14%									
MXN	Mexico	13%									
KZT	Kazakhstan	13%									
CNY	China	13%									
ARS	Argentina	12%									
THB	Thailand	12%									
MYR	Malaysia	12%									
INR	India	10%									
IDR	Indonesia	9%									
HKD	Hong Kong	8%									
NGN	Nigeria	6%									
EGP	Egypt	2%									
	EM general	14%									

*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:** December 2018 (4 December)
- New signals: To green from yellow, TRY, KES, KRW, PEN.
- Biggest changes: The biggest changes involve the CLP (-9% points) and the TRY(-8% points).

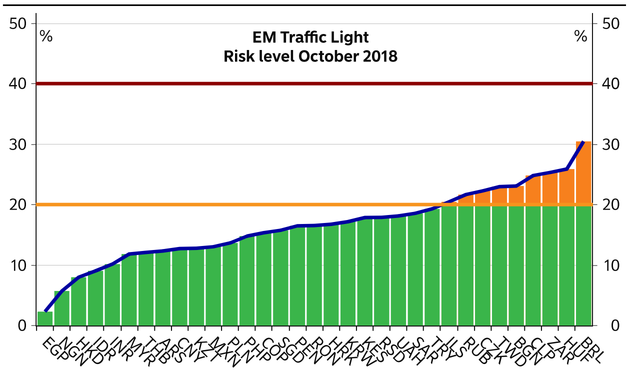
Methodology note:

- EM Traffic Light: Methodology note

Track record:

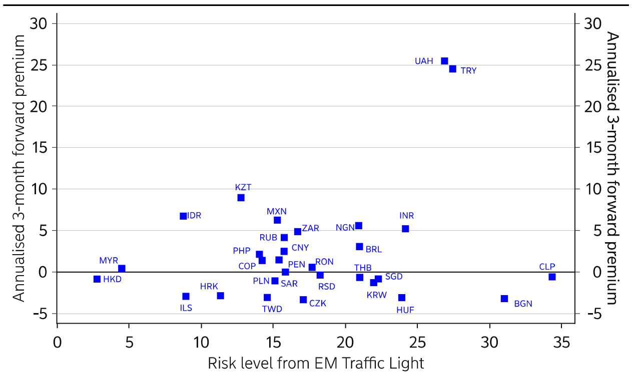
- EM Traffic Light: Track record – December 2018

OVERALL RISK LEVEL



Source: Nordea estimates and Macrobond

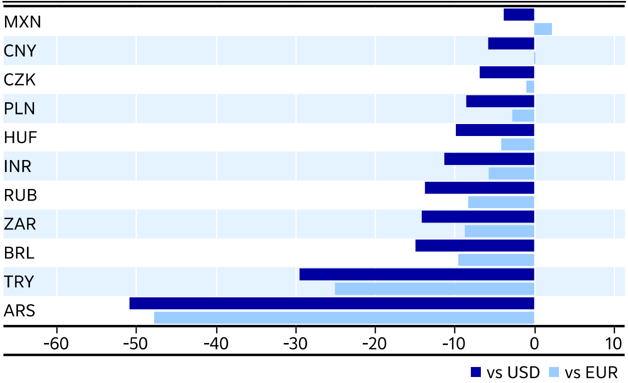
TRAFFIC LIGHT VS COST OF CARRY



Source: Nordea and Macrobond

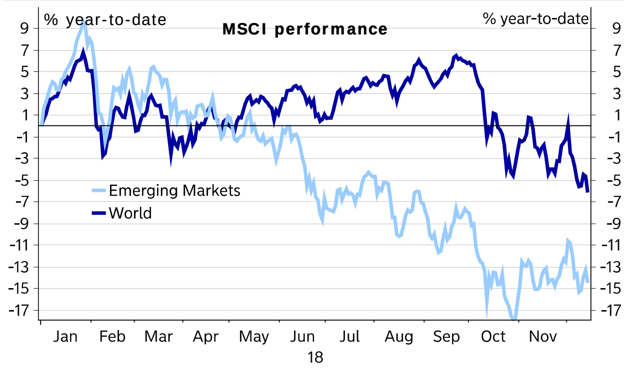
Emerging market performance

YTD EM FX PERFORMANCE



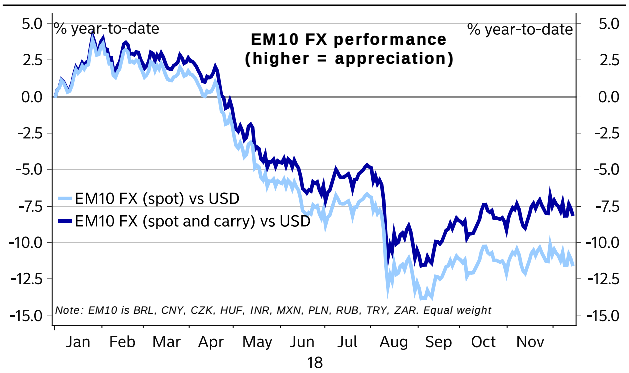
Source: Nordea and Macrobond

YTD EQUITIES PERFORMANCE



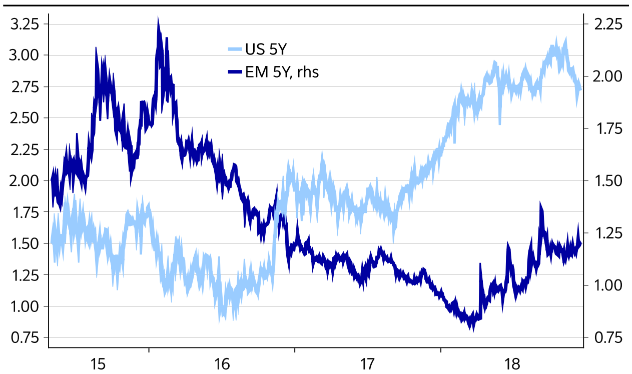
Source: Nordea and Macrobond

YTD FX PERFORMANCE, CARRY ADJUSTED



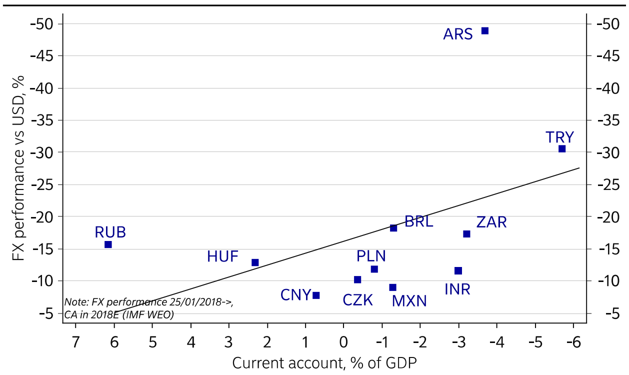
Source: Nordea and Macrobond

SWAPS



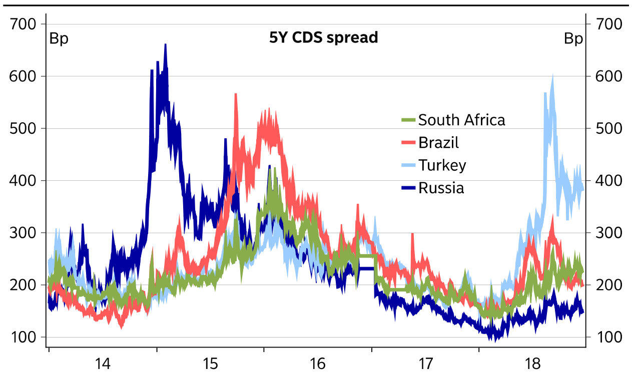
Source: Nordea and Macrobond

YTD FX PERFORMANCE VS CURRENT ACCOUNT



Source: Nordea and Macrobond

CDS SPREADS



Source: Nordea estimates and Macrobond

Forecast overview

FX FORECASTS AGAINST EUR

	Spot	3M	Mid-2019	End-2019	End-2020
EUR/BRL	4.399	4.47	4.64	4.80	5.13
EUR/CNY	7.802	8.12	8.21	8.16	8.25
EUR/CZK	25.79	26.0	25.5	25.5	27.0
EUR/HUF	323.6	325	320	315	320
EUR/INR	81.3	87.0	88.1	87.6	90.0
EUR/PLN	4.292	4.40	4.25	4.15	4.25
EUR/MXN	22.98	23.8	23.8	22.8	23.8
EUR/RUB	75.37	77.7	78.5	78.0	83.1
EUR/TRY	6.078	6.30	6.80	7.20	7.60
EUR/ZAR	16.28	16.8	17.9	18.6	20.0
EUR/USD	1.13	1.16	1.19	1.20	1.25
EUR/SEK	10.25	10.3	10.2	10.0	9.70
EUR/NOK	9.743	9.50	9.30	9.00	9.00
EUR/DKK	7.466	7.46	7.46	7.46	7.46

Source: Nordea estimates

FX FORECASTS AGAINST USD

	Spot	3M	Mid-2019	End-2019	End-2020
USD/BRL	3.893	3.85	3.90	4.00	4.10
USD/CNY	6.905	7.00	6.90	6.80	6.60
USD/CZK	22.82	22.4	21.4	21.3	21.6
USD/HUF	286.5	280	269	263	256
USD/INR	71.96	75.0	74.0	73.0	72.0
USD/MXN	20.34	20.5	20.0	19.0	19.0
USD/PLN	3.799	3.79	3.57	3.46	3.40
USD/RUB	66.71	67.0	66.0	65.0	66.5
USD/TRY	5.379	5.43	5.71	6.00	6.08
USD/ZAR	14.41	14.5	15.0	15.5	16.0

Source: Nordea estimates

POLICY RATE FORECASTS, %

Policy rates	Spot	3M	Mid-2019	End-2019	End-2020
Russia	7.75	8.00	8.00	7.50	6.75
Poland	1.50	1.50	1.50	1.75	2.00
Hungary	0.90	0.90	0.90	1.20	1.50
Czech Republic	1.75	2.00	2.25	2.50	2.50
Turkey	24.00	24.00	24.00	24.00	20.00
South Africa	6.75	6.75	6.50	6.25	6.00
Brazil	6.50	6.50	6.75	7.25	7.75
Mexico	8.00	8.25	8.25	8.25	7.75
China	4.35	4.35	4.35	4.35	4.35
India	6.50	6.50	6.75	6.75	6.75

Source: Nordea estimates

Brazil

Based on the dovish signals from the December BCB meeting and lower than expected inflation path, we have postponed the next rate hike in our forecasts.

China

No changes.

Czech Republic

No changes.

Hungary

No changes.

India

We have fine-tuned our USD/INR forecasts but still expect a near-term weakening of the rupee followed by a gradual recovery. The short-term downside risks to the INR come from the brewing banking crisis, tensions between the RBI and the government, the upcoming election, as well as elevated global uncertainty.

Mexico

No changes.

South Africa

No changes.

Poland

No changes.

Russia

No changes.

Turkey

No changes.

Recent research and profile descriptions

Recent Emerging Markets Research
- INR: Rising risk with headless RBI (11 December)
- Central Bank of Russia preview: Inflation pressure is rising (7 December)
- China monthly: A temporary truce (4 December)
- US-China: Uncertainty will continue (3 December)
- Looking to Moscow - Russian shadow holds Kazakhstan in check (23 November)

Previous Emerging Markets Views
- Emerging Markets View: A bumpy ride in 2019 (22 November)
- Emerging Markets View: Casualties of war - October 2018 (25 October)
- Emerging Markets View September 2018: House of Cards (20 September)

Latest EM Traffic Light
- EM Traffic Light December 2018 (4 December)

Latest Financial Forecast Update
- Majors forecast update: The end of the USD cycle is approaching (24 October)

Latest Economic Outlook
- Nordea Economic Outlook: The wage engine (5 September)

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