KRW: The currency goes into next year with tailwinds from strong data and expectations of further policy tightening. The current account should benefit from improvement in shipbuilding orders, and the impact of relations normalizing with China on the services deficit – and while the overall surplus might decline, the adjustment would likely be gradual. Equity valuations are still supportive and trade policy related pressures continue to keep the authorities from intervening in any significant manner in the revaluation of the currency. Geopolitics remains a key risk, but the market appears fatigued with the headlines, and are likely to be averse to trading the noise.

2) Idiosyncratic revaluation trades

We are bullish MYR, PLN, HUF, CLP, and PEN both on valuation and domestic developments.

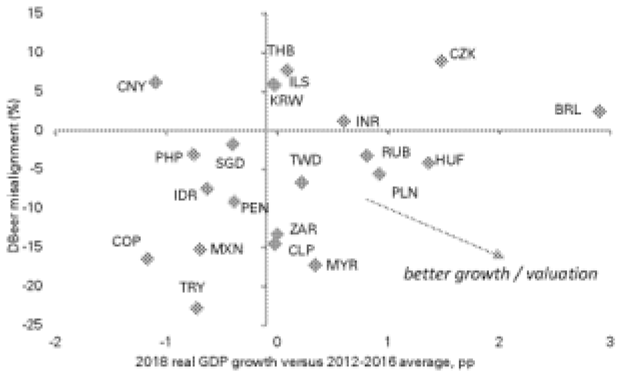
MYR The main appeal is its cheapness on fundamental valuation metrics (earlier chart). Foreign positioning in bonds is light from a historical perspective (chart below), and inflows are returning. Therefore, it is a rare case where both 'stock' factors (valuation, positioning) and 'flow' factors (portfolio inflows) are supportive. Further, the absence of an active NDF market has tamed both speculation and USD betas.

MYR: Light positioning despite return of bond inflows

Source: Deutsche Bank, Haver Analytics

On the fundamental front, growth has surprised to the upside (therefore providing an attractive growth-valuations mix), the central bank has turned more hawkish (BNM could well be the next central bank in the region to hike rates), and higher oil prices should also provide a boost to MYR (Malaysia is the only net oil exporter in Asia). There is a clear need to accumulate reserves, but authorities appear comfortable with a stronger MYR, perhaps given the boost that entails to confidence ahead of an election.

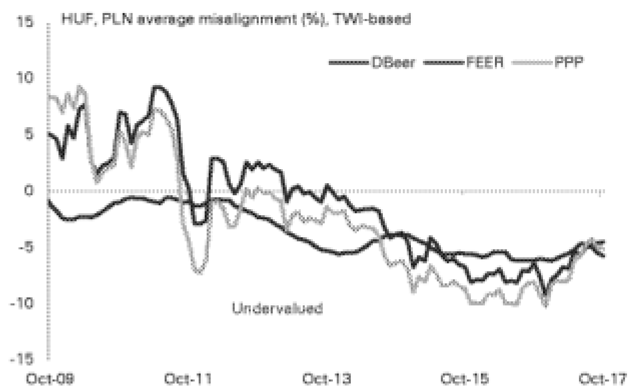
Growth-valuations mix is attractive for MYR, PLN, HUF and CLP



Source: Deutsche Bank

PLN and HUF: Both PLN and HUF are within a handful of currencies that are undervalued on all three of our fundamental valuation approaches (PPP, DBeer, FEER) on steady depreciation over the past 5 years despite improving fundamentals. Consequently, on a REER basis, PLN and HUF have depreciated significantly vs. Asian manufacturing currencies among others enabling them to gain market share in global trade. This has led to vast improvements in current account balances – from deep deficits in 2008, current accounts are in surplus for Hungary and close to flat for Poland. Meanwhile, growth is strong (well above trend) and broad-based (the growth-valuations mix is attractive), and labor markets are tight.

HUF & PLN: Rare case of undervaluation in 3 metrics



Source: Deutsche Bank

Technically, EUR/HUF at the top of the range of the past 15 months is an attractive entry level. Further, we believe the NBH is comfortable with a stronger HUF on rising inflation and current account in surplus. Once the elections are completed in Q2 2018 there is a possibility that the NBH becomes even laxer with respect to the currency, opening up more room for