

EMEA Weekly

Ukraine getting closer to the edge

We have been expecting a soft devaluation of the Ukrainian hryvnia for some time, as the artificially strong exchange rate is creating severe imbalances in the economy. Currently, we see it as a likely scenario that Ukraine will allow soft devaluation in accordance with the IMF, which would lead to a 10% devaluation of the currency and then move to a managed float regime following the Russian example. However, as the necessary devaluation has been continuously postponed, it is beginning to seem more likely that the devaluation will be more dramatic.

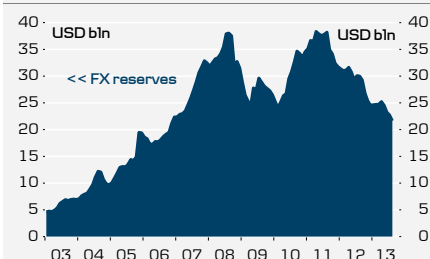
GDP has been contracting for a year now in Ukraine as domestic production has been declining significantly. Yet, retail sales growth was still 6.7% year-on-year in August, supported by low inflation and rapid wage growth. A large current account deficit has been putting a pressure on the hryvnia, which has led to a rapid deterioration in Ukrainian foreign exchange reserves. The reserves are already at a critical level, below three months' worth of imports. As market sentiment remains vulnerable for emerging markets, we believe external debt issuance is now very difficult for Ukraine and that significant debt redemptions are ahead.

A little more than a third of outstanding loans to both households and firms in Ukraine are still foreign-currency denominated. This makes devaluation politically very difficult. Nevertheless, we believe it is a good time for Ukraine to close a deal with the IMF, hike domestic gas tariffs and allow devaluation of the currency. Co-operation with the IMF would of course reduce the country's independence, but only temporarily. The other alternative would be closer co-operation with Russia, which might have less predictable consequences. A hike in gas tariffs would speed up inflation, but the CPI is now around 0%, so there is room for tariff increases. The presidential election is still some time away (in March 2015), which allows the economy to grow while the election draws nearer. By postponing a necessary devaluation of the currency, Ukraine risks a severe collapse in its currency, whereas the IMF could provide the tools for a more restrained devaluation.

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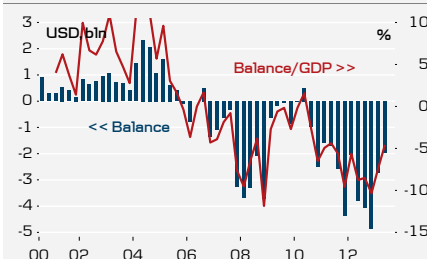
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Ukraine's FX reserves



Source: Macrobond, Danske Bank Markets

Ukrainian current account



Source: Danske Bank Markets, Macrobond

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Calendar

EMEA Data and Events in Week 39

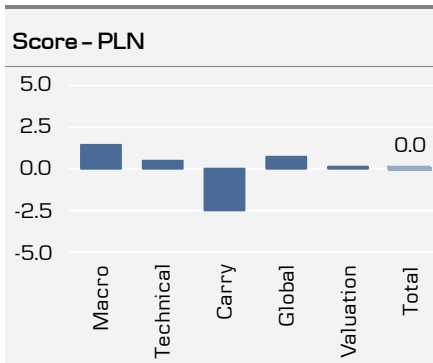
Monday, September 23, 2013					Period	Danske Bank	Consensus	Previous
LTL	10:00	Industrial production	y/y	Aug				3.0%
Tuesday, September 24, 2013					Period	Danske Bank	Consensus	Previous
PLN	10:00	Unemployment	%	Aug	13.1%	13.1%	13.1%	
PLN	10:00	Retail sales	y/y	Aug	2.5%	2.7%	4.3%	
HUF	14:00	Central Bank meeting (rate decision)	%		3.60%	3.70%	3.80%	
Wednesday, September 25, 2013					Period	Danske Bank	Consensus	Previous
Thursday, September 26, 2013					Period	Danske Bank	Consensus	Previous
ZAR	11:30	Producer prices	y/y	Aug				6.6%
CZK	13:00	Monetary policy meeting	%		0.05%	0.05%	0.05%	
Friday, September 27, 2013					Period	Danske Bank	Consensus	Previous
HUF	8:30	Current account	EUR m.	2nd quarter		500	549	
HUF	9:00	Unemployment	%	Aug	10.0%	10.0%	10.1%	
LTL	10:00	Retail trade	y/y	Aug				7.9%

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

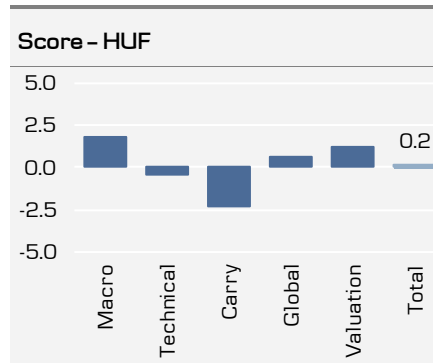
All release times are CET

Source: Danske Bank Markets

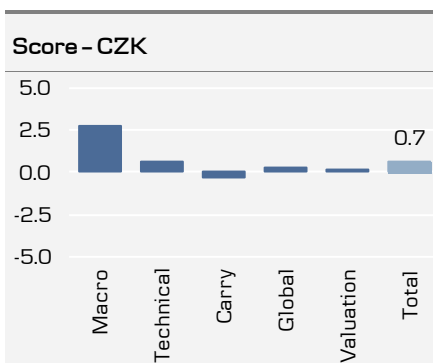
EMEA FX scorecard overview



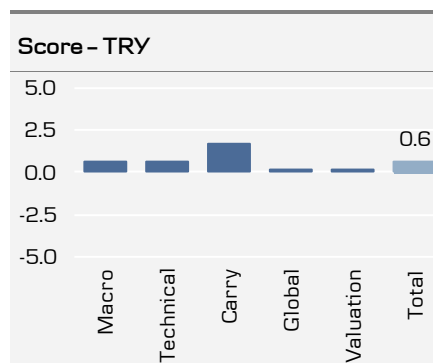
Source: Danske Bank Markets calculations



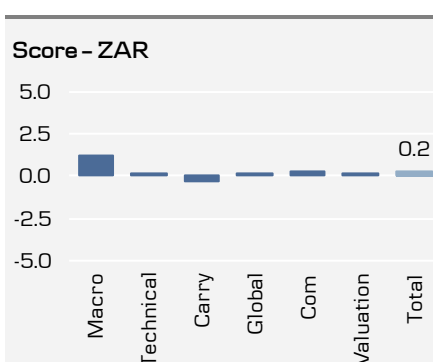
Source: Danske Bank Markets calculations



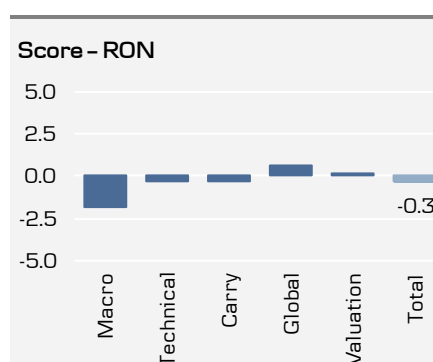
Source: Danske Bank Markets calculations



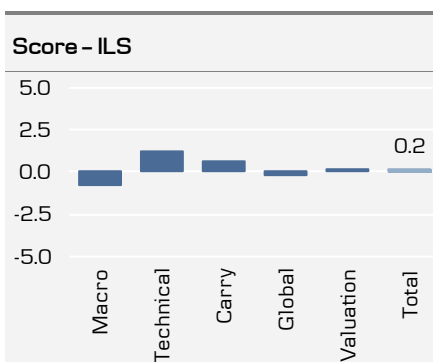
Source: Danske Bank Markets calculations



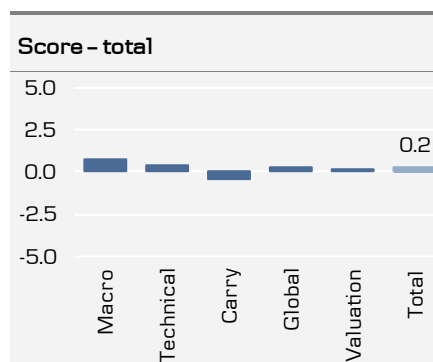
Source: Danske Bank Markets calculations



Source: Danske Bank Markets calculations



Source: Danske Bank Markets calculations



Source: Danske Bank Markets calculations

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

Sep 17, 2013		EUR	USD	SEK	NOK	DKK
USD	Actual	1.34	-	649	591	559
	+3m	1.31	-	649	588	569
	+6m	1.28	-	656	594	583
	+12m	1.25	-	664	604	597
PLN	Actual	4.21	3.16	206	187	177
	+3m	4.22	3.22	201	182	177
	+6m	4.30	3.36	195	177	173
	+12m	4.26	3.41	195	177	175
HUF	Actual	299	224	2.90	2.64	2.49
	+3m	300	229	2.83	2.57	2.49
	+6m	295	230	2.85	2.58	2.53
	+12m	295	236	2.81	2.56	2.53
CZK	Actual	25.8	19.3	33.6	30.6	29.0
	+3m	25.8	19.7	32.9	29.8	28.9
	+6m	25.7	20.1	32.7	29.6	29.0
	+12m	25.6	20.5	32.4	29.5	29.1
LVL	Actual	0.70	0.53	1233	1123	1062
	+3m	0.70	0.53	1214	1100	1066
	+6m	0.70	0.55	1200	1086	1066
	+12m	0.70	0.56	1186	1079	1066
LTL	Actual	3.45	2.59	251	228	216
	+3m	3.45	2.63	246	223	216
	+6m	3.45	2.70	243	220	216
	+12m	3.45	2.76	241	219	216
RON	Actual	4.47	3.35	194	176	167
	+3m	4.55	3.47	187	169	164
	+6m	4.55	3.55	185	167	164
	+12m	4.50	3.60	184	168	166
BGN	Actual	1.96	1.47	443	403	381
	+3m	1.96	1.49	435	394	381
	+6m	1.96	1.53	429	389	381
	+12m	1.96	1.56	424	386	381
TRY	Actual	2.68	2.01	324	294	278
	+3m	2.55	1.95	333	302	293
	+6m	2.56	2.00	328	297	291
	+12m	2.56	2.05	324	295	291
RUB	Actual	43.20	32.4	20.0	18.3	17.3
	+3m	43.5	33.2	19.5	17.7	17.1
	+6m	41.1	32.1	20.4	18.5	18.2
	+12m	43.9	35.1	18.9	17.2	17.0
UAH	Actual	10.92	8.18	79.3	72.2	68.3
	+3m	10.68	8.15	79.6	72.1	69.9
	+6m	10.56	8.25	79.5	72.0	70.6
	+12m	10.75	8.60	77.2	70.2	69.4
ZAR	Actual	13.11	9.82	66.0	60.1	56.9
	+3m	12.67	9.67	67.1	60.8	58.9
	+6m	12.77	9.98	65.8	59.5	58.4
	+12m	12.84	10.27	64.7	58.8	58.1
ILS	Actual	4.72	3.54	183.3	166.9	157.9
	+3m	4.65	3.55	182.8	165.6	160.4
	+6m	4.54	3.55	184.9	167.3	164.2
	+12m	4.50	3.60	184.4	167.8	165.8

Source: Bloomberg, Danske Bank Markets

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