

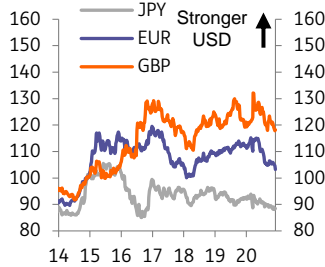
7 December 2020

FX Strategy

FX Talking

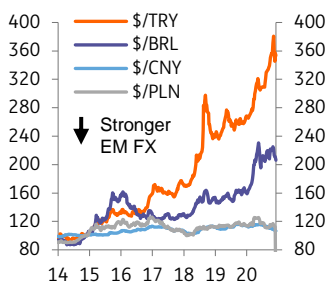
Conviction call on a weaker dollar

USD/Majors (5 Jan 14=100)



Source: Refinitiv, ING forecast

USD/EM (5 Jan 14=100)



Source: Refinitiv, ING forecast

The dollar bear trend has strengthened and broadened over the last five weeks. In its simplest form our view sees a complete unwind of the dollar rally since March 2018 – when President Trump fired the starting pistol on trade wars. The further reversal of those dollar gains should mean that the [dollar falls 5-10% against most currencies in 21](#).

Central to this bearish dollar call is: (i) continued good news on vaccine approvals and roll outs such that economic growth can accelerate (probably from 2Q onwards) and (ii) the Fed keeping the punchbowl of cheap liquidity in place and not blinking when inflation starts to rise. Let's see how average inflation targeting works in practise.

We retain a 1.25 end-2021 forecast for EUR/USD. This could easily be revised to 1.30 if European leaders can successfully avoid the pot-holes of a hard Brexit and a stalled EU Recovery Fund. We should know more soon. The ECB may not like the EUR/USD rally, but as the world's second largest reserve currency, the EUR looks set to receive much demand from FX reserve managers, recycling dollars accumulated through intervention.

In Europe, some key trends we like include continuing strength in the Scandies. CZK should be our top CEE performer as the CNB hikes twice. We also like the high yielding TRY and RUB. Under-performing should be the CHF (unwinding trade war gains) and the very fragile ZAR – South Africa is saddled with exceptionally heavy debt levels.

In Asia, we expect a continuation of gains of those currencies with large weights in EM benchmark indices – so CNY, KRW and TWD. INR looks a serial under-performer. And in Latam, we like BRL and COP – the latter very much contingent on our bullish oil forecast.

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.20	→	102	↓	1.36	↑
3M	1.20	→	102	↓	1.36	↑
6M	1.22	↑	102	↓	1.39	↑
12M	1.25	↑	102	↓	1.42	↑
	EUR/GBP		EUR/CZK		EUR/PLN	
1M	0.88	↓	26.30	↑	4.45	↓
3M	0.88	↓	26.10	↑	4.48	→
6M	0.88	↓	25.90	↓	4.45	↓
12M	0.88	↓	25.60	↓	4.40	↓
	USD/CNY		USD/MXN		USD/MXN	
1M	6.70	↑	19.80	↓	5.20	→
3M	6.60	→	19.80	↓	5.15	↓
6M	6.50	↓	19.70	↓	5.10	↓
12M	6.30	↓	20.00	↓	5.00	↓

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

Source: Refinitiv, ING forecast

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FX performance

	EUR/USD	USD/JPY	EUR/GBP	EUR/NOK	NZD/USD	USD/CAD
%MoM	2.6	0.1	0.6	-2.6	5.4	-2.0
%YoY	9.0	-3.9	7.1	5.4	8.0	-2.4
	USD/UAH	USD/KZT	USD/BRL	USD/ARS	USD/CNY	USD/TRY
%MoM	-0.6	-1.7	-7.8	3.6	-1.8	-6.0
%YoY	18.4	10.0	24.5	35.9	-6.9	36.1

Source: Refinitiv, ING forecasts



Developed markets

EUR/USD

Upside risks to our EUR/USD profile

Current spot: 1.207



- We have had a 1.20 year-end 2020 call for EUR/USD since early April this year and it is only the very bullish price action of recent days that asks whether our bullish profile should be revised higher? Before making a wholesale increase to our expected EUR/USD trajectory, we feel it's worth waiting for; a) the EU Dec 10/11th council meeting where Brexit and the EU Recovery Fund will be discussed and b) the ECB December 10th meeting.
- In all likelihood neither of these events should derail the EUR/\$ bull trend – mainly a dollar bear trend – as investors put money to work in non-USD assets. 1.30 is clearly the risk for end 2021.
- This all assumes the Fed stays dovish and US real rates stay low.

Source: Refinitiv, ING forecast

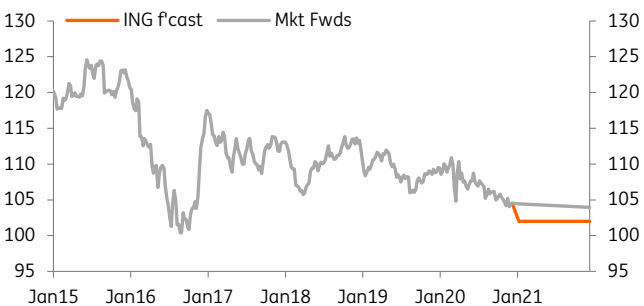
ING forecasts (mkt fwd)	1M 1.20 (1.2078)	3M 1.20 (1.2095)	6M 1.22 (1.2119)	12M 1.25 (1.2170)
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USD/JPY

New trading range developing

Current spot: :104.52



- We are very encouraged that USD/JPY is trading in a new range, without the typical need to fly back above 105. As we've discussed here before, driving this is the broad dollar selling as US real yields sink lower (inflation expectations from the 10-year US TIPS are pushing to a new high for the year).
- Also assuaging the fears of Tokyo over the USD/JPY move is the fact that Asian trading peers are also allowing FX appreciation – e.g. CNY, KRW & TWD, such that JPY trade weighted is steady.
- As discussed in our FX outlook we think USD/JPY can build out a 100-105 trading range into 2021 and as long as world trade recovers, Tokyo should not have too much concern with the JPY.

Source: Refinitiv, ING forecast

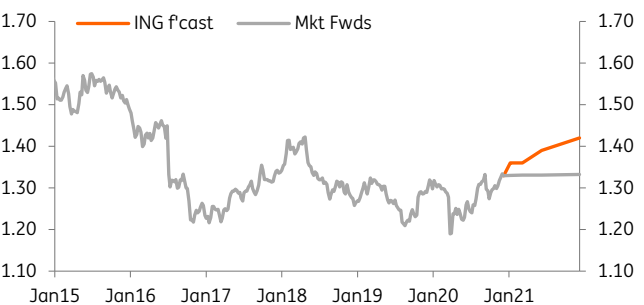
ING forecasts (mkt fwd)	1M 102.00 (104.43)	3M 102.00 (104.370)	6M 102.00 (104.22)	12M 102.00 (103.93)
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GBP/USD

The GBP/USD rise more about EUR/USD than GBP

Current spot: 1.3291



- We expect GBP/\$ to bypass the 1.40 level next year, but this is largely driven by our bullish EUR/USD view rather than an overly optimistic GBP outlook – for which we expect only shallow and limited upside in response to a light trade deal (our base case).
- Politics and the related uncertainty should take a less prominent role in 2021. The Scottish Parliamentary elections in May 2021 are likely to be accompanied by negative news-flow about another independence referendum, but negative impact on GBP is to be modest given the referendum is unlikely for several years
- With the reduced UK-centric uncertainty in place and less scope for a risk premium build up, GBP implied volatility should decline.

Source: Refinitiv, ING forecast

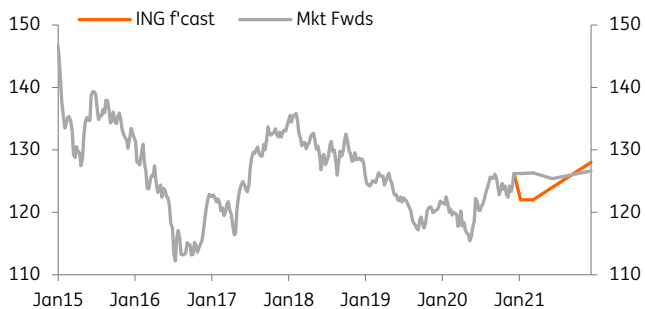
ING forecasts (mkt fwd)	1M 1.36 (1.3302)	3M 1.36 (1.3305)	6M 1.39 (1.3310)	12M 1.42 (1.3320)
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EUR/JPY

Reflation trade is bullish for EUR/JPY

Current spot: 126.24



Source: Refinitiv, ING forecast

- Typically, EUR/USD rallies more than USD/JPY falls on a steepening of US yield curves, thus the 2021 reflation trade should be a mild positive for EUR/JPY. We're quite impressed with how well the EUR has held up through 4Q20 – this was meant to be the tough quarter given: a) lockdowns, b) Brexit & c) Recovery Fund travails.
- However, the EUR/JPY rally we foresee in 2021 is quite modest – just to 128 – since 2021 may not necessarily be the kind of Eurozone re-rating story we saw in 2017. Our could it?
- The Japanese have typically been good buyers of Euro debt. But surely when 30yr French yields are paying just 0.40% - that's not very attractive? Cheap EUR hedging costs won't help EUR either.

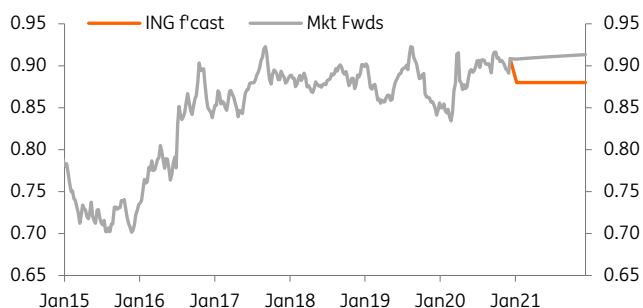
ING forecasts (mkt fwd)	1M 126.00 (126.231)	3M 122.00 (126.300)	6M 124.00 (125.411)	12M 128.00 (126.604)
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EUR/GBP

Only a modest and one-off GBP upside ahead

Current spot: 0.9083



Source: Refinitiv, ING forecast

- Despite the negative headline news, we expect the UK and EU to reach a soft trade deal. While a deal would be a positive for GBP (largely due to the removal of the uncertainty factor), its impact should be limited given no risk premia currently priced into GBP.
- With the soft nature of the trade agreement causing some permanent damage to the UK economy and GBP not showing signs of a meaningful medium-term mis-valuation (based on our BEER model) the scope for outperformance vs. EUR is limited, particularly if the BoE retains its accommodative stance in 2021
- All this suggests an one-off GBP rebound towards EUR/GBP 0.88 with the cross staying around this level throughout 2021.

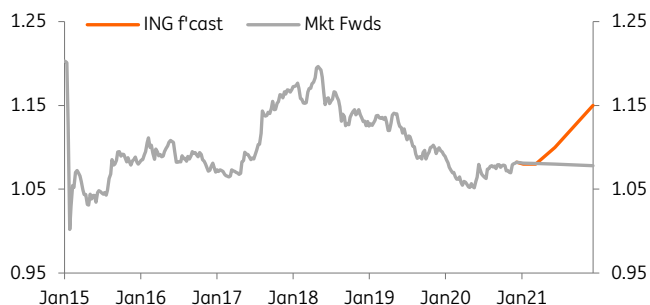
ING forecasts (mkt fwd)	1M 0.88 (0.9081)	3M 0.88 (0.9091)	6M 0.88 (0.9105)	12M 0.88 (0.9133)
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EUR/CHF

2021: The year of the great unwind

Current spot: 1.082



Source: Refinitiv, ING forecast

- In our [2021 FX Outlook](#), we raised our 12m EUR/CHF forecast to 1.15 from 1.08. This was largely driven by both the Biden election win and the prospects of 2021 global recovery on vaccine news. The former is important since BIS data shows that in 3Q19 – the height of the US-China trade war – about USD100bn flowed into CHF deposits. This should unwind next year.
- Recent SNB analysis on CHF FX rate determinants also shows CHF being heavily influenced by the VIX – or US equity volatility. We think volatility stays contained next year as investors chase carry.
- Don't expect too much from the SNB when they meet Dec 17th. CHF remains strong, but growth is a little stronger than expected.

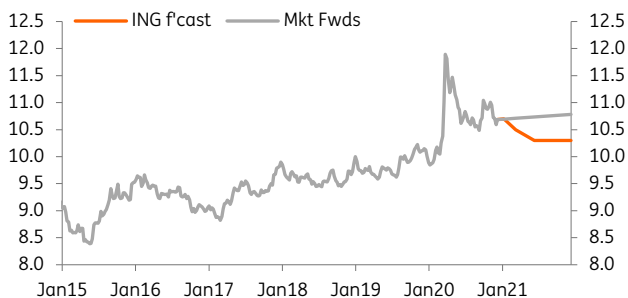
ING forecasts (mkt fwd)	1M 1.08 (1.0813)	3M 1.08 (1.0807)	6M 1.10 (1.0798)	12M 1.15 (1.0780)
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EUR/NOK

NOK gains ahead but too soon to return to pre-Covid levels

Current spot: 10.69



Source: Refinitiv, ING forecast

- We expect EUR/NOK to reach 10.30 by 2Q21. As one of the most sensitive G10 currencies to risk, NOK should benefit from the post Covid global economic recovery and the related rise in oil prices.
- While upbeat on NOK, we think a move to the pre-pandemic level of 10.00 is unlikely due, in part, to the deeply negative real rate, from which the NOK suffers. NB should stay on hold throughout 2021 but may upgrade its interest rate outlook (for 2022 and beyond) around the middle of the next year if the global recovery continues
- We look for a range-bound NOK/SEK, but expect implied NOK volatility to converge to SEK volatility and the spread to narrow due to a more benign risk environment and fewer acute risk events.

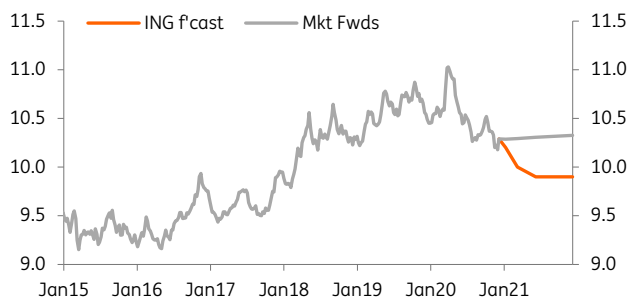
ING forecasts (mkt fwd)	1M 10.70 (10.694)	3M 10.50 (10.708)	6M 10.30 (10.733)	12M 10.30 (10.781)
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EUR/SEK

Frontloaded gains in the first half of 2021

Current spot: 10.29



Source: Refinitiv, ING forecast

- We look for frontloaded SEK gains in 1H21, targeting EUR/SEK 9.90. On the external side, the new US administration moving away from unpredictable trade wars and the expected recovery in European and Swedish growth from 2Q21 onwards should be beneficial for cyclical SEK, a currency of a small open economy.
- There is not much the Riksbank can do to lean against SEK strength. The appetite for negative rates is low and while the Riksbank increased QE in Nov, this will be mirrored by the ECB in Dec.
- While a large part of the EUR/SEK valuation gap has closed, the pair still looks overvalued by around 2-3%. A fall in EUR/SEK below 10.00 is consistent with the current valuation gap.

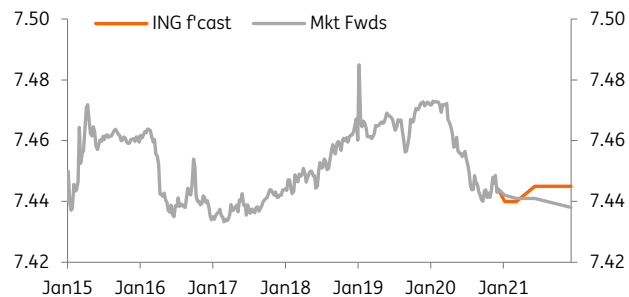
ING forecasts (mkt fwd)	1M 10.200 (10.29)	3M 10.000 (10.29)	6M 9.900 (10.31)	12M 9.900 (10.33)
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EUR/DKK

ECB to fuel further DKK strength vs EUR

Current spot: 7.444



Source: Refinitiv, ING forecast

- EUR/DKK is converging back to the 7.4400 level. As the ECB is expected to deliver further easing this week, the downward pressure on EUR/DKK will continue to build.
- We continue to see FX interventions as the primary DN tool to lean against the DKK strength (the bank kept its powder dry during November). But while FX purchases should be the first line of defence, the case for a rate cut is rising as DKK is strengthening.
- This was partly echoed by the new deputy governor Krogstrup who noted that the lower bound for interest rates have yet to be reached in Denmark.

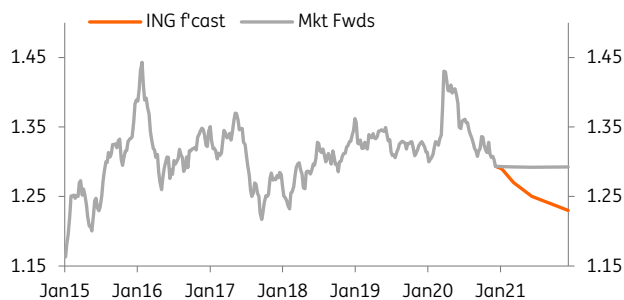
ING forecasts (mkt fwd)	1M 7.440 (7.442)	3M 7.440 (7.441)	6M 7.445 (7.441)	12M 7.445 (7.438)
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USD/CAD

Loonie finally breaking free?

Current spot: 1.294



Source: Refinitiv, ING forecast

- The overall supportive risk environment and set of fundamentals are set to keep CAD an attractive option in G10 into the new year. We target 1.25 in USD/CAD by 2Q21.
- With no signs that the BoC will add stimulus anytime soon (actually, some tapering of its vast QE looks more likely), CAD's rate profile should remain appealing in G10 and in the near term some unwinding of net short positions should also help.
- The main risk is the exposure to a slowdown in the US recovery, although vaccine hopes are offering a good buffer here. On the oil side, the recent OPEC+ deal on easing cuts from January should still ensure that crude inventories keep falling next year, and not tamper with a recovery in prices.

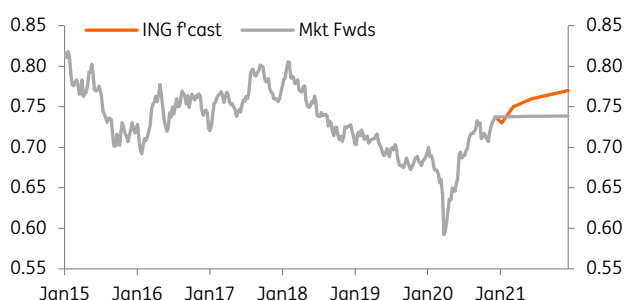
ING forecasts (mkt fwd)	1M 1.29 (1.293)	3M 1.27 (1.293)	6M 1.25 (1.292)	12M 1.23 (1.292)
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AUD/USD

Looking beyond the Canberra-Beijing spat

Current spot: 0.737



Source: Refinitiv, ING forecast

- AUD followed the global risk rally in November, and an extension of the global upbeat sentiment into 2021 (which is our base scenario) points at more upside for pro-cyclical FX.
- We do not think monetary policy should be a major concern for AUD bulls, as the encouraging labour and GDP figures have further endorsed our view that RBA's easing cycle has ended.
- The biggest idiosyncratic risk is a further escalation in China-Australia trade tensions. So far, Beijing has targeted coal, copper and some agricultural products. Looking at AUD's complacent stance, it is reasonable to expect the impact will remain relatively muted unless iron ore starts to be caught in the crossfire.

ING forecasts (mkt fwd)	1M 0.730 (0.737)	3M 0.750 (0.738)	6M 0.760 (0.738)	12M 0.770 (0.739)
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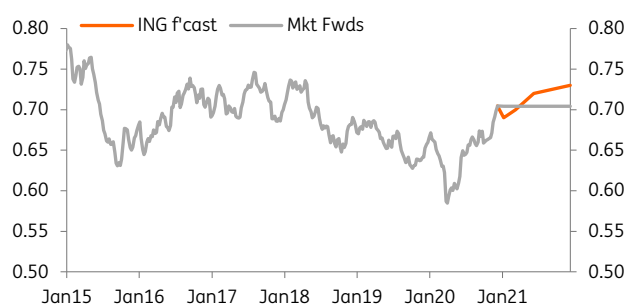
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NZD/USD

NIRP fears fade

Current spot: 0.705



Source: Refinitiv, ING forecast

- In just one month, markets have moved from pricing in almost three RBNZ cuts to none, as the Bank's shift to a more upbeat stance on the recovery erased a key argument for NIRP.
- We don't think the RBNZ will cut, but its aversion for a strong NZD and rising rates may prompt a more dovish tone in the near term. After all, the process of pricing out NIRP is completed, so more NZD upside from front-end rates should be limited.
- When adding a quite overstretched net-long positioning (especially when compared to AUD and CAD), NZD is at risk of some correction in the near term. Still, we retain a positive view on the undervalued NZD in 2021 and forecast 0.73 by 4Q21.

ING forecasts (mkt fwd)	1M 0.690 (0.704)	3M 0.700 (0.704)	6M 0.720 (0.704)	12M 0.730 (0.704)
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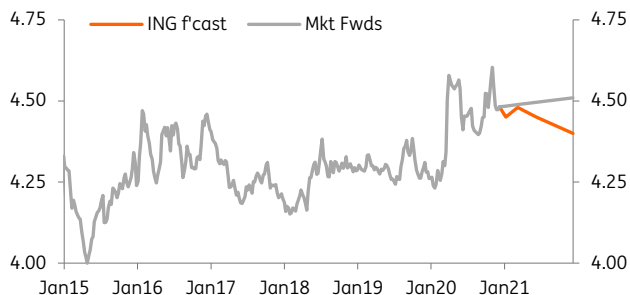


Emerging markets

EUR/PLN

Risk of short term weakness

Current spot: 4.48



Source: Refinitiv, ING forecast

- The EU standoff has been downplayed by markets. Only recently has PLN weakness seen underperformance vs. rising EUR/USD. If this conflict intensifies, it may lead to a temporary rise in EUR/PLN despite positive EM sentiment. Our financial fair value model suggests EUR/PLN levels above 4.55 denote significant PLN undervaluation and below 4.40 overvaluation. Temporary overshoots happen. PLN weakness on politics looks a good entry point ahead of any EUR/PLN decline in 2021.
- The factors which should limit an adverse PLN reaction in the case of a Polish veto of the recovery fund include: (i) 3.5% C/A surplus (c.6% together with the capital account), (ii) a high stock of accepted but unpaid EU projects and (iii) foreign clients underweight in POLGBs.

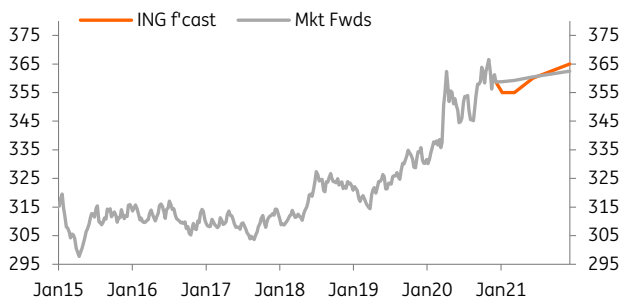
ING forecasts (mkt fwd)	1M 4.45 (4.48)	3M 4.48 (4.49)	6M 4.45 (4.50)	12M 4.40 (4.51)
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Rafal Benecki, Warsaw +48 22 820 4696

EUR/HUF

HUF budged by changes in risk-taking

Current spot: 358.7



Source: Refinitiv, ING forecast

- Behind the forint's recent strength, we see improving global sentiment on vaccine news. However, the dispute over the EU budget and the Recovery Fund can spoil the momentum. We expect a deal to be made eventually, before the end of the German EU Presidency this year.
- Even if we expect the NBH to cut the 1-week depo to 0.60% at the next meeting, this will still leave HUF with a higher nominal implied yield than CZK and PLN.
- We thus expect EUR/HUF to stabilise in coming months around the 355-360 level (with our base case of agreement on the EU budget) with modest upside in 2H21 (to/above 365).

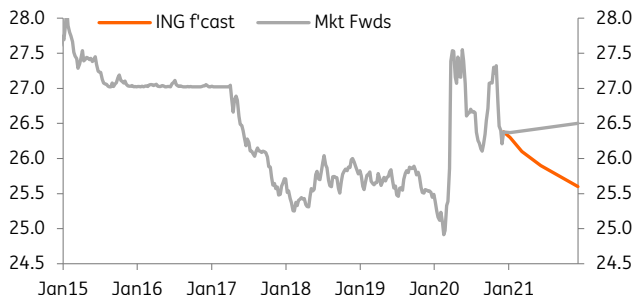
ING forecasts (mkt fwd)	1M 365.0 (358.8)	3M 360.0 (359.3)	6M 360.0 (360.5)	12M 367.0 (362.5)
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EUR/CZK

The big outperformer in the CEE space

Current spot: 26.38



Source: Refinitiv, ING forecast

- CZK is the currency with the highest upside potential in the CEE region. Unlike the NBP and the NBH, the CNB is tolerant of FX strength, with its latest forecast pencilling in a tightening of monetary conditions in 2021 via both FX and rates channels.
- Given the proposed tax cuts, there is likely to be scope for even larger tightening of monetary conditions than the CNB currently envisages in its base case. We expect 2 hikes next year and another 3 hikes in 2022, leading to further CZK strength.
- This should bring EUR/CZK to 25.50, with clear risks towards 25.00. Given our upbeat EUR/USD view, CZK gains vs USD should be rather meaningful. USD/CZK to dip to 20.40 by end-2021

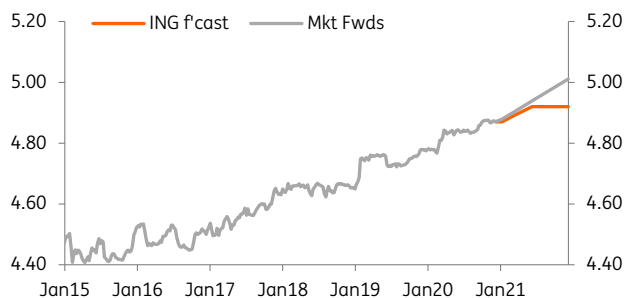
ING forecasts (mkt fwd)	1M 26.30 (26.37)	3M 26.10 (26.39)	6M 25.90 (26.43)	12M 25.60 (26.50)
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EUR/RON

Electoral-type stability

Current spot: 4.87



Source: Refinitiv, ING forecast

- Relative FX stability has been tightly maintained throughout this period by the NBR. We expect this status-quo to be preserved for another month or two, until Romania has a new government and a clearer fiscal agenda.
- We maintain our 4.87 year-end forecast for 2020 with a view that sometime during 1Q21 an adjustment higher towards 4.90-4.92 will be allowed.
- Despite the large twin deficits which are expected to stay with us for a couple of years at least, we believe that a weaker leu will be part of the external imbalances adjustment process only to a very limited extent.

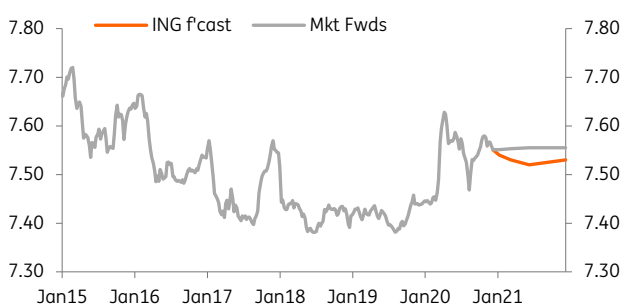
ING forecasts (mkt fwd)	1M 4.82 (4.88)	3M 4.89 (4.90)	6M 4.92 (4.94)	12M 4.92 (5.01)
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Valentin Tataru, Bucharest +40 31 406 89 91

EUR/HRK

Improved sentiment

Current spot: 7.55



Source: Refinitiv, ING forecast

- The economy contracted by 10% YoY in 3Q20, a touch more than we expected, making the government's forecast for an 8.0% full year contraction (and even our 8.5%) look rather optimistic.
- The 2021 budget plan envisages a budget deficit below 3.0% of GDP, which is overly ambitious in our view and possibly growth detrimental. We see the deficit closer to 4.0% of GDP.
- We have already revised lower our year-end EUR/HRK forecast from 7.55 to 7.53. The next tourist season should also be better than anticipated given the earlier-than-expected vaccination campaigns which are anticipated to start in 1Q21. Hence, risks are skewed for a stronger kuna in 2021.

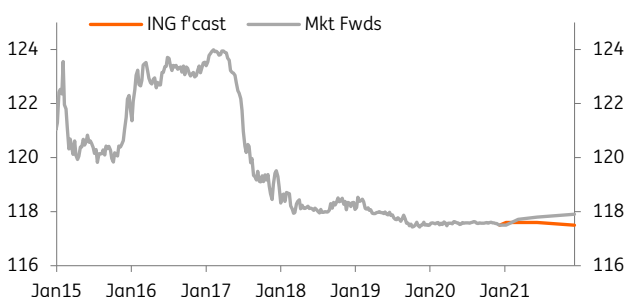
ING forecasts (mkt fwd)	1M 7.54 (7.55)	3M 7.53 (7.55)	6M 7.52 (7.56)	12M 7.53 (7.56)
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EUR/RSD

Not even a blink of weakness

Current spot:117.5



Source: Refinitiv, ING forecast

- As headline inflation is likely to average very close to 1.50% in 2020 and 2021 – the lower bound of the central bank's 3.0%±1.5ppt target corridor, the room for monetary easing is not exhausted yet.
- We believe that the NBS will deliver another 25 basis point cut at its MPC meeting in December 2020 and afterwards leave the key rate at 1.00% through 2021.
- FX stability seems to remain a central pillar of NBS's monetary policy and – by the look of things – this will not change in 2021. We therefore see the dinar quasi-pegged to the euro around 117.55 at least throughout 2021.

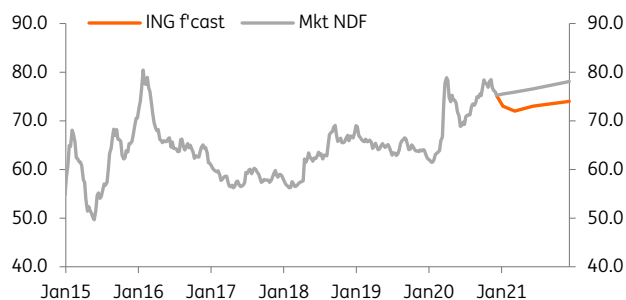
ING forecasts (mkt fwd)	1M 117.60 (117.5)	3M 117.60 (117.7)	6M 117.60 (117.8)	12M 117.50 (117.9)
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USD/RUB

RUB comes in from the cold

Current spot: 75.2



Source: Refinitiv, ING forecast

- The broad dollar decline is encouraging flows back into EM and high yielding Russian assets look attractive. 10 year OFZs yield 5.80% and could perform well if the CBR delivers on the three rate cuts we pencil in by the end of June next year. The implied 4% pa RUB yield through the three months forward is also attractive
- RUB is also being supported by the resilient current account, which totalled \$30bn in 10M20, with the loss of oil revenues compensated by gold and grain exports.
- Holding RUB is not without its risks, including potential sanctions from the new Biden administration, or retaliation from the EU over: (i) Belarus support and (ii) the Navalny poisoning have been relatively tame.

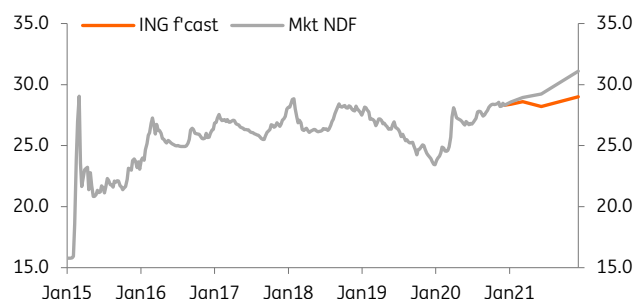
ING forecasts (mkt fwd)	1M 73.00 (75.5)	3M 72.00 (75.9)	6M 73.00 (76.6)	12M 74.00 (78.1)
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Dmitry Dolgin, Russia +7 495 771 7994

USD/UAH

A newly found equilibrium

Current spot: 28.32



Source: Refinitiv, ING forecast

- The economy expanded by 8.5% in 3Q20. This was better than most estimates and reflects a strong recovery in the consumer sector.
- Our base case is for the key rate to reach 5.0% in 2021. We think that the NBU will look-through the anticipated inflation bout and prefer to stay more on the growth supportive side.
- Arguably, a policy of a relatively stable exchange rate is the optimal solution to reconcile many diverging influences and interests, ranging from the inflation pass-through to budgetary assumptions and debt metric levels.

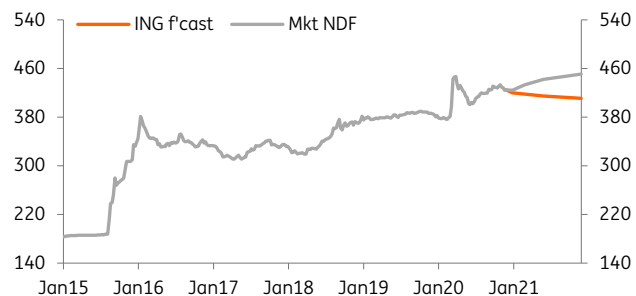
ING forecasts (mkt fwd)	1M 28.40 (28.56)	3M 28.60 (28.94)	6M 28.20 (29.24)	12M 29.00 (31.09)
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Valentin Tataru, Russia +7 495 771 7994

USD/KZT

Appreciation limited by year-end

Current spot: 424.9



Source: Refinitiv, ING forecast

- Oil price volatility and the lack of agreement on fiscal stimulus in the US, rising Covid-19 cases in November and renewed lockdowns hit investor sentiment and pressure KZT.
- The expected c.US\$2.1bn current account deficit in 4Q20 and quarantine measures will negate the benefits of stable country risk perception, leaving the tenge without internal support. On the external side, mounting oil-related risks will also pressure USD/KZT, so we revise our year-end forecast from 410 to 420.
- In the long-term amid the recovery of global sentiment and oil prices we expect the tenge to appreciate, however, the risks of slower global energy demand recovery, the possible lifting of sanctions on Iran and higher OPEC+ cuts may limit appreciation.

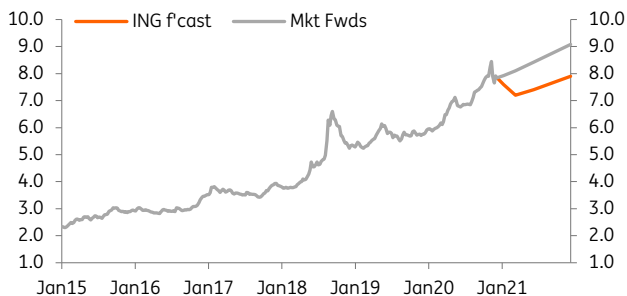
ING forecasts (mkt fwd)	1M 420.00 (424.4)	3M 418.00 (433.3)	6M 415.00 (442.1)	12M 411.00 (450.9)
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Dmitry Dolgin, Russia +7 495 771 7994

USD/TRY

Course correction in monetary policy

Current spot: 7.84



Source: Refinitiv, ING forecast

- Monetary policy has required a reorientation to further support the economy without widening external and internal imbalances. Accordingly, we see: (i) a decisive tightening, (ii) simplification of the monetary policy framework, (iii) a meaningful real policy rate level, the highest among major EM peers and (iv) a signal to maintain a tight stance as long as needed and avoid early easing to control inflation and support FX dynamics.
- Going forward, the monetary policy stance will need to remain prudent to keep inflation in check and attract capital inflows.
- The turnaround in monetary policy should be beneficial for the TRY and, coupled with the benign external environment, we look for TRY strength in the near term.

ING forecasts (mkt fwd)	1M 7.60 (7.93)	3M 7.20 (8.11)	6M 7.40 (8.43)	12M 7.90 (9.08)
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Muhammet Mercan, Istanbul +90 212 329 0751

USD/ZAR

Don't get too attached to a stronger ZAR

Current spot: 15.33



Source: Refinitiv, ING forecast

- The ZAR seems indestructible. South Africa's recent downgrade deeper into junk territory – and the retention of a negative outlook- barely dented the ZAR. True, the terms of trade outlook- driven by the commodity rally is a positive income shock – but the ZAR story looks incredibly fragile.
- Fiscal fragility has limited any further rate cuts from the SARB - reluctant to cut below 3.50% and take real rates into negative territory. While 9% SAGB yields are attractive for yield hungry invests, we think it is worth paying the 4.5% ZAR hedging costs.
- And perhaps the only way out for South Africa is debt write-offs – something that the ZAR would not appreciate too much.

ING forecasts (mkt fwd)	1M 15.50 (15.39)	3M 15.25 (15.50)	6M 15.00 (15.66)	12M 16.00 (15.97)
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Chris Turner, London +44 20 7767 1610

USD/ILS

Bol more tolerant of ILS strength than expected

Current spot: 3.29



Source: Refinitiv, ING forecast

- The levels to which the Bol have let USD/ILS drop have surprised us. Typically, the Bol, one of the most interventionist central banks in the world, would defend big figure levels in USD/ILS – such that the move below 3.30 is a surprise. As we've noted here before, however, ILS does tend to be at the forefront dollar bear trends such that our 3.20 end 21 P'cast may need to become 3.10
- Driving USD/ILS is of course the weak dollar, Israel's healthy BoP position (3.5% of GDP) and reasonably large (FX volume adjusted) weight in EM global debt benchmarks – attracting global funds.
- As an aside, Bol is one of the more adventurist reserve managers, with a 15% weight in equities & now considering junk bonds.

ING forecasts (mkt fwd)	1M 3.30 (3.29)	3M 3.25 (3.29)	6M 3.20 (3.28)	12M 3.10 (3.27)
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Chris Turner, London +44 20 7767 1610

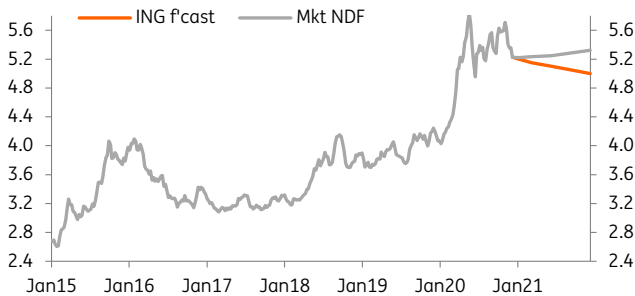


LATAM

USD/BRL

Some relief on the fiscal front

Current spot: 5.17



Source: Refinitiv, ING forecast

- Fiscal concerns remain elevated but prospects for a more constructive outlook have emerged as the government and Congress appear committed to tighten fiscal accounts in 2021.
- Robust domestic activity data along with stronger risk appetite for EM assets, and a weaker USD, also bode well for local market assets in the coming weeks.
- Brazil's challenging fiscal dynamics suggest however that fiscal uncertainties are unlikely to vanish, with local markets marked by high volatility exacerbated by the low benchmark rate. In fact, despite the temporary spike in inflation, we expect the policy rate to remain unchanged at 2% for longer than the market expects.

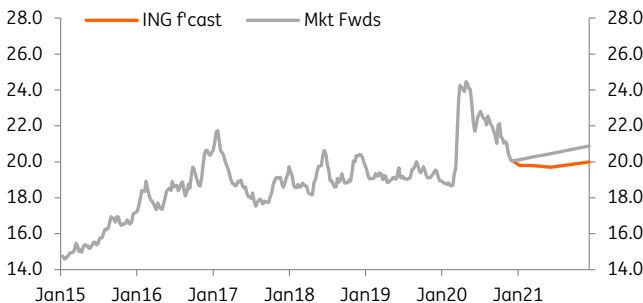
ING forecasts (NDF)	1M 5.20 (5.22)	3M 5.15 (5.23)	6M 5.10 (5.25)	12M 5.00 (5.32)
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Gustavo Rangel, New York +1 646 424 6464

USD/MXN

Yield-advantage helps offset policy mistakes

Current spot: 19.84



Source: Refinitiv, ING forecast

- The Mexican administration's chosen economic policy strategy, marked by a relatively hawkish fiscal and monetary policy stances, continues to help boost appetite for some local assets.
- The unusually modest policy stimulus is not without risks, as it should deepen the recession and likely harm Mexico's long-term trajectory. But, in the shorter-term, it should continue to be seen by investors as a safer path, when compared to regional peers.
- Even though FX and FI valuations are getting rich, when compared to some regional peers, Mexico should remain attractive and seen as the safer choice to boost LATAM/EM exposure in the context of a weakening USD and low global rates

ING forecasts (mkt fwd)	1M 19.80 (20.13)	3M 19.80 (20.25)	6M 19.70 (20.45)	12M 20.00 (20.89)
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Gustavo Rangel, New York +1 646 424 6464

USD/CLP

Copper upside limited by persistent domestic crisis

Current spot: 749.3



Source: Refinitiv, ING forecast

- The CLP was the best-performing currency YTD in LATAM and, if past correlations hold, the currency could strengthen further on the back of elevated copper prices in 2021.
- Signs of a faster recovery are also emerging, amid Chile's assertive policy stimulus and pension fund withdrawals. But the heavy electoral calendar and latent social risks call for caution and, in our view, other commodity exporters offer greater upside.
- The election of a constitutional convention to rewrite the country's constitution is set for April and general elections in November, suggest that a lasting negative reassessment of the country's macro prospects is possible during 2021.

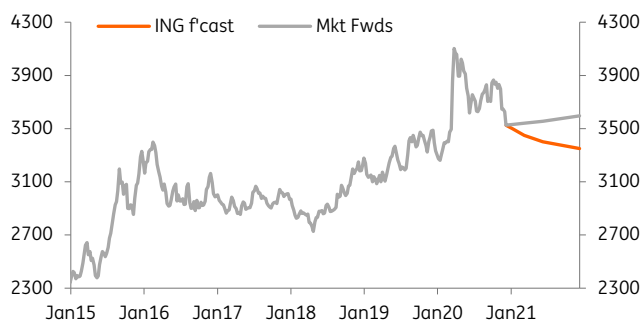
ING forecasts (NDF)	1M 750 (755.03)	3M 750 (754.47)	6M 750 (753.95)	12M 750 (753.27)
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Gustavo Rangel, New York +1 646 424 6464

USD/COP

Upside for a commodity-driven rally in the COP stands out

Current spot: 3456



Source: Refinitiv, ING forecast

- We remain worried about the lasting post-pandemic fiscal damage Colombia will face, and the need to approve legislation to re-anchor fiscal accounts and its “investment grade” status.
- The increase and partial withdrawal of the IMF’s FCL was well-received and helped reduce fiscal funding risks while improving global risk appetite and an attractive valuation suggest greater scope for COP outperformance in 2021.
- Relative to its Andean neighbours, the COP offers a higher benchmark rate, reduced political noise and a larger potential for appreciation if oil prices follow the appreciation trajectory our commodity analysts expect for 2021.

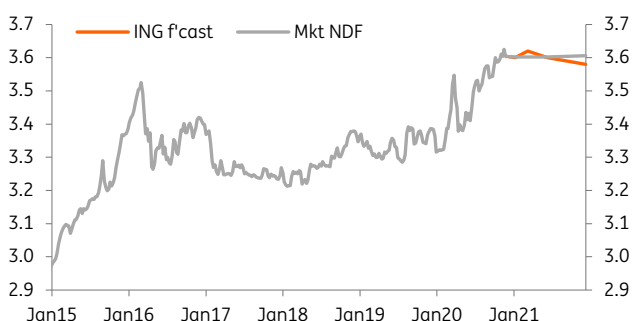
ING forecasts (NDF)	1M 3500 (3530)	3M 3450 (3540)	6M 3400 (3555)	12M 3350 (3595)
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Gustavo Rangel, New York +1 646 424 6464

USD/PEN

Lingering political crisis requires caution

Current spot: 3.59



Source: Refinitiv, ING forecast

- Peru has arguably suffered the most severe consequences of the Covid-19 outbreak in LATAM. This, together with the tremendous political instability seen in recent months, add important macroeconomic headwinds for local assets.
- The election of a president with a working legislative majority in the April election is essential to end years of political dysfunction that have resulted in very unstable presidential mandates.
- BCRP’s large FX reserves suggest that the country 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. But until political risks are mitigated, hopefully through the April election, local market upside should remain limited.

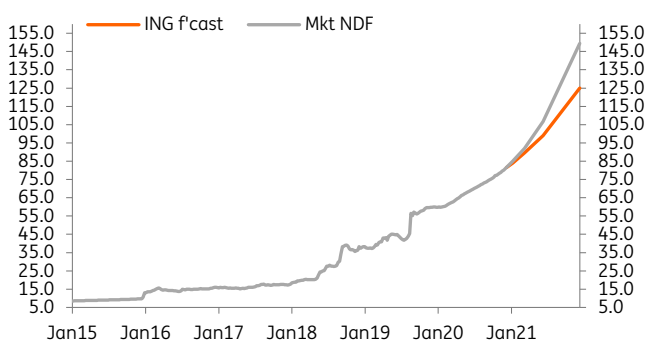
ING forecasts (NDF)	1M 3.60 (3.60)	3M 3.62 (3.60)	6M 3.60 (3.60)	12M 3.58 (3.61)
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Gustavo Rangel, New York +1 646 424 6464

USD/ARS

Negotiations with the IMF continue in uncertain path

Current spot: 81.6



Source: Refinitiv, ING forecast

- The Argentinean government has announced some monetary and fiscal policy tightening initiatives that have been well-received by investors.
- Those initiatives have had limited success in mitigating FX pressures, amid continued concerns over dwindling FX reserves and political disputes within the government’s political base. There remains strong resistance to fiscal austerity measures that would likely be included in any IMF-sponsored program.
- Going forward, we expect the ARS to follow CPI dynamics more closely, as the government continues to resist bigger FX corrections for fear of exacerbating inflation dynamics.

ING forecasts (NDF)	1M 84.00 (85.07)	3M 89.50 (92.07)	6M 99.00 (106.77)	12M 125.00 (149.44)
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Gustavo Rangel, New York +1 646 424 6464

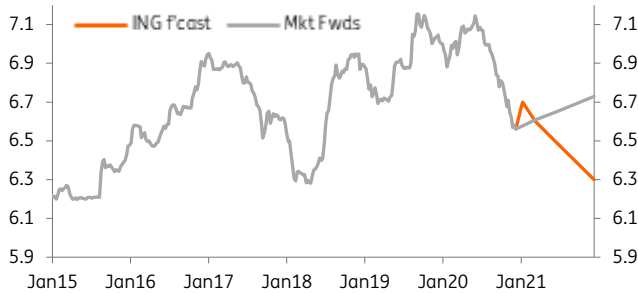


Asia

USD/CNY

CNY continues its strength

Current spot: 6.56



Source: Refinitiv, ING forecast

- Since the PBoC announced it will fade out the counter-cyclical factor in the calculation of daily fixing of USD/CNY, CNY has continued to appreciate against the dollar.
- It seems that expectations of strong economic growth has dominated market sentiment on CNY, even when there was news on onshore bond defaults.
- The cross-border fund regulator, SAFE, has been reported as relaxing capital outflow regulations from pilot zones in Shanghai, Beijing and Shenzhen. These are part of the capital account reform that has a long-term effect on capital flows, though in the short term could also alleviate CNY appreciation pressure.

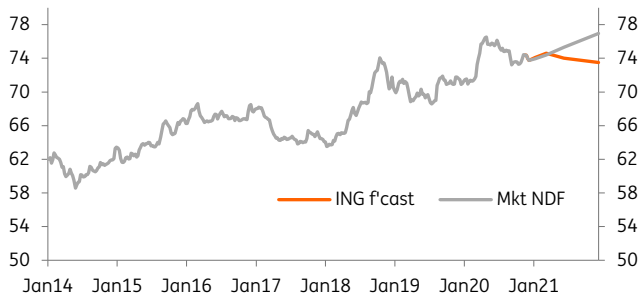
ING forecasts (mkt fwd)	1M 6.700 (6.58)	3M 6.600 (6.61)	6M 6.500 (6.65)	12M 6.300 (6.73)
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Iris Pang, Hong Kong +852 2848 8071

USD/INR

Not a big beneficiary of the EM rally

Current spot: 73.74



Source: Refinitiv, ING forecast

- The INR didn't miss the recent EM currency rally, though all the rally could do for Asia's beleaguered currency is avert more depreciation as roaring pandemic continued to depress India's economic prospects. It remained Asia's weakest FX in the end.
- GDP contraction slowed sharply in 3Q to -7.5% YoY from -23.4% in 2Q. But, other than net trade, there were no visible drivers behind this recovery. Contrasting all-hyped stimulus of over 10% of GDP was a 22% YoY plunge in government consumption in 3Q.
- There is no more policy support forthcoming for the economy. We expect the negatives to continue to outweigh the positives to keep INR as an Asian underperforming currency going into 2021.

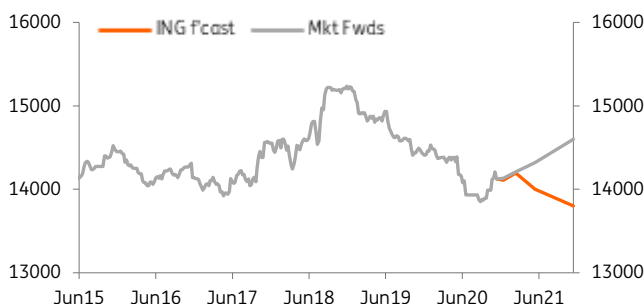
ING forecasts (mkt fwd)	1M 74.10 (73.952)	3M 74.60 (74.392)	6M 74.00 (75.325)	12M 73.50 (76.947)
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Prakash Sakpal, Singapore +65 6232 6181

USD/IDR

IDR appreciates sharply on improved economic outlook

Current spot: 14125



Source: Refinitiv, ING forecast

- The IDR appreciated sharply in November with foreign investors returning on an improved outlook due to positive developments related to Covid-19 vaccines.
- With the IDR appreciating, Bank Indonesia opted to surprise markets with a cut to its policy rate citing their shift in focus to support the economy with inflation subdued and the currency stable.
- The IDR could continue its appreciation bias with optimism over the economy's growth trajectory given the Covid-19 vaccines, with improved sentiment lifting local bond and equity markets.

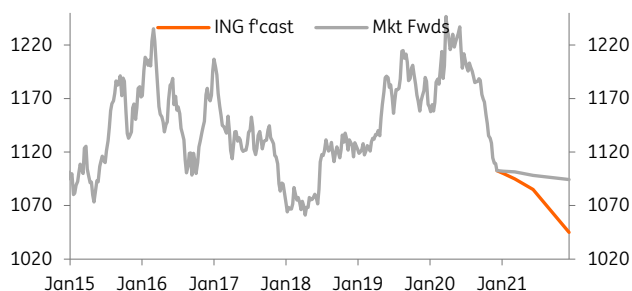
ING forecasts (mkt fwd)	1M 14108 (14133)	3M 14195 (14210)	6M 14003 (14320)	12M 13801 (14600)
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Nicholas Mapa, Philippines +63 28479 8855

USD/KRW

Benefiting from recovery optimism

Current spot: 1102



Source: Refinitiv, ING forecast

- The KRW is about 2.5% stronger against the USD since the beginning of November, and towards the top of the Asia bloc.
- This is what we expect from the KRW over the course of the coming months and indeed for 2021 as a whole, as we anticipate the KRW being one of the currencies that will respond most strongly to a recovery in the global economy and global trade, as well as benefiting from the ongoing semiconductor upcycle.
- The biggest risk to the KRW is anything which threatens the anticipated recovery from the pandemic (vaccine doubts / safety scares, etc) or any resumption in US-China tensions. We don't expect the BoK to change policy in either direction any time soon.

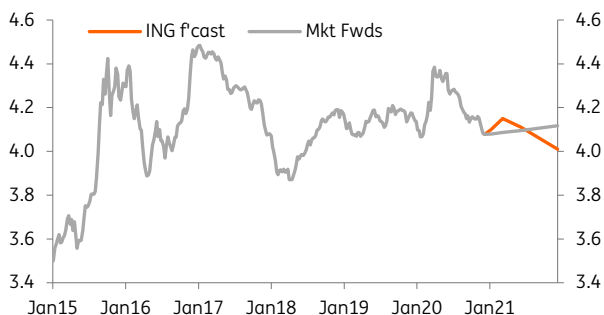
ING forecasts (NDFs)	1M 1100 (1102.20)	3M 1095 (1101.40)	6M 1085 (1098.20)	12M 1045 (1094.30)
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Rob Carnell, Singapore +65 6232 6020

USD/MYR

Covid-19 second wave dampens economic recovery

Current spot: 4.08



Source: Refinitiv, ING forecast

- The MYR continued to defy the weakening bias from the elevated political risk and resurgent Covid-19 pandemic. A 2% appreciation in November puts it among Asian outperformers.
- Covid-19 cases more than doubled to 66,000 in November. Despite stiff opposition and a thin majority in parliament, the government managed to have the 2021 Budget passed. Indeed, there was a greater thrust on the post-Covid recovery.
- The budget deficit is projected to fall to 5.4% of GDP in 2021 from about 6% this year on the assumption of a 6.5-7.5% GDP bounce after a -4.5% contraction. These goals appear to be optimistic, given the continued local and global spread of the pandemic.

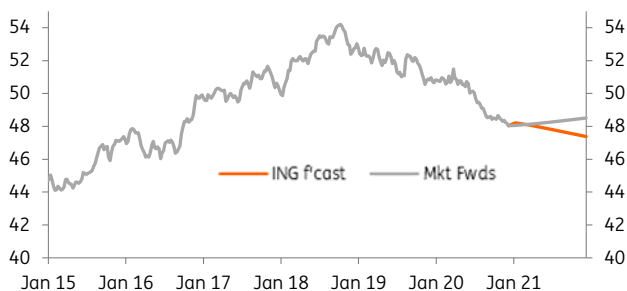
ING forecasts (mkt fwd)	1M 4.100 (4.08)	3M 4.150 (4.09)	6M 4.110 (4.10)	12M 4.010 (4.12)
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Prakash Sakpal, Singapore +65 6232 6181

USD/PHP

PHP appreciates as current account remains in surplus

Current spot: 48.04



Source: Refinitiv, ING forecast

- The PHP appreciated in November, with foreign inflows returning to boost local equity markets on positive developments related to Covid-19 vaccines, helping to brighten the economic outlook.
- Limiting the currency's rise was the surprise rate cut by Bangko Sentral ng Pilipinas (BSP), trimming policy rates by 25bp to 2.0% to help bolster the economy and combat the recession.
- The PHP will likely appreciate further with overseas Filipino remittance flows expected to pick up in December but a probable rise in inflation will likely keep BSP from cutting rates further.

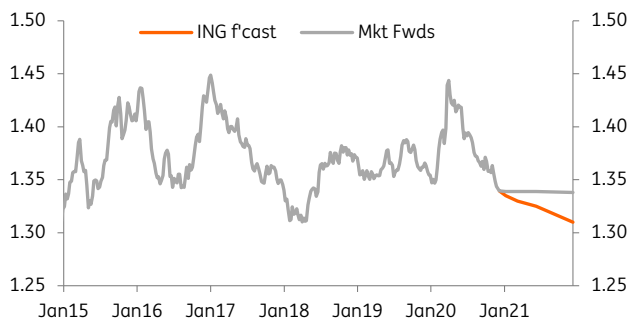
ING forecasts (mkt fwd)	1M 48.21 (48.05)	3M 48.09 (48.12)	6M 47.87 (48.23)	12M 47.38 (48.50)
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Nicholas Mapa, Philippines +63 2479 8855

USD/SGD

Export-led recovery is at risk

Current spot: 1.34



Source: Refinitiv, ING forecast

ING forecasts (mkt fwd)	1M 1.335 (1.339)	3M 1.330 (1.339)	6M 1.325 (1.339)	12M 1.310 (1.338)
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Prakash Sakpal, Singapore +65 6232 6181

- Like its Asian peers, the SGD remained on a strengthening trend in November, gaining 1.9% against the USD in the month. The economic news wasn't much help though, with especially the accelerated Covid-19 pandemic globally possibly stalling Singapore's export-led recovery.
- Non-oil domestic exports contracted for a second straight month, by 5.3% MoM in October. Manufacturing followed suit with a 19% MoM plunge, heralding continued weak GDP growth in 4Q20.
- That said, we see a modest GDP fall in this quarter, by -5.0% YoY vs -5.8% in 3Q. The balance of risks is tilted on the downside.

USD/TWD

Strong appreciation on export growth expectation

Current spot: 28.50



Source: Refinitiv, ING forecast

ING forecasts (mkt fwd)	1M 28.60 (28.48)	3M 28.40 (28.47)	6M 28.20 (28.45)	12M 28.00 (28.40)
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Iris Pang, Hong Kong +852 2848 8071

- The central bank governor noted that TWD could be in the observation list of the US currency report. At the same time, the central bank has forecast USD/TWD to reach 27.5 by 2021.
- The PMI suggests that the export sector could continue to be strong. This is important for the economy because it depends a lot on the export sector for growth.
- The Biden government's foreign policy on Taiwan is expected to be different from the Trump government. This could be negative news for Taiwan in terms of business and politics. It is possible that there could be fewer business opportunities with US companies, even if the technology war is against Mainland China.

USD/THB

Going strong despite all odds

Current spot: 30.22



Source: Refinitiv, ING forecast

ING forecasts (mkt fwd)	1M 30.30 (30.185)	3M 30.30 (30.200)	6M 30.10 (30.213)	12M 29.50 (30.240)
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Prakash Sakpal, Singapore +65 6232 6181

- Accelerated THB appreciation in early November reignited worries of a strong currency threatening the potential export and tourism recovery. The Bank of Thailand stepped in with more measures to stem THB appreciation, though the markets were largely unmoved by these.
- Meanwhile, the economy picked up somewhat in 3Q as the GDP contraction almost halved to -6.4% YoY from -12.1% in 2Q. However, the main economic drivers of exports and tourism remained missing from action.
- As nothing more is likely from macro policy to stimulate the economy further, the best hope rests with the return of tourism.

ING foreign exchange forecasts

EUR cross rates	Spot	1M	3M	6M	12M	USD cross rates	Spot	1M	3M	6M	12M
Developed FX											
EUR/USD	1.215	1.20	1.20	1.22	1.25						
EUR/JPY	126.13	122.40	122.40	124.44	127.50	USD/JPY	103.80	102	102	102	102
EUR/GBP	0.900	0.88	0.88	0.88	0.88	GBP/USD	1.3476	1.36	1.36	1.39	1.42
EUR/CHF	1.0824	1.08	1.08	1.10	1.15	USD/CHF	0.8911	0.90	0.90	0.90	0.92
EUR/NOK	10.6375	10.70	10.50	10.30	10.30	USD/NOK	8.768	8.92	8.75	8.44	8.24
EUR/SEK	10.5529	10.20	10.00	9.90	9.90	USD/SEK	8.45	8.50	8.33	8.11	7.92
EUR/DKK	7.4425	7.440	7.440	7.445	7.445	USD/DKK	6.1301	6.20	6.20	6.10	5.96
EUR/CAD	1.5654	1.55	1.52	1.53	1.54	USD/CAD	1.2879	1.29	1.27	1.25	1.23
EUR/AUD	1.6328	1.64	1.60	1.61	1.62	AUD/USD	0.7437	0.73	0.75	0.76	0.77
EUR/NZD	1.7145	1.74	1.71	1.69	1.71	NZD/USD	0.7075	0.69	0.70	0.72	0.73
EMEA											
EUR/PLN	4.4669	4.45	4.48	4.45	4.40	USD/PLN	3.678	3.71	3.73	3.65	3.52
EUR/HUF	356.56	355.00	355.00	360.00	365.00	USD/HUF	293.7	296	296	295	292
EUR/CZK	26.43	26.3	26.1	25.9	25.6	USD/CZK	21.75	21.9	21.8	21.2	20.5
EUR/RON	4.8678	4.87	4.89	4.92	4.92	USD/RON	4.009	4.06	4.08	4.03	3.94
EUR/HRK	7.5421	7.54	7.53	7.52	7.53	USD/HRK	6.212	6.28	6.28	6.16	6.02
EUR/RSD	117.51	117.6	117.6	117.6	117.5	USD/RSD	96.7	98.0	98.0	96.4	94.0
EUR/RUB	90.394	87.6	86.4	89.1	92.5	USD/RUB	74.50	73.0	72.0	73.0	74.0
EUR/UAH	34.32	34.1	34.3	34.4	36.3	USD/UAH	28.26	28.40	28.60	28.20	29.00
EUR/KZT	514.39	504.0	501.6	506.3	513.8	USD/KZT	423.47	420	418	415	411
EUR/TRY	9.44	9.12	8.64	9.03	9.88	USD/TRY	7.763	7.60	7.20	7.40	7.90
EUR/ZAR	18.42	18.6	18.3	18.3	20.0	USD/ZAR	15.192	15.50	15.25	15.00	16.00
EUR/ILS	3.96	3.96	3.90	3.90	3.88	USD/ILS	3.264	3.30	3.25	3.20	3.10
LATAM											
EUR/BRL	6.226	6.24	6.18	6.22	6.25	USD/BRL	5.136	5.20	5.15	5.10	5.00
EUR/MXN	24.15	23.8	23.8	24.0	25.0	USD/MXN	19.88	19.80	19.80	19.70	20.00
EUR/CLP	912.54	900	900	915	950	USD/CLP	751.48	750	750	750	760
EUR/ARS	99.07	100.80	107.40	120.78	156.25	USD/ARS	81.56	84.00	89.50	99.00	125.00
EUR/COP	4223.24	4200	4140	4148	4188	USD/COP	3472.35	3500	3450	3400	3350
EUR/PEN	4.356	4.32	4.34	4.39	4.48	USD/PEN	3.592	3.60	3.62	3.60	3.58
Asia											
EUR/CNY	7.946	8.04	7.92	7.93	7.88	USD/CNY	6.54	6.70	6.60	6.50	6.30
EUR/HKD	9.417	9.30	9.30	9.46	9.70	USD/HKD	7.75	7.75	7.75	7.75	7.76
EUR/IDR	17130	16930	17034	17084	17251	USD/IDR	14100	14108	14195	14003	13801
EUR/INR	89.65	88.9	89.5	90.3	91.9	USD/INR	73.809	74.10	74.60	74.00	73.50
EUR/KRW	1325	1320	1314	1324	1306	USD/KRW	1091.3	1100	1095	1085	1045
EUR/MYR	4.94	4.92	4.98	5.01	5.01	USD/MYR	4.073	4.10	4.15	4.11	4.01
EUR/PHP	58.29	57.9	57.7	58.4	59.2	USD/PHP	48.00	48.21	48.09	47.87	47.38
EUR/SGD	1.6190	1.60	1.60	1.62	1.64	USD/SGD	1.334	1.34	1.33	1.33	1.31
EUR/TWD	34.47	34.3	34.1	34.4	35.0	USD/TWD	28.39	28.6	28.4	28.2	28.0
EUR/THB	36.639	36.4	36.4	36.7	36.9	USD/THB	30.16	30.3	30.3	30.1	29.5

Source: Refinitiv, ING

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