EMEA FX Talking: Broad range of local drivers

The EMEA FX bloc is being driven by a broad range of local factors, including the pace at which monetary policy is eased across the CE3 region and the prospects for a return to orthodox policy in Turkey. High yielders will still be in demand from the carry trade, but events in China are failing to create the kind of conditions in which EMEA currencies can thrive

Source: Shutterstock

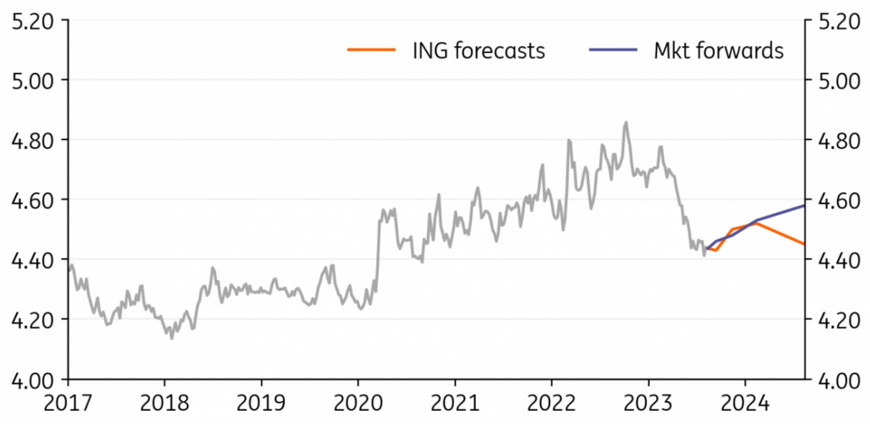
Main ING Emerging Market FX forecasts

	EUR/CZK		EUR/PLN		EUR/HUF	
1M	24.50	↑	4.43	→	380	↓
3M	24.20	↓	4.50	↑	376	↓
6M	24.00	↓	4.52	→	370	↓
12M	23.50	↓	4.45	↓	365	↓

EUR/PLN: Range-bound, correction possible after the elections

	Spot	One month bias	1M	3M	6M	12M
EUR/PLN	4.4366	Neutral	4.43	4.50	4.52	4.45

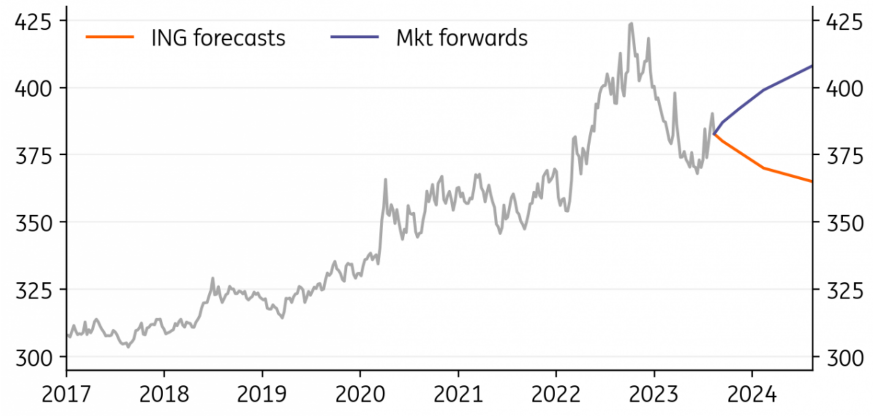
- We expect €/PLN to continue its range-bound trading until the October general elections. There were multiple attempts to break below 4.40, but demand seems to fade around this level. Possibly MoF refrains from converting hard currencies via the market around this level, unwilling to push €/PLN close to Polish exporters' profitability limit (4.30 based on NBP estimates).
- We see significant odds of PLN easing after the elections. Available opinion polls suggest that the political set-up may prevent access to the Recovery Fund any time soon. Moreover, we see domestic demand rebounding in 2H23, which should trip Poland's trade surplus, given limited external demand.



EUR/HUF: We still believe in a turnaround in forint

	Spot	One month bias	1M	3M	6M	12M
EUR/HUF	382.7100	Mildly Bearish	380.00	376.00	370.00	365.00

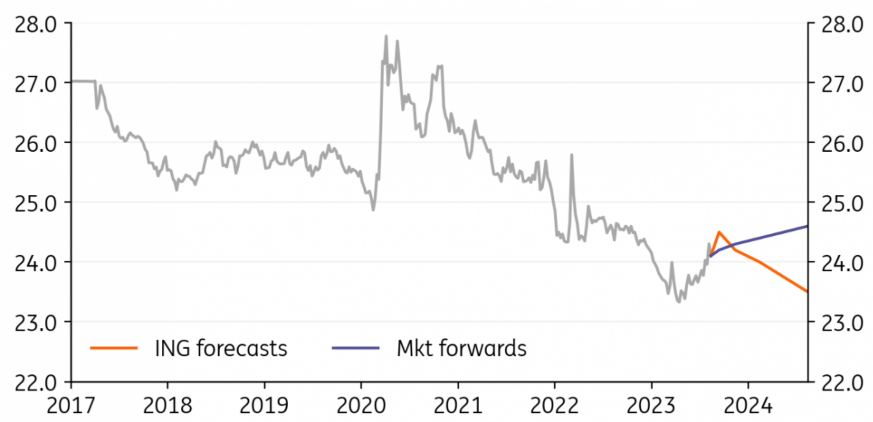
- Rather than being data-driven, we see a fear or sentiment-driven risk premium added to the forint. This could have been triggered by a number of factors like no progress in EU funds, uncertainties around the fiscal situation and sovereign credit rating views.
- History tells us that HUF tends to be more volatile and prone to weakening during the summer lull. Thus – based on past evidence – we see a correction in the coming months. This will be helped by the improving structural indicators: disinflation, stable debt financing and better-than-expected external balances.
- Also, we believe an agreement with the EU will come before year-end, and thus we see a positive breakout potential later this year.



EUR/CZK: CNB formally ends the intervention regime

	Spot	One month bias	1M	3M	6M	12M
EUR/CZK	24.1000	Mildly Bullish	24.50	24.20	24.00	23.50

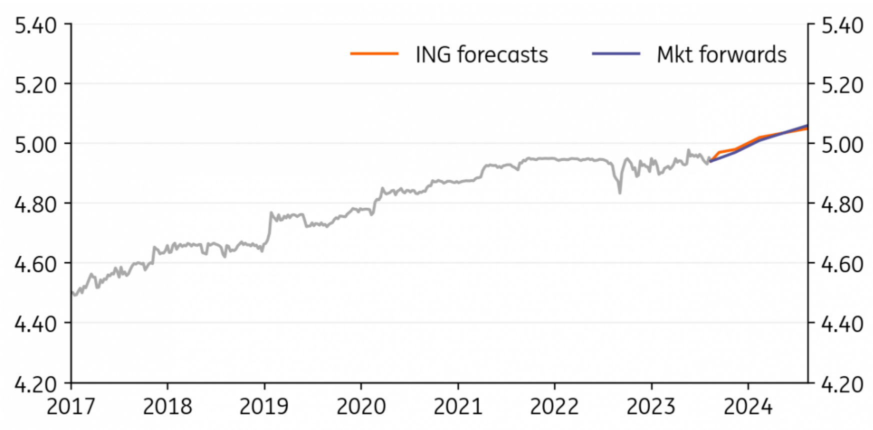
- The Czech National Bank surprisingly ended the FX intervention regime at its last meeting. In fact, the last time the central bank intervened was in October last year, so this is no change for the market. On the other hand, the insurance that the koruna will not weaken more has disappeared from the market.
- Following the announcement, the koruna slipped to 24.25 EUR/CZK, the weakest levels since mid-2022. For now, the market does not want to test higher levels, but with the rate cut looming, it cannot be ruled out that the market will want to test the CNB's patience. On the other hand, the market is pricing in almost a full cutting cycle and a higher EUR/USD later should keep the koruna below 24.0 EUR/CZK.



EUR/RON: 4.92-4.98 looks to be the new trading range

	Spot	One month bias	1M	3M	6M	12M
EUR/RON	4.9405	Mildly Bullish	4.97	4.98	5.02	5.05

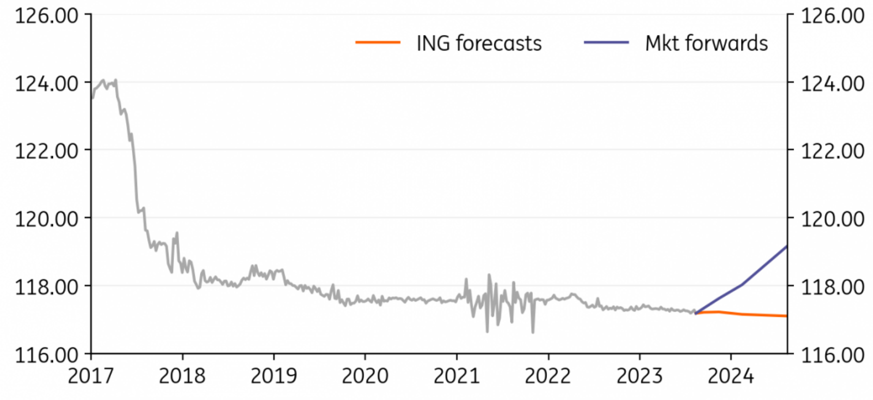
- Throughout the summer the EUR/RON tested the National Bank of Romania's tolerance on the downside and seems to have defined a new trading range of 4.92-4.98.
- The strengthening bias of the RON has been driven mainly by seasonal one-off internal factors which are expected to subside in August-September. As this happens, we expect the pair to trade on the higher end of the 4.92-4.98 range.
- We maintain our 5.02 estimate for the year-end, though it is becoming clearer that the central bank's tolerance for leu depreciation is extremely limited, as the headline inflation could prove a bit stickier than expected on the downside.



EUR/RSD: Marginal RSD appreciation to help with disinflation

	Spot	One month bias	1M	3M	6M	12M
EUR/RSD	117.1800	Neutral	117.21	177.22	177.15	177.10

- The EUR/RSD seems to have subtly resumed a mild downward trend over the last months, as capital inflows are still increasing the National Bank of Serbia's reserves. This is likely tolerated by the central bank as it faces a relatively sticky inflation profile.
- The NBS resumed its tightening cycle, bringing the key rate to 6.50% in July. We believe that this is the end of the hiking cycle. A relatively long pause of at least six months should follow before the next decision is made.
- We believe that the next policy decision will be a rate cut in the first half of 2024. We do not envisage the headline inflation back within NBS's 1.5%-4.5% target range over the next two years.

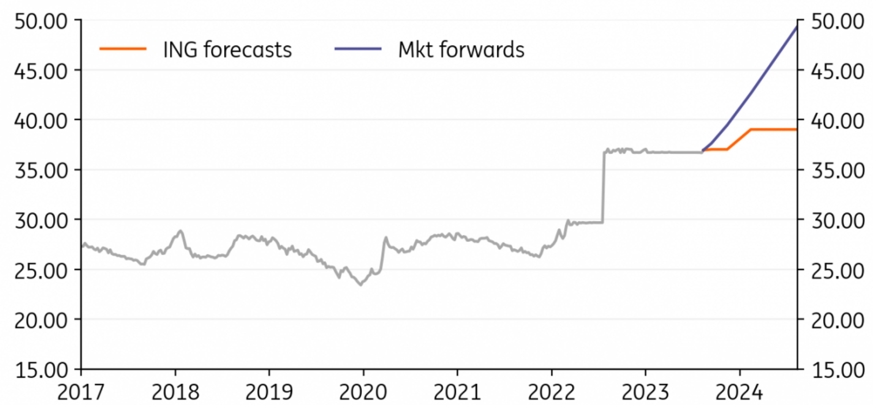


Source: NBS, ING

USD/UAH: Foreign aid stabilises the hryvnia

	Spot	One month bias	1M	3M	6M	12M
USD/UAH	36.9300	Neutral	37.00	37.00	39.00	39.00

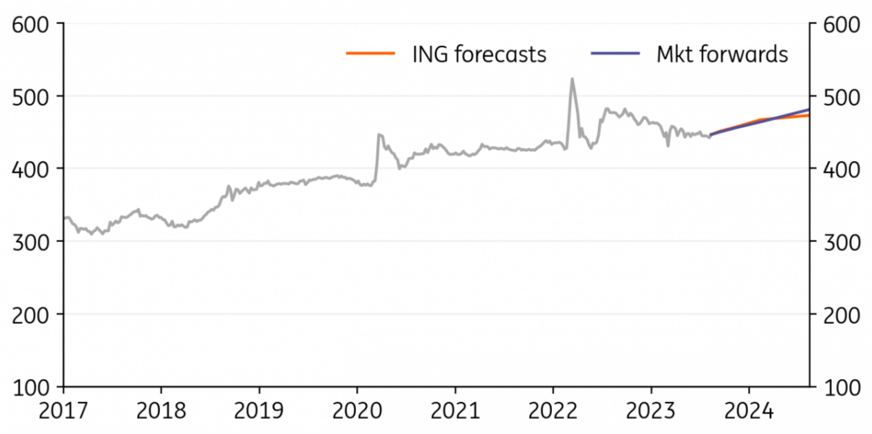
- Short-term prospects of the hryvnia remain neutral. Foreign aid continued to shore-up Ukraine's international reserves (now at an all-time high of US$41.7bn). At the same time FX intervention costs stabilised around US$2bn monthly. This suggests no imminent risk of the NBU allowing the hryvnia to depreciate.
- However long-term prospects remain mixed at best. The Russian aggression is unlikely to end anytime soon, and lately trade-related infrastructure (primarily ports) are under shelling. This underlines economic challenges of reconstruction and potentially a long period of foreign trade deficits. That is why we still expect the central bank to allow some hryvnia easing in the future.



USD/KZT: Range-bound despite stronger oil prices

	Spot	One month bias	1M	3M	6M	12M
USD/KZT	446.6100	Mildly Bullish	451.00	457.00	467.00	473.00

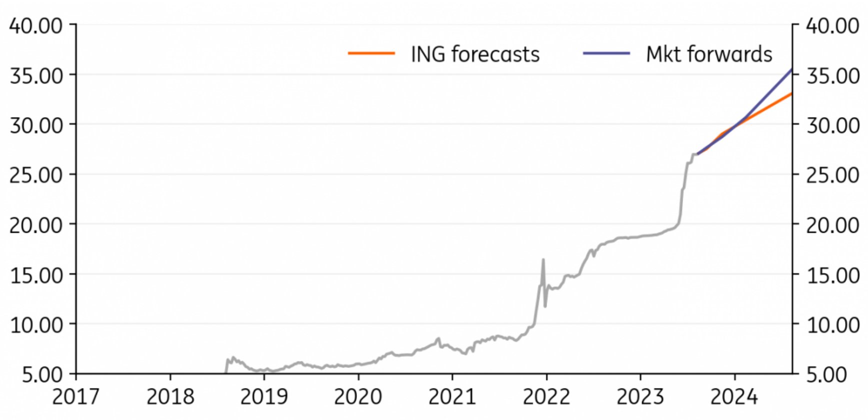
- The tenge performance in July confirmed the obstacles to further appreciation. Despite a material increase in Brent prices from $75 to $85/bbl, USD/KZT traded in a narrow 440-445 range throughout most of July.
- State capital is supportive of KZT, given July's $0.6bn transfers from the sovereign fund to the budget and around $0.2bn inflow of non-residents into the state debt. This suggests pressure coming from the private capital outflow.
- The recent Brent price growth is creating upside risks to the tenge, but for the medium term we continue to see gradual KZT depreciation on limited oil output and capital outflow pressure.



USD/TRY: TRY outlook remains challenging

	Spot	One month bias	1M	3M	6M	12M
USD/TRY	27.0500	Mildly Bullish	27.50	29.00	30.40	33.10

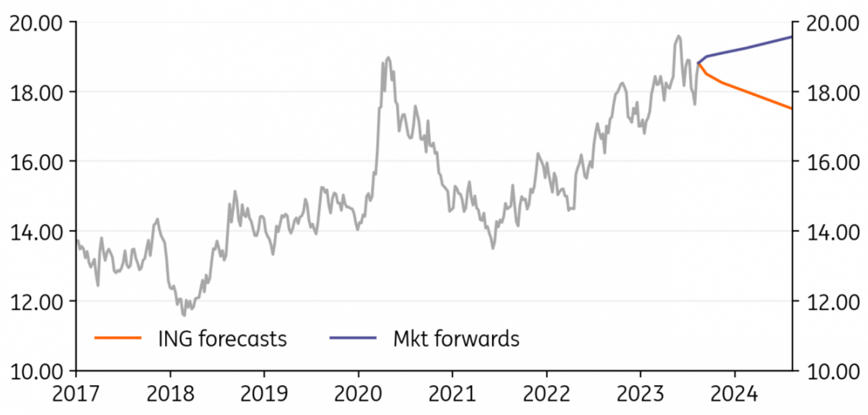
- In a press conference, Central Bank of Turkey Governor Erkan reiterated the decision to provide banks with FX directly, if there is demand due to maturing FX-protected accounts. She added that the CBT does not utilise the protocol signed with the Treasury to facilitate state banks activity in the currency market.
- The CBT's FX reserves have significantly increased since the elections. Its gross FX reserves (including gold) rose by $15.3bn to $113.8bn, while net reserves improved by $15.3bn to $10.9bn. Finally, net reserves excluding FX swaps increased by $9.9bn to -$50.6bn in the same period. Reserve accumulation in the second half of July, however, has lost significant momentum.
- Since the elections, the lira has posted a large drop by more than 30% with a move from the 19-20 range to around 27. While there has been stability lately with lighter liquidity and higher tourism revenues, continuing external imbalances, capital flow developments and the level of FX reserves are likely to determine the TRY outlook in the remainder of this year



USD/ZAR: SARB pauses tightening, rand weakens

	Spot	One month bias	1M	3M	6M	12M
USD/ZAR	18.8100	Mildly Bearish	18.50	18.25	18.00	17.50

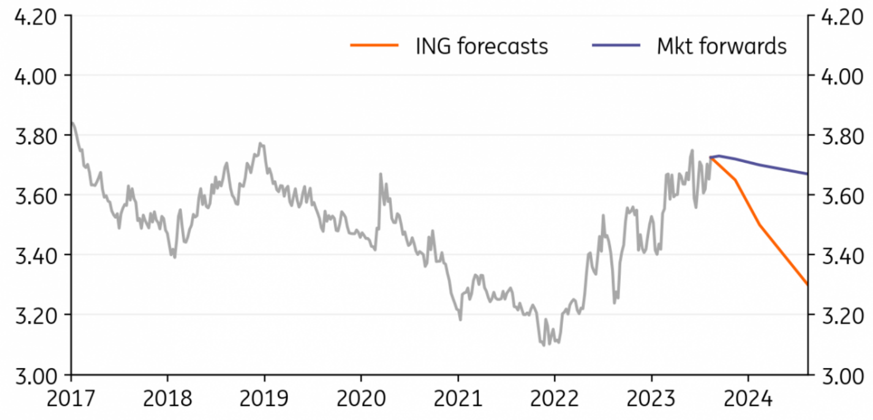
- It may be a coincidence, but the rand seemed to come under pressure in late July after the South African Reserve Bank kept rates on hold at 8.25% - despite expectations of a 25bp hike. The market now prices SARB rates having peaked but doesn't price any easing until late 2024.
- The rand remains a high volatility currency. The prospect of local growth only near 1%, weak Chinese growth and perhaps El Nino hitting agriculture does not make for a compelling investment proposition.
- However, as long as inflation continues to tick lower – leaving real rates somewhere in the positive 3%+ area, the rand should be able to stabilise in the confines of an 18.00-19.00 range.



USD/ILS: Judicial reform uncertainty continues

	Spot	One month bias	1M	3M	6M	12M
USD/ILS	3.7252	Mildly Bearish	3.70	3.65	3.50	3.30

- The resilient dollar and the ongoing uncertainty over Israeli judicial reforms is keeping USD/ILS towards the top of its 3.60-3.75 range. On the latter issue, it seems that the Netanyahu government is now focused on the Judicial Selection Committee – and taking greater control of it. Opposition remains fierce and 12 September seems to be a key date for whether the Supreme Court can rule against recent government measures.
- We keep checking the FX reserve release every month to see if there has been and Bank of Israel FX intervention to cap USD/ILS above 3.75. But there is no intervention.
- If this thorny issue ever gets resolved, ILS should strongly recover.



Authors

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com