

EM FX Weekly

EM FX cheers but for how long?

Group Economics
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- **Emerging market currencies cheer as weak US data reduce Fed rate hike expectations**
- **IDR gains overdone...weakness to resume**
- **SGD gains as MAS less dovish and technical recession in Singapore narrowly avoided**

Emerging market currencies cheer

Emerging market currencies have profited from a weaker US dollar in an environment of better investor sentiment. Weaker US data (retail sales) and mixed comments from Fed officials are considered as good news, because they have lowered the likelihood of the US Federal Reserve hiking this year. As a result, bad news is considered as good news and this is supportive to investor sentiment. Consequently, investors have searched for better yielding opportunities. In this process, weaker domestic data and/or negative political developments have had limited impact. For example weak domestic demand and disinflation in China and political uncertainty have been ignored. However, we expect this to be temporary and emerging market currencies to come under pressure again when a Fed rate hike this year is fully priced out and investors are likely to focus again on fundamentals and political challenges.

IDR outperforms...weakness to resume

The Indonesia rupiah (IDR) was the best performer as short positions were reduced, supported by an improvement in market sentiment and intervention by the central bank. The current strength in the IDR will provide more flexibility for the central bank to cut interest rates if inflation declines in the coming months. Looking ahead, we maintain our view that the IDR will underperform other Asian currencies well into 2016. For more details please refer to our FX Watch, *Asian FX recovery to last?*, published on 9 October.

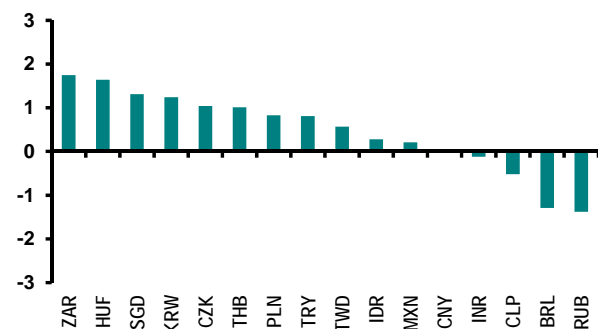
SGD gains as MAS less dovish and technical recession in Singapore narrowly avoided

The Singapore dollar (SGD) has strengthened by about 2% against the US dollar and 1% against its trade weighted basket of currencies since the Monetary Authority of Singapore (MAS) monetary policy decision on 14 October. The MAS reduced the slope of appreciation of S\$NEER slightly as advance estimates show that the Singapore economy narrowly avoided a technical recession in the third quarter against market expectations of a 0.1% qoq contraction. Economic growth in the second quarter was also revised higher from -4% qoq to -2.5% qoq. This was less dovish than our forecast that the MAS

will shift the S\$NEER policy bias to neutral. We think that core inflation will edge higher due to favorable base year effects. Hence the MAS is unlikely to shift towards a more dovish bias next year, supported by the view that global growth should gradually improve in 2016. As a result, we have revised our 2015 and 2016 year end USD/SGD forecast to 1.40 (from 1.44) and 1.46 (from 1.50) respectively.

EM FX performance versus the US dollar

In % with USD as basis



Source: BIS, ABN AMRO

ABN AMRO emerging market currency forecasts

	15-Oct	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
USD/CNY (onshore)	6.35	6.40	6.45	6.50	6.55	6.55
USD/CNH (offshore)	6.35	6.40	6.47	6.53	6.57	6.57
USD/INR	64.8	65	66	66	67	67
USD/KRW	1,130	1,190	1,200	1,220	1,230	1,240
USD/SGD	1.40	1.40	1.42	1.44	1.45	1.46
USD/THB	35.18	36.80	37.00	37.20	37.50	38.00
USD/TWD	32.15	33.00	33.50	33.70	33.80	34.00
USD/IDR	13,380	14,300	14,500	14,800	14,900	15,000
USD/RUB	62	60	60	55	55	55
USD/TRY	2.89	3.10	3.05	3.00	2.95	2.90
USD/ZAR	13.13	14.00	13.80	13.60	13.40	13.20
EUR/PLN	4.23	4.15	4.10	4.05	4.00	4.00
EUR/CZK	27.50	27.50	27.40	27.25	27.00	26.75
EUR/HUF	310	315	315	310	310	310
USD/BRL	3.81	4.00	3.90	3.85	3.80	3.75
USD/MXN	16.41	17.00	16.75	16.50	16.25	16.00
USD/CLP	682	700	690	680	670	660

Source: ABN AMRO Group Economics

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