Morgan Stanley | RESEARCH

IDEA

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FX Pulse | Global

Charging EM Bulls

We updated our FX forecasts last week (see 2019 Global FX Outlook: Top 10 FX Trades)

Temporary risk support... Fed Chair Powell's speech has given risk assets a green light for now. Investors becoming more confident that rates will stay contained at tolerable levels should provide temporary support for risk assets, a view bolstered by recent weaker inflation prints. Oil has the potential for a tactical rebound too, particularly if OPEC agrees on production cuts next week.

...means EM leads G10. EM FX is best positioned to gain, in our view. The DXY has topped but has yet to weaken drastically as wide US-DM rate differentials keep carry-seeking sentiment going, but EM is where the opportunities lie. Cheaper valuations, higher yields, and better fundamentals (in terms of lower leverage compared to some DMs) should push USD/EM lower, bringing the DXY down along with it eventually. To us, other risk assets like US credit and equities do not share the same fundamental, long-term appeal.

A G20 EM hat trick. A dovish Fed and seemingly disinflationary pressures being matched by good news on trade would be a true hat trick for high-yielding EMs. The meeting between Presidents Trump and Xi at the G20 may not ultimately lead to trade de-escalation, but a conciliatory tone may be sufficient to give EM a further boost.

Trading King Carry: We maintain our long high yield EM, long Europe trading strategy. ZAR and IDR look particularly attractive. Any potential weakness in INR on the back of a temporary oil bounce offers buying opportunities. SEK longs remain compelling despite weaker activity data but CPI remains a watchpoint to gauge the Riksbank's hiking plans. Among low-yielding EM, we prefer CLP to MYR based on domestic factors.

Exhibit 1: Current trade portfolio

Closed Trades			
Short CHF/JPY	Closed at 113.90 on 27-Nov-18		
Long BRL 3m NDF/MXN 3m NDF	Closed at 5.2500 on 27-Nov-18		
Active Orders	**Entry**	**Stop**	**Target**
Short AUD, CAD, NZD vs USD, JPY	100.00	102.50	88.00
Short EUR/SEK	10.4326	10.4000	10.0000
Long USD/MYR 3m NDF	4.1725	4.1300	4.4000
Short USD/SEK	9.0900	9.1700	8.7000
Short USD/CLP 3m NDF	676	695	624
Short USD/IDR 3m NDF	14755	14900	14300
Short USD/ZAR	13.91	14.50	13.00

Source: Strategic FX Portfolio Trade Recommendations for more details. Changes in stops/targets in bold italics.

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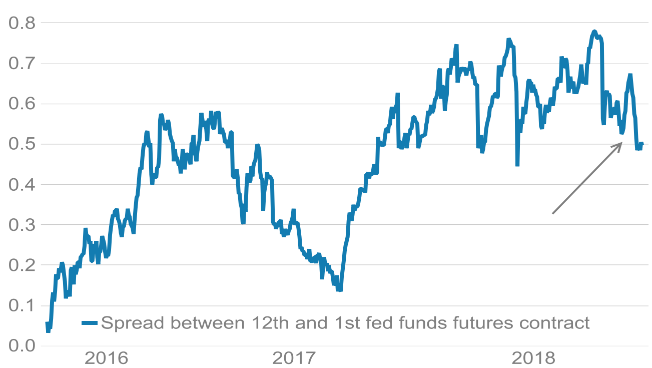
FX Overview

David Adams

Bottom line: Investors have been acutely focused on political developments over recent months, but lately focus has shifted back towards the Fed. We argue that investors have been pricing in a more appropriately flat path of rate hikes, but perhaps for the wrong reasons. We believe that the Fed is likely to hike only twice in 2019 – not because of disinflation or global growth concerns, as some have speculated based on recent Fed commentary, but rather because of slowing US growth. This has important implications for financial markets. A dovish Fed due to disinflation and slowing global growth is arguably a positive for US risk assets (and in turn USD), while a dovish Fed due to slowing US growth is a USD-negative and risk-negative outcome. In our view, it is this combination of US growth slowing relative to the rest of the world, coupled with rising global inflation pressures and rising wages, that suggests USD weakness to come.

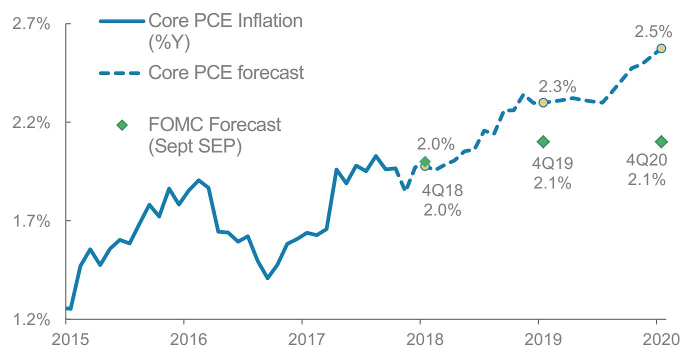
Investor focus shifting from politics…. Investors in recent months have been focused on political matters. Political uncertainty in Europe in particular has been a common refrain for investors bearish on European FX and the outlook therein. Italian budget negotiations, regional elections in Germany and Chancellor Merkel's decision to step down as CDU party leader, and parliamentary leadership uncertainty in Sweden have all captured investor focus. Uncertainty over a Brexit deal only adds to this concern.

Exhibit 2: Market-implied pace of Fed tightening over 1Y forward period relatively stable until recently



Source: Macrobond, Morgan Stanley Research

Exhibit 3: Dip in core PCE likely to be temporary



Source: Morgan Stanley Research

This is not just a European story, either. The US midterm elections earlier this month received considerable attention. Meanwhile, ongoing trade tension between the US and China (as well as others) continues to drive investor uncertainty.

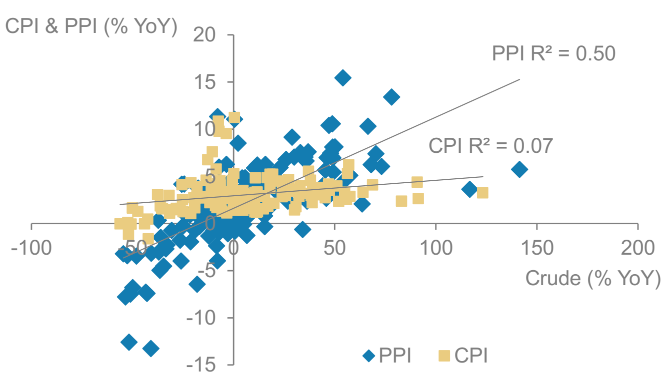
...back to the Fed: Rising political uncertainty has contrasted with, until recently, rising confidence in the expected outlook for the Fed. Indeed, since spring 2018, the market-implied pace of tightening over the rolling 12-month period (until recently) has been relatively stable between 2-3 25bp hikes (Exhibit 2). The 1Y1Y forward rate has fallen almost 25bp since early November, with market pricing now close to our economists' out-of-consensus Fed call.

Are investors right about the Fed... However, being right about the rate path for the wrong reasons may lead investors to draw the wrong conclusions about asset price implications.

...but for the wrong reasons? The Fed rate path has flattened due to a combination of softer realized inflation and dovish Fedspeak, particularly from Chairman Powell. Both factors arguably require some nuance. Core CPI has softened from the year-on-year high, but this was largely due to noisier and volatile categories and is likely to prove temporary (Exhibit 3).

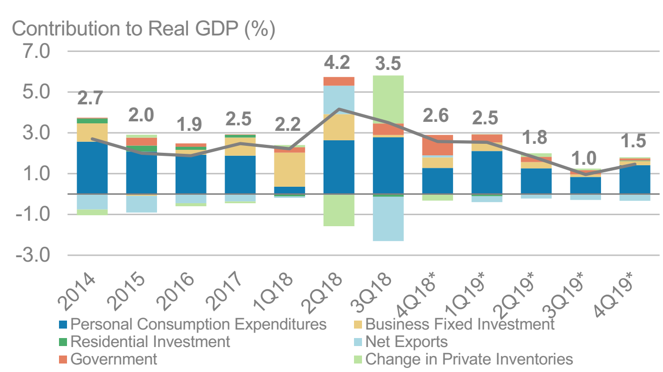
Indeed, some have pointed to the marked fall in oil prices as increasing the risk of future disinflation, though the relationship between oil prices is much stronger with PPI than CPI (Exhibit 4). While the correlation between oil and CPI is quite low – only 0.27 compared to 0.71 for PPI – R^2 on regressions between oil prices changes and CPI are almost 0, suggesting a very limited relationship. The similar analysis for PPI shows a much more substantial relationship. Thus, from our perspective, it seems that falling oil prices may impact corporate margins more so than consumer prices.

Exhibit 4: Oil prices have a more significant impact on PPI than CPI



Source: Federal Reserve Bank of St Louis, Morgan Stanley Research

Exhibit 5: US GDP likely to slow considerably into 2H19



Source: Morgan Stanley Research

There are reasons to expect a flatter Fed path... Dovish Fedspeak similarly needs some context. Investors have pointed to comments from Vice Chairman Clarida as well as from various Fed presidents (Harker, Kaplan and Bostic) as sounding more cautious about the global growth outlook and less concerned about domestic risks. Arguably, though, these policy-makers have already expressed policy views that are more dovish than the median. Indeed, according to our economists, all four speakers have 2019 SEP dots below the 2019 median.

...but it is a US growth story... It seems that investors are coming to share our conclusion that the Fed is likely to hike less aggressively in 2019. But why are they likely right for the wrong reasons? Because ultimately the Fed is likely to hike less than modal forecasts anticipate, not because of disinflation but because of weaker growth.

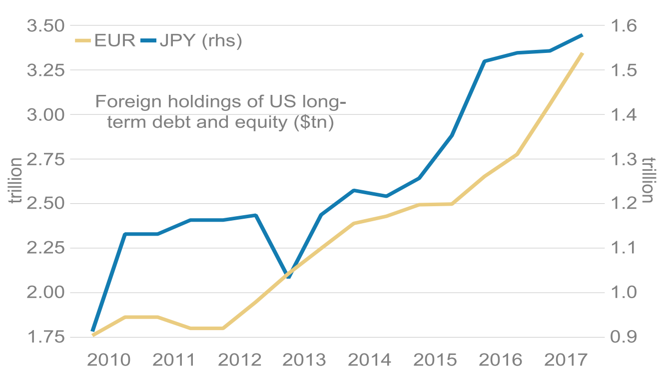
...not a disinflation story: Core PCE is likely to rise to 2.3%Y in 2019, while US real GDP should slow to 1.7% 4Q/4Q. While the former is above the SEP median of 2.1%, the latter is well below the SEP growth forecast of 2.5%. Indeed, quarterly US GDP growth is forecast to slow from a high point of 4.2% in 2Q18 down to a tepid 1.0% in 3Q19, well below trend (Exhibit 5).

Getting the "why" right matters... So why do we care? Because financial assets should trade very differently under these two scenarios. Weakening US inflation and a dovish shift in the Fed's outlook would be appositive for financial assets, as the "Fed put" narrative re-emerges. A more dovish Fed may initially be USD-negative as the front-end rate path reprices; USD may ultimately stay supported for longer as US financial assets remain attractive. Foreign savings may continue to be recycled into the US.

...in order to gauge the FX reaction: However, the latter scenario has very different asset implications, particularly for USD. A material slowdown in the US growth outlook absent disinflationary pressures is a negative for risk. Falling revenue growth is matched by narrowing margins as higher wages, funding costs and input prices raise producer prices. The US, which has benefited from foreign investors recycling their excess savings, may see USD weakness in response to a worsening US asset outlook, particularly as FX hedging ratios have been declining amid rising US funding costs.

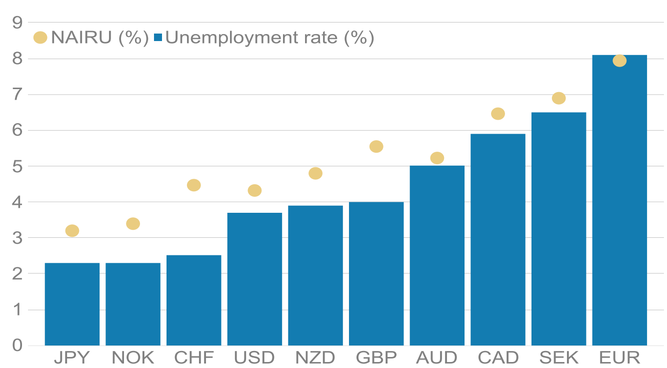
A more dovish Fed due to weaker growth... This is why getting the "why" right is as important as the "what". The market reaction outside of rates to the *driver* of a more dovish Fed will differ depending on the key driver.

Exhibit 6: European and Japanese holdings of US assets have increased over the past decade



Source: Macrobond, Morgan Stanley Research

Exhibit 7: G10 unemployment rates are at or below NAIRU

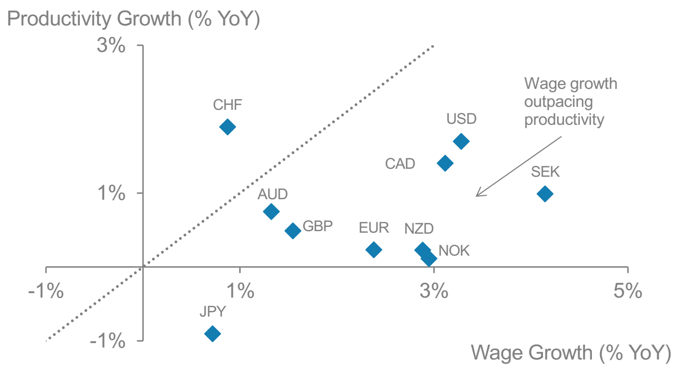


Source: Macrobond, Morgan Stanley Research

...is USD-negative, not positive: Should our expected narrative take hold, USD should weaken, not strengthen. This is particularly the case against economies which have been providing the capital into the US over these past few years, investing in US assets. EUR and JPY stand out here, as both have increased their allocations to US risk assets markedly over the past few years (Exhibit 6). Shifting capital flows out of a worsening US may also find a home in EM, where cheap valuations, a weakening USD and attractive yields render it an increasingly positive alternative to a worsening US.

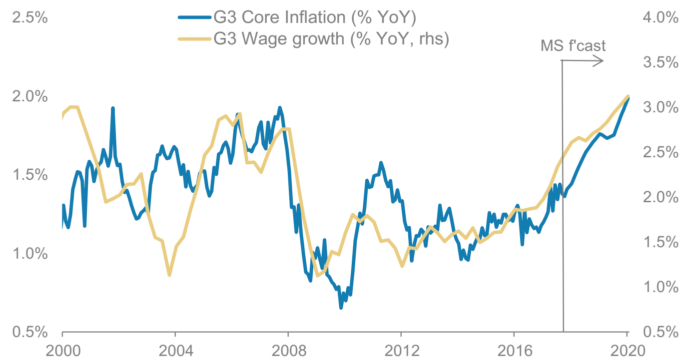
While US growth is slowing compared to the RoW... Slowing US growth, in turn prompting a more dovish Fed response, is a negative for US assets. But what about inflation? This too is arguably USD-negative. Why? Because US growth and inflation dynamics matter *relative to the rest of the world* (RoW). In our forecast, US growth is slowing both nominally and relative to the rest of the world. However, inflation pressures are building globally, particularly in the DM space. This is arguably why the growth factor matters more than inflation – it is the relative differentials.

Exhibit 8: Wage growth outpaces productivity growth in nearly all G10 economies



Source: OECD, Morgan Stanley Research

Exhibit 9: Rising wages expected to bolster core inflation



Source: Haver Analytics, IMF, Morgan Stanley Research forecasts; Note: Aggregates are PPP-based GDP-weighted averages. US core inflation refers to core PCE. Japan core CPI refers to 'core core' ex fresh food and energy, ex VAT and free child education impact.

...inflation is rising globally. A key factor driving global inflation is the labor market and wage growth. Unemployment rates across the G10 are below (or at) NAIRU (Exhibit 7). This is helping to contribute to wage growth that is outpacing productivity growth in nearly all G10 economies (Exhibit 8). Indeed, the only economy where productivity is outpacing wage growth, Switzerland, may reflect idiosyncratic factors, as productivity growth therein is the highest within the G10.

Rising wages... Rising wage growth is important for two reasons. First, wages rising in excess of productivity is likely to be inflationary, all else equal, as it increases the purchasing power of households with high marginal propensities to consume. If wages are rising faster than productivity, then the risk that demand outstrips supply increases (in turn raising inflationary risks). It is no surprise that wage growth and core inflation have tracked quite closely (Exhibit 9).

...may lead to more hawkish central banks abroad... The risk of higher inflation should enable foreign central banks to normalize policy. Given the relative differential in monetary policy cycles between the US and abroad, this would be USD-negative and local currency-positive, all else equal. Indeed, while the Fed is almost at neutral, the ECB and BoJ are still purchasing assets via QE and have negative rates. Other central banks like the BoE remain accommodative. Thus, rising wage and inflation pressures globally may be supportive of those currencies outside the US as these central banks have further room to go in normalizing policy.

...and a reduction in net savings: Another important impact relates to the consumption of savings. Part of the reason why investors in the eurozone and Japan have increased their allocation to US assets so much is that they have been recycling their excess savings abroad.

A current account surplus implies that an economy is producing more than it is consuming – and those savings, which are in excess of domestic investment opportunities, are sent abroad in search of returns.

Rising wages (or, put another way, rising returns to labor relative to capital) shift national income increasingly into the hands of entities that consume, rather than produce. This is why wages matter so much in particular for FX. Rising returns on labor, relative to capital, suggest a decline in net excess savings, meaning fewer funds being recycled abroad (or even funds coming home).

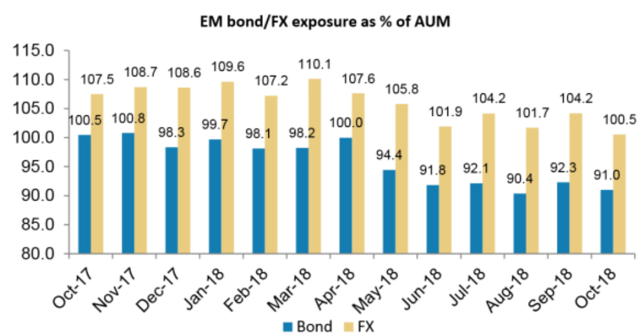
It was an increase in competitiveness in terms of suppressed wages and the household share of GDP in Germany that helped to fuel its increase in savings and, eventually, the eurozone crisis. Wages rising slower than productivity growth, in effect, transfers income from consumers to producers, and raises savings. Wages rising in excess of productivity has the opposite effect.

In sum: It is the combination of narrowing growth differentials (US growth weakening against RoW growth remaining okay) and inflation rising globally that should push USD lower. A worsening growth outlook in the US keeps the Fed dovish (as opposed to disinflation), while rising wages support policy normalization abroad and reduce national savings. It is for these reasons that we argue EURUSD and USDJPY are likely to move so materially in the coming years.

Strategic FX Portfolio Trade Recommendations

Short USD/ZAR

Exhibit 10: Positioning in EM is light



Source: Company website. Morgan Stanley Research

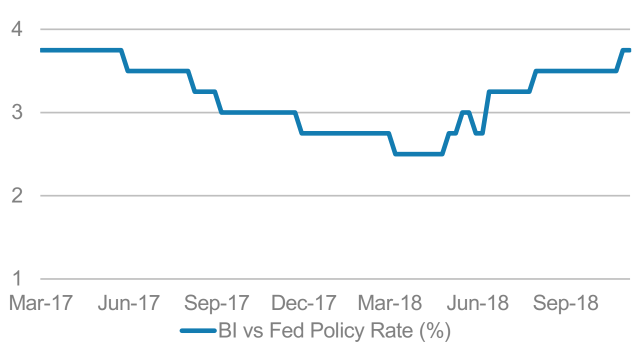
Hold (Entry: 21-Nov-18)

Entry: 13.91; Stop: 14.50; Target: 13.00

In line with our forecasts the SARB hiked rates by 25bp, which supported the ZAR. The question now is whether this is a one-off hike or the start of a cycle. Our economists believe that the MPC prefers not to fall behind its model-implied path, which suggests another 25bp rate hike in 2019. While we expect the hike to come in Q1 2019, the market has not fully priced it yet. We continue to hold our short USD/ZAR together with our existing long positions in EM. The break below 14.0 was technically important and opens up a move to 13.0.

Short USD/IDR 3m NDF

Exhibit 11: Rates differential between Indonesia and the US continues to widen



Source: Bloomberg. Morgan Stanley Research

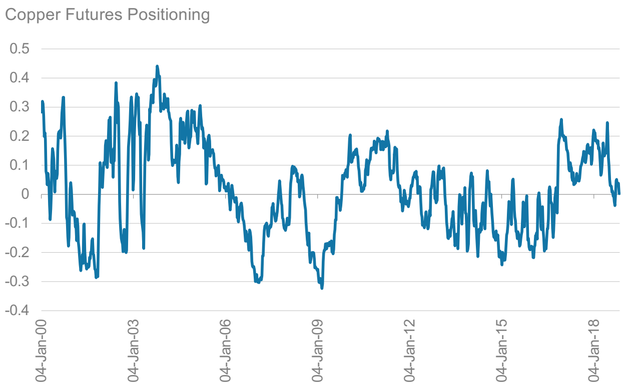
Hold (Entry: 15-Nov-18)

Entry: 14755; Stop: 14900; Target: 14300

BI surprised the market by hiking 25bp to 6.00% while the consensus was calling for no change in the policy rate in its last meeting. The decision was a surprise in the sense that, before the November meeting, BI had already hiked 150bp since May and IDR has stabilized. It suggests that BI focuses on IDR stability and wants to defend the currency proactively by increasing real rates and reducing Indonesia's vulnerability. Investors have been concerned about IDR's volatility and liquidity. With the introduction of DNDF and proactive rate hikes, we believe that investors could return to the bond market and inflows could help to strengthen IDR, in our view.

Short USD/CLP 3m NDF

Exhibit 12: Copper positioning is now cleaner



Source: IMM, Morgan Stanley Research

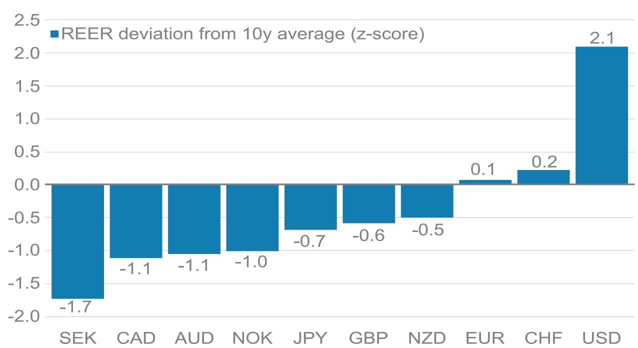
Hold (Entry: 8-Nov-18)

Entry: 676; Stop: 695; Target: 624

We tighten our stop to 695. With copper futures positioning now cleaner on a year-to-date basis and given the country's strong fundamentals, we think that short USDCLP positions look attractive. In our view, near-term trade risks, which have pressured the Chilean peso this year, are receding, which should give CLP some room to retrace its earlier losses. Risks to this trade include an escalation in the current US-China trade dispute, or further declines in risk appetite.

Short USD/SEK

Exhibit 13: SEK is the cheapest G10 currency, while USD is the most expensive



Source: Macrobond, Morgan Stanley Research

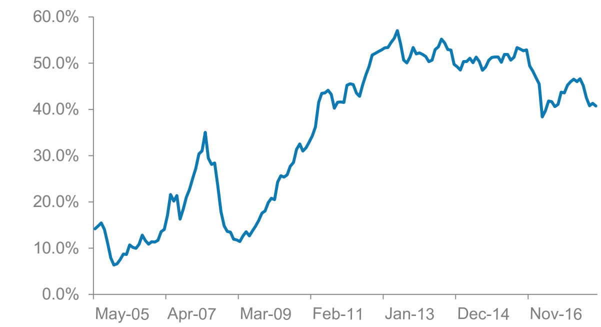
Hold (Entry: 1-Nov-18)

Entry: 9.0900; Stop: 9.1700; Target: 8.7000

SEK looks poised to gain further. European FX looks oversold as investors have become increasingly bearish on the European economic and political outlook, pushing European currencies into oversold territory. SEK should gain as European economic data rebound from the current temporary slowdown, German and Italian political risks subside, and the ECB and Riksbank continue their hawkish tones. The recent weakness in consumer confidence and retail sales data are unlikely to deter the Riksbank, particularly as inflation pressures are likely to continue building amid a tightening labor market. SEK also remains cheap relative to its long-run REER while USD looks overvalued. A key risk to the trade is that European economic data continue to worsen, weighing on European FX, including SEK.

Long USD/MYR 3m NDF

Exhibit 14: MGS foreign ownership remains high



Source: Haver Analytics, Morgan Stanley Research

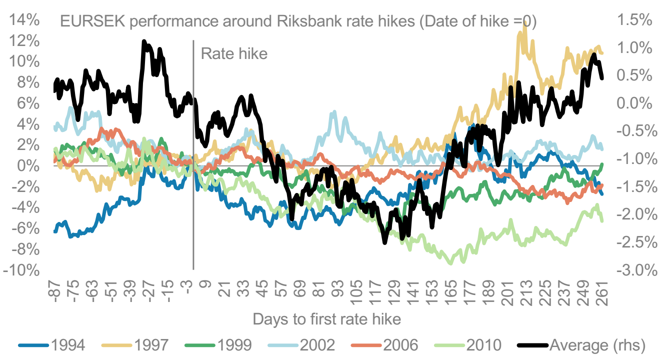
Hold (Entry: 18-Oct-18)

Entry: 4.1725; Stop: 4.1300; Target: 4.4000

The fiscal deficit presented in the 2019 budget was much wider than expected, which could lead to more issuance in the local currency bond. While we are not concerned about its impact on the bond market, given that the Treasury could issue more Sukuk and local pension funds and banks have the capability to absorb the issuance, the risk premium in MYR is too low, in our view. Given the concern about market liquidity and somewhat expensive valuation in MYR, we believe that it could underperform should GBI-EM investors decide to leave the market; this is a key risk to the trade (see Malaysia Economics & Strategy: Budget 2019: Prioritizing Fiscal Consolidation, November 4, 2018). From a more macro-fundamental perspective, GST zeroisation took close to 1% off from headline CPI and will keep the BNM on hold despite a robust 3Q growth figure. In 2018, we see policy rate divergence between Malaysia and most of EM Asia continuing to grow which should lead to relative underperformance of MYR.

Short EUR/SEK

Exhibit 15: EURSEK tends to weaken going into a Riksbank rate hike



Source: Macrobond, Morgan Stanley Research

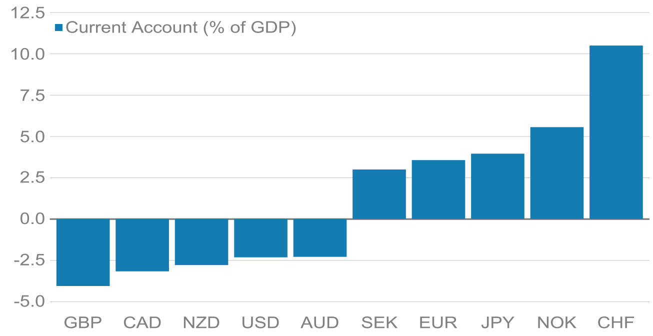
Hold (Entry: 4-Oct-18)

Entry: 10.4326; Stop: 10.4000; Target: 10.0000

We think that SEK valuations are attractive. Indeed, SEK is the cheapest G10 currency when looking at its REER relative to historical averages. Meanwhile, EUR may stay offered in the coming weeks as concerns about political risk increase the incentive to hedge foreign investments, particularly for US-based investors where hedging costs are positive-yielding. SEK should benefit from improving fundamentals in Europe and the Riksbank has adopted a more hawkish tone, with our economists now expecting a hike in December, ahead of market expectations. The recent weakness in retail sales and consumer confidence data is unlikely to deter the Riksbank, particularly as inflation pressures continue to build amid a tightening labor market. Sweden has also built up a record-high net foreign asset position of SEK 861 billion, suggesting more cushion from repatriation flows in the event of rising global volatility. Risks to the trade include the Riksbank turning more dovish and a significant sell-off in global risk appetite, weighing on SEK.

Short AUD, CAD & NZD/USD & JPY

Exhibit 16: Currencies of highly indebted, current account deficit countries should underperform



Source: Macrobond, Morgan Stanley Research

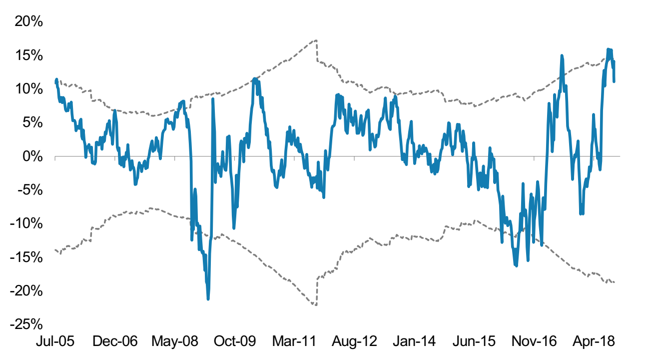
Hold (Entry: 28-Jun-18)

Entry: 100.00; Stop: 102.50; Target: 88.00

In an environment of rising protectionist risks, waning risk sentiment and declining global liquidity, we expect that currencies of countries with large current account deficits (which require funding from abroad) and weak balance sheets should underperform as investors seek safer assets like USD or JPY. These challenges are likely to support asset volatility, bolstering risk-aversion and rendering investors less willing to fund the deficits of currencies with asset quality risks without sufficient compensation, likely in the form of a weaker currency. We think that US economic data, while likely to decelerate from here, remain solid enough to keep the Fed on track to continue hiking rates, further pressuring higher-risk currencies. The key risk to this trade is that risk sentiment remains supported, keeping USD and JPY weak.

Long BRL 3m NDF/MXN 3m NDF

Exhibit 17: MXN risk premium remains low given risks ahead



Source: Bloomberg. Morgan Stanley Research; For more information on the model, see EM Quant Strategy: Assessing Risk Premia in EMFX (Part 1): A Two-Factor Model Approach, June 5, 2018.

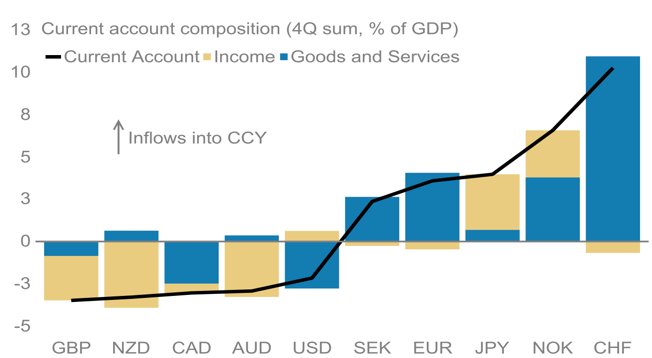
Closed (Entry: 8-Nov-18)

Entry: 5.4000; Closed at 5.2500 on 27-Nov-18

We hit our tightened stop of 5.25 though continue to view BRL as likely to outperform MXN as political uncertainty in the latter weighs on the currency.

Short CHF/JPY

Exhibit 18: Switzerland's low income balance suggests high FX hedge ratios on its foreign investments



Source: Macrobond, Morgan Stanley Research

Closed (Entry: 4-Oct-18)

Entry: 114.86; Closed at 113.90 on 27-Nov-18

We take profit on our CHFJPY short position. We maintain that JPY is likely to outperform CHF over time due to differences in foreign asset holdings and repatriation patterns. We may re-enter the trade at a later date once levels look more attractive.

Strategic FX Portfolio

Trade Recommendation	Notional	Entry Date	Entry Level	Current	Stop	Target	Spot P&L	Carry P&L	Portfolio Contribution
Closed Trades									
Short CHF/JPY	$5.0mn	4-Oct-18	114.86		Closed at 113.90 on 27-Nov-18		$84.0k	$11.6k	$95.5k
Long BRL 3m NDF/MXN 3m NDF	$10.0mn	8-Nov-18	5.4000		Closed at 5.2500 on 27-Nov-18		-$219.8k	-$16.3k	-$236.0k
Active Trades									
Short AUD, CAD, NZD vs USD, JPY	$10.0mn	28-Jun-18	100.00	101.51	102.50	88.00	-$150.8k	-$31.4k	-$182.2k
Short EUR/SEK	$10.0mn	4-Oct-18	10.4326	10.3152	10.4000	10.0000	$112.1k	-$0.4k	$111.7k
Long USD/MYR 3m NDF	$10.0mn	18-Oct-18	4.1725	4.1870	4.1300	4.4000	$34.6k	-$31.5k	$3.1k
Short USD/SEK	$10.0mn	1-Nov-18	9.0900	9.0633	9.1700	8.7000	$29.5k	-$20.1k	$9.4k
Short USD/CLP 3m NDF	$10.0mn	8-Nov-18	676	670	695	624	$159.5k	$8.6k	$168.1k
Short USD/IDR 3m NDF	$10.0mn	15-Nov-18	14755	14479	14900	14300	$190.6k	$23.6k	$214.2k
Short USD/ZAR	$10.0mn	21-Nov-18	13.91	13.65	14.50	13.00	$185.8k	$7.4k	$193.2k

Source: Morgan Stanley Research; Changes in stops/targets in bold italics. (1) Stops are based on the WMR fixing. (2) The portfolio represents hypothetical, not actual, investments.

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year return
2009	0.74	-0.97	-0.15	-1.09	0.50	-0.87	0.30	0.22	2.00	0.77	1.27	0.55	**3.27%**
2010	-0.01	-0.27	1.71	1.13	1.39	-0.86	-2.36	0.95	0.67	-0.30	0.13	0.66	**2.80%**
2011	-1.20	0.29	-1.71	0.51	-1.11	-0.33	0.84	-1.02	0.50	-1.03	-0.18	0.44	**-3.97%**
2012	0.34	0.46	-0.42	0.52	1.78	-0.43	0.39	0.56	0.43	0.53	0.96	0.47	**5.72%**
2013	-0.23	-0.66	0.08	0.10	0.26	0.05	-0.71	-0.13	-0.62	0.23	1.17	-0.27	**-0.75%**
2014	1.09	-0.67	-0.54	-0.02	-0.20	-0.26	1.20	0.30	1.23	0.35	-0.30	0.37	**2.54%**
2015	2.21	0.09	1.07	-1.96	1.40	-0.63	2.20	2.80	0.29	-0.35	0.49	0.17	**7.77%**
2016	-0.22	1.07	-1.46	-0.33	-1.11	0.03	-0.55	0.00	0.56	0.13	0.24	0.00	**-1.63%**
2017	-1.08	0.89	0.17	0.81	-1.03	-0.01	0.24	0.88	-1.06	0.25	-0.26	0.49	**0.29%**
2018	-0.42	0.35	-1.23	2.34	1.26	-2.68	-0.02	0.19	-1.04	0.99	-0.99		**-1.25%**

Source: Morgan Stanley Research

For more details regarding calculations, please see "Reading FX Tactical Trade Performance" at the back of the FX Pulse. Trade FX Performance Data Package contains complete performance statistics. Reported returns are unleveraged. Reported returns do not take into account transaction fees and other costs; past performance is no guarantee of future results. (4) In the case that trade allocations are increased, entry levels are a weighted average.

* Global Risk Demand Index – US Pat. No. 7,617,143. We updated our methodology for our portfolio in 2011 (see FX Pulse: Watching Europe, October 13, 2011).

Exhibit 19: History of recommendations

Buy USD/MYR 3m NDF

Instrument	Maturity	Trade	Entry Date	Entry Level	Exit Date	Exit Level	Target/ Objective	Stop/Re-assess	Size of Trade or Unit/Notional	CUSIP/ISIN/ BLOOMBERG	Gross P&L BP	Gross P&L US$K
USD/MYR	3m	Sell USD/MYR 3m NDF	25-Jan-18	3.89	8-Feb-18	3.96	3.70	3.96	$10m	MYR+3m Curncy		
USD/MYR	3m	Long USD/MYR 3m NDF	16-Aug-18	4.10	20-Sep-18	4.14	4.25	4.00	$10m	MRN+3M curncy		

Sell USD/CLP 3m NDF

Instrument	Maturity	Trade	Entry Date	Entry Level	Exit Date	Exit Level	Target/ Objective	Stop/Re-assess	Size of Trade or Unit/Notional	CUSIP/ISIN/ BLOOMBERG	Gross P&L BP	Gross P&L US$K
USD/CLP	3m	Sell USD/CLP 3m NDF	4-Oct-17	641.00	30-Nov-17	645.00	615.00	645.00	$10m	CHN+3m Curncy		
USD/CLP	3m	Sell USD/CLP 3m NDF	13-Sep-18	680.00	9-Oct-18	685.00	651.00	685.00	$10m	CHN+3m Curncy		

Short USD/IDR 3m NDF

Instrument	Maturity	Trade	Entry Date	Entry Level	Exit Date	Exit Level	Target/ Objective	Stop/Re-assess	Size of Trade or Unit/Notional	CUSIP/ISIN/ BLOOMBERG	Gross P&L BP	Gross P&L US$K
USD/IDR	3m	Short USD/IDR 3m NDF	13-May-18	14360.00	7-Jun-18	14126.00	13500.00	14560.00	10m	IHN+3M Curncy		
USD/IDR	3m	Buy USD/IDR 3m NDF versus sell USDIDR 6m NDF	1-Oct-18	225.00	5-Oct-18	280.00	100.00	280.00	10k	IHN+3M Curncy		
USD/IDR	6m	Buy USD/IDR 3m NDF versus sell USDIDR 6m NDF	1-Oct-18	225.00	5-Oct-18	280.00	100.00	280.00	10k	IHN+6M Curncy		

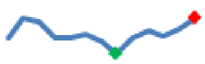
Source: Morgan Stanley Research

G10 Currency Summary

Gek Teng Khoo, David Adams, Andrew Watrous, Chun Him Cheung

USD

1.3%



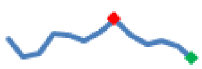
Disappointing Data and A Dovish Fed — **Bearish**

Watch: ISM, ADP, Fed Beige Book, Cap Goods Orders, NFP, UMich Survey

We expect USD to weaken (particularly against EM) as the market adjusts to a lower-than-expected path of policy tightening from the Fed. US data continue to soften, particularly in the rate-sensitive housing sector. We expect this trend to continue, which should see US growth converging to the rest of the world, weakening the USD. Higher tariffs and rising labor and funding costs also do not bode well for the medium term US equities outlook, which should lead to USD outflows. With Fed Chair Powell signaling a dovish stance in his recent speech, we will be watching his testimony to Congress next week closely.

EUR

-1.4%



Underpriced Integration Potential — **Bullish**

Watch: CPI, PMI, German Factory Orders, GDP, German IP

We stay bullish on EUR. While the German PMIs were weaker than expected, we think they were weighed down by temporary factors and we still anticipate growth to rebound. This stands in contrast to a worsening US outlook. Investor sentiment and positioning remain bearish on EUR, suggesting room for a rally on any potential positive news. Technically, EURUSD is also at strategically attractive buying levels. We believe the market is underpricing the potential for further EU integration and a fiscal boost. That outcome has the potential to increase domestic investment and consumption, lifting eurozone yields and the EUR.

JPY

0.6%

Watching Japanese Data and US Rates — **Bullish**

Watch: Capital Spending, PMI, Monetary Base, Labor Cash Earnings

We expect USDJPY to weaken as interest rate differentials narrow; market expectations for more accommodative Fed policy should weigh on nominal US yields. US asset market volatility, particularly in corporate credit, could spur significant Japanese investor repatriation flows. Robust retail trade and sales data point to positive economic momentum, and we watch PMI and labor cash earnings this week to confirm that momentum. We also watch capex data closely in the coming week for signs of a pick-up in Japan's productivity growth that we expect, which should boost real yields and JPY. USDJPY may test the lower bound of the trend channel at 111.90/112.00.

GBP

-1.3%

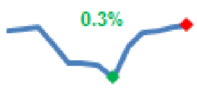
Volatility Ahead — **Neutral**

Watch: House Prices, PMI, CBI Orders

We remain neutral on GBP due to the potential for volatility in the next few weeks as the Commons debate begins on the Brexit deal before the vote scheduled for December 11. Market concerns about the vote and eventual Brexit outcome may weigh on GBP in the short run. GBP positioning is also neutral, suggesting balanced risk/reward, arguing in favor of taking a neutral stance on the currency. We expect the August low of 1.2665 in GBPUSD to hold, but a break of that level would suggest further downside momentum to 1.2450.

CHF

0.3%



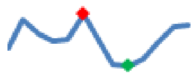
Waiting for Continental Clarity — **Neutral**

Watch: PMI, House Prices

Brexit and Italy-related uncertainty keep us neutral on CHF for now, but we see the potential for a weaker CHF in the medium term as the prospects improve for EU integration and Italian budget risks wane. CHF also looks set to weaken as a still-dovish SNB contrasts with gradual policy normalization from the ECB. Concerns about whether the EU and Switzerland can reach an agreement to allow Swiss stock exchanges to trade EU stocks next year could also weigh on CHF.

CAD

0.9%



Potential Dovish Surprise **Bearish**

Watch: GDP, PMI, BoC Rates Decision, OPEC Meeting, Unemployment

We expect USDCAD to gain should the BoC sound surprisingly dovish on Wednesday. This possibility is bolstered by a deceleration in Canadian data and weaker oil prices: Western Canada Select oil is near its lowest levels since early 2016. The market has fully priced in a hike in January, so upside potential is limited from BoC communications. We are bearish on CAD in the medium term as global central banks tighten, weighing on net saving economies like CAD. USDCAD has found resistance at the top of the trend channel at 1.3320, and may find further resistance around 1.3385.

AUD

-4.2%

Tactically Bullish For Now **Bullish**

Watch: House Prices, PMI, Building Approvals, RBA Rates Decision, GDP, Trade

In the short term, AUDUSD is likely to find modest support towards 0.74 amid a stabilization in Chinese assets and a supportive environment for EM. Our AUD fundamental model suggests spot AUDUSD is currently marginally undervalued given the persistent discount AUD has faced in light of US-China trade tensions. However, the RBA reiterated that the policy rate is likely to be maintained for a while and the IMF has supported the stance that downside risks from the global economy may weigh on the Australian economy. This is all the more true with the recent release of weak private capex and brings the risk of a weaker 3Q GDP figure. With household debt issues, the current account deficit and banks' reliance on wholesale funding persisting, we see AUD underperformance in the medium term.

NZD

-3.3%

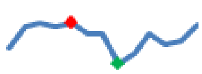
Recent Rebound to Stabilize **Neutral**

Watch: QV House Prices

NZD has rebounded recently on the back of the fall in US yields, robust NZ economic data, falling oil prices and a less dovish RBNZ. The latest trade data indicates that NZ's October trade deficit deteriorated to a record high, a reflection of weaker FX and high oil prices. We think the rising import bill will slowly work itself into a rise in tradable inflation and help the RBNZ with its eventual hike. However, NZDUSD has already seen a notable rebound, rendering risk/reward of entering fresh longs unattractive. Over the medium term, tightening global liquidity conditions do not bode well for currencies of countries that are dependent on capital imports, including NZD.

SEK

2.3%



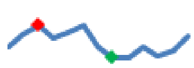
GDP Won't Delay the Riksbank **Bullish**

Watch: Wages, PMI, House Prices

We remain bullish on SEK against EUR and USD, targeting 10.00 and 8.70, respectively. We think the weak 3Q GDP print is unlikely to derail plans for a December Riksbank rate hike as the central bank is more focused on inflation data. We will watch the wages and CPIF releases in the coming weeks closely as an indicator for the Riksbank's intentions, but we continue to believe that the possibility of a December hike is underpriced. SEK's cheap valuations, a record-high net foreign asset position and foreign investors' likely high FX hedge ratio on SEK assets should also limit the currency's downside in a risk sell-off.

NOK

1.2%



Watch Regional Network Survey **Neutral**

Watch: Retail Sales, Unemployment, PMI, Regional Network Survey, OPEC Meeting

We are neutral on NOK for now due to the potential for further oil price volatility, particularly given the OPEC meeting in the coming week, but see levels around 9.80 as a good area to fade the EURNOK rally. While markets have cast doubts on the Norges Bank's tightening plan after the oil price decline, we think it is unlikely to alter their tightening plan, suggesting potential for an upside surprise in NOK. In the coming week, we watch the regional network survey closely for indications of the Norges Bank's tone in their December meeting.

Charts show 3M performance against USD, as normally quoted and DXY for USD. Click on any currency for a reference webpage on Matrix.

EM Currency Summary

Ioana Zamfir (LatAm), Chun Him Cheung & Belle Chang (AxJ), Filip Denchev (CEEMEA)

ARS **Bullish**

-9.1%

In the upcoming weeks, the markets will likely turn their attention to the November BCRA survey (to be published in early December), which should shed some light on 12-month inflation expectations. This is important because, as stated in the IMF agreement, authorities can remove the 60% LELIQ floor if 12-month inflation expectations fall for two consecutive months. While this would not necessarily imply a drop in LELIQ, as the rate is set by the markets, we think that the signaling associated with such a move could put some pressure on ARS. We remain bullish on ARS, but, in the short run, we look for dips to buy the peso.

BRL **Neutral**

-7.4%

In our view, the recent underperformance of BRL has been driven by a shortage of USD liquidity onshore, which led to an increase in implied USD yields vs implied BRL yields. The BCB's FX credit line auctions earlier this week relieved some of the pressure on the real, as the USD liquidity injected through these auctions helped bring down the implied USD yield versus BRL's, diminishing the incentives to sell the Brazilian currency. In fact, after the first auction on Tuesday, USD/BRL closed down 1.4%, marking the first BRL outperformance vs the USD in more than a week. As onshore USD demand is alleviated, we expect BRL to continue retracing losses.

CLP **Bullish**

6.1%

The fundamental story in Chile remains attractive and supportive for CLP, with relatively strong economic growth and a more sustained increase in business sentiment helping to drive investment. With near-term trade risks in the price and a more positive outlook for copper, according to our commodities strategists, we expect CLP to gain some momentum in the weeks to come.

COP **Bearish**

7.5%

With risks for oil tilted to the downside, and inexpensive carry, COP looks vulnerable relative to its LatAm peers. Moreover, Colombia requires a comprehensive fiscal reform to maintain its investment grade credit rating (more long-term) and cover a COP14 tr gap in the 2019 budget (more immediate). However, the modified tax bill that is being introduced in Congress now excludes some of the initial proposals (e.g., expanding the VAT base to include basic foods) and news flow suggests that it would only cover COP7.5 tr of deficit. The remaining COP6.5 tr is expected to be financed through Duque's austerity plan, though details remain unclear. In our view, the proposed tax bill does not sufficiently address the broader fiscal concerns and we remain cautious on Colombian assets.

MXN **Bearish**

8.6%

We think that investor confidence had already been impacted going into the airport consultation, and risk premium in local assets should continue to increase. We see the 2019 budget (likely to be presented in the first days of December) as the potential catalyst for further weakness. In our view, even if a balanced budget is presented for 2019, potential concerns about assumptions on growth and/or savings from spending reengineering will likely tilt risks to the downside. The new president assumes office this weekend, on December 1.

PEN **Neutral**

1.9%

Loose monetary conditions with improving investment but little to no inflation should keep monetary policy anchored. We note that the new administration has started to put forth objectives on improving investment, increasing tax revenues and boosting growth.

CNY

1.3%

Bearish

We expect CNY to be stable ahead of the G20 meeting. With a slowing domestic economy and the government's focus on supporting the private sector, the authorities do not want a weaker CNY to cause depreciation expectations. Various signals from officials, the countercyclical factor and bear flattening in the FX forward curve suggest a stable CNY. Over the medium term, CNY is likely to weaken versus the basket gradually to support the growth. We see CNY underperforming the majority of EM Asia due to divergent monetary policies and recommend going long SGDCNH as one of our top trades for 2019.

INR

1.4%

Bullish

Easing inflation pressure and falling oil prices, as our commodities strategists projected, suggest a continuing INR recovery. Our economists expect strong growth in India compared to its regional peers and pencil in 50bp of hikes by the RBI in 2019. With rate differentials against the US remaining high and given our DXY weakness view, we are bullish on INR.

IDR

2.0%

Bullish

With BI's proactive policy hikes since May 2018 increasing real rates and reducing IDR vulnerability, we're bullish on IDR given the attractive carry. In addition, with our bearish view on DXY and a more dovish Fed we could see further reductions in the funding pressure on Indonesia's current account deficit. Foreign capital continues to flow in to bonds and equity markets, and could support IDR. BI's comment on providing more room for IDR strength has also helped sentiment.

KRW

2.5%

Bearish

Our equity strategists see an aggressive KOSPI rally as less likely, meaning that KRW would remain pressured, given the high foreign participation in the Korean equity market. Coupled with the macroprudential tightening measures, which could weigh further on property markets, a slowing global economy and softer Chinese domestic demand do not bode well for Korea's economy. In addition, our base case suggests that the trade tensions could escalate before reaching a de-escalating endgame, suggesting more downside risk for KRW.

MYR

1.1%

Bearish

We estimate that USDMYR is one of the most sensitive AXJ FX pairs to an S&P sell-off. Our equity strategists see further S&P weakness towards end-2018, and we'd expect a higher USDMYR should the historical relationship hold. Moreover, Malaysia is one of the few oil exporters in Asia and with crude prices below US$60 per barrel, this should add further downward pressure on MYR. Lastly, the latest inflation figures show GST zeroisation took more than 1pp off headline inflation and will likely keep the BNM firmly on hold despite 3Q growth staying robust.

SGD

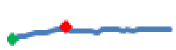
0.5%

Neutral

We think that the MAS is likely to continue its current appreciation slope for S$NEER, suggesting a stronger SGD. According to our MS SGD NEER model and the BIS trade weights, the US and China are the two most weighted countries. Thus, as we expect DXY weakness and a lower CNY NEER, USDSGD could outperform its regional peers. In addition, our economists expect Singapore GDP to continue to stay at a healthy level.

TWD

1.1%



Neutral

The November elections results could suggest some support for TWD as the KMT party won a majority of the local government elections. However, the lingering US-China trade tensions remain a downside risk to TWD, despite Taiwan's current account surplus and the economy holding up fine. With our equity strategists' neutral stance on the Taiwanese stock market and the low-volatility characteristic of TWD, the currency is likely to stay relatively stable. In addition, our economists expect the CBC to stay on hold in 2019, suggesting that material TWD appreciation is unlikely.

THB

2.9%

Neutral

Thailand's 3Q GDP figures surprised significantly to the downside and may deter the BoT from hiking at the upcoming meeting in mid-December. In the November meeting, three out of ven governors voted for a hike as growth conditions were considered to be sufficiently robust and financial stability concerns were rising. For the time being, we remain neutral on THB as EM sentiment towards Asia's high-yielders such as INR and IDR are reviving. Should this bullish stance continue to gain traction, we will look for an entry point to short THB relative to the high yielders.

CZK — **Bullish**

3.0%

We think that there will be three more rate hikes over the next year, which will support CZK. A weak EUR has undermined sentiment towards the currency and this should change as EUR rebounds into year-end and through 2019. We continue to see gradual gains in CZK over the medium term.

HUF — **Neutral**

2.8%

The National Bank of Hungary's monetary policy stance remains a concern for some investors, and the ongoing dovish message could put some pressure on the currency amid the upside surprise in October inflation and more recently 3Q GDP. With Bund yields likely to start rising too, we expect to see more pressure on HUF. A stronger EUR would help sentiment towards HUF but the latter should underperform peers.

ILS — **Neutral**

2.3%

With the DXY now on the back foot, we'd expect ILS to recover versus USD. This is in line with the currency's historically high correlation with DXY. We also see little fundamentally wrong with the Israeli economy that would warrant a bearish view. We doubt that recent political uncertainty will have much of an impact on the currency.

PLN — **Bullish**

3.7%

GDP growth surprised to the upside, coming in at 5.1%Y in 3Q. This pace of growth is impressive, at a time when global growth is slowing. However, core inflation remains soft and recent oil price movements hardly suggest that a hawkish turn is near. We expect PLN to rebound should EUR recover but think a hawkish turn is required for big gains, which does not look likely for now.

RUB — **Bullish**

1.4%

The Russian economy remains in good shape from a currency perspective. The upcoming OPEC decision will be important for near-term direction for oil and RUB. Moreover, we expect the CBR to hike rates twice, which will be supportive of the currency. Recent news flow suggests that the US Congress has limited bandwidth to move ahead with sanctions any time soon, raising some market optimism for a year-end rally. This is in line with our view.

TRY — **Neutral**

-6.0%

TRY continues to trade well and recent investor feedback has been constructive. Valuations in FX are still decent but the bond market is already pricing in a significant rate-cutting cycle over the next year. Should the Central Bank of Turkey confirm that these cuts are coming, then this could be a catalyst for the currency to stabilize. With local elections in 1Q19, the incentive to boost growth remains.

UAH — **Bullish**

-0.2%

Now that the IMF SBA deal has come through, the Ukrainian government has come to the market for financing, issuing one US$750m 2024 bond and another US$1.25bn 2028 bond. With this issuance out of the way the focus will now shift to the 2019 elections. We see that there is a likely opportunity for the UAH to trade well in the near term. Moreover, the National Bank of Ukraine will probably keep real rates high. Our economists expect USDUAH to end 2019 at 31 compared with forwards around 33.5 and so carry provides positive total returns.

ZAR — **Bullish**

4.0%

We see some risks for South Africa around elections, the budget and current weak growth. However, there is likely a window in the near term for the currency to rally. We believe that USD weakness will likely lead to currency gains.

Charts show 1M performance against USD, as normally quoted.

Central Bank Watch

Click on the countries to switch between them. Click on the G10 and EM headings for forecast rate changes. Click on the Rates, Growth and Inflation chart headings for country comparisons.

G10

- Australia
- Canada
- Euro Area
- Japan
- New Zealand
- Norway
- Sweden
- Switzerland
- UK
- USA

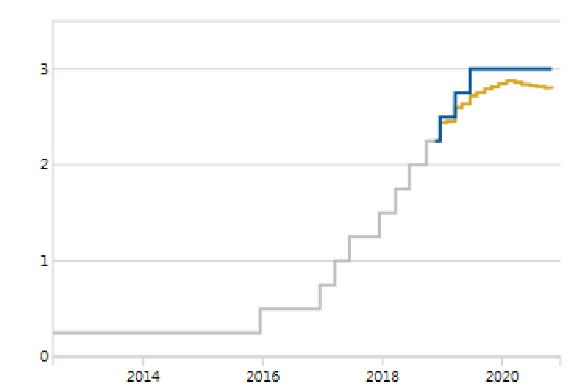
EM

- Brazil
- Chile
- Colombia
- Czech Republic
- Hungary
- Israel
- Malaysia
- Mexico
- Poland
- South Africa
- South Korea
- Taiwan
- Thailand

USA

Economics: Ellen Zentner Recent Research
Strategy: Matthew Hornbach Recent Research

POLICY RATES latest (19 November 2018): **2.25%**

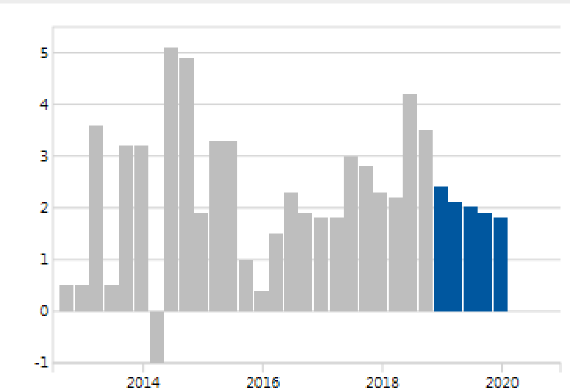


POLICY MEETING CALENDAR

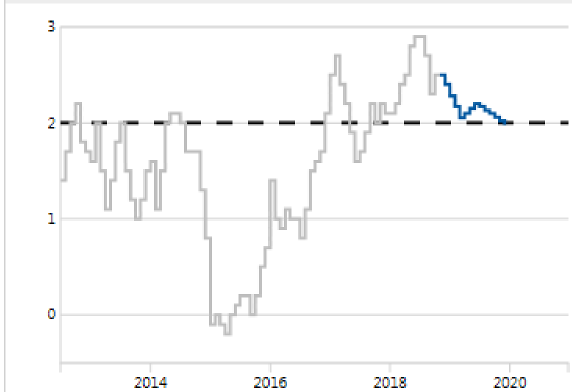
	Move at Meeting	Cumulative Moves	
	Market Implied	Market Implied	Our Forecast
December 19, 2018	19	19	25
January 30, 2019*	1	21	25
March 20, 2019*	14	35	50
May 01, 2019*	4	38	50
June 19, 2019*	9	47	75
July 31, 2019*	3	50	75
September 18, 2019*	4	55	75
October 30, 2019*	2	57	75
December 11, 2019*	3	60	75
January 29, 2020*	3	63	75
March 20, 2020*	-2	61	75
May 01, 2020*	-2	59	75

* Indicates that a meeting date is estimated.

GDP GROWTH (QoQ SAAR) latest (3Q 2018): **3.5%**



INFLATION (YoY) latest (October 2018): **2.5%**



Morgan Stanley Research. Please see our
Global Macro Forecast
page for forecasts of countries not included in this interactive.
With thanks to the AlphaWise Interactive Team for their contribution to this report.

Global Event Risk Calendar

Gek Teng Khoo, Andrew Watrous

Date	Time (Ldn)	Ccy	Event	Ref. Period	MS forecast	Market	Previous
30-Nov	**N/A**	**KRW**	**BoK Rates Decision**		**1.75%**	**1.75%**	**1.5%**
	8:00	CHF	KOF Leading Indicator	Nov		99.5	100.1
	9:00	**PLN**	**CPI (YoY)**	**Nov P**	**1.6%**	**1.6%**	**1.8%**
	10:00	EUR	Unemployment Rate	Oct	8.0%	8%	8.1%
	10:00	**EUR**	**CPI Estimate (YoY)**	**Nov**	**2.1%**	**2%**	**2.2%**
	13:30	**CAD**	**GDP (QoQ)**	**3Q**		**1.975%**	**2.87%**
	N/A	**ARS**	**BCRA Rates Decision**				
30N-1D	**N/A**	**INT**	**G20 Leaders' Meeting**				
1-Dec	**9:00**	**CHF**	**SNB's Jordan spks (Academic Research)**				
	N/A	**INT**	**Trump-Xi Meeting**				
2-Dec	22:00	AUD	PMI Manufacturing	Nov F			54.5
3-Dec	0:30	AUD	Building Approvals (MoM)	Oct		-1%	3.3%
	1:45	CNY	Caixin PMI Manufacturing	Nov		50.1	50.1
	3:00	**THB**	**CPI (YoY)**	**Nov**		**1.03%**	**1.23%**
	4:00	**IDR**	**CPI (YoY)**	**Nov**			**3.16%**
	5:30	AUD	Commodity Index (YoY)	Nov			13.1%
	7:30	SEK	Manufacturing PMI	Nov			55
	8:00	NOK	Manufacturing PMI	Nov			56
	8:15	CHF	Retail Sales Real (YoY)	Oct			-2.7%
	9:00	EUR	PMI Manufacturing	Nov F		51.5	51.5
	9:00	CHF	SNB Sight Deposits				577.3B
	9:30	GBP	PMI Manufacturing	Nov		52	51.1
	N/A	EUR	Eurogroup Meeting				
	14:30	CAD	PMI Manufacturing	Nov			53.9
	14:45	USD	PMI Manufacturing	Nov F			55.4
	15:00	USD	Construction Spending (MoM)	Oct	-0.4%	0.4%	0%
	15:00	USD	ISM Manufacturing	Nov	59.5	58	57.7
	22:30	AUD	Consumer Confidence				118.6
	N/A	USD	Total Vehicle Sales	Nov		17.1m	17.5m
4-Dec	0:30	AUD	Current Account Balance	3Q		-10B	-13.5B
	3:30	**AUD**	**RBA Rates Decision**		**1.50%**	**1.5%**	**1.5%**
	8:15	**CHF**	**CPI (YoY)**	**Nov**		**1.1%**	**1.1%**
	8:30	SEK	Sweden CA Balance	3Q			10B
	9:15	**GBP**	**BoE's Carney, Broadbent, Cunliffe spk (Brexit, Parliament)**				
	9:30	GBP	PMI Construction	Nov		52.6	53.2
	N/A	NZD	Global Dairy Trade Announces Milk Auction Results				
	N/A	GBP	UK House of Commons Debate On Meaningful Vote				
	21:00	**CLP**	**CBCH Rates Decision**		**2.75%**	**2.75%**	**2.75%**
	22:00	AUD	PMI Services	Nov F			52.6
	22:00	AUD	PMI Composite	Nov F			52.9

5-Dec	**0:30**	**AUD**	**GDP (QoQ)**	**3Q**		**0.6%**	**0.9%**
	1:45	CNY	PMI Composite	Nov			50.5
	7:30	SEK	PMI Services	Nov			56.3
	9:00	**INR**	**RBI Rates Decision**		**6.50%**	**6.5%**	**6.5%**
	9:00	EUR	PMI Services	Nov F		53.1	53.1
	9:30	GBP	PMI Services	Nov		52.7	52.2
	10:00	EUR	Retail Sales (MoM)	Oct		0.3%	0%
	N/A	**PLN**	**NBP Rates Decision**		**1.50%**	**1.5%**	**1.5%**
	N/A	GBP	UK House of Commons Debate On Meaningful Vote (Day 2)				
	13:15	USD	ADP Employment Change	Nov		200k	227k
	14:45	USD	PMI Services	Nov F			54.4
	15:00	**CAD**	**BoC Rates Decision**		**1.75%**	**1.75%**	**1.75%**
	15:00	USD	ISM Non-Manufacturing Composite	Nov		59.5	60.3
	15:15	**USD**	**Fed's Powell (voter) spks (Monetary Policy, Congress)**				
	23:50	JPY	Japan MoF Weekly Security Flow				
6-Dec	0:30	AUD	Trade Balance	Oct		2600m	3017m
	0:30	AUD	Retail Sales (MoM)	Oct		0.3%	0.2%
	N/A	**INT**	**OPEC Meeting**				
	N/A	GBP	UK House of Commons Debate On Meaningful Vote (Day 3)				
	13:30	CAD	Trade Balance	Oct			-0.42B
	13:30	USD	Trade Balance	Oct		-54.9B	-54B
	13:30	USD	Initial Jobless Claims			220k	234k
	13:35	**CAD**	**BoC's Poloz spks (Global Economy)**				
	15:00	CAD	Ivey PMI	Nov			61.8
	15:00	USD	Factory Orders	Oct		-2%	0.7%
	15:00	USD	Durable Goods Orders	Oct F			-4.4%
7-Dec	N/A	CNY	Foreign Reserves	Nov			3053.1B
	0:00	JPY	Labor Cash Earnings (YoY)	Oct		1%	0.8%
	5:00	JPY	Leading Index CI	Oct P			104.3
	7:00	NOK	Industrial Production (MoM)	Oct			-1.5%
	10:00	**EUR**	**Eurozone GDP (QoQ)**	**3Q F**		**0.2%**	**0.2%**
	13:30	**USD**	**Change in Nonfarm Payrolls**	**Nov**	**198k**	**205k**	**250k**
	13:30	USD	Unemployment Rate	Nov	3.7%	3.7%	3.7%
	13:30	CAD	Employment Change	Nov			11.2k
	15:00	USD	Wholesale Inventories (MoM)	Oct F			0.7%
	15:00	USD	Univ. of Michigan Confidence	Dec P		97	97.5
8-Dec	N/A	CNY	Trade Balance	Nov			$34.02B
	N/A	CNY	Exports (YoY)	Nov			15.6%
8-18 D	N/A	CNY	Foreign Direct Investment (YoY, CNY)	Nov			7.2%
9-Dec	**1:30**	**CNY**	**CPI (YoY)**	**Nov**			**2.5%**
	N/A	**GBP**	**UK's May, Corbyn TV Debate (Brexit)**				
	23:50	**JPY**	**GDP (QoQ)**	**3Q F**			**-1.2%**
	23:50	JPY	Trade Balance BoP Basis	Oct			¥323.3B
10-Dec	6:45	CHF	Unemployment Rate	Nov			2.4%
	7:00	**NOK**	**CPI Underlying (YoY)**	**Nov**			**1.6%**
	8:30	SEK	Household Consumption	Oct			0.1%
	9:00	CHF	SNB Sight Deposits				
	9:30	GBP	Visible Trade Balance (GBP mn)	Oct			£-9.7B

	9:30	GBP	Industrial Production (MoM)	Oct			0%
	9:30	**GBP**	**GDP (Monthly Estimate, 3M/3M)**	**Oct**			**0.6%**
	N/A	GBP	UK House of Commons Debate on Meaningful Vote (Day 4)				
	13:15	CAD	Housing Starts	Nov			206k
	15:00	USD	JOLTs Job Openings	Oct			7.01m
	22:30	AUD	Consumer Confidence				118.6
	23:50	JPY	M3 (YoY)	Nov			2.3%
10-15 D	N/A	CNY	New Yuan Loans	Nov			697B
11-Dec	0:30	AUD	NAB Business Confidence	Nov			4.1
	7:00	**NOK**	**GDP (MoM)**	**Oct**			**-0.5%**
	9:30	GBP	Average Weekly Earnings (Ex. Bonuses, 3M/Y)	Oct			3.2%
	9:30	GBP	ILO Unemployment Rate 3Mths	Oct			4.1%
	10:00	EUR	German ZEW Survey Expectations	Dec			-24.1
	10:00	EUR	Eurozone ZEW Survey Expectations	Dec			-22
	23:30	AUD	Westpac Consumer Conf Index	Dec			104.34
	23:50	JPY	Domestic CGPI (YoY)	Nov			2.9%
	23:50	JPY	Machine Orders (MoM)	Oct			-18.3%
	N/A	**GBP**	**UK House of Commons Debate & Vote On Brexit Deal**				
12-Dec	4:30	JPY	Tertiary Industry Index (MoM)	Oct			-1.1%
	8:30	**SEK**	**CPI CPIF (YoY)**	**Nov**			**2.4%**
	10:00	EUR	Industrial Production (MoM)	Oct			-0.3%
	13:30	**USD**	**CPI (YoY)**	**Nov**			**2.5%**
	20:00	**BRL**	**COPOM Rates Decision**		**6.50%**		**6.5%**
13-Dec	0:00	NZD	Half-Year Fiscal, Economic Update				
	7:00	**EUR**	**German CPI (YoY)**	**Nov F**		**2.4%**	**2.3%**
	7:00	SEK	Prospera Swedish Inflation Expectations Survey				
	8:00	**PHP**	**BSP Rates Decision**		**4.75%**		**4.75%**
	8:30	**CHF**	**SNB Rates Decision**				**-0.75%**
	8:30	SEK	Unemployment Rate	Nov			5.5%
	9:00	**NOK**	**Norges Bank Rates Decision**		**0.75%**		**0.75%**
	9:00	NOK	Norges Bank Monetary Policy Report				
	9:00	CHF	SNB Press Conference				
	9:30	NOK	Norges Bank Press Conference				
	11:00	**TRY**	**CBT Rates Decision**		**24.00%**		**24%**
	12:45	**EUR**	**ECB Rates Decision**		**0.00%**		**0%**
	12:45	EUR	ECB Deposit Facility Rate		-0.40%		-0.4%
	13:30	EUR	ECB Press Conference				
	13:30	USD	Initial Jobless Claims				
	14:30	EUR	ECB Staff Projections				
	19:00	**ARS**	**CPI (MoM)**	**Nov**			**5.4%**
	21:30	NZD	Manufacturing PMI	Nov			53.5
	22:00	AUD	PMI Manufacturing	Dec P			54.5
	22:00	AUD	PMI Services	Dec P			52.6
	23:00	**PEN**	**BCRP Rates Decision**		**2.75%**		**2.75%**
	23:50	JPY	Tankan Large Manufacturing Index	4Q			19

14-Dec	2:00	CNY	Retail Sales (YoY)	Nov			8.6%
	2:00	CNY	Industrial Production (YoY)	Nov			5.9%
	2:00	CNY	Fixed Assets Ex Rural YTD (YoY)	Nov			5.7%
	4:30	JPY	Industrial Production (MoM)	Oct F		1.2%	-0.4%
	8:30	EUR	PMI Manufacturing	Dec P		51.5	51.5
	8:30	EUR	PMI Services	Dec P		53.1	53.1
	9:00	**PLN**	**CPI (YoY)**	**Nov F**		**1.6%**	**1.8%**
	10:30	**RUB**	**CBR Rates Decision**		**7.75%**	**7.5%**	**7.5%**
	13:30	USD	Retail Sales Advance (MoM)	Nov		0.4%	0.8%
	14:15	USD	Industrial Production (MoM)	Nov			0.1%
	14:15	USD	Capacity Utilization	Nov			78.4%
	14:45	USD	PMI Services	Dec P			54.4
	15:00	USD	Business Inventories	Oct			0.3%
Upcoming Risk Events							
19-Dec	19:00	USD	FOMC Rates Decision (Upper Bound)	Dec	2.50%		2.25%
20-Dec	N/A	JPY	BoJ Rates Decision	Dec	-0.10%		-0.10%
20-Dec	8:30	SEK	Riksbank Rates Decision	Dec	-0.25%		-0.50%
20-Dec	12:00	GBP	BoE Rates Decision	Dec	0.75%		0.75%
13-Feb	1:00	NZD	RBNZ Rates Decision	Feb	1.75%		1.75%

N/A denotes timing approximate or not confirmed / All times and dates are GMT and correct as of the date of publication / For a full list of economic events, see the calendar on the Morgan Stanley Matrix Platform.

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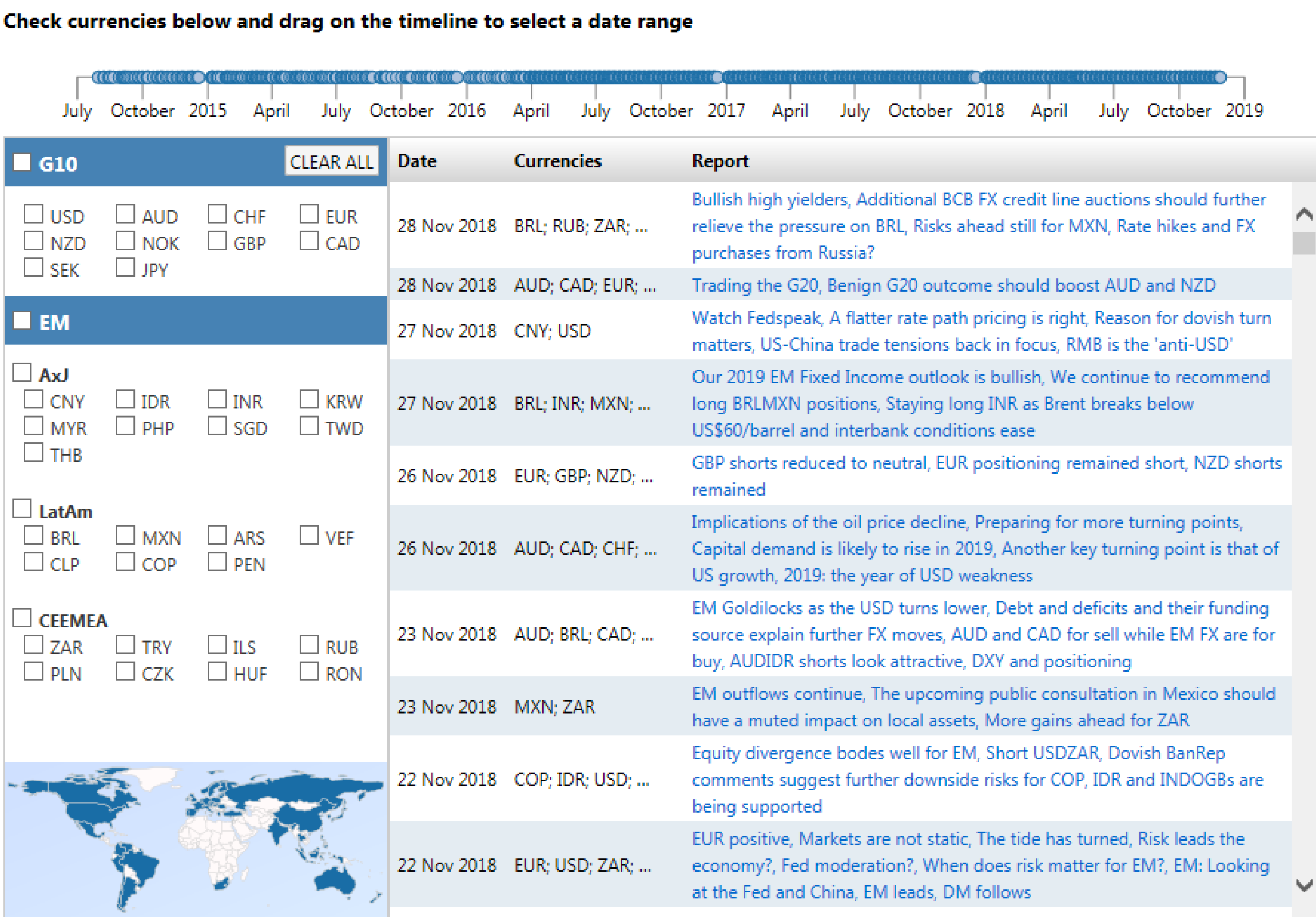

Date	Currencies	Report
28 Nov 2018	BRL; RUB; ZAR; ...	Bullish high yielders, Additional BCB FX credit line auctions should further relieve the pressure on BRL, Risks ahead still for MXN, Rate hikes and FX purchases from Russia?
28 Nov 2018	AUD; CAD; EUR; ...	Trading the G20, Benign G20 outcome should boost AUD and NZD
27 Nov 2018	CNY; USD	Watch Fedspeak, A flatter rate path pricing is right, Reason for dovish turn matters, US-China trade tensions back in focus, RMB is the 'anti-USD'
27 Nov 2018	BRL; INR; MXN; ...	Our 2019 EM Fixed Income outlook is bullish, We continue to recommend long BRLMXN positions, Staying long INR as Brent breaks below US$60/barrel and interbank conditions ease
26 Nov 2018	EUR; GBP; NZD; ...	GBP shorts reduced to neutral, EUR positioning remained short, NZD shorts remained
26 Nov 2018	AUD; CAD; CHF; ...	Implications of the oil price decline, Preparing for more turning points, Capital demand is likely to rise in 2019, Another key turning point is that of US growth, 2019: the year of USD weakness
23 Nov 2018	AUD; BRL; CAD; ...	EM Goldilocks as the USD turns lower, Debt and deficits and their funding source explain further FX moves, AUD and CAD for sell while EM FX are for buy, AUDIDR shorts look attractive, DXY and positioning
23 Nov 2018	MXN; ZAR	EM outflows continue, The upcoming public consultation in Mexico should have a muted impact on local assets, More gains ahead for ZAR
22 Nov 2018	COP; IDR; USD; ...	Equity divergence bodes well for EM, Short USDZAR, Dovish BanRep comments suggest further downside risks for COP, IDR and INDOGBs are being supported
22 Nov 2018	EUR; USD; ZAR; ...	EUR positive, Markets are not static, The tide has turned, Risk leads the economy?, Fed moderation?, When does risk matter for EM?, EM: Looking at the Fed and China, EM leads, DM follows

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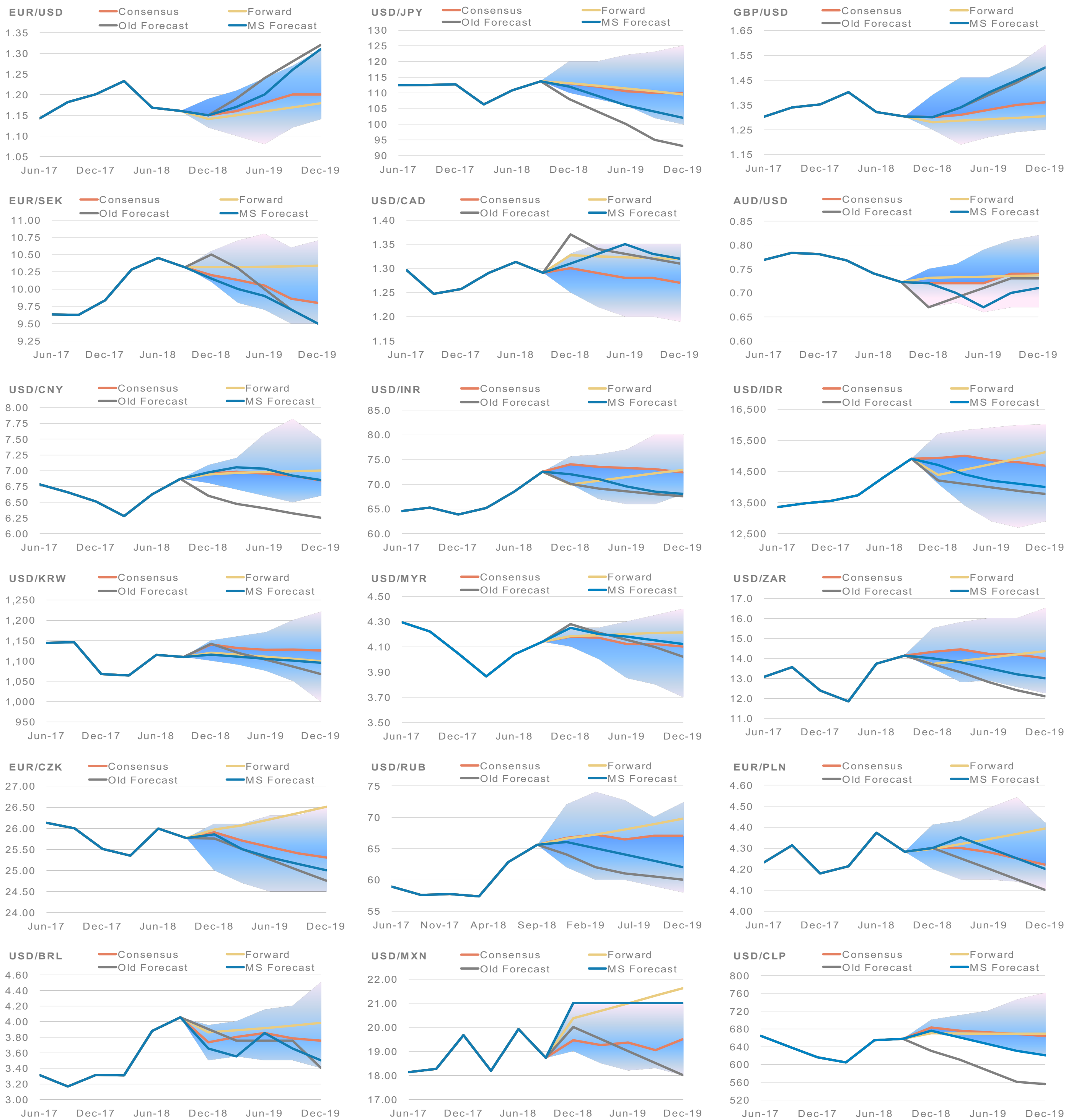
FX Forecasts Relative to Market

Exhibit 20: FX forecasts relative to market



Source: Bloomberg, Morgan Stanley Research forecasts. Shaded area is the range of market forecasts.

Morgan Stanley Global Currency Forecasts

Exhibit 21: FX Forecasts - click here for custom forecasts

	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
EUR/USD	1.15	1.17	1.20	1.26	1.31	1.34	1.36	1.37	1.38
USD/JPY	112	109	106	104	102	100	98	96	94
GBP/USD	1.30	1.34	1.40	1.45	1.50	1.54	1.58	1.59	1.60
USD/CHF	1.00	1.00	0.99	0.97	0.94	0.93	0.93	0.93	0.93
USD/SEK	8.83	8.55	8.25	7.70	7.25	7.09	7.06	7.08	7.10
USD/NOK	8.43	8.29	8.00	7.46	7.10	6.94	6.91	6.93	6.96
USD/CAD	1.31	1.33	1.35	1.33	1.32	1.31	1.30	1.29	1.28
AUD/USD	0.72	0.70	0.67	0.70	0.71	0.72	0.73	0.74	0.75
NZD/USD	0.67	0.65	0.62	0.66	0.67	0.68	0.69	0.70	0.71
EUR/JPY	129	128	127	131	134	134	133	132	130
EUR/GBP	0.88	0.87	0.86	0.87	0.87	0.87	0.86	0.86	0.86
EUR/CHF	1.15	1.17	1.19	1.22	1.23	1.25	1.26	1.27	1.28
EUR/SEK	10.15	10.00	9.90	9.70	9.50	9.50	9.60	9.70	9.80
EUR/NOK	9.70	9.70	9.60	9.40	9.30	9.30	9.40	9.50	9.60
USD/CNY	6.97	7.05	7.03	6.92	6.85	6.81	6.78	6.77	6.75
USD/HKD	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80
USD/IDR	14700	14400	14200	14100	14000	13900	13800	13700	13600
USD/INR	72.0	71.0	69.5	68.5	68.0	67.5	67.0	66.5	66.0
USD/KRW	1115	1110	1105	1100	1095	1090	1085	1080	1075
USD/MYR	4.25	4.20	4.18	4.15	4.12	4.10	4.08	4.05	4.02
USD/PHP	52.5	52.4	52.3	52.2	52.1	52.0	52.0	52.0	52.0
USD/SGD	1.37	1.34	1.32	1.29	1.28	1.28	1.27	1.26	1.26
USD/TWD	30.6	30.4	30.2	30.0	29.8	29.7	29.7	29.6	29.5
USD/THB	32.8	32.5	32.2	31.8	31.4	31.0	30.5	30.0	30.0
USD/BRL	3.65	3.55	3.85	3.65	3.50	3.50	3.55	3.60	3.60
USD/MXN	21.00	21.00	21.00	21.00	21.00	20.75	20.50	20.50	20.50
USD/ARS	37.00	39.50	41.25	42.50	43.50	44.15	44.75	46.00	42.00
USD/CLP	675	660	645	630	620	610	600	590	580
USD/COP	3135	3100	3060	3030	3010	3010	3000	2975	2975
USD/PEN	3.35	3.32	3.29	3.26	3.23	3.22	3.21	3.20	3.20
USD/ZAR	14.0	13.8	13.5	13.2	13.0	13.3	13.6	13.9	14.2
USD/TRY	5.50	5.50	5.60	5.70	5.80	5.90	6.00	6.10	6.20
USD/ILS	3.65	3.60	3.55	3.50	3.45	3.40	3.40	3.40	3.40
USD/RUB	66.0	65.0	64.0	63.0	62.0	61.0	60.0	60.0	60.0
EUR/PLN	4.30	4.35	4.30	4.25	4.20	4.15	4.10	4.10	4.10
EUR/CZK	25.9	25.5	25.3	25.2	25.0	25.0	24.8	24.5	24.3
EUR/HUF	325	330	325	320	315	315	315	315	315
EUR/RON	4.67	4.70	4.67	4.65	4.60	4.60	4.60	4.60	4.60
DXY Index	96	94	92	88	85	84	82	82	81
Fed's Broad USD Index	128	127	126	124	122	120	119	119	118

Source: Morgan Stanley Research Forecasts. Forecasts were updated on November 25, 2018.

Appendix

The **Strategic FX Portfolio Trade Recommendations** page presents the portfolio of tactical trade ideas of the FX Strategy team and the performance of this portfolio over time.

Strategic FX Portfolio Trade Recommendations *(Note: The portfolios represent hypothetical, not actual, investments.)*

- On 10 June, 2010, we implemented changes to our portfolio to make it more robust and to better reflect our confidence levels and relative risk. A detailed explanation of this change can be found in " *Portfolio Methodology Update* " (10 June 2010).
- In summary, the trades and the weightings are primarily reviewed weekly on Thursdays and published in the Pulse. However, if we think there has been a material change to the risk-reward, we will make intraweek changes. We monitor trades daily. We will continue to publish the portfolio as a list of trades where our strongest conviction ideas will be given the largest weightings. We will, however, also adjust the weights of trades in order to manage our risk exposure.
- A table showing the trade, trade weight, trade entry date, risk allocation and levels for (average) entry, current, stop and target will be shown in the Strategic FX Portfolio Trade Recommendations section of the *FX Pulse*.
- If we increase the weighting allocated to a trade, the entry level published in the table will be changed to reflect a proportionally weighted rate of the initial entry level and the entry level on the date the weight was increased.

Performance Statistics

- We rebalance our portfolio daily at the NY close to keep the weight of each trade consistent with the published weight.
- We will primarily enter and exit trades using the bid or offer rate of the WMR fixing. If we make an intraday change to our portfolio, we will cite the closest Bloomberg half hourly fix in our published note and enter/exit at this rate.
- Stops or targets will be triggered if the stated level is met at the WMR fix.
- Returns shown include the cost of carry using the 1W interbank deposit rate if this is quoted liquidly but do not include any other expenses, slippage or fees and no interest on cash holdings are included. Reported returns are not levered.
- We have re-estimated our returns from 22 June 2006 to 10 June 2010, when we re-launched the portfolio, to take into account our more robust calculation technique.
- We provide a monthly breakdown of our historical portfolio performance back to Jan 2005 in the Strategic FX Portfolio section of the Pulse.

Definition of terms

Buy/Long: The analyst expects the total or excess return (depending on the nature of the recommendation) of the instrument or issuer that is the subject of the investment recommendation to be positive over the relevant time period.
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Selling Protection or Buying Risk: The analyst expects that the price of protection against the event occurring will decrease over the relevant time period.
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Historical data for all these models can be found on the Morgan Stanley Matrix Platform. See *New FX Strategy Interactive Features* (January 17, 2014). Click here for a currency reference page:

Morgan Stanley Matrix

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(as of October 31, 2018)

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For disclosure purposes only (in accordance with NASD and NYSE requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

STOCK RATING CATEGORY	COVERAGE UNIVERSE COUNT	COVERAGE UNIVERSE % OF TOTAL	INVESTMENT BANKING CLIENTS (IBC) COUNT	INVESTMENT BANKING CLIENTS (IBC) % OF TOTAL IBC	INVESTMENT BANKING CLIENTS (IBC) % OF RATING CATEGORY	OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC) COUNT	OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC) % OF TOTAL OTHER MISC
Overweight/Buy	**1157**	**37%**	**305**	**42%**	**26%**	**544**	**39%**
Equal-weight/Hold	**1380**	**44%**	**335**	**46%**	**24%**	**632**	**45%**
Not-Rated/Hold	**47**	**1%**	**7**	**1%**	**15%**	**7**	**0%**
Underweight/Sell	**553**	**18%**	**82**	**11%**	**15%**	**220**	**16%**
TOTAL	**3,137**		**729**			**1403**	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

Analyst Stock Ratings

Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis over the next 12-18 months.
Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis over the next 12-18 months.
Not-Rated (NR) - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country MSCI Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country MSCI Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

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