

Flash Note

Emerging market currencies

Update of our EM scorecard

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Our EM FX scorecard ranks 10 EM currencies according to key criteria such as growth and vulnerability to external shocks.

There have been only few changes over the past month. Our EM FX scorecard still shows the Brazilian real and the Russian rouble as the most attractive EM currencies at the moment.

Among changes, the Chinese renminbi is now perceived as overvalued, while idiosyncratic factors driving the South Africa rand have been upgraded to neutral from negative.

Given their reliance on trade, the Korean won and the Mexican peso are particularly exposed to potentially bold trade protection measures from the Trump Administration.

The scope of this note is to present an update of the scorecard for emerging market (EM) currencies, first presented in a [flash note](#) in February. As a reminder, the scorecard is designed to assess the attractiveness of a given currency over the coming 12 months. The scorecard (*see chart*), constructed using a rules-based methodology, still suggests that the Russian ruble and the Brazilian real are currently among the most attractive EM currencies.

EM FX scorecard

	Growth	Inflation	Valuation	Carry	Vulnerability	Trade	Idiosyncratic	Score
BRL	●	●	●	●	●	●	●	●
MXN	●	●	●	●	●	●	●	●
COP	●	●	●	●	●	●	●	●
RUB	●	●	●	●	●	●	●	●
TRY	●	●	●	●	●	●	●	●
ZAR	●	●	●	●	●	●	●	●
CNY	●	●	●	●	●	●	●	●
KRW	●	●	●	●	●	●	●	●
INR	●	●	●	●	●	●	●	●
IDR	●	●	●	●	●	●	●	●

Source: Pictet WM – AA&MR, Bloomberg, Thomson Reuters

BRL and RUB score high mark

At present, our scoreboard (*see chart*) still suggests that BRL and RUB are the most attractive currencies among our selection of EM currencies. The changes in signals are indicated by grey shading.

The following changes over the past month deserve to be highlighted:

- valuation of the Chinese renminbi has turned negative,

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- idiosyncratic risk for the South Africa rand has switched to neutral from negative.

Regarding valuation of the renminbi, we do not see the currency's recent appreciation as particularly meaningful, as the People's Bank of China is likely to continue to favour a broadly stable Chinese Foreign Exchange Trade System (CFETS) renminbi index. Consequently, we expect further "two-way volatility" around an equilibrium value. Our best guess for this value is around 95, the average of the CFETS renminbi index for 2006 and 2017.

The upgrade of idiosyncratic risk for the rand from negative to neutral was motivated by the resignation of South Africa's president Jacob Zuma on 14 February. Although fiscal issues will remain a concern for South Africa in the next quarters, the election of Cyril Ramaphosa lowers the chance of a rating downgrade by Moody's on 23 March and should support more positive sentiment that could drive capital inflows into the high-yielding rand.

Finally, we consider trade as a driver of a currency's relative attractiveness. We take the view that a country with significant economic openness should see upward pressure on its currency, because of the current healthy global conditions. However, the recent signs of more protectionist rhetoric from the White House could significantly impact such currencies should the risk of a global trade war increase meaningfully. This is not our core scenario (see [flash note](#)), but currencies such as the Mexican peso and the Korean won are particularly exposed to such a threat (indeed, the peso has already been facing downward pressure since the start of the NAFTA renegotiation process in 2017).

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