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Independent Investment Strategy

EMERGING MARKETS
FOREIGN EXCHANGE

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The Stars Are Aligning For EM Currencies

- Domestic and global growth conditions are supportive of EM currencies.
- The Fed's easing cycle, in the context of relatively less dovish EM central banks, is positive for EM capital inflows.
- Brazil's rate-hiking cycle is not a precursor to broader EM tightening pressures.
- Stay overweight Brazil, India, Indonesia, Korea, Malaysia, Taiwan and Turkey within an EM currency portfolio, and underweight China and Poland.

EM currencies have had a decent broad-based recovery versus the U.S. dollar between July and September, with the equal-weighted basket of spot EM currencies gaining 4%. In carry-adjusted terms, EM currencies were 5% higher versus the greenback during the same period (**chart 1**).

There was little fundamental change to the EM economic landscape during this time. Rather, the rally coincided with the aggressive downward revisions to fed funds rate forecasts, which was associated with a softer U.S. dollar versus major DM currencies. During October, a modest rebound in the dollar (as proxied by the DXY) took hold, and coincided with some underperformance for the equal-weighted EM currency basket, underlining yet again that for now the primary impulse for EM currencies remains changes in the U.S. dollar.

However, looking through the short-term noise, the ongoing global economic expansion and broad-based monetary easing in the DM world (even if DM central banks underdeliver relative to consensus forecasts in 2025), will ensure that EM relative growth momentum remains strong and global risk appetite improves further.

MRB Emerging Markets Foreign Exchange Recommendations*

	-	N	+	Page
Brazil			■	9
Chile		■		10
China	■			11
Colombia		■		12
India			■	13
Indonesia			■	14
Korea			■	15
Malaysia			■	16
Mexico		■		17
Philippines		■		18
Poland	■			19
South Africa		■		20
Taiwan			■	21
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Emerging Markets**			■	

* 6-12 month horizon; relative to equally-weighted emerging market currency basket
** 6-12 month horizon; relative to U.S. dollar
Note: + = overweight, N = neutral, – = underweight
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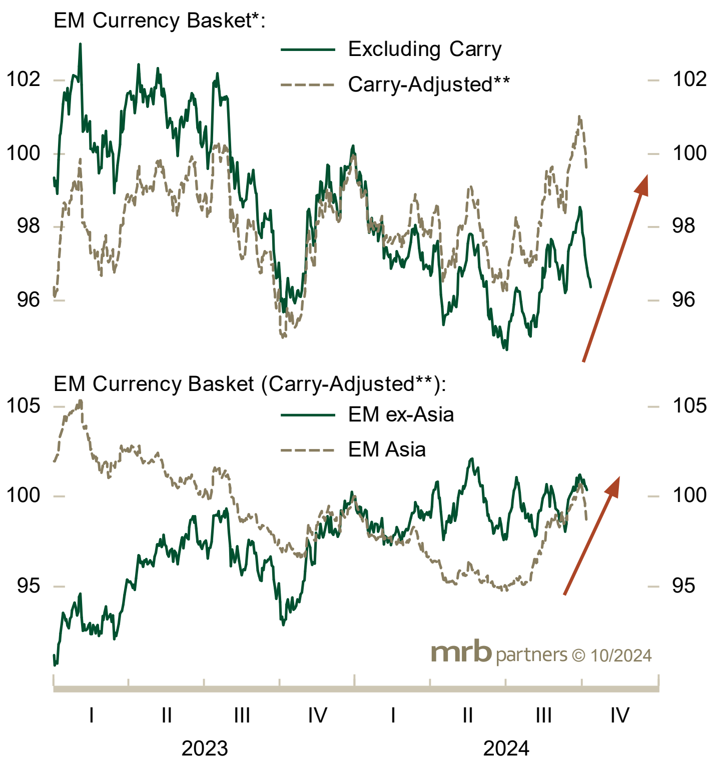
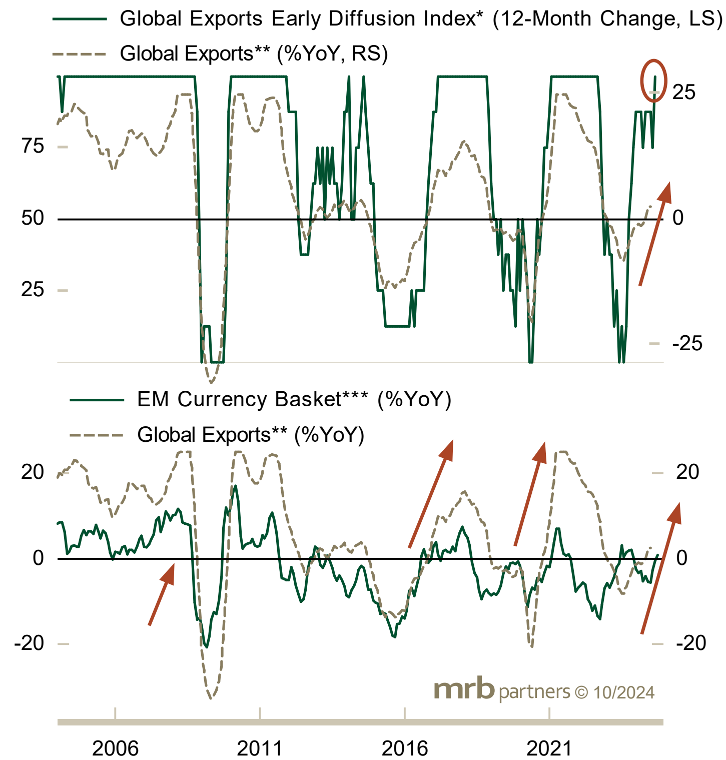
Chart 1 **EM Currencies Will Resume Outperformance**



* Equally-weighted aggregate
** Source: Bloomberg

Chart 2 **EM Currencies Outperform When Global Trade Recovers**



* Includes Brazil, China, Indonesia, India, Korea, Taiwan, Turkey, and Vietnam
** Truncated above 25; source: Netherlands Bureau for Economic Policy Analysis
*** Equal-weighted aggregate

This, in turn, should ***eventually*** trigger a rotation into EM assets and ensure that the equal-weighted EM currency basket resumes its modest outperformance versus the greenback and other major DM currencies over the next 6-12 months.

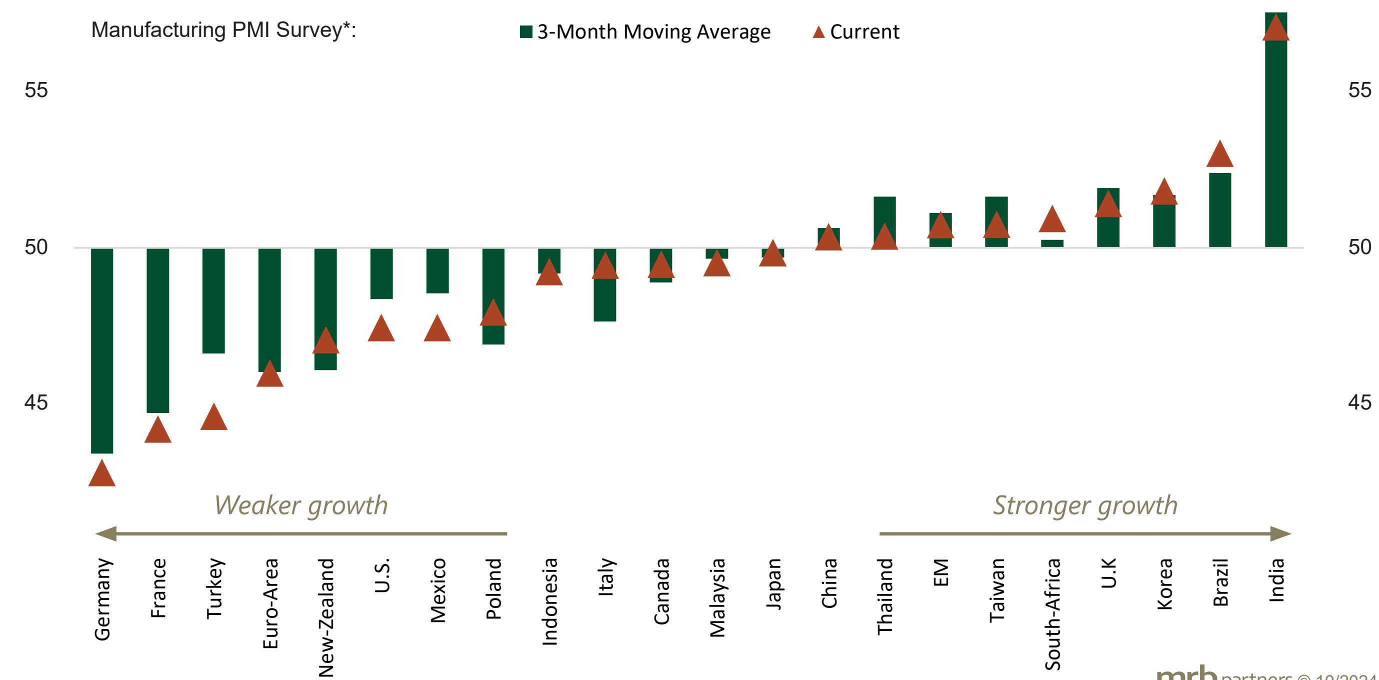
EM Growth Will Continue Outperforming

Current global and EM growth conditions have been historically associated with EM currency appreciation

EM growth momentum has accelerated this year, and the outlook will remain positive over the next 6-12 months. The global trade recovery is still in its infancy, with U.S. import demand only just starting to recover (**chart 2**), and the *MRB Global Trade Diffusion Indexes* showing that most countries are now reporting stronger trade compared to last year. These conditions have historically been associated with global trade upcycles and the outperformance of EM economic growth.

The winners so far have been the most trade-sensitive EM Asian economies, including Korea, Taiwan and ASEAN which have seen the sharpest increase in GDP growth rates. These economies will continue to benefit directly from stronger export growth and indirectly via the positive knock-on effects on domestic demand.

Chart 3 **EM Manufacturing PMIs Improving Relative To DM**



*Source: Markit Economics

The growth outlook is also constructive elsewhere in the EM world. GDP growth in India and Indonesia should accelerate as the combination of rate cuts (BI has already kicked off its easing cycle and RBI is likely to follow in H1 next year) and recovering exports provide additional sources of growth.

Meanwhile, growth momentum is improving in South Africa now that power cuts are no longer a major constraint and business confidence has improved with the formation of the Government of National Unity (GNU). Furthermore, economic activity will remain resilient in Brazil because of loose fiscal policy and improving terms of trade (see page 7: ***Brazil's Rate Hikes: Not A Sign Of A Broader EM Tightening Cycle***), while the current soft patch in Mexico will reverse as U.S. import demand continues to firm.

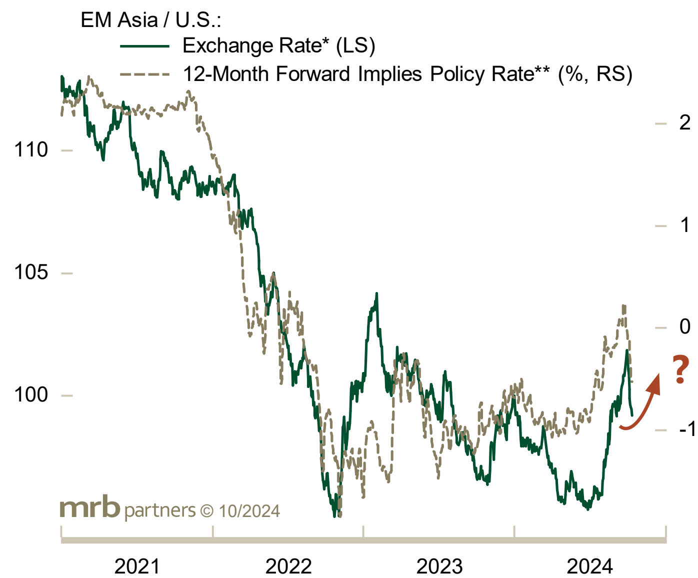
The recovery in EM economic growth is becoming more broad-based

This is all occurring against a backdrop in which China's growth is being transmitted to the rest of the EM world. Despite misplaced anxiety over a Chinese economic slowdown, its imports of commodities will remain "strong enough" in volume terms, providing ongoing support for EM commodity exporters. And China's imports of machinery and electronics are now growing in year-over-year terms, with positive ramifications for EM manufactured goods exporters[1].

[1] **MRB**: "***China: Equities Are Riding The Dragon's Tail***", October 10, 2024

This positive relative growth outlook is evident in PMI manufacturing surveys, where EMs are still reporting improving and stronger seasonally adjusted PMIs than their developed market peers (**chart 3**, previous page). The implication is that relative growth drivers of EM currencies will become increasingly positive and more broadly-based across EM economies.

Chart 4 EM Asian Currencies Benefit The Most From Fed Easing



* Equally-weighted aggregate
** EM Asia minus U.S.; source: Bloomberg

The Policy Backdrop Is Supportive

The overarching global monetary policy backdrop is becoming increasingly favorable for EMFX, with the lower carry currencies of EM Asia likely to be the biggest beneficiaries. Inflation was less of a problem in the region compared to the U.S., and the Fed therefore hiked more aggressively. This caused interest rate differentials in many parts of EM Asia to turn negative versus the U.S. dollar and weighed heavily on their currencies (**chart 4**).

Currencies in EM Asia were hurt the most by Fed tightening…

However, now that the Fed and other major DM central banks are cutting their policy rates (and expected to deliver aggressive policy easing over the next 6-12 months) and growth in EM Asia is accelerating, policymakers in the region will allow interest rate differentials to widen versus the U.S., even as some deliver modest rate cuts. This would provide material support for their currencies and keep a lid on imported inflation.

… and will now benefit the most from Fed easing

Meanwhile, outside of the lower-yielding EM Asian currencies, many EM central banks (mainly in Latin America) had already been cutting their policy rates. For some time, their currencies were insulated from narrowing interest rate differentials because they offered an attractive-enough carry. But in recent months, their policy rate spreads versus the U.S. reached historic lows and therefore their currencies are now more vulnerable to changes in rate expectations. Consequently, many of those central banks began to take a more cautious approach.

In this context, Fed rate cuts will allow many of those central banks to continue their rate-cutting cycles, or indeed start to cut rates as in the case of Indonesia, the Philippines and South Africa. However, any easing will be in lockstep with (or at a slower pace than) the Fed. This would support growth and credit quality while ensuring that interest rate differentials with the U.S. remain constant or widen.

In sum, the relative policy impulse will be supportive of an equal-weighted EM currency basket.

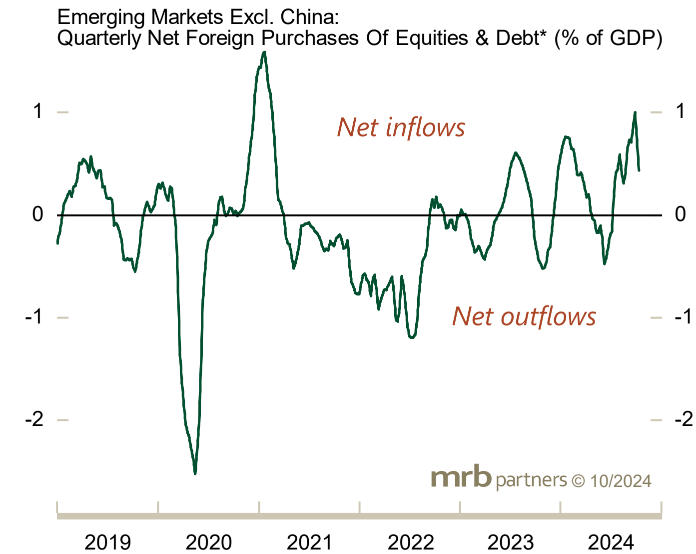
The Fed Greenlights EM Capital Inflows

Global risk appetite is a major driver of EM capital inflows and given the previously held consensus view that a U.S./global recession was imminent, investors have generally been net sellers of EM assets over the past several years.

However, since Q3, the view that the U.S. (and global) economy will stay resilient has become more widely accepted, and the Fed and other major central bank are now validating rate cut expectations. Moreover, China's recent stimulus measures, while modest in economic impact, should nevertheless stabilise sentiment around China-sensitive assets and currencies.

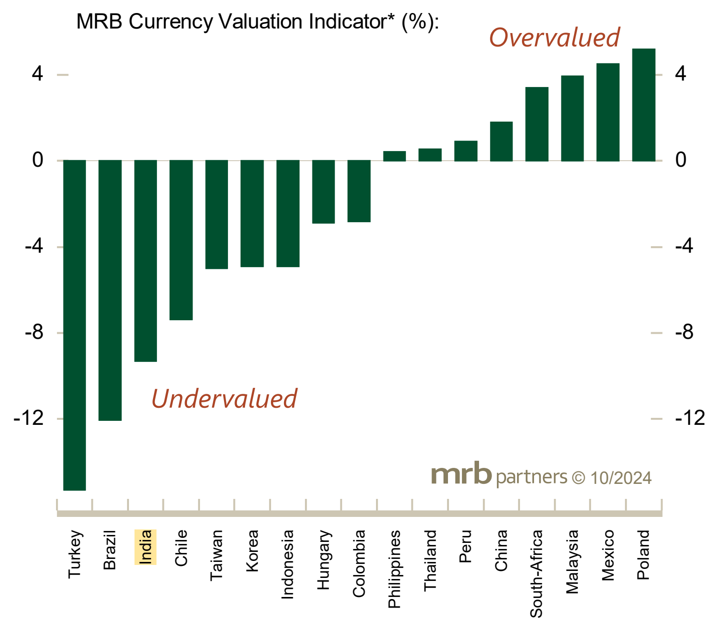
In this context, policymakers have given the greenlight for investors to take on more risk, which has so far been highly supportive of EM capital inflows (**chart 5**). We see no obvious catalysts to change Fed rate cut expectations in the near run (materially stronger U.S. growth or an acceleration of U.S. inflation), so the current wave of capital inflows into EMs is likely to persist.

Chart 5 **Positive Outlook For EM Net Capital Inflows**



* Includes Indonesia, India, Korea, Mexico, South Africa and Turkey; national sources

Chart 6 **Many EM Currencies Are Attractively Valued**



* Deviation from MRB Fair Value Estimate

Despite the recent recovery in capital flows and the subsequent appreciation of EM currencies, the valuation picture has not drastically changed since the summer. In overvalued territory, the zloty remains among the most expensive, and the Mexican peso is still trading at levels above our fair-value estimate. Meanwhile, the rand and ringgit have moved into overvalued territory following their recent outperformance. Most other EM currencies are trading at levels close to, or lower than, our estimates of their fair value (**Chart 6**). The takeaway is that for most EM currencies, capital flow and valuation drivers will play a supportive role in currency performance over the coming months.

Regional/Country Positioning

We recommend staying overweight an EM currency basket within a global currency portfolio, holding a mix of higher-carry and growth-sensitive currencies. Among the high-carry currencies, we are overweight the BRL whose interest rate differentials and growth impulse are improving relative to its high-carry Latam peers (COP and MXN) while facing similar political/economic policy risks. We have a bias to upgrade the overbought rand from neutral to overweight once stretched technical conditions unwind because of the improvement in economic governance and a relatively cautious central bank.

Stay overweight an equal-weighted EM currency basket

We are also overweight the Turkish lira because with the government remaining committed to orthodox policy, the currency's carry returns will continue to outweigh any potential modest depreciation in spot terms (the lira has gained 21% versus the U.S. dollar in carry-adjusted terms since the start of the year).

Among growth-sensitive currencies, we prefer the Korean won, Malaysian ringgit and the New Taiwan dollar on the back of their export-led economic recoveries and likely further widening of interest rate differentials. Further, we are overweight the undervalued Indian rupee and Indonesian rupiah as domestic demand plays with attractive carry in a regional context.

Overweight Brazil, India, Indonesia, Korea, Malaysia, Taiwan and Turkey within an EM currency portfolio…

We continue to hold the Chinese yuan and the zloty at underweight. The former because of its low beta caused by the strictures of China's currency management regime and relative policy headwinds, and the latter as a result of overvaluation and the sluggishness of Poland's growth profile relative to most EM peers.

… and underweight China and Poland

Final Word: *An equal-weighted basket of EM currencies will outperform the U.S. dollar over the next year as the ongoing global economic expansion and broad-based monetary easing in the DM world ensures that EM relative growth momentum firms and global risk appetite improves.*

Please see the following pages for Brazil's Rate Hikes: Not A Sign Of A Broader EM Tightening Cycle and a discussion of the drivers of foreign exchange performance for the principal EM economies

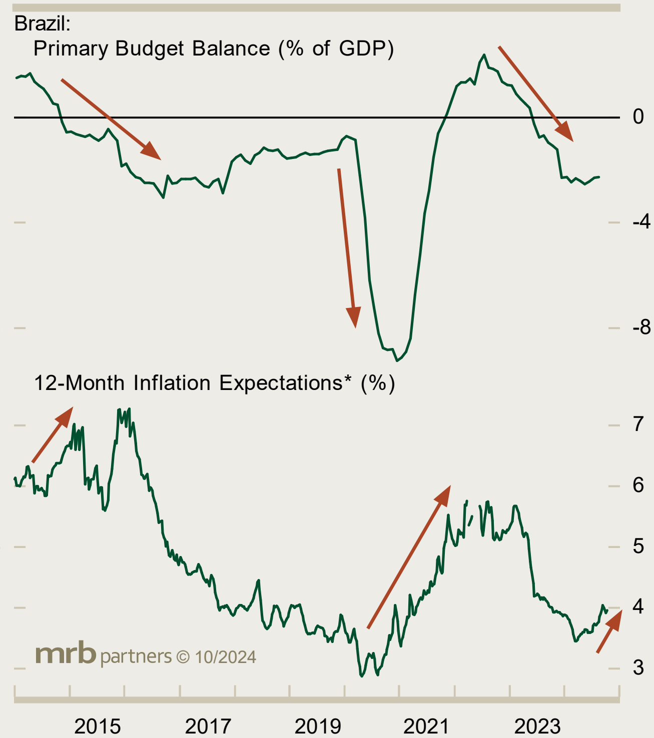
Brazil's Rate Hikes: Not A Sign Of A Broader EM Tightening Cycle

The Central Bank of Brazil (BCB) kicked off a rate-tightening cycle last month, making it the first major EM central bank to raise interest rates this year. A combination of factors caused BCB to turn more hawkish, but it ultimately boils down to looser fiscal policy driving stronger-than-expected domestic demand growth. After President Lula returned to power, the primary budget surplus of 2.1% of GDP in June 2022 turned into a 2.3% deficit in July of this year (**chart 7**), and the share of ear-marked credit increased (subsidized loans by public banks).

Warnings from the central bank about the impact of such policies on the future path of inflation fell on deaf ears, and eventually the BRL sold off and inflation expectations rose from 3% to 4%. With no signs of growth cooling or long-term credible plans for fiscal consolidation on the part of the administration, this was enough for the central bank to act. Looking ahead, more BCB rate hikes are in the cards, which should provide plenty of support for the BRL's relative performance.

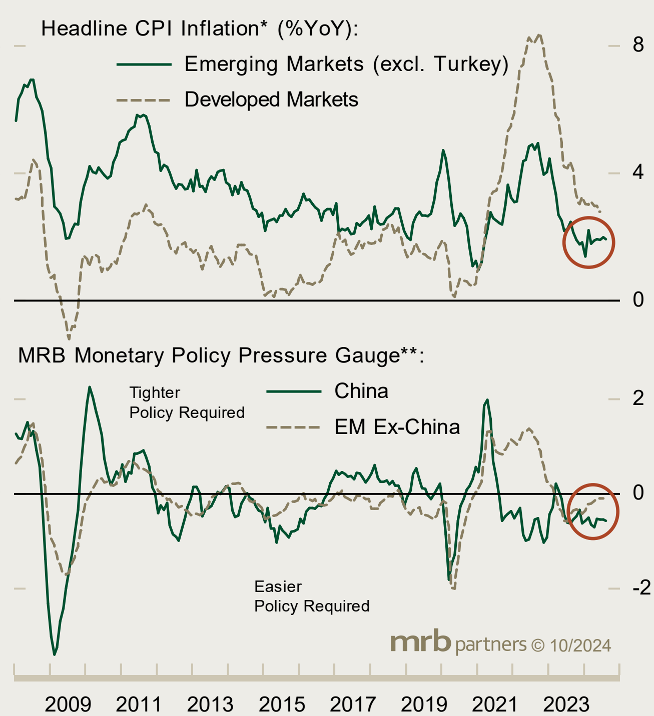
While BCB's previous two cycles (tightening in 2021 and easing in 2023) set trends that were later followed by other central banks, this rate-hiking cycle is not a sign of broader tightening pressures in EMs. For starters, what prompted the BCB to change course and tighten was the rise in inflation expectations, and the associated BRL weakness, which

Chart 7 Brazil's Fiscal Deterioration Leads To Rising Inflation Expectations



* One-year moving sum; source: Ministry of Finance
** Banco Central Do Brasil

Chart 8 No Tightening Pressures Across Most EMs



* GDP-weighted; DMs includeAustralia, Canada, Euro Area, Japan, Norway, Sweden, U.K and U.S.
** Includes growth and inflation components; standardized

were driven almost entirely by perennial fiscal policy concerns that are highly idiosyncratic to Brazil.

At the same time, inflation and inflation expectations in most other EMs, barring Turkey, are benign and generally below pre-pandemic averages (**chart 8**). And the *MRB Monetary Policy Pressure Gauge*, which includes both growth and policy components, indicates that EM central banks are under no pressure to hike rates.

Finally, just as relatively higher policy rates in the U.S. had pressured EM central banks to keep policy tighter than what was warranted by domestic conditions, the current Fed easing cycle removes such pressures, giving some EM central banks room to ease further.

Amr Abdel Khalek
Strategist, Emerging Markets

Mehran Nakhjavani
Partner, Emerging Markets

Brazil: *Overweight*

Brazil Foreign Exchange: Drivers Of Relative Performance*

	–		N		+
Growth			■		
Policy			■		
Valuation				■	
Capital Flows				■	
Technicals				■	
Net Impact				■	

* 6-12 month horizon; versus emerging market currency basket
Note: + = positive, N = neutral, – = negative

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Overall: Stronger-than-expected growth and policy rate hikes will support the relative performance of the undervalued BRL.

Growth: The budding export recovery and a strong manufacturing PMI suggest that the recent firming of industrial output will persist. Meanwhile, a tight labor market should keep consumer spending resilient. Growth will remain strong and similar to most other EMs.

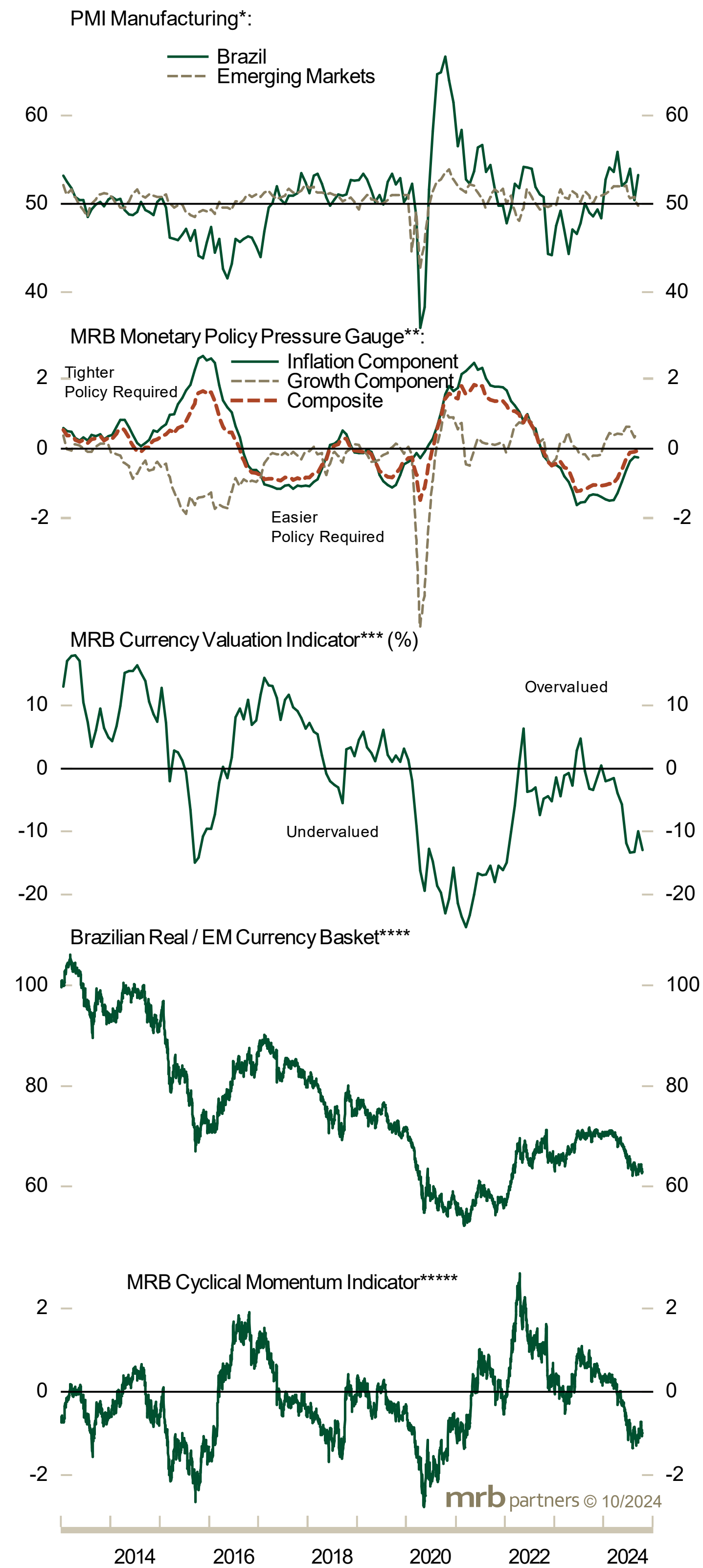
Policy: Both headline and core CPI will remain within the central bank's target range. However, services inflation remains high and sticky, and the recent rise in inflation expectations is unlikely to meaningfully reverse, absent an unlikely growth slowdown or a credible improvement in fiscal policy. More rate hikes are therefore in the cards, although lingering fiscal policy concerns will keep the overall policy backdrop neutral.

Valuation: BRL is undervalued according to the *MRB Currency Valuation Indicator*.

Capital Flows: An attractive carry will combine with improving global risk appetite to ensure that the capital flow backdrop is positive. A structural improvement in the trade and current account balances is also positive.

Technicals: The currency is recovering from deeply oversold levels, with further outperformance likely in the near term.

Drivers Of Relative Performance



* Source: Markit Economics
** Includes growth and inflation components; standardized
*** Deviation from MRB Fair Value Estimate
**** Equally-weighted aggregate
***** Standardized

Chile: *Neutral*

Chile Foreign Exchange: Drivers Of Relative Performance*

	–		N		+
Growth	□	□	■	□	□
Policy	□	□	■	□	□
Valuation	□	□	□	■	□
Capital Flows	□	■	□	□	□
Technicals	□	□	■	□	□
Net Impact	□	□	■	□	□

* 6-12 month horizon; versus emerging market currency basket
Note: + = positive, N = neutral, – = negative

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Overall: The peso's low carry and low beta to global risk appetite will offset supportive copper prices.

Growth: Momentum recovered from its soft patch in Q2, and exports and private consumption are now contributing positively to growth. However, policy paralysis will keep business confidence and investment growth weak, so on balance, the relative growth impulse is neutral.

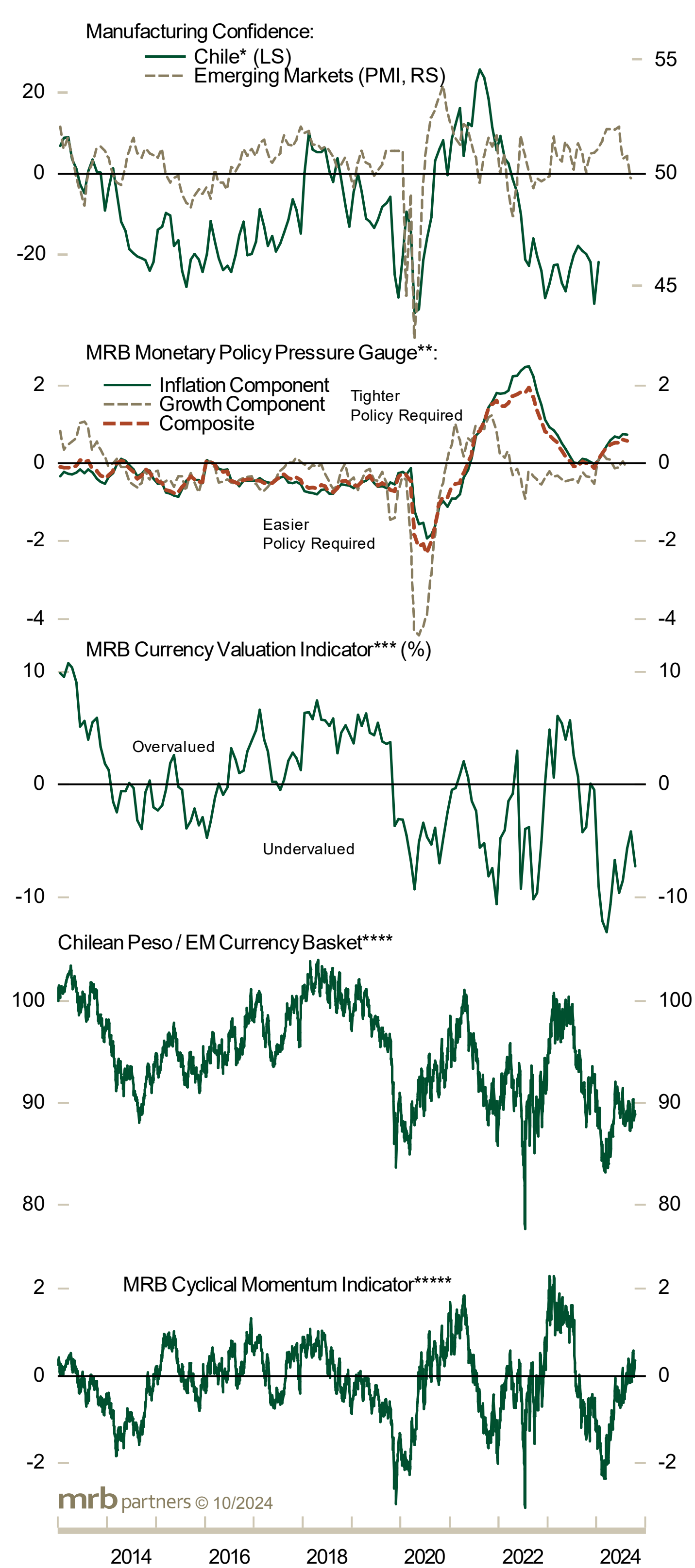
Policy: More rate cuts are in the cards as broad-based easing in DMs provides room for more easing in Chile with little impact on the peso. However, this is largely discounted, and policy is unlikely to be a major driver of the peso's relative performance for now.

Valuation: The currency is undervalued according to the *MRB Currency Valuation Indicator*.

Capital Flows: Narrowing interest rate differentials will continue to weigh on capital flows relative to EM peers.

Technicals: Neutral.

Drivers Of Relative Performance



* Source: Markit Economics
** Includes growth and inflation components; standardized
*** Deviation from MRB Fair Value Estimate
**** Equally-weighted aggregate
***** Standardized

China²: *Underweight*

China Foreign Exchange: Drivers Of Relative Performance*

	–		N		+
Growth	□	■	□	□	□
Policy	□	■	□	□	□
Valuation	□	□	■	□	□
Capital Flows	□	□	■	□	□
Technicals	□	□	■	□	□
Net Impact	□	■	□	□	□

* 6-12 month horizon; versus emerging market currency basket
Note: + = positive, N = neutral, – = negative

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Overall: The yuan carry trade implies taking duration risk and is unattractive, while persistent policy disappointment discourages hot money. The yuan will underperform EM peers while modestly appreciating versus the U.S. dollar in the year ahead.

Growth: GDP growth will trundle along, and while headline growth will exceed that of many EM peers, expectations will likely be downgraded in China while they are upgraded elsewhere in EM. The growth impulse will be yuan-negative.

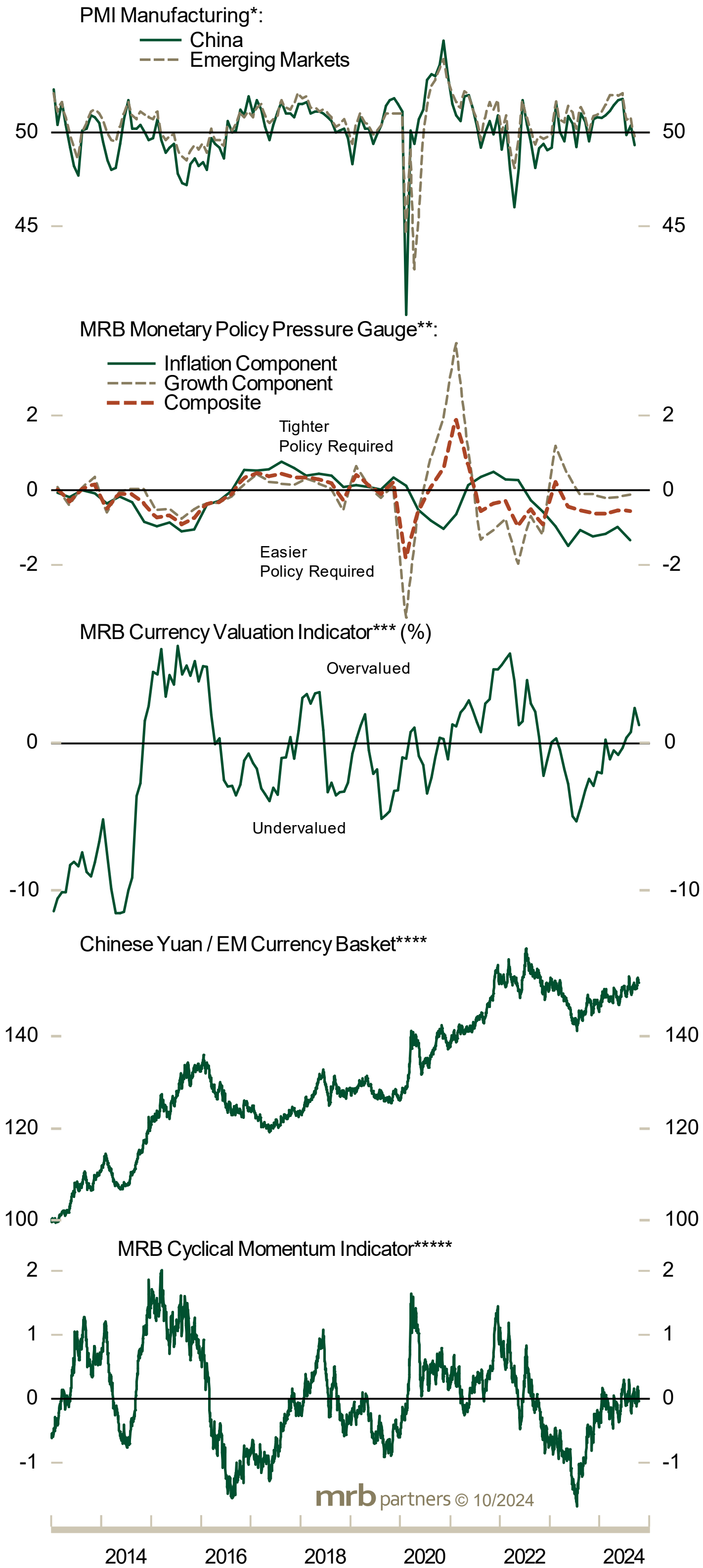
Policy: Monetary policy will continue to ease because the PBoC is under pressure to address soggy growth. With fiscal policy remaining tight-to-neutral, this backdrop will be yuan-negative as investor expectations of an "all that it takes" response will be repeatedly dashed.

Valuation: CNYUSD is close to fair value according to the *MRB Valuation Indicator*.

Capital flows: Wild swings in capital flows will inject considerable volatility into the yuan, but long-term flows will be essentially trendless and currency-neutral.

Technicals: Neutral.

Drivers Of Relative Performance



* Source: Markit Economics
** Includes growth and inflation components; standardized
*** Deviation from MRB Fair Value Estimate
**** Equally-weighted aggregate
***** Standardized

² **MRB**: "*China: The Hazards Of Mental Models*", October 8, 2024 and "*China: Don't Fear "Chinese Deflation"*", September 12, 2024

Colombia: *Neutral*

Colombia Foreign Exchange: Drivers Of Relative Performance*

	−		N		+
Growth		■			
Policy			■		
Valuation			■		
Capital Flows				■	
Technicals				■	
Net Impact			■		

* 6-12 month horizon; versus emerging market currency basket
Note: + = positive, N = neutral, − = negative

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Overall: A neutral weight remains appropriate because the peso's attractive carry will offset lagging growth and economic policy risks.

Growth: Economic activity will recover following last year's sharp slowdown. However, momentum will lag most EM peers, as ongoing policy uncertainty continues to weigh on business confidence, and investment and employment growth. The relative growth impulse is negative.

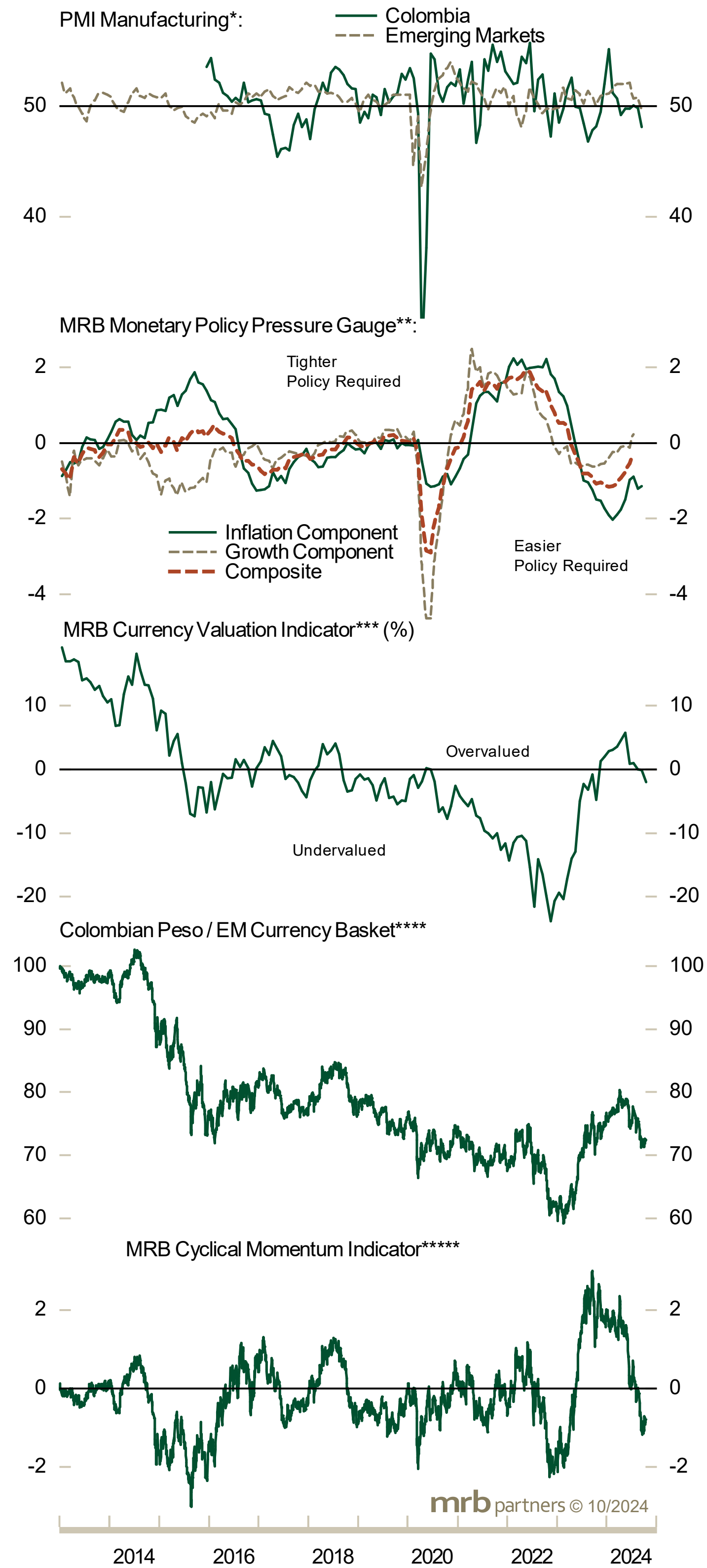
Policy: Domestic demand growth remains well below its historical average which will keep a lid on inflation. That said, the central bank will likely under-deliver compared to the aggressive cuts discounted in forward markets, which is peso-positive and should offset the negative impact of credit deterioration.

Valuation: The currency is trading close to its fair value estimate, according to the *MRB Currency Valuation Indicator*.

Capital Flows: The peso's carry appeal will remain intact which will keep the relative capital flow backdrop positive.

Technicals: The peso is oversold and could benefit from a near-term bounce.

Drivers Of Relative Performance



* Source: Markit Economics
** Includes growth and inflation components; standardized
*** Deviation from MRB Fair Value Estimate
**** Source: Bloomberg
***** Equally-weighted aggregate

India[3]: *Overweight*

India Foreign Exchange: Drivers Of Relative Performance*

	–		N		+
Growth	□	□	□	■	□
Policy	□	□	■	□	□
Valuation	□	□	□	□	■
Capital Flows	□	□	□	■	□
Technicals	□	□	■	□	□
Net Impact	□	□	□	■	□

* 6-12 month horizon; versus emerging market currency basket
Note: + = positive, N = neutral, – = negative

Overall: Superior growth momentum and a narrower current account deficit will ensure continued rupee outperformance, although the upside will be limited by ongoing RBI intervention.

Growth: Economic activity will remain robust, and policy continuity following the election will keep infrastructure spending solid. Meanwhile, exports are now recovering, ensuring solid GDP growth over the coming year. This should support employment and overall household spending growth. The relative growth impulse is positive.

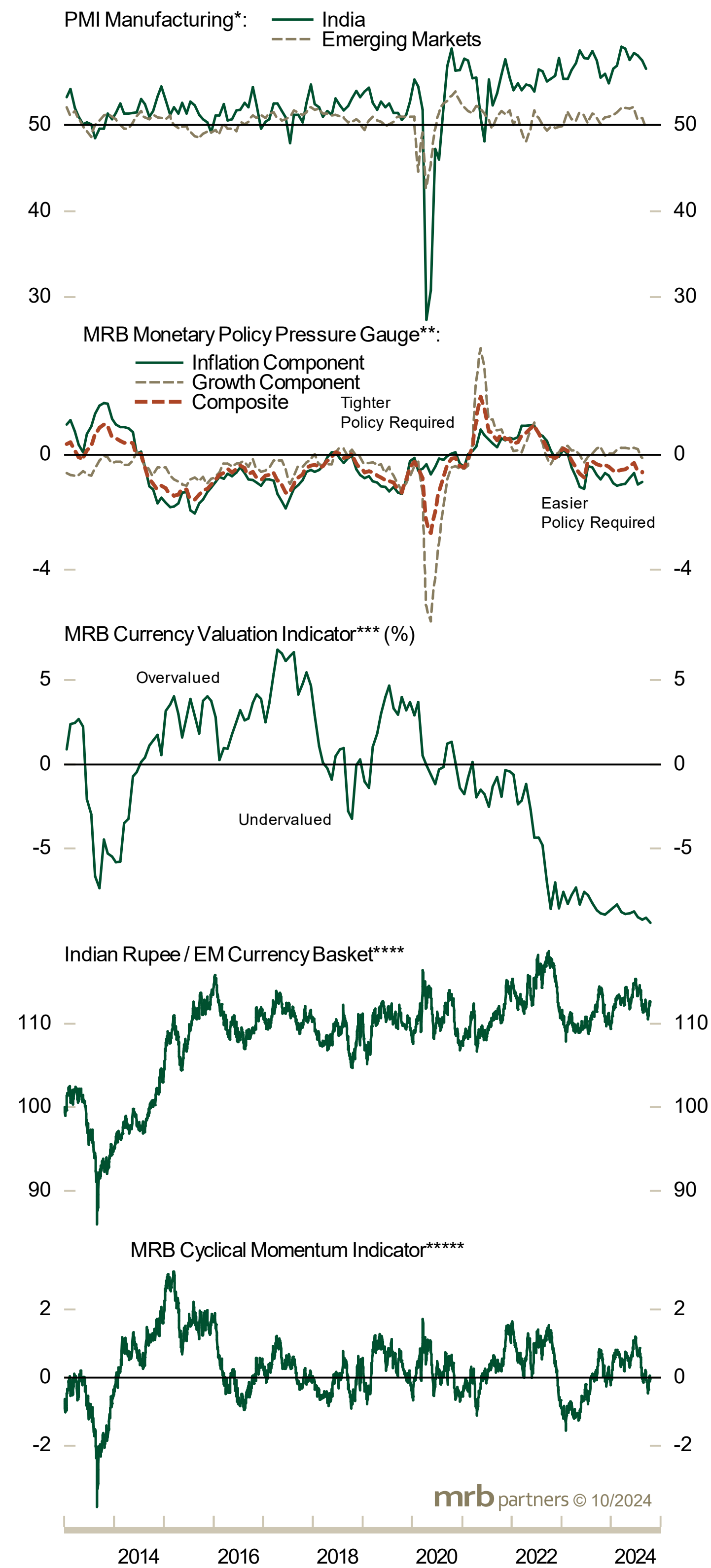
Policy: Core inflation will remain benign and headline CPI will decelerate as food prices moderate. RBI will likely cut rates in H1 next year but with growth momentum likely to firm, any easing will be modest. This is similar to EM peers, so the relative policy impulse is neutral.

Valuation: The rupee is deeply undervalued according to the *MRB Currency Valuation Indicator*.

Capital Flows: Attractive carry compared to regional peers and an export-led pickup in economic activity will keep the capital flow backdrop positive.

Technicals: Neutral.

Drivers Of Relative Performance



* Source: Markit Economics
** Includes growth and inflation components; standardized
*** Deviation from MRB Fair Value Estimate
**** Equally-weighted aggregate
***** Standardized

[3] **MRB***:* "***EM Elections: Smoke But No Fire, Yet***", June 7, 2024

Indonesia: *Overweight*

Indonesia Foreign Exchange: Drivers Of Relative Performance*

	-		N		+
Growth			■		
Policy			■		
Valuation				■	
Capital Flows			■		
Technicals		■			
Net Impact				■	

* 6-12 month horizon; versus emerging market currency basket
Note: + = positive, N = neutral, – = negative

Overall: Positive policy and valuation drivers will ensure that the rupiah modestly outperforms a basket of EM currencies.

Growth: A tourism sector recovery and a tight labor market will support consumer spending. Further, the budding export recovery will ensure that manufacturing activity recovers from its current soft patch. The growth outlook is similar to regional peers and its relative impulse is rupiah-neutral.

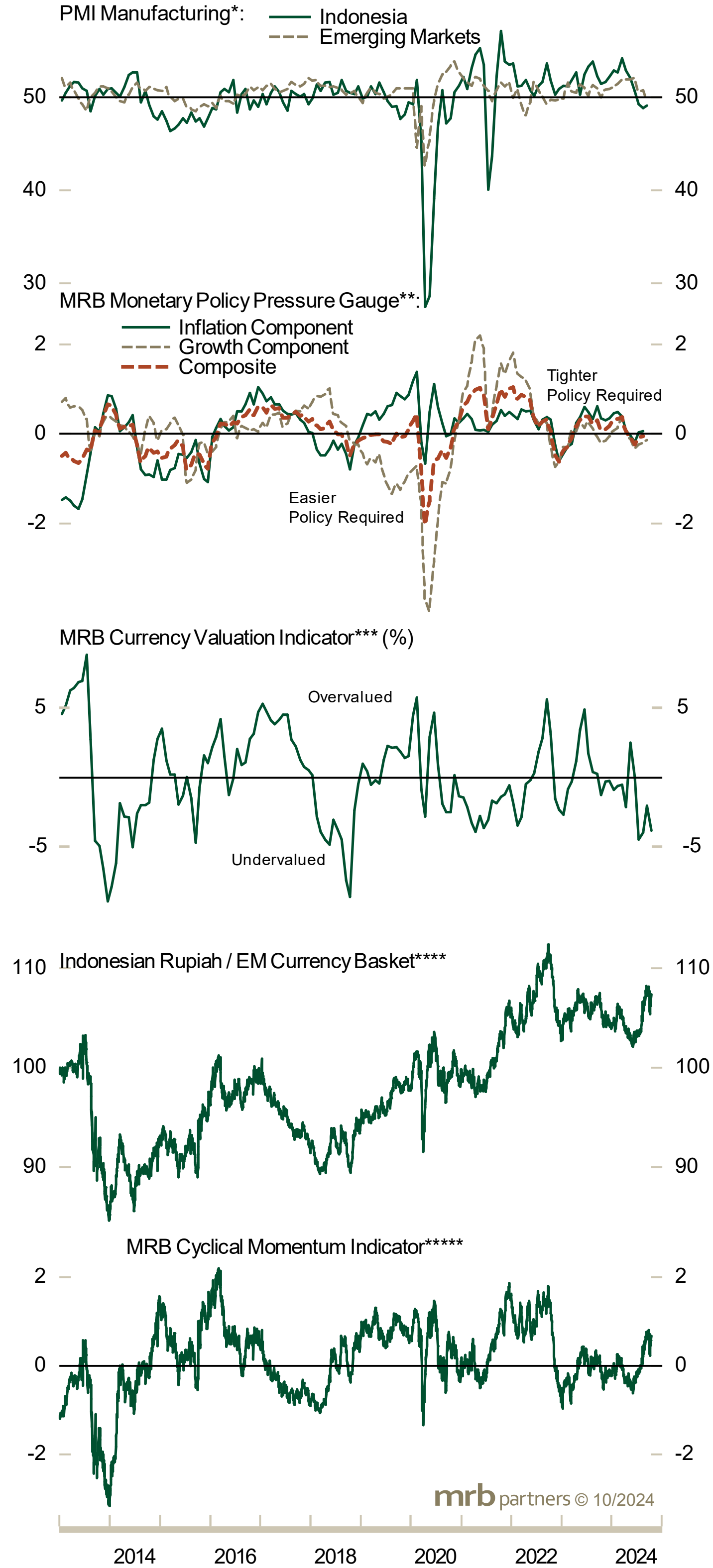
Policy: BI delivered a 25 bps cut in September and while it held rates steady yesterday, there is scope for more easing. However, recent FX weakness imply that further easing will be measured. The relative policy impulse is neutral.

Valuation: The rupiah is modestly undervalued according to the *MRB Currency Valuation Indicator*.

Capital Flows: The relative capital flow backdrop will improve along with global risk appetite, although this is unlikely to be a major driver of the rupiah.

Technicals: The rupiah is still relatively overbought and could be vulnerable to more downside in the near term.

Drivers Of Relative Performance



* Source: Markit Economics
** Includes growth and inflation components; standardized
*** Deviation from MRB Fair Value Estimate
**** Equally-weighted aggregate
***** Standardized

Korea: *Overweight*

Korea Foreign Exchange: Drivers Of Relative Performance*

	–		N		+
Growth	□	□	□	■	□
Policy	□	□	□	■	□
Valuation	□	□	□	■	□
Capital Flows	□	□	■	□	□
Technicals	□	□	■	□	□
Net Impact	□	□	□	■	□

* 6-12 month horizon; versus emerging market currency basket
Note: + = positive, N = neutral, – = negative

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Overall: An export-led recovery and improving global risk appetite will ensure that the won resumes outperformance.

Growth: The ongoing global trade upcycle will ensure that Korea's growth momentum firms. The pickup in external demand will also combine with a lower cost of capital and easing global liquidity to ensure that household spending consumption and investment growth recover. The relative growth impulse is positive.

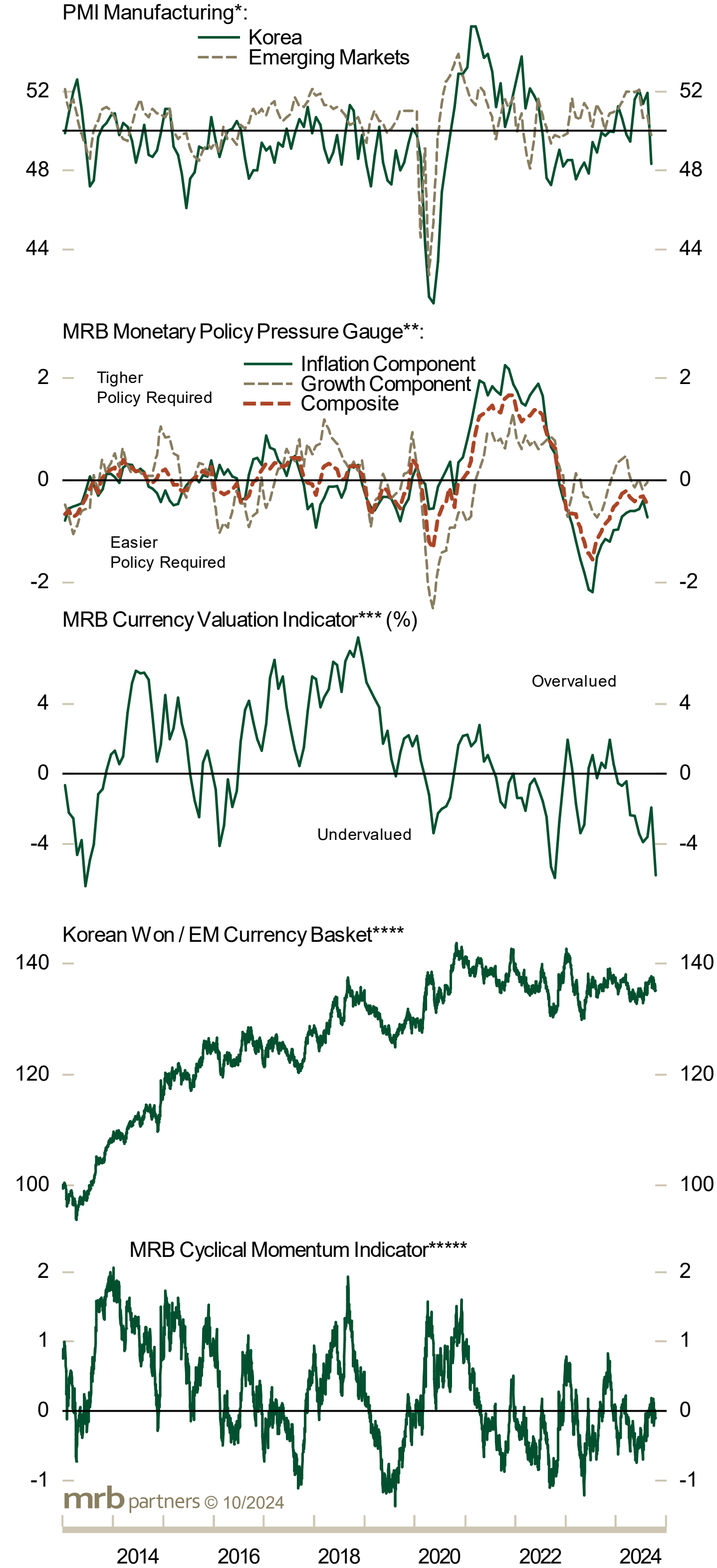
Policy: The BoK delivered its first 25 bps cut last week and while inflation expectations will remain benign, firming growth momentum implies that the central bank will remain more cautious than the average EM. The relative policy impulse is positive.

Valuation: The won is undervalued, according to the *MRB Currency Valuation Indicator.*

Capital Flows: Strengthening growth momentum and relative policy tailwinds will offset the won's low carry.

Technicals: Neutral

Drivers Of Relative Performance



* Source: Markit Economics
** Includes growth and inflation components; standardized
*** Deviation from MRB Fair Value Estimate
**** Equally-weighted aggregate

Malaysia: *Overweight*

Malaysia Foreign Exchange: Drivers Of Relative Performance*

	–		N		+
Growth				■	
Policy				■	
Valuation		■			
Capital Flows			■		
Technicals		■			
Net Impact				■	

* 6-12 month horizon; versus emerging market currency basket
Note: + = positive, N = neutral, – = negative

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Overall: Growth and policy tailwinds will support further relative upside for the ringgit.

Growth: Exports are growing, with demand from ASEAN and the U.S. leading the recovery. This is already having positive spillovers onto the broader economy, with employment and wage growth ticking higher in recent months. Moreover, manufacturing output and overall investment growth should continue recovering.

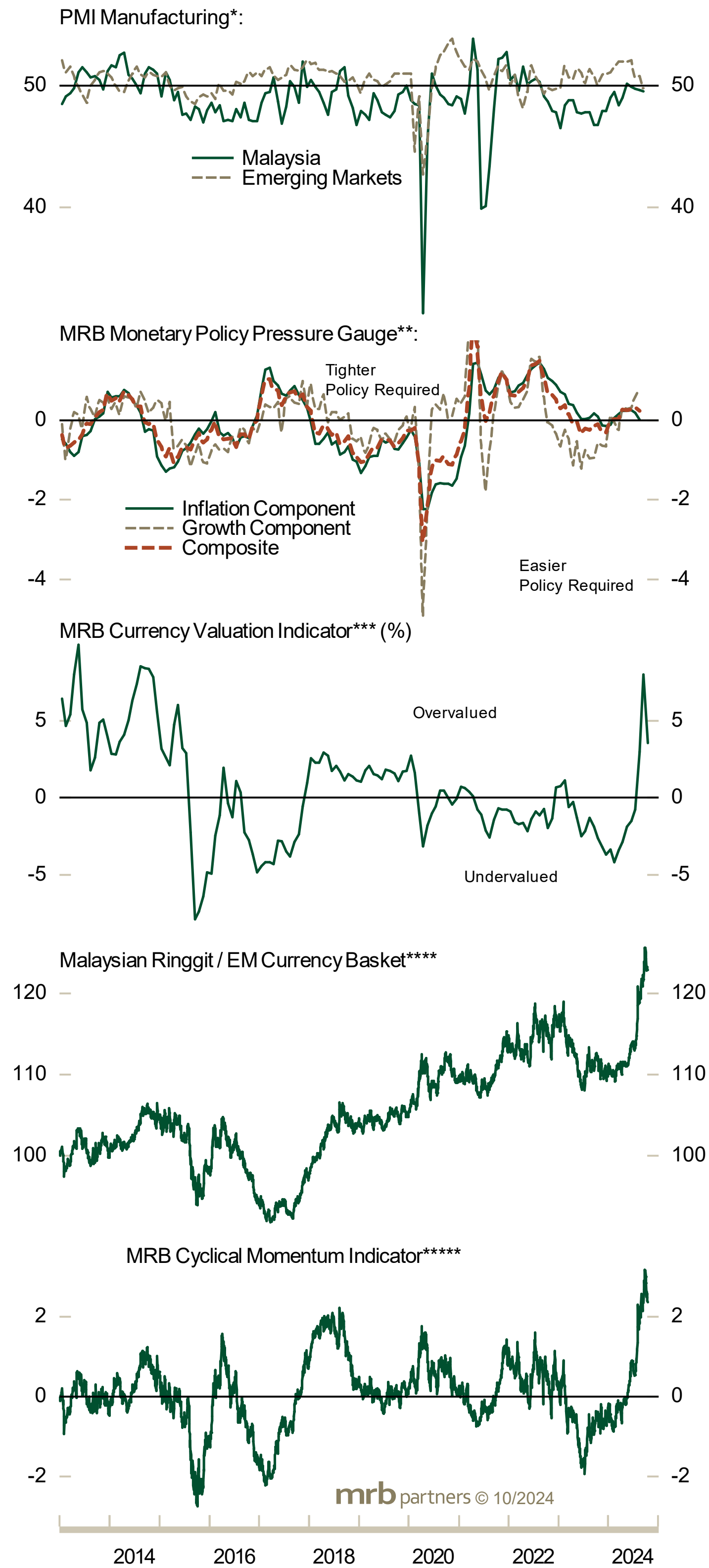
Policy: Inflation will remain benign and within the central bank's target range. However, the acceleration of growth will keep BNM cautious compared to most EM peers. The relative policy impulse is therefore positive for the ringgit.

Valuation: The ringgit is now overvalued according to the *MRB Currency Valuation Indicator.*

Capital flows: The currency's low carry is a headwind to relative flows, but an improving current account surplus and improving relative growth provide an offset.

Technicals: The ringgit is overbought and still vulnerable to a further pullback in relative performance.

Drivers Of Relative Performance



* Source: Markit Economics
** Includes growth and inflation components; standardized
*** Deviation from MRB Fair Value Estimate
**** Equally-weighted aggregate
***** Standardized

Mexico[4]: *Neutral*

Mexico Foreign Exchange: Drivers Of Relative Performance*

	–		N		+
Growth	□	□	■	□	□
Policy	□	□	■	□	□
Valuation	□	■	□	□	□
Capital Flows	□	□	■	□	□
Technicals	□	□	□	■	□
Net Impact	□	□	■	□	□

* 6-12 month horizon; versus emerging market currency basket
Note: + = positive, N = neutral, – = negative

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Overall: The worst is in the past for the peso, but a neutral weight remains appropriate as a high carry and firming U.S. import growth offset the negatives of credit quality deterioration.

Growth: The current soft patch will reverse and economic momentum will be in line with EM peers. Exports will recovery as U.S. imports firm, with positive knock-on effects on manufacturing output and employment. This, coupled with still-solid wage growth, should help consumer spending recover.

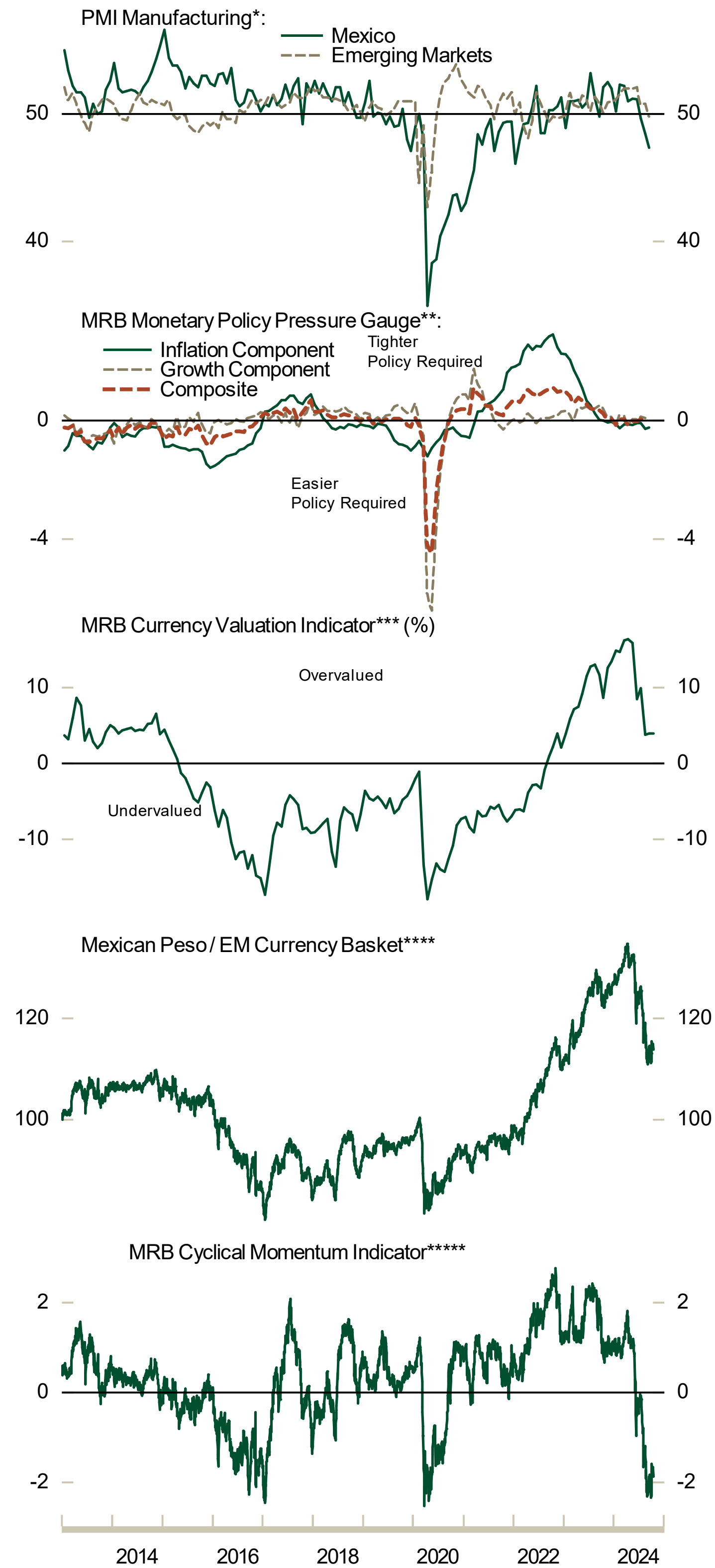
Policy: The recent acceleration in headline CPI is reversing as non-core price pressures ease, and core inflation will stay benign. While some further rate cuts are in the cards, the scope of easing is limited by the prior weakness of the peso, sticky core services inflation (reflecting a tight labor market) and loose fiscal policy. The relative policy impulse is neutral.

Valuation: The currency is modestly overvalued.

Capital Flows: A large basic balance surplus and attractive carry are positive for relative capital flows, although bouts of outflows are possible given the high probability of policy missteps.

Technicals: The peso is still oversold according to the *MRB Cyclical Momentum Indicator*.

Drivers Of Relative Performance



* Source: Markit Economics
** Includes growth and inflation components; standardized
*** Deviation from MRB Fair Value Estimate
**** Equally-weighted aggregate
***** Standardized

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[4] **MRB:** "**EM Elections: Smoke But No Fire, Yet**", June 7, 2024

Philippines: *Neutral*

Philippines Foreign Exchange: Drivers Of Relative Performance*

	–		N		+
Growth	☐	☐	■	☐	☐
Policy	☐	☐	☐	■	☐
Valuation	☐	■	☐	☐	☐
Capital Flows	☐	☐	■	☐	☐
Technicals	☐	☐	■	☐	☐
Net Impact	☐	☐	■	☐	☐

* 6-12 month horizon; versus emerging market currency basket
Note: + = positive, N = neutral, – = negative

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Overall: The peso is trading at levels near our fair value estimate and, with little changes expected in the relative growth/policy backdrop, is likely to move in line with EM peers.

Growth: The trade recovery in Asia and the U.S. will help exports recover. This, coupled with the ongoing recovery in tourism arrivals and spending will help consumption growth firm over the next year. The growth impulse is similar to EM peers.

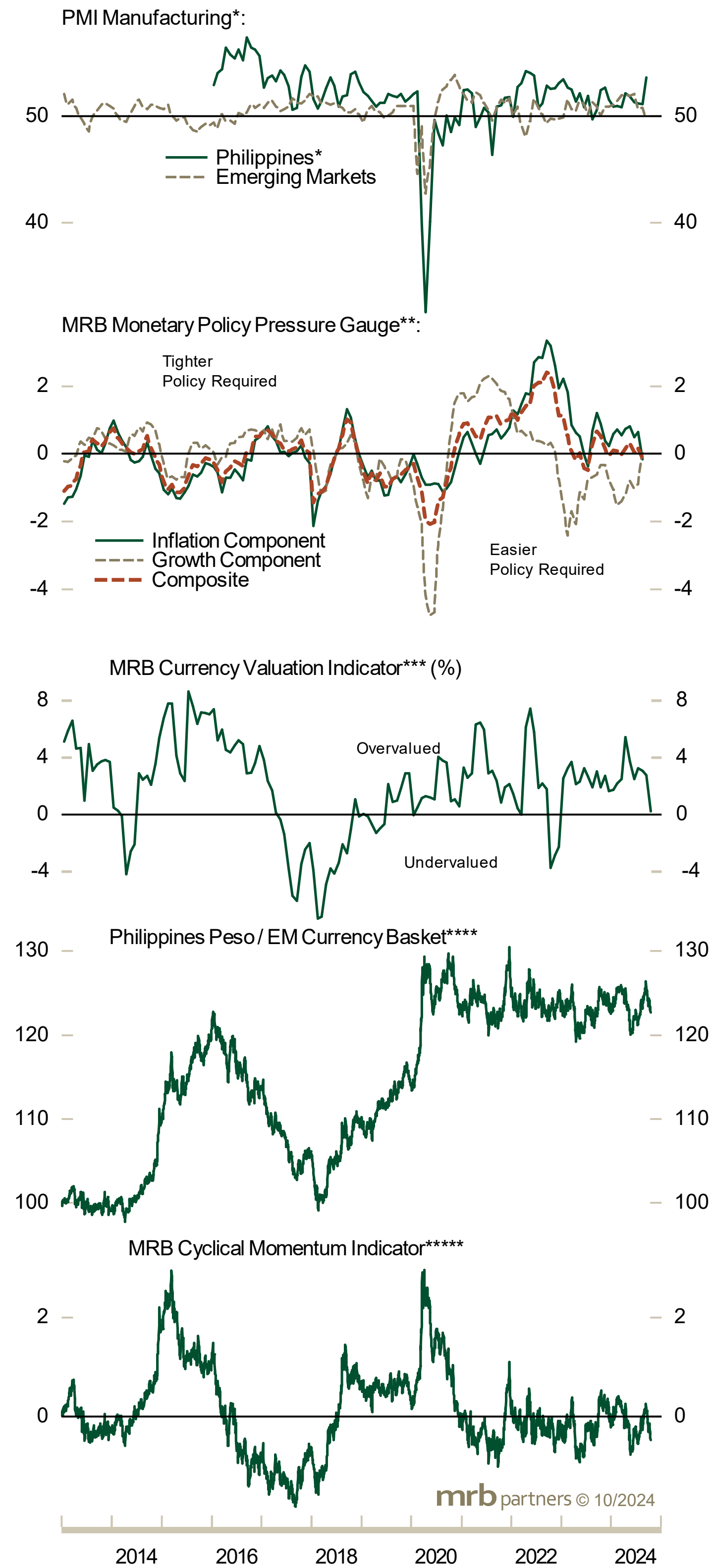
Policy: BSP has already began to cut rates, and more easing is in the cards. However, forward markets are likely overestimating the magnitude of BSP easing, which could benefit the peso if the bank undelivers on such expectations, as we expect.

Valuation: The currency is modestly overvalued, according to the *MRB Currency Valuation Indicator.*

Capital flows: The current account deficit has widened, although this is offset by equity inflows associated with BSP easing.

Technicals: Neutral.

Drivers Of Relative Performance



* Source: Markit Economics
** Includes growth and inflation components; standardized
*** Deviation from MRB Fair Value Estimate
**** Equally-weighted aggregate
***** Standardized

Poland: *Underweight*

Poland Foreign Exchange: Drivers Of Relative Performance*

	–		N		+
Growth		■			
Policy				■	
Valuation	■				
Capital Flows		■			
Technicals		■			
Net Impact		■			

* 6-12 month horizon; versus emerging market currency basket
Note: + = positive, N = neutral, – = negative

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Overall: Poland's weak relative growth profile will weigh on the overvalued zloty as global risk appetite improves and the EM currency basket resumes outperformance.

Growth: Higher inflation, falling employment and declining real wage growth are weighing on consumer spending. Meanwhile, a manufacturing recovery is not in the cards in the absence of a significant pickup in euro area imports. The relative impulse is negative for now.

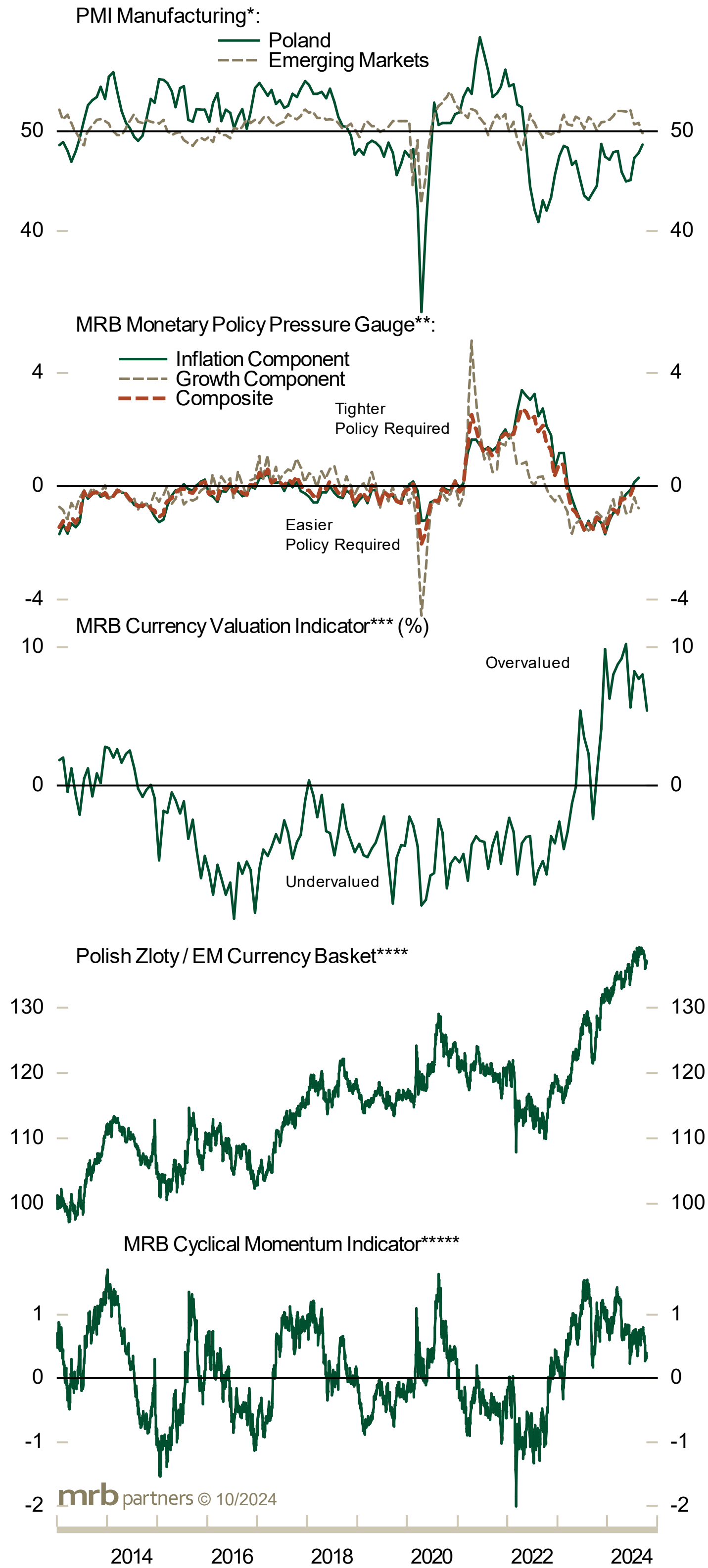
Policy: Public sector wage growth is still high in nominal terms, fiscal policy is loose and headline CPI inflation is accelerating due to an increase in regulated prices. BNP will remain cautious compared to most EMs over the next 6 months, which is positive for the zloty.

Valuation: The currency is extremely overvalued according to the *MRB Currency Valuation Indicator*.

Capital Flows: The zloty's carry is attractive in a regional context, but with more attractive growth/reform stories elsewhere in the EM world, the capital flows backdrop will be a headwind as overall global risk appetite improves anew.

Technicals: The zloty is still overbought and vulnerable to a further pullback in relative performance.

Drivers Of Relative Performance



* Source: Markit Economics
** Includes growth and inflation components; standardized
*** Deviation from MRB Fair Value Estimate
**** Equally-weighted aggregate
***** Standardized

South Africa[5]: *Neutral*

South Africa Foreign Exchange: Drivers Of Relative Performance*

	–		N		+
Growth	□	□	■	□	□
Policy	□	□	□	■	□
Valuation	□	■	□	□	□
Capital Flows	□	□	□	■	□
Technicals	□	■	□	□	□
Net Impact	□	□	■	□	□

* 6-12 month horizon; versus emerging market currency basket
Note: + = positive, N = neutral, – = negative

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Overall: The rand's attractive carry and improving investor confidence and growth momentum are positive. We have a bias to upgrade the rand once overbought conditions unwind.

Growth: Falling inflation will support real wage growth and the improvement in business confidence is positive for the employment outlook. Meanwhile, the PMI is now in expansionary territory, and exports and investment should also firm as global trade improves. Economic activity will continue to incrementally recover but the relative growth impulse is no different than the average EM.

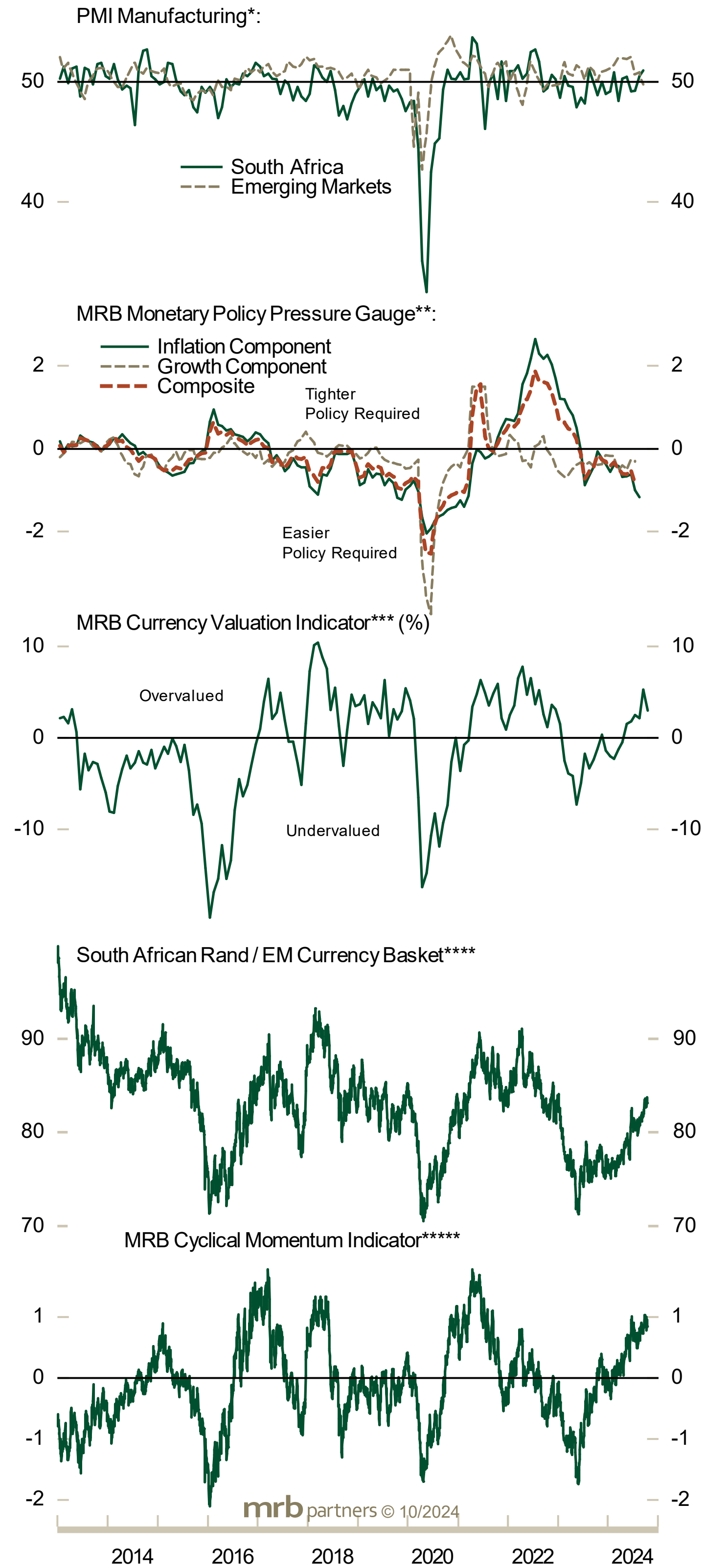
Policy: Inflation expectations will fall further as recent rand strength lowers imported (and core) inflation. More rate cuts are in the cards, but SARB will remain cautious compared to most EM central banks and likely maintain a positive real policy rate. Meanwhile, the improved fiscal results (and outlook) will be positive for credit risk perceptions.

Valuation: The rand is somewhat overvalued, according to the *MRB Currency Valuation Indicator*.

Capital Flows: The currency's high beta to capital flows is a tailwind for relative performance in the context of a relatively dovish Fed and improving global risk appetite.

Technicals: The rand is overbought and vulnerable to a near-term pullback.

Drivers Of Relative Performance



* Source: Markit Economics
** Includes growth and inflation components; standardized
*** Deviation from MRB Fair Value Estimate
**** Equally-weighted aggregate
***** Standardized

[5] **MRB:** "***EM Elections: Smoke But No Fire, Yet***", June 7, 2024

Taiwan: *Overweight*

Taiwan Foreign Exchange: Drivers Of Relative Performance*

	–		N		+
Growth	□	□	□	■	□
Policy	□	□	■	□	□
Valuation	□	□	□	■	□
Capital Flows	□	■	□	□	□
Technicals	□	□	□	■	□
Net Impact	□	□	□	■	□

* 6-12 month horizon; versus emerging market currency basket
Note: + = positive, N = neutral, – = negative

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Overall: Strengthening relative growth will ensure TWD resumes outperformance, although central bank intervention will limit relative upside.

Growth: Taiwan's export-led recovery is gathering steam, and because of the high share of exports-to-GDP, the positive knock-on effects will ensure that domestic demand continues to firm. The relative growth impulse is positive.

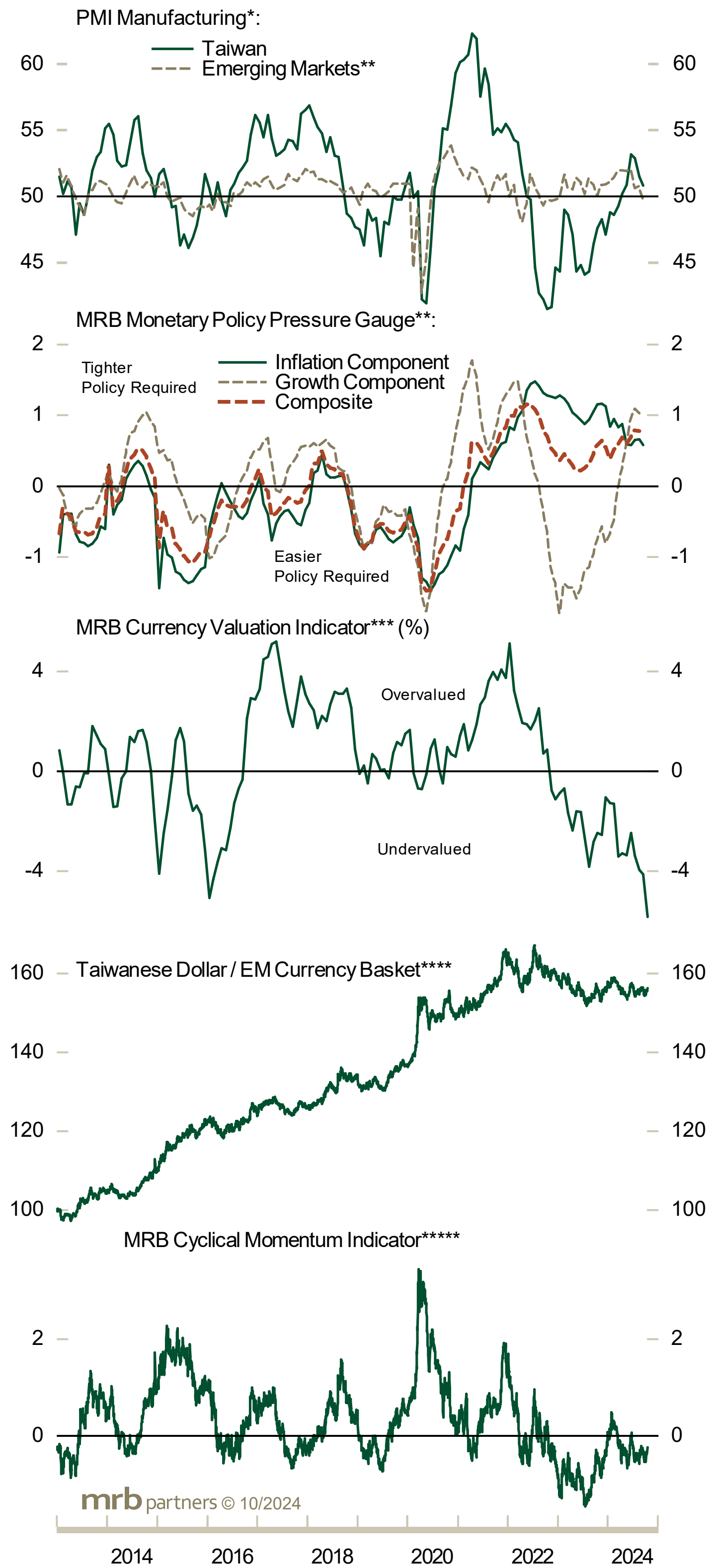
Policy: With growth momentum and domestic demand firming, the central bank is likely to stay on hold even though price pressures remain modest. Ongoing central bank intervention will limit the currency's upside compared to regional peers and the relative policy impulse is neutral.

Valuation: The currency is undervalued according to the *MRB Currency Valuation Indicator.*

Capital Flows: TWD's negative carry versus the U.S. dollar and regional peers is a headwind for relative inflows.

Technicals: The currency is oversold and likely to benefit from a countertrend bounce.

Drivers Of Relative Performance



* Source: Markit Economics
** Includes growth and inflation components; standardized
*** Deviation from MRB Fair Value Estimate
**** Equally-weighted aggregate
***** Standardized

Thailand: *Neutral*

Thailand Foreign Exchange: Drivers Of Relative Performance*

	–		N		+
Growth			■		
Policy				■	
Valuation		■			
Capital Flows		■			
Technicals		■			
Net Impact			■		

* 6-12 month horizon; versus emerging market currency basket
Note: + = positive, N = neutral, – = negative

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Overall: Strengthening growth momentum will offset the headwinds of the baht's overvaluation and negative carry.

Growth: Momentum will pick up as the government loosens fiscal policy, the tourism sector continues to recover and export growth remain solid, although investment growth is unlikely to materially firm as long as economic policy uncertainty remains high. The relative growth outlook is neutral.

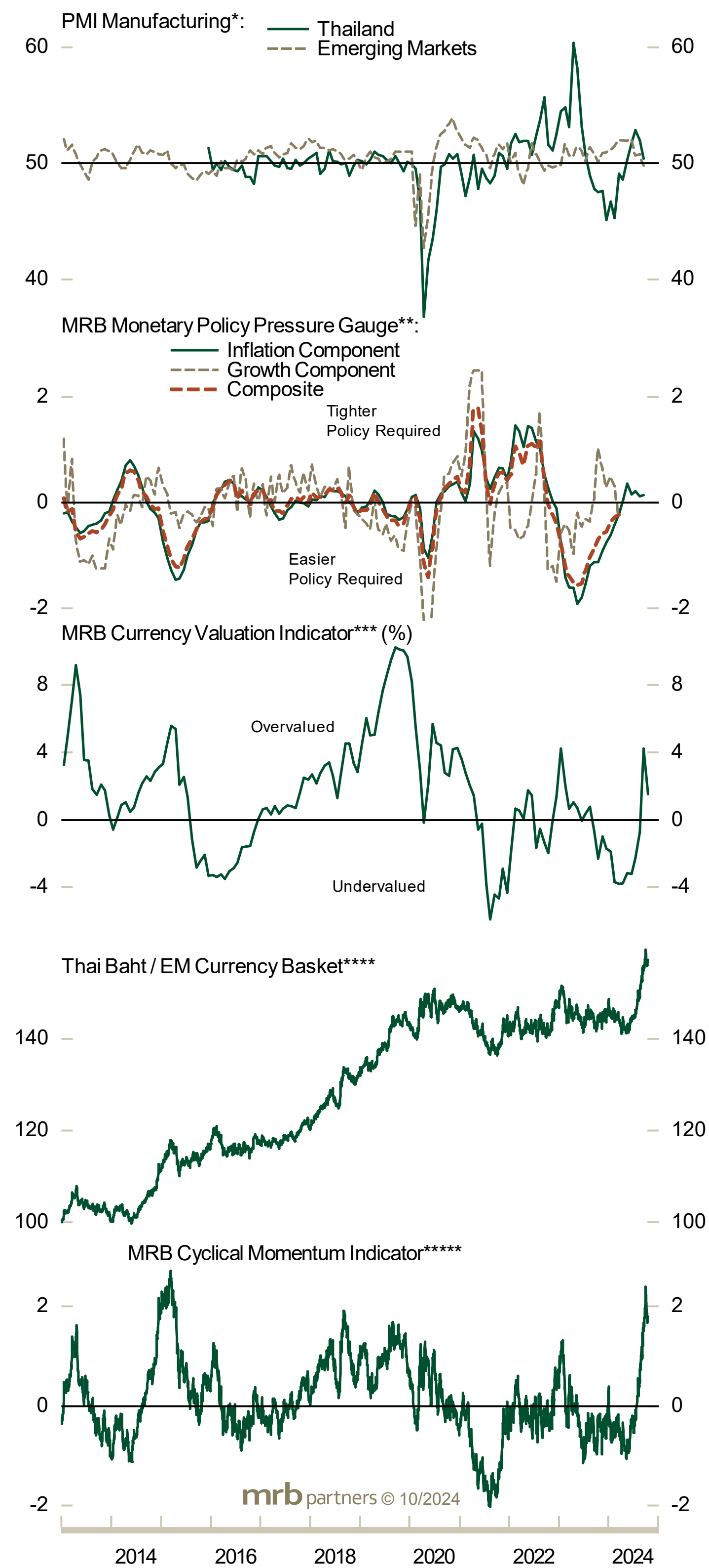
Policy: The Bot cut 25 bps yesterday but further loosening of fiscal policy and strengthening economic growth imply limited room for BoT to cut rates compared to most EM peers. The relative policy impulse is positive.

Valuation: The baht is now overvalued according to the *MRB Currency Valuation Indicator*.

Capital flows: A negative carry will weigh on relative capital flows in the context of improving overall risk appetite and investor sentiment toward EM assets.

Technicals: The baht is relatively overbought.

Drivers Of Relative Performance



* Source: Markit Economics
** Includes growth and inflation components; standardized
*** Deviation from MRB Fair Value Estimate
**** Equally-weighted aggregate
***** Standardized

Turkey: *Overweight*

Turkey Foreign Exchange: Drivers Of Relative Performance*

	–		N		+
Growth		■			
Policy					■
Valuation					■
Capital Flows				■	
Technicals			■		
Net Impact				■	

* 6-12 month horizon; versus emerging market currency basket
Note: + = positive, N = neutral, – = negative

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Overall: The lira's high carry and the government's continued commitment to orthodox policy will continue to more than offset any weakness in spot terms. Stay overweight.

Growth: High borrowing rates and the government's efforts to curb the deficit will remain as headwinds for growth. While these efforts are positive for the long-term growth trajectory, they imply weaker relative growth in the near term.

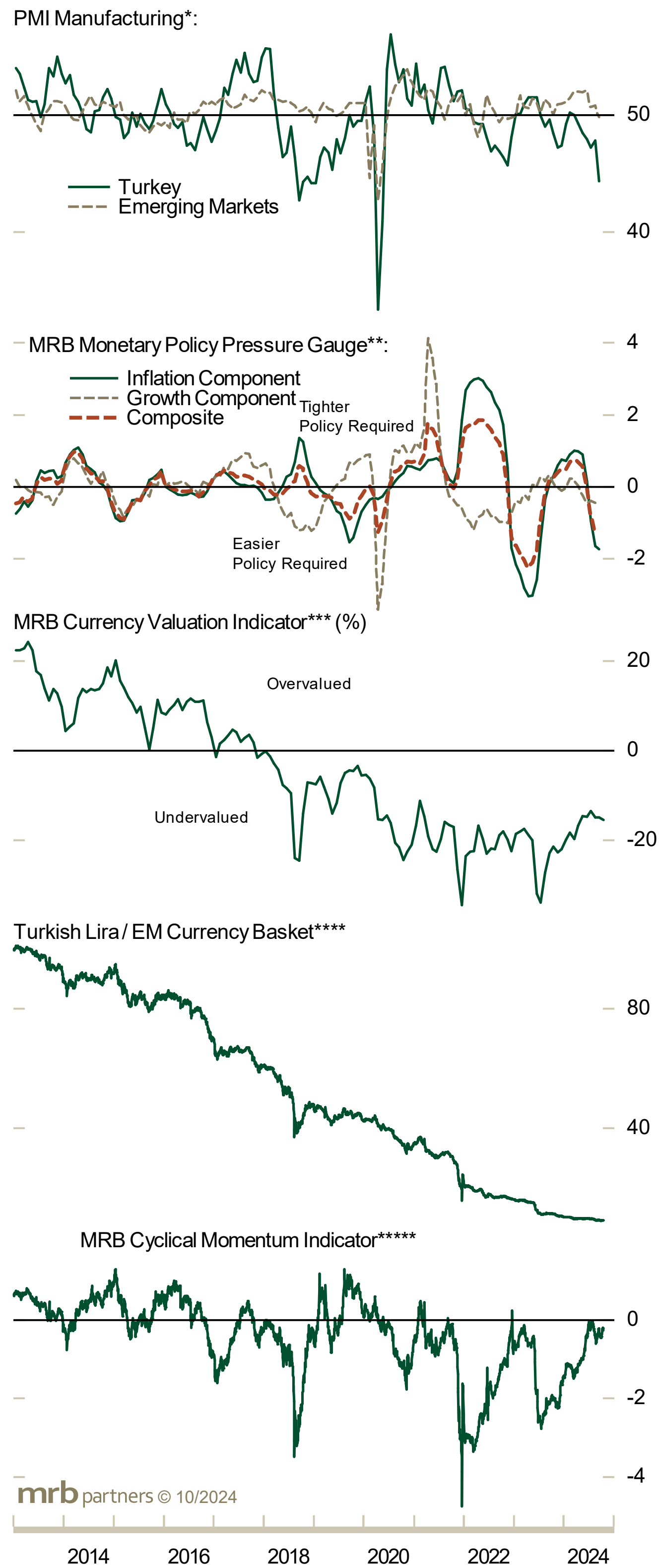
Policy: Inflation is moderating slowly, and the central bank will remain on hold until next year when inflation should be on a sustained downward trajectory. Against this background, rates will remain highly attractive and with policy orthodoxy remaining in place, the overall policy backdrop is lira positive.

Valuation: The currency is deeply undervalued according to the *MRB Currency Valuation Indicator.*

Capital Flows: The attractive carry and high yield on lira assets will continue to drive capital inflows over the next year as the government remains on its current positive policy trajectory.

Technicals: Neutral.

Drivers Of Relative Performance



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***** Standardized

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For more information, please contact:
Client Relations
clientrelations@mrbpartners.com

London
24 Old Bond Street, 3rd Floor,
London, W1S 4AP, United Kingdom
Tel (+)44 (0) 20 3523 9618

Montreal
1275 Ave. des Canadiens-de-Montréal, Suite 500
Montreal, Quebec H3B 0G4, Canada
Tel +1 514 558 1515

New York
1345 Avenue of the Americas, FL 2
New York, NY, 10105, United States
Tel +1 212 390 1148

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