

19 November 2015

## Fed and dollar leave their marks

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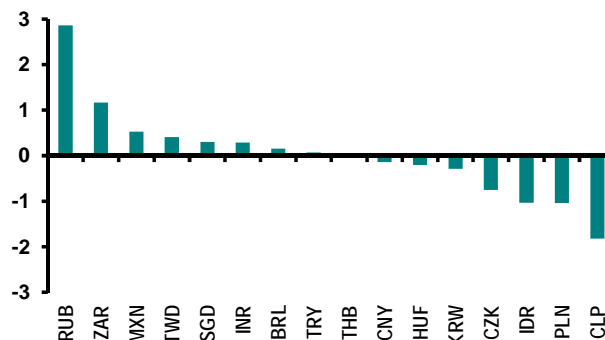
- **Weak start emerging market currencies followed by modest recovery**
- **Weaker fundamentals weigh on Indonesia Rupiah**
- **Gradual yuan depreciation expected**

### Weak start followed by modest recovery

At the start of the week, emerging market currencies were under pressure, because of a strong US dollar and weak commodity prices. Economic data releases in the US reaffirmed our view that the Fed is likely to begin its monetary tightening cycle next month. The FOMC minutes came in as expected, resulting in no change in expectations of a 16 December rate hike; with the probability unchanged at 66%. After the FOMC minutes the US dollar lost some shine as there seems to have been some profit taking on long US dollar positions. The slide in oil prices, which was in place since 4 November, has come to a halt for now. There is some hesitance to push Brent below USD 43 per barrel and WTI below 40. This supported oil sensitive currencies such as the Russian ruble and the Mexican peso. In addition, expectations of a possible rate hike by the Reserve Bank of South Africa helped the rand. Investor sentiment towards Brazil has improved after Congress upheld President Rousseff's vetoes of legislation that would have increased spending (which would have resulted in a deterioration of the fiscal outlook).

### Performance since this week

% with USD as basis



Source: Bloomberg

### Weaker fundamentals weigh on Indonesia Rupiah

The Indonesian rupiah (IDR) declined to the weakest level in two weeks as the economic growth outlook is expected to remain challenging in the coming months, also reflecting the effect of El Niño and the haze. Weaker growth and commodity prices are also likely to result in a wider budget deficit, constraining the government's ability to stimulate the economy. Although inflation is expected to move lower due to negative base effects, Bank Indonesia has stated that there is less flexibility to lower the policy rate again to support growth, as that might put too much pressure on the IDR given that the Fed is expected to tighten monetary policy soon.

### Gradual depreciation expectation of the yuan

The Chinese yuan came under modest pressure for the third consecutive week, with the daily yuan fixing also weaker. Both onshore and offshore forward markets are also pricing in a larger depreciation in the yuan in the coming months due to speculation that the PBoC will tolerate a weaker currency after the IMF review of the yuan inclusion in the SDR by the end of this month. We expect the PBoC to continue to engineer a gradual depreciation in the yuan and intervene in the currency market to narrow discrepancies between the offshore yuan and onshore yuan rates.

### ABN AMRO emerging market currency forecasts

Change in red/bold

	19-Nov	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
USD/CNY (onshore)	6.38	6.40	6.45	6.50	6.55	6.55
USD/CNH (offshore)	6.41	6.40	6.47	6.53	6.57	6.57
USD/INR	66.2	66	66	67	67	67
USD/KRW	1,162	1,190	1,200	1,220	1,230	1,240
USD/SGD	1.42	1.43	1.45	1.47	1.48	1.50
USD/THB	35.88	36.80	37.00	37.20	37.50	38.00
USD/TWD	32.66	33.00	33.50	33.70	33.80	34.00
USD/IDR	13,775	14,300	14,500	14,800	14,900	15,000
USD/RUB	65	60	60	55	55	55
USD/TRY	2.85	3.10	3.05	3.00	2.95	2.90
USD/ZAR	14.13	14.00	13.80	13.60	13.40	13.20
EUR/PLN	4.25	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	3.76	4.00	3.90	3.85	3.80	3.75
USD/MXN	16.64	17.00	16.75	16.50	16.25	16.00
USD/CLP	715	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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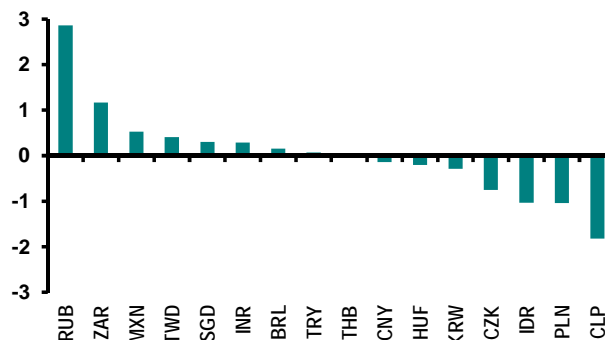
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