

Emerging Markets Briefer

Green lights for emerging markets get brighter

Emerging markets have started 2019 well due to a sharp U-turn in monetary policy around the globe and an easing of trade war tension between China and the US. The Fed and ECB's change in monetary policy was initiated after the 'blood bath' in markets in December 2018. This shift has redirected flows from higher yield expectations across developed markets to yield hunting in emerging markets. Stabilisation in the USD in early 2019 versus its sharp strengthening in 2018 has been a big positive driving force for emerging markets despite lots of other persistent risky issues: the China-US trade deal has not been agreed yet, keeping intrigue for emerging markets sentiment; (geo)political turbulence is still in place for Hungary, India, Kazakhstan, Poland, Russia, Turkey and Ukraine. Many economic issues should be solved locally in 2019, for instance in Brazil and China.

In line with markets, we remain confident that the China-US trade deal will be agreed later in Q2 19. Any withdrawal from the current 'trade talks journey' by either counterparty would weigh immediately on emerging market sentiment. After US President Donald Trump has dealt with US-China trade, we could see his attention shifting to starting a trade war with the EU. If this happens in May 2019, the biggest losers would be the Central and Eastern European economies. Market expectations are still in favour of Germany's economic pickup in Q2 19, which is fuelling the Czech, Hungarian and Polish economies, but Trump's auto tariff idea would spoil the sentiment overnight.

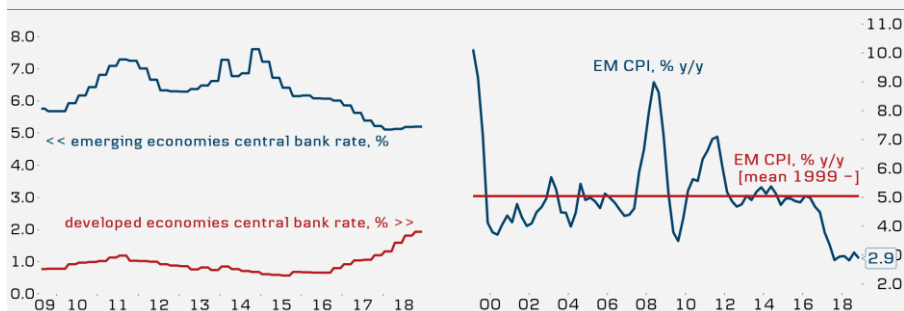
Economic growth in emerging markets is set to slow down less than expected on easing monetary conditions. Given stabilisation in currencies across many emerging markets, accelerated inflation is set to calm down in H2 19, allowing emerging markets' central banks to follow a change of monetary stance in developed countries. We have seen the first shoots of monetary easing in China and India in Q1 19. We also see tentative signs of a bottom in China (PMI, metals), which has eased concerns about a hard landing in the country. Other Asian economies are likely to follow the pattern very soon, while Russia, South Africa, Turkey and Brazil could join the cuts later in 2019, helping economic expansion in particular looking ahead to 2020.

We now see many yellow lights in the emerging market risks heat map becoming green, while the green lights are becoming even greener. However, there is still a risk that a possible new TRY crisis will put the brakes on the appetite for emerging markets in H1 19.

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Not all emerging markets have rushed to hike significantly in 2018 in order to chase central banks in developed economies – all-time low inflation allows emerging markets to return indolently to nominal rate cuts



Source: Bloomberg, Macrobond Financial, Danske Bank

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Poland: new fiscal expansion changes central bank metrics

Macro and political outlook

- The PiS government has announced new fiscal spending initiatives amounting to up to 1.7% of GDP to boost its election chances. The timing and exact size is still uncertain but it is likely to support the economy in both 2019 and 2020. The fiscal expansion plans also come amid some signs of slowing economic momentum. In March, PMI manufacturing fell further to 47.6, significantly below the 50-level benchmark. However, retail sales remain strong and we also expect a rebound in the global economy in Q2, which would support the Polish export sector. Despite the fiscal expansion, the negative carry-over the weak growth number in Q4, we have lowered our real GDP growth forecast for 2019 to 3.6% (from 3.7%) in 2019, but have raised our 2020 forecast to 4.1% (from 3.1%).

Monetary policy outlook

- At the most recent policy meeting in March, the central bank of Poland's monetary policy committee (MPC) raised its growth outlook on the back of fiscal spending, while lowering its inflation projection modestly. Due to fiscal stimulus, the central bank has ruled out policy easing, which might otherwise have been on the cards given the recent weakening economic momentum. Inflation pressure remains remarkably muted; February headline inflation rose slightly from 0.9% in January to 1.2% in February, supported by higher energy prices. The market has priced in a 10bp rate hike in H2 20, which seems fair to us.

FX outlook

- EUR/PLN continues to trade in the 4.28-4.33 range. After spiking at 4.33 in late February, the announcement of the fiscal boost and general good global risk momentum drove EUR/PLN to 4.30. We see the cross trading in this range in the next few months but thereafter we expect the combination of global economic recovery driven by China and a US-China trade deal, as well as the impact of Polish fiscal boost on the economy, to create a tailwind for the PLN in the summer and onwards. As a result, we stick to our forecast of EUR/PLN at 4.29 in 1M, 4.27 in 3M, 4.20 in 6M and 4.18 in 12M.

Risk factors

- Risks are fairly balanced for EUR/PLN near term: Upside risks for the cross include further deterioration in global risk sentiment, a disorderly Brexit and failure of the US and China to strike a trade deal. Downside risks include improvement in risk sentiment, a further rebound in the EUR and strong economic releases in Poland leading to more hawkish repricing of the central bank.

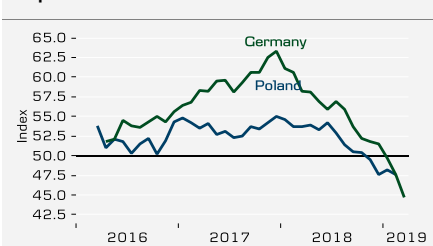
PLN
Credit rating:
S&P: A- (stable)
Currency regime:
Free float (freely convertible)
Inflation target:
2.5% ± 1pp

Macro forecasts					
	2017	2018	2019	2020	2021
GDP (% y/y)	4.8	5.1	3.5	4.1	3.0
GDP deflator (% y/y)	1.9	1.3	1.8	1.9	1.7
CPI (% y/y)	2.0	1.7	1.8	2.5	2.4
Private consumption (% y/y)	4.8	4.6	4.3	4.0	3.2
Fixed investments (% y/y)	3.5	7.7	5.5	4.0	3.2
Unemployment (%)	6.6	7.1	6.5	6.2	6.2
Current account (% of GDP)	-0.6	-0.5	-0.9	-1.1	-1.1
Source: Macrobond Financial, Danske Bank					

Interest rate forecast	
National Bank of Poland (NBP)	
Policy rate	1.50
Next meeting	03/04/2019
Next change	+25bp Q1, 2020
End-2019	1.50
Source: Bloomberg, Danske Bank	

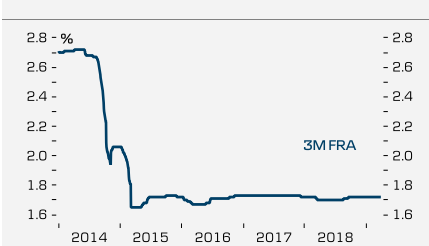
FX forecasts		
EUR/PLN		
	Danske	Forward
28-Mar	4.30	
+3M	4.27	4.31
+6M	4.20	4.33
+12M	4.18	4.37
USD/PLN		
	Danske	Forward
28-Mar	3.83	
+3M	3.78	3.81
+6M	3.65	3.80
+12M	3.57	3.78
Source: Danske Bank		

PMI manufacturing now under the important 50 benchmark



Source: Markit, Macrobond Financial, Danske Bank

Market has more or less priced out any hikes until end-2020



Source: Macrobond Financial



Hungary: trade war fragility is high

Macro outlook

- Economic growth climbed to a 19-year high of 5.1% y/y in Q4 18. Manufacturing PMI remains firmly above 50.0, despite plunging figures across large European economies. Industrial production growth remained solid throughout Q1 19, as the US has not targeted the EU with any new tariffs, yet. The current stance on monetary policy remains beneficial for further economic expansion in 2019 and 2020, albeit on a lower path.
- Hungary continues to enjoy strong private consumption, supported by a near all-time low unemployment rate and double-digit gross wage growth. However, consumer confidence has been shaky since summer 2018, signalling a slowdown in private consumption in 2019.
- The standoff between the EU and Hungary's Prime Minister Viktor Orbán on his domestic policy was not critical in Q1 19. Yet, as the conservative alliance has suspended Orbán's party Fidesz, we could see more dividing lines appearing between Budapest and Brussels. Any further escalation could result in the introduction of more sanctions by the EU against Hungary and weigh on the HUF.

Monetary policy outlook

- In March 2019, the Hungarian central bank (MNB) kept its key rate unchanged, hiking the overnight deposit rate by 10bp to -0.05% in order to respond to markets' hawkish expectations. Yet, given the unchanged key rate and the MNB's (dovish) reaction to the ECB's increased softness, the depo rate hike was not a game changer for the HUF. However, headline inflation remains above 3.0% and wage inflation is in double-digit territory. We expect loose monetary policy to continue in Q2 19, while moderate tightening could start immediately, as we hear the ECB is ready to implement more hawkish measures, such as tiered rate. Thus, the MNB could still hike in Q2 19. We do not exclude further implicit tightening through liquidity tools.

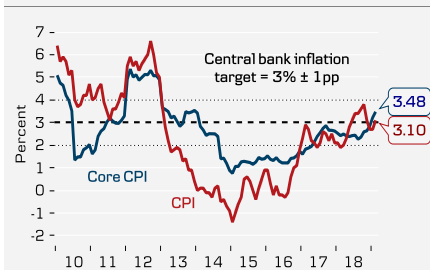
FX outlook

- While EUR weakness on a soft ECB could shake the HUF, we still see it as stronger short, medium and long term, while adjusting the pair's forecast according to the current EUR exchange rate. We see EUR/HUF at 313 in 3M, at 310 in 6M and 305.0 in 12M.

Risk factors

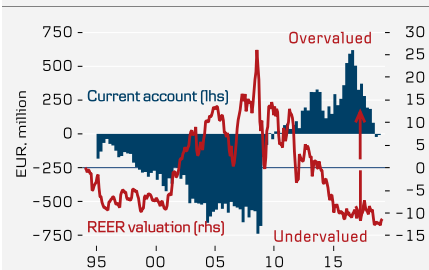
- Clear upside risks to our EUR/HUF forecast are an unleashed trade war between the EU and US and a significant slowdown of the German economy.

Inflation has stayed above the MNB's target, which could cause further monetary tightening



Source: MNB, Macrobond Financial, Danske Bank

Sustainable current account surplus set to support HUF long term



Source: Macrobond Financial, Danske Bank

HUF

Credit rating:

S&P: 'BBB' (stable)

Currency regime:

Free float (freely convertible)

Inflation target:

3% ± 1pp

Macro forecasts

	2017	2018E	2019E	2020E
Real GDP (% y/y)	4.2	4.9	3.4	2.6
CPI (% average)	2.3	2.9	3.3	3.2
Unemployment (%)	3.8	3.6	3.5	3.6
Current account (% of)	2.8	1.3	1.0	1.9

Source: Bloomberg, Danske Bank

Interest rate forecast

Hungarian Central Bank (MNB)	
Policy rate	0.90
Next meeting	30/04/2019
Next change	+25bp H2 19
End-2019	1.15

Source: Bloomberg, Danske Bank

FX forecasts

	EUR/HUF	
	Danske	Forward
28-Mar	320.5	
+3M	313.0	320.4
+6M	310.0	320.8
+12M	305.0	321.8

	USD/HUF	
	Danske	Forward
28-Mar	285.26	
+3M	276.99	283.27
+6M	269.57	281.48
+12M	260.68	278.28

Source: Danske Bank

Czech Republic – shifting into lower gear

Macro and political outlook

- Following economic momentum shifting into lower gear in H2 18, with annual growth at 3.0% in 2018, the Czech economy continues to face headwinds in 2019. The slowdown in China and, notably, Germany has left its mark on Czech exports, becoming a drag on growth. PMI manufacturing has fallen into contractionary territory (48.6) and the industrial sector had a tough start to 2019. In contrast, growth remains underpinned by solid domestic demand. Strong real wage growth (6.9% in Q4 18) and a tight labour market continue to support household consumption and capacity-enhancing capital investments. Despite the slowdown in foreign demand, we expect these drivers to persist in 2019 and look for annual GDP growth close to potential, at 2.9% in 2018 and 2019 (3.0% previously).

Monetary policy outlook

- At the March meeting, the Czech National Bank (CNB) decided to keep its policy rate steady at 1.75%. Elevated inflation pressures (2.7% in February), a strong labour market and a still weak CZK exchange rate should prompt CNB to continue its hiking cycle in 2019. However in light of the abundant external uncertainties (Brexit, US car tariffs, eurozone slowdown), we expect CNB to adopt a cautious stance and wait until June or August before delivering its next interest rate hike. In total, we expect two interest rate rises this year, meaning the policy rate remaining below its long-run neutral level (estimated at c.3.0% by the CNB). However, if core inflation (at 3.0% in February) remains elevated and CZK continues to trade more weakly than projected in 2019, we see scope for CNB to speed up monetary tightening through the interest rate channel.

FX outlook

- We expect EUR/CZK to continue range-trading around current levels in the near term (25.70 in 1M and 25.60 in 3M), as adverse global risk sentiment maintains the upper hand over solid Czech domestic fundamentals. However, with its cyclical outperformance and widening interest rate differential vis-à-vis the euro area, we expect more CZK appreciation to be in store once CNB resumes hiking, especially as markets have priced in only one 10bp hike for 2019. However, in light of the weaker growth outlook, we lift our long-term forecasts slightly to 25.2 in 6M and 25.0 in 12M (25.1 and 24.8, previously).

Risk factors

- Risk to our EUR/CZK forecasts is skewed on the upside due to spillovers from the current adverse global risk sentiment. One of the most prominent risks to the growth outlook is possible US car tariffs, as Czech manufacturers are integral to Europe's car industry.

CZK

Credit rating:

S&P: 'AA-' (stable)

Currency regime:

Managed float

Inflation target:

2% +/-1pp

Macro forecasts

	2017	2018	2019	2020
GDP (% y/y)	4.5	3.0	2.9	2.9
CPI (% y/y)	2.5	2.1	2.2	2.0
Private consumption (% y/y)	4.4	3.1	1.9	2.9
Fixed investments (% y/y)	4.1	10.1	3.2	2.8
Unemployment (%)	4.2	3.2	2.9	2.8
Current account (% of GDP)	1.1	0.5	0.4	0.3

Source: Macrobond Financial, Danske Bank

Interest rate forecast

Czech National Bank (CNB)	
Policy rate	1.75
Next meeting	02/05/2019
Next change	+25bp H2, 2019
End-2019	2.25

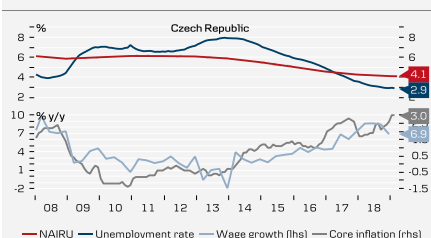
Source: Danske Bank

FX forecasts

EUR/CZK		
	Danske	Forward
28-Mar	25.81	
+3M	25.60	25.93
+6M	25.20	26.05
+12M	25.00	26.25
USD/CZK		
	Danske	Forward
28-Mar	22.97	
+3M	22.65	22.92
+6M	21.91	22.86
+12M	21.37	22.70

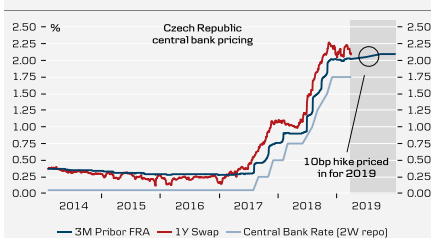
Source: Danske Bank

Core inflation pressures remain elevated due to tight labour market



Source: Macrobond Financial, Danske Bank

Market is too complacent about CNB hikes in 2019



Source: Bloomberg, Macrobond Financial, Danske Bank

Russia: solid macro amid external risks

Macro outlook

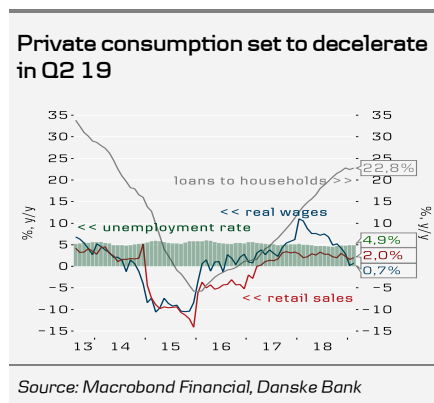
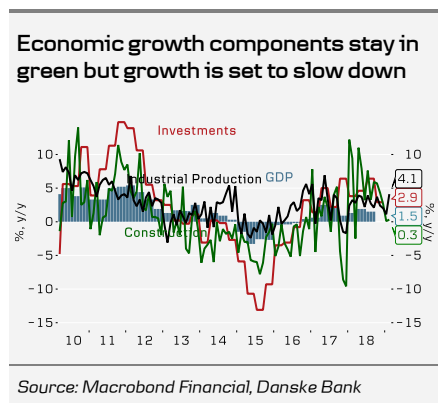
- Russia's statistical service Rosstat has broadly surprised analysts and economists by revising 2018 construction data and reporting a sudden acceleration of the economy in 2018. According to recent data, 2018 GDP expanded 2.3% y/y versus 1.6% y/y growth in 2017. Due to relatively tight monetary conditions and the weak start to 2019 combined with slow growth in fixed investments, we continue to expect Russia's 2019 GDP expansion at 1.3% y/y, accelerating to 1.8% y/y in 2020 versus 1.4% y/y our previous projection. We expect falling rates in late 2019 and progress in state investment projects to be major drivers of a rebound in economic activity.
- Private consumption expansion halted in Q1 19 due to accelerated inflation, deceleration of real wage growth and increased VAT, which activated consumers before the hike. We expect the current weakness to continue in Q2 19, improving in late 2019.
- We see that there is still an elevated probability that the so-called 'bill from hell' in the US will become law, sanctioning buyers of Russian sovereign debt and imposing sanctions on selected banks, although updates of the bill are possible. Anti-Russia sanctions by the US regarding the countries' standoff in Venezuela are also likely.

FX and monetary policy outlook

- In March 2019, Russia's central bank (CBR) kept the key rate unchanged at 7.75% as we expected, in line with Bloomberg and Reuters consensus. There was a clear shift in the CBR's tonality, indicating that the first cuts are possible in 2019. We expect two cuts in H2 19, whether or not the current global and geopolitical setup holds.
- We see the current RUB positivism as temporary, as we believe Donald Trump's administration is likely to introduce soon the second stage of anti-Russia sanctions linked to the Sergei Skripal case.

Risk factors

- Further geopolitical escalation, such as a worsening standoff with Ukraine, is a serious short- to medium-term risk for the RUB, Russian stocks and government debt. Upside risks come from an increasing oil price and a more dovish than expected central bank.



RUB

Credit rating:
S&P: 'BBB-' (stable)

Currency regime:
Free float

Inflation target:
4.0%

Macro forecasts

	2017	2018E	2019E	2020E
Real GDP (% y/y)	1.6	2.3	1.3	1.8
Private consumption, real (% y/y)	3.3	2.4	2.0	3.0
Fixed investments, real (% y/y)	7.5	3.2	2.4	3.8
Brent oil price (USD, average, futures)	54.8	72.4	62.5	60.9
Brent oil price (% y/y)	21.4	32.2	-13.7	-2.6
Exports in USD (average % y/y)	25.1	32.0	18.0	20.0
Imports in USD (average % y/y)	23.8	11.0	2.0	3.2
MosPrime 3 months rate (% average)	9.34	7.75	8.35	8.00
CPI (% y/y)	3.7	2.9	4.6	3.8
Unemployment (%)	5.2	4.8	4.9	5.0
Budget balance (% of GDP)	-1.7	2.6	1.9	1.0
Current account (% of GDP)	2.1	7.1	5.2	4.0

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

Interest rate forecast

Bank of Russia (CBR)	
Policy rate	7.75
Next meeting	26/04/2019
Next change	-25bp Q3, 2019
End-2019	7.25

Source: Bloomberg, Danske Bank

FX forecasts

EUR/RUB		
	Danske	Forward
28-Mar	73.04	
+3M	76.95	74.34
+6M	80.50	75.83
+12M	83.30	78.70
USD/RUB		
	Danske	Forward
28-Mar	65.01	
+3M	68.10	65.72
+6M	70.00	66.54
+12M	71.20	68.07

Source: Danske Bank

Turkey: dealing with recession

Macro outlook

- The Turkish economy has entered recession. Q4 18 GDP shrank 2.4% q/q versus -1.6% q/q in Q3 18, falling -3.0% y/y (we expected -2.5% y/y in line with Bloomberg consensus) versus +1.8% y/y (revised) in Q3 18. A big uncertainty now is how the country's authorities (President Recep Erdoğan and the central bank) will react to this after the local election held on 31 March.
- Consumer and business sentiment improved in Q1 19 after a sharp dive in Q4 18. Tourism expansion is likely to support further growth in 2019, as foreign arrivals have been constantly expanding since 2017 and the TRY rate attracts foreigners.
- We cut our 2019 GDP growth forecast to 0.3% y/y (previously 1.1% y/y), seeing downside risks for our forecasts on the possibility of a new TRY crisis risk and continued monetary hawkishness. We keep our 2020 GDP forecast unchanged at 2.1% y/y.

FX and monetary policy outlook

- Turkey's central bank (TCMB) stayed solid at its latest monetary policy meetings, keeping the one-week repo rate at 24.00%. As inflation started decelerating, falling to 19.7% y/y in February 2019, down from its 15-year high of 25.2% in October 2018, the TCMB's tone became more dovish. We expect the TCMB to start making cautious cuts in Q2 19, keeping real rates in positive territory though.
- The TRY saw dramatic gyrations in late Q1 19, as several factors combined to create 'a perfect storm'. The unexpected decline in Turkey's FX reserves (USD-6.3bn over two weeks) and outstanding USD3.8bn external debt redemptions sent the TRY 6.6% lower versus the USD within a trading session and the TCMB suspended one-week TRY repo auctions in order to stop the TRY's freefall. Given decelerating inflation, markets have become more confident (as have we) about the TCMB being closer to its first rate cut. This has added pressure on the TRY.

Risk factors

- Downside risks to our TRY forecasts are both geopolitical and macro related. The confrontation with the US could escalate, e.g. on the S-400 anti-aircraft weapon system deliveries by Russia. The TCMB's monetary easing, driven by political pressure and worsening macro factors, also presents a downside risk to our TRY forecasts. The Fed's monetary dovishness is a positive factor for the TRY's path.

TRY

Credit rating:

S&P: 'B+' (stable)

Currency regime:

Free float

Inflation target:

5.0% year-end 2019-20

Macro forecasts

	2017	2018E	2019E	2020E
Real GDP (% y/y)	7.4	2.7	0.3	2.1
Private consumption, real	6.1	1.7	0.0	2.0
Fixed investments, real (%)	7.0	0.0	0.6	2.3
CPI (% average)	11.1	16.2	15.0	9.8
Unemployment (%)	10.9	11.0	12.2	11.0
Current account (% of)	-5.6	-4.0	-3.1	-3.0

Source: Bloomberg, Danske Bank

Interest rate forecasts

C.B. of the Republic of Turkey (TCMB)	
Policy rate	24.00
Next meeting	25/04/2019
Next change	-100bp Q2, 2019
End-2019	21.00

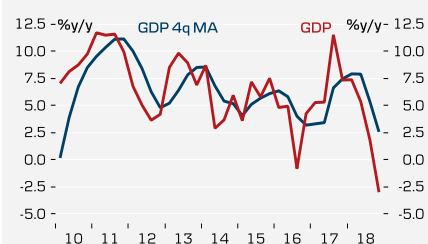
Source: Bloomberg, Danske Bank

FX forecasts

	EUR/TRY	
	Danske	Forward
28-Mar	6.27	
+3M	6.67	6.84
+6M	7.02	7.28
+12M	7.37	8.00
	USD/TRY	
	Danske	Forward
28-Mar	5.59	
+3M	5.90	6.05
+6M	6.10	6.39
+12M	6.30	6.92

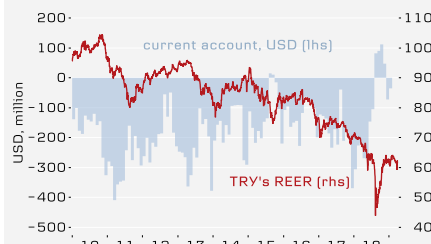
Source: Danske Bank

Turkey's GDP growth faces a sharp slowdown on monetary tightening



Source: Macrobond Financial, Danske Bank

Current account's historical surplus was temporary



Source: Macrobond Financial, Danske Bank

South Africa: under-par-economic performance

Macro outlook

- The South African economy continues to muddle along experiencing very modest economic growth. In Q4, real GDP grew by 1.1% y/y, down from 1.3% in the previous quarter. The leading indicator has fallen recently and PMI manufacturing remains well below the 50-level benchmark, while manufacturing production is also weak. Consumers are less optimistic than before, with growth in retail sales falling. In addition, important export markets such as China and the euro area are still growing slowly. However, looking ahead, we expect external demand to improve, with China (and to some extent the euro area) picking up speed, while we think domestic demand will remain subdued. We keep our forecasts more or less unchanged for real GDP growth to 1.6% in 2019 and 1.8% in 2020.

Monetary policy outlook

- Headline inflation declined to 4.0% in February, below the mid-range of the central bank's inflation band. A decrease in energy prices has driven the fall, while core inflation remains around 4.5%. The relative stability of the ZAR has also contributed to tempering inflation pressure so far in 2019. At its March meeting, the South African Reserve Bank (SARB) held steady its repurchase rate at 6.75% in a unanimous decision. At the meeting, SARB lowered its growth forecast for the economy. Given the continued stability of the ZAR and our oil price forecast, we think inflation pressures will continue to remain modest, so see SARB lowering its policy rate at its June meeting.

FX outlook

- Following a strong start to 2019, the ZAR has been weakening recently, with concerns about the global, as well as the South African, economy. However, we see the improvement in China's economy and prospects for a trade deal between China and the US as supportive for the ZAR. SARB still views the ZAR as undervalued at this level and we agree with this view. With the continued dovishness from the big global central banks supporting hunt for yield, we see relatively good prospects for the ZAR. As a result, our USD/ZAR forecast is 14.50 in 3M, 14.50 in 6M and 14.25 in 12M, as trade concerns ease and the USD weakens.

Risks

- The risk to our USD/ZAR forecast is skewed to the upside given elections in May 2019 and the looming downgrade from Moody's to junk status.

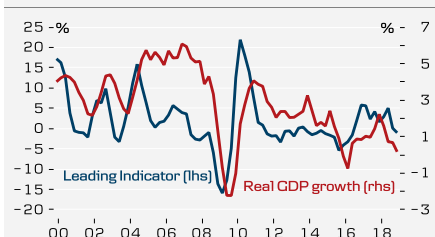
ZAR
Credit rating:
S&P: BB (stable)
Currency regime:
Free float (freely convertible)
Inflation target:
3-6%

Macro forecasts					
	2017	2018	2019	2020	2021
GDP (% y/y)	1.4	0.8	1.5	1.8	2.2
GDP deflator (% y/y)	5.3	3.9	4.7	4.7	4.8
CPI (% y/y)	5.2	4.5	4.5	4.5	4.5
Private consumption (% y/y)	2.1	1.7	0.8	1.6	1.9
Fixed investments (% y/y)	1.0	-1.3	0.2	1.5	1.9
Unemployment (%)	26.7	27.1	27.4	27.7	27.8
Current account (% of GDP)	-2.4	-3.4	-3.6	-4.0	-3.5
<i>Source: Bloomberg, Danske Bank</i>					

Interest rate forecast	
South African Reserve Bank (SARB)	
Policy rate	6.75
Next meeting	23/05/2019
Next change	-25bp H1, 2019
End-2019	6.25
<i>Source: Bloomberg, Danske Bank</i>	

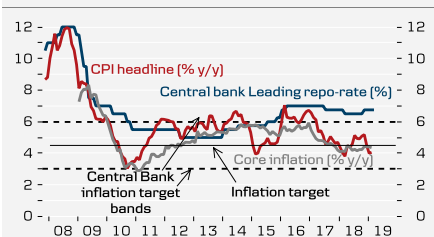
FX forecasts		
EUR/ZAR		
	Danske	Forward
28-Mar	16.43	
+3M	16.39	16.66
+6M	16.68	16.97
+12M	16.67	17.62
USD/ZAR		
	Danske	Forward
28-Mar	14.62	
+3M	14.50	14.73
+6M	14.50	14.89
+12M	14.25	15.24
<i>Source: Danske Bank</i>		

Leading indicator points to modest growth



Source: Macrobond Financial

A decline in inflation is set to allow SARB to lower the policy rate



Source: Macrobond Financial



Brazil: a clear trade war winner

Macro outlook

- Brazil's economic growth slowed to 1.1% y/y in Q4 18, from a 1.3% y/y expansion in Q3 18, but major economic indicators expanded. In USD terms, Brazil's exports have declined slightly over the last few months of 2018 but were still significantly higher than in 2017.
- We continue to expect GDP to expand by 2.0% in 2019 and 2.6% in 2020, now seeing upside risks for our projections as the central bank could start monetary easing soon and the country has been expanding exports to the US, conquering some niches in foreign trade left by China.
- The start of the presidential term of Jair Bolsonaro, combined with global monetary easing, caused a rally in the BRL and other Brazilian assets in Q1 19. Yet, markets have calmed down and are looking further into 2019. The key question for Brazil's macro economy remains pension reform proposal, which is crucial for fixing the country's bleeding fiscal side.
- The increase in Brazil's public net debt as a percentage of GDP hit another 15-year high in January (54.0%). The current increase should be curbed in 2019 if fiscal-side reforms are implemented, giving space for appreciation of the BRL.

Monetary policy outlook

- Brazil's central bank (BCB) has got a new governor in Roberto Campos Neto in 2019. Campos Neto has already fulfilled markets' expectations on continuity in the BCB's policies, signalling a cautious stance, while pointing to economic slowdown. As inflation remains below the central bank's target and economic growth remains moderate, we believe the chances are growing that the BCB will deliver a 25bp cut in Q2 19.

FX outlook

- The BRL got support from Bolsonaro's start as the new President, recoiling back on fears of the US curve inversion. In our view, long-term prospects for the BRL will depend largely on the progress of reforms influenced by Bolsonaro.
- Our USD/BRL projections assume the pension reform proposal will go through and Brazil's economy will grow faster on rate cuts. Rapid approval of reforms by the government and further improving emerging market sentiment in 2019 on global monetary easing and the long-expected China-US trade deal would be BRL positive.

BRL

Credit rating:

S&P: BB- (stable)

Currency regime:

Free float (non-convertible)

Inflation target:

4.25% ± 1.5pp in 2019

4.0% ± 1.5pp in 2020

3.75% ± 1.5pp in 2021

Macro forecasts

	2017	2018E	2019E	2020E
Real GDP (% y/y)	1.1	1.1	2.0	2.6
Private consumption, real	1.3	1.9	2.3	3.0
Fixed investments, real (%)	0.0	2.5	3.2	4.5
CPI (% average)	3.50	3.7	3.7	4.0
Unemployment (%)	12.8	12.3	11.2	10.6
Current account (% of)	-0.4	-0.7	-0.4	-0.2

Source: Bloomberg, Danske Bank

Interest rate forecasts

Central Bank of Brazil (BCB)	
Policy rate	6.50
Next meeting	08/05/2019
Next change	-25bp Q2 19
End-2019	6.00

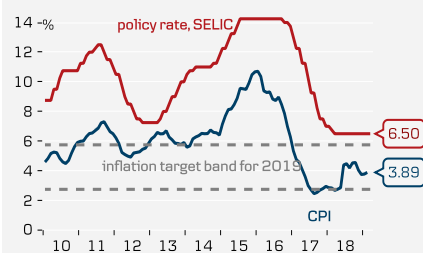
Source: Bloomberg, Danske Bank

FX forecasts

	EUR/BRL	
	Danske	Forward
28-Mar	4.46	
+3M	4.12	4.45
+6M	4.08	4.52
+12M	3.86	4.65
	USD/BRL	
	Danske	Forward
28-Mar	3.97	
+3M	3.65	3.93
+6M	3.55	3.97
+12M	3.30	4.02

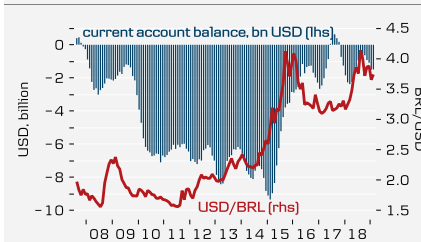
Source: Danske Bank

Central bank is set to stay on hold in H1 19, while the risk of a hike rises as global monetary tightening cycle is on



Source: Macrobond Financial, Danske Bank

Shrinking current account deficit supports the BRL long-term



Source: Macrobond Financial, Danske Bank

China: early signs of a growth bottom

Macro outlook

- **The Chinese economy slowed in 2018**, as the trade war weighed on exports as well as private investments and household consumption. The battle to fight China's debt mountain and rise in shadow finance also weighed on activity. In particular, the squeeze on shadow finance has hurt many private companies. The construction sector has held up well, as inventories of apartments are low and monetary easing supports home sales.
- **We believe the Chinese economy bottomed in Q1 and expect it to recover gradually over 2019.** We are already seeing signs of a bottom, with a pickup in metal prices and an increase in Caixin PMI. We look for the US and China to reach a trade deal in coming months, as both sides are keen on ending the trade war. Trump wants to secure gains for voters in US swing states as part of the deal as he eyes the 2020 Presidential election campaign. China also wants to make a deal, as the trade war is weighing on the economy, which has forced the government to scale back on deleveraging and fight on long-term financial risks. A trade deal in Q2 should remove a sharp headwind for the Chinese economy (see also *China Outlook – Short-term pain, long-term gain*, 13 December).
- **Fiscal and monetary policy has eased over the past year** and we expect the effect of this to kick in more forcefully in 2019.
- **In the World Bank Doing Business 2019 Survey, China jumped 30 places** up the list to number 46 of 190 countries. China was number three on the list of biggest improvers. Contrary to popular belief, China is taking steps to reform and nurture private entrepreneurship. It also puts great focus on technology investments and education. Both factors are key to continuing an increase in productivity and prosperity. The opening up for investment has also gained pace on the back of pressure from US President Trump.

Monetary policy outlook

- The People's Bank of China (PBoC) has **cut the Reserve Requirement Ratio four times over the past year** and we look for a further cut in Q2. The PBoC has also taken targeted lending measures towards the private sector and we look for more of this in coming quarters.

FX outlook

- A halt to CNY depreciation is set to be part of a trade deal. With the Fed on hold and the Chinese economy set to recover, we expect to see a further gradual appreciation of the CNY.
- The USD is also set to weaken on a broad basis, which tends to strengthen the CNY versus the USD.

CNY

Credit rating:

S&P: A+ (stable)

Currency regime:

Managed exchange rate versus basket of currencies

Inflation target:

3.0% for 2019

Interest rate forecast

People's Bank of China (PBOC)	
Policy rate	4.35
Next meeting	No regular meetings
Next change	- Unchanged 2019
End-2019	4.35

Source: Danske Bank

Macro forecasts

	GDP		Inflation	
	Danske	Consensus	Danske	Consensus
2017	6,8	6,8	1,6	1,6
2018	6,6	6,6	2,1	2,1
2019	6,2	6,2	1,9	2,1
2020	6,2	6,0	2,2	2,2

Source: Macrobond Financial Danske Bank

FX forecasts

	EUR/CNY	
	Danske	Forward
28-Mar	7.57	
+3M	7.57	7.64
+6M	7.65	7.71
+12M	7.72	7.85

	USD/CNY	
	Danske	Forward
28-Mar	6.74	
+3M	6.70	6.75
+6M	6.65	6.77
+12M	6.60	6.79

Source: Danske Bank

The tide has turned for USD/CNY



Source: Macrobond Financial, Bloomberg

Metal markets point to Chinese recovery



Source: Macrobond Financial, PBoC, Markit



India: Modi set to secure reform path

Macro outlook

- **GDP growth eased to 6.6% in Q4 18, from 8% growth at the start of 2018.** Investments and exports weakened and import growth (nominal) turned negative early in 2019.
- **However, we look for a moderate increase in activity in 2019.** We expect a gradual recovery of the global economy from the current weakness and both monetary and fiscal policy in India have eased. We look for more monetary easing in coming quarters, as inflation has fallen further below the 4% target.
- **India is due to go to the polls in April.** The election is scheduled to take place from 11 April to 19 May over seven phases. The polls currently point to a re-election of Narendra’s Modi government (see [link](#) for overview of polls). This should secure a continuation of the reform path. **India has moved forward on reform** under Modi’s leadership of the BJP party and in its article IV Consultation report in August, the IMF stated that ‘Stability-oriented macroeconomic policies and progress on structural reforms continue to bear fruit’. The IMF commended India ‘for the important and wide-ranging reforms’.
- **Following turmoil in 2018, financial markets have calmed down.** Indian equity markets have rallied and bond yields have moved lower. Better polls for Modi, a decline in inflation and monetary easing support India’s markets.
- **On a slightly concerning note, the current account balance has deteriorated again** to around -3% of GDP from around -1% in 2015-16. The government expects the fiscal balance to stay unchanged at -3.4% of GDP but this is based on quite optimistic assumptions for tax revenue and some accounting measures that postpone some expenses. However, we expect some improvement following the election.

Monetary policy outlook

- **The Reserve Bank of India (RBI) cut rates by 25bp in February to 6.25%** on the back of lower inflation (see chart). Although the low inflation is due mainly to a decline in food price inflation, the RBI has been willing to look through this. Therefore, we expect two more cuts of 25bp for the rest of the year to underpin the economy.

FX outlook

- The INR strengthened further in March on the back of better polls for Modi and a more dovish monetary policy from the Fed. We revise our 3M forecast for USD/INR from 73 to 69 (close to the current level). On a 12M horizon, we expect USD/INR to fall a bit further towards 67 on a dovish Fed trajectory and a moderate recovery in India.

INR

Credit rating:

S&P: BBB- (stable)

Currency regime:

Free float

Inflation target:

4% with +/-2% range

Macro forecasts

	GDP		Inflation	
	Danske Bank	IMF	Danske Bank	IMF
2018	7.3	7.3	4.7	4.7
2019	7.3	7.5	3.5	4.9
2020	7.5	7.7	4.5	4.6

Source: Macrobond Financial, IMF, Danske Bank

Interest rate forecast

Reserve Bank of India (RBI)	
Policy rate	6.25
Next meeting	01/08/2018
Next change	Q2 2019
End-2019	7.00

Source: RBI, Danske Bank

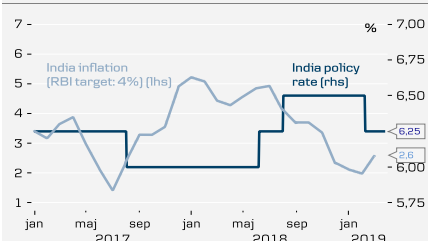
FX forecasts

	EUR/INR	
	Danske	Forward
28-Mar	77.80	
+3M	77.97	78.76
+6M	78.20	80.18
+12M	78.39	82.88

	USD/INR	
	Danske	Forward
28-Mar	69.25	
+3M	69.00	69.63
+6M	68.00	70.36
+12M	67.00	71.68

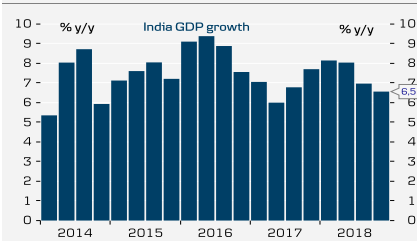
Source: Danske Bank

Falling inflation set to pave way for more monetary easing



Source: Macrobond Financial, Danske Bank

GDP growth hovers around 7-8%



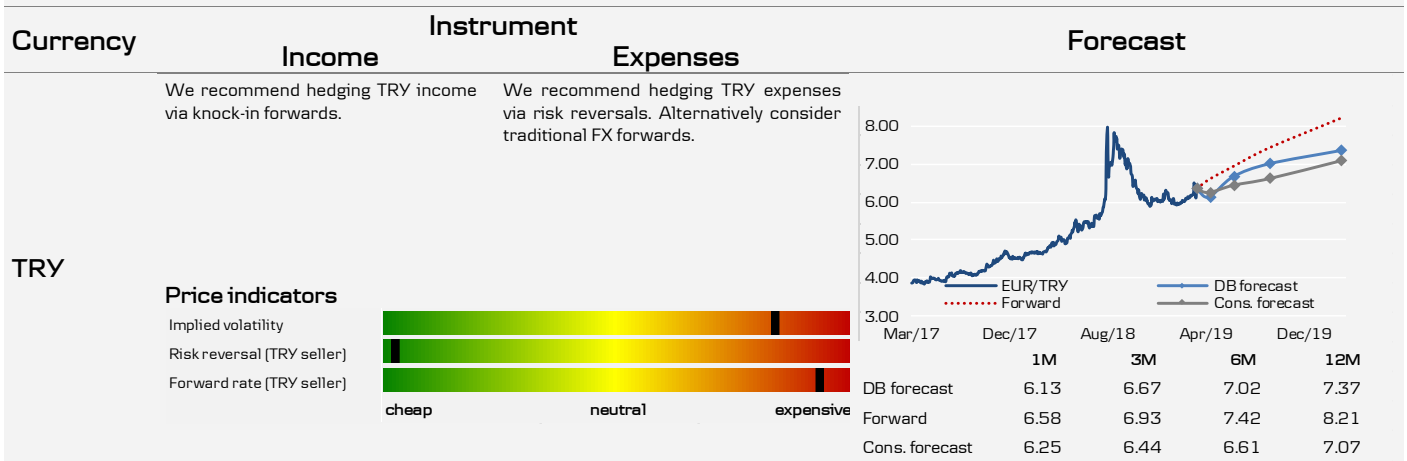
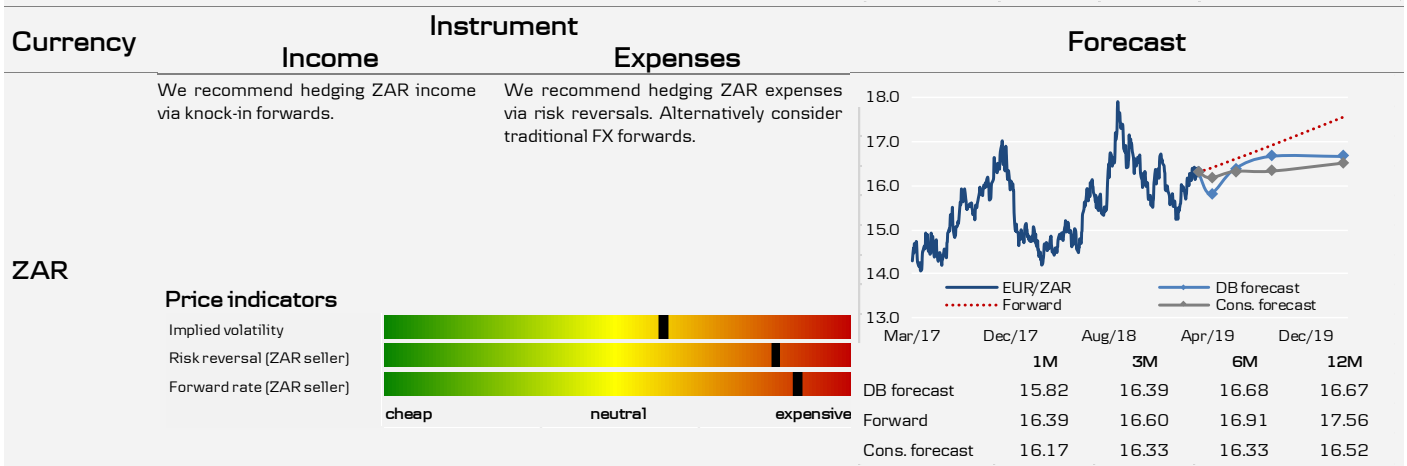
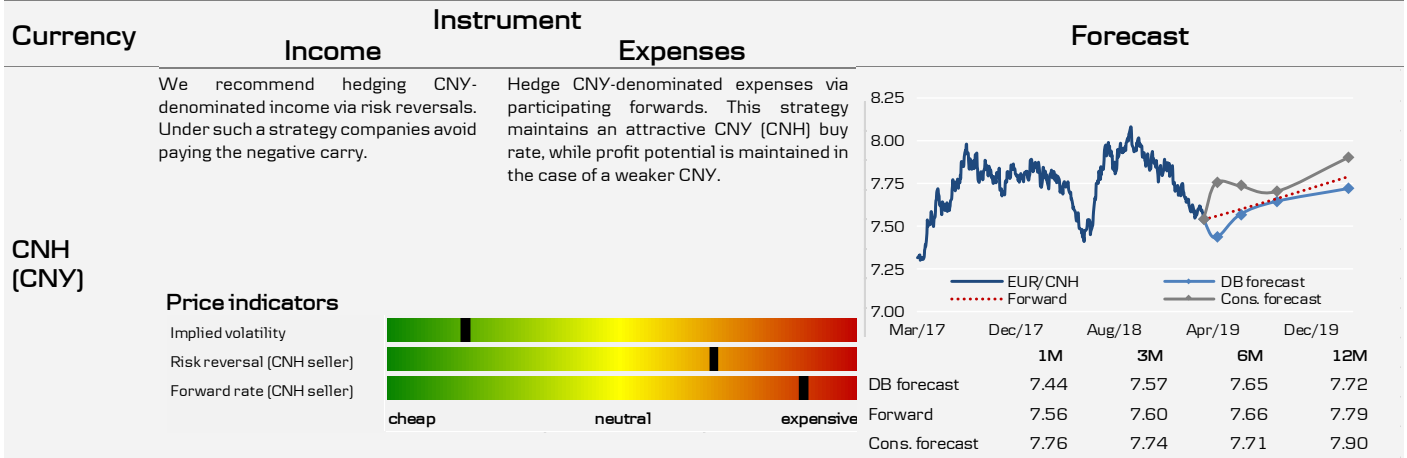
Source: Macrobond Financial, Danske Bank

Danske Bank's hedging recommendations: EMEA

Currency	Income	Instrument	Expenses	Forecast																
PLN	We recommend hedging PLN income via knock-in forwards.	Instrument	We recommend hedging PLN expenses via risk reversals in order to take advantage of the cheap option skew. Alternatively consider traditional FX forwards.																	
	Price indicators																			
	Implied volatility		<table border="1"> <thead> <tr> <th>1M</th> <th>3M</th> <th>6M</th> <th>12M</th> </tr> </thead> <tbody> <tr> <td>4.29</td> <td>4.27</td> <td>4.20</td> <td>4.18</td> </tr> <tr> <td>4.31</td> <td>4.32</td> <td>4.34</td> <td>4.39</td> </tr> <tr> <td>4.31</td> <td>4.28</td> <td>4.29</td> <td>4.34</td> </tr> </tbody> </table>		1M	3M	6M	12M	4.29	4.27	4.20	4.18	4.31	4.32	4.34	4.39	4.31	4.28	4.29	4.34
	1M		3M		6M	12M														
4.29	4.27	4.20	4.18																	
4.31	4.32	4.34	4.39																	
4.31	4.28	4.29	4.34																	
Risk reversal (PLN seller)	DB forecast	Forward	Cons. forecast																	
Forward rate (PLN seller)	Forward	Cons. forecast																		
RUB	We recommend hedging RUB income via FX forwards.	Instrument	We recommend hedging RUB expenses via knock-in forwards.																	
	Price indicators																			
	Implied volatility		<table border="1"> <thead> <tr> <th>1M</th> <th>3M</th> <th>6M</th> <th>12M</th> </tr> </thead> <tbody> <tr> <td>73.59</td> <td>76.95</td> <td>80.50</td> <td>83.30</td> </tr> <tr> <td>73.14</td> <td>74.06</td> <td>75.53</td> <td>78.42</td> </tr> <tr> <td>76.10</td> <td>76.28</td> <td>77.04</td> <td>79.80</td> </tr> </tbody> </table>		1M	3M	6M	12M	73.59	76.95	80.50	83.30	73.14	74.06	75.53	78.42	76.10	76.28	77.04	79.80
	1M		3M		6M	12M														
73.59	76.95	80.50	83.30																	
73.14	74.06	75.53	78.42																	
76.10	76.28	77.04	79.80																	
Risk reversal (RUB seller)	DB forecast	Forward	Cons. forecast																	
Forward rate (RUB seller)	Forward	Cons. forecast																		
HUF	We recommend hedging HUF income via knock-in forwards.	Instrument	We recommend hedging HUF expenses via FX forwards.																	
	Price indicators																			
	Implied volatility		<table border="1"> <thead> <tr> <th>1M</th> <th>3M</th> <th>6M</th> <th>12M</th> </tr> </thead> <tbody> <tr> <td>320.40</td> <td>313.00</td> <td>310.00</td> <td>305.00</td> </tr> <tr> <td>320.89</td> <td>321.10</td> <td>321.55</td> <td>322.87</td> </tr> <tr> <td>322.03</td> <td>320.87</td> <td>315.73</td> <td>321.50</td> </tr> </tbody> </table>		1M	3M	6M	12M	320.40	313.00	310.00	305.00	320.89	321.10	321.55	322.87	322.03	320.87	315.73	321.50
	1M		3M		6M	12M														
320.40	313.00	310.00	305.00																	
320.89	321.10	321.55	322.87																	
322.03	320.87	315.73	321.50																	
Risk reversal (HUF seller)	DB forecast	Forward	Cons. forecast																	
Forward rate (HUF seller)	Forward	Cons. forecast																		
CZK	We recommend hedging CZK income via knock-in forwards.	Instrument	We recommend hedging CZK expenses via risk reversals. Alternatively consider traditional FX forwards.																	
	Price indicators																			
	Implied volatility		<table border="1"> <thead> <tr> <th>1M</th> <th>3M</th> <th>6M</th> <th>12M</th> </tr> </thead> <tbody> <tr> <td>25.70</td> <td>25.60</td> <td>25.20</td> <td>25.00</td> </tr> <tr> <td>25.86</td> <td>25.96</td> <td>26.09</td> <td>26.32</td> </tr> <tr> <td>26.19</td> <td>25.82</td> <td>25.49</td> <td>25.85</td> </tr> </tbody> </table>		1M	3M	6M	12M	25.70	25.60	25.20	25.00	25.86	25.96	26.09	26.32	26.19	25.82	25.49	25.85
	1M		3M		6M	12M														
25.70	25.60	25.20	25.00																	
25.86	25.96	26.09	26.32																	
26.19	25.82	25.49	25.85																	
Risk reversal (CZK seller)	DB forecast	Forward	Cons. forecast																	
Forward rate (CZK seller)	Forward	Cons. forecast																		

Source: Danske Bank

Danske Bank's hedging recommendations: other emerging markets



Source: Danske Bank

FX forecasts

Core - major

Core Majors											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
EUR	28-Mar			1.12		746.3		1044.5		971.0	
	+3M			1.13	1.13	745.7	745.9	1040.0	1042.9	950.0	973.4
	+6M			1.15	1.14	745.5	745.4	1030.0	1045.6	940.0	977.5
	+12M			1.17	1.16	745.5	744.4	1030.0	1045.6	930.0	987.0
USD	28-Mar	1.12				664.3		929.8		864.3	
	+3M	1.13	1.13			659.9	659.5	920.4	922.0	840.7	860.6
	+6M	1.15	1.14			648.3	654.1	895.7	917.5	817.4	857.8
	+12M	1.17	1.16			637.2	643.8	880.3	904.3	794.9	853.6
JPY	28-Mar	124.2		110.5		6.01		8.41		7.82	
	+3M	124.3	124.2	110.0	109.8	6.00	6.01	8.37	8.40	7.64	7.84
	+6M	126.5	124.2	110.0	109.0	5.89	6.00	8.14	8.42	7.43	7.87
	+12M	131.0	124.2	112.0	107.5	5.69	5.99	7.86	8.42	7.10	7.95

Source: Macrobond Financial, Danske Bank

Wider CEE

Danske Bank CEE forecast											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
PLN	28-Mar	4.30		3.83		173.7		243.1		225.9	
	+3M	4.27	4.31	3.78	3.81	174.6	172.9	243.6	241.7	222.5	225.6
	+6M	4.20	4.33	3.65	3.80	177.5	172.0	245.2	241.3	223.8	225.6
	+12M	4.18	4.37	3.57	3.78	178.3	170.2	246.4	239.1	222.5	225.7
HUF	28-Mar	320.5		285.3		2.33		3.26		3.03	
	+3M	313.0	320.4	277.0	283.3	2.38	2.33	3.32	3.25	3.04	3.04
	+6M	310.0	320.8	269.6	281.5	2.40	2.32	3.32	3.26	3.03	3.05
	+12M	305.0	321.8	260.7	278.3	2.44	2.31	3.38	3.25	3.05	3.07
CZK	28-Mar	25.81		22.97		28.92		40.47		37.62	
	+3M	25.60	25.93	22.65	22.92	29.13	28.77	40.63	40.23	37.11	37.55
	+6M	25.20	26.05	21.91	22.86	29.58	28.61	40.87	40.14	37.30	37.53
	+12M	25.00	26.25	21.37	22.70	29.82	28.36	41.20	39.84	37.20	37.61

Source: Macrobond Financial, Danske Bank

CIS

CIS											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
RUB	28-Mar	73.04		65.01		10.22		14.30		13.29	
	+3M	76.95	74.34	68.10	65.72	9.69	10.03	13.51	14.03	12.35	13.09
	+6M	80.50	75.83	70.00	66.54	9.26	9.83	12.80	13.79	11.68	12.89
	+12M	83.30	78.70	71.20	68.07	8.95	9.46	12.36	13.29	11.16	12.54

Source: Macrobond Financial, Danske Bank

MEA

MEA											
MEAs											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
TRY	28-Mar	6.27		5.59		118.9		166.5		154.7	
	+3M	6.67	6.84	5.90	6.05	111.8	109.1	156.0	152.5	142.5	142.3
	+6M	7.02	7.28	6.10	6.39	106.3	102.4	146.8	143.7	134.0	134.3
	+12M	7.37	8.00	6.30	6.92	101.1	93.0	139.7	130.7	126.2	123.3
ZAR	28-Mar	16.43		14.62		45.4		63.6		59.1	
	+3M	16.39	16.66	14.50	14.73	45.5	44.8	63.5	62.6	58.0	58.4
	+6M	16.68	16.97	14.50	14.89	44.7	43.9	61.8	61.6	56.4	57.6
	+12M	16.67	17.62	14.25	15.24	44.7	42.3	61.8	59.4	55.8	56.0

Source: Macrobond Financial, Danske Bank

Latin America

LATAM											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
BRL	28-Mar	4.46		3.97		167.4		234.3		217.8	
	+3M	4.12	4.45	3.65	3.93	180.8	167.7	252.2	234.4	230.3	218.8
	+6M	4.08	4.52	3.55	3.97	182.6	164.9	252.3	231.3	230.3	216.2
	+12M	3.86	4.65	3.30	4.02	193.1	160.0	266.8	224.7	240.9	212.2

Source: Macrobond Financial, Danske Bank

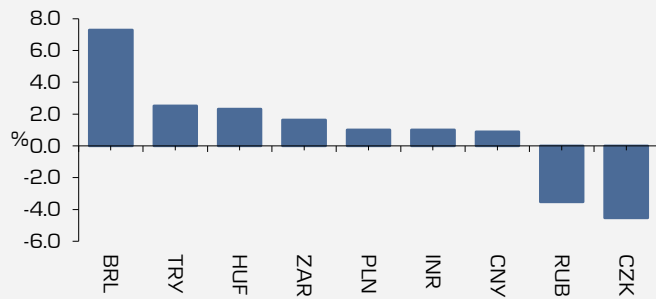
Emerging markets Asia

EMAsia											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
CNY	28-Mar	7.57		6.74		98.6		138.0		128.3	
	+3M	7.57	7.64	6.70	6.75	98.5	97.7	137.4	136.5	125.5	127.4
	+6M	7.65	7.71	6.65	6.77	97.5	96.7	134.7	135.6	122.9	126.8
	+12M	7.72	7.85	6.60	6.79	96.5	94.9	133.4	133.3	120.4	125.8
INR	28-Mar	77.80		69.25		9.59		13.43		12.48	
	+3M	77.97	78.76	69.00	69.63	9.56	9.47	13.34	13.24	12.18	12.36
	+6M	78.20	80.18	68.00	70.36	9.53	9.30	13.17	13.04	12.02	12.19
	+12M	78.39	82.88	67.00	71.68	9.51	8.98	13.14	12.62	11.86	11.91

Source: Macrobond Financial, Danske Bank

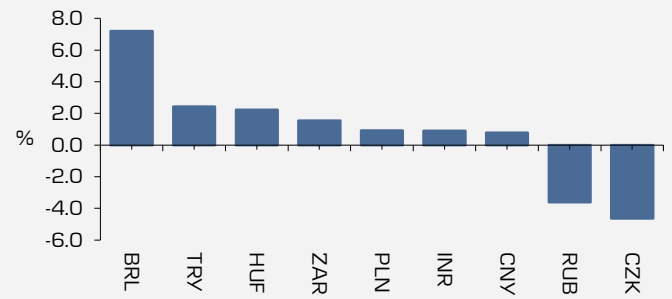
Forecasts vs forwards

3M - base currency EUR



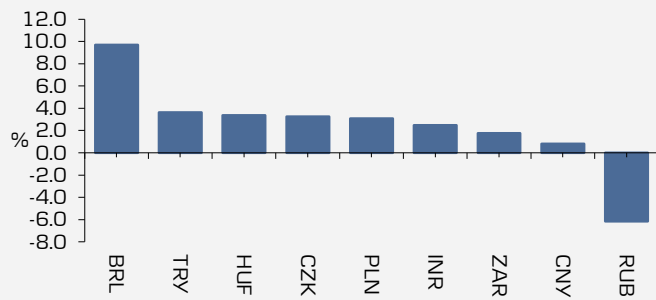
Source: Macrobond Financial, Danske Bank

3M - base currency USD



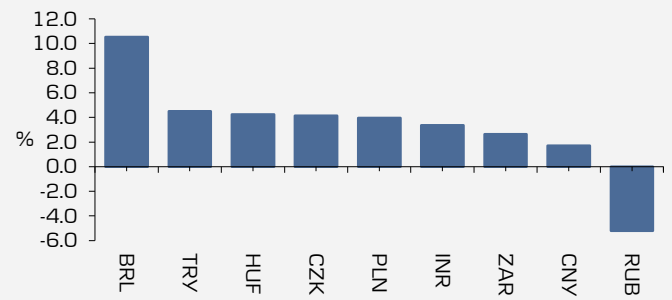
Source: Macrobond Financial, Danske Bank

6M - base currency EUR



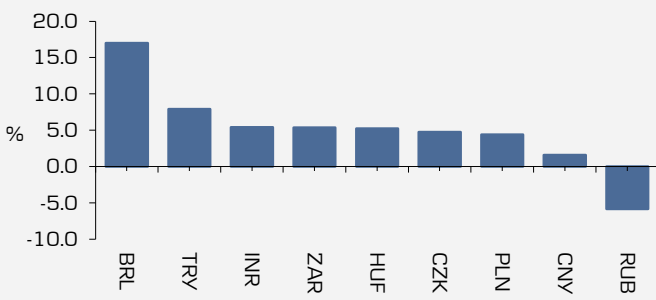
Source: Macrobond Financial, Danske Bank

6M - base currency USD



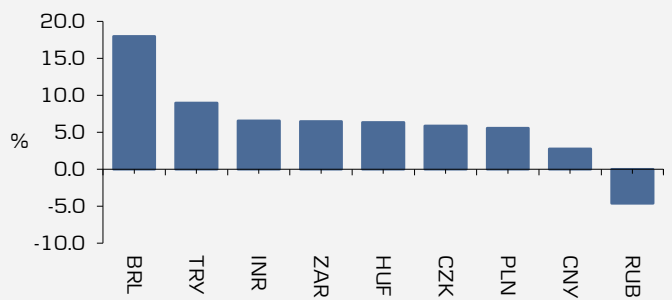
Source: Macrobond Financial, Danske Bank

12M - base currency EUR



Source: Macrobond Financial, Danske Bank

12M - base currency USD



Source: Macrobond Financial, Danske Bank

Monetary policy calendar

Calendar

	Policy Rate (%)	Latest Change		Next Change		Next Meeting	Year-end 2019 (%)
	29 March 2019						
Wider CEE							
PLN	1.50	- 50 bp	Mar, 2015	+25bp	Q1, 2020	03/04/2019	1.50
HUF	0.90	- 15 bp	May, 2016	+25bp	H2 19	30/04/2019	1.15
CZK	1.75	+25 bp	Jun, 2018	+25bp	H2, 2019	02/05/2019	2.25
TRY	24.00	+625 bp	Sep, 2018	-100bp	Q2, 2019	25/04/2019	21.00
CIS							
RUB	7.75	+25 bp	Dec, 2018	-25bp	Q3, 2019	26/04/2019	7.25
MEA							
ZAR	6.75	+ 25 bp	Nov, 2018	-25bp	H1, 2019	23/05/2019	6.25
LATAM							
BRL	6.50	-25 bp	Mar, 2018	-25bp	Q2 19	08/05/2019	6.00
EM Asia							
CNY	4.35	- 15 bp	Oct, 2015	-	Unchanged 2019	No regular meetings	4.35
INR	6.25	- 25 bp	Feb, 2019	-25 bp	Q2 2019	04/04/2019	5.75

Source: Bloomberg, Danske Bank

Disclosures

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Expected updates

Quarterly.

Date of first publication

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