



February 3, 2016

Currency Report Card

February 2016

Three month forecast returns

Most bullish	Most bearish
INR	ARS
USD	BRL
KRW	SEK

Source: RBC Capital Markets

12 month forecast returns

Most bullish	Most bearish
MXN	ARS
RUB	BRL
CLP	SGD

Source: RBC Capital Markets

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All values in USD unless otherwise noted.

Priced as of prior trading day's market close, ET (unless otherwise stated).

Forecast revisions include:

USD/JPY: Near-term revised lower. Q1 2016 now 124 (previously 128). 132 peak now in Q3 (previously Q2).

EUR/GBP: Near-term profile revised higher. End-Q1 now 0.73 (0.68).

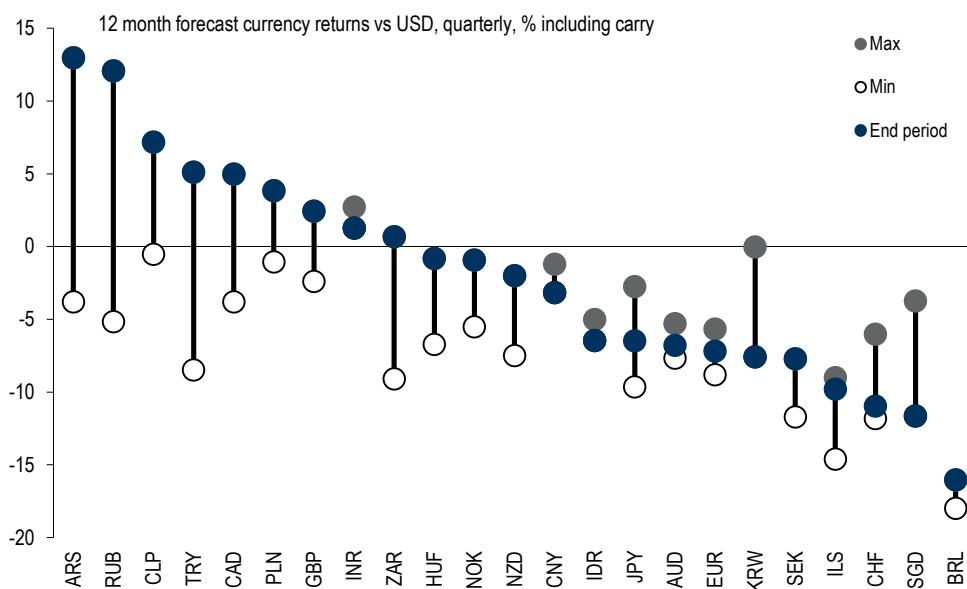
USD/MXN: Near-term profile revised higher. End Q1 now 19.0 (17.0).

USD/BRL: Profile revised higher. End-2016 now 5.10 (4.39).

USD/ZAR: Profile revised higher. End-2016 now 17.0 (14.8).

USD/RUB: Profile revised higher. End-2016 now 77 (62).

High-yield EM and GBP outperformance; BRL, CHF and SGD underperformance; USD mixed



Source: RBC Capital Markets



Table of contents

Majors	
US Dollar.....	3
Euro.....	4
Japanese Yen.....	5
Sterling.....	6
Swiss Franc.....	7
Scandis	
Swedish Krona.....	8
Norwegian Krone.....	9
Commodity Currencies	
Canadian Dollar.....	10
Australian Dollar.....	11
New Zealand Dollar.....	12
Asia	
Chinese Yuan.....	13
Indian Rupee.....	14
South Korean Won.....	15
Singaporean Dollar.....	16
Indonesian Rupiah.....	17
EMEA	
Turkish Lira.....	18
Russian Ruble.....	19
South African Rand.....	20
Polish Zloty.....	21
Hungarian Forint.....	22
Czech Koruna.....	23
Israeli Shekel.....	24
Latin America	
Mexican Peso.....	25
Brazilian Real.....	26
Chilean Peso.....	27
Argentine Peso.....	28
Colombian Peso.....	29
Forecasts.....	30

US Dollar

Elsa Lignos

1-3 Month Outlook – Policy is still diverging

When it hiked rates in December, the Fed indicated with its dot plot that it expected to hike rates another four times in 2016. The market was already sceptical (priced for just two hikes in 2016 on Jan 1) and it is even more sceptical now (not even priced for one full hike). The debate now centres on whether the Fed can afford to hike rates when: (1) the rest of the world is easing, (2) equity markets are under pressure, (3) inflation expectations are falling and (4) US economic data appear to be slowing. We are less pessimistic than most others seem to be. While the rest of the world is indeed easing, we have argued before that the US can sustain a stronger currency than many give it credit for (see [Total FX, 8 May 2015](#)). Inflation expectations are falling rapidly on market-based measures (global breakevens have tumbled) but consumer-based measures, are relatively stable. On market turmoil, the January FOMC statement was very balanced, sounding less concerned than it did following the August sell-off (back then it had said developments “may restrain” the economy; now the Fed is just “assessing their implications”). Key to watch going forward will be January’s payrolls report and Yellen’s Humphrey-Hawkins testimony on Feb 10-11. If we get another month of 150-200K jobs growth and a balanced testimony from Yellen, we think a March hike should be given higher odds (currently less than 1 in 5). What does that mean for USD? Ordinarily faster than expected hikes are currency positive but does that change if the market perceives the Fed to be making a policy mistake? We think the example of the ECB (hiking in 2011) and EUR (rallying as it did) suggests markets would treat Fed hikes as USD positive regardless (particularly against risk proxies). USD has already had a good start to the year, even as rate expectations have unwound, as USD is trading as a bit more of a safe haven (see [Total FX, 29 Jan 2015](#)).

6-12 Month Outlook – Further appreciation

If monetary easing is successful in boosting domestic demand in other parts of the world (Europe, China, Japan), the US will also be a beneficiary, despite stronger USD. 2016 is also an election year. One thing we will be watching is the possibility for tax reform. With many US companies parking earnings abroad to avoid taxation on repatriation, a significant tax reform also has the potential to be USD positive.

Forecasts

	2016				2017			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.03	1.00	1.00	1.02	1.03	1.04	1.05	1.06
USD/JPY	124	128	132	128	126	124	122	120
USD/CAD	1.45	1.40	1.36	1.33	1.31	1.29	1.27	1.25

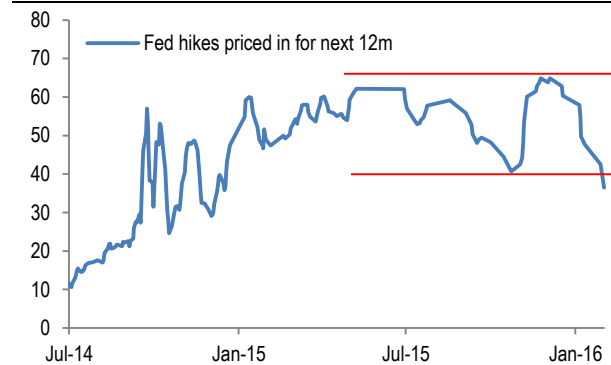
Source: RBC Capital Markets estimates

Indicators

	Current (Previous)*
Official cash rate	0.50% (0.25%)
Trend interest rates (10yr average)	1.9%
Bias in interest rate market	Higher
Core PCE Inflation %Y/Y Oct (Sep)	1.3% (1.3%)
Inflation target	Price stability
Budget balance % GDP FY14 (FY13)	-2.8% (-4.6%)
Budget balance target % GDP	-
GDP Growth % y/y Q3 (Q2)	2.2% (2.7%)
Trend GDP %y/y	2.5%
Purchasing Power Parity Value	-
Spot	-
PPP Valuation	-
Current account balance % GDP Q3 (Q2)	-2.4% (-2.3%)
Trend current account balance % GDP	-3.7%
Moody's Foreign Currency Rating	Aaa
Outlook	Stable

* Current is latest month, quarter or year

1. Market rapidly unprices expectations for Fed tightening



Source: RBC Capital Markets; Bloomberg

2. Export weakness does not reflect strong USD



Source: RBC Capital Markets; Haver

Euro

Elsa Lignos

1 – 3 Month Outlook – Preparing for March

EUR was amongst the top performers in January but what was perhaps surprising was EUR/USD's stability in the face of global equities selling off. When the S&P tumbled 10% in August, EUR/USD rallied 6%. This time as the S&P sold off 10%, EUR/USD was flat. In part, it is because USD appears to be re-establishing itself as a risk proxy (see previous page). But it also seems to reflect the lightening up of short EUR/USD positioning which took place after December's squeeze (Figure 1). For more see [Total FX, 29 Jan 2015](#).

Meanwhile Draghi has once again raised expectations of further ECB easing though this time, it is less of a promise and more of a guideline (the ECB is set to "review and possibly reconsider" its stance in March). We think a depo rate cut appears to be the "path of least resistance" within the Governing Council. For starters, the Dec Accounts confirmed that some of the more hawkish members (ie those who opposed broad-based action at the time) were actually in favour of a deeper cut to the depo rate. As our European rates & economics team set out in its [recent analysis](#), we think the ECB has underestimated the degree of slack in the euro area. Looking beyond energy price dynamics, in our view, inflationary pressures are set to remain subdued for longer than the ECB anticipates. We expect the updated staff forecasts in March to incorporate a more cautious assessment, and this too should prompt further cause for easing. A 10bp cut in the deposit rate seems the least that needs to be delivered and we would not rule out a deeper cut to -50bp either. That is at least partly priced in (EONIA discounting a 90% probability of a 10bps cut in March) but there is room for it to run further, pushing EUR/USD lower. Technically, EUR/USD is getting interesting—there is a rising trendline drawn off the December lows which is converging with the falling trendline drawn off the Dec and Jan highs (Figure 8). Support now comes in just above 1.08, with resistance at 1.0956. A break of one or the other will give the new short-term directional bias.

6 – 12 Month Outlook – No inflation; falling reserves

Until there is real domestically-generated inflation, it is hard to call EUR sustainably higher. Headline inflation has been dragged down by energy prices but even core inflation is soft (particularly in Spain/other periphery countries). The ongoing drawdown in global reserves is also a downside risk for EUR (see Figure 2 and [Total FX, 28 Aug 2015](#)). Eventually we think EUR recovers but it will be slow and many quarters away.

Forecasts

	2016				2017			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.03	1.00	1.00	1.02	1.03	1.04	1.05	1.06
EUR/JPY	128	128	132	131	130	129	128	127
EUR/CAD	1.49	1.40	1.36	1.36	1.35	1.34	1.33	1.33

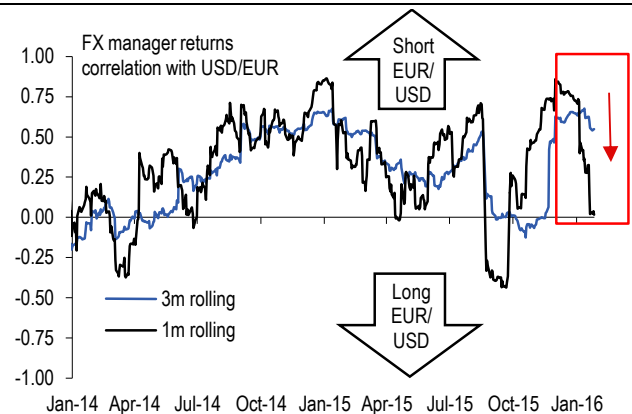
Source: RBC Capital Markets estimates

Indicators

	Current (Previous)*
Official cash rate	0.05% (0.05%)
Trend interest rates 10y average	1.9%
Bias in interest rate market	Lower
HICP core Inflation %Y/Y Jan (Dec)	1.0% (0.9%)
Inflation target	Close to but less than 2.0%
Budget balance % GDP FY14 (FY13)	-2.4% (-2.1%)
Budget balance target % GDP	3% of GDP-Unless special circumstances
GDP Growth %Y/Y Q3 (Q2)	1.6% (1.5%)
Trend GDP %y/y	1.1%
Purchasing Power Parity Value Dec	1.2546
Spot end-Jan	1.0832
PPP Valuation	EUR/USD is undervalued
Current account % GDP Q2 (Q1)	2.6% (2.3%)
Trend current account balance % GDP	0.3%
Moody's Foreign Currency Rating	Aaa (Germany)
Outlook	Stable

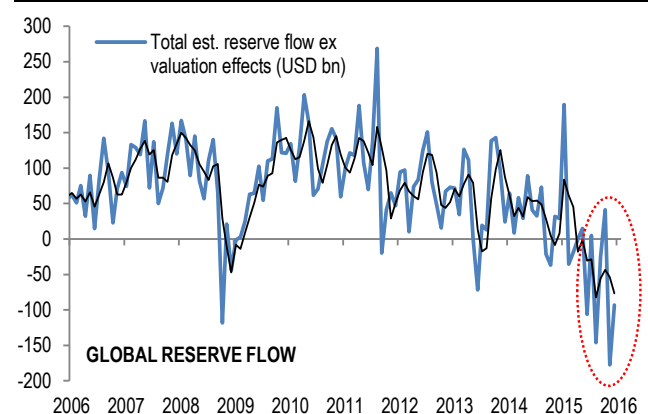
* Current is latest month, quarter or year

1. Short EUR positioning has lightened up



Source: RBC Capital Markets; Bloomberg

2. Global reserve drawdown picking up pace



Source: RBC Capital Markets; Bloomberg

Japanese Yen

Adam Cole

1 – 3 Month Outlook – BoJ floor under USD/JPY

JPY kicked off 2016 with gains against almost all G10 and EM currencies as markets turned risk-averse and JPY traded in line with its long-standing status as a safe haven. Those gains partially unwound in a swift 200pt USD/JPY rally after the BoJ surprised markets at its January 29 policy board meeting. Having rejected the notion of negative rates for years, the BoJ introduced a negative deposit rate at that meeting. Compared to other negative rate regimes (ECB, SNB, Riksbank), the BoJ's takes a relatively dilute form. A three tiered system means existing deposits at the BoJ will continue to be remunerated at 0.1%, *required* reserves will pay 0.0% and only newly created deposits will carry the penal rate of -0.1%. The negative rate will therefore slowly work its way into the system as new deposits are created as a result of the existing JGB buying programme, which was left unchanged at the January meeting. Though the move flattened the entire JGB curve (yields -5 to -10 bp), the impact on the real economy will be limited and it is hard to avoid the conclusion that the BoJ had recent JPY strength in mind in making the change. The small change will not alter JPY's status as a safe-haven, but it will help put JPY back in contention with "new" funding currencies like EUR if markets turn more risk-seeking in future. In signalling its dissatisfaction with recent JPY gains and willingness to act, the BoJ action should at least have limited the pace of JPY gains in risk-averse markets. Our core view on JPY remains negative and the factors that drive that (mostly flow-related) have not changed during the rally of the last two months. The BoJ's action should at least make that view less vulnerable to risk-off rallies. We have revised down our Q1 target (124 from 128) reflecting lower spot, but we still expect USD/JPY to drift higher.

6 – 12 Month Outlook – Unhedged capital flows

In our view, the capital outflows that drove USD/JPY to the 2015 high around 126 are ongoing and, were it not for two bouts of severe risk aversion, the uptrend would have continued. The GPIF reallocation into overseas assets, on our arithmetic, has at least another six months to run and other public sector outflows will compound the JPY selling that results. And we still expect private sector investors to start selling JPY (via lower hedge ratios) as US rates continue to rise. We retain our forecast peak of 132 for USD/JPY, but we have pushed the timing back to Q3 from Q2 previously.

Forecasts

	2016				2017			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/JPY	124	128	132	128	126	124	122	120
EUR/JPY	128	128	132	131	130	129	128	127
CAD/JPY	86	91	97	96	96	96	96	96

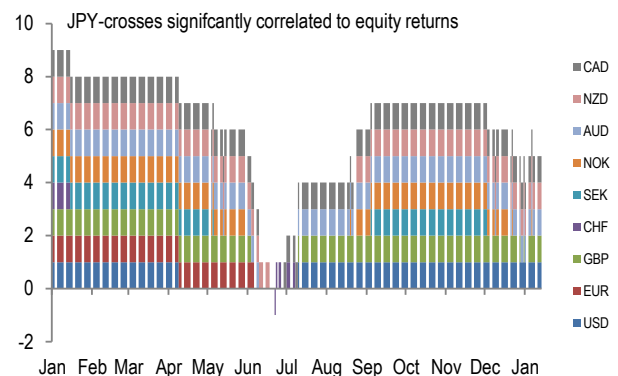
Source: RBC Capital Markets estimates

Indicators

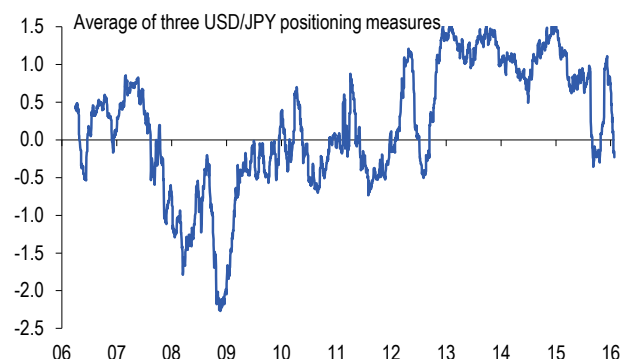
	Current (Previous)*
Official cash rate	0.1% (0.1%)
Trend interest rates 10y average	0.15%
Bias in interest rate market	Flat
CPI Inflation %Y/Y Nov (Dec)	0.1% (-0.1%)
Inflation target	2.0%
Budget balance % GDP FY14 (FY13)	-7.0% (-7.8%)
Budget balance target % GDP	n/a
GDP Growth %Y/Y Q3 (Q2)	1.7% (0.7%)
Trend GDP %Y/Y	1.0%
Purchasing Power Parity Value Dec	89.83
Spot end-Jan	121.14
PPP Valuation	USD/JPY is overvalued
Current a/c balance % GDP Q3 (Q2)	3.4% (3.1%)
Trend current account balance % GDP	2.7%
Moody's Foreign Currency Rating	A1
Outlook	Stable

* Current is latest month, quarter or year

1. JPY regains safe-haven status after brief loss


Source: RBC Capital Markets; Bloomberg

2. USD/JPY longs are gone


Source: RBC Capital Markets; Bloomberg, Parker Global Strategies

Sterling

Adam Cole

1-3 Month Outlook – Oversold?

GBP has traded very badly through December and January, underperforming all but the commodity currencies in G10 and EUR/GBP hit a 12 month high above 0.77. In part, GBP underperformance reflects rate expectations, with the SONIA curve now not pricing in a full rate hike until mid-2017. As Figure 1 shows, however, GBP weakness since early-December goes far beyond that implied by relative rate movements. The most widely-touted explanation for GBP's poor performance is that it reflects a rising risk premium associated with the risk of EU exit. An objective look at the evidence on this, however, suggests it is unlikely to be the case. According to the broad run of opinion polls, the big fall in support for staying in the EU happened around August/September and it happened very quickly. In recent weeks, polls have shown "stay" and "leave" neck-and-neck and little changed. And the few market-based measures we have show the implied probability of UK exit *falling* steadily over the last two months (Figure 2). We think it far more likely that GBP weakness simply reflects the risk proxy status of many GBP crosses (especially EUR/GBP) and the heavily risk-off nature of markets in recent weeks. Looking forward, it is difficult to see rate expectations doing much more damage to GBP. The forward curve is so flat that unless it moves to price in an even more significant risk of a cut (currently around 30% priced) there is little forward premium to remove. With the underlying driver of anti-EU sentiment (immigration) largely out of the spotlight for the time being, the "exit risk premium" is more likely to narrow than widen in the near term. A stabilisation of, or recovery in, risk appetite should therefore set GBP up a reversal of recent losses and this is what we expect in the remainder of Q1.

6-12 Month Outlook – Firmer, but with growing risks

Further into 2016, the rate dynamic should be moderately positive for GBP (our economists recently pushed back their expectation of the first hike, but only to February 2017) and the main downside risks for GBP are the still very large current account imbalance (5.1% of GDP in the last four quarters) and another bout of concern on UK EU exit. We think the domestic source of the current account imbalance (mostly the public sector) makes it manageable and our central expectation is still that the UK will not vote itself out of the EU. But these two uncertainties mean the tail risks around our moderately positive central forecast are unusually large in 2017.

Forecasts

	2016				2017			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
GBP/USD	1.41	1.41	1.43	1.48	1.51	1.55	1.59	1.63
EUR/GBP	0.73	0.71	0.70	0.69	0.68	0.67	0.66	0.65
GBP/JPY	175	180	189	189	191	192	194	196
GBP/CAD	2.05	1.97	1.94	1.97	1.98	2.00	2.02	2.04

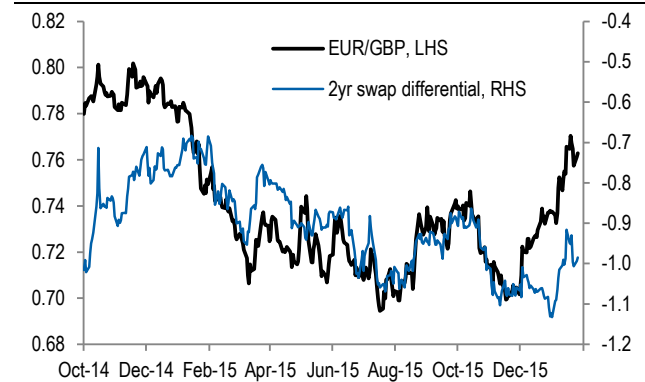
Source: RBC Capital Markets estimates

Indicators

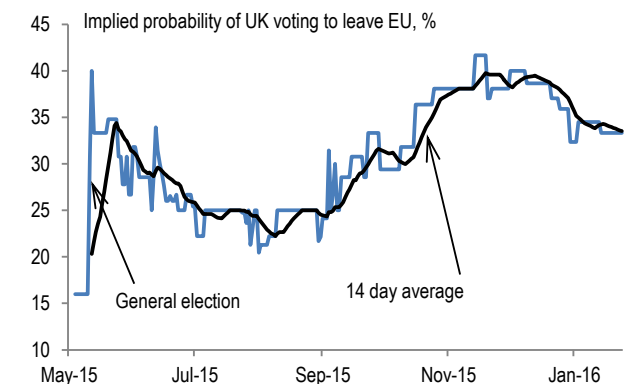
	Current (Previous)*
Official cash rate	0.5% (0.5%)
Trend interest rates 10y average	3.3%
Bias in interest rate market	Flat
CPI Inflation %Y/Y Dec (Nov)	0.2% (0.1%)
Inflation target (HICP)	2.0%
Budget balance % GDP FY13 (FY12)	-5.8% (-6.1%)
Budget balance target % GDP	Balanced current budget over the cycle
GDP Growth %Y/Y Q4 (Q3)	1.9% (2.1%)
Trend GDP %Y/Y	2.5%
Purchasing Power Parity Value Dec	1.5066
Spot end-Jan	1.4244
PPP Valuation	GBP/USD is undervalued
Current a/c balance % GDP Q2 (Q1)	-4.7% (-5.1%)
Trend current account balance % GDP	-3.0%
Moody's Foreign Currency Rating	Aa1
Outlook	Stable

* Current is latest month, quarter or year

1. GBP weakness only partly explained by rates


Source: RBC Capital Markets, Bloomberg

2. Exit risk is falling, not rising


Source: RBC Capital Markets, Oddschecker

Swiss Franc

Elsa Lignos

1 – 3 Month Outlook – EUR/CHF higher

After a long time stuck below 1.10, EUR/CHF has finally broken to a high of 1.1166 for the first time since the SNB floor broke in January 2015. It is hard to rationalize the move but it brings EUR/CHF a little closer to fundamental measures of fair value. Coupled with EUR/USD sideways performance, it is pushing USD/CHF higher.

Though EUR/CHF is up 2.5% since the start of the year (and at one point was up over 3%), the pace of appreciation in EUR/CHF remains painfully slow. We have positioned for higher EUR/CHF in options with a risk reversal but the tenor (1y at entry, expiring July 2016) shows how long we expect this process to take. At the very least, we can now say it is moving in the right direction. Technically, EUR/CHF has displayed an orderly (albeit glacial) uptrend since April 2015. The bullish backdrop suggests that pullbacks to support at 1.1050 and 1.0939 will attract buying interest for a move to resistance at 1.1166, followed by 1.1217.

From time to time, the SNB still threatens to do more if necessary but shows a reluctance to deliver on that threat – i.e. the SNB does not seem likely to cut rates further in an attempt to push EUR/CHF higher, rather it may use its remaining policy tools (further cuts and/or actual intervention) to prevent EUR/CHF from trading much lower.

6 – 12 Month Outlook – Still waiting for inflation

The long-term path for EUR/CHF will be determined by who sees inflation first: Switzerland or the Euro area. Our guess would be the Euro area (though neither looks likely to see strong inflation any time soon). Extrapolating the last year of the SNB's forecasts, it would take until Q3 2019 to reach the 2% target. The 1.2% conditional inflation forecast for Q3 2018 also assumes rates stay at -0.75% throughout the forecast period. That weak inflation outlook should allow the SNB to keep its nominal rates lowest in the world. While its real rates are amongst the highest in G10, we have shown before that nominal rates are more important in driving spot FX returns (see [Total FX](#), 2 Aug 2013). Valuation is often suggested as a reason to be short CHF but the truth is CHF trades persistently above what "fair value" (at least in a PPP sense) would suggest.

Forecasts

	2016				2017			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CHF	1.08	1.12	1.13	1.12	1.12	1.11	1.10	1.09
EUR/CHF	1.11	1.12	1.13	1.14	1.15	1.15	1.16	1.16
CHF/JPY	115	114	117	115	113	112	110	110
CAD/CHF	0.74	0.80	0.83	0.84	0.85	0.86	0.87	0.88

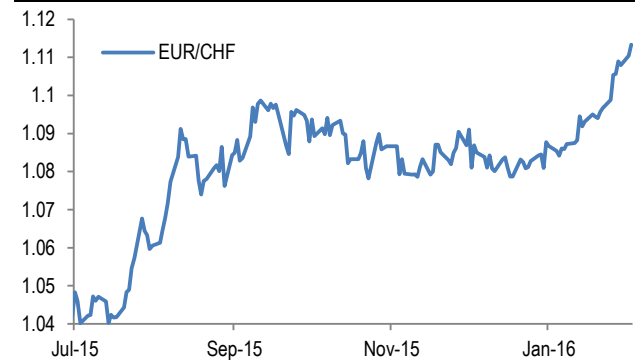
Source: RBC Capital Markets estimates

Indicators

	Current (Previous)*
Official cash rate	-0.25 to -1.25% (0.25 to -0.75%)
Trend interest rates 10y average	1.70%
Bias in interest rate market	Neutral
CPI Inflation %Y/Y Dec (Nov)	-1.3% (-1.4%)
Inflation target	less than 2.0%
Budget balance % GDP FY14 (FY13)	0.5% (0.1%)
Budget balance target % GDP	Balanced over the business cycle
GDP Growth %Y/Y Q3 (Q2)	0.8% (0.9%)
Trend GDP %Y/Y	1.80%
EUR Purchasing Power Parity Value Dec	1.2425
EUR/CHF spot end-Jan	1.1083
EUR/CHF PPP Valuation	EUR/CHF is undervalued
Current a/c balance % GDP Q2 (Q1)	9.0% (7.8%)
Trend current account balance % GDP	8.0%
Moody's Foreign Currency Rating	Aaa
Outlook	Stable

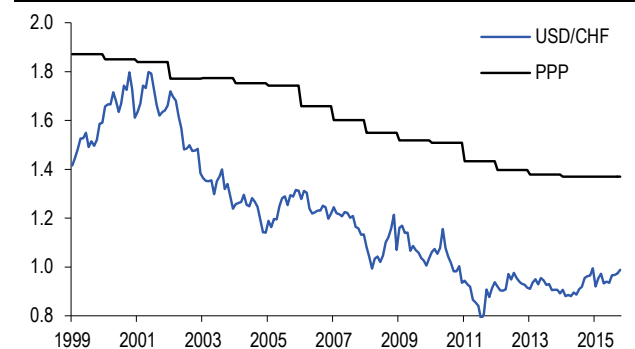
* Current is latest month, quarter or year

1. EUR/CHF starts trending higher



Source: RBC Capital Markets; Bloomberg

2. USD/CHF is persistently "undervalued" by PPP metrics



Source: RBC Capital Markets; Bloomberg

Swedish Krona

Adam Cole

1-3 Month Outlook – Hemmed in

EUR/SEK has been a 9.10-9.40 range-trade for three months, hemmed in by the risk of Riksbank intervention on the downside and an otherwise positive domestic picture on the upside. At the start of February, we are trading around the middle of that range. The domestic news flow remains positive. GDP growth was almost 4% y/y in the latest quarter and the monthly indicators have subsequently continued to show strong growth and recovering business and consumer confidence. Core inflation, whilst still below the Riksbank's CPI target (1.0% compared to 2.0%), remains on a gently accelerating trend. Yet the Riksbank clearly remains sensitive to headline inflation (0.1% y/y in December) and the executive board gave the power of intervention (with no board meeting) to the governor and his deputy in early-January. If the recommendations of the [King/Goodfriend Review](#) eventually result in change in the Riksbank's mandate, this will ultimately result in a reduction in sensitivity to headline inflation and reduced need to respond to over/undershoots. But this is unlikely to happen quickly (the Riksdag and Riksbank are now debating the recommendations) and in the near term, the threat of intervention remains real and the perceived line in the sand around 9.00-9.10 in EUR/SEK should prevent a more material SEK rally. In large part this reflects the importance of the spring wage round, when around two thirds of the labour force will settle wage deals, many of them lasting for three years.

6-12 Month Outlook – Positive from Q2

Beyond the Spring, however, the outlook for SEK is much more constructive. The central bank's sensitivity to the transitory impact of import prices on headline inflation should diminish once the wage negotiations are settled. And from a longer-term perspective, the outright level of valuation of SEK is not an issue. As figure 2 shows, in real trade-weighted terms, SEK is as cheap as it has been at any time in recent history and Swedish exporters should have no problem living with a gently appreciating currency. Whether or not the inflation target itself changes, the risk of intervention will fall significantly in H2. Our forecasts have EUR/SEK turning significantly lower from Q2 2016 onwards.

Forecasts

	2016				2017			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/SEK	9.32	9.50	9.40	9.12	8.93	8.75	8.57	8.40
EUR/SEK	9.60	9.50	9.40	9.30	9.20	9.10	9.00	8.90
NOK/SEK	1.02	1.03	1.03	1.03	1.03	1.03	1.03	1.03
CAD/SEK	6.43	6.79	6.91	6.86	6.82	6.78	6.75	6.72

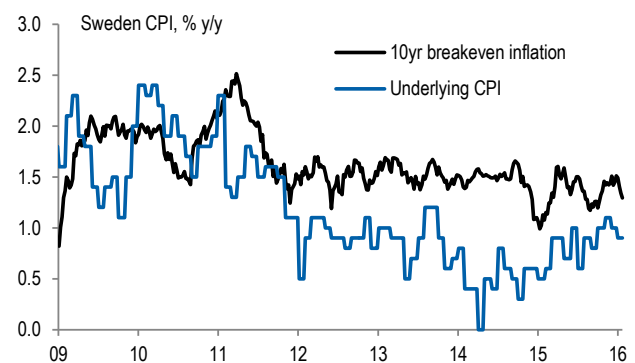
Source: RBC Capital Markets estimates

Indicators

	Current (Previous)*
Official cash rate	-0.35% (-0.35%)
Trend interest rates 10y average	3.0%
Bias in interest rate market	Flat
CPI Inflation %Y/Y Dec (Nov)	0.9% (1.0%)
Inflation target (UND1X)	2.0%
Budget balance % GDP FY14 (FY13)	-1.88% (-1.37%)
Budget balance target % GDP	Cyclical average surplus of 1%
GDP Growth %Y/Y Q3 (Q2)	3.9% (3.4%)
Trend GDP %Y/Y	2.1%
EUR Purchasing Power Parity Value Dec	8.6244
Spot end-Jan	9.2928
PPP Valuation	EUR/SEK is overvalued
Current a/c balance % GDP Q3 (Q2)	6.0% (5.9%)
Trend current account balance % GDP	7.0%
Moody's Foreign Currency Rating	Aaa
Outlook	Stable

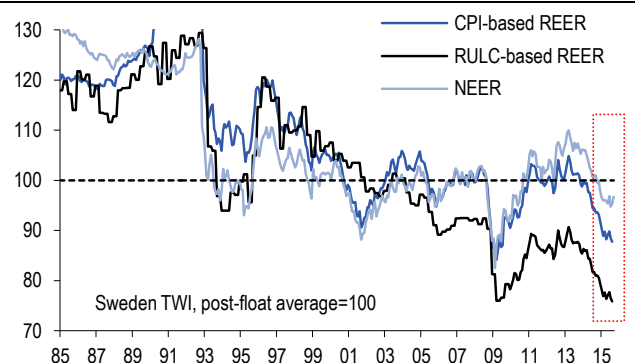
* Current is latest month, quarter or year

1. Inflation expectations appear well anchored



Source: RBC Capital Markets; Bloomberg

2. SEK undervalued on any measure



Source: RBC Capital Markets; Bloomberg

Norwegian Krone

Adam Cole

1 – 3 Month Outlook – Glued to cride prices

NOK was neck-and-neck with CAD for the title of worst performing G10 currency of 2015, the two clearly glued together by their common dependence on oil as a key export. The already-strong relationship between NOK and crude has been strengthened further as Norges Bank policy is perceived to be linked to crude prices and little else (Figure 1). Moreover, crude prices have been the main driver of general risk appetite in recent months, with lower crude prices generally associated with risk-off moves elsewhere. This, and NOK's persistent status as a risky currency (probably driven by lack of liquidity), has further strengthened the link to crude prices. Further, momentum-driven declines in oil prices cannot be ruled out in the near-term and would clearly be associated with further upside for EUR/NOK. But our commodity analysts' forecasts continue to point to a material recovery before year-end (2016 average USD40/bl for WTI) and as such we think the recent EUR/NOK highs around 9.70 will mark the high for the cycle, with a gentle NOK recovery in prospect going forward.

6–12 Month Outlook – Valuation-driven rebound

Oil prices dictate the short-term moves in NOK, but the longer-term NOK outlook will depend on the lasting effects of lower oil prices to domestic drivers. NOK is down nearly 30% in import-weighted terms since early 2013. Moreover, in real trade-weighted terms (Figure 2), NOK is at its lowest level for at least 50 years. Ongoing NOK depreciation continues to underpin inflation (possibly it is the only factor underpinning inflation) though slower growth and lower domestic demand may drag prices lower once the FX effect starts to wane. Nevertheless, the size of the hit to NOK looks exaggerated given Norway's strong fiscal position and capacity to support domestic growth. Discretionary fiscal easing so far has been relatively limited (slightly more than 1% of GDP through 2014 and 2015), but picks up in 2016 on the current budget plans (0.7% of GDP increase in the structural non-oil deficit) and there is clearly scope to add further fiscal easing if the knock-on effects of weaker commodity prices are bigger than expected. Even though we put a low weight on valuation as a factor driving medium-term FX returns, it is hard not to be cautiously constructive on the currency over a longer-term horizon. Our end-2016 EUR/NOK forecast is unchanged at 9.00.

Forecasts

	2016				2017			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/NOK	9.13	9.20	9.10	8.82	8.64	8.46	8.29	8.11
EUR/NOK	9.40	9.20	9.10	9.00	8.90	8.80	8.70	8.60
NOK/SEK	1.02	1.03	1.03	1.03	1.03	1.03	1.03	1.03
CAD/NOK	6.29	6.57	6.69	6.63	6.60	6.56	6.52	6.49

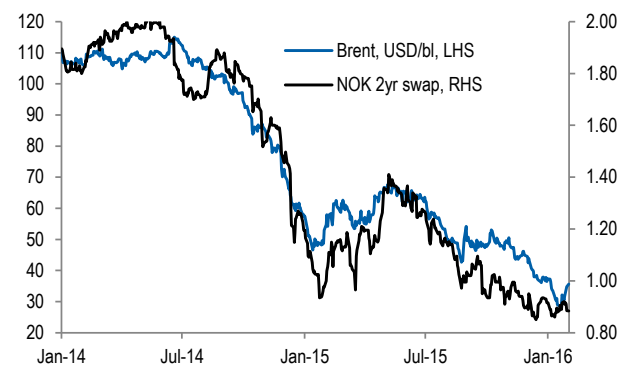
Source: RBC Capital Markets estimates

Indicators

	Current (Previous)*
Official cash rate	0.75% (0.75%)
Trend interest rates 10y average	3.6%
Bias in interest rate market	Downward
CPI (ex energy and taxes) %Y/Y Dec (Nov)	3.0% (3.1%)
Inflation target %	2.5%
Budget balance % GDP FY14 (FY13)	9.1% (11.3%)
Budget balance target % GDP	Structural, non-oil deficit < 4%
GDP Mainland Growth %y/y Q3 (Q2)	3.1% (1.4%)
Trend GDP %Y/Y	2.8%
EUR Purchasing Power Parity Value Dec	8.3856
Spot end-Jan	9.4007
PPP Valuation	EUR/NOK is overvalued
Current a/c balance % GDP Q3 (Q2)	8.9% (9.1%)
Trend current account balance % GDP	12.2%
Moody's Foreign Currency Rating	Aaa
Outlook	Stable

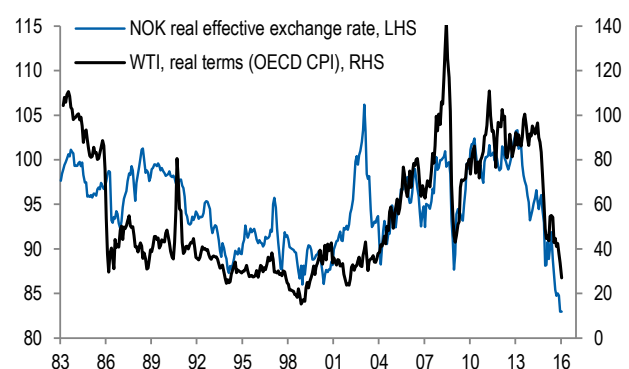
* Current is latest month, quarter or year

1. Norges Bank expectations driven by crude



Source: RBC Capital Markets, Bloomberg

2. NOK valuation not extreme relative to oil



Source: RBC Capital Markets, Bloomberg, BIS

Canadian Dollar

George Davis

1 – 3 Month Outlook – A peak in Q1

The start of the New Year was anything but happy for CAD, as the currency depreciated by almost 6% against USD between Jan 4 and Jan 20 alone in response to crude oil prices slumping to a new cycle low of USD26.19/bbl. USD/CAD traded to a 13-year high at 1.4690 - reaching and briefly surpassing our Q1 forecast of 1.45 in the process. Some respite has been provided by the BoC's decision not to cut interest rates at their January 20 meeting, advocating a "patient approach" where (1) they expect to see more non-energy related export growth as the year progresses based on the lagged impact of the weaker CAD and (2) a boost to growth from pending fiscal stimulus in the upcoming federal budget. While neither the date of the budget nor the size of the stimulus has been confirmed at present, the Liberal election platform featured a stimulus plan of about CAD10bn. We cannot rule out another bout of CAD weakness through Q1, as weak domestic data to end 2015 have our monitoring for Q4 GDP to be flat. The deterioration in business sentiment contained in the Q4 BoC Business Outlook Survey is magnified by the sharpest deterioration in business conditions seen in the RBC/Markit manufacturing PMI survey since its inception in 2010 (Figure 1). So our forecast of a peak at 1.45 in Q1 2016 remains in place as a weak handoff to 2016 poses headwinds to growth. As was the case last year, crude oil will be a key catalyst for directional bias given the high correlation that has persisted with CAD (Figure 2).

6 – 12 Month Outlook – A gradual decline

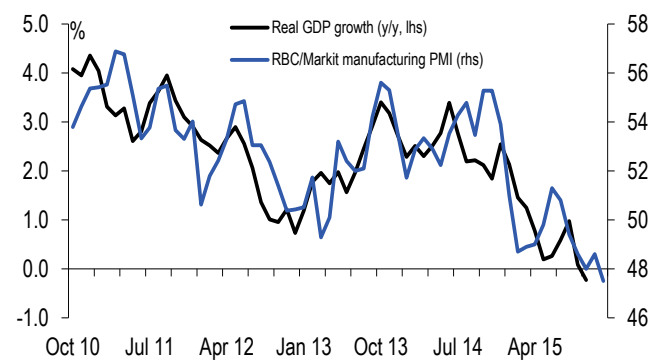
After peaking in Q1, we expect a gradual pullback in USD/CAD through 2016, largely based on our commodity strategists anticipating a stabilization and rebound in crude oil prices, to average USD40/bbl in 2016. The benefits of a weaker CAD are expected to continue to filter through to export-related growth as well, serving as a partial offset to declines in business investment. While not currently reflected in our forecasts, pending fiscal stimulus at the federal level should also provide a boost to growth. A large portion of this will be infrastructure spending that will likely have more of an economic impact in H2 2016 as opposed to H1. We look for USD/CAD at 1.40 in Q2, ending the year at 1.33.

Indicators

	Current (Previous)*
Official cash rate	0.50% (0.75%)
Trend interest rates 10y average	1.70%
Bias in interest rate market	Lower
Core CPI Inflation %Y/Y November (October)	2.0% (2.1%)
CPI Inflation target range %Y/Y	1-3%
Budget balance % GDP FY15 (FY14)	0.1% (-0.3%)
Budget balance target % GDP	Balanced over the business cycle
GDP Growth %Q/Q saar Q3 (Q2)	2.3% (-0.3%)
Trend GDP %Q/Q	1.75%
Purchasing Power Parity Value – Dec	1.2402
Spot end January	1.3977
PPP Valuation	USD/CAD is overvalued
Current account balance % GDP Q3 (Q2)	-3.4% (-3.0%)
Trend current account balance % GDP	-1.30%
Moody's Foreign Currency Rating	Aaa
Outlook	Stable

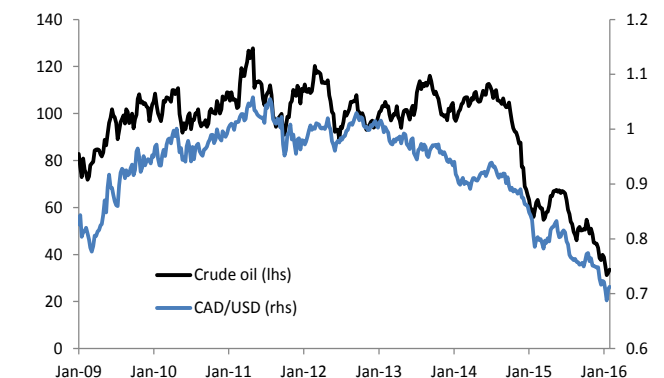
* Current is latest month, quarter or year

1. RBC/Markit PMI highlights risks to growth



Source: Haver Analytics, RBC Capital Markets

2. CAD and crude oil continue to move in lockstep



Source: Bloomberg, RBC Capital Markets

Forecasts

	2016				2017			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CAD	1.45	1.40	1.36	1.33	1.31	1.29	1.27	1.25
EUR/CAD	1.49	1.40	1.36	1.36	1.35	1.34	1.33	1.33
CAD/JPY	85.5	91.4	97.1	96.2	96.2	96.1	96.1	96.0

Source: RBC Capital Markets estimates

Australian Dollar

Elsa Lignos

1 – 3 Month Outlook – 2016 cuts

In mid-January, AUD/USD hit a six year low of 0.6827. In our last Currency Report Card for 2015 we wrote that we expected AU-US rate spreads to narrow from both sides, driving AUD/USD lower. In the event, most of the adjustment came from the AU side. The forward curve is now pricing in more than one cut for the 12m ahead (OIS discounting around -33bps compared to less than half that in December). AUD/USD was also driven lower by the risk aversion/concerns over China that built up rapidly in the first two weeks of the year.

We still look for two cuts from the RBA this year suggesting further downside for AUD though the hurdle to cut is high and the RBA remains reluctant. Our AU rates strategists argue a number of criteria will need to be met for its easing bias to be exercised: (1) a deterioration in the domestic activity data beyond the already sub-par 2-2½% pulse and some softening in the labour market, (2) additional weakness in commodity prices and the terms of trade (3) additional easing by other central banks. Since the December RBA meeting, we would argue that developments in (2) and (3) have strengthened the case to ease further. We look for lower terms of trade to lead to further weakness in AU's national income, wealth, and expenditure. National incomes growth and per capita measures are already in negative territory. And, our rates team notes that the risk of further independent mortgage hikes is high. Nevertheless at this point, resilient domestic data keep the RBA on the sidelines. Figure 1 shows how economic surprises appear to have turned but a patient RBA may wait for more signs of domestic moderation before cutting again.

6 – 12 Month Outlook – Watch reserve rebalancing

Over the longer-term, we expect AU growth to remain sub-par and AUD to drift lower. There are a few key things to watch in 2016. Governor Stevens retires in Sept 2016 while a federal election must be held by Jan 2017. AU's current account deficit is also worth tracking. While historically it has been easily financed thanks to Australia's high interest rates, it is back to 4.7%/GDP; FDI is slowing leaving Australia more reliant on portfolio flows. Reserve managers are no longer the AUD buyers they once were (and AUD stands to lose more if China liquidates a larger portion of its reserves – see [Total FX, 2 Oct 2015](#)).

Forecasts

	2016				2017			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
AUD/USD	0.67	0.65	0.65	0.65	0.66	0.66	0.67	0.68
EUR/AUD	1.54	1.54	1.54	1.57	1.56	1.58	1.57	1.56
AUD/NZD	1.08	1.08	1.05	1.03	1.03	1.03	1.03	1.03
AUD/CAD	0.97	0.91	0.88	0.86	0.86	0.85	0.85	0.85

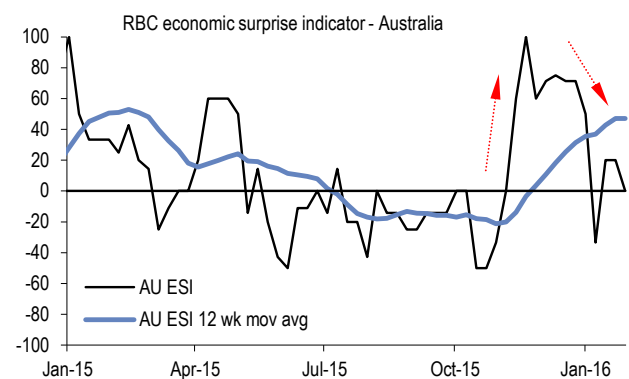
Source: RBC Capital Markets estimates

Indicators

	Current (Previous)*
Official cash rate	2.0% (2.0%)
Trend interest rates 10y average	4.4%
Bias in interest rate market	Downward
CPI Inflation %Y/Y Q4 (Q3)	1.7% (1.5%)
CPI Inflation target range %Y/Y	2.0-3.0%
Budget balance % GDP FY15E/14	-2.7%/-3.2%
Budget balance target % GDP	Balanced over the business cycle
GDP Growth %Y/Y Q3 (Q2)	2.5% (1.9%)
Trend GDP %Y/Y	2.8%
Purchasing Power Parity Value Q4	0.7204
Spot end-Jan	0.7084
PPP Valuation	AUD/USD is undervalued
Current account balance % GDP Q2 (Q1)	-4.7% (-3.3%)
Trend current account balance % GDP	-4.4%
Moody's Foreign Currency Rating	Aaa
Outlook	Stable

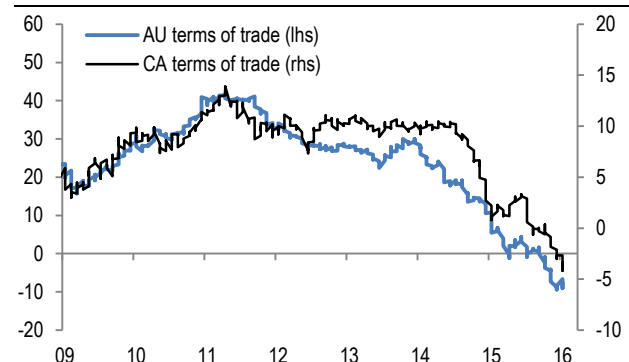
* Current is latest month, quarter or year

1. AU economic surprises have made short-term peak



Source: Bloomberg, RBC Capital Markets

2. AU's terms of trade are collapsing alongside Canada's



Source: Bloomberg, Citi Terms of Trade Index

New Zealand Dollar

Elsa Lignos

1-3 Month Outlook – Two more cuts

NZD is the worst-performing G10 currency YTD, down over 5% against USD but also down against other hard-hit currencies, like GBP and AUD. In trade-weighted terms, it has unwound the gains made in December but we still think there is room to the downside.

Q4 CPI released in mid-January was disappointingly weak. The 0.3ppt deceleration to 0.1%/y in headline CPI increases the risk that low inflation weighs further on inflation expectations and becomes embedded in cost structures, particularly as the decline in terms of trade saps income growth. On the back of that we introduced two further 25bps cuts in our rate profile (our rates team look for the first of those to come at the March MPS with the OCR dropping to 2% by midyear).

Alongside very weak Q4 inflation, the RBNZ has had to contend with lower dairy prices and the general market turmoil. We would argue inflation is the most important of the three. Annual CPI is likely to remain sub-1% in 2016 and barely 1.5% by the end of 2017, resulting in the most persistent undershooting of the 2% mid-point inflation target since early 2010. So it's unsurprising in our view that at its January meeting, the RBNZ strengthened its easing bias ("some further policy easing may be required over the coming year to ensure that future average inflation settles near the middle of the target range.") OIS markets are still only discounting a 20% chance of a cut in March (and one cut in H1 vs. our expectation for two). We have revised down our NZD/USD forecast, now looking for 0.60 by end Q2. Technically, resistance at 0.6559 and 0.6688 is expected to attract selling interest in NZD/USD for a test of support at 0.6348. A daily close below there would then expose a key double bottom from September 2015 at 0.6237.

6-12 Month Outlook – Waiting for ToT recovery

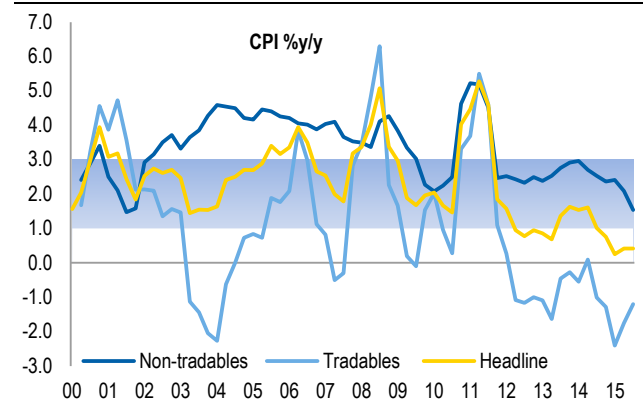
We still expect NZD/USD to weaken as NZ/US monetary policy diverges. A recovery in export prices (and the terms of trade) would reduce the central bank's sensitivity to the currency, support domestic incomes and help an eventual NZD recovery.

Indicators

	Current (Previous)*
Official cash rate	2.50% (2.75%)
Trend interest rates 10yr average	5.40%
Bias in interest rate market	Downward
CPI Inflation %Y/Y Q4 (Q3)	0.1% (0.4%)
Inflation target	1.0-3.0%
Budget balance % GDP FY15E/FY14	-0.1%/-0.45%
Budget balance target % GDP	Balanced over business cycle
GDP Growth %Y/Y Q3 (Q2)	2.3% (2.4%)
Trend GDP %Y/Y	3.1%
Purchasing Power Parity Value Q4	0.6502
NZD/USD end-Jan	0.6483
Valuation	NZD/USD is fairly valued
Current account balance % GDP Q2 (Q3)	-3.5% (-3.4%)
Trend current account balance % GDP	-4.8%
Moody's Foreign Currency Rating	Aaa
Outlook	Stable

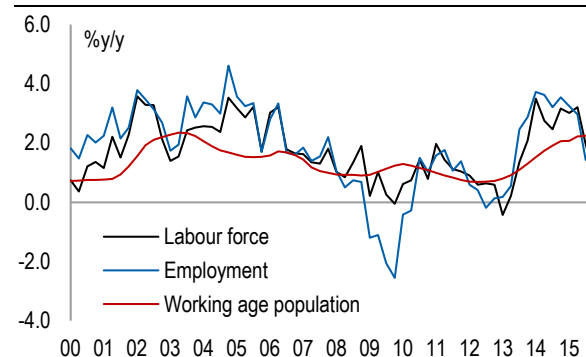
* Current is latest month, quarter or year

1. Inflation undershooting RBNZ's target range



Source: RBC Capital markets, Bloomberg, Haver

2. Employment on a downtrend even as population rises



Source: RBC Capital Markets; Haver

Forecasts

	2016				2017			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
NZD/USD	0.62	0.60	0.62	0.63	0.64	0.64	0.65	0.66
EUR/NZD	1.66	1.67	1.61	1.62	1.61	1.63	1.62	1.61
AUD/NZD	1.08	1.08	1.05	1.03	1.03	1.03	1.03	1.03
NZD/CAD	0.90	0.84	0.84	0.84	0.84	0.83	0.83	0.83

Source: RBC Capital Markets estimates

Chinese Yuan

Sue Trinh

1-3 Month Outlook – USD/RMB artificially held down

We hit China's line in the sand this month for the RMB-CFETS Basket as it traded to below 100, the bottom of the range since December 2014. It was at that point China unleashed a torrent of unsterilized FX intervention and capital controls to prevent further RMB depreciation. This is significant, as would be a sustained break below that 100 level when it happens.

Part of the PBC's aggressive intervention was to reduce the risk of a banking crisis stemming from the proliferation of un-hedged FX liabilities and short FX vol positions (through leveraged products) against a backdrop of rising volatility and capital outflows. China may end up reducing intervention in the coming months but if we are wrong and China maintains or increases its pace of FX intervention, then we believe investors will have reason to turn significantly more concerned about the adequacy of China's FX reserve levels by mid-year.

6 – 12 Month Outlook – A choice between higher USD/RMB or higher financial stability risk

Recent alternative liquidity measures are also unsustainable. China has implemented a range of short-term liquidity measures (SLO, MLF, PSL, OMOs) to address the seasonal cash squeeze ahead of the Lunar New Year. Net money market injections hit a record RMB690bn in the week ended 31 January. China has said it is resorting to alternative liquidity tools because it is reluctant to cut interest rates (RRR, benchmark rates) for fear of driving RMB depreciation and capital outflows. But there is evidence that over-invoicing of Chinese trade receipts has resurfaced. Over-invoicing of exports in the current environment could be a sign of corporate stress. Over-invoicing of imports is consistent with intensifying capital outflows. Extended over-invoicing would mean Chinese trade is weaker than it appears on the surface and therefore Chinese economic growth is weaker than it appears on the surface.

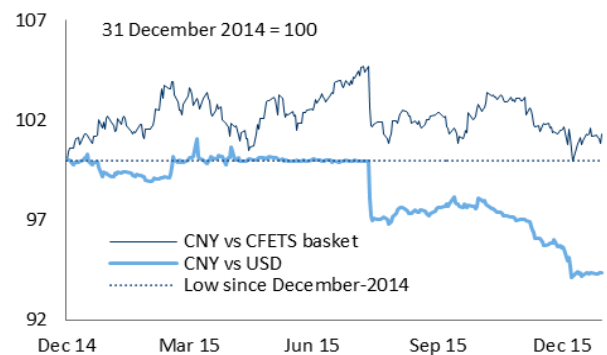
China needs wholesale supply side reform, a weaker effective exchange rate, lower interest rates and strong global demand to sell to. At present, it is getting none of these.

Indicators

	Current (Previous)*
Official cash rate	1.5% - 4.35 % (1.75% - 4.60%)
Trend interest rates (10yr average)	2.85%-6.07%
Bias in interest rate market	Lower
CPI Inflation %Y/Y last (prev)	1.6% (1.5%)
Inflation target	3.0%
Budget balance % GDP last (prev)	-1.78% (-1.80%)
Budget balance trend % GDP	-1.21
GDP Growth % y/y last (prev)	6.8% (6.9%)
Trend GDP %y/y	9.0
RBC-POLAR misalignment	15.0%
Spot end-January	6.5760
FX Valuation	Overvalued
Current account balance % GDP last (prev)	2.58% (2.71%)
Trend current account balance % GDP	4.1
Moody's Foreign Currency Rating	Aa3
Outlook	Stable

* Current is latest month, quarter or year

1. RMB Basket – the line in the sand is clear



Source: RBC Capital Markets; Bloomberg

2. Over-invoicing exports when RMB expectations are lower doesn't make sense, unless...



Source: RBC Capital Markets, Customs General Administration PRC, Census and Statistics HK, Taiwan Ministry of Finance, South Korea Ministry of Trade, Industry and Energy

Forecasts

	2016				2017			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q1f	Q1f	Q1f
USD/CNY	6.70	6.80	6.90	6.95	7.00	7.20	7.40	7.50
EUR/CNY	6.90	6.80	6.90	7.09	7.21	7.49	7.77	7.95
CNY/JPY	18.5	18.8	19.1	18.4	18.0	17.2	16.5	16.0
CAD/CNY	4.62	4.86	5.07	5.23	5.34	5.58	5.83	6.00

Source: RBC Capital Markets estimates

Indian Rupee

Sue Trinh

1-3 Month Outlook – Not expecting aggressive cuts

INR is the worst performing Asian currency since the end of December following the volatility in Chinese asset markets. Net equity outflows totaled USD1.8bn in January, the largest net outflow since August, following the RMB devaluation. As the upcoming Budget looms in late February, the risk is that targets are revised higher amid increased government spending (Seventh Pay Commission, capex and bank recapitalisation) and highlights the ongoing need for tax reform. The government currently has a deficit target of 3% of GDP in the year ending March 2018, down from a targeted shortfall of 3.9% by March 2016 and 3.5% in 2017. Delayed fiscal consolidation could see INR under more near-term pressure. But we are also watching the passage of the GST bill at the next Parliamentary session after Congress stalled the passage of the Constitution Amendment bill last year, delaying the government's plan to roll out GST on 1 April 2016. Passing of the bill would offset much of the negative sentiment from delayed fiscal consolidation.

The RBI next meets on 2 February and we expect no changes to benchmark rates at that juncture. Despite RBI rate cuts of 125bps this year, banks have only transmitted ~60bps of those cuts. The RBI will work with banks to introduce a more market based measure for bank rates. The recent uptick in CPI inflation from 5.41% to 5.61% warrants vigilance. Whether the RBI will be able to cut rates again is dependent on three risk factors: (1) commodity prices, especially food and oil, (2) the Pay Commission proposals, and its effect on wages and rents and (3) the effect of continued fiscal consolidation.

6 – 12 Month Outlook – INR a relative outperformer, implementation of the reform agenda crucial

We expect INR to be one of the outperformers in the region. RBI Governor Rajan's term comes to an end this September and it is as yet unclear whether PM Modi will extend Governor Rajan's term. With few of his recent policies completed, the market may grow concerned about policy discontinuity. We think what matters more is policy coordination between RBI and the government, which has been clearly evident to date. The biggest downside risk to our INR view is the decline in the Modi factor as progress of structural reform stalls amid crowded positioning. 5-year ahead expectations have slumped 20.1 points since Modi came into office.

Forecasts

	2016				2017			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/INR	67.0	68.5	69.5	71.0	71.0	72.0	72.0	73.0
EUR/INR	69.0	68.5	69.5	72.4	73.1	74.9	75.6	77.4
INR/JPY	1.85	1.87	1.90	1.80	1.77	1.72	1.69	1.64
CAD/INR	46	49	51	53	54	56	57	58

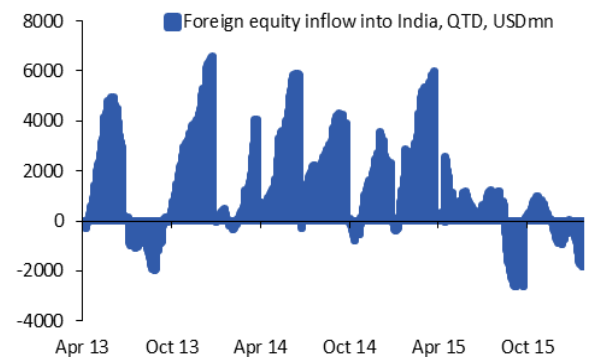
Source: RBC Capital Markets estimates

Indicators

	Current (Previous)*
Official cash rate (Repurchase Rate)	6.75% (6.75%)
Trend interest rates (10yr average)	6.75%
Bias in interest rate market	Flat
CPI Inflation %Y/Y last (prev)	5.61% (5.41%)
Inflation target	5% by FY-end 2016/17
Budget balance % GDP last (prev)	-3.4% (-3.83%)
Budget balance trend % GDP	-5.15
GDP Growth % y/y last (prev)	7.4% (7.0%)
Trend GDP %y/y	6.4
RBC-POLAR misalignment	1.8
Spot end-January	67.79
FX Valuation	Overvalued
Current account balance % GDP last (prev)	-1.12% (-1.24%)
Trend current account balance % GDP	-1.35%
Moody's Foreign Currency Rating	Baa3
Outlook	Positive

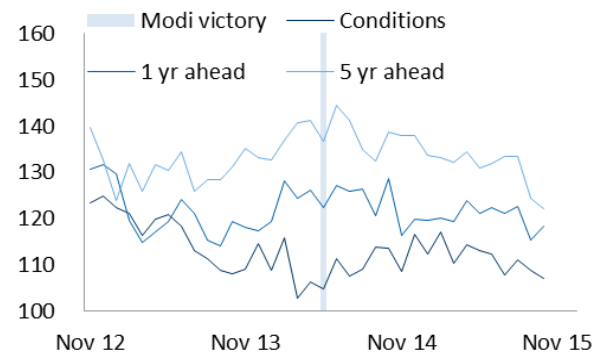
* Current is latest month, quarter or year

1. Equity outflows have weighed on INR



Source: RBC Capital Markets; Bloomberg

2. Business confidence and conditions sag



Source: RBC Capital Markets; Bloomberg

South Korean Won

Sue Trinh

1-3 Month Outlook – Positioning getting stretched again, risk of a pause in USD/KRW rally short-term

BoK unanimously left its benchmark rate at 1.5%. The 2016 GDP growth forecast was cut from 3.2% to 2.0%. The CPI inflation forecast was cut from 1.7% to 1.4%, largely due to the extended oil price decline, though the 2% inflation target remains. The BoK Governor said that he disagrees with the argument that lower GDP and CPI forecasts warrant a rate cut. He said that inflation is expected to remain “considerably short” of the target for the time being but there was sufficient room for fiscal stimulus when needed. The comments are in line with our expectation that the BoK will remain on hold throughout 2016. Furthermore, with BoK paying greater attention to financial stability risks from high household debt (84.3% of GDP at end-2014), we see little urgency to ease again and we think BoK will tolerate more KRW weakness as a result or resort to looser fiscal policy.

6 – 12 Month Outlook – Grinding weakness in KRW, be patient

On 24 December, the Ministry of Health and Welfare announced that the National Pension Service (NPS) that it will stop FX hedging its overseas bond investments by the end of 2018. The NPS’ hedge ratio is currently 100%. The ratio will fall to 50% by the end of 2017 and to 0% by the end of 2018. As of November 2015, the NPS had KRW506.7trn in assets and said in June that it will increase its non-Korean holdings to more than 30% by the end of 2020, compared with 21.9% in 2014. The NPS does not hedge its equity investments. Given the targets for the existing portfolio and making the very conservative assumption that the fund size remains the same size over each of the next three years (~KRW507trn), we estimate potential KRW supply from reduced FX hedges on its fixed income portfolio to be ~KRW7.5trn in 2016, KRW40trn in 2017 and KRW50trn in 2018. We think this is part of the reason KRW has underperformed so much in the past month, despite relative US-KR yield spreads narrowing sharply. By the same token, we think that consolidation is long overdue for USD/KRW.

We closed our long USD/KRW position (from 26 November at 1149) on 11 January at 1204.4 for a 4.71% profit (including carry) and await better re-entry levels.

Forecasts

	2016				2017			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/KRW	1210	1240	1270	1310	1290	1280	1270	1250
EUR/KRW	1246	1240	1270	1336	1329	1331	1334	1325
JPY/KRW	9.8	9.7	9.6	10.2	10.2	10.3	10.4	10.4
CAD/KRW	834	886	934	985	985	992	1000	1000

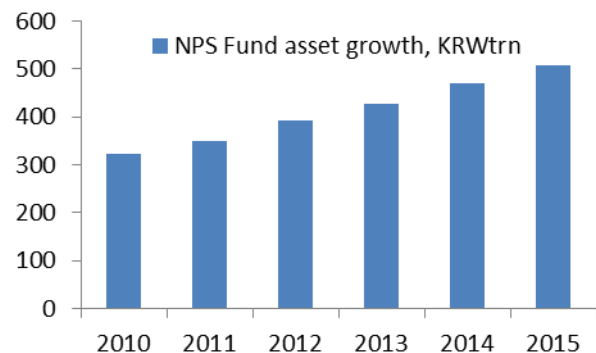
Source: RBC Capital Markets estimates

Indicators

	Current (Previous)*
Official cash rate	1.50% (1.50%)
Trend interest rates (10yr average)	3.45%
Bias in interest rate market	Flat
CPI Inflation %Y/Y last (prev)	1.3% (1.0%)
Inflation target	2.0% (2016-2018)
Budget balance % GDP last (prev)	-0.03% (0.86)
Budget balance trend % GDP	1.4
GDP Growth % y/y last (prev)	2.7% (2.2%)
Trend GDP %y/y	4.1
RBC-POLAR misalignment	-5.2
Spot end-January	1207.93
FX Valuation	Undervalued
Current account balance % GDP last (prev)	7.72% (6.98%)
Trend current account balance % GDP	3.0%
Moody's Foreign Currency Rating	Aa3
Outlook	Positive

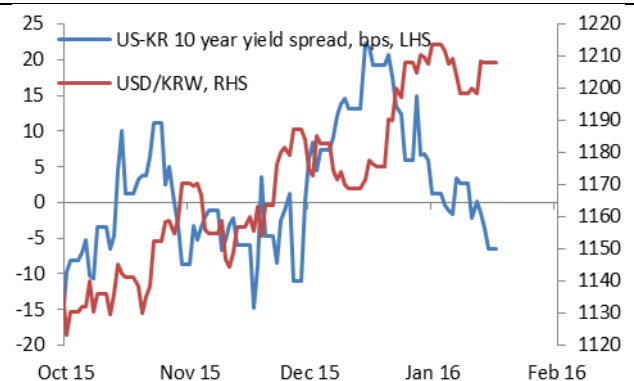
* Current is latest month, quarter or year

1. NPS Fund Asset growth averages ~9.4%/y since 2011



Source: RBC Capital Markets, NPS

2. USD/KRW vs 10y spread – Out of whack



Source: RBC Capital Markets; Bloomberg

Singaporean Dollar

Sue Trinh

1-3 Month Outlook – Disinflationary pressure persists

Consumer price inflation fell for a 14th straight month in December, the longest streak of declines in almost 30 years. Our estimated SGD NEER is less than 1% off the bottom of the band, which means there is a high probability the existing band becomes a binding constraint, prompting the MAS to ease monetary policy.

Growth prospects remain weak. The latest SBF-DP SME Index showed SMEs' sentiment fell for the fifth straight quarter to 51.1 in Q4, the lowest since Q1 2012 and companies showing little optimism about their prospects for 2016. While Singapore's industrial production was previously highly synced with US demand, the correlation began to break down in early 2015. Singapore is no longer benefitting from global upswing in the IT cycle precisely because SGD is uncompetitive.

The Government is scheduled to present the 2016 Budget on March 24. In the absence of very expansionary fiscal policy, the MAS may need to ease monetary policy in April. We think adoption of a zero-appreciation bias is the minimum requirement and a re-centring of the NEER lower would be even better.

6 – 12 Month Outlook – Underperformance entrenched

We are comfortable with an underweight SGD view. SGD is more vulnerable in the current Fed tightening cycle than it was in the last (2004-2006). In 2004-2006, Singapore GDP growth averaged 8.7%/y and CPI inflation averaged 1.1%/y (headline) and 1.7%/y (core). Resilient growth and inflation was in part driven by the re-centring of the NEER (lower and maintaining a zero appreciation path) in July 2003 following SARS outbreak. Yet into the current Fed tightening cycle, Singapore is averaging headline disinflation of 0.5%/y, core inflation of 0.6%/y and GDP growth of 2.1%, around six year lows. Export volume growth averaged 21%/y in the last Fed tightening cycle, versus -0.7% currently. Following the Fed's December 25bp hike, Singapore's 1-year OIS increased by 50bps, extrapolation of this greater pass through of Fed tightening would be a very worrying development for Singapore. MAS must be vigilant.

Forecasts

	2016				2017			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q1f	Q1f	Q1f
USD/SGD	1.48	1.53	1.57	1.60	1.58	1.56	1.54	1.54
EUR/SGD	1.52	1.53	1.57	1.63	1.63	1.62	1.62	1.63
SGD/JPY	83.8	83.7	84.1	80.0	79.7	79.5	79.2	77.9
CAD/SGD	1.02	1.09	1.15	1.20	1.21	1.21	1.21	1.23

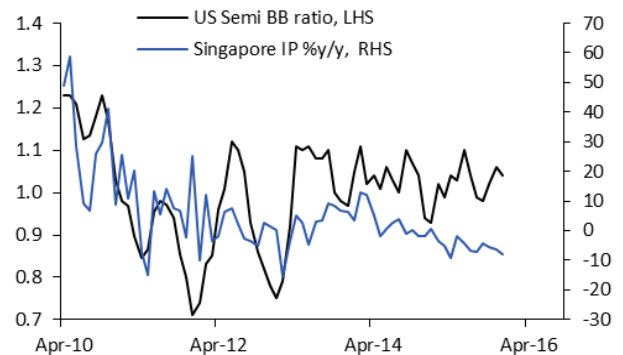
Source: RBC Capital Markets estimates

Indicators

	Current (Previous)*
Official S\$NEER Target	Modest & gradual appreciation
Trend interest rates (10yr average)	1.20%
Bias in interest rate market	Flat
CPI Inflation %Y/Y last (prev)	-0.6% (-0.8%)
Inflation target	Price stability (-0.5-0.5%/y)
Budget balance % GDP last (prev)	1.07% (1.33%)
Budget balance trend % GDP	0.69
GDP Growth % y/y last (prev)	2.0% (1.8%)
Trend GDP %y/y	5.4
RBC-POLAR misalignment	5.0%
Spot end-January	1.4243
FX Valuation	Overvalued
Current account balance % GDP last (prev)	23.36% (23.24)
Trend current account balance % GDP	20.61
Moody's Foreign Currency Rating	Aaa
Outlook	Stable

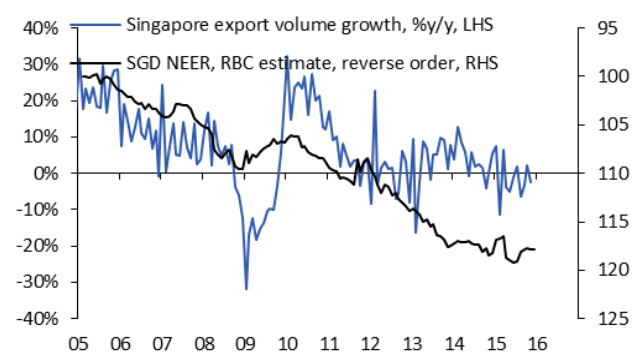
* Current is latest month, quarter or year

1. Singapore is not benefiting from US demand



Source: RBC Capital Markets; Bloomberg

2. An uncompetitive exchange rate



Source: RBC Capital Markets; Bloomberg

Indonesian Rupiah

Sue Trinh

1-3 Month Outlook – Rate cuts fully priced in

BI cut its reference rate by 25bps to 7.25% in January, the first benchmark cut in eleven months, following the RRR cut in December. BI also cut the Fasbi by 25bps to 5.25%. BI retains an easing bias, and has said there will be more monetary easing, which could come in the form of a rate cut or macro-prudential measures. The timing will depend on domestic and external conditions. But on the basis of BI's macroeconomic forecasts, we think the risk is that BI will prioritise macro-prudential policies in future monetary easing. BI expects GDP growth to increase from 4.9% in 2015 to 5.2% in 2016 and 5.5% in 2017. CPI inflation is forecast at 4.3% at end-2016 and 4.4% at end-2017. It also forecasts loan growth to increase from ~10% in 2015 to 12-14% in 2016 and to 14-16% in 2017. We think the IDR will weaken further (by around 13% against USD) this year. If we are right, then BI will be reluctant to cut benchmark rates too aggressively. Continued weak trade performance suggests IDR is overvalued (POLAR: +3.9%). Indonesian exports slid 17.66%/y/y in December and imports contracted 16.02%/y/y.

Sentiment among businesses remains relatively weak and the pace of fiscal spending will be important for growth momentum. While investment growth was a drag on GDP, spending picked up in H2 2015. It is unclear whether the pace is sustainable or if it was just a seasonal spike. President Widodo's target of 7% GDP growth by 2019 seems a little optimistic without significant reforms to improve productivity and diversify the economy away from commodities. BI will retain an easing bias through 2016, but consensus already expects another 35bps rate cuts by end-2016.

6 – 12 Month Outlook – Reform progress key to IDR,

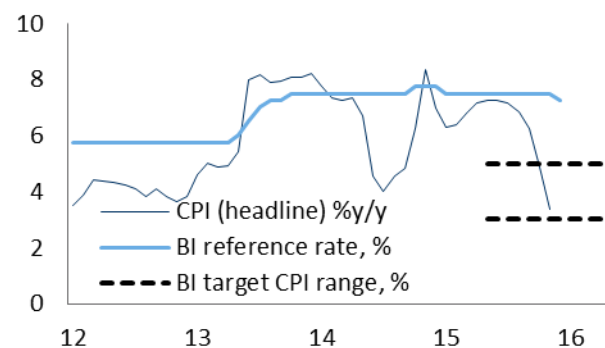
IDR remains vulnerable given its external debt metrics and high foreign investment in the domestic government bond market, but BI has shown it values IDR stability and will not tolerate significant IDR weakness. We expect IDR to be a middle of the road performer in Asia, with USD/IDR drifting up above 15500 in 2016. We will be monitoring developments in local politics and whether the President is able to move forward with key infrastructure projects as the key to our IDR outlook.

Indicators

	Current (Previous)*
Official cash rate (Repurchase Rate)	7.25% (7.50%)
Trend interest rates (10yr average)	7.63
Bias in interest rate market	Flat
CPI Inflation %Y/Y last (prev)	3.35% (4.89%)
Inflation target	4%+/-1.0%
Budget balance % GDP last (prev)	2.7% est (2.3%)
Budget balance trend % GDP	-1.7
GDP Growth % y/y last (prev)	5.02%(4.73%)
Trend GDP %y/y	5.5
RBC-POLAR misalignment	3.9
Spot end-January	13,778
FX Valuation	Neutral
Current account balance % GDP last (prev)	-2.17% (-2.46%)
Trend current account balance % GDP	1.33
Moody's Foreign Currency Rating	Baa3
Outlook	Stable

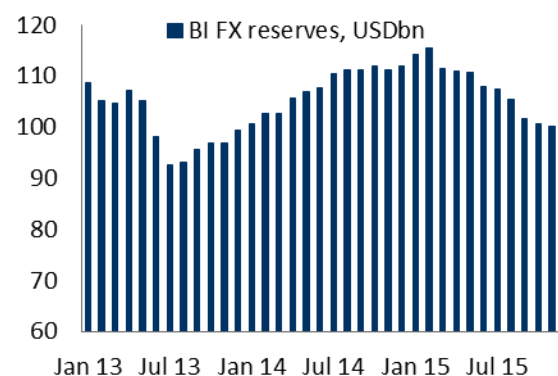
* Current is latest month, quarter or year

1. Headline CPI well within target prompted BI easing



Source: RBC Capital Markets; BI, Bloomberg

2. BI values IDR stability



Source: RBC Capital Markets; BI, Bloomberg

Forecasts

	2016				2017			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/IDR	14600	14900	15200	15600	15500	15300	15200	15100
EUR/IDR	15038	14900	15200	15912	15965	15912	15960	16006
JPY/IDR	117.7	116.4	115.2	121.9	123.0	123.4	124.6	125.8
CAD/IDR	10069	10643	11176	11729	11832	11860	11969	12080

Source: RBC Capital Markets estimates

Turkish Lira

Daniel Tenengauzer

1-3 Month Outlook – Runaway inflation

In Dec, headline CPI inflation surprised the market on the upside reaching 8.8% y/y. For Jan inflation should reach 9.5% y/y, against about 11% for the overnight rate. CBT is keeping liquidity conditions relatively tight. The overnight rate is above the top end of the reference rate band, currently at 10.75%. We do not believe CBT will reach the 5% target anytime soon. In fact, headline inflation has not been anywhere near 5% in almost five years.

The good news is that the current account continues to improve. Still, 12-month cumulative exports remain in the downtrend started back in late 2014. This might, perversely, also push towards higher headline inflation if net exports eventually start catching up. We therefore believe political pressure to keep CBT neutral to dovish might be somewhat limited.

The key driver to overall sentiment and demand should be politics and, more specifically, Turkey's relations with the EU. The new government will likely push for additional steps towards accession but without Babacan, progress may be slow. Syria peace talks remain a wildcard for Turkey, Iraq is asking Turkey to take its troops out of its soil and Iran may soon reap the rewards of oil exports. We still believe the balance shall be for a stronger USD/TRY. Lower real rates and Fed rate hikes may keep USD demand abundant.

6-12 Month Outlook – Debt cycle bites

Turkey sovereign debt to GDP ratio remains one of the lows in the world, at about 34%. With the EMEA region, Russia stands at 18% but South Africa at 55%. Brazil's ratio is significantly higher, at 67%. Nevertheless, our concern is with regards to the corporate and financial sectors in Turkey. According to the IIF, Turkey non-financial corporate debt to GDP reached 56% last year, against 30% and 44% in 2009 and 2013, respectively. Financial corporations' debt to GDP reached an additional 22% last year, up from 6.4% in 2009. BIS data shows that a meaningful portion of this debt is likely denominated in USD. The TRY basket is 20% weaker in the past year. This follows the 9% depreciation in 2014. Interest rate differentials do not provide a cushion for this type of currency weakness. We therefore believe there will be meaningful deterioration in the private sector debt servicing throughout 2016. Against imports, M2 and ST international claims, Turkey FX reserves are amongst the lowest in the EM world, at just below USD 100bn.

Forecasts

	2016				2017			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/TRY	3.25	3.35	3.40	3.10	3.14	3.18	3.22	3.26
EUR/TRY	3.35	3.35	3.40	3.16	3.23	3.31	3.38	3.45
TRY/JPY	38.2	38.2	38.8	41.3	40.1	39.0	37.9	36.8

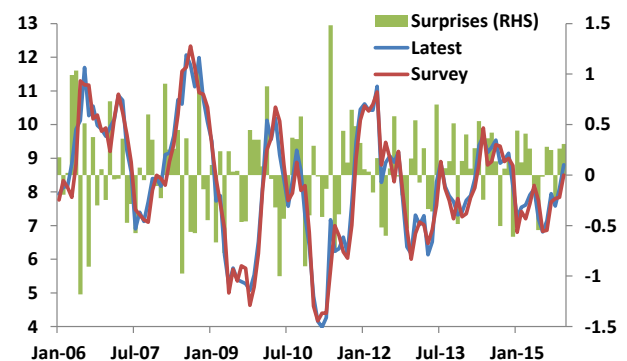
Source: RBC Capital Markets estimates

Indicators

	Current (Previous)*
Official cash rate	7.5 (7.5)
Trend interest rates (10yr average)	6.10
Bias in interest rate market	Neutral
CPI Inflation %Y/Y last (prev)	8.81 (8.1)
Inflation target	5.00%
Budget balance % GDP last (prev)	-1.34 (-1.06)
Budget balance trend % GDP	-2.11
GDP Growth % y/y last (prev)	3.96 (3.77)
Trend GDP %y/y	3.68
RBC-POLAR misalignment	-1.22%
Spot	2.95
FX Valuation	Neutral
Current account balance % GDP last	-5.35 (-5.91)
Trend current account balance % GDP	-5.85
Moody's Foreign Currency Rating	Baa3
Outlook	Negative

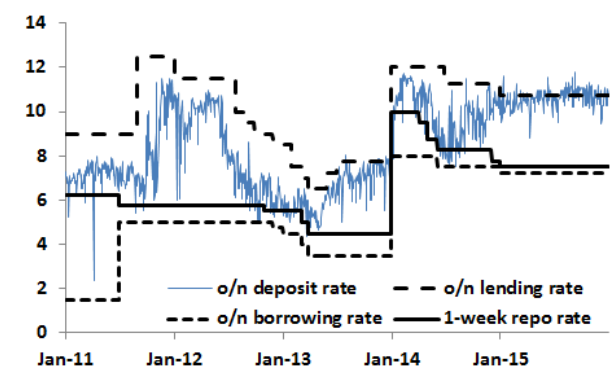
* Current is latest month, quarter or year

1. Inflation(% y/y) – actual, survey, surprise (actual-survey)



Source: Bloomberg, RBC Capital Markets

2. Local rates in Turkey



Source: Bloomberg, RBC Capital Markets

Russian Ruble

1-3 Month Outlook – Inflation expectations are high

As widely expected, CBR kept its key rate unchanged at 11.0%, extending the pause for the fourth meeting in a row. However, [CBR's statement](#) took a hawkish turn as CBR noted that "should inflation risks amplify, the Bank of Russia cannot rule out a tightening of its monetary policy" (Jan. 29). This hawkish turn is not surprising given the ruble continued to weaken on the back of lower oil prices, putting upward pressure on inflation. USD/RUB reached its all-time high of 85.96 on Jan. 21 and 3-mo. implied vol for USD/RUB has been increasing since mid-Jan (now at 26.5). Although Dec inflation y/y came in at 12.9% (vs. 15.0% in Nov), inflation expectations are not abating. According to [CBR's consumer survey of inflation expectations](#) for the next 12 mo., most respondents believe inflation is unlikely to change.

Going forward, we expect oil to remain the dominant USD/RUB driver, impacting inflation and its expectations. In turn, these factors will determine CBR's rate decision in March. We expect CBR to remain on hold (while retaining a hawkish tone) in March if USD/RUB does not overshoot 78-80 and inflation and its expectations demonstrate a marked decline. CBR Governor cited the ruble is near "fundamental levels" (Reuters, Jan. 20). At the time, USD/RUB was ~ 78-80 (our fair value estimate is 74-75). Thus, we believe a hike is not justified if USD/RUB remains at or below 78-80.

6-12 Month Outlook – Still bullish bias

We raised our USD/RUB profile while retaining a bullish bias. Low oil prices have pushed consensus forecasts for 2016 real GDP growth y/y from 0.0% (Dec) to -0.8%, which is still an improvement from -3.7% y/y (2015). Low oil has kept both USD/RUB and inflation elevated, delaying a CBR rate cut and thereby keeping financing costs at a high level. Thus, Russia is likely to remain in recession for the second year in a row. However, there are signs that the economy is adjusting. Markit PMI Mfg (Jan) came in at 49.8, above consensus and the Dec figure. Real wages' contraction y/y appear to have bottomed out. The current account surplus (% GDP) came in at 5.3% in Q3 against 2.6% a year ago, showing that ruble weakness has helped offset lower oil prices. Additionally, Russia's external debt declined by USD23bn in Q4. With reserves at USD 368bn, Russia has ample reserves to cover its liabilities over the next 12 months (we estimate USD 80-100bn based on [CBR's Q4 ext. debt repayment schedule](#)).

Forecasts

	2016				2017			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/RUB	84.0	82.0	80.0	77.0	77.0	77.0	78.0	78.0
EUR/RUB	86.5	82.0	80.0	78.5	79.3	80.1	81.9	82.7
RUB/JPY	1.48	1.56	1.65	1.66	1.64	1.61	1.56	1.54

Source: RBC Capital Markets estimates

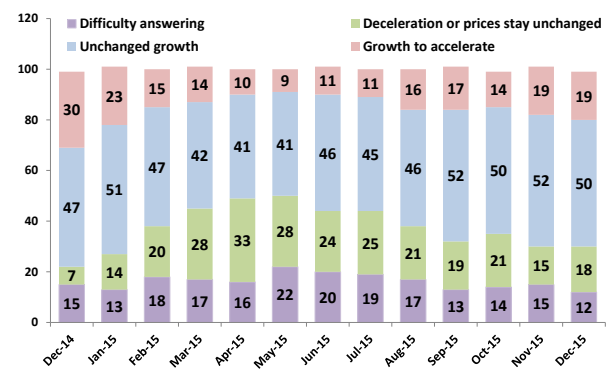
Daniel Tenengauzer and Daria Parkhomenko

Indicators

	Current (Previous)*
Official cash rate	11 (11)
Trend interest rates (10yr average)	9.48
Bias in interest rate market	Neutral
CPI Inflation %Y/Y last (prev)	12.9 (15)
Inflation target	4.0%
Budget balance % GDP last (prev)	-3.41 (-2.91)
Budget balance trend % GDP	1.73
GDP Growth % y/y last (prev)	-4.1 (-4.6)
Trend GDP %y/y	3.40
RBC-POLAR misalignment	-12.14%
Spot	79.30
FX Valuation	Undervalued
Current account balance % GDP last	5.34 (5.04)
Trend current account balance % GDP	5.61
Moody's Foreign Currency Rating	Ba1
Outlook	Stable

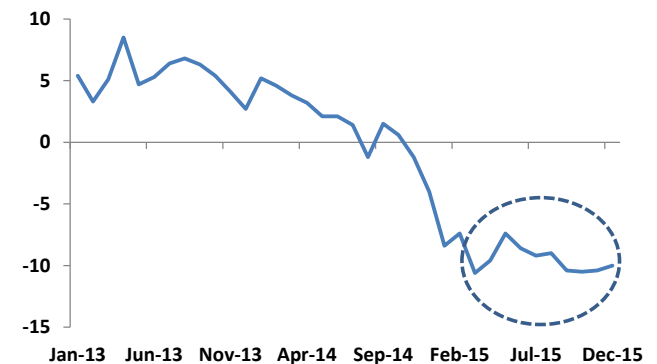
* Current is latest month, quarter or year

1. Price growth expectations for the next 12 months



Source: Central Bank of Russia, RBC Capital Markets

2. Real wages (% y/y)



Source: Bloomberg, RBC Capital Markets

South African Rand

1-3 Month Outlook – Integrity breakdown

According to RBC-POLAR, the ZAR is 31% undervalued. The rand is the second most undervalued currency in our sample of 32 currencies. The ARS is the most undervalued but the estimate remains inaccurate due to lack of reliable inflation data. The rand became a third cheaper since President Zuma chose to test market patience with regards to the MinFin slot. Zuma replaced the MinFin twice in one week in December. We believe monetary and fiscal policy uncertainty may still push USD/ZAR higher, towards 17.00 and even 18.00 between Q1 and Q2. We expect such meaningful depreciation to trigger policy reaction in Pretoria to anchor the currency. The side effect of this uncertainty will likely be more aggressive SARB hikes. We believe the 50bp hike observed on January 28, to 6.75% might not be enough to anchor both inflation and the exchange rate. We have been expecting convergence between headline and core inflation, with both declining through 2016. Core and headline are both now 5.2% but currency undervaluation will likely raise pass-through from the currency to prices. Headline inflation could rise to about 6.5% if the rand does not stabilize. This may, in turn, push SARB to hike back to at least 8% this year.

6-12 Month Outlook – Bearish until elections

Unfortunately South Africa's fundamentals are gradually converging towards those observed in other Sub Saharan Africa. Just 3-4 years ago, the hope was the other way around - Sub Saharan Africa fiscal regulation and discipline would drive the region. Despite currency undervaluation, the trade deficit has only moderately improved over the past year. The rolling four-quarter current account deficit improved from USD20bn in late 2014 to USD14bn in Q3 2015. Manufacturing production growth is running at its weakest since the global financial crisis. This macro picture will be the backdrop for what will look like a powerless Zuma administration for the upcoming years. The next Presidential elections will not occur until 2019. The two main ANC names would be VP Cyril Ramaphosa and Secretary General Gwede Mantashe. The main opposition candidate would be Mmusi Maimane, the leader of the Democratic Alliance (SA). It remains however highly unlikely that President Zuma is replaced before 2019. We will however be watching a no confidence motion currently supported by the DA. The decision to run the motion to parliament is now in the hands of the Speaker of Parliament, ANC's Chairperson Baleka Mbete.

Forecasts

	2016				2017			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/ZAR	17.0	18.0	17.5	17.0	16.8	16.5	16.5	16.5
EUR/ZAR	17.5	18.0	17.5	17.3	17.3	17.2	17.3	17.5
ZAR/JPY	7.29	7.11	7.54	7.53	7.50	7.52	7.39	7.27

Source: RBC Capital Markets estimates

Indicators

	Current (Previous)*
Official cash rate	6.75 (6.25)
Trend interest rates (10yr average)	7.28
Bias in interest rate market	Hiking
CPI Inflation %Y/Y last (prev)	5.2 (4.8)
Inflation target	3.0%-6.0%
Budget balance % GDP last (prev)	-4.12 (-4.08)
Budget balance trend % GDP	-2.97
GDP Growth % y/y last (prev)	1 (1.3)
Trend GDP %y/y	2.90
RBC-POLAR misalignment	-31.16%
Spot	16.13
FX Valuation	Undervalued
Current account balance % GDP last	-4.1 (-3.1)
Trend current account balance % GDP	-5.38
Moody's Foreign Currency Rating	Baa2
Outlook	Negative

* Current is latest month, quarter or year

1. 10Y breakeven inflation



Source: Bloomberg, RBC Capital Markets

2. RBC-POLAR breakdown

	REER-MA	REER-fitted	REER-CAB	RBC-Polar
CZK	11%	-3%	-22%	-5%
HUF	1%	-5%	14%	3%
ILS	5%	5%	4%	4%
PLN	-2%	-1%	-7%	-3%
RUB	-10%	-5%	-5%	-7%
ZAR	-32%	-30%	-26%	-29%
TRY	-4%	-4%	3%	-2%

Source: RBC Capital Markets calculations, Bloomberg

Polish Zloty

1-3 Month Outlook – EUR/PLN overshoots

We expect NBP to keep its base rate on hold at its Feb monetary policy meeting. This is because EUR/PLN has overshoot to its highest level since Jan 2012 in the past two months and to a lesser extent, inflation is picking up.

Most of the overshooting resulted from political and fiscal policy uncertainties. Investors' concern about the direction of the new PiS government escalated after it made new appointments to the Constitutional Tribunal and state media management positions. It also approved an amendment on how rulings are passed at the Court. In turn this raised concern that the new government may be over extending its powers, reducing checks and balances in the system. On the fiscal policy front, an annual tax of 0.44% on financial institutions' assets has already been passed. The government is currently in the process of introducing a tax on retailers, a plan to convert Swiss Franc mortgages to local currency, and a child subsidy program (The Family 500+ Program). Additionally, S&P downgraded the sovereign debt to BBB+ on January 15. All of these factors have pushed EUR/PLN higher.

Adding downward pressure on the zloty has been the market's concern that PiS is electing only dovish members to the MPC. This has raised questions about the central bank's independence and monetary policy going forward. PiS party has already appointed five new members. By the March meeting, there will be another three members appointed, which will provide more color on the direction of monetary policy going forward.

To a lesser extent, inflation is showing signs of picking up, which reinforces our view that NBP will stay on hold this week. The recent move higher in EUR/PLN may help mitigate some of the deflation spillovers from the Euro area and the decline in energy prices.

6-12 Month Outlook – Gradual appreciation

We expect the zloty to gradually appreciate against the Euro. Consensus forecasts growth for 2016 at 3.5% y/y against growth of 1.6% y/y (Euro area), 2.4% y/y (HU), and 2.7% (CZ). Meanwhile, [Sejm approved the budget](#) for this year, which assumes growth of 3.8% in 2016 and a budget deficit of PLN 54.7bn. The budget still needs to be approved by the Senate and the President.

Forecasts

	2016				2017			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/PLN	4.20	4.10	4.05	4.00	4.02	4.03	4.05	4.06
USD/PLN	4.08	4.10	4.05	3.92	3.90	3.88	3.85	3.83
PLN/HUF	73.8	74.4	74.1	73.8	73.1	72.4	71.8	71.1

Source: RBC Capital Markets estimates

Daniel Tenengauzer and Daria Parkhomenko

Indicators

	Current (Previous)*
Official cash rate	1.5 (1.5)
Trend interest rates (10yr average)	3.85
Bias in interest rate market	Neutral
CPI Inflation %Y/Y last (prev)	-0.5 (-0.6)
Inflation target	2.5% (+/-1%)
Budget balance % GDP last (prev)	-3.3 (-4)
Budget balance trend % GDP	-4.60
GDP Growth % y/y last (prev)	3.5 (3.3)
Trend GDP %y/y	3.91
RBC-POLAR misalignment	-4.12%
Spot (EUR/PLN)	4.40
FX Valuation	Undervalued
Current account balance % GDP last	-2.41 (0.82)
Trend current account balance % GDP	-4.10
Moody's Foreign Currency Rating	A2
Outlook	Stable

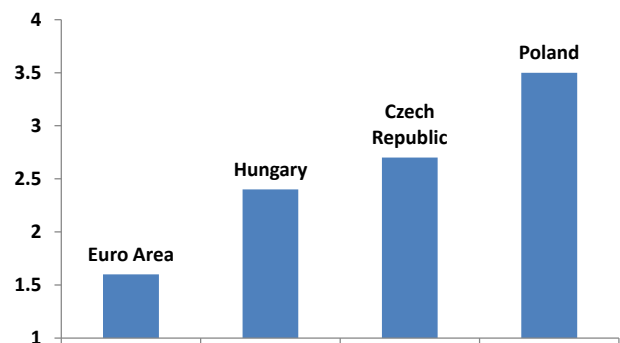
* Current is latest month, quarter or year

1. Inflation (% y/y)



Source: Bloomberg, RBC Capital Markets

2. Consensus for 2016 real GDP (% y/y)



Source: Bloomberg, RBC Capital Markets

Hungarian Forint

1-3 Month Outlook – On hold

In the short-term, we believe NBH will remain on hold with its base rate. Inflation is showing signs of a pick-up and EUR/HUF is close to fair value. However, we believe that NBH will retain a dovish tone given the potential downside risks to inflation from external factors.

First, headline inflation has been positive for the past three readings and recent inflation has been [developing in line with NBH forecasts](#). Dec inflation y/y came in line with consensus at 0.9% y/y. Second, our POLAR valuation shows that EUR/HUF is close to fair value. This means that a cut in the base rate would push EUR/HUF to a higher level and a level that is weaker than what Hungary's fundamentals would prescribe. The forint real effective exchange rate is already at its weakest level over the past 10 years. According to POLAR, at its current level, HUF is at a sustainable level for its current account balance. The trade balance is in surplus and exports y/y have exceeded imports y/y from Jan to Nov (2015). Moreover, a weaker forint may negatively impact Hungary's ability to service its foreign-currency denominated debt (see next section).

Although we do not expect NBH to ease in the near-future, we do expect NBH to maintain its dovish stance as a precautionary measure on the back of potential downside risks for inflation. [On Jan 26, NBH cited](#) that "persistently low global inflationary environment" has been dampening inflation. Oil prices have continued to fall and inflation in the Euro area is low.

6-12 Month Outlook – Gradual appreciation

We expect HUF to appreciate against EUR as Hungary's fundamentals improve. Growth will take a dip at the beginning of this year due to external factors. However, we do expect it to pick up into year-end. Consensus expects real GDP y/y at 2.4% and 2.6% in 2016 and 2017. On the fiscal front, both gross and net external debt ratios as % GDP have declined, mostly due to deleveraging. [In Q3, gross external debt](#) fell by 5.5pp to 78.7% of GDP and net external debt fell by 3.5pp to 27.5% of GDP. Hungary also has ample FX reserves to cover its ST external debt (as of Q3), which is 72% of Dec FX reserves. In the LT, we will be closely monitoring FX denominated debt, which is 70% of the gross total and ~3 times larger than FX reserves. We also believe interest rate differentials between Hungary and EU will put downward pressure on EUR/HUF.

Forecasts

	2016				2017			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/HUF	310	305	300	295	293	292	290	289
USD/HUF	301	305	300	289	285	281	276	272
PLN/HUF	73.8	74.4	74.1	73.8	73.1	72.4	71.8	71.1

Source: RBC Capital Markets estimates

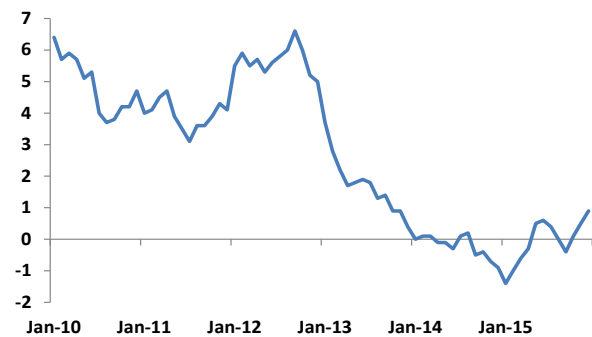
Daniel Tenengauzer and Daria Parkhomenko

Indicators

	Current (Previous)*
Official cash rate	1.35 (1.35)
Trend interest rates (10yr average)	6.05
Bias in interest rate market	Neutral
CPI Inflation %Y/Y last (prev)	0.9 (0.5)
Inflation target	3% (+/- 1%)
Budget balance % GDP last (prev)	-2.5 (-2.5)
Budget balance trend % GDP	-5.19
GDP Growth % y/y last (prev)	2.4 (2.7)
Trend GDP %y/y	1.00
RBC-POLAR misalignment	5.07%
Spot (EUR/HUF)	311
FX Valuation	Overvalued
Current account balance % GDP last	6.2 (3.84)
Trend current account balance % GDP	-1.01
Moody's Foreign Currency Rating	Ba1
Outlook	Positive

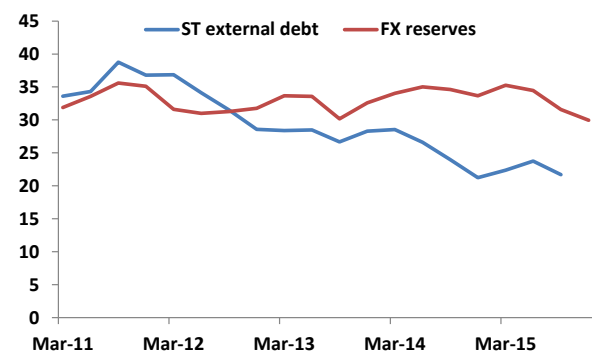
* Current is latest month, quarter or year

1. Inflation (% y/y)



Source: Bloomberg, RBC Capital Markets

2. FX reserves and external debt – EUR bn



Source: National Bank of Hungary, RBC Capital Markets

Czech Koruna

1-3 Month Outlook – Downside risks to inflation

We do expect CNB to remain committed to its EUR/CZK floor of 27.0 through the end of 2016 on the back of low inflation in the Czech Rep. and the Euro area. However, robust growth in Czech Rep. relative to that of the Euro area will place downward pressure on EUR/CZK. In turn, this will force CNB to continue defending the floor through FX interventions.

Based on the *Inflation Report* (Nov), CNB does not expect inflation y/y to reach its target of 2.0% until Q4 2016/Q1 2017. Our seasonality model shows that inflation y/y will only reach 1.5% in Dec 2016. Recent inflation (Dec '15) came in at 0.1% y/y in line with consensus but well below CNB's lower bound target of 1.0%. As in Nov, this low reading was a result of lower food prices and declining energy prices. With EUR/CZK continuing to test the floor and energy prices falling even further, risks to inflation are skewed to the downside. Also, downside risks to [Euro area's inflation](#) will result in deflationary pressures for Czech inflation through import prices. Euro area's inflation has been low not only due to declining oil prices, but also due to spare capacity in the labor market. Euro area inflation expectations (EUR 5f5y IL swap) have also declined since Dec.

6-12 Month Outlook – More interventions

Downward pressure on EUR/CZK will push CNB to increase the scale of its [foreign currency purchases](#). EUR/CZK has been hugging the floor since the beginning of Nov. With consensus expecting real GDP y/y for Czech Rep. to exceed that of the Euro area in 2016 and 2017, this will push EUR/CZK lower. Additionally, our [economists](#) expect ECB to cut the deposit rate by 10bp in March, which may add downward pressure on EUR/CZK.

As we have previously argued, there is room for CNB to [build up](#) its FX reserves to cushion any potential capital outflows. ST external debt (Sep 2015) and total [external debt](#) as % of total international reserves (Dec 2015) stood at 87% and 194%, respectively.

A risk to our view that EUR/CZK will continue to test the floor is that the EUR may appreciate against CZK (similar to EUR/CHF in recent weeks). ECB's dovish policy stance is a double edged sword. It adds downward pressure on the EUR through rate differentials, but it may trigger EUR demand if investors believe that the dovish stance will work and support growth in Europe.

Forecasts

	2016				2017			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/CZK	27.15	27.00	27.00	27.00	26.63	26.26	25.89	25.52
USD/CZK	26.36	27.00	27.00	26.47	25.85	25.25	24.66	24.07
PLN/CZK	6.46	6.59	6.67	6.75	6.63	6.52	6.40	6.28

Source: RBC Capital Markets estimates

Daniel Tenengauzer and Daria Parkhomenko

Indicators

	Current (Previous)*
Official cash rate	0.05 (0.05)
Trend interest rates (10yr average)	1.34
Bias in interest rate market	Neutral
CPI Inflation %Y/Y last (prev)	0.1 (0.1)
Inflation target	1%-3%
Budget balance % GDP last (prev)	-1.9 (-1.3)
Budget balance trend % GDP	-2.91
GDP Growth % y/y last (prev)	0.1 (0.4)
Trend GDP %y/y	2.30
RBC-POLAR misalignment	-3.88%
Spot (EUR/CZK)	27.02
FX Valuation	Neutral
Current account balance % GDP last (prev)	1.2 (1.14)
Trend current account balance % GDP	-1.98
Moody's Foreign Currency Rating	A1
Outlook	Stable

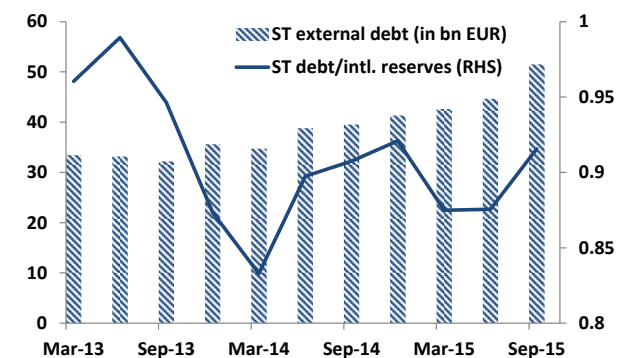
* Current is latest month, quarter or year

1. Euro area inflation expectations (EUR 5f5y IL swap rate)



Source: RBC Capital Markets, Bloomberg

2. Short-term external debt as % of international reserves



Source: RBC Capital Markets, CNB

Israeli Shekel

1-3 Month Outlook – Breaking 4.00

The shekel has been gradually drifting weaker. Since early December, it has weakened 4-5% against both EUR and USD. Growth and monetary policy stance have both played a role. On the growth front, Israel's exports will likely suffer from Asia's currency weakness. According to the Central Bureau of Statistics, Israel exports to Asia are about 28% of total exports of goods. Since 2011 Israel exports to Asia increased by about 50%. Meanwhile, exports to the EU and US have remained about flat if not outright dropped. Asia FX weakness against the USD will likely have a meaningful impact on the Israeli economy. We expect the Bol to closely watch China's FX policy going forward. We are not surprised that most of the ILS depreciation took place in the first week of December, following the USD/CNY jump to 6.50.

The Bol will likely stay dovish for quite a while because inflation remains remarkably low and the ILS does not seem to be weakening as quickly as many other EM currencies. This is not the first time Bol stays behind the Fed due to a strong ILS. In late 2006, Governor Stanley Fischer opted to ease to as much as 175bp below Fed Funds in effort to keep the ILS from strengthening. However, the ILS kept strengthening. Unlike 2006-2008, we believe ILS weakness will persist. The overall USD trend stronger remains in place and, unlike 2006-2008, ILS valuation is now somewhat less attractive. RBC-POLAR shows that the ILS was 8-9% undervalued in 2006. It is now 4-5% overvalued.

6-12 Month Outlook – The first hike

We do believe the first hike will take place at some point later this year. This assumes our US Economics team forecasts for the IOER at 1.50% by December materializes. The main challenge facing policy makers in Israel is to maintain the activity pace above population growth. For a high income economy, Israel's population growth remains quite extraordinary, at about 1.6%. During the past twenty years headline growth dropped below population growth in 1998, 2001, 2008 and 2014. In all four events, Bol opted to step up easing monetary policy. We believe it will pursue similar policy approach if the ILS does not weaken more aggressively. We forecast USD/ILS at 4.50 at some point during the summer. The premise of this forecast is additional Fed tightening, which may eventually drive Bol to hike towards the end of year.

Forecasts

	2016				2017			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/ILS	4.30	4.50	4.50	4.30	4.23	4.17	4.10	4.03
EUR/ILS	4.43	4.50	4.50	4.39	4.36	4.33	4.31	4.28
ILS/JPY	28.8	28.4	29.3	29.8	29.8	29.8	29.8	29.7

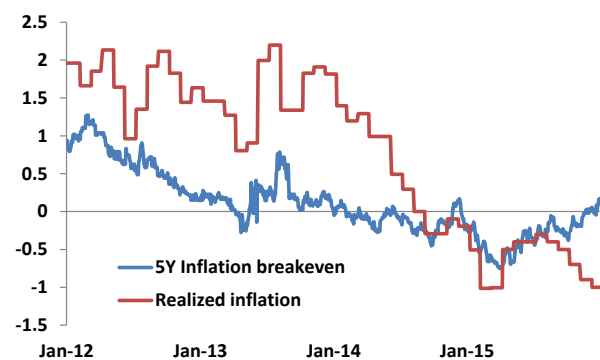
Source: RBC Capital Markets estimates

Indicators

	Current (Previous)*
Official cash rate	0.1 (0.1)
Trend interest rates (10yr average)	2.43
Bias in interest rate market	Neutral
CPI Inflation %Y/Y last (prev)	-1 (-0.9)
Inflation target	1.0% - 3.0%
Budget balance % GDP last (prev)	-3.2 (-3.9)
Budget balance trend % GDP	-2.90
GDP Growth % y/y last (prev)	2.4 (1.9)
Trend GDP %y/y	3.80
RBC-POLAR misalignment	3.78%
Spot	3.960
FX Valuation	Neutral
Current account balance % GDP last	4.28 (3.75)
Trend current account balance % GDP	3.17
Moody's Foreign Currency Rating	A1
Outlook	Stable

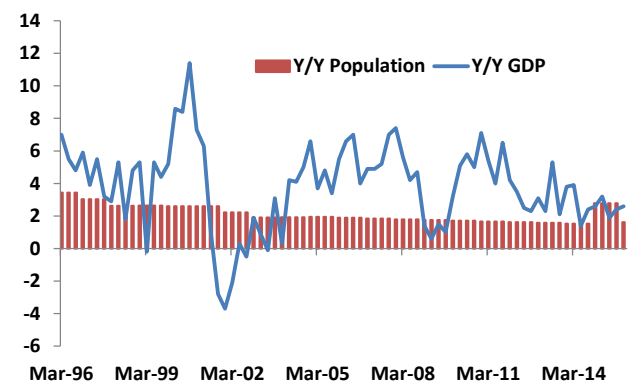
* Current is latest month, quarter or year

1. Inflation (% y/y), 5Y inflation breakeven



Source: Bloomberg, RBC Capital Markets

2. Real GDP, population growth (% y/y)



Source: Bloomberg, RBC Capital Markets

Mexican Peso

1-3 Month Outlook – Another hike

Our US Economics and Fixed Income Strategy team forecasts the Fed to hike again in March. This should trigger another notch higher in Banxico's reference rate, from 3.25% to 3.5%. We also believe headline inflation may increase back above 3% y/y in the next 3-4 months. Assuming trend-like inflation behavior for rest of 2016, headline would rise from 2.1% y/y in 2015 to 3.7% in 2016. IMF forecasts an increase to 3% y/y by Dec, which should still warrant an increase of about 100bp in the ref. rate.

Our key concern going forward will be peso undervaluation. So far, peso weakness has not driven breakeven inflation higher because activity is soft. Tight fiscal policy may restrain demand, and therefore inflation, subdued. In the past few weeks however, investors started to price out the chance of an additional hike in March. This has driven the peso through 18.00. We believe additional market pressure is yet to come, which should drive USD/MXN above 19.00 between now and the end of March. This kind of FX volatility may drive Banxico to hike again regardless of the Fed decision. We do expect peso undervaluation to support USD/MXN lower thereafter.

6-12 Month Outlook – Activity to improve

In our view, one of the better gauges of US activity strength's impact on Mexico is foreign remittances. This is now still running about 5% below the 2007 peak. US Housing slump has driven immigration back to Mexico and in turn, increased labor market slack south of the US border. We believe that a combination of weak peso, low labor costs, and a diversified export sector may trigger a turnaround in the trade surplus. The latest batch of IGAE activity data showed an improvement above consensus. Activity growth is now 2.7% y/y against well above 7% for the post-financial crisis peak last observed in 2010.

The government managed to keep fiscal ratios largely unchanged in the past few years. It achieved this despite a 60% collapse in oil revenues since the peak observed in 2012. Oil revenues are now 20% of programmable expenditures, down from 33% 2014. The main source of revenues making up for this shortfall has been a sharp increase in income taxes, 20% higher in 2015 compared to 2014. The main collateral damage of this continues to be subdued domestic demand. We expect this negative factor weighing on domestic demand to wane throughout 2016.

Forecasts

	2016				2017			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/MXN	19.00	18.00	17.00	16.00	15.82	15.64	15.46	15.28
EUR/MXN	19.57	18.00	17.00	16.32	16.29	16.27	16.23	16.20
MXN/JPY	6.53	7.11	7.76	8.00	7.96	7.93	7.89	7.85
CAD/MXN	13.103	12.857	12.500	12.030	12.076	12.124	12.173	12.224

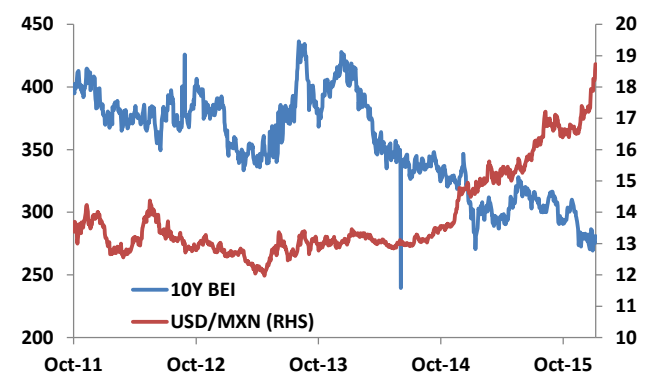
Source: RBC Capital Markets estimates

Indicators

	Current (Previous)*
Official cash rate	3.25 (3.25)
Trend interest rates (10yr average)	4.97
Bias in interest rate market	Hiking
CPI Inflation %Y/Y last (prev)	2.13 (2.21)
Inflation target	3.0 (+/-1%)
Budget balance % GDP last (prev)	-3.19 (-3.66)
Budget balance trend % GDP	-1.53
GDP Growth % y/y last (prev)	2.5 (2.6)
Trend GDP %y/y	2.60
RBC-POLAR misalignment	-13.80%
Spot	18.39
FX Valuation	Undervalued
Current account balance % GDP last	-2.04 (-2.19)
Trend current account balance % GDP	-1.28
Moody's Foreign Currency Rating	A3
Outlook	Stable

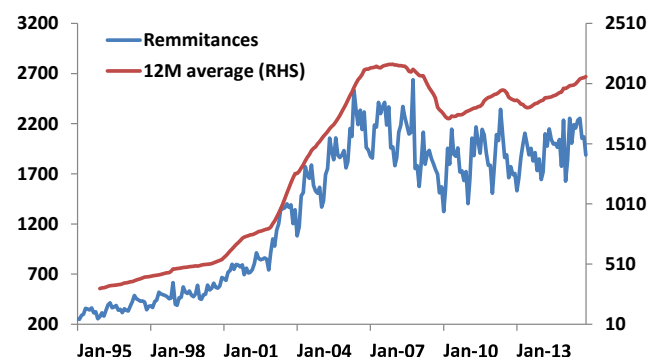
* Current is latest month, quarter or year

1. 10Y breakeven inflation, USD/MXN



Source: Bloomberg, RBC Capital Markets

2. Remittances from workers outside Mexico (USD mn)



Source: Bloomberg, RBC Capital Markets

Brazilian Real

Daniel Tenengauzer

1-3 Month Outlook – Monetization

Fraud and corruption charges continue to take a toll on resource allocation. The latest monetary policy decision ended up leaving the Selic reference rate at 14.25%. Headline inflation remains well above 10% but activity is collapsing. In fact, the latest correlation between local stock market performance and sovereign CDS changes shows an increase in the (negative) correlation from 0.2 in 2012 to 0.5 now. We believe faulty fiscal policy making will likely continue crowding out private sector investment.

We also believe policy makers will push towards monetization to improve fiscal dynamics. This will likely mean higher ex-post inflation and steady nominal rates. In the latest Focus report of market expectations collected by BCB, the median Top 5 analysts IPCA 2016 inflation forecast reached 7.92%, from 7.54% before the COPOM decision. The same group of analysts now expects the Selic reference rate to drop 50bp to 13.75% during 2016, from 15.4% previously. Brazil's total sovereign debt increased 22% in 2015, reaching BRL2.8trl. Debt servicing costs for the domestic portion of this debt (95% of outstanding) reached 14.3% in 2015, against 11.4% in 2014. Headline inflation increased from 6.4% in 2014 to 10.7% in 2015. The government has already been monetizing the debt because headline inflation is rising more quickly than domestic debt servicing. We believe inflation in 2016 may reach 8-8.5% and also expect easing later in the year. This easing may be more aggressive than the 50bp forecast by the Top 5.

6-12 Month Outlook – Systemic risks

Deleveraging in Brazil has barely started, in our opinion. BNDES has reported a decline in lending at the tune of 28% from 2014 to 2015, from BRL 174bn in 2014 to BRL 136bn in 2015. This is a 40% decline in lending in real terms once accounting for inflation. Nevertheless, this might only be the beginning of a very long deleveraging journey because BNDES seems under-capitalized. As an example, BNDES holds 27% of Petrobras shares on its balance sheet. Petrobras market capitalization declined from BRL 234bn in Q3 2014 to BRL71bn now. These add up to a meaningful decline in BNDES capital and does not even account for a widening gap in subsidized loans represented by the spread between TJLP and Selic, at 7.5% and 13.25% respectively. Moreover, BNDES holds 3% of Vale, whose market cap declined by over 60%.

Forecasts

	2016				2017			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/BRL	4.80	4.90	5.00	5.10	5.15	5.25	5.15	5.00
EUR/BRL	4.94	4.90	5.00	5.20	5.30	5.46	5.41	5.30
BRL/JPY	25.8	26.1	26.4	25.1	24.5	23.6	23.7	24.0
CAD/BRL	3.31	3.50	3.68	3.83	3.93	4.07	4.06	4.00

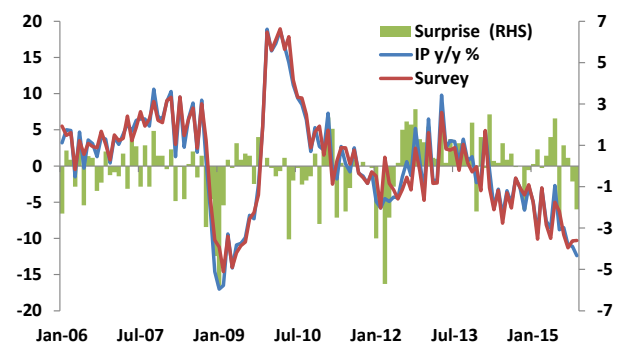
Source: RBC Capital Markets estimates

Indicators

	Current (Previous)*
Official cash rate	14.25 (14.25)
Trend interest rates (10yr average)	11.55
Bias in interest rate market	Neutral
CPI Inflation %Y/Y last (prev)	10.67 (10.48)
Inflation target	4.5% +/-1.0%
Budget balance % GDP last (prev)	-9.65 (-8.94)
Budget balance trend % GDP	-3.08
GDP Growth % y/y last (prev)	-4.45 (-3)
Trend GDP %y/y	3.28
RBC-POLAR misalignment	11.70%
Spot	3.99
FX Valuation	Overvalued
Current account balance % GDP last	-3.32 (-4.08)
Trend current account balance % GDP	-1.70
Moody's Foreign Currency Rating	Baa3
Outlook	Negative

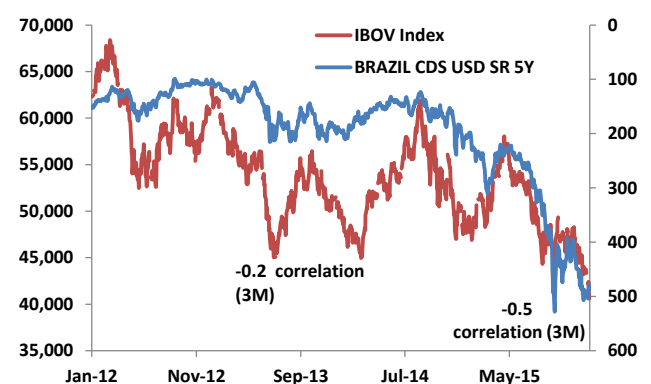
* Current is latest month, quarter or year

1. IP (% y/y) – Actual, survey, surprise (actual – survey)



Source: Bloomberg, RBC Capital Markets

2. Ibovespa, Brazil 5Y CDS



Source: Bloomberg, RBC Capital Markets

Chilean Peso

1-3 Month Outlook – Above 700

We believe the peso will remain above 700 because real interest rates remain quite negative. Headline inflation increased from 3.9% y/y in Nov 2015 to 4.4% in Dec 2015. Meanwhile, BCCh opted to keep the reference rate at 3.5%. The decision was likely a result of lower than expected inflation data for Dec and a persistently weaker external environment for Chile's commodity exports. Moreover, in BCCh's recent survey, traders continue to expect a convergence in headline inflation to 3.5% in 2016, then 3% y/y in 2017. We agree that this policy mix may keep the peso slightly above 700 for the time being.

Manufacturing and IP remain in recession at about -2.5% to -3.5% y/y. Retail sales are running at about 2-2.5% y/y compared to about 10% y/y observed in 2010-2013. BCCh will likely keep policy conditions balanced to avoid additional activity/demand deterioration. In the near term the economy may continue to show stress emanating from the transition away from copper exports to alternative sources of demand. We believe global demand for copper is highly unlikely to recover as China transitions away from infrastructure investment towards services. China's macro announcements in March may reinforce this outlook.

6-12 Month Outlook – Long-run tailwinds

Our RBC-POLAR FX valuation framework estimates the steady state current account imbalance at about 3.5-4% of GDP deficit. Meanwhile, the current account deficit improved to 0.5-1% deficit to GDP. This is good news for the long term Chilean peso valuation story. Productivity gains are somewhat stagnant. Nevertheless, the economy seems to be holding on to the gains observed between 2010 and 2014. More importantly, terms of trade have not deteriorated anywhere near the levels observed in 2009. According to our models, the peso is undervalued in all frameworks; PPP, Balassa-Samuelsson and the Balance of Payments. It is now about 8% undervalued. We believe that BCCh rates normalization above 4% in the longer run plus a decline in headline inflation back to 3% will likely bring the currency back to well below 700 into 2017.

Unlike Chile, where the current account balance improved since the beginning of the terms of trade deterioration, Colombia external imbalances remain a worry. The POLAR balance of payments equilibrium still shows the COP is 7% overvalued while CLP is 15% undervalued based on BoP.

Forecasts

	2016				2017			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/CLP	720.0	700.0	680.0	680.0	671.0	670.0	680.0	690.0
EUR/CLP	741.6	700.0	680.0	693.6	691.2	696.8	714.0	731.4
JPY/CLP	25.83	26.12	26.40	25.10	24.47	23.62	23.69	24.00
CAD/CLP	496.6	500.0	500.0	511.3	512.2	519.4	535.4	552.0

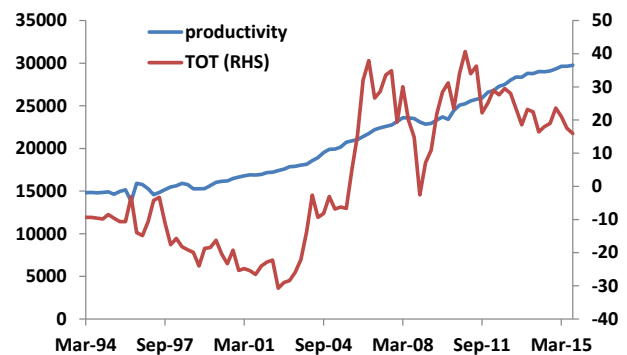
Source: RBC Capital Markets estimates

Indicators

	Current (Previous)*
Official cash rate	3.5 (3.5)
Trend interest rates (10yr average)	4.43
Bias in interest rate market	Hiking
CPI Inflation %Y/Y last (prev)	4.4 (3.9)
Inflation target	3% (+/-1%)
Budget balance % GDP last (prev)	-1.3 (-0.6)
Budget balance trend % GDP	-0.82
GDP Growth % y/y last (prev)	2.2 (1.92)
Trend GDP %y/y	4.06
RBC-POLAR misalignment	-8.05%
Spot	714
FX Valuation	Undervalued
Current account balance % GDP last	-1.21 (-0.67)
Trend current account balance % GDP	0.10
Moody's Foreign Currency Rating	Aa3
Outlook	Stable

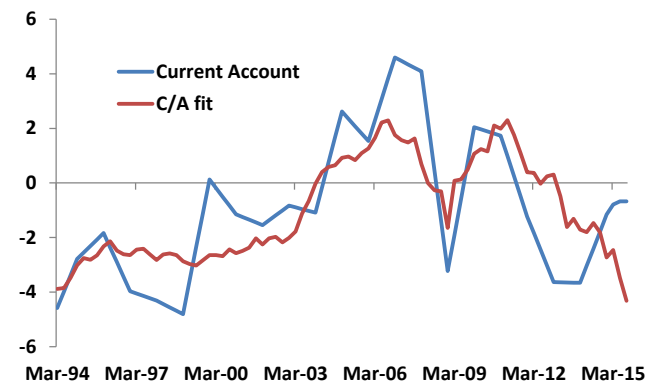
* Current is latest month, quarter or year

1. Productivity vs. terms of trade



Source: Bloomberg, RBC Capital Markets

2. Current account (% GDP) – actual, fitted



Source: Bloomberg, RBC Capital Markets calculations

Argentine Peso

1-3 Month Outlook – Floating peso

As promised, the newly elected administration floated the peso. Demand for USD was largely offset by the cabinet's decision to slash export taxes. This has had two important positive side effects. First, it stimulated exports because terms of trade improved through a weaker exchange rate as well as tax advantages. Second, farmers costs will likely decline going forward as many are now reducing inventories stashed during the years of tax repression.

The BCRA accumulated USD 1.2bn in FX reserves. In the meantime, USD/ARS has weakened from the initial official rate of 9.80 to 14.00. We believe stabilization will mainly be a function of liquidity in money markets. During Dec, Private Badlar, the main interest rate benchmark, reached 32%, from 24%. This benchmark subsequently declined to 25% perhaps because investors may have believed that FX accumulation would raise peso liquidity in local money markets. BCRA interventions will likely be fully sterilized, which has driven local rates back up by 230bp.

6-12 Month Outlook – Recovering credibility

President Macri's first important international appearance was in Davos, Switzerland. Argentina is now seeking to initiate Article IV negotiations with the IMF. The last Article IV analyzing the macro situation in Argentina was finished in 2006. During that year, Argentina started to misreport inflation data. Since then, data releases' quality deteriorated. Moreover, before new bonds are issued in international markets, Argentina must reach an agreement with debt holdouts remaining from the 2005 debt restructuring. These holdouts vow not to accept the terms of the exchange set between bonds issued prior to the 2001 sovereign debt default and those following the 2005 exchange. However, agreeing to lower haircuts with debt holdouts may spark attrition with post-exchange bondholders.

Meanwhile, MinFin Alfonso Prat-Gay will likely seek to stabilize fiscal accounts and contain inflation. Prat-Gay has stated in the press a desire to contain inflation between 20-25% y/y in 2016. Assuming Argentina's return to international markets takes place in the not-so-distant future in, say 2017, this may keep USD/ARS from breaching 17.00. A combination of data transparency, a resumption of negotiations with holdouts, tight money and fiscal restraint may help Argentina's growth. This policy mix could, in turn, raise tax revenues, helping to smooth the negative impact of otherwise seemingly tight policy stance.

Forecasts

	2016				2017			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/ARS	15.00	16.00	16.50	15.00	14.53	14.06	13.59	13.12
EUR/ARS	15.45	16.00	16.50	15.30	14.97	14.62	14.27	13.91
ARS/JPY	8.27	8.00	8.00	8.53	8.67	8.82	8.98	9.14
CAD/ARS	10.34	11.43	12.13	11.28	11.09	10.90	10.70	10.50

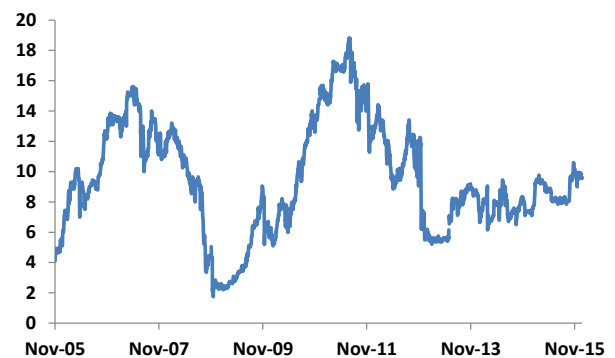
Source: RBC Capital Markets estimates

Indicators

	Current (Previous)*
Private BADLAR	26.3125 (29.875)
Trend interest rates (10yr average)	13.34
Bias in interest rate market	Hiking
CPI Inflation %Y/Y last (prev)	n/a
Inflation target	n/a
Budget balance % GDP last (prev)	-0.26 (-0.69)
Budget balance trend % GDP	0.50
GDP Growth % y/y last (prev)	2.3 (2.1)
Trend GDP %y/y	5.30
RBC-POLAR misalignment	-44.15%
Spot	14.15
FX Valuation	Undervalued
Current account balance % GDP last	-1.34 (-1.15)
Trend current account balance % GDP	0.89
Moody's Foreign Currency Rating	Ca
Outlook	Stable

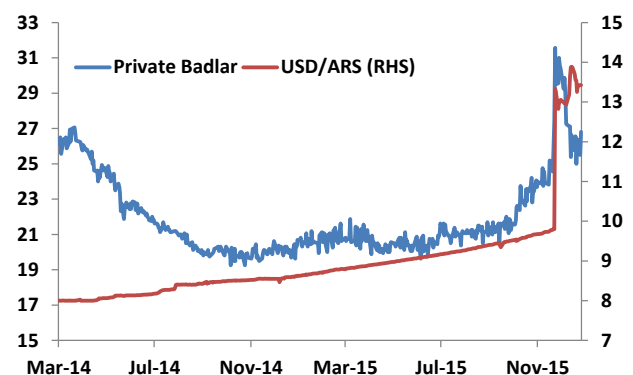
* Current is latest month, quarter or year

1. Argentina GDP warrant (USD)



Source: Bloomberg, RBC Capital Markets

2. Private Badlar (%), USD/ARS



Source: Bloomberg, RBC Capital Markets

Colombian Peso

1-3 Month Outlook – FX pass-through

Colombia seems to be a clear casualty of increasingly higher inflation as a result of an undervalued exchange rate. However, the demand picture does remain deflationary. Peso undervaluation declined by about 5-8% in the past six months or so as a result of additional terms of trade deterioration as well as inflation differentials at 4pp above the rest of the world. Activity seems to be improving at the margin but consumer confidence and more broadly domestic demand remain weak.

We expected BanRep to hike 50bp to 6.25% in its Jan meeting. Instead, the central bank opted to hike in line with market expectations by 25bp to 6%. This may keep real interest rates relatively low. We still believe BanRep may need to hike its reference rate to about 7-7.5% to anchor the currency. Headline inflation has increased to 6.8% from under 5% 4-6 months ago. As a result, the peso reached all-time weak levels in January.

6-12 Month Outlook – Fundamental stress

Colombia and Chile are running currencies with similar valuation profiles. The CLP may seem more promising however. Compared to Colombia, productivity growth is holding up well in Chile despite lower copper exports. Moreover, a collapse in oil prices seems to have had a more negative impact on terms of trade in Colombia than in Chile.

The negative readings across overall productivity as well as terms of trade have remained negative well into the last quarter of 2015. For over ten years, Colombia has benefited from a boom in oil prices and investment as a result of the peace dividend. We do not expect these to have improved much so far in January. In fact, data shows that the real economy is likely in its worst shape in terms of both investment and productivity since the early 1990s. The peace process will likely face another challenge in March. Moreover, public investment may help embolden the recovery but we are unsure about the potential negative implications for the fiscal balance.

Once BanRep brings the reference rate to a level where real rates settle at 150-200bp and investment growth materializes, the peso may finally settle. We also forecast oil prices to begin stabilizing into the next quarter. Both of these may finally bring USD/COP sustainably lower.

Forecasts

	2016				2017			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USD/COP	3500	3700	3600	3400	3400	3300	3200	3200
EUR/COP	3605	3700	3600	3468	3502	3432	3360	3392
JPY/COP	28.2	28.9	27.3	26.6	27.0	26.6	26.2	26.7
CAD/COP	2414	2643	2647	2556	2595	2558	2520	2560

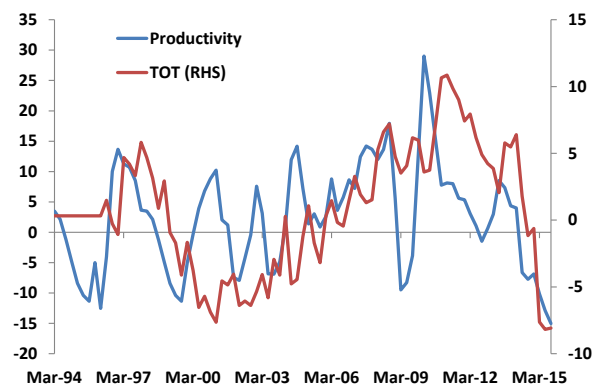
Source: RBC Capital Markets estimates

Indicators

	Current (Previous)*
1 Day Repo Rate	6 (5.75)
Trend interest rates (10yr average)	5.55
Bias in interest rate market	Hiking
CPI Inflation %Y/Y last (prev)	6.77 (6.39)
Inflation target	3% (+/-1%)
Budget balance % GDP last (prev)	-2.79 (-2.46)
Budget balance trend % GDP	-2.71
GDP Growth % y/y last (prev)	3.2 (3)
Trend GDP %y/y	4.80
RBC-POLAR misalignment	-9.08%
Spot	3389
FX Valuation	Undervalued
Current account balance % GDP last	-7.01 (-6.3)
Trend current account balance % GDP	-2.65
Moody's Foreign Currency Rating	Baa2
Outlook	Stable

* Current is latest month, quarter or year

1. Deterioration in productivity and terms of trade



Source: Bloomberg, RBC Capital Markets

2. RBC-POLAR breakdown

	REER-MA	REER-fitted	REER-CAB	RBC-Polar
ARS	-49%	-28%	-22%	-33%
BRL	-16%	26%	23%	11%
CLP	-10%	-3%	-15%	-9%
COP	-20%	-10%	7%	-8%
MXN	-15%	-20%	6%	-10%

Source: RBC Capital Markets calculations, Bloomberg



Forecasts

Spot forecasts

	2016				2017			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.03	1.00	1.00	1.02	1.03	1.04	1.05	1.06
USD/JPY	124	128	132	128	126	124	122	120
GBP/USD	1.41	1.41	1.43	1.48	1.51	1.55	1.59	1.63
USD/CHF	1.08	1.12	1.13	1.12	1.12	1.11	1.10	1.09
USD/SEK	9.32	9.50	9.40	9.12	8.93	8.75	8.57	8.40
USD/NOK	9.13	9.20	9.10	8.82	8.64	8.46	8.29	8.11
USD/CAD	1.45	1.40	1.36	1.33	1.31	1.29	1.27	1.25
AUD/USD	0.67	0.65	0.65	0.65	0.66	0.66	0.67	0.68
NZD/USD	0.62	0.60	0.62	0.63	0.64	0.64	0.65	0.66
USD/CNY	6.70	6.80	6.90	6.95	7.00	7.20	7.40	7.50
USD/CNH	6.73	6.83	6.93	6.98	7.03	7.23	7.43	7.53
USD/HKD	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
USD/INR	67	69	70	71	71	72	72	73
USD/KRW	1210	1240	1270	1310	1290	1280	1270	1250
USD/SGD	1.48	1.53	1.57	1.60	1.58	1.56	1.54	1.54
USD/MYR	4.50	4.60	4.70	4.80	4.70	4.60	4.50	4.40
USD/IDR	14600	14900	15200	15600	15500	15300	15200	15100
USD/TWD	34	35	36	37	37	37	38	38
USD/THB	36.7	37.8	38.8	39.8	40.0	40.3	40.6	41.0
USD/PHP	48.0	48.3	48.6	48.9	49.4	49.3	49.2	49.0
USD/TRY	3.25	3.35	3.40	3.10	3.14	3.18	3.22	3.26
USD/RUB	84	82	80	77	77	77	78	78
USD/ZAR	17.00	18.00	17.50	17.00	16.80	16.50	16.50	16.50
USD/PLN	4.08	4.10	4.05	3.92	3.90	3.88	3.85	3.83
USD/HUF	301	305	300	289	285	281	276	272
USD/CZK	26.4	27.0	27.0	26.5	25.9	25.2	24.7	24.1
USD/ILS	4.30	4.50	4.50	4.30	4.23	4.17	4.10	4.03
USD/MXN	19.0	18.0	17.0	16.0	15.8	15.6	15.5	15.3
USD/BRL	4.80	4.90	5.00	5.10	5.15	5.25	5.15	5.00
USD/CLP	720	700	680	680	671	670	680	690
USD/ARS	15.0	16.0	16.5	15.0	14.5	14.1	13.6	13.1
USD/COP	3500	3700	3600	3400	3400	3300	3200	3200

Source: RBC Capital Markets estimates



EUR Crosses

	2016				2017			
	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
EUR/USD	1.03	1.00	1.00	1.02	1.03	1.04	1.05	1.06
EUR/JPY	128	128	132	131	130	129	128	127
EUR/GBP	0.73	0.71	0.70	0.69	0.68	0.67	0.66	0.65
EUR/CHF	1.11	1.12	1.13	1.14	1.15	1.15	1.16	1.16
EUR/SEK	9.60	9.50	9.40	9.30	9.20	9.10	9.00	8.90
EUR/NOK	9.40	9.20	9.10	9.00	8.90	8.80	8.70	8.60
EUR/CAD	1.49	1.40	1.36	1.36	1.35	1.34	1.33	1.33
EUR/AUD	1.54	1.54	1.54	1.57	1.56	1.58	1.57	1.56
EUR/NZD	1.66	1.67	1.61	1.62	1.61	1.63	1.62	1.61
EUR/CNY	6.90	6.80	6.90	7.09	7.21	7.49	7.77	7.95
EUR/CNH	7.13	6.93	6.83	6.93	7.12	7.24	7.52	7.80
EUR/HKD	7.98	7.75	7.75	7.91	7.98	8.06	8.14	8.22
EUR/INR	69	69	70	72	73	75	76	77
EUR/KRW	1246	1240	1270	1336	1329	1331	1334	1325
EUR/SGD	1.52	1.53	1.57	1.63	1.63	1.62	1.62	1.63
EUR/MYR	4.64	4.60	4.70	4.90	4.84	4.78	4.73	4.66
EUR/IDR	15038	14900	15200	15912	15965	15912	15960	16006
EUR/TWD	35	35	36	38	38	39	39	40
EUR/THB	37.8	37.8	38.8	40.6	41.2	41.9	42.6	43.5
EUR/PHP	49.4	48.3	48.6	49.9	50.9	51.3	51.7	51.9
EUR/TRY	3.35	3.35	3.40	3.16	3.23	3.31	3.38	3.45
EUR/RUB	87	82	80	79	79	80	82	83
EUR/ZAR	17.51	18.00	17.50	17.34	17.30	17.16	17.33	17.49
EUR/PLN	4.20	4.10	4.05	4.00	4.02	4.03	4.05	4.06
EUR/HUF	310	305	300	295	293	292	290	289
EUR/CZK	27.2	27.0	27.0	27.0	26.6	26.3	25.9	25.5
EUR/ILS	4.43	4.50	4.50	4.39	4.36	4.33	4.31	4.28
EUR/MXN	19.6	18.0	17.0	16.3	16.3	16.3	16.2	16.2
EUR/BRL	4.94	4.90	5.00	5.20	5.30	5.46	5.41	5.30
EUR/CLP	742	700	680	694	691	697	714	731
EUR/ARS	15.5	16.0	16.5	15.3	15.0	14.6	14.3	13.9
EUR/COP	3605	3700	3600	3468	3502	3432	3360	3392

Source: RBC Capital Markets estimates



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