

# EMEA FX Talking: An aggressive easing cycle unnerves the zloty

The dominant story in the CEE space has been the National Bank of Poland's 75p cut, which will likely keep the zloty under pressure over the coming months. Elsewhere, we still believe there is a bullish case to be made for the Hungarian forint. Turkey's lira is gaining some positive attention given hints of a return to more orthodox policy settings



A 75bp rate cut from the National Bank of Poland has been the main catalyst behind a rapid weakening of the zloty as of late

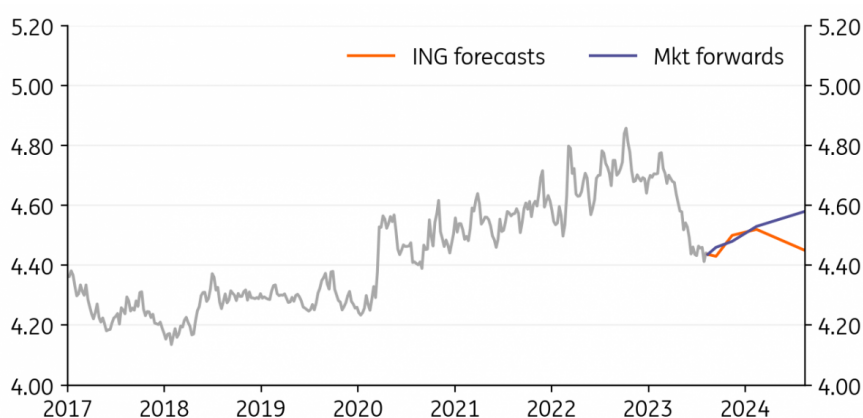
## Main ING Emerging Market FX forecasts

	EUR/CZK	EUR/PLN	EUR/HUF
1M	24.25 ↓	4.67 →	378 ↓
3M	24 ↓	4.72 ↑	370 ↓
6M	23.5 ↓	4.6 ↓	368 ↓
12M	23.75 ↓	4.5 ↓	365 ↓

## EUR/PLN: €/PLN rise already on the way

	Spot	One month bias	1M	3M	6M	12M
EUR/PLN	4.6141	Bullish ↗	4.67	4.72	4.60	4.50

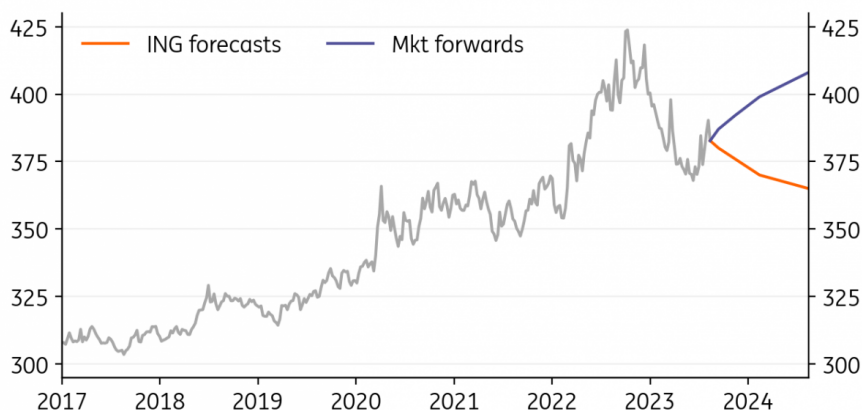
- The zloty weakened a bit sharper and faster than we expected amid a frontloaded 75bp NBP rate cut as the main catalyst. Unfortunately, we do not expect things to get better by year end. NBP remains on an easing path, while the Fed and ECB still do not rule out hikes. Moreover, we fear some deterioration in Poland's current account, given poor leading indicators from Germany.
- Our relative value model (gauging €/PLN against other market variables) shows further upside potential given i.e. a decline in PLN FRA or IRS contracts. Our estimates suggest scope for the zloty reaching 4.70 or somewhat above against the euro in the coming months. The scale may largely depend on Ministry of Finance willingness to defend against a weaker zloty.



## EUR/HUF: We still see enough reasons to believe in the forint

	Spot	One month bias	1M	3M	6M	12M
EUR/HUF	385.1500	Bearish ↘	378.00	370.00	368.00	365.00

- After a weak July, we saw a stronger August for the HUF, and which started autumn on a poor footing. Besides a stronger USD, the forint remains vulnerable to country-specific shocks.
- The latest comes from a revised debt financing plan. The additional issuance of 0.9% of GDP is eerily close to the EU funds at risk this year. Understandably, the market is eager to connect the dots, even if we don't think this is a clear bad signal.
- In contrast, the government has made a formal bid for Budapest Airport, which we don't think it would have done if it had known that the EU deal was going to fall through. Improving external balance, high carry, and the awaited EU deal give us faith in HUF.



### EUR/CZK: Koruna drops alongside CEE peers

	Spot	One month bias	1M	3M	6M	12M
EUR/CZK	24.3500	Neutral	24.25	24.00	23.50	23.75

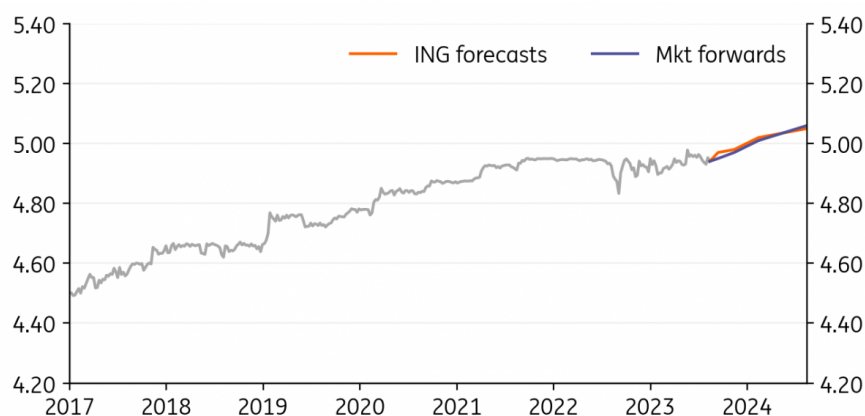
- It has been a softer month for CEE currencies, with the Polish zloty leading the charge after the surprisingly large rate cut. This has seen EUR/CZK trade up to the highs of the year and perhaps suggests it was an inopportune time in August for the Czech National Bank to say it was pulling back from FX intervention.
- With much focus on easing cycles in the region, we think the CNB can cut 25bp in November. The market has priced around 70bp by year-end and around 200bp over the next 12 months on the back of disinflation, slow growth and tighter fiscal policy.
- Czech implied yields are still quite high at 6.5%+ and if we are right with call for a higher EUR/\$, EUR/CZK can soften in 2024.



## EUR/RON: Trending higher as inflows subside

	Spot	One month bias	1M	3M	6M	12M
EUR/RON	4.9641	Neutral	4.98	4.98	5.02	5.05

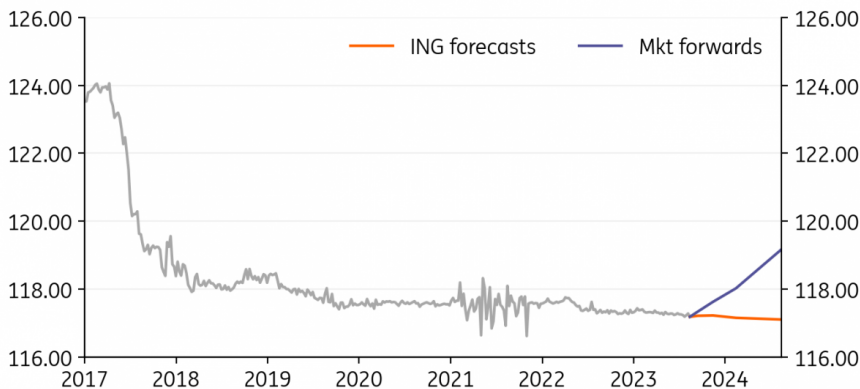
- As bond-related inflows seem to have faded over the summer together with the one-off seasonal factors, EUR/RON is gradually climbing towards 4.98, which we think is the temporary resistance level.
- The upward bias of the pair correlates with a slowly but gradually decreasing liquidity surplus in the money market, which reached RON23bn in August, from the highs of RON30bn earlier this year.
- We maintain our 5.02 estimate for the year-end while admitting that the central bank's tolerance for leu depreciation seems very limited, especially at a time of consistent fiscal changes which have some potential to slightly derail the inflation story.



## EUR/RSD: Tightening via higher reserve requirements

	Spot	One month bias	1M	3M	6M	12M
EUR/RSD	117.1800	Neutral	117.21	117.22	117.15	117.10

- As expected, the National Bank of Serbia (NBS) kept the policy rate on hold at 6.50% in September, which we still view as the end of the road for the hiking cycle.
- Interestingly and largely unanticipated, the NBS has nevertheless continued to tighten monetary conditions by increasing the bank's required reserves rates. This will mop up around 20% of the surplus dinar liquidity and make the key rate level more relevant for the market rates.
- We believe that the next policy decision will be a rate cut in the first half of 2024. We do not envisage headline inflation back within NBS's 1.5%-4.5% target range over the next two years.

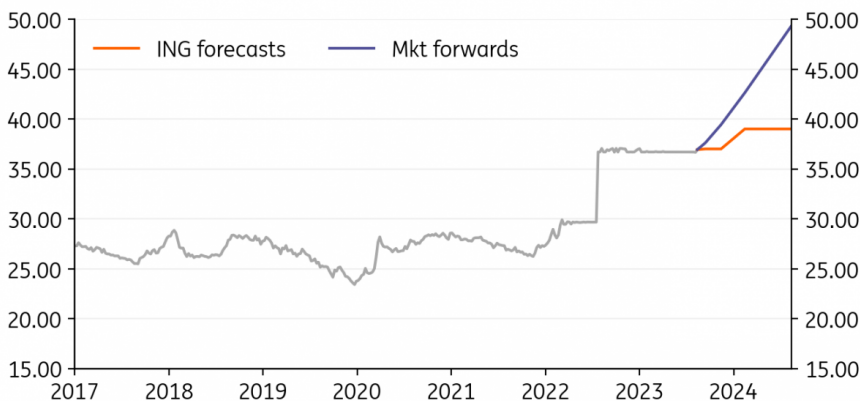


Source: NBS, ING

### USD/UAH: Range-bound, but long-term risks remain

	Spot	One month bias	1M	3M	6M	12M
USD/UAH	36.9200	Neutral	37.00	37.00	37.00	39.00

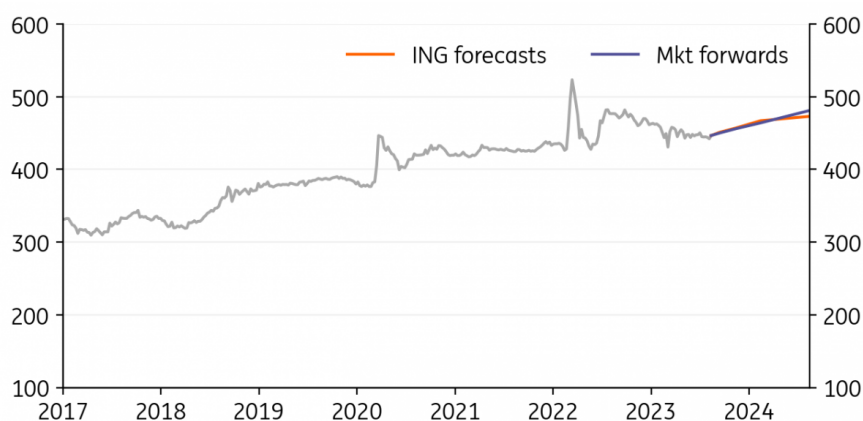
- The situation of the hryvnia remains mostly unchanged. Intervention to stabilise the currency increased in August (nearly US\$2.5bn) likely reflecting the prior National Bank of Ukraine rate cut. However, foreign reserves remain relatively stable above US\$40bn, given the inflow of foreign aid. As such the NBU is unlikely to be forced to adjust its FX strategy anytime soon.
- Long-term prospects are not optimistic though. Some analysts predict the conflict to last at least until the US presidential elections, as Russia reportedly prepares for another wave of mobilisation. The damage to the economy will most likely result in a long period of foreign trade deficit. That is why we expect the NBU to allow some hryvnia weakening in the future, possibly no sooner than the conflict ends.



## USD/KZT: Stronger oil outweighed by trade partners' weakness

	Spot	One month bias	1M	3M	6M	12M
USD/KZT	464.3600	Neutral	465.00	460.00	470.00	475.00

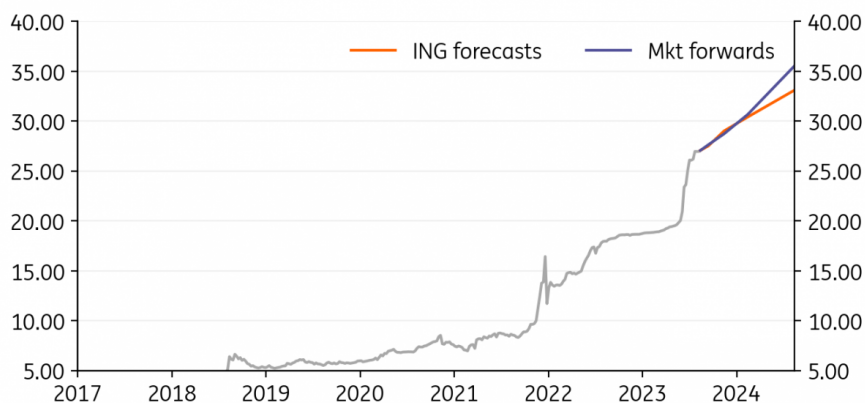
- The tenge weakened in August from 445 to 458/\$. The direction was in line with our expectations, but the magnitude was surprising given that Brent was strong in the \$83-88/bbl range.
- One possible explanation could be related to oil exports. The announcement of pursuing more seaborne oil exports indicate some potential obstacles on the Russian pipeline route.
- Another explanation would be the weakening of CNY by 1.6% and RUB by 4.6% in August. China and Russia account for a combined 29% of Kazakhstan's exports and 52% of imports. Finally, the replacement of the head of the central bank after just one year and the president criticising the high key rate could be a trigger for some portfolio outflows.



## USD/TRY: Actions in the summer

	Spot	One month bias	1M	3M	6M	12M
USD/TRY	26.8400	Mildly Bullish ↗	27.50	30.00	31.20	34.20

- The Central Bank of Turkey's (CBT) latest rate hike was significant and raises expectations for the terminal rate. It also announced a new strategy to unwind the FX-protected deposit scheme. These actions are likely to lead banks to hike deposit rates. Risk of FX demand from locals in this process will also be closely watched.
- While the August hike was a surprise, it is still far from enough given another broad uptrend in inflation.
- The Government's Medium-Term Plan envisages higher nominal exchange rate projections, USD/TRY at 36.8 in 2024, implying a 54% annual increase in average USD/TRY. However, the plan sees a significant improvement in inflation to 33% next year, from 65% at end-2023 - likely requiring a very tight monetary stance.



### USD/ZAR: No evidence of arms shipped to Russia

	Spot	One month bias	1M	3M	6M	12M
USD/ZAR	19.1000	Neutral	19.00	18.50	18.00	17.50

- Earlier this month, South Africa President Cyril Ramaphosa announced that there was no evidence to suggest that South Africa had shipped arms to Russia – as had been alleged back in May. This may close the chapter on this story, but USD/ZAR is still trading above 19.00. This looks down to the soft China and strong dollar story – neither of which may change imminently.
- The rand still enjoys high real interest rates (using current inflation) of close to 4%. This suggests that the rand should recover whenever external conditions settle.
- Domestically the South African Reserve Bank (SARB) looks as if it's entering a prolonged pause – having taken rates to 8.25%.

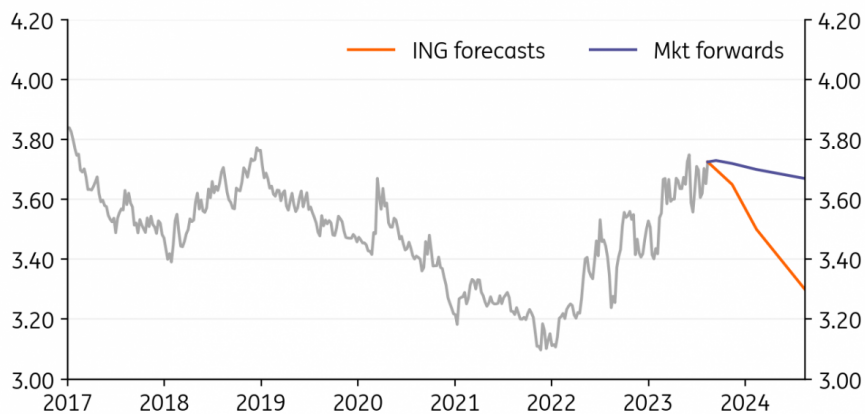




## USD/ILS: 'Excess' shekel depreciation of over 10%, says Bol

	Spot	One month bias	1M	3M	6M	12M
USD/ILS	3.8455	Mildly Bearish <span style="color: red;">↘</span>	3.80	3.65	3.50	3.30

- Israel's constitutional crisis rages on, with little sign of progress. There have been some suggestions that the Israeli President is trying to broker a compromise over PM Netanyahu's contentious judicial reforms – but it feels like we've been here before.
- Interestingly, the Bank of Israel governor, Amir Yaron, says the shekel may have an 'excess' depreciation of over 10% - which has added 1.5% to headline inflation. Clearly any compromise on the reforms should trigger a decent (5%?) rally in the shekel.
- For the time being, however, a difficult external and internal environment are keeping USD/ILS bid. Any moves towards 3.90+ will probably see the Bol hike when it next meets in October.





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