

EMEA FX Talking: Improving global environment provides support

CE4 currencies are expected to remain well supported despite the prospect of broader monetary easing across the CEE region. Stronger levels against the euro, however, may be hard to achieve. Elsewhere, the softer dollar environment may paper over a few cracks in the domestic stories for both the South African rand and the Israeli shekel



Main ING Emerging Market FX forecasts

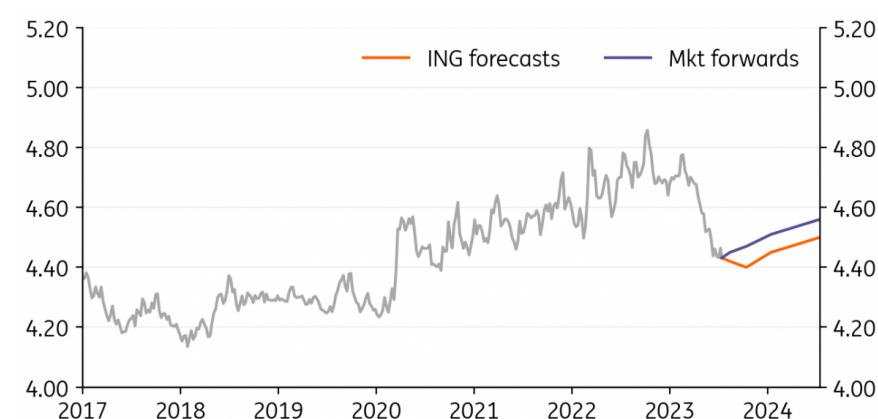
	EUR/CZK		EUR/PLN		EUR/HUF	
1M	23.70	↓	4.42	↓	369.00	↓
3M	23.70	↓	4.40	↓	375.00	↓
6M	23.50	↓	4.45	↓	372.00	↓
12M	23.50	↓	4.50	↓	365.00	↓

EUR/PLN: Limited scope for further gains

	Spot	One month bias	1M	3M	6M	12M
EUR/PLN	4.4313	Bearish ▼	4.42	4.40	4.45	4.50

Scope for further PLN gains seems limited. According to the central bank's estimates, profitability of Polish exporters ceases around 4.30. €/PLN moving below 4.40 should encourage the Ministry of Finance to refrain from converting FX proceeds via the market. Also, based on our estimates (relative value model, gauging €/PLN against other market variables) the zloty is currently somewhat overvalued against the euro.

Based on available market comments, we fear that investors may be overly confident in a market-friendly conclusion to this year's parliamentary elections. Also, with recovering internal demand, the current account surplus should vanish next year. This calls for a higher €/PLN in the fourth quarter and in 2024.



Source: Refinitiv, ING forecasts

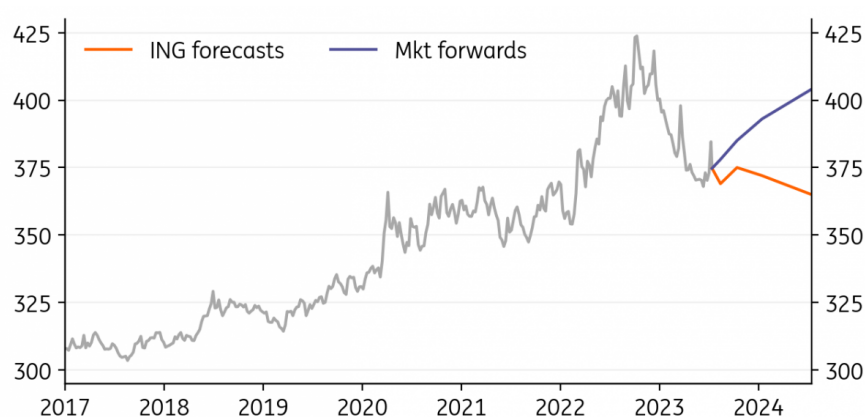
EUR/HUF: Range trading through the summer

	Spot	One month bias	1M	3M	6M	12M
EUR/HUF	374.7000	Bearish ↘	369.00	375.00	372.00	365.00

Until the EU fund risk has been cleared, we see periods of weakness for the forint due to a lack of news on the progress on an EU deal and on seasonality in the summer. In this regard, we continue to see a working framework for the coming weeks in the 368-378 EUR/HUF range.

We believe that global factors and repricing are the drivers of the recent sell-off, while the local story remains positive. We think that the market will use weaker levels to build new positions benefiting from the massive carry, which remains by far the highest within the CEE region and leads the EM space.

We expect an agreement with the EU before year-end, thus we see a positive breakout potential later this year.



Source: Refinitiv, ING forecasts

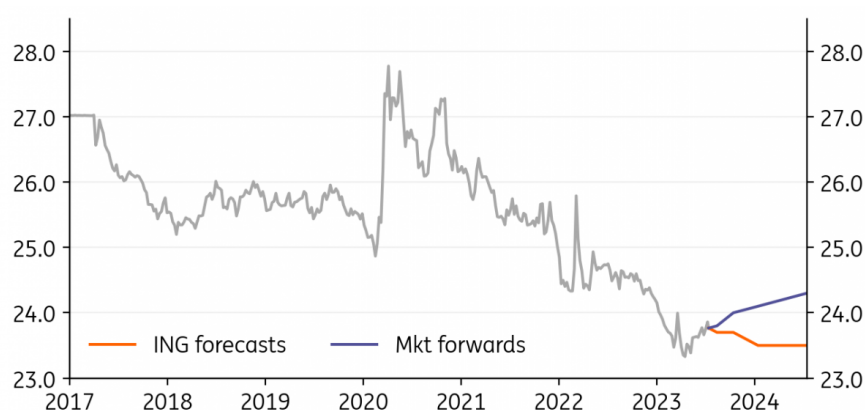
EUR/CZK: Koruna stuck despite favourable fundamentals

	Spot	One month bias	1M	3M	6M	12M
EUR/CZK	23.7700	Mildly Bearish ▼	23.70	23.70	23.50	23.50

The koruna seems to be trapped in the 23.60-23.90 EUR/CZK band and nothing is likely to change even during the summer.

However, we remain positive on the koruna, which should benefit from the Czech National Bank's hawkish rhetoric, the highest beta against EUR/USD within the CEE region and the market's light positioning. Together, these should help it to stronger levels for the rest of the year.

The CNB remains the most hawkish central bank in the region despite the rapid decline in inflation. The market is pricing in a 100bp rate cut by the end of this year. We expect the first cut in November with the risk of a delay until the first quarter of 2024.



Source: Refinitiv, ING forecasts

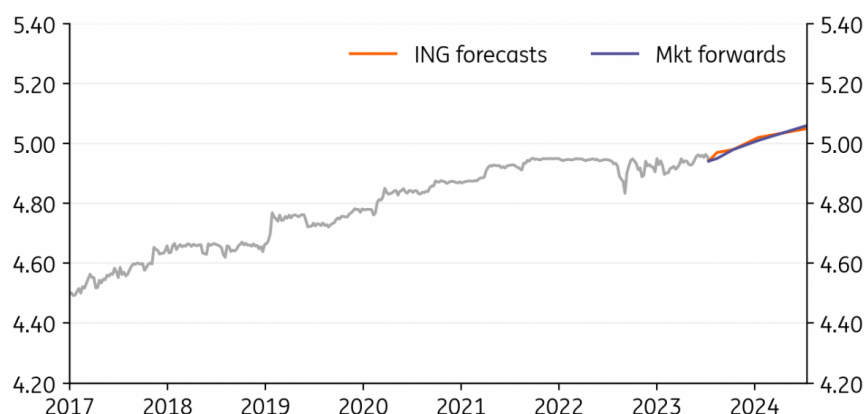
EUR/RON: Unstable line in sand

	Spot	One month bias	1M	3M	6M	12M
EUR/RON	4.9400	Mildly Bullish ▲	4.97	4.98	5.02	5.05

EUR/RON touched 4.98 in May, then returned to 4.96 in June and is back to 4.95 in July, the earlier central bank line in the sand.

Higher volatility does not indicate a central bank presence in the market, however the high liquidity surplus in the market indicated by the May numbers would suggest that the NBR should be open to market activity.

The new temporary range is likely to be 4.94-4.98 EUR/RON for now. We can expect at least one more upward shift this year and we maintain our 5.02 estimate for year-end.



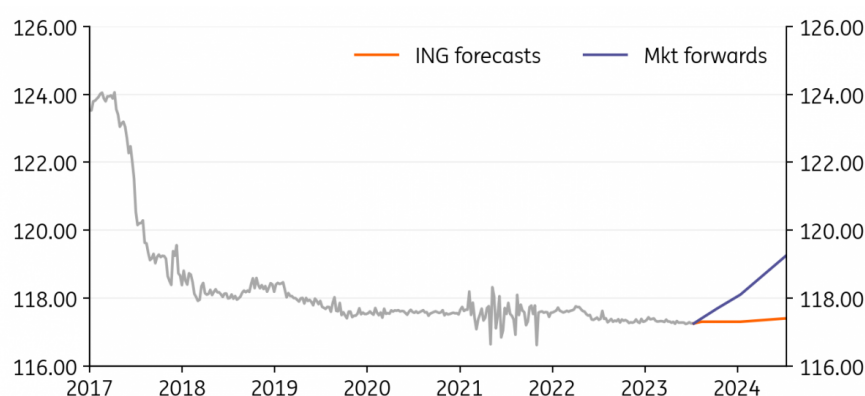
EUR/RSD: No room for deviation

	Spot	One month bias	1M	3M	6M	12M
EUR/RSD	117.2500	Neutral	117.30	117.30	117.30	117.40

After raising the policy rate by 500bp to 6.00% in just over a year, the National Bank of Serbia seems to be taking its time now and contemplating the effects of past monetary tightening.

We believe that the next policy decision will be a rate cut in first quarter 2024 when we will finally have positive real rates. We do not envisage headline inflation back within the NBS'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 and even through 2024, with FX intervention likely to occur in a rather narrow range around the 117.30 level.

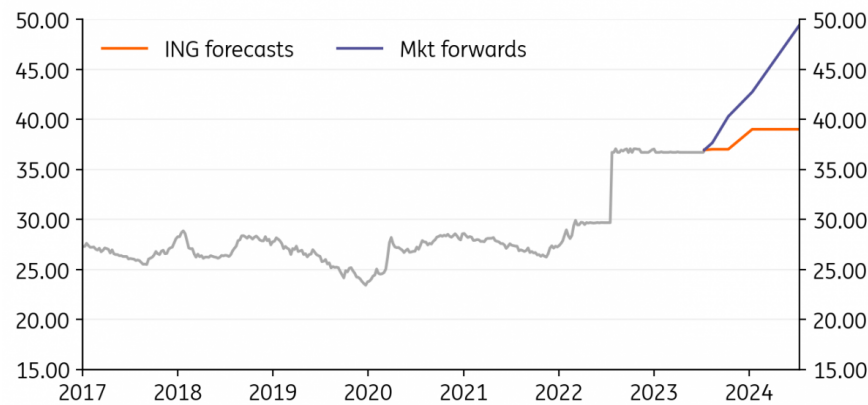


USD/UAH: Foreign reserves at all time high and continue to rise

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

Short-term risks to hryvnia are limited. Foreign reserves neared \$39bn in June, an all-time high. External financial aid more than balances the costs of stabilising the currency. The National Bank of Ukraine is planning to liberalise the exchange rate, but in a gradual manner.

Long-term prospects of the hryvnia are mixed. The government will balance the negative trade balance with a massive inflow of foreign aid. It will be a political choice whether the foreign funds are converted via the market (supporting the hryvnia), or in the central bank. Given the scale of war damages, we expect the government to largely opt for the latter, to boost Ukraine’s trade competitiveness and support an economic recovery.



Source: Refinitiv, ING forecasts

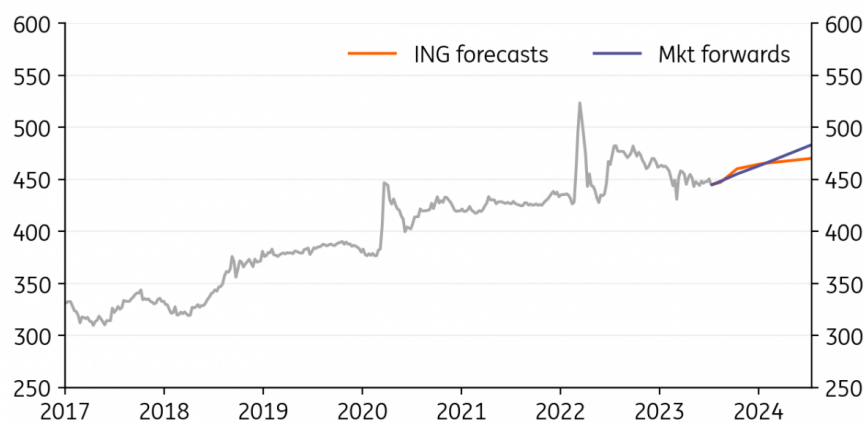
USD/KZT: Upside risks in the near term

	Spot	One month bias	1M	3M	6M	12M
USD/KZT	444.8000	Mildly Bullish ↗	447.00	460.00	465.00	470.00

KZT has been moving with oil prices in the last couple of months, showing depreciation to 454 by the end of June (we expected 455) and recovering to 440-45 in early July.

The trade balance is the key driver of FX as capital flows seem to be muted: transfers from NFRK, the sovereign fund, to the budget halved month-on-month to \$0.6bn in June, while portfolio flows were likely balanced, as the National Bank of Kazakhstan guided to gradual cuts in the key rate starting in September amid the slowdown in CPI.

We continue to see gradual KZT depreciation on limited oil output and capital outflow risks as our base case, while acknowledging near-term upside risks coming from expectations of better global risk appetite and oil prices.



Source: Refinitiv, ING forecasts

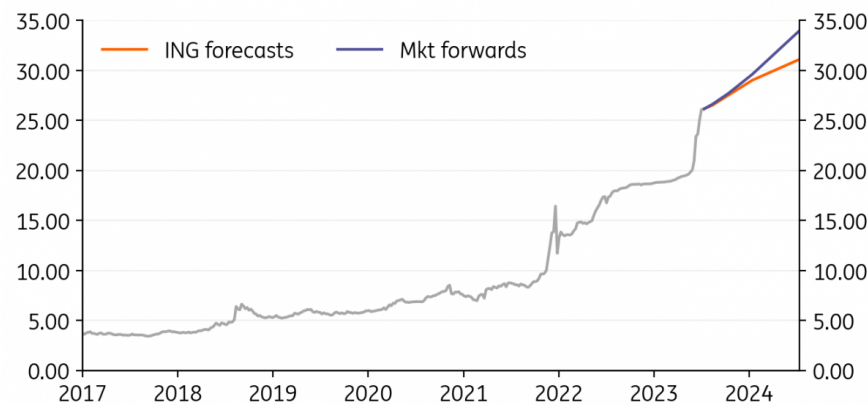
USD/TRY: Pace of TRY depreciation moderates lately

	Spot	One month bias	1M	3M	6M	12M
USD/TRY	26.1500	Bullish ↗	26.50	27.50	29.00	31.10

Inflation data show that the downtrend since last October seems to have come to an end. We are likely to see an increase in the headline number ahead given the FX pass-through from recent lira weakness, continuing strength in demand and potential adjustments in administered prices.

Given the current pace of fiscal spending, leading to a rapid widening in the budget deficit on a year-to-date basis, the government announced a number of measures to increase revenues and control the widening in the deficit.

While FX reserve levels are quite low and require efforts to build up, there has been a rapid increase in recent weeks with less involvement by the central bank in the FX market. After a rapid increase following elections, USD/TRY gains have slowed.



Source: Refinitiv, ING forecasts

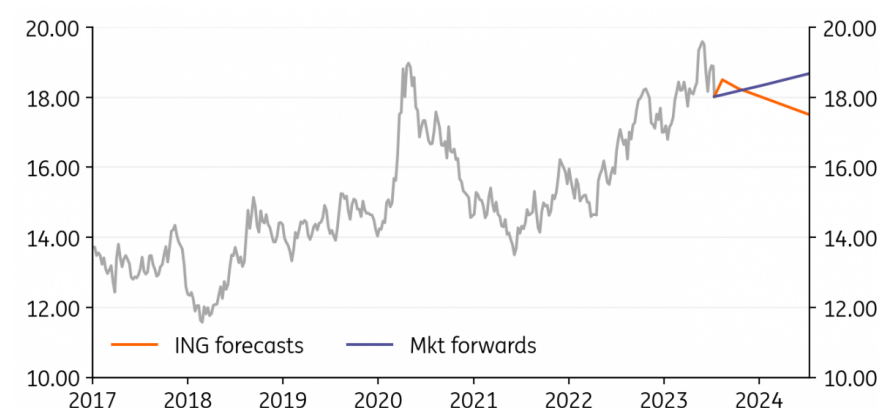
USD/ZAR: External environment provides a reprieve to the rand

	Spot	One month bias	1M	3M	6M	12M
USD/ZAR	18.0200	Mildly Bullish 	18.50	18.25	18.00	17.50

The common theme across EM is that the softer dollar story can buy a reprieve for those currencies hit hard by fears of a hard landing. The rand stands to be a beneficiary here, where renewed flows into EM markets can help – given South Africa's large weighting in equity and debt benchmarks.

Locally, it seems that the South African Reserve Bank may still have one last hike to 8.50% later this quarter – keeping real rates in the healthy 2-3% area. And importantly rate cuts may come later than in other EM countries.

Geopolitics is a negative for the rand. And a wider current account deficit will prevent ZAR from leading the EMFX rally.



Source: Refinitiv, ING forecasts

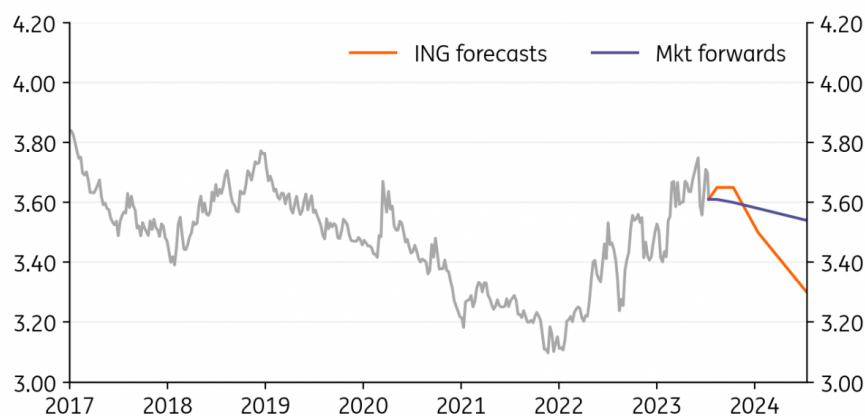
USD/ILS: ILS recovers on the dollar turn, domestic story mixed

	Spot	One month bias	1M	3M	6M	12M
USD/ILS	3.6100	Mildly Bullish 	3.65	3.65	3.50	3.30

It has really been the broad dollar story which has brought USD/ILS lower this month. The drop in short-term US rates is finally providing a reprieve to EM asset classes and stands to create the best environment for EM portfolio flows perhaps since late 2020. Israel has weightings in EM local currency bond and equity benchmarks – thus flows will help the ILS.

Domestically, the political situation remains tense. It has hard to conclude there has been any material improvement in the stand-off over judicial reforms – suggesting ILS could easily hand back gains. The Bank of Israel tightening cycle is probably over too.

But we think the softer dollar trend dominates over the next 6-12 months and USD/ILS heads back to the 3.40/50 area.



Source: Refinitiv, ING forecasts

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