Emerging Markets

Investment Research — General Market Conditions

4 October 2019

Emerging Markets Briefer

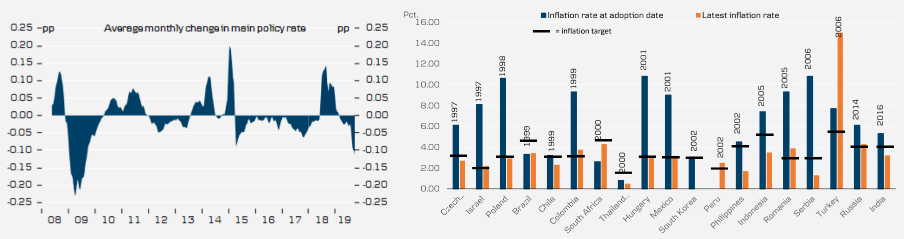
Global recession fears and monetary easing to drive emerging markets

Q3 19 turned out to be a roller coaster for global risk sentiment and emerging markets. After fortified hopes of an earlier trade deal between China and the US in June, US President Donald Trump shattered risk sentiment in August by announcing new tariffs on Chinese goods. China retaliated. Negative sentiment has been fuelled further by geopolitical turmoil in the Middle East after some European nations, Saudi Arabia and the US accused Iran of the heavy drone attacks on Saudi oil production facilities. While we saw some support from the looming oil price shock for commodity producers such as Russia, net oil importers – India and Turkey – came under significant pressure.

Disappointing manufacturing data from the EU and the US, combined with 'not dovish enough' stance by the ECB and Fed, have weighed on emerging markets through fears of looming global recession, fuelled by unresolved trade war issues. German recession concerns are putting pressure on economic growth in the Central and Eastern European economies, which enjoyed solid expansion in H1 19. The recent unleashing of a trade conflict between the EU and US will hurt economic sentiment in Czechia and Hungary, but impact Poland less.

However, the central banks in emerging markets have not just been observers this time. They started to front-run the markets and monetary policy makers in advanced economies by delivering notable cuts across the continents: 14 out of 21 major emerging markets have now cut their policy rates. In addition, China has both cut its reserve requirement for banks and enacted a small policy rate cut in its new monetary policy framework. The only exceptions to this vigilant easing are either EMs under pressure such as Argentina or the Eastern Europeans such as Poland and Hungary, which have prolonged their dovish rhetoric.

EM central banks are easing monetary policy rates at fastest pace since 2008



Source: Macrobond Financial, Danske Bank

We spend a lot of time looking at monetary easing in the advanced economies. However, now, the majority of the global economy belongs to the emerging market world. The Fed's easing in particular will support the emerging markets in 2020. We expect the easing will support domestic demand and help soften the external manufacturing shock in emerging markets but also benefit the global economy more broadly.

Economic growth in emerging markets is set to accelerate in 2020-21 as monetary stimulus gains traction. Given stabilisation in currencies across many emerging markets, accelerated inflation is set to calm down further in 2020, we believe. However, some global yellow lights could still turn red, affecting emerging market growth.

Contents

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Poland: External headwinds for the zloty

Macro and political outlook

- The impact of the global trade war is starting to show on the Polish economy. The PMI manufacturing index fell to 47.8 in September, signalling a slowdown in the manufacturing sector. Unexpectedly, industrial production also fell to a level lower than seen in the same month last year. Meanwhile, the domestic economy is still showing decent growth, with retail sales at around 6%, supported by still-strong wage and employment growth. In addition, the government, which is widely expected to win the upcoming parliamentary elections, has unveiled further expansionary fiscal policies for the next four-year term, targeting a 70% increase in minimum wage income. Given the near-term negative global impact on the Polish economy, we lower our GDP growth projection for 2019 to 4.0% (from 4.3%). On the external political front, on 3 October, the EU court of justice announced its ruling on the legality of the FX loan conversions, which was not as bad for Polish banks as some had feared.

Monetary policy outlook

- Headline inflation has climbed since the beginning of 2019 to 2.9% in August, a six-year high. Both core and food prices are driving the price increases, while energy price inflation has been a drag. Along with the central bank, the NBP, we are forecasting a rise in inflation until Q1 20, after which we expect inflation will fall. Given the weak global environment, the central bank is seeing through the temporary rise in inflation and has kept its policy rate rhetoric unchanged. The market is currently pricing in one rate cut early next year until mid-2021, which is a little less than in mid-August, when global trade anxiety was more prevalent.

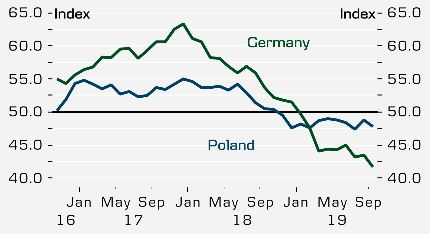
FX outlook

- Recently, the PLN has been affected by concerns about the global economy's impact on Poland and fears of an adverse EU court ruling for Polish banks, and we raised our EUR/PLN forecast. However, as the EU ruling was not as negative for Polish banks as feared and an interim trade deal is likely between China and the US, we are cautiously more optimistic on the PLN despite the slight further downside for the global economic cycle. As a result, we lower our EUR/PLN forecast slightly to 4.36 (previously 4.42) in 1M and 4.38 (previously 4.26) in 3M. In the longer term, we expect a modest global recovery on the back of further stimulus, which should support the zloty, and we see the pair falling to 4.30 in 6M (previously 4.22) and 4.26 in 12M (previously 4.18).

Risk factors

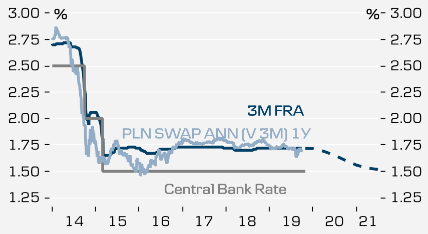
- We see the risks as balanced for our EUR/PLN forecast. The key upside risk for the cross is a breakdown in trade talks between the US and China. Among the downside risks for the FX pair are a substantial trade deal between China and the US and a better-than-expected global macro environment.

PMI manufacturing hovering under the important 50 benchmark



Source: Markit, Macrobond Financial, Danske Bank

The market is expecting a 25bp rate cut over the next two years



Source: Macrobond Financial

PLN

Credit rating:

S&P: A- (stable)

Currency regime:

Free float (freely convertible)

Inflation target:

2.5%±1pp

Macro forecasts

	2018	2019	2020E	2021E	2022E
GDP (% y/y)	5,1	4,0	3,7	2,8	3,1
GDP deflator (% y/y)	1,1	2,1	1,6	1,4	1,5
CPI (% y/y)	2,0	1,7	1,8	2,5	2,4
Private consumption (% y/y)	4,4	3,6	3,6	3,1	2,9
Fixed investments (% y/y)	9,2	9,3	4,5	3,1	2,9
Unemployment (%)	5,8	5,2	5,4	5,5	6,0
Current account (% of GDP)	-0,3	-0,5	-0,9	-1,1	-1,1

Source: Macrobond Financial, Danske Bank

Interest rate forecast

National Bank of Poland (NBP)		
Policy rate	1.50	
Next meeting	06/11/2019	
Next change	+25bp	Q3, 2020
End-2019	1.50	

Source: Bloomberg, Danske Bank

FX forecasts

EUR/PLN		
	Danske	Forward
02-Oct	4.36	
+3M	4.38	4.37
+6M	4.30	4.39
+12M	4.26	4.44
USD/PLN		
	Danske	Forward
02-Oct	3.98	
+3M	3.98	3.96
+6M	3.81	3.95
+12M	3.70	3.95

Source: Danske Bank

Hungary: Trade war and German recession to weigh on the economy

Macro outlook

- Economic growth remains strong, while the slowdown has already started. Q2 19 GDP expansion was 4.9% y/y versus a stellar 5.3% expansion a quarter earlier. Manufacturing PMI remains firmly above 50.0, despite falling figures across the large European economies. Industrial production growth remained solid through Q3 19. However, a German recession and the recent US tariffs against European goods would negatively influence Hungarian exports, weighing on the currency and economic growth. The current stance on monetary policy remains beneficial for further economic expansion in 2019 and 2020, albeit on a lower path.
- The country continues to enjoy strong private consumption. However, consumer confidence has remained shaky since summer 2018, which signals a moderate slowdown in private consumption in 2019.
- Hungary's standoff with the EU institutions has hit the wires recently over the formation of the new EU Commission. Hungarian Prime Minister Viktor Orbán's candidate for the EU Commission seat, Hungary's former justice minister, was blocked by the EU Parliament because of conflicts of interest and his anti-immigration stance.

Monetary policy outlook

- The Hungarian central bank (MNB) has kept its policy rate unchanged at an all-time low since spring 2016. As global, European and local economic uncertainties have risen and inflation has started to decelerate, the central bank, the MNB has abandoned its previous hawkish tonality. We expect the MNB to remain dovish over the next 12 months as the ECB and Fed are likely to ease their monetary policies further and Hungary's economy would slow down.

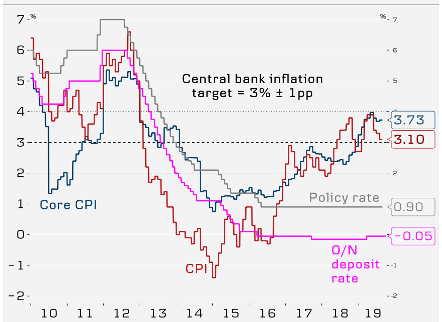
FX outlook

- The EUR's weakness on a soft ECB is set to weigh on the HUF. We remain bearish on the Hungarian currency in the short and mid term, given the looming escalation of the EU-US trade war. We see EUR/HUF at 335 in 3M, 340 in 6M and 330.0 in 12M.

Risk factors

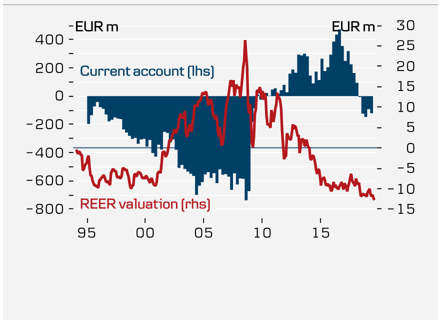
- Clear upside risks to our EUR/HUF forecast would be a trade war unleashed between EU-US, a significant slowdown in the German economy and a more dovish ECB.

Monetary policy likely to stay dovish over the next 12 months



Source: MNB, Macrobond Financial, Danske Bank

Current account deficit is already weighing on the HUF



Source: Macrobond Financial, Danske Bank

HUF

Credit rating:

S&P: 'BBB' (stable)

Currency regime:

Free float (freely convertible)

Inflation target:

3%±1pp

Macro forecasts

	2018	2019E	2020E	2021E
Real GDP (% y/y)	4.9	4.5	2.6	2.5
CPI (% average)	2.9	3.3	3.2	3.0
Unemployment (%)	3.6	3.5	3.6	3.5
Current account (% of	0.5	0.1	0.0	0.2

Source: Bloomberg, Danske Bank

Interest rate forecast

Hungarian Central Bank (MNB)	
Policy rate	0.90
Next meeting	22/10/2019
Next change	No change over 12 months
End-2019	0.90

Source: Bloomberg, Danske Bank

FX forecasts

EUR/HUF		
	Danske	Forward
02-Oct	333.8	
+3M	335.0	332.9
+6M	340.0	333.2
+12M	330.0	334.1
USD/HUF		
	Danske	Forward
02-Oct	304.91	
+3M	304.55	301.62
+6M	300.88	300.19
+12M	286.96	297.72

Source: Danske Bank

Czech Republic – Soft patch rather than recession

Macro and political outlook

- Despite increasing recession fears in the global markets and slowing growth dynamics elsewhere in Europe, the Czech Q2 GDP growth remained at a healthy 0.7% q/q. Net exports have started to drag on growth, in line with the more adverse global trade environment, but strong domestic demand is keeping up the economic momentum. High real wage growth (4.3% in Q2 19) and labour shortages continue to drive investments in automation. Although we expect a further slowdown in growth in Q3 due to negative spill-overs from Germany, most leading indicators such as the PMI and consumer confidence still point to a continued solid performance of the economy; hence, we still see annual GDP reaching 2.6% this year and 2.7% next year. Fiscal policy also remains expansionary, but in light of strong tax revenues, the risk to public finances is low.

Monetary policy outlook

- The central bank, CNB, last raised policy rates at the May meeting to 2.0%. Since then, risks from the external environment have intensified, while inflation remains at the upper end of the tolerance band (2.9% in August). The koruna has continued to depreciate against the EUR, putting the CNB in a tough position. We believe inflation will remain elevated for the remainder of the year. Still, we expect the CNB to be more cautious about further monetary tightening through the interest rate channel with ample risks from the global stage (Brexit, trade war, car tariffs). With a wait-and-see approach prevailing at the CNB, we do not see further rate increases over the next 12M.

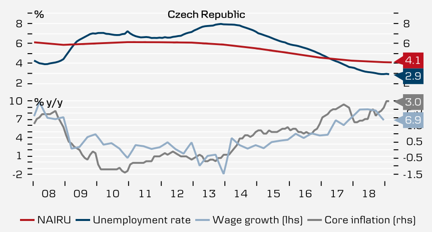
FX outlook

- We expect several factors to keep EUR/CZK broadly stable over the coming half year. A more dovish Fed that opens the door for cuts should improve investors' appetite for EM assets and monetary policy divergence between the CNB and ECB will help underpin the CZK. However, a further deterioration in the external environment and the relative overbought state of the currency (as a legacy of the 'floor' policy from 2013-17) pull in the other direction. As the economy picks up some speed in 2020 and the CNB possibly mulls another rate hike, we see scope for further gradual CZK appreciation on a 12M horizon. Overall, we expect a slightly flatter EUR/CZK profile at 25.7 in 1-3M, 25.6 in 6M and 25.4 in 12M.

Risk factors

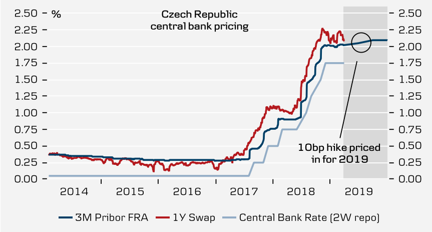
- Risks to the economic outlook remain tilted to the downside, notably from a further escalation in the US-China trade war and the lingering threat of US tariffs (Czech manufacturers are integral to Europe's car industry). In such a scenario we could easily see EUR/CZK breaking back above the 26.0 level.

Core inflation pressures remain elevated due to tight labour market



Source: Macrobond Financial, Danske Bank

Market is too complacent about CNB hikes in 2019



Source: Bloomberg , Macrobond Financial, Danske Bank

CZK

Credit rating:

S&P: 'AA-' (stable)

Currency regime:

Managed float

Inflation target:

2% +/-1pp

Macro forecasts

	2018	2019E	2020E	2021E
GDP (% y/y)	2.9	2.6	2.7	2.8
CPI (% y/y)	2.5	2.1	2.2	2.0
Private consumption (% y/y)	3.3	3.0	2.7	2.9
Fixed investments (% y/y)	7.1	3.9	4.3	3.1
Unemployment (%)	3.2	2.9	3.0	3.0
Current account (% of GDP)	0.3	0.3	0.3	0.5

Source: Macrobond Financial, Danske Bank

Interest rate forecast

Czech National Bank (CNB)	
Policy rate	2.00
Next meeting	07/11/2019
Next change	+25bp Q4, 2020
End-2019	2.00

Source: Danske Bank

FX forecasts

EUR/CZK		
	Danske	Forward
02-Oct	25.78	
+3M	25.70	25.83
+6M	25.60	25.98
+12M	25.40	26.25
USD/CZK		
	Danske	Forward
02-Oct	23.55	
+3M	23.36	23.41
+6M	22.65	23.41
+12M	22.09	23.39

Source: Danske Bank

Russia: Macro factors become stronger over negligible growth

Macro outlook

- Russian economic growth accelerated to 0.9% y/y in Q2 19 versus 0.5% expansion a quarter earlier. Major growth drivers were mining and quarrying, transport, storage and financial services. Wholesale and retail trade shrank in line with decelerating household activity. We expect 2019 GDP to expand 1.2% y/y, albeit seeing some downside risk to our forecast. We expect some acceleration to 1.7% in 2020 and to 2.4% in 2021 due to notable monetary easing and initiation of several investment projects by the state.
- Private consumption has continued to slow down on high real rates and deceleration in consumer loans growth. We expect a slight acceleration in late 2019 due to falling rates and the RUB's stabilisation, if global sentiment avoids further trade war escalation and global recession fears.
- Russia continues to enjoy 'sanctions oblivion' by the US. That allowed steady flows from portfolio investors to Russian assets and the RUB. The current account and federal budget enjoy a significant surplus, while FX and gold reserves have climbed to USD531bn, their pre-sanctions levels.

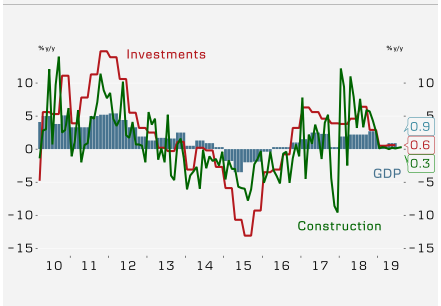
FX and monetary policy outlook

- Russia's central bank (CBR) delivered a 25bp cut in September, communicating its own intentions well in advance. Currently, inflation is tracking slightly above the 4% target, but continues to decelerate. We expect the central bank to cut the key rate by 25bp at least one more time late 2019, and we see some chance of a second cut in Q4 19.
- The RUB continues to follow global risk sentiment, reacting vaguely to supportive oil price news. The ECB's and Fed's moves and global recession fears remain the major drivers for the RUB. Progress in Russo-Ukrainian talks would be positive for the RUB.

Risk factors

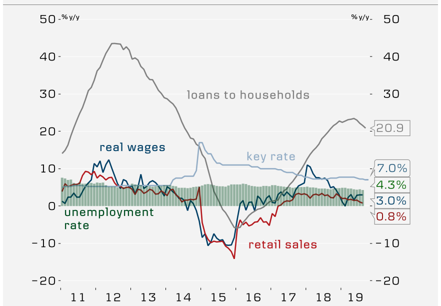
- Further geopolitical escalation, such as a worsening standoff with Ukraine, is a serious short- to medium-term risk for the RUB, Russian stocks and government debt. Upside risks come from an increasing oil price and a more dovish than expected central bank.

Economic growth components stay in green despite global slowdown



Source: Macrobond Financial, Danske Bank

Private consumption has bottomed out in Q3 19



Source: Macrobond Financial, Danske Bank

RUB

Credit rating:
S&P: 'BBB-' (stable)

Currency regime:
Free float

Inflation target:
4.0%

Macro forecasts

	2018	2019E	2020E	2021E
Real GDP (% y/y)	2.3	1.2	1.7	2.4
Private consumption, real (% y/y)	2.3	2.0	3.0	3.6
Fixed investments, real (% y/y)	0.6	2.4	3.8	8.2
Brent oil price (USD, average, futures)	72.4	59.4	57.2	56.0
Brent oil price (% y/y)	72.4	-18.0	-3.7	-2.1
Exports in USD (12M average % y/y)	25.3	18.0	20.0	15.0
Imports in USD (12M average % y/y)	4.4	2.0	3.2	5.0
MosPrime 3 months rate (% average)	7.75	7.90	7.30	7.10
CPI (% y/y)	2.9	4.5	3.8	3.5
Unemployment (%)	4.8	4.9	5.0	4.9
Budget balance (% of GDP)	2.6	1.9	1.0	1.5
Current account (% of GDP)	7.0	5.2	4.0	3.7

Source: CBR, Rosstat, Bloomberg, Macrobond Financial, Danske Bank estimates

Interest rate forecast

Bank of Russia (CBR)		
Policy rate	7.00	
Next meeting	25/10/2019	
Next change	-25bp	Q4, 2019
End-2019	6.75	

Source: Bloomberg, Danske Bank

FX forecasts

EUR/RUB		
	Danske	Forward
02-Oct	71.39	
+3M	72.05	72.85
+6M	75.15	74.10
+12M	78.20	76.64

USD/RUB		
	Danske	Forward
02-Oct	65.21	
+3M	65.50	66.01
+6M	66.50	66.76
+12M	68.00	68.30

Turkey: Economic deceleration is bottoming out

Macro outlook

- The Turkish economy has continued to shrink, posting a 1.5% y/y contraction in Q2 19 versus a 2.4% fall (revised) a quarter earlier. However, on a quarterly basis, seasonally adjusted Q2 19 GDP delivered growth prints. There is a clear recovery underway in consumer and business confidence as the TRY has stabilised, inflation continues to decelerate and the central bank has started significant monetary easing. The manufacturing PMI for September recovered to 50.0, the highest level since early 2018.
- In the near term, we expect more support will come from advancing monetary easing and exports on a weak TRY. We expect 2019 GDP to contract 1.6% y/y and expand 1.7% y/y in 2020 and 2.6% y/y in 2021.
- The weak TRY continues to fuel sharp tourism expansion, which is set to keep services up through 2019. Foreign arrivals continued to expand since 2017 and this growth has continued in double-digit territory for several months.

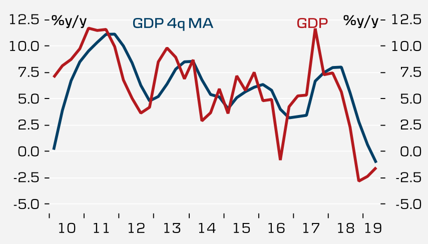
FX and monetary policy outlook

- Turkey's central bank (TCMB) continued its sharp cuts in Q3 19, lowering the key rate by 325bp to 16.50% as inflation continued to fall. There has been a clear shift in the TCMB's stance after a change in governor earlier in 2019. We expect inflation will continue to decrease slowly, staying in double-digit territory through H2 19. However, we expect more cuts by the TCMB in Q4 19, as there is still room for a positive real rate and the Turkish economy badly needs monetary stimulus on global monetary easing.
- The TRY has stabilised on continuing global monetary easing, while quick monetary easing by the TCMB has, not surprisingly, hit the TRY. Decelerating inflation and a dovish central bank fuel our expectations of economic stabilisation and growth in 2020.

Risk factors

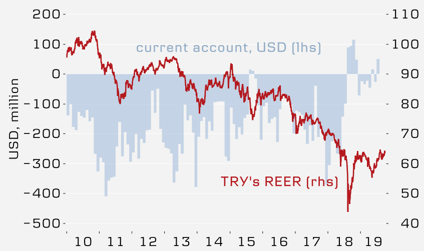
- Major downside risks to our TRY forecasts include a hawkish Fed, renewed political pressure on the TCMB, further escalation of the trade war and geopolitical confrontation with the US on Russia's air defence system. A possible oil price spike on geopolitics we expect would weigh on the TRY further.

Turkey's GDP slide to reach the bottom in 2019



Source: Macrobond Financial, Danske Bank

Current account surplus has not become a trend, yet



Source: Macrobond Financial, Danske Bank

TRY

Credit rating:
S&P: 'B+' (stable)

Currency regime:
Free float

Inflation target:
5.0% year-end 2019-20

Macro forecasts

	2018	2019E	2020E	2021E
Real GDP (% y/y)	3.2	-1.6	1.7	2.6
Private consumption, real (% y/y)	1.7	-3.0	1.6	3.0
Fixed investments, real (% y/y)	0.0	-7.0	2.0	2.9
CPI (% average)	16.2	15.0	11.0	9.0
Unemployment (%)	11.0	13.0	12.9	11.1
Current account (% of GDP)	-4.0	-3.1	-3.0	-2.8

Source: Bloomberg, Danske Bank

Interest rate forecasts

C.B. of the Republic of Turkey (TCMB)	
Policy rate	16.50
Next meeting	24/10/2019
Next change	-100bp H1 2019
End-2019	14.50

Source: Bloomberg, Danske Bank

FX forecasts

EUR/TRY		
	Danske	Forward
02-Oct	6.24	
+3M	6.49	6.49
+6M	6.89	6.70
+12M	7.13	7.14

USD/TRY		
	Danske	Forward
02-Oct	5.70	
+3M	5.90	5.88
+6M	6.10	6.03
+12M	6.20	6.36

Source: Macrobond Financial, Danske Bank

South Africa: Growth worries haunt ZAR

Macro outlook

- The South African economy continues to muddle along, experiencing very modest economic growth. After a dismal Q1 triggered partly by power cuts, the economy rebounded more strongly than expected in Q2, growing 0.9% q/q. The start to Q3 was mixed. After a surprising spike in July, PMI manufacturing fell back to 45.7, which points to contraction in the manufacturing sector. Retail sales are growing at a relatively subdued pace (2% y/y in July), supported by fairly strong consumer confidence. In addition, important export markets such as China and the euro area are growing only slowly. We think growth will be relatively subdued in 2019 and we lower our growth forecasts for South Africa from 0.7% to 0.6% for 2019 and from 1.9% to 1.7% for 2020.

Monetary policy outlook

- Amid a slowing South African economy, weak global inflation pressure and tight monetary policy, inflation pressures remain muted in South Africa. Headline and core inflation rates were 4.3% in August, below the mid-range of the central bank, the South African Reserve Bank's (SARB), inflation band. At its September meeting, the SARB held its repurchase rate steady at 6.50%. With the continued below-potential economic growth, rate cuts from the US Federal Reserve and muted inflation pressures, we think the SARB will lower its policy rate at its 21 November meeting.

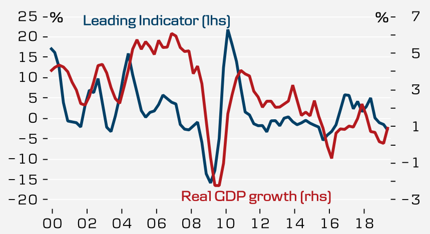
FX outlook

- The weak global and domestic economic performances have hurt the ZAR, which has increased to above 15 against the USD, slightly above our forecast of 14.8. Over the next few months, we expect the Fed to make further cuts and Chinese PMI to stabilise. However, we think the ZAR will see weak developments due to continued global economic malaise over the next few months. A possible interim trade deal between the China and US may provide the ZAR with some temporary relief but we do not think it will last. As a result, our USD/ZAR forecasts are 15.00 in 3M, 14.80 in 6M and 14.5 in 12M as trade concerns ease and the USD weakens.

Risks

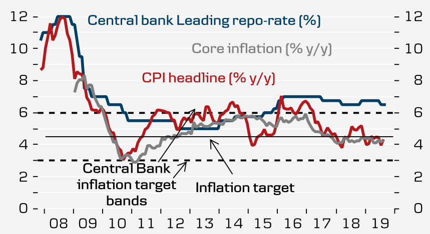
- The risk to our USD/ZAR forecasts is skewed to the upside in the event of an escalation of trade tensions between the US and China.

The leading indicator points to modest growth



Source: Macrobond Financial, Danske Bank

A decline in inflation is set to allow SARB to lower the policy rate



Source: Macrobond Financial, Danske Bank

ZAR

Credit rating:

S&P: BB (stable)

Currency regime:

Free float (freely convertible)

Inflation target:

3-6%

Macro forecasts

	2018	2019	2020E	2021E	2022E
GDP (% y/y)	0,8	0,6	1,7	2,0	2,3
GDP deflator (% y/y)	3,9	3,8	4,7	4,8	4,8
CPI (% y/y)	5,2	4,5	4,5	4,5	4,5
Private consumption (% y/y)	1,8	1,5	1,8	1,7	2,1
Fixed investments (% y/y)	-1,4	-1,3	1,4	1,6	2,1
Unemployment (%)	27,1	27,9	28,7	28,9	29,0
Current account (% of GDP)	-2,4	-3,4	-3,6	-4,0	-3,5

Source: Bloomberg, Danske Bank

Interest rate forecast

South African Reserve Bank (SARB)		
Policy rate	6.50	
Next meeting	21/11/2019	
Next change	-25bp	Q4, 2019
End-2019	6.75	

Source: Bloomberg, Danske Bank

FX forecasts

EUR/ZAR		
	Danske	Forward
02-Oct	16.71	
+3M	16.50	16.94
+6M	16.72	17.23
+12M	16.68	17.86

USD/ZAR		
	Danske	Forward
02-Oct	15.26	
+3M	15.00	15.35
+6M	14.80	15.53
+12M	14.50	15.91

Source: Danske Bank

Brazil: Trimmed reform plan advances amid monetary easing cycle

Macro outlook

- Brazil's economic growth accelerated to 1.0% y/y in Q2 19 versus a 0.5% y/y expansion in Q1 19. There has been a clear improvement in economic sentiment as manufacturing and services PMI prints have climbed over 50.0 and retail sales continue to expand.
- Industrial production growth is still lagging behind, but sharp monetary easing is likely to restart positive growth in industries. We continue to expect just a moderate expansion in Brazil's GDP in 2019, forecasting 1.0% y/y growth, as we expect a major monetary easing effect will be seen in 2020-21, while international trade uncertainties remain in place. We are more optimistic about growth in 2020 and 2021, expecting a 2.0% y/y and 2.3% y/y expansion accordingly.
- Brazil's long-awaited pension reform bill has advanced further within the legislative system, although its stance of rigid austerity has been softened somewhat. The markets took that trimming negatively, as there it is limits the room for fiscal improvements.
- Senators approved legislation that will reduce the reform's estimated savings by BRL70bn to some BRL800bn over the next 10 years.

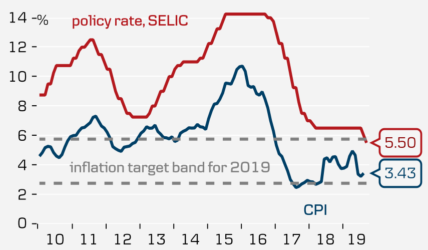
Monetary policy outlook

- Brazil's central bank (BCB) has started a steep monetary easing cycle, front-running the markets, as inflation has continued to decelerate and local economic growth remains moderate, while the ECB and Fed have stayed committed to dovish policies. The Selic rate was cut to an all-time low of 5.50%, as a total 100bp cut was delivered at the last two central bank monetary policy meetings. We expect two more cuts by end-2019, pushing the rate down by 75bp more to 4.75%.

FX outlook

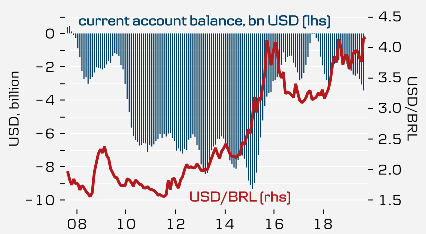
- As trade war uncertainty prevails, the pension reform bill has been trimmed, disappointing the markets and the central bank delivered sharp cuts, the BRL has been under pressure since late summer 2019. Global recession fears fuelling risk-off would keep the USD/BRL above 4.00 in the short and mid term, we estimate.
- Although the pension reform bill is advancing and the outlook for private consumer and fixed investments is improving on sharp rate cuts, we expect the ECB and the Fed to keep their dovish stance. Thus, we see potential for the BRL on a 12-month horizon, when we expect the China-US trade deal be in force ahead of the US presidential elections.

All-time low rate opens door to economic recovery



Source: BCB, Macrobond Financial, Danske Bank

Current account deficit widens on uncertainties in international trade



Source: Macrobond Financial, Danske Bank

BRL

Credit rating:

S&P: BB- (stable)

Currency regime:

Free float (non-convertible)

Inflation target:

4.25% ±1.5pp in 2019

4.0% ±1.5pp in 2020

3.75% ±1.5pp in 2021

Macro forecasts

	2018	2019E	2020E	2021E
Real GDP (% y/y)	1.1	1.0	2.0	2.3
Private consumption, real (% y/y)	1.9	1.0	2.7	2.9
Fixed investments, real (% y/y)	2.5	2.3	3.0	4.0
CPI (% average)	3.7	3.8	3.6	3.5
Unemployment (%)	12.3	11.9	11.0	10.8
Current account (% of GDP)	-0.8	-1.1	-1.3	-1.0

Source: Bloomberg, Danske Bank

Interest rate forecast

Central Bank of Brazil (BCB)		
Policy rate	5.50	
Next meeting	30/10/2019	
Next change	-50 bp	H3 19
End-2019	4.75%	

Source: Bloomberg, Danske Bank

FX forecasts

EUR/BRL		
	Danske	Forward
02-Oct	4.55	
+3M	4.57	4.58
+6M	4.58	4.63
+12M	4.37	4.74
USD/BRL		
	Danske	Forward
02-Oct	4.16	
+3M	4.15	4.15
+6M	4.05	4.17
+12M	3.80	4.22

Source: Danske Bank

China: Weak growth but no hard landing

Macro outlook

- **The Chinese economy remains under pressure from the US-China trade war.** Exports, private investments and private spending on durable goods in particular have cooled down, while economic stimulus has lifted infrastructure spending. Construction activity is robust as home sales are decent and a low inventory of homes for sale is keeping construction companies busy.
- **The outlook is still dominated by uncertainty, as there has been no resolution of the trade war**. US President Trump chose to add more pressure on China over the summer by increasing tariffs further. Tariffs are scheduled to be increased further in mid-October and mid-December. However, there might be scope for an interim deal with China that could postpone the planned tariff increases. It is a close call whether a trade deal will be made ahead of the US elections in November 2020. Our baseline scenario is for no deal but Trump may choose to reach a compromise as the elections move closer. **Fiscal and monetary policy has been eased over the past year** and we look for further easing from both channels over the coming quarters. China has said that it wants to keep growth from falling below the 6-6½% growth range.
- **In the World Bank Doing Business 2019 Survey, China jumped 30 places** up the list to 46 out of 190 countries. China was #3 on the list of biggest improvers. China is taking steps to reform and nurture private entrepreneurship. In March, China passed the Foreign Investment Law, which improves intellectual property protection, bans forced technology transfer and stipulates that foreign and domestic companies are treated equally. State Owned Enterprises will continue to play a big role in certain sectors (such as resource extraction, banks, infrastructure and big item consumer goods). China puts a very high focus on technology investments and education and supports these areas in many ways.

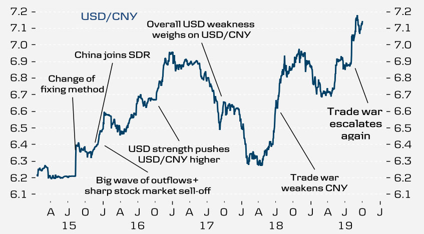
Monetary policy outlook

- The People's Bank of China (PBoC) has **eased policy over the past year and we look for more easing in Q4 to support growth.** The PBoC has used targeted lending measures towards the private sector and we look for more of this in the coming quarters on top of a further cut in the Reserve Requirement Ratio.

FX outlook

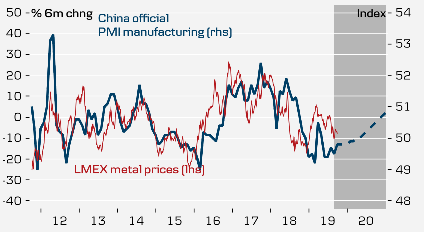
- **We expect the USD/CNY to stay close to 7.20 over the next years** as the road to a trade deal will be difficult and downward pressure on growth is set to persist for some time. However, rate cuts by the Federal Reserve would temper CNY weakness. On a 12M horizon, we expect USD/CNY to move lower again on the back of a moderate Chinese recovery as uncertainty fades gradually.

The tide has turned for USD/CNY



Source: Macrobond Financial, Bloomberg, Danske Bank

Activity to improve slightly in 2020



Source: Macrobond Financial, PBoC, Markit, Danske Bank

CNY

Credit rating:

S&P: A+ (stable)

Currency regime:

Managed exchange rate versus basket of currencies

Inflation target:

3.0% for 2019

Macro forecasts

	GDP		Inflation	
	Danske	Consensus	Danske	Consensus
2018	6,6	6,6	2,1	2,1
2019	6,2	6,2	2,4	2,4
2020	6,0	6,0	2,2	2,3
2021	6,1	5,8	2,2	2,2

Source: Bloomberg, Danske Bank

Interest rate forecast

People's Bank of China (PBOC)		
Policy rate	4.35	
Next meeting	No regular meetings	
Next change	-	Unchanged 2019
End-2019	4.35	

Source: Bloomberg, Danske Bank

FX forecasts

EUR/CNY		
	Danske	Forward
02-Oct	7.82	
+3M	7.81	7.96
+6M	8.14	8.03
+12M	8.28	8.16
USD/CNY		
	Danske	Forward
02-Oct	7.15	
+3M	7.10	7.21
+6M	7.20	7.24
+12M	7.20	7.27

Source: Bloomberg, Danske Bank

India: More stimulus as growth weakens

Macro outlook

- **India's GDP growth has disappointed significantly this year.** Economic growth fell for the fifth quarter in a row in Q2 to 5.0% from 5.8% in Q1. It is the weakest performance since 2013. The slowdown is broad based with private consumption, corporate investments and exports all growing more slowly. The auto sector is in the worst crisis in 20 years as consumers hold back on spending. **Weaker global growth and uncertainty from the US-China trade war** have caused headwinds for the economy. This month, India's government cut corporate taxes by around 0.7% of GDP to lift growth. The tax rate for existing firms was cut to 22% from 30% earlier. For new companies, the tax rate was cut to 15% from 25%.

- **The corporate tax cut will make India more attractive for foreign companies** and thus underpins some of the supply chain changes from China to India due to the trade war. However, this will be mainly for labour-intensive goods, as India is not as competitive as China when it comes to the logistics and manufacturing ecosystem.

- **Prime Minister Narendra Modi got a strong mandate to rule for another five years** this year, when Indian voters gave the Nationalist party BJP a bigger majority in parliament. **India has moved forward on reform** under the leadership of Modi and in its article IV Consultation report in August last year, the IMF stated that "Stability-oriented macroeconomic policies and progress on structural reforms continue to bear fruit". The IMF commended India "for the important and wide-ranging reforms".

- **The current account balance has deteriorated over the past two years** to -2½% of GDP from around -1% in 2015-16. The government expects the fiscal balance to remain unchanged at -3.4% of GDP, but this is based on fairly optimistic assumptions for tax revenue and accounting measures that postpone some expenses. The deficit will probably be closer to 4% following the latest stimulus.

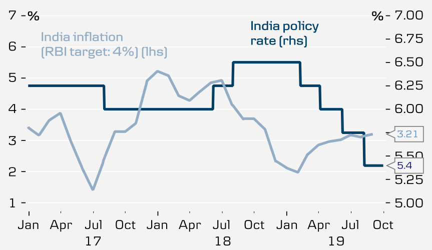
Monetary policy outlook

- **The Reserve Bank of India (RBI) cut rates by 25bp on 4 October to 5.15%** on the back of growth disappointments and inflation running below target (see chart below). We look for another cut in December of 25bp to 4.90 to underpin growth further.

FX outlook

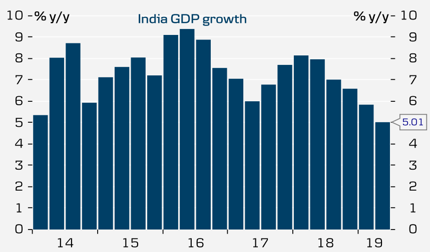
- **The USD/INR has been** in a range of 68.4-72 this year. The USD/INR is kept in check by opposing forces: Softer growth and rate cuts in India are a drag on the INR, while rate cuts by the Federal Reserve work the other way. The rise in oil prices lately is a headwind for the INR and a risk going forward. We expect more rate cuts to keep depreciation pressure on the INR and look for USD/INR to move to 74 in 12M.

Falling inflation to pave the way for more monetary easing



Source: Macrobond Financial, Danske Bank

GDP growth hovering around 7-8%



Source: Macrobond Financial, Danske Bank

INR

Credit rating:

S&P: BBB- (stable)

Currency regime:

Free float

Inflation target:

4% with +/-2% range

Macro forecasts

	GDP		Inflation	
	Danske Bank	IMF	Danske Bank	IMF
2018	7.3	7.3	4.7	4.7
2019	6,0	7.0	2.6	3.9
2020	6,8	7.2	3.9	4.2
2021	7.5	7.7	4,0	4.2

Source: Macrobond Financial, IMF, Danske Bank

Interest rate forecast

Reserve Bank of India (RBI)	
Policy rate	5.15%
Next meeting	5 December 2019
Next change	-25bp December 2019
End-2019	4.90%

Source: RBI, Danske Bank

FX forecasts

EUR/INR		
	Danske	Forward
02-Oct	77.98	
+3M	79.20	78.79
+6M	82.49	80.18
+12M	85.10	82.81

USD/INR		
	Danske	Forward
02-Oct	71.23	
+3M	72.00	71.39
+6M	73.00	72.23
+12M	74.00	73.79

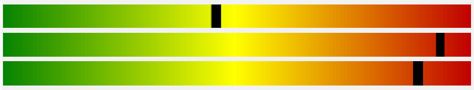
Danske Bank's hedging recommendations: EMEA

PLN

Currency	Instrument: Income	Instrument: Expenses
PLN	We recommend hedging short-term PLN income via FX forwards as we pencil in more near-term PLN weakness than priced in the forward curve. Longer-term income should be hedged via knock-in forwards.	We recommend hedging PLN expenses via risk reversals in order to take advantage of the cheap option skew. Consider traditional FX forwards for longer-term expenses.

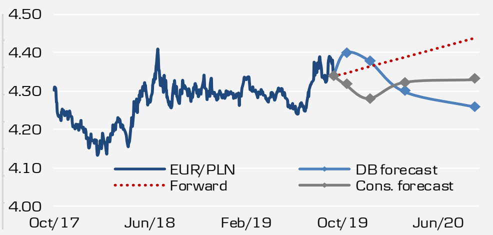
Price indicators

Implied volatility
Risk reversal (PLN seller)
Forward rate (PLN seller)



cheap neutral expensive

Forecasts



	1M	3M	6M	12M
DB forecast	4.40	4.38	4.30	4.26
Forward	4.35	4.36	4.39	4.44
Cons. forecast	4.32	4.28	4.32	4.33

RUB

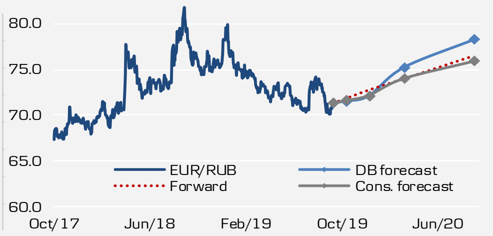
Currency	Instrument: Income	Instrument: Expenses
RUB	We recommend hedging RUB income via FX forwards despite the large rate differential between RUB and EUR.	We recommend hedging RUB expenses via knock-in forwards.

Price indicators

Implied volatility
Risk reversal (RUB seller)
Forward rate (RUB seller)

cheap neutral expensive

Forecasts



	1M	3M	6M	12M
DB forecast	71.50	72.05	75.15	78.20
Forward	71.74	72.70	73.94	76.48
Cons. forecast	71.54	72.11	73.97	75.89

HUF

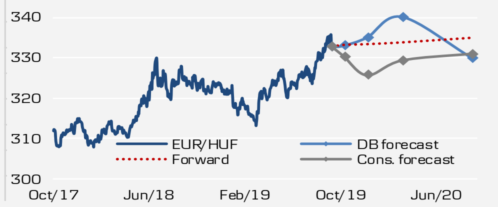
Currency	Instrument: Income	Instrument: Expenses
HUF	We recommend hedging HUF income via FX forwards.	We recommend hedging HUF expenses via risk reversals which utilises the attractive option skew.

Price indicators

Implied volatility
Risk reversal (HUF seller)
Forward rate (HUF seller)

cheap neutral expensive

Forecasts



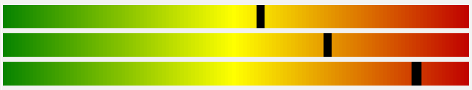
	1M	3M	6M	12M
DB forecast	333.00	335.00	340.00	330.00
Forward	333.09	333.28	333.69	334.80
Cons. forecast	330.36	325.72	329.32	330.97

CZK

Currency	Instrument: Income	Instrument: Expenses
CZK	We recommend hedging CZK income via knock-in forwards.	We recommend hedging CZK expenses via traditional FX forwards.

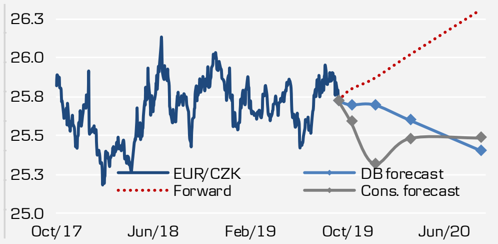
Price indicators

Implied volatility
Risk reversal (CZK seller)
Forward rate (CZK seller)



cheap neutral expensive

Forecasts



	1M	3M	6M	12M
DB forecast	25.70	25.70	25.60	25.40
Forward	25.80	25.87	26.02	26.31
Cons. forecast	25.60	25.32	25.48	25.48

Source: Danske Bank

Danske Bank's hedging recommendations: other emerging markets

CNH (CNY)

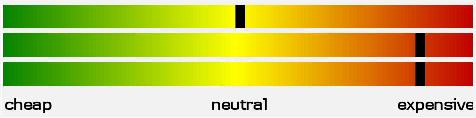
Currency	Instrument: Income	Instrument: Expenses
CNH (CNY)	We recommend hedging CNY-denominated income via risk reversals. Under such a strategy companies avoid paying the negative carry. Longer-term income should be hedged via FX forwards.	Hedge CNY-denominated expenses via participating forwards. This strategy maintains an attractive CNY (CNH) buy rate, while profit potential is maintained in the case of a weaker CNY.

Price indicators

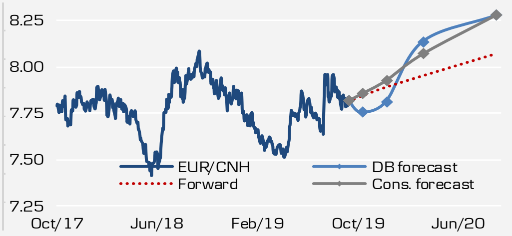
Implied volatility

Risk reversal (CNH seller)

Forward rate (CNH seller)



Forecasts



	1M	3M	6M	12M
DB forecast	7.76	7.81	8.14	8.28
Forward	7.84	7.89	7.95	8.07
Cons. forecast	7.85	7.92	8.07	8.28

ZAR

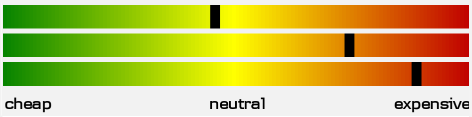
Currency	Instrument: Income	Instrument: Expenses
ZAR	We recommend hedging ZAR income via knock-in forwards.	We recommend hedging ZAR expenses via FX forwards which utilises the large rate differential between ZAR and EUR.

Price indicators

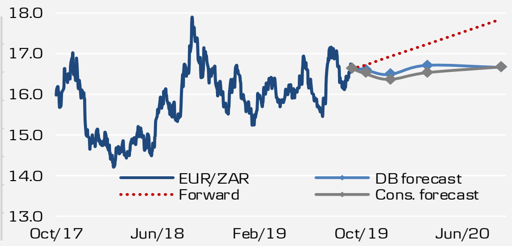
Implied volatility

Risk reversal (ZAR seller)

Forward rate (ZAR seller)



Forecasts



	1M	3M	6M	12M
DB forecast	16.63	16.50	16.72	16.68
Forward	16.71	16.93	17.23	17.85
Cons. forecast	16.52	16.37	16.54	16.68

TRY

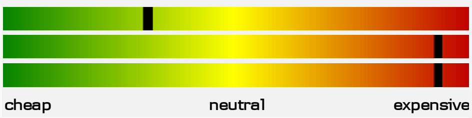
Currency	Instrument: Income	Instrument: Expenses
TRY	We recommend hedging TRY income via FX forwards despite the large rate differential between TRY and EUR.	We recommend hedging TRY expenses via risk reversals which utilises the very cheap option skew. Alternatively consider traditional FX forwards.

Price indicators

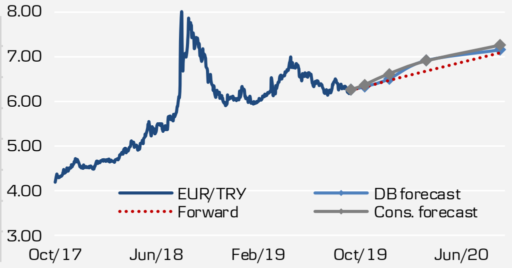
Implied volatility

Risk reversal (TRY seller)

Forward rate (TRY seller)



Forecasts



	1M	3M	6M	12M
DB forecast	6.33	6.49	6.89	7.13
Forward	6.32	6.47	6.68	7.09
Cons. forecast	6.36	6.61	6.90	7.25

Source: Danske Bank

FX forecasts

Core – majors

Core Majors		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
EUR	02-Oct			1.09		746.6		1082.3		1001.1	
	+3M			1.10	1.10	746.7	746.0	1080.0	1082.5	1000.0	1007.8
	+6M			1.13	1.11	746.3	745.4	1090.0	1085.8	970.0	1013.5
	+12M			1.15	1.12	746.0	744.4	1100.0	1085.8	950.0	1025.6
USD	02-Oct	1.09				682.0		988.7		914.5	
	+3M	1.10	1.10			678.8	676.0	981.8	980.8	909.1	913.2
	+6M	1.13	1.11			660.4	671.5	964.6	978.2	858.4	913.1
	+12M	1.15	1.12			648.7	663.3	956.5	967.5	826.1	913.9
JPY	02-Oct	117.5		107.3		6.35		9.21		8.52	
	+3M	116.6	117.3	106.0	106.3	6.40	6.36	9.26	9.23	8.58	8.59
	+6M	119.8	117.4	106.0	105.8	6.23	6.35	9.10	9.25	8.10	8.64
	+12M	126.5	117.4	110.0	104.7	5.90	6.34	8.70	9.25	7.51	8.73

Source: Macrobond Financial, Danske Bank

Wider CEE

Danske Bank CEE forecast		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
PLN	02-Oct	4.36		3.98		171.3		248.3		229.7	
	+3M	4.38	4.37	3.98	3.96	170.5	170.9	246.6	248.0	228.3	230.9
	+6M	4.30	4.39	3.81	3.95	173.6	169.9	253.5	247.4	225.6	231.0
	+12M	4.26	4.44	3.70	3.95	175.1	167.8	258.2	244.8	223.0	231.2
HUF	02-Oct	333.8		304.9		2.24		3.24		3.00	
	+3M	335.0	332.9	304.5	301.6	2.23	2.24	3.22	3.25	2.99	3.03
	+6M	340.0	333.2	300.9	300.2	2.20	2.24	3.21	3.26	2.85	3.04
	+12M	330.0	334.1	287.0	297.7	2.26	2.23	3.33	3.25	2.88	3.07
CZK	02-Oct	25.78		23.55		28.95		41.97		38.83	
	+3M	25.70	25.83	23.36	23.41	29.05	28.88	42.02	41.90	38.91	39.01
	+6M	25.60	25.98	22.65	23.41	29.15	28.69	42.58	41.79	37.89	39.01
	+12M	25.40	26.25	22.09	23.39	29.37	28.35	43.31	41.36	37.40	39.06

Source: Macrobond Financial, Danske Bank

CIS

CIS		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
RUB	02-Oct	71.39		65.21		10.46		15.16		14.02	
	+3M	72.05	72.85	65.50	66.01	10.36	10.24	14.99	14.86	13.88	13.83
	+6M	75.15	74.10	66.50	66.76	9.93	10.06	14.51	14.65	12.91	13.68
	+12M	78.20	76.64	68.00	68.30	9.54	9.71	14.07	14.17	12.15	13.38
Baltics											

Source: Macrobond Financial, Danske Bank

MEA

MEA		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
TRY	02-Oct	6.24		5.70		119.6		173.4		160.4	
	+3M	6.49	6.49	5.90	5.88	115.1	115.0	166.4	166.9	154.1	155.4
	+6M	6.89	6.70	6.10	6.03	108.3	111.3	158.1	162.1	140.7	151.4
	+12M	7.13	7.14	6.20	6.36	104.6	104.3	154.3	152.1	133.2	143.7
ZAR	02-Oct	16.71		15.26		44.7		64.8		59.9	
	+3M	16.50	16.94	15.00	15.35	45.3	44.0	65.5	63.9	60.6	59.5
	+6M	16.72	17.23	14.80	15.53	44.6	43.3	65.2	63.0	58.0	58.8
	+12M	16.68	17.86	14.50	15.91	44.7	41.7	66.0	60.8	57.0	57.4

Source: Macrobond Financial, Danske Bank

Latin America

LATAM		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
BRL	02-Oct	4.55		4.16		164.0		237.8		219.9	
	+3M	4.57	4.58	4.15	4.15	163.6	163.0	236.6	236.5	219.1	220.2
	+6M	4.58	4.63	4.05	4.17	163.1	161.0	238.2	234.5	212.0	218.9
	+12M	4.37	4.74	3.80	4.22	170.7	157.2	251.7	229.2	217.4	216.5

Source: Macrobond Financial, Danske Bank

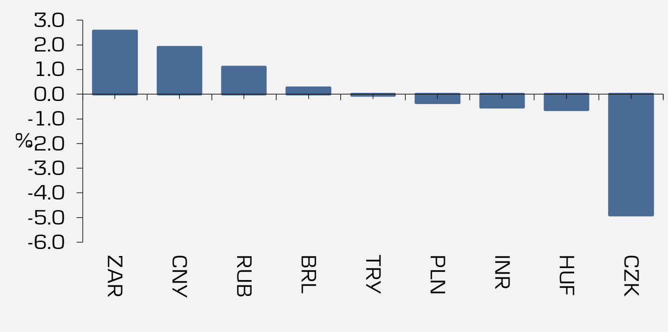
Emerging markets Asia

EM Asia		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
CNY	02-Oct	7.82		7.15		95.4		138.3		127.9	
	+3M	7.81	7.96	7.10	7.21	95.6	93.7	138.3	136.0	128.0	126.6
	+6M	8.14	8.03	7.20	7.24	91.7	92.8	134.0	135.2	119.2	126.2
	+12M	8.28	8.16	7.20	7.27	90.1	91.2	132.9	133.0	114.7	125.6
INR	02-Oct	77.98		71.23		9.57		13.88		12.84	
	+3M	79.20	78.79	72.00	71.39	9.43	9.47	13.64	13.74	12.63	12.79
	+6M	82.49	80.18	73.00	72.23	9.05	9.30	13.21	13.54	11.76	12.64
	+12M	85.10	82.81	74.00	73.79	8.77	8.99	12.93	13.11	11.16	12.38

Source: Macrobond Financial, Danske Bank

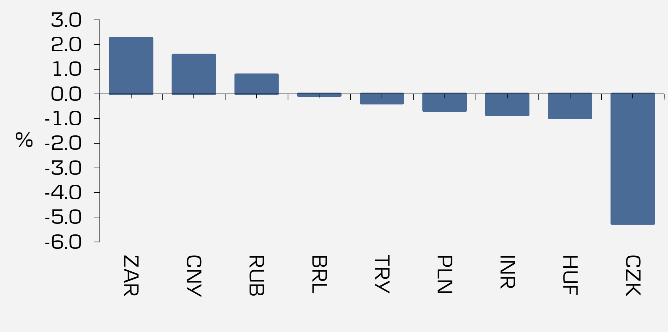
Forecasts vs forwards

3M – base currency EUR



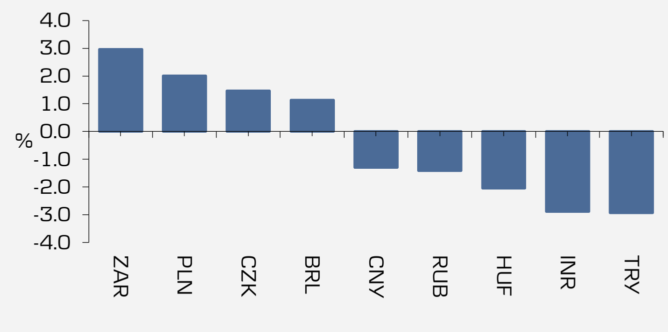
Source: Macrobond Financial, Danske Bank

3M – base currency USD



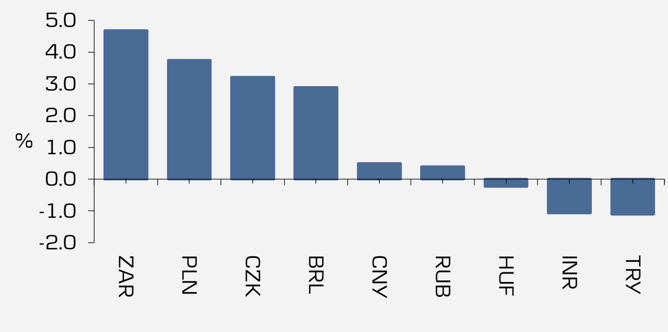
Source: Macrobond Financial, Danske Bank

6M – base currency EUR



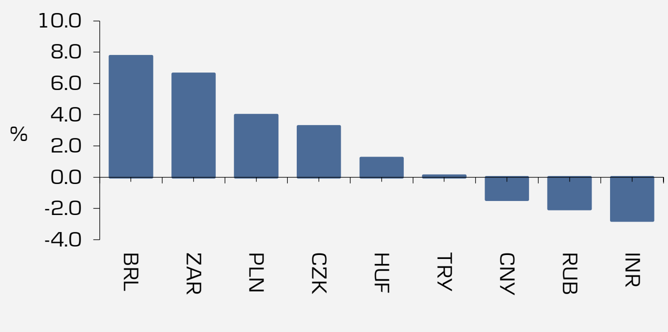
Source: Macrobond Financial, Danske Bank

6M – base currency USD



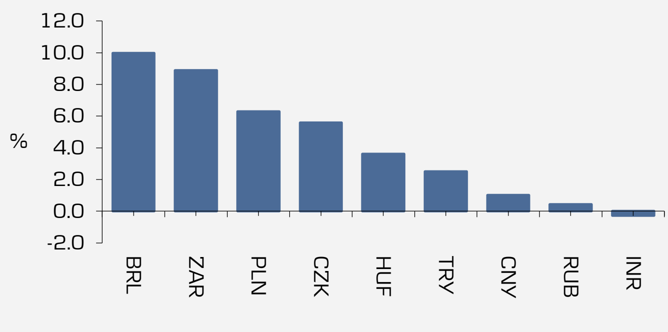
Source: Macrobond Financial, Danske Bank

12M – base currency EUR



Source: Macrobond Financial, Danske Bank

12M – base currency USD



Source: Macrobond Financial, Danske Bank

Monetary policy calendar

Calendar

	Policy Rate (%)	Latest Change		Next Change		Next Meeting	Year-end 2019 (%)
	03 October 2019						
Wider CEE							
PLN	1.50	- 50 bp	Mar, 2015	+25bp	Q3, 2020	06/11/2019	1.50
HUF	0.90	- 15 bp	May, 2016	+25bp	No change over 12 months	22/10/2019	0.90
CZK	2.00	+25 bp	May, 2019	+25bp	Q4, 2020	07/11/2019	2.00
TRY	16.50	+625 bp	Sep, 2018	-100bp	Q3, 2019	24/10/2019	14.50
CIS							
RUB	7.00	-25 bp	Sep, 2019	-25bp	Q4, 2019	25/10/2019	6.75
MEA							
ZAR	6.50	- 25 bp	Jun, 2019	-25bp	Q4, 2019	21/11/2019	6.75
LATAM							
BRL	5.50	-25 bp	Mar, 2018	-50bp	Q3, 2019	31/07/2019	4.75
EM Asia							
CNY	4.35	- 15 bp	Oct, 2015	-	Unchanged 2019	No regular meetings	4.35
INR	5.15	- 25 bp	Oct, 2019	-25 bp	December 2019	05/12/2019	4.90

Source: Bloomberg, Danske Bank

Disclosures

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Expected updates

Monthly.

Date of first publication

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