Emerging Markets View

China touchdown

Fuelled by a bearish repricing of the Fed and optimism about a trade deal between the US and China, EM FX has staged a strong comeback since mid-December. However, we do not expect 2019 to be smooth sailing for emerging market currencies. Many downside risks remain, a sharper-than-expected decline in the Chinese economy being one of them. The trade dispute with the US is already having a negative impact on growth sentiment in China through exports and manufacturing activity. While we expect the Chinese government's increased fiscal and monetary stimulus to prevent a disorderly slowdown, the economy could struggle as prolonged uncertainty hurts business and consumer confidence. Weakening momentum in China is bad for EM, as it could reduce China's imports of commodities and other goods from EM. It will also likely worsen the general risk sentiment towards EM.

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CNY: Don't get too comfortable

Despite the CNY's strength since December, we still see downside risks. The trade war and rising growth concerns in China are the main factors weighing down the CNY versus the USD.

RUB: In a sweet spot

The RUB has been performing quite well since the start of the year. While the short-term outlook is relatively positive, the RUB remains vulnerable on a longer time horizon owing to sanctions risks and oil price movements.

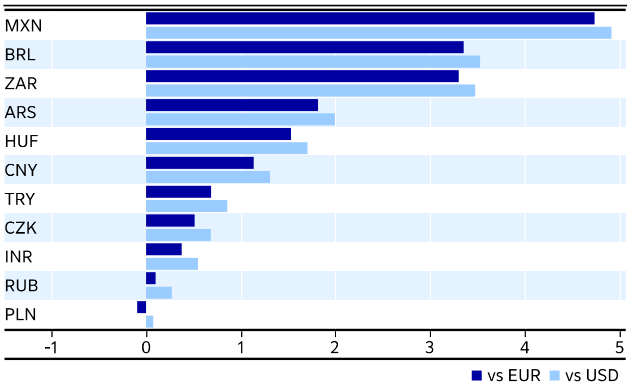
PLN: More fuel added to the dovish NBP fire

Both the Polish economy and recent inflation numbers are showing signs of a slowdown. The NBP is turning more dovish and there is a rising probability that it will postpone a rate hike until 2020 instead of in December this year, as in our current forecast.

In focus – CLP (Chile): Vulnerable to China and copper prices

The USD/CLP has been trading fairly sideways since September after a 14% drop from its February peak, driven by the collapse in copper prices. Our outlook for the USD/CLP is a continuation of the sideways trading, however, with risks firmly tilted to the downside.

EM FX RECOVERY SINCE OUR PREVIOUS EM VIEW, %



Source: Nordea and Macrobond

NEW FX FORECAST

Forecasts	Spot	3M	Mid-2019	End-2019	End-2020
USD/BRL	3.774	3.85	3.90	4.00	4.10
USD/CNY	6.808	6.90	6.90	6.80	6.60
USD/CZK	22.52	22.4	21.4	20.3	21.1
USD/HUF	279.5	280	269	256	250
USD/INR	71.20	72.0	70.0	71.0	70.0
USD/MXN	19.19	19.5	20.0	19.0	19.0
USD/PLN	3.771	3.79	3.57	3.37	3.32
USD/RUB	66.37	68.0	69.0	69.5	70.0
USD/TRY	5.348	5.52	5.88	6.10	6.25
USD/ZAR	13.83	14.5	15.0	15.5	16.0

Source: Nordea estimates

China touchdown

The decelerating Chinese economy is a considerable risk to EM currencies this year through real economic impacts and sentiment. While our baseline expectation is that the increased monetary and fiscal stimulus will prevent a disorderly slowdown, the economy could underperform due to a loss of confidence.

Despite the EM tailwind, we still see plenty of downside risks this year

In general, EM FX has delivered a solid performance since the latest edition of the Emerging Markets View, fuelled by the bearish market repricing of the Fed and optimism about a trade deal between the US and China.

The sharp decline in EM FX last year made many think that a recovery would be a foregone conclusion. But we remain cautious and see many risks for emerging markets this year. One of them is a sharper-than-expected slowdown in the Chinese economy.

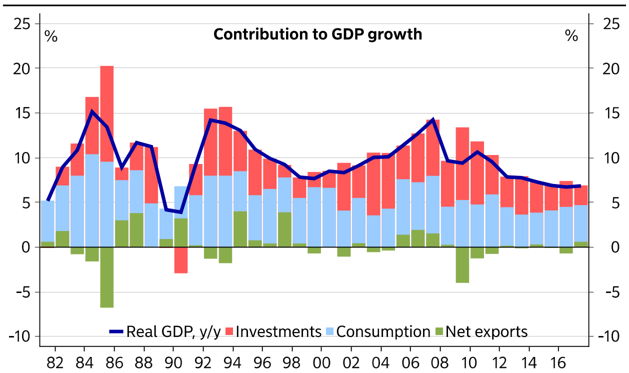
The trade war adds to growth pressure in China

For years, fear of a hard landing in China has been a concern for many. But while the initial driver of a structural transformation of China's economy remains in place, a new ingredient can be added to the recipe of growth pressure this year: the trade war.

Chinese exports fell in December due to US tariffs

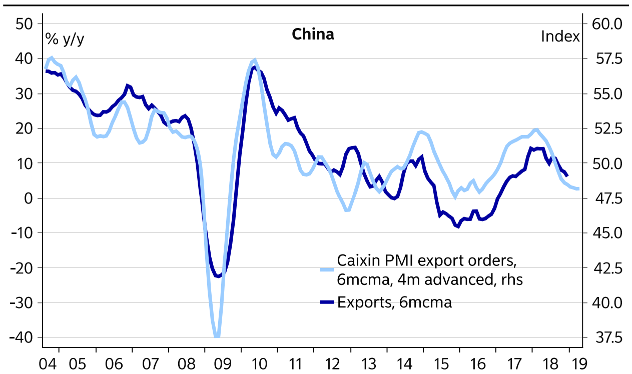
A series of disappointing macro data at the beginning of the year proved that the US tariffs have taken their toll on the Chinese economy. Exports contracted unexpectedly in December and we will likely see more declines ahead as overseas orders evaporate.

STRUCTURAL DECLINE DURING THE PAST DECADE



Source: Nordea and Macrobond

EXPORTS ARE CONTRACTING DUE TO THE TRADE WAR



Source: Nordea and Macrobond

Subsequently, manufacturing activity suffers

Weaker external demand suppresses manufacturing activity, reflected by both the Caixin and official PMI falling below 50 for the first time in more than two years. The deterioration in sentiment among state-owned enterprises, as targeted by the official PMI survey, could indicate worsening domestic demand.

Low confidence gave the first fall in annual car sales in two decades

Waning confidence is evident among consumers as well. While official consumer surveys still suggest optimism, private-sector indicators offer a darker picture. The Ifo survey showed that expectations for private consumption have plummeted to the lowest level since 2011.

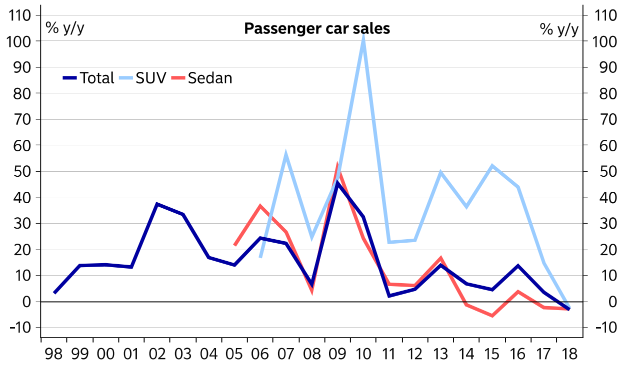
Hard data proves the same point. Retail sales decelerated sharply. Car sales have been falling since last July and 2018 marks their first annual decline in 20 years. The service sector PMI, although still above 50, has also followed a downward trend during 2018.

The government is increasing stimulus to address growth concerns

Despite not flooding the economy with stimulus, the government did step up support, as growth fears intensified. Policy focus has turned from export rebates and tax burden relief to front-loading infrastructure investment – an unfailing tool utilised since 2009 to shore up short-term demand.

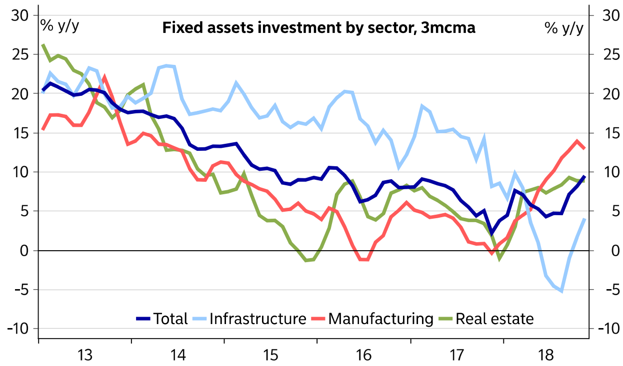
The policy shift helped infrastructure investment accelerate again, after a year of deleveraging-led deceleration. Since the public budget is already struggling with the rising deficit, the funding burden is on the banks. A surge in credit growth is inevitable.

FIRST ANNUAL FALL IN CAR SALES IN 20 YEARS



Source: Nordea and Macrobond

INFRASTRUCTURE SPENDING AS KEY STIMULUS TOOL



Source: Nordea and Macrobond

Accelerating infrastructure investments will likely be accompanied by a surge in credit growth

The People's Bank of China has eased monetary conditions by cutting the requirement for banks' reserves with the central bank by a total of 350 bp since April 2018. More cuts are expected this year. Short-term interest rates are close to a two-year low. We do not expect the benchmark policy rates to be reduced at this point, but the possibility of that increases if the economy continues to underperform.

Easy monetary policy gives tailwinds to the housing market

Real estate policies will likely remain restrictive on a national scale, especially in the major cities. However, abundant liquidity in the banking system usually provides tailwinds to property sales and construction activity.

We expect the stimulus to prevent a sharp slowdown this year, but growth uncertainty is high

Because of the fiscal and monetary stimulus as well as possible positive spillover to the real estate sector, we expect China to avoid a sharp slowdown this year and manage another soft landing.

Nevertheless, Chinese growth will likely decline to a new low. While we expect a trade deal between China and the US, we are sceptical about how many real changes the deal would bring to China. Thus, uncertainty will remain a downside risk to growth.

China has seen growing influence across the EM

As the second-largest economy in the world, China's influence on EM countries is indisputable. In recent years, President Xi's transcontinental infrastructure program, the Belt and Road Initiative, has further deepened China's footprint in the EM.

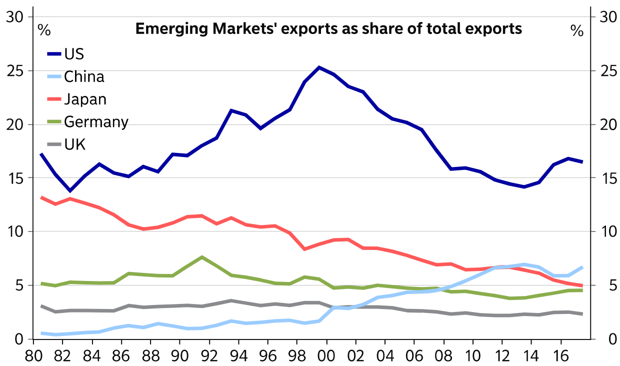
Asia and Latin America already have significant exposure to the Chinese economy – the former through the integrated regional supply chain and the latter due to China's thirst for raw materials. China has the weakest trade link with the Central and Eastern European countries, but ties have strengthened in recent years.

A slowdown in China poses a risk to EM countries this year

So, shrinking Chinese demand is a considerable risk factor for EM countries this year, through trade, commodity demand and sentiment channels. Brazil, Russia and South Africa are the most vulnerable among our ten EM countries, as China ranks as their largest export partner. Czech Republic, Hungary and Poland are highly dependent on Germany and could suffer indirectly if a slowdown in China decreases German exports. Moreover, a Chinese slump would exacerbate concerns about a global downturn and deteriorate risk sentiment towards EM currencies.

By Amy Yuan Zhuang

EMERGING MARKETS' RISING TRADE EXPOSURE TO CHINA



Source: Nordea and Macrobond

CHINA'S COMMODITY THIRST BENEFITS EMERGING MARKETS

2017	Consumption as share of world total	Imports as share of world total	Rank as consumer
Fossil fuels			
Oil	13%	19%	2nd
Natural gas	7%	8%	3rd
Coal	51%	14%	1st
Carbon emission	28%	N/A	1st
Metals			
Iron ore	64%	66%	1st
Steel	47%	4%	1st
Copper	47%	27%	1st
Gold	34%	15%	1st
Agriculture products			
Rice	30%	12%	1st
Corn	24%	2%	2nd
Wheat	16%	2%	1st
Soybean	32%	61%	1st

Source: Nordea, BP, IEA, The CIA's World Factbook, US Department or Agriculture

CNY: Don't get too comfortable

Despite the CNY's strength since December, we still see downside risks. The trade war and rising growth concerns in China are the main factors weighing down the CNY versus the USD.

The CNY found support from the Fed's new stance...

The CNY has strengthened 1.9% versus the USD since our last EM View. It is trading at levels not seen since July last year. A less hawkish Fed provided the breathing room, as fewer rate hikes imply the dollar rally is levelling off.

...and progress in US-China trade talks

The gain was extended by a sharp sentiment reversal regarding the trade war. Fruitful talks between the US and China in early January gave market optimism about a trade deal. The PBoC's interventions to shore up the CNY through a higher fixing rate might be a peace offering to the US.

Higher seasonal demand for the yuan also boosted the CNY

Moreover, exporters front-loading their hedging activities and preparing for bonus payments ahead of the Lunar New Year holidays have likely boosted demand for the yuan. The CNY has risen in three consecutive Januaries, possibly owing to this reason.

We still see large downside risks

Despite the rally, we remain cautious on the CNY. We expect the downside risks to outweigh the above-mentioned upsides this year.

The expectation on a trade deal is so high that any setback is CNY-negative

The trade war with the US, the most crucial driver of the yuan weakness last year, is not resolved. A failure to reach a deal before the truce deadline of 1 March would significantly undermine CNY strength. While we expect a nominal trade agreement to be made, we are sceptical about how many real changes that would bring in China. The possibility of more future conflicts between the two giants does not play in CNY's favour.

Additional growth struggles add to weakening pressure in the CNY

In the face of rising fears of a sharp growth slowdown in China, macro data does not give much comfort either. Although the government has stepped up stimulus, exports and manufacturing activity will likely continue to struggle. It will also take time to restore confidence among businesses and consumers.

By Amy Yuan Zhuang

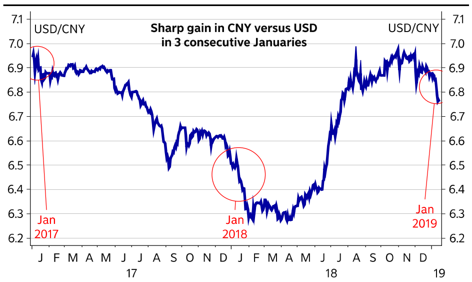
RISK FACTORS

- Negative surprises in trade talks
- A sharp growth slowdown
- Short-term support vanishes

EM TRAFFIC LIGHT

- Risk level: 12% (green, -1 pp from the previous month)
- High credit risk

HAPPY NEW YEAR GAINS IN THE CNY



Source: Nordea and Macrobond

GROWTH CONCERNS ARE CNY-NEGATIVE

Source: Nordea and Macrobond

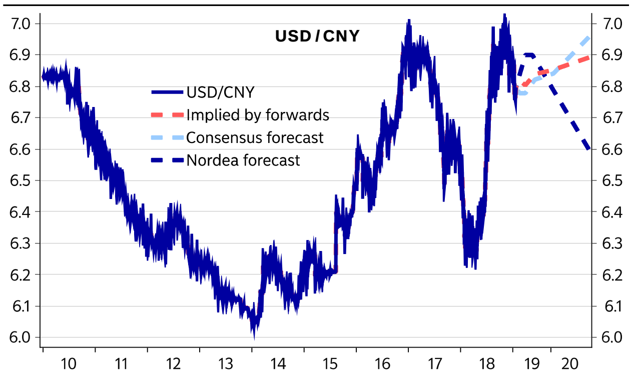
FINANCIAL FORECASTS – CHINA

Our short-term USD/CNY forecasts are adjusted to reflect the recent movements. The CNY found support from a less hawkish Fed and progress in the US-China trade talks. But we still think risks to the CNY this year tilt to the downside. Even if a trade deal is made, the lack of real changes from China leaves room for more conflicts with the US. That makes the CNY prone to sell-offs. Recent macro data confirms strong growth headwinds from the trade war and adds to depreciation pressure on the CNY.

Forecasts	Spot	3M	Mid-2019	End-2019	End-2020
USD/CNY	6.80	6.90	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: In a sweet spot

The RUB has been performing quite well since the start of the year. While the short-term outlook is relatively positive, the RUB remains vulnerable on a longer time horizon owing to sanctions risks and oil price movements.

Back to fundamentals

The RUB has been the best performing EM currency since the start of the year (+5.3%). To a considerable extent, this reflects the RUB's comeback after an overshooting at year-end in reaction to the oil slump and the Russian Christmas holidays in early January. As the sentiment towards the RUB improved, the central bank's return to regular FX purchases in mid-January passed virtually unnoticed.

The short-term outlook is encouraging

The RUB may well remain on a strong footing in February. Discussions about additional sanctions are temporarily muted, as US attention is shifting towards talks with China and domestic political battles. On the EM front, sentiment is relatively upbeat thanks to a less hawkish Fed and optimism about US-China trade talks. The oil market has also pared losses from year-end, buoyed by the same factors. February data will reflect oil supply cuts in accordance with the latest OPEC+ deal, likely keeping oil prices at a comfortable level. The Russian Ministry of Finance will try to use this window of opportunity to place additional fresh RUB debt and foreigners may re-enter this market, thereby creating additional demand for the RUB. All told, we find that the near-term outlook is quite positive, with the RUB potentially capable of testing 65.5 vs the USD.

Numerous risks are still on the cards

Nevertheless, we remain cautious about the longer-term outlook. Sanctions risks have not receded and may return to the headlines quickly if a suitable motive is found. The Democratic Party's majority in the US House of Representatives makes it even more possible. Of course, the timing of when these risks may materialise is unpredictable. For now, there are no clear deadlines for sanctions-related bill hearings. The oil market that returned to a comfortable USD 60/bbl level could easily be shaken off balance if sentiment about global growth were to deteriorate further. Lastly, there is still a long way to go before a sustainable "trade truce" between the US and China can be achieved, so the possibility of future conflicts between them could add fuel to the fire.

By Tatiana Evdokimova

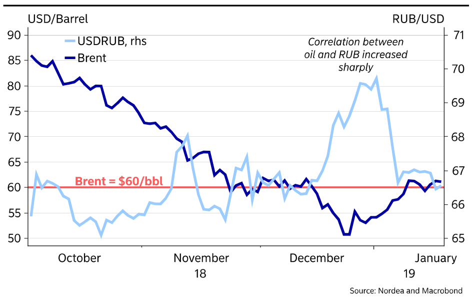
RISK FACTORS

- New waves of sanctions threats
- Deteriorating sentiment on the oil market
- Worsening EM outlook

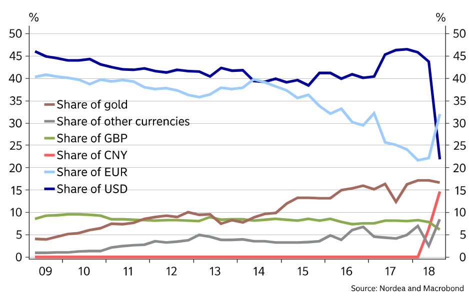
EM TRAFFIC LIGHT

- Risk level: 23% (yellow, +1 pp from the previous month)

OIL PRICE IS PSYCHOLOGICALLY SENSITIVE FOR THE RUB



TECTONIC SHIFTS IN RESERVES OF THE CENTRAL BANK



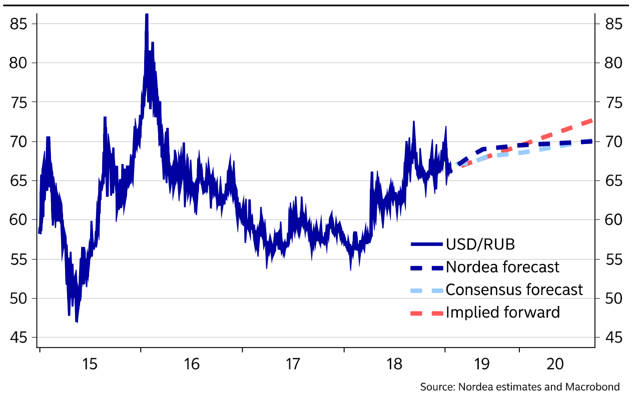
FINANCIAL FORECASTS — RUSSIA

Despite our positive short-term outlook for the RUB, we revise our RUB forecast downward for 2019, shifting the year-end figure from 65 to 69 vs the USD. We were previously expecting the RUB to regain some ground as sanctions uncertainty dissipates and foreign investors return to pick up undervalued Russian assets. The events of the last three months show that rapid progress is not a preferred approach by the US, and the anticipation of sanctions is painful in itself. With so much uncertainty about sanctions still hovering in the air, periods of a higher appetite for RUB assets are likely to be short-lived.

Forecasts	Spot	3M	Mid-2019	End-2019	End-2020
USD/RUB	66.6	68.0	69.0	69.5	70.0
Policy rate	7.75	8.00	8.25	8.25	7.75

Source: Nordea estimates

USD/RUB FORECASTS



PLN: More fuel added to the dovish NBP fire

Both the Polish economy and recent inflation numbers are showing signs of a slowdown. With the NBP turning more dovish, the risk of a rate hike later than December has increased.

Since our latest EM View, the PLN has been pulled in two directions. On the positive side, general EM sentiment has improved slightly; on the negative side, key figures from the real economy and dovish signals from the NBP have burdened.

Negative spillovers from the Euro area are beginning to bite into the Polish economy

The negative factors are the most noteworthy. Soft indicators (eg PMI figures) and hard data (eg industrial production) have disappointed. In our view, this is due to negative spillovers from the Euro area, particularly from Germany, as Poland is a high-beta country in comparison. We expect this to have a more pronounced negative effect on the PLN in the coming months (see chart).

The NBP discussed using non-conventional measures at its latest meeting

On top of the growth outlook, core inflation has undershot expectations. This has led to a more dovish NBP, which even initiated a discussion of non-conventional measures (ie a QE programme) at its latest meeting. Although this discussion surprised some investors, we do not believe that the NBP is on the brink of starting up a QE programme. Thus, we consider it more of a theoretical discussion in case Poland were to face a significant slowdown. Still, the discussion is another chapter that can be added to the tale of the dovish NBP. Combined with recent core inflation prints of just 0.6% y/y - which suggests increasing downside risks to the central bank's November inflation report - the risk is clearly leaning toward a rate hike later than our expectation of December.

The PLN could rally, if the NBP just turned slightly more hawkish after summer

We do expect wage growth to stay at high levels, however, and hence underpin inflation somewhat, as upcoming elections (scheduled for November) normally coincide with support to the labour market. The tight labour market is also why we still believe the NBP will turn more hawkish at the end of the year. If that happens, then the PLN could appreciate rapidly – just as we have recently seen with the zloty's sister currency, the HUF, which rallied on the back of shifting central bank rhetoric.

By Morten Lund

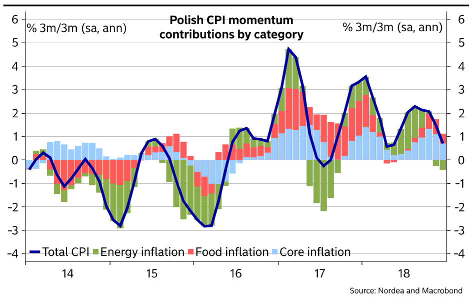
RISK FACTORS

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

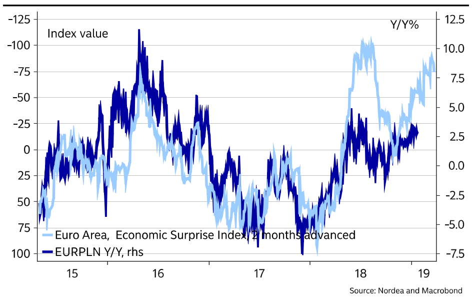
EM TRAFFIC LIGHT

- Risk level: 12% (green, -2 pp from the previous month)

INFLATION HAS LOST MOMENTUM



NEGATIVE SPILLOVERS FROM THE EA



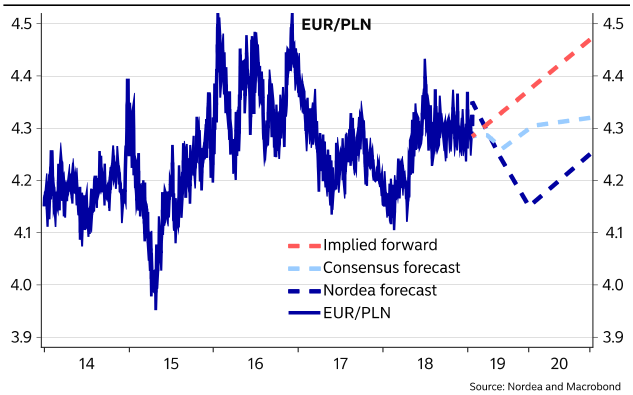
FINANCIAL FORECASTS – POLAND

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 4.35 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	4.29	4.35	4.25	4.15	4.25
Policy rate	1.50	1.50	1.50	1.75	2.00

Source: Nordea estimates

EUR/PLN FORECAST



CLP: Vulnerable to China and copper prices

The USD/CLP has been trading fairly sideways since September after a 14% drop from its February peak, driven by the collapse in copper prices. Our outlook for the USD/CLP is a continuation of the sideways trading, however, with risks firmly tilted to the downside.

Copper is driving the CLP, and a Chinese slowdown is bad news

The significance of the copper price to both the Chilean economy and the CLP is hard to overestimate. As copper accounts for some 50% of exports, the CLP moves closely in tandem with copper prices. China is the main purchaser of Chilean copper, and recent signs of economic slowdown and the trade war leave Chile on the bench.

Further monetary tightening, despite slower growth

Between the summers of 2017 and 2018, Chile was booming thanks to rising copper prices. The economy should continue to expand in 2019, but the best days seem to be behind us due to lower copper prices. Inflation has moderated lately and is close to the 3% target. However, as the economy expands and employment grows, monetary policy will be tightened. Current forward guidance is for policy rates to be hiked from their current 2.75% towards the estimated neutral rate of 4.0-4.5% in the first half of 2020 if data remains supportive. The central bank expects the economy to cope with higher rates and that persistently low interest rates have negative side effects.

Interest rates are not the main CLP driver

Although the Chilean Central Bank is in hiking mode and will probably "out-hike" the Fed and the ECB, we remain cautious on the USD/CLP. Copper prices and downside risks from a Chinese slowdown are much more important drivers for the CLP than interest rates.

Vast amount of USD debt leaves CLP exposed to the Fed

Chile is best among its Latin American peers

There is also the structural risk from a high share of USD-denominated debt. This leaves the CLP vulnerable to Fed tightening as higher rates and a stronger USD make it harder to service USD-denominated debt. Recent changes in Fed rhetoric towards a slower hiking cycle lessen this risk, however. The current account deficit widened in 2018 as copper prices collapsed. Nevertheless, we expect foreigners to continue financing the deficit. Markets are generally favourable to the business-friendly president Sebastiàn Piñera and Chile usually comes out ahead of its Latin American peers in rankings such as the UN's Human Development Index. Thus, a new currency crisis is not on the cards.

By Nick Fisker

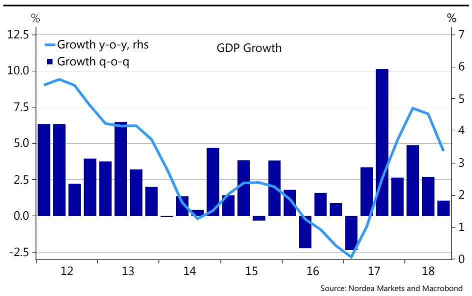
RISK FACTORS

- Chinese slowdown
- Lower copper demand
- High share of USD debt

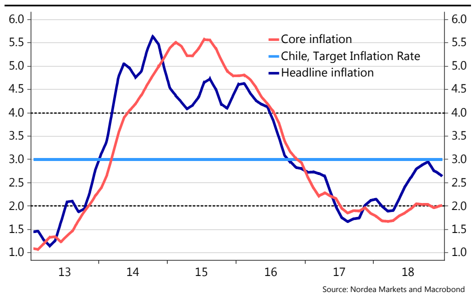
EM TRAFFIC LIGHT

- Risk level: 25% (yellow, unchanged from the previous month)

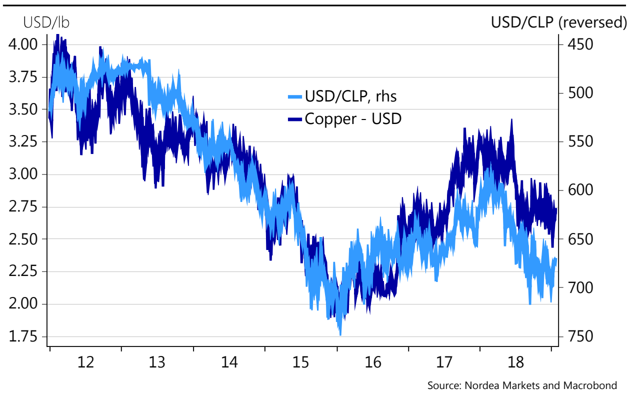
GDP GROWTH IS SLOWING AGAIN



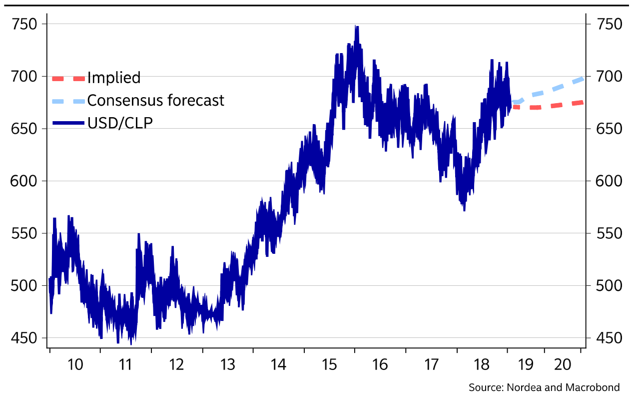
INFLATION WILL DRIVE INTEREST RATES UP



THE PRICE OF COPPER IS THE MAIN DRIVER OF THE CLP



USD/CLP FORECAST



Hedging considerations

CNY vs EUR

Income

Nordea sees downside risk for CNY, ie a high hedge ratio in the short term, using mainly FX forwards as EUR/CNY forward premiums are below EUR/CNY forecasts; a high hedge ratio in the long term, using mainly FX forwards and zero-cost option strategies, eg participating forwards.

Expenses

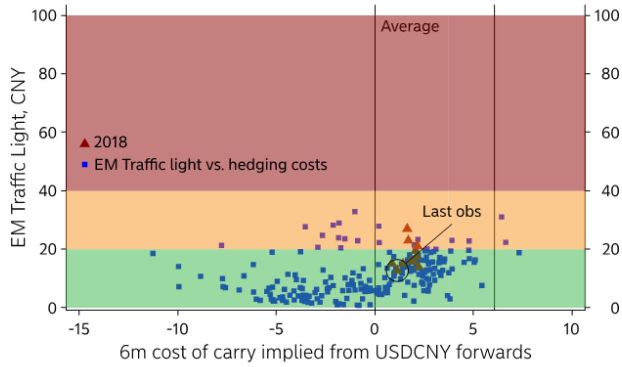
A low hedge ratio in the short term, using FX forwards and zero-cost strategies; a higher hedge ratio in the long term, using mainly FX forwards. Our forecast converges with forwards towards the end of 2020.

NORDEA ESTIMATES

Forecasts	Spot	3M	Mid-2019	End-2019	End-2020
EUR/CNY	7.72	8.12	8.21	8.36	8.45
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)
6.62	0.11	7.86

Source: Bloomberg

RUB vs EUR

Income

A middle hedge ratio in the short term, using mainly FX forwards; a middle to high hedge ratio in the long term, using forwards and zero-cost option strategies.

Expenses

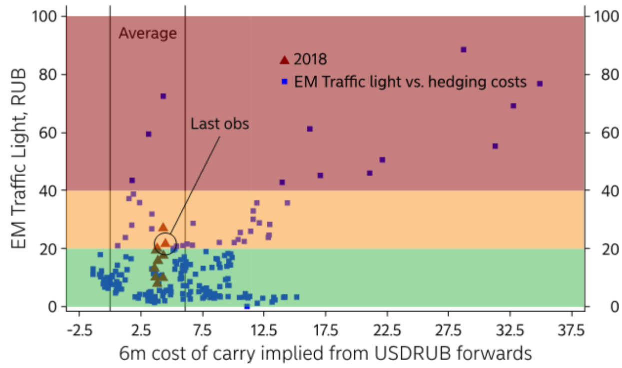
A middle hedge ratio in the short term, using a mix of forwards and zero-cost option strategies, eg risk reversals, benefiting from cheap RUB calls and expensive RUB puts; a high hedge ratio in the long term, using FX forwards and benefiting from high forward premiums.

NORDEA ESTIMATES

Forecasts	Spot	3M	Mid-2019	End-2019	End-2020
EUR/RUB	75.4	77.7	78.5	80.0	85.1
Policy rate	7.75	8.00	8.25	8.25	7.75

Source: Nordea estimates

COST OF CARRY VS RISK LEVEL



Source: Nordea estimates and Macrobond

Implied ATM vol (6M)	25D RR (6M)	Forward (6m)
12.14	3.42	78.39

Source: Bloomberg

PLN vs EUR

Income

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

Expenses

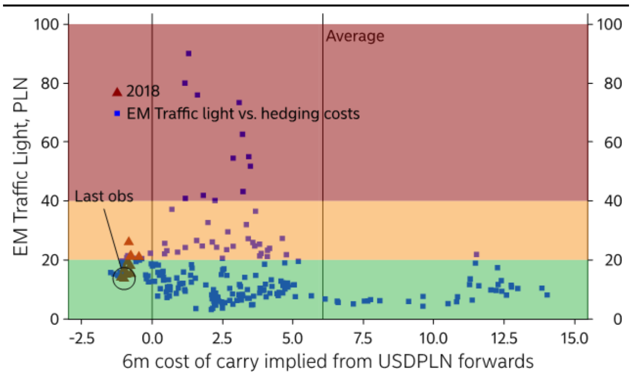
A low to middle hedge ratio in the short term, using a mix of FX forwards and zero-cost option strategies; a high hedge ratio in the long term, using FX forwards, mainly to take advantage of high forward premiums on EUR/PLN

NORDEA ESTIMATES

Forecasts	Spot	3M	Mid-2019	End-2019	End-2020
EUR/PLN	4.29	4.35	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)
4.78	1.21	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
ZAR	South Africa	28%									
BRL	Brazil	26%									
CLP	Chile	25%									
RUB	Russia	23%									
SAR	Saudi Arabia	23%									
HUF	Hungary	21%									
CZK	Czech Republic	20%									
TWD	Taiwan	20%									
BGN	Bulgaria	20%									
COP	Colombia	19%									
ILS	Israel	19%									
PEN	Peru	18%									
RSD	Serbia	17%									
KES	Kenya	16%									
KRW	South Korea	16%									
RON	Romania	16%									
TRY	Turkey	16%									
KZT	Kazakhstan	16%									
HRK	Croatia	15%									
UAH	Ukraine	15%									
MXN	Mexico	14%									
PHP	Philippines	13%									
SGD	Singapore	13%									
ARS	Argentina	12%									
MYR	Malaysia	12%									
PLN	Poland	12%									
CNY	China	12%									
INR	India	10%									
THB	Thailand	10%									
IDR	Indonesia	8%									
HKD	Hong Kong	8%									
NGN	Nigeria	4%									
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 (3 January)
- New signals: To yellow from green, SAR. To green from yellow, BGN, TWD, ILS.
- Biggest changes: The biggest changes involve the HUF (-5 pp) and the SAR (+4 pp).

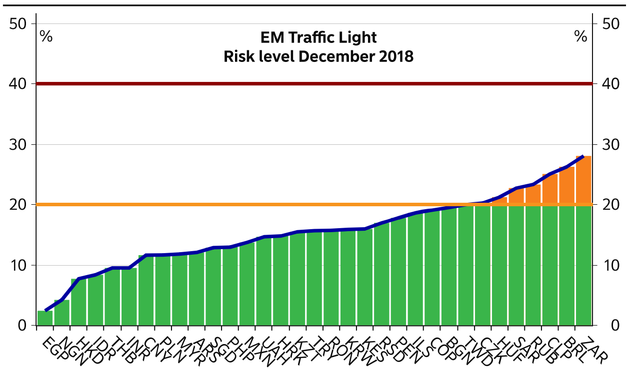
Methodology note:

- EM Traffic Light: Methodology note

Track record:

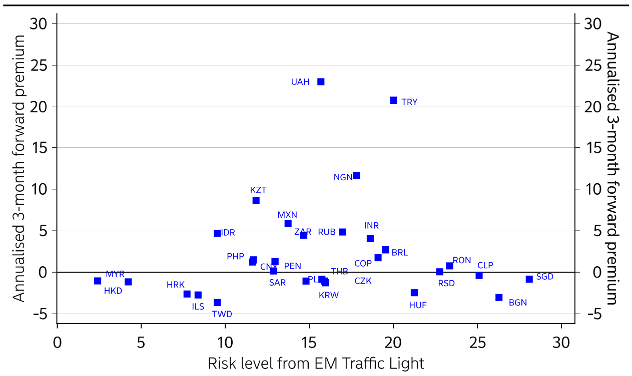
- EM Traffic Light: Track record – December 2018

OVERALL RISK LEVEL



Source: Nordea estimates and Macrobond

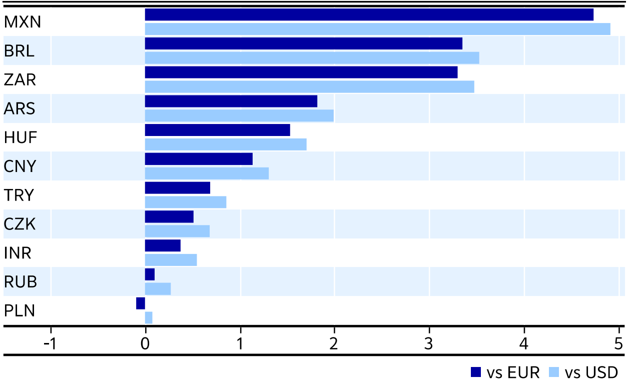
TRAFFIC LIGHT VS COST OF CARRY



Source: Nordea estimates and Macrobond

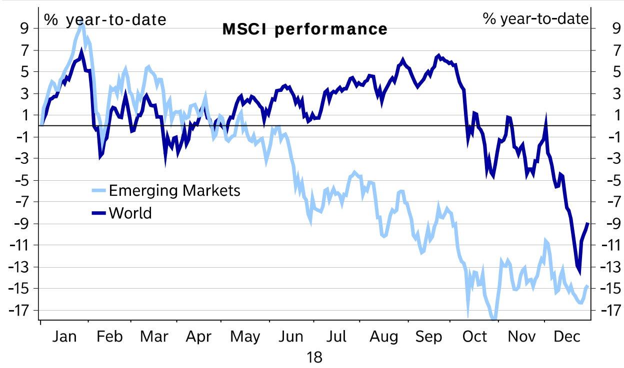
Emerging market performance

YTD EM FX PERFORMANCE



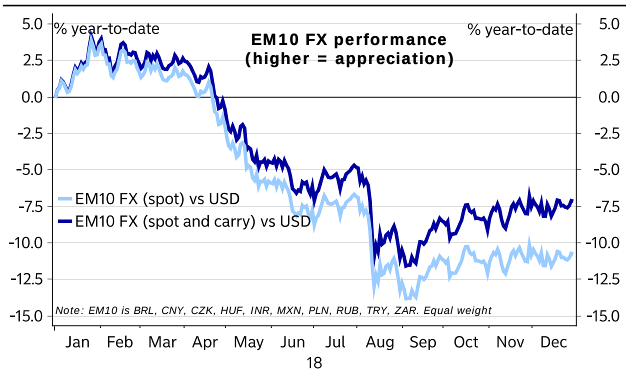
Source: Nordea and Macrobond

EQUITIES PERFORMANCE



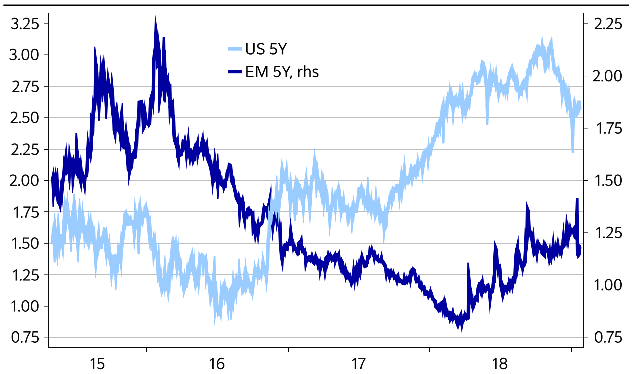
Source: Nordea and Macrobond

FX PERFORMANCE, CARRY ADJUSTED



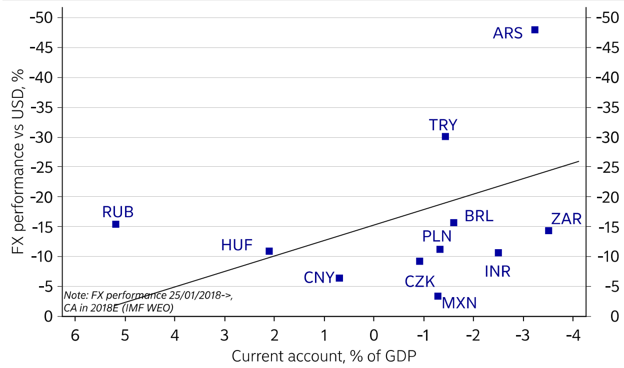
Source: Nordea and Macrobond

SWAPS



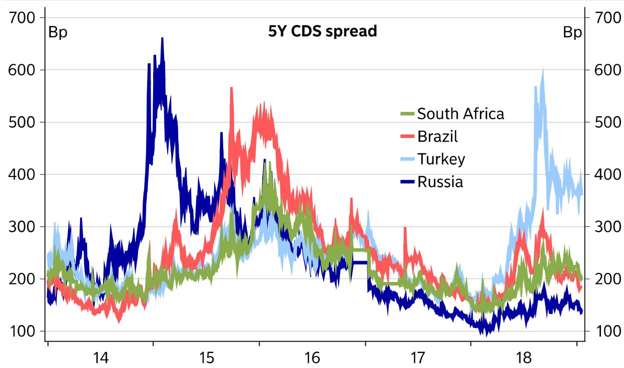
Source: Nordea and Macrobond

FX PERFORMANCE (2018) 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	4.283	4.41	4.58	4.80	5.12
EUR/CNY	7.723	8.12	8.21	8.36	8.45
EUR/CZK	25.59	25.5	25.0	25.0	27.0
EUR/HUF	317.6	318	318	315	320
EUR/INR	80.91	88.2	89.3	91.0	92.2
EUR/PLN	4.287	4.35	4.25	4.15	4.25
EUR/MXN	21.8	23.8	23.8	23.4	24.3
EUR/RUB	75.42	77.7	78.5	80.0	85.1
EUR/TRY	6.065	6.30	6.60	7.00	7.40
EUR/ZAR	15.72	16.8	17.9	19.1	20.5
EUR/USD	1.136	1.16	1.18	1.20	1.25
EUR/SEK	10.25	10.2	10.1	10.0	9.70
EUR/NOK	9.739	9.60	9.50	9.30	9.20
EUR/DKK	7.467	7.47	7.46	7.46	7.46

Source: Nordea estimates

FX FORECASTS AGAINST USD

	Spot	3M	Mid-2019	End-2019	End-2020
USD/BRL	3.77	3.85	3.90	4.00	4.10
USD/CNY	6.80	6.90	6.90	6.80	6.60
USD/CZK	22.52	22.4	21.4	20.3	21.1
USD/HUF	279.46	280	269	256	250
USD/INR	71.20	72.0	70.0	71.0	70.0
USD/MXN	19.19	19.5	20.0	19.0	19.0
USD/PLN	3.77	3.79	3.57	3.37	3.32
USD/RUB	66.37	68.0	69.0	69.5	70.0
USD/TRY	5.34	5.52	5.88	6.10	6.25
USD/ZAR	13.83	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	8.25	8.25	7.75
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	2.00	2.25	2.50
Turkey	24.00	24.00	24.00	20.00	18.00
South Africa	6.75	6.75	6.50	6.50	6.25
Brazil	6.50	6.50	6.75	7.25	7.75
Mexico	8.25	8.25	8.50	8.50	8.00
China	4.35	4.35	4.35	4.35	4.35
India	6.50	6.50	6.50	6.50	6.50

Source: Nordea estimates

Brazil

No changes.

China

We adjust our 3M USD/CNY forecasts to reflect recent movements. The longer-end forecasts are unchanged to show our continued cautious view on the CNY. No change to the policy rate.

Czech Republic

No changes.

Hungary

The HUF has recently rallied on the back of hawkish comments from the MNB. In the coming months, we expect the MNB to begin the normalisation of money market rates by moving them closer to the policy rate. Accordingly, we lift our short-term view of the HUF.

India

We change our USD/INR forecasts to reflect recent movements. Plenty of domestic as well as external factors limit the upside potential in the INR, in our view. These include the brewing banking crisis, concerns about a loss of independence of the RBI and the upcoming election.

Instead of a rate hike of 25 bp, we now expect the RBI to keep rates unchanged against the backdrop of weakening growth momentum and moderate inflation.

Mexico

No changes.

South Africa

No changes.

Poland

No changes.

Russia

We have became more negative in our RUB outlook for 2019 guiding for 69 against the USD by year-end, compared with 65 in our previous forecast. Although the short-term outlook is positive, numerous sanctions- and oil-related risks are on the cards. With our forecast we warn about the fragility of the RUB's current stability.

Rates trajectory was also shifted 25 bp higher as a value-added tax hike may cause inflation expectations to deviate even further from the target. To prevent second-round effects from a VAT hike, CBR is likely to keep a hawkish stance.

Turkey

No changes.

Recent research and profile descriptions

Recent Emerging Markets Research

- China: Another dip in GDP growth (21 January)
- Global implications of a trade war (17 January)
- China: Export pain from the trade war (14 January)
- China monthly: Growth concern is back (7 January)
- Investment activity in Russia: Wind of change (7 January)

Previous Emerging Markets Views

- Emerging Markets View: Fearing the Fed (18 December)
- Emerging Markets View: A bumpy ride in 2019 (22 November)
- Emerging Markets View Casualties of war (25 October)

Latest EM Traffic Light

- EM Traffic Light December 2018 (3 January)

Latest Financial Forecast Update

- Majors Forecasts: Market pricing of the Fed and the ECB is contingent on weak macro data (17 December)

Latest Economic Outlook

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

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