



Emerging Markets

# Quarterly Currency Outlook

---

2017 Q2

*Extracts from the original document*

*Completed on May 04, 2017*

## Content

|     |                         |    |
|-----|-------------------------|----|
| 1.  | Summary tables.....     | 4  |
| 2.  | Brazilian Real .....    | 5  |
| 3.  | Chinese Yuan .....      | 6  |
| 4.  | Indian Rupee.....       | 7  |
| 5.  | Indonesian Rupiah.....  | 8  |
| 6.  | Korean Won.....         | 9  |
| 7.  | Mexican Peso.....       | 10 |
| 8.  | Polish Zloty .....      | 11 |
| 9.  | Russian Ruble .....     | 12 |
| 10. | South African Rand..... | 13 |
| 11. | Turkish Lira .....      | 14 |

## 1. Summary tables

**Exchange Rate Forecasts for September 2018**  
(month average against Euro)

|                          | Mixture model<br>mode | 75% confidence interval |
|--------------------------|-----------------------|-------------------------|
| Brazilian Real (BRL)     | 3.33                  | 2.9 – 3.8               |
| Chinese Yuan (CNY)       | 7.27                  | 6.6 – 7.9               |
| Indian Rupee (INR)       | 76.5                  | 73.3 – 79.6             |
| Indonesian Rupiah (IDR)  | 14 507                | 12 349 – 16 798-        |
| Korean Won (KRW)         | 1 145                 | 993 – 1 309             |
| Mexican Peso (MXN)       | 21.0                  | 19.2 – 22.6             |
| Polish Zloty (PLN)       | 4.31                  | 4.1 – 4.6               |
| Russian Ruble (RUB)      | 66.1                  | 57.8 – 75.6             |
| South African Rand (ZAR) | 16.9                  | 15.5 – 18.2             |
| Turkish Lira (TRY)       | 4.03                  | 3.3 – 4.8               |

**Cross-Rates Forecasts for September 2018**  
(month average)

|            | BRL         | CNY         | INR         | IDR           | KRW          | MXN         | PLN         | RUB         | ZAR         | TRY         |
|------------|-------------|-------------|-------------|---------------|--------------|-------------|-------------|-------------|-------------|-------------|
| <b>USD</b> | <b>3.15</b> | <b>6.87</b> | <b>72.3</b> | <b>13 708</b> | <b>1 082</b> | <b>19.9</b> | <b>4.08</b> | <b>62.5</b> | <b>15.9</b> | <b>3.81</b> |
| <b>EUR</b> | <b>3.33</b> | <b>7.27</b> | <b>76.5</b> | <b>14 507</b> | <b>1 145</b> | <b>21.0</b> | <b>4.31</b> | <b>66.1</b> | <b>16.9</b> | <b>4.03</b> |
| <b>BRL</b> |             | 2.18        | 23.0        | 4 356         | 343.7        | 6.32        | 1.30        | 19.9        | 5.06        | 1.21        |
| <b>CNY</b> | 0.46        |             | 10.5        | 1 996         | 157.5        | 2.90        | 0.59        | 9.10        | 2.32        | 0.55        |
| <b>INR</b> | 0.04        | 0.10        |             | 189.7         | 15.0         | 0.28        | 0.06        | 0.86        | 0.22        | 0.05        |
| <b>IDR</b> | 0.00        | 0.00        | 0.01        |               | 0.08         | 0.00        | 0.00        | 0.00        | 0.00        | 0.00        |
| <b>KRW</b> | 0.00        | 0.01        | 0.07        | 12.7          |              | 0.02        | 0.00        | 0.06        | 0.01        | 0.00        |
| <b>MXN</b> | 0.16        | 0.35        | 3.63        | 689.2         | 54.4         |             | 0.20        | 3.14        | 0.80        | 0.19        |
| <b>PLN</b> | 0.77        | 1.69        | 17.7        | 3 363         | 265.4        | 4.88        |             | 15.3        | 3.91        | 0.93        |
| <b>RUB</b> | 0.05        | 0.11        | 1.16        | 219.4         | 17.3         | 0.32        | 0.07        |             | 0.25        | 0.06        |
| <b>ZAR</b> | 0.20        | 0.43        | 4.54        | 860.9         | 67.9         | 1.25        | 0.26        | 3.92        |             | 0.24        |
| <b>TRY</b> | 0.83        | 1.80        | 19.0        | 3 600         | 284.1        | 5.22        | 1.07        | 16.4        | 4.18        |             |

## 2. Brazilian Real

Episodes of high volatility of the Brazilian Real are very likely over the next quarters: monetary policy easing, US Fed funds hike, dependence to oil prices...

However, the Brazilian Real would remain close to BRL 3.0 against the USD, equivalent to BRL 3.30 against the Euro

### Econometric Projections

Banco Central do Brasil continues its monetary policy easing, lowering the Selic rate to 12.25% from 14.25% 6 months ago. This is in line with the decrease in inflation rate (+4.6% yoy consumer price growth in March), in the middle of the target range of the Central Bank (4.5% ± 2.0%). Despite a cumulative 200 bp cut so far, there is no visible impact on the Real, meaning that the currency remains attractive due to still significant carry-trade compared to other currencies, and that markets appreciate the fall in inflationary pressure. The period of easing should continue all along 2017 and the policy rate will likely reduce to 10% by the end of the year.

Our scenarios are very similar to those presented in last issues: gradual exit from recession, easing of inflationary pressures. The models anticipate the Brazilian Real to hover around BRL 3.0 against the Dollar.

### RiskMonitor Analysis

Brazil's Economic & Financial Risk Rating remains poor (average rating at 50.2-C), even though it has declined for 3 quarters. It is associated with a WatchList Indication on Exchange Rate for the period 2017 Q1-2020 Q1.

After a massive overvaluation in 2012-2014, and an undervaluation in 2015-2016 H1, the currency has now re-entered the overvaluation area in line with the impressive re-appreciation of the BRL since early-2016. This means that the currency could experience bouts of volatility, likely temporary episodes of depreciation even though the Real would not diverge substantially from USD/BRL 3.20.

### Consensus Projections

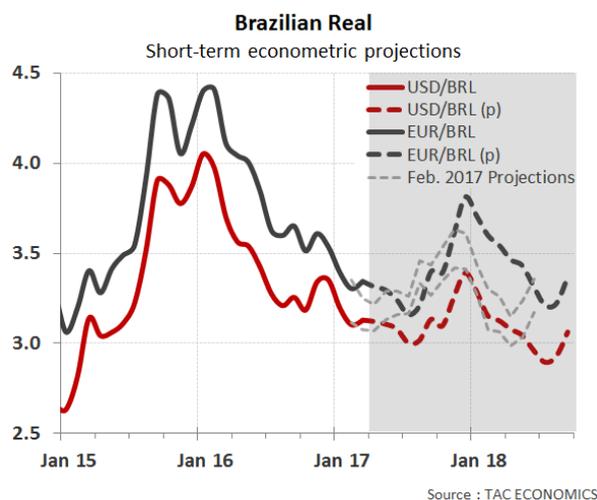
end-of-period value against Euro\*

|            | Mean | Divergence | Max  | Min  |
|------------|------|------------|------|------|
| May 2017   | 3.33 | 8.6%       | 3.44 | 3.15 |
| July 2017  | 3.37 | 11.0%      | 3.58 | 3.21 |
| Apr. 2018  | 3.52 | 16.5%      | 3.76 | 3.17 |
| Sept. 2018 | 3.60 |            |      |      |

Source: Consensus Inc.

\*The divergence index does not include the divergence on EUR/USD.

| TAC ECONOMICS Projections<br>(Mixed econometric and RiskMonitor approach) |            |            |            |
|---|------------|------------|------------|
|   | Sept. 2017 | March 2018 | Sept. 2018 |
| EUR/BRL   | 3.38       | 3.51       | 3.33       |



**Economic & Financial Risk Rating - Brazil 50.2-C**  
from 0 (lowest risk) to 100 (highest risk)

