

Petro-currencies lose their mojo

Despite Brent crude pushing to nearly US\$65/barrel, G10 oil exporting currencies have yet to receive much of a boost. Perhaps investors doubt the sustainability of crude's rally

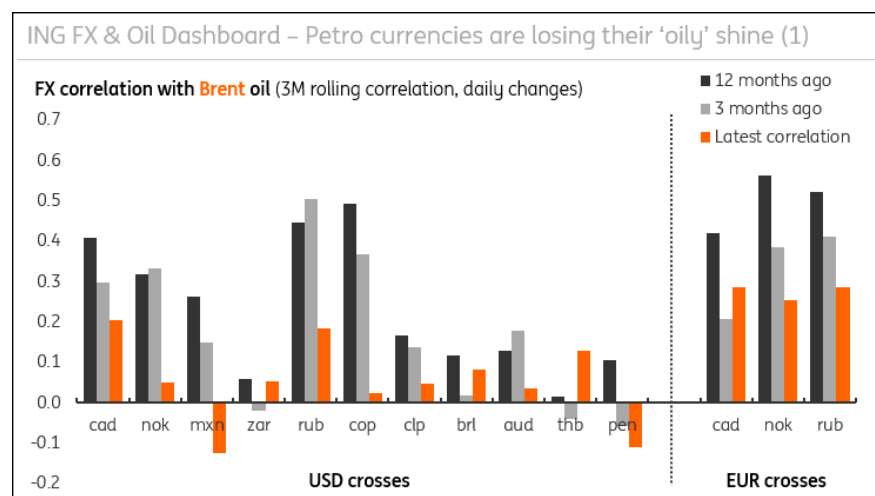


Brent near US\$65/barrel shines a light on petro-currencies

When oil prices rally FX market participants typically turn to currencies with large exposures to the crude story. During periods of price rises, some investors like to take positions long the RUB (oil-exporter) versus short TRY (oil-importer). And in fact (or coincidentally) the RUB has rallied about 6% against the TRY since crude prices started accelerating higher in early October.

In the G10 FX space, petro-currencies in focus during periods of big oil price moves are typically the CAD and NOK. But as our charts show below, the correlation between petro-currencies and crude has dropped markedly over the last twelve months.

Petro FX correlation with crude softens over the last twelve months

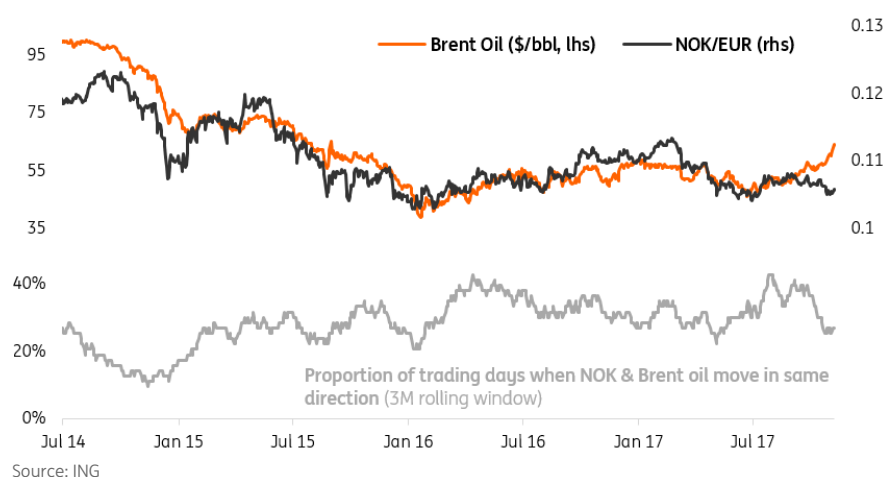


NOK in particular has lagged

For some reason NOK, in particular, has been unable to enjoy the rally in crude, with EUR/NOK only trading in line with oil prices around 25% of the time today versus over 40% in August.

That break-down in correlation may owe to general fatigue with Scandi currencies. Both the SEK and the NOK are frequently seen as under-valued. Both currencies are occasionally chased by investors on the view that the local central banks will be forced into tighter policy. And both unashamedly dovish central banks perennially disappoint investors.

NOK loses interest in crude



So what next for petro-currencies?

Our commodities team have published their 2018 outlook for crude oil prices. They're bearish on crude into 2018 on the view that:

- i) OPEC may struggle to maintain compliance to quota cuts,
- ii) non-OPEC supply (particularly the US) will continue to rise, and
- iii) IEA predicts global oil demand growth to slow. Our team looks for Brent crude to sink back towards US\$50/bl in 1Q18.

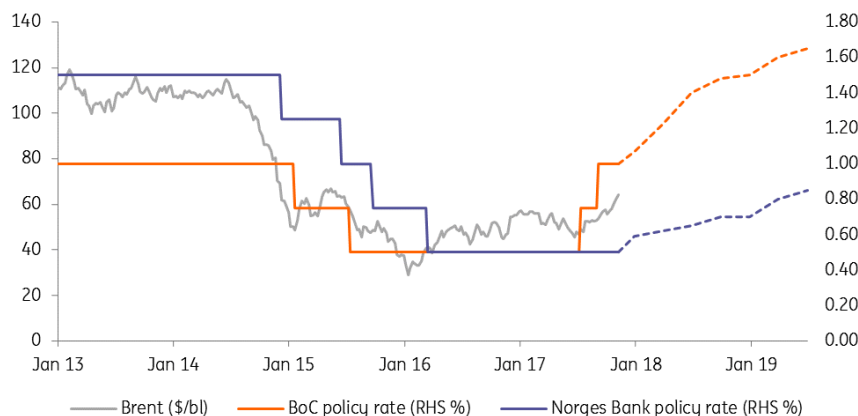
If crude oil prices do indeed turn lower into 2018 it could spell trouble for the likes of the RUB or perhaps the CAD, where market pricing of future rate hikes looks quite aggressive right now. For the NOK, however, market pricing of future rate hikes look reasonably conservative. And if crude doesn't turn lower as quickly as our team believe, the market could start to re-price the Norges bank tightening cycle – asking the question: *'If the recovery in crude helped the BoC take back its 2015 50bp easing cycle, what would it take for Norges Bank to do something similar?'*

Norges Bank does have the cover of very low inflation to stay dovish (core inflation is now at 1% YoY). Arguably though so did the BoC and that didn't stop them hiking 50bp over recent months on the view that the economy had weathered the oil-induced business investment shock in 2015.

NOK has struggled to make headway this year, but of all the petro-currency stories at present, we prefer NOK to out-perform. Our 3m and 6m forecasts for EUR/NOK are 9.20 and 9.10 respectively.

Crude, BoC and Norges Bank

BoC and Norges Bank cut rates when crude collapsed, BoC have reversed cuts and markets expect more BoC tightening

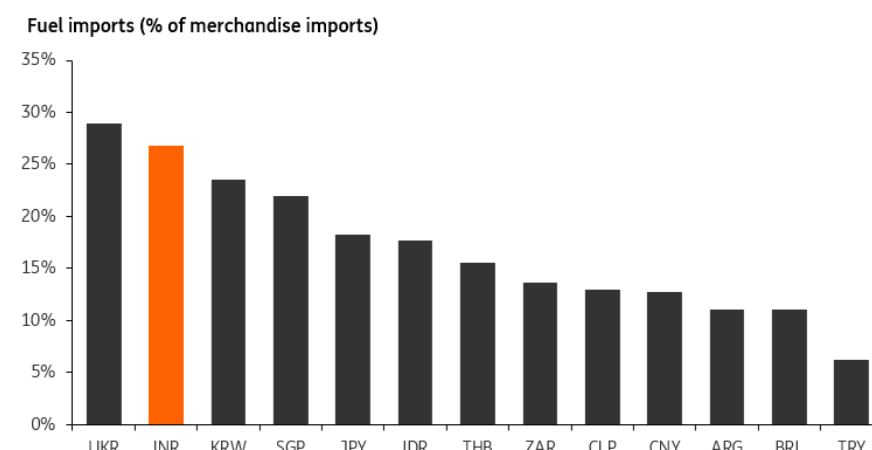


Source: Bloomberg

What about the oil importers?

On the other side of the equation, which currencies would look most vulnerable if crude prices stayed bid or even pushed higher if new risks emerge (for instance, if there were fresh sanctions on Iran)? Our team would probably highlight India here and Turkey. Unlike Brazil, Turkey has struggled to rein in its current account deficit much below the 4.5% of GDP area. Surging crude prices is the last thing the TRY needs right now.

Fuel importers ranked



Source: World Bank

Author

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.