

Emerging Markets Monthly

Sanction risks will continue to weigh on RUB

- The tensions in the Donbass area near the border of Ukraine and Russia represent a new tail risk for the RUB.
- The latest US sanctions will have limited economic impact on Russia.
- But the risks of even tougher sanctions will continue to weigh on RUB.

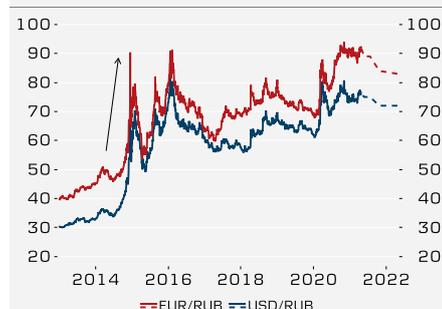
In early 2014, the annexation of Crimea had only a limited effect on the USD/RUB, but it rose ~60 % in a month as the eastern Ukrainian conflict escalated (left chart).

Rapid escalation still seems unlikely, as in reality, Russia has little to gain by attempting invasion of Ukrainian territory. The Kremlin has mentioned domestic security as a reason for strengthening the military presence in the area, but the economic damage caused by possible new sanctions would outweigh any possible gains Russia could achieve in Eastern Ukraine. The move could be seen as a test for both the Ukrainian president Zelensky, who recently sanctioned Ukrainian pro-Russia oligarchs and politicians, as well as Joe Biden.

The spat comes on top of a series of events over the past year that have worsened Russia's relations with the West (Navalny, meddling with US elections, active role in Belarus). The Biden administration seems to take a harsher approach on Russia than Trump did. Latest US sanctions block US institutions from investing into newly issued Russian sovereign debt, but the economic and market consequences may not be too big as the financing needs of Russia are limited going forward. However, the risk of further escalation in the Donbass area and US criticism of the treatment of Navalny will keep risks of new sanctions alive.

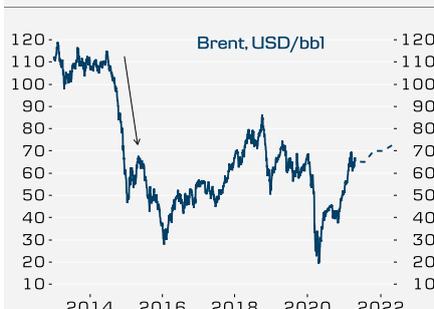
From FX perspective, RUB has already weakened over the past weeks as these tail risks have increased. The 2014 weakening of RUB coincided with a rapid decline in oil prices unrelated to the Ukrainian situation (right chart), but this time we forecast a slightly higher oil price through 2021-2022. The reaction in RUB crosses would most likely be less dramatic compared to 2014, but it could still push EUR/RUB towards the 100's. Despite our generally bullish view on RUB given the strong economic fundamentals, Kremlin's strategy of maintaining constant pressure on Ukraine (and the west) seems to lead Russia from one conflict to another, meaning the sanctions discount in the RUB is here to stay. As such, we revised our EUR/RUB forecast higher to 89 in 1-3M, 84 in 6M and 83 in 12M.

RUB weakened a lot in late 2014...



Source: Macrobond, Danske Forecasts

... but oil price will not be RUB negative now



Source: Macrobond, Danske Forecasts.

Quick view

- EUR/PLN should come lower over the summer. For now, weak domestic demand, a 3rd COVID wave and strengthening USD weigh on PLN.
- EUR/HUF stable for now as CPI is going sideways. Will likely drift higher in coming months as CPI-differential re-emerge.
- EUR/CZK should go lower. Risks are tilted towards more CZK strength. Also supported by central bank talking about hiking rates 1-2 times in 2021.
- USD/RUB has moved higher as sanction risks related to the Ukrainian situation remain high. Oil prices and strong domestic data are supportive for RUB
- USD/TRY remains likely in the 8.00-8.50 in the near term. Key risks include CBRT rate cuts and higher US 10y yields
- USD/ZAR has moved lower as investors have been pushed to hunt for yield. We do not expect this to last through 2021: Chinese credit tightening & weak fundamentals are likely to become new themes.
- USD/CNY to rise as the relative growth theme between US and China is reversing during 2021.
- USD/INR likely to continue moving higher after rupee weakened following rapid weakening of Indian Covid-19 situation

Find our most recent [FX Forecast Update](#) for G10 and emerging markets [here](#). See also our weekly [FX Essentials](#) publication.

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What-to-watch: Growth, vaccines, China and elevated asset prices amid uncertainty

Global growth

Reopening of economies supported by vaccines and warmer weather boost global growth during Q2. Relative picture of Chinese outperformance will reverse in favor of US during 2021.

spot FX price

The case for a stronger TRY is now over and we expect moderate weakening. Slowing growth in Asia with higher US yields is negative for most EM FX but we maintain a positive view on RUB

China

PMIs and peak in commodity prices signal that Chinese growth momentum is already moderating. We expect GDP growth to align with pre-corona trend as fiscal tightening and deleveraging continue

Corona virus

While DM economies are expected to reopen during Q2, EM picture remains mixed. Most EM countries still rely on the Chinese vaccines

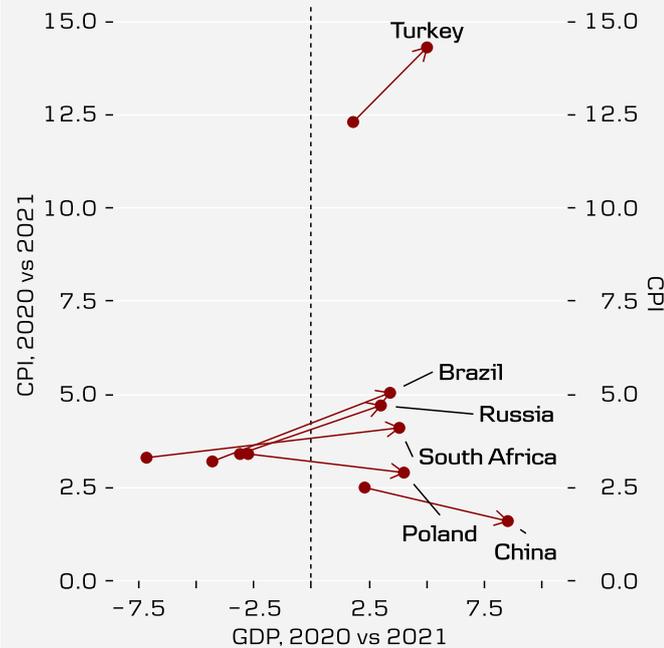
Note: Green reflects optimistic outlook, red is negative and grey is a neutral view
Source: Danske Bank

Moderating Chinese growth limits upside for commodity prices and EM FX

		2020				2021			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
External	China	Coronavirus	Fading virus impact	Recovery post-virus		China curbs credit, pace of growth comes down			
	Fed	Fed takes rates to zero, provides USD funding				Fed relatively sidelined			
	Trade war/commodities	phase 1 deal	cyclical uptick		tensions are to stay but more gradual and less disruptive				
Regions	CEE	high cpi	Corona shock	Fading virus impact	Recovery post-virus	Gradual recovery in CEE, inflation to stay			
	Latin America	Brazil weak, Mexico in recession				Econs to remain low-growth environment			
	Asia	Coronavirus	Fading virus impact	Recovery post-virus		Asia remains relatively strong, tailwind from China fades			
		stabilization							

Note: Green reflects optimistic outlook, red is negative and grey is a neutral view; colours reflect a broad macroeconomic view and are not necessarily FX specific.
Source: Danske Bank

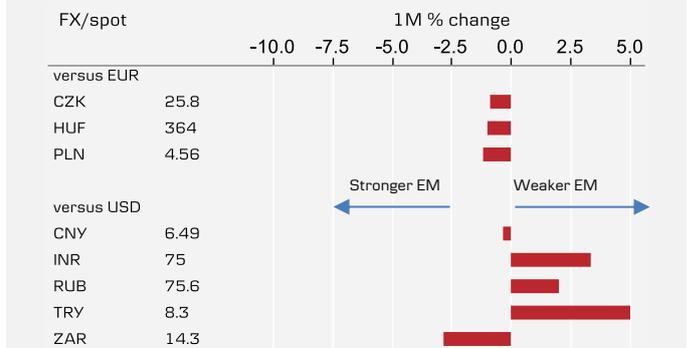
2021 generally brings GDP-recovery versus 2020



Note: Arrows indicate the change in Bloomberg consensus forecasts for growth and inflation from 2020 to 2021

Source: Bloomberg

Substantial EM weakness over last month, notably in TRY



Note: An increase reflects a weaker currency versus EUR or USD.
Source: Bloomberg

Asian manufacturing cycle appears to have peaked



Source: Bloomberg

Danske Bank EM FX forecast vs majors: USD and EUR

EM	Spot	+1m	+3m	+6m	+12m
USD/PLN	3.794	3.85	3.81	3.83	3.87
USD/HUF	303	307	309	318	324
USD/CZK	21.500	21.68	21.78	21.79	22.00
USD/RUB	75.613	75.00	75.00	72.00	72.00
USD/TRY	8.292	8.10	8.30	8.70	8.90
USD/ZAR	14.291	14.50	14.50	15.00	16.00
USD/CNY	6.49	6.52	6.55	6.60	6.70
USD/INR	74.95	75.50	76.00	77.00	78.00

EM	Spot	+1m	+3m	+6m	+12m
EUR/PLN	4.560	4.58	4.50	4.48	4.45
EUR/HUF	364	362	365	372	375
EUR/CZK	25.8	25.8	25.7	25.5	25.3
EUR/RUB	90.9	89	89	84	83
EUR/TRY	9.97	9.6	9.8	10.2	10.2
EUR/ZAR	17.18	17.3	17.1	17.6	18.4
EUR/CNY	7.80	7.76	7.73	7.72	7.71
EUR/INR	90.2	89.8	89.7	90.1	89.7

Source: Danske Bank

Danske Bank EM FX forecast vs Scandies: DKK, SEK and NOK

DKK						
	Spot	+1m	+3m	+6m	+12m	
PLN/DKK	1.60	1.63	1.65	1.66	1.67	
HUF/DKK	2.04	2.03	2.01	2.00	1.99	
CZK/DKK	0.28	0.29	0.29	0.29	0.29	
RUB/DKK	8.29	8.68	9.01	9.36	9.66	
TRY/DKK	0.79	0.88	0.86	0.84	0.83	
ZAR/DKK	0.42	0.43	0.43	0.42	0.40	
CNY/DKK	0.96	0.96	0.96	0.96	0.97	
INR/DKK	0.087	0.086	0.088	0.089	0.091	
SEK						
	Spot	+1m	+3m	+6m	+12m	
PLN/SEK	2.20	2.22	2.24	2.28	2.34	
HUF/SEK	2.79	2.75	2.73	2.73	2.77	
CZK/SEK	0.39	0.39	0.39	0.40	0.41	
RUB/SEK	0.11	0.12	0.12	0.13	0.13	
TRY/SEK	1.08	1.20	1.17	1.15	1.16	
ZAR/SEK	0.58	0.59	0.59	0.58	0.57	
CNY/SEK	1.319	1.302	1.307	1.321	1.350	
INR/SEK	0.119	0.116	0.119	0.122	0.127	
NOK						
	Spot	+1m	+3m	+6m	+12m	
PLN/NOK	2.19	2.20	2.24	2.28	2.31	
HUF/NOK	2.79	2.72	2.73	2.73	2.75	
CZK/NOK	0.39	0.39	0.39	0.40	0.41	
RUB/NOK	0.11	0.12	0.12	0.13	0.13	
TRY/NOK	1.08	1.18	1.17	1.15	1.15	
ZAR/NOK	0.58	0.58	0.59	0.58	0.56	
CNY/NOK	1.316	1.289	1.307	1.321	1.337	
INR/NOK	0.119	0.115	0.119	0.122	0.126	

Source: Danske Bank

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