

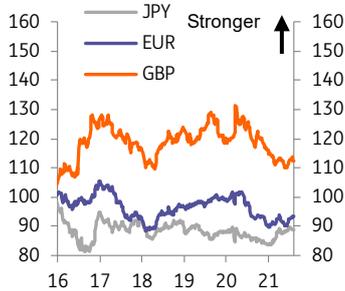
9 August 2021

FX Strategy

# FX Talking

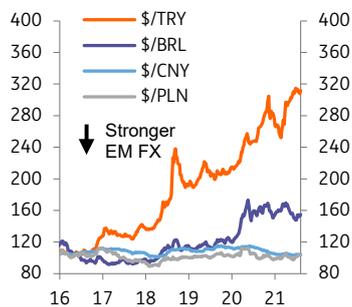
## Some stark divergence

### USD/Majors (5 Jan 14=100)



Source: Refinitiv, ING forecast

### USD/EM (5 Jan 14=100)



Source: Refinitiv, ING forecast

Nearly eighteen months after the emergence of the Covid-19 pandemic, the world's economies are still trying to break free from its grasp. Generally, those nations with strong vaccination records have been better able to withstand renewed waves of the virus. Central banks in those countries have been able to maintain growth forecasts and tick off objectives on their path to monetary normalisation. The Fed falls into this camp.

We expect the Fed to discuss tapering bond purchase at the Jackson Hole symposium later this month. That should firm up expectations that the Fed will start tightening in early 2023 or even late 2022. Our preference is that the dollar enjoys a more powerful rally six months before the first tightening. That's 2Q22. Before then, an orderly tapering cycle and weak seasonality presents a more neutral dollar environment into year-end.

Such an environment allows some stark divergence to play out. Here a very dovish ECB will keep EUR/USD vulnerable towards the bottom of a 1.17-1.23 range. But the start of tightening cycles in New Zealand and Norway should see some FX out-performance, as now could UK after the August BoE meeting. We're also generally bullish on CEE FX with tightening cycles underway or about to start in Czech Republic, Hungary and Poland.

Elsewhere in EM, we are bullish on those currencies backed by aggressive tightening cycles (Brazil and Russia) and also Mexican FX on the remittance story. But the elephant in the room is Renminbi. The Delta variant spread in China and Asia could drag the PBOC into more sustained easing. The speed with which USD/CNY trades above 6.50 bears watching and looks set to cast a shadow over Asian FX as a whole.

### ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.19	↑	110	→	1.40	↑
3M	1.21	↑	111	↑	1.42	↑
6M	1.23	↑	112	↑	1.45	↑
12M	1.20	↑	115	↑	1.45	↑
	EUR/GBP		EUR/CZK		EUR/PLN	
1M	0.85	→	25.35	↑	4.55	↓
3M	0.85	→	25.30	↑	4.50	↓
6M	0.85	→	25.30	↑	4.40	↓
12M	0.83	↓	25.20	↑	4.43	↓
	USD/CNY		USD/MXN		USD/BRL	
1M	6.55	↑	19.75	↓	5.10	↓
3M	6.60	↑	19.75	↓	5.25	↓
6M	6.75	↑	19.75	↓	5.50	↑
12M	6.80	↑	20.50	↓	6.00	↑

↑ / → / ↓ 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	NZD/USD	USD/CAD
%MoM	-0.8	-0.5	-1.3	2.1	0.3	1.0
%YoY	-0.3	4.1	-6.0	-2.0	5.9	-6.0
	USD/CNY	USD/MXN	USD/BRL	EUR/PLN	EUR/CZK	USD/TRY
%MoM	0.1	0.5	2.5	1.0	-0.8	-0.6
%YoY	-7.0	-11.2	-2.1	3.7	-3.1	21.4

Source: Refinitiv, ING forecast

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# Developed markets

## EUR/USD

### ECB gets its way with the Euro

**Current spot: 1.1763**



Source: Refinitiv, ING forecasts

- EUR/USD has come under steady pressure after the ECB shifted to a symmetrical 2.0% inflation target in late July. While not quite as aggressive as the Fed's average inflation targeting, the ECB's new policy has still managed to drive real EUR interest rates down to new lows for the cycle and hit the trade-weighted EUR.
- This comes at a time when the Fed is preparing to normalise policy. Recent comments from Vice Chair Clarida suggest the Fed could be ready to tighten in early 2023. With US jobs numbers likely to improve into September, \$ can stay bid, EUR/\$ pressing 1.17.
- Our preference is for a 1.17-1.23 range into year-end (dollar is seasonally weak at end year), but risks are clearly skewed lower.

<b>ING forecasts (mkt fwd)</b>	<b>1M 1.19 (1.1770)</b>	<b>3M 1.21 (1.1784)</b>	<b>6M 1.23 (1.1810)</b>	<b>12M 1.20 (1.1855)</b>
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## USD/JPY

### At the forefront of the dollar rally

**Current spot: 110.15**



Source: Refinitiv, ING forecasts

- USD/JPY has held up pretty well in the face of the drop in US 10-year yields under 1.20%. Our bond strategy team feel that thin summer conditions and heavy Fed buying are behind the drop in US yields – such that the move will be reversed in September. That could keep \$/JPY supported even though speculators are reasonably short JPY already.
- Probably the biggest risk to USD/JPY now is that the Delta variant shuts down Asia and especially China more broadly – prompting a re-assessment of global growth and equity valuations.
- But that seems a risk case at present. Instead, a Fed sounding quietly confident can see US money market rates & \$/JPY firm up

<b>ING forecasts (mkt fwd)</b>	<b>1M 110.00 (110.12)</b>	<b>3M 111.00 (110.07)</b>	<b>6M 112.00 (109.93)</b>	<b>12M 115.00 (109.72)</b>
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## GBP/USD

### BoE sounds more confident

**Current spot: 1.3877**



Source: Refinitiv, ING forecasts

- In a world divided between growth concerns/low inflation/easy policy and confidence in the recovery/tighter policy, the BoE has recently taken a firm step into the latter camp. Despite rising case numbers, growth forecasts held up well and the BoE now feels it will be necessary to tighten over its 3yr forecast horizon.
- Currently the market prices the first full 25bp hike in November 2022 – pricing which will bounce around over coming months. How steeply UK unemployment rises when furlough support schemes end in September will be a very important factor.
- BoE policy now means GBP can withstand dollar strength a little better, though equally Cable's upside looks pretty limited too.

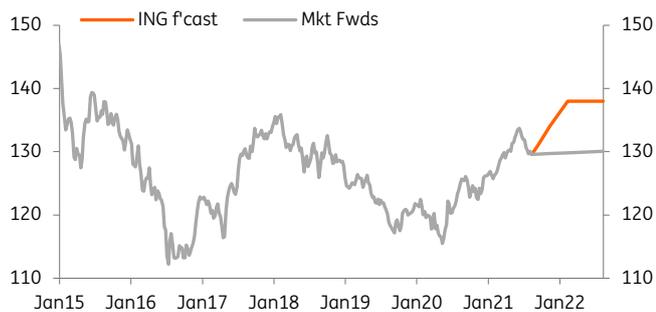
<b>ING forecasts (mkt fwd)</b>	<b>1M 1.40 (1.3879)</b>	<b>3M 1.42 (1.3881)</b>	<b>6M 1.45 (1.3885)</b>	<b>12M 1.45 (1.3876)</b>
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## EUR/JPY

### The battle of the low yielders

**Current spot: 129.56**



Source: Refinitiv, ING forecasts

- EUR/JPY has corrected lower over recent months in line with the US 2-10-year Treasury curve – effectively pricing slower global growth. Our rates team feel that the US curve move is distorted by summer markets and that a return to some steepening should start in September. That could give EUR/JPY a lift.
- This year’s commodity boom has also thrown up some challenges for Asia. We normally assume Asia wants weaker currencies to support exporters, but with Japan and China on the wrong end of higher commodity prices, it seems that China might prefer a stable CNY. Could we see the same from Japan?
- Overall, we think EUR/JPY follows global growth – which is still up.

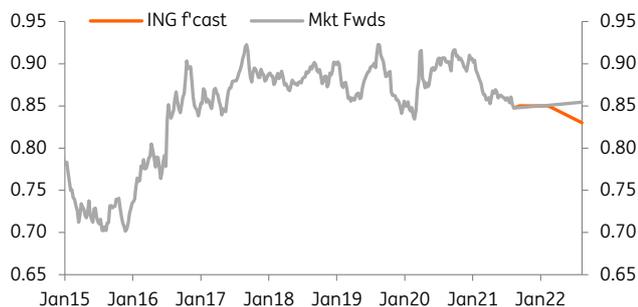
<b>ING forecasts (mkt fwd)</b>	<b>1M 131.00 (129.60)</b>	<b>3M 134.00 (129.70)</b>	<b>6M 138.00 (129.82)</b>	<b>12M 138.00 (130.06)</b>
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## EUR/GBP

### BoE makes the difference

**Current spot: 0.8477**



Source: Refinitiv, ING forecasts

- There are some definite signs of life trying to return to normal in the UK. And the BoE has acknowledged that in its latest Monetary Policy Report and avoided cutting growth forecasts. BoE policy stands in stark contrast to ECB policy, however. The debate has now switched to whether the ECB loosens policy even further to get inflation back to the 2% target.
- This could mean a window for EUR/GBP to break lower. A move below 0.8470 warns that the drop extends to 0.8280.
- One fly in the ointment for GBP is political event risk. The EU:UK has extended the grace period for chilled meats to Northern Ireland until 30 September 2021. Failure to reach a deal then could spark EU tariffs.

<b>ING forecasts (mkt fwd)</b>	<b>1M 0.85 (0.8482)</b>	<b>3M 0.85 (0.8491)</b>	<b>6M 0.85 (0.8507)</b>	<b>12M 0.83 (0.8544)</b>
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## EUR/CHF

### Testing the SNB’s tolerance.... at 1.03 perhaps?

**Current spot: 1.0766**



Source: Refinitiv, ING forecasts

- EUR/CHF looks to be one of the primary casualties of the ECB’s new symmetrical inflation targeting regime – which promises lower EUR rates for longer. The ongoing expansion in the ECB’s balance sheet as the ECB prints 100bn of euros per month stands in contrast to the SNB – where FX intervention has slowed.
- One view here is that the SNB has been warned off the huge FX intervention that it undertook last year (eg, buying CHF50bn in 2Q20) by Washington and its FX surveillance policies.
- Low Swiss inflation means the real CHF is not quite as strong as nominal FX rates would suggest. A retest of the 2015 highs in the real exchange rate could mean SNB tolerates 1.03 in EUR/CHF.

<b>ING forecasts (mkt fwd)</b>	<b>1M 1.07 (1.0763)</b>	<b>3M 1.07 (1.0760)</b>	<b>6M 1.08 (1.0754)</b>	<b>12M 1.10 (1.0743)</b>
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## EUR/NOK

**NOK desperately waiting for some better sentiment**

**Current spot: 10.47**



Source: Refinitiv, ING forecasts

- NOK has stayed on a depreciating path in July, likely over-discounting the hiccups in the oil market and the uncertainty about the global recovery as the Delta variant spreads.
- Domestically, a robust inflation and growth outlook offers no reason to doubt the two hikes in 2021 projected by Norges Bank. We expect them to be delivered in September and November.
- Norges Bank hikes are fully in the price, so for the krone to benefit from its improved carry we'll need the interest for carry trades to re-emerge. We are still inclined to think this can happen later in 2021 thanks to a consolidation of the global recovery story, if and when this happens, we see NOK as a key outperformer in G10.

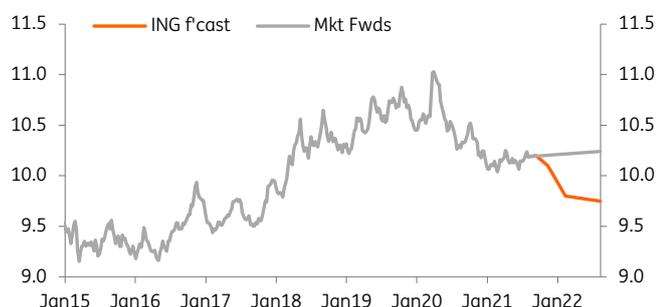
<b>ING forecasts</b> (mkt fwd)	<b>1M 10.35</b> (10.47)	<b>3M 10.20</b> (10.49)	<b>6M 9.90</b> (10.52)	<b>12M 9.80</b> (10.59)
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## EUR/SEK

**Quietly navigating choppy markets**

**Current spot: 10.19**



Source: Refinitiv, ING forecasts

- Latest data endorsed the Riskbank's cautious inflation outlook, as both headline and core reads were lower in June. That means we can expect no hawkish surprises in Sweden anytime soon.
- In a market looking for carry, the unattractive rate profile would prove to be a drag for SEK. Instead, the current choppy risk environment has been by and large neutral for the krona.
- SEK's outlook remains tied to whether the Delta variant will cause a slowdown in the eurozone's economic recovery. So far, the approach of most EU countries seems to exclude restrictions. While we still forecast a slower SEK appreciation rate than higher-yielding currencies (like NOK) if sentiment stabilise, the path for EUR/SEK remains downward sloping, in our view.

<b>ING forecasts</b> (mkt fwd)	<b>1M 10.200</b> (10.19)	<b>3M 10.100</b> (10.20)	<b>6M 9.800</b> (10.21)	<b>12M 9.750</b> (10.24)
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## EUR/DKK

**Questioning the sustainability of DN interventions**

**Current spot: 7.437**



Source: Refinitiv, ING forecasts

- The Danish central bank has continued to sell DKK in July to defend the EUR/DKK peg. Interventions in July were worth DKK5.2bn, up from DKK2.2bn in June.
- We have long highlighted the risk that the Bank would ultimately have to step in with a rate cut - likely a 10bp one - as the FX intervention tool may prove unsustainable in the long run (net interventions in the last six months amount to DKK50bn).
- We doubt this is a story for this month, but lack of evidence that the Danmarks Nationalbank has consistently scaled back interventions is surely rising the risk of a cut in the autumn. Either way, we do not expect the DN to let EUR/DKK slip below the 7.4350 floor.

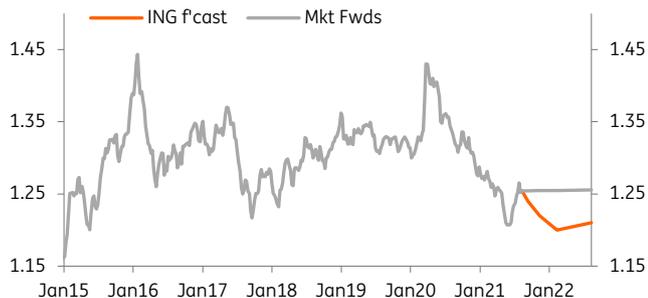
<b>ING forecasts</b> (mkt fwd)	<b>1M 7.440</b> (7.437)	<b>3M 7.440</b> (7.438)	<b>6M 7.450</b> (7.439)	<b>12M 7.450</b> (7.439)
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## USD/CAD

Still expecting a gradual move to 1.20

Current spot: 1.255



Source: Refinitiv, ING forecasts

- CAD retraced to the 1.25 area as the broad unwinding of reflation trades caused an also meaningful unwinding of the loonie's overstretched longs that had been built earlier in the year.
- Domestically, fundamentals have remained very supportive for CAD. The BoC have kept tapering asset purchases as the Canadian economic recovered and we think they will end QE by year-end, which should allow markets to keep speculating that the first hike will come already in 2022.
- In the next months, USD resilience and uneven global recovery sentiment may keep USD/CAD around 1.25, but we still expect the pair to trend lower to the 1.20 area as some stabilisation in sentiment would allow CAD's rate profile to support the currency.

ING forecasts (mkt fwd)	1M 1.24 (1.255)	3M 1.22 (1.255)	6M 1.20 (1.255)	12M 1.21 (1.256)
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## AUD/USD

RBA giving too little help amid mounting downside risks

Current spot: 0.736



Source: Refinitiv, ING forecasts

- The downside risks to AUD have increased over the past few weeks. China's regulatory crackdown and fears of slower recovery (in China and elsewhere) have paired with falling iron ore prices as Beijing took steps to curb steel production.
- Also, parts of Australia are back into lockdown, which is forcing a repricing of growth expectations. Australia's low vaccination rate (only 15% fully vaccinated) suggests new restrictions should remain the preferred way to respond to contagion spikes for now.
- The RBA kept reducing asset purchases gradually, but with forward guidance for the first hike stuck in 2024, it is failing to provide much help to AUD against mounting risks. On the positive side, AUD net-shorts are already overstretched, and the RBA rate expectations have the highest upward potential in the \$-bloc.

ING forecasts (mkt fwd)	1M 0.740 (0.736)	3M 0.750 (0.736)	6M 0.770 (0.736)	12M 0.770 (0.736)
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## NZD/USD

We expect the RBNZ to start hiking this month

Current spot: 0.702



Source: Refinitiv, ING forecasts

- In 2Q, NZ inflation jumped to 3.3% and unemployment dropped to a pre-pandemic 4.0%. When adding a still over-inflated housing market, we expect the RBNZ to deliver a hike on 18 August, and another one by the end of the year.
- Much of the RBNZ tightening cycle has been priced in by the market, but seeing the Bank starting to hike so early should keep fuelling hawkish expectations.
- Ultimately, we expect that the RBNZ hawkishness will help NZD in the remainder of the year, if indeed some stabilisation in sentiment revamps a search for carry in FX. The exposure to China-related sentiment does, however, bear some downside risks.

ING forecasts (mkt fwd)	1M 0.720 (0.702)	3M 0.740 (0.701)	6M 0.740 (0.700)	12M 0.730 (0.696)
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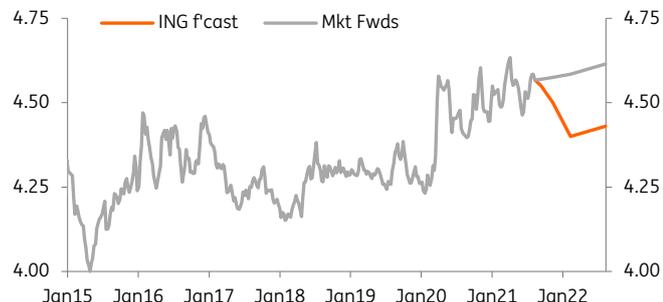


# Emerging markets

## EUR/PLN

Temporarily range bound, PLN gains seen in 4Q21.

**Current spot: 4.57**



Source: Refinitiv, ING forecasts

- We see short term PLN prospects as mixed, given global uncertainty. The zloty is already close to significant undervaluation, so upside €/PLN potential is limited (4.60-63). Unlike other CEE central banks, NBP is yet to start the tightening cycle, so €/PLN should find solid short-term support around 4.54.
- €/PLN should trend towards 4.40 in 4Q21 at the latest. The MPC is gearing towards rate hikes, as elevated CPI proves more persistent than they expected. Moreover, the impact of the fourth pandemic in Poland, a major MPC concern, should be relatively benign. Local industry is diversified and less exposed to supply chain disruptions. Also, the solid vaccination rate (close to the EU average) should prevent meaningful restrictions.

ING forecasts (mkt fwd)	1M 4.55 (4.57)	3M 4.50 (4.57)	6M 4.40 (4.58)	12M 4.43 (4.61)
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## EUR/HUF

Central bank to hike more, supporting the HUF

**Current spot: 353.91**



Source: Refinitiv, ING forecasts

- Since the start of the rate hike cycle in June, EUR/HUF has showed significant volatility both on global risk-off sentiment and on the uncertainty related to the outcome of the Brussels-Budapest debate.
- However, the NBH hikes and the signal to deliver more is a positive for HUF and should stabilise EUR/HUF around 355. Barring any major improvement in the global and domestic risk sentiments, 352/3 will be a significant resistance level in our view.
- We expect the NBH benchmark rate to be at least 2% by year-end. This should be also positive for HUF for the remainder of the year, keeping the cross versus the EUR in check around 355.

ING forecasts (mkt fwd)	1M 352.5 (354.31)	3M 355.0 (355.29)	6M 360.0 (356.94)	12M 360.0 (361.71)
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## EUR/CZK

Czech National Bank delivers another hawkish hike

**Current spot: 25.41**



Source: Refinitiv, ING forecasts

- As widely expected, the CNB followed up the June move with another 25bp hawkish hike in August (policy rate to 0.75%) and dropped strong hints about hiking at each of the September, November, and December meetings. Vojtech Benda was the only Bank Board member voting for 50bp, but Governor Rusnok suggested others were close to joining him with a vote for 50bp.
- We continue to see the CNB as the most hawkish central bank in Europe and would not fight market pricing of the policy rate close to 2% towards the end of next summer.
- CNB forecasts assume EUR/CZK trading down to 24.50 in 2022 and 24.30 in 2023 – adding to the view that CZK is a good store of value.

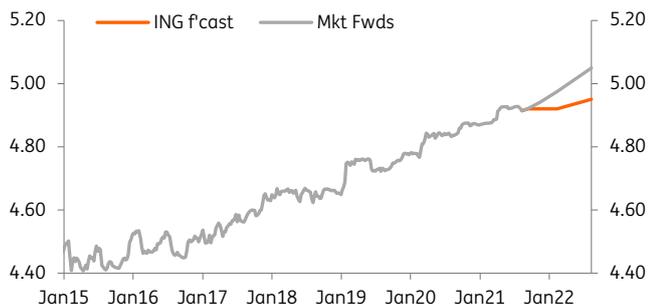
ING forecasts (mkt fwd)	1M 25.35 (25.44)	3M 25.30 (25.50)	6M 25.30 (25.60)	12M 25.20 (25.88)
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## EUR/RON

### Slow pace towards tightening

**Current spot: 4.91**



Source: Refinitiv, ING forecasts

- Much in line with its regional peers, the Romanian leu has been under some appreciation pressure over the past few weeks. As usual though, leu's volatility remains a fraction of what its main peers are experiencing. We see the 4.90 level as a very strong support level for the pair, though admittedly not many support levels have been tested lately.
- The appreciation pressure might have also caused the central bank to pause its deposit-taking operations, which were just gaining some predictability.
- We reaffirm our 4.92 year-end forecast, with the central bank likely to intervene on both sides should volatility increase.

<b>ING forecasts (mkt fwd)</b>	<b>1M 4.92 (4.92)</b>	<b>3M 4.92 (4.94)</b>	<b>6M 4.92 (4.97)</b>	<b>12M 4.95 (5.05)</b>
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## EUR/HRK

### Croatia National Bank to keep buying FX

**Current spot: 7.50**



Source: Refinitiv, ING forecasts

- The central bank's intervention just below 7.50 from mid-June managed to stabilise the EUR/HRK around this level. The tourism and EU-related inflows might require the central bank to remain vigilant should it want to keep the pair close to 7.50 (which we think it will).
- The euro adoption topic has been brought forward again, with HNB Governor Boris Vujcic saying that Croatia will be ready to enter the euro area on 1 January 2023. Should that be the case (and we tend to think it will be), the European Commission needs to make a decision in this respect by mid-2022.
- We maintain our year-end EUR/HRK forecasts at 7.53.

<b>ING forecasts (mkt fwd)</b>	<b>1M 7.48 (7.50)</b>	<b>3M 7.51 (7.50)</b>	<b>6M 7.53 (7.51)</b>	<b>12M 7.49 (7.51)</b>
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## EUR/RSD

### NBS accommodating inflows

**Current spot: 117.58**



Source: Refinitiv, ING forecasts

- The growth story remained strong into 2Q21 as well, with the economy expanding by 13.5%YoY. This has closely matched our estimates; hence we maintain the 7.0% GDP growth forecast for 2021.
- As the spring 2022 general elections loom, government spending is adjusted accordingly. Pensions are set to rise by at least 5.0% in 2022 and another round of one-off aids will be received by pensioners in February-March 2022.
- Although on the rise, the inflation rate is still set to print safely within NBS's 1.5-4.5% inflation target range. Hence, the current accommodative policy stance should stay at least until spring 2022.

<b>ING forecasts (mkt fwd)</b>	<b>1M 117.55 (117.84)</b>	<b>3M 117.55 (117.84)</b>	<b>6M 117.55 (118.94)</b>	<b>12M 117.50 (119.19)</b>
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## USD/RUB

Near-term view has room for improvement

Current spot: 73.45



Source: Refinitiv, ING forecasts

- RUB was somewhat stronger in July than our expectations. The improvement in the EM risk mood and [hawkish Bank of Russia](#) led to an acceleration in the portfolio inflows into local currency public debt (OFZ) from US\$0.6bn in June to US\$2.3bn in July.
- For August we are now a bit more constructive (72-74), as [FX purchases are at US\\$4.3bn](#), in line with expectations, while the current account surplus is expected at US\$6-7bn, portfolio flows are positive, and dividend outflow is nearly over. Also, annual FX purchases can potentially be reduced by up to US\$10bn in 2021-23 due to expected local investments out of the sovereign fund.
- Still, a noticeable ruble appreciation remains outside the base case, unless risks related to foreign politics, persistent [private capital outflow](#) from Russia, and potential tightening in the [Federal Reserve's policy stance](#) are avoided.

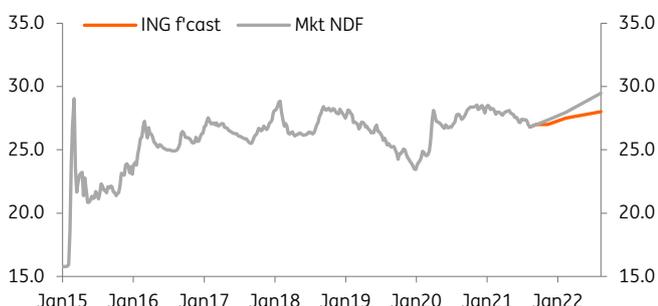
ING forecasts (mkt fwd)	1M 74.00 (73.83)	3M 73.00 (74.61)	6M 72.50 (75.84)	12M 74.50 (78.30)
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## USD/UAH

NBU tightening cycle close to the end, so are UAH gains.

Current spot: 26.79



Source: Refinitiv, ING forecasts

- The Hryvnia found support in decisive rate hikes in Ukraine, pushing the key rate from 6% to 8%. Elevated CPI is likely to force NBU to extend its tightening cycle into late 2021. This should provide some backing for the Hryvnia in 4Q21. Still, given low inoculation levels (only about 5% of population is fully vaccinated against Covid-19), Ukraine is at a significant risk of the next Covid-19 wave. Hence, we see 2H21 UAH prospects as mixed.
- Given moderate growth prospects for 2022-23, the tightening cycle is likely to be concluded this year. The NBU sees CPI returning to the target in 2H22, likely prompting some rate cuts next year. Consequently, we see US\$/UAH moving towards 28.0 in the latter half of 2022.

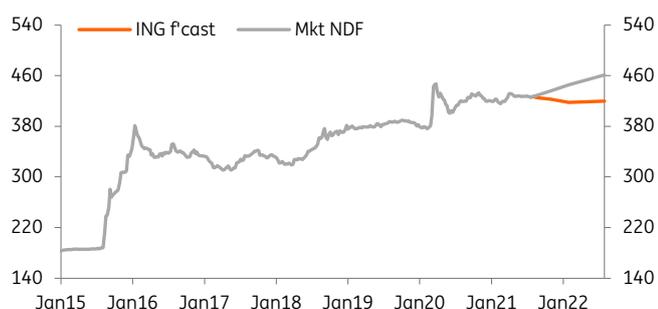
ING forecasts (mkt fwd)	1M 27.00 (26.98)	3M 27.00 (27.35)	6M 27.50 (27.97)	12M 28.00 (29.47)
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## USD/KZT

Stronger oil price and output has offered support

Current spot: 426.65



Source: Refinitiv, ING forecasts

- The tenge appreciated by 0.5% (to 425 vs our 427 outlook) in July thanks to higher oil prices, heightened NFRK FX sales (the July reading was likely equal to or higher than June's US\$1bn, or 2x the May level) and the end of the dividend period.
- OPEC+ is to increase total output by 0.4m bbl/d per month until December 2021, translating into an easing of KAZ's quota by 16,000 bbl/d to 1.49m bbl/d in August, which is supportive of the trade balance.
- Given the benign EM risk appetite, we reiterate our take that KZT still has some room for appreciation, but the spreading Delta variant of Covid-19, low vaccination rollout in Kazakhstan and the uncertainties regarding the prospects of the Fed monetary policy pose risks to this view.

ING forecasts (mkt fwd)	1M 425.00 (430.07)	3M 423.00 (436.13)	6M 418.00 (445.54)	12M 420.00 (461.01)
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Dmitry Dolgin, Russia +7 495 771 7994

## USD/TRY

Headline inflation almost aligned to the policy rate

Current spot: 8.64



Source: Refinitiv, ING forecasts

- Driven by food inflation and administrative price adjustments, annual inflation at 18.95% maintained its uptrend in July, and almost aligned to the policy rate. While core inflation has lost some momentum, inflation dynamics are likely to remain challenging with still buoyant demand conditions, elevated services inflation, and impact of economic reopening. We expect headline inflation to remain above 18% until November before a pronounced decline in the last two months on base effects.
- TRY has outperformed other EM peers in recent weeks on the back of improving tourism, start of a recovery trend in the current account and news around increasing Eurobond issuances signalling a better flow outlook. Given this backdrop, we expect the CBT to remain on hold in the August MPC and in the near term until there is a significant fall in inflation.

ING forecasts (mkt fwd)	1M 8.50 (8.78)	3M 8.90 (9.06)	6M 9.25 (9.51)	12M 9.65 (10.43)
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Muhammet Mercan, Istanbul +90 212 329 0751

## USD/ZAR

Trade surpluses dominate, IMF helps too...

Current spot: 14.63



Source: Refinitiv, ING forecasts

- In spite of civil unrest which the SARB says completely offsets the surprise growth gains of 1Q21, the ZAR remains resilient. Driving that strength is commodity price gains (Terms of Trade still 50% higher YoY) which are being realised in the form of monthly trade surpluses in excess of ZAR50bn (US\$3.5bn+).
- In addition, the IMF's recent US\$650bn top-up in quotas will see US\$4.1bn coming South Africa's way - very useful for a country with relatively low FX reserve coverage ratios.
- Unlike other EMs, South Africa's inflation is very well contained and leaves the SARB in no hurry to hike the 3.50% policy rate. \$/ZAR to stay offered over coming months, but 14.00 looks floor.

ING forecasts (mkt fwd)	1M 14.25 (14.69)	3M 14.25 (14.80)	6M 14.50 (14.98)	12M 16.00 (15.35)
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Chris Turner, London +44 20 7767 1610

## USD/ILS

The Bol works in mysterious ways

Current spot: 3.23



Source: Refinitiv, ING forecasts

- Having spent US\$3.6bn holding \$/ILS above 3.24 through June, the Bol stepped backed in July - only buying US\$500m and allowing \$/ILS to trade close to 3.20. What could be driving the Bol's change of view?
- It could be that after three years parliament has approved a budget and that the Bol did not want to stand in the way of well-earned ILS strength. Notably there were measures in the budget to allow more imports to lower Israel's high cost of living. Does that mean Bol will tolerate a stronger ILS now?
- In addition, inflation is running at 1.7% YoY - highest since 2014. Deflationary fears are receding. Favour a strong ILS until 2Q22.

ING forecasts (mkt fwd)	1M 3.20 (3.23)	3M 3.20 (3.22)	6M 3.20 (3.22)	12M 3.30 (3.21)
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# LATAM

## USD/BRL

### BACEN's turbo-charged tightening

**Current spot: 5.23**



Source: Refinitiv, ING forecasts

- 'Hawkish hike' has been a description used for some EM tightening cycles this year, but looks most appropriate for Brazil. Rates have already been raised 325bp, with 75bp adjustments most recently shifting to 100bp. BACEN has promised another 100bp hike for September, taking the selic rate to 6.25%.
- 7.00% is the conservative estimate for rates at end year, but the market prices rates above 8% through 1H22 as BACEN seeks to keep inflation expectations in check and has concerns over fiscal giveaways in an election year. Growth is seen as strong too.
- BRL to stay supported in 21, but weaken in 22 in an election year and when we expect the dollar to turn higher more broadly.

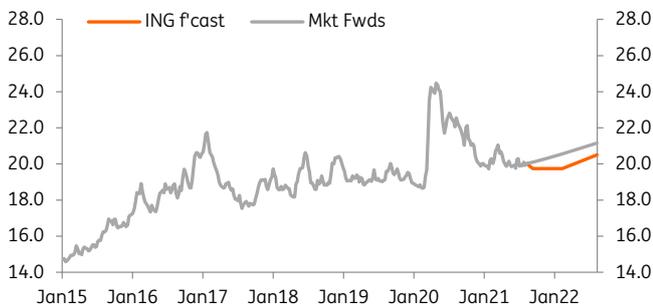
<b>ING forecasts (NDF)</b>	<b>1M 5.10 (5.24)</b>	<b>3M 5.25 (5.30)</b>	<b>6M 5.50 (5.39)</b>	<b>12M 6.00 (5.59)</b>
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## USD/MXN

### MXN is one of our preferred out-performers

**Current spot: 20.02**



Source: Refinitiv, ING forecasts

- Since the Fed's hawkish FOMC meeting of 16 June, only two EM currencies are firmer against the dollar. That's the TRY (+0.75%) and the MXN (+2.3%). Driving that MXN outperformance is the credible Banxico story and also the strong remittances. On the former, Banxico is expected to hike the policy rate 25bp to 4.50% later this month and take it towards the 5.00/5.25% area by year-end as it tries to rein in inflation expectations.
- On remittances, Mexico continues to receive US\$4bn+ per month. In 1H21, remittances stood at US\$23.6bn, +22% on 1H20.
- We like MXN staying bid in a 19.50/20.00 range vs USD into year-end, but \$/MXN turns higher with the broad \$ trend next summer.

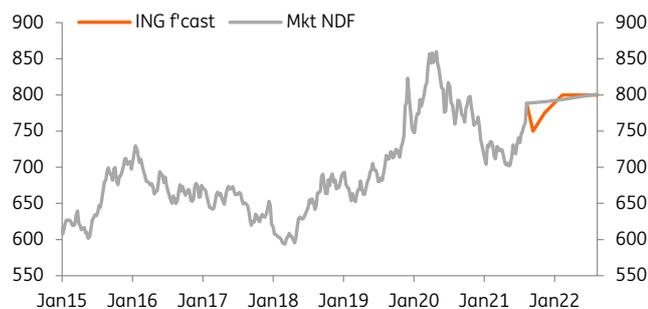
<b>ING forecasts (mkt fwd)</b>	<b>1M 19.75 (20.10)</b>	<b>3M 19.75 (20.27)</b>	<b>6M 19.75 (20.56)</b>	<b>12M 20.50 (21.16)</b>
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## USD/CLP

### Chile starts its tightening cycle

**Current spot: 788.25**



Source: Refinitiv, ING forecasts

- July saw Chile start its tightening cycle with a 0.25bp increase to 0.75%. Unlike Brazil, however, Chile does not plan to take its policy rate above neutral (2.50%?). That said, the market already prices in some aggressive tightening this year and next - which could be disappointed.
- Locally, Chilean assets are having to contend with potential strikes at three of its copper mines, plus a contentious Presidential election in November. Given the leftward drift in Latam politics this year, CLP should require a political risk premium.
- Growth should be quite strong (7.5% this year), with loose fiscal policy helping out - suggesting \$/CLP trades a 750-800 range.

<b>ING forecasts (NDF)</b>	<b>1M 750 (789.05)</b>	<b>3M 775 (790.60)</b>	<b>6M 800 (793.58)</b>	<b>12M 800 (801.25)</b>
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# Asia

## USD/CNY

### Changing trend to depreciation



Source: Refinitiv, ING forecasts

**Current spot: 6.47**

- After revising down our stronger yuan view last month, we look at the economic situation, including the possible RRR cut in 4Q21 and the policy directions set by President Xi on 30 July, and we conclude a change of exchange rate direction is more likely.
- We have changed the yuan trend from appreciation to mild depreciation until mid-2022.
- The RRR cut in China contrasts with the Fed discussion of tapering and rising policy interest rates. This will persist for the rest of this year and even into the first half of next year.

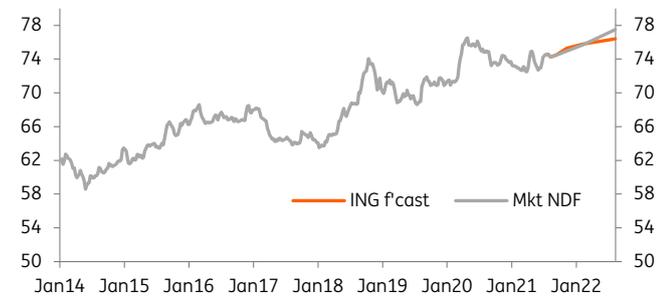
The complicated policies of control and pro-growth interact with each other, which should induce more risks to the market.

<b>ING forecasts</b> (mkt fwd)	<b>1M 6.550</b> (6.49)	<b>3M 6.602</b> (6.52)	<b>6M 6.750</b> (6.56)	<b>12M 6.800</b> (6.64)
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## USD/INR

### Surprising resilience to July EM sell-off



Source: Refinitiv, ING forecasts

**Current spot: 74.23**

- The INR's resilience to the emerging market FX sell-off in July was puzzling as the economy struggled to recover from the latest Covid-19 wave and faced headwinds from natural disasters like heavy floods in the most industrious state of Maharashtra.
- The relative strength probably owes to a sharp fall of global oil prices in July and (yet) high domestic inflation lifting the odds of the Reserve Bank of India withdrawing its policy accommodation earlier than market expectations.
- We don't expect any RBI tightening this year, but we have brought forward the timing of the first forecast 25bp policy rate hike to 1Q22 from 3Q22.

<b>ING forecasts</b> (mkt fwd)	<b>1M 74.50</b> (74.47)	<b>3M 75.30</b> (74.96)	<b>6M 75.80</b> (75.73)	<b>12M 76.40</b> (77.49)
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**Prakash Sakpal, Singapore +65 6232 6181**

## USD/IDR

### IDR moves sideways in July as country battles Covid



Source: Refinitiv, ING forecasts

**Current spot: 14367.50**

- The IDR tracked regional weakness for most of July before steadying to close out the month on some positive trends on the Covid-19 front with new daily infections slowing slightly.
- Bank Indonesia (BI) kept policy rates unchanged at the 22 July meeting with Governor Warjiyo vowing support for both the economy and the currency, suggesting that any adjustments to the policy rate would likely be on hold for some time.
- We expect the IDR to enjoy a slight appreciation bias as anxiety over the recent Covid-19 surge dissipates. However, the currency remains susceptible to a reversal should sentiment change quickly.

<b>ING forecasts</b> (mkt fwd)	<b>1M 14623</b> (14401.25)	<b>3M 14876</b> (14468.00)	<b>6M 15082</b> (14579.00)	<b>12M 14976</b> (14842.50)
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## USD/KRW

### BoK action nearing

**Current spot: 1144.28**



Source: Refinitiv, ING forecasts

- The BoK is one of only two APAC central banks (RBNZ the other) likely to raise policy rates this year. And we believe this should mark out the KRW for some outperformance as this tightening nears. We anticipate a 25bp hike at the October 2021 meeting.
- But the general trend for Asian FX has is softer and may be driven more by CNY moves than by any USD tone. It is unlikely that the KRW will be able to buck the regional trend for long.
- Korea's better track record on Covid-19 could be viewed as a positive factor, but it is also helping domestic demand suck in imports and shrinking the trade surplus, which will not help.

<b>ING forecasts (NDFs)</b>	<b>1M 1150 (1144.86)</b>	<b>3M 1135 (1145.86)</b>	<b>6M 1135 (1146.97)</b>	<b>12M 1150 (1149.37)</b>
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**Rob Carnell, Singapore +65 6232 6020**

## USD/MYR

### Macro policy has almost hit a wall

**Current spot: 4.22**



Source: Refinitiv, ING forecasts

- The MYR's shift from an Asian outperformer in June to an underperformer in July was helped by both local and external factors - the roaring pandemic and a spike in political risk locally, and a sharp retracement of global oil prices in July.
- The Finance Ministry is mulling a downgrade of the 2021 growth outlook, currently 6% to 7.5%, as the economy is taking a significant beating from the Covid-19 third wave. We recently cut our forecast to 4.4% from 5.3%.
- While escalated political risk has reduced the odds of further fiscal stimulus for the economy, there is little to expect from monetary policy given current high inflation (3.4% in June).

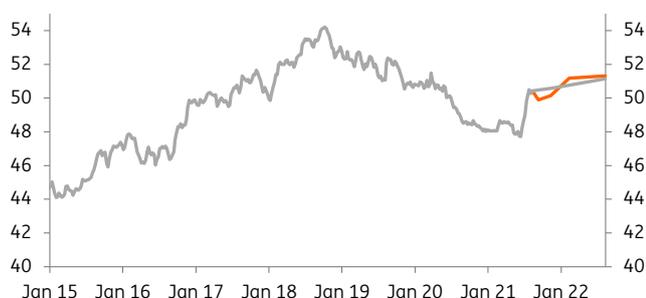
<b>ING forecasts (mkt fwd)</b>	<b>1M 4.250 (4.23)</b>	<b>3M 4.300 (4.24)</b>	<b>6M 4.400 (4.26)</b>	<b>12M 4.360 (4.28)</b>
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## USD/PHP

### PHP retreats in July but reverses ahead of lockdown

**Current spot: 50.42**



Source: Refinitiv, ING forecasts

- The PHP continued to retreat in July as corporate dollar demand picked up sharply with imports on the rise, likely forcing the current account back into deficit.
- But the Peso quickly reversed its downtrend to close the month in anticipation of a drop in economic and import activity as the Philippines tightened mobility curbs.
- The PHP may enjoy a near term appreciation bias on expectations for soft imports. This trend could reverse however as foreign portfolio outflows continue on growth concerns as the Philippines hunkers down under yet another lockdown.

<b>ING forecasts (mkt fwd)</b>	<b>1M 49.89 (50.47)</b>	<b>3M 50.13 (50.58)</b>	<b>6M 51.18 (50.76)</b>	<b>12M 51.32 (51.14)</b>
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## USD/SGD

### Recession looms



Source: Refinitiv, ING forecasts

**Current spot: 1.356**

- The USD/SGD rose to a 9-month high of 1.365 against the USD in July, but the all-important policy benchmark, the SGD nominal effective exchange rate index (S\$-NEER), stayed close to the mid-point of the policy band to indicate stable MAS policy ahead.
- Phase-2 Covid-19 restrictions returned for a month from 20 July. Similar measures from mid-May to mid-June dented GDP by -2% QoQ in 2Q. The latest move raises the prospect of another negative quarter of GDP in 3Q - a technical recession.
- That said, external demand remains the solid support for the economy as seen from a 16% YoY (6% MoM) NODX jump in June. Electronics has been leading the charge with over 25% YoY surge.

<b>ING forecasts</b> (mkt fwd)	<b>1M 1.360</b> (1.356)	<b>3M 1.380</b> (1.356)	<b>6M 1.400</b> (1.356)	<b>12M 1.390</b> (1.356)
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## USD/TWD

### Covid and chip shortage



Source: Refinitiv, ING forecasts

**Current spot: 27.82**

- Though Taiwan has downgraded its Covid-19 alert level, there was a Covid-19 cluster among factory workers, and this will probably have affected production. Together with chip shortages, production capacity is probably now at its limit.
- This leaves growth as a question mark. Taiwan can sell more expensive semiconductor chips, but not all industries can afford them. One industry that probably can is the automobile industry.
- But Taiwan's overall economy will probably not benefit much from an improvement in just one industry. As such we are updating the TWD forecast to be weaker.

<b>ING forecasts</b> (mkt fwd)	<b>1M 28.34</b> (27.82)	<b>3M 28.80</b> (27.82)	<b>6M 29.00</b> (27.81)	<b>12M 29.60</b> (27.77)
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## USD/THB

### Depreciation trend has a long way to run



Source: Refinitiv, ING forecasts

**Current spot: 33.45**

- The THB stayed at the bottom of the Asian performance table for the second straight month in July, bringing year-to-date depreciation against the USD close to 10%.
- The latest Covid-19 wave is taking a much bigger toll on the economy than the initial outbreak, causing yet another downgrade of our 2021 growth outlook from 2.1% to 1.4%. Inflation is back near the low-end of the BoT's 1% to 3% policy target after a brief spike in April.
- The Bank of Thailand left policy on hold at the latest meeting on 4 August. We expect an on-hold BoT policy throughout 2022, which means the THB depreciation trend has a long way to run.

<b>ING forecasts</b> (mkt fwd)	<b>1M 33.30</b> (33.50)	<b>3M 34.00</b> (33.55)	<b>6M 35.00</b> (33.61)	<b>12M 34.50</b> (33.66)
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## ING foreign exchange forecasts

EUR cross rates	Spot	1M	3M	6M	12M	USD cross rates	Spot	1M	3M	6M	12M
<b>Developed FX</b>											
EUR/USD	1.18	1.19	1.21	1.23	1.20						
EUR/JPY	129.6	130.90	134.31	137.76	138.00	USD/JPY	110.15	110	111	112	115
EUR/GBP	0.85	0.85	0.85	0.85	0.83	GBP/USD	1.39	1.40	1.42	1.45	1.45
EUR/CHF	1.08	1.07	1.07	1.08	1.10	USD/CHF	0.92	0.90	0.88	0.88	0.92
EUR/NOK	10.47	10.35	10.20	9.90	9.80	USD/NOK	8.90	8.70	8.43	8.05	8.17
EUR/SEK	10.19	10.20	10.10	9.80	9.75	USD/SEK	8.66	8.57	8.35	7.97	8.13
EUR/DKK	7.437	7.44	7.44	7.45	7.45	USD/DKK	6.32	6.25	6.15	6.06	6.21
EUR/CAD	1.48	1.48	1.48	1.48	1.45	USD/CAD	1.25	1.24	1.22	1.20	1.21
EUR/AUD	1.60	1.61	1.61	1.60	1.56	AUD/USD	0.74	0.74	0.75	0.77	0.77
EUR/NZD	1.68	1.65	1.64	1.66	1.64	NZD/USD	0.70	0.72	0.74	0.74	0.73
<b>EMEA</b>											
EUR/PLN	4.57	4.55	4.50	4.40	4.43	USD/PLN	3.88	3.82	3.72	3.58	3.69
EUR/HUF	353.9	352.50	355.00	360.00	360.00	USD/HUF	300.9	296	293	293	300
EUR/CZK	25.41	25.4	25.3	25.3	25.2	USD/CZK	21.61	21.3	20.9	20.6	21.0
EUR/RON	4.91	4.92	4.92	4.92	4.95	USD/RON	4.18	4.13	4.07	4.00	4.13
EUR/HRK	7.50	7.48	7.51	7.53	7.49	USD/HRK	6.37	6.29	6.21	6.12	6.24
EUR/RSD	117.6	117.6	117.6	117.6	117.5	USD/RSD	100.0	98.8	97.1	95.6	97.9
EUR/RUB	86.40	88.1	88.3	89.2	89.4	USD/RUB	73.45	74.0	73.0	72.5	74.5
EUR/UAH	31.51	32.1	32.7	33.8	33.6	USD/UAH	26.79	27.00	27.00	27.50	28.00
EUR/KZT	501.7	505.8	511.8	514.1	504.0	USD/KZT	426.7	425	423	418	420
EUR/TRY	10.17	10.12	10.77	11.38	11.58	USD/TRY	8.64	8.50	8.90	9.25	9.65
EUR/ZAR	17.21	17.0	17.2	17.8	19.2	USD/ZAR	14.63	14.25	14.25	14.50	16.00
EUR/ILS	3.79	3.81	3.87	3.94	3.96	USD/ILS	3.23	3.20	3.20	3.20	3.30
<b>LATAM</b>											
EUR/BRL	6.15	6.07	6.35	6.77	7.20	USD/BRL	5.23	5.10	5.25	5.50	6.00
EUR/MXN	23.55	23.5	23.9	24.3	24.6	USD/MXN	20.02	19.75	19.75	19.75	20.50
EUR/CLP	927.22	893	938	984	960	USD/CLP	788.25	750	775	800	800
<b>Asia</b>											
EUR/CNY	7.62	7.79	7.99	8.30	8.16	USD/CNY	6.47	6.55	6.60	6.75	6.80
EUR/IDR	16942	17401	18000	18551	17971	USD/IDR	14368	14623	14876	15082	14976
EUR/INR	87.31	88.7	91.1	93.2	91.7	USD/INR	74.23	74.50	75.30	75.80	76.40
EUR/KRW	1345.96	1369	1373	1396	1380	USD/KRW	1144.28	1150	1135	1135	1150
EUR/MYR	4.97	5.06	5.20	5.41	5.23	USD/MYR	4.22	4.25	4.30	4.40	4.36
EUR/PHP	59.31	59.4	60.7	63.0	61.6	USD/PHP	50.42	49.89	50.13	51.18	51.32
EUR/SGD	1.59	1.62	1.67	1.72	1.67	USD/SGD	1.36	1.36	1.38	1.40	1.39
EUR/TWD	32.72	33.7	34.8	35.7	35.5	USD/TWD	27.82	28.3	28.8	29.0	29.6
EUR/THB	39.34	39.6	41.1	43.1	41.4	USD/THB	33.45	33.3	34.0	35.0	34.5

Source: Refinitiv, ING

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