THINK Economic and Financial Analysis

FX Talking

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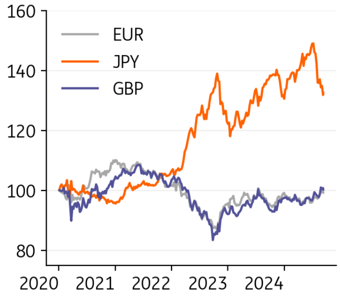
FX Talking

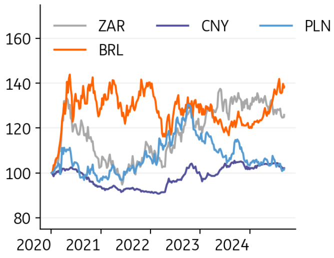
Soft-landing or recession?

USD/Majors (Jan 20=100)



Source: Refinitiv, ING forecast

USD/EM (Jan 20=100)



Source: Refinitiv, ING forecast

After all the market volatility witnessed in July as the yen carry trade was unwound, investor focus has moved swiftly on to the topic of a soft landing versus a recession. Will the Fed easing cycle be orderly or will it be rushed into more aggressive easing? The size of the Fed's first cut is a close call for us, but we narrowly opt for 50bp. It is also encouraging to hear some Fed members debating the need for front-loaded rate cuts.

Typically, this should be a bearish period for the dollar. Even though short-dated US yields already trade at a deep discount to Fed Funds, these should fall further as the Fed starts its easing cycle. Expect EUR/USD to continue to press the 1.12 area, while USD/JPY should be characterised by an orderly fall to 140 – with positioning better balanced.

Stopping us from predicting a multi-quarter dollar decline is the US election on 5 November. This is pivotal to the dollar story as we discuss in our election scenario article. And potentially investors will start to position for the election outcome after key events such as the first televised Harris-Trump debate on ABC, 10 September.

Away from the US, we are left to focus on the continued stagnation of continental Europe and China. This would only deteriorate further should the next US Administration pursue a more protectionist trade policy and more isolationist foreign policy. That said, expect Chinese authorities to resist renminbi depreciation whoever is in the White House

Emerging markets remain very mixed. A potential re-rating of Asia is underway, while CEE currencies labour to take advantage of a higher EUR/USD. Domestic policies in Mexico and Brazil will likely keep currencies in the region under pressure.

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.12	↑	143	→	1.33	↑
3M	1.10	↓	140	↓	1.29	↓
6M	1.10	↓	138	↓	1.28	↓
12M	1.10	↓	137	↓	1.28	↓
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.84	→	25.00	↓	4.30	↑
3M	0.85	→	24.95	↓	4.33	↑
6M	0.86	↑	24.85	↓	4.33	→
12M	0.86	→	24.70	↓	4.35	↓
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	7.12	↑	20.50	↑	5.65	↑
3M	7.10	↑	20.00	↓	5.50	↓
6M	7.06	↑	19.00	↓	5.50	↓
12M	7.03	↑	19.00	↓	5.50	↓

↑ / → / ↓ 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	1.2	-2.1	-1.4	1.2	1.2	-1.2
%YoY	3.3	-3.0	-1.7	4.4	4.5	-0.6
	USD/CNY	**USD/KRW**	**EUR/HUF**	**EUR/PLN**	**USD/ZAR**	**USD/BRL**
%MoM	-0.7	-1.4	0.1	-1.0	-2.2	1.6
%YoY	-2.3	1.9	2.4	-7.3	-6.3	12.3

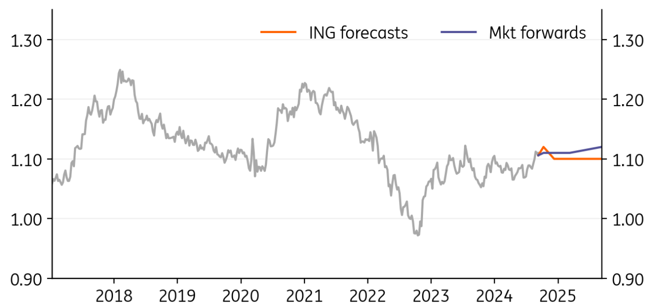
Source: Refinitiv, ING forecast

Developed markets

EUR/USD

To 'front-load' or not?

Current spot: 1.1059



Source: Refinitiv, ING forecasts

- The Fed has made it clear that it is ready to start easing policy in September. The debate has now shifted to whether the Fed will cut in orderly, 25bp increments in line with a soft-landing scenario or will need to cut faster. Our macro team note that it is a really close call, but slightly favour the first cut as 50bp.
- US data, particularly anything related to employment, will have a big say on how quickly rates are cut and whether the terminal rate is priced sub 3.00% – more at recessionary levels.
- Two ECB cuts in September and December look a done deal. At this stage in the cycle, we favour a lower dollar. However, US elections in November will have a major say in the next big trend.

ING forecasts (mkt fwd)	**1M** 1.12 (1.1075)	**3M** 1.10 (1.1103)	**6M** 1.10 (1.1139)	**12M** 1.10 (1.1204)

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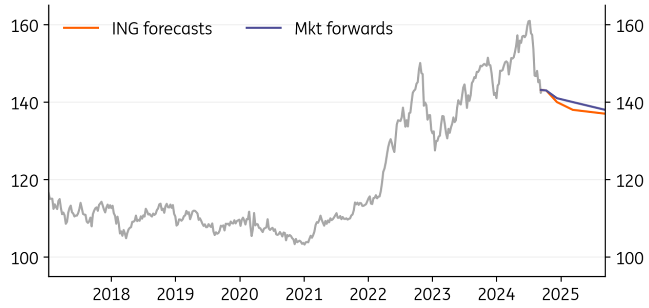
USD/JPY

Some sense of order returns

Current spot: 143.13



Source: Refinitiv, ING forecasts

- After the wild gyrations of July and early August, a slight sense of calm is returning to the USD/JPY market. That's because speculative positioning is much more balanced than it was at the start of July. And instead of worrying over the carry trade, the debate amongst investors will switch to US soft vs. hard landing.
- With the Fed set to cut rates and the BoJ to continue hiking (we forecast the next hike in December) core sentiment has finally reversed on USD/JPY. Here the one-year FX options risk reversal has a clear bias for dollar puts – suggesting the corporate community is finally set to start to raise dollar hedge ratios.
- 137/138 is our baseline view – but US elections will have a say.

ING forecasts (mkt fwd)	**1M** 143 (142.53)	**3M** 140 (141.36)	**6M** 138 (139.85)	**12M** 137 (137.50)

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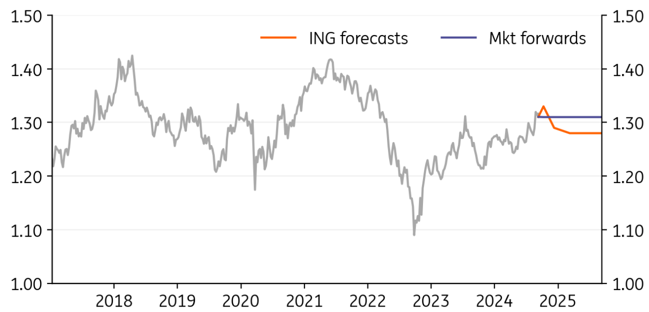
GBP/USD

Bank of England drags its feet on the easing cycle

Current spot: 1.3104



Source: Refinitiv, ING forecasts

- Having cut rates in August, we've heard very little from the BoE. Inflation data remains a little sticky and given the lack of forward guidance, the market only prices 45bp of BoE rate cuts by year end compared to 110bp for the Fed. We doubt that divergence lasts, and that the BoE will follow the Fed in concluding that rates are too restrictive. We see the BoE cutting in November and December.
- GBP also faces an event risk with the 30 October budget. While the overall tone may be fiscally neutral, investors may take a dim view of the Labour govt. raising taxes on the finance sector.
- Keeping sterling more resilient than we expect could be M&A, where the UK is so far a target of $210bn in acquisitions this year.

ING forecasts (mkt fwd)	**1M** 1.33 (1.3107)	**3M** 1.29 (1.3110)	**6M** 1.28 (1.3102)	**12M** 1.28 (1.3069)

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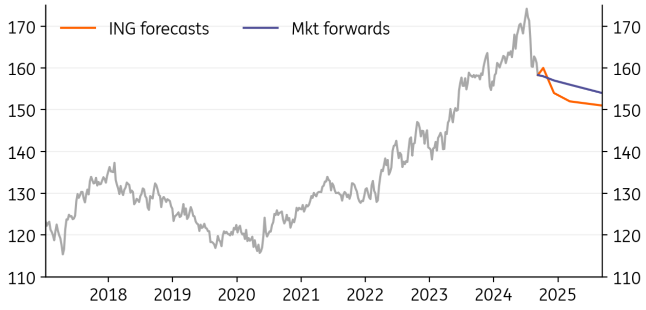
EUR/JPY

Euro faces some political risk into October

Current spot: 158.30



Source: Refinitiv, ING forecasts

- Bearish consolidation has been the dominant theme here and our bias remains lower. The eurozone remains mired in weak growth and rate cuts, while Japan is finally enjoying the virtuous cycle of corporate profits, wage growth, spending and sustainably higher inflation. And despite the market dislocation in July/August, the BoJ still seem happy to talk of rate hikes.
- One additional risk for the euro is the issue of budget deficits. France, Belgium and Italy (amongst others) need to present credible fiscal consolidation plans to Brussels by October.
- On our medium-term models, the yen remains far cheaper than the euro and a further adjustment towards fair value looks likely.

ING forecasts (mkt fwd)	1M 160 (157.85)	3M 154 (156.96)	6M 152 (155.78)	12M 151 (154.07)

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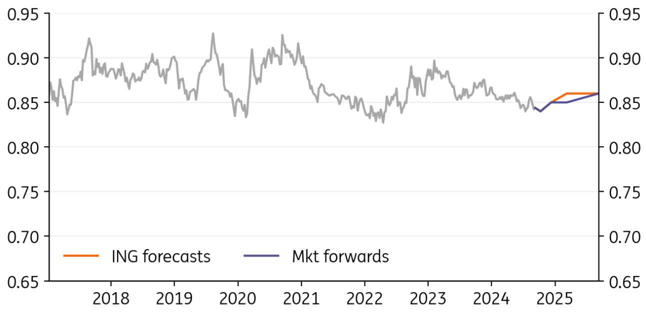
EUR/GBP

No sign of a trend change yet

Current spot: 0.8438



Source: Refinitiv, ING forecasts

- Sterling continues to hold firm, with the BoE in no hurry to get rates lower. The UK activity data has been quite good too – in contrast to the sluggish performance of the eurozone. Here the UK's relatively small manufacturing sector is a distinct advantage. Yet, we think the BoE will want to bring rates lower and this can help the support level at 0.8400 firm up.
- However, we have been fighting this EUR/GBP bear trend and there is an outside chance that EUR/GBP makes it all the way back to the 2022 low at 0.8200. The argument here being that the eurozone now has far more political baggage than the UK.
- UK services inflation to still have a big say in BoE and GBP pricing.

ING forecasts (mkt fwd)	1M 0.84 (0.8449)	3M 0.85 (0.8470)	6M 0.86 (0.8502)	12M 0.86 (0.8572)

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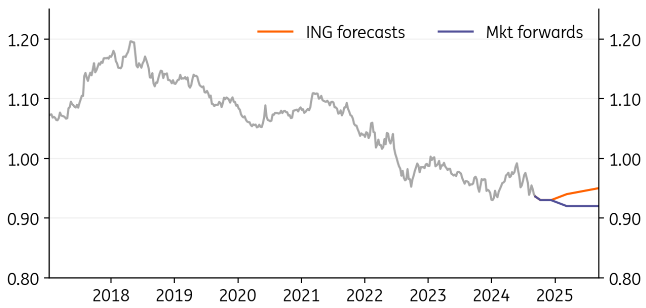
EUR/CHF

Spread compression is weighing

Current spot: 0.9359



Source: Refinitiv, ING forecasts

- Last month we published an article looking at [many of the factors] driving EUR/CHF. Most pressing – and most bearish – is probably the lower global rates environment. Here the market is reluctant to price the Swiss National Bank (SNB) policy rate under 0.50% again – meaning that the EUR:CHF interest rate spread is narrowing.
- Exporters don't like EUR/CHF down here at 0.93. But unless the SNB starts talking of the possibility of using negative rates again, EUR/CHF looks likely to stay pressured around 0.92/93.
- Data over coming months should reveal the SNB starting to buy FX again and we suspect it might be intervening to sell CHF, when USD/CHF trades under 0.84.

ING forecasts (mkt fwd)	1M 0.93 (0.9340)	3M 0.93 (0.9299)	6M 0.94 (0.9244)	12M 0.95 (0.9159)

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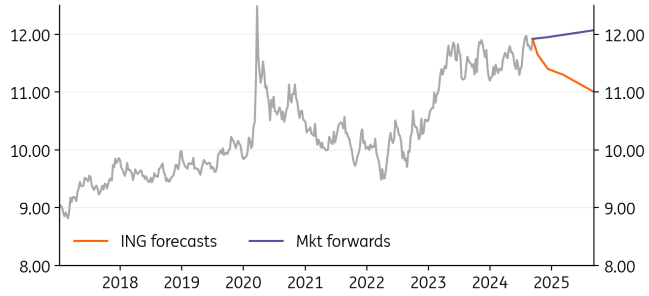
EUR/NOK

Playing the long game on NOK

Current spot: 11.92



Source: Refinitiv, ING forecasts

- An increasing number of FX market observers are pointing at the undervaluation of the krone in the short and medium term. But the relatively illiquid NOK is probably still wearing the scars of the July-August sell-off and keeping markets reluctant to chase EUR/NOK below 11.60-11.70 despite the good external environment and a still hawkish Norges Bank communication.
- We have to admit NOK remains a high-risk currency in the near term and vulnerable to a potential repricing higher in Fed rate expectations. But if a goldilocks scenario plays out for risk assets and high-beta currencies, NOK should rally more than its peers.
- Norges Bank should remain supportive to NOK for a bit longer, but we think it will cut 25bp in December, in line with pricing.

ING forecasts (mkt fwd)	1M 11.65 (11.93)	3M 11.40 (11.95)	6M 11.30 (11.99)	12M 11.00 (12.07)

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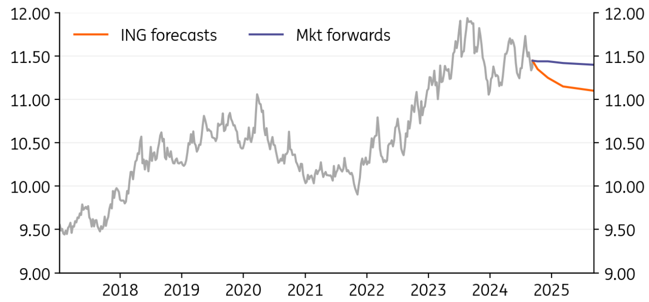
EUR/SEK

Another three Riksbank cuts this year

Current spot: 11.45



Source: Refinitiv, ING forecasts

- The Riksbank's approach to provide rather detailed forward guidance looks here to stay. Governor Erik Thedeen recently said three cuts look more likely than two, as policymakers have clearly grown more relaxed about inflation (core CPIF is at 2.2%) and more concerned about the economy.
- Markets are flirting with the idea of a 50bp cut, pricing in excess of 75bp of easing by year-end. Our baseline view is 75bp, as the Riksbank may not want to diverge too much from the ECB.
- SEK has looked healthier than NOK despite the dovish Riksbank. Given all cuts are already priced in, we are happy with our 11.30-11.40 EUR/SEK near-term target, and a gentle decline afterwards.

ING forecasts (mkt fwd)	1M 11.35 (11.44)	3M 11.25 (11.44)	6M 11.15 (11.42)	12M 11.10 (11.40)

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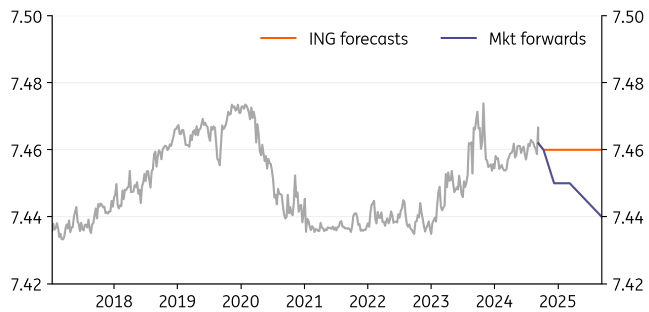
EUR/DKK

Rate cut on the way

Current spot: 7.4619



Source: Refinitiv, ING forecasts

- EUR/DKK faced a bit of pressure at the end of August, perhaps on the back of some month-end flows, but is now back steadily in the 7.4600-7.4620 area.
- Danmarks Nationalbank should cut in September by 25bp, mirroring the ECB move. There are no strong reasons to diverge at this stage given EUR/DKK is at the central peg level and FX interventions sound like an old memory.
- We retain our view that EUR/DKK will stay close to 7.46 in the foreseeable future.

ING forecasts (mkt fwd)	1M 7.46 (7.4594)	3M 7.46 (7.4547)	6M 7.46 (7.4478)	12M 7.46 (7.4364)

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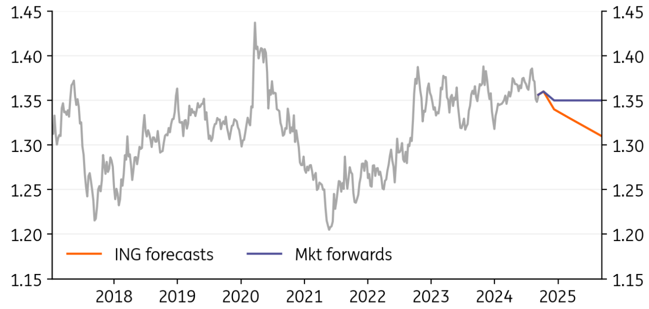
USD/CAD

BoC may stay away from 50bp

Current spot: 1.3563



Source: Refinitiv, ING forecasts

- The Bank of Canada continued to cut rates in September, and we are growing more confident on a 3.0% policy rate by mid-2025.
- Markets are partly pricing in a 50bp move by year-end, likely on the back of yet another rise in unemployment to 6.6% (despite a decent headline payroll print). The Fed may however only move in 25bp steps for now, and the BoC should also prefer the gradual path given all the easing already delivered and risks of excessive divergence with the US. Still, we see the global environment as inconsistent with USD/CAD trading much below 1.35 for now.
- In the coming weeks, US election news (debate, new polls) will become central, and CAD will be a key benchmark of market reaction. The loonie's outperforming AUD and NZD would signal Trump trades being built back.

ING forecasts (mkt fwd)	1M 1.36 (1.3552)	3M 1.34 (1.3530)	6M 1.33 (1.3502)	12M 1.31 (1.3468)

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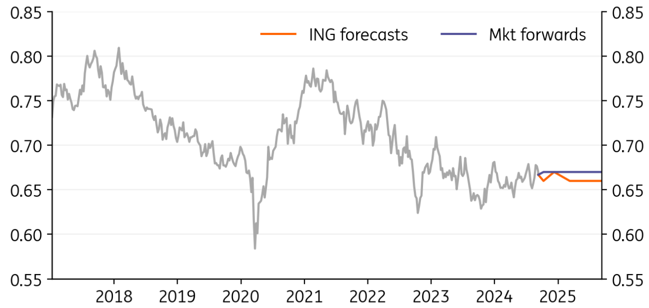
AUD/USD

End of the road?

Current spot: 0.6669



Source: Refinitiv, ING forecasts

- AUD was one of the strongest performing currencies in the past month, but the rally proved very tired at 0.680, and we cannot exclude a short-term drop below 0.6650.
- We believe that part of the Aussie $ strength was due to lower perceived chances of a Trump re-election. If this is the case, AUD can be quite volatile to incoming US election headlines.
- That said, we still think the market is too dovish on the RBA by pricing in 22bp of easing by year-end. We still expect no moves until early 2025 on the back of lingering inflation concerns. That is an AUD positive in theory, but the US election in two months is such a binary event that domestic inputs will be outshadowed.

ING forecasts (mkt fwd)	1M 0.66 (0.6673)	3M 0.67 (0.6679)	6M 0.66 (0.6679)	12M 0.66 (0.6667)

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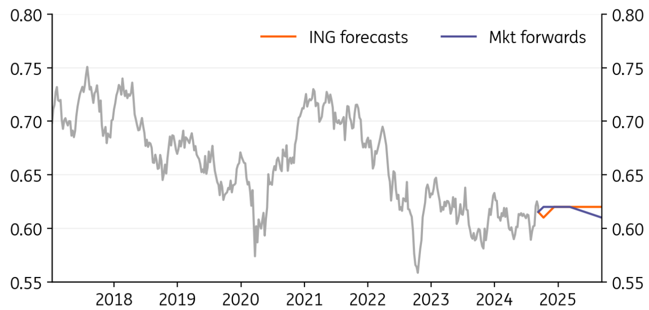
NZD/USD

Stellar performance, despite RBNZ cuts

Current spot: 0.6152



Source: Refinitiv, ING forecasts

- The kiwi dollar was the single best performer in August among major G10 and EM currencies, despite the Reserve Bank of New Zealand surprisingly cutting rates on 14 August.
- All this is a testament of how much the external environment (Fed dovish repricing, equities rebound, Trump trade unwind) is overwhelmingly more important for NZD over the RBNZ.
- Things may not improve much more on the external side at this stage unless the polls start to show a significant build-up in Harris' lead or the Fed cuts 50bp. While there is some room for a physiological correction in NZD/USD, 80bp of RBNZ easing by year-end appear too dovish.

ING forecasts (mkt fwd)	1M 0.61 (0.6152)	3M 0.62 (0.6153)	6M 0.62 (0.6151)	12M 0.62 (0.6145)

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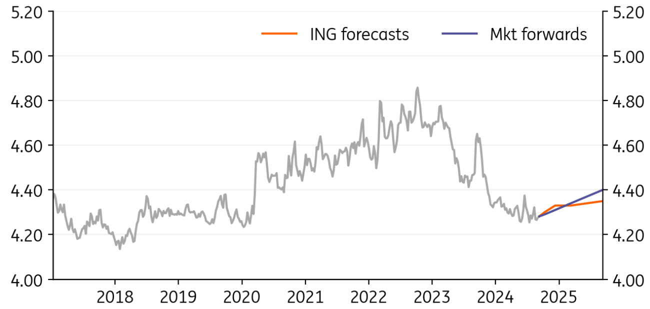
EUR/PLN

NBP easing expectations to undermine the zloty

Current spot: 4.2816



Source: Refinitiv, ING forecasts

- The €/PLN was unable to remain at 2024 lows despite a significant weakening of the dollar. We see risks of €/PLN moving above 4.30 after the summer. The domestic and European macro backdrop should support relatively aggressive National Bank of Poland (NBP) easing, especially as the Bank chairman softened his policy stance recently.
- According to our €/PLN relative value model (gauging the zloty against other market variables), the Polish currency remains slightly overvalued against the euro. While we believe that this is due to quite aggressive market expectations for NBP rate cuts, we do not see those diminishing any time soon. This should effectively cap potential PLN gains by year-end.

ING forecasts (mkt fwd)	1M 4.30 (4.2896)	3M 4.33 (4.3071)	6M 4.33 (4.3381)	12M 4.35 (4.4008)

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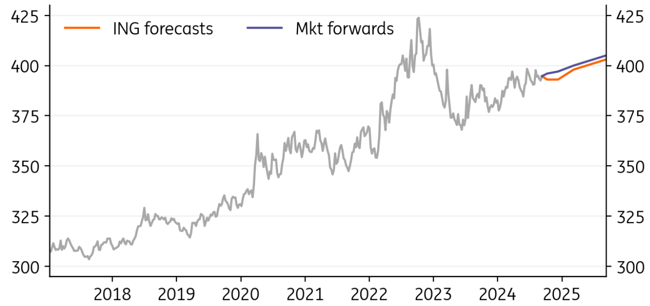
EUR/HUF

Relatively calm waters ahead for HUF in the rest of 2024

Current spot: 394.68



Source: Refinitiv, ING forecasts

- EUR/HUF moved from just below 400 to 392 over the course of August, with the last two weeks of the month trading at the lower end of the range.
- Overall, the external environment is supportive for the HUF, as the upcoming Fed easing cycle is almost certain, which increases the National Bank of Hungary's (NBH) room for manoeuvre.
- For the rest of 2024, we retain a trading range view of 390-400 EUR/HUF as we see two additional 25bp rate cuts from the NBH. In our base case, we would see EUR/HUF more likely to trade in the lower half of this range, while in our alternative scenario (3x25bp cuts), we believe the forint could more likely find support in the upper half of the range.

ING forecasts (mkt fwd)	1M 393 (395.59)	3M 393 (397.39)	6M 398 (399.89)	12M 403 (405.24)

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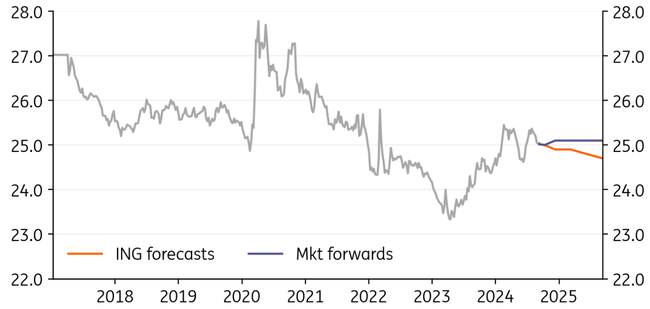
EUR/CZK

25.00 to stay under pressure

Current spot: 25.02



Source: Refinitiv, ING forecasts

- The Czech currency has strengthened to 25 EUR/CZK levels since the soft rate cut in August, supported by the elevated rates outlook in the Czech National Bank summer forecast and hawkish comments from policymakers. We expect the koruna to hover around this level until the next monetary policy decision, which is scheduled toward the end of this month. The continued strength in consumer spending suggested by upbeat retail sales in July will provide the board members with some firepower for their restrictive tone, and so will the continued real wage growth, despite some deceleration in the second quarter.
- The monetary policy stance remains tight, with headline inflation expected to have returned to target in August, so we see another soft cut for the upcoming decision. However, policymakers will likely express reluctance to reduce rates faster, which will contribute to an appreciating trend in the domestic currency after the decision has been made. At the same time, the economic rebound in the second half is less certain due to limping industrial performance amid lukewarm foreign demand and deteriorating consumer and business sentiment. Whether the bank board would support a fading recovery with lower borrowing costs is clearly the right question.

ING forecasts (mkt fwd)	1M 25.0 (25.04)	3M 24.9 (25.06)	6M 24.9 (25.07)	12M 24.7 (25.14)

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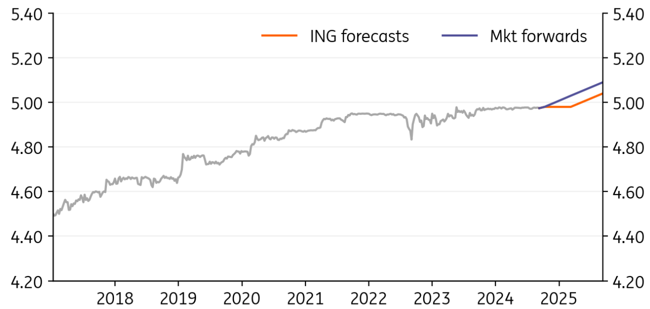
EUR/RON

Slim chances of crossing 5.00 by year-end

Current spot: 4.9742



Source: Refinitiv, ING forecasts

- EUR/RON continued to remain stable in the range of 4.9707 – 4.9858, seeing some small downward pressures towards September, potentially indicative of official offers. Any meaningful departure from current levels remains unlikely in the short run. While disinflation is set to resume as of August, services inflation will likely continue to require National Bank of Romania (NBR) caution. So far, there have been no cracks on the 4.98 resistance.
- Indeed, GDP growth surprised negatively in 1H24, with exports particularly weak. But with wage growth still in double digits and fiscal policy likely to remain loose until 2026-2027, upside risks for inflation remain in place, at least at this stage, keeping the need for FX stability.
- All told, we continue to expect the NBR to keep its tight grip on the currency for the foreseeable future. The chances of crossing the 5.00 level this year are still slim, we think.

ING forecasts (mkt fwd)	1M 4.98 (4.9817)	3M 4.98 (4.9978)	6M 4.98 (5.0260)	12M 5.04 (5.0895)

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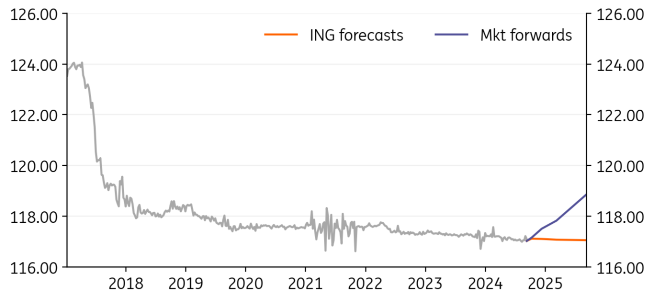
EUR/RSD

No major deviations expected **Current spot: 117.02**



Source: Refinitiv, ING forecasts

- EUR/RSD continued on a stable path close to the 117.00 level. Key positives relate to a change in outlook from stable to positive from Moody's in August, on the back of the recent better-than-expected GDP growth and fiscal performance, as well as good progress on reforms.
- Further interventions from the National Bank of Serbia (NBS) likely cushioned more volatile developments. In July, NBS bought another EUR225mn, following EUR695mn in June. EUR28.1bn in FX reserves is a record.
- These levels offer the NBS increased policy flexibility in the upcoming easing cycle. We expect 50bp more of cuts this year and a pretty flat profile for the pair, with an FX impact of capital inflows likely to remain muted by official interventions.

ING forecasts (mkt fwd)	1M 117.11 (117.15)	3M 117.10 (117.50)	6M 117.07 (117.82)	12M 117.05 (118.86)

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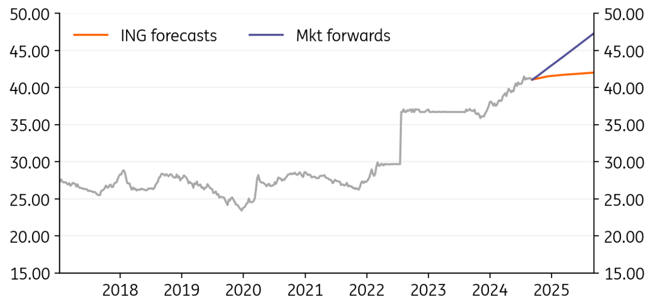
USD/UAH

Negative UAH fundamentals persist. **Current spot: 41.08**



Source: Refinitiv, ING forecasts

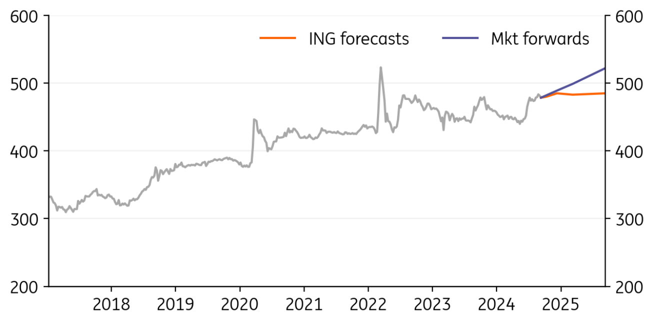
- The hryvnia stabilised in August, largely owing to a positive global backdrop (chiefly easing of the dollar). Short-term prospects of the Ukrainian currency also rely on the external environment. So far, the risks of a Trump US presidency, considered a risk for EM assets (and Ukrainian in particular), have declined considerably. But we are yet to see is if such market perception lasts as we are moving closer to the US elections.
- Medium-term fundamentals behind the hryvnia remain unfavourable. The National Bank of Ukraine seemingly deprioritised stabilising the currency as inflation eased. We also do not expect the significant current account deficit to improve any time soon, remaining a major drag on the currency. Also, prospects for continued, large external aid remain uncertain.

ING forecasts (mkt fwd)	1M 41.20 (41.55)	3M 41.50 (42.61)	6M 41.70 (44.13)	12M 42.00 (47.32)

Piotr Poplawski, piotr.poplawski@ing.pl

USD/KZT

Support from state FX sales continues to decline **Current spot: 478.55**



Source: Refinitiv, ING forecasts

- USDKZT continued to show weakness, depreciating from 475 to 480 in August. The external context was mixed, as cheaper oil prices coincided with global weakening of the US dollar.
- Portfolio flows are likely benign as the NBK refrained from cutting the key rate of 14.25% in August amid some stabilisation of CPI. Based on real rates, Kazakhstan remains competitive, in our view.
- Net of off-market transactions related to Kazatomprom, the FX sales out of the sovereign fund (NFRK) have remained subdued at $420-600 mn per month in July-August vs. $0.6-1.1bn in 1H24. We reiterate our medium-term expectations of a weaker tenge on the declining support from the state FX sales.

ING forecasts (mkt fwd)	1M 480 (482.15)	3M 485 (489.40)	6M 483 (499.09)	12M 485 (521.59)

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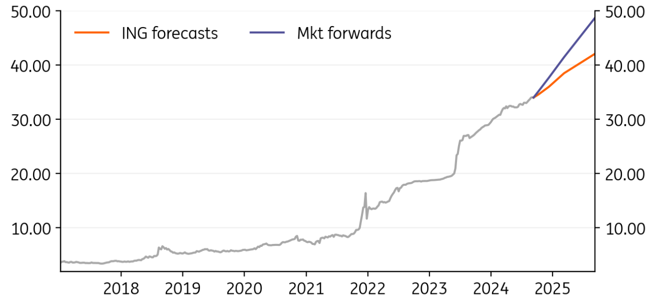
USD/TRY

Macroprudential actions from the Central Bank of Turkey **Current spot: 34.01**



Source: Refinitiv, ING forecasts

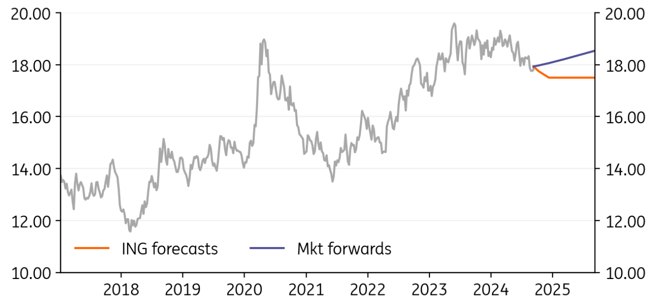
- Since early July, residents' FX deposits increased by US$9.9bn, driven by both households and corporates. Behind this may be the summer current account surplus which leads companies to increase their FX deposit accounts. Another important factor is the exit process from the FX protected deposit scheme.
- The FX deposit expansion accelerated lately as we saw a US$2bn increase in residents' FX deposits, and US$1.9bn outflows from foreign holdings of TRY assets, which resulted in a US$2.5bn decline net FX reserves. Accordingly, the CBT has introduced a series of macroprudential tightening measures with an aim to contain the increase in FX demand from locals.
- The CBT's policy moves will likely: i) push TRY deposit rates higher, ii) limit conversion from FX-protected deposits to FX deposits, iii) help sterilise excess liquidity in the system. Accordingly, we can see a supported TRY after depreciation at a faster pace in August.

ING forecasts (mkt fwd)	1M 34.60 (35.20)	3M 36.00 (37.68)	6M 38.50 (41.46)	12M 42.10 (48.74)

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

USD/ZAR

Rand positively re-assessed **Current spot: 17.93**



Source: Refinitiv, ING forecasts

- With domestic developments in Latin America writing that region off the high-yield investment map, the rand is winning some new friends. Helping that story is the new government and macro. On the former, the new coalition government is enjoying a honeymoon as it discusses reforms. On the latter, 2Q growth was better and the current account deficit is now just 0.9% of GDP.
- The central bank left rates unchanged at 8.25% in July but looks likely to cut rates 25bp on 19 September. Real rates, however, will remain decidedly positive and keep the rand in demand.
- All bets on the rand could be off in November were Trump to win. A heightened trade war with China is clearly bearish for the rand.

ING forecasts (mkt fwd)	1M 17.75 (17.97)	3M 17.50 (18.06)	6M 17.50 (18.21)	12M 17.50 (18.54)

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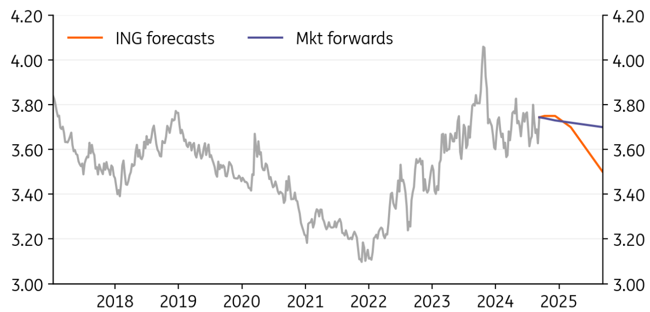
USD/ILS

Shekel is proving remarkably stable **Current spot: 3.7439**



Source: Refinitiv, ING forecasts

- USD/ILS is trading within a 3.60-3.80 range and looks likely to continue doing so for the time being. The policy rate in Israel is currently 4.50% and despite relatively weak growth, inflation will not allow the Bank of Israel to cut rates this year. This is because of supply side constraints – largely down to labour shortages.
- At the same time, Israel's sovereign risk premia continue to trade quite wide. A 10% budget deficit saw Israel downgraded from A+ to A by Fitch in early August, with a negative outlook.
- Of course, huge uncertainty around the war and the risk of escalation is impacting Israeli asset markets. Let's see whether upcoming US elections make much difference in the search for peace. If so, USD/ILS should come lower on the $ bear trend.

ING forecasts (mkt fwd)	1M 3.75 (3.7389)	3M 3.75 (3.7299)	6M 3.70 (3.7177)	12M 3.50 (3.6995)

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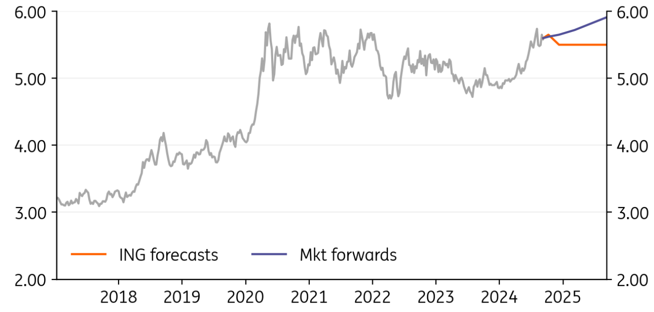
LATAM

USD/BRL

'Fiscal steroids' **Current spot: 5.5992**



Source: Refinitiv, ING forecasts

- Some have described Brazil's strong economic growth of 2Q24 as being driven by 'fiscal steroids.' And certainly, it is the fiscal side weighing on the currency right now. The rolling 12-month budget deficit is now 10% of GDP and expectations of fiscal rectitude are low in 2025 as the Lula administration prepares for elections in 2026. Despite promising a balanced primary budget in 2025, investors question government revenue forecasts.
- Weakness in the real and rising inflation expectations now has the market pricing in a 175bp tightening cycle starting 18 September. Failure to deliver on that could hit the real.
- In late August the central bank sold $2.2bn in spot markets to defend the real. Expect more intervention over coming months.

ING forecasts (mkt fwd)	1M 5.65 (5.6204)	3M 5.50 (5.6520)	6M 5.50 (5.7200)	12M 5.50 (5.9149)

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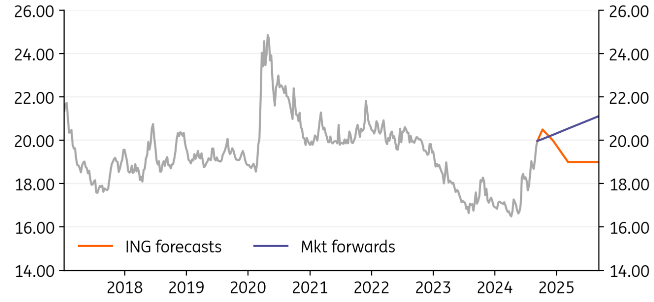
USD/MXN

Morena pushes on with judicial reforms, regardless **Current spot: 19.97**



Source: Refinitiv, ING forecasts

- The peso remains under pressure as the Morena administration pushes ahead with its plan to reform the judiciary. Recall the plan is to have judges, even supreme court judges, elected by popular vote – threatening their independence. Despite financial market unease, these reforms have already passed by a two-thirds majority in the lower house and now head into the Senate. Passage in the Senate could trigger another leg lower in MXN.
- Banxico is trying to hold a dovish line here citing the better path for core inflation. Rates are expected to be cut 175bp over the next year, although a move on 26 September may be too early.
- A lower USD/JPY won't help the MXN recover quickly either.

ING forecasts (mkt fwd)	1M 20.50 (20.06)	3M 20.00 (20.25)	6M 19.00 (20.54)	12M 19.00 (21.12)

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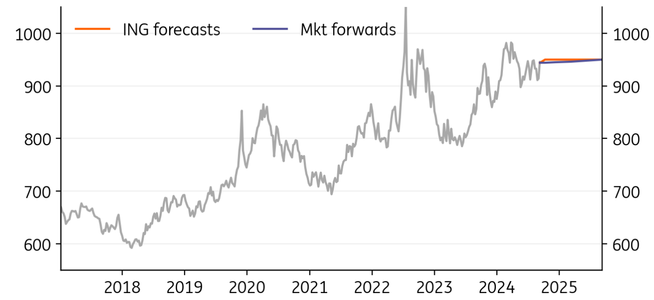
USD/CLP

Scope for faster rate cuts weighs on peso **Current spot: 944.00**



Source: Refinitiv, ING forecasts

- USD/CLP has drifted back to the 950 area, driven by both y softer copper prices and more recently by the last central bank rate cut to 5.50%. It was not the 25bp adjustment which hit the peso, but more the statement saying that rates could be cut faster to neutral (4.25%?). With real rates already relatively low in Chile, the peso did not like the news of further and quicker rate cuts.
- Our commodities team thinks copper prices could stabilise around current levels ($9000/MT), helped by Fed easing and weak Chinese demand already being priced into the metal.
- US elections pose a significant risk to the peso were trade wars with China to ratchet higher to a new level.

ING forecasts (mkt fwd)	1M 950 (944.41)	3M 950 (945.07)	6M 950 (946.22)	12M 950 (949.97)

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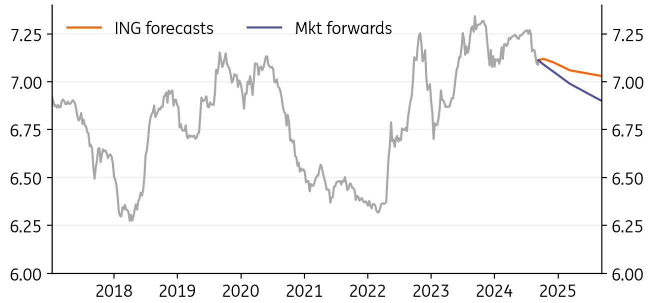
Asia

USD/CNY

Uncertainty ahead as external factors still the main driver **Current spot: 7.1121**



Source: Refinitiv, ING forecasts

- The gradual recovery of the CNY continued over the past month, with the USDCNY pair showing strengthening from 7.18 to around 7.09. Short-term movements may continue to be dominated by external factors.
- China-specific factors continue to favour CNY depreciation due to weak growth, capital outflows, and People's Bank of China (PBoC) easing, but these factors have been priced in for some time. The US election developments are a wildcard for the CNY, with a Trump victory potentially having a depreciation bias for the CNY and vice versa for Harris.
- Yield spreads and PBoC fixing remain the two major factors for the CNY price. Yield spreads will move more in favour of the CNY once the Fed cuts get underway, even if the PBoC continues to cut rates. PBoC fixing continues to resist rapid movements in either direction.

ING forecasts (mkt fwd)	1M 7.12 (7.0894)	3M 7.10 (7.0463)	6M 7.06 (6.9896)	12M 7.03 (6.8952)

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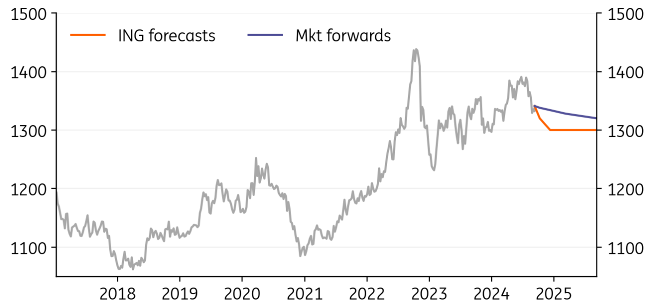
USD/KRW

KRW is likely to strengthen, but with greater volatility **Current spot: 1341.03**



Source: Refinitiv, ING forecasts

- The KRW appreciated by 2.5% as the USD weakened in August. However, volatility grew larger than the previous month.
- While volatility will remain for the time being, the KRW will welcome the Fed's rate cut. The Bank of Korea is likely to cut in October as inflation eased to 2%. But a rebound in home prices and household debt will limit the pace of easing by the BoK.
- As long as there are no clear signs of a recession in the US, the KRW is likely to strengthen. But uncertainty over US politics and policies is likely to limit further KRW gains below the 1300 level.

ING forecasts (mkt fwd)	1M 1320 (1338.48)	3M 1300 (1333.78)	6M 1300 (1327.93)	12M 1300 (1320.01)

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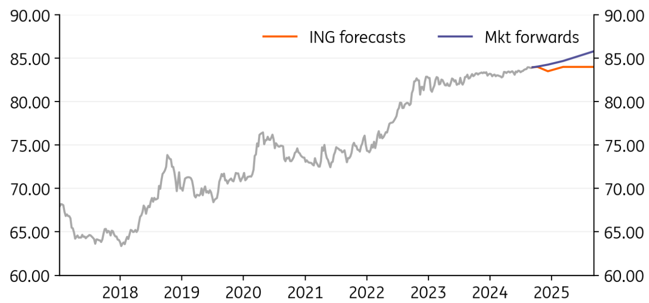
USD/INR

84 **Current spot: 83.95**



Source: Refinitiv, ING forecasts

- The INR has been virtually oblivious to recent market turmoil, staying firm when all other Asian FX was slumping, and weakening as the rest all recovered. This could reflect some reserve building by the RBI, but reserves weren't in bad shape before, so it really isn't clear what is going on.
- The RBI left rates on hold at their 8 August meeting. But there are increasing signs that they are gearing up to ease.
- Inflation remains broadly stable aside from seasonal food price fluctuations, so there isn't much to stop them at upcoming meetings as real policy rates are very high.

ING forecasts (mkt fwd)	1M 84.00 (84.04)	3M 83.50 (84.26)	6M 84.00 (84.68)	12M 84.00 (85.81)

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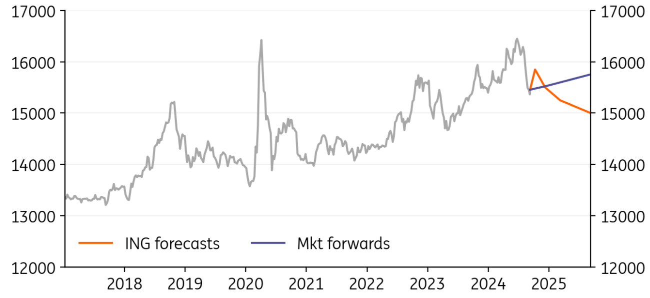
USD/IDR

IDR gains as global rates outlook shifts **Current spot: 15455**



Source: Refinitiv, ING forecasts

- The IDR is up about a percent and a half so far this month, which encompasses all the US payrolls-related turmoil. That puts it at the top end of the Asia pack, just behind the MYR which is up 2.4% over the same period.
- The IDR had been one of the weaker currencies in the first half of the year, and so this could simply reflect a bit of catch up.
- With inflation still respectably low, and the external rates outlook getting increasingly dovish, Bank Indonesia may follow its regional peers by trimming its high policy rates, but we expect it to be cautious and lag behind others.

ING forecasts (mkt fwd)	1M 15850 (15478)	3M 15500 (15522)	6M 15250 (15598)	12M 15000 (15755)

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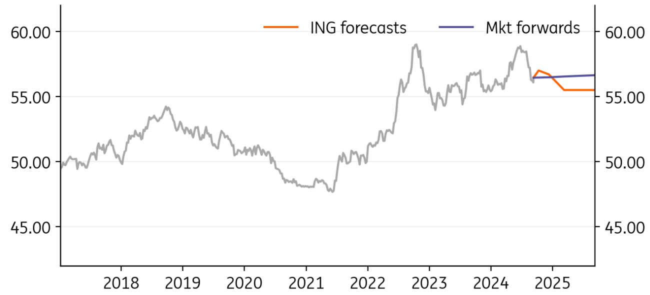
USD/PHP

Higher inflation dampens rate cut prospects **Current spot: 56.45**



Source: Refinitiv, ING forecasts

- The PHP made decent gains in August, just lagging behind the IDR. As well as the general global rates and FX outlook, the PHP has benefited from a dampening of rate cut expectations after higher-than-expected July inflation.
- There could be an additional boost to the PHP from reports that the Philippines is in talks to rejoin the JPMorgan EM bond index.
- So far this year, the PHP has had one of the strongest coefficients with respect to changes in the JPY, so we might anticipate further JPY gains to pull the PHP along faster than some of its regional peers.

ING forecasts (mkt fwd)	1M 57.00 (56.46)	3M 56.70 (56.48)	6M 55.50 (56.54)	12M 55.50 (56.64)

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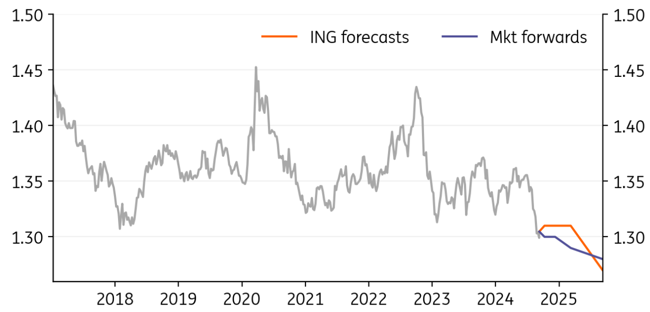
USD/SGD

MAS could follow regional peers later in the year **Current spot: 1.3048**



Source: Refinitiv, ING forecasts

- As you might expect, the SGD has been an upper mid-table performer in the Asian FX league in the month-to-date.
- Not a great deal has changed for the Singapore macroeconomy in recent weeks. The activity data remains a bit soft, and inflation has inched slightly lower, but remains around 3% YoY on a core basis, even if the headline has dropped to 2.4%.
- The latest Monetary Authority of Singapore meeting left all parameters of the SGD NEER target unchanged, but there is a chance that we could see some shift in October, especially if other regional central banks are beginning to trim.

ING forecasts (mkt fwd)	1M 1.31 (1.3025)	3M 1.31 (1.2985)	6M 1.31 (1.2931)	12M 1.27 (1.2845)

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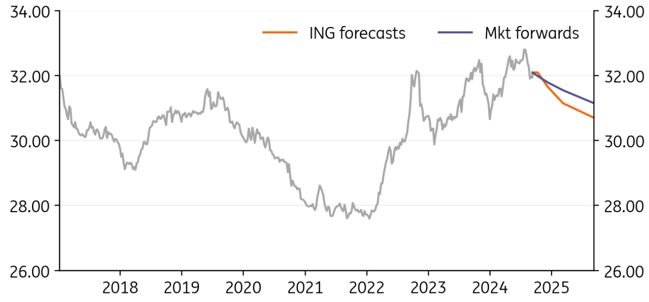
USD/TWD

TWD faces some short-term overhangs, limiting its rally

Current spot: 32.10



Source: Refinitiv, ING forecasts

- The TWD saw some appreciation over the past month, with the USDTWD pair moving down to a low of 31.8 before rebounding to around 32.0.
- Markets pricing in US rate cuts have moved the yield spread to be more favourable for the TWD. However, at the same time foreign funds saw notable outflows from the Taiwan market, which led to relative underperformance versus other Asian FX.
- In the near term, the US elections and the risk of a tech sector pullback are also factors which could drag the TWD relative to other Asian currencies. If these uncertainties are resolved, the TWD has room to see a bounce back later on.

ING forecasts (mkt fwd)	**1M** 32.10 (31.99)	**3M** 31.65 (31.79)	**6M** 31.15 (31.55)	**12M** 30.70 (31.15)

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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	1.11	1.12	1.10	1.10	1.10						
EUR/JPY	158	160	154	152	151	USD/JPY	143	143	140	138	137
EUR/GBP	0.84	0.84	0.85	0.86	0.86	GBP/USD	1.31	1.33	1.29	1.28	1.28
EUR/CHF	0.94	0.93	0.93	0.94	0.95	USD/CHF	0.85	0.83	0.85	0.85	0.86
EUR/NOK	11.93	11.65	11.40	11.30	11.00	USD/NOK	10.79	10.40	10.36	10.27	10.00
EUR/SEK	11.46	11.35	11.25	11.15	11.10	USD/SEK	10.36	10.13	10.23	10.14	10.09
EUR/DKK	7.46	7.46	7.46	7.46	7.46	USD/DKK	6.75	6.66	6.78	6.78	6.78
EUR/CAD	1.50	1.52	1.47	1.46	1.44	USD/CAD	1.36	1.36	1.34	1.33	1.31
EUR/AUD	1.66	1.70	1.64	1.67	1.67	AUD/USD	0.67	0.66	0.67	0.66	0.66
EUR/NZD	1.80	1.84	1.77	1.77	1.77	NZD/USD	0.61	0.61	0.62	0.62	0.62
EMEA											
EUR/PLN	4.28	4.30	4.33	4.33	4.35	USD/PLN	3.87	3.84	3.94	3.94	3.95
EUR/HUF	394.6	393	393	398	403	USD/HUF	357.0	351	357	362	366
EUR/CZK	25.02	25.00	24.95	24.85	24.7	USD/CZK	22.64	22.3	22.7	22.6	22.5
EUR/RON	4.97	4.98	4.98	4.98	5.04	USD/RON	4.50	4.45	4.53	4.53	4.58
EUR/RSD	117.02	117.11	117.10	117.07	117.05	USD/RSD	105.85	104.56	106.45	106.43	106.41
EUR/UAH	45.43	46.14	45.65	45.87	46.20	USD/UAH	41.09	41.20	41.50	41.70	42.00
EUR/KZT	528.9	537.6	533.5	531.3	533.5	USD/KZT	478.5	480	485	483	485
EUR/TRY	37.56	38.75	39.60	42.35	46.31	USD/TRY	33.97	34.60	36.00	38.50	42.10
EUR/ZAR	19.81	19.88	19.25	19.25	19.25	USD/ZAR	17.92	17.75	17.50	17.50	17.50
EUR/ILS	4.14	4.20	4.13	4.07	3.85	USD/ILS	3.75	3.75	3.75	3.70	3.50
LATAM											
EUR/BRL	6.19	6.33	6.05	6.05	6.05	USD/BRL	5.60	5.65	5.50	5.50	5.50
EUR/MXN	22.08	22.96	22.00	20.90	20.90	USD/MXN	19.98	20.50	20.00	19.00	19.00
EUR/CLP	1043.65	1064	1045	1045	1045	USD/CLP	944.01	950	950	950	950
Asia											
EUR/CNY	7.86	7.97	7.81	7.77	7.73	USD/CNY	7.11	7.12	7.1	7.06	7.03
EUR/IDR	17107	17752	17050	16775	16500	USD/IDR	15455	15850	15500	15250	15000
EUR/INR	92.81	94.08	91.85	92.40	92.40	USD/INR	83.95	84.00	83.50	84.00	84.00
EUR/KRW	1484.70	1478	1430	1430	1430	USD/KRW	1342.94	1320	1300	1300	1300
EUR/PHP	62.49	63.84	62.37	61.05	61.05	USD/PHP	56.45	57.00	56.70	55.50	55.50
EUR/SGD	1.44	1.47	1.45	1.44	1.40	USD/SGD	1.31	1.31	1.32	1.31	1.27
EUR/TWD	35.49	35.95	34.82	34.27	33.77	USD/TWD	32.10	32.10	31.65	31.15	30.70

Source: Refinitiv, ING

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