EMEA FX Talking: The zloty story continues to look good

The stronger dollar is starting to cause some position unwinds in widely backed trades, such as the Polish zloty. However, we still think the EU funds story is a good one and a less dovish central bank should also help the zloty. Elsewhere, we are in the run-up to South African elections and the rand remains vulnerable

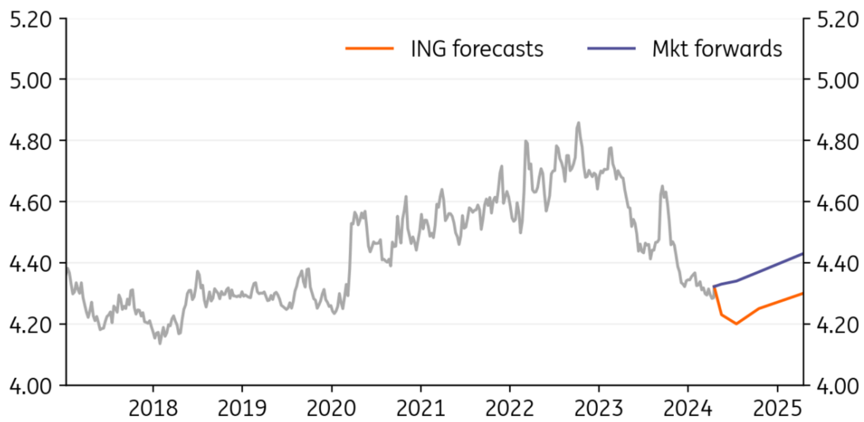
Main ING Emerging Market FX forecasts

	EUR/CZK		EUR/PLN		EUR/HUF	
1M	25.30	→	4.23	↓	395.00	↓
3M	25.30	↓	4.20	↓	400.00	↑
6M	24.80	↓	4.25	↓	390.00	↓
12M	24.00	↓	4.30	↓	405.00	↓

EUR/PLN: NBP rates and EU inflows call for further PLN gains

	Spot	One month bias	1M	3M	6M	12M
EUR/PLN	4.3220	Bearish	4.23	4.20	4.25	4.30

- The zloty showed resilience to the recent drop in EUR/USD. Investors are most likely focusing on supportive domestic fundamentals, particularly the inflow of EU funds (PLN100bn net in both 2024 and 2025). Using the latest available data as a proxy (2022), around 40% of that should be converted on the market. This should support other PLN-positive factors, including the current account surplus and inflow of FDI. Moreover, we expect the National Bank of Poland to keep rates flat this year, given the gradual withdrawal of anti-inflation shields and the CPI rebound in the second half of this year.
- The global political environment remains a risk in 2H24 though, as we are yet to see if the US stance on the conflict in Ukraine changes after the presidential elections later this year.

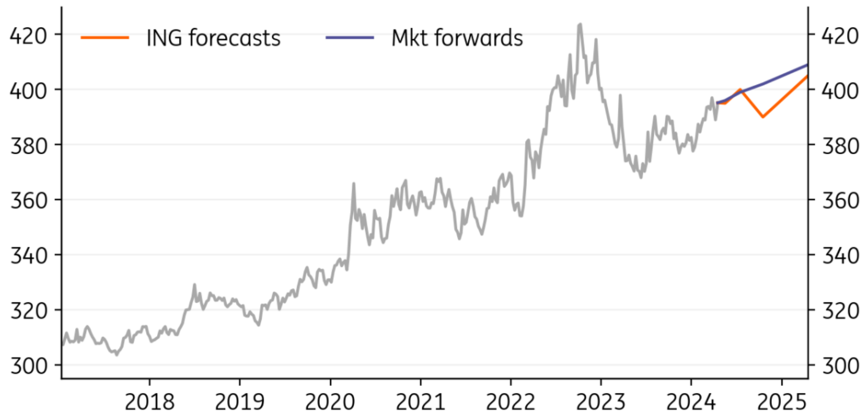


Source: Refinitiv, ING

EUR/HUF: Calm before a possible storm in the forint market

	Spot	One month bias	1M	3M	6M	12M
EUR/HUF	395.1800	Neutral	395.00	400.00	390.00	405.00

- Most country-specific risks have receded (at least temporarily) over the past month. This is due to the fact that policymakers seem to be pushing for a very market-friendly environment. This has helped EUR/HUF to come down to 390.
- Now the focus is back on the global risk environment and interest rate developments. As we believe that the central bank could use the recent positive market momentum to stick to a 75bp easing cycle, this could break the calm.
- As the market has gone too far in pricing out rate cuts in Hungary in our view, a significant correction could push EUR/HUF back into the 395-400 range, before finding its way back to 390.

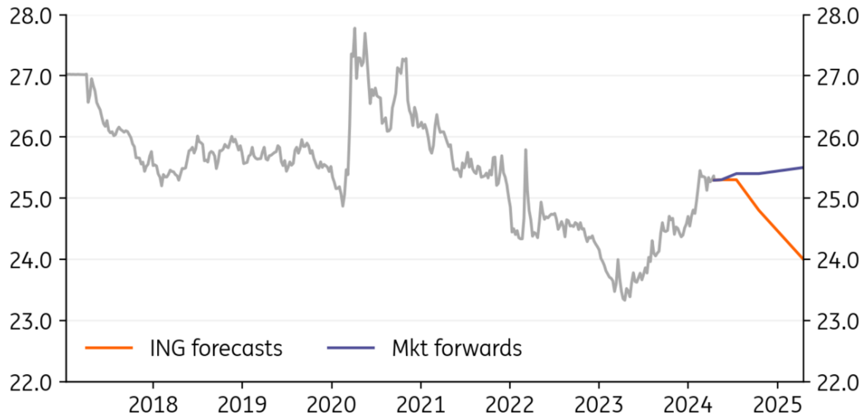


Source: Refinitiv, ING

EUR/CZK: CNB cautious approach will keep the koruna stable

	Spot	One month bias	1M	3M	6M	12M
EUR/CZK	25.2900	Neutral	25.30	25.30	24.80	24.00

- Inflation continues to slow with the headline number at the central bank's target for the second month in a row and core inflation gradually moving lower. However, service inflation is making the central bank worried which will likely lead the Czech National Bank to stay on a safe path with 50bp of rate cuts per] meeting.
- Hence, we don't expect much from the koruna for the coming months as the central bank cuts rates further. However, the second half of the year should be more positive due to a more advanced phase of rate cuts, economic recovery and ECB rate cuts improving the interest rate differential, which we believe is hitting a limit on the CZK leg.

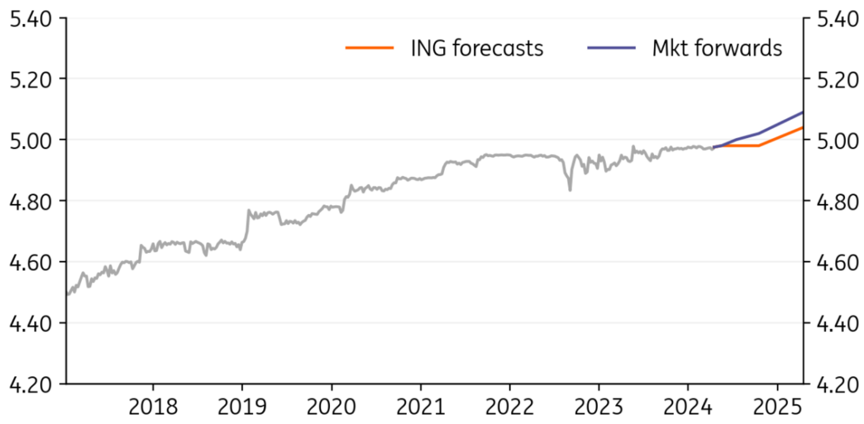


Source: Refinitiv, ING

EUR/RON: Unlikely to shift soon

	Spot	One month bias	1M	3M	6M	12M
EUR/RON	4.9755	Neutral	4.98	4.98	4.98	5.04

- EUR/RON was again stable in the range of 4.9650-4.9750. As the fight against rather sticky inflation carries on - and the FX rate plays a central role here- a departure from current levels remains unlikely in the near term.
- On the back of sharp retail sales growth in January-February and still robust wage growth, inflationary risks are rather tilting to the upside, setting the stage for FX overvaluation to persist. Higher oil prices and a likely increase in the tax burden next year add to the medium-term inflationary risks, keeping the need for FX stability in place further down the line.
- All told, we continue to see FX stability ahead. The chances of crossing the 5.00 level by autumn are not high, we think.

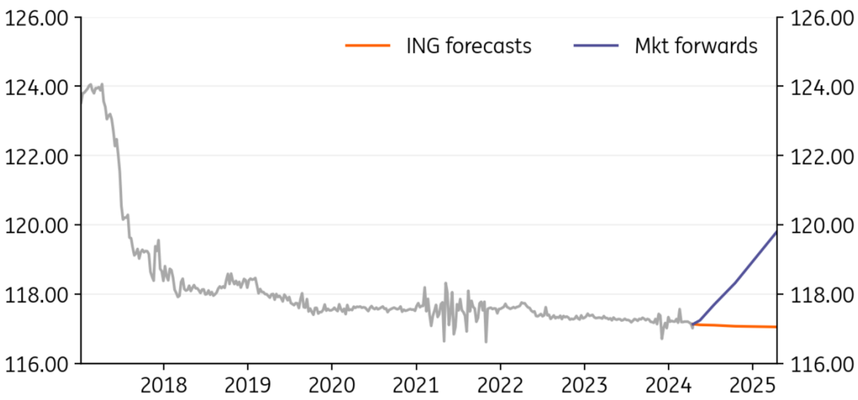


Source: Refinitiv, ING

EUR/RSD: Stability to persist

	Spot	One month bias	1M	3M	6M	12M
EUR/RSD	117.1300	Neutral	117.11	117.10	117.07	117.05

- The Serbian dinar picked up slightly vs the euro, in the range of 117.00-117.25. Key positives relate to inflation developments and an outlook upgrade by S&P from stable to positive. Intervention from the central bank likely cushioned more volatile developments.
- Tensions with Kosovo have continued and ending them remains a challenge, particularly on Kosovo EUR-only usage enforcement. That said, relatively strong fundamentals and policymakers' aspirations towards an investment grade upgrade could bring upside potential for RSD ahead.
- We continue to think that the RSD is set to remain broadly flat ahead, on the back of the intervention-driven stability induced by the central bank.

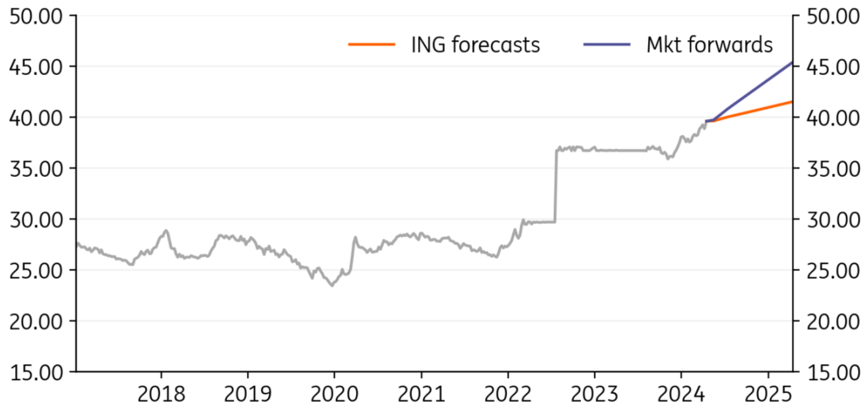


Source: Refinitiv, ING

USD/UAH: Hryvnia remains at risk

	Spot	One month bias	1M	3M	6M	12M
USD/UAH	39.5800	Neutral	39.60	40.00	40.50	41.50

- Ukraine's hryvnia showed some signs of stabilisation in early April after two months of depreciation. The short and medium-term prospects of the Ukrainian currency largely hinge on the National Bank of Ukraine's policy. The depreciation in Feb-Mar reflected a significant reduction in the central bank's FX intervention (US$1.8bn in March vs. US$3.6bn in December). Given strong disinflation (CPI just at 3.2% year-on-year in March), we think the National Bank of Ukraine may remain reluctant to defend the currency in the coming weeks.
- The long-term prospects of the hryvnia remain negative. A weaker currency is both supportive to exports and provides better conversion rates for foreign aid absorption.



Source: Refinitiv, ING

USD/KZT: Stronger oil extends the appreciation run

	Spot	One month bias	1M	3M	6M	12M
USD/KZT	449.0200	Neutral	450.00	457.00	463.00	480.00

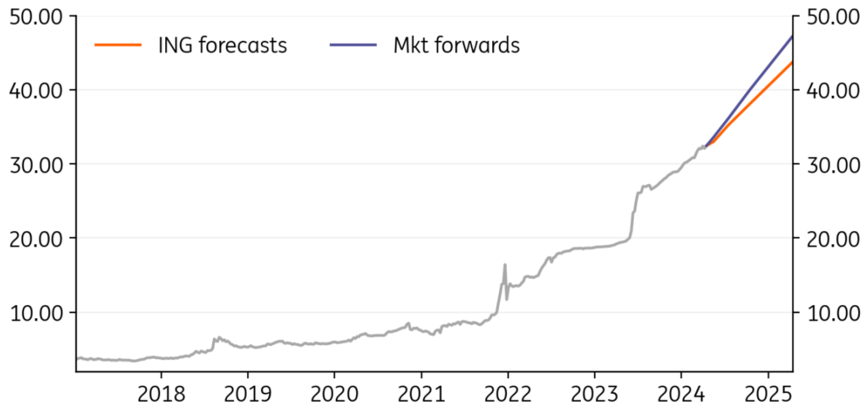
- Kazakhstan's tenge has traded slightly stronger than expected in a narrow range of 445-450 to 1 US dollar, outperforming the key trade partner currencies. A jump in oil prices and the benign dollar environment seem to be the primary supportive factors.
- The tenge's appreciation is modest compared to the spike in the oil price, meaning that the support of domestic factors is waning. FX sales by the NFRK sovereign fund declined from over $1bn in January to $600-750m in February-March.
- We improve our expected KZT levels for 2024 to account for the change in the house view on oil and the dollar but continue to see medium-term depreciation risks on domestic factors.

Source: Refinitiv, ING

USD/TRY: Volatility has declined after the local elections

	Spot	One month bias	1M	3M	6M	12M
USD/TRY	32.4500	Mildly Bullish	33.00	35.20	38.10	43.80

- Given the backdrop of a soft Turkish lira and a downward trend in net FX reserves, the central bank has responded with several tightening actions including a larger-than-expected rate hike and a determination to keep rates high and monetary conditions tight.
- Following this tightening, the Central Bank of Turkey seems confident that the tight monetary stance will lead to i) a decline in the underlying trend of monthly inflation by moderating domestic demand, ii) real appreciation in TRY, and iii) an improvement in inflation expectations. Accordingly, the Bank expects that "disinflation will be established in the second half of 2024".
- With this monetary tightening, the strengthening in the currency has become more pronounced in the aftermath of local elections. Non-resident inflows and local corporate FX sales support the most recent CBT reserve data as early indicators of strong accumulation of TRY in the first week of April.

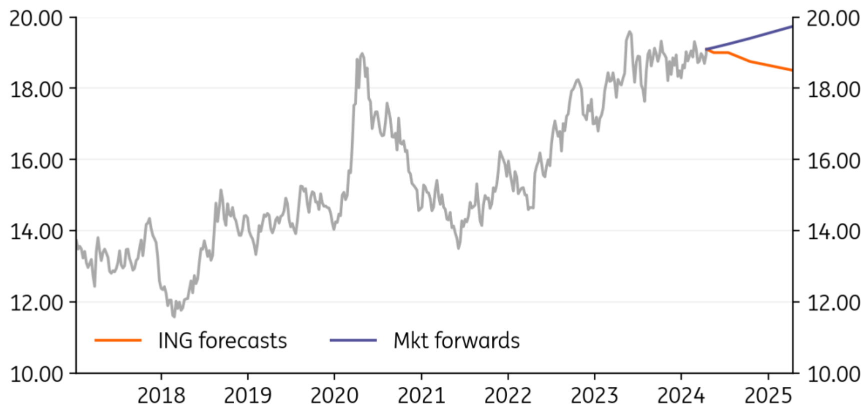


Source: Refinitiv, ING

USD/ZAR: Who will govern after 29 May?

	Spot	One month bias	1M	3M	6M	12M
USD/ZAR	19.0900	Neutral	19.00	19.00	18.75	18.75

- The 29 May general election is fast approaching. The popularity of South Africa's ruling ANC party has fallen sharply and it now polls below 40%. But it is by far the biggest party and the issue will be one of who joins it in a coalition government. Depending on how off-shoots of the ANC party perform – i.e. the EFF and the MK parties – the outcome could be market unfriendly. A national unity government with the DA party would be the best outcome for markets.
- Given much uncertainty, expect USD/ZAR to continue to trade on high volatility. Higher US rates/soft China will also weigh on the rand.
- The better news is the metals rally triggering some nice terms of trade gains for the rand. But we think USD/ZAR risks appear to be skewed higher.

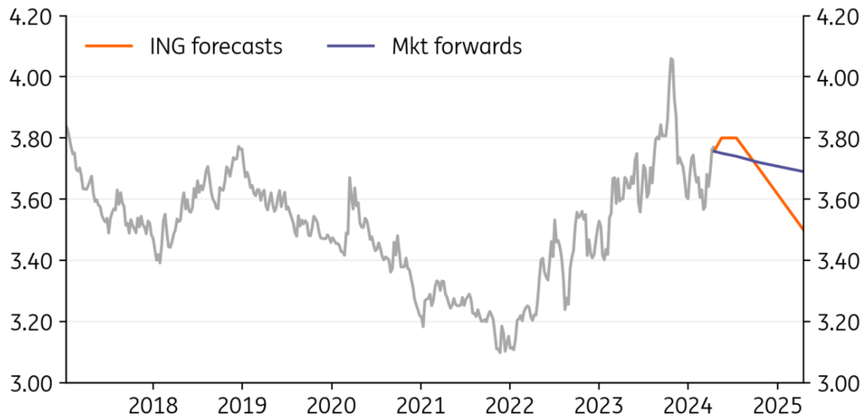


Source: Refinitiv, ING

USD/ILS: Israel builds its war chest

	Spot	One month bias	1M	3M	6M	12M
USD/ILS	3.7561	Mildly Bullish	3.80	3.80	3.70	3.50

- March FX reserve data published by the Bank of Israel showed government activity added $4.8bn to FX reserves in March. In the past, that has represented FX buying intervention, but in March represented Israel issuing $8bn of 5-, 10- and 30-year USD bonds – presumably to support defence spending.
- The BoI's research staff have recently published 2024 and 2025 forecasts on the assumption that the war carries on for the rest of the year. It forecasts GDP at 2% and 5% in '24 and '25, with CPI staying near 2.5%. The policy rate is expected to be cut 75bp.
- Given the risk of escalation in the Middle East region and the Fed keeping policy tighter for longer, USD/ILS risks look skewed higher.



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