



COP: The Colombian peso faces a challenging domestic and external scenario. In addition to the already familiar twin deficits on the fiscal and current accounts, the Colombian economy faces a low-confidence environment as well as a challenging election ahead. Towards the end of 2017 growth has somewhat picked up and inflation has eased. In 2018 growth is likely to somewhat strengthen yet the peso's volatility is very sensitive to changes in the risk perception of the Colombian economy. Therefore, the election-related headlines especially if connected to Colombia's fiscal accounts could very likely trigger a bout of COP weakness followed by outflows due to Banrep's dovish stance and the increasingly challenging fiscal scenario up ahead.

ILS: Unlike the currencies mentioned above, ILS does not have any major fundamental pressure points, as growth is in reasonable shape and the current account is in surplus. However, valuation and positioning are major concerns, and drive our tactically bearish view on the currency at these levels. In trade-weighted terms, ILS is near its all-time strong levels, which has also pushed overvaluation to historical extremes (chart). On our DBear and PPP metrics, ILS is around 10% overvalued, right at the top of the historical valuation range. There have been retracements from such stretched valuations in the past. Meanwhile, inflation remains low, which – combined with the strong currency – opens the door for BoI FX intervention to pick up.

ILS is at historical extreme overvalued levels



Source: Deutsche Bank.

INR: The best of the tailwind – structurally positive policy measures (GST, bank recap), policy easing, ratings upgrade, carry/vol – are already in the price, and will be hard pressed to drive further outperformance in 2018. The equity markets remain rich; bond inflows are restricted by access via FPI quotas, and likely to be pressured by concerns over fiscal slippage; and RBI is unlikely to be able to ease further in this rate cycle. Any upside to oil prices could be particularly damaging to

the macro picture via trade gap, inflation and fiscal (in the event of excise duty cuts) channels. We see RBI as continuing with its asymmetric intervention bias, persisting on the bid in dollars with an eye to prevent overvaluation hurting growth.

Another currency that would naturally fit in the camp of those more exposed to depreciation is the ARS – on valuation and high inflation. However, it needs a category apart as an adjustment currency such as the EGP. We maintain the view that it will play the role of nominal anchor – especially for wage negotiation is Q1 – and that it will outperform forwards for a near double-digit margin (amid bouts of depreciation).

We conclude our risk assessment with EM's election calendar for next year, which is a full one (chart below). We find it to be most binary for Brazil and Mexico in terms of changing economic policies, increasing uncertainty hurting the investment climate, and fiscal slippage. While Colombia's election may fail to set the country on a fiscally sustainable path, we expect moves in that direction in Brazil and Mexico. To repeat, however, these remain quite uncertain.

The EM election calendar for 2018 is a full one

Country	Election for	Month
Czech Republic	President	Jan-18
Russia	President	Mar-18
Malaysia	House of Representatives	Aug-18*
Mexico	Congress and President	Jul-18
Egypt	President	Feb-May 2018*
Hungary	Parliament	Apr-May 2018*
Thailand	Parliament	Nov-18
Brazil	President	Oct-18
Colombia	Congress	Mar-18
Colombia	President	May-18
Venezuela	President	No date yet*

Source: Deutsche Bank