EMEA FX Talking: Politics very much in focus

Polish elections on 15 October are the highlight in EMEA. Investors will be looking to see whether the outcome helps unlock the stalled EU funding. Equally, the Hungarian forint could also benefit were there any progress on the release of EU funds. Elsewhere, the rand looks vulnerable as it heads into budget season, and a shekel rebound remains elusive

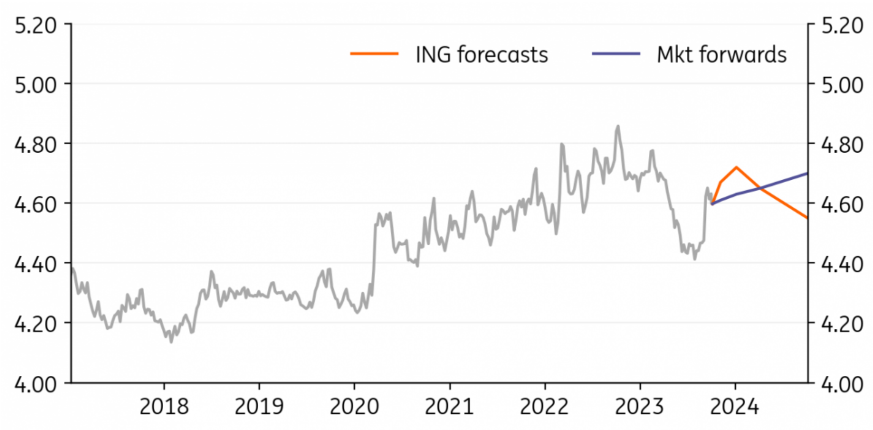
Main ING Emerging Market FX forecasts

	EUR/CZK		EUR/PLN		EUR/HUF	
1M	24.30	↓	4.67	↑	380	↓
3M	24.50	↓	4.72	↑	375	↓
6M	24.30	↓	4.65	↓	368	↓
12M	24.00	↓	4.55	↓	365	↓

EUR/PLN: Lesser imminent pressure on the zloty, but risks remain.

	Spot	One month bias	1M	3M	6M	12M
EUR/PLN	4.5979	Bullish	4.67	4.72	4.65	4.55

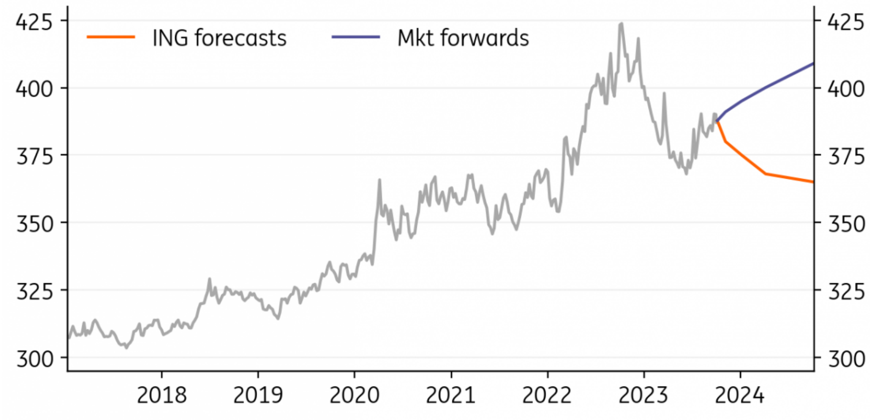
- The NBP slowing rate cuts has eased pressure on the zloty at year end. The Polish policy mix still contrasts with key core economies and even other CEEs. Opinion polls suggest a rather uncertain political landscape after the general elections in October, possibly still preventing any prompt access to the Recovery Fund.
- Based on our €/PLN retentive value model gauging the zloty against other market variables (including swaps), the Polish currency is no longer overvalued against the euro, and is currently very close to the equilibrium level. This suggests that €/PLN still has significant upside potential (to c.4.75) should sentiment sour after the elections.



EUR/HUF: We see stronger forint on reducing country-specific risk

	Spot	One month bias	1M	3M	6M	12M
EUR/HUF	387.7600	Bearish	380.00	375.00	368.00	365.00

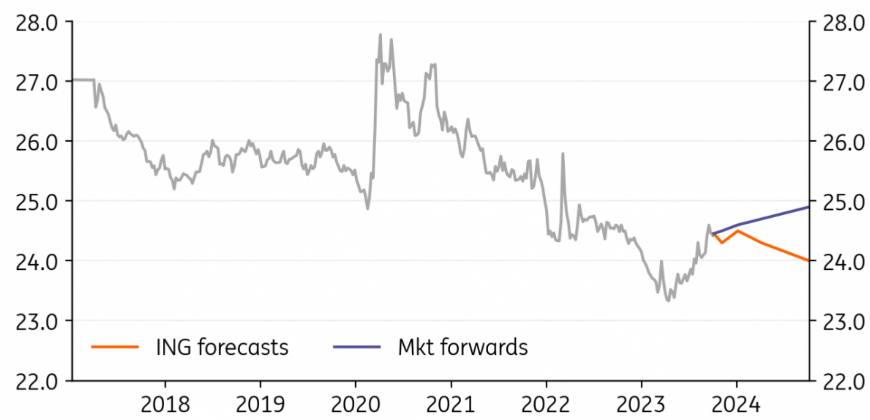
- On a global level, a lower EUR/USD remains a downside risk in the short-term. In the medium- and long-term this should in turn help to keep EUR/HUF lower.
- Locally, we think the NBH will be key. Markets remain on the dovish side, so we see a possible hawkish repricing, leaving room for further appreciation due to higher interest rate differentials.
- Positioning seems rather balanced, and the market does not seem to be betting on further HUF weakness, while FX carry remains nearly double that of CEE peers. The recent glimmer of hope for an approaching EU deal will also provide support



EUR/CZK: The CNB rate-cutting strategy is ready

	Spot	One month bias	1M	3M	6M	12M
EUR/CZK	24.4500	Mildly Bearish ↘	24.30	24.50	24.30	24.00

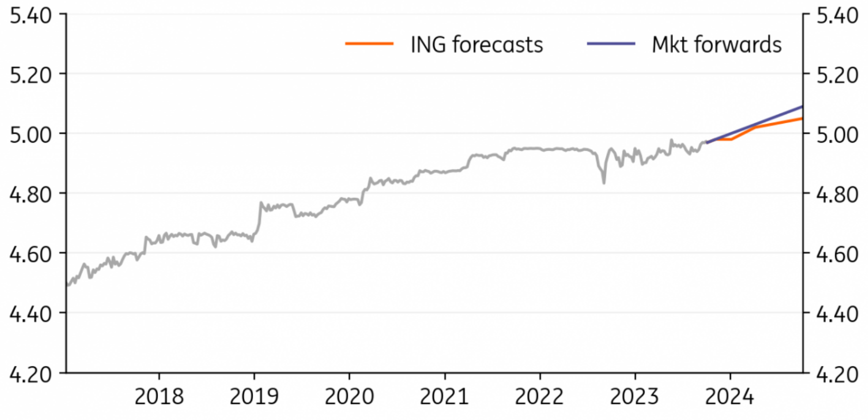
- After the sharp depreciation triggered by the surprise NBP rate cut in Poland, the Czech koruna has stabilized in the 24.350-450 EUR/CZK band and we do not expect anything to change.
- A CNB rate cut looks inevitable, maybe already in November, with most of the cutting cycle already priced in. Any such rate cut itself should not be significantly painful.
- Looking ahead, the CZK is set to balance between a falling interest rate differential and a weaker US dollar later this year and next. We believe the positive effect will prevail and the koruna will hold current levels or slightly appreciate.



EUR/RON: Increased turnover around previous resistance

	Spot	One month bias	1M	3M	6M	12M
EUR/RON	4.9696	Neutral	4.98	4.98	5.02	5.05

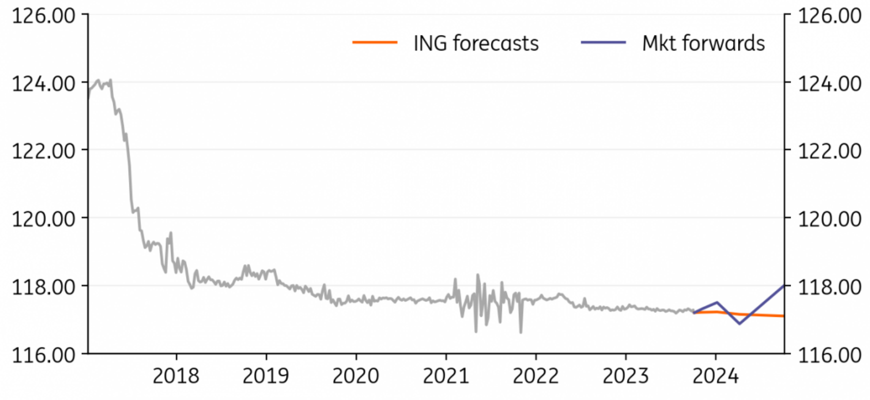
- With the EUR/RON gradually climbing towards its previous resistance level of 4.9800, market turnover seems to be increasing - possibly suggestive of official offers.
- We believe that the NBR is looking for opportunities to sell euro in order to mop some of the surplus liquidity from the local money market and also to re-anchor inflation expectations which seem to have turned somewhat looser after the latest inflation prints.
- Given the very limited tolerance for leu depreciation that NBR displays, we have removed from our forecasts the very limited depreciation we were expecting. We see the pair stable in the 4.95-4.98 range.



EUR/RSD: Business as usual

	Spot	One month bias	1M	3M	6M	12M
EUR/RSD	117.2000	Neutral	117.21	117.22	117.15	117.10

- The surprise increase in reserve requirements from early September didn't prevent a drop of around 15bp in 3-month rates. Liquidity condition remain accommodative.
- September is likely to be the last month with double-digit inflation. The disinflation process looks very gradual, and we do not envisage headline inflation back within NBS's 1.5-4.5% target range over the next 2-years.
- We believe that the next policy decision should be a rate cut but, given the global background with core yields on the rise, this might happen in mid-2024. FX-wise, we see the EUR/RSD quasi-pegged around current levels.



USD/UAH: USD/UAH remains range-bound, but risks remain.

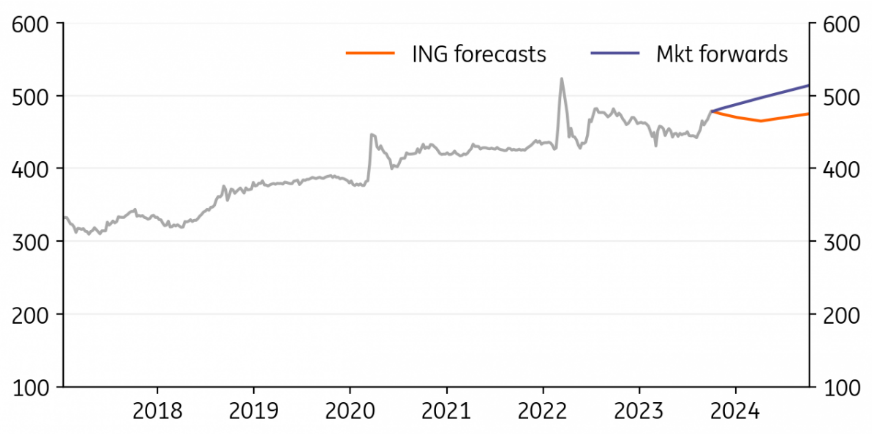
	Spot	One month bias	1M	3M	6M	12M
USD/UAH	36.6500	Neutral	37.00	37.00	37.00	39.00

- The agreement postponing the government shutdown in the US means that US will stop financial aid to Ukraine until a new budget is passed. NBU's international reserves (US$40.4bn) are enough to defend the currency for several months, especially as other countries will maintain support. Monthly interventions are rising (c.US$2.7bn in September), likely reflecting recent NBU monetary easing.
- We assess the long-term prospects of the hryvnia as pessimistic. Offsetting damage to the economy and foreign trade gap will likely require a weaker UAH, even though Ukraine could support the currency using foreign aid proceeds on the market.

USD/KZT: Further downside appears limited

	Spot	One month bias	1M	3M	6M	12M
USD/KZT	478.2500	Neutral	475.00	470.00	465.00	475.00

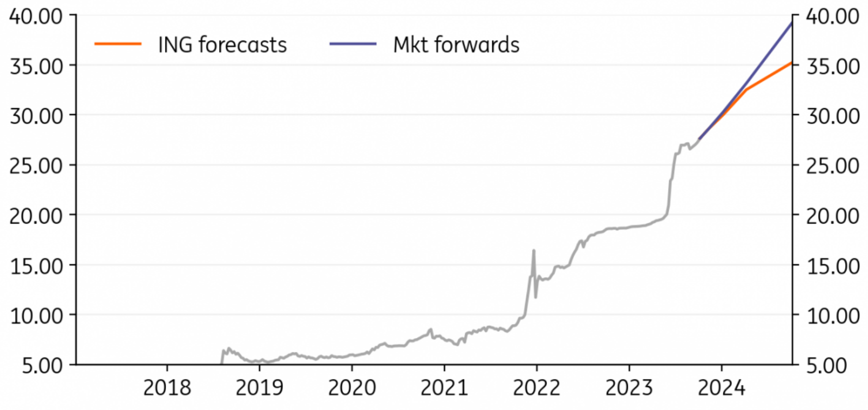
- The tenge continued to weaken materially in September – from 458 to $478/$ leading to underperformance vs. oil prices and our expectations. The NBK cited easing in FX sales requirements for SOEs and higher imports as domestic reasons for KZT weakness.
- Indeed, imports growth reached 30% YoY in July and has likely remained strong, pushing the current account into deeper deficit, while lower FX sales by corporates may have lowered net private capital inflows.
- Meanwhile, FX sales out of NFRK, the oil fund, increased from $0.8bn in August to $1.2bn in September and may go higher to $1.5-1.6bn in October, suggesting higher support to KZT in the near-term, especially if the mood on the global markets stabilizes



USD/TRY: All eyes remain on policy moves

	Spot	One month bias	1M	3M	6M	12M
USD/TRY	27.6300	Bullish	28.50	30.00	32.50	32.25

- While the CBT has kept its tightening bias, expectations for the final policy rate have also increased further after another bout of inflation and recent broad-based deterioration in price dynamics.
- Given the deterioration in pricing behaviour, exchange related effects, the widespread increase in wages and tax adjustments and continuing strength in domestic demand and the upward reversal in global commodity prices, particularly oil prices, inflation will likely remain under pressure in the near term. We have already seen significant jumps since the elections.
- Following 12.5ppt hikes at the last two MPCs, we expect the policy rate to be 35% at the end of this year, though the risks are on the upside.



USD/ZAR: November 1st budget statement in focus

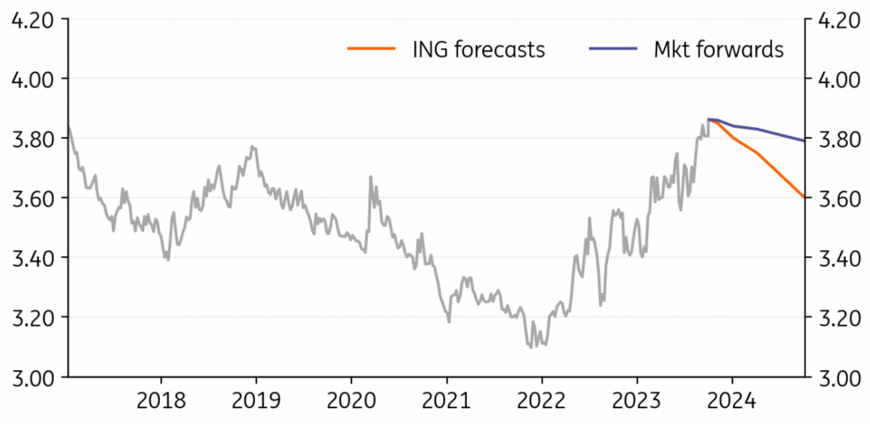
	Spot	One month bias	1M	3M	6M	12M
USD/ZAR	19.4400	Neutral	19.50	19.00	18.50	17.50

- The rand has been trading on the soft side given the difficult external trading environment. Carry trade flows have fallen out of favour due to the higher volatility environment and domestic policy is coming under more scrutiny. Here the focus is on the Nov 1st Medium Term budget statement, where this fiscal year's 4% of GDP budget deficit looks set to be revised higher.
- Bigger holes in the budget amidst a widening current account deficit (lower platinum prices do not help) leave the rand vulnerable. USD/ZAR could retest 20 over the next month.
- The forecast turn lower in USD/ZAR next year is wholly predicated on a weaker dollar and South Africa's policy rate staying at 8%+.

USD/ILS: Few reasons to expect a Shekel recovery

	Spot	One month bias	1M	3M	6M	12M
USD/ILS	3.8618	Neutral	3.85	3.80	3.75	3.60

- As we mentioned last month, the Bank of Israel estimates that there may be a 10% risk premium in the shekel on the back of the constitutional crisis. On that front, there seems to be little progress. Currently the Supreme Court is ruling on the government's legal changes on the right to overturn government policy – or 'reasonableness'. It is unclear that whatever the Supreme Court's ruling, any side will be appeased.
- This suggests USD/ILS may well trade around the 3.80/3.85 area into year-end despite Israel's decent growth and a large current account surplus.
- A major turn in the dollar looks the shekel's only hope near term.



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