

FX Talking

March 2023



Dollar decline

takes a rain check

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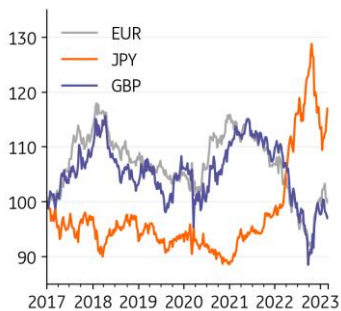
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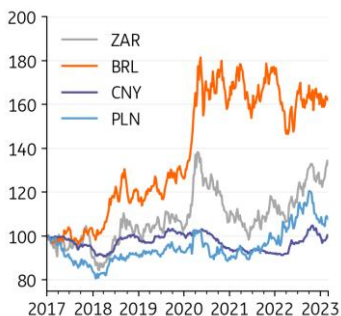
Dollar decline takes a rain check

USD/Majors (4 Jan 15=100)



Source: Refinitiv, ING forecast

USD/EM (4 Jan 15=100)



Source: Refinitiv, ING forecast

As we enter March, what has become clear to financial markets is that inflation is proving far stickier than most had felt at the start of the year. The dramatic re-pricing higher of global money market curves has lifted the dollar and presented an increasing headwind to risk assets. A return to the disinflation and weaker dollar narrative will have to wait

Executive Summary

This month's FX Talking provides a few tweaks to our 2023 FX forecasts largely to incorporate the 'higher for longer' central bank policy narrative. As detailed in [our 'March Monthly: The search for a new equilibrium'](#) we now expect the Federal Reserve to be hiking rates into June. Equally, we look for at least another 100bp of hikes from the European Central Bank by the summer. Tighter central bank policies into slowing economies are keeping yield curves exceptionally inverted and only increasing the risk of a correction in the equity or credit space. This is hardly the environment for the kind of benign dollar decline seen towards the tail-end of last year.

What to expect in the month of March? The main focus will be on US activity data and the FOMC meeting. On the former, the big question is whether the bounce in January US activity data (payrolls, retail sales etc) was largely weather and seasonal-adjustment related. Our US economist, James Knightley, thinks it was. Softer activity data could soften up the dollar a little this month. But March looks too early now for Fed Chair Powell to heavily push the view that a 'broad disinflation process has started'. Instead, a 25bp hike on 22 March, the promise of future increases and what could prove a substantial upward revision to the 2024 Dot Plots look likely to deter dollar sellers this month.

On the other side of the Atlantic, the newly hawkish ECB has actually seen the EUR money market curve re-priced more aggressively than for USD. This is providing some support for the euro. A 50bp hike at the March ECB meeting and the promise of more should help to defend the lower end of a 1.05-1.10 EUR/USD range this month. Perhaps a little more vulnerable to ongoing dollar strength this month is sterling. We think the Bank of England is much closer to a pause than the Fed or the ECB. A more modest 25bp hike on 23 March could provide some downside risk to GBP/USD - perhaps to the 1.16/18 area.

And very much in focus will be the Japanese yen. Two clear event risks are the Bank of Japan meetings on 10 March and 28 April. New BoJ Governor Kazuo Ueda is expected to continue the dovish policy of his predecessor. Yet any surprise tweak to BoJ policy (like the one seen in December) could see USD/JPY ending the month nearer 130 than our current forecast of 135. Elsewhere in the G10 space, we expect range-bound commodity currencies - caught in the crosswinds of a hawkish Fed and the China reopening story.

In terms of the bigger picture, we still look for lower dollar levels by the end of the year. US disinflation should be a lot more evident by this summer and a Fed easing policy by year-end should see some bullish disinversion of the US yield curve and a broadly weaker dollar. We target EUR/USD at 1.15 for December.

In the EMEA space, CEE4 currencies have enjoyed a strong February. Further gains may be harder to come by in March. Here, the Polish zloty still faces the uncertain story of whether banks can collect interest on invalidated FX mortgages. Elsewhere, the South African rand has failed to be buoyed by support for state utility company Eskom. And the normally solid Israeli shekel now seems to be weighed down by domestic political uncertainty. This may force the Bank of Israel to intervene and sell FX.

In Asia, the Chinese renminbi (and Asian FX in general) has seen its early-year gains unwound. March may be too soon to expect a significant recovery here - as many countries deal with weak export markets and high core rates. Do, though, look out for an announcement on 30 March as to whether Korean and Indian government bonds get elevated into the FTSE Russell WGBI and EMGBI local currency bond indices, respectively. Inclusion would lift their currencies.

Finally, the world's best-performing currency this year is the Mexican peso. It offers the best risk-adjusted returns and Mexico can now evidence itself as a beneficiary of nearshoring. Tesla announced its next gigafactory would be built there, triggering potentially US\$5bn of inward investment. USD/MXN may well trade down to 17.50 over the coming months. The Brazilian real looks less of an attractive destination as politics and central banking collide. Equally, the Chilean peso may not rally too far given that copper looks to have a lot of good news already in the price and the central bank might be keen to rebuild some of the FX reserves spent defending the peso last year.

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.07	↑	135	→	1.20	→
3M	1.10	↑	130	↓	1.24	↑
6M	1.12	↑	125	↓	1.24	↑
12M	1.15	↑	120	↓	1.28	↑

	EUR/GBP		EUR/CZK		EUR/PLN	
1M	0.89	↑	24.00	↑	4.80	↑
3M	0.89	↑	24.30	↑	4.75	→
6M	0.90	↑	24.50	↑	4.63	↓
12M	0.90	↑	24.00	→	4.60	↓

	USD/CNY		USD/MXN		USD/BRL	
1M	6.90	→	18.20	↑	5.30	↑
3M	6.80	↓	18.10	↓	5.30	↑
6M	6.70	↓	18.00	↓	5.20	↓
12M	6.45	↓	17.75	↓	5.20	↓

↑ / → / ↓ 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	-1.8	4.2	-2.0	0.6	-3.0	1.7
%YoY	-2.4	18.5	5.9	13.00	-8.2	6.3

	USD/CNY	USD/KRW	EUR/HUF	EUR/PLN	USD/ZAR	USD/BRL
%MoM	1.9	5.5	-2.5	-0.2	4.3	1.3
%YoY	9.6	5.7	-4.1	-5.5	18.7	2.0

Source: Refinitiv, ING forecast

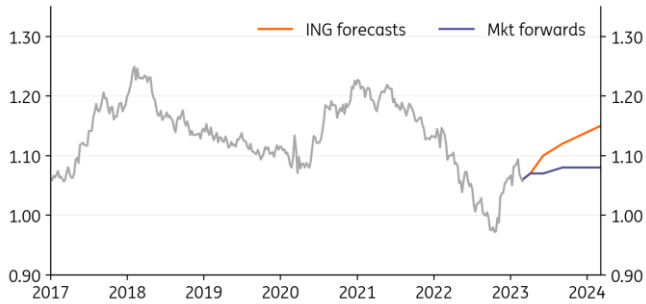


Developed markets

EUR/USD

Sticky inflation delays the dollar decline

Current spot: 1.0647



Source: Refinitiv, ING forecasts

- February proved a counter-trend month for world financial markets, where sticky inflation and better activity data put to rest ideas of early Fed easing. Instead, investors priced another 50bp into the tightening cycle. The data over the last month probably means that the Fed will have to stay hawkish when it meets on 22 March, hiking 25bp and revising up the Dot Plots.
- 25bp hikes from the Fed in March, May and June mean tighter settings and inverted yield curves are with us a little longer and suggest the bulk of this year's dollar decline will come in 2H.
- A very hawkish ECB (we look for 100bp of hikes) can help support the floor in what may well be a 1.05-1.10 range into the summer.

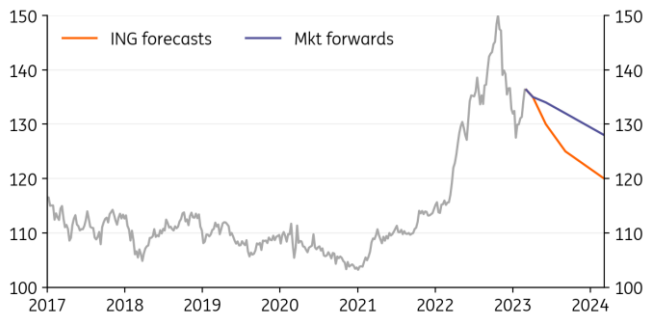
ING forecasts (mkt fwd)	1M 1.07 (1.0666)	3M 1.10 (1.0701)	6M 1.12 (1.0750)	12M 1.15 (1.0844)
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USD/JPY

Bank of Japan event risks looms large

Current spot: 135.82



Source: Refinitiv, ING forecasts

- The re-pricing of the Fed cycle and the steeply inverted US yield curve meant that US 10-year Treasury yields were dragged 60bp higher in February. Our strategy team see outside risk to 4.25% over the coming weeks, but the year-end target is 3.00%. That should be bearish for USD/JPY – but more a story for later in the second quarter and through the second half of the year.
- That means USD/JPY could hang around these 135/137 levels through March, with outside risk to 140 if the Fed is very hawkish.
- Of acute interest will be developments in Japan. Outgoing BoJ Governor Kuroda holds his last policy meeting on 10 March. Incoming BoJ Governor Ueda holds his first policy meeting on 28 April. Both could pose positive event risks for the JPY.

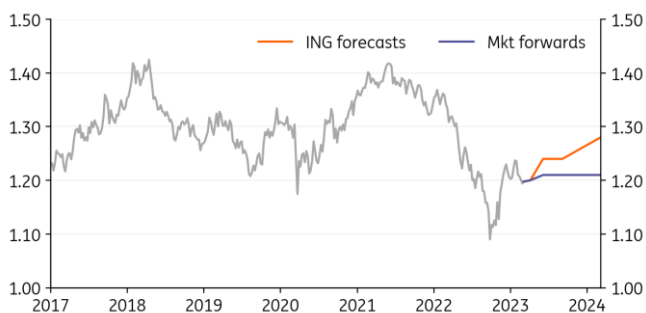
ING forecasts (mkt fwd)	1M 135 (135.22)	3M 130 (134.04)	6M 125 (132.11)	12M 120 (128.34)
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GBP/USD

Bank of England tightening could be coming to a close

Current spot: 1.2035



Source: Refinitiv, ING forecasts

- GBP/USD has been sluggish near 1.20, weighed down by the stronger dollar and GBP IRS rates failing to keep pace with the big, hawkish re-pricing seen in the USD and EUR curves. Unlike the Fed (+75bp) and ECB (+100bp), we think the BoE may only have 25bp more of tightening left to do – taking Bank Rate to 4.25%. This is partly because more equivocal speeches from BoE officials and key survey data suggest tightness in the UK labour market is abating.
- Our game plan therefore sees GBP/USD staying soft through March on the strong dollar (1.1850 the potential and outside risk to 1.1650), before broader dollar weakness sees Cable return to 1.23/1.25 this summer.
- A difficult equity environment could also challenge GBP.

ING forecasts (mkt fwd)	1M 1.20 (1.2042)	3M 1.24 (1.2058)	6M 1.24 (1.2085)	12M 1.28 (1.2134)
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EUR/JPY

Looking more closely at the BoJ

Current spot: 144.60



Source: Refinitiv, ING forecasts

- After December's surprise widening in the JGB yield target band, the market is now on alert for BoJ policy normalisation. Our analyst's view is that the next significant move may come in June once the BoJ has seen the spring wage agreements. That will not stop the market speculating over further adjustments in policy at the 10 March or particularly the 28 April meeting.
- A possible adjustment could be to widen the +/- 50bp around 0% 10-year JGB yield target still further or shift to targeting yields shorter down the curve. Any such move would be JPY bullish.
- A downside bias on EUR/JPY also embeds the view of a fragile equity environment as policy rates are raised around the world.

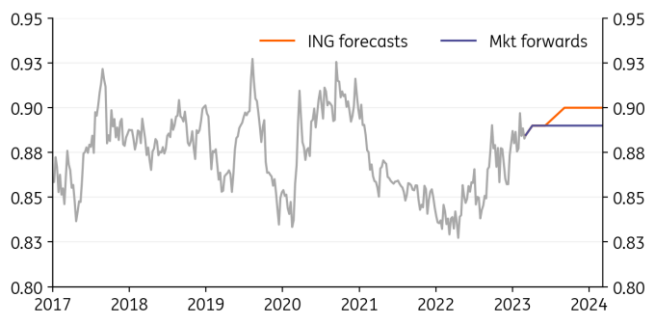
ING forecasts (mkt fwd)	1M 144 (144.20)	3M 143 (143.44)	6M 140 (142.05)	12M 138 (139.18)
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EUR/GBP

Warmer UK-EU relations are welcome

Current spot: 0.8847



Source: Refinitiv, ING forecasts

- Some welcome news over the last month is the improvement in UK-EU relations. The Windsor framework agreement on N.Ireland trade represents a structural break from the UK antagonism seen since the Brexit vote in 2016. It is welcome, but not game-changing for sterling in that the UK's trade relationship with the EU does not improve and the UK remains one of the weakest in the G7, beset by low productivity, weak investment and a shrinking labour force.
- As such, we think EUR/GBP will be driven more by short-term rate differentials (EUR supportive) and GBP could come under pressure as the BoE tries to outline a pause in its tightening cycle.
- Reopening the Brexit debate remains off the UK political agenda.

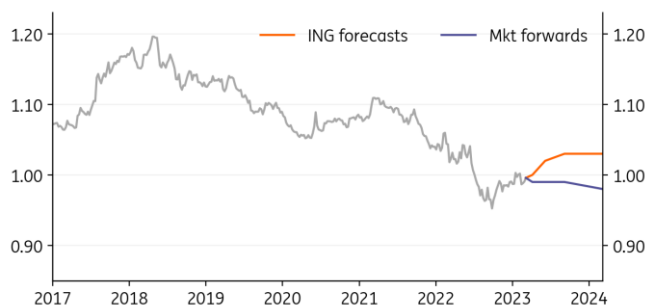
ING forecasts (mkt fwd)	1M 0.89 (0.8858)	3M 0.89 (0.8874)	6M 0.90 (0.8897)	12M 0.90 (0.8936)
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EUR/CHF

Swiss National Bank will remain 'hands on'

Current spot: 0.9949



Source: Refinitiv, ING forecasts

- EUR/CHF continues to trade towards the top of a narrow range roughly defined by 0.9850-1.0050. We expect the SNB has remained active in FX markets, probably selling FX reserves to limit CHF depreciation. On 30 March we will see fourth quarter 2022 intervention data, which will probably be larger than the CHF739mn sold in the third quarter. Remember the SNB is trying to keep the real CHF stable as it fights above target inflation.
- On 23 March we should see the SNB hike the 3-month policy rate 50bp to 1.50%. We look for one further 25bp hike in June.
- Despite much wider rate differentials moving in favour of the EUR, we expect the SNB to keep EUR/CHF relatively stable.

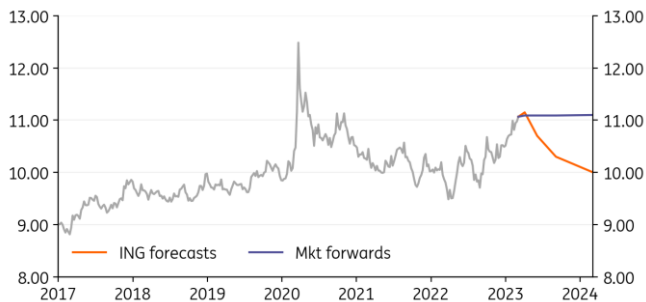
ING forecasts (mkt fwd)	1M 1.00 (0.9927)	3M 1.02 (0.9899)	6M 1.03 (0.9857)	12M 1.03 (0.9759)
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EUR/NOK

Illiquid NOK to stay volatile

Current spot: 11.09



Source: Refinitiv, ING forecasts

- We expect Norges Bank to resume tightening with three back-to-back 25bp rate hikes in light of higher inflation and a more hawkish global environment. Markets have already priced this in, so the short-term impact on NOK shouldn't be too significant.
- NOK is the least liquid currency in G10, and this means that the prospect of more tightening in global financial conditions will continue to exacerbate volatility in the krone. No sustained NOK recovery is possible without a material stabilisation in sentiment.
- At the same time, many negatives are in the price for NOK, and we saw NB slow the pace of FX purchases again in March (from NOK 1.9bn to NOK 1.7bn). Short-term pain and volatility remain likely, but we still favour a higher NOK in the medium term.

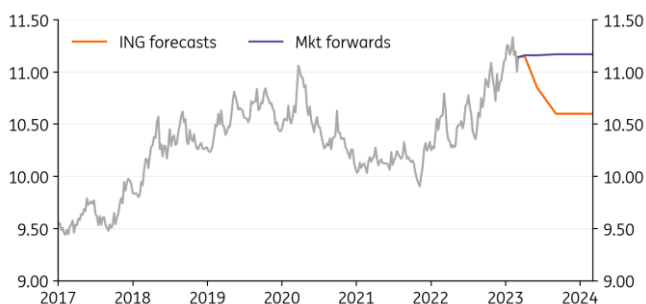
ING forecasts (mkt fwd)	1M 11.15 (11.09)	3M 10.70 (11.09)	6M 10.30 (11.09)	12M 10.00 (11.10)
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EUR/SEK

Be wary of Riksbank-led SEK rallies

Current spot: 11.16



Source: Refinitiv, ING forecasts

- The Riksbank had to sound hawkish to 'save' the krona, and we think they'll hike by a total of 50bp. Now, SEK appears to be rallying on more RB hawkish re-pricing but remember that excessive tightening and consequent pain for housing and the economy was the reason SEK had sold off in the first place.
- So, we continue to flag non-negligible upside risks for EUR/SEK in the near term, and a downtrend below 11.00 may still prove premature – unless data point at an improved growth outlook.
- We'll watch closely the outcome of wage negotiations and all Swedish activity data, which can tilt the balance for or against a black swan scenario for the economy. It won't be a smooth path, but we are still moderately bearish on EUR/SEK in 2H23.

ING forecasts (mkt fwd)	1M 11.15 (11.16)	3M 10.85 (11.16)	6M 10.60 (11.17)	12M 10.60 (11.17)
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EUR/DKK

DN favouring rate gap over interventions

Current spot: 7.4432



Source: Refinitiv, ING forecasts

- Danmarks Nationalbank stopped FX interventions in February after widening the gap with the ECB with a 35bp hike at the start of the month. Back then, the Bank clearly signalled that the smaller hike was a consequence of rising FX interventions to defend the EUR/DKK peg.
- The ample room for further tightening by the ECB will offer many occasions to DN to deliver smaller increases and stabilise the EUR/DKK rate around 7.45 (or at least prevent large drops).
- We think another 35-40bp hike is possible after the 50bp ECB hike in March, even though a rise in domestic inflation risks tilting the balance back to FX interventions further down the road.

ING forecasts (mkt fwd)	1M 7.44 (7.4407)	3M 7.45 (7.4358)	6M 7.45 (7.4277)	12M 7.45 (7.4144)
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USD/CAD

BoC to stay put

Current spot: 1.3587



Source: Refinitiv, ING forecasts

- The Bank of Canada stands as an outlier in the G10 central bank space, and despite the rise in Fed tightening bets, we expect no more hikes by the BoC given a worsening outlook for the property market and the broader economy.
- When adding an energy commodity bloc that is struggling to rebound and the very low exposure to the good China story, it seems likely that CAD won't be on the forefront of a risk rally.
- USD/CAD below 1.30 is still what we expect to see in the second half of 2023, but that should mostly reflect a broad improvement in risk sentiment and USD weakness rather than idiosyncratic CAD strength.

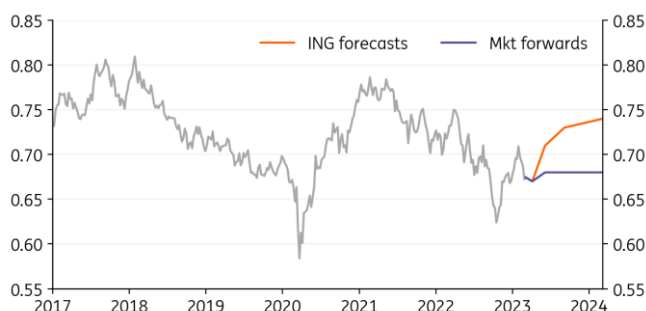
ING forecasts (mkt fwd)	1M 1.35 (1.3587)	3M 1.33 (1.3574)	6M 1.30 (1.3544)	12M 1.26 (1.3486)
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AUD/USD

Room to recover beyond the short-term

Current spot: 0.6741



Source: Refinitiv, ING forecasts

- The Aussie dollar has been hit quite hard from the deterioration in global risk sentiment and geopolitical turmoil. Improvements in those two factors are needed to allow a rebound in AUD/USD, and that may only start to materialise from the second quarter onwards.
- But the Chinese growth story continues to place AUD in a rather advantageous spot to benefit from a broader stabilisation in risk sentiment. Iron ore prices have continued to rise and China's construction season in the second quarter should keep them supported.
- A slowdown in inflation creates problems for Reserve Bank of Australia hawks, but our base case is still that 4.10% will be reached, and that AUD/USD will climb back sustainably above 0.70 in the second half of 2023.

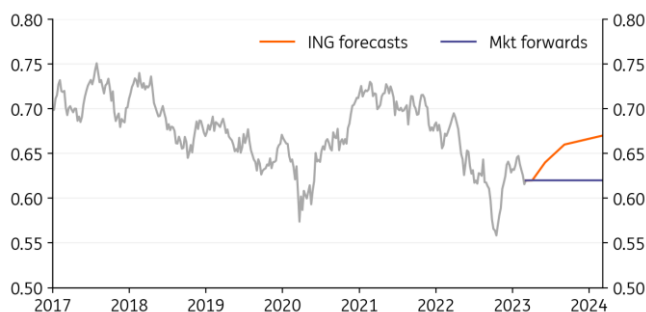
ING forecasts (mkt fwd)	1M 0.67 (0.6747)	3M 0.71 (0.6761)	6M 0.73 (0.6786)	12M 0.74 (0.6825)
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NZD/USD

Reserve Bank of New Zealand pivot may not come in April

Current spot: 0.6192



Source: Refinitiv, ING forecasts

- As we expected, the RBNZ continued to delay their dovish pivot, despite lower-than-projected inflation and a disastrous cyclone adding to existing concerns around the economic outlook.
- There is a good probability that April won't see a pivot either, since we won't get CPI data before then, but only fourth quarter GDP. What will tilt the balance on the dovish side for the RBNZ, in our view, will be the disinflation process (which may well start earlier than they are projecting) and/or property market weakness rather than well-telegraphed evidence of a recessionary environment.
- We expect the RBNZ to end up short of their projected 5.50% peak rate, but that should not prevent NZD to touch 0.66 in 2H23.

ING forecasts (mkt fwd)	1M 0.62 (0.6191)	3M 0.64 (0.6190)	6M 0.66 (0.6191)	12M 0.67 (0.6188)
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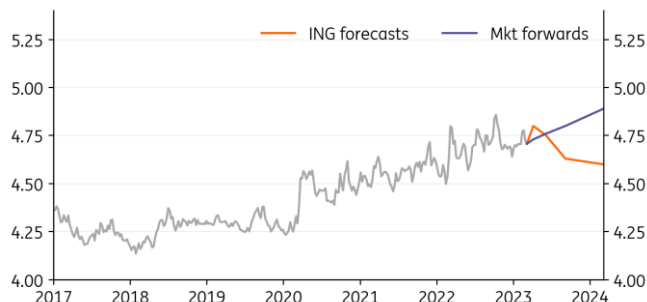


Emerging markets

EUR/PLN

ECJ ruling on FX mortgages to hurt PLN in March

Current spot: 4.7071



Source: Refinitiv, ING forecasts

- We see short-term prospects for the zloty as negative. The European Court of Justice opinion on FX mortgages (banks may not charge interest on invalidated loans) is unfavourable for the domestic economy (and, of course, for the banks). Investors are concerned that banks will additionally build reserves in foreign currencies, which will put further pressure on the zloty.
- Fundamentals behind the zloty are a net positive. The trade gap is decreasing, while the main risk is persistent inflation. According to our estimates the zloty remains significantly undervalued. High domestic rates point towards €/PLN closer to 4.55. €/PLN should remain flattish close to 4.70 or below into the year-end.

ING forecasts (mkt fwd)	1M 4.80 (4.7278)	3M 4.75 (4.7600)	6M 4.63 (4.8040)	12M 4.60 (4.8920)
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Piotr Poplawski, piotr.poplawski@ing.pl

EUR/HUF

We remain positive on the forint

Current spot: 378.14



Source: Refinitiv, ING forecasts

- The forint continues to maintain its position within the CEE region and in our view the reasons why the forint should outperform persist.
- However, we expect the forint to take a break in March, as the current drivers have run out of steam. The February rate-setting meeting did not bring much fresh news, as markets have already understood the National Bank of Hungary's hawkishness.
- Fresh positive inputs might come during the second quarter. We see progress in EU fund negotiations along with proof of peaking inflation and an improving external balance. Moreover, the NBH will not rush policy easing, in our view (see our [NBH Review](#)).

ING forecasts (mkt fwd)	1M 375 (383.17)	3M 370 (390.64)	6M 383 (401.25)	12M 372 (417.25)
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Péter Virovác, peter.virovacz@ing.com

EUR/CZK

Strong CZK reduces the need of more hikes

Current spot: 23.51



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 EUR/CZK a little lower again. But in a nutshell, we are hardly looking for a trigger for a move in either direction in the coming months.

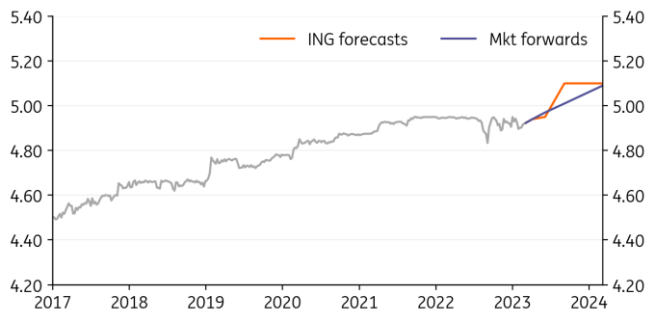
ING forecasts (mkt fwd)	1M 24.0 (23.61)	3M 24.3 (23.75)	6M 24.5 (23.95)	12M 24.0 (24.24)
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Vojtech Benda, vojtech.benda@ing.com

EUR/RON

RON shifts lower as inflows calm down

Current spot: 4.9218



Source: Refinitiv, ING forecasts

- With carry rates stable around the deposit facility and bond inflows clearly diminishing compared to January-early February, it is mainly the commercial flows providing the direction of travel for EUR/RON these days.
- For us, the above would suggest a gradual pick-up in the upside pressure for the pair. This could be offset by a gradual reduction in the accommodativeness of the liquidity backdrop.
- Overall, 4.90 seems to have become more of a support level rather than a central rate. We keep our stable view on the currency until mid-second quarter when a shift higher can still be expected.

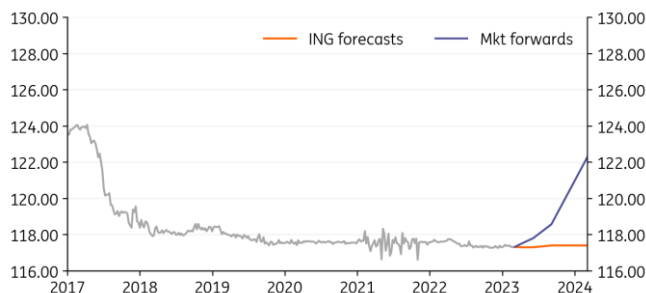
ING forecasts (mkt fwd)	1M 4.94 (4.9381)	3M 4.95 (4.9666)	6M 5.10 (5.0112)	12M 5.10 (5.0934)
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EUR/RSD

One more hike to go?

Current spot: 117.31



Source: Refinitiv, ING forecasts

- Having reached a key rate of 5.50% after a 450bp tightening cycle, it may seem that the National Bank of Serbia is contemplating a pause. We still anticipate a 25bp hike to 5.75% in March, followed by a data driven stance.
- The NBS expects inflation to fall back to its 1.5%-4.5% target range by mid-2024, which is too optimistic in our view. We don't expect inflation below 5.00% over the next 2 years.
- We maintain EUR/RSD at 117.4 for the end of 2023, which essentially means a flat profile for EUR/RSD. As risk sentiment has deteriorated lately, FX interventions are likely to be sideways rather than one way as in recent months.

ING forecasts (mkt fwd)	1M 117.30 (117.49)	3M 117.30 (117.80)	6M 117.40 (118.57)	12M 117.40 (122.30)
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USD/UAH

Impact of the war still a major risk for the hryvnia

Current spot: 36.75



Source: Refinitiv, ING forecasts

- Prospects for the hryvnia remain uncertain. The central bank continued to rebuild its FX reserves (currently around US\$30bn), largely owing to foreign aid. Also, the costs of FX interventions declined during the winter amid a stalemate in the war. We still fear the currency may suffer later into 2023, as Russia launches another major offensive. This could push the monthly cost of FX intervention to in excess of US\$4bn.
- Long-term prospects for the hryvnia hinge on whether or not policymakers decide to convert foreign aid via the market to help to stabilise inflation, or via the central bank to support exports. Still, given massive damage to the Ukrainian economy, hryvnia returning anywhere close to pre-war levels is highly unlikely.

ING forecasts (mkt fwd)	1M 38.00 (37.90)	3M 39.00 (40.82)	6M 40.00 (43.02)	12M 38.00 (45.91)
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USD/KZT

Stellar performance, contrary to external pressures

Current spot: 436.30



Source: Refinitiv, ING forecasts

- KZT appreciated from 460 to 445 in February. The direction is in line with our generally constructive short-term view, but the scale is somewhat surprising given the relatively flat oil price, temporary suspension of oil supplies via Russia, and USD's 2.3% appreciation against the major currencies over that period.
- Given the lack of transparent drivers, we attribute the recent strength to the country-specific capital inflows and also note that it coincides with a wave of Russian ruble depreciation.
- Given the planned increase in fuel exports and benign house view on global risk appetite, we remain constructive on the tenge in the medium-term. However, exposure to geopolitical risks in the region could be a source of two-way volatility.

ING forecasts (mkt fwd)	1M 450 (440.08)	3M 455 (447.43)	6M 460 (456.53)	12M 470 (474.63)
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Dmitry Dolgin, dmitry.dolgin@ing.de

USD/TRY

CBT focuses on the need to support recovery

Current spot: 18.91



Source: Refinitiv, ING forecasts

- In the February Monetary Policy Committee meeting, the Central Bank of Turkey slashed the policy rate by 50bp to 8.5% citing the need for supportive financial conditions so as to preserve the growth momentum in industrial production.
- The CBT hinted that interest rate cuts will not continue as a series, while we can expect further macro-prudential measures to maintain favourable financial conditions with an objective of minimizing the effects of the earthquakes
- Following the earthquakes, the policy mix will likely be even more supportive with larger fiscal stimulus, i.e. a net increase in budget deficit, and looser monetary policy. This, in return, should be inflationary. In this environment, the CBT is likely to maintain its control over locals' FX flows to maintain low rates.

ING forecasts (mkt fwd)	1M 19.05 (19.24)	3M 19.65 (20.11)	6M 21.00 (21.68)	12M 24.60 (24.73)
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Muhammet Mercan, muhammet.mercan@ing.com.tr

USD/ZAR

Eskom bailout has not been a gamechanger

Current spot: 18.19



Source: Refinitiv, ING forecasts

- In February the South African government announced a support package for the troubled utility provider Eskom. The move sought to ease debt sustainability fears and perhaps even allow some investment which would address the load-shedding crisis. Here the South African Reserve Bank (SARB) expects power outages to knock 2% off growth this year.
- The move has brought little confidence to the rand, however. The trade balance is deteriorating again and with the SARB expecting a decline in commodity prices, the current account deficit is expected to widen to 2% of GDP again.
- But better global growth should help the ZAR and a turn lower in the dollar plus China reopening should steer \$/ZAR to 17.

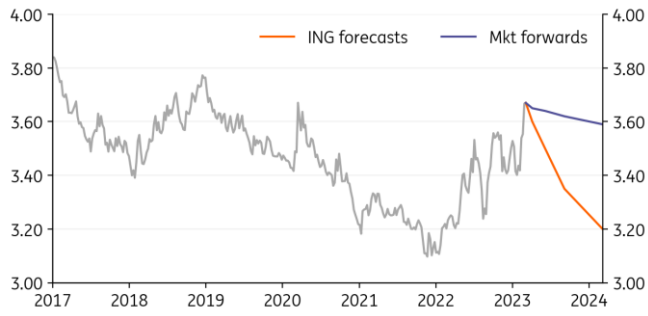
ING forecasts (mkt fwd)	1M 18.25 (18.25)	3M 18.00 (18.32)	6M 17.50 (18.45)	12M 17.00 (18.67)
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Chris Turner, chris.turner@ing.com

USD/ILS

Things are getting serious

Current spot: 3.6548



Source: Refinitiv, ING forecasts

- The shekel is seriously under-performing such that there is speculation that the Bank of Israel (BoI) might sell FX to support the shekel – having had a long history of buying FX to limit ILS strength. Driving this underperformance is politics, where the Netanyahu government is trying to push through judicial reform and the Foreign Minister criticised the most recent 50bp hike from the BoI. Even the Israeli 5-year CDS is rising.
- The shekel’s fundamentals look good, and we are still expecting \$/ILS to turn lower later this year with the broad turn in the \$.
- However, targets near 3.00 look too aggressive and if we are underestimating how long this political risk premium stays in the shekel, \$/ILS could remain trapped in a 3.50-3.70 range.

ING forecasts (mkt fwd)	1M 3.60 (3.6500)	3M 3.50 (3.6426)	6M 3.35 (3.6244)	12M 3.20 (3.5886)
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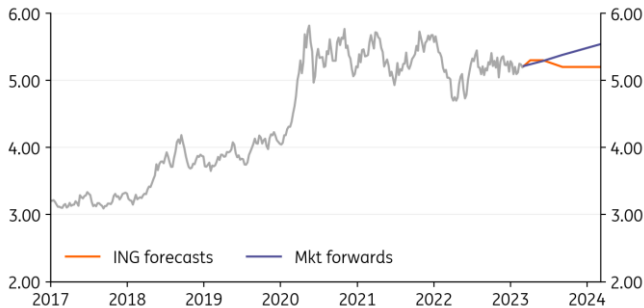
Chris Turner, chris.turner@ing.com

LATAM

USD/BRL

Politicians and central bank on collision course

Current spot: 5.1959



Source: Refinitiv, ING forecasts

- As we mentioned last month, the BRL should have been doing better on the back of the China recovery story. The reason it is underperforming probably owes to domestic politics. Here the new Lula administration is struggling to balance fiscal constraints with its commitment to help the poor. Hence the removal of fuel subsidies to help the fiscal accounts and the new tax on oil export sales. Equally, pressure is building on Petrobras to cut its margins such that fuel prices do not rise too much.
- That same pressure is being brought to bear on the central bank. The government wants the 13.75% policy rate cut, but the central bank says inflation expectations are moving north.
- We struggle to see the BRL as an attractive target currency.

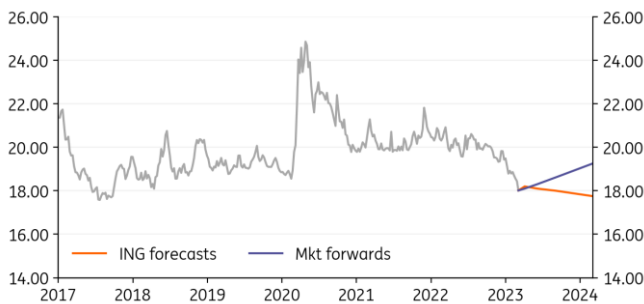
ING forecasts (mkt fwd)	1M 5.30 (5.2351)	3M 5.30 (5.2919)	6M 5.20 (5.3785)	12M 5.20 (5.5354)
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USD/MXN

Nearshoring in action

Current spot: 17.98



Source: Refinitiv, ING forecasts

- One of the few calls that has worked out well from our 2023 FX Outlook has been the call for the MXN to benefit from nearshoring trends. Late February saw Tesla announce that its next gigafactory would be built in Mexico, potentially delivering \$5bn of Foreign Direct Investment (FDI). Typically, Mexico sees \$30-32bn of FDI inflow per year, so the Tesla news is a big deal.
- The welcome FDI news comes on top of the MXN providing one of the highest risk-adjusted yields in the world, backed by a local central bank, Banxico, matching the Fed hike-for-hike.
- It will probably take either a financial crisis in core markets or Banxico refusing to hike any further to reverse MXN strength.

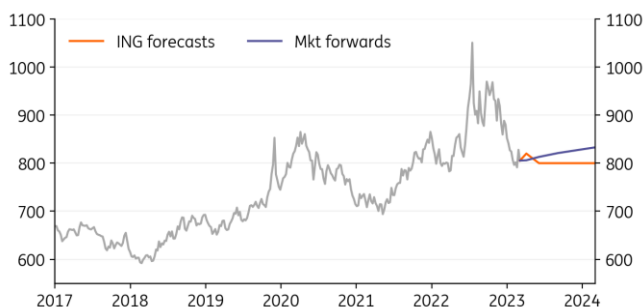
ING forecasts (mkt fwd)	1M 18.20 (18.10)	3M 18.10 (18.30)	6M 18.00 (18.62)	12M 17.75 (19.26)
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Chris Turner, chris.turner@ing.com

USD/CLP

CLP gains could run into reserve accumulation story

Current spot: 802.70



Source: Refinitiv, ING forecasts

- USD/CLP has been trading well within an 800-850 range and we suspect it will continue to do so for the rest of the year. The China re-opening story and the copper rebound is good news for the CLP, but our commodity team think a lot of the good news has already been priced into copper.
- USD/CLP could make another run at 850 over the next month as US rates stay firm into the 22 March FOMC meeting. Thereafter the environment should turn friendlier for the CLP. Also helping should be the local central bank leaving rates at 11.25%
- We're not more bullish on the CLP because: i) we think the central bank may want to rebuild FX reserves and ii) local politics.

ING forecasts (mkt fwd)	1M 820 (805.98)	3M 800 (812.61)	6M 800 (821.49)	12M 800 (832.61)
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USD/CNY

The yuan isn't following the recovery path



Source: Refinitiv, ING forecasts

ING forecasts (mkt fwd)	1M 6.90 (6.9073)	3M 6.80 (6.8278)	6M 6.70 (6.8270)	12M 6.45 (6.7378)
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Iris Pang, iris.pang@asia.ing.com

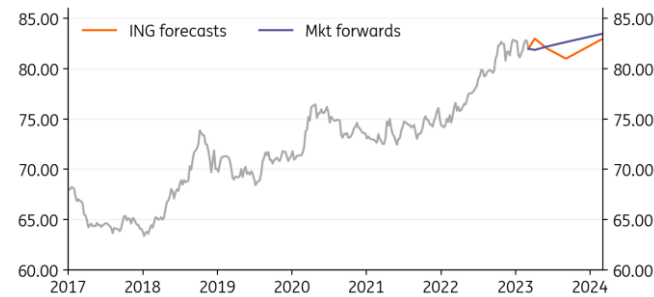
Asia

Current spot: 6.9234

- The yuan has been a lot weaker in February even after the strength that followed the upside miss on the PMI data. There have also been capital outflows as the yuan has weakened, creating further weakening pressure.
- The Two Sessions this month should give the market more direction on GDP growth and policy support for infrastructure investment. Expect a [2023 GDP target](#) in the 5.5-6.0% range.
- The main challenge this year will be weaker external demand, which will affect exporters' dollar receipts.

USD/INR

Strong growth momentum not helping the INR



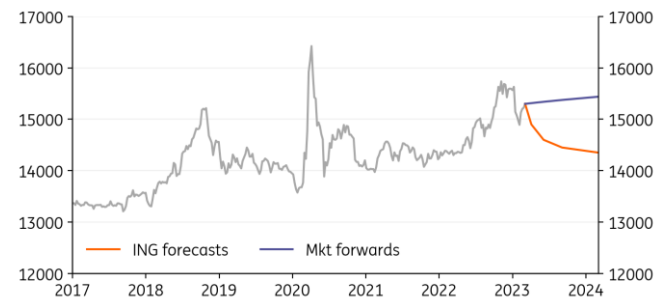
Source: Refinitiv, ING forecasts

ING forecasts (mkt fwd)	1M 83.00 (81.87)	3M 82.00 (82.21)	6M 81.00 (82.65)	12M 83.00 (83.49)
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Rob Carnell, robert.carnell@asia.ing.com

USD/IDR

IDR slides after BI pause



Source: Refinitiv, ING forecasts

ING forecasts (mkt fwd)	1M 14900 (15314)	3M 14600 (15340)	6M 14450 (15376)	12M 14350 (15440)
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Nicholas Mapa, nicholas.mapa@asia.ing.com

USD/KRW

KRW has returned all its gains of the past 3 months

Current spot: 1296.53



Source: Refinitiv, ING forecasts

- The KRW has returned all of its gains over the past three months, returning to the 1,320 won level again as at the end of February.
- Despite expectations for China’s reopening benefits, the KRW has been especially sensitive to shifting expectations for other major central banks such as Fed and the BoJ. As a result, we expect the KRW to depreciate a bit more in the near term as uncertainties will grow.
- However, as the trade deficit likely begins to narrow in the second quarter and the number of Chinese tourists gradually increases, we expect the KRW to strengthen again in the second half of the year.

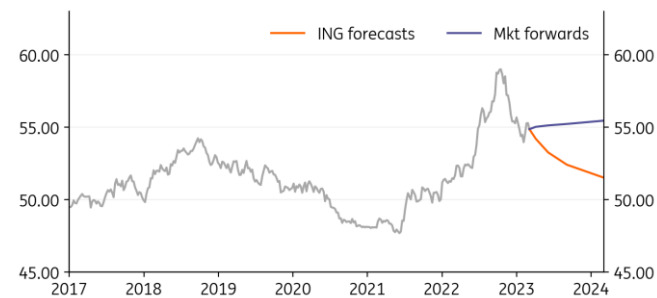
ING forecasts (mkt fwd)	1M 1350 (1294.90)	3M 1280 (1291.07)	6M 1250 (1283.89)	12M 1200 (1269.70)
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Kang Min Joo, min.joo.kang@asia.ing.com

USD/PHP

Peso retreats after CPI surprise

Current spot: 54.96



Source: Refinitiv, ING forecasts

- The Philippine Peso was down roughly 1.2% in February after CPI inflation shot up to 8.7% year-on-year, though was one of the better performing currencies in Asia. Surging prices prompted foreign selling in the local equity market on growth concerns.
- Bangko Sentral ng Pilipinas (BSP) responded with a 50bp rate increase at their February meeting, but the bank is still left with real policy rates deeply negative. The PHP could struggle with the prospect of a prolonged period of deep negative real policy rates as inflation stays stubbornly high.
- The BSP signalled that it would only hike by 25bp at the next meeting. The chronic trade deficit will not help either.

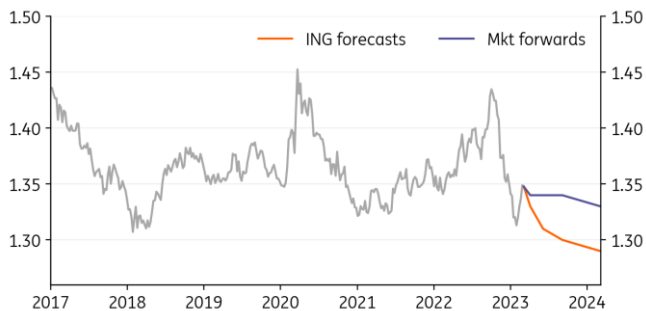
ING forecasts (mkt fwd)	1M 54.20 (55.02)	3M 53.25 (55.12)	6M 52.40 (55.22)	12M 51.50 (55.45)
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USD/SGD

SGD slips as sentiment sours

Current spot: 1.3446



Source: Refinitiv, ING forecasts

- The SGD has lost ground throughout February as it tracked other regional currencies, though the SGD NEER has remained steady over the month. Singapore's exports continue to struggle given the difficult external growth backdrop.
- Inflation came in below market consensus expectations at both core and headline level but still increased, taking inflation further above target. Price pressures remain evident after the implementation of the latest round of goods and services tax (GST) hikes. Finance Minister Wong shared that inflation would stay elevated for at least the first half of the year.
- The Monetary Authority of Singapore is likely to maintain its hawkish stance at the April meeting given elevated inflation.

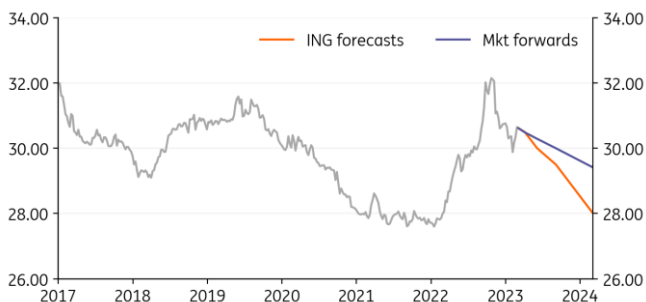
ING forecasts (mkt fwd)	1M 1.33 (1.3435)	3M 1.31 (1.3406)	6M 1.30 (1.3353)	12M 1.29 (1.3250)
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USD/TWD

Weak international trade pushes TWD weaker

Current spot: 30.60



Source: Refinitiv, ING forecasts

- Taiwan's macroeconomic fundamentals are weak as it is heavily focused on semiconductor manufacturing at a time when global demand for semiconductors is very soft.
- The market believes that Taiwan could benefit from Mainland China's reopening and recovery. But as many Chinese consumers have recently upgraded their technology during last year's lockdowns, this may not be such a big boost unless a new source of demand for smart devices appears.
- Taiwan is also caught in the middle of the U.S.-China technology war, which creates another challenge for its manufacturing industry, and in turn, export earnings and the TWD.

ING forecasts (mkt fwd)	1M 30.50 (30.49)	3M 30.00 (30.29)	6M 29.50 (30.00)	12M 28.00 (29.41)
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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	1.06	1.07	1.10	1.12	1.15						
EUR/JPY	144.6	144.45	143.00	140.00	138.00	USD/JPY	135.83	135	130	125	120
EUR/GBP	0.88	0.89	0.89	0.90	0.90	GBP/USD	1.20	1.20	1.24	1.24	1.28
EUR/CHF	0.99	1.00	1.02	1.03	1.03	USD/CHF	0.93	0.93	0.93	0.92	0.90
EUR/NOK	11.09	11.15	10.70	10.30	10.00	USD/NOK	10.41	10.42	9.73	9.20	8.70
EUR/SEK	11.16	11.15	10.85	10.60	10.60	USD/SEK	10.48	10.42	9.86	9.46	9.22
EUR/DKK	7.443	7.440	7.450	7.450	7.450	USD/DKK	6.99	6.95	6.77	6.65	6.48
EUR/CAD	1.45	1.44	1.46	1.46	1.45	USD/CAD	1.359	1.35	1.33	1.30	1.26
EUR/AUD	1.58	1.60	1.55	1.53	1.55	AUD/USD	0.67	0.67	0.71	0.73	0.74
EUR/NZD	1.72	1.73	1.72	1.70	1.72	NZD/USD	0.62	0.62	0.64	0.66	0.67
EMEA											
EUR/PLN	4.71	4.80	4.75	4.63	4.60	USD/PLN	4.42	4.49	4.32	4.13	4.00
EUR/HUF	378.1	375.00	370.00	383.00	372.00	USD/HUF	355.2	350	336	342	323
EUR/CZK	23.51	24.0	24.3	24.5	24.0	USD/CZK	22.09	22.4	22.1	21.9	20.9
EUR/RON	4.92	4.94	4.95	5.10	5.10	USD/RON	4.62	4.62	4.50	4.55	4.43
EUR/RSD	117.3	117.3	117.3	117.4	117.4	USD/RSD	110.1	109.6	106.6	104.8	102.1
EUR/UAH	39.31	40.7	42.9	44.8	43.7	USD/UAH	36.75	38.00	39.00	40.00	38.00
EUR/KZT	464.9	481.5	500.5	515.2	540.5	USD/KZT	436.3	450	455	460	470
EUR/TRY	20.13	20.38	21.62	23.52	28.29	USD/TRY	18.91	19.05	19.65	21.00	24.60
EUR/ZAR	19.37	19.5	19.8	19.6	19.6	USD/ZAR	18.19	18.25	18.00	17.50	17.00
EUR/ILS	3.89	3.85	3.85	3.75	3.68	USD/ILS	3.65	3.60	3.50	3.35	3.20
LATAM											
EUR/BRL	5.53	5.67	5.83	5.82	5.98	USD/BRL	5.20	5.30	5.30	5.20	5.20
EUR/MXN	19.10	19.5	19.9	20.2	20.4	USD/MXN	17.98	18.20	18.10	18.00	17.75
EUR/CLP	854.64	877	880	896	920	USD/CLP	802.70	820	800	800	800
Asia											
EUR/CNY	7.37	7.38	7.48	7.50	7.42	USD/CNY	6.92	6.90	6.80	6.70	6.45
EUR/IDR	16284	15943	16060	16184	16503	USD/IDR	15295	14900	14600	14450	14350
EUR/INR	87.00	88.8	90.2	90.7	95.5	USD/INR	81.71	83.00	82.00	81.00	83.00
EUR/KRW	1380.41	1445	1408	1400	1380	USD/KRW	1296.53	1350	1280	1250	1200
EUR/PHP	58.52	58.0	58.6	58.7	59.2	USD/PHP	54.96	54.2	53.25	52.4	51.5
EUR/SGD	1.43	1.42	1.44	1.46	1.48	USD/SGD	1.34	1.33	1.31	1.30	1.29
EUR/TWD	32.58	32.6	33.0	33.0	32.2	USD/TWD	30.60	30.5	30.0	29.5	28.0

Source: Refinitiv, ING

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