EMEA FX Talking: Stark divergences emerge within CE4

Some strong diverging trends are starting to emerge in the CE4 region. A combination of public and private sector money flowing into Poland should keep the Polish zloty strong all year. In Hungary, however, high real rates are no longer protecting the forint and policy uncertainty should continue to weigh. Elsewhere, this month's budget could hit the rand

Prague Castle, Czech Republic

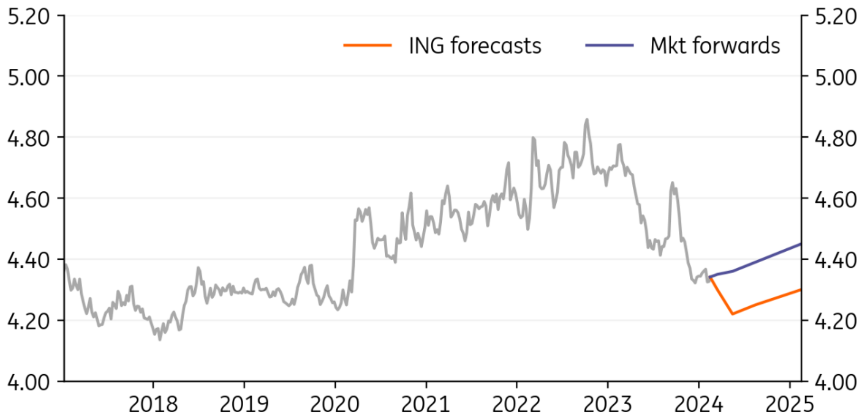
Main ING Emerging Market FX forecasts

	EUR/CZK		EUR/PLN		EUR/HUF	
1M	25.00	↓	4.30	↓	390.00	→
3M	24.50	↓	4.22	↓	395.00	↑
6M	24.50	↓	4.25	↓	385.00	↓
12M	24.00	↓	4.30	↓	388.00	↓

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

	Spot	One month bias	1M	3M	6M	12M
EUR/PLN	4.3414	Mildly Bearish ↘	4.30	4.22	4.25	4.30

- We expect the zloty to extend gains in the coming weeks, reaching around 4.20-25 in mid-2024. The market is heavily betting on NBP resuming rate cuts in March despite MPC comments suggesting any easing this year is unlikely. We think that the MPC will indeed focus on CPI prospects in the second half of the year (as inflation rebounds on withdrawal of some of the anti-inflationary measures) and refrain from easing this year.
- Fundamental backing behind the zloty remains firm, as we expect foreign inflows, both investments (i.e., foreign share in POLGBs is still half as high as elsewhere in CEE) and from the EU. However, global political environment may prove a risk, as we are yet to see if US stance on the conflict in Ukraine changes after the presidential elections later this year.

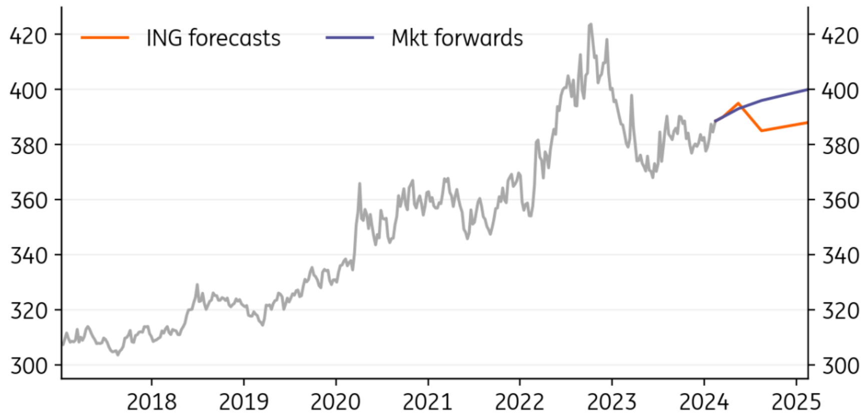


Source: Refinitiv, ING

EUR/HUF: We flip the switch, see HUF underperforming

	Spot	One month bias	1M	3M	6M	12M
EUR/HUF	388.5600	Mildly Bullish ↗	390.00	395.00	385.00	388.00

- We expected 2024 to be a good year for the forint, but things haven't exactly gone our way. The recent shift in the tone of monetary policy and the increased unpredictability of economic policy have had a negative impact: markets are no longer cheered by the positive real interest rate environment.
- Add to this a pro-growth fiscal policy, some red flags from the major rating agencies and the ongoing spat with Brussels, and you have a challenging market environment.
- So, we flip the switch: optimism off. We now see EUR/HUF hitting 390 in the first quarter and 395 in the second. However, we still see some positives, preventing the cross to go beyond 400.

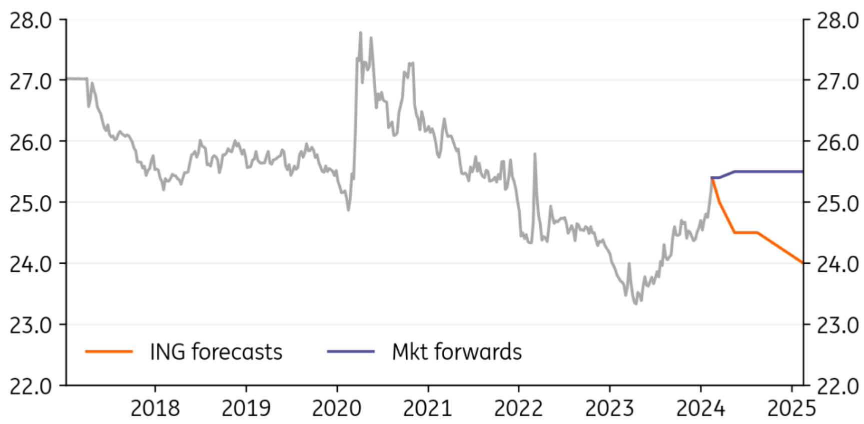


Source: Refinitiv, ING

EUR/CZK: Unfortunate timing but the peak is close

	Spot	One month bias	1M	3M	6M	12M
EUR/CZK	25.4000	Bearish	25.00	24.50	24.50	24.00

- The CNB cut rates by 50bp in February to 6.25% and is accelerating the pace of cutting. EUR/CZK jumped above 25.300 under pressure from higher market bets on more. We believe the dovish mood will peak in February and the market will soon hit the limit of how many rate cuts can be priced in.
- Moreover, the market positioning has been very short for quite some time in our view. Therefore, we expect EUR/CZK to bounce lower soon. The economy should show some recovery this year and the CA has already surprised to the upside massively in 4Q.
- On the market side, rate cut pricing will hit the limit and core rates will play a major driver here which should support the CZK with rate cuts on the ECB side.

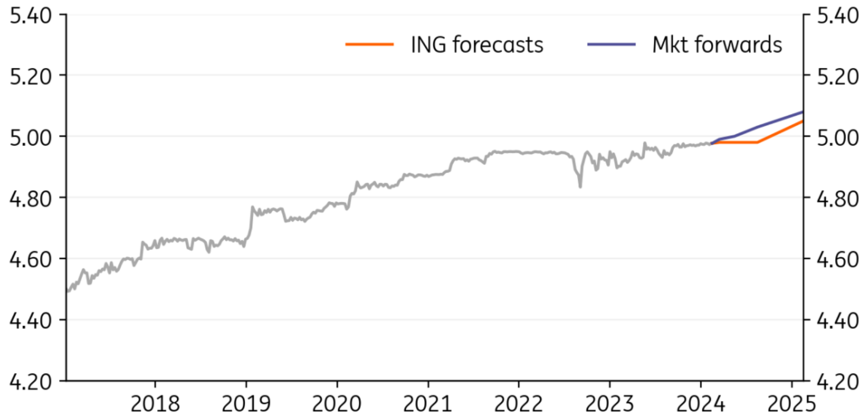


Source: Refinitiv, ING

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

	Spot	One month bias	1M	3M	6M	12M
EUR/RON	4.9770	Neutral	4.98	4.98	4.98	5.05

- EUR/RON was again relatively stable in the range of 4.9715-4.9775. Volatility was yet again rather muted and, especially with an above-expectations inflation print in January, we don't think there is any room for the NBR to let it meaningfully depart from the current levels.
- With both growth and inflation surprising to the upside on their latest prints, the central bank's job is far from done yet and the FX is prone to remain overvalued. Moreover, strong wage growth and a potential further increase in taxation pose key inflationary risks.
- All told, we continue to foresee FX stability ahead. The chances of a crossing of the 5.00 level sometime in the summer have now diminished.

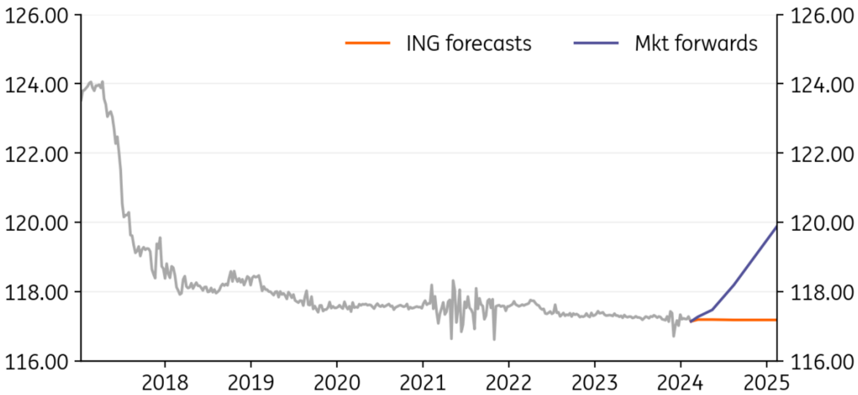


Source: Refinitiv, ING

EUR/RSD: As tightly managed as usual

	Spot	One month bias	1M	3M	6M	12M
EUR/RSD	117.1400	Neutral	117.19	117.19	117.18	117.18

- Election-related instabilities persisted in the headlines. Moreover, as of 1 February, Kosovo enforced an EUR-only usage inside its borders. Despite these, RSD continued moving sideways with limited volatility, in the range of 117.15-117.25.
- The central bank likely continued to mute any selling pressures. On the fiscal front, MFin outlined a budget gap of 2.2% of GDP (initial projection: 3.3%) while Fitch affirmed Serbia at BB+ with stable outlook, shortly after the recent positive review from the IMF.
- We continue to expect a flat and intervention-driven EUR/RSD, as the fight against inflation remains the key priority ahead.

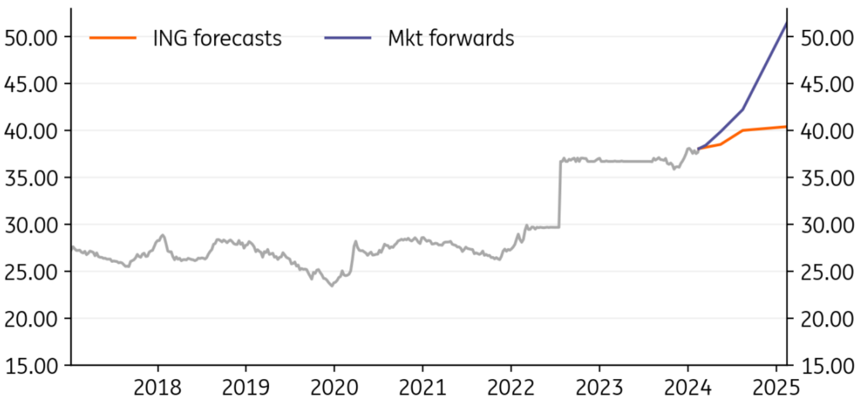


Source: Refinitiv, ING

USD/UAH: UAH remains at risk.

	Spot	One month bias	1M	3M	6M	12M
	38.0500	Mildly Bullish	38.20	38.50	40.00	40.40

- NBU's freeing of the hryvnia exchange rate resulted in a major increase in market volatility. The central bank so far managed to stabilise the exchange rate, but at the cost of 2nd highest monthly interventions (Dec 2023, over US$3.5bn) since the war started. In early 2024, the scale of operations declined significantly. With FX reserves close to all-time high, the NBU should be able to stabilise the exchange rate.
- We continue to access the medium and long-term prospects of the hryvnia as negative. Damage to the Ukrainian economy continues to rise, requiring costly reconstruction. Moreover, markets may become increasingly wary of US presidential elections and potential reduction in US military and financial aid.

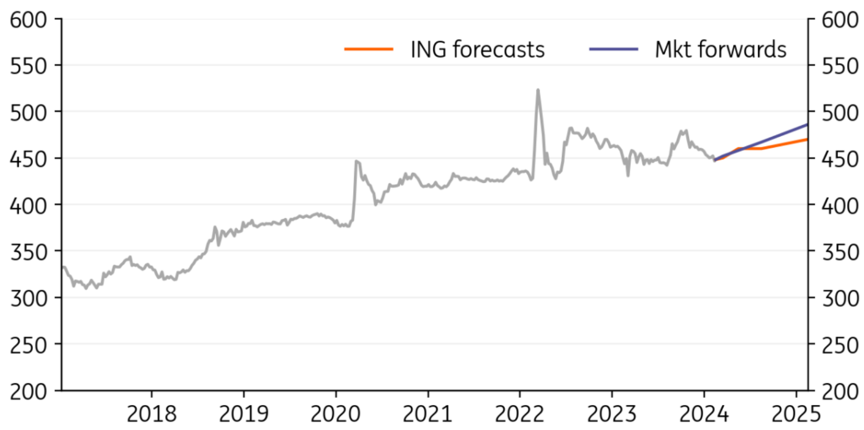


Source: Refinitiv, ING

USD/KZT: Supported by an inflow of private capital

	Spot	One month bias	1M	3M	6M	12M
USD/KZT	448.1700	Mildly Bullish	450.00	460.00	460.00	470.00

- The tenge's short-term moves tend to follow the oil price, but the monthly gravitational centre around USDKZT 450 is stronger than we initially expected for the first quarter of this year.
- Private capital inflow is likely the main supporting factor, offsetting the weakening of renminbi and ruble, shrinking of Kazakhstan's trade balance in late 2023 and halving of the FX sales out of the sovereign fund to $0.6bn in December.
- We remain constructive on the tenge, but private capitals are volatile, and unless foreign trade and public capital flows improve, the scope for further KZT strength appears limited for the medium-term.

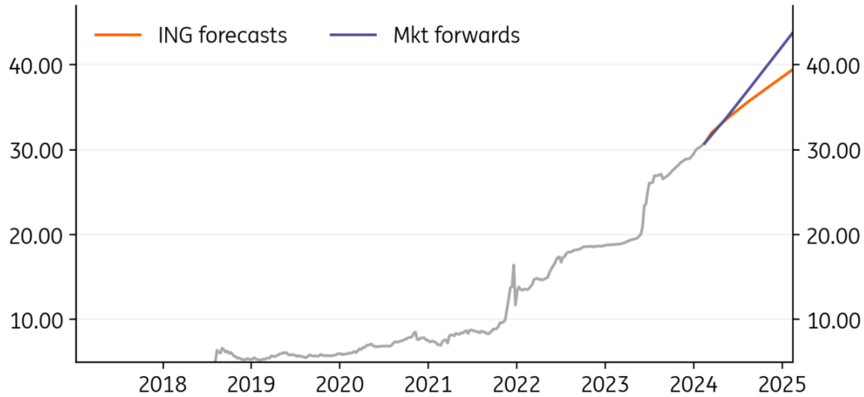


Source: Refinitiv, ING

USD/TRY: CBT reserves under pressure lately

	Spot	One month bias	1M	3M	6M	12M
USD/TRY	30.7400	Mildly Bullish	32.00	33.60	35.70	39.50

- The CBT kept its year-end and 2025 inflation forecasts that function as intermediate targets in the disinflation process, unchanged at 36.0% and 14.0%, respectively.
- The bank sees the seasonally adjusted monthly inflation to hover below 4% on average in the first half of this year (around 3% except for January) that will decline to below 2.5% in the third quarter and around 1.5% in the last quarter. This projection implies a strong disinflation path in the second half.
- However, a decline in reserves in recent weeks attracts attention driven by an increase in residents' appetite for FX on the back of a relatively high level of FX-protected deposits maturing in January. Accordingly, the CBT has come up with a policy moves (i.e., adjustments in and remuneration of required reserves) aiming to support deposit rates.

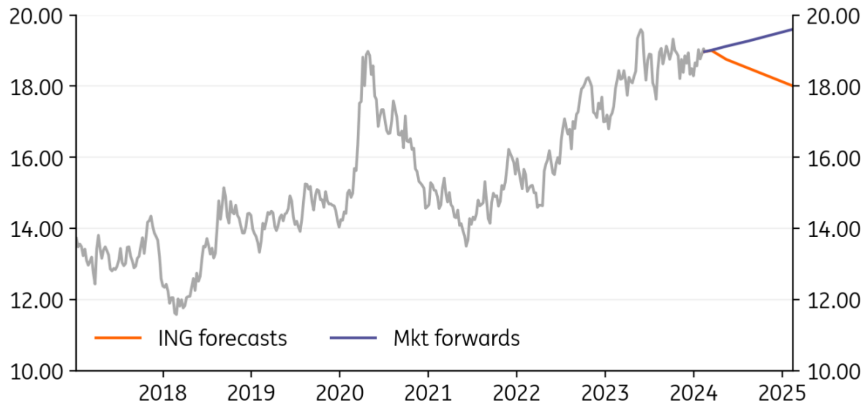


Source: Refinitiv, ING

USD/ZAR: February budget risk looms large

	Spot	One month bias	1M	3M	6M	12M
USD/ZAR	18.9700	Neutral	19.00	18.75	18.50	18.00

- USD/ZAR continues to trade in very narrow ranges, with both realised and implied volatility falling. This is exceptional for a traditionally high volatile currency pair. It does focus attention on the 21 Feb national budget, where the government may be tempted to focus on give-aways ahead of an election this summer. This is clearly a negative event risk for South Africa, where the fiscal side often un-nerves the rand.
- GDP is expected weak at 0.6% this year, while the current account deficit is likely to widen towards 3% of GDP. Sticky inflation expectations may see the policy rate kept at 8.25%.
- Our forecast for a lower USD/ZAR entirely hinges on the dollar story.

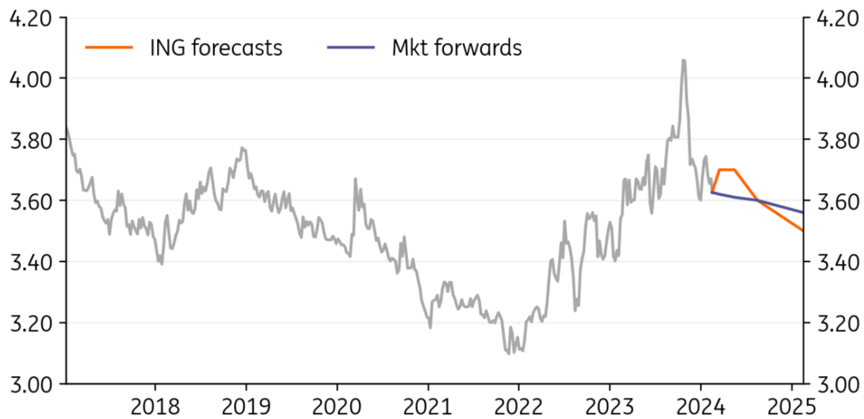


Source: Refinitiv, ING

USD/ILS: Moody's downgrade does not unnerve the ILS

	Spot	One month bias	1M	3M	6M	12M
USD/ILS	3.6261	Mildly Bullish	3.70	3.70	3.60	3.50

- As the war in southern Israel drags on, financial markets have recently seen the Moody's rating agency cut Israel's sovereign credit rating one notch to A2 with a negative outlook. The uncertainty over the path of the war and what it would mean for both government spending and the course of legislative policy were cited as factors. Other rating agencies may follow suit.
- The shekel withstood this news reasonably well and the monthly FX reserve data show that no FX intervention has been required to keep USD/ILS down here near 3.60/70.
- We want to keep a close watch on the external side – will Israel still run a large current account surplus? The dollar trend is set to dominate the second half of the year.



Source: Refinitiv, ING

Authors

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

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

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

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

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

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

Disclaimer