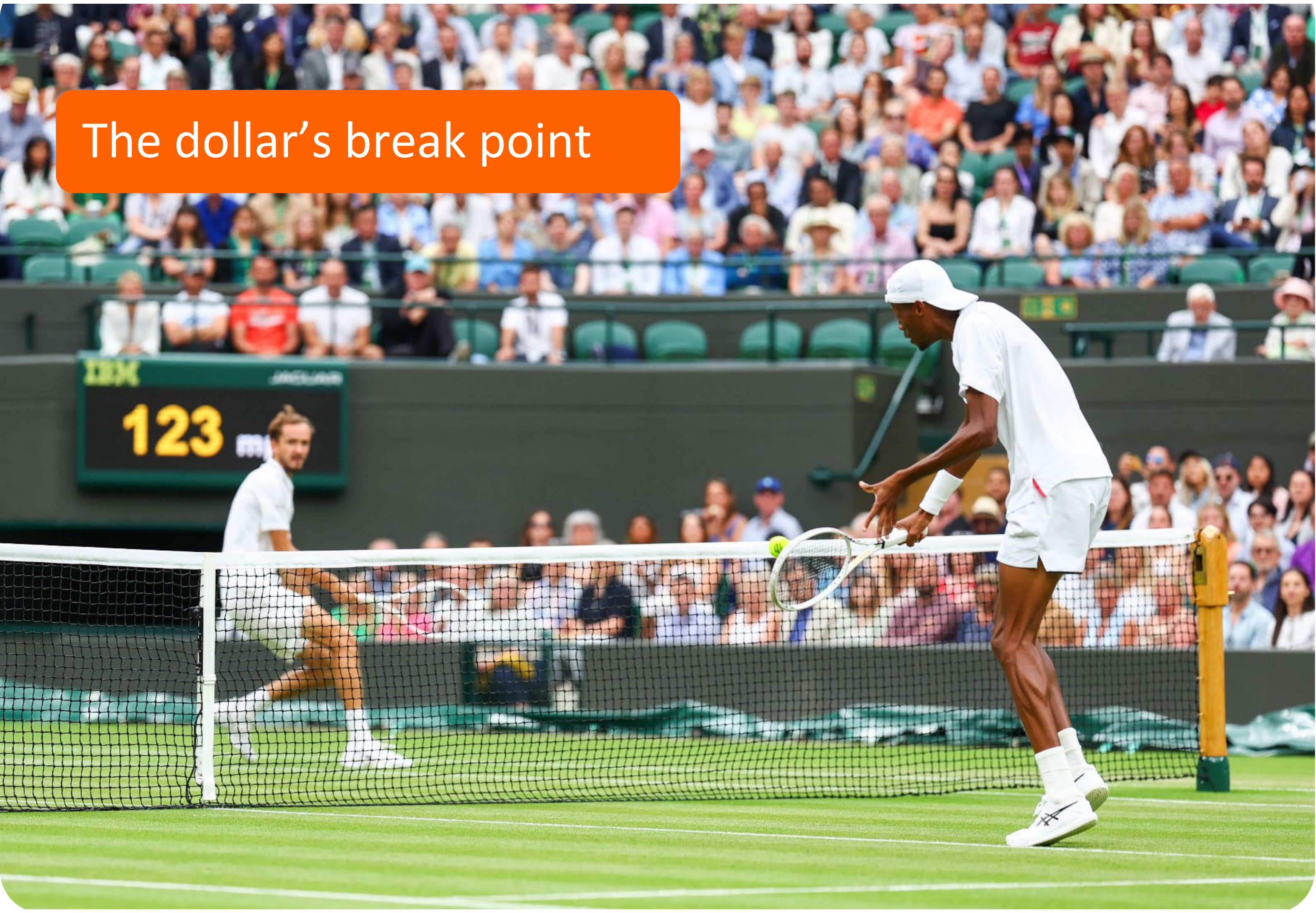
FX Talking

July 2023



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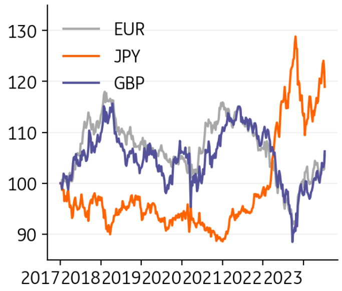
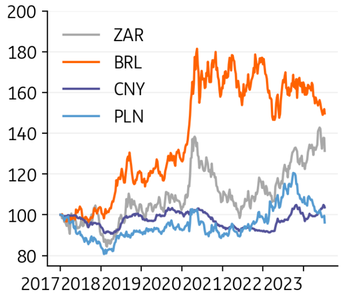
The dollar's break point

USD/Majors (4 Jan 15=100)



Source: Refinitiv, ING forecast

USD/EM (4 Jan 15=100)



Source: Refinitiv, ING forecast

It has been a long time coming, but this month's release of US June inflation data might actually be the point at which the dollar breaks lower. Like many, we had been looking for a cyclical drop in the dollar in the second half of 2023. Now some strong evidence of US disinflation might just be the catalyst for this important market adjustment.

Within the G10 space, the biggest beneficiaries of the softer US price data have been the unloved Scandinavian currencies. These had been the biggest victims of hard landing fears. What could now be the start of some sizable bullish steepening in the US yield curve will help the pro-cyclical currencies on the view that peak rates are close at hand.

Our team looks for one last rate hike from the Federal Reserve and two further hikes from the European Central Bank. This should allow EUR/USD to better connect with its fundamentals, although we doubt that the rally will be as quick as the one seen last November-December. However, EUR/USD now has a clear bias towards 1.15 over the coming months and quarters.

Elsewhere in G10, the Bank of Japan probably needs to normalise policy further to get USD/JPY trading well under 135 – but that certainly looks to be the direction of travel. Sterling may temporarily hold gains until UK price data softens – potentially in the fourth quarter. And the Swiss National Bank will continue to manage the trade-weighted Swiss franc stronger.

Within EM, CE4 FX might struggle to rally substantially further against the euro. And weak Chinese growth is proving a headwind. Yet the EM asset class may now enjoy the strongest portfolio inflows since late 2020 and Latin currencies can continue to perform.

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.11	↓	138	→	1.29	↓
3M	1.12	↑	135	↓	1.29	↓
6M	1.15	↑	130	↓	1.31	→
12M	1.18	↑	120	↓	1.34	↑
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.86	→	23.70	↓	4.42	↓
3M	0.87	↑	23.70	↓	4.40	↓
6M	0.88	↑	23.50	↓	4.45	↓
12M	0.88	↑	23.50	↓	4.50	↓
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	7.30	↑	17.00	→	4.90	↓
3M	7.25	↑	17.00	↓	4.90	↓
6M	7.10	↑	17.00	↓	4.80	↑
12M	6.80	↓	16.50	↓	4.80	↑

↑ / → / ↓ 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	AUD/USD	USD/CAD
%MoM	4.0	-1.1	-0.6	-3.6	1.8	-1.8
%YoY	11.7	-0.6	0.9	9.3	1.4	0.1
	USD/CNY	**USD/KRW**	**EUR/HUF**	**EUR/PLN**	**USD/ZAR**	**USD/BRL**
%MoM	0.1	-1.0	1.3	0.0	-3.2	-1.0
%YoY	5.8	-2.8	-7.9	-7.7	4.8	-11.2

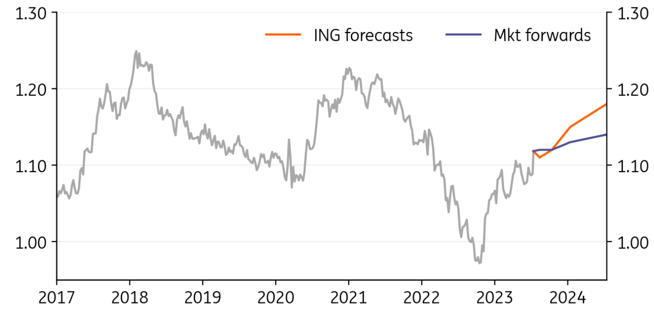
Source: Refinitiv, ING forecast

Developed markets

EUR/USD

US disinflation undermines the dollar

Current spot: 1.1183



Source: Refinitiv, ING forecasts

- Like many others we have been looking for a weaker dollar in the second half of this year but have been uncertain of timing. There is now a strong case that the softer US June CPI numbers have fired the starting pistol on the cyclical dollar decline. Importantly, we look for the June CPI data to presage a series of softer price data releases this year. The Fed should welcome this news.
- Strong signs of US disinflation and bullish steepening of the US yield curve should be a EUR/USD positive. Positioning and Rest Of World growth prospects may not trigger the kind of 8% dollar drop seen last Nov-Dec, but the dollar should still decline.
- One last hike from the Fed, plus two more hikes from the European Central Bank should keep rate differentials supportive of EUR/USD.

ING forecasts (mkt fwd)	1M 1.11 (1.1200)	3M 1.12 (1.1233)	6M 1.15 (1.1287)	12M 1.18 (1.1367)

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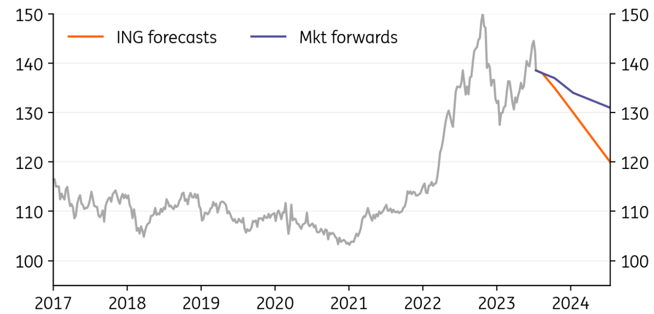
USD/JPY

No need for intervention after all

Current spot: 138.56



Source: Refinitiv, ING forecasts

- USD/JPY has reversed sharply from 145 – an area where it looked like Tokyo was readying for FX intervention. Instead, it looks like investor positioning for a possible Bank of Japan policy tweak (28 July) and the softer US inflation data have foregone the need for intervention. A sustained move lower in USD/JPY will require some follow-up – i.e. either from the BoJ or US data.
- The reason why speculation has built over the 28 July meeting is that the BoJ also releases its Outlook Report containing new forecasts – i.e. whether the rise in CPI is sustainable.
- 145 could now prove a solid cap. We target 130 for year-end.

ING forecasts (mkt fwd)	1M 138 (137.89)	3M 135 (136.57)	6M 130 (134.50)	12M 120 (130.87)

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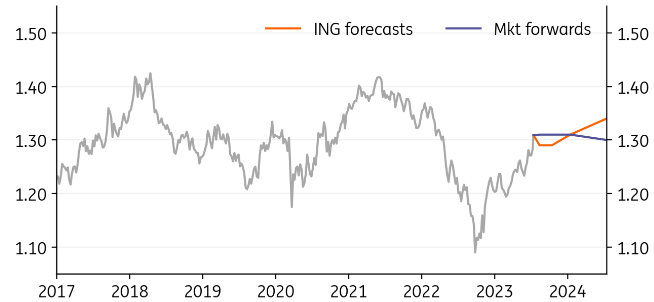
GBP/USD

Hawkish BoE keeps GBP/USD in the ascendancy

Current spot: 1.3091



Source: Refinitiv, ING forecasts

- The Bank of England's (BoE) surprise 50bp rate hike in June caught markets by surprise. That was partly a function of the BoE's policy to avoid much market communication. Some argued that sterling should fall because it made the chances of a UK hard landing all the greater. We argued that very inverted yield curves are often quite positive for G10 currencies.
- From here, we can see GBP/USD moving towards the 1.33 area near term. But GBP is subject to the same forces that recently sunk the dollar – e.g. a soft inflation print could hurt.
- At the moment we look for two more BoE rate hikes – policy rate to 5.50% – but well below the 6%+ rates priced by the markets.

ING forecasts (mkt fwd)	1M 1.29 (1.3092)	3M 1.29 (1.3091)	6M 1.31 (1.3080)	12M 1.34 (1.3013)

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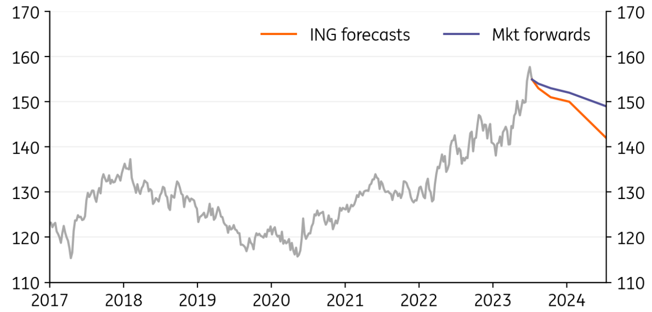
EUR/JPY

Living in a 150+ world

Current spot: 154.93



Source: Refinitiv, ING forecasts

- EUR/JPY is correcting off of a high at 158 – but the case for much lower levels is not strong unless we see some strong independent gains in the yen on the back of a Bank of Japan policy shift. Otherwise, the narrative of a soft landing is a mildly positive one for the pro-cyclical EUR/JPY cross.
- One left-field risk for the euro is the focus on 2024 fiscal consolidation. Here eurozone finance ministers have faced criticism from the ECB that fiscal policy has been too loose for too long and fuelling inflation. Fiscal consolidation could rein in ECB tightening expectations and limit euro upside in 2024.
- The biggest risk for EUR/JPY is probably some emerging financial crisis from the shadow banking sector – in response to high rates.

ING forecasts (mkt fwd)	1M 153 (154.43)	3M 151 (153.41)	6M 150 (151.81)	12M 142 (148.78)

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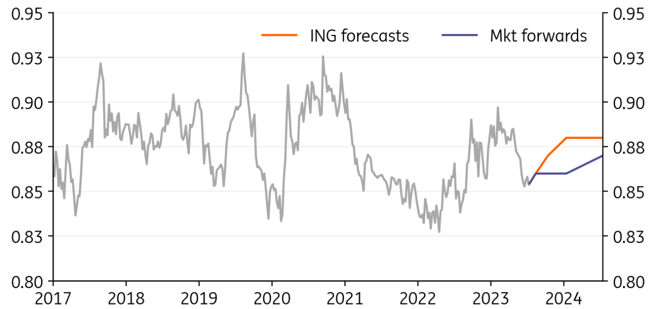
EUR/GBP

0.8500 could be the new floor

Current spot: 0.8545



Source: Refinitiv, ING forecasts

- Frustratingly high UK CPI and wage data has kept the market pricing aggressive BoE rate hikes. At some point, as in the US, price data will begin to soften and see the market scale back the amount of BoE tightening expected into 2024. That is why we are still looking for EUR/GBP to trade higher later this year.
- For the time being, however, we look for a 25bp BoE hike on 3 August – with the June CPI release on 19 July being a big determinant of whether the BoE hikes 25bp or 50bp.
- We find it hard to expect sterling losses on the back of hard-landing fears and expect it will more be the re-assessment of the BoE cycle which will lift EUR/GBP off its lows.

ING forecasts (mkt fwd)	1M 0.86 (0.8555)	3M 0.87 (0.8581)	6M 0.88 (0.8630)	12M 0.88 (0.8734)

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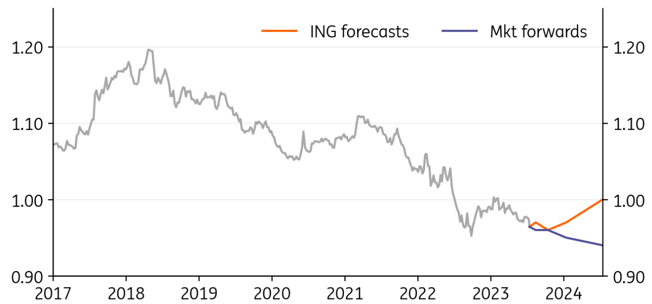
EUR/CHF

Let's not get carried away

Current spot: 0.9643



Source: Refinitiv, ING forecasts

- After a brief rally when the Swiss National Bank (SNB) 'only' hiked 25bp in June, EUR/CHF has come steadily lower. Remember this is a heavily managed cross rate, where the SNB uses FX intervention to guide it lower. The purpose of this is to generate nominal exchange rate strength and keep the real CHF stable.
- While our preference has been for a lower EUR/CHF for a while, we would not necessarily chase this move because of developments in USD/CHF. The dollar has around a 20% weight in the CHF trade-weighted basket and the big drop in USD/CHF will be doing the heavy-lifting for the CHF TWI appreciation.
- We could see EUR/CHF trading here for a while and only return to 1.00 when global inflation converges back to Swiss levels.

ING forecasts (mkt fwd)	1M 0.97 (0.9626)	3M 0.96 (0.9593)	6M 0.97 (0.9541)	12M 1.00 (0.9447)

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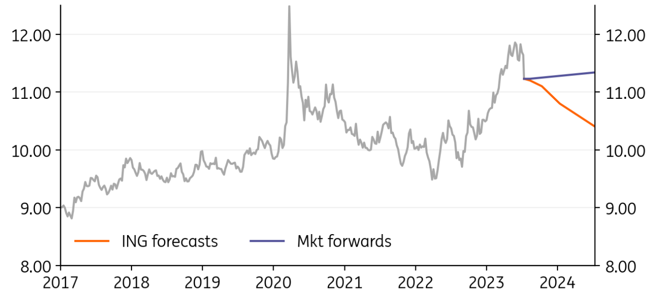
EUR/NOK

Norges Bank bolsters NOK **Current spot: 11.23**



Source: Refinitiv, ING forecasts

- Norges Bank has recently taken its currency support up a few notches: along with signalling two more 25bp hikes to peak, daily FX purchases were trimmed more aggressively in July, from NOK 1.3bn to 1.0bn.
- Stickier-than-expected core inflation in Norway, an ultra-tight jobs market and decent growth are all endorsing the recent hawkish escalation by Norges Bank. NB will be satisfied with NOK's recent good performance, but the currency remains around 7% weaker than its 5-year trade-weighted average.
- This quarter can still see risk-off-related upside corrections in EUR/NOK, but we now feel more comfortable about our call for a decline below 11.00 in the pair before year-end.

ING forecasts (mkt fwd)	1M 11.20 (11.23)	3M 11.10 (11.25)	6M 10.80 (11.28)	12M 10.40 (11.34)

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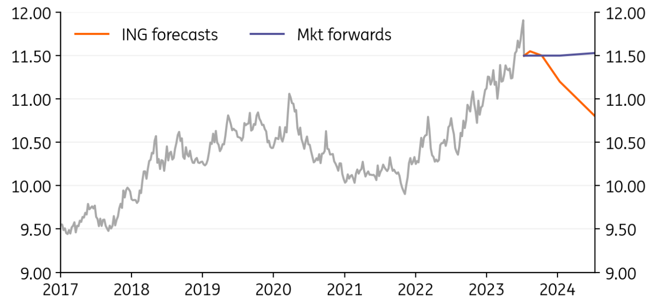
EUR/SEK

Riksbank's back in hawkish mode, but for how long? **Current spot: 11.50**



Source: Refinitiv, ING forecasts

- We had signalled the Riksbank needed to rebuild a hawkish tone to re-establish confidence in SEK and avert more severe sell-offs. In June, the RB offered a solid package to support the krona: a 25bp hike, pledge of another one (likely in September) and an acceleration in quantitative tightening.
- EUR/SEK followed the dollar lower lately, but had stayed around all-time highs for some time after the RB meeting, a signal that: a) domestic tail risks remain relevant; b) there are concerns those risks may pose a threat to the sustainability of further tightening.
- SEK is undervalued in the medium term and there is still room to recover, but remains the G10 currency with the greatest exposure to real estate pains and domestic risks in general.

ING forecasts (mkt fwd)	1M 11.55 (11.50)	3M 11.50 (11.50)	6M 11.20 (11.50)	12M 10.80 (11.53)

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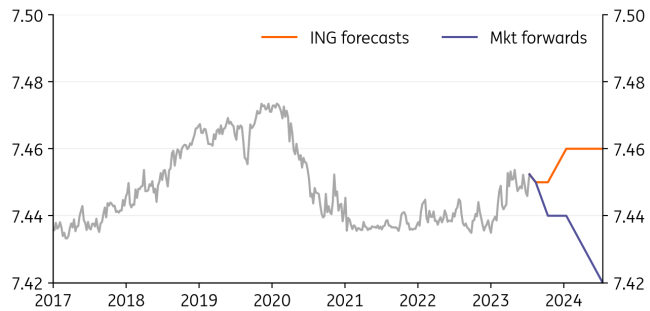
EUR/DKK

One last hike in Denmark **Current spot: 7.4524**



Source: Refinitiv, ING forecasts

- Danmarks Nationalbank refrained from intervening in the currency market for a fifth consecutive month in June.
- EUR/DKK has climbed steadily in July after a short-lived dip below 7.4460 on 30 June, and it seems quite likely that DN can keep stirring away from FX intervention and continue to follow the ECB's pace of tightening.
- We expect the DN to follow the ECB with a 25bp hike in September. In line with our call for a higher EUR/USD, we expect EUR/DKK to keep inching higher and round up to 7.46 around the turn of the year.

ING forecasts (mkt fwd)	1M 7.45 (7.4499)	3M 7.45 (7.4445)	6M 7.46 (7.4361)	12M 7.46 (7.4230)

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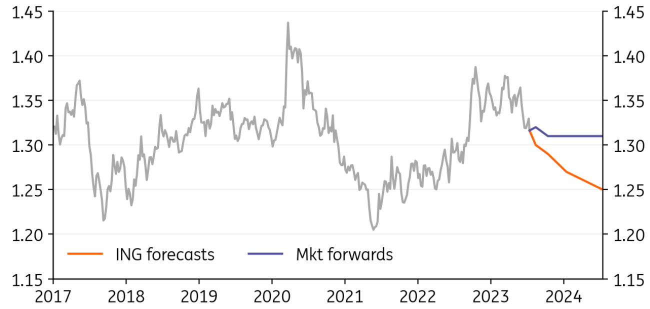
USD/CAD

Loonie affected by the US as much as by Canada



Source: Refinitiv, ING forecasts

Current spot: 1.3162

- The Bank of Canada resumed tightening with two hikes in June and July, and we cannot exclude another increase in September. However, the softer June US CPI means that there is less external pressure to hike as chances of a Fed move have declined.
- CAD remains quite tied to the domestic US story, and therefore to the USD itself. Should we see a fully-fledged risk-on rally on the back of a clear softening in US data, expect CAD underperformance compared to other pro-cyclicals.
- A more conservative scenario, where markets have to "hold their horses" on the USD decline/Fed peak story for a bit longer can make CAD stand out. In all cases, the attractive volatility-adjusted carry means USD/CAD can hit 1.25-1.27 by mid-2024.

ING forecasts (mkt fwd)	1M 1.30 (1.3159)	3M 1.29 (1.3147)	6M 1.27 (1.3128)	12M 1.25 (1.3117)

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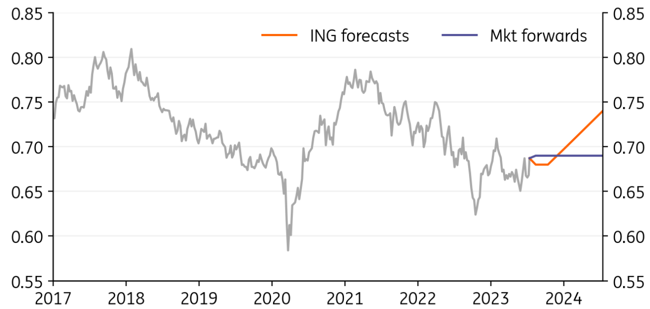
AUD/USD

A bullish "pocket" may emerge in September



Source: Refinitiv, ING forecasts

Current spot: 0.6872

- The dovish repricing of Reserve Bank of Australia rate expectations has followed that of the Fed and risk-on environment, leaving AUD/USD stronger.
- We could see a bullish "pocket" for the pair in September, when Australian CPI readings could clearly show the impact of large electricity tariff increases due in July and force an RBA hike while the Fed holds on an improved inflation outlook.
- The AUD swap curve prices in 14bp to a peak, and the strict data-dependent approach by the RBA could leave more room for tightening speculation. China's underwhelming growth story may still cap gains, but there is room for improvement thanks to Beijing's added stimulus. We target 0.72 in first quarter 2024.

ING forecasts (mkt fwd)	1M 0.68 (0.6878)	3M 0.68 (0.6891)	6M 0.70 (0.6909)	12M 0.74 (0.6924)

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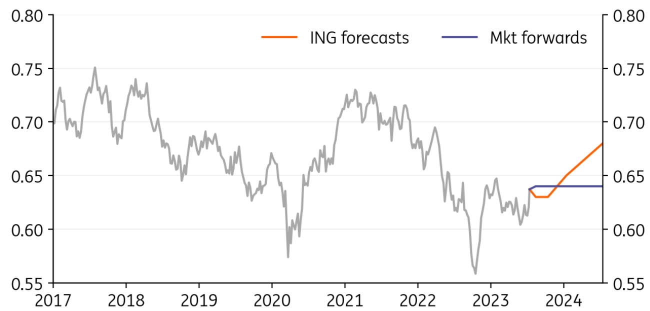
NZD/USD

RBNZ inflation estimates might be too conservative



Source: Refinitiv, ING forecasts

Current spot: 0.6371

- The Reserve Bank of New Zealand kept its tone largely unchanged at its July meeting, still signalling that rates need to remain at restrictive territory for longer but without opening the door to more hikes if needed.
- In practice, the Bank's expectations to keep rates on hold rely on a set of forecasts for inflation based on assumptions on the impact of government spending, migration and severe weather events that might prove too conservative.
- We see non-negligible risks of a resumption of rate hikes in New Zealand before the end of the year. That could allow some advantage for NZD over close peers like AUD and other high-beta currencies around the turn of the year.

ING forecasts (mkt fwd)	1M 0.63 (0.6371)	3M 0.63 (0.6370)	6M 0.65 (0.6369)	12M 0.68 (0.6353)

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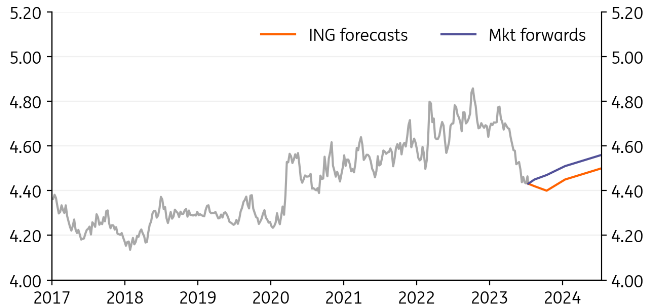
Emerging markets

EUR/PLN

Limited scope for further gains **Current spot: 4.4313**



Source: Refinitiv, ING forecasts

- Scope for further PLN gains seems limited. According to the central bank's estimates, profitability of Polish exporters ceases around 4.30. €/PLN moving below 4.40 should encourage the Ministry of Finance to refrain from converting FX proceeds via the market. Also, based on our estimates (relative value model, gauging €/PLN against other market variables) the zloty is currently somewhat overvalued against the euro.
- Based on available market comments, we fear that investors may be overly confident in a market-friendly conclusion to this year's parliamentary elections. Also, with recovering internal demand, the current account surplus should vanish next year. This calls for a higher €/PLN in the fourth quarter and in 2024.

ING forecasts (mkt fwd)	1M 4.42 (4.4453)	3M 4.40 (4.4710)	6M 4.45 (4.5128)	12M 4.50 (4.5586)

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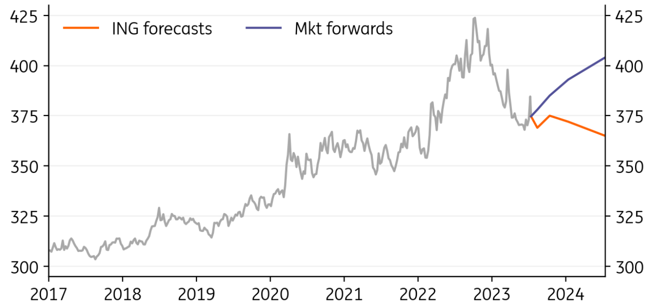
EUR/HUF

Range trading through the summer **Current spot: 374.70**



Source: Refinitiv, ING forecasts

- Until the EU fund risk has been cleared, we see periods of weakness for the forint due to a lack of news on the progress on an EU deal and on seasonality in the summer. In this regard, we continue to see a working framework for the coming weeks in the 368-378 EUR/HUF range.
- We believe that global factors and repricing are the drivers of the recent sell-off, while the local story remains positive. We think that the market will use weaker levels to build new positions benefiting from the massive carry, which remains by far the highest within the CEE region and leads the EM space.
- We expect an agreement with the EU before year-end, thus we see a positive breakout potential later this year.

ING forecasts (mkt fwd)	1M 369 (378.33)	3M 375 (384.69)	6M 372 (392.65)	12M 365 (404.46)

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EUR/CZK

Koruna stuck despite favourable fundamentals **Current spot: 23.77**

Source: Refinitiv, ING forecasts

- The koruna seems to be trapped in the 23.60-23.90 EUR/CZK band and nothing is likely to change even during the summer.
- However, we remain positive on the koruna, which should benefit from the Czech National Bank's hawkish rhetoric, the highest beta against EUR/USD within the CEE region and the market's light positioning. Together, these should help it to stronger levels for the rest of the year.
- The CNB remains the most hawkish central bank in the region despite the rapid decline in inflation. The market is pricing in a 100bp rate cut by the end of this year. We expect the first cut in November with the risk of a delay until the first quarter of 2024.

ING forecasts (mkt fwd)	1M 23.7 (23.83)	3M 23.7 (23.96)	6M 23.5 (24.09)	12M 23.5 (24.26)

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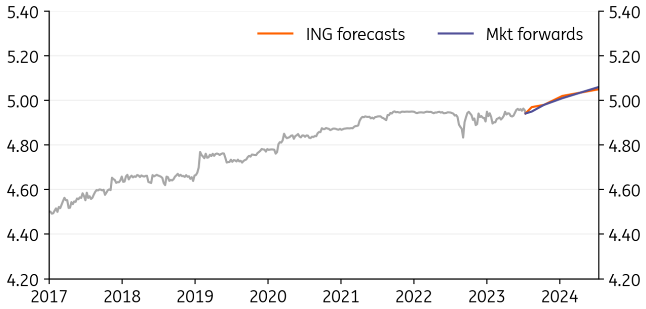
EUR/RON

Unstable line in sand

Current spot: 4.9416



Source: Refinitiv, ING forecasts

- EUR/RON touched 4.98 in May, then returned to 4.96 in June and is back to 4.95 in July, the earlier central bank line in the sand.
- Higher volatility does not indicate a central bank presence in the market, however the high liquidity surplus in the market indicated by the May numbers would suggest that the NBR should be open to market activity.
- The new temporary range is likely to be 4.94-4.98 EUR/RON for now. We can expect at least one more upward shift this year and we maintain our 5.02 estimate for year-end.

ING forecasts (mkt fwd)	1M 4.97 (4.9530)	3M 4.98 (4.9752)	6M 5.02 (5.0065)	12M 5.05 (5.0633)

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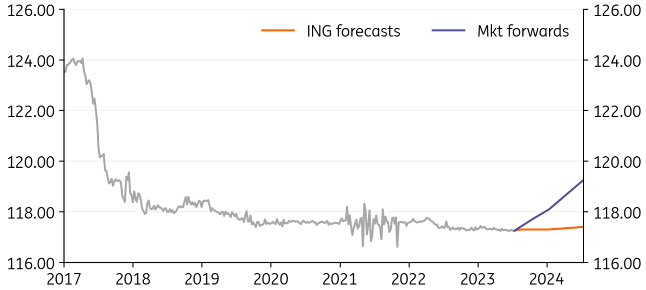
EUR/RSD

No room for deviation

Current spot: 117.25



Source: Refinitiv, ING forecasts

- After raising the policy rate by 500bp to 6.00% in just over a year, the National Bank of Serbia seems to be taking its time now and contemplating the effects of past monetary tightening.
- We believe that the next policy decision will be a rate cut in first quarter 2024 when we will finally have positive real rates. We do not envisage headline inflation back within the NBS's 1.5%-4.5% target range over the next two years.
- We maintain our expectations for an essentially flat EUR/RSD profile for the rest of 2023 and even through 2024, with FX intervention likely to occur in a rather narrow range around the 117.30 level.

ING forecasts (mkt fwd)	1M 117.30 (117.40)	3M 117.30 (117.69)	6M 117.30 (118.10)	12M 117.40 (119.26)

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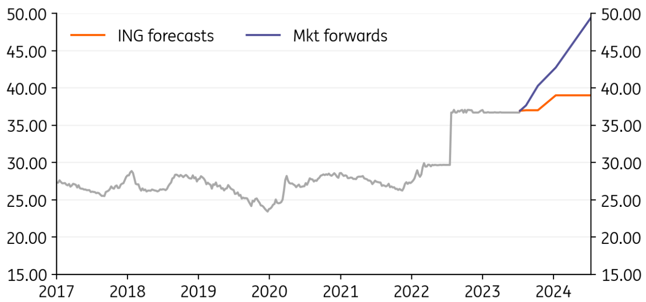
USD/UAH

Foreign reserves at all time high and continue to rise

Current spot: 36.93



Source: Refinitiv, ING forecasts

- Short-term risks to hryvnia are limited. Foreign reserves neared $39bn in June, an all-time high. External financial aid more than balances the costs of stabilising the currency. The National Bank of Ukraine is planning to liberalise the exchange rate, but in a gradual manner.
- Long-term prospects of the hryvnia are mixed. The government will balance the negative trade balance with a massive inflow of foreign aid. It will be a political choice whether the foreign funds are converted via the market (supporting the hryvnia), or in the central bank. Given the scale of war damages, we expect the government to largely opt for the latter, to boost Ukraine's trade competitiveness and support an economic recovery.

ING forecasts (mkt fwd)	1M 37.00 (37.65)	3M 37.00 (40.28)	6M 39.00 (42.73)	12M 39.00 (49.45)

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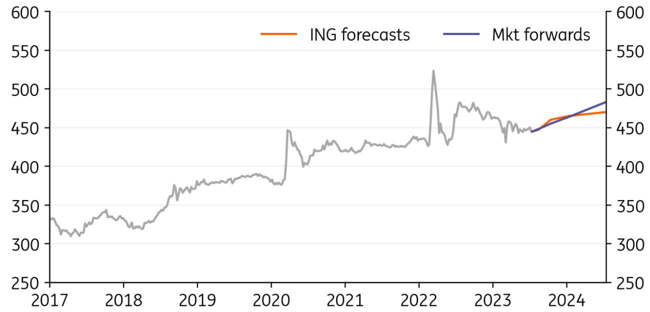
USD/KZT

Upside risks in the near term

Current spot: 444.80



Source: Refinitiv, ING forecasts

- KZT has been moving with oil prices in the last couple of months, showing depreciation to 454 by the end of June (we expected 455) and recovering to 440-45 in early July.
- The trade balance is the key driver of FX as capital flows seem to be muted: transfers from NFRK, the sovereign fund, to the budget halved month-on-month to $0.6bn in June, while portfolio flows were likely balanced, as the National Bank of Kazakhstan guided to gradual cuts in the key rate starting in September amid the slowdown in CPI.
- We continue to see gradual KZT depreciation on limited oil output and capital outflow risks as our base case, while acknowledging near-term upside risks coming from expectations of better global risk appetite and oil prices.

ING forecasts (mkt fwd)	1M 447 (448.29)	3M 460 (454.61)	6M 465 (463.97)	12M 470 (482.84)

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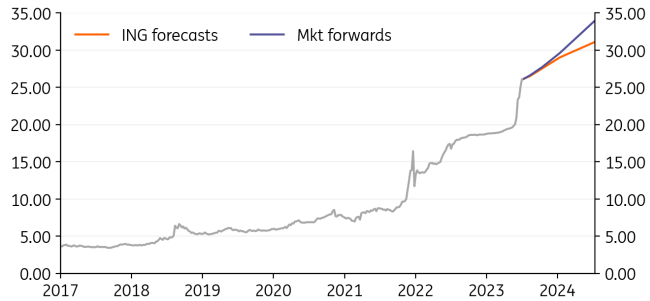
USD/TRY

Pace of TRY depreciation moderates lately

Current spot: 26.15



Source: Refinitiv, ING forecasts

- Inflation data show that the downtrend since last October seems to have come to an end. We are likely to see an increase in the headline number ahead given the FX pass-through from recent lira weakness, continuing strength in demand and potential adjustments in administered prices.
- Given the current pace of fiscal spending, leading to a rapid widening in the budget deficit on a year-to-date basis, the government announced a number of measures to increase revenues and control the widening in the deficit.
- While FX reserve levels are quite low and require efforts to build up, there has been a rapid increase in recent weeks with less involvement by the central bank in the FX market. After a rapid increase following elections, USD/TRY gains have slowed.

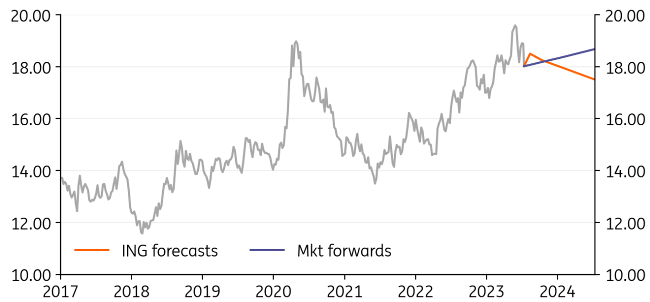
ING forecasts (mkt fwd)	1M 26.50 (26.60)	3M 27.50 (27.68)	6M 29.00 (29.59)	12M 31.10 (33.98)

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

USD/ZAR

External environment provides a reprieve to the rand

Current spot: 18.02



Source: Refinitiv, ING forecasts

- The common theme across EM is that the softer dollar story can buy a reprieve for those currencies hit hard by fears of a hard landing. The rand stands to be a beneficiary here, where renewed flows into EM markets can help – given South Africa's large weighting in equity and debt benchmarks.
- Locally, it seems that the South African Reserve Bank may still have one last hike to 8.50% later this quarter – keeping real rates in the healthy 2-3% area. And importantly rate cuts may come later than in other EM countries.
- Geopolitics is a negative for the rand. And a wider current account deficit will prevent ZAR from leading the EMFX rally.

ING forecasts (mkt fwd)	1M 18.50 (18.07)	3M 18.25 (18.18)	6M 18.00 (18.34)	12M 17.50 (18.68)

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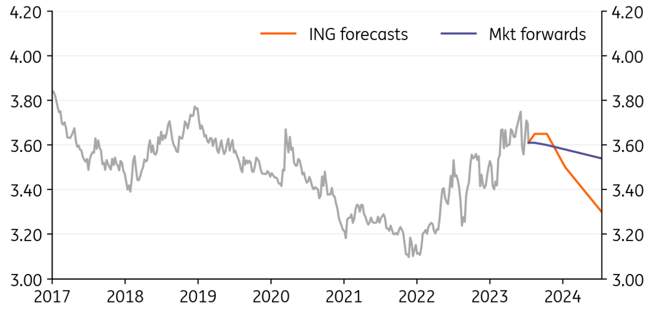
USD/ILS

ILS recovers on the dollar turn, domestic story mixed

Current spot: 3.6105



Source: Refinitiv, ING forecasts

- It has really been the broad dollar story which has brought USD/ILS lower this month. The drop in short-term US rates is finally providing a reprieve to EM asset classes and stands to create the best environment for EM portfolio flows perhaps since late 2020. Israel has weightings in EM local currency bond and equity benchmarks – thus flows will help the ILS.
- Domestically, the political situation remains tense. It has hard to conclude there has been any material improvement in the stand-off over judicial reforms – suggesting ILS could easily hand back gains. The Bank of Israel tightening cycle is probably over too.
- But we think the softer dollar trend dominates over the next 6-12 months and USD/LS heads back to the 3.40/50 area.

ING forecasts (mkt fwd)	**1M** 3.65 (3.6063)	**3M** 3.65 (3.5962)	**6M** 3.50 (3.5768)	**12M** 3.30 (3.5440)

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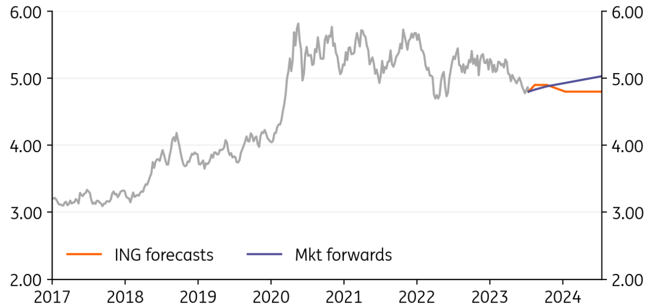
LATAM

USD/BRL

Preparing for a major easing cycle

Current spot: 4.7993



Source: Refinitiv, ING forecasts

- This month we are having to acknowledge the better prospects for the Brazilian real, where some welcome reforms and what should be the start of a significant easing cycle are improving the outlook for Brazilian asset markets. On the former, the new fiscal framework and what seems to be consumption tax reforms are supporting the narrowing in Brazil's sovereign risk premium.
- Low inflation, now below the central bank's 2023 inflation target, is also raising expectations that BACEN can cut the Selic rate aggressively. A first cut in the 13.75% rate is expected in August, with around 400bp of easing expected over the next year.
- If we are right with the dollar turning lower later this year, it looks like BRL can outperform the steep forwards curve.

ING forecasts (mkt fwd)	1M 4.90 (4.8305)	3M 4.90 (4.8765)	6M 4.80 (4.9311)	12M 4.80 (5.0330)

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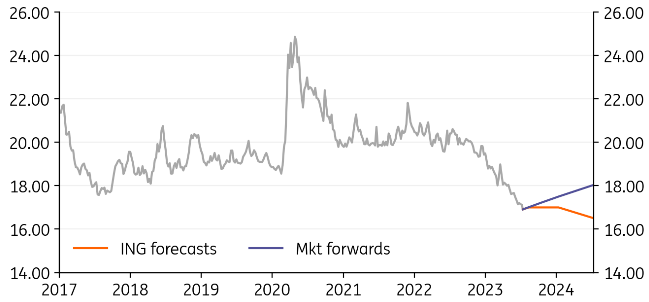
USD/MXN

Peso holds gains, political calendar drifts into view

Current spot: 16.91



Source: Refinitiv, ING forecasts

- The Mexican peso remains one of the top FX performers of the year and is only surpassed by the Colombian peso (offering 14.4% implied yields!). Investors like the high carry in Mexico, the well-run economy and the exposure to surprisingly strong US growth so far this year. Indeed, worker remittances back to Mexico hit a record $5.7bn high in May.
- Banxico is promising an extended period of high rates (currently 11.25% policy rate), but will probably cut with the Fed in first quarter of 2024.
- Politics looks the only shadow over the strong peso story, with Mexican elections next June and US elections next November. For the time being, however, expect MXN to hold gains.

ING forecasts (mkt fwd)	1M 17.00 (17.01)	3M 17.00 (17.21)	6M 17.00 (17.50)	12M 16.50 (18.04)

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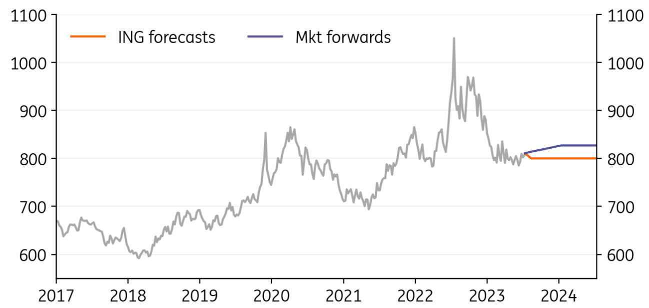
USD/CLP

Peso continues to lag

Current spot: 810.57



Source: Refinitiv, ING forecasts

- The Chilean peso is lagging the rally of its Latam peers. The fact that Chile could be the first of the big three in the region to cut rates may be no coincidence. Here June saw the central bank warn that the easing cycle could start in the 'short term'. A 50-75bp rate cut is now expected at the 28 July rate meeting.
- The central bank will cite inflation expectations anchored at 3% as the reason for the cut – even though core inflation is still 9% YoY. Chile may prove a test case for Latam FX and easing cycles.
- Regarding Chile's main export, copper – we see it at neutral $8300-8600/MT this year. And we think $/CLP stays near 800.

ING forecasts (mkt fwd)	1M 800 (813.67)	3M 800 (819.09)	6M 800 (826.97)	12M 800 (827.35)

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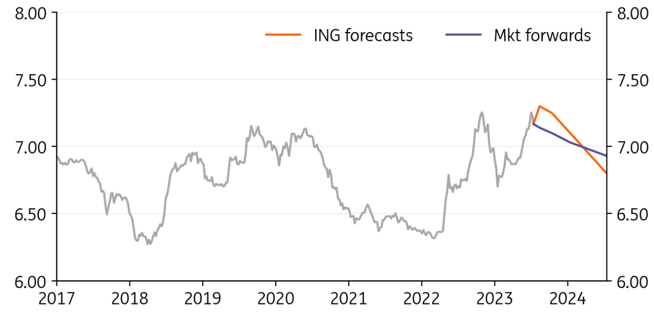
Asia

USD/CNY

Flirting with disinflation

Current spot: 7.1676



Source: Refinitiv, ING forecasts

- China's weak economic re-opening continues to weigh on markets and the CNY, though hopes for stimulus measures have provided sporadic respite, along with People's Bank of China fixing's that indicate that investors should not view the CNY as a one-way bet on weakness.
- We are not hopeful of a meaningful package of stimulus measures, and with the economy flirting now with disinflation, there are growing signs that the weakness is spreading.
- Despite some recent USD weakness, we favour a move towards the 7.30 level over the coming quarter.

ING forecasts (mkt fwd)	1M	3M	6M	12M
USD/CNY	7.30 (7.1448)	7.25 (7.0990)	7.10 (7.0331)	6.80 (6.9294)

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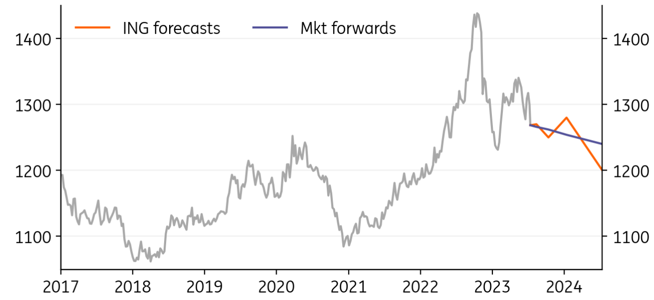
USD/KRW

Equity-led appreciation on chip hype

Current spot: 1268.50



Source: Refinitiv, ING forecasts

- The KRW once again sensitively reacted to the Fed's additional hike possibility and fears of a regional bank run and returned all the earlier gains brought about by the AI chip hype.
- The trade balance turned positive after fifteen months in the red as imports declined sharply due to falling commodity prices.
- We expect terms of trade to improve further thanks to strong demand in transportation equipment and the Middle East's investment boom, while commodity prices remain soft. Thus, we expect the KRW to appreciate for a while until markets begin to re-think Fed direction after the expected rate hike in July.

ING forecasts (mkt fwd)	1M	3M	6M	12M
USD/KRW	1270 (1266.39)	1250 (1262.14)	1280 (1254.14)	1200 (1239.54)

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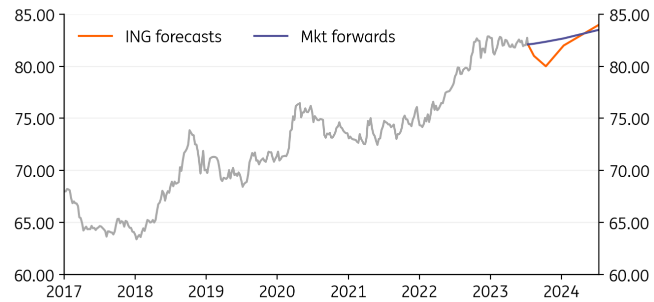
USD/INR

Approaching a break-out?

Current spot: 82.11



Source: Refinitiv, ING forecasts

- The INR is currently trading towards the top of the very narrow band in which it has been in since October last year, though we could be approaching a break-out as the range narrows.
- Supporting the INR, the real Reserve Bank of India policy rate is high, thanks to some much better inflation outcomes in recent months. While the RBI refrains from easing, that support will endure.
- The biggest risk is that with most of the inflation drop coming from supply-side improvements, it would only take unfavourable weather or a similar factor to push those inflation figures wider, resulting in an offsetting nominal depreciation.

ING forecasts (mkt fwd)	1M	3M	6M	12M
USD/INR	81.00 (82.17)	80.00 (82.36)	82.00 (82.68)	84.00 (83.51)

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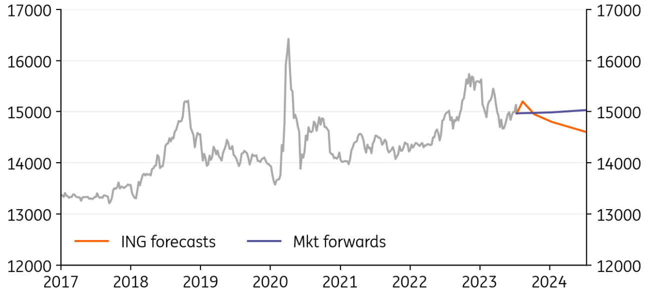
USD/IDR

IDR retreated after trade surplus narrows sharply **Current spot: 14968**



Source: Refinitiv, ING forecasts

- The IDR weakened after the trade surplus narrowed sharply to \$0.4bn on frontloaded imports of energy. This stark shift in the trade balance removed a key support for the IDR.
- Bank Indonesia (BI) Governor Warjiyo kept rates unchanged again (at 5.75%) in June with inflation back within target. BI opted however, not to cut rates to keep them at a level that would support the IDR.
- We expect the IDR to take its direction from the balance of trade in the coming months and the IDR could come under some additional pressure if policy interest rate differentials with the US narrow further.

ING forecasts (mkt fwd)	1M 15200 (14972)	3M 14950 (14976)	6M 14800 (14987)	12M 14600 (15032)

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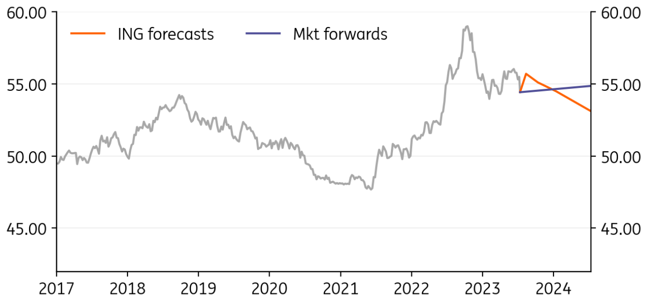
USD/PHP

PHP steadies on foreign inflows to the equity market **Current spot: 54.42**



Source: Refinitiv, ING forecasts

- The PHP was on the backfoot early in the month against the dollar. But it rallied later on as foreign inflows to the local equity market helped provide support, while a narrowing trade deficit also helped ease selling pressure on the currency.
- Bangko Sentral ng Pilipinas (BSP) Governor Medalla extended his pause in June, keeping rates at 6.25%. He was replaced by Dr. Remolona, a current Monetary Board member, who assumed the role of Governor in July.
- The PHP could eventually face pressure should the interest rate differential narrow further with the Fed poised to hike in July.

ING forecasts (mkt fwd)	1M 55.70 (54.46)	3M 55.10 (54.53)	6M 54.50 (54.64)	12M 53.10 (54.86)

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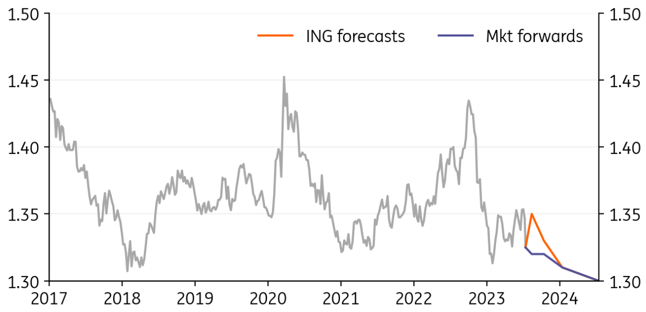
USD/SGD

SGD slips as Fed signals more rate hikes **Current spot: 1.3250**



Source: Refinitiv, ING forecasts

- The SGD started June on a strengthening bias before tracking regional currencies weaker after hawkish signals from the Fed.
- A string of disappointing data reports (NODX and industrial production) pointed to softer growth, hints that the MAS may not want to keep policy as tight at the October meeting.
- Elevated core inflation (4.7% year-on-year) means that the room for easier policy is limited. The SGD NEER should continue its modest appreciation path in the months ahead, which given the possible weakness from the CNY and MYR, could still see the SGD slip against the USD in the short term.

ING forecasts (mkt fwd)	1M 1.35 (1.3234)	3M 1.33 (1.3199)	6M 1.31 (1.3143)	12M 1.30 (1.3036)

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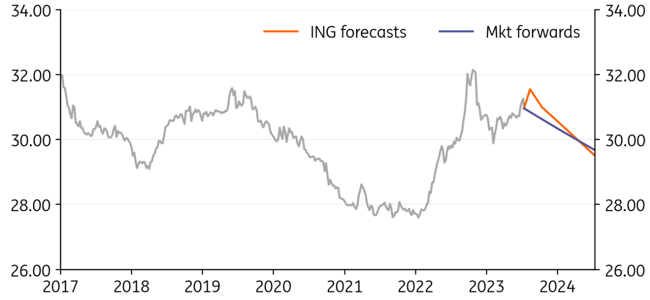
USD/TWD

Tracking the CNY weaker **Current spot: 30.96**



Source: Refinitiv, ING forecasts

- The TWD has tracked the CNY weaker over the last month, and even slightly underperformed it over that period, losing more than 2% from a month ago.
- As we are expecting further CNY weakness in the coming month, we'd look for the TWD to track weaker too to maintain relative exchange rates.
- One positive development is that there are tentative signs that the semiconductor cycle may be troughing. It is early days yet, but that might provide some more support for the TWD in the coming months as that develops.

ING forecasts (mkt fwd)	1M 31.55 (30.85)	3M 31.00 (30.63)	6M 30.50 (30.30)	12M 29.50 (29.67)

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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	1.12	1.11	1.12	1.15	1.18						
EUR/JPY	154.7	153.18	151.20	149.50	141.60	USD/JPY	138.25	138	135	130	120
EUR/GBP	0.85	0.86	0.87	0.88	0.88	GBP/USD	1.31	1.29	1.29	1.31	1.34
EUR/CHF	0.96	0.97	0.96	0.97	1.00	USD/CHF	0.86	0.87	0.86	0.84	0.85
EUR/NOK	11.19	11.20	11.10	10.80	10.40	USD/NOK	10.00	10.09	9.91	9.39	8.81
EUR/SEK	11.43	11.55	11.50	11.20	10.80	USD/SEK	10.22	10.41	10.27	9.74	9.15
EUR/DKK	7.452	7.450	7.450	7.460	7.460	USD/DKK	6.66	6.71	6.65	6.49	6.32
EUR/CAD	1.47	1.44	1.44	1.46	1.48	USD/CAD	1.312	1.30	1.29	1.27	1.25
EUR/AUD	1.62	1.63	1.65	1.64	1.59	AUD/USD	0.69	0.68	0.68	0.70	0.74
EUR/NZD	1.75	1.76	1.78	1.77	1.74	NZD/USD	0.64	0.63	0.63	0.65	0.68
EMEA											
EUR/PLN	4.43	4.42	4.40	4.45	4.50	USD/PLN	3.96	3.98	3.93	3.87	3.81
EUR/HUF	374.2	369.00	375.00	372.00	365.00	USD/HUF	334.5	332	335	323	309
EUR/CZK	23.77	23.7	23.7	23.5	23.5	USD/CZK	21.24	21.4	21.2	20.4	19.9
EUR/RON	4.94	4.97	4.98	5.02	5.05	USD/RON	4.41	4.48	4.45	4.37	4.28
EUR/RSD	117.3	117.3	117.3	117.3	117.4	USD/RSD	104.8	105.7	104.7	102.0	99.5
EUR/UAH	41.33	41.1	41.4	44.9	46.0	USD/UAH	36.93	37.00	37.00	39.00	39.00
EUR/KZT	497.5	496.2	515.2	534.8	554.6	USD/KZT	444.8	447	460	465	470
EUR/TRY	29.22	29.42	30.80	33.35	36.70	USD/TRY	26.13	26.50	27.50	29.00	31.10
EUR/ZAR	20.07	20.5	20.4	20.7	20.7	USD/ZAR	17.94	18.50	18.25	18.00	17.50
EUR/ILS	4.04	4.05	4.09	4.03	3.89	USD/ILS	3.61	3.65	3.65	3.50	3.30
LATAM											
EUR/BRL	5.38	5.44	5.49	5.52	5.66	USD/BRL	4.81	4.90	4.90	4.80	4.80
EUR/MXN	18.91	18.9	19.0	19.6	19.5	USD/MXN	16.92	17.00	17.00	17.00	16.50
EUR/CLP	904.37	888	896	920	944	USD/CLP	808.62	800	800	800	800
Asia											
EUR/CNY	8.01	8.10	8.12	8.17	8.02	USD/CNY	7.16	7.30	7.25	7.10	6.80
EUR/IDR	16702	16872	16744	17020	17228	USD/IDR	14968	15200	14950	14800	14600
EUR/INR	91.78	89.9	89.6	94.3	99.1	USD/INR	82.04	81.00	80.00	82.00	84.00
EUR/KRW	1417.70	1410	1400	1472	1416	USD/KRW	1267.23	1270	1250	1280	1200
EUR/PHP	60.86	61.8	61.7	62.7	62.7	USD/PHP	54.40	55.7	55.1	54.5	53.1
EUR/SGD	1.48	1.50	1.49	1.51	1.53	USD/SGD	1.32	1.35	1.33	1.31	1.30
EUR/TWD	34.64	35.0	34.7	35.1	34.8	USD/TWD	30.97	31.6	31.0	30.5	29.5

Source: Refinitiv, ING

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