

# EMEA FX Talking: Local FX stories largely remain constructive

As high-beta plays on the euro, CEE currencies are now under pressure. However, some strong fundamentals in Poland and a curtailed easing cycle in Hungary can help the zloty and the forint. A new, more reformist government in South Africa should help the rand and we continue to expect the Turkish lira to outperform the steep forward curve



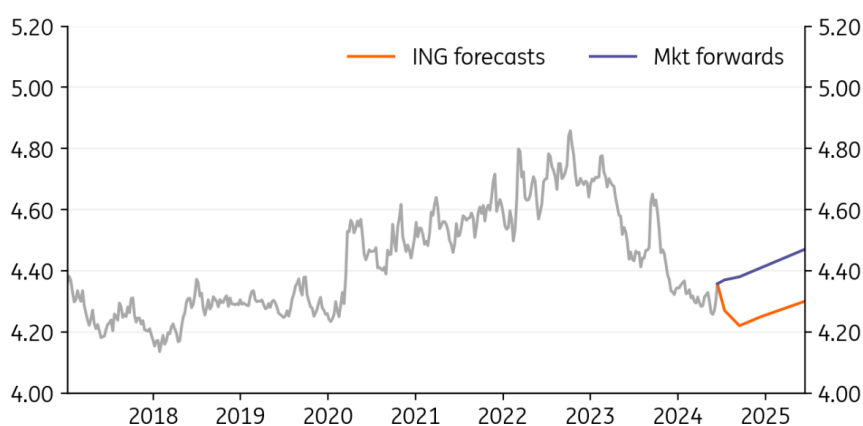
## Main ING Emerging Market FX Forecasts

	EUR/CZK	EUR/PLN	EUR/HUF
1M	24.65 ↓	4.27 ↓	395.00 ↓
3M	24.60 ↓	4.22 ↓	385.00 ↓
6M	24.55 ↓	4.25 ↓	389.00 ↓
12M	24.50 ↓	4.30 ↓	405.00 ↓

## EUR/PLN: Transitory PLN tensions

	Spot	One month bias	1M	3M	6M	12M
EUR/PLN	4.3574	Bearish ↘	4.27	4.22	4.25	4.30

- The zloty, alongside other emerging market currencies, was hit after the recent wave of carry trade unwinding. Still, we consider this to be temporary. Usually such periods of high stress are followed by similar PLN appreciation. Domestic fundamentals remain supportive, including fading hopes for any central bank easing this year and a current account surplus. Moreover, another EU money tranche is due after summer, likely to be partially converted into PLN on the market. This calls for EUR/PLN to retest or even breach this year's lows.
- We remain cautious of 4Q24 EUR/PLN prospects, as the US presidential election may yield another period of negative CEE sentiment, particularly if followed by a EUR/USD decline.

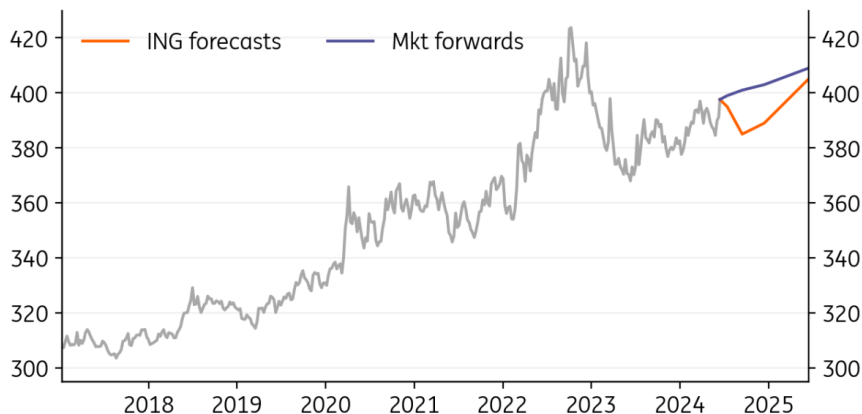


Source: Refinitiv, ING forecasts

## EUR/HUF: Forint will be turned around by local monetary policy

	Spot	One month bias	1M	3M	6M	12M
EUR/HUF	397.6000	Mildly Bearish ↘	395.00	385.00	389.00	405.00

- As we suspected, EUR/HUF moved towards 395 in the early days of the summer. While part of the story is being written at the global level, the underperformance of the forint is telling.
- While Hungary has dodged the downgrade bullet so far, investors remain nervous as the risk of fiscal loosening has increased following the local and European Parliament election results. Not to mention that, for the first time in a long while, there are some question marks about political stability.
- With market instability on the rise, the National Bank of Hungary could be the one to turn the tables on the forint with a hawkish cut in June. The new forward guidance could point to very limited to no room for cuts in the coming months. This could be enough for a positive change in the local FX space for the rest of the year.



Source: Refinitiv, ING forecasts

### EUR/CZK: Demand-driven price pressures suggest gradual easing

	Spot	One month bias	1M	3M	6M	12M
EUR/CZK	24.6900	Mildly Bearish <span style="color:red">▼</span>	24.60	24.60	24.60	24.50

- The disinflationary process remains broadly intact, with the overall and core inflation softening in May. Such favourable conditions open the door to further easing in the rather restrictive monetary policy stance at this month’s central bank meeting. However, the headline inflation two-month average of 2.8% remains above the 2.4% CNB spring forecast for 2Q, suggesting a more cautious approach to the upcoming rate cuts pace.
- Moreover, some fundamental inflationary factors are flashing, such as the buoyant nominal wage growth, a solid pick-up in consumer spending, and continued tightness in the labour market. The economic rebound propelled by household demand is likely to sustain upward price pressures in the medium term and contribute to a more gradual descent of the policy rate to 4.5% at the end of this year.
- Overall, all these factors along with the onset of the European Central Bank’s monetary easing phase will lend support to the koruna throughout the forecast horizon.

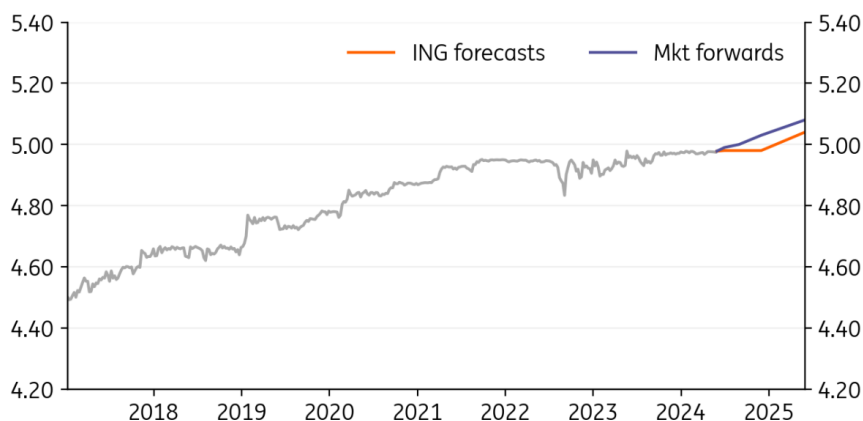


Source: Refinitiv, ING forecasts

## EUR/RON: NBR's grip on the currency unlikely to weaken

	Spot	One month bias	1M	3M	6M	12M
EUR/RON	4.9774	Neutral	4.98	4.98	4.98	5.04

- EUR/RON has remained in the range of 4.9620-4.9800 recently. Inflation printed below expectations for a second consecutive month in May. But it remains unlikely that the National Bank of Romania will make any moves that could change the leu's stable path in the near term given still-sticky core price pressures.
- Private consumption, wages and credit activity remained strong, weighing on the trade deficit. Still, we think that until services inflation cools down, FX overvaluation will persist. What's more, strong consumption also boosts firms' confidence in their pricing power ahead of next year's likely increase in taxes, potentially keeping FX stable for longer.
- All told, we don't see much room for devaluations or volatility ahead. The chances of crossing the 5.00 level before autumn are slim but have nevertheless increased due to lower inflation.

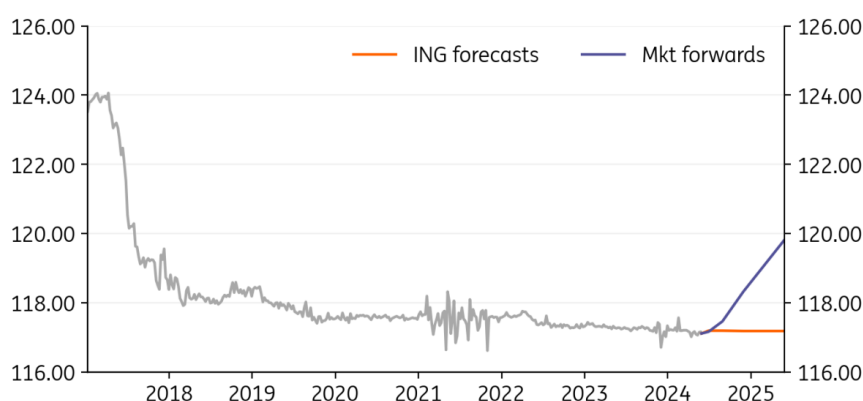


Source: Refinitiv, ING forecasts

## EUR/RSD: Intervention-driven stability to persist

	Spot	One month bias	1M	3M	6M	12M
EUR/RSD	117.0800	Neutral	117.19	117.19	117.18	117.18

- Serbia and Kosovo's relations continue to remain tense, with no clear resolution agreed yet. This continues to weigh on Serbia's EU ascension path, which could depend on whether it takes clear steps to normalise relations with Kosovo.
- The Serbian dinar hasn't changed much over the past month, staying in a range of 116.78-117.16. The central bank continued to dampen appreciation pressures in May. Authorities aim to get Serbia upgraded to investment grade by year-end.
- It's unlikely that we will see any big changes ahead in the EUR/RSD pair as the central bank will likely continue to use FX as a pillar of stability for prices in the last mile of the battle against inflation, as well as in the easing cycle that follows.



Source: Refinitiv, ING forecasts

## USD/UAH: Hryvnia remains at risk

	Spot	One month bias	1M	3M	6M	12M
USD/UAH	40.6100	Neutral	40.50	41.00	41.50	42.00

- The hryvnia was hit hard in recent weeks, reflecting both unfavourable EM global sentiment, as well as persistent woes caused by the Russian aggression and the National Bank of Ukraine's own policy (50bp rate cut in June).
- We expect the global factors to prove temporary, as a huge trimming of carry trade positions has already happened. Local woes are likely to persist though. The persistent current account deficit still calls for medium- and long-term depreciation of the hryvnia. The NBU increased FX intervention in May, but it proved insufficient to shore up the currency given both the global sentiment and NBU June policy easing. The central bank remains less determined to defend the hryvnia since the CPI slowed down to just above 3% YoY (from over 25% in late 2023).



Source: Refinitiv, ING forecasts

### USD/KZT: Support from NFRK's FX sales is weakening

	Spot	One month bias	1M	3M	6M	12M
USD/KZT	451.0200	Neutral	450.00	455.00	460.00	470.00

- The Kazakhstani tenge ended May at 447/USD, very close to our 445 expectations and it has continued to depreciate in early June after seven consecutive months of strengthening. Oil prices are down, but it hasn't been a consistent predictor of KZT in recent months.
- A reduction in the FX sales out of NFRK, the sovereign wealth fund, from \$1.1bn in April to \$0.8bn in May was one of the reasons behind the KZT weakening. This reduction may have been prompted by a narrowing in the fiscal deficit.
- Given that in January-May 2024 nearly KZT2.5tr was transferred out of the NFRK, or almost 80% of the annual plan, we expect the intensity of FX sales to decline in the remainder of the year. Tightening in the fiscal rule is the watch factor beyond 2024.

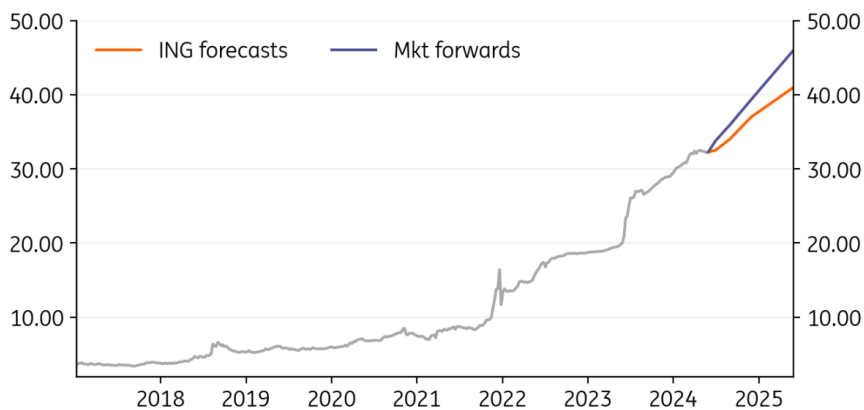


Source: Refinitiv, ING forecasts

## USD/TRY: Lira has been supported by the policy framework

	Spot	One month bias	1M	3M	6M	12M
USD/TRY	32.6500	Mildly Bearish <span style="color:red">↘</span>	32.50	34.00	37.00	41.00

- Given the clear message from the Central Bank of Turkey, which has left the door open for further hikes following the recent rate and non-rate tightening, foreign interest in the lira has been on the rise. Accordingly, the inflation path and inflation expectations are the focus, while the bank will continue to keep the funding cost and ON repo rate high via its liquidity policy.
- Improved expectations and very high interest rates have led to a rapid increase in the CBT's net FX position. In fact, the CBT purchased more than USD70bn in the two-month period after the elections. A continued recovery in the current account and tight monetary policy will continue to have a positive impact on CBT reserves.
- With the breakdown of the exchange rate depreciation expectations, the downward trend in FX deposits (including FX protected deposits), has resumed, while gold imports are also falling. These developments indicate a return to the de-dollarisation in the economy. The currency will likely remain supported in the period ahead.

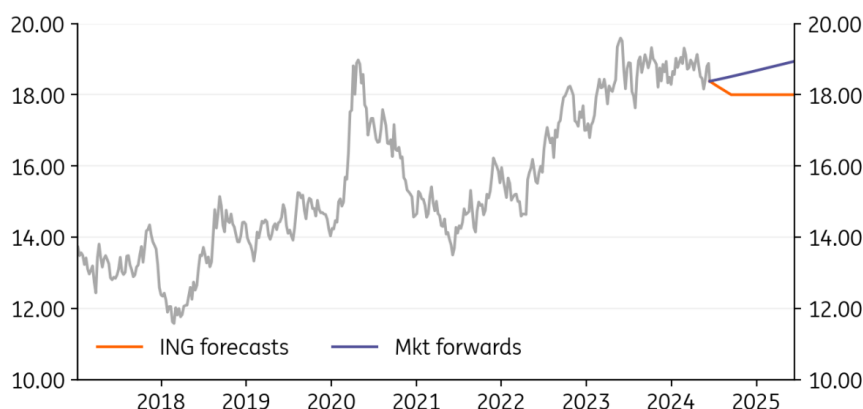


Source: Refinitiv, ING forecasts

## USD/ZAR: Shape of new government will be key

	Spot	One month bias	1M	3M	6M	12M
USD/ZAR	18.3800	Mildly Bearish <span style="color: red;">↘</span>	18.25	18.00	18.00	18.00

- Last month we said that election risks look under-priced in the rand and indeed USD/ZAR traded back to 19.00 on the very poor performance of the ANC and the risk it would need left-leaning parties in its national unity government. As it stands currently, it looks like the ANC may be going into a more market-friendly coalition with just the Democratic Alliance party.
- Should the above coalition come through, the rand, with its 8.25% rates, may well pick up some of the carry trade flows from the out of favour Mexican peso.
- It seems unlikely a new coalition will be able to turbo-charge the economy, but lower US rates will help world growth and the rand.



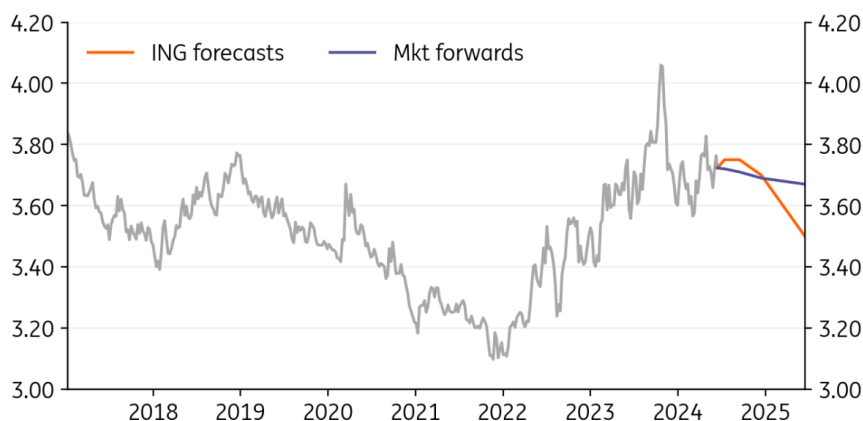
Source: Refinitiv, ING forecasts

## USD/ILS: Bank of Israel likely to keep rates at 4.50% all year

	Spot	One month bias	1M	3M	6M	12M
USD/ILS	3.7231	Neutral	3.75	3.75	3.70	3.50

- USD/ILS looks to be stabilising around 3.70 now. Perhaps helping the shekel has been the re-pricing of the Bank of Israel easing cycle. Since the start of the year, the market has taken about 75bp out of the cycle and now sees the policy rate staying unchanged at 4.50% all year. Driving that pricing has been sticky inflation and inflation expectations on the rise as demand picks up.
- The Bol assumes that the impact of the war on the economy will fade by the end of this year and growth can bounce back to 5% in 2025. However, large budget deficits are a worry.
- If the Fed does cut rates as we suspect, the broad dollar trend should drag USD/ILS towards the 3.50 area.





Source: Refinitiv, ING forecasts

## Author

### Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

### Dmitry Dolgin

Chief Economist, CIS

[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

### David Havrlant

Chief Economist, Czech Republic

420 770 321 486

[david.havrlant@ing.com](mailto:david.havrlant@ing.com)

### Muhammet Mercan

Chief Economist, Turkey

[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

### Peter Virovacz

Senior Economist, Hungary

[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

### Piotr Poplawski

Senior Economist, Poland

[piotr.poplawski@ing.pl](mailto:piotr.poplawski@ing.pl)

### Valentin Tataru

Chief Economist, Romania

[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).