EMEA FX Talking: Easing cycles largely priced; we remain positive on CE4 FX

Our CE4 team thinks that easing cycles across the region have been mostly priced and that there is less risk of lower short-term interest rates derailing the rallies in local currencies. Elsewhere, the rand is underperforming the better commodity environment, while the Turkish lira could outperform the forwards given the interest in carry

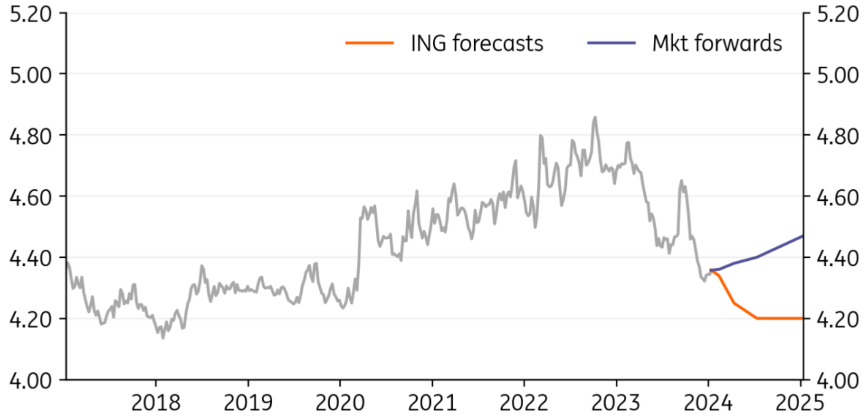
Main ING Emerging Market FX forecasts

	EUR/CZK		EUR/PLN		EUR/HUF	
1M	24.70	→	4.34	↓	368	↓
3M	24.50	↓	4.25	↓	365	↓
6M	24.20	↓	4.20	↓	365	↓
12M	23.80	↓	4.20	↓	370	↓

EUR/PLN: Investors trimming PLN longs, long prospect still positive

	Spot	One month bias	1M	3M	6M	12M
EUR/PLN	4.3576	Neutral	4.34	4.25	4.20	4.20

- Foreign investors are trimming their long positions in the zloty. For now, this is countering otherwise solid fundamentals behind the currency. Hence breaching 4.30 may prove difficult in early 1Q24.
- Nonetheless we expect the zloty to extend gains in 2024, with target levels around 4.20-25. The market is still pricing aggressive rate cuts, over 100bp this year, starting in March. The central bank rhetoric suggests that the scope for easing is much lower, given a likely CPI rebound in 2H24. On top of that, we expect further foreign inflows, both investments (i.e the foreign share in POLGBs is still just half as much as elsewhere in CEE) and from the EU. Poland should also maintain a current account surplus. The conflict in Ukraine remains the key risk for the zloty, as Ukrainian success becomes more distant.

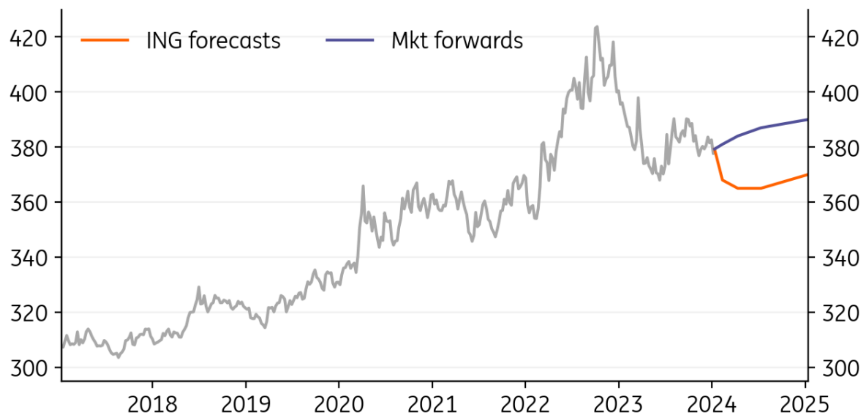


Source: Refinitiv, ING

EUR/HUF: New year, new hopes of HUF breaking out

	Spot	One month bias	1M	3M	6M	12M
EUR/HUF	379.2600	Bearish	368.00	365.00	365.00	370.00

- We have turned the page on 2023, but investors have hardly put their doubts about the forint behind them. The impact of the EU deal has been more pronounced in the rates space than in FX.
- The narrowing of the interest rate differential goes hand in hand with renewed market expectations of a more dovish central bank. Although we have some doubts, we see the market reinforcing this view thanks to the favourable disinflation process.
- As a result, we could see a move in EUR/HUF above 380. However, as we expect the central bank to remain cautious and to surprise on the hawkish side, we call for a breakout below 370 with extremely positive real rates around spring.

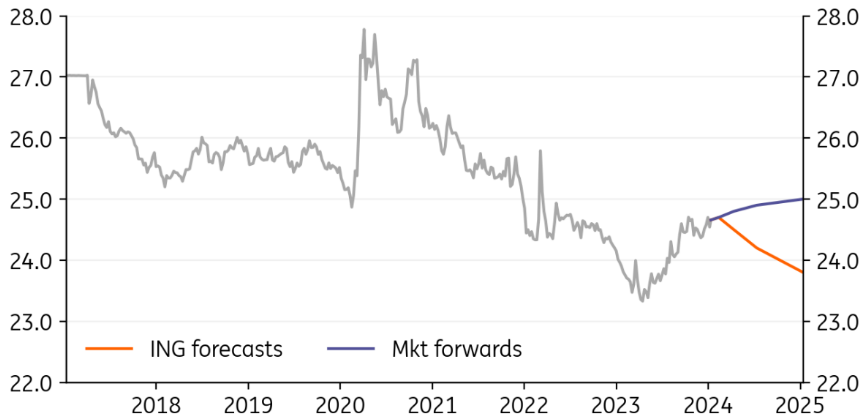


Source: Refinitiv, ING

EUR/CZK: Turning positive on the koruna since all cuts priced in

	Spot	One month bias	1M	3M	6M	12M
EUR/CZK	24.6600	Neutral	24.70	24.50	24.20	23.80

- We turned positive on the koruna in early January given that the market had already priced in the vast majority of central bank rate cuts.
- December inflation surprised to the downside, raising the risk of a larger rate cut in February, which would likely keep the CZK at weaker levels for longer. But in a base case scenario of 25bp in February and 50bp in March, we believe the CZK has the potential to make new gains or at least stay where it is.
- On the positive side, market positioning has taken a bearish stance here, making CZK the most shorted FX within CEE. Thus, a reversal may trigger some unwinding of short positions and support the CZK.

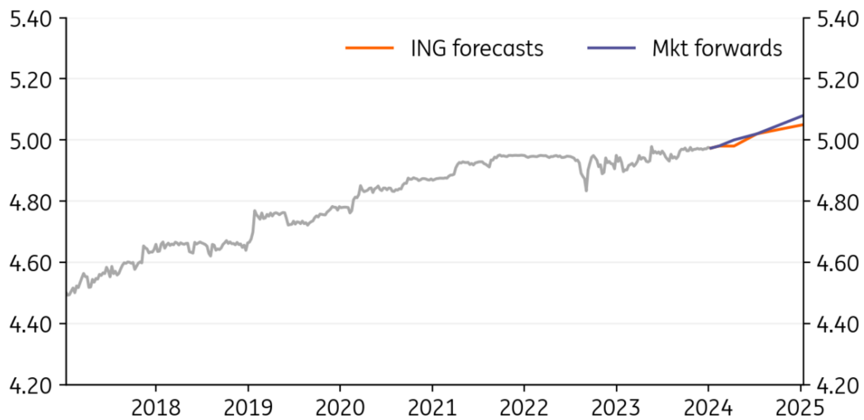


Source: Refinitiv, ING

EUR/RON: A new range is still not in sight

	Spot	One month bias	1M	3M	6M	12M
EUR/RON	4.9735	Neutral	4.98	4.98	5.02	5.05

- EUR/RON experienced another month of stability in the range of 4.965-4.975. Volatility has been minimal and the likelihood of a departure from the current state is quite small, in our view.
- While inflation recently surprised to the downside, the central bank's job is far from done, and hence is in no hurry to address the FX overvaluation. Moreover, the persistent budget deficit and wage growth pose key inflationary risks.
- All told, we don't see any imminent departure from the current range. The second half of the year might bring a crossing of the 5.00 level, but only if inflation heads credibly towards the target by that time.

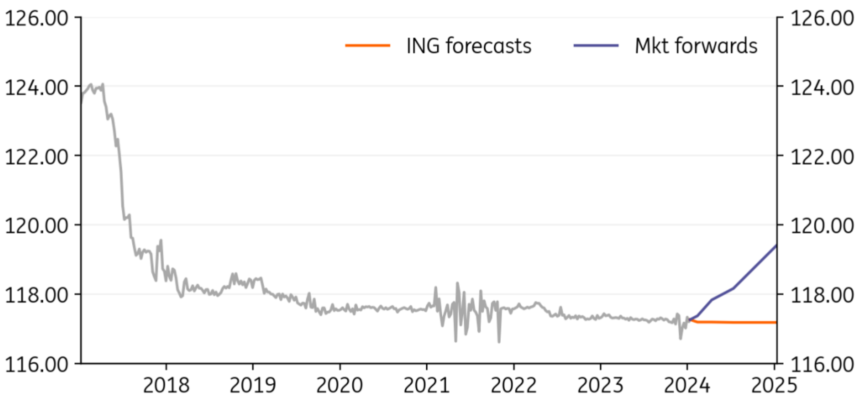


Source: Refinitiv, ING

EUR/RSD: As tightly managed as usual

	Spot	One month bias	1M	3M	6M	12M
EUR/RSD	117.2600	Neutral	117.19	117.19	117.18	117.18

- Social and political instability has been rising sharply over the past month, with many consecutive days of protests by unhappy voters over rigged election accusations. That said, FX volatility during this time was not much different to the rest of the year, in a range of 117.15-117.27.
- In 2023, the budget gap seems to have been around 2.4% of GDP, improving from an initial projection of 3.3%. Moreover, in December 2023, the IMF concluded a positive review under the current Stand-By Agreement.
- We continue to expect a flat and intervention-driven EUR/RSD, as the fight against inflation remains the key priority ahead.

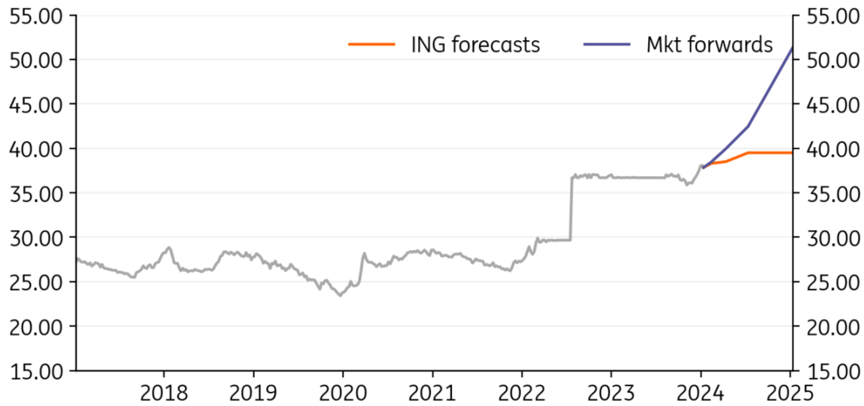


Source: Refinitiv, ING

USD/UAH: UAH weakness testing NBU

	Spot	One month bias	1M	3M	6M	12M
USD/UAH	37.8400	Mildly Bullish	38.30	38.50	39.50	39.50

- USD/UAH is already trading above levels prior to the National Bank of Ukraine's decision to free the exchange rate. As expected, hryvnia gains were impossible to hold given a massive current account deficit. Now we will see how much hryvnia depreciation the NBU is willing to tolerate. Foreign aid has helped to shore up Ukraine's FX reserves close to an all-time high, so the NBU has no shortage of ammunition left.
- Long-term prospects of the hryvnia remain fundamentally negative. With no prompt end to the Russian aggression in sight, the damage to the Ukrainian economy will only increase, requiring massive reconstruction-linked imports. At the same time, much of its export links are cut.

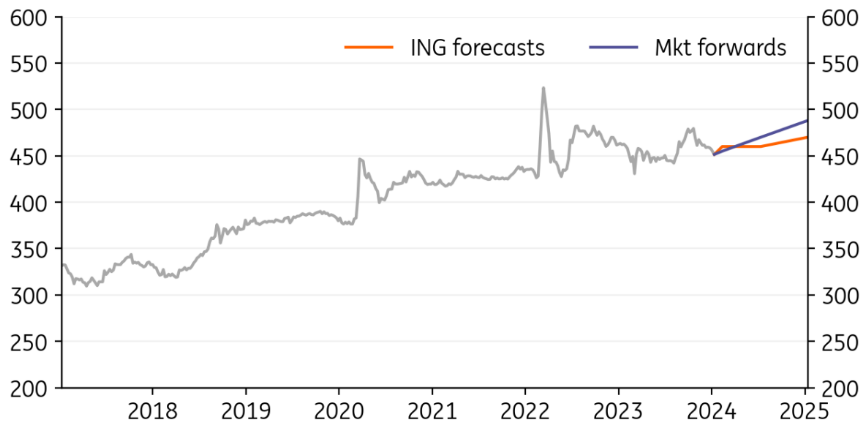


Source: Refinitiv, ING

USD/KZT: Higher sales of FX by the government give KZT a boost

	Spot	One month bias	1M	3M	6M	12M
USD/KZT	451.5000	Mildly Bullish	460.00	460.00	460.00	470.00

- The tenge ended the year 2023 at 456 vs. USD, close to our expectations of 460. While the end-of-month appreciation may have been supported by stronger oil prices, the general trend seems to be related to the recovery in FX sales from the sovereign fund.
- The data on December FX sales from the National Fund of the Republic of Kazakhstan are not available, but the September-November monthly sales were $1.2-1.5bn – the highest since 2020.
- The tenge's performance is generally in line with our fiscal-focused view. KZT is likely to remain well-supported in the coming months until the tighter fiscal rule puts a stricter cap on using the FX oil revenues of the sovereign fund to finance KZT expenditures.

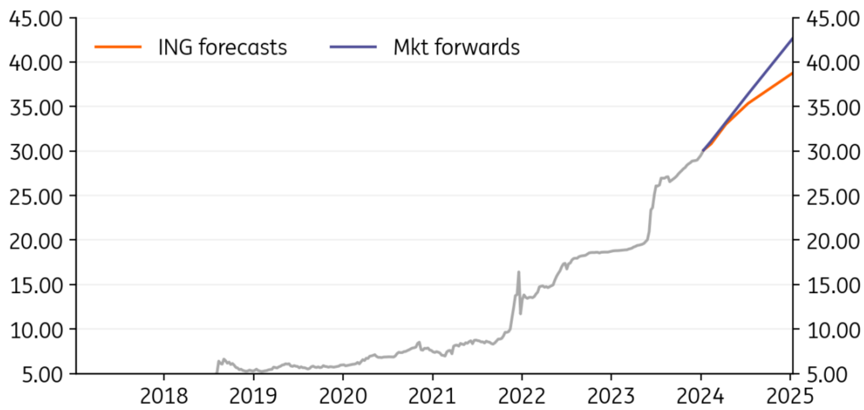


Source: Refinitiv, ING

USD/TRY: TRY to remain supported with CBT policy

	Spot	One month bias	1M	3M	6M	12M
USD/TRY	30.0900	Mildly Bullish	30.80	33.00	35.35	38.80

- While the Central Bank of Turkey has maintained a hawkish stance and a commitment to monetary policy normalisation, the carry has remained high as the terminal rate pricing has moved to near 45%.
- Fundamentals on the balance of payments are expected to improve this year given that the policy-induced slowdown in the economy will support a recovery in the trade deficit and hence the current account balance.
- In this environment, inflation has remained the key focus. We expect an increase in the near term given the higher-than-expected minimum wage hike and rises in administrative prices due to the special consumption tax and revaluation rate-related adjustments. Accordingly, we see inflation remaining elevated until mid-2024. The second half, on the other hand, will likely see a sharp downtrend – reflecting this year's high base and further impact of tighter policy.

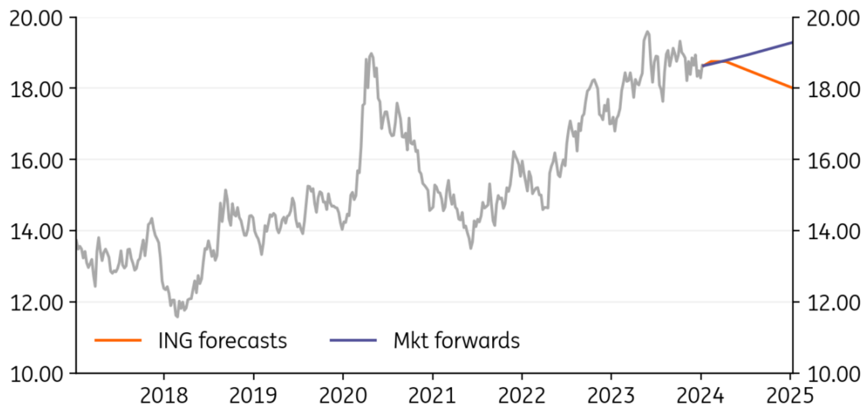


Source: Refinitiv, ING

USD/ZAR: Rand exceptionally steady

	Spot	One month bias	1M	3M	6M	12M
USD/ZAR	18.6300	Mildly Bullish	18.75	18.75	18.50	18.00

- For a highly volatile currency, the rand has proved remarkably steady over the last six months. Perhaps a little like Chile's peso, we can say it should have done better during the final two months of 2023, when the dollar was soft and commodity prices were rallying. The fact that it didn't probably owes to the China factor, where subdued demand growth continues to weigh.
- Locally, the South African Reserve Bank looks set to keep rates at 8.25% for most of this year. That is a handsome real rate for the rand, especially given that inflation is roughly on target.
- Weak growth and local elections in spring/summer, plus a growing current account deficits suggest ZAR gains are sluggish.

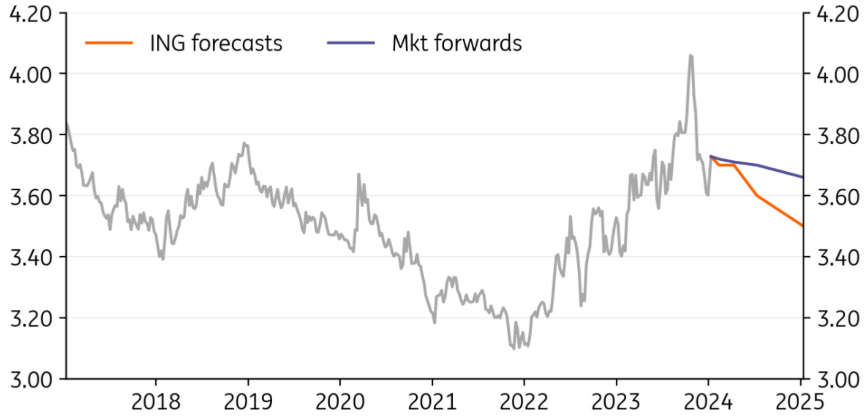


Source: Refinitiv, ING

USD/ILS: Strong shekel provides BoI room to cut rates

	Spot	One month bias	1M	3M	6M	12M
USD/ILS	3.7280	Neutral	3.70	3.70	3.60	3.50

- The Bank of Israel's 25bp rate cut on 1 Jan might have taken some of the steam out of the shekel's rally. The market now prices a further 100bp of BoI easing this year. For reference, the BoI did not sell FX to defend the shekel in December – no surprise given the strong shekel rally through November and December.
- The BoI estimates that the Israeli economy will still grow, even though it says the war will likely continue through the majority of 2024. Given the mixed external environment in 1Q24, we suspect that USD/ILS can trace out something like a 3.65-3.85 range.
- Into 2Q, however, a much clearer decline in short term US rates should see USD/ILS making a move towards the 3.50 area. Typically, the shekel is at the vanguard of the FX rally when the dollar drops.



Source: Refinitiv, ING

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