

EMEA FX Talking: Re-assessing tightening cycles



Main ING Emerging Market FX forecasts

	EUR/CZK	EUR/PLN	EUR/HUF
1M	24.60 ↑	4.93 ↑	409.00 ↓
2M	24.60 ↑	4.90 ↓	397.00 →
6M	24.60 ↓	4.80 ↓	387.00 →
12M	25.00 →	4.67 ↓	383.00 →

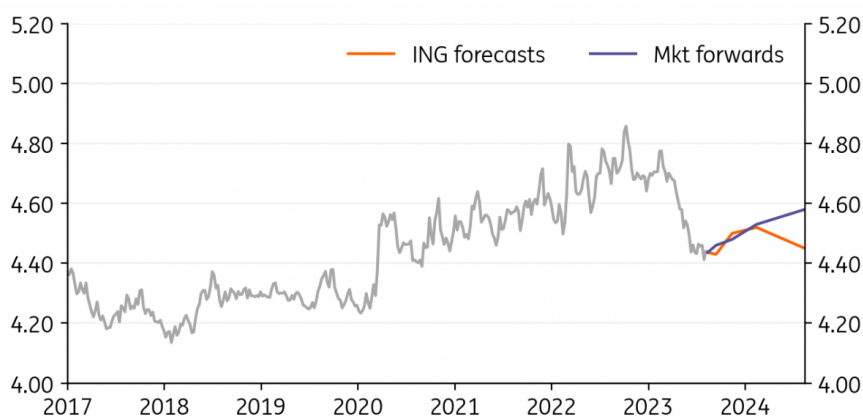
↑ / → / ↓ indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright

Source - all charts and tables: Refinitiv, ING forecast

EUR/PLN: PLN remains at risk, due to NBP and global tensions

	Spot	One month bias	1M	3M	6M	12M
EUR/PLN	4.8688	Mildly Bullish ↗	4.93	4.90	4.80	4.67

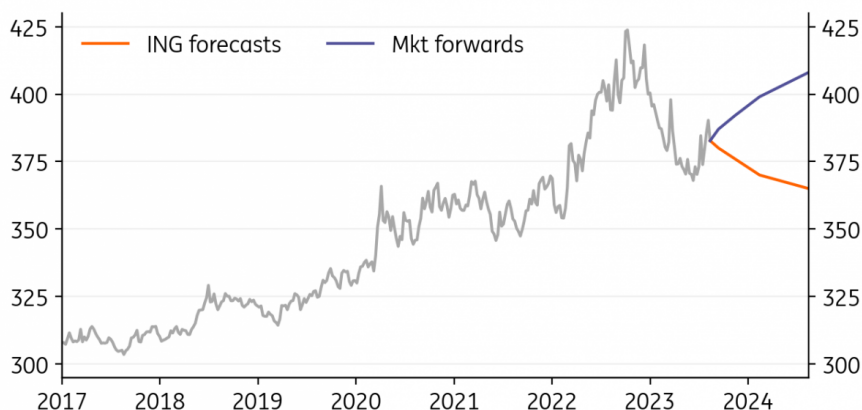
- PLN remains at risk of further depreciation. Global sentiment is CEE negative more often than not and NBP stuck to its promise of a rate hike pause in October. Still, positioning against PLN is already significant (shown by the high costs of FX swaps) and should offer some recovery scope when external factors improve. However, €/PLN is likely to stay above 4.80 in 4Q22 regardless.
- 2023 prospects may be largely dependent on Poland retaining access to the larger pool of EU funds. Some warn against new EU tensions ahead of general elections in 2023. The MoF strategy of converting EU funds via the market should provide PLN support (less so than CNB FX interventions) even as C/A remains in deficit.



EUR/HUF: Forint breaks away from gloom by mid-2023

	Spot	One month bias	1M	3M	6M	12M
EUR/HUF	426.5900	Bearish ↘	409.00	397.00	387.00	383.00

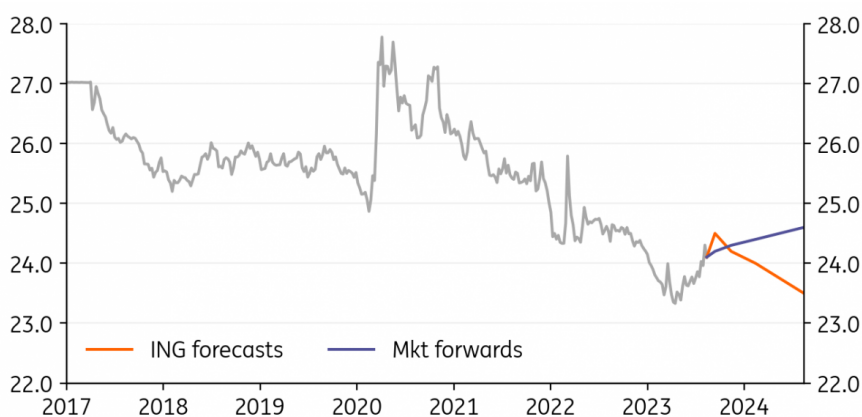
- A new round of energy woes and related fear of external financing issues have risen. These met with some fiscal uncertainty and the sudden end of the rate hike cycle, providing reasons for investors to ignite a HUF sell-off.
- Hungary's deferral of payments to Gazprom can ease pressure on the current account and break the link between energy spikes and HUF weakness. The central bank's effort to dry up forint liquidity will bear fruit. We see EUR/HUF back to sub-410 levels.
- We maintain our optimism related to the EU-deal, sealing it before year-end, giving the forint a boost to rally to 400 vs EUR. Looking into 2023, we expect HUF appreciation on reduced country-specific risks, fading inflation and recurring growth.



EUR/CZK: CNB intervention costs raise eyebrows again

	Spot	One month bias	1M	3M	6M	12M
EUR/CZK	24.5200	Neutral	24.60	24.60	24.60	25.00

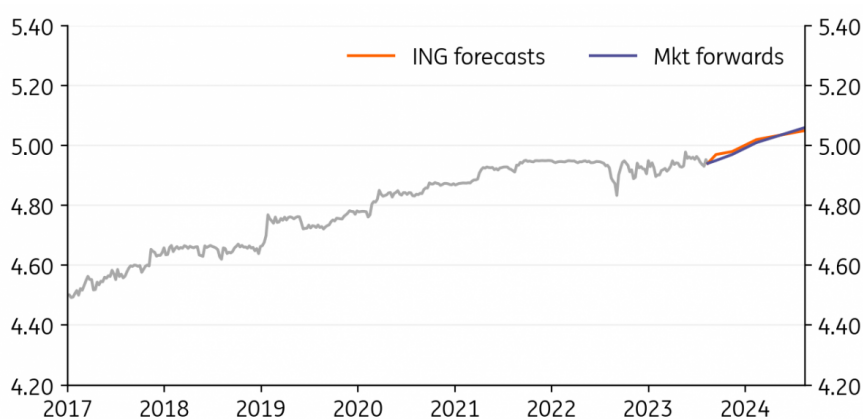
- As expected, the CNB left rates unchanged at September meeting and confirmed the end of the hiking cycle. We see the chances of an additional rate hike slightly higher than in August given the central bank's focus on rising wages. However, this risk is far from our baseline scenario of stable rates.
- Of more interest is the recent increase of FX intervention costs. If the pace of intervention and market pressure persist during the November and December meetings, we can expect the CNB to be pushed to rethink its approach at the end of the year.
- For now, however, our baseline remains unchanged, implying a stable koruna near 24.60 EUR/CZK until 1Q23.



EUR/RON: Back to normal after seasonal inflows are over

	Spot	One month bias	1M	3M	6M	12M
EUR/RON	4.9400	Neutral	4.94	4.95	5.10	5.10

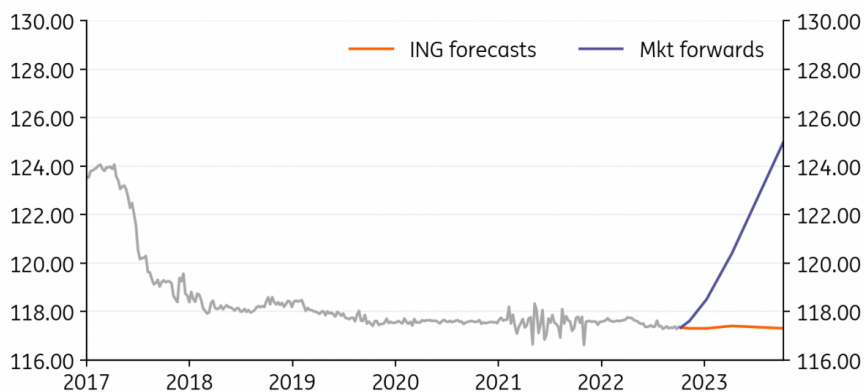
- After the seasonal inflows (largely bond-related) were over in early September, the EUR/RON returned to its previous 4.95 level with virtually no intermediary resistance levels.
- There has been a hawkish twist from NBR which recently increased the key rate by 75bp when all the other CEE3 central banks have stopped hiking. This will likely support the currency even better in the short term.
- We believe that the global selling pressure on the CEE region is steadily making it more and more expensive for NBR to keep the currency stable. While we do not see any short-term threat to EUR/RON, it is understandable that stability cannot last forever.



EUR/RSD: Managed floating at its best

	Spot	One month bias	1M	3M	6M	12M
EUR/RSD	117.3400	Neutral	117.30	117.30	117.40	117.30

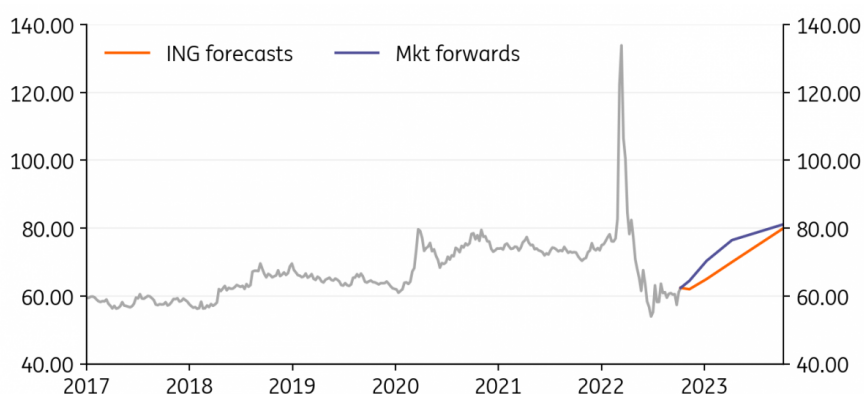
- In line with our view, the NBS continued to hike in October as the key rate reached 4.00%. We maintain our terminal key rate estimation at 4.50%
- In an opinion piece published on NBS's website, the NBS Governor Jorgovana Tabakovic has not shied away from expressing strong views about the FX, e.g., "...for as long as I am Governor – the relative stability of the exchange rate will have no alternative" or (our preferred one) "In an environment where we cannot forecast the weather with certainty by looking at weather radars, stability of the FX market is still certain!".
- We maintain our year-end EUR/RSD forecast at 117.30 for both 2022 and 2023.



USD/RUB: Volatility is likely to continue

	Spot	One month bias	1M	3M	6M	12M
USD/RUB	62.1700	Neutral	62.00	65.00	70.00	80.00

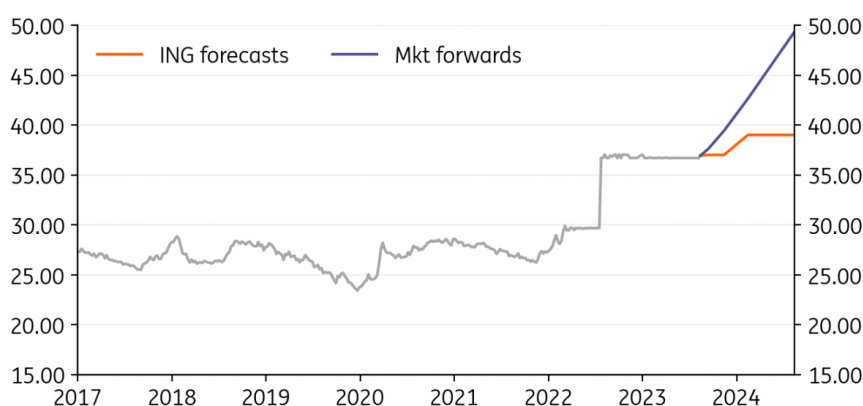
- USD/RUB ended September precisely at our 60.0 target after a volatile month: mobilization-driven demand for FX mid-month was followed by corporate FX sell-off on high tax payments and fears of new sanctions against the financial system, including the National Clearing Center. That scenario has not materialized yet.
- October may also prove volatile, as higher oil prices post OPEC+ meeting, Gazprom’s extra tax and dividends should create a push for stronger RUB, while geopolitical escalation may steer it in the other direction.
- Our longer-term view on RUB depreciation remains unchanged due to EU oil embargo, recovery in imports and likely resumption of foreign assets accumulation by Russia, including Minfin.



USD/UAH: Stable for now, long term prospects uncertain

	Spot	One month bias	1M	3M	6M	12M
USD/UAH	36.9300	Bullish	38.50	40.00	40.00	38.00

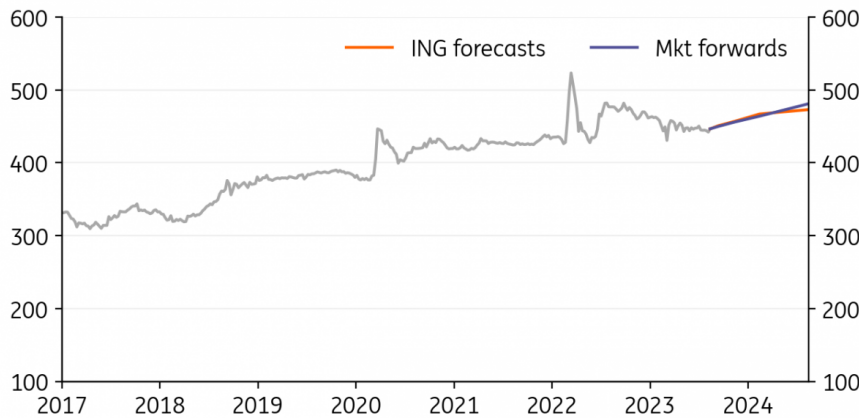
- Russian mobilisation suggests no end of the war anytime soon, despite Ukrainian military successes. As such, NBU will remain forced to defend the hryvnia, largely relying on international aid to shore up its FX reserves (as the trade balance remains in deep deficit). If the war escalates, the risk of renewed UAH depreciation remains high.
- Uncertainty over long term prospects of the hryvnia remains very high. The Russian aggression will most likely continue in 2023, as freshly mobilised troops arrive in bulk. Moreover, the NBU may prove more prone to directly supporting the government, after the Governor Kyrylo Shevchenko resigned.



USD/KZT: Between higher oil price and global USD rally

	Spot	One month bias	1M	3M	6M	12M
USD/KZT	474.5600	Neutral	470.00	490.00	470.00	480.00

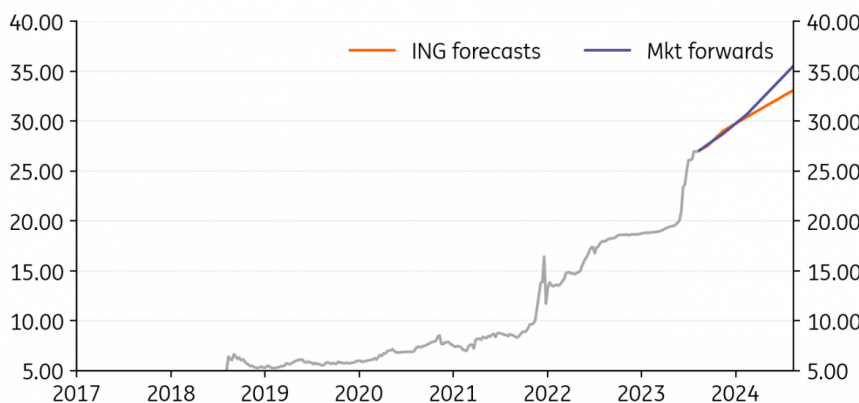
- KZT traded slightly stronger than our USDKZT 480 target despite lower oil prices, suggesting recovery in physical exports in September. FX spot trading volume was thin, with exporters' FX repatriation and sovereign fund's FX sales for state spending jointly accounting for 32% of it vs. 20% in August.
- The recent OPEC+ deal appears supportive for oil prices without any negative effect on Kazakhstan's exports. Private capital flows should remain KZT-neutral to positive as long as President Tokaev's re-election on 20 November is perceived as likely
- Tenge's longer-term bias remains bearish till 1-2Q23 amid global USD strength. Also, the recent comments by NFRK suggests that the FX sales from the sovereign fund may be reversed till year-end and may shift to FX asset accumulation next year.



USD/TRY: A more supportive policy stance

	Spot	One month bias	1M	3M	6M	12M
USD/TRY	18.5800	Bullish ↗	19.00	20.00	21.50	23.40

- The policy mix has tilted to a more supportive stance lately given i) another Credit Guarantee Fund package (reportedly at least TRY50bn) that can reverse recent momentum loss in lending, but timing is not specified yet ii) signal of more expansionary stance on the fiscal side in the medium term plan when compared with the previous one iii) 200bp rate cuts by the CBT with an emphasis on importance of keeping financial conditions supportive.
- However, given tighter regulations on the asset side that selectively limit loan growth, cuts are not easing the financial conditions as fast currently.
- TRY is likely remain under pressure in the near term due to fundamentals of elevated inflation, pressure on external balance in the current unsupportive global backdrop etc. Recovery in FX reserves will be more challenging in this environment.



USD/ZAR: A challenging next six months for the ZAR

	Spot	One month bias	1M	3M	6M	12M
USD/ZAR	18.1400	Neutral	18.00	18.50	17.50	17.00

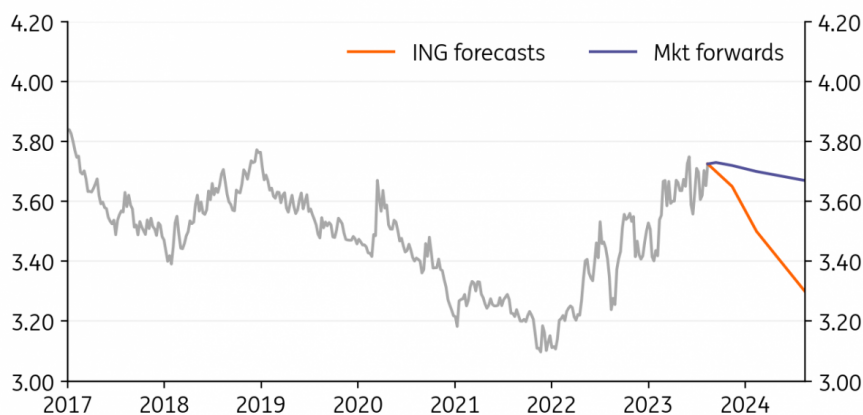
- USD/ZAR recently rose above 18.00 as US yields and the dollar punched to the highs of the year. We are not looking for a top in the dollar until Q1/Q2 next year, meaning that USD/ZAR still risks pushing up to 18.50 and possibly 19.00. The ZAR is a high beta on Chinese growth and EM prospects in general – neither of which look compelling this year.
- South Africa’s current account has moved a little deeper into deficit, earlier than expected (1.3% of GDP in 2Q) and the SARB will likely have to keep hiking (now 6.25%) to stabilise ZAR.
- Political event risk exists at the December ANC conference. President Ramaphosa is under pressure, but alternatives are few.



USD/ILS: ILS looks too cheap

	Spot	One month bias	1M	3M	6M	12M
USD/ILS	3.5626	Mildly Bearish ↘	3.50	3.50	3.40	3.00

- The move of \$/ILS to 3.60 has surprised us – but should be quickly reversed. Israel stills enjoys a sizable current account surplus in excess of \$4bn per quarter and has a central bank hiking in 75bp increments in the face of full employment and GDP growth expected at 6% this year and 3% next year. The market expects the Bol to continue hiking to the 3.75% area – another 100bp.
- The main risk to the Shekel is the investment environment, where high US rates are damaging the tech sector and FDI into Israel. These conditions may persist into early 2023.
- We are big fans of the shekel and see it capped in the 3.50/3.60 area – and the Bol may struggle to keep it over 3.00 next year.



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