

EMEA Weekly

Why is the rouble weakening?

The Russian rouble saw the worst loss at 2.1% against the euro since the start of this week (13.5% loss YTD). Against the US dollar the Russian currency's heaviest loss was 1.3% since 6 October 2014 (22.5% YTD). We have seen that both macro fundamentals and sentiment have been sharply turning against the rouble since summer 2014 despite the central bank's hawkish monetary policy.

As the USD has strengthened significantly against the major and EM currencies since summer 2014, the oil price has continuously fallen, diving under USD100/bbl for Brent early September 2014. Through 2012-2014 our view on the rouble and the oil price has been the following: correlation disappears as Brent price which is moving close to Urals stays between USD100-120/bbl. At those levels other factors had a bigger impact on RUB than just the oil price: dollar liquidity abundance, risk sentiment, geopolitics and seasonality. However, the new old correlation has come back (see Figure 1).

Despite the rapid decline in the oil price since early summer 2014 (-20.4%) under USD91/bbl, Brent's average price is around USD105/bbl YTD, which allows the Russian budget to run a comfortable surplus and the current account surplus to grow further in 2014 as percentage of GDP on weakening rouble and falling imports (see Figure 2). Yet, we see Russian fiscal stability at a serious risk if the average oil price stays at USD90/bbl or goes lower over the next 12 months.

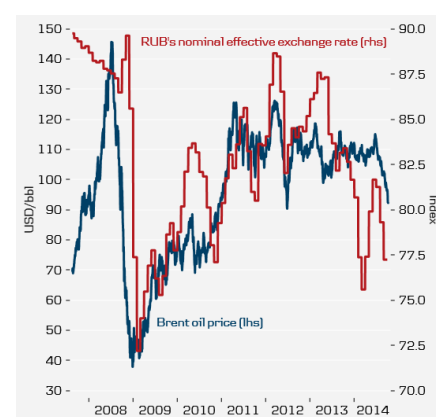
Weak macro weighs over geopolitics

Geopolitical risks are still present for the rouble and the Russian economy. This means that new sanctions against Russia and Russia's counter-sanctions can arise anytime. Such an environment keeps the largest consumers of FX in Russia nervous as those cannot be sure FX is easily and cheaply available on new possible financial sanctions. We have seen that local banks and corporations have been actively squirreling foreign currency. We have estimated that total external debt maturing by the end of 2015 exceeds USD150bn. Yet, by the end of 2014 just sanctioned entities are due to pay USD15bn of FX debt, but the amount is rising considerably in 2015. Till now the increased demand for FX has been driven through FX swaps pushing rouble swap rates quickly down. To cover the need, Russia's central bank has introduced an FX swap mechanism promising more FX though FX repo (seven and 28-day) in the near future.

Another reason for the rapidly weakening rouble are RUB's active shorters as fundamentals of Russian economy are not supporting the currency. The economic environment has been deteriorating as fixed investments have fallen 2.5% y/y in January-August 2014 and private consumption growth is slowing down on accelerated inflation after the food imports ban was introduced. The Russian economy grew just 0.8% y/y in August 2014 and we expect GDP to shrink 0.3% y/y already in 2014, posting -1.8% in 2015 as accelerated capital outflows and tight monetary policy continue to weigh on both supply and demand side.

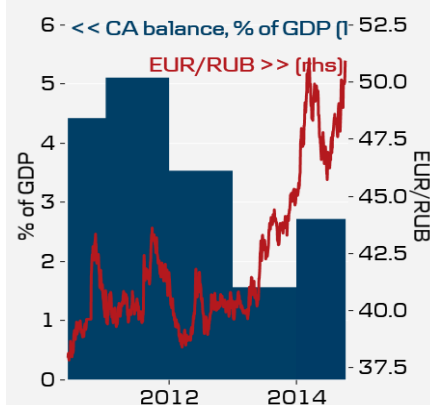
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Source: Macrobond, Danske Bank Markets

Russia's CA balance and RUB rate



Source: Macrobond, Danske Bank Markets

Russia's main macroeconomic indicators

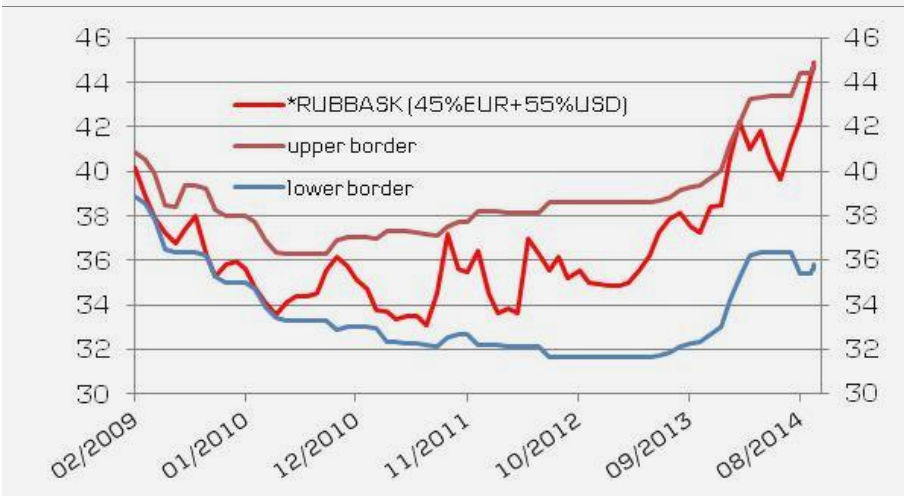


Source: Macrobond, Danske Bank Markets

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RUB's trading band vs. the dual currency basket



Source: Bank Rossii, Bloomberg, Danske Bank Market

Table 1. Rouble spot rate forecast

		EUR	USD
RUB	+3m	49.5	40.6
	+6m	48.9	40.8
	+12m	51.3	41.7

Source: Danske Bank Markets

To mitigate the rouble's fast devaluation Russia's central bank has actively sold FX this week (mostly USD we believe), shifting the trading band for the dual currency basket further up (see Figure 4). The latest shift reported was executed on 8 October, moving the band to 35.85-44.85. The amount of FX sold in the last three days climbed to USD1.8bn. We believe that the central bank is not against a steadily weakening rouble as the rouble's real effective exchange rate remains strong, but what scares the central bank is the speed at which devaluation is happening. Thus, further FX interventions will weigh on the country's gold and FX reserves. At the same time, the major rating agencies do not see any bright future for Russian economic growth in the near future. We continue to reiterate that further rating downgrades are possible in the current environment of Western sanctions.

Overall, we remain bearish on the outlook for the Russian rouble and we expect it to remain under some pressure going forward. We continue to expect the rouble to weaken faster against the USD than against the EUR. We continue to recommend keeping elevated short-run hedge levels, especially for the USDRUB.

Calendar

EMEA Data and Events in Week 42

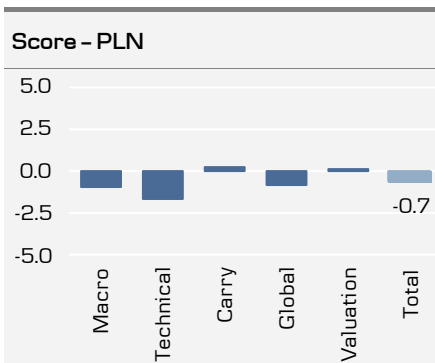
Monday, October 13, 2014				Period	Danske Bank	Consensus	Previous
Tuesday, October 14, 2014							
CZK	10:00	Current account	CZK m.	Aug	-17.60	-14.31	
PLN	14:00	Trade balance	EUR mil	Aug	313	393	
PLN	14:00	Current account	Euro mil	Aug	-340	-173	
Wednesday, October 15, 2014							
RUB	-	Industrial production (15-16 Oct)	y/y	Sep	-1.0%	0.2%	0.0%
TRY	9:00	Current account	USD bn.	Aug			-2.63
TRY	9:00	Unemployment rate	%	Jul			9.1%
ZAR	13:00	Retail sales	y/y	Aug			2.4%
PLN	14:00	CPI	y/y	Sep	-0.5%	-0.5%	-0.3%
Thursday, October 16, 2014							
RUB	-	PPI (16-17 Oct)	%	Sep	3.8%	4.5%	5.7%
CZK	9:00	PPI	y/y	Sep	-0.1%	-0.1%	0.0%
PLN	14:00	Wages	y/y	Sep	3.5%	3.6%	3.5%
PLN	14:00	Employment	y/y	Sep	0.7%	0.8%	0.7%
Friday, October 17, 2014							
PLN	14:00	Industrial production	y/y	Sep	-2.2%	3.1%	-1.9%
RUB	14:00	Real wages	y/y	Sep	1.0%	1.2%	1.4%
RUB	14:00	Retail sales	y/y	Sep	0.8%	1.5%	1.4%
RUB	14:00	Unemployment	%	Sep	4.8%	4.9%	4.8%
RUB	14:00	Disposable income	y/y	Sep	1.0%	2.7%	3.9%

Note: The editors do not guarantee the accuracy of the figures, hours or dates stated above

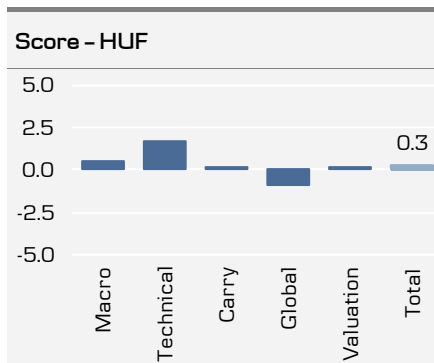
All release times are CET

Source: Danske Bank Markets

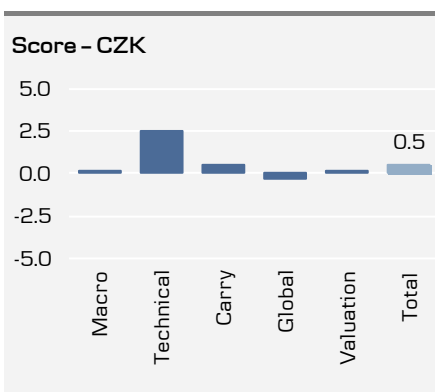
EMEA FX scorecard overview



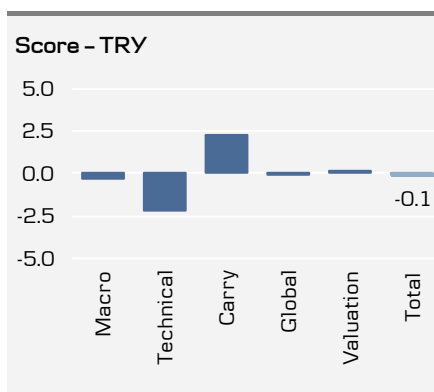
Source: Danske Bank Markets calculations



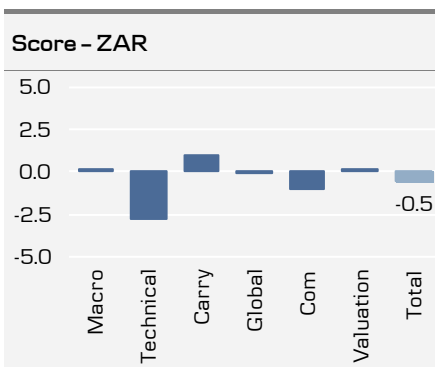
Source: Danske Bank Markets calculations



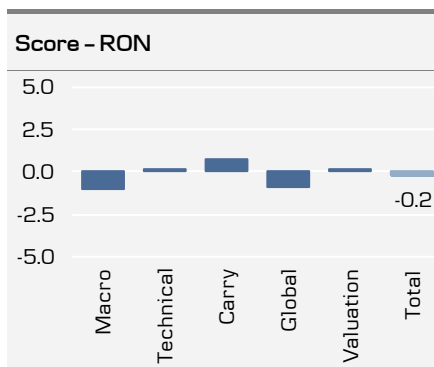
Source: Danske Bank Markets calculations



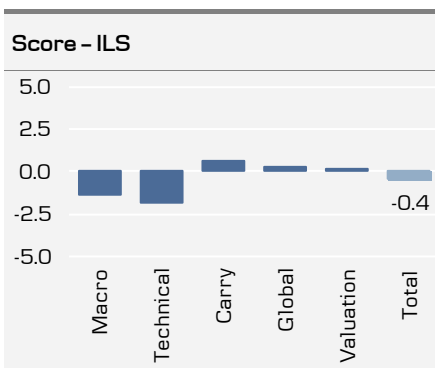
Source: Danske Bank Markets calculations



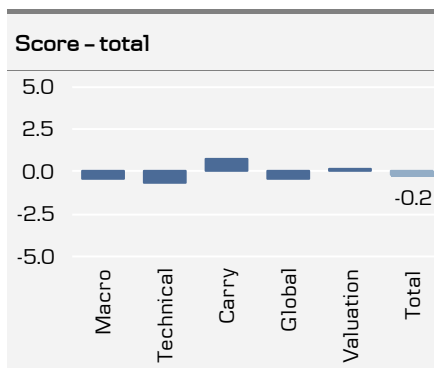
Source: Danske Bank Markets calculations



Source: Danske Bank Markets calculations



Source: Danske Bank Markets calculations



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EMEA FX scorecard outline

- All scores are computed on a scale from +5 to -5. A score is then derived by combining the different sub-scores.
- **Macro:** calculates the growth momentum in different monthly macro indicators.
- **Technical:** calculates the momentum in different volatility measures, short- and longer term moving averages and the level of the relative strength index.
- **Carry:** calculates the momentum in local three-month rates, carry-to-risk, spread versus EUR or USD three-month rates and spread versus peers.
- **Global:** consists of a global growth score based on leading global indicators, a liquidity score based on G3 real rates and a sentiment score based on performance in global equity markets and traditional funding currencies.
- **Valuation:** calculates whether currencies are over/undervalued compared with the long-term trend in the real effective exchange rate (REER). The trend is adjusted for external imbalances, i.e. an imbalance-adjusted REER. The scores are calibrated to reflect the short-term impact of the valuation on FX.

Currency forecasts, EMEA

Currency forecasts, EMEA						
Oct 9, 2014		EUR	USD	SEK	NOK	DKK
USD	Actual	1.28	-	715	641	583
	+3m	1.22	-	746	652	6105
	+6m	1.20	-	750	654	6204
	+12m	1.23	-	715	630	6053
PLN	Actual	4.17	3.27	218	196	178
	+3m	4.30	3.52	212	185	1732
	+6m	4.30	3.58	209	183	1731
	+12m	4.35	3.54	202	178	1711
HUF	Actual	306	240	2.98	26.76	2.44
	+3m	320	262	2.84	2.48	23.27
	+6m	320	267	2.81	2.45	23.27
	+12m	315	256	2.79	2.46	23.63
CZK	Actual	27.5	21.5	33.2	29.8	27.1
	+3m	28.2	23.1	32.3	28.2	264.1
	+6m	28.5	23.8	31.6	27.5	261.2
	+12m	28.5	23.2	30.9	27.2	261.2
LTL	Actual	3.45	2.71	264	237	216
	+3m	3.45	2.83	264	230	2159
	+6m	3.45	2.88	261	228	2158
	+12m	3.45	2.80	255	225	2158
RON	Actual	4.40	3.45	207	186	169
	+3m	4.45	3.65	204	179	1674
	+6m	4.45	3.71	202	176	1673
	+12m	4.45	3.62	198	174	1673
BGN	Actual	1.96	1.53	466	418	381
	+3m	1.96	1.60	465	406	3808
	+6m	1.96	1.63	460	401	3807
	+12m	1.96	1.59	450	396	3807
TRY	Actual	2.88	2.25	317	285	259
	+3m	2.68	2.20	340	297	2779
	+6m	2.70	2.25	333	291	2757
	+12m	2.83	2.30	311	274	2631
RUB	Actual	50.91	39.9	17.9	16.1	14.6
	+3m	49.5	40.6	18.4	16.1	150.5
	+6m	48.9	40.8	18.4	16.1	152.2
	+12m	51.3	41.7	17.2	15.1	145.3
UAH	Actual	16.52	12.95	55.2	49.6	45.1
	+3m	18.30	15.00	49.7	43.4	407.0
	+6m	18.00	15.00	50.0	43.6	413.6
	+12m	18.45	15.00	47.7	42.0	403.5
ZAR	Actual	14.02	10.99	65.0	58.4	53.1
	+3m	13.18	10.80	69.1	60.3	565.2
	+6m	13.20	11.00	68.2	59.5	564.0
	+12m	14.02	11.40	62.8	55.3	531.0
ILS	Actual	4.71	3.70	193.4	173.5	157.9
	+3m	4.51	3.70	201.6	176.1	1649.9
	+6m	4.44	3.70	202.7	176.8	1676.8
	+12m	4.55	3.70	193.4	170.3	1635.9

Source: Bloomberg, Danske Bank Markets

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