EMEA FX Talking: CEE easing remains in play

Having been a market favourite for the majority of this year, the Polish zloty now seems that it will struggle to rally any further. The more dovish stance from the National Bank of Poland is to blame. We think EUR/HUF can continue to trade in narrow ranges and EUR/CZK, after a brief rally, should be able to break below 25.00 later this year

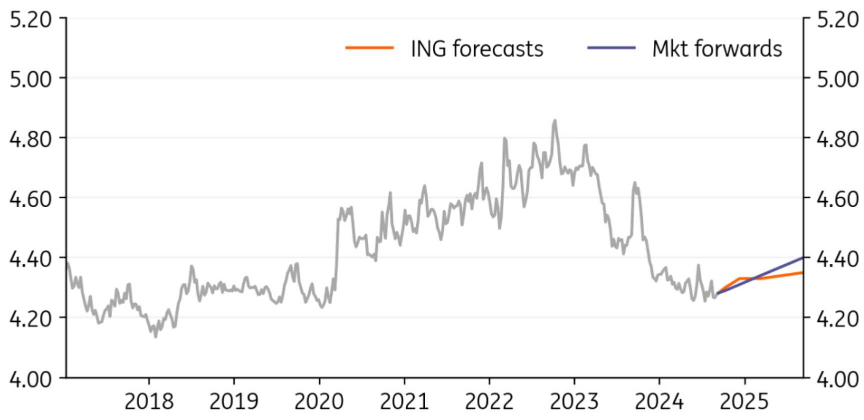
Main ING EMEA FX Forecasts

	EUR/CZK		EUR/PLN		EUR/HUF	
1M	25.00	↓	4.30	↑	393	↓
3M	24.95	↓	4.33	↑	393	↓
6M	24.85	↓	4.33	↓	398	↓
12M	24.70	↓	4.35	↓	403	↓

EUR/PLN: NBP easing expectations undermine the zloty

	Spot	One month bias	1M	3M	6M	12M
EUR/PLN	4.2816	Mildly Bullish	4.30	4.33	4.33	4.35

- The €/PLN was unable to remain at 2024 lows despite a significant weakening of the dollar. We see risks of €/PLN moving above 4.30 after the summer. The domestic and European macro backdrop should support relatively aggressive National Bank of Poland (NBP) easing, especially as the Bank chairman softened his policy stance recently.
- According to our €/PLN relative value model (gauging the zloty against other market variables), the Polish currency remains slightly overvalued against the euro. While we believe that this is due to quite aggressive market expectations for NBP rate cuts, we do not see those diminishing any time soon. This should effectively cap potential PLN gains by year-end.

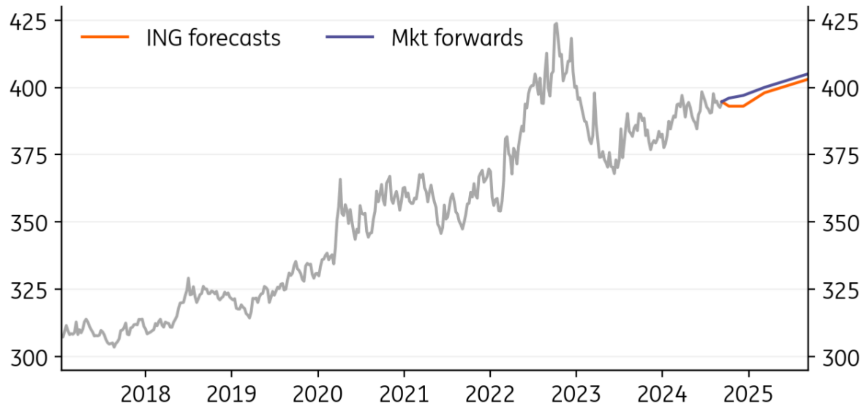


Source: Refinitiv, ING forecasts

EUR/HUF: Relatively calm waters ahead for HUF

	Spot	One month bias	1M	3M	6M	12M
EUR/HUF	394.6800	Neutral	393.00	393.00	398.00	403.00

- EUR/HUF moved from just below 400 to 392 over the course of August, with the last two weeks of the month trading at the lower end of the range.
- Overall, the external environment is supportive for the HUF, as the upcoming Fed easing cycle is almost certain, which increases the National Bank of Hungary's (NBH) room for manoeuvre.
- For the rest of 2024, we retain a trading range view of 390-400 EUR/HUF as we see two additional 25bp rate cuts from the NBH. In our base case, we would see EUR/HUF more likely to trade in the lower half of this range, while in our alternative scenario (3x25bp cuts), we believe the forint could more likely find support in the upper half of the range.



Source: Refinitiv, ING forecasts

EUR/CZK: 25.00 to stay under pressure

	Spot	One month bias	1M	3M	6M	12M
EUR/CZK	25.0200	Neutral	25.00	24.90	24.90	24.70

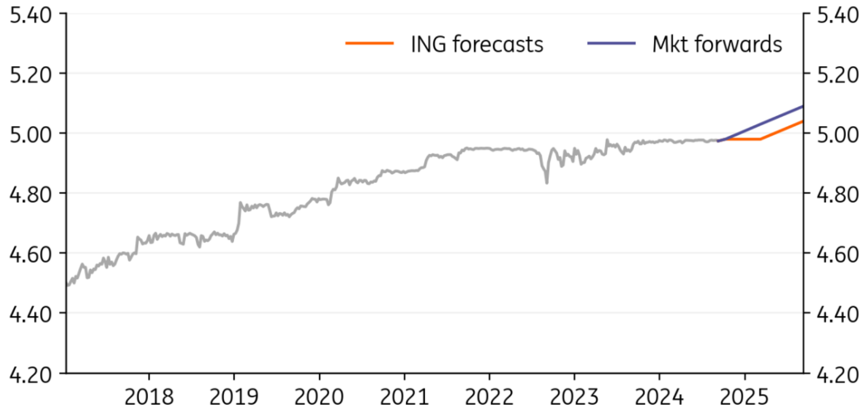
- The Czech currency has strengthened to 25 EUR/CZK levels since the soft rate cut in August, supported by the elevated rates outlook in the Czech National Bank summer forecast and hawkish comments from policymakers. We expect the koruna to hover around this level until the next monetary policy decision, which is scheduled toward the end of this month. The continued strength in consumer spending suggested by upbeat retail sales in July will provide the board members with some firepower for their restrictive tone, and so will the continued real wage growth, despite some deceleration in the second quarter.
- The monetary policy stance remains tight, with headline inflation expected to have returned to target in August, so we see another soft cut for the upcoming decision. However, policymakers will likely express reluctance to reduce rates faster, which will contribute to an appreciating trend in the domestic currency after the decision has been made. At the same time, the economic rebound in the second half is less certain due to limping industrial performance amid lukewarm foreign demand and deteriorating consumer and business sentiment. Whether the bank board would support a fading recovery with lower borrowing costs is clearly the right question.

Source: Refinitiv, ING forecasts

EUR/RON: Slim chances of crossing 5.00 by year-end

	Spot	One month bias	1M	3M	6M	12M
EUR/RON	4.9742	Neutral	4.98	4.98	4.98	5.04

- EUR/RON continued to remain stable in the range of 4.9707 – 4.9858, seeing some small downward pressures towards September, potentially indicative of official offers. Any meaningful departure from current levels remains unlikely in the short run. While disinflation is set to resume as of August, services inflation will likely continue to require National Bank of Romania (NBR) caution. So far, there have been no cracks on the 4.98 resistance.
- Indeed, GDP growth surprised negatively in 1H24, with exports particularly weak. But with wage growth still in double digits and fiscal policy likely to remain loose until 2026-2027, upside risks for inflation remain in place, at least at this stage, keeping the need for FX stability.
- 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 this year are still slim, we think.

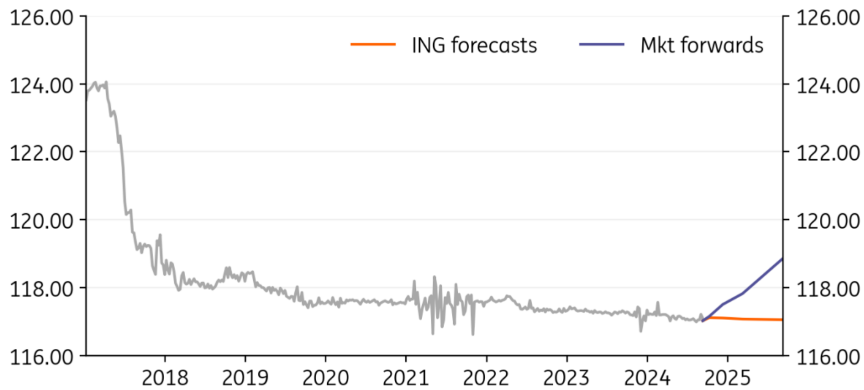


Source: Refinitiv, ING forecasts

EUR/RSD: No major deviations expected

	Spot	One month bias	1M	3M	6M	12M
EUR/RSD	117.0200	Neutral	117.11	117.10	117.07	117.05

- EUR/RSD continued on a stable path close to the 117.00 level. Key positives relate to a change in outlook from stable to positive from Moody's in August, on the back of the recent better-than-expected GDP growth and fiscal performance, as well as good progress on reforms.
- Further interventions from the National Bank of Serbia (NBS) likely cushioned more volatile developments. In July, NBS bought another EUR225mn, following EUR695mn in June. EUR28.1bn in FX reserves is a record.
- These levels offer the NBS increased policy flexibility in the upcoming easing cycle. We expect 50bp more of cuts this year and a pretty flat profile for the pair, with an FX impact of capital inflows likely to remain muted by official interventions.

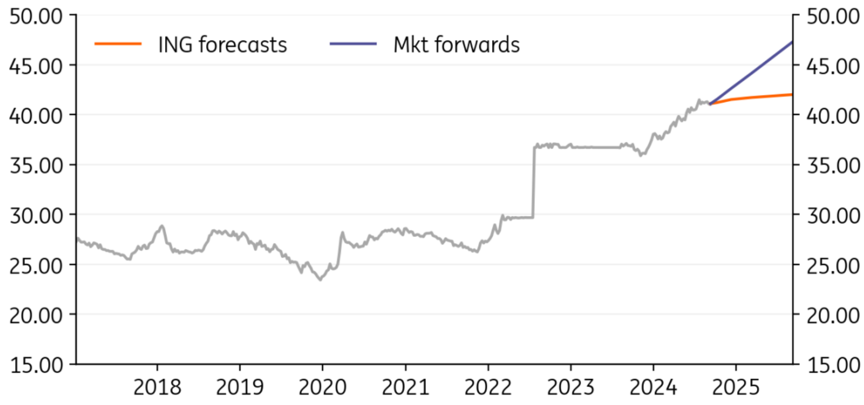


Source: Refinitiv, ING forecasts

USD/UAH: Negative UAH fundamentals persist.

	Spot	One month bias	1M	3M	6M	12M
USD/UAH	41.0800	Mildly Bullish	41.20	41.50	41.70	42.00

- The hryvnia stabilised in August, largely owing to a positive global backdrop (chiefly easing of the dollar). Short-term prospects of the Ukrainian currency also rely on the external environment. So far, the risks of a Trump US presidency, considered a risk for EM assets (and Ukrainian in particular), have declined considerably. But we are yet to see is if such market perception lasts as we are moving closer to the US elections.
- Medium-term fundamentals behind the hryvnia remain unfavourable. The National Bank of Ukraine seemingly deprioritised stabilising the currency as inflation eased. We also do not expect the significant current account deficit to improve any time soon, remaining a major drag on the currency. Also, prospects for continued, large external aid remain uncertain.

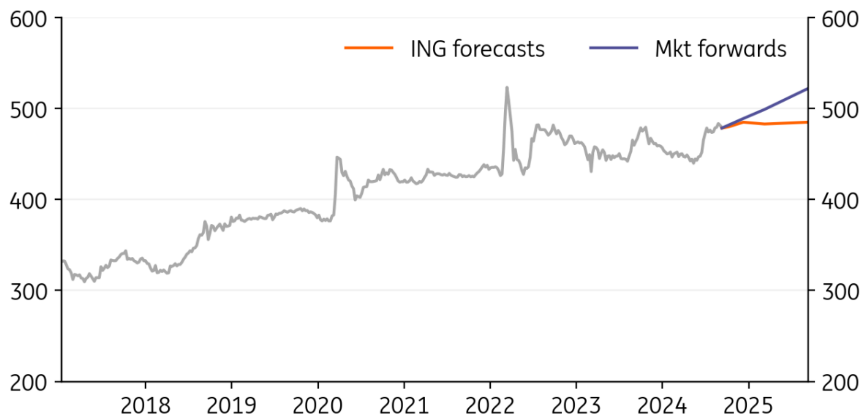


Source: Refinitiv, ING forecasts

USD/KZT: Support from state FX sales declines

	Spot	One month bias	1M	3M	6M	12M
USD/KZT	478.5500	Mildly Bullish	480.00	485.00	483.00	485.00

- USDKZT continued to show weakness, depreciating from 475 to 480 in August. The external context was mixed, as cheaper oil prices coincided with global weakening of the US dollar.
- Portfolio flows are likely benign as the NBK refrained from cutting the key rate of 14.25% in August amid some stabilisation of CPI. Based on real rates, Kazakhstan remains competitive, in our view.
- Net of off-market transactions related to Kazatomprom, the FX sales out of the sovereign fund (NFRK) have remained subdued at $420-600 mn per month in July-August vs. $0.6-1.1bn in 1H24. We reiterate our medium-term expectations of a weaker tenge on the declining support from the state FX sales.

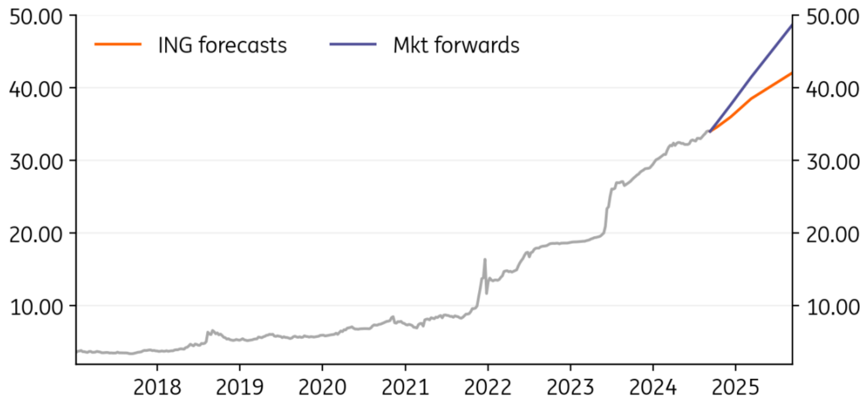


Source: Refinitiv, ING forecasts

USD/TRY: Macroprudential actions from the CBT

	Spot	One month bias	1M	3M	6M	12M
USD/TRY	34.0100	Mildly Bullish	34.60	36.00	38.50	42.10

- Since early July, residents' FX deposits increased by US$9.9bn, driven by both households and corporates. Behind this may be the summer current account surplus which leads companies to increase their FX deposit accounts. Another important factor is the exit process from the FX protected deposit scheme.
- The FX deposit expansion accelerated lately as we saw a US$2bn increase in residents' FX deposits, and US$1.9bn outflows from foreign holdings of TRY assets, which resulted in a US$2.5bn decline net FX reserves. Accordingly, the CBT has introduced a series of macroprudential tightening measures with an aim to contain the increase in FX demand from locals.
- The CBT's policy moves will likely: i) push TRY deposit rates higher, ii) limit conversion from FX-protected deposits to FX deposits, iii) help sterilise excess liquidity in the system. Accordingly, we can see a supported TRY after depreciation at a faster pace in August.

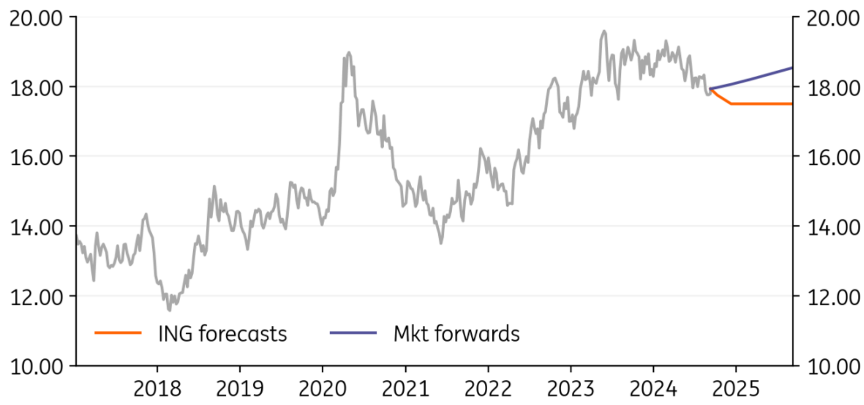


Source: Refinitiv, ING forecasts

USD/ZAR: Rand positively re-assessed

	Spot	One month bias	1M	3M	6M	12M
USD/ZAR	17.9300	Mildly Bearish	17.75	17.50	17.50	17.50

- With domestic developments in Latin America writing that region off the high-yield investment map, the rand is winning some new friends. Helping that story is the new government and macro. On the former, the new coalition government is enjoying a honeymoon as it discusses reforms. On the latter, 2Q growth was better and the current account deficit is now just 0.9% of GDP.
- The central bank left rates unchanged at 8.25% in July but looks likely to cut rates 25bp on 19 September. Real rates, however, will remain decidedly positive and keep the rand in demand.
- All bets on the rand could be off in November were Trump to win. A heightened trade war with China is clearly bearish for the rand.

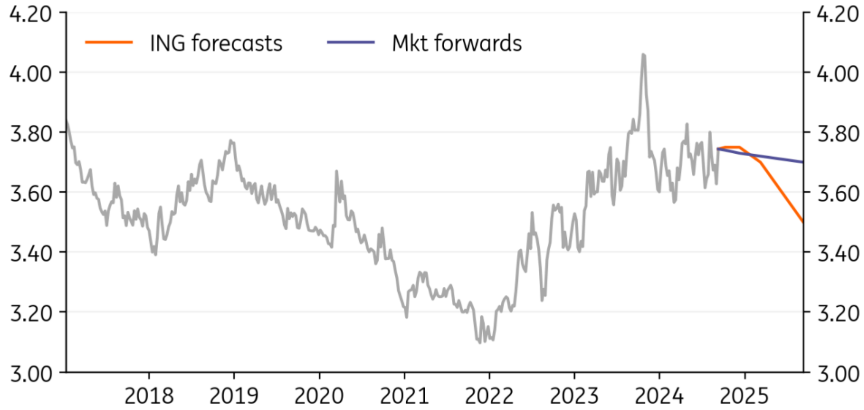


Source: Refinitiv, ING forecasts

USD/ILS: Shekel is proving remarkably stable

	Spot	One month bias	1M	3M	6M	12M
USD/ILS	3.7439	Neutral	3.75	3.75	3.70	3.50

- USD/ILS is trading within a 3.60-3.80 range and looks likely to continue doing so for the time being. The policy rate in Israel is currently 4.50% and despite relatively weak growth, inflation will not allow the Bank of Israel to cut rates this year. This is because of supply side constraints – largely down to labour shortages.
- At the same time, Israel's sovereign risk premia continue to trade quite wide. A 10% budget deficit saw Israel downgraded from A+ to A by Fitch in early August, with a negative outlook.
- Of course, huge uncertainty around the war and the risk of escalation is impacting Israeli asset markets. Let's see whether upcoming US elections make much difference in the search for peace. If so, USD/ILS should come lower on the $ bear trend.



Source: Refinitiv, ING forecasts

Author

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

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

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

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

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Disclaimer