

## EMEA FX Talking: Upside down

In the CEE region, the countries that lost the most during the global turmoil are now on their way to the biggest gains. In Turkey, the upcoming May elections will be a major catalyst for FX in the coming weeks. The rand may rally later, even though the local central bank is pessimistic



### Main ING Emerging Market FX forecasts

	EUR/CZK		EUR/PLN		EUR/HUF
1M	23.45	↑	4.76	↑	373.00
3M	24.30	↑	4.72	↓	370.00
6M	24.20	↑	4.67	↓	383.00
12M	24.20	↑	4.60	↓	370.00

↑ / → / ↓ indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright

Source (all charts and tables): Refinitiv, ING forecast

### EUR/PLN: Negative local situation against positive global backdrop

	Spot	One month bias	1M	3M	6M	12M
EUR/PLN	4.6856	Mildly Bullish 	4.76	4.72	4.67	4.60

- The zloty should remain relatively unattractive in the CEE space for short-term trading. Much of the positioning seems to have been squared ahead of the European Court of Justice's (ECJ's) opinion on FX mortgages in February.
- The local situation should come to the fore as global financial stresses fade. Domestic data point toward an economic slump and slowing inflation, maintaining expectations for National Bank of Poland cuts in the second half of the year, with which we disagree. Moreover, both the ECJ opinion and the looming statutory solution for FX mortgages may trigger local banks to increase provisioning in foreign currencies. This will happen against a positive backdrop of rising EUR/USD though. Hence EUR/PLN is unlikely to exceed technical resistance at 4.76 in April.

### EUR/HUF: Local and global factors make case for a HUF rally

	Spot	One month bias	1M	3M	6M	12M
EUR/HUF	376.1800	Mildly Bearish 	373.00	370.00	383.00	370.00

- After weeks of heightened volatility, the forint has recovered to pre-SVB collapse levels and posted the best year-to-date performance in the CEE region by the end of the first quarter.
- HUF has maintained the highest beta against the global story, which, assuming favourable global conditions, creates room for further improvement. Together with the CZK, HUF remains our favourite CEE currency in the current market conditions.
- The National Bank of Hungary has made it clear that easing is not on the table now, which should keep FX carry by far the highest in the region. The decline in risk aversion, higher EUR/USD and lower energy prices provide perfect conditions for a forint rally in the coming weeks.

## EUR/CZK: Close to historically high levels

	Spot	One month bias	1M	3M	6M	12M
EUR/CZK	23.4240	Neutral	23.45	24.30	24.20	24.20

- The koruna visibly welcomed the Czech National Bank's hawkish tone and is once again attacking historically strong levels. The central bank has confirmed that it is ready to intervene if needed, but current levels are far from where the CNB was last active.
- The central bank's statement is clearly supportive and implies that the koruna is safe in the event of a global sell-off. Moreover, with the prospect of higher rates for a longer period of time, a solid FX carry is also guaranteed.
- Overall, the koruna is, together with the Hungarian forint, our favourite currency within the CEE region, offering very decent risk/reward.

## EUR/RON: Upside pressures on EUR/RON

	Spot	One month bias	1M	3M	6M	12M
EUR/RON	4.9331	Neutral	4.94	4.95	5.08	5.10

- As the liquidity surplus remains at historically high levels (we estimate it around RON26bn in March) money market rates remain anchored closer to the deposit facility. The entire curve up to 1-year is in fact well below the 7.00% key rate.
- The end of March came with upside pressures on EUR/RON. The 4.95 level held again very well, with the increased turnover around it suggesting official offers protecting the leu.
- We believe that mild upside pressures would in fact be rather welcomed by the National Bank of Romania as it has the chance to mop up some of the excess liquidity. Once liquidity is more within NBR's control, an upside move in EUR/RON could be expected.

## EUR/RSD: Hiking cycle may have reached the peak

	Spot	One month bias	1M	3M	6M	12M
EUR/RSD	117.3000	Neutral	117.30	117.30	117.35	117.35

- The inflationary developments in Serbia left few options for the central bank, which decided to tighten policy again by 25bp at its 6 April meeting, bringing the key rate to 6.00%.
- We believe that future policy decisions will be much more data-dependent. We think inflation peaked in February 2023 at 16.1%, but it is unlikely to get within the National Bank of Serbia's 1.5-4.5% target range over the next two years.
- We maintain our expectations for an essentially flat EUR/RSD profile for the rest of 2023, with FX interventions likely to occur sideways in a rather narrow range.

## USD/UAH: Short term risks less severe, but longer ones remain high

	Spot	One month bias	1M	3M	6M	12M
USD/UAH	36.9320	Neutral	37.00	39.00	39.00	37.00

- Pressure on the hryvnia has eased in recent weeks. The monthly cost of FX intervention in March dipped below US\$2bn (vs US\$4bn in mid-2022). In tandem with international aid, including a new multi-year International Monetary Fund (IMF) programme of US\$15.6bn, it helped NBU FX reserves stabilise near US\$30bn, relatively close to pre-war levels. This considerably eases the short-term risks to the hryvnia.
- We still remain wary of the UAH prospects around the middle of the year. Improved weather will encourage larger scale fighting in East Ukraine and possibly another major Russian offensive. Moreover, with no end to the conflict in sight, pressure on the Ukrainian economy will further increase in the coming months.

## USD/KZT: Higher volatility, in line with commodities

	Spot	One month bias	1M	3M	6M	12M
USD/KZT	451.0000	Mildly Bearish 	440.00	465.00	460.00	470.00

- USD/KZT ended March at 445-450, close to the end of February levels and in line with our expectations. But the intra-month volatility was high, as KZT traded in a wide 430-465 range, reflecting Brent falling from US\$86 to US\$73/bbl and then recovering recently to US\$85.
- The positive momentum on the oil market following the OPEC+ production cut and calmer global financial markets has set the stage for further KZT appreciation in the near term.
- We remain constructive on the Kazakhstani tenge in the medium term, given the expected increase in exports. However, exposure to geopolitical risks in the region could be a source of two-way volatility.

## USD/TRY: May elections key catalyst for the outlook

	Spot	One month bias	1M	3M	6M	12M
USD/TRY	19.2930	Mildly Bullish 	19.70	21.40	23.10	25.00

- At the March meeting, the Central Bank of Turkey hinted that it would maintain a wait-and-see mode, while we can expect further macro-prudential measures to maintain favourable financial conditions with the objective of minimising the effects of the earthquakes.
- Recently, we saw a signal to reduce the maturity of FX-protected deposits supported by the CBT down to one month and the removal of the interest rate cap in Treasury-supported FX-protected deposits. In this environment, the CBT is likely to maintain its control over locals' FX flows to sustain low rates.
- Given elevated inflation and ongoing upside risks, the real value of the exchange will likely remain in focus ahead of the elections.

## USD/ZAR: Even the SARB thinks the rand will weaken

	Spot	One month bias	1M	3M	6M	12M
USD/ZAR	18.3920	Mildly Bearish 	18.25	18.00	17.50	17.00

- The South African rand has been doing a little better recently, helped by the softer dollar environment and the surprise 50bp hike from the South African Reserve Bank in late March. The SARB felt that it had no other alternative than to hike by so much given that inflation expectations were on the rise and inflation looked unlikely to return to the target until late 2024.
- In a brutally honest statement, the SARB said that “further currency weakness looks likely”. The SARB hangs this on load-shedding/power outages hitting growth, upside inflation risks and the current account deficit widening on softer commodity prices.
- We think the rand can rally a little on the softer dollar story in the second half of the year, but the shorter-term risks in USD/ZAR lie to the upside.

## USD/ILS: No signs of political tension easing

	Spot	One month bias	1M	3M	6M	12M
USD/ILS	3.6266	Mildly Bearish 	3.60	3.50	3.35	3.20

- The Israeli shekel has recovered a little over the last month, but that looks entirely down to the softer dollar. Domestically, the situation remains very tense: the Netanyahu government so far is showing no signs of backing down in its push for judicial reforms. The Bank of Israel's research department recently presented scenarios as to what this tension may mean for growth, inflation and Israel's sovereign risk premium.
- A quick resolution to the crisis could knock 0.8% off GDP per year over the next three years. Lasting effects/structurally higher sovereign risk premium could knock 2.8% off GDP per year.
- The macro fundamentals for the shekel are good, but unless the crisis is resolved, USD/ILS may not head down to 3.50 after all.

## Authors

### **Piotr Poplawski**

Senior Economist, Poland

[piotr.poplawski@ing.pl](mailto:piotr.poplawski@ing.pl)

### **Peter Virovacz**

Senior Economist, Hungary

[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

### **Frantisek Taborsky**

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

### **Valentin Tataru**

Chief Economist, Romania

[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

### **Dmitry Dolgin**

Chief Economist, CIS

[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

### **Muhammet Mercan**

Chief Economist, Turkey

[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

### **Chris Turner**

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

[chris.turner@ing.com](mailto:chris.turner@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 <http://www.ing.com>.