

EMEA FX Talking: Too much or not yet

We remain generally bullish in the EMEA space although some currencies are already hitting their short-term potential while others are still waiting to take off. Overall though, the combination of a weaker US dollar, higher rates for longer and improving global sentiment should attract further inflows into EMEA FX



The Swietokrzyski Bridge over the Vistula river, Warsaw, Poland

Source: Shutterstock

Main ING Emerging Market FX forecasts

| | EUR/CZK | EUR/PLN | EUR/HUF |
|-----|---------|---------|----------|
| 1M | 24.00 ↑ | 4.80 ↑ | 375.00 ↓ |
| 3M | 24.30 ↑ | 4.75 → | 370.00 → |
| 6M | 24.50 ↑ | 4.63 ↓ | 383.00 → |
| 12M | 24.00 → | 4.60 ↓ | 372.00 → |

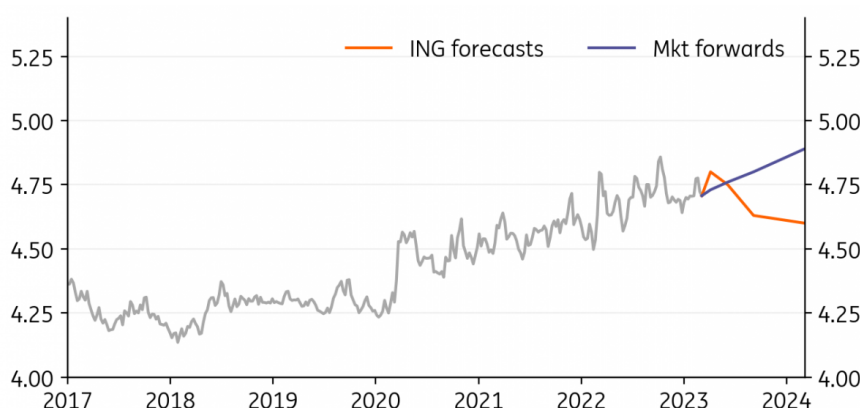
↑ / → / ↓ indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright

Source (all charts and tables): Refinitiv, ING forecast

EUR/PLN: ECJ ruling on FX mortgages to hurt PLN in March

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---------|--------|------------------|------|------|------|------|
| EUR/PLN | 4.7071 | Mildly Bullish ↗ | 4.80 | 4.75 | 4.63 | 4.60 |

- We see short-term prospects for the zloty as negative. The European Court of Justice's opinion on FX mortgages (banks may not charge interest on invalidated loans) is unfavourable for the domestic economy (and, of course, for the banks). Investors are concerned that banks will additionally build reserves in foreign currencies, which will put further pressure on the zloty.
- Fundamentals behind the zloty are a net positive. The trade gap is decreasing, while the main risk is persistent inflation. According to our estimates, the zloty remains significantly undervalued. High domestic rates point towards EUR/PLN closer to 4.55. EUR/PLN should remain flattish close to 4.70 or below into the year-end.

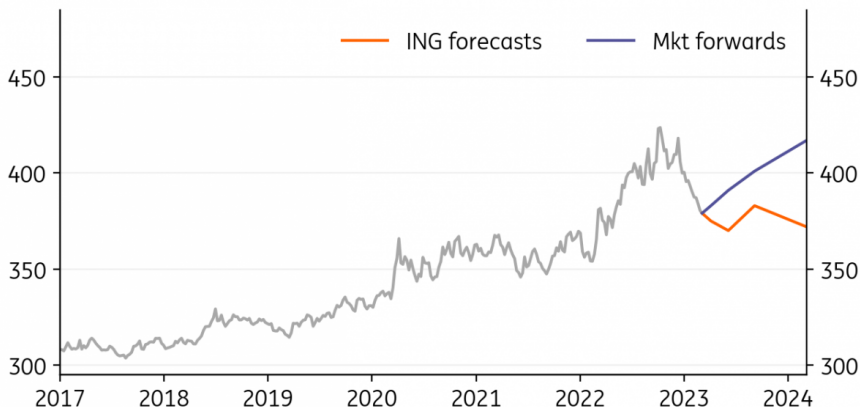


Source: Refinitiv, Macrobond, ING

EUR/HUF: We remain positive on the forint

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---------|----------|------------------|--------|--------|--------|--------|
| EUR/HUF | 378.1400 | Mildly Bearish ↘ | 375.00 | 370.00 | 383.00 | 372.00 |

- The forint continues to maintain its number one position within the CEE region and in our view, the reasons why the forint should outperform persist.
- However, we expect the forint to take a break in March, as the current drivers have run out of steam. The February rate-setting meeting did not bring much fresh news, as markets have already understood the National Bank of Hungary's hawkishness.
- Fresh positive inputs might come during the second quarter. We see progress in EU fund negotiations along with proof of peaking inflation and an improving external balance. Moreover, the NBH will not rush policy easing, in our view ([see our NBH Review](#)).

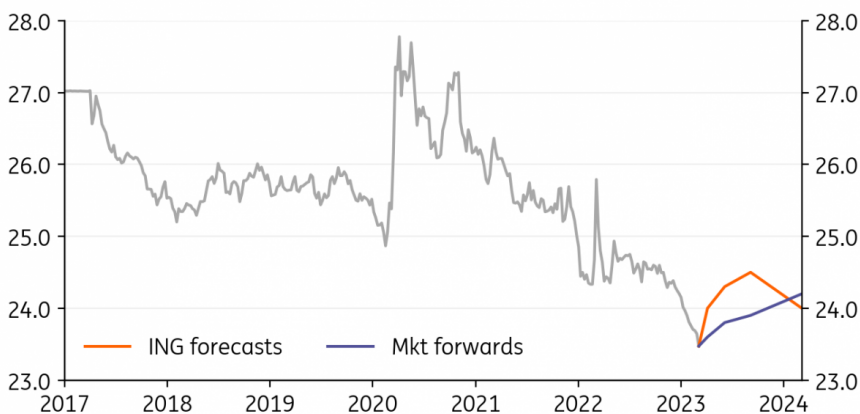


Source: Refinitiv, Macrobond, ING

EUR/CZK: Strong CZK reduces the need for more hikes

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---------|---------|---|-------|-------|-------|-------|
| EUR/CZK | 23.5130 | Mildly Bullish ↗ | 24.00 | 24.30 | 24.50 | 24.00 |

- The koruna is currently at the strongest levels in more than a decade, driven mainly by falling gas prices and improving sentiment in Europe. This provides additional monetary policy tightening without central bank intervention.
- Our model suggests a fair value at the moment around 24.00 EUR/CZK. Thus, we see risks more towards a correction of current gains.
- On the other hand, lower gas prices can move the EUR/CZK a little lower again. But in a nutshell, we are hardly looking for a trigger for a move in either direction in the coming months.

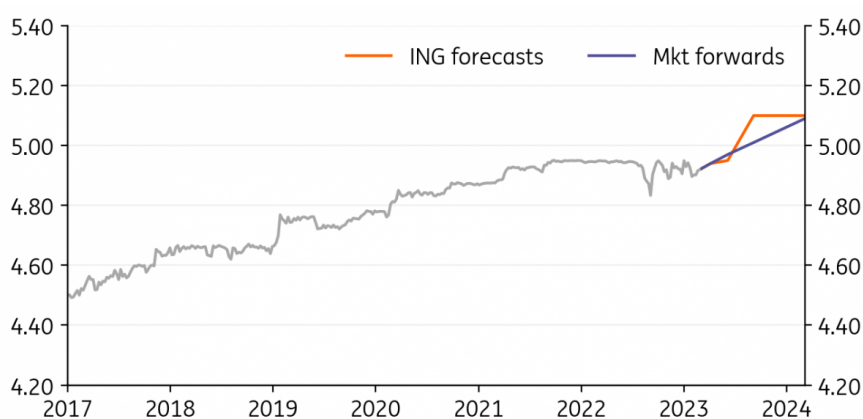


Source: Refinitiv, Macrobond, ING

EUR/RON: RON shifts lower as inflows calm down

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---------|--------|---|------|------|------|------|
| EUR/RON | 4.9218 | Mildly Bullish ↗ | 4.94 | 4.95 | 5.10 | 5.10 |

- With carry rates stable around the deposit facility and bond inflows clearly diminishing compared to January-early February, it is mainly the commercial flows providing the direction of travel for EUR/RON these days.
- For us, the above would suggest a gradual pick-up in the upside pressure for the pair. This could be offset by a gradual reduction in the accommodativeness of the liquidity backdrop.
- Overall, 4.90 seems to have become more of a support level rather than a central rate. We keep our stable view on the currency until the mid-second quarter when a shift higher can still be expected.

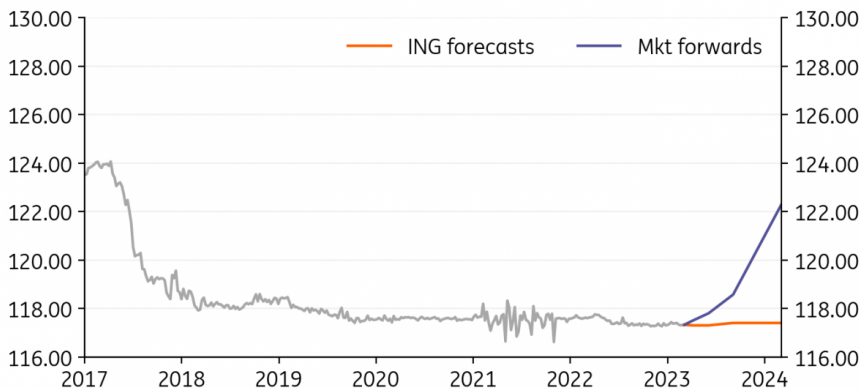


Source: Refinitiv, Macrobond, ING

EUR/RSD: One more hike to go?

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---------|----------|----------------|--------|--------|--------|--------|
| EUR/RSD | 117.3100 | Neutral | 117.30 | 117.30 | 117.40 | 117.40 |

- Having reached a key rate of 5.50% after a 450bp tightening cycle, it may seem that the National Bank of Serbia is contemplating a pause. We still anticipate a 25bp hike to 5.75% in March, followed by a data-driven stance.
- The NBS expects inflation back to its 1.5%-4.5% target range by mid-2024, which is too optimistic in our view. We don't expect inflation below 5.00% over the next two years.
- We maintain EUR/RSD at 117.4 for the end of 2023, which essentially means a flat profile for EUR/RSD. As risk sentiment has deteriorated lately, FX intervention is likely to be sideways rather than one way as in recent months.

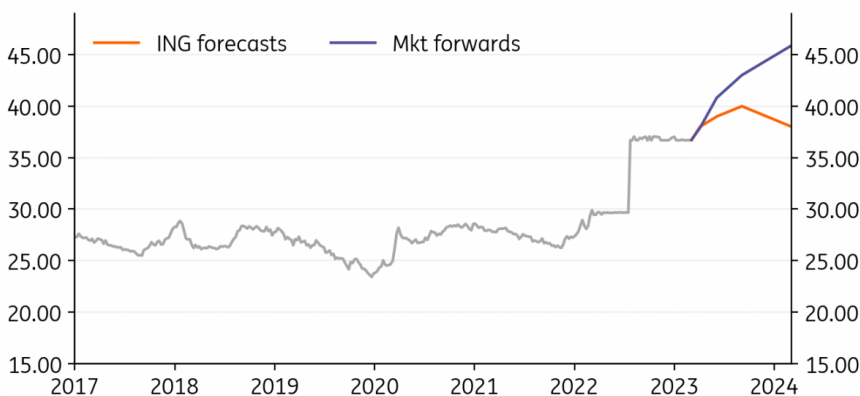


Source: Refinitiv, Macrobond, ING

USD/UAH: Impact of the war still a major risk for the hryvnia

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---------|---------|----------------|-------|-------|-------|-------|
| USD/UAH | 36.7510 | Bullish ↗ | 38.00 | 39.00 | 40.00 | 38.00 |

- The prospects for the hryvnia remain uncertain. The central bank has continued to rebuild its FX reserves (currently around US\$30bn), largely owing to foreign aid. Also, the costs of FX intervention declined during the winter amid a stalemate in the war. We still fear the currency may suffer later into 2023, as Russia launches another major offensive. This could push the monthly cost of FX intervention to in excess of US\$4bn.
- Long-term prospects for the hryvnia hinge on whether or not policymakers decide to convert foreign aid via the market to help to stabilise inflation, or via the central bank to support exports. Still, given the massive damage to the Ukrainian economy, the hryvnia returning anywhere close to pre-war levels is highly unlikely.

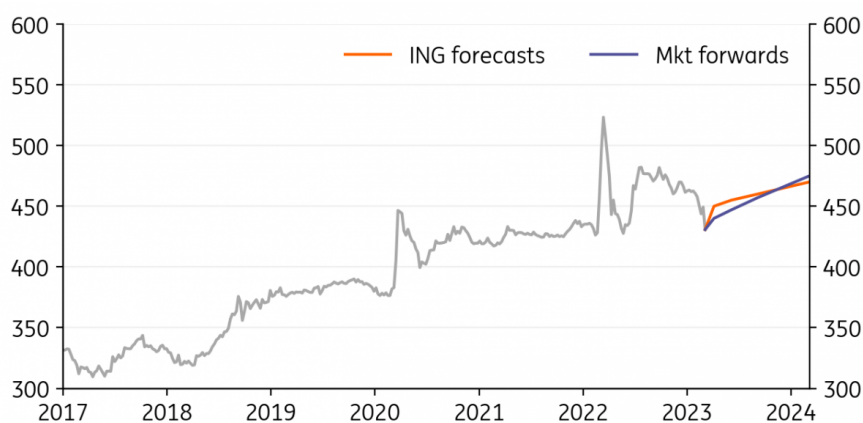


Source: Refinitiv, Macrobond, ING

USD/KZT: Stellar performance, contrary to external pressures

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---------|----------|----------------|--------|--------|--------|--------|
| USD/KZT | 436.3000 | Bullish ↗ | 450.00 | 455.00 | 460.00 | 470.00 |

- Kazakhstan's tenge appreciated from 460 to 445 in February. The direction is in line with our generally constructive short-term view, but the scale is somewhat surprising given the relatively flat oil price, temporary suspension of oil supplies via Russia, and the US dollar's 2.3% appreciation against the major currencies over that period.
- Given the lack of transparent drivers, we attribute the recent strength to the country-specific capital inflows and also note that it coincides with a wave of Russian ruble depreciation.
- Given the planned increase in fuel exports and benign house view on global risk appetite, we remain constructive on the tenge in the medium-term. However, exposure to geopolitical risks in the region could be a source of two-way volatility.

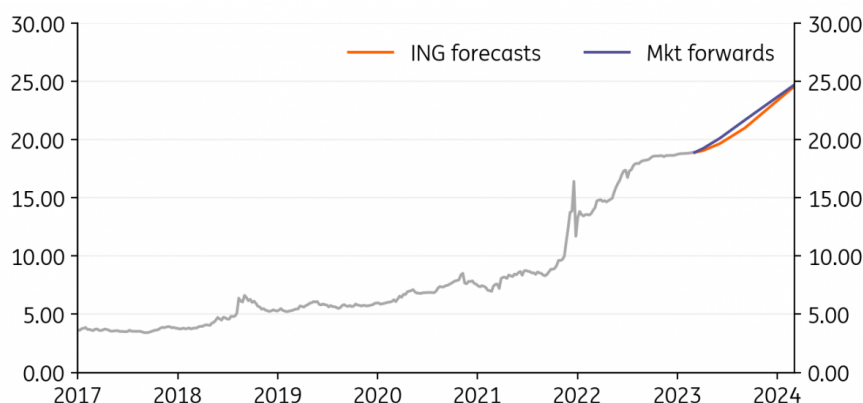


Source: Refinitiv, Macrobond, ING

USD/TRY: CBT focuses on the need to support recovery

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---------|---------|---|-------|-------|-------|-------|
| USD/TRY | 18.9080 | Mildly Bullish ↗ | 19.05 | 19.65 | 21.00 | 24.60 |

- In the February Monetary Policy Committee meeting, the Central Bank of Turkey slashed the policy rate by 50bp to 8.5% citing the need for supportive financial conditions so as to preserve the growth momentum in industrial production.
- The CBT hinted that interest rate cuts will not continue as a series, while we can expect further macro-prudential measures to maintain favourable financial conditions with the objective of minimising the effects of the earthquakes.
- Following the earthquakes, the policy mix will likely be even more supportive with larger fiscal stimulus, i.e. a net increase in the budget deficit, and looser monetary policy. This, in return, should be inflationary. In this environment, the CBT is likely to maintain its control over locals' FX flows to maintain low rates.

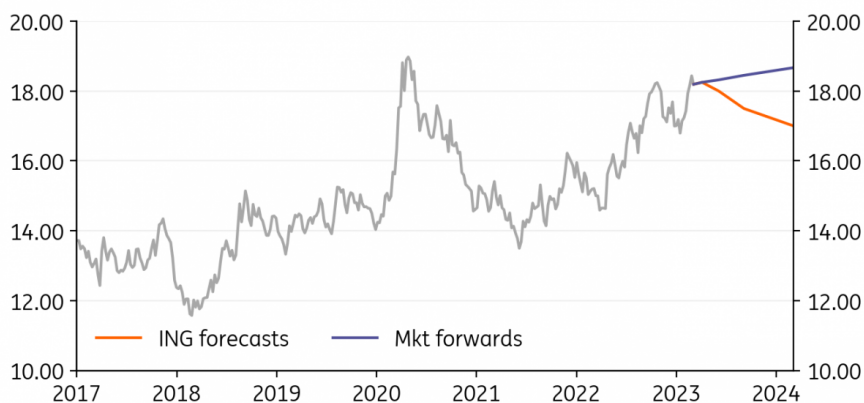


Source: Refinitiv, Macrobond, ING

USD/ZAR: Eskom bailout has not been a game changer

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---------|---------|----------------|-------|-------|-------|-------|
| USD/ZAR | 18.1930 | Neutral | 18.25 | 18.00 | 17.50 | 17.00 |

- In February the South African government announced a [support package](#) for the troubled utility provider Eskom. The move sought to ease debt sustainability fears and perhaps even allow some investment which would address the load-shedding crisis. Here, the South African Reserve Bank (SARB) expects power outages to knock 2% off growth this year.
- The move has brought little confidence to the rand, however. The trade balance is deteriorating again and with the SARB expecting a decline in commodity prices, the current account deficit is expected to widen to 2% of GDP again.
- But better global growth should help the ZAR and a turn lower in the dollar plus China reopening should steer USD/ZAR to 17.



Source: Refinitiv, Macrobond, ING

USD/ILS: Things are getting serious

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---------|--------|---|------|------|------|------|
| USD/ILS | 3.6548 | Mildly Bearish ▼ | 3.60 | 3.50 | 3.35 | 3.20 |

- The shekel is seriously under-performing such that there is speculation that the Bank of Israel (BoI) might sell FX to support the shekel – having had a long history of buying FX to limit ILS strength. Driving this underperformance is politics, where the Netanyahu government is trying to push through judicial reform and the Foreign Minister criticised the most recent 50bp hike from the BoI. Even the Israeli 5-year CDS is rising.
- The shekel's fundamentals look good, and we are still expecting USD/ILS to turn lower later this year with the broad turn in the dollar.
- However, targets near 3.00 look too aggressive and if we are underestimating how long this political risk premium stays in the shekel, USD/ILS could remain trapped in a 3.50-3.70 range.



Source: Refinitiv, Macrobond, ING

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