

## 2022 FX Outlook: Liquid Allsorts

It's hard to pinpoint a clear central theme for FX in 2022. The Fed lift-off should help the dollar, but not across the board. Commodity currencies are still favoured, but some more than others. And some Emerging Market currencies look much better positioned than others for a year of higher interest rates. We pick out our favourites from 2022's assorted mix



Source: Shutterstock

2022 stands to be a further year of convalescence and recovery in the global economy. Headwinds from the pandemic and supply chain disruption continue to blow. Yet an increasing number of policymakers are confident enough to place inflation ahead of growth concerns and embark on monetary tightening cycles.

All indicators point to strong US growth in 2022 (near 5%), persistent inflation and a Fed ready for policy rate lift-off. We expect further dollar strength against the euro and the yen through 2022, where the ECB and the BoJ have a much stronger case to keep policy loose. We see the Fed cycle as being prone to being re-priced higher and gentle dollar strength as a constant theme for 2022.

Unless backed by commodity exports, we expect European currencies, in general, to underperform against the dollar in 2022. More exposed to supply chain disruption via the greater weight of

manufacturing in their economies, most will be dragged lower as EUR/USD softens through the year. Out-performing steep forward curves should be the energy exporters of NOK and RUB.

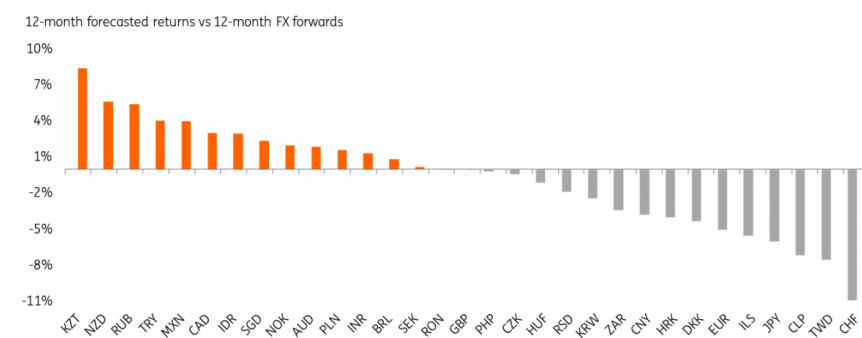
Within CEEMEA, the Czech National Bank has set the pace for tightening and is not done yet. Hungary and Poland have been a little slow out of the blocks, but light foreign positioning suggests the downside for the zloty should be limited. Elections in Hungary make the HUF a more volatile proposition. Expect the rouble to hold its gains backed by a very hawkish central bank, while the TRY and also the ZAR look more vulnerable.

In Asia, the renminbi remains an enigma. It has proven one of the strongest currencies of 2021 despite China being the epicentre of most concerns this year. Strong bond inflows and a trade surplus may have helped, yet we think the strong Renminbi has been a policy choice too. With commodity prices enjoying some mean reversion in 2022, we would expect the PBOC to allow for some trade-weighted weakening of the CNY. Within the region, we think the IDR and SGD may put up the stiffest resistance to dollar strength.

And finally, electoral poll risk will continue to stalk Latin currencies. Elections in Chile (November '21) and Brazil (October '22) pose challenges to right-wing incumbents and in Brazil's case, fiscal risk premia could return to the BRL. Better positioned, we think, is the MXN. Banxico looks to be building a strong, precautionary wedge in local interest rates and Mexico is better positioned to enjoy US demand.

Please see below for how we think currencies can perform against their end-2022 FX forwards and see all the linked articles for more details on each of the key currency pairs.

## FX forecast return versus forwards



Source: ING, Refinitiv

### Author

**Chris Turner**

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

**Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).