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Some resilience

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- **Fed rate hike expectations and weaker commodity prices weigh on EM FX**
- **Despite this the Brazilian real has been resilient**
- **Weaker CNY outlook despite CNY inclusion in SDR**
- **PBoC to narrow discrepancies between CNH and CNY**

Fed rate hike expectations and weaker commodity prices weigh on EM FX

On the one hand, firmer short-term yields in the US and weaker commodity prices have weighed on some emerging market currencies this week. The Russian ruble declined as oil prices moved lower. In Asia, the South Korean won (KRW) was the main underperformer due to reversal of hot capital flows and a lower current account surplus. Market expectations that the Bank of Korea may be more tolerant of a weaker currency have also increased as net exports contribution to economic growth in the third quarter was negative. Our year-end USD/KRW target of 1190 is approaching. On the other hand, other currencies have remained quite resilient despite the bad news and political uncertainty, particularly the Brazilian real.

Performance since last Friday

In % with USD as basis



Source: Bloomberg

Despite the bad news the Brazilian real has been resilient

The Brazilian real held up well despite negative news coming out of Brazil, from more arrests in the Petrobras scandal, political crisis to fears of a deeper recession after the dreadful GDP numbers this week. Overnight lower house speaker accepted one of the 24

requests to start the impeachment process of president Rousseff. The impeachment hearings could take months. A government official said that Rousseff will challenge any proceedings in the Supreme Court. The main reasons for the real's resilience are that most of the negative news seems already reflected in the price while the central bank has not aggressively stepped up interventions. If in the course of 2016 we expect the real to improve further to 3.6 by the end of 2016. The currency weakness is ultimately also the key to Brazil's recovery. Besides dampening imports, the weak real is also helping exports to stage a cautious recovery, pulling investments tentatively in its wake.



Source: Bloomberg

Weaker CNY outlook despite CNY inclusion in SDR

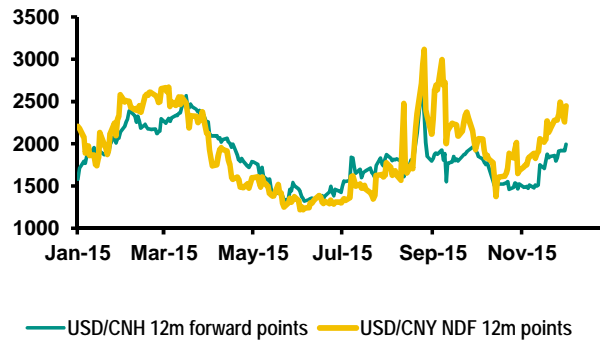
On 30 November, the IMF as expected decided to include the Chinese yuan (CNY) into the SDR basket with a weighting of 10.92%. This is approximately about USD 30.5bn worth of potential demand for the CNY due to SDR inclusion. The effectiveness of the new SDR basket will take place on 1 October 2016. In our view the demand for CNY due to SDR inclusion is likely to be less than USD 30.5bn given that the CNY is already part of several central banks' foreign reserves. We also expect that the potential increase in demand for the CNY as a reserve currency will prove to be quite gradual over the coming years. We maintain our view that the CNY will decline to 6.55 against the USD in 2016, due to divergence in the monetary and economic outlook between China and the US. Indeed, both the offshore and onshore forwards market are still implying further depreciation in the CNY despite the IMF decision earlier this week.

PBoC to narrow discrepancies between CNH and CNY

We also expect the People's Bank of China (PBoC) to narrow discrepancies between the offshore yuan (CNH) and onshore yuan (CNY) when divergence is more than around 400 pips. This is because a large divergence between the CNH and CNY is less appropriate, against the background of CNY inclusion in the SDR basket. This will make speculative activities to sell the CNH more costly.

USD/CNH and USD/CNY 12 month forward points

Points



Source: Bloomberg

Improvement in inflation dynamics

Separately, inflation in Indonesia declined in November. This provides more room for Bank Indonesia to ease monetary policy early next year to support economic growth if sentiment in the Indonesian rupiah remains constructive against the background of looming Fed rate hikes. We also see some room for another policy rate cut in India, provided that inflation will remain within the Reserve Bank of India's target and market sentiment remains constructive.

ABN AMRO emerging market currency forecasts

Bold/red = latest changes

| | 03-Dec | Q4 2015 | Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 | Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 |
|--------------------|--------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| USD/CNY (onshore) | 6.40 | 6.40 | 6.45 | 6.50 | 6.55 | 6.55 | 6.55 | 6.55 | 6.50 | 6.50 |
| USD/CNH (offshore) | 6.45 | 6.40 | 6.47 | 6.53 | 6.57 | 6.57 | 6.57 | 6.55 | 6.50 | 6.50 |
| USD/INR | 66.7 | 66 | 66 | 67 | 67 | 67 | 67 | 66 | 66 | 65 |
| USD/KRW | 1,165 | 1,190 | 1,200 | 1,220 | 1,230 | 1,240 | 1,240 | 1,220 | 1,200 | 1,200 |
| USD/SGD | 1.41 | 1.43 | 1.45 | 1.47 | 1.48 | 1.50 | 1.50 | 1.48 | 1.46 | 1.45 |
| USD/THB | 35.90 | 36.80 | 37.00 | 37.20 | 37.50 | 38.00 | 38.00 | 37.50 | 37.20 | 37.00 |
| USD/TWD | 32.78 | 33.00 | 33.50 | 33.70 | 33.80 | 34.00 | 34.00 | 33.70 | 33.50 | 33.20 |
| USD/IDR | 13,845 | 14,300 | 14,500 | 14,800 | 14,900 | 15,000 | 1,500 | 14,700 | 14,500 | 14,200 |
| USD/RUB | 68 | 60 | 60 | 60 | 55 | 55 | 55 | 55 | 50 | 50 |
| USD/TRY | 2.88 | 3.00 | 3.00 | 2.95 | 2.95 | 2.90 | 2.85 | 2.80 | 2.75 | 2.75 |
| USD/ZAR | 14.34 | 14.00 | 13.80 | 13.60 | 13.40 | 13.20 | 13.00 | 12.80 | 12.70 | 12.50 |
| EUR/PLN | 4.27 | 4.20 | 4.20 | 4.15 | 4.15 | 4.10 | 4.10 | 4.05 | 4.05 | 4.00 |
| EUR/CZK | 27.50 | 27.00 | 27.00 | 27.00 | 27.00 | 26.50 | 26.25 | 26.00 | 25.75 | 25.50 |
| EUR/HUF | 310 | 310 | 305 | 300 | 300 | 300 | 295 | 290 | 285 | 280 |
| USD/BRL | 3.84 | 3.80 | 3.75 | 3.70 | 3.60 | 3.60 | 3.55 | 3.50 | 3.45 | 3.40 |
| USD/MXN | 16.54 | 16.75 | 16.50 | 16.25 | 16.00 | 15.75 | 15.50 | 15.25 | 15.00 | 14.50 |
| USD/CLP | 703 | 700 | 690 | 680 | 670 | 660 | 650 | 640 | 630 | 620 |

Source: ABN AMRO Group Economics

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

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