THINK Economic and Financial Analysis

FX Talking

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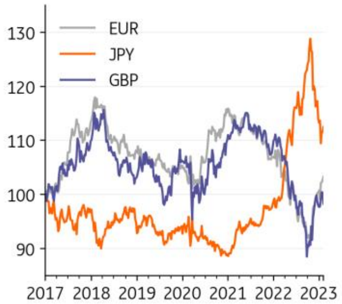
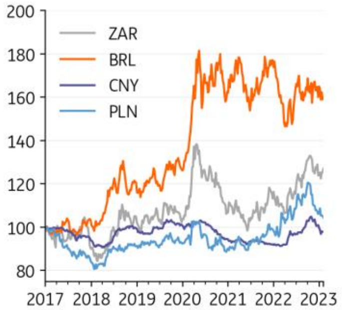
Soft landing, hard landing, no landing?

USD/Majors (4 Jan 15=100)



Source: Refinitiv, ING forecast

USD/EM (4 Jan 15=100)



Source: Refinitiv, ING forecast

The dollar has started the year on a soft footing on the view that the Fed can respond to a soft US landing, as the Rest of the World recovers. The recent run of data, especially out of the US, questions whether the Fed needs to cut rates at all. On balance, we are backing the US disinflation process, lower US rates, and a weaker dollar. But it is a close call

No one said it was easy

Financial markets have started the year in rude health. Equity markets are up as much as 9% in Europe and some emerging countries. Narrow spreads are not stopping the huge supply of and demand for private sector bond issuance. And the dollar has continued to fall on the back of lower US rates.

The above environment reflects one of a 'soft landing', where softening US price pressures allow the Federal Reserve to cut in an orderly manner. This is a far cry from fears of a 'hard landing' last October. Back then, it looked like sticky inflation would force central bankers to hike into a recession. And now the most recent US data set of powerful January jobs growth and much better service sector confidence questions whether we will see any kind of US landing at all.

While cognisant of the risks, our preferred view falls along the soft-landing scenario. On the one side, our call is for US core inflation to decelerate sharply in the second quarter and provide room for the Fed to cut rates starting in September. On the other side, China reopening, lower gas prices and the powerful fiscal response in Europe leave the Rest of the World better positioned than last October.

Our baseline assumes better global growth and narrower yield differentials between US and eurozone policy rates drive EUR/USD towards the 1.15 area in the second quarter – not far from its new fair value. Beyond sticky US inflation and any reversal of Covid measures in China, one other risk to this more benign worldview would be a third quarter US debt ceiling crisis.

A higher EUR/USD should drag European currencies higher too. However, it now looks like EUR/GBP and EUR/CHF will both trade higher through the year. And one of the biggest risks of a hard landing is probably in Sweden, where high inflation may prevent Riksbank support to a housing market now falling 15% year-on-year. Elsewhere in Europe, demand for yield should keep the Hungarian forint and Czech koruna in demand, whilst the Polish zloty continues to lag. February may bring fresh news on Poland's long-running FX mortgage saga.

The upward revision to global growth forecasts is seeing renewed demand for commodity currencies. Our preferred choice here is the Australian dollar, where an improved trading relationship with China and an under-priced Reserve Bank of Australia tightening cycle could see AUD/USD trade up to 0.75. The New Zealand dollar may lag, saddled by the fallout of high rates in the housing sector.

In Asia, USD/JPY should dominate in February. The term of uber-dove Bank of Japan governor Kuroda expires in April. We should know more about his successor this month. We doubt the yen has to hand back too much of this year's gains. Assuming our broad Fed/dollar view is correct, USD/JPY should be trading closer to 120 as the year progresses. China's reopening should keep USD/CNY and USD/Asia, in general, gently offered.

Finally, Latam continues to face political challenges. Despite the prospect of a strong year for the commodity complex, the Brazilian real may underperform. Not only are there fears of the new Lula administration breaking debt ceiling limits, but it now seems the government is taking aim at the central bank too – potentially pressuring rate cuts and pushing for a new – higher – inflation target. Much better placed is the Mexican peso. If the recent drop in rates volatility continues, the peso should remain the carry trade target currency of choice – with some of the best risk-adjusted returns.

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.08	→	128	↓	1.21	↑
3M	1.13	↑	126	↓	1.27	↑
6M	1.15	↑	125	↓	1.28	↑
12M	1.12	↑	120	↓	1.24	↑
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.89	→	24.00	↑	4.74	↑
3M	0.89	→	24.30	↑	4.77	↑
6M	0.90	→	24.50	↑	4.71	↓
12M	0.90	→	24.00	→	4.68	↓
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	6.72	→	18.75	↓	5.10	→
3M	6.50	↓	18.60	↓	5.10	↓
6M	6.40	↓	18.50	↓	5.20	↓
12M	6.50	↓	18.50	↓	5.30	↓

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

Source: Refinitiv, ING forecast

FX performance

	EUR/USD	USD/JPY	EUR/GBP	EUR/NOK	NZD/USD	USD/CAD
%MoM	1.6	-0.4	1.4	4.6	0.3	-1.1
%YoY	-4.5	14.9	6.9	10.7	-4.5	5.6
	USD/UAH	**USD/KZT**	**USD/BRL**	**USD/MXN**	**USD/CNY**	**USD/TRY**
%MoM	-0.4	-1.3	-3.0	5.9	-2.0	0.5
%YoY	28.7	5.4	-2.9	78.7	6.6	39.4

Source: Refinitiv, ING forecast

Developed markets

EUR/USD

A change of heart and of forecast

Current spot: 1.0785

Source: Refinitiv, ING forecasts

- We've had to have a good look in the mirror and admit we were wrong. That is what we've done when presenting a new, much more bullish set of EUR/USD forecasts on 16 January. Most salient to the story has been the continuing softening in US price pressures – prompting Fed Chair Powell to declare 'the disinflation process has started'. Our team looks for core US inflation to fall even more sharply in the second quarter. This can send EUR/USD 1.15.
- Lower natural gas and China's re-opening have prompted global growth to be revised higher. That's good news for the euro. A hawkish ECB can also see yield differentials lift EUR/USD.
- The main risks stem from sticky US inflation, energy, and China. US debt ceiling negotiations may well prove a challenge in 3Q.

ING forecasts (mkt fwd)	**1M** 1.08 (1.0805)	**3M** 1.13 (1.0843)	**6M** 1.15 (1.0895)	**12M** 1.12 (1.0997)

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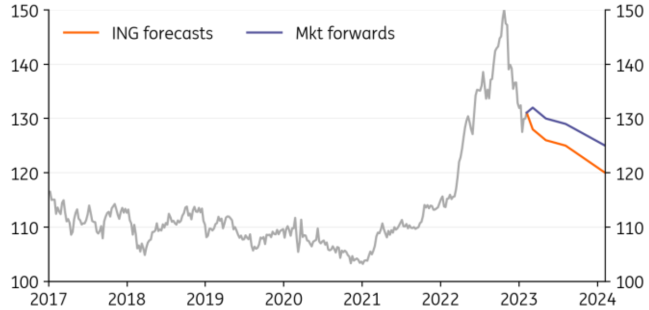
USD/JPY

The BoJ is back on the map

Current spot: 131.85



Source: Refinitiv, ING forecasts

- After December's surprise move to widen the Japanese government bond yield target band, the Bank of Japan is now garnering much more focus than it has in years. Most pressing is the replacement to Governor Kuroda, who leaves in April. A successor will be presented to parliament on 10 February. The favourite, Deputy Governor Amamiya, is seen as the dovish continuity candidate.
- Any surprise choice of the more hawkish Hiroshi Nakaso could probably send the yen a lot stronger, with pressure building for 10-year JGB yields to burst above their current 0.50% ceiling.
- USD/JPY has mainly been driven by the weaker dollar story, but 120 looks like the target this year, helped by the BoJ and lower energy prices.

ING forecasts (mkt fwd)	**1M** 128 (131.51)	**3M** 126 (130.38)	**6M** 125 (128.64)	**12M** 120 (125.19)

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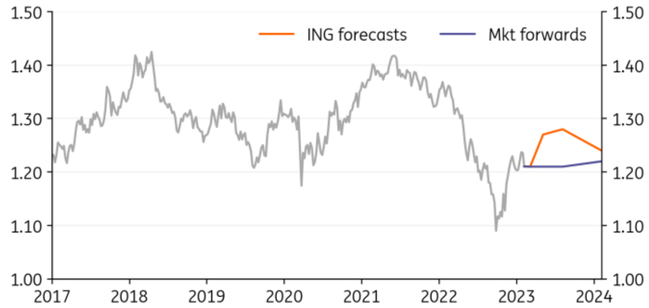
GBP/USD

Picking itself off the floor

Current spot: 1.2061



Source: Refinitiv, ING forecasts

- GBP/USD has participated in the weaker dollar environment and should probably trace out a 1.20-1.30 range this year. The UK economy is certainly a laggard, weighed by low productivity, low investment, no fiscal headroom and sticky earnings which means that the Bank of England still has a little more tightening to do.
- Yet the UK housing picture is not as bleak as painted out and employment levels are high. The trouble is that the labour force has declined and there seem few immediate plans to address it. Re-opening the Brexit debate is not a political option.
- Our team has the Fed starting rate cuts in September, while the BoE may not cut until the second quarter of 2024 – probably keeping Cable in a range.

ING forecasts (mkt fwd)	1M 1.21 (1.2055)	3M 1.27 (1.2072)	6M 1.28 (1.2097)	12M 1.24 (1.2156)

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EUR/JPY

The hedge should goldilocks scenario fail

Current spot: 142.22

Source: Refinitiv, ING forecasts

- Listening to Fed Chair Powell's press conference on 1 February it almost sounded like 2023 could be a Goldilocks year for the US economy. Inflation could come down even though unemployment remained low. If that is too good to be true, then EUR/JPY should come lower. The mis-priced asset markets under this scenario would be equities and credit markets.
- There is also the case that the European Central Bank's new-found hawkishness in December – and marketed with mixed success in February – falls by the wayside. That is not our house view, which sees the ECB hiking a further 75bp (deposit rate at 3.25%) and rates then unchanged through the fourth quarter of 2024.
- The Japanese yen also has the advantage of stronger Asian regional growth.

ING forecasts (mkt fwd)	1M 138 (142.09)	3M 142 (141.36)	6M 144 (140.15)	12M 134 (137.67)

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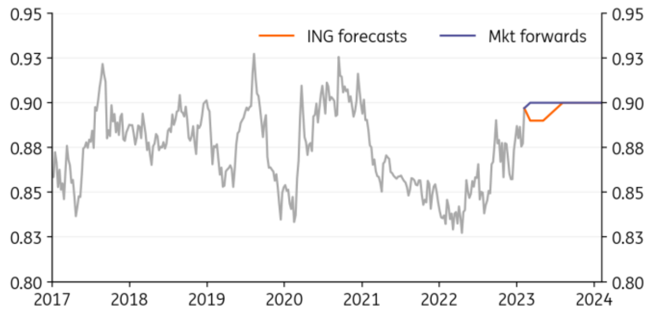
EUR/GBP

Mild appreciation is the call

Current spot: 0.8942



Source: Refinitiv, ING forecastsEUR

- In taking the Bank Rate to 4.00% in February, the Bank of England withdrew guidance on future hikes. Withdrawn was the need to continue hiking forcefully and recent comments from Chief Economist Pill suggest the BoE could be emulating Canadian counterparts and now starting to wait on the effects of prior tightening.
- The macro call is that UK inflation starts to fall through the second quarter, which could see pricing of a late-year 25bp cut from the BoE. Before then we suspect BoE might deliver one last 25bp hike in March.
- Our core view is that the GBP yield advantage over the EUR – particularly in the important two-year part of the curve – will narrow. This will leave EUR/GBP near 0.90/91 at year-end.

ING forecasts (mkt fwd)	1M 0.89 (0.8961)	3M 0.89 (0.8982)	6M 0.90 (0.9006)	12M 0.90 (0.9046)

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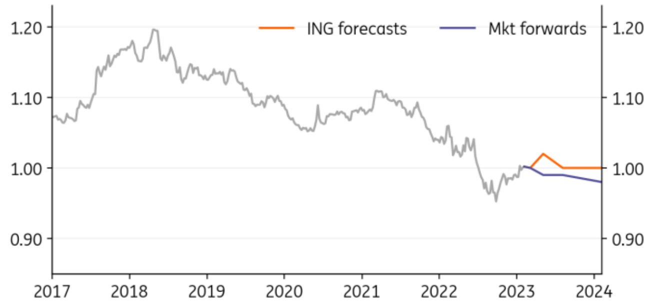
EUR/CHF

Case for nominal CHF appreciation softens **Current spot: 0.9961**



Source: Refinitiv, ING forecasts

- When hiking the policy rate 50bp to 1.00% in December, the Swiss National Bank made clear it had recently been selling FX reserves. This was in order to keep the nominal CHF strong and avoid importing inflation. A stable real CHF was the objective.
- The case for further nominal CHF appreciation appears to be weakening. Foreign inflation is falling, meaning less nominal CHF appreciation is required to keep the real CHF stable. And CPI in Switzerland is dipping back under 3%.
- Yet January Swiss CPI could spike higher again and we suspect the SNB will hike another 50bp again in March (to match some of the ECB tightening). Rate differentials moving in favour of the euro and the risk rally should help EUR/CHF – but the view is mixed.

ING forecasts (mkt fwd)	1M 1.00 (0.9970)	3M 1.02 (0.9942)	6M 1.00 (0.9894)	12M 1.00 (0.9802)

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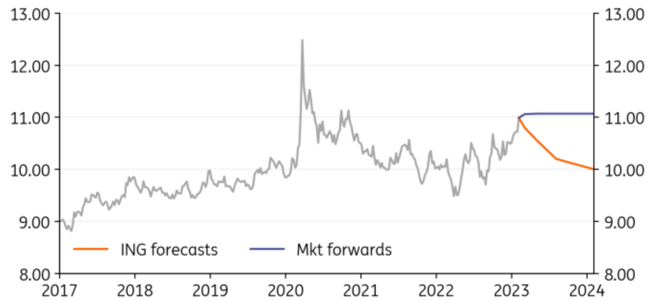
EUR/NOK

Most negatives for NOK in the price **Current spot: 11.05**



Source: Refinitiv, ING forecasts

- EUR/NOK has seen a big rally and is now close to 11.00. The move is mostly linked to policy divergence: the 2-year EUR-NOK swap rate differential is around zero for the first time since 2004, as the ECB stayed hawkish and Norges Bank hit the pause button.
- Incidentally, Norges Bank's daily FX purchases have been raised in February (from NOK 1.5bn to 1.9bn). While we expect one last (well-telegraphed) 25bp hike by NB in March, the direction of FX purchases is probably more relevant for the krone. We suspect NB may want to favour a stronger currency.
- Gas prices aren't offering much support to NOK either, but most of the negatives are now in the price, and there is surely room for NOK recovery in the second quarter as risk sentiment stabilise.

ING forecasts (mkt fwd)	1M 10.80 (11.06)	3M 10.55 (11.07)	6M 10.20 (11.07)	12M 10.00 (11.07)

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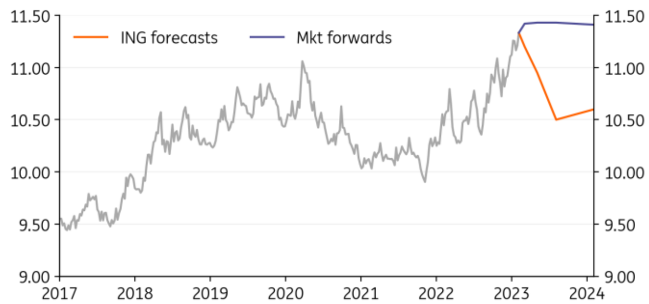
EUR/SEK

Rising black-swan risks? **Current spot: 11.43**



Source: Refinitiv, ING forecasts

- We recently outlined four scenarios for EUR/SEK in 2023, and while our call was for a gradual SEK outperformance, recent economic data pushed markets to increasingly price in a black-swan scenario for the Swedish economy and the krona.
- High inflation, a contracting economy, a weak currency and falling house prices appear a rather concerning mix. Now, more than ever, patience is a precious commodity for the Riksbank. A 50bp hike in February looks likely, and we think they will still prefer to sound hawkish (if nothing else, to halt SEK's fall).
- The next meeting is in late April, when data may have improved enough to deliver one last 25bp. It's a narrow path, but we think the RB can avert the black-swan scenario, and EUR/SEK can return to 10.60 by year-end.

ING forecasts (mkt fwd)	1M 11.20 (11.42)	3M 10.95 (11.43)	6M 10.50 (11.43)	12M 10.60 (11.41)

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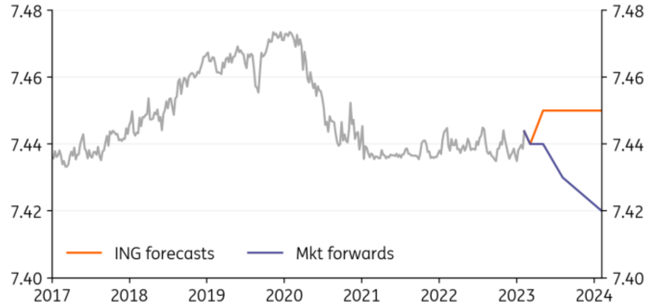
EUR/DKK

DN widens rate gap

Current spot: 7.4444



Source: Refinitiv, ING forecasts

- Danmarks Nationalbank surprised on the dovish side in February as it hiked by 35bp after the 50bp move by the ECB, therefore widening the EUR-DKK policy rate spread.
- This was explicitly a consequence of large-scale FX interventions, which amounted to DKK 13bn in January, significantly higher than the previous two months (DDK 4bn and 5bn).
- It is clear that DN is focused on generating a larger cushion for the EUR/DKK peg and has grown increasingly less tolerant towards FX interventions. Another smaller hike compared to the ECB in March is surely possible, although high inflation remains a concern in Denmark too. EUR/DKK looks on track to move to the upper half of the 7.44-7.45 range by the second quarter, as per our forecast.

ING forecasts (mkt fwd)	1M 7.44 (7.4433)	3M 7.45 (7.4381)	6M 7.45 (7.4307)	12M 7.45 (7.4177)

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USD/CAD

Some silver linings from CAD after BoC pause

Current spot: 1.3413

Source: Refinitiv, ING forecasts

- The Bank of Canada most likely hit the peak of its tightening cycle, as it brought rates to 4.5% and signalled more hikes are not on the cards for now.
- The dovish shift by the BoC was not a sudden move and had been largely priced in, which means that CAD can now potentially benefit from the fact that a lower peak rate means less economic impact and above all less pain for the troubled housing market.
- CAD is not our favourite commodity currency for 2023 given a deteriorating domestic and US economic outlook, but can still count on a respectable rate attractiveness and high-beta to risk sentiment. A move below 1.30 in USD/CAD looks likely by the second quarter.

ING forecasts (mkt fwd)	1M 1.32 (1.3413)	3M 1.28 (1.3404)	6M 1.27 (1.3387)	12M 1.26 (1.3344)

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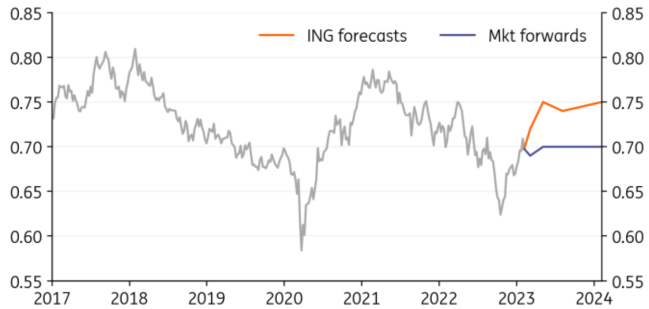
AUD/USD

All aboard the Aussie rally

Current spot: 0.6925



Source: Refinitiv, ING forecasts

- There is really a lot to be liked about AUD. First, Australia is very uniquely exposed to a recovering growth outlook in China and the apparent improvement in Beijing's diplomatic ties (remember the Sino-Australian trade war?).
- Second, the Australian economy appears relatively resilient and sticky inflation is likely to force the Reserve Bank of Australia to keep hiking, ultimately raising AUD's rate attractiveness. We think markets are actually underestimating RBA tightening: we expect a peak at 4.1% in May versus the 3.6% priced in by the market.
- We see few reasons to go against the AUD rally at the moment, and we expect AUD/USD to touch 0.75 by the end of the second quarter.

ING forecasts (mkt fwd)	1M 0.72 (0.6934)	3M 0.75 (0.6950)	6M 0.74 (0.6975)	12M 0.75 (0.7016)

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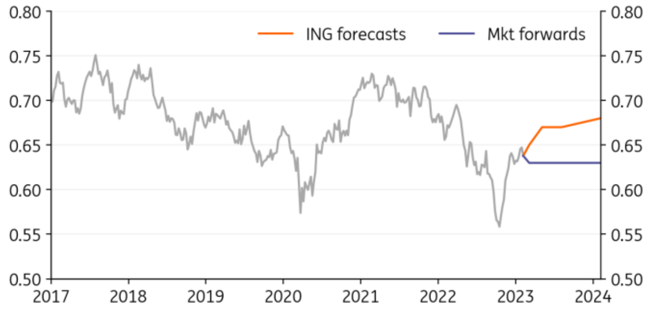
NZD/USD

Less attractive than AUD

Current spot: 0.6319



Source: Refinitiv, ING forecasts

- From many point of views, NZD can count on the same benefits that we listed for AUD. However, we think there are more downside risks to NZD compared to AUD over the course of 2023.
- An ultra-hawkish Reserve Bank of New Zealand is good from a carry-perspective, but has already generated a large slump in house prices. This trend may accelerate and pose serious threats to the economic outlook. We think the RBNZ will underdeliver and fall well short of their projected 5.5% peak rate to save the property market.
- The resignation of the NZ prime minister does not have major implications for now, but might add a few bits of uncertainty along the way. AUD/NZD to break through 1.10 soon.

ING forecasts (mkt fwd)	**1M** 0.65 (0.6320)	**3M** 0.67 (0.6321)	**6M** 0.67 (0.6321)	**12M** 0.68 (0.6322)

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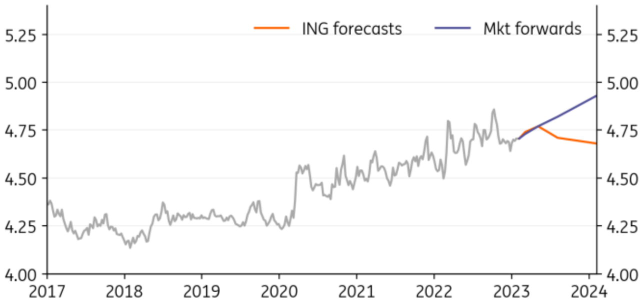
Emerging markets

EUR/PLN

PLN continues to underperform on local factors



Source: Refinitiv, ING forecasts

Current spot: 4.7158

- PLN has underperforming CEE counterparts for multiple weeks. We think this reflects the looming European Court of Justice ruling on FX mortgages, as investors could fear that local banks may close resulting FX positions, selling PLN for EUR or CHF (as they may reclassify credits to PLN, while liabilities remain in CHF).
- Fundamental backing behind the zloty is likely to improve in 2023, reflecting better terms of trade and overall tightening in the current account deficit. Also, interest rate cuts by the central bank are unlikely at least until 2H24, given persistently high core inflation. This should aid the zloty as i.e. the Federal Reserve/European Central Bank begin to ease policy."
- Politics may prove a risk though, particularly closer to the general elections (fourth quarter of 2023). Backing for the ruling PiS party may seem to be insufficient to guarantee victory. As such the government is likely to attempt to improve support via more social policies, or confronting the EU once again. As such, stronger PLN gains are likely to materialise next year.

ING forecasts (mkt fwd)	1M 4.74 (4.7334)	3M 4.77 (4.7694)	6M 4.71 (4.8202)	12M 4.68 (4.9291)

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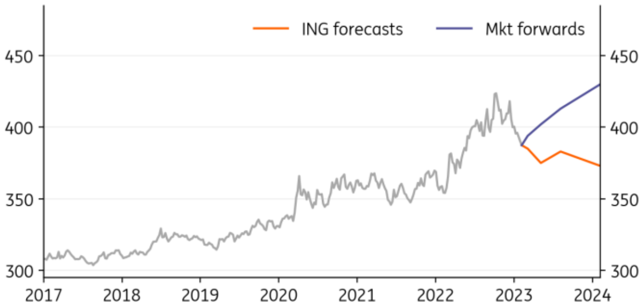
EUR/HUF

The forint still has a lot to offer



Source: Refinitiv, ING forecasts

Current spot: 389.26

- The forint has been the top currency in the EMEA region since the beginning of 2023. The NBH confirmed its hawkish intent, and we expect to see further progress in the EU story.
- Moreover, FX-implied yields are by far the highest in the region and the central bank has announced further steps to keep liquidity tight in the market. Gas prices still have room to fall in the first quarter in our view, and it is the forint that may benefit the most within CEE.
- Considering that recent negative sovereign rating events weren't able to derail the appreciation trend, we think that the forint still has a lot to offer and see it continuing on its current path.

ING forecasts (mkt fwd)	1M 385 (393.66)	3M 375 (402.19)	6M 383 (413.11)	12M 373 (429.90)

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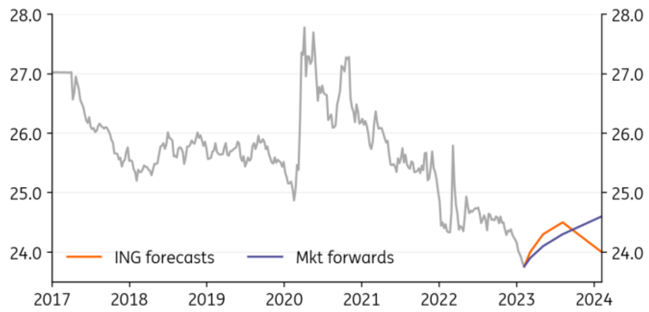
EUR/CZK

Strong CZK reduces the need of more hikes **Current spot: 23.82**



Source: Refinitiv, ING forecasts

- The koruna is currently at the strongest levels in more than a decade, driven mainly by falling gas prices and improving sentiment in Europe. This provides additional monetary policy tightening without central bank interventions.
- Our model suggests a fair value at the moment rather around 24.00 EUR/CZK. Thus, we see risks more towards a correction of current gains.
- On the other hand, lowering gas prices can move the koruna a bit lower again. But in a nutshell, we are hardly looking for a trigger for a move in either direction in the coming months.

ING forecasts (mkt fwd)	1M 24.0 (23.88)	3M 24.3 (24.05)	6M 24.5 (24.25)	12M 24.0 (24.56)

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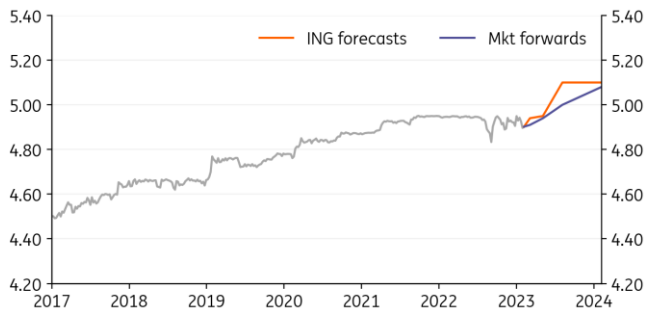
EUR/RON

Massive ROMGB inflows propping the leu **Current spot: 4.8988**



Source: Refinitiv, ING forecasts

- The accelerated year-end spending by the Treasury has dramatically changed the liquidity conditions in the interbank market, which shifted from a deficit to over a RON10bn surplus.
- The ample liquidity backdrop pushed carry rates towards (and even below) the deposit facility. However, lower carry was not a drag for the leu as it overlapped massive inflows into Romanian government bonds, likely financed in part through FX.
- The EUR/RON continues to be well anchored around 4.90 and any attempts towards 4.95 seem to be losing steam fast. We keep our stable view on the currency until the middle of the second quarter when a shift higher towards a new equilibrium can still be expected.

ING forecasts (mkt fwd)	1M 4.94 (4.9127)	3M 4.95 (4.9438)	6M 5.10 (4.9987)	12M 5.10 (5.0837)

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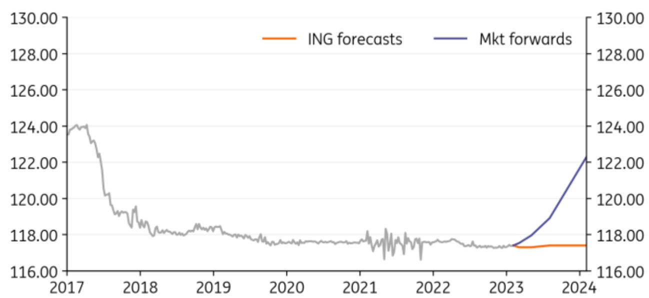
EUR/RSD

Rate hiking cycle almost complete **Current spot: 117.37**



Source: Refinitiv, ING forecasts

- The ongoing monetary tightening is possibly about to come to a halt after the last National Bank of Serbia decision to reduce the hiking pace to 25bp in January 2023 from 50bp in the previous four meetings.
- The relative stability of the dinar remains one central pillar of the NBS, as it contains the impact of higher import prices on domestic prices, while contributing to the overall macroeconomic stability.
- We maintain our EUR/RSD forecast at 117.4 for the end of 2023, with the shift higher more likely to occur in the second half of 2023, once the inflationary pressures are subdued.

ING forecasts (mkt fwd)	1M 117.30 (117.53)	3M 117.30 (117.95)	6M 117.40 (118.91)	12M 117.40 (122.30)

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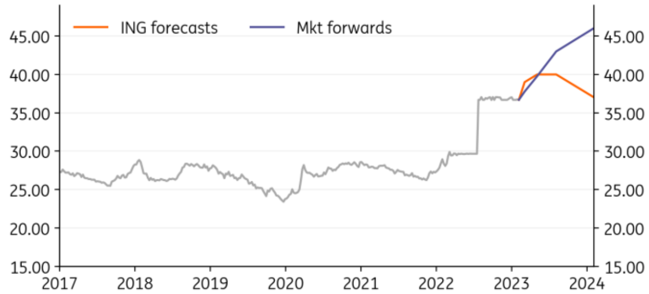
USD/UAH

Another UAH easing likely ahead **Current spot: 36.74**



Source: Refinitiv, ING forecasts

- Ukraine faces significant costs to stabilise the currency. While those costs came down significantly compared to the peak (around US$4bn monthly in mid-2022), we fear they could rise again should Russia attempt another major offensive. With the current level of international reserves at US$28.5bn (largely owing to international aid), the central bank may be unable to defend the currency at the current level.
- We do not see a swift end to the conflict in sight. High costs and increasing devastation to the Ukrainian economy put the hryvnia at risk of an even more pronounced easing than we anticipate, should the conflict continue in full force into 2H23.
- Chances for a major recovery of the Ukrainian currency in coming quarters are relatively slim. Authorities may maintain an elevated exchange rate to support economic recovery. Ukraine will require massive imports, while foreign aid may not be fully converted into UAH via the market.

ING forecasts (mkt fwd)	1M 39.00 (37.77)	3M 40.00 (39.78)	6M 40.00 (43.00)	12M 37.00 (46.05)

Piotr Poplawski, piotr.poplawski@ing.pl

USD/KZT

Outlook improved on external support, domestic factors **Current spot: 457.11**

Source: Refinitiv, ING forecasts

- USD/KZT has remained stable at 460 since the end of December, slightly outperforming our expectations. The primary reason was the more optimistic global mood reflected in the weaker dollar and upward trend in monthly average oil prices despite some intra-month volatility. However, most of this was assured by 'grey' flows.
- The domestic macro backdrop was also supportive, as the private sector assured a massive $5.7bn net capital inflow in the fourth quarter of 2022 after a $0.4bn outflow in the first nine months of 2022. However, the most part of it was assured by 'grey' flows. The other balance of payments items showed a narrowing of the trade balance and moderate regular capital flows.
- We remain constructive on KZT for 2023, given the planned increase in fuel exports and benign house view on global risk appetite. However, risks of unscheduled maintenance and exposure to geopolitics in the region should be kept in mind.

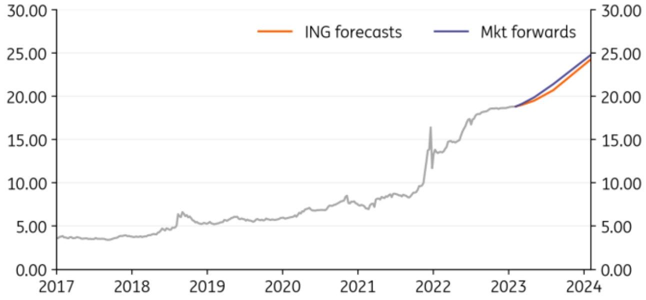
ING forecasts (mkt fwd)	1M 460 (460.69)	3M 465 (467.78)	6M 470 (477.14)	12M 470 (495.24)

Dmitry Dolgin, dmitry.dolgin@ingbank.com

USD/TRY

CBT in action again

Current spot: 18.83



Source: Refinitiv, ING forecasts

- Since the release of the 2023 strategy, the Central Bank of Turkey has increased regulatory activity to facilitate more permanent liraisation. We have seen increasing pressure on the CBT's net FX position since the start of the year, likely attributable to an increase in external finance needs and locals' FX demand. The CBT measures are introduced at a time when pressure on reserves has increased again. So, the objective is to ease locals' portfolio demand for FX and, hence, to support the CBT's reserves.
- In the January Monetary Policy Committee, the CBT left the policy rate unchanged at 9% as expected and seemed satisfied with the inflation outlook. Removal of the forward guidance about "the current level of policy rate being adequate" also attracts attention.
- In this environment, efforts to maintain TRY stability with increasing pre-election measures will continue. Relatively higher gross reserves thanks to reserves accumulation in 2H23 are likely to give the CBT some room to manoeuvre for this objective.

ING forecasts (mkt fwd)	1M 19.00 (19.11)	3M 19.50 (19.88)	6M 20.70 (21.40)	12M 24.30 (24.81)

Muhammet Mercan, muhammet.mercan@ing.com.tr

USD/ZAR

Late starter

Current spot: 17.51

Source: Refinitiv, ING forecasts

- The rand has lagged behind EM currency gains at the start of the year. Holding the rand back has been weak domestic demand prospects, largely held back by 'load-shedding' or power cuts. The South African Reserve Bank (SARB) feels that this can knock 2% off GDP growth this year leaving full year growth below 1%.
- Interestingly the SARB expects South Africa's commodity basket to decline 18% this year and the current account deficit to widen to a 1.8% of GDP deficit. These are headwinds to the rand.
- The global environment (softer dollar, stronger China) favours USD/ZAR trading back to the 16.00 area – perhaps even to 15.00. But the headwinds described above suggest caution and as a high beta currency, ZAR gains could easily be handed back.

ING forecasts (mkt fwd)	1M 16.75 (17.56)	3M 16.25 (17.63)	6M 16.25 (17.76)	12M 17.00 (17.98)

Chris Turner, chris.turner@ing.com

USD/ILS

ILS struggling to rally

Current spot: 3.4470

Source: Refinitiv, ING forecasts

- USD/ILS is normally a good benchmark for the overall dollar trend and given the 10% fall in the DXY, one might expect it to be trading closer to 3.30. This should be the direction of travel as US rates come off in 2Q on slowing US inflation. In Israel, it looks like the policy rate has peaked at 3.75% (high by Israel's standards) as inflation expectations sink back towards target.
- 2.8% GDP growth is the forecast from the Bank of Israel this year and as usual the shekel is backed by a strong current account surplus of 3% of GDP.
- With lower US rates giving the tech sector some reprieve, expect more interest in the shekel. 3.00 looks possible at year-end.

ING forecasts (mkt fwd)	1M 3.40 (3.4404)	3M 3.35 (3.4285)	6M 3.25 (3.4135)	12M 3.00 (3.3791)

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LATAM

USD/BRL

Health warnings attached — **Current spot: 5.1524**

Source: Refinitiv, ING forecasts

- USD/BRL is trading towards the lower end of its six-month trading range, but arguably should have been trading below 5.00 given the better global backdrop. Upward revisions to global growth – led by China and India – plus a sharp improvement in Brazil's terms of trade should have seen USD/BRL trading to 4.80.
- Yet the internal conflict between fiscal and monetary policy (between the government and the central bank) remains a concern. President Lula's administration wants to loosen fiscal policy and raise the inflation target – un-nerving investors.
- Should politicians interfere with the election of a new central bank board member in February, or should fiscal rules be loosened further, USD//BRL could easily trade to 5.30/40.

ING forecasts (mkt fwd)	1M 5.10 (5.1592)	3M 5.10 (5.2233)	6M 5.20 (5.3124)	12M 5.30 (5.4981)

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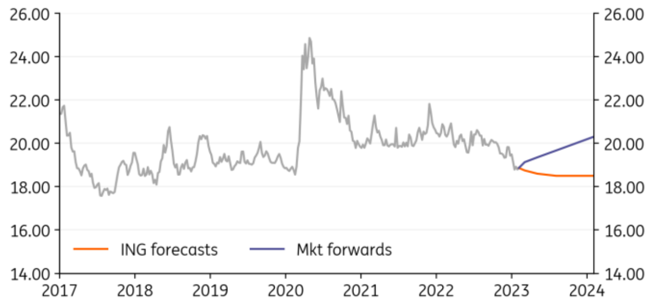
USD/MXN

Peso looks good — **Current spot: 19.05**



Source: Refinitiv, ING forecasts

- USD/MXN has virtually unwound the entirety of the 2020/22 pandemic and energy supply shock to trade back close to the 18.50 lows. The very credible fiscal (Mexico 5-year CDS at 120bp vs. 233bp for Brazil) and monetary (real rates are +2%) situation are strong drivers for MXN demand.
- Banxico continues to match the Fed in its tightening cycle, meaning that the policy rate will be taken close to 11% by the end of the quarter. Not bad with inflation running at 8.5%. And as the market takes a greater interest in carry, 3m MXN implied yields at 11.40% provided very strong risk-adjusted carry.
- The Banamex sale or high US inflation pose the biggest threats.

ING forecasts (mkt fwd)	1M 18.75 (19.13)	3M 18.60 (19.35)	6M 18.50 (19.67)	12M 18.50 (20.31)

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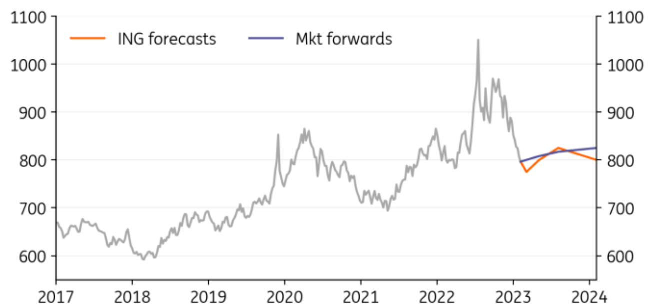
USD/CLP

CLP gains could run into reserve accumulation story — **Current spot: 796.85**



Source: Refinitiv, ING forecasts

- A reset on our global macro and dollar view means we are having to revise down our USD/CLP forecasts significantly. A weaker dollar, better Chinese demand and now supply disruption in Peru is settling copper at stronger $9,000-10,000/MT levels – helping CLP.
- Locally the Chilean economy continues to rebalance after the excesses of 2021 – which created the huge current account deficit. Weaker domestic demand (GDP forecast at -1% this year) is helping the trade surplus back into a big positive.
- The reason we are not forecasting USD/CLP to return to the 700 area seen in summer 2021 is that we suspect it will want to take advantage of CLP strength and rebuild FX reserves. These halved last year as the central bank fought the peso crash.

ING forecasts (mkt fwd)	1M 775 (800.49)	3M 800 (807.58)	6M 825 (816.80)	12M 800 (825.14)

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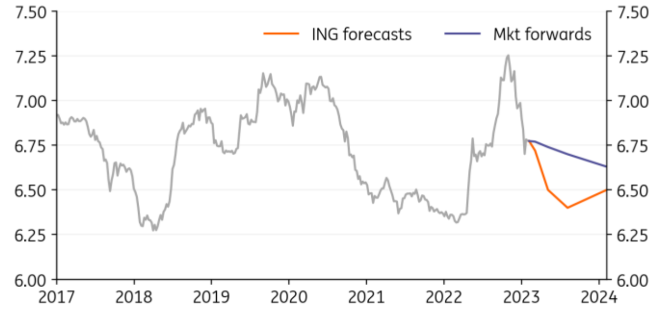
Asia

USD/CNY

Strong economic recovery expected in 2H23 | **Current spot: 6.7730**



Source: Refinitiv, ING forecasts

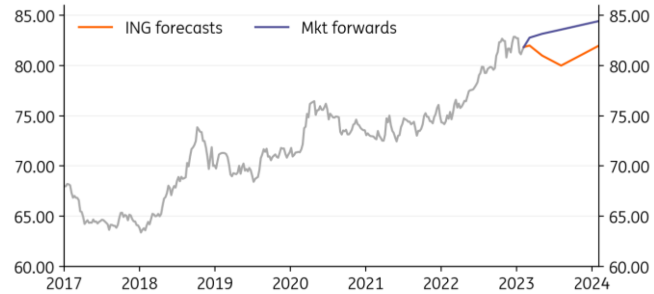
- After the strong bounce in January around the Lunar New Year holidays, the recovery may moderate a little in February. But as job availability increases, consumption should accelerate in the second quarter and could surpass pre-pandemic levels.
- Market expectations for a continuation of the economic recovery are likely to increase demand for the yuan.
- Furthermore, with the economy now in recovery mode, there is no need for the PBoC to cut interest rates or the RRR. Instead, the central bank could focus on relending programmes to support the technology sector and green finance.

ING forecasts (mkt fwd)	**1M** 6.72 (6.7692)	**3M** 6.50 (6.7410)	**6M** 6.40 (6.6981)	**12M** 6.50 (6.6258)

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

USD/INR

RBI done, or close | **Current spot: 82.62**



Source: Refinitiv, ING forecasts

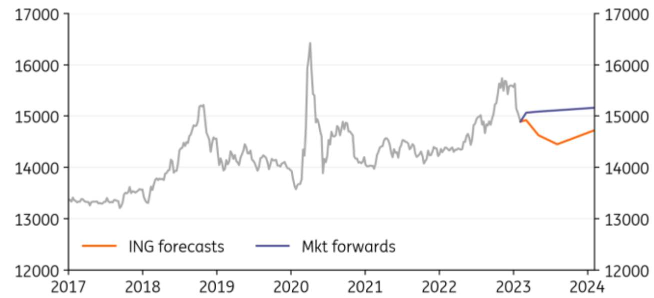
- The Indian rupee has had a reasonable start to the year, moving from about 82.70 to below 81.00 before drifting back up to around 82.00 currently.
- With inflation dropping back into the Reserve Bank of India's target range, and below policy rates, central bank tightening is now probably complete, or at least, close to complete.
- The latest budget contained aggressive growth-promoting capital expenditure measures, though the deficit is expected to shrink to below 6% after this year's 6.4% target. The slightly tighter fiscal stance could help offset the end to monetary tightening to leave the currency relatively steady.

ING forecasts (mkt fwd)	**1M** 82.00 (82.78)	**3M** 81.00 (83.17)	**6M** 80.00 (83.59)	**12M** 82.00 (84.44)

Rob Carnell, robert.carnell@asia.ing.com

USD/IDR

IDR gains on foreign inflows, rally stalled by dovish BI | **Current spot: 15055**



Source: Refinitiv, ING forecasts

- The Indonesian rupiah strengthened sharply in January benefiting from the return of foreign funds into the local bond market. Economic data was also supportive after trade data showed another month of surplus.
- Bank Indonesia (BI) hiked policy rates by 25bp to help slow still-elevated core inflation. However, Governor Perry Warjiyo hinted that the current rate hike cycle was ending, which may help to cap further IDR appreciation.
- China's recovery and support for Indonesia's commodity exports could help support the IDR this year.

ING forecasts (mkt fwd)	**1M** 14920 (15066)	**3M** 14625 (15088)	**6M** 14450 (15112)	**12M** 14725 (15162)

Nicholas Mapa, nicholas.mapa@asia.ing.com

USD/KRW

KRW to strengthen despite chip slump **Current spot: 1254.74**

Source: Refinitiv, ING forecasts

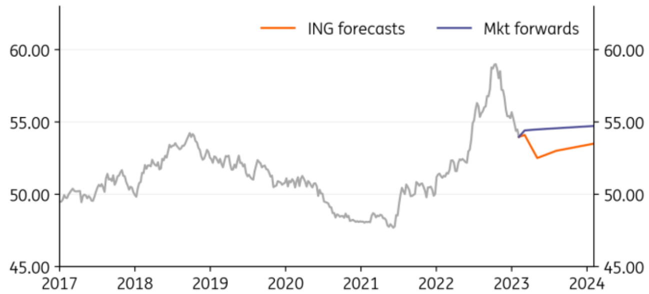
- The Korean won has gained the most ground of all APAC currencies over the last three months as the USD's trend has reversed. China's reopening and a possible policy change by the BoJ could encourage further KRW appreciation.
- However, Korea's chipmakers are experiencing slowing demand and there is a growing possibility that the current account balance may record a deficit during the first quarter of 2023.
- We expect the Bank of Korea to enter an easing cycle in the second half of the year, echoing our expectations for Federal Reserve rate cuts. We think the KRW will eventually break 1200 and touch 1180 later this year.

ING forecasts (mkt fwd)	1M 1220 (1254.62)	3M 1200 (1250.93)	6M 1180 (1245.07)	12M 1200 (1234.17)

Kang Min Joo, min.joo.kang@asia.ing.com

USD/PHP

Trade shortfall could limit further PHP gains **Current spot: 54.39**



Source: Refinitiv, ING forecasts

- The Philippine peso has tracked the regional appreciation against the USD with an uninspiring middle-of-the-road performance. Foreign investor inflows into the local equity and bond market have helped.
- BSP Governor Medalla initially indicated that he would hike by 25-50bp at his next meeting. Though more recent commentary has hinted at a potential end to rate hikes in the first quarter, curbing the PHP's recent gains.
- Further gains in the PHP could be tempered by concerns about the current account deficit as the trade shortfall remains substantial.

ING forecasts (mkt fwd)	1M 54.10 (54.41)	3M 52.50 (54.48)	6M 53.00 (54.56)	12M 53.50 (54.72)

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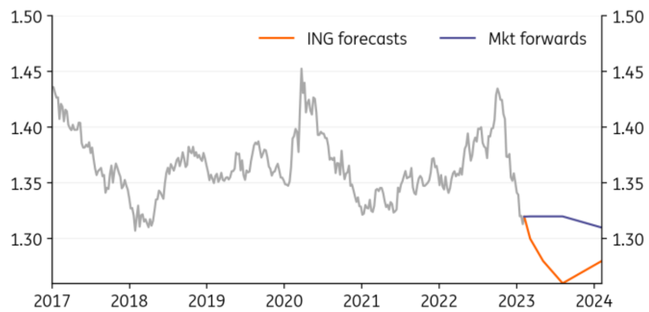
USD/SGD

SGD still on appreciating NEER path **Current spot: 1.3235**



Source: Refinitiv, ING forecasts

- Singapore's dollar has had a solid start to the year, continuing the appreciation that has taken it from 1.44 at the end of September last year to just over 1.30 now.
- The Monetary Authority of Singapore (MAS) expects inflation to remain elevated in 2023, which seems an easy call given that there is no let-up in rental inflation and government support measures are offsetting most of the monetary tightening the MAS is undertaking.
- The plateauing observed in the 3m Sibor rate may simply reflect the weakness of the US dollar, rather than any shift to a slower appreciating path for the nominal effective exchange rate.

ING forecasts (mkt fwd)	1M 1.30 (1.3230)	3M 1.28 (1.3209)	6M 1.26 (1.3171)	12M 1.28 (1.3093)

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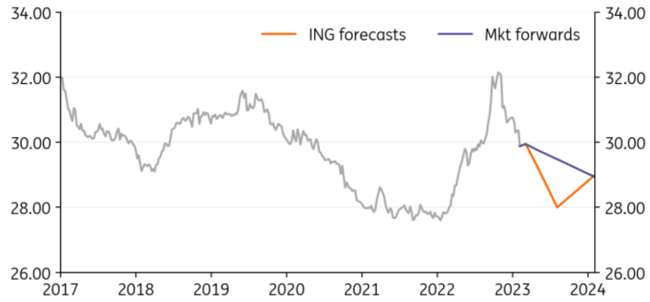
USD/TWD

Semiconductors could bring mild recession in the first half of 2023

Current spot: 30.00



Source: Refinitiv, ING forecasts

- With weakening export markets in the US and Europe, and Mainland China still to recover fully, global semiconductor demand has dropped significantly. As a result, Taiwan's overall economy has entered a downward cycle since December.
- A mild recession seems to be inevitable in the first half of 2023. But recovery should come quickly if the hiking cycle in the US ends and Taiwan's central bank follows suit.
- A stronger TWD would mainly stem from market expectations of a recovery in semiconductor demand from Mainland China in the first half of the year and global semiconductor demand in the second half.

ING forecasts (mkt fwd)	1M 29.95 (29.95)	3M 29.20 (29.75)	6M 28.00 (29.48)	12M 29.00 (28.93)

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

ING foreign exchange forecasts

EUR cross rates	Spot	1M	3M	6M	12M	USD cross rates	Spot	1M	3M	6M	12M
Developed FX											
EUR/USD	1.08	1.08	1.13	1.15	1.12						
EUR/JPY	142.4	138.24	142.38	143.75	134.40	USD/JPY	132.02	128	126	125	120
EUR/GBP	0.90	0.89	0.89	0.90	0.90	GBP/USD	1.20	1.21	1.27	1.28	1.24
EUR/CHF	1.00	1.00	1.02	1.00	1.00	USD/CHF	0.93	0.93	0.90	0.87	0.89
EUR/NOK	11.06	10.80	10.55	10.20	10.00	USD/NOK	10.26	10.00	9.34	8.87	8.93
EUR/SEK	11.42	11.20	10.95	10.50	10.60	USD/SEK	10.59	10.37	9.69	9.13	9.46
EUR/DKK	7.445	7.440	7.450	7.450	7.450	USD/DKK	6.90	6.89	6.59	6.48	6.65
EUR/CAD	1.45	1.43	1.45	1.46	1.41	USD/CAD	1.342	1.32	1.28	1.27	1.26
EUR/AUD	1.56	1.50	1.51	1.55	1.49	AUD/USD	0.69	0.72	0.75	0.74	0.75
EUR/NZD	1.71	1.66	1.69	1.72	1.65	NZD/USD	0.63	0.65	0.67	0.67	0.68
EMEA											
EUR/PLN	4.72	4.74	4.77	4.71	4.68	USD/PLN	4.37	4.39	4.22	4.10	4.18
EUR/HUF	389.3	385.00	375.00	383.00	373.00	USD/HUF	360.9	356	332	333	333
EUR/CZK	23.81	24.0	24.3	24.5	24.0	USD/CZK	22.07	22.2	21.5	21.3	21.4
EUR/RON	4.90	4.94	4.95	5.10	5.10	USD/RON	4.54	4.57	4.38	4.43	4.55
EUR/RSD	117.3	117.3	117.3	117.4	117.4	USD/RSD	108.8	108.6	103.8	102.1	104.8
EUR/RUB	76.01	70.2	76.3	83.4	92.4	USD/RUB	70.47	65.0	67.5	72.5	82.5
EUR/UAH	39.82	42.1	45.2	46.0	41.4	USD/UAH	36.75	39.00	40.00	40.00	37.00
EUR/KZT	492.7	496.8	525.5	540.5	526.4	USD/KZT	457.0	460	465	470	470
EUR/TRY	20.31	20.52	22.04	23.81	27.22	USD/TRY	18.83	19.00	19.50	20.70	24.30
EUR/ZAR	18.88	18.1	18.4	18.7	19.0	USD/ZAR	17.50	16.75	16.25	16.25	17.00
EUR/ILS	3.71	3.67	3.79	3.74	3.36	USD/ILS	3.44	3.40	3.35	3.25	3.00
SLATAM											
EUR/BRL	5.56	5.51	5.76	5.98	5.94	USD/BRL	5.15	5.10	5.10	5.20	5.30
ZEUR/MXN	20.53	20.3	21.0	21.3	20.7	USD/MXN	19.04	18.75	18.60	18.50	18.50
EUR/CLP	859.49	837	904	949	896	USD/CLP	796.85	775	800	825	800
Asia											
EUR/CNY	7.31	7.26	7.35	7.36	7.28	USD/CNY	6.78	6.72	6.50	6.40	6.50
EUR/IDR	16244	16114	16526	16618	16492	USD/IDR	15055	14920	14625	14450	14725
EUR/INR	89.16	88.6	91.5	92.0	91.8	USD/INR	82.67	82.00	81.00	80.00	82.00
EUR/KRW	1354.49	1318	1356	1357	1344	USD/KRW	1255.64	1220	1200	1180	1200
EUR/PHP	58.66	58.4	59.3	61.0	59.9	USD/PHP	54.39	54.1	52.5	53.0	53.5
EUR/SGD	1.43	1.40	1.45	1.45	1.43	USD/SGD	1.32	1.30	1.28	1.26	1.28
EUR/TWD	32.38	32.3	33.0	32.2	32.5	USD/TWD	30.02	30.0	29.2	28.0	29.0

Source: Refinitiv, ING

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