THINK Economic and Financial Analysis

FX Talking

December 2022

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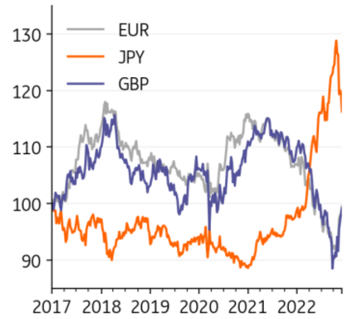
Winter wonderland

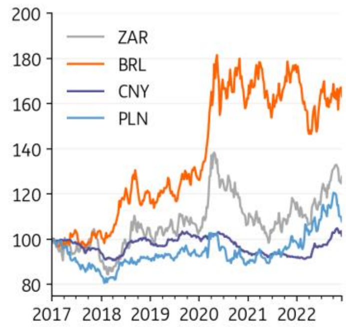
FX and financial markets in general are drifting into year-end on the assumption that central banks will soon be ready to sound the all-clear on inflation and deliver benign easing cycles to ensure a soft landing. We doubt it will be that easy.

USD/Majors (4 Jan 15=100)



Source: Refinitiv, ING forecast

USD/EM (4 Jan 15=100)



It's a wrap

In this December edition of FX talking we bring together our final thoughts for the year on FX markets. Not too much has changed since we published our 2023 FX Outlook: The dollar's highwire act, but clearly high-profile central bank meetings and inflation data this month will set the tone for 2023.

In the G10 space, the core story will be how far does EUR/USD need to rally. Our preference is that EUR/USD will struggle to sustain gains over the 1.05/1.06 area – though thin year-end markets could dictate otherwise. Our core view is that the market has priced in too much Fed easing for 2023/24, US yields will rise and EUR/USD can make a bid for parity early next year – a time when the dollar is seasonally strong.

Currencies we like in the G10 space are the more defensive Japanese yen and Swiss franc, while sterling and the Swedish krona look some of the more vulnerable in the early part of the year. Again it looks too early for a broad rally in commodity currencies, but we continue to favour the Canadian dollar here.

As we discuss in our recent Directional Economics, the Polish zloty should grab the limelight from the Hungarian forint in EMEA space. Questions over appropriate monetary policy and whether Poland can negotiate access to its full EU funds in an election year will dominate. 2023 elections in Turkey will also feature prominently in EM diaries.

In Asia, the focus will be on whether China can exit Zero-Covid in an orderly manner and whether domestic demand growth will be enough to offset a weak external environment. USD/CNY may not need to return to the 7.30/7.40 area, but an orderly decline does not look likely either.

Fiscal fundamentals are the challenge in Brazil for 2023. And despite the Brazilian real's very positive real interest rates, we worry that core rates going higher into a recession can cause more trouble for EM currencies – including Brazil. We continue to favour the Mexican peso for its low volatility carry.

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.02	↓	138	↑	1.17	↓
3M	0.98	↓	140	↑	1.10	↓
6M	1.00	↓	138	↑	1.14	↓
12M	1.00	↓	130	→	1.14	↓
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.87	↑	24.50	→	4.78	↑
3M	0.89	↑	24.50	→	4.80	→
6M	0.88	↑	25.00	↓	4.70	↑
12M	0.88	↑	24.50	↓	4.71	↑
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	6.97	→	19.75	↓	5.30	→
3M	6.90	↓	20.00	↓	5.75	↑
6M	6.77	↓	19.50	↓	5.80	↑
12M	6.72	↓	19.00	↓	6.00	↑

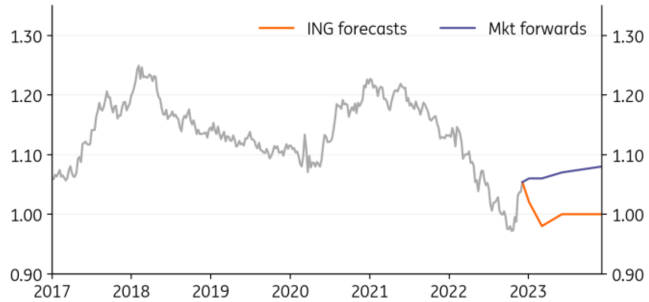
↑ / → / ↓ indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright
Source: Refinitiv, ING forecast

Developed markets

EUR/USD

Wishful thinking

Current spot: 1.054



Source: Refinitiv, ING forecasts

- The sharp rally in EUR/USD (plus bonds and equities) has all the hallmarks of a short squeeze as markets shift to benign pricing of a turn in the inflation cycle and a soft landing in 2023. At this stage we think this is more wishful thinking and the draw of 4.50-5.00% USD deposit rates will keep the dollar stronger for longer.
- Currently we see the Fed taking rates to 5.00%, the ECB taking rates to 2.25% and then shifting to a pause. Fed rate cuts in 2H23 may not be enough to weaken the dollar if Europe and China are still struggling to grow.
- Consensus sees EUR/USD near 1.10 at the end of 2023. We suspect it closes 2023 nearer parity given recession and energy concerns.

ING forecasts (mkt fwd)	1M 1.02 (1.0576)	3M 0.98 (1.0620)	6M 1.00 (1.0685)	12M 1.00 (1.0808)

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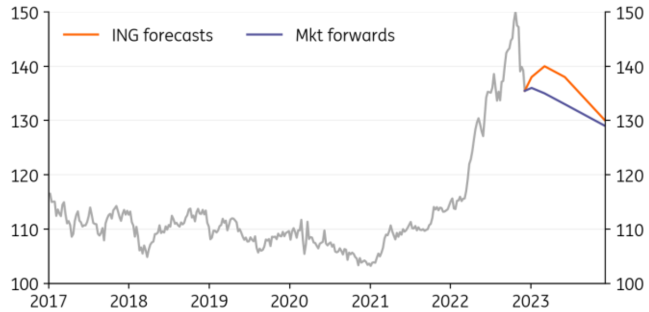
USD/JPY

At the forefront of the bond market battle

Current spot: 137.7



Source: Refinitiv, ING forecasts

- One of the hottest financial market topics is how the massively inverted US yield curve resolves itself. The recent bullish inversion (longer-dated yields falling heavily) has dragged USD/JPY sharply lower. US$70bn of FX intervention in September and October has helped too.
- Our near-term call on the yield curve would be a bearish disinversion, where US 10-year yields head back to 4.00% into 1Q23 – likely dragging USD/JPY back above 140.
- We doubt USD/JPY sustains gains over 142.50/145.00 and as the end of 1Q23 approaches and we focus on the next Bank of Japan governor (someone less dovish?), USD/JPY should be pressured again. USD/JPY could be trading well under 130 by the end of 2023.

ING forecasts (mkt fwd)	1M 138 (135.77)	3M 140 (134.70)	6M 138 (132.92)	12M 130 (129.46)

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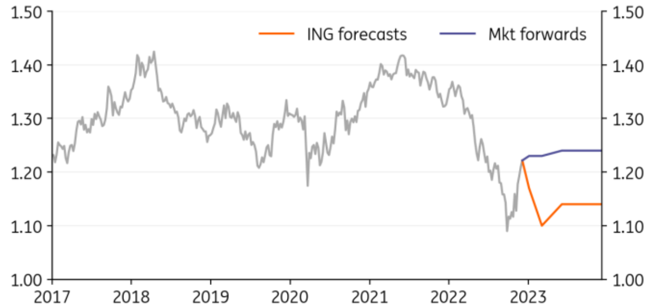
GBP/USD

Unstable recovery

Current spot: 1.227



Source: Refinitiv, ING forecasts

- Sterling trade-weighted has bounced around 8% from September's low. Half of that probably owes to the new UK government undoing the fiscal excesses of former Prime Minister Liz Truss and the other half down to the broad sell-off. We tend to think sterling has rallied far enough on both of those stories.
- We see 1.23 as a pivotal area for Cable into year-end. Closes above there suggest Cable could push onto the 1.28 even 1.30 area – a move fundamentals would struggle to support.
- Tight fiscal and monetary policy heading into a recession stand to make UK asset markets unattractive. And GBP should fall when the Bank of England calls time on its tightening cycle.

ING forecasts (mkt fwd)	1M 1.17 (1.2328)	3M 1.10 (1.2346)	6M 1.14 (1.2368)	12M 1.14 (1.2397)

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EUR/JPY

Here's why the JPY outperforms **Current spot: 145.10**

Source: Refinitiv, ING forecasts

- It looks like EUR/JPY put in a major high near 148 in October and we think the risks are skewed towards the 130 area through 2023. Driving that call is the Japanese yen reverting to a defensive currency amid the global slowdown. And our eurozone team are very happy to be sub consensus on eurozone growth as the German business model undergoes an overhaul.
- Add in the speculation over the change in Bank of Japan governor in early April (surely no one can be as dovish as current governor Haruhiko Kuroda) and the yen should out-perform.
- We also expect USD/JPY to drop the most on the longer-term bond rally, where US 10-year yields end 2023 near 2.75/3.00%.

ING forecasts (mkt fwd)	1M 141 (143.60)	3M 137 (143.05)	6M 138 (142.04)	12M 130 (139.94)

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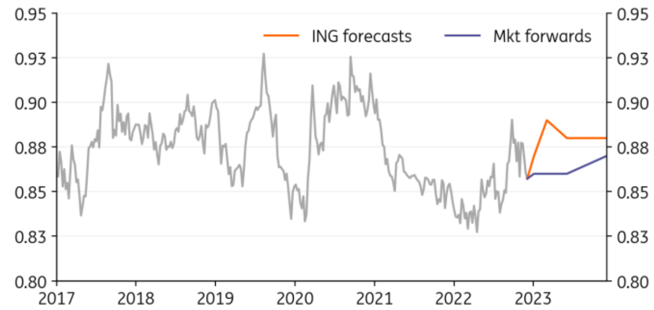
EUR/GBP

Bias for sterling under-performance **Current spot: 0.859**



Source: Refinitiv, ING forecasts

- EUR/GBP continues to correct from the excesses of September and 2023 will be a difficult call. We do not see why EUR/GBP needs to trade a lot lower than 0.8500. True interest rates at the short end of the curve will remain around 125-150bp in sterling's favour for most of the year, but we think the Bank of England will be keener to cut in 2023 given the UK's fiscal tightening.
- Additionally, a poor year for growth – and another difficult one for equity markets – suggests the UK will require a cheaper exchange rate to attract investments. Let's see as well whether the UK's 6% of GDP current account deficit can narrow at all.
- As always, UK politics remains the wild card here.

ING forecasts (mkt fwd)	1M 0.87 (0.8580)	3M 0.89 (0.8603)	6M 0.88 (0.8641)	12M 0.88 (0.8721)

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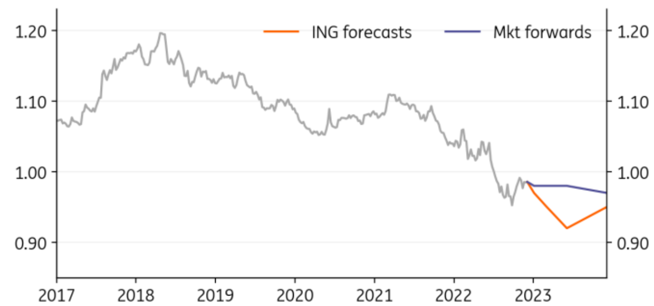
EUR/CHF

Nominal Swiss franc appreciation still favoured **Current spot: 0.988**



Source: Refinitiv, ING forecasts

- EUR/CHF has drifted to the top of recent ranges – questioning whether the Swiss National Bank (SNB) still wants a strong Swiss franc. Yet USD/CHF is a lot lower and the nominal trade-weighted Swiss franc is still about 4% higher year-to-date. As long as the SNB is still concerned about inflation, it should still want a stronger nominal CHF.
- What form will a stronger CHF take? If we are right with our call for a stronger dollar into 1Q23, then EUR/CHF will have to shoulder more of the adjustment, and this is why we can see it down to 0.92/0.95
- Our bearish view on EUR/CHF would come undone should the SNB signal the all-clear on inflation or should the dollar sell off more dramatically – neither of which is our preferred view.

ING forecasts (mkt fwd)	1M 0.97 (0.9817)	3M 0.95 (0.9794)	6M 0.92 (0.9751)	12M 0.95 (0.9670)

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EUR/NOK

Looking for direction

Current spot: 10.54

Source: Refinitiv, ING forecasts

- NOK has been held back by the recent drop in energy prices. The tightening supply picture does bode well for a recovery in oil and gas prices, and we continue to favour a downward-sloping profile for EUR/NOK in 2023.
- However, NOK's low liquidity conditions continue to suggest volatility should remain elevated as global markets face more uncertain times in the months ahead.
- Domestically, Norges Bank should hike by another 50bp in our view. It has underdelivered (compared to consensus) on NOK sales for the past two months, which may signal a shift to a more accommodative stance on a strong NOK to fight inflation.

ING forecasts (mkt fwd)	1M 10.50 (10.52)	3M 10.15 (10.54)	6M 9.95 (10.55)	12M 9.70 (10.57)

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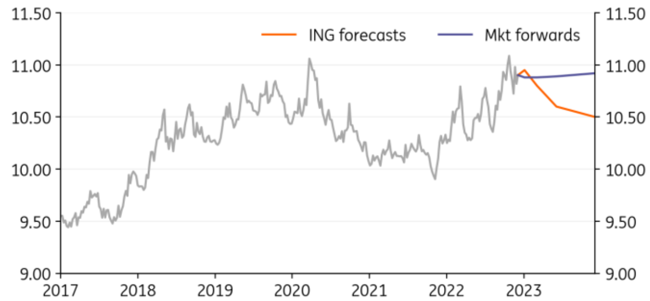
EUR/SEK

Krona facing the usual short-term risks

Current spot: 10.90



Source: Refinitiv, ING forecasts

- The krona has shown resilience against the dollar in the past month but underperformed against the euro. We continue to see downside risks for SEK in the near term, largely due to a potential re-deterioration of global and EU-specific risk sentiment.
- We estimate that Riksbank will hike by another 75bp before ending its tightening cycle, but the next policy meeting is only in February: inflation readings should offer markets some clearer guidance before then. Erik Thedéen will become the new governor on 1 January, but any change in the policy approach may only be gradual.
- EUR/SEK remains at risk of returning to 11.00 in the near term. But we still see a modestly bearish profile for the pair in 2023.

ING forecasts (mkt fwd)	1M 10.95 (10.88)	3M 10.80 (10.88)	6M 10.60 (10.89)	12M 10.50 (10.92)

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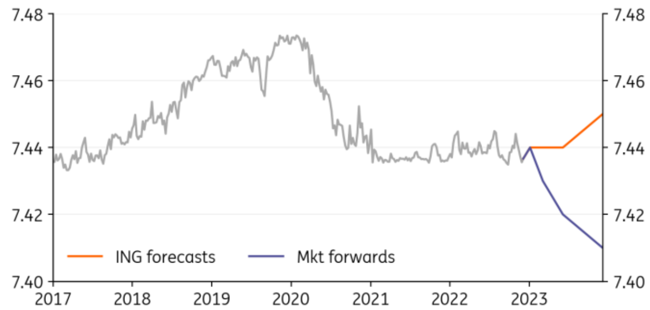
EUR/DKK

DN slows FX intervention

Current spot: 7.438



Source: Refinitiv, ING forecasts

- Danmarks Nationalbank (DN) intervened in the FX market for a third consecutive month in November, but by a much smaller amount: DKK 3.7bn versus a combined DKK 45bn sold in September and October.
- The large swings in EUR/DKK around the ECB and DN rate hikes in late October and early November are highly undesirable for the DN. EUR/DKK is trading around 7.4380 at the moment, so with a small cushion against the peg's lower bound.
- With the ECB set to hike by 50bp or 75bp in December, there is surely room for smaller increases by the DN to widen the rate gap. However, high inflation in Denmark and the slowdown in FX sales in November argue against excessive dovishness.

ING forecasts (mkt fwd)	1M 7.44 (7.4371)	3M 7.44 (7.4321)	6M 7.44 (7.4238)	12M 7.45 (7.4132)

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USD/CAD

Don't rule out 2023 loonie outperformance

Current spot: 1.362

Source: Refinitiv, ING forecasts

- The Bank of Canada is emerging as a dovish outlier in the G10 space, as the latest 50bp rate increase was accompanied by strong hints it may have been the last hike of this cycle.
- Rate differentials aren't however a key determinant of FX moves at the moment, and this may not change until market sentiment stabilises and allows more search for carry. We think external factors will remain a much more important factor for CAD compared to the Bank of Canada policy.
- While a USD rebound and unstable equity markets point to more potential pain in the short term, we expect a recovery in energy prices and low exposure to China and Europe to fuel a sustained USD/CAD downtrend in 2023.

ING forecasts (mkt fwd)	1M 1.38 (1.3612)	3M 1.35 (1.3602)	6M 1.33 (1.3579)	12M 1.26 (1.3531)

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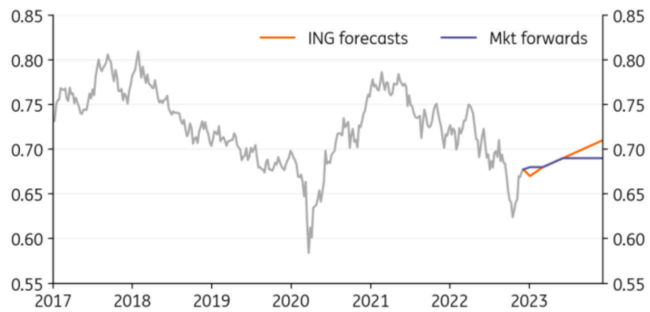
AUD/USD

China's sentiment swings in focus

Current spot: 0.676



Source: Refinitiv, ING forecasts

- The fate of AUD remains strictly tied to the market's sentiment on China. If a potentially faster-than-expected exit from strict Covid-19 rules would surely be positive, the real estate and export sectors should keep clouding China's outlook.
- Despite a very tight jobs market, inflation and growth have slowed and this should allow the Reserve Bank of Australia to retain full flexibility (even a hold) for its first meeting of 2023. Another 25bp hike is, however, our base-case scenario for February.
- We think the recent rally in AUD/USD will keep losing steam and we see the pair trade around 0.68 well until the first quarter of 2023.

ING forecasts (mkt fwd)	1M 0.67 (0.6818)	3M 0.68 (0.6836)	6M 0.69 (0.6862)	12M 0.71 (0.6901)

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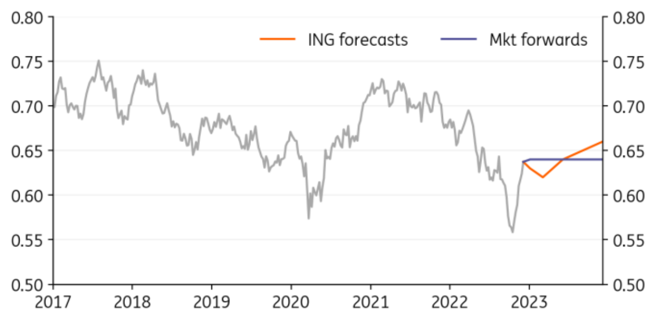
NZD/USD

Not trusting another big rally

Current spot: 0.639



Source: Refinitiv, ING forecasts

- The Kiwi dollar has been the best G10 performer in the past month, lifted by China optimism and position-squaring.
- NZD/USD looks vulnerable should market optimism on China prove premature, USD re-appreciates (as we expect) and risk sentiment drops. But the current environment may also allow some consolidation in the near term.
- Domestically, the ultra-hawkish Reserve Bank of New Zealand has also offered NZD some help. However, the ongoing correction in house prices may accelerate beyond the Bank's tolerance levels and we see a high chance of policymakers underdelivering compared to the 5.5% OCR signalled in rate path projections.

ING forecasts (mkt fwd)	1M 0.63 (0.6425)	3M 0.62 (0.6430)	6M 0.64 (0.6428)	12M 0.66 (0.6421)

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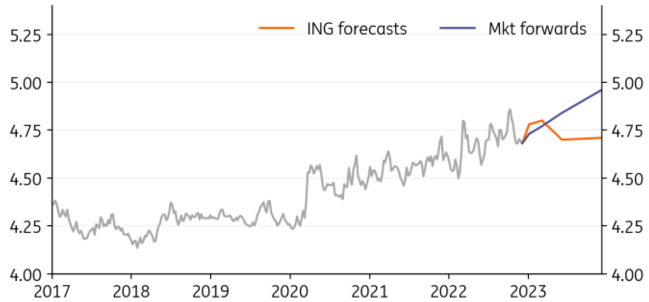
Emerging markets

EUR/PLN

Politics and NBP expectations to prevent further PLN gains

Current spot: 4.693



Source: Refinitiv, ING forecasts

- Near and medium-term prospects for the zloty are mildly negative. Not only there is very little hope for the National Bank of Poland (NBP) to restart its tightening cycle, but a collapse of household consumption in 3Q22 reanimated hopes for NBP monetary easing already next year. Still, the cost of financing positions against the zloty remains high, thus limiting the scope for zloty depreciation.
- General elections are scheduled for October 2023 with the risk of new spending a negative for Polish government bonds and the zloty. Also, investors seem optimistic about Poland accessing the Recovery Fund, but both the government and European Commission may not be all that willing to compromise prior to the elections in the autumn. On the other hand, opinion polls show rising support for the more EU-orientated opposition.

ING forecasts (mkt fwd)	1M 4.78 (4.7292)	3M 4.80 (4.7698)	6M 4.70 (4.8369)	12M 4.71 (4.9644)

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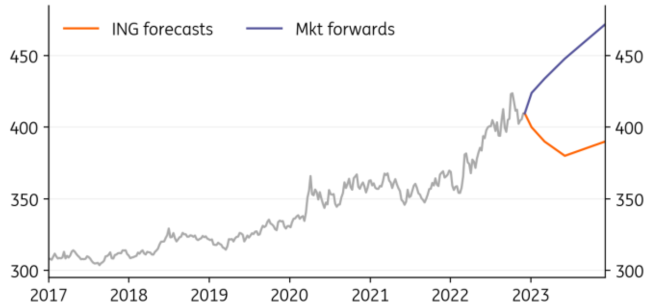
EUR/HUF

The forint is our currency of choice in the CEE4 space

Current spot: 410.00



Source: Refinitiv, ING forecasts

- The forint is still more likely to be moved by non-monetary events and shocks in the short run. The recent complication over the Rule-of-Law decision and yet another warning signal from a rating agency caught up with HUF.
- We believe that the period of emergency National Bank of Hungary meetings is over, that the EU story is coming to a positive end, fiscal policy is pointing to tangible consolidation and that the current account deficit should come under control with a turnaround in CPI.
- Thus, we expect a gradual drift lower below 400 EUR/HUF in 2023. With Poland taking the baton of major market attention from Hungary next year, this makes the forint our currency of choice in the CEE4 space.

ING forecasts (mkt fwd)	1M 400 (424.14)	3M 390 (433.94)	6M 380 (448.17)	12M 390 (472.38)

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EUR/CZK

No rush to do anything

Current spot: 24.29

Source: Refinitiv, ING forecasts

- According to official figures, the Czech National Bank (CNB) spent about €26bn (16% of FX reserves) on defending the koruna between May and October. According to our estimates, the central bank was not active in the market in November and December. Overall, the CNB remains in a very comfortable situation.
- Moreover, the artificial slowdown in inflation due to government measures in October, combined with data showing weakening domestic demand, is not pushing the CNB to make any move. Therefore, we do not expect any changes in interest rates or the FX regime anytime soon. We expect the first rate cut in 2Q23.
- Until then, we expect EUR/CZK to remain safely below the CNB's intervention level of 24.60-70 EUR/CZK.

ING forecasts (mkt fwd)	1M 24.5 (24.39)	3M 24.5 (24.57)	6M 25.0 (24.82)	12M 24.5 (25.20)

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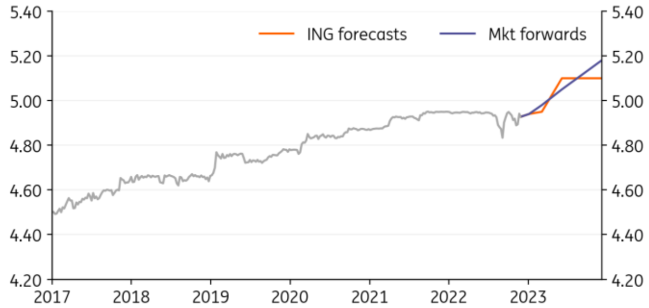
EUR/RON

Well supported offer side **Current spot: 4.93**



Source: Refinitiv, ING forecasts

- As usual into the year-end, the accelerated Treasury spending has led to a much-improved liquidity situation. Thus, the banking system turned to a surplus of approximately RON5.4bn in November, from a deficit of more than RON4bn in October.
- Better liquidity prompted high carry rates to tank throughout November and likely December as well. In response to the surplus liquidity conditions, the National Bank of Romania seems to prefer FX interventions to deposit auctions for mopping up the excess liquidity.
- Given that commercial flows in December might be richer on the offer side, a year-end EUR/RON closer to 4.90 rather than 4.95 looks rather likely.

ING forecasts (mkt fwd)	1M 4.94 (4.9425)	3M 4.95 (4.9834)	6M 5.10 (5.0456)	12M 5.10 (5.1807)

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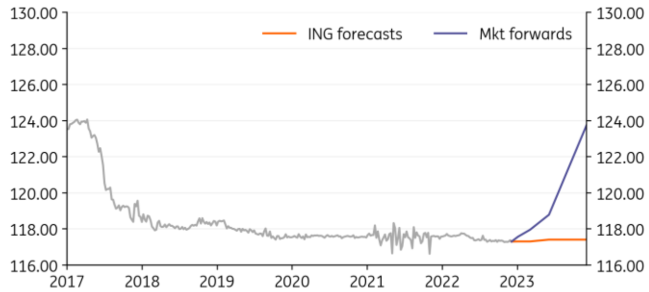
EUR/RSD

A new trading range setting-in close to 117.30 **Current spot: 117.30**



Source: Refinitiv, ING forecasts

- The recently-decided Stand-By Arrangement with the International Monetary Fund (IMF) will undoubtedly influence the monetary policy decision in the short to medium term.
- Reading through the lines of the official communication, we believe that the IMF is comfortable with the National Bank of Serbia (NBS) maintaining the current quasi-pegged dinar FX rate, but interest rates might need to be increased beyond what the NBS had in mind.
- We have already changed our terminal key rate estimation to 5.75% (to be reached in 1Q23). We maintain our year-end EUR/RSD forecast at 117.30 for 2022 and revise 2023 mildly to the upside, at 117.4.

ING forecasts (mkt fwd)	1M 117.30 (117.56)	3M 117.30 (117.95)	6M 117.40 (118.78)	12M 117.40 (123.75)

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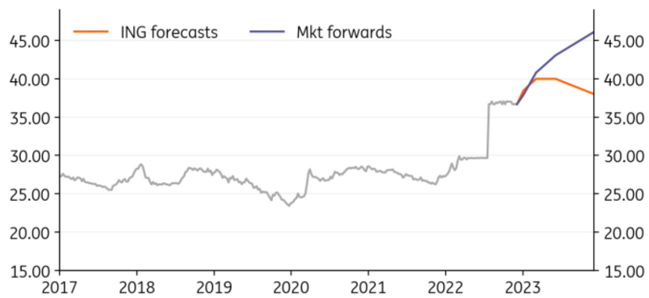
USD/UAH

Massive external imbalance puts hryvnia at risk **Current spot: 36.84**



Source: Refinitiv, ING forecasts

- Ukraine continues to face a very high external imbalance. Central bank FX operations have decreased by around half since the July peak (US$2bn in October). Should the conflict escalate after the winter, FX operations may rise again. Hence maintaining US$/UAH at the current level seems untenable, despite significant foreign aid, given the central bank's FX reserves are at around US$25bn.
- Long-term prospects for the hryvnia are hard to predict. Even after the war with Russia finally ends, policymakers will have to decide whether to convert foreign aid via the market to help to stabilise inflation or for the central bank to support exports. Still, given the massive damage to the Ukrainian economy, US$ returning anywhere close to pre-war levels seems highly unlikely.

ING forecasts (mkt fwd)	1M 38.50 (37.93)	3M 40.00 (40.80)	6M 40.00 (43.06)	12M 38.00 (46.13)

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USD/KZT

Downside appears limited thanks to domestic factors **Current spot: 469.20**

Source: Refinitiv, ING forecasts

- Having touched 460 vs the US dollar in mid-November during the tax period, USD/KZT is now back above 470, in line with expectations, on weaker oil prices and very modest FX sales of just $0.3bn out of the sovereign fund for the budget spending purposes.
- With President Kassym-Jomart Kemeluly Tokayev winning the snap elections, local sentiment should be supported. However, the tenge remains vulnerable to external factors, such as oil prices and risk appetite.
- Assuming mild dollar appreciation expected by ING for the coming months amid stable oil prices, the tenge may remain under moderate pressure in the near term, but the downside for the longer run appears limited thanks to local fundamentals.

ING forecasts (mkt fwd)	1M 480 (473.84)	3M 480 (480.82)	6M 470 (490.66)	12M 470 (508.26)

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USD/TRY

Risks to the TRY outlook under focus **Current spot: 18.64**

Source: Refinitiv, ING forecasts

- FX reserves that have been quite volatile this year have shown a rapid recovery since the end of July despite rate cuts since August. Another boost to reserves in the near term is also likely if Turkey and Saudi Arabia finalise the US$5bn deposit deal.
- TRY has been stable lately because of inflows under net errors and omissions, the FX-protected deposit scheme diverting FX demand from residents, and implicit Central Bank of Turkey intervention. In this environment, the real effective exchange rate increased by more than 15%, implying significant real appreciation since the end of 2021.
- We think TRY will remain on a gradual depreciation path on a nominal basis in the near term, assuming that additional credit and fiscal stimulus measures are kept limited. However, risks to the TRY are on the downside if we see a larger-than-expected deficit in the current account due to higher energy or commodity prices and less interest in the FX-protected deposit scheme.

ING forecasts (mkt fwd)	1M 18.90 (18.81)	3M 19.30 (19.46)	6M 20.30 (20.79)	12M 24.00 (23.82)

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USD/ZAR

The presidential premium **Current spot: 17.70**

Source: Refinitiv, ING forecasts

- The rand is failing to fully take advantage of the weak dollar environment, where one would think it should be trading under 17.00 by now. Apart from the weaker dollar, South Africa has seen its terms of trade pick up sharply, saw a very narrow -0.3% of GDP current account deficit in Q3 as well as 1.4% quarter-on-quarter GDP growth.
- Instead, potential impeachment proceedings against President Cyril Ramaphosa seem to be holding the rand back. We should find out shortly whether parliament wants to support an independent panel's findings that he may have violated the constitution.
- A tough growth/risk environment in 2023 leaves us ZAR negative.

ING forecasts (mkt fwd)	1M 17.50 (17.40)	3M 17.50 (17.49)	6M 17.25 (17.61)	12M 16.50 (17.85)

Chris Turner, chris.turner@ing.com

USD/ILS

ILS looks well positioned

Current spot: 3.43

Source: Refinitiv, ING forecasts

- USD/ILS continues to consolidate in the 3.40/45 area in a soft dollar environment. The shekel remains one of our preferred currencies for when the big dollar trend fully turns lower – something which may not happen until next spring/summer.
- Strong growth, low unemployment and a large current account surplus underpin the shekel, as does a policy rate now at 3.25%. Into 2023, the market prices the policy rate staying at 3.25/3.50%.
- The big turn lower in USD/ILS also probably requires a more durable rally in equity markets – again something which may not be seen until spring/summer 2023. Expect good demand for the shekel now should we see a correction to the 3.50 area.

ING forecasts (mkt fwd)	**1M** 3.45 (3.4123)	**3M** 3.40 (3.3982)	**6M** 3.25 (3.3750)	**12M** 3.00 (3.3317)

Chris Turner, chris.turner@ing.com

LATAM

USD/BRL

Real should have been doing better

Current spot: 5.29

Source: Refinitiv, ING forecasts

- Into December, we should be asking why the Brazilian real has not performed better. The dollar is weaker across the board and Brazil's central bank, BACEN, is keeping the policy rate at 13.75% – well above inflation near 6%. Positive real rates are impressive.
- The concern no doubt relates to fiscal fundamentals. Here the incoming Lula administration is looking to break its fiscal ceiling by some BRL145/176bn in order to deliver on its manifesto of targeted support to the poor. Concerns over a leftward lurch in policy do seem more confined to FX than debt markets so far.
- We think 2023 will be a tough year for emerging markets and any policy missteps will be punished. We see 5.15 as a base and the real weakening through most of next year.

ING forecasts (mkt fwd)	1M	3M	6M	12M
	5.30 (5.2644)	5.75 (5.3195)	5.80 (5.4100)	6.00 (5.6123)

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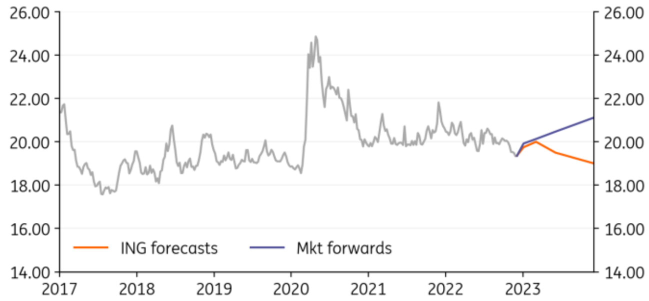
USD/MXN

Banamex sale impacting the market?

Current spot: 19.87



Source: Refinitiv, ING forecasts

- Despite the dollar staying offered against most currencies, USD/MXN has spiked 3% in December. We had thought that it could relate to Banxico not keeping up with Fed rate increases – but consensus and market pricing look firmly set on a 50bp hike. This would take Mexico's policy rate to 10.50%.
- It is speculation on our part, but we wonder whether investors are cautious about Citigroup's planned sale of its retail unit in Mexico, Banamex. Reports suggest this could be a $7-8bn proposition, with two local Mexican bidders showing interest.
- We think high rates in Mexico, low expected volatility, and exposure to US growth are relative strengths for the MXN in 2023.

ING forecasts (mkt fwd)	1M	3M	6M	12M
	19.75 (19.92)	20.00 (20.13)	19.50 (20.47)	19.00 (21.12)

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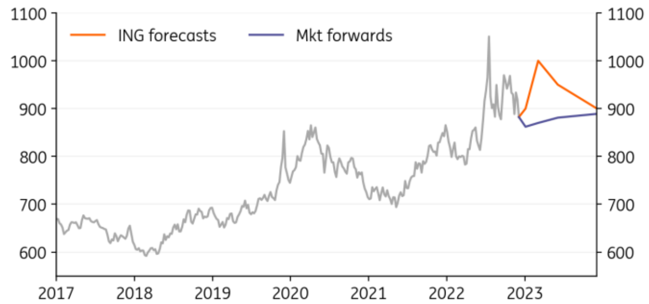
USD/CLP

Delicate balancing act

Current spot: 867.60



Source: Refinitiv, ING forecasts

- Chile's peso is doing a little better on the back of the broad correction in the dollar and the bounce in copper back up to $8500/MT. That bounce in copper seems to be down to China's reversal in its zero-Covid policy – though that trend certainly looks set for a bumpy ride. Our commodities team prefers copper trading back to $7,500 for a large chunk of 2023.
- Chilean central bankers will also have to manage high rates in a downturn. The market looks like it is pricing 150-175bp of rate cuts over the next six months, but high inflation may delay that.
- We are not in the camp looking for big, demand-led rallies in commodities next year and can see CLP handing back recent gains.

ING forecasts (mkt fwd)	1M	3M	6M	12M
	900 (862.14)	1000 (869.94)	950 (881.34)	900 (888.81)

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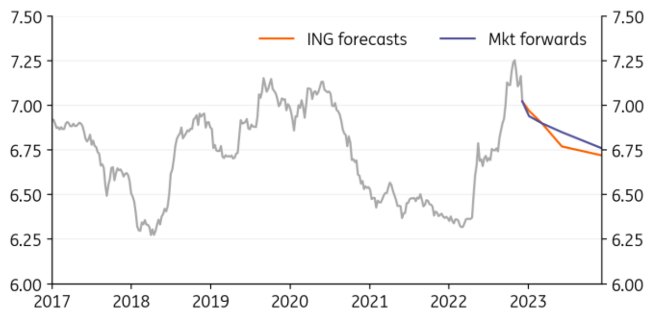
Asia

USD/CNY

Volatility to rise

Current spot: 6.98



Source: Refinitiv, ING forecasts

- Although China is relaxing its zero-Covid strategy, residents may remain cautious about congregating in crowded spaces (restaurants, markets, etc). The initial positive impacts on retail sales may be overestimated. External demand weakness should be more obvious in 1Q23, which would put pressure on the production sector of the economy.
- The People's Bank of China may not cut the policy rate further in 2023. The re-lending programme quota for SMEs and real estate, however, could increase.
- Combining slow growth, no rate cuts, but possibly more relaxed Covid measures, the yuan is likely to remain volatile.

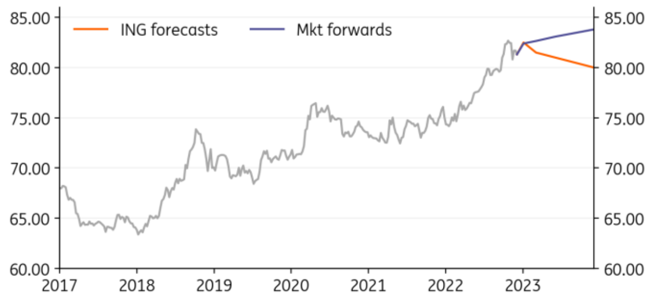
ING forecasts (mkt fwd)	1M 6.97 (6.9406)	3M 6.90 (6.9047)	6M 6.77 (6.8509)	12M 6.72 (6.7594)

Iris Pang, iris.pang@asia.ing.com

USD/INR

It all looks good apart from the currency

Current spot: 82.75



Source: Refinitiv, ING forecasts

- The INR has not benefited from the bounce that we have seen in other Asia Pacific (APAC) currencies, and quarter-to-date is down 1.17%, with only the IDR performing worse.
- This is not the fault of the Reserve Bank of India, which has continued to tighten, raising rates a further 35bp at the December meeting, nor is it a reflection of a competitiveness loss from runaway inflation, as inflation continues to drop and is expected to fall further.
- India's recent GDP data also came in above expectations and is expected to perform well in 2023. The recent slide in the INR seems mainly a reflection of equity outflows, with the NIFTY index turning down in December.

ING forecasts (mkt fwd)	1M 82.50 (82.40)	3M 81.50 (82.65)	6M 81.00 (83.09)	12M 80.00 (83.81)

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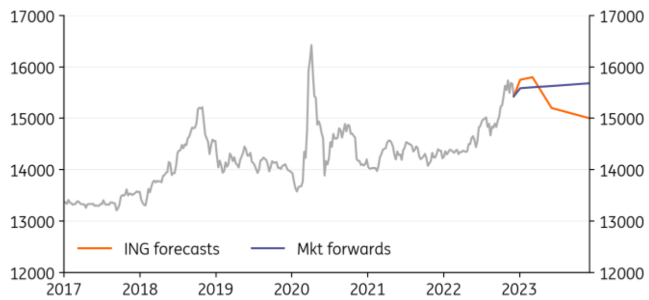
USD/IDR

Trade support for IDR fades

Current spot: 15650



Source: Refinitiv, ING forecasts

- The IDR is up just over 0.4% over the last month, but along with the INR props up the bottom of the APAC FX table. The sizable trade surplus that supported the currency in early 2022 narrowed recently suggesting that this key support has faded. Foreign bond holdings also dipped in November.
- Bank Indonesia (BI) has been active in raising its policy rate to help support the IDR. BI hiked rates by another 25bp in November after successive 50bp rate increases.
- We expect the IDR to face depreciation pressure in the near term as moderating commodity prices could lead to a further narrowing of the trade surplus and less support for the currency.

ING forecasts (mkt fwd)	1M 15750 (15585)	3M 15800 (15604)	6M 15200 (15628)	12M 15000 (15682)

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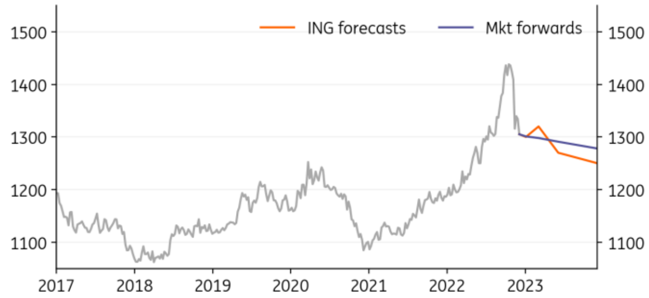
USD/KRW

Credit crunch calms down

Current spot: 1304.00



Source: Refinitiv, ING forecasts

- The KRW has outperformed most other Asian currencies over the last quarter, helped by the domestic credit crunch calming down. The trade deficit has widened due to sluggish exports, but the current account remains in surplus.
- The Bank of Korea (BoK) raised its policy rate a further 25bp in November with inflation running at 5% year-on-year. We expect the BoK to pay more attention to growth next year as inflation falls, and so an additional 25bp increase in February will probably be the final move in this rate hike cycle.
- Liquidity issues are expected to cause some further noise and there are plenty of risks as we approach the year-end.

ING forecasts (mkt fwd)	1M 1300 (1301.31)	3M 1320 (1298.26)	6M 1270 (1291.26)	12M 1250 (1278.26)

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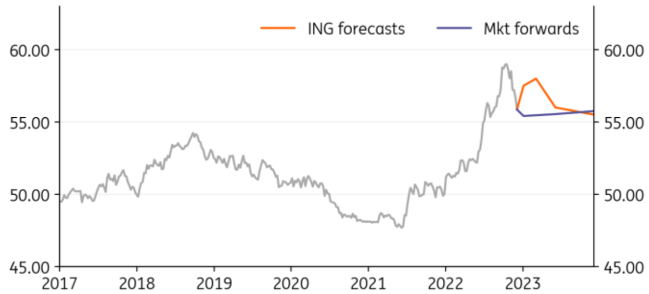
USD/PHP

Peso up on remittance support

Current spot: 55.90



Source: Refinitiv, ING forecasts

- The Philippine peso got a boost from the influx of overseas Filipino remittances ahead of the holiday season. A slight narrowing of the trade deficit also helped ease pressure on the currency as global commodity prices moderated.
- Aggressive rate hikes by the central bank also helped shore up the peso. Bangko Sentral ng Pilipinas (BSP) carried out a jumbo (75bp) rate hike in November, "matching" the US Fed's previous move.
- The peso could be supported further by remittances in the near term but could then slip again as the import season resumes and remittances fizzle out after the holidays.

ING forecasts (mkt fwd)	1M 57.50 (55.41)	3M 58.00 (55.46)	6M 56.00 (55.54)	12M 55.50 (55.75)

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USD/SGD

SGD steadies as MAS fights inflation

Current spot: 1.356

Source: Refinitiv, ING forecasts

- The SGD has steadied over the past month on improved sentiment and hopes for a sustained reopening of China. Meanwhile, despite elevated inflation, growth momentum has remained fairly solid with retail sales supported by tourist arrivals.
- The Monetary Authority of Singapore (MAS) has been aggressively tightening with four separate actions carried out this year.
- With the SGD trading in the top half of its NEER band and 3m SIBOR indicating a tightening bias, we look for the SGD to remain firm over the coming quarters.

ING forecasts (mkt fwd)	1M 1.36 (1.3505)	3M 1.35 (1.3493)	6M 1.34 (1.3463)	12M 1.32 (1.3383)

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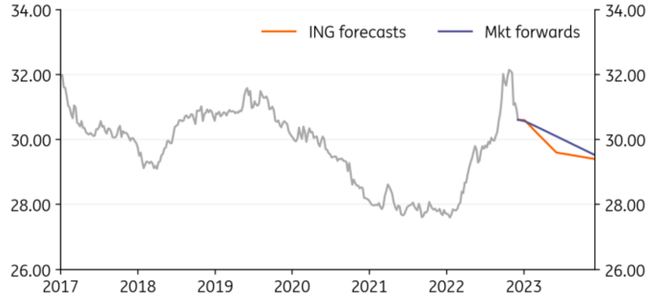
USD/TWD

Approaching a pause

Current spot: 30.72



Source: Refinitiv, ING forecasts

- Taiwan's central bank will hike again in December, but it might pause in 1Q23 as inflation pressures abate. The economy is going to weaken as global orders for semiconductors continue to shrink, even if mainland China's economy improves slightly.
- Even though mainland China intends to ease its Covid measures in the coming months, it is unlikely that there will be more tourists from mainland China going to Taiwan for leisure trips and Taiwan's retail sales will remain soft.
- The expected pause of policy rate hikes could put temporary downward pressure on the TWD in January 2023.

ING forecasts (mkt fwd)	**1M** 30.60 (30.57)	**3M** 30.20 (30.39)	**6M** 29.60 (30.10)	**12M** 29.40 (29.52)

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ING foreign exchange forecasts

EUR cross rates	Spot	1M	3M	6M	12M	USD cross rates	Spot	1M	3M	6M	12M
Developed FX											
EUR/USD	1.05	1.02	0.98	1.00	1.00						
EUR/JPY	145.1	140.76	137.20	138.00	130.00	USD/JPY	137.70	138	140	138	130
EUR/GBP	0.86	0.87	0.89	0.88	0.88	GBP/USD	1.23	1.17	1.10	1.14	1.14
EUR/CHF	0.99	0.97	0.95	0.92	0.95	USD/CHF	0.94	0.95	0.97	0.92	0.95
EUR/NOK	10.54	10.50	10.15	9.95	9.70	USD/NOK	9.96	10.29	10.36	9.95	9.70
EUR/SEK	10.90	10.95	10.80	10.60	10.50	USD/SEK	10.33	10.74	11.02	10.60	10.50
EUR/DKK	7.438	7.440	7.440	7.440	7.450	USD/DKK	7.06	7.29	7.59	7.44	7.45
EUR/CAD	1.44	1.41	1.32	1.33	1.26	USD/CAD	1.362	1.38	1.35	1.33	1.26
EUR/AUD	1.56	1.52	1.44	1.45	1.41	AUD/USD	0.68	0.67	0.68	0.69	0.71
EUR/NZD	1.65	1.62	1.58	1.56	1.52	NZD/USD	0.64	0.63	0.62	0.64	0.66
EMEA											
EUR/PLN	4.69	4.78	4.80	4.70	4.71	USD/PLN	4.45	4.69	4.90	4.70	4.71
EUR/HUF	410.4	400.00	390.00	380.00	390.00	USD/HUF	389.5	392	398	380	390
EUR/CZK	24.29	24.5	24.5	25.0	24.5	USD/CZK	23.05	24.0	25.0	25.0	24.5
EUR/RON	4.93	4.94	4.95	5.10	5.10	USD/RON	4.68	4.84	5.05	5.10	5.10
EUR/RSD	117.3	117.3	117.3	117.4	117.4	USD/RSD	111.3	115.0	119.7	117.4	117.4
EUR/RUB	66.51	66.3	66.2	72.5	82.5	USD/RUB	118.69	65.0	67.5	72.5	82.5
EUR/UAH	38.81	39.3	39.2	40.0	38.0	USD/UAH	36.84	38.50	40.00	40.00	38.00
EUR/KZT	494.5	489.6	470.4	470.0	470.0	USD/KZT	469.2	480	480	470	470
EUR/TRY	19.65	19.28	18.91	20.30	24.00	USD/TRY	18.65	18.90	19.30	20.30	24.00
EUR/ZAR	18.64	17.9	17.2	17.3	16.5	USD/ZAR	17.69	17.50	17.50	17.25	16.50
EUR/ILS	3.62	3.52	3.33	3.25	3.00	USD/ILS	3.43	3.45	3.40	3.25	3.00
LATAM											
EUR/BRL	5.58	5.41	5.64	5.80	6.00	USD/BRL	5.29	5.30	5.75	5.80	6.00
EUR/MXN	20.94	20.1	19.6	19.5	19.0	USD/MXN	19.87	19.75	20.00	19.50	19.00
EUR/CLP	904.19	918	980	950	900	USD/CLP	867.60	900	1000	950	900
Asia											
EUR/CNY	7.35	7.11	6.76	6.77	6.72	USD/CNY	6.98	6.97	6.90	6.77	6.72
EUR/IDR	16,514	16,065	15,484	15,200	15,000	USD/IDR	15,657	15,750	15,800	15,200	15,000
EUR/INR	87.22	84.2	79.9	81.0	80.0	USD/INR	82.76	82.50	81.50	81.00	80.00
EUR/KRW	1372.4	1326	1294	1270	1250	USD/KRW	1304.4	1300	1320	1270	1250
EUR/PHP	58.94	58.7	56.8	56.0	55.5	USD/PHP	55.92	57.5	58.0	56.0	55.5
EUR/SGD	1.43	1.39	1.32	1.34	1.32	USD/SGD	1.36	1.36	1.35	1.34	1.32
EUR/TWD	32.38	31.2	29.6	29.6	29.4	USD/TWD	30.72	30.6	30.2	29.6	29.4

Source: Refinitiv, ING

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