THINK Economic and Financial Analysis

FX Talking

October 2023

Bond vigilantes take control

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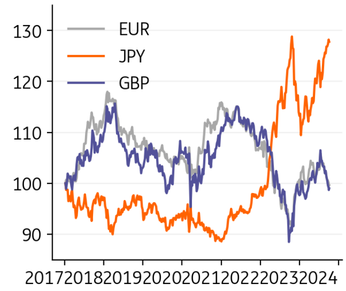
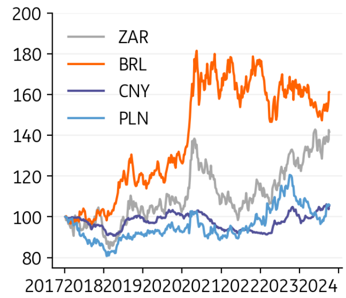
Bond vigilantes take control

USD/Majors (4 Jan 15=100)



Source: Refinitiv, ING forecast

USD/EM (4 Jan 15=100)



Source: Refinitiv, ING forecast

The rising tide of global bond yields – especially US bond yields – is becoming the dominant theme in global FX markets. Whether it is views of structurally higher policy rates or 'bond vigilantes' demanding governments take fiscal responsibility more seriously, the net result is tighter financial conditions. This is normally a dollar positive.

Concerns over the 'erosion of governance' of the US budget trajectory look unlikely to be soothed any time soon. Additionally, it looks as though the Fed may keep its hawkish bias for a little longer. This means that despite November and December typically being weak months for the dollar, the dollar may in fact hold recent gains into year-end.

As always, the dollar is the currency of the United States and everyone else's problem. Here we expect Chinese and Japanese officials to keep battling to support their currencies at 7.30/$ and 150/$ respectively. EUR/USD does not look particularly undervalued and in addition to weak Eurozone growth we are concerned that the re-introduction of the Stability and Growth Pact next year could keep the euro soft.

The ING view remains that three quarters of US contraction and a 200bp Fed easing cycle will take its toll on the dollar – hence our bearish twelve month forecasts.

In terms of the broader environment, tighter financial conditions have driven volatility levels higher and sparked an unwind of the FX carry trade. That may well continue this month and is a negative for most EM currencies. Additionally contentious elections in Poland and Argentina this month could add to volatility in the EMFX complex.

Our main calls this month

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.04	↓	150	↑	1.21	→
3M	1.06	→	148	↑	1.22	→
6M	1.08	↑	140	↓	1.23	↑
12M	1.15	↑	130	↓	1.28	↑
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.86	→	24.30	↓	4.67	↑
3M	0.87	→	24.50	↓	4.72	↑
6M	0.88	↑	24.30	↓	4.65	↓
12M	0.90	↑	24.00	↓	4.55	↓
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	7.30	↑	18.50	↑	5.25	↑
3M	7.25	↑	18.00	↓	5.25	↑
6M	7.20	↑	17.50	↓	5.10	↓
12M	6.90	↓	16.50	↓	5.00	↓

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

Source: Refinitiv, ING forecast

FX performance

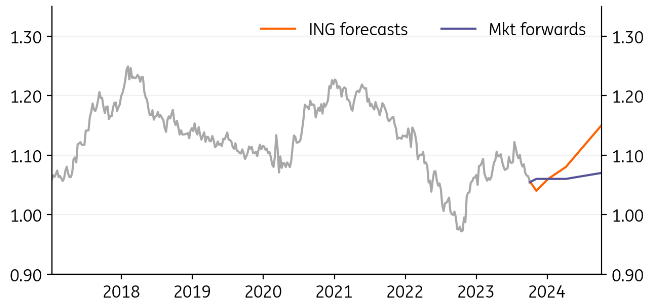
	EUR/USD	USD/JPY	EUR/GBP	EUR/NOK	AUD/USD	USD/CAD
%MoM	-1.6	0.9	0.9	0.7	-0.3	0.6
%YoY	7.8	2.6	-1.4	10.2	-0.7	-0.3
	USD/CNY	**USD/KRW**	**EUR/HUF**	**EUR/PLN**	**USD/ZAR**	**USD/BRL**
%MoM	-0.3	1.5	-0.6	0.6	0.9	3.8
%YoY	2.3	-5.7	-8.7	-5.9	7.6	-1.0

Source: Refinitiv, ING forecast

Developed markets

EUR/USD

Dollar could hold gains for a few more months — **Current spot: 1.0548**



Source: Refinitiv, ING forecasts

- The dollar has been stronger for a lot longer than we were expecting. 4% QoQ annualised US growth in 3Q23, helped by the US consumer, has kept the Fed in hawkish mode. We doubt, however, the Fed will need to hike rates again this year. And given our sub-consensus forecast of 0.2% US growth and a 200bp easing cycle next year, we still look for the dollar to turn lower.
- Typically, November and December are weak months for the dollar. But poor growth in the Eurozone and what could be some political risk premium going back into the euro could keep EUR/USD at these low levels near 1.05 into year-end.
- Even at 1.05, EUR/USD does not looks substantially undervalued.

ING forecasts (mkt fwd)	1M 1.04 (1.0560)	3M 1.06 (1.0595)	6M 1.08 (1.0640)	12M 1.15 (1.0731)

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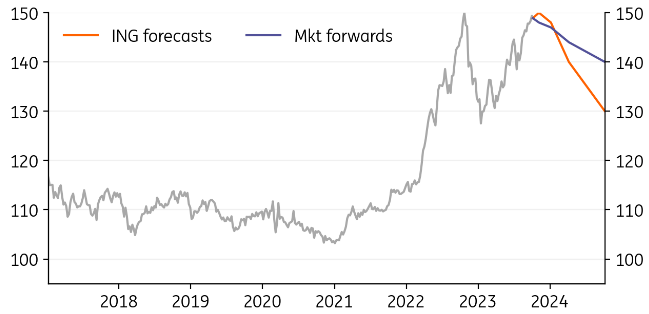
USD/JPY

A line in the sand at 150? — **Current spot: 148.88**



Source: Refinitiv, ING forecasts

- Unless formally in an exchange rate mechanism (e.g. ERM-II) FX market players do not generally subscribe to 'lines in sand' – i.e. key FX levels which are protected by FX intervention. Yet last year Japanese authorities sold $37bn on the day $/JPY traded over 150. And recently $/JPY sold off 2% from just above 150 on suspected intervention. We'll find out whether intervention did indeed take place when new data is released on 31 October.
- 31 October will also play a key role in the calendar given it is a Bank of Japan policy meeting, including new CPI forecasts. Speculation will build that dovish policy can be further reversed.
- However, expect $/JPY to stay near 150 until the $ turns in 1Q24.

ING forecasts (mkt fwd)	1M 150 (148.11)	3M 148 (146.63)	6M 140 (144.49)	12M 130 (140.47)

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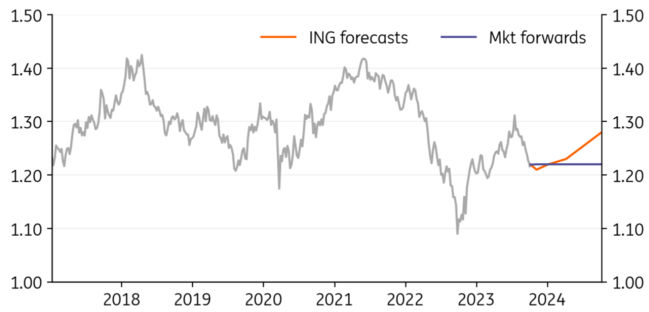
GBP/USD

Bank Of England looks done — **Current spot: 1.2194**



Source: Refinitiv, ING forecasts

- The Bank of England surprised some by leaving the Bank Rate unchanged at 5.25% in September. The vote was close however: 5-4. Barring some big upside surprises to the inflation and wage data published on October 17/18th, we think policy will be left unchanged at the Nov 2nd meeting and the cycle will be over.
- Investors still price 18bp of further BoE tightening, which suggests sterling can drop a little when this is priced out. But GBP/USD should find support at the lower end of this 1.20-1.30 range.
- Another date for the diary is November 22nd, when the Chancellor releases his Autumn Statement. He has said there is no room for tax cuts, but heading into an election year one never knows.

ING forecasts (mkt fwd)	1M 1.21 (1.2196)	3M 1.22 (1.2203)	6M 1.23 (1.2208)	12M 1.28 (1.2210)

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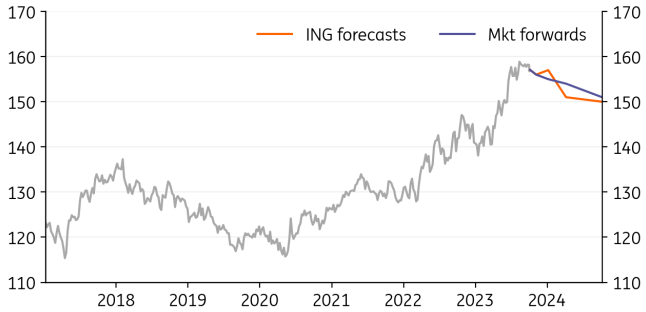
EUR/JPY

The Bank of Japan will decide its fate **Current spot: 157.05**



Source: Refinitiv, ING forecasts

- This year's rally has stalled at 160 and could represent as significant a psychological level as 150 in USD/JPY. Expect the BoJ to increasingly determine the fate of EUR/JPY – be it through FX intervention or the BoJ deciding to finally unwind its Yield Curve Control policy. Late October may be too soon for that, but we do forecast this in 2Q24 along with a rate hike. As such the yen should outperform the euro in 24 as policy cycles switch.
- The yen is also uncorrelated, with risk assets meaning that it should see some natural safe haven demand if the investment environment deteriorates this Autumn.
- Both the euro and yen suffer equally from high energy prices.

ING forecasts (mkt fwd)	1M 156 (156.44)	3M 157 (155.36)	6M 151 (153.74)	12M 150 (150.73)

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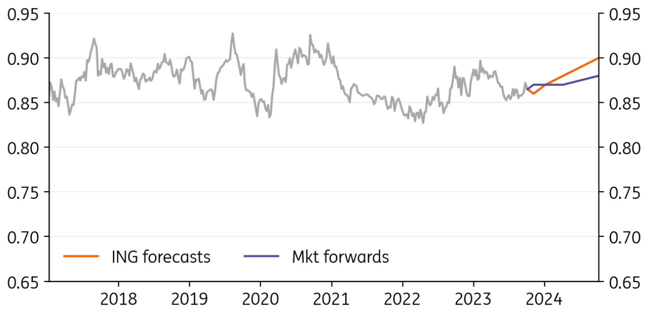
EUR/GBP

Sterling may face the greater headwinds in 2024 **Current spot: 0.8650**



Source: Refinitiv, ING forecasts

- We continue to have a gentle upside bias for EUR/GBP. On the activity side, the UK homeowner faces greater headwinds from higher mortgage rates as they slowly work through the system. Here the average rate on the UK mortgage stock is now 3.0% and will rise to 4.5% through 2024 as refinancing goes through.
- Expect EUR/GBP to bump up a little higher this year as the last vestiges of the BoE tightening cycle is priced out. And our call for 100bp of BoE easing in 24 (not priced now) could see 0.90.
- The wild card here is European politics. Elections this year mean that a lack of cohesion could see the Stability and Growth Pact automatically reintroduced next year and EZ peripheral debt hit.

ING forecasts (mkt fwd)	1M 0.86 (0.8659)	3M 0.87 (0.8683)	6M 0.88 (0.8715)	12M 0.90 (0.8788)

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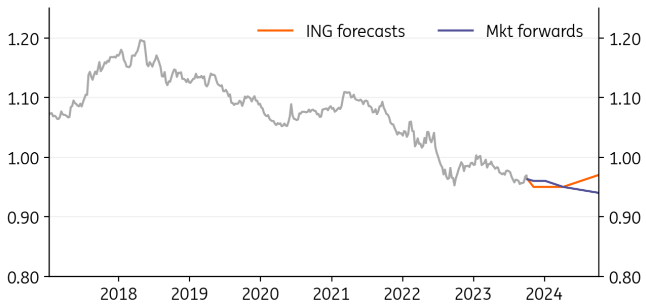
EUR/CHF

SNB ensures CHF is the strongest G10 currency this year **Current spot: 0.9628**



Source: Refinitiv, ING forecasts

- The Swiss National Bank's somewhat surprising decision to leave rates unchanged at 1.75% in September did not do too much damage to the Swiss franc. That is because the SNB says it is still selling FX as part of its effort to manage the trade-weighted Swiss franc higher. The SNB sold CHF30bn of FX in 2Q23 and probably continues to sell. That has helped make the franc the strongest G10 currency this year.
- Assuming the dollar stays strong for a while, the SNB will need to get its stronger trade-weighted franc (needed for monetary policy purposes) via a lower EUR/CHF. Hence our 0.95 forecasts.
- Some weakness in EZ peripheral debt markets will also help CHF.

ING forecasts (mkt fwd)	1M 0.95 (0.9609)	3M 0.95 (0.9571)	6M 0.95 (0.9517)	12M 0.97 (0.9418)

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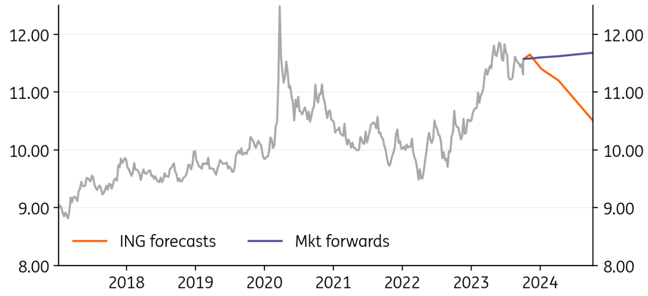
EUR/NOK

Back above 11.50, upside risks in the short term

Current spot: 11.57



Source: Refinitiv, ING forecasts

- EUR/NOK volatility has finally rebounded, although the attempt to break lower was thwarted by the unwelcoming risk environment. The pair has spiked back above 11.50.
- Norges Bank is set to deliver another hike in December. That should be the last one but, if NOK depreciates, NB can easily add more tightening: the domestic economic picture isn't worrying.
- The global bond selloff is negative for NOK, and while tighter monetary policy helped ease the pain, the recent oil price correction left the krone without a floor. Also, daily FX sales will remain high into year-end, and NOK downside risks remain tangible before any turn in US data boosts pro-cyclicals.

ING forecasts (mkt fwd)	1M 11.65 (11.58)	3M 11.40 (11.60)	6M 11.20 (11.62)	12M 10.50 (11.68)

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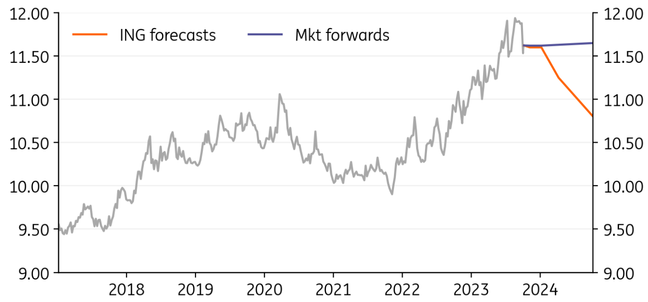
EUR/SEK

Riksbank plays the smart hedging game

Current spot: 11.62



Source: Refinitiv, ING forecasts

- The Riksbank is officially in the FX market. FX reserves hedging operations are conducted for risk management purposes but have so far managed to make SEK the best performing G10 currency since their start.
- The first round of FX hedging data is due this week: we don't know how much detail will be given, but we should be able to double-check our suspicion that the Riksbank is selling more FX when USD/SEK and EUR/SEK are higher. It may look like FX intervention, but the Riksbank will say it is loss-minimisation.
- The weekly FX hedging amounts aren't enough to drive EUR/SEK much lower, but they should prevent a return to the highs. Another hike in November or January remains possible.

ING forecasts (mkt fwd)	1M 11.60 (11.62)	3M 11.60 (11.62)	6M 11.25 (11.63)	12M 10.80 (11.65)

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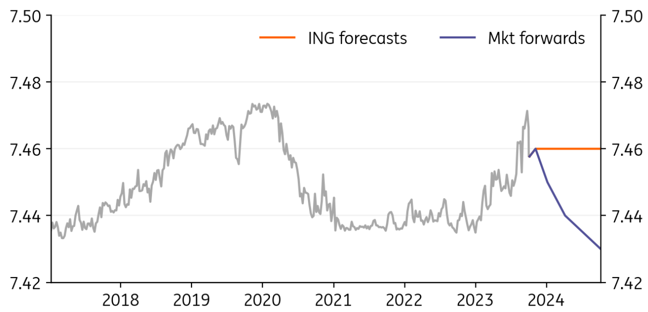
EUR/DKK

Some volatility, but back to 7.4600

Current spot: 7.4577



Source: Refinitiv, ING forecasts

- Danmarks Nationalbank did not buy or sell DKK in FX interventions for the eighth straight month in August.
- EUR/DKK had a rather volatile month of September. The central parity mark (7.4600) was breached a few times in the first half of the month, but was followed by a drop to 7.4525 after the DN mirrored the ECB's 25bp rate hike. The pair has rebounded to levels marginally below 7.4600.
- The recent volatility should not concern DN, as EUR/DKK remains very close to central peg parity. DN currently has no incentive to diverge from the ECB decision (likely, no more hikes). We expect stabilisation around 7.4600 or slightly below.

ING forecasts (mkt fwd)	1M 7.46 (7.4553)	3M 7.46 (7.4506)	6M 7.46 (7.4433)	12M 7.46 (7.4309)

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USD/CAD

The BoC may deliver another hike **Current spot: 1.3713**

Source: Refinitiv, ING forecasts

- The data since the latest BoC meeting has flipped the narrative in Canada: employment jumped, wage growth accelerated, CPI rebounded to 4.0%, summer retails sales and GDP were strong.
- Markets are pricing in a 30% implied probability of an October BoC hike, and 50% of a December hike. Pricing would likely turn more hawkish if inflation stays sticky, helping the loonie.
- USD/CAD has spiked on the back of the dollar's strength and the loonie's sensitivity to high treasury yields. Unlike last time, the pair isn't clearly overvalued, meaning that it will take a BoC surprise, improvement in general risk environment or oil prices to rebound to take it back to the 1.32/1.34 area by year-end.

ING forecasts (mkt fwd)	1M 1.38 (1.3707)	3M 1.32 (1.3691)	6M 1.29 (1.3676)	12M 1.25 (1.3662)

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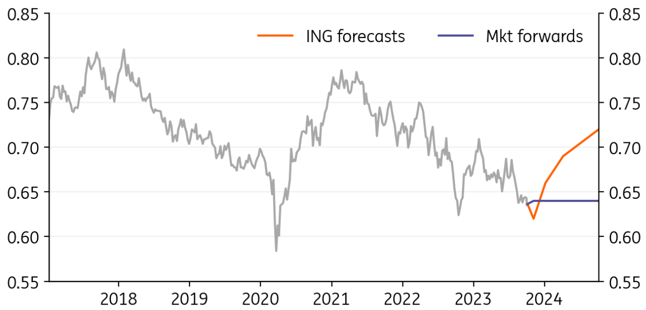
AUD/USD

Eyeing new lows **Current spot: 0.6365**



Source: Refinitiv, ING forecasts

- We had called for a drop to 0.63 in last month's edition of FX Talking: we believe there is still room for another drop in AUD/USD. The new bottom may be 0.61/0.62.
- The external environment remains very detrimental for the pair, which should stay under pressure unless the US data narrative flips, and that should not happen in the near term. Improvements in Chinese sentiment are – if anything at all – very gradual.
- The RBA might surprise with a hike after pausing in October. That depends on the 3Q CPI figure. Even so, the best a rate hike can do is offer a short-lived breather to AUD: developments in risk sentiment and the US bond market remain way more important

ING forecasts (mkt fwd)	1M 0.62 (0.6371)	3M 0.66 (0.6387)	6M 0.69 (0.6406)	12M 0.72 (0.6434)

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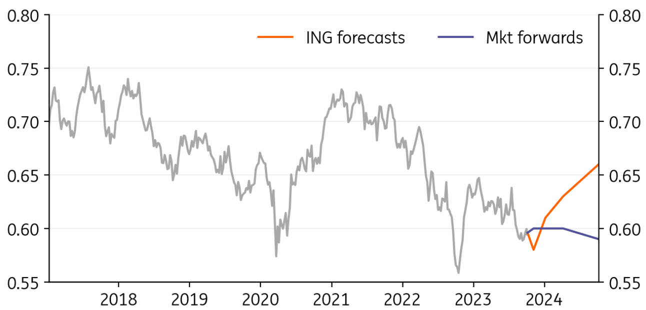
NZD/USD

Elections and inflation can help NZD in the crosses **Current spot: 0.5960**



Source: Refinitiv, ING forecasts

- The RBNZ stayed put in October, as expected given the proximity to the 14 October election in New Zealand and the lack of data.
- We recently published an update on NZD ahead of key events. Opinion polls are pointing to a win by the National Party, which has pledged to change the RBNZ remit to remove the dual mandate in favour of a stricter inflation objective. That can be a positive for NZD as long-term RBNZ rates can be repriced higher.
- In the shorter run, we still deem the RBNZ disinflation projections as a gamble, and see upside risks to the 3Q CPI figures (released on 16 October). A return to tightening is a real possibility. Any benefits to NZD would be more visible in the crosses: NZD/USD stays mostly a USD story, and may struggle to recover just yet.

ING forecasts (mkt fwd)	1M 0.58 (0.5960)	3M 0.61 (0.5961)	6M 0.63 (0.5961)	12M 0.66 (0.5949)

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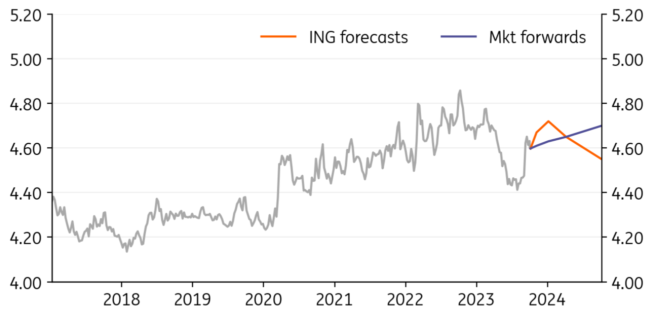
Emerging markets

EUR/PLN

Less imminent pressure on the zloty, but risks remain

Current spot: 4.5979



Source: Refinitiv, ING forecasts

- The NBP slowing rate cuts has eased pressure on the zloty at year end. The Polish policy mix still contrasts with key core economies and even other CEEs. Opinion polls suggest a rather uncertain political landscape after the general elections in October, possibly still preventing any prompt access to the Recovery Fund.
- Based on our €/PLN retentive value model gauging the zloty against other market variables (including swaps), the Polish currency is no longer overvalued against the euro, and is currently very close to the equilibrium level. This suggests that €/PLN still has significant upside potential (to c.4.75) should sentiment sour after the elections.

ING forecasts (mkt fwd)	1M 4.67 (4.6060)	3M 4.72 (4.6297)	6M 4.65 (4.6539)	12M 4.55 (4.6996)

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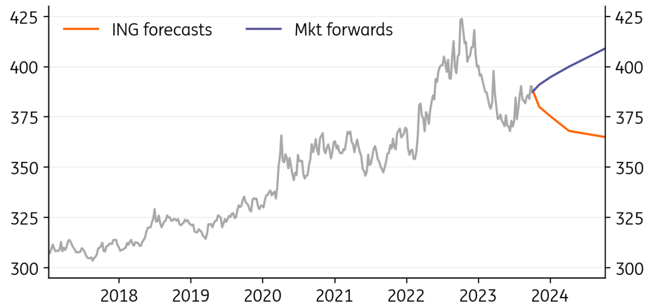
EUR/HUF

We see a stronger forint on falling country-specific risk

Current spot: 387.76



Source: Refinitiv, ING forecasts

- On a global level, a lower EUR/USD remains a downside risk in the short-term. In the medium- and long-term this should in turn help to keep EUR/HUF lower.
- Locally, we think the NBH will be key. Markets remain on the dovish side, so we see a possible hawkish repricing, leaving room for further appreciation due to higher interest rate differentials.
- Positioning seems rather balanced, and the market does not seem to be betting on further HUF weakness, while FX carry remains nearly double that of CEE peers. The recent glimmer of hope for an approaching EU deal will also provide support

ING forecasts (mkt fwd)	1M 380 (390.51)	3M 375 (394.77)	6M 368 (400.40)	12M 365 (408.87)

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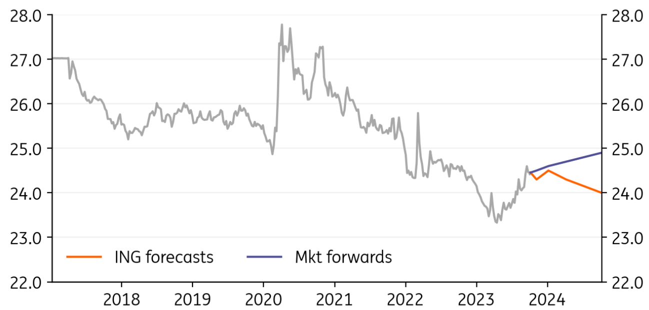
EUR/CZK

The CNB rate-cutting strategy is ready

Current spot: 24.45



Source: Refinitiv, ING forecasts

- After the sharp depreciation triggered by the surprise NBP rate cut in Poland, the Czech koruna has stabilized in the 24.350-450 EUR/CZK band and we do not expect anything to change.
- A CNB rate cut looks inevitable, maybe already in November, with most of the cutting cycle already priced in. Any such rate cut itself should not be significantly painful.
- Looking ahead, the CZK is set to balance between a falling interest rate differential and a weaker US dollar later this year and next. We believe the positive effect will prevail and the koruna will hold current levels or slightly appreciate.

ING forecasts (mkt fwd)	1M 24.3 (24.52)	3M 24.5 (24.61)	6M 24.3 (24.74)	12M 24.0 (24.87)

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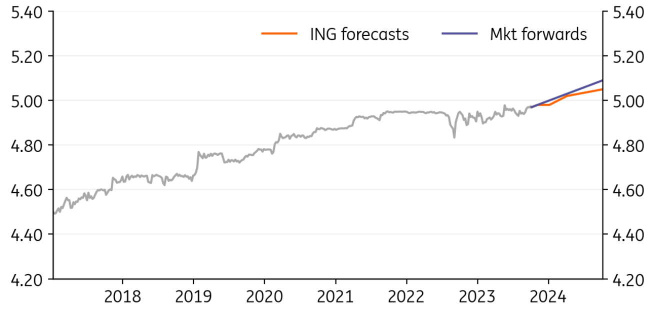
EUR/RON

Increased turnover around previous resistance **Current spot: 4.9696**



Source: Refinitiv, ING forecasts

- With the EUR/RON gradually climbing towards its previous resistance level of 4.9800, market turnover seems to be increasing - possibly suggestive of official offers.
- We believe that the NBR is looking for opportunities to sell euro in order to mop some of the surplus liquidity from the local money market and also to re-anchor inflation expectations which seem to have turned somewhat looser after the latest inflation prints.
- Given the very limited tolerance for leu depreciation that NBR displays, we have removed from our forecasts the very limited depreciation we were expecting. We see the pair stable in the 4.95-4.98 range.

ING forecasts (mkt fwd)	1M 4.98 (4.9783)	3M 4.98 (4.9971)	6M 5.02 (5.0265)	12M 5.05 (5.0860)

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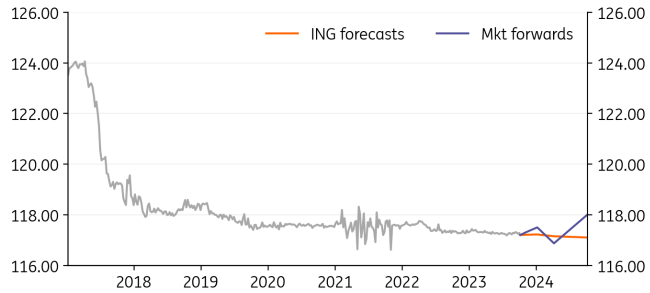
EUR/RSD

Business as usual **Current spot: 117.20**



Source: Refinitiv, ING forecasts

- The surprise increase in reserve requirements from early September didn't prevent a drop of around 15bp in 3-month rates. Liquidity condition remain accommodative.
- September is likely to be the last month with double-digit inflation. The disinflation process looks very gradual, and we do not envisage headline inflation back within NBS's 1.5-4.5% target range over the next 2-years.
- We believe that the next policy decision should be a rate cut but, given the global background with core yields on the rise, this might happen in mid-2024. FX-wise, we see the EUR/RSD quasi-pegged around current levels.

ING forecasts (mkt fwd)	1M 117.21 (117.31)	3M 117.22 (117.50)	6M 117.15 (116.87)	12M 117.10 (118.01)

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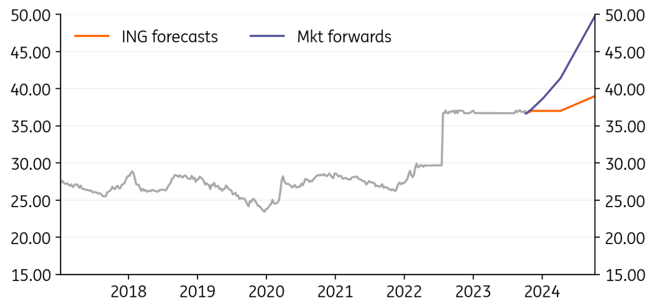
USD/UAH

USD/UAH remains range-bound, but risks remain. **Current spot: 36.65**



Source: Refinitiv, ING forecasts

- The agreement postponing the government shutdown in the US means that US will stop financial aid to Ukraine until a new budget is passed. NBU's international reserves (US$40.4bn) are enough to defend the currency for several months, especially as other countries will maintain support. Monthly interventions are rising (c.US$2.7bn in September), likely reflecting recent NBU monetary easing.
- We assess the long-term prospects of the hryvnia as pessimistic. Offsetting damage to the economy and foreign trade gap will likely require a weaker UAH, even though Ukraine could support the currency using foreign aid proceeds on the market.

ING forecasts (mkt fwd)	1M 37.00 (37.25)	3M 37.00 (38.74)	6M 37.00 (41.41)	12M 39.00 (49.80)

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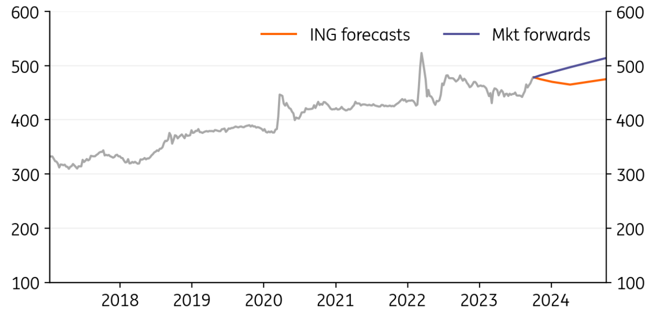
USD/KZT

Further downside appears limited **Current spot: 478.25**



Source: Refinitiv, ING forecasts

- The tenge continued to weaken materially in September – from 458 to $478/$ leading to underperformance vs. oil prices and our expectations. The NBK cited easing in FX sales requirements for SOEs and higher imports as domestic reasons for KZT weakness.
- Indeed, imports growth reached 30% YoY in July and has likely remained strong, pushing the current account into deeper deficit, while lower FX sales by corporates may have lowered net private capital inflows.
- Meanwhile, FX sales out of NFRK, the oil fund, increased from $0.8bn in August to $1.2bn in September and may go higher to $1.5-1.6bn in October, suggesting higher support to KZT in the near-term, especially if the mood on the global markets stabilizes

ING forecasts (mkt fwd)	1M 475 (481.73)	3M 470 (488.36)	6M 465 (497.44)	12M 475 (514.40)

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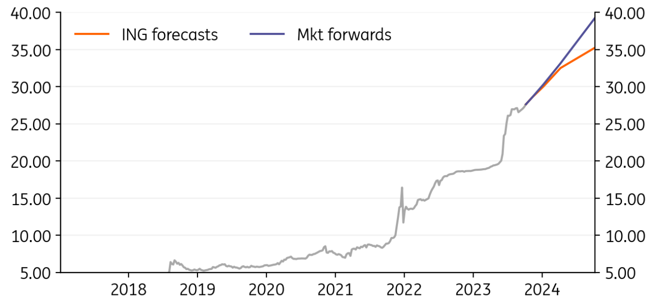
USD/TRY

All eyes remain on policy moves **Current spot: 27.63**



Source: Refinitiv, ING forecasts

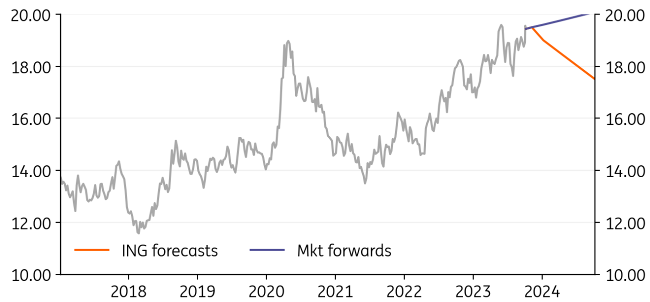
- While the CBT has kept its tightening bias, expectations for the final policy rate have also increased further after another bout of inflation and recent broad-based deterioration in price dynamics.
- Given the deterioration in pricing behaviour, exchange related effects, the widespread increase in wages and tax adjustments and continuing strength in domestic demand and the upward reversal in global commodity prices, particularly oil prices, inflation will likely remain under pressure in the near term. We have already seen significant jumps since the elections.
- Following 12.5ppt hikes at the last two MPCs, we expect the policy rate to be 35% at the end of this year, though the risks are on the upside.

ING forecasts (mkt fwd)	1M 28.50 (28.49)	3M 30.00 (30.28)	6M 32.50 (33.14)	12M 35.25 (39.27)

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

USD/ZAR

November 1st budget statement in focus **Current spot: 19.44**



Source: Refinitiv, ING forecasts

- The rand has been trading on the soft side given the difficult external trading environment. Carry trade flows have fallen out of favour due to the higher volatility environment and domestic policy is coming under more scrutiny. Here the focus is on the Nov 1st Medium Term budget statement, where this fiscal year's 4% of GDP budget deficit looks set to be revised higher.
- Bigger holes in the budget amidst a widening current account deficit (lower platinum prices do not help) leave the rand vulnerable. USD/ZAR could retest 20 over the next month.
- The forecast turn lower in USD/ZAR next year is wholly predicated on a weaker dollar and South Africa's policy rate staying at 8%+.

ING forecasts (mkt fwd)	1M 19.50 (19.50)	3M 19.00 (19.60)	6M 18.50 (19.76)	12M 17.50 (20.09)

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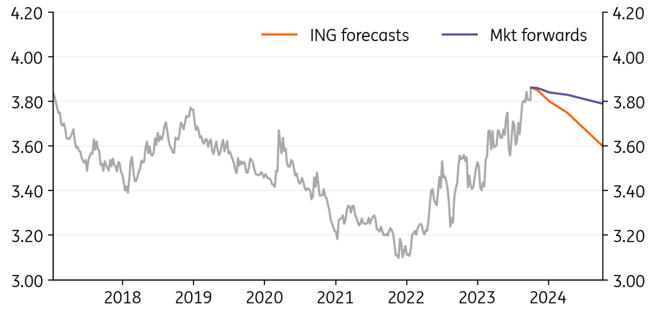
USD/ILS

Few reasons to expect a Shekel recovery

Current spot: 3.8618



Source: Refinitiv, ING forecasts

- As we mentioned last month, the Bank of Israel estimates that there may be a 10% risk premium in the shekel on the back of the constitutional crisis. On that front, there seems to be little progress. Currently the Supreme Court is ruling on the government's legal changes on the right to overturn government policy – or 'reasonableness'. It is unclear that whatever the Supreme Court's ruling, any side will be appeased.
- This suggests USD/ILS may well trade around the 3.80/3.85 area into year-end despite Israel's decent growth and a large current account surplus.
- A major turn in the dollar looks the shekel's only hope near term.

ING forecasts (mkt fwd)	**1M** 3.85 (3.8557)	**3M** 3.80 (3.8430)	**6M** 3.75 (3.8258)	**12M** 3.60 (3.7902)

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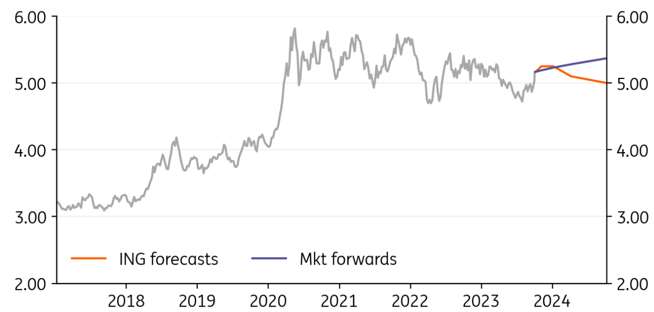
LATAM

USD/BRL

Local story looks reasonably good — **Current spot: 5.1668**



Source: Refinitiv, ING forecasts

- The BRL has been hit hard by the tough external environment as have all the high-yielding Latam favourites of the carry trade. But Brazil's local story looks alright. On the export side, relatively high iron ore and soybean prices are keeping Brazil's current account deficit in check. And consumer confidence is surprisingly firm.
- Having been pressing the central bank for larger than 50bp rate cuts, the high US rate environment has seen Brazil's expected easing cycle pared back – e.g. the low point for the policy rate is now priced around 10.50/10.75% versus 9.25/9.50% a month or two ago. However, expect BACEN to continue with 50bp cuts.
- Argentine elections Oct 22nd could prove a negative event risk.

ING forecasts (mkt fwd)	1M 5.25 (5.1931)	3M 5.25 (5.2287)	6M 5.10 (5.2794)	12M 5.00 (5.3745)

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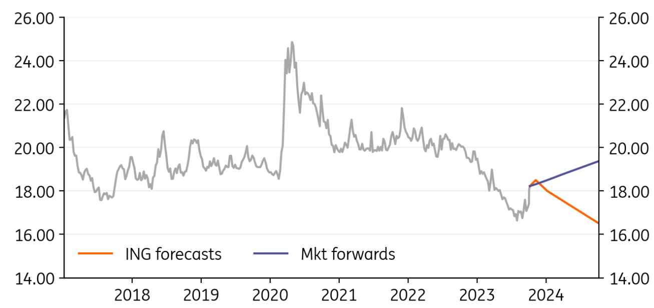
USD/MXN

Carry trade unwind dominates peso — **Current spot: 18.22**



Source: Refinitiv, ING forecasts

- Last month we warned that a tough external environment and a carry trade unwind could see USD/MXN trade 18.00 – which has been the case. There is outside risk that USD/MXN does trade 18.50/18.75 should US Treasury 10 year yields hit 5.00%+, but again we expect to see good demand for peso on dips.
- Regarding Banxico, the market has priced out 75bp of the expected Banxico easing cycle since the Fed's hawkish meeting Sep 20th. No change is priced in policy for the next six months. Keep a close watch of Banxico voting patterns (e.g. any votes for cuts?). Though this seems unlikely while USD/MXN is above 18.
- MXN can survive looser fiscal policy into a 2024 election year.

ING forecasts (mkt fwd)	1M 18.50 (18.31)	3M 18.00 (18.50)	6M 17.50 (18.80)	12M 16.50 (19.38)

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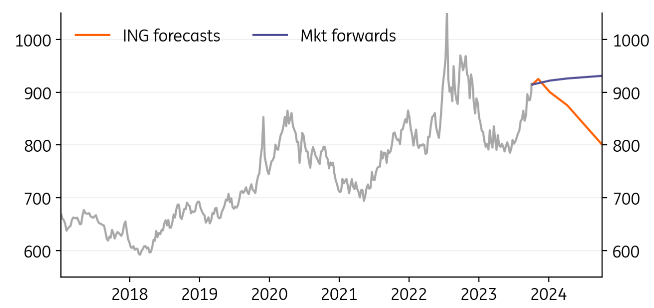
USD/CLP

Easing expectations have not changed much — **Current spot: 914.40**



Source: Refinitiv, ING forecasts

- Unlike in Brazil and Mexico, the sharp rise in US rates has done little to alter pricing of rate cuts in Chile. Here the central bank expects the policy rate (now 9.50%) to be cut to the 7.75/8.00% region by year-end. With core inflation around 7% and falling quickly (plus a likely 2Q/3Q recession in Chile), the central bank can probably get away with these rate cuts without damaging the peso too much.
- Buy USD/CLP is at 900 now, the central bank is buying $40mn every day to rebuild FX reserves and US rates could go higher.
- Presumably $/CLP above 950 could slow the easing cycle or potentially suspend the FX rebuild.

ING forecasts (mkt fwd)	1M 925 (917.40)	3M 900 (921.70)	6M 875 (926.40)	12M 800 (930.90)

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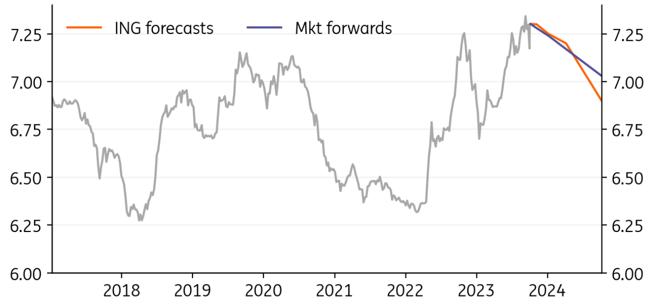
Asia

USD/CNY

Nothing new from the PBoC — **Current spot: 7.3015**



Source: Refinitiv, ING forecasts

- The CNY is still being held at 7.30, in the face of considerable pressure from the market for some further depreciation.
- The PBoC continues to use the daily reference rate fixing as its major policy instrument to anchor the currency and is bolstering this with allowing short-term funding rates to increase, making it harder to borrow CNY to sell for foreign exchange. Occasional bouts of verbal intervention and warnings to banks add to the policy mix.
- While this is working for now, it feels as if the only thing that will remove pressure on the CNY is a broad-based USD turn.

ING forecasts (mkt fwd)	1M 7.30 (7.2806)	3M 7.25 (7.2365)	6M 7.20 (7.1692)	12M 6.90 (7.0305)

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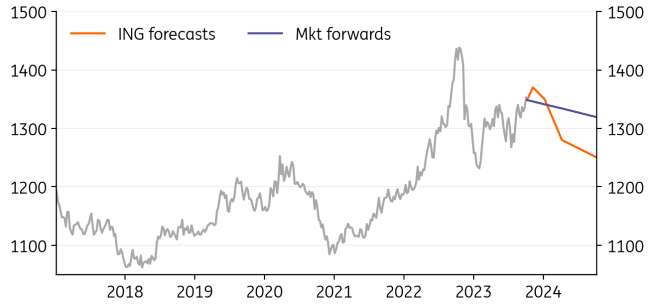
USD/KRW

KRW weakens with widening yield gap — **Current spot: 1348.38**



Source: Refinitiv, ING forecasts

- The USDKRW briefly hit the year's high of 1,363 on 4 October, responding to higher US rates. Better than expected IP and exports results weren't able to support the KRW.
- Inflation accelerated to 3.7% YoY in September and looks set to stay high for a while. The BoK will reinforce its hawkish tone, but additional rate hikes are unlikely amid growing concerns over weak growth and financial stress on businesses and households.
- The KRW is expected to remain weak with high volatility as risk-off sentiment will likely trigger a sell off of KRW denominated assets especially in a thin year-end market trading environment.

ING forecasts (mkt fwd)	1M 1370 (1346.28)	3M 1350 (1341.06)	6M 1280 (1333.66)	12M 1250 (1319.16)

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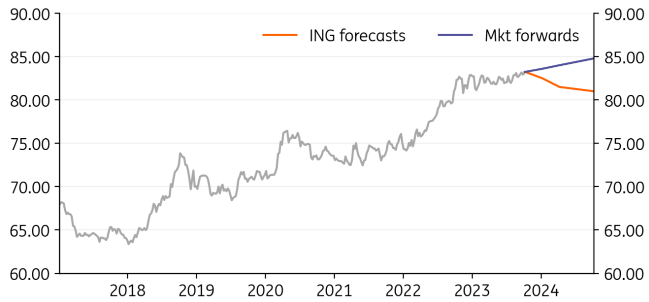
USD/INR

RBI maintaining stability at 83 — **Current spot: 83.24**



Source: Refinitiv, ING forecasts

- The RBI has continued to maintain the INR at about 83 to the USD, though against relentless USD pressure, there is a bit of upwards drift appearing now, and there may be a chance of an upside break if the USD does not turn before too long.
- The two main drivers for the INR, the policy rate differential and inflation differentials have not changed substantially, though Indian inflation is now headed lower in contrast to US headline inflation, and so that may help support the INR near term.
- Despite a full 100bp spread over US policy rates, we don't expect the RBI to embark on any easing until 2024.

ING forecasts (mkt fwd)	1M 83.00 (83.36)	3M 82.50 (83.60)	6M 81.50 (84.01)	12M 81.00 (84.80)

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USD/IDR

IDR under pressure as BI keeps rates unchanged **Current spot: 15620**

Source: Refinitiv, ING forecasts

- The IDR slid in September, with the trade surplus narrowing to $3.1bn after exports dropped 21.2% YoY in August.
- Bank Indonesia (BI) kept policy rates unchanged again (at 5.75%) despite the modest interest rate differential with the US. BI opted to rely on its new bond issuance, called the SRBI, to attract foreign inflows and support the IDR.
- The IDR will likely remain under pressure in the near term with BI preferring to keep rates untouched while banking on the SRBI bond issuance to provide support for the IDR.

ING forecasts (mkt fwd)	1M 15600 (15621)	3M 15500 (15625)	6M 15100 (15630)	12M 15000 (15668)

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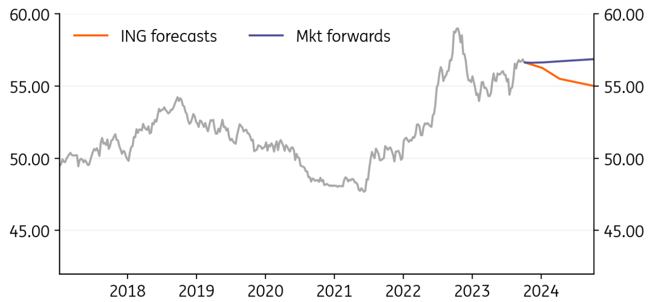
USD/PHP

PHP moves sideways on hawkish BSP speak **Current spot: 56.63**



Source: Refinitiv, ING forecasts

- The PHP remained on the back foot throughout most of the month. The trade deficit remains wide at roughly $4.2bn after exports unexpectedly slid 1.2% YoY.
- The PHP managed to steady in the third week after hawkish comments from Bangko Sentral ng Pilipinas (BSP) Governor Remolona. Remolona hinted at hiking rates further to combat inflation with an off-cycle rate hike on the table.
- The PHP looks set to move sideways, with expectations of a BSP rate hike on the rise after an upside surprise to inflation.

ING forecasts (mkt fwd)	1M 56.50 (56.61)	3M 56.25 (56.63)	6M 55.50 (56.71)	12M 55.00 (56.86)

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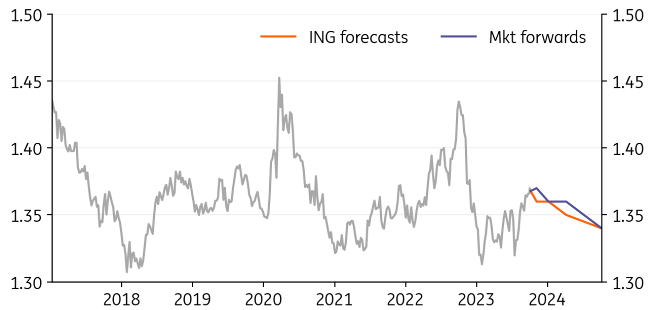
USD/SGD

SGD tracks slide by regional peers **Current spot: 1.3679**



Source: Refinitiv, ING forecasts

- The SGD slid against the USD for the month of September due to anxiety over the outlook for Fed policy weighing on the currencies of its major trading partners (CNY hit 7.343 during the month).
- Disappointing output data alongside still elevated inflation suggests the Monetary Authority of Singapore (MAS) will keep policy settings untouched in October, to balance supporting growth and dealing with inflation.
- The SGD NEER should continue its modest appreciation path to close out the year. Sustained pressure on CNY may weigh on the USDSGD in the near term.

ING forecasts (mkt fwd)	1M 1.36 (1.3658)	3M 1.36 (1.3619)	6M 1.35 (1.3555)	12M 1.34 (1.3437)

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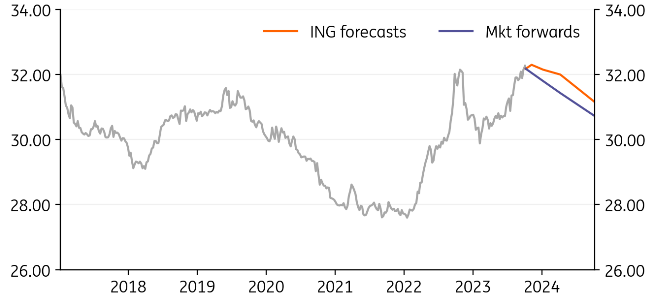
USD/TWD

Softer equity environment weighs on TWD

Current spot: 32.18



Source: Refinitiv, ING forecasts

- In addition to the strong USD story, the TWD also has to contend with a negative stock market backdrop. The TAIEX exchange is down in recent months, though still up nearly 17% year-to-date.
- Some further indications that the semiconductor cycle is troughing could limit the downside, though market sentiment seems to be slowly worsening in response to the US rate environment and could prevent a more meaningful appreciation.
- Year-end jitters relating to the January Presidential election are also a growing possibility

ING forecasts (mkt fwd)	**1M** 32.30 (32.05)	**3M** 32.15 (31.80)	**6M** 32.00 (31.43)	**12M** 31.15 (30.72)

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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	1.04	1.06	1.08	1.15						
EUR/JPY	157.1	156	157	151	150	USD/JPY	148.89	150	148	140	130
EUR/GBP	0.86	0.86	0.87	0.88	0.90	GBP/USD	1.22	1.21	1.22	1.23	1.28
EUR/CHF	0.96	0.95	0.95	0.95	0.97	USD/CHF	0.91	0.91	0.90	0.88	0.84
EUR/NOK	11.56	11.65	11.40	11.20	10.50	USD/NOK	10.95	11.20	10.75	10.37	9.13
EUR/SEK	11.61	11.60	11.60	11.25	10.80	USD/SEK	11.01	11.15	10.94	10.42	9.39
EUR/DKK	7.458	7.460	7.460	7.460	7.460	USD/DKK	7.07	7.17	7.04	6.91	6.49
EUR/CAD	1.45	1.44	1.40	1.39	1.44	USD/CAD	1.370	1.38	1.32	1.29	1.25
EUR/AUD	1.66	1.68	1.61	1.57	1.60	AUD/USD	0.64	0.62	0.66	0.69	0.72
EUR/NZD	1.77	1.79	1.74	1.71	1.74	NZD/USD	0.60	0.58	0.61	0.63	0.66
EMEA											
EUR/PLN	4.59	4.67	4.72	4.65	4.55	USD/PLN	4.36	4.49	4.45	4.31	3.96
EUR/HUF	387.00	380.00	375.00	368.00	365.00	USD/HUF	366.8	365	354	341	317
EUR/CZK	24.46	24.3	24.5	24.3	24.0	USD/CZK	23.18	23.4	23.1	22.5	20.9
EUR/RON	4.97	4.98	4.98	5.02	5.05	USD/RON	4.71	4.79	4.70	4.65	4.39
EUR/RSD	117.2	117.2	117.2	117.2	117.1	USD/RSD	111.1	112.7	110.6	108.5	101.8
EUR/UAH	38.61	38.5	39.2	40.0	44.9	USD/UAH	36.60	37.00	37.00	37.00	39.00
EUR/KZT	504.8	494.0	498.2	502.2	546.3	USD/KZT	478.4	475	470	465	475
EUR/TRY	29.14	29.64	31.80	35.10	40.54	USD/TRY	27.63	28.50	30.00	32.50	35.25
EUR/ZAR	20.49	20.3	20.1	20.0	20.1	USD/ZAR	19.43	19.50	19.00	18.50	17.50
EUR/ILS	4.07	4.00	4.03	4.05	4.14	USD/ILS	3.86	3.85	3.80	3.75	3.60
LATAM											
EUR/BRL	5.45	5.46	5.57	5.51	5.75	USD/BRL	5.17	5.25	5.25	5.10	5.00
EUR/MXN	19.18	19.2	19.1	18.9	19.0	USD/MXN	18.19	18.50	18.00	17.50	16.50
EUR/CLP	964.79	962	954	945	920	USD/CLP	914.40	925	900	875	800
Asia											
EUR/CNY	7.70	7.59	7.69	7.78	7.94	USD/CNY	7.30	7.30	7.25	7.20	6.90
EUR/IDR	16400	16224	16430	16308	17250	USD/IDR	15610	15600	15500	15100	15000
EUR/INR	87.80	86.30	87.50	88.00	93.20	USD/INR	83.22	83.00	82.50	81.50	81.00
EUR/KRW	1423.03	1425	1431	1382	1438	USD/KRW	1348.72	1370	1350	1280	1250
EUR/PHP	59.75	58.80	59.60	59.90	63.30	USD/PHP	56.63	56.50	56.25	55.50	55.00
EUR/SGD	1.44	1.42	1.44	1.46	1.55	USD/SGD	1.37	1.37	1.36	1.35	1.35
EUR/TWD	33.92	33.6	34.1	34.6	35.8	USD/TWD	32.15	32.3	32.2	32.0	31.2

Source: Refinitiv, ING

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