EMEA FX Talking: Hawkish central banks despite a dovish global story

The economy in the CEE region has not been revived as expected, but central banks are turning hawkish. Inflation is picking up and a slowdown or halt in the cutting cycle will boost FX. On the other hand, inflation has turned in Turkey, attracting more foreign inflows. Israel is signalling more hawkish policies amid the prolonged conflict

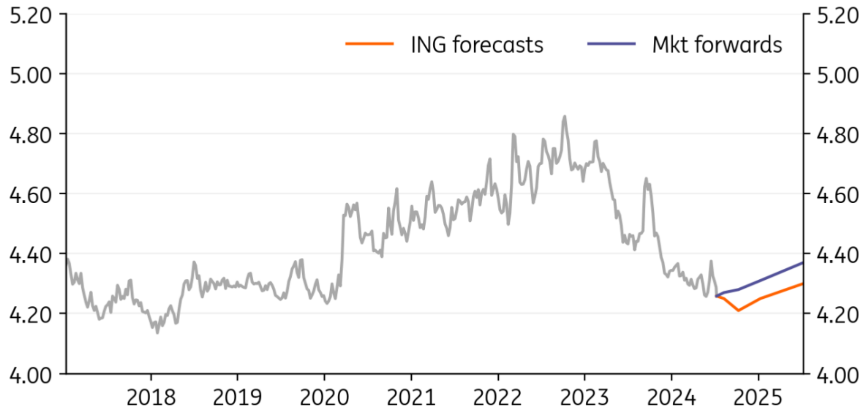
Main ING Emerging Market FX Forecasts (versus forwards)

	EUR/CZK		EUR/PLN		EUR/HUF	
1M	25.19	↓	4.25	↓	390	↓
3M	25.18	↓	4.21	↓	388	↓
6M	25.13	↓	4.25	↓	385	↓
12M	25.02	↓	4.30	↓	405	→

EUR/PLN: More scope for PLN gains

	Spot	One month bias	1M	3M	6M	12M
EUR/PLN	4.2500	Mildly Bearish	4.25	4.21	4.25	4.30

- We expect the €/PLN rate to move close to 4.22 during the summer. The zloty remains supported by a relatively weak dollar and the unexpected tightening rhetoric of the National Bank of Poland, extinguishing expectations of any rate cuts this year and limiting scope for 2025 easing as well.
- We are also counting on the rebuilding of carry trade positions. After large losses in LatAm, investors should seek PLN as a way to diversify.
- Geopolitical concerns, mainly related to the US presidential election, remain the key risk in the year-end, suggesting some PLN weakening in 4Q24.

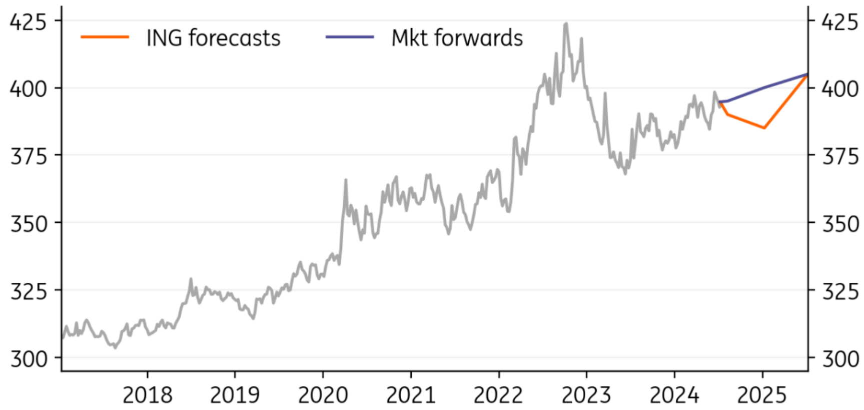


Source: Refinitiv, ING forecasts

EUR/HUF: Both fiscal and monetary policies to support the HUF

	Spot	One month bias	1M	3M	6M	12M
EUR/HUF	393.5000	Bearish	390.00	388.00	385.00	405.00

- The forint's weakening in early July is clearly a country-specific move, as the government has introduced some new sources of revenue that could impact the banking, energy, and retail sectors, which creates some pro-inflationary risk in the future.
- What has been somewhat forgotten is the significant cut in public investments, once again. This should improve the fiscal outlook, a positive development from an FX perspective.
- We believe that the National Bank of Hungary will pause its easing cycle amid heightened financial market volatility and unfavourable developments in underlying inflation. Thus, we see enough reasons to be bullish on the HUF for the rest of the year.

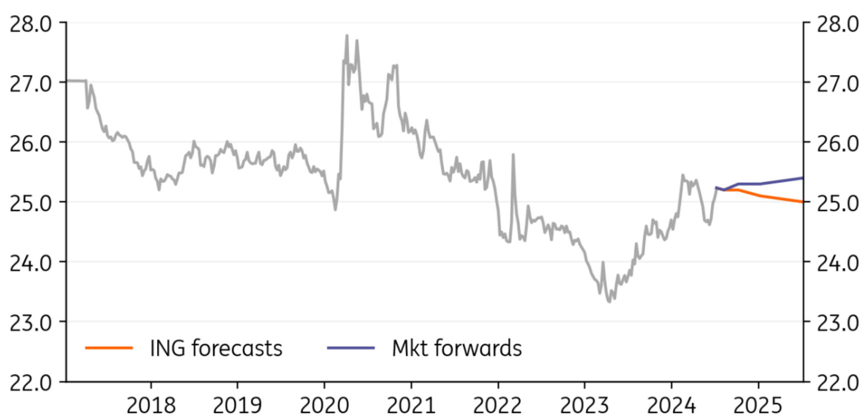


Source: Refinitiv, ING forecasts

EUR/CZK: The CNB cuts make CZK unattractive amid fragile recovery

	Spot	One month bias	1M	3M	6M	12M
EUR/CZK	25.3200	Mildly Bearish ↘	25.19	25.18	25.13	25.02

- Concerns about overly tight monetary policy led the Czech National Bank to cut rates by 50bp in June, which led to a CZK depreciation of more than 3%.
- The narrowing interest rate differential reduces the attractiveness of the CZK and we see this as an obstacle to future appreciation. For the next meeting, we expect the CNB to slow the pace of rate cuts, but further weakness may put a pause in rate cuts into the discussion.
- In the medium term, economic recovery and improvement in the current account should support FX. But recent numbers show only a cautious recovery for now, which remains a risk.

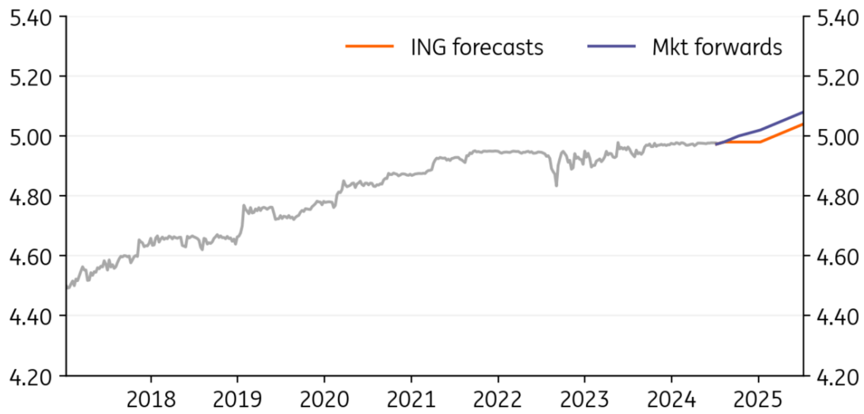


Source: Refinitiv, ING forecasts

EUR/RON: Likely to remain in place

	Spot	One month bias	1M	3M	6M	12M
EUR/RON	4.9727	Neutral	4.98	4.98	4.98	5.04

- EUR/RON was again stable in the range of 4.9715-4.9860. A departure from current levels continues to remain unlikely in the short run. Inflation has behaved better than expected recently but some of the gains will be lost in July due to higher fuel excise duties and gas transportation costs. Non-food and services inflation remain the main headaches for the NBR, and FX depreciation is unlikely to be on the table in the short run.
- Strong retail sales growth, double-digit wage growth, the persistent fiscal slippage and a likely increase in the tax burden next year continue to pose upside risks for inflation, keeping the needs for FX stability in place further down the line.
- All told, we continue to expect the NBR to keep its tight grip on the currency for the foreseeable future. The chances of crossing the 5.00 level until autumn are still slim, we think.

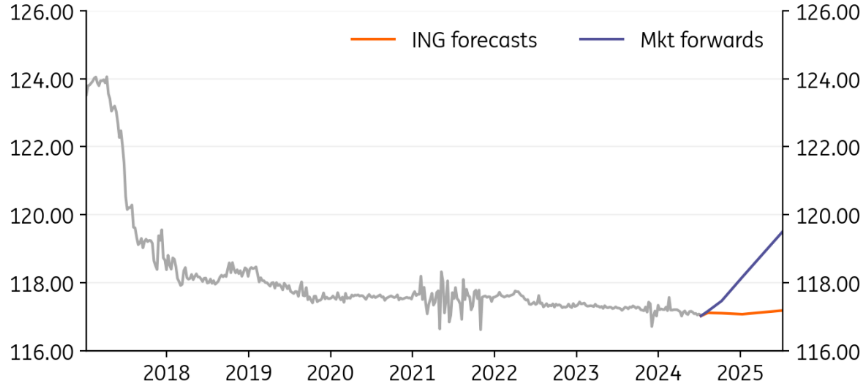


Source: Refinitiv, ING forecasts

EUR/RSD: No major deviations expected

	Spot	One month bias	1M	3M	6M	12M
EUR/RSD	117.0500	Neutral	117.11	117.10	117.07	117.18

- RSD picked up slightly vs EUR, in the range of 116.93-117.27. Key positives relate to inflation developments and an outlook upgrade by S&P from stable to positive. Interventions from the central bank likely cushioned more volatile developments.
- The latest EU-mediated discussion attempts with Kosovo planned for late-June failed before they even started, and the situation continues to remain uncertain. That said, upside potential for RSD ahead is set to come from policymakers' aspiration to continue to improve the macro fundamentals (which are already in good shape) in order for Serbia to get an investment grade this year.
- Intervention-driven stability from the central bank is likely to keep RSD relatively flat ahead, with the capital inflows' impact on the currency is likely to remain muted.

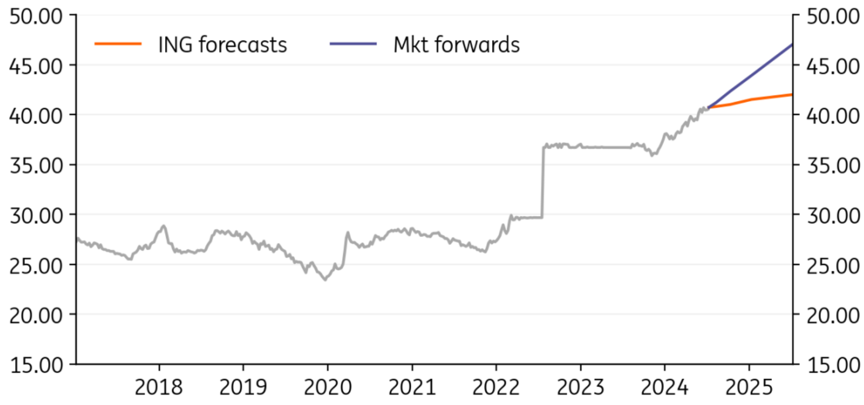


Source: Refinitiv, ING forecasts

USD/UAH: Weak hryvnia fundamentals

	Spot	One month bias	1M	3M	6M	12M
USD/UAH	40.6900	Mildly Bullish	40.80	41.00	41.50	42.00

- The hryvnia remains vulnerable in the short and medium term. While global sentiment towards EM FX improved, the Ukrainian currency remains undermined by domestic fundamentals. Easing delivered by the National Bank of Ukraine suggests that the central bank is no longer focussed on stabilising the hryvnia, as long as inflation is under control. NBU interventions remain relatively high but are unlikely to prevent further hryvnia losses.
- A persistent current account deficit is unlikely to improve any time soon and calls for further depreciation of the hryvnia in the long term. US presidential elections may prove an additional risk, as some investors fear that Trump may soften the US stance on Russia.



Source: Refinitiv, ING forecasts

USD/KZT: Scale of depreciation exceeds expectations

	Spot	One month bias	1M	3M	6M	12M
USD/KZT	478.3000	Neutral	475.00	480.00	490.00	490.00

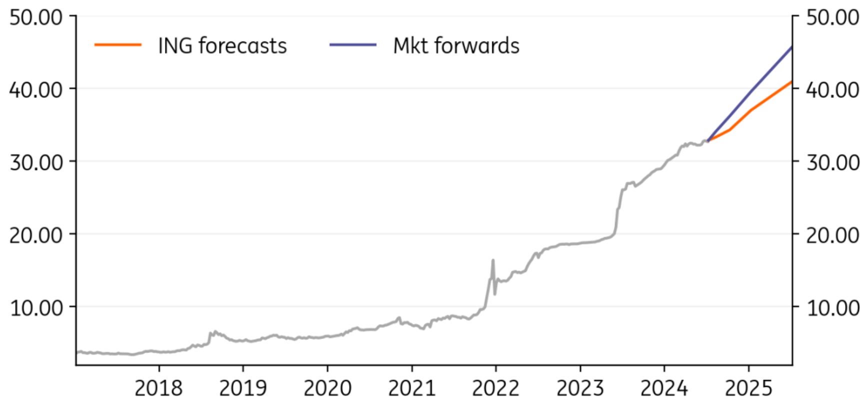
- The tenge lost around 5.5% to USD in June, exceeding our expectations, and kept dropping in early July. We had warned some depreciation was possible, but the scale of the actual move suggests that the list of contributing factors may be larger.
- Although the depreciation move was evident since late-May and was related to declining FX sales out of the sovereign fund from $1.1bn in April to $0.8bn in May and $0.4bn in June, since 12 June pressure on KZT may have been intensified by a new round of sanctions against Russia, which may have triggered a repatriation of Russian capital from several trade partner countries.
- The sharp drop in KZT somewhat lowers the risks of further softness in coming months. But we keep our long-term call for KZT depreciation amid lower FX sales out of the sovereign fund.

Source: Refinitiv, ING forecasts

USD/TRY: Inflation on a downtrend in the second half of the year

	Spot	One month bias	1M	3M	6M	12M
USD/TRY	32.9500	Bullish	33.30	34.30	37.00	41.00

- Annual inflation dropped more than expected in June and is likely to drop rapidly with the large base in the remainder of this year.
- The extent of decline will be determined by administrative price adjustments as we saw in the beginning of this month with a 38% increase in electricity prices. The cumulative effect on the headline is expected to be around 1ppt. In addition to a possible hike in natural gas prices, revisions in the special consumption tax on certain products will weigh on the pace of decline. However, the lagged effects of monetary tightening on credit and domestic demand and the real appreciation of the TL are factors that are likely to keep the underlying inflation trend on a downward path.
- We think that inflation may be close to the upper band of the Central Bank of Turkey's forecast range at 42% by the end of 2024, assuming currency stability and no exogenous shock. The CBT is likely to maintain a tight stance with the policy rate at 50% in the near term, while keeping the funding cost and ON repo rate close to the policy rate via liquidity policy, in our view.

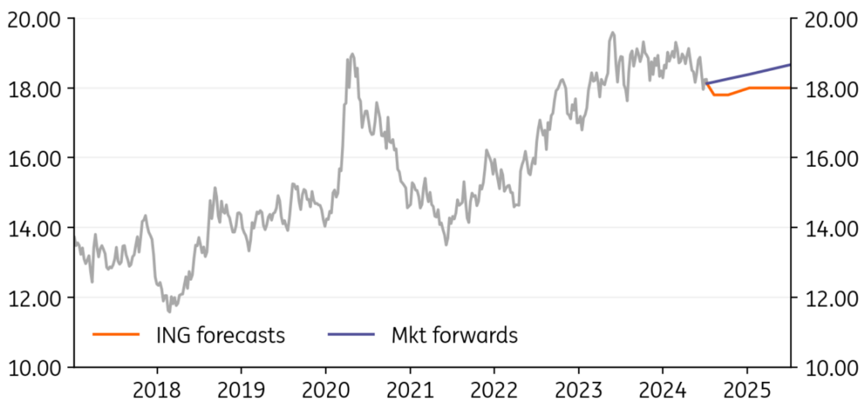


Source: Refinitiv, ING forecasts

USD/ZAR: Surprise rand rally can last longer

	Spot	One month bias	1M	3M	6M	12M
USD/ZAR	18.0700	Bearish	17.80	17.80	18.00	18.00

- The rand's stellar performance in the past month has been unmatched by any other major currency, as markets took an optimistic view on the reformist ability of the new governing coalition, which has left out the most left-wing parties.
- Looking at this summer, it appears ZAR can continue to find support, thanks to its strong inverse correlation to lower USD yields and expectations that SABR won't cut before the Fed.
- However, coalitions are a new experience for South Africa, and there is a risk markets have got ahead of themselves on policy expectations. Underlying economic headwinds remain and can come back to haunt the rand in the longer run.

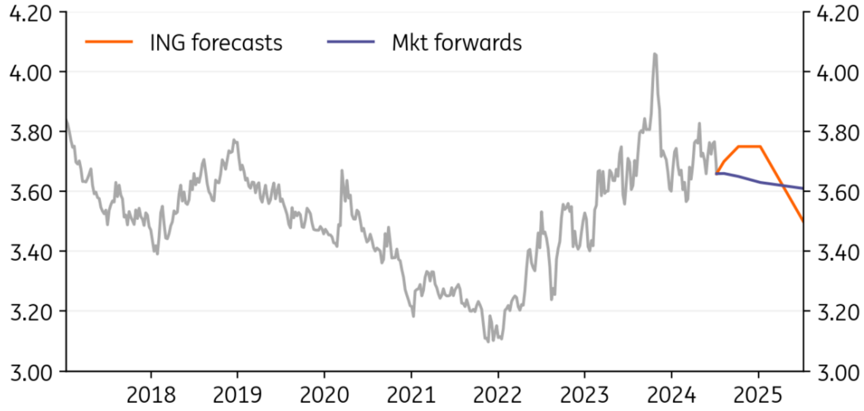


Source: Refinitiv, ING forecasts

USD/ILS: Hawkish BoI as longer war expected

	Spot	One month bias	1M	3M	6M	12M
USD/ILS	3.6700	Mildly Bullish	3.70	3.75	3.75	3.50

- The Bank of Israel signalled a more hawkish policy path in July, as policymakers now see the war in Gaza extending into 2025. This likely mirrors expectations of Israel's top government officials.
- The shekel seems to be drawing some benefits from the prospects of prolonged tight policy and generally positive risk sentiment for EM FX. There are still around 12bp of easing priced into the ILS curve by year-end, but our view is that the BoI won't tweak its policy rate before next year.
- Despite a better yield profile, the economic impact of a longer conflict in Gaza and risks of an escalation on the Lebanese front means a stabilisation in USD/ILS is more likely than a decline.



Source: Refinitiv, ING forecasts

Authors

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

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

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

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

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

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

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