

# EMEA FX Talking: CE3 FX divergence to emerge

It has been a good month for CE3 currencies, helped in part by investors paring back expectations for local easing cycles. However, we continue to think the Polish zloty is best placed to build on these gains. Far more vulnerable is the Hungarian forint, where a renewed pricing of lower interest rates could drag EUR/HUF back above 395



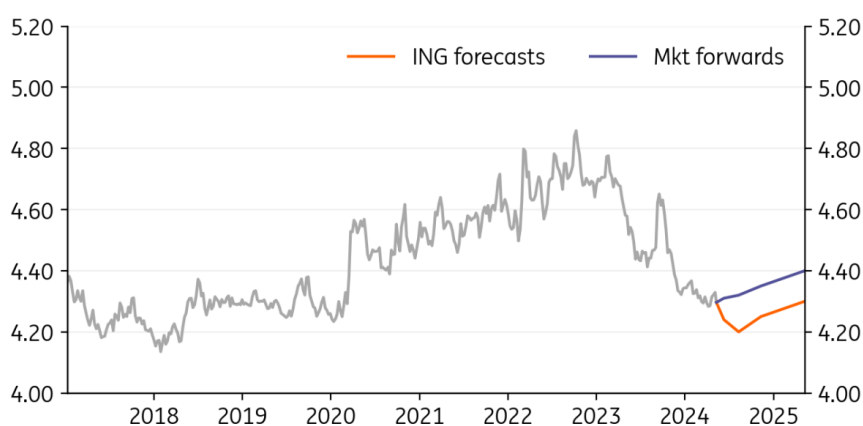
## Main ING Emerging Market FX forecasts

	EUR/CZK	EUR/PLN	EUR/HUF
1M	25.00 →	4.24 ↓	398.00 ↑
3M	24.85 ↓	4.20 ↓	390.00 →
6M	24.80 ↓	4.25 ↓	393.00 ↓
12M	24.70 ↓	4.30 ↓	405.00 ↑

## EUR/PLN: EUR/PLN to retest 2024 lows

	Spot	One month bias	1M	3M	6M	12M
EUR/PLN	4.2997	Bearish ▼	4.24	4.20	4.25	4.30

- EUR/PLN should retest this year's lows in the coming weeks. Despite a series of disappointing real economy data, the MPC remains convinced that any prompt monetary easing is unwarranted given the fiscal stimulus, planned withdrawal of anti-inflation shields and an overall tight labour market. Poland also maintains a current account surplus. Moreover, Poland is to receive some PLN100bn net from EU this year, a large chunk of which should be converted into the zloty via the market.
- The global political environment remains a risk in 2H24 though, as we are yet to see if the US stance on the conflict in Ukraine changes after the presidential elections later this year.

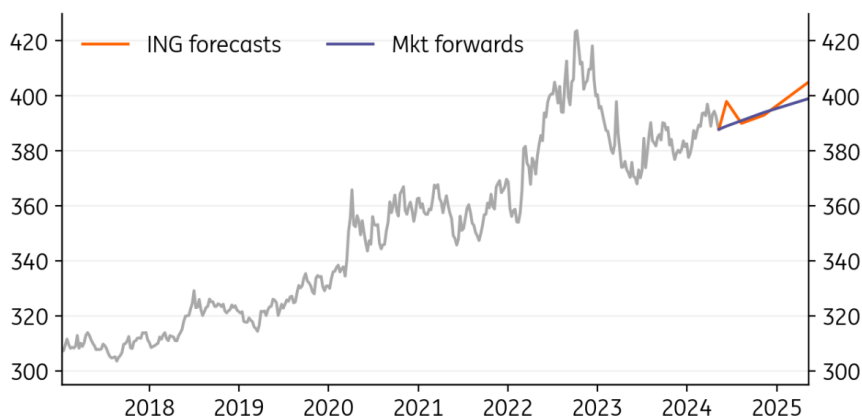


Source: Refinitiv, ING

## EUR/HUF: HUF once again enters a complicated period

	Spot	One month bias	1M	3M	6M	12M
EUR/HUF	387.7100	Bullish ▲	398.00	390.00	393.00	405.00

- EUR/HUF has returned below 390, but for most of March and April, it traded more around 395 with a few moves towards 400. We believe this will be the range for the coming months.
- On the local side, we think the risk of looser fiscal policy, a rising debt-to-GDP ratio, a potential sovereign rating downgrade and the upcoming elections will keep the HUF under pressure.
- At the global level, HUF is not helped by global central bank hesitations and thus only an ECB rate cut may offer limited relief to the forint, but that is priced in already. Overall, we believe EUR/HUF will be more in the 395-400 range in the coming months with 395 at the end of this year in our forecast.



Source: Refinitiv, ING

### EUR/CZK: Real wage growth limits the CNB easing cycle

	Spot	One month bias	1M	3M	6M	12M
EUR/CZK	24.9400	Mildly Bullish <span style="color: green;">↗</span>	25.00	24.85	24.80	24.70

- Stronger economic performance and the pick-up in domestic demand will provide support for the Czech koruna, which will likely remain around EUR/CZK 25.00 in the near term. Households' appetite to spend is driven by renewed real wage growth and continuously improving consumer confidence.
- The relatively tight labour market and continued nominal wage growth are about to contribute to an accumulation of inflationary pressures over the medium term, which will make the Czech National Bank more cautious about the further pace of monetary easing. The koruna is expected to embark on a gradual appreciation trajectory from 3Q24.
- The anticipated interest rate cuts by the ECB will promote the interest rate differential vis-à-vis the CNB rates, providing fresh wind into the sails of the koruna in the second half of the year.

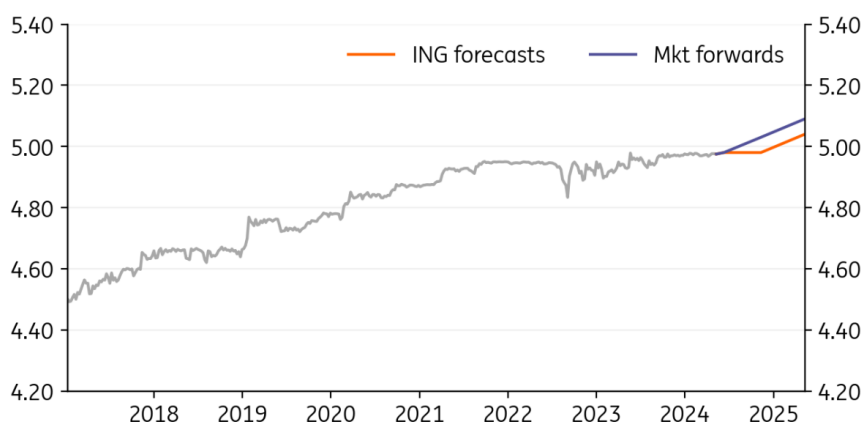


Source: Refinitiv, ING

## EUR/RON: Unlikely to depart from current levels

	Spot	One month bias	1M	3M	6M	12M
EUR/RON	4.9758	Neutral	4.98	4.98	4.98	5.04

- Developments in EUR/RON were yet again muted, in the range of 4.9642-4.9787. While inflation came in marginally below expectations in March, its current levels and upside risks ahead make it unlikely that the National Bank of Romania will let the Romanian leu escape its stable path in the near term.
- Retail sales grew substantially during the first quarter and wage growth remains high. As such, rates are likely to remain higher for longer and FX overvaluation will likely persist. Moreover, next year's likely increase in taxes could catch the economy accelerating, fueling inflationary pressures further down the line too and calling for extended FX stability by extension.
- All in all, we don't see much room for devaluations or volatility ahead. The chances of a crossing of the 5.00 level before autumn are slim.

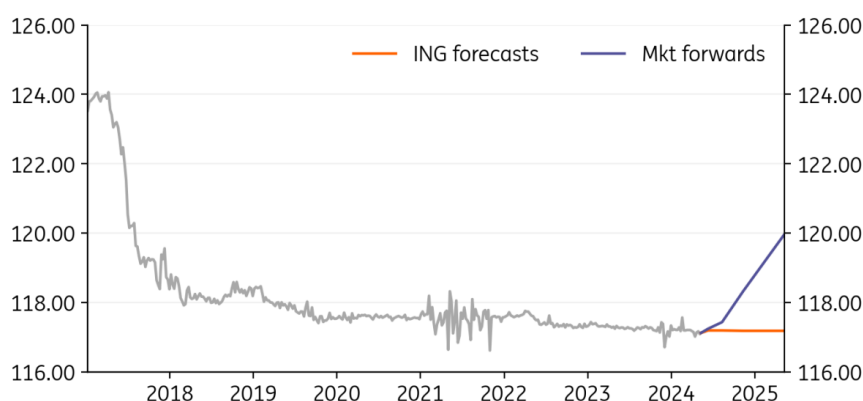


Source: Refinitiv, ING

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

	Spot	One month bias	1M	3M	6M	12M
EUR/RSD	117.1300	Neutral	117.19	117.19	117.18	117.18

- Not much has improved in the tense relations between Serbia and Kosovo and the situation remains uncertain, continuing to take a toll on Serbia’s EU ascension path.
- The Serbian dinar continued moving sideways in a relatively muted manner, in the range of 117.08-117.38. The central bank likely continued to keep the market in check. 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 persistent National Bank of Serbia interventions should limit volatility and make use of FX stability on the last mile of the fight against inflation.



Source: Refinitiv, ING

## USD/UAH: Hryvnia remains at risk

	Spot	One month bias	1M	3M	6M	12M
USD/UAH	39.6500	Neutral	39.60	40.00	40.50	41.50

- The hryvnia has stabilised since mid-April. The National Bank of Ukraine likely stepped up interventions to shore-up the currency. The prospects of the hryvnia still largely depend on NBU policy. Ukraine’s external imbalance remains crippling, and interventions are required to stabilise the currency. Given strong disinflation (CPI just around 3% YoY), the NBU may be willing to allow for further depreciation in the coming weeks.
- Long-term prospects of the hryvnia remain negative as well. A weaker currency is both supportive to exports and provides a better conversion rate for foreign aid absorption. Upcoming US presidential elections are a risk as well.



Source: Refinitiv, ING

### USD/KZT: Stronger balance of payments supports KZT

	Spot	One month bias	1M	3M	6M	12M
USD/KZT	440.0000	Mildly Bullish <span style="color: green;">↗</span>	445.00	450.00	457.00	470.00

- The tenge keeps appreciation, crossing the KZTUSD 440 level in early May, outperforming our oil and trade partner currencies.
- In 1Q24, the trade balance strengthened thanks to a 7% YoY drop in imports. Combined with smaller dividend outflow, this contributed to narrowing in the current account deficit to \$0.9bn. Weaker private capital (including errors and omissions) flows was somewhat offset by active FX sales by the government.
- We continue to improve our near-term outlook on KZT, reflecting the better external context and the recent BoP data, but still see longer-term depreciation risks on domestic factors, including the expected decline in the FX sales by the sovereign fund.

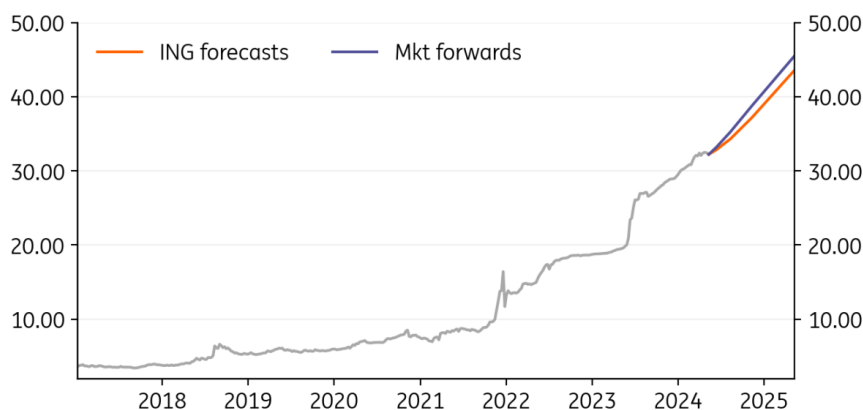


Source: Refinitiv, ING

## USD/TRY: Lira on a strengthening path lately

	Spot	One month bias	1M	3M	6M	12M
USD/TRY	32.2200	Neutral	32.80	34.30	37.20	43.60

- Given tightening actions and a hawkish stance by the Central Bank of Turkey with a determination to keep rates high and monetary conditions tight, foreign interest for the lira has resumed.
- While the CBT's gross reserves have been relatively flat, the net reserve position (excluding swaps) improved by a significant US\$17.0bn (between March 29-April 26). This implies that it prefers to reduce bank swaps to contain TRY liquidity created by this tool. Accordingly, the overnight repo rate remains close to the upper band of the interest rate corridor at 53%.
- There are also efforts to tighten deposit interest rates, which in turn encourage reverse dollarisation and reduce domestic demand by encouraging savings. Accordingly, with deposit rates on total lira deposits exceeding 60% lately, the share of TRY in the total deposit base has returned to an increasing trend. The currency will likely remain supported in the period ahead.

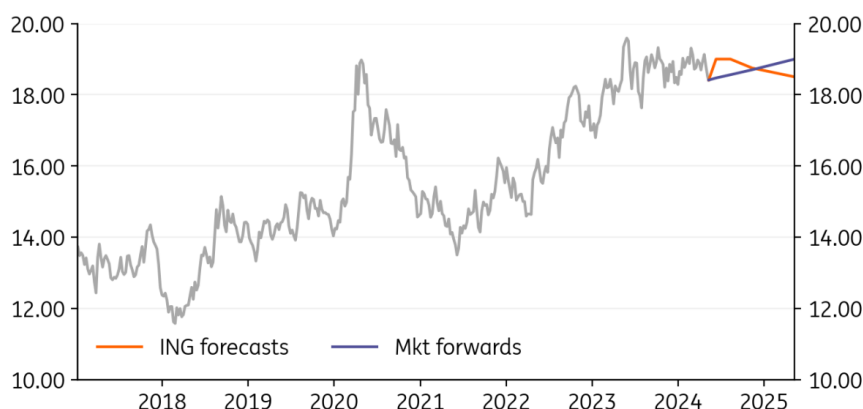


Source: Refinitiv, ING

## USD/ZAR: Metals rally helps the rand

	Spot	One month bias	1M	3M	6M	12M
USD/ZAR	18.4300	Bullish ↗	19.00	19.00	18.75	18.50

- The recent run up in commodity prices has managed to provide some support to the rand. The rand's terms of trade have been picking up since March and have pushed USD/ZAR to the lower end of its 2024 18.40 to 19.40 trading range. 29 May election risk is hard to discern in the rand. And we tend to think the market is being too complacent on the risks.
- Here the ruling ANC is very likely to lose its majority in parliament and rely on a few of the smaller – market non-friendly parties – for support. At the very least, the path ahead looks uncertain.
- Pricing of the local policy cycle sees rates being left at 8.25% for the next 12 months. That looks unlikely to change soon.



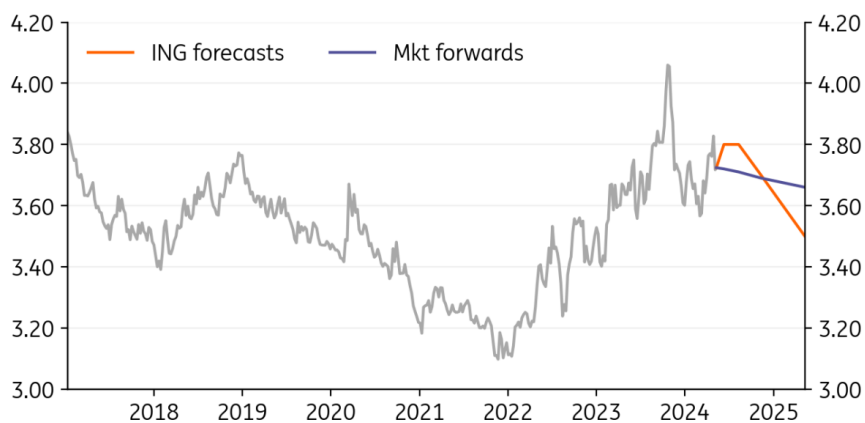
Source: Refinitiv, ING

## USD/ILS: Finding a new equilibrium

	Spot	One month bias	1M	3M	6M	12M
USD/ILS	3.7250	Mildly Bullish ↗	3.80	3.80	3.70	3.50

- USD/ILS looks to have found a new equilibrium in the 3.70-3.80 area. There was no FX intervention in April to support the shekel and Bank of Israel data showed institutional investors returning to the shekel in the first quarter – reversing the outflows of the fourth quarter last year.
- In its forecasts, the Bank of Israel sees growth at 2% this year and at 5% next year on the assumption there will be no knock-on effects in 2025 from the current conflict.
- Markets price a gentle, back-loaded easing cycle over the next 12 months – worth about 50bp. The shekel's real rates are quite low by EM standards, but Israel's higher sovereign rating helps.





Source: Refinitiv, ING

## 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).