

EMEA FX Talking: The zloty looks the best of the CE4 bunch

EMEA currencies have had a mixed couple of months, hit by some aggressive easing and local challenges. Right now we would favour the Polish zloty over the Czech koruna and Hungarian forint - largely on the back of the interest rate story plus inbound EU money. Elsewhere, we find the South African rand a little too hot to handle given the election risk



Main ING Emerging Market FX forecasts

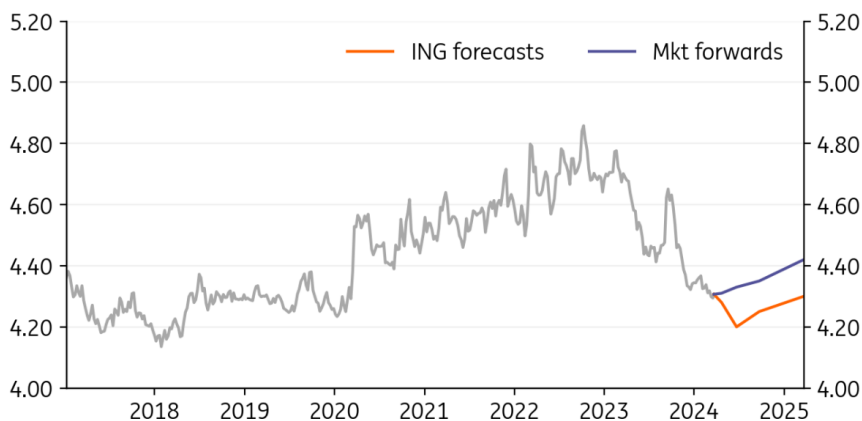
| | EUR/CZK | EUR/PLN | EUR/HUF |
|----|---------|---------|----------|
| 1M | 25.20 ↓ | 4.28 ↓ | 399.00 ↑ |
| 3M | 25.20 ↓ | 4.20 ↓ | 405.00 ↑ |
| 6M | 24.80 ↓ | 4.25 ↓ | 390.00 ↓ |

| | | | |
|-----|---------|--------|----------|
| 12M | 24.00 ↓ | 4.30 ↓ | 405.00 ↓ |
|-----|---------|--------|----------|

EUR/PLN: Flat NBP rates should aid the zloty in the coming weeks

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---------|--------|----------------|------|------|------|------|
| EUR/PLN | 4.3067 | Bearish ↘ | 4.28 | 4.20 | 4.25 | 4.30 |

- Poland is about to receive the first large payment from the Recovery and Resilience Facility in April. While we do not know what share of these funds will be converted via the market, we can assume it may be similar to 2022 levels, (latest available data, 40%). In tandem with the current account surplus and inflow of FDI (mostly retained profits) this should allow for further PLN gains in the coming weeks. Moreover, it is increasingly likely that the National Bank of Poland will refrain from rate cuts this year, as the government announced the gradual withdrawal of anti-inflation shields.
- The global political environment may prove 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.

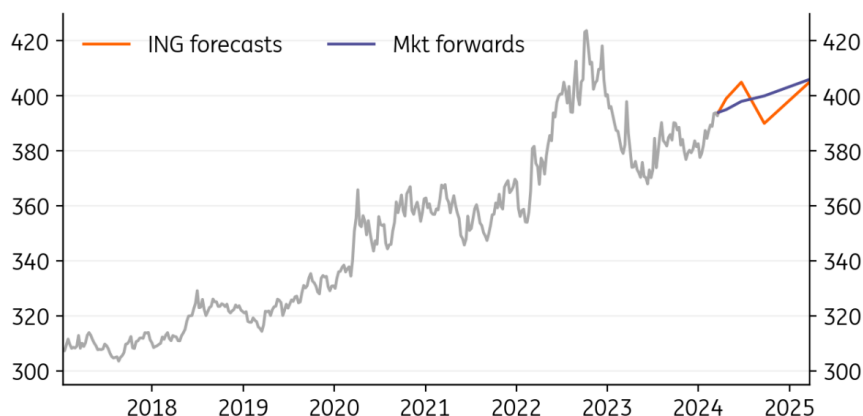


Source: Refinitiv, ING

EUR/HUF: Eventually the 400 mark will be broken again in EUR/HUF

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---------|----------|------------------|--------|--------|--------|--------|
| EUR/HUF | 394.0000 | Mildly Bullish ↗ | 399.00 | 405.00 | 390.00 | 405.00 |

- Despite generally robust global sentiment, the forint has underperformed since early January and showed significant volatility in the past couple of weeks. Country-specific risks and FX volatility are undermining the relatively solid carry.
- On the economic policy side, investors are faced with a narrowing rate differential as the easing cycle of the major central banks is being pushed back, while easing in Hungary has been accelerated, albeit temporarily.
- The major political risks (looming change in the central bank law, emerging possibility of blocked EU funds) will persist for a while, which is why we now see EUR/HUF breaking through 400 in 2Q.



Source: Refinitiv, ING

EUR/CZK: CNB on the hawkish side but still too early for CZK reversal

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---------|---------|----------------|-------|-------|-------|-------|
| EUR/CZK | 25.2800 | Neutral | 25.20 | 25.20 | 24.80 | 24.00 |

- In March, the central bank cut rates again by 50bp to 5.75%, which means that headline inflation on target is not enough for the board to further accelerate the pace of cutting. We believe that the discussion for the next months will still remain between a 50 and 75bp step, supported by a further decline in inflation.
- For the CZK, this means that market bets on further weakening will remain on the table and therefore we believe that it is too early for EUR/CZK to turn down for now. However, we still expect that once the rate cutting cycle moves to a later stage or comes to an end, hot money will leave the market and the koruna will be stronger in the second half of the year.

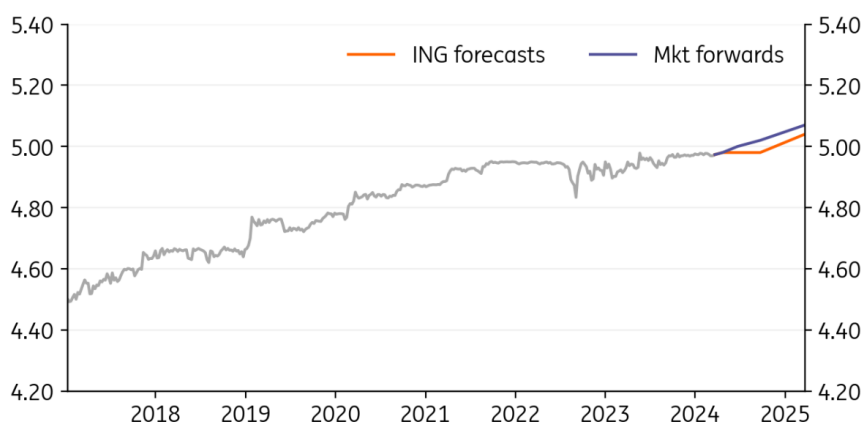


Source: Refinitiv, ING

EUR/RON: A new range is still not in sight

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---------|--------|----------------|------|------|------|------|
| EUR/RON | 4.9733 | Neutral | 4.98 | 4.98 | 4.98 | 5.04 |

- EUR/RON was yet again stable in the range of 4.9666-4.9773. As inflation came in above expectations for a second consecutive print in February, we don't think that the National Bank of Romania will allow the RON to meaningfully depart from the current levels in the near term.
- With a very strong retail sales print in January and still-high wage growth, the central bank's job is far from done yet and the FX overvaluation is set to persist. Moreover, the likely increase in the tax burden next year, at a time of a projected growth acceleration, adds to the more medium-term inflationary risks and, by extension, FX stability needs further down the line.
- All told, we continue to foresee FX stability ahead. The chances of crossing the 5.00 level by autumn have diminished further.

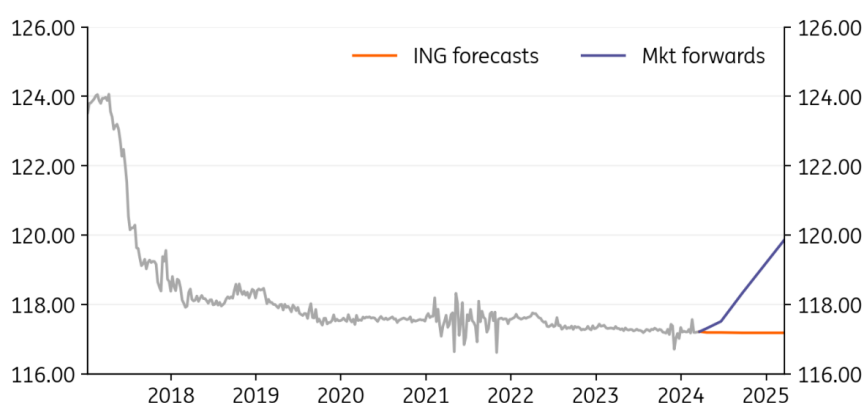


Source: Refinitiv, ING

EUR/RSD: As tightly managed as usual

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---------|----------|----------------|--------|--------|--------|--------|
| EUR/RSD | 117.2200 | Neutral | 117.19 | 117.19 | 117.18 | 117.18 |

- Kosovan PM Albin Kurti has so far resisted pressure to give up the enforcement of EUR-only usage in Kosovo. The key factor to watch is the result of the Brussels-mediated dialogue between Serbian and Kosovan negotiators in the coming weeks.
- The Serbian dinar has continued moving sideways with limited volatility, in the range of 117.18-117.23, as the central bank has likely continued to hold a tight grip on the currency. A full upgrade to investment grade rating is an explicit priority for policymakers ahead.
- We don't foresee any big changes ahead for the RSD and we think that the intervention-driven stability will persist, as the fight against inflation remains the key priority.



Source: Refinitiv, ING

USD/UAH: NBU significantly scales back FX intervention

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---------|---------|----------------|-------|-------|-------|-------|
| USD/UAH | 38.9100 | Mildly Bullish | 39.70 | 40.00 | 40.50 | 41.50 |

- The hryvnia has extended losses in recent weeks, reaching 39/USD. Even though National Bank of Ukraine's reserves are relatively close to an all-time high (37 vs US\$42bn), the central bank has significantly scaled back its FX intervention – just over US\$1.5bn in February down from over US\$3.5bn in December. In tandem with the continuously wide trade deficit, this continues to result in pressure on the hryvnia.
- Unless the NBU changes its stance on FX intervention, the hryvnia is at risk of further imminent losses. However, it is increasingly likely that the central bank is content with CPI moving below 5% year-on-year and will tolerate further hryvnia weakness. The long-term prospects of the hryvnia remain negative. With no end to the conflict in sight, damage to the Ukrainian economy continues.

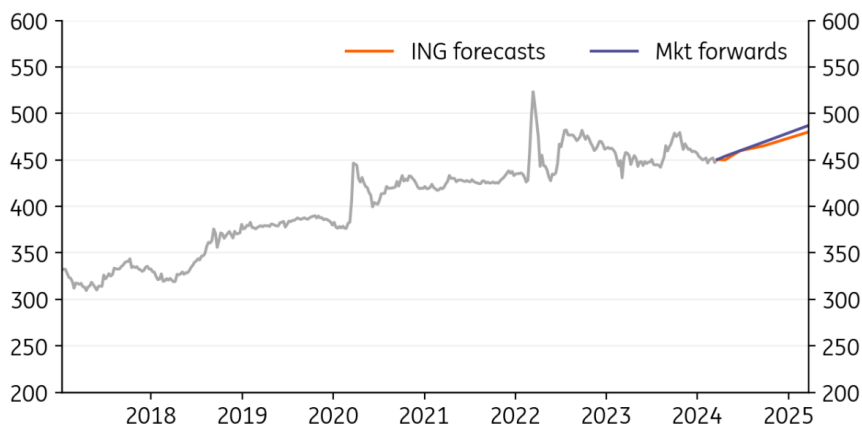


Source: Refinitiv, ING

USD/KZT: Stabilising after a long appreciation run

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---------|----------|----------------|--------|--------|--------|--------|
| USD/KZT | 450.4000 | Neutral | 450.00 | 460.00 | 465.00 | 480.00 |

- The tenge has been trading in a narrow range around 450 to 1 US dollar in the last four weeks amid relatively flat oil prices and currencies of Kazakhstan’s major trade partners.
- The widening current account deficit, as suggested by the 4Q23 data amid zero private capital inflows are making the currency moves increasingly dependent on the FX sales out of the sovereign fund (NFRK).
- The near-term tenge performance seems to be supported by state FX sales (\$0.6 and 1.1 bn in Jan and Feb-24), but the planned tightening in the fiscal rule means that the scope for further KZT appreciation is likely limited.

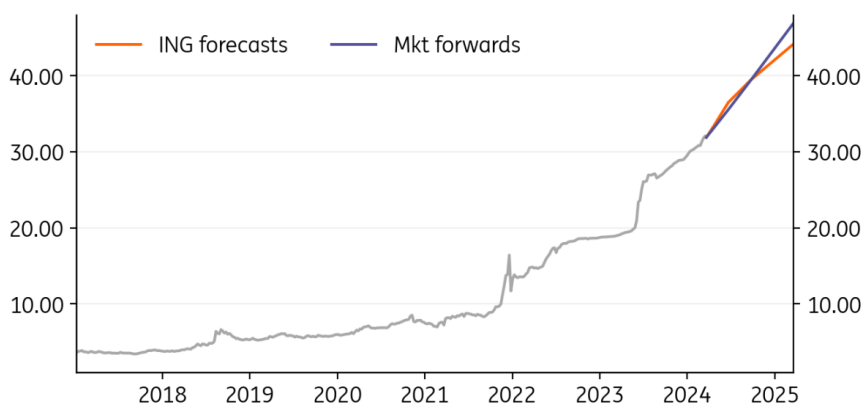


Source: Refinitiv, ING

USD/TRY: Acceleration in USD/TRY increase lately

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---------|---------|----------------|-------|-------|-------|-------|
| USD/TRY | 31.9000 | Bullish ↗ | 33.40 | 36.50 | 39.40 | 44.20 |

- There seems to be an acceleration in the exchange rate lately as USD/TRY rose more than 3% since the February MPC, while the reserves have remained on a declining path. While some of the increase in local FX demand probably is likely temporary, related to election uncertainty, the rest is likely due to the moderation in real deposit rates, and unwinding of the FX-protected deposit scheme.
- The Central Bank of Turkey has responded by introducing additional macro-prudential measures targeting growth in TL commercial loans and general-purpose loans while it has also increased liquidity sterilisation efforts.
- Annual inflation, meanwhile, was higher than expected in February standing at 67.1% due to an across-the-board increase in prices. Given this backdrop and the CBT's vocal stance on inflation, the March and April MPC meetings will be closely followed.

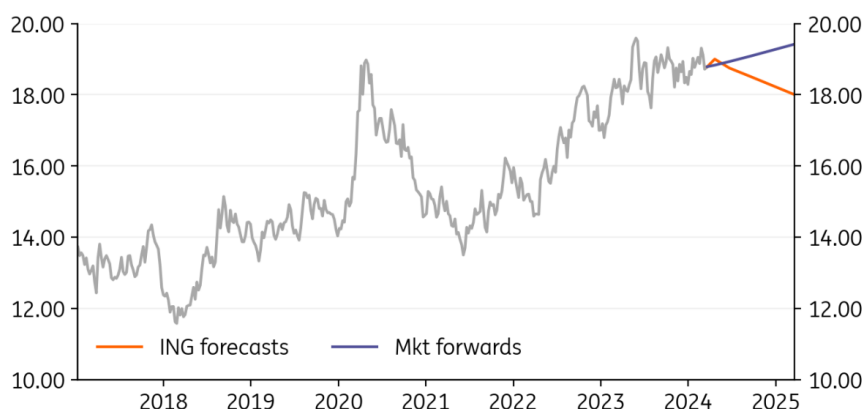


Source: Refinitiv, ING

USD/ZAR: Elections looming in May

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---------|---------|----------------|-------|-------|-------|-------|
| USD/ZAR | 18.7900 | Neutral | 19.00 | 18.75 | 18.50 | 18.00 |

- The rand managed to survive the event risk of the February budget – even though the government did tap into the central bank’s FX reserve fund after all. The fact that those funds were used to pay down debt early probably saved the rand. The president has announced 29 May as the date for the general election. The ANC is polling poorly and questions whether it will pursue a coalition with far-left parties – a rand negative.
- Domestically, the economy remains challenged by infrastructure woes. Currently, water is the challenge. And South Africa’s current account deficit is also widening more quickly than expected.
- US data needs to soften quickly otherwise USD/ZAR will be at 20.

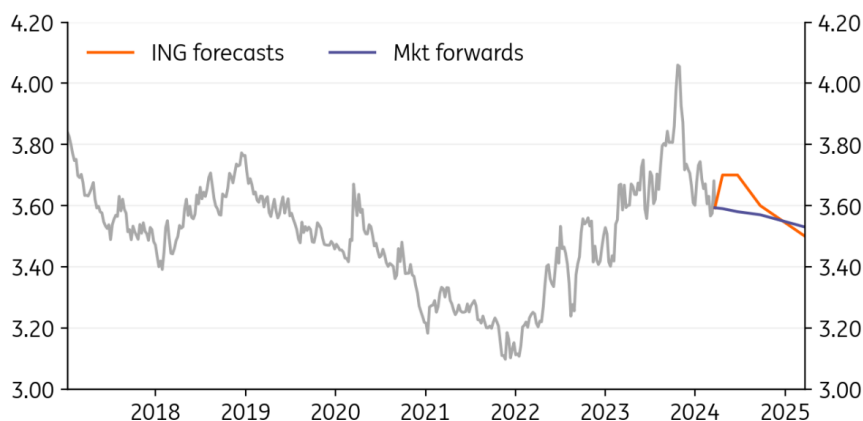


Source: Refinitiv, ING

USD/ILS: Shekel holds gains

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---------|--------|----------------|------|------|------|------|
| USD/ILS | 3.5928 | Bullish ↗ | 3.70 | 3.70 | 3.60 | 3.50 |

- The shekel is largely holding recent gains – again without the need for any FX intervention over recent months. The Bank of Israel is keeping the base rate quite firm at 4.50% despite the large impact on the economy from the war. That war has recently seen the Israeli government pass a budget, with a projected deficit at 6.6% of GDP – a record deficit for Israel. Yet Israel’s sovereign CDS has remained contained.
- We await to see what effect the war has had on Israel’s traditionally strong current account surplus.
- We continue to favour a lower USD/ILS later this year on the back of the Fed easing story. Israel also has large reserves to support ILS.



Source: Refinitiv, ING

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