

## FX: Key beneficiaries of the relief rally

The mix of recovering risk appetite and higher oil prices puts NOK, AUD and NZD (and to a less degree CAD) into the G10 FX sweet spot. In the emerging market space, ZAR, COP and CLP are best placed to benefit. However, higher oil prices don't mean a sustainably higher EUR/USD



### G10 FX: NOK, AUD and NZD best positioned. CAD more of an oil game

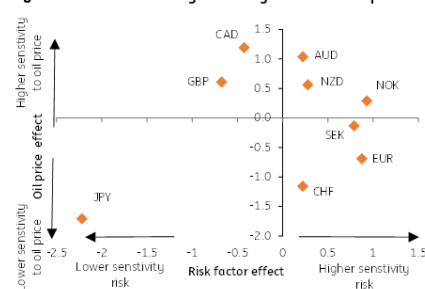
The perfect mix of rebounding risk appetite as a result of the trade war ceasefire and the rebounding oil price caused by the decision to extend the OPEC+ agreement has led to a sharp rally in risk assets today. Although we [think there are big hurdles to be resolved in the next 90 days to ease the US-China trade tensions fully](#), we believe the current rally has legs.

Among G10 FX, we view AUD, NZD, and NOK as the best-positioned currencies to benefit from rising equity markets and higher oil prices (as well as CAD, though CAD is largely an oil play rather than the general risk environment).

As you can see in Figure 1, the top right quadrant shows currencies that are most exposed to the mix of higher oil price (vertical axes) and risk appetite (horizontal axes) based on our principal component analysis - all NOK, AUD, and NZD are in this desired quadrant. CAD benefited the most from higher oil prices but compared to the other three currencies; it shows lower levels of

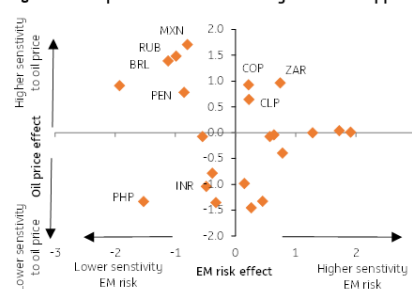
sensitivity to risk.

**Fig 1 Relative sensitivity of EM regions to the oil price**



Source: ING PCA analysis

**Fig 2 But oil price matters less than general risk appetite**



Source: ING PCA analysis

## We like relative value NOK vs SEK

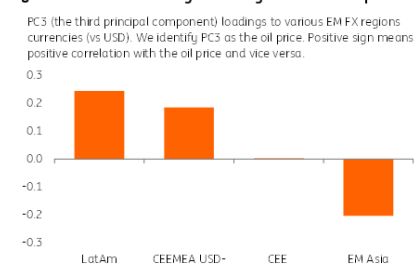
With oil prices looking to be bottoming out and expected to trend back towards \$70/bbl, we envisage a higher NOK/SEK – targeting the 1.10 level.

## Higher oil prices don't mean a sustainably higher EUR/USD

As for EUR/USD, the cross shows negative sensitivity to oil price as it finds itself in the bottom right corner in Figure 1. This is partly because of the rising impact of oil on the US economy after the start of shale exploration.

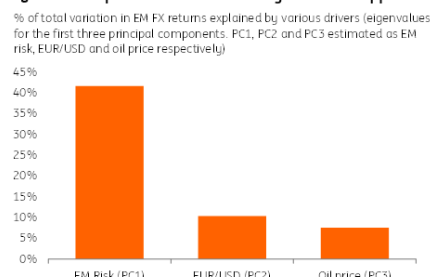
Also, what was previously a positive effect of higher oil prices on EUR/USD via the monetary policy transmission channel is no longer the case. Given the current dovish-leaning, the ECB is looking through the 'one-off' impact of oil price on headline Eurozone CPI (which is currently above the 2% target) and is more concerned about the muted core price pressures with core CPI still well below the 2% target.

**Fig 3 Relative sensitivity of EM regions to the oil price**



Source: ING PCA analysis

**Fig 4 But oil price matters less than general risk appetite**



Source: ING PCA analysis

## Emerging market FX: ZAR, COP and CLP standing out

Within the emerging market FX space, our analysis suggests that ZAR, COP and CLP are best placed to benefit from the current risk appetite recovery and the rebound in oil prices. This is evident in Figure 2, with all these currencies being in the top right quadrant. However, purely by the oil price effect, the two most sensitive EM currencies to the oil price upside are MXN and RUB.

In terms of inter-regional EM sensitivities, it's hardly a surprise that in relative terms, EM Asia suffers when oil prices are higher, while Latam FX and the CEEMEA dollar block benefits the most. This is depicted in Figure 3.

In terms of EM Asia, while the current oil price rebound isn't a positive for the oil importing region, as long as it coincides with the supportive general risk environment, in particular, easing trade tensions, it means for stronger Asia FX - the latter (risk appetite) matters more than the former (higher oil price).

The relatively large importance of risk appetite as a driver of EM FX returns is depicted in Figure 4. Based on our PCA analysis, the risk factor explains 42% of the total variation in EM FX returns (being identified as the first principal component) while oil prices explain 8% of the total variation (being identified as the third principal component).

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