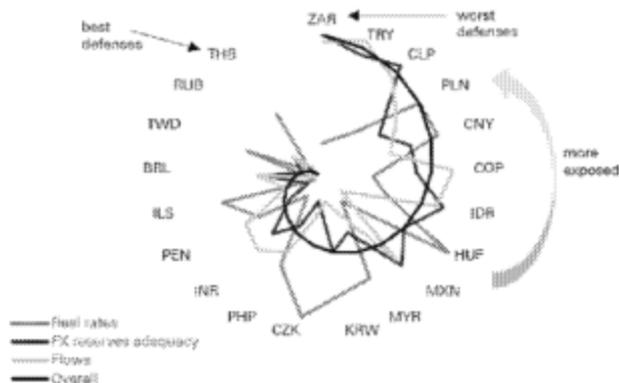




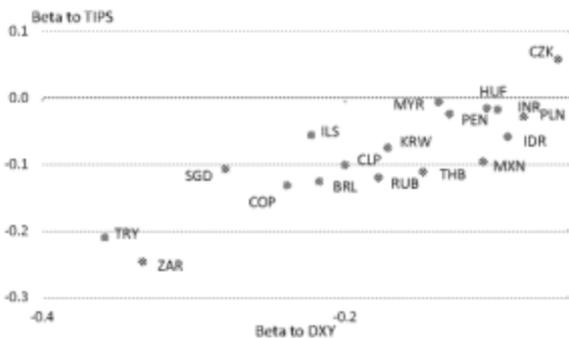
EM currencies ranked on 'defensive' metrics: THB, RUB and BRL have the best defenses



Source: Deutsche Bank

We also highlight that all four of our preferred 'defensive' longs – RUB, BRL, THB, KRW – have relatively low betas to the broad dollar and also US real rates (chart below). These betas are lower when estimated over the past couple of months on reduced positioning in the period. The estimates for the past month for BRL and RUB are closer to the ones obtained for low yielders, suggesting that positioning is also relatively light.

Defensive longs RUB, THB, BRL and KRW have relatively low exposure to broad dollar and UST

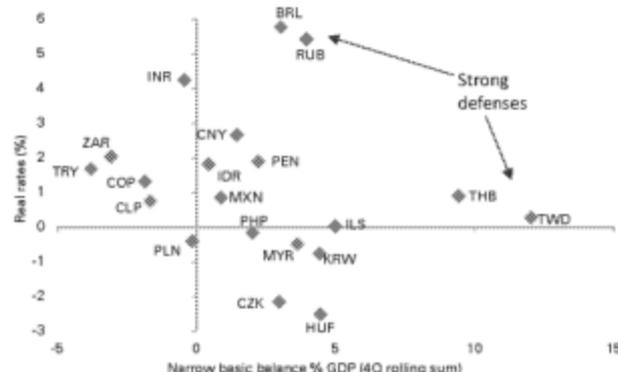


Source: Deutsche Bank, Bloomberg Finance LP (6 months)

RUB: In addition to scoring well on 'defensive' metrics, RUB has significantly lagged the recent rally in crude and is cheap on our PCA-based short-term 'financial fair value' metric. Further, crude in RUB terms near two year highs boosts fiscal accounts. Also, the macro backdrop is supportive, with accelerating growth (as per high-frequency gauges) and record-low inflation. CBR is in cautious easing mode which is positive for FX, as real rates remain high while bond outflows are less

likely (chart). We assume no meaningful escalation of sanctions – the main risk we foresee.

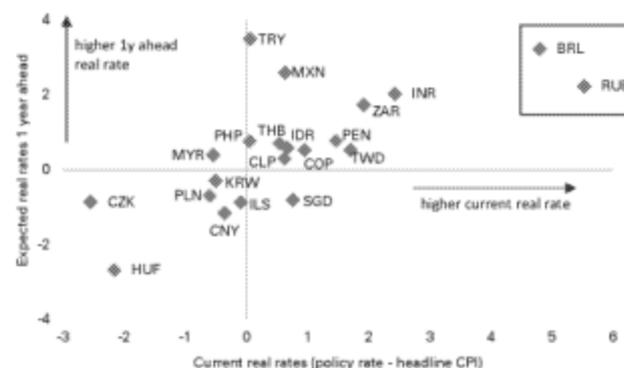
EM FX: real rates and basic balances



Source: Deutsche Bank

BRL: Like RUB, BRL scores well on 'defensive' metrics. Both current and 1-year ahead real rates are among the highest in EM (chart below). Expected FDI inflows are 4 times as large as the current account deficit and only a very strong investment cycle (that we do not foresee) could dent this ratio. Moreover, we expect an increase in equity portfolio inflows as economic activity continues to recover during 2018. Elections remain the wild card, but we expect voters to reject the populist left and for candidates to try to capture the center.

BRL (and RUB): extended real rates support



Source: Deutsche Bank

THB: The current account remains large; domestic outflows are not recycling the surplus (in spite of policy effort to that effect); foreigners are underweight Thai assets; THB does not look stretched on valuations; and politics appears on track for elections. BoT has not budged on policy despite government pressure to cut rates. THB gains have occurred alongside an export recovery, making the currency's strength less problematic.