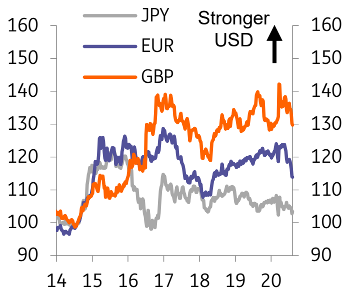
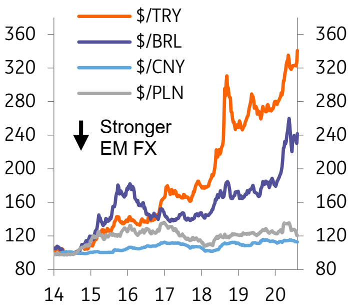
7 August 2020
FX Strategy

USD/Majors (5 Jan 14=100)



Source: Macrobond, ING

USD/EM (5 Jan 14=100)



Source: Macrobond, ING

FX Talking

'Opportunistic reflation' sinks the dollar

Much discussed in financial markets this summer is the drop in US real yields as the Fed keeps rates low, while US inflation expectations are on the rise. Expect this macro-policy theme to play a major role in FX market pricing ahead of a possible Fed adoption of an average inflation target in September. This theme is a broad dollar negative. US election uncertainty will only add to dollar pressure too.

For EUR/USD, that means we bring forward our 1.20 year-end target to 3Q20 and see scope to 1.25, especially were global equity investors to execute on plans to rotate into European equities. Also participating in appreciation against the dollar should be the JPY and CHF, although both nations will try to slow the rally.

Commodity FX should continue to perform well in a reflationary environment. Inevitably there may be some short, sharp corrections after what have been some hefty gains, yet the reflation story looks to have legs. Elsewhere in G10, we doubt GBP holds onto recent gains – even though investors are very underweight.

In the EM space, we prefer the CE3 currencies. These are enjoying riding on the back of the EUR/USD rally as well the direct budgetary benefits of the newly agreed EU Recovery Fund. We prefer BRL in the Latam space and in Asia see cautious gains, although these could be easily undone if we are underestimating how aggressively President Trump will target China ahead of 3 November.

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.19	↑	104	↓	1.31	↑
3M	1.20	↑	103	↓	1.30	→
6M	1.20	↑	102	↓	1.33	↑
12M	1.15	↓	105	→	1.31	↑
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.91	↑	26.10	↑	4.45	↑
3M	0.92	↑	25.90	↓	4.41	→
6M	0.90	→	25.80	↓	4.43	↑
12M	0.88	↓	25.60	↓	4.40	↓
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	7.00	↑	22.35	↓	5.30	↓
3M	6.98	↓	22.10	↓	5.15	↓
6M	6.95	↓	22.30	↓	5.00	↓
12M	6.85	↓	23.00	↓	4.80	↓

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

FX performance

	EUR/USD	USD/JPY	EUR/GBP	EUR/NOK	NZD/USD	USD/CAD
%MoM	8.3	-2.0	3.0	-5.2	9.7	-4.5
%YoY	5.2	-0.1	-2.2	6.7	1.7	1.0
	USD/UAH	**USD/KZT**	**USD/BRL**	**USD/ARS**	**USD/CNY**	**USD/TRY**
%MoM	1.3	-2.5	4.5	11.5	-1.2	6.4
%YoY	8.3	8.3	37.3	60.1	-1.1	31.4

Source: Bloomberg, ING

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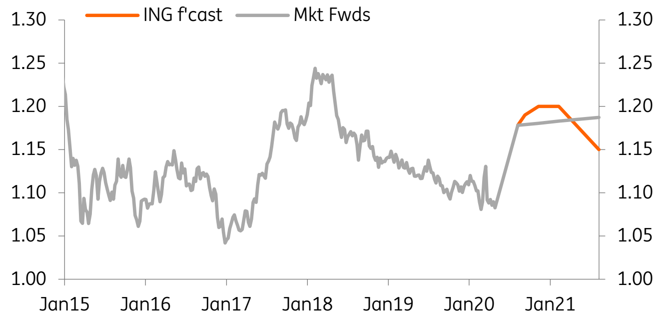
Developed markets

EUR/USD

Two themes, one outcome

Current spot: 1.18



Source: Bloomberg, ING

- Two themes have seen EUR/USD explode higher. First, the likelihood that sluggish US growth prompts 'opportunistic reflation' from the Fed. In practise this could see the Fed switch to average inflation targeting at the 16 Sep meeting and yield curve control. Low rates, while inflation (hopefully) rises would see US real interest rates move deeper into negative, devaluing the USD.
- The second theme is the re-rating of the European project after progress on the EU Recovery Fund. Investors have yet to rotate into European equities, but EUR/$ could trade 1.25 if they do.
- We have a conviction that EUR/$ stays bid into the 3 November election. The winner will have a big say over the future.

ING forecasts (mkt fwd)	1M	3M	6M	12M
	1.19 (1.179)	1.20 (1.180)	1.20 (1.183)	1.15 (1.187)

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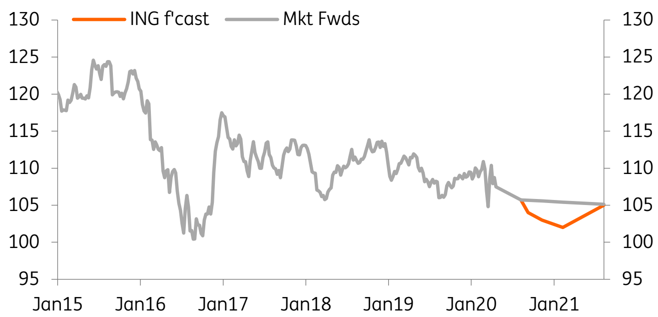
USD/JPY

US real yields look set to weigh on dollar into 2021

Current spot: 105.52



Source: Bloomberg, ING

- USD/JPY's brief foray below 105 in late July was met with a wall of buying. Even though the political environment does not allow MoF FX intervention, there will no doubt be a queue of Japanese fund managers – led by the GPIF – to buy US securities unhedged when USD/JPY dips below 105.
- Pressure from negative US real yields, however, looks set to weigh on USD/JPY over coming quarters. The Fed looks intent on driving US real yields more negative (by keeping the policy rate and possibly US Treasury yields low with YCC), while driving up inflation expectations. This could see $/JPY test 100.
- Stronger Asian FX may see BoJ more relaxed over JPY strength.

ING forecasts (mkt fwd)	1M	3M	6M	12M
	104.00 (105.5)	103.00 (105.4)	102.00 (105.2)	105.00 (105.0)

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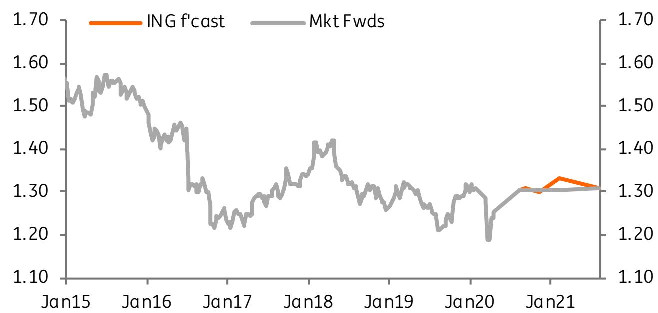
GBP/USD

BoE sounding a little more upbeat

Current spot: 1.31



Source: Bloomberg, ING

- The August meeting saw the BoE in a slightly less pessimistic mood, revising 2020 growth to -9% from -14%. The bounce-back is happening slightly quicker than they expected and importantly they revised up the illustrative CPI profile to 1.75% in 2021 from 0.5%. The debate over negative rates still rumbles, but it really seems it doesn't want to use them while banks are struggling.
- Investors have been underweight UK assets and GBP for a long while now and given the soft dollar environment, we would have to say there are upside risks to Cable short term – eg, to 1.35.
- But difficult trade negotiations with the EU into October stand to easily unravel any GBP optimism and see BoE do more QE too.

ING forecasts (mkt fwd)	1M	3M	6M	12M
	1.31 (1.31)	1.30 (1.31)	1.33 (1.31)	1.31 (1.31)

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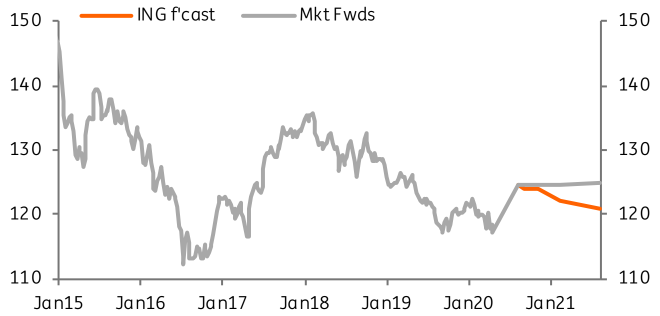
EUR/JPY

ECB more tolerant of EUR strength

Current spot: 124.5



Source: Bloomberg, ING

- On the assumption that the dollar continues to decline, at least over the next 3 months, the question is whether the ECB or the BoJ will be more tolerant over local currency strength? Typically, the BoJ has been more interventionist and as discussed above, Japanese fund managers will play a role in limiting JPY strength.
- If the EUR rallies too far, too fast, we could see the ECB cut inflation forecasts and be prompted into an early top of their PEPP QE scheme. Washington may not like that.
- Both the EUR and the JPY should benefit from asset allocation out of the dollar over coming quarters. IMF COFER data, showing central bank FX reserve allocations, will become a hot topic.

ING forecasts (mkt fwd)	**1M** 124.00 (125)	**3M** 124.00 (125)	**6M** 122.00 (125)	**12M** 121.00 (125)

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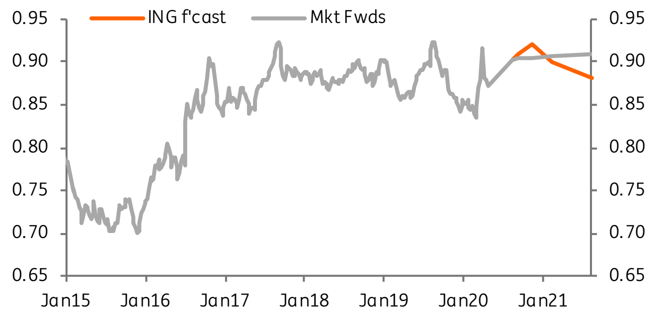
EUR/GBP

Hard to trust the pound

Current spot: 0.90



Source: Bloomberg, ING

- GBP performed well in July. The EUR trade-weighted index rallied 3-4% after the EU Recovery Fund was agreed – but GBP matched those gains. Driving that move was probably a market under-weight GBP, but also the UK economy opening up. In fact the BoE now states the economy recovered more quickly than expected.
- Importantly the BoE assumes that the UK secures a comprehensive free trade deal ahead of year-end. We concur, although expect tense discussions to weigh on GBP into October.
- We note that the global investor community remains very underweight UK equities. Yet we struggle to see the case for re-rating the UK and instead see EUR/GBP heading to 0.92.

ING forecasts (mkt fwd)	**1M** 0.91 (0.90)	**3M** 0.92 (0.90)	**6M** 0.90 (0.91)	**12M** 0.88 (0.91)

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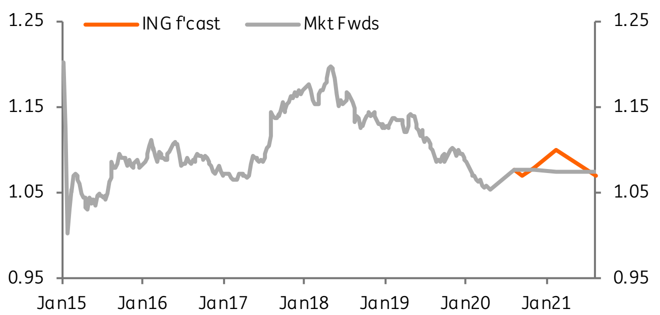
EUR/CHF

USD/CHF finally makes its move

Current spot: 1.08



Source: Bloomberg, ING

- Notably the EUR/USD rally has seen USD/CHF not EUR/CHF taking the strain and confirming that we are seeing the dollar bear trend broadening. This will be tough to take for the SNB. CHF nominal trade weighted indices (TWI) are now pushing to new highs given that the dollar has a large 12% weight in the CHF TWI.
- SNB's FX reserves have been rising at the SNB continues to fight trend appreciation – something that may not be lost on Washington in the next currency manipulation report.
- USD/CHF has come a long way already. Yet the nature of the dollar decline into November US elections – a less benign decline – warns that USD/CHF could break to the 0.86/87 area.

ING forecasts (mkt fwd)	**1M** 1.07 (1.08)	**3M** 1.08 (1.08)	**6M** 1.10 (1.08)	**12M** 1.07 (1.07)

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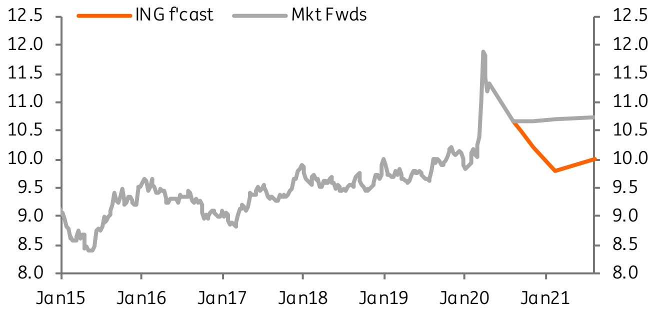
EUR/NOK

Moderating the speed — **Current spot: 10.66**



Source: Bloomberg, ING

- NOK has erased most of its pandemic losses vs USD thanks to its July rally. Now, any additional upside will rely on a continuation of the risk-supportive environment, signs of further strengthening in the oil market and the confirmation of a less pronounced economic slump in Norway compared to the rest of Europe.
- The Norges Bank should not play a key role for the currency for now, even if the modestly hawkish bias that emerged in the June meeting is reiterated in August. Any policy normalization should still be too far in time to be a key factor.
- We look for more moderate NOK gains moving forward. EUR/NOK may find some short-term support around 10.50 before re-joining its downward trend towards 10.00.

ING forecasts (mkt fwd)	1M 10.50 (10.66)	3M 10.20 (10.67)	6M 9.80 (10.69)	12M 10.00 (10.73)

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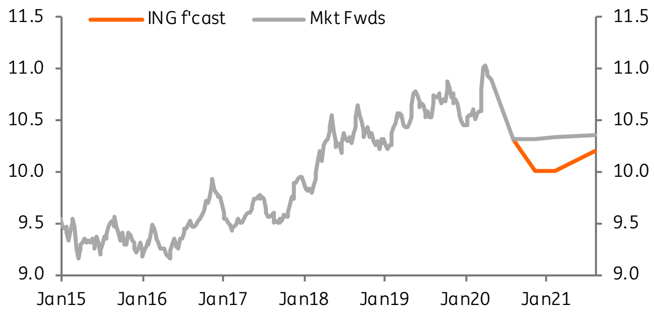
EUR/SEK

Less upside, not less resilience — **Current spot: 10.31**



Source: Bloomberg, ING

- The positive spill-over from the improved EU-related sentiment now appears in the price for SEK, but its extra resilience even in times of fragility for risk sentiment (partly due to its low exposure to commodities) still suggests a fairly solid floor below the krona.
- The soft-light approach to lockdown measures in Sweden has “limited” the economic slump to 8.6% in 2Q, a less severe drop than major EU economies.
- The Riksbank will not meet again until 22 September, but its reluctance to re-embark into negative rates remains a solid point in favour of SEK resilience. EUR/SEK may find some stabilisation around the 10.20/10.40 area in the near term.

ING forecasts (mkt fwd)	1M 10.200 (10.31)	3M 10.000 (10.32)	6M 10.000 (10.33)	12M 10.200 (10.35)

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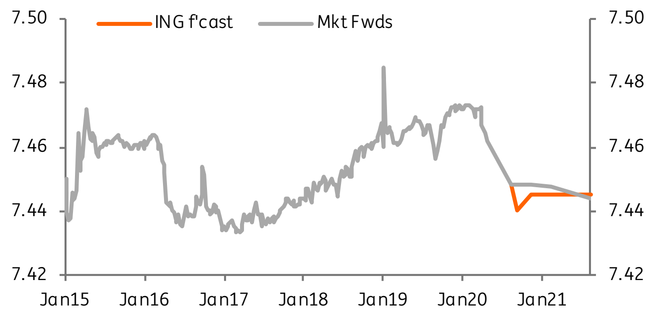
EUR/DKK

DN limits may soon be tested — **Current spot: 7.448**



Source: Bloomberg, ING

- EUR/DKK has rebounded to the 7.4500 mark after an extended depreciation trend, easing the DN's concerns around the krona's excessive strength.
- Still, the relative excess EUR liquidity compared to DKK (favoured by the ultra-accommodative ECB policy mix) keeps highlighting the risk of additional downward pressure on the pair moving ahead.
- Should EUR/DKK drift dangerously close to the 7.4400 level again, market intervention (by offering extra liquidity to the Danish markets) rather than rate adjustments should be the preferred way for Danmarks Nationalbank to defend the pair's floor.

ING forecasts (mkt fwd)	1M 7.440 (7.45)	3M 7.445 (7.45)	6M 7.445 (7.45)	12M 7.445 (7.44)

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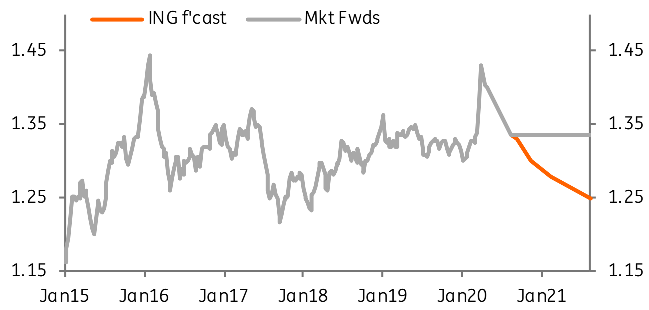
USD/CAD

Short-term obstacles persist

Current spot: 1.337



Source: Bloomberg, ING

- CAD has been the key laggard in the weak-USD story in G10. The pre-existing downside risks to the economic recovery in Canada (the sovereign downgrade was a case in point) paired with a high exposure to the US virus emergency/fresh lockdown measures.
- In order to catch up with the gains displayed by its pro-cyclical peers, CAD will likely have to rely on an improvement in the US virus situation and signs of improved robustness in the oil market.
- On the domestic side, the large fiscal stimulus paired with the BoC support (which should not be scaled back soon) may offer room for a more supportive data flow. We continue to see USD/CAD slowly drifting to 1.30 in 3Q/4Q.

ING forecasts (mkt fwd)	1M 1.33 (1.34)	3M 1.30 (1.34)	6M 1.28 (1.34)	12M 1.25 (1.34)

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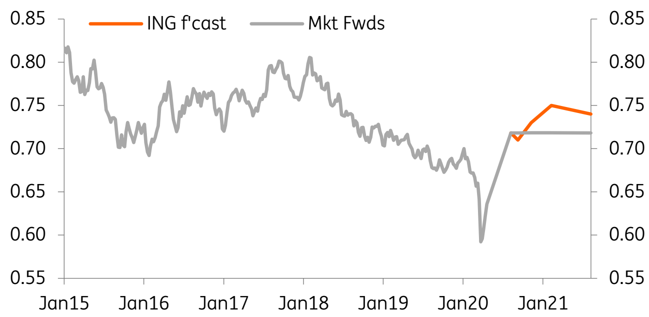
AUD/USD

Strong despite Covid-19 resurgence

Current spot: 0.72



Source: Bloomberg, ING

- The resurgence of Covid-19 in the state of Victoria puts a dampener on what was looking like a "good" Pandemic for Australia. This will weigh on GDP growth in 2H20.
- Despite this, the AUD has performed reasonably this month, helped along by fresh Chinese demand for Australian commodity exports, though it has lost some ground in recent weeks to some of Asia's fiscal big spenders (MYR and SGD)
- While it's difficult to see the market's affinity for the AUD ending any time soon, at current levels, we are not expecting the recent rate of appreciation to persist, and the RBA has yet to weigh in on the currency's strength – which it could do at any time..

ING forecasts (mkt fwd)	1M 0.710 (0.719)	3M 0.730 (0.719)	6M 0.750 (0.719)	12M 0.740 (0.719)

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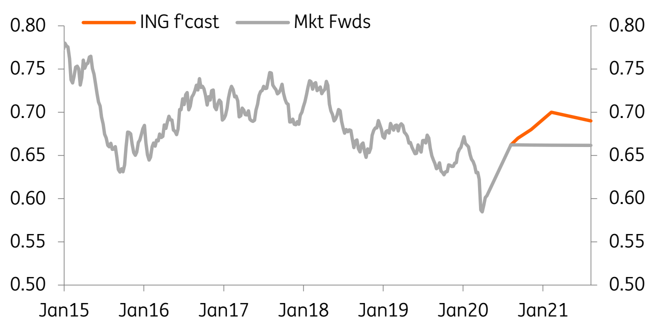
NZD/USD

More easing looming

Current spot: 0.66



Source: Bloomberg, ING

- New Zealand remains a rare Covid-19-free economy in a disease-ridden world. This may work in favour of AUD/NZD downside in the short term (to the 1.06 area) given the asymmetry in virus situations between Australia and New Zealand.
- Weighing on investors' minds is the upcoming 12 August RBNZ meeting. Inflation expectations remain at the low end of the RBNZ's 1-3% target range, and this could see some additional easing announced taking the NZD lower.
- Any easing will probably take the form of some further expansion of the QE bond-buying programme rather than a foray into negative rates, but that's still an option for the RBNZ.

ING forecasts (mkt fwd)	1M 0.670 (0.665)	3M 0.680 (0.665)	6M 0.700 (0.664)	12M 0.690 (0.664)

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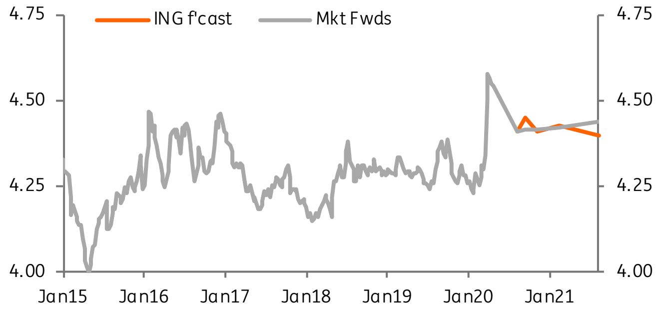
Emerging markets

EUR/PLN

NBP dissatisfied with current PLN position **Current spot: 4.41**



Source: Bloomberg, ING

- EUR/PLN is likely to remain range-bound in the following months, mostly trading above 4.40. NBP seems determined to prevent a stronger appreciation of the zloty to foster the post-pandemic recovery. QE extension is the most likely easing option. Nonetheless, pushing rates into a negative territory cannot be excluded, especially if the Covid-19 second wave in Poland continues to worsen.
- Still, the international environment, particularly the EUR/USD rally, remains supportive for CEE currencies. Moreover, Poland maintains a high current account surplus and is a major beneficiary of the EU Recovery Fund (available funds of 6% of GDP in 2021-24).

ING forecasts (mkt fwd)	1M 4.45 (4.41)	3M 4.41 (4.42)	6M 4.43 (4.42)	12M 4.40 (4.44)

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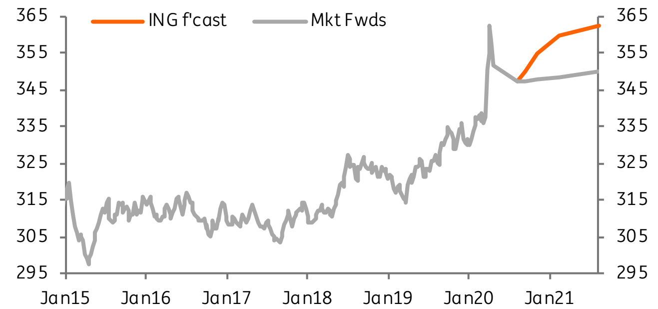
EUR/HUF

HUF is off the hook, for now **Current spot: 347.2**



Source: Bloomberg, ING

- The adjustment in EUR/HUF after the two-month easing period in June-July is now gone. After the surprise moves, HUF went from 345 to the 355 range, but as soon as the NBH signalled in July that it is done with rate cutting, HUF was coming off the hook.
- CEE currencies received strong support from provisional details on the EU Recovery Fund – both from what it means to CEE budgetary support and for the prospects for exports in Western Europe. Against this backdrop, EUR/HUF is now back to 345.
- We see HUF range trading in the summer. By the autumn, the NBH may need to ease again to support economy mainly via its QE programme. It can restart a moderate bear trend in HUF.

ING forecasts (mkt fwd)	1M 350.0 (347.5)	3M 355.0 (348.0)	6M 360.0 (348.5)	12M 362.5 (350.0)

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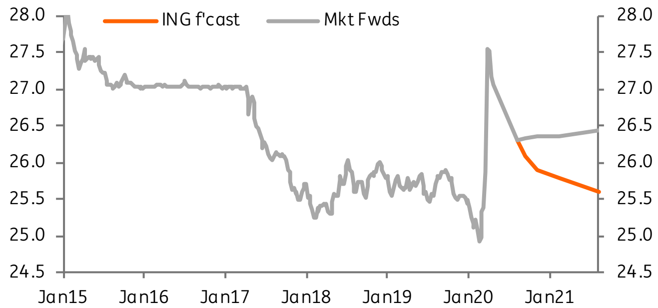
EUR/CZK

Some stability ahead **Current spot: 26.31**



Source: Bloomberg, ING

- The CNB kept rates unchanged during the August MPC as was broadly expected. The press conference was rather neutral, and the central bank signals no further need to adjust its monetary stance for now.
- CPI remains elevated, meaning that deflationary threats seems muted so far. As such, the chance of further easing using unconventional tools seems unlikely now (ie, no negative rates, QE nor FX-floor).
- CZK has appreciated amid the better-than-expected macroeconomic development but mainly driven by global sentiment and the EUR/USD upward move. For now, we expect some stability around the 26 EUR/CZK level.

ING forecasts (mkt fwd)	1M 26.10 (26.32)	3M 25.90 (26.35)	6M 25.80 (26.36)	12M 25.60 (26.43)

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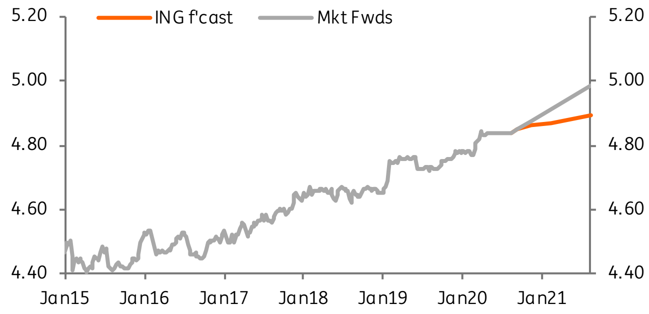
EUR/RON

Summer mood **Current spot: 4.84**



Source: Bloomberg, ING

- The positive market reaction to the proposals for the 2021-2027 EU budget and the Next Generation EU fund hasn't left the leu on the outside. The EUR/RON tested below 4.8300 and subsequently stabilised in the 4.8300-4.8350 area.
- As local elections are getting closer (27 Sep) political tensions are increasing. The opposition threatened a no-confidence vote in mid-August which understandably alarmed the markets. We think the NBR will be there to prevent RON weakness under any outcome.
- We maintain our 4.87 year-end forecast with some asymmetrical risks building up due to the approaching elections.

ING forecasts (mkt fwd)	**1M** 4.85 (4.85)	**3M** 4.86 (4.87)	**6M** 4.87 (4.91)	**12M** 4.89 (4.99)

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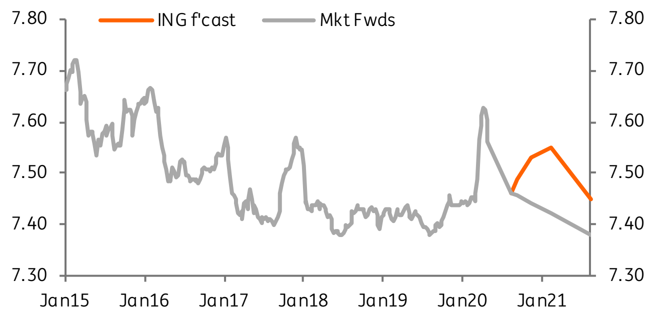
EUR/HRK

ERM-II is finally here **Current spot: 7.46**



Source: Bloomberg, ING

- The central rate for the ERM-II was set at 7.53 with a fluctuation band ranging from 6.40 to 8.66. Meeting the ERM-II requirements will probably be one of the least worries in the CNB's mind.
- Somewhat unexpectedly, the seasonal pattern of kuna appreciation is at work again, supported also by the sizeable allocation that Croatia received at the EU summit (some 40% of GDP altogether). The 7.45 area is a strong support in our view, and we'd expect a return towards 7.50 by the end of summer.
- We revise marginally lower our year-end forecast from 7.55 to 7.53 on the back of the improved market sentiment and the comfortable position of CNB FX reserves.

ING forecasts (mkt fwd)	**1M** 7.49 (7.46)	**3M** 7.53 (7.44)	**6M** 7.55 (7.42)	**12M** 7.45 (7.38)

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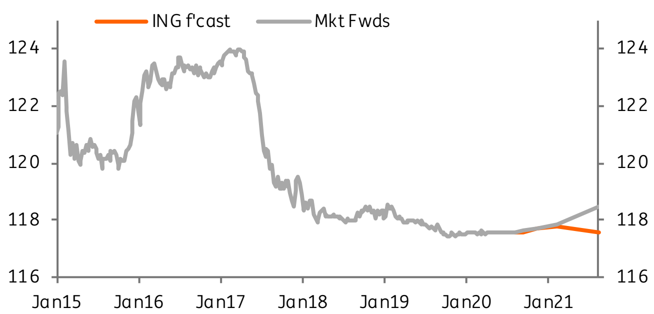
EUR/RSD

Not even a blink of weakness **Current spot: 117.6**



Source: Bloomberg, ING

- With the general elections now behind us and SNS obtaining a large majority (63%), policy continuity is warranted. The economy's resilience to slowdown was confirmed in 2Q20 when the GDP contracted by only 6.5%, better than most estimates.
- The dinar remains one of the most stable currencies in the region, supported by NBS interventions which have become one-sided for some time now – selling euro to prop up the dinar.
- We still expect the NBS to allow a minor depreciation this year towards 117.8 once the pandemic-related restrictions ease further. We nevertheless admit that chances are higher now for peg-type stability to prevail throughout the year.

ING forecasts (mkt fwd)	**1M** 117.60 (117.6)	**3M** 117.70 (117.7)	**6M** 117.80 (117.9)	**12M** 117.60 (118.5)

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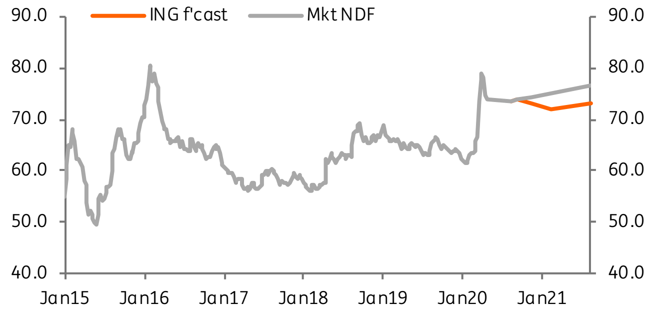
USD/RUB

RUB depreciation comes slightly ahead of schedule

Current spot: 73.65



Source: Bloomberg, ING

- RUB depreciation to 73-74/USD came in faster than we initially expected. The widening in RUB's discount to EM/commodity peers suggests the primary role of local factors, such as corporate dividend payments and cooling in portfolio inflows into OFZ.
- The near-zero current account surplus and lower FX sales by the CBR in 3Q20 suggest persisting RUB vulnerability to external factors, especially in case of reversal in global USD's weakness.
- We maintain our expectations of RUB recovery to 72.0/USD by the year-end on balance of payment seasonality, assuming global risk sentiment and the foreign policy context do not deteriorate.

ING forecasts (mkt fwd)	1M	3M	6M	12M
	74.00 (73.89)	73.00 (74.37)	72.00 (75.08)	73.00 (76.52)

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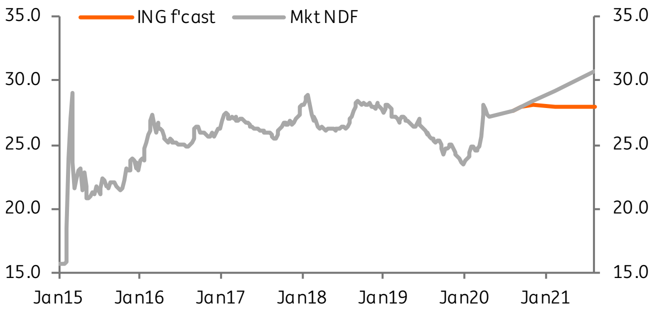
USD/UAH

Appreciation pressures reversed

Current spot: 27.60



Source: Bloomberg, ING

- The NBU was a net FX seller in July of around US$370m. Considering the IMF tranche(s) as well, the NBU will remain in a very comfortable position in terms of FX reserves (possibly close to US$30bn at year-end).
- In our view, the NBU doesn't lack the means, but it might lack the will to protect the hryvnia at current levels.
- We feel more comfortable moving our year-end FX forecast from 27 to 28 at this moment, though we see chance of an even weaker hryvnia given that on the interest rate side the NBU has almost committed to no-change in the key rate for the rest of 2020.

ING forecasts (mkt fwd)	1M	3M	6M	12M
	27.90 (27.91)	28.10 (28.46)	28.00 (29.19)	28.00 (30.78)

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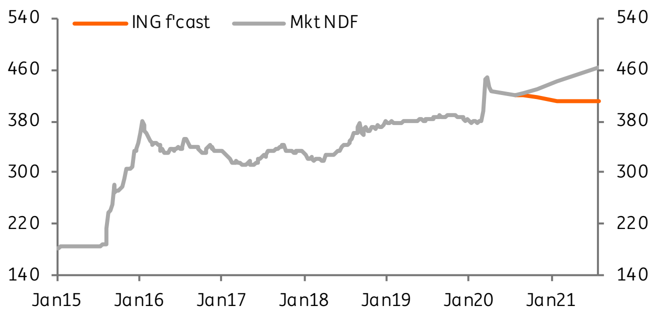
USD/KZT

Tenge to stay pressured in Aug'20 and Sept'20

Current spot: 419.5



Source: Bloomberg, ING

- Tenge depreciation exceeded our expectations despite higher oil prices and oil production exceeding OPEC+ production quota by 0.9%. RUB weakness and internal lockdown measures, prolonged till mid-August 2020, could have complicated matters for KZT.
- To fulfil OPEC+ obligations Kazakhstan should maintain a 21% production cut in August 2020 and September 2020, which is 3ppt stricter than the overall 18%. It is in line with this year's oilfield maintenance schedule, starting in Aug-20 for Kashagan field and Sept-20 for Karachaganak field (in total, 10.9% of oil production in 6M20).
- From October 2020 onwards KZT may appreciate to 410 per USD amid rising oil production, still it is subject to external risks (ie, oil, RUB volatility) and the spread of Covid-19.

ING forecasts (mkt fwd)	1M	3M	6M	12M
	420.00 (422.8)	417.00 (430.1)	410.00 (441.6)	410.00 (463.0)

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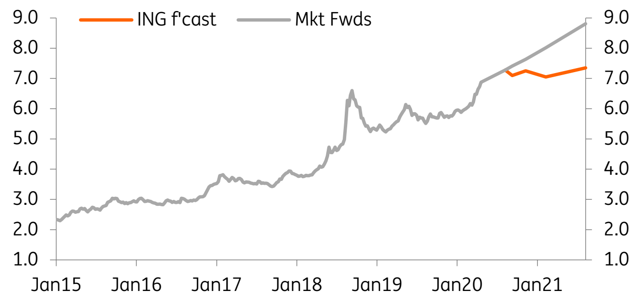
USD/TRY

Gradual shift in the CBT stance



Source: Bloomberg, ING

Current spot: 7.26

- The Turkish central bank has turned less comfortable with the macro backdrop and inflation outlook, signalling a gradual shift in the policy stance. In this regard, it finalized its long rate cut cycle in June and hiked FX RRRs by 300bp last month. In the latest inflation report, the bank raised its year-end and 2021 inflation forecasts. Finally, the bank has started pulling the effective cost of funding gradually higher by changing funding composition.
- The CBT is likely to make no imminent rate change in the near term due to rising risks on the inflation outlook and while focus on financial stability should also be a driver.
- The pace of widening in external deficit and global backdrop should remain key for the TRY performance in the near term.

ING forecasts (mkt fwd)	**1M** 7.10 (7.38)	**3M** 7.25 (7.58)	**6M** 7.05 (7.96)	**12M** 7.35 (8.76)

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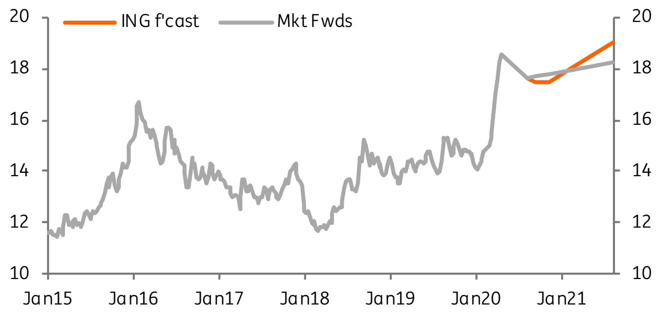
USD/ZAR

South Africa turns to the IMF



Source: Bloomberg, ING

Current spot: 17.62

- On 27 July South Africa was granted a US$4.3bn loan from the IMF via the use of its Rapid Financing Instrument (RFI). This in response to the health crisis and 7% contraction expected in 2020. The IMF now has South Africa debt sustainability in its sights and will want to see progress at the October supplemental budget. Tight fiscal/loose monetary policy will be ZAR negative in 2021.
- July also saw the SARB cut rates to a record low of 3.50%, with the expectation of one further cut. Interestingly, the market does not think the SARB will have an opportunity to cut again.
- SAGBs bond yields at 9% are too high, but we think SAGB buyers may be happy to FX hedge because of the steep yield curve.

ING forecasts (mkt fwd)	**1M** 17.50 (17.68)	**3M** 17.50 (17.78)	**6M** 18.00 (17.93)	**12M** 19.00 (18.22)

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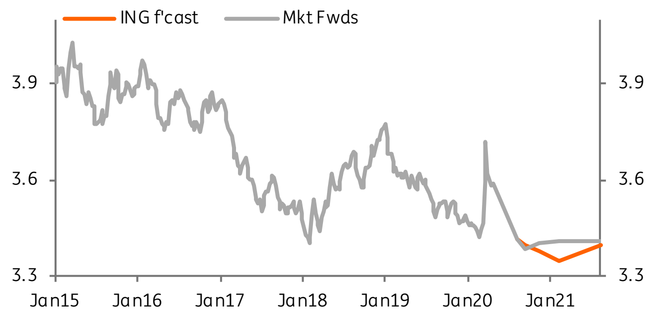
USD/ILS

BoI has its work cut out holding the 3.40 level.



Source: Bloomberg, ING

Current spot: 3.41

- USD/ILS is generally a good gauge of the overall dollar trend, thus it is no surprise to see it pressing the lows at 3.40. True to form, the interventionist BoI has been trying to resist Shekel appreciation, buying US$2bn in June and July. Given an uncertain economic environment (and deflation of -1% YoY), we doubt the BoI is prepared to countenance a much stronger ILS.
- Yet Israel's 4% of GDP current account surplus, helped by gas exports, will keep the ILS in demand as will investors seeking out Israel's high-quality government bonds.
- We expect $/ILS to press 3.38/3.40 over the summer, further BoI intervention and perhaps risk of a break down to 3.35 later in 2020.

ING forecasts (mkt fwd)	**1M** 3.40 (3.39)	**3M** 3.38 (3.40)	**6M** 3.35 (3.41)	**12M** 3.40 (3.41)

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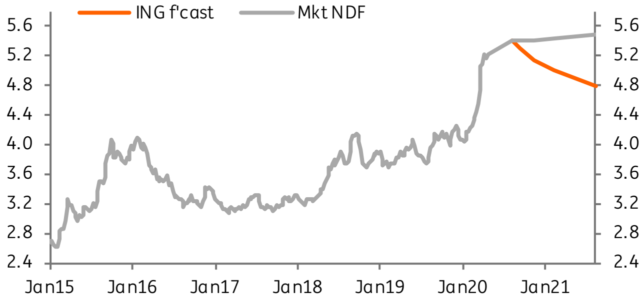
LATAM

USD/BRL

Negative sentiment and unsupportive local rates

Current spot: 5.40



Source: Bloomberg, ING

- The BRL continues to stand out for its outsized volatility, among the largest in EM. The currency has also been weighed down by negative news flow regarding the Covid pandemic, along with the central bank's more aggressive rate-cutting stance.
- The CB confirmed that there's now minimal scope for more rate cuts (from 2.0%), but the bank appears more willing than others to test that lower bound, even at the cost of greater FX volatility.
- Domestic drivers that could eventually turn the tide in favour of the BRL include stronger evidence of a faster economic recovery and legislative action that confirms the commitment to a sustainable fiscal trajectory.

ING forecasts (NDF)	1M 5.30 (5.40)	3M 5.15 (5.41)	6M 5.00 (5.43)	12M 4.80 (5.48)

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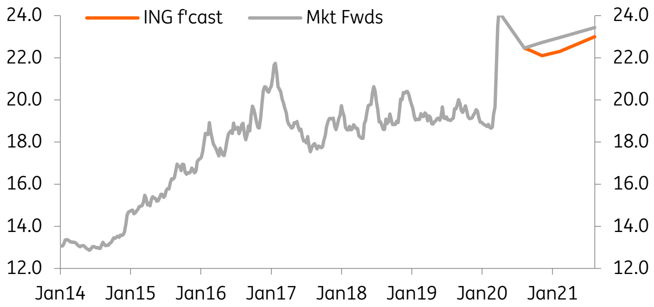
USD/MXN

Yield-advantage partially offset policy mistakes

Current spot: 22.46



Source: Bloomberg, ING

- The MXN performed relatively well in recent weeks, consistent with the supportive carry, and despite the fact that Mexico's post-Covid macro outlook appears especially worrisome.
- Mexico's GDP is likely to face one of the deepest slumps in LATAM this year, but the country has opted for modest countercyclical initiatives, exacerbating the risk of greater permanent damage to the economy, and delaying the eventual recovery.
- The administration's frequent public disputes with the private sector also continues to undermine investor confidence and call into question whether the MXN's persistent yield advantage would suffice to ensure a supportive environment for the MXN.

ING forecasts (mkt fwd)	1M 22.35 (22.55)	3M 22.10 (22.73)	6M 22.30 (22.96)	12M 23.00 (23.43)

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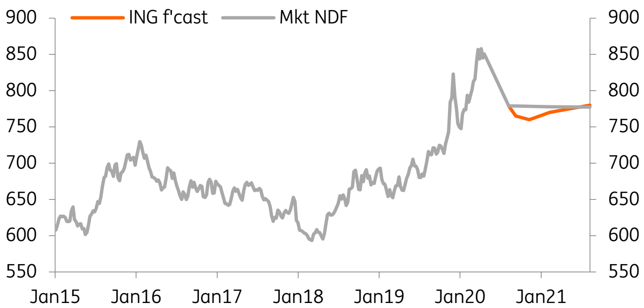
USD/CLP

Copper upside limited by the severe domestic crisis

Current spot: 778.87



Source: Bloomberg, ING

- The CLP was the best-performing currency in LATAM in recent weeks, largely thanks to the sustained rally in copper prices. In fact, if past correlations hold, current price levels for the metal suggests that the currency has further to go.
- High copper prices are partly offset by unsupportive domestic drivers, however. The severe health crisis and latent political and social risks suggest that the likelihood of a more lasting negative reassessment of the country's macro prospects is likely.
- Chile's assertive policy stimulus measures bode well for a faster recovery but the CB's appetite to deliver material additional stimulus through QE could also add downside for the currency.

ING forecasts (NDF)	1M 765 (779)	3M 760 (779)	6M 770 (778)	12M 780 (777)

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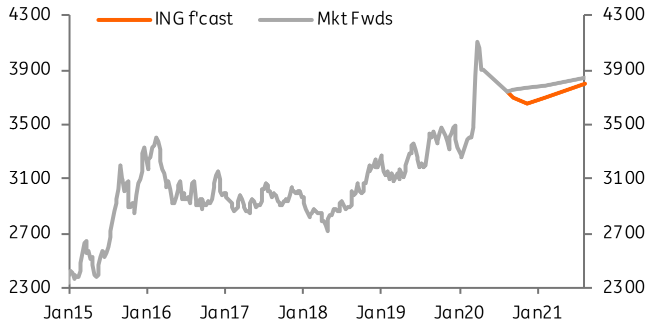
USD/COP

Risk of credit rating downgrades calls for caution

Current spot: 3741.50



Source: Bloomberg, ING

- The COP was the wort-performing currency in LATAM in recent weeks. Concern over lasting post-Covid fiscal damage, and Colombia's precarious "investment grade" status amid continued elevated risk of rating downgrades, suggests that risk of outflows should persist until long-term fiscal dynamics are re-anchored.
- Scope for additional rate cuts, from 2.25% now, is also unsupportive for the COP. Current monetary policy guidance suggests that another 25bp cut is likely.
- The recovery in crude prices, a crucial near-term FX driver, reduces fiscal risks but, considering lingering risks to the macro outlook, we see little scope for near-term COP outperformance.

ING forecasts (NDF)	1M 3700 (3751.26)	3M 3650 (3768.01)	6M 3700 (3790.40)	12M 3800 (3838.75)

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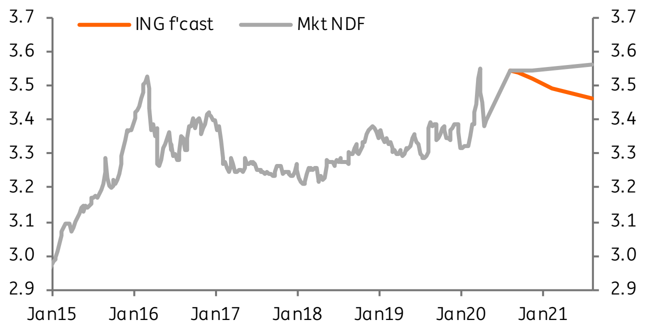
USD/PEN

Aggressive stimulus is unable to prevent a deep recession

Current spot: 3.54



Source: Bloomberg, ING

- Like Chile, Peru is suffering one of the most severe consequences of the Covid-19 outbreak in LATAM. This, together with controversial initiatives advancing in Congress and lingering political instability, add important macroeconomic headwinds for the country.
- Peru's superior ability to deploy economic policy stimulus, including large fiscal outlays and the lowest policy rate in LATAM, should help alleviate the impact of the crisis, but having had the worst contraction in the region so far, it's hard to be optimistic.
- Large FX reserves suggest, however, that Peru should be able to continue to heavily manage its FX dynamics, and shield the PEN from the wider fluctuations that typically affect its EM peers.

ING forecasts (NDF)	1M 3.54 (3.54)	3M 3.52 (3.55)	6M 3.49 (3.55)	12M 3.46 (3.56)

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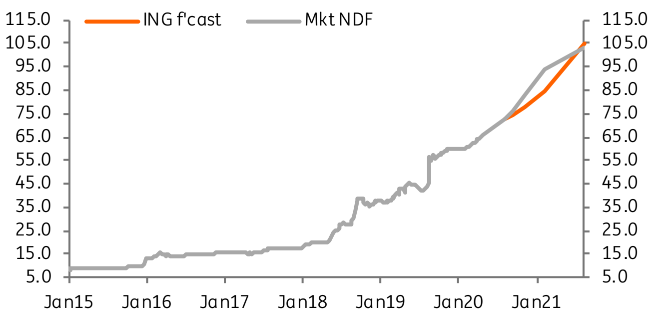
USD/ARS

Optimism as debt-renegotiation concludes successfully

Current spot: 72.76



Source: Bloomberg, ING

- The successful conclusion of the negotiations with external bondholders should allow Argentina to avoid a hard default and start re-negotiating with the IMF.
- Restoring Argentina's macroeconomic outlook towards a sustainable trajectory will be an enormous undertaking, requiring the adoption of a credible policy plan, with the IMF's imprimatur, to revive investor sentiment towards the country.
- The rising fiscal toll and the monetisation of fiscal accounts exacerbated inflationary risks. The premium between the official and the non-official FX rate has widened to almost 70% and remains an important barometer for domestic imbalances.

ING forecasts (NDF)	1M 74.40 (75.80)	3M 78.00 (83.29)	6M 85.00 (94.21)	12M 105.00 (103.46)

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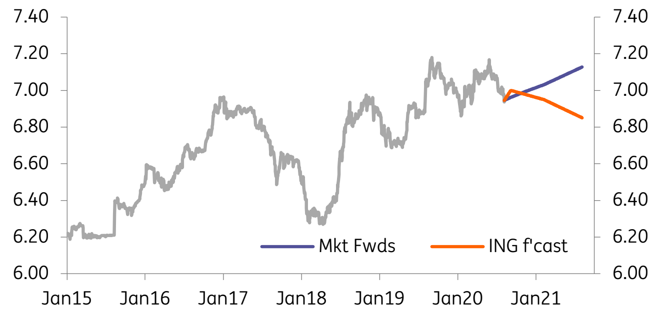
Asia

USD/CNY

Yuan strengthens modestly as USD weakens

Current spot: 6.946



Source: Bloomberg, ING forecasts

- The CNY has strengthened this month, but only modestly compared to the dollar's weakening trend.
- It seems that negative political news on Hong Kong and possibly more bans on Chinese-owned software in the US have not had much impact on the CNY. This further confirms our view that CNY strength comes mainly from the weakness of the dollar.
- Hopefully in 2H20, the export recovery will add further momentum to the yuan's rising trend against the dollar when exporters convert their sales receipts in USD to CNY. We revise our forecast of USD/CNY to 6.97 from 7.05 by the end of 2020. Also look out for the US-China trade review on 15 August.

ING forecasts (mkt fwd)	**1M** 7.000 (6.962)	**3M** 6.980 (6.991)	6M 6.950 (7.031)	**12M** 6.850 (7.128)

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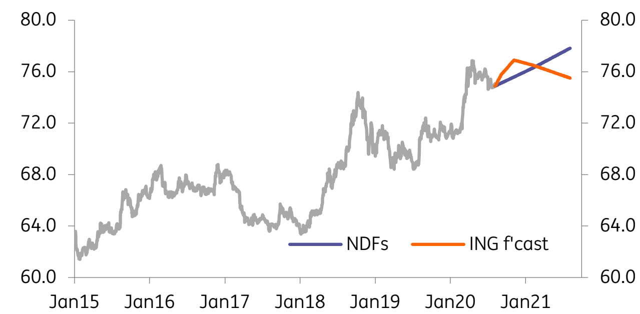
USD/INR

The worst economic fallout of Covid-19 may be behind

Current spot: 74.89



Source: Bloomberg, ING forecasts

- USD/INR has hovered around 75 since July with the broader EM currency rally capping the upside and the economy's worsening Covid-19 plight limiting the downside. We consider the INR prone to more weakness ahead on top of 5% year-to-date depreciation.
- India's Covid-19 cases will have crossed the 2-million mark by the time this report goes out. Hopefully, we have left the worst of the economic fallout from Covid-19 behind in 2Q. We expect close to a 12% YoY GDP fall in 2Q (data due 31 August).
- A sharp deterioration in public finances is keeping the RBI in the picture to deliver further stimulus. But inflation back above the RBI's 6% policy target dampens future rate cut prospects.

ING forecasts (mkt fwd)	**1M** 75.80 (75.13)	**3M** 76.90 (75.59)	**6M** 76.50 (76.30)	**12M** 75.50 (77.84)

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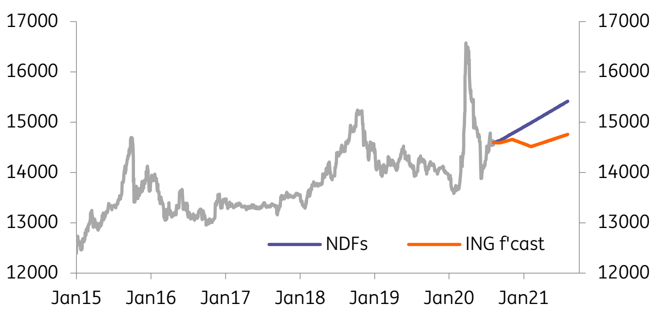
USD/IDR

IDR depreciates on "burden sharing" arrangement

Current spot:14592



Source: Bloomberg, ING forecasts

- The IDR depreciated for most of July with investors anxious over a planned "burden sharing" agreement between the national government and Bank Indonesia (BI). BI agreed to monetize the country's debt, purchasing primary issuances at a discount.
- Bank Indonesia (BI) cut policy rates again as official economic projections were downgraded ahead of the economy's assumed (and then actual) contraction in 2Q. IDR retreated after the rate cut with investors noting a possible shift in central bank focus from currency stability to stimulus efforts to boost the economy.
- IDR moved sideways to close the month with BI stemming depreciation pressure as IDR remains vulnerable to sentiment.

ING forecasts (mkt fwd)	**1M** 14589 (14634)	**3M** 14656 (14774)	**6M** 14514 (14989)	**12M** 14758 (15419)

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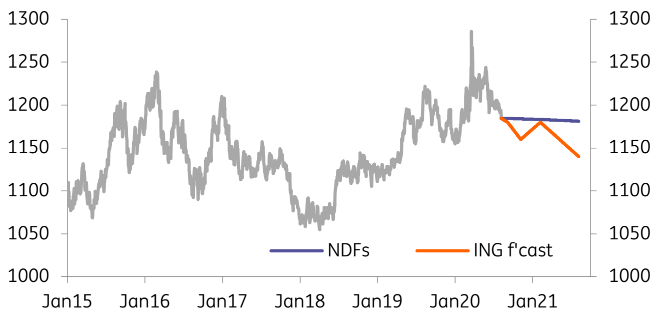
USD/KRW

Correction postponed **Current spot: 1185**



Source: Bloomberg, ING forecasts

- We've been concerned that numerous markets look overbought, including US equities, and by extension, the high beta Asian currencies, like the KRW. But we've given up looking for a correction – there just seems too much liquidity, even when the underlying data isn't all that good.
- This will end one day, but for now, the KRW is likely to continue to appreciate, benefiting from its good Covid-19 performance, reasonable domestic demand, supportive fiscal policies and pick-up in demand for semiconductors and other tech exports.
- A pause/correction later in the year remains possible, reflecting the house view of a turn in the USD at year-end.

ING forecasts (NDFs)	**1M** 1180 (1184)	**3M** 1160 (1184)	**6M** 1180 (1183)	**12M** 1140 (1181)

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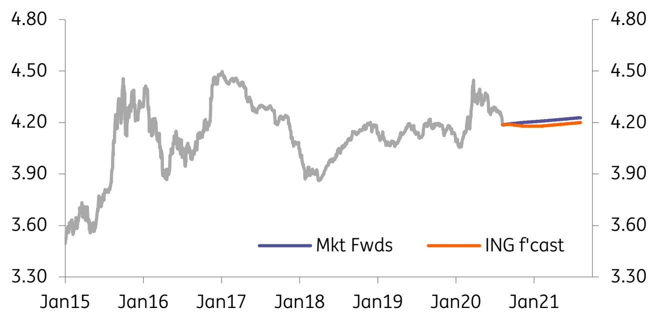
USD/MYR

Central bank easing cycle has further to run **Current spot: 4.187**



Source: Bloomberg, ING forecasts

- Broad EM strength since June has helped the MYR erase almost half its depreciation from earlier in the year, and it is the best performing Asian currency this month. Still, a 2.4% year-to-date loss puts it among Asian underperformers this year.
- 2Q GDP release on 14 August will reveal the economic damage from the Covid-19 lockdown. The economy re-opened in June, and the trade surplus jumped to a record MYR 20.9 billion. Yet, it would be the steepest GDP fall in 2Q since the 1998 Asian crisis.
- Persistent negative inflation leaves the door open to a further BNM policy rate cut after a total of 125bp easing so far this year to an all-time low of 1.75%. We expect rates to bottom at 1.50%.

ING forecasts (mkt fwd)	**1M** 4.190 (4.192)	**3M** 4.180 (4.200)	**6M** 4.180 (4.209)	**12M** 4.200 (4.229)

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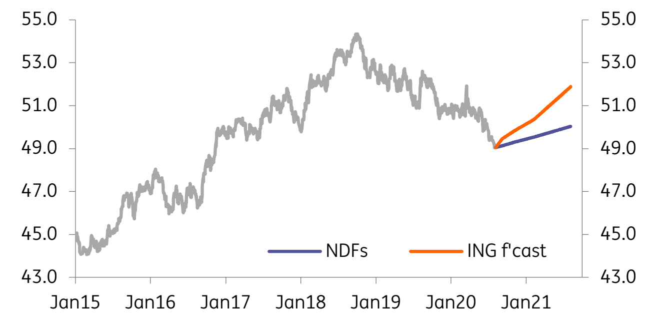
USD/PHP

PHP appreciates as imports drop **Current spot: 49.06**



Source: Bloomberg, ING forecasts

- The PHP appreciated throughout July supported by smaller but steady remittances and foreign borrowing. Demand for the dollar also dissipated with economic activity slowing, evidenced by a substantial pullback in imports.
- Bangko Sentral ng Pilipinas (BSP) Governor, Diokno, reiterated that he would refrain from cutting policy rates over the next few quarters, which has helped keep the peso stable in July.
- PHP will continue to enjoy short-term strength as demand for imports remains weak, reflecting fading domestic economic activity.

ING forecasts (mkt fwd)	**1M** 49.45 (49.13)	**3M** 49.84 (49.31)	**6M** 50.35 (49.54)	**12M** 51.89 (50.04)

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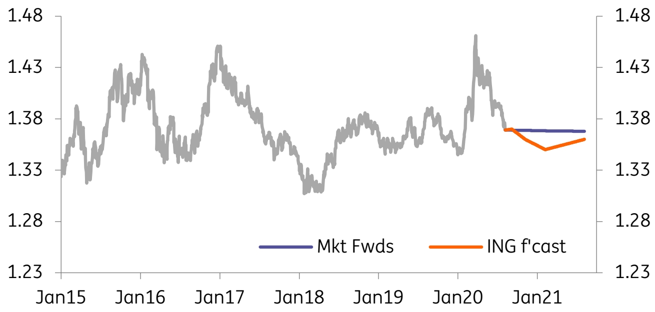
USD/SGD

An Asian outperformer in July **Current spot: 1.369**



Source: Bloomberg, ING forecasts

- Like most Asian peers the SGD has had a good run since June. In fact, it was an outperformer Asian currency in July with a 1.4% appreciation against the USD. We expect the currency to hold on to these gains in the rest of the year.
- GDP suffered its worst-ever fall in 2Q by 12.6% YoY (-41% QoQ SAAR), as per the advance estimate that is at risk of a downside revision on the back of weak June manufacturing. A 2.9% jobless rate in 2Q wasn't as bad as in the recent crisis.
- A large stimulus package worth 19% of GDP seems to be working its way into saving jobs. Whether it holds the line under GDP is to be seen, as this mainly depends on export demand.

ING forecasts (mkt fwd)	**1M** 1.370 (1.369)	**3M** 1.360 (1.369)	**6M** 1.350 (1.368)	**12M** 1.360 (1.368)

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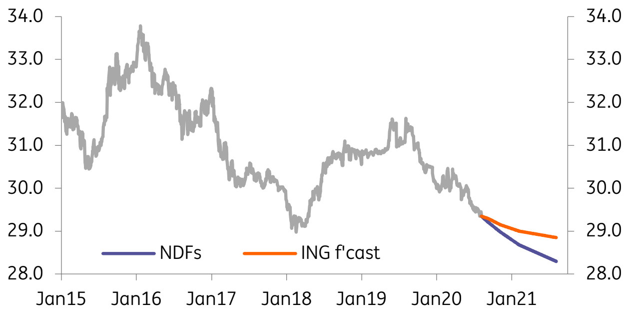
USD/TWD

Speedy strengthening slowed down slightly **Current spot: 29.35**



Source: Bloomberg, ING forecasts

- The flow of capital into the Taiwan stock market seems non-stop though has slowed down a bit. This small, open economy's GDP contraction in 2Q20 didn't stop the inflows. It seems that the financial market has set aside macro indicators for now.
- The economy has only shown strength in one sector – namely integrated circuits. This alone has been enough for Taiwan to attract more foreign capital. But we are sceptical how long this can last.
- We revise USD/TWD forecast to 29.10 by the end of 2020 from 29.40.

ING forecasts (mkt fwd)	**1M** 29.30 (29.22)	**3M** 29.15 (28.98)	**6M** 29.00 (28.68)	**12M** 28.85 (28.29)

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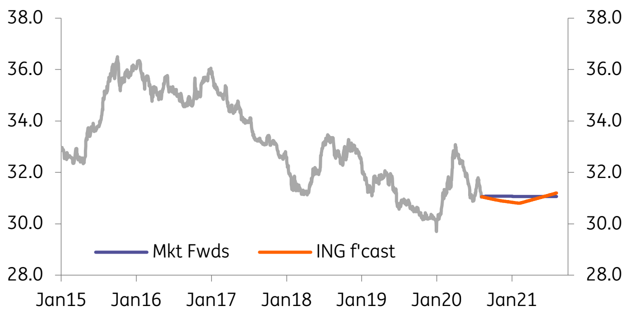
USD/THB

End of central bank easing cycle **Current spot: 31.06**



Source: Bloomberg, ING forecasts

- Renewed THB weakness in the first half of July was a relief for the Bank of Thailand given its worry that the strong currency would hurt the export and tourism recovery. The relief was short-lived. Appreciation pressure returned in the second half of July.
- Look out for the 2Q20 GDP release on 17 August. We now expect a 12.8% YoY GDP fall, revised down from -8.3%. We have also cut our full-year 2020 growth view to -6.6% from -5.4%. It's not as bad as the BoT's view of an 8.1% GDP fall this year.
- A second straight unanimous vote by BoT policymakers to keep the policy rate at 0.5% reinforces that the easing cycle has ended. We don't see any policy reversal for a long time.

ING forecasts (mkt fwd)	**1M** 31.00 (31.08)	**3M** 30.90 (31.08)	**6M** 30.80 (31.07)	**12M** 31.20 (31.06)

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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	1.18	1.19	1.2	1.2	1.15						
EUR/JPY	124.8	123.76	123.6	122.4	120.75	USD/JPY	105.96	104	103	102	105
EUR/GBP	0.9	0.91	0.92	0.9	0.88	GBP/USD	1.3	1.31	1.3	1.33	1.31
EUR/CHF	1.08	1.07	1.08	1.1	1.07	USD/CHF	0.91	0.9	0.9	0.92	0.93
EUR/NOK	10.66	10.5	10.2	9.8	10	USD/NOK	9.06	8.82	8.5	8.17	8.7
EUR/SEK	10.31	10.2	10	10	10.2	USD/SEK	8.75	8.57	8.33	8.33	8.87
EUR/DKK	7.448	7.44	7.445	7.445	7.445	USD/DKK	6.33	6.25	6.2	6.2	6.47
EUR/CAD	1.58	1.58	1.56	1.54	1.44	USD/CAD	1.338	1.33	1.3	1.28	1.25
EUR/AUD	1.64	1.68	1.64	1.6	1.55	AUD/USD	0.72	0.71	0.73	0.75	0.74
EUR/NZD	1.78	1.78	1.76	1.71	1.67	NZD/USD	0.66	0.67	0.68	0.7	0.69
EMEA											
EUR/PLN	4.41	4.45	4.41	4.43	4.4	USD/PLN	3.75	3.74	3.68	3.69	3.83
EUR/HUF	346	350	355	360	362.5	USD/HUF	293.9	294	296	300	315
EUR/CZK	26.31	26.1	25.9	25.8	25.6	USD/CZK	22.35	21.9	21.6	21.5	22.3
EUR/RON	4.84	4.85	4.86	4.87	4.89	USD/RON	4.11	4.08	4.05	4.06	4.25
EUR/HRK	7.46	7.49	7.53	7.55	7.45	USD/HRK	6.34	6.29	6.28	6.29	6.48
EUR/RSD	117.8	117.6	117.7	117.8	117.6	USD/RSD	100	98.8	98.1	98.2	102.3
EUR/RUB	86.81	88.1	87.6	86.4	84	USD/RUB	73.72	74	73	72	73
EUR/UAH	32.5	33.2	33.7	33.6	32.2	USD/UAH	27.6	27.9	28.1	28	28
EUR/KZT	494	499.8	500.4	492	471.5	USD/KZT	419.5	420	417	410	410
EUR/TRY	8.54	8.45	8.7	8.46	8.45	USD/TRY	7.25	7.1	7.25	7.05	7.35
EUR/ZAR	20.74	20.8	21	21.6	21.9	USD/ZAR	17.61	17.5	17.5	18	19
EUR/ILS	4.02	4.05	4.06	4.02	3.91	USD/ILS	3.41	3.4	3.38	3.35	3.4
LATAM											
EUR/BRL	6.39	6.31	6.18	6	5.52	USD/BRL	5.43	5.3	5.15	5	4.8
EUR/MXN	26.44	26.6	26.5	26.8	26.5	USD/MXN	22.45	22.35	22.1	22.3	23
EUR/CLP	929.28	910	912	924	897	USD/CLP	789.43	765	760	770	780
EUR/ARS	85.7	88.54	93.6	102	120.75	USD/ARS	72.77	74.4	78	85	105
EUR/COP	4420	4403	4380	4440	4370	USD/COP	3772.64	3700	3650	3700	3800
EUR/PEN	4.18	4.21	4.22	4.19	3.98	USD/PEN	3.55	3.54	3.52	3.49	3.46
Asia											
EUR/CNY	8.22	8.33	8.38	8.34	7.88	USD/CNY	6.97	7	6.98	6.95	6.85
EUR/HKD	9.13	9.22	9.3	9.31	8.92	USD/HKD	7.75	7.75	7.75	7.76	7.76
EUR/IDR	17305	17361	17587	17417	16972	USD/IDR	14625	14589	14656	14514	14758
EUR/INR	88.65	90.2	92.3	91.8	86.8	USD/INR	74.94	75.8	76.9	76.5	75.5
EUR/KRW	1404.36	1404	1392	1416	1311	USD/KRW	1184.75	1180	1160	1180	1140
EUR/MYR	4.96	4.99	5.02	5.02	4.83	USD/MYR	4.19	4.19	4.18	4.18	4.2
EUR/PHP	58.08	58.8	59.8	60.4	59.7	USD/PHP	49.04	49.45	49.84	50.35	51.89
EUR/SGD	1.62	1.63	1.63	1.62	1.56	USD/SGD	1.37	1.37	1.36	1.35	1.36
EUR/TWD	34.86	34.9	35	34.8	33.2	USD/TWD	29.44	29.3	29.2	29	28.9
EUR/THB	36.73	36.9	37.1	37	35.9	USD/THB	31.15	31	30.9	30.8	31.2

Source: Bloomberg, ING

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