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## EM currencies lose ground

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- **Emerging market currencies lose ground**
- **Window of looser monetary policies in Asia closing**
- **PBoC intervenes to narrow CNH discount**

### Emerging market currencies lose ground

A more hawkish FOMC statement has increased market expectations that the Fed may tighten monetary policy as soon as December. As a result, sentiment in emerging market currencies deteriorated and most currencies came under pressure. Some currencies were more out of favour because other developments that are mentioned below. The Russian ruble has been the weakest currency, declining by around 3% versus the US dollar. At the start of the week, lower oil prices dragged down the ruble. Later in the week, the recovery in oil prices supported the ruble but not the extent that it outweighed the earlier weakness. This is mainly because there is uncertainty about the monetary policy decision of the Central Bank of Russia tomorrow. The Central Bank of Russia may not cut rates aggressively to 10.5% because it would like to avoid a sharp weakening of the ruble. The South African rand (ZAR) declined by about 2% as unemployment rate in the third quarter rose from 25% to 25.5%, more than market expectations of 25.1%.

### USD/EM currency index



Source: BIS, ABN AMRO

### Window of looser monetary policies closing for most vulnerable countries

In our *FX Watch – Asian FX recovery to last?* published on 9 October, we highlighted that after quite cautious FOMC minutes in September, reduced fears of capital outflows from Asian economies will allow more flexibility for Asian central banks to ease monetary policy to stimulate the economy. We now think that this window of opportunity is closing, at least for those economies which are most vulnerable for a Fed lift-off such as Indonesia, as loosening monetary policy during the current trend of weaker Asian currencies will result in more volatility. Despite some encouraging measures announced by the Indonesian government, which have supported sentiment in the Indonesian rupiah (IDR) in recent weeks, we maintain our view that the IDR will underperform other Asian currencies due to weak economic fundamentals and external imbalance. The El Niño impact is expected to complicate Indonesia's growth and inflation dynamics.

### PBoC intervenes to narrow CNH discount

The offshore yuan (CNH) discount to the onshore yuan (CNY) widened to more than 400 pips earlier this week due to market speculation that the People's Bank of China (PBoC) will tolerate a weaker currency as the onshore daily yuan fixing rate was lowered this week. We suspect that the PBoC intervened in the offshore market and narrowed the CNH discount to the CNY after the FOMC statement was more hawkish than expected. In our view, large deviations between the CNH and CNY will not be tolerated ahead of IMF decision on including the yuan in the SDR basket later this year. The sentiment towards the yuan also improved after Premier Li said that China needs annual growth of at least 6.53% in the next five years to achieve a government target of a moderately prosperous society. The yuan forward curve flattened as financial markets price in a more gradual depreciation over the next 1 year. China's manufacturing and non-manufacturing PMI for October will be released over the weekend on 1 November.

### ABN AMRO emerging market currency forecasts

	29-Oct	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
USD/CNY (onshore)	6.36	6.40	6.45	6.50	6.55	6.55
USD/CNH (offshore)	6.36	6.40	6.47	6.53	6.57	6.57
USD/INR	65.2	65	66	66	67	67
USD/KRW	1,142	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	35.59	36.80	37.00	37.20	37.50	38.00
USD/TWD	32.62	33.00	33.50	33.70	33.80	34.00
USD/IDR	13,619	14,300	14,500	14,800	14,900	15,000
USD/RUB	64	60	60	55	55	55
USD/TRY	2.93	3.10	3.05	3.00	2.95	2.90
USD/ZAR	13.78	14.00	13.80	13.60	13.40	13.20
EUR/PLN	4.27	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	311	315	315	310	310	310
USD/BRL	3.91	4.00	3.90	3.85	3.80	3.75
USD/MXN	16.65	17.00	16.75	16.50	16.25	16.00
USD/CLP	686	700	690	680	670	660

Source: ABN AMRO Group Economics

Find out more about Group Economics at: <https://insights.abnamro.nl/en/>

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