



Romania

EURRON remains tightly managed by the NBR, and has effectively traded within the 4.40-4.50 range since early 2014. We do not expect a change in this managed currency regime or the EURRON range maintained by the NBR. RON remains undervalued on our fundamental valuation metrics, indicating that there is unlikely to be pressure to weaken the currency. Further, the NBR would not want to increase volatility or adversely impact export performance (euro area is Romania's main export partner) by guiding RON stronger in this market environment. In case of excessive downward pressure on RON, the NBR has sufficient fx reserves to defend the currency (fx reserves amount to a relatively healthy 184% of ST debt + CAD). We stay neutral.

Israel

We expect the Bol to ease monetary policy in the coming months as the growth and inflation outlook has deteriorated. This easing could be delivered in the form of a rate cut or increased fx intervention. But no matter which path the Bol chooses, the end result is likely to be a weaker shekel. In our view, the only reason the Bol would not undertake any of the easing steps noted above is if the shekel were weaker due to other, possibly global, factors (such as broad dollar strength, for example on the back of Fed normalization). However, in this case as well the fx implication is the same – a weaker shekel. We therefore maintain a moderately bearish bias on the shekel and see scope for further weakness despite the recent sell-off; at the very least the Bol is not likely to tolerate much further strengthening past current levels. We prefer to express our view via ILS shorts vs. other EM currencies. In particular, our preferred trade is to be long INR versus an equally-weighted basket of ILS and ZAR: INR (ZAR) is one of our preferred longs (shorts) in EM on fundamentals and central bank 'room' to defend the currency. The basket is also well off the March highs, and we look for a retracement towards these levels. Carry is also significantly positive (approximately 4.6% 3m annualized), primarily due to the low cost of ILS funding. Near-term expiry USDILS call options are another attractive possibility in our view.

Russia

RUB has tracked crude prices in the recent past and we expect this, more so than the Fed, to continue to drive price action. In the absence of a pickup in crude, upside in RUB should also be limited as the domestic economy remains weak, inflation is high and growth is hampered by economic sanctions. It is difficult to take a directional view on RUB without taking a strong view on crude. However, even if a stabilization in crude was expected, a long RUB position is significantly under risk from the CBR, which maintains its easing bias and will look to cut rates on any decline in inflation or signs of fx stabilization. We remain neutral for now.

South Africa

We maintain our medium-term bearish bias on the rand on weak fundamentals, a slowing economy and structural roadblocks (electricity shortages and labour strikes). We also do not expect the SARB to stem the slide in the rand either via rates or via FX interventions. With growth stalling and inflationary pressures not an immediate concern, it is increasingly unlikely that the SARB will continue tightening policy after its pre-emptive rate hike in July. However, the rates market is currently pricing in a relatively aggressive hiking cycle, which we do not expect to be delivered – FX could weaken further as rate hikes are priced out. Meanwhile, the level of FX reserves is not sufficient to mount any sustained defense of the currency: at 91%, FX reserves as a % of short-term debt + CAD is among the lowest in EM. Lastly, as a major metals exporter, South Africa's exposure to yuan devaluation and potential China weakness is high. We like to position into ZAR shorts vs. another EM currency with a better fundamental picture and reduced macro vulnerabilities. Our preferred long currency in this trade is INR, which is the only currency in the region on which our Asia strategists currently maintain a bullish bias. India has been one of the darlings of EM in terms of the macro turnaround and adjustment story: FX reserves are healthy (365% of ST debt + CAD), current account imbalances have been reduced, growth is encouraging and exposure to China is not very high. We also believe the long-term uptrend in USDZAR remains intact and look to position into longs in the pair.

Turkey

In Turkey, we believe that the elevated political risk will prevent any major upside in TRY; sustained appreciation in the wake of the Nov 1st general elections is unlikely (polls suggest another hung parliament is the most probable outcome). The political situation will continue to be a key driver of fx, but there is considerable uncertainty regarding the election outcome and the timeline of a potential coalition formation post-elections. Geopolitical risks will also weigh on the currency. On the other hand, valuations are attractive, price action is stretched and TRY should eventually benefit from lower crude prices. We are still searching for a bottom in TRY, which may not yet have materialized. Stay neutral for now.