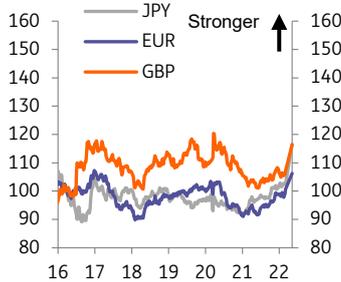


9 May 2022
FX Strategy

FX Talking

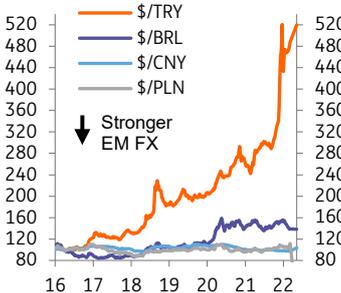
Feeling the squeeze

USD/Majors (5 Jan 14=100)



Source: Refinitiv, ING forecast

USD/EM (5 Jan 14=100)



Source: Refinitiv, ING forecast

Global financial markets have started to really feel the squeeze as the Fed pushes ahead with aggressive tightening at a time when events in Europe and China are repricing global growth prospects lower. This is clearly a bullish environment for the dollar – a currency that tends to correlate inversely with the global growth cycle.

In what should be a difficult period for equity and credit markets, we would expect the dollar to stay strong this summer. After all, we are still at the stage of front-loaded Fed tightening. Doubts about the end of globalisation and the need for structurally higher interest rates should also maintain FX volatility at its recently elevated level.

In practice, we think this means that EUR/USD can trade in a pretty wide range for the rest of the year – perhaps 1.00-1.10 with a downside bias over coming months. USD/JPY gains over 130 may well be harder work now, but GBP looks increasingly vulnerable given that investors still price the Bank of England’s Bank Rate well over 2.00% this year.

Elsewhere in Europe, currencies in the Central and Eastern Europe region remain very volatile and under pressure. The zloty would be our preferred pick on a longer-term view, while the forint remains fragile as twin deficits return to focus. Personnel changes at the Czech National Bank have raised uncertainty around the path of the most favoured currency – the Czech koruna.

Risk aversion and the China slowdown are making life hard for many commodity currencies. Most vulnerable look the likes of the Brazilian real and South African rand – with close links to China. The renminbi itself remains fragile, with USD/CNY risk to 6.80.

ING FX forecasts

	EUR/USD	USD/JPY	GBP/USD
1M	1.05 →	130 ↓	1.24 ↑
3M	1.05 →	130 →	1.24 ↑
6M	1.08 ↑	128 ↓	1.26 ↑
12M	1.10 ↑	126 ↓	1.26 ↑

	EUR/GBP	EUR/CZK	EUR/PLN
1M	0.85 →	25.00 →	4.60 ↓
3M	0.85 →	25.30 ↑	4.55 ↓
6M	0.86 →	25.00 →	4.50 ↓
12M	0.87 →	24.50 ↓	4.40 ↓

	USD/CNY	USD/MXN	USD/BRL
1M	6.70 →	860.00 ↑	5.00 ↓
3M	6.55 ↓	875.00 ↑	5.25 ↑
6M	6.50 ↓	875.00 ↑	5.50 ↑
12M	6.45 ↓	875.00 ↑	5.60 ↑

↑ / → / ↓ 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	-7.0	13.8	2.3	-0.4	-5.2	1.5
%YoY	-12.6	20.4	-1.3	0.4	-12.0	5.7

	USD/UAH	USD/KZT	USD/BRL	USD/MXN	USD/CNY	USD/TRY
%MoM	5.5	0.5	-1.0	8.7	6.2	9.1
%YoY	8.7	2.8	-4.9	24.0	4.0	80.9

Source: Refinitiv, ING forecast

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Developed markets

EUR/USD

Push Me, Pull Me

Current spot: 1.0522



Source: Refinitiv, ING forecasts

- The dollar is being pulled higher by the Fed's decision to take some steam out of the US economy by hitting the monetary brakes hard. 75bp of tightening has been seen so far this year and another 200bp could be seen by December. US 10-year real interest rates have turned positive, in a sustainable way, for the first time since 2019. These could well rise another 75-100bp.
- And the dollar is being pushed higher by weakening growth prospects in Europe and China, where the war and lockdowns have added to supply chain dysfunction and hit growth prospects
- EUR/USD is a pro-cyclical currency, and the cycle doesn't look good. [We cannot rule out EUR/USD at parity this year.](#)

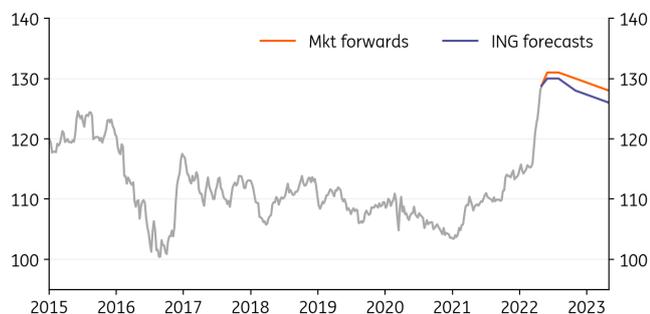
ING forecasts (mkt fwd)	1M 1.05 (1.0537)	3M 1.05 (1.0574)	6M 1.08 (1.0642)	12M 1.10 (1.0787)
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USD/JPY

Official concern and stretched valuations may help JPY

Current spot: 131.22



Source: Refinitiv, ING forecasts

- The USD/JPY rally has temporarily stalled around the 130 area. Limiting the move may be two factors: i) Japan's Ministry of Finance expressed 'extreme concern' with the recent spike to 131 – suggesting intervention may not be far off. ii) USD/JPY looks pretty stretched on our medium-term BEER valuation model. We think we're now in the hard yards of the USD/JPY rally.
- That it is not to say that USD/JPY cannot push further were US Treasury yields to push substantially higher, but the move will be hard work.
- Given a tough risk environment (higher real rates, weaker growth, credit markets unprotected) JPY can outperform on crosses.

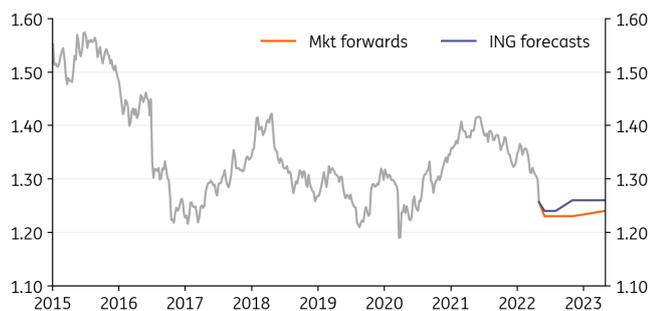
ING forecasts (mkt fwd)	1M 130 (131.08)	3M 130 (130.68)	6M 128 (129.82)	12M 126 (127.63)
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GBP/USD

Falling off the tightrope

Current spot: 1.2301



Source: Refinitiv, ING forecasts

- BoE Governor Andrew Bailey has been talking about the BoE walking the fine line between keeping control of inflation, while worrying about the consumer slowdown. The May MPC meeting saw far more concern expressed over the slowdown, where the UK economy is expected to contract in 2023 and the BoE issued a 'rate protest' against aggressive marketing pricing of policy.
- Sterling effectively fell off its tightrope and there is plenty more downside since the market still prices the Bank Rate up near 2.50% next year – we think the BoE pauses closer to 1.50%.
- Sterling has also started to trade more on growth differentials – and given poor prospects, GBP/USD may have to trade 1.20.

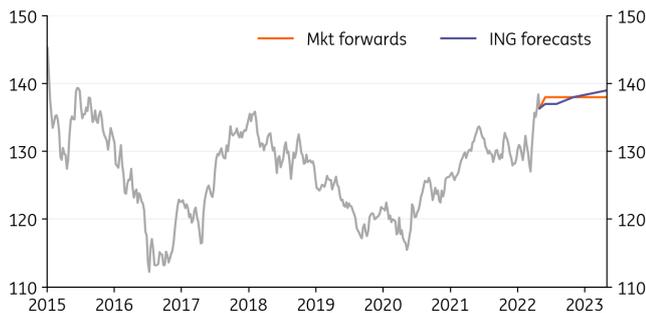
ING forecasts (mkt fwd)	1M 1.24 (1.2301)	3M 1.24 (1.2308)	6M 1.26 (1.2327)	12M 1.26 (1.2381)
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EUR/JPY

ECB will not be a game-changer

Current spot: 138.07



Source: Refinitiv, ING forecasts

- With regards to European Central Bank policy, our team looks for hikes in July, September and possibly December – though that final hike could prove a policy mistake akin to Jean-Claude Trichet’s notorious hike in 2008. But the market already prices in tightening well above that trajectory and we doubt ECB tightening will be a game-changer.
- The ECB has started to comment on the weak euro. Currently the trade-weighted euro is 6% weaker year-on-year – potentially adding 0.6% to CPI. It is not particularly large in the grander scheme.
- We would probably say downside risks exist to our EUR/JPY trajectory over the next six months given the tougher risk environment and now the threat of BoJ intervention.

ING forecasts (mkt fwd)	1M 137 (138.13)	3M 137 (138.19)	6M 138 (138.16)	12M 139 (137.68)
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EUR/GBP

Raising the profile

Current spot: 0.8554



Source: Refinitiv, ING forecasts

- The May BoE rate meeting was the catalyst for EUR/GBP breaking this year’s trading range to the upside. We are upgrading our end-year EUR/GBP target to 0.86 from 0.84 and keeping our end-year 2023 target at 0.88. There are probably upside risks to both.
- For the UK, the focus will be on how high inflation rises (BoE has a peak at 10% YoY) this summer versus how quickly growth falls away. GBP will be even more sensitive to hard data on consumption as well as wage growth.
- If the ECB want a firmer euro, EUR/GBP will have to rise given the large GBP weight in the euro trade-weighted basket. Yet EUR/GBP won’t be one-way traffic because of cloudy eurozone growth prospects.

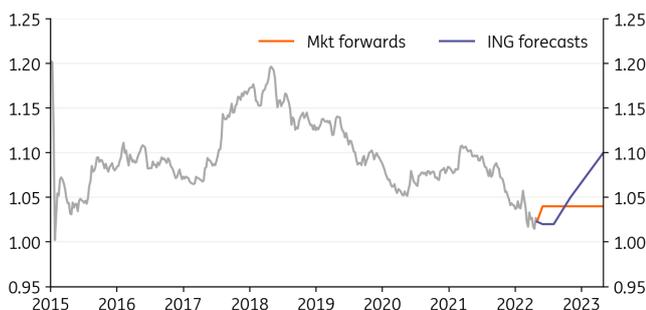
ING forecasts (mkt fwd)	1M 0.85 (0.8566)	3M 0.85 (0.8591)	6M 0.86 (0.8633)	12M 0.87 (0.8713)
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EUR/CHF

The alternate case for a strong Swiss Franc

Current spot: 1.0442



Source: Refinitiv, ING forecasts

- EUR/CHF is starting to shift off the lows – probably on the view that ECB lift-off may be close at hand. A summer ECB hike seems likely with the debate being whether it is 50bp or 75bp this year. The turn in the ECB cycle should lift EUR/CHF a little higher by year-end – that is our baseline view.
- The alternate views come from a recent speech by the Swiss National Bank’s Thomas Jordan. Given that Swiss inflation (2.5% YoY) is so much slower than in key trading partners (EZ 7.5% YoY), unless we see nominal CHF appreciation, the real exchange rate would depreciate – which is undesirable. Does the SNB want CHF 5% stronger per year?
- This all probably means that 1.00 is not a firm floor at all.

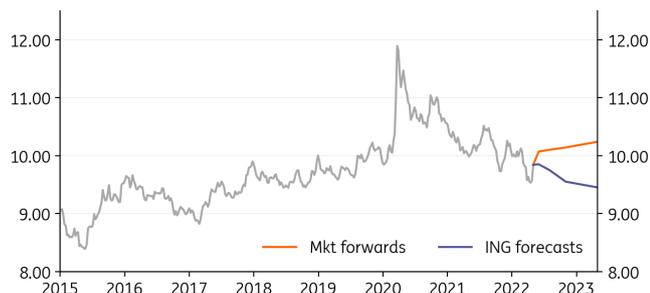
ING forecasts (mkt fwd)	1M 1.02 (1.0441)	3M 1.02 (1.0438)	6M 1.05 (1.0427)	12M 1.10 (1.0409)
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EUR/NOK

Waiting for NOK to re-connect with fundamentals

Current spot: 10.06



Source: Refinitiv, ING forecasts

- Between the exposure to a still supportive commodity picture and a high beta to the unstable global risk environment, it was the latter that has been dominating NOK price action lately.
- It's hard to expect a very soft landing for risk assets as global monetary tightening plans pace up, but Russia's prolonged diplomatic stand-off with the EU and Europe means higher energy prices for longer and strong demand for Norwegian exports.
- Norges Bank is sticking to its gradual tightening plans but signalled it may accelerate the pace of hiking. We expect three more hikes this year, which should offer some support to NOK once the currency re-connects with its quite solid fundamentals.

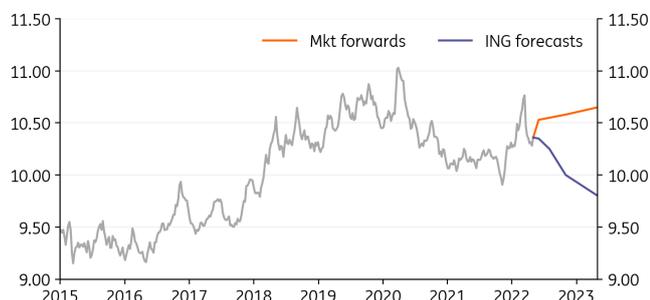
ING forecasts (mkt fwd)	1M 9.85 (10.07)	3M 9.75 (10.10)	6M 9.55 (10.14)	12M 9.45 (10.24)
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Francesco Pesole, London +44 20 7767 6405

EUR/SEK

Riksbank's U-turn to help the krona

Current spot: 10.53



Source: Refinitiv, ING forecasts

- The Riksbank hiked rates in April and signalled 2-3 more hikes by year-end. We read the relatively modest balance-sheet reduction plans as a sign that the RB may front-load rate hikes before shifting the focus on to quantitative tightening. We see three more hikes this year.
- We think, however, that most of the positives related to a widening SEK-EUR policy rate will emerge in the second half of the year. In the nearer term, unstable risk sentiment and uncertainty around the economic impact of the Ukraine war may continue to keep EUR/SEK supported around the 10.30 area.
- We expect EUR/SEK to test the 10.00 support in 3Q22 and we see a tangible risk of the pairing trading below 10.00 in 4Q22.

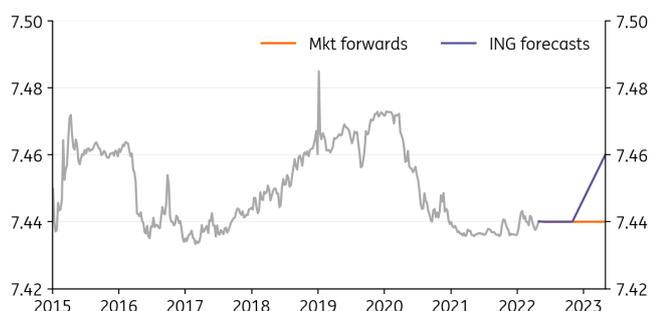
ING forecasts (mkt fwd)	1M 10.35 (10.53)	3M 10.25 (10.55)	6M 10.00 (10.58)	12M 9.80 (10.65)
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EUR/DKK

Time to discuss tightening

Current spot: 7.4391



Source: Refinitiv, ING forecasts

- Danmarks Nationalbank did not intervene in the FX market in April, meaning that the recovery in EUR/DKK from the 7.437 dip was entirely market driven.
- With the ECB now likely to hike rates at least once by the end of the year, the question of the timing of DN monetary tightening is becoming relevant.
- It seems reasonable to expect the DN to hike in tandem with the ECB over the coming quarters, with FX intervention likely to remain the preferred option over an intentional widening of the ECB-DN rate differential to keep EUR/DKK within its peg band. We still expect a return to 7.46 in 2023.

ING forecasts (mkt fwd)	1M 7.44 (7.4387)	3M 7.44 (7.4385)	6M 7.44 (7.4378)	12M 7.46 (7.4370)
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USD/CAD

1.25 is not out of sight

Current spot: 1.2938



Source: Refinitiv, ING forecasts

- The instability in global risk assets has taken a toll on all commodity currencies, including the loonie, which however retains a good combination of rate attractiveness and economic fundamentals.
- The Bank of Canada is likely to follow the Fed's policy path, at least for 2022, and we expect 200bp of extra tightening (so rates at 3.0%) by the end of the year. Markets are almost fully pricing in this scenario, but like in the US, fast tightening should allow some room for more hawkish speculation on the terminal rate.
- With the BoC tightening fast and the long-term benefits of high commodity prices emerging, we still think USD/CAD can trade below 1.25 by 3Q22.

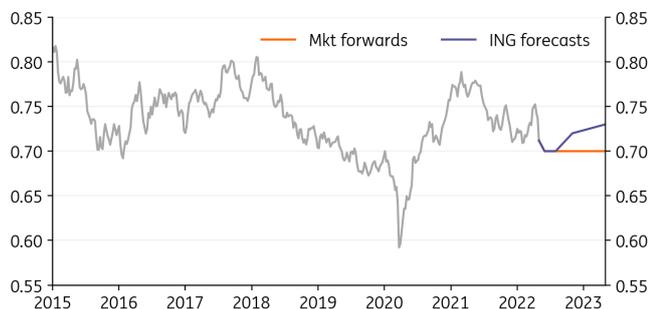
ING forecasts (mkt fwd)	1M 1.28 (1.2939)	3M 1.26 (1.2941)	6M 1.24 (1.2946)	12M 1.22 (1.2947)
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AUD/USD

Bowled over by the China slow-down

Current spot: 0.6997



Source: Refinitiv, ING forecasts

- The AUD outlooks remains a story of conflicting factors. On the external side, the effect of still elevated commodity prices is being offset by wobbly risk sentiment and concerns about China's demand outlook.
- Domestically, the Reserve Bank of Australia has started hiking more aggressively than expected, but market pricing is replicating that of the Fed (rates at 3.0% by year-end) which appears overly hawkish. There's also some political uncertainty related to this month's elections, with the opposition Labour party leading in the polls.
- We continue to see some moderate downside risks for the AUD (possibly to 0.68) although a gradual upward-sloping path in the medium run remains our base case.

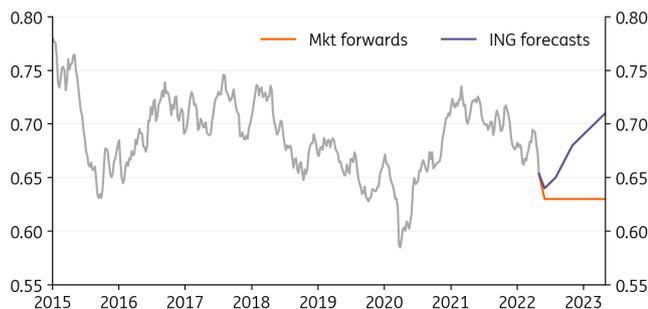
ING forecasts (mkt fwd)	1M 0.70 (0.7001)	3M 0.70 (0.7007)	6M 0.72 (0.7007)	12M 0.73 (0.6991)
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NZD/USD

Many negatives in the price

Current spot: 0.6345



Source: Refinitiv, ING forecasts

- The Kiwi dollar has been the worst performing G10 currency in the past month, heavily discounting its exposure to a re-rating of the economic outlook in China and risk assets instability.
- The impact of lockdowns in China may end up being less severe than expected, thanks to Beijing's fiscal and economic support, and some negatives may be priced out of NZD later in the year.
- On the monetary policy side, the Reserve Bank of New Zealand may deliver another 50bp in hikes given a tight labour market and inflation at 6.9%. House prices have started to inch lower but remain 19% higher than last year. We expect 200bp of additional tightening by year-end, which should help NZD/USD move back to 0.70 by early 2023.

ING forecasts (mkt fwd)	1M 0.64 (0.6343)	3M 0.65 (0.6338)	6M 0.68 (0.6327)	12M 0.71 (0.6304)
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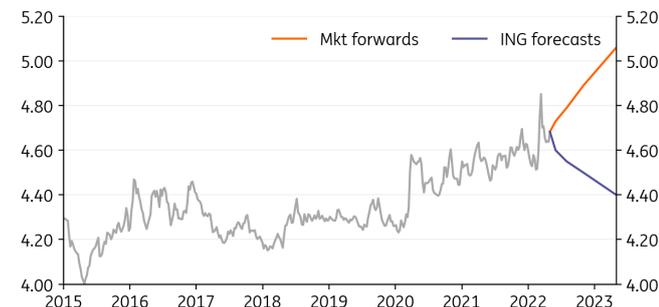


Emerging markets

EUR/PLN

NBP policy remains supportive for the zloty

Current spot: 4.7070



Source: Refinitiv, ING forecasts

- Poland is relatively well prepared for a Russian cut-off of natural gas, at least as long as Germany is not sanctioned and deliveries from the West are possible. We expect sentiment for the zloty to gradually improve, in tandem with NBP rate hikes. In the short term, PLN gains are limited though by increased import demand, as firms attempt to resupply (as seen in PMI).
- In the long run, prospects for the zloty are positive, reflecting further NBP rate hikes (resulting in a huge disparity against the euro) and possibly further improvement in global sentiment to emerging markets. Reaching a compromise with the European Commission on rule of law would be a major support as money from the Recovery Fund would be converted via the market, substantially increasing PLN demand.

ING forecasts (mkt fwd)	1M 4.60 (4.7334)	3M 4.55 (4.7907)	6M 4.50 (4.8874)	12M 4.40 (5.0576)
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Piotr Poplawski, Warsaw +48 22 820 4078

EUR/HUF

Sliding external balance puts systemic pressure on HUF

Current spot: 383.49



Source: Refinitiv, ING forecasts

- EUR/HUF has seen major headwind since the mid-April bottoming at around 370. Besides the EM FX sell-off, there have been some idiosyncratic shocks, like the ongoing rule-of-law procedure.
- The key structural factor behind HUF weakness remains the continuous deterioration in the external balance due to the country's rising energy bill. This puts systemic pressure on forint, making a structural bet against HUF easier for investors.
- The National Bank of Hungary's ongoing hawkishness could provide some support here, but we see 378 remaining the gravity line for the next three months. As the hoped-for de-escalation ripples through markets, we envision EUR/HUF easing back in the 355-360 range in the longer run.

ING forecasts (mkt fwd)	1M 380 (385.83)	3M 375 (388.98)	6M 360 (397.89)	12M 355 (412.54)
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Péter Virovác, Budapest +36 1 235 8757

EUR/CZK

Personnel changes become the main driver

Current spot: 25.08



Source: Refinitiv, ING forecasts

- The CZK has weakened sharply to 25.0 following recent media speculation that a current Czech National Bank board member, Ales Michl, is to become the new governor. Michl is one of two members who do not vote for interest rate hikes. Although the report cannot be confirmed or denied, it can be considered probable.
- Until the official announcement, likely very shortly, we see the potential for EUR/CZK to remain very volatile, making the situation significantly unpredictable.
- For now, however, we consider the CZK drop to the weakest levels since the start of the Ukrainian conflict to be overdone given the move in the rate differential, which is still near record highs.

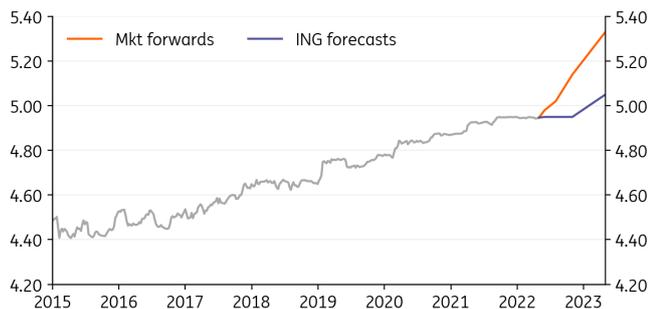
ING forecasts (mkt fwd)	1M 25.0 (25.22)	3M 25.3 (25.48)	6M 25.0 (25.89)	12M 24.5 (26.49)
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Frantisek Taborsky, London +44 20 7767 6666

EUR/RON

RON: The CEE's safe haven?

Current spot: 4.9473



Source: Refinitiv, ING forecasts

- The 4.95 level remains well defended as strong offers are usually seen in the 4.9480-4.9500 range. The few downside attempts in the pair have been met with strong bids around 4.9420, hence the 4.94-4.95 range looks here to stay for a while.
- We expect a large 100bp hike from the National Bank of Romania on 10 May, taking the policy rate to 4.00%. The latest inflation developments have been rather disturbing as prices for food items marked monthly increases which – until recently – could be seen only in a couple of years combined.
- We maintain our view of a stable EUR/RON rate close to 4.95 and a tight liquidity context which should keep carry rates close to or above the Lombard rate for the rest of the year.

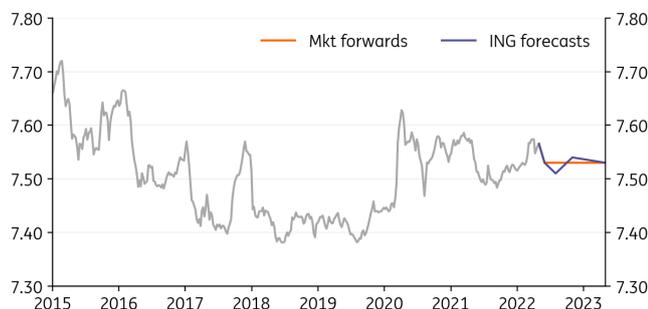
ING forecasts (mkt fwd)	1M 4.95 (4.9772)	3M 4.95 (5.0161)	6M 4.95 (5.1393)	12M 5.05 (5.3279)
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Valentin Tataru, Bucharest +40 31 406 8991

EUR/HRK

On autopilot until 1 January 2023

Current spot: 7.5325



Source: Refinitiv, ING forecasts

- In late April the Croatian government sent a convergence programme to ECB and European Commission which should issue an assessment and check compliance with Maastricht criteria.
- Local officials consider that Croatia's inflation performance should be measured against the euro area average and not against the top three best performing countries as per the Maastricht criteria. Technically, this can be done and has happened before.
- We maintain our year-end EUR/HRK forecasts at 7.53. The recent Ukraine-related events are unlikely to prevent euro adoption at 1 January 2023.

ING forecasts (mkt fwd)	1M 7.53 (7.5305)	3M 7.51 (7.5319)	6M 7.54 (7.5319)	12M 7.53 (7.5285)
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EUR/RSD

Increased - but still limited - flexibility

Current spot: 117.66



Source: Refinitiv, ING forecasts

- The dinar stability throughout these turbulent times has come at a high cost, as the NBR said it sold €1.17bn in March – a historic high – to maintain FX stability. We estimate that intervention has been high in April as well, though March will likely remain the peak.
- According to our non-consensual view, the National Bank of Serbia hiked by 50bp in April, and we expect more 50bp hikes in the coming policy meetings. We increase our estimate for the key rate to 3.50% by the end of 2022 and 4.50% in 2023.
- We see the EUR/RSD trading within a marginally larger band of 117.6-117.8.

ING forecasts (mkt fwd)	1M 117.65 (117.82)	3M 117.70 (118.42)	6M 117.60 (119.58)	12M 117.60 (121.56)
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Valentin Tataru, Bucharest +40 31 406 8991

USD/RUB

Insulated by capital controls and FX restrictions – for now

Current spot: 70.49



Source: Refinitiv, ING forecasts

- Thanks to capital controls and mandatory sales of 80% of FX export revenues, the ruble has become sensitive only to the trade balance which is widening thanks to the shrinking imports. This led to a spectacular RUB rally to a pre-Covid level of 65/USD.
- Uncomfortable with the RUB appreciation, the Central Bank of Russia proposed to lower the FX sales requirement from 80% to zero for non-commodity exports (15% of total) and from 80% to 50% for commodity exports. If approved, this would lead to a decline in local appetite for FX sales from the current US\$32bn/month to US\$17bn/month.
- The expected drop in physical exports by up to 20% in 2022 (CBR) amid a possible EU oil embargo (50% of Russia's oil exports) suggests further erosion in the trade balance down the line. Meanwhile, the near-term drop in imports and no easing in the capital controls in sight may delay the reversal in the RUB trend.

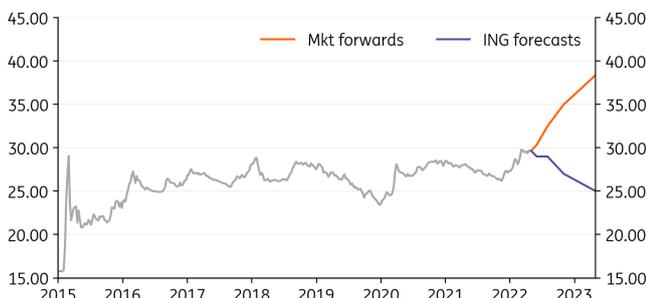
ING forecasts (mkt fwd)	1M 70.00 (74.76)	3M 80.00 (80.32)	6M 90.00 (86.15)	12M 100.00 (93.66)
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Dmitry Dolgin, Russia +7 495 771 7994

USD/UAH

Stalemate for now

Current spot: 30.25



Source: Refinitiv, ING forecasts

- The hryvnia stabilised in recent weeks, as the risk of a military defeat greatly diminished. Still, there are no signs of the Russian invasion ending any time soon. Ukraine has been receiving substantial foreign aid. This suggests the USD/UAH rate remains elevated, but at least for now the risk of greater depreciation of the hryvnia has significantly decreased.
- We expect a major recovery of the hryvnia as soon as the war nears its end. Comments from Western powers, particularly the US, suggests that much of frozen Russian assets will be transferred to Ukraine as economic relief measures. Economic recovery will require massive imports, but possibly a fraction of external funds will be converted into UAH on the market.

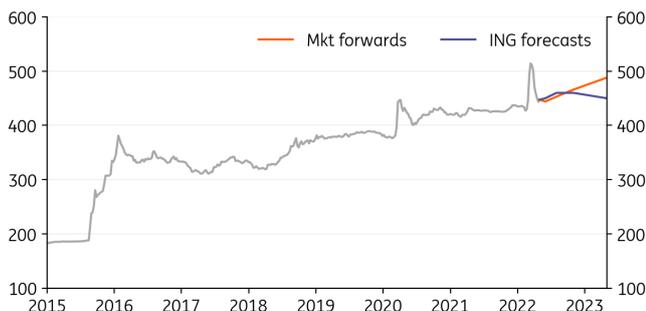
ING forecasts (mkt fwd)	1M 29.00 (30.34)	3M 29.00 (32.48)	6M 27.00 (34.99)	12M 25.00 (38.38)
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Piotr Poplawski, Warsaw +48 22 820 4078

USD/KZT

Recovered, but subject to further contagion of geopolitics

Current spot: 439.35



Source: Refinitiv, ING forecasts

- USD/KZT has returned to February levels of 430-440, partially confirming the optimistic call relying on oil price growth and the diminishing effect of contagion of geopolitics on tenge assets.
- Under a positive scenario, a widening trade balance will keep the tenge in 420-440 range. Fuel exports will remain at US\$9-11bn per quarter in 1H22 if average quarterly Brent prices trade in a US\$100-120/bbl range, while real imports will be constrained by logistical restrictions from the EU and the drop in real income.
- In a scenario of further turmoil, USD/KZT should return to 440-500 range. Kazakhstan is exposed to Russian tensions, as over half of Kazakhstan's oil exports go through Russia's Novorossiysk port and one-sixth goes through Transneft's oil transport system.

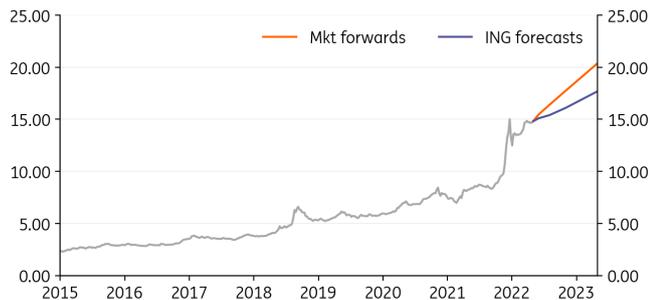
ING forecasts (mkt fwd)	1M 450 (444.28)	3M 460 (453.19)	6M 460 (465.90)	12M 450 (488.37)
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Dmitry Dolgin, Russia +7 495 771 7994

USD/TRY

CBT in action again

Current spot: 14.99



Source: Refinitiv, ING forecasts

- While reserves again show signs of pressure with widening external imbalances, central bank activity has increased lately under the framework of its liraization strategy. Accordingly, the FX surrender requirement for goods exporters increased to 40% (in addition to the newly-introduced FX selling requirement for services exporters). The Central Bank of Turkey also made adjustments in the FX-protected deposit scheme to increase participation and revisions in the system designed to encourage banks to get more involved in the scheme.
- The CBT also revised regulations on banks' reserve requirements to curb commercial TRY loan growth so as to contain macro financial risks related to a widening current account deficit.
- With these measures, the CBT targets control of the current account deficit and local demand for FX, which are key factors for FX stability along with the outlook in global financial markets.

ING forecasts (mkt fwd)	1M 15.10 (15.47)	3M 15.40 (16.39)	6M 16.10 (17.75)	12M 17.70 (20.39)
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Muhammet Mercan, Istanbul +90 212 329 0751

USD/ZAR

When things fall apart

Current spot: 16.18



Source: Refinitiv, ING forecasts

- Over the last month, the focus in FX markets shifted from the commodity supply shock of the war in Ukraine to global slowdown fears - largely led by China and Europe. A zero Covid policy in China and renewed lockdowns, hitting the renminbi, took its toll on the rand. With China keeping lockdowns in place through the summer and \$ rates going higher, ZAR is to stay pressured.
- Recent weakness in the rand may force the SARB to hike more quickly when it meets on 19 May. The policy rate is now 4.25% (headline CPI 6% YoY) and SARB may hike 50bp.
- Yet a tough environment for EM equity and debt markets this summer leave USD/ZAR risks skewed towards 17.00.

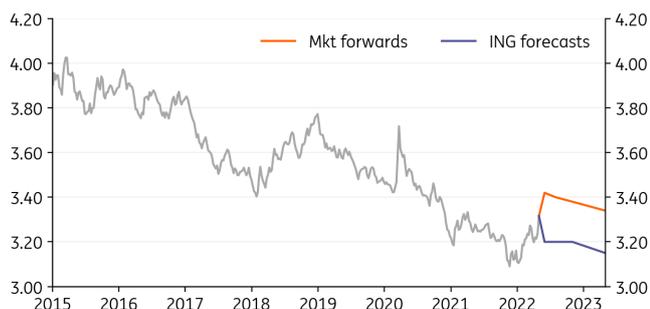
ING forecasts (mkt fwd)	1M 16.25 (16.24)	3M 16.50 (16.35)	6M 16.75 (16.51)	12M 17.00 (16.81)
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USD/ILS

ILS weaker than expected, but should bounce

Current spot: 3.4278



Source: Refinitiv, ING forecasts

- USD/ILS is much firmer than the kind of 3.20 levels we had favoured this summer. Driving that maybe the shekel's relatively high correlation with the Nasdaq, which is now -21% year-to-date. Yet the shekel's fundamentals are strong - being a good quality EM investment. Strong services exports and net FDI inflows support the external side, while 5.5% domestic growth and a hawkish central bank should keep domestic rates supported.
- Here the Bank of Israel hiked 25bp in early April and may choose to hike more than the cosmetically-appealing 15bp to 50p on 23 May.
- We expect good demand for ILS on any further weakness and favour USD/ILS at 3.10/3.20 later this year and at 2.50 in 2023.

ING forecasts (mkt fwd)	1M 3.20 (3.4167)	3M 3.20 (3.4020)	6M 3.20 (3.3782)	12M 3.15 (3.3371)
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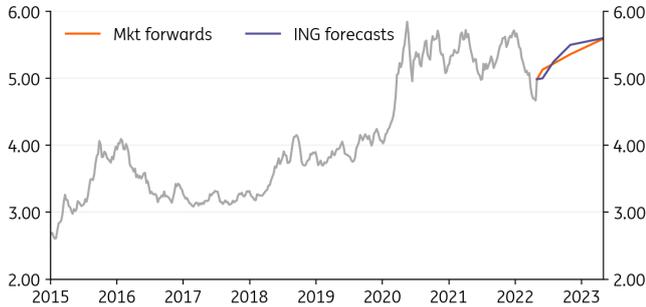


LATAM

USD/BRL

Equity flow reversals lead the Real lower

Current spot: 5.0784



Source: Refinitiv, ING forecasts

- Spiking US rates, China slowdown fears and the strong dollar have all taken their toll on Brazil's real. A key driver of this year's BRL strength had been equity flows into Brazil. The deteriorating international environment saw up to \$2bn leave Brazilian equities in late April. Where next for equity flows? 2022 seems a challenging environment and we see risk of more outflows.
- The policy rate is now at 12.75%, but the pace of tightening will slow. The market thinks rates top near 14% this summer.
- Weak growth, October elections and a strong dollar should all combine to weigh on BRL through 2022. 13/14% rates make BRL an expensive sell, but the event risks are substantial.

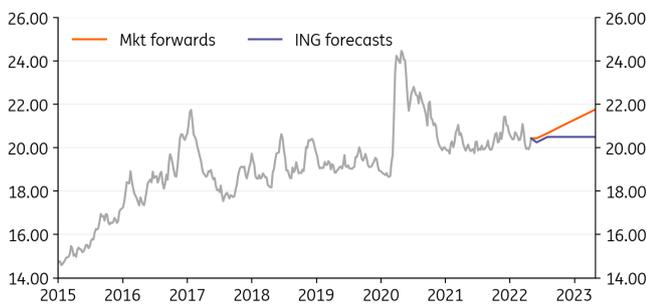
ING forecasts (mkt fwd)	1M 5.00 (5.1315)	3M 5.25 (5.2246)	6M 5.50 (5.3571)	12M 5.60 (5.5890)
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USD/MXN

AMLO starts to take an interest in Banxico policy

Current spot: 20.32



Source: Refinitiv, ING forecasts

- MXN has withstood the tougher risk environment well. As we've been saying, the 600bp policy rate premium over the US is providing sufficient insulation for Mexico's peso. And the market expects Banxico to follow the Fed with a 50bp rate hike on 12 May. One emerging risk for MXN, is that President AMLO has just agreed a deal to hold a basket of 24 goods stable over the next six months. Might he expect Banxico to keep rates stable too?
- Assuming Banxico follows the Fed with 50bp, we think USD/MXN can continue trading in a 20.00-20.50 range for the near term.
- Also helping MXN seems to be the pick-up in remittances, where March numbers rose 13% YoY. Strong US wage growth helps.

ING forecasts (mkt fwd)	1M 20.25 (20.44)	3M 20.50 (20.67)	6M 20.50 (21.05)	12M 20.50 (21.77)
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USD/CLP

10% policy rate here we come

Current spot: 858.99



Source: Refinitiv, ING forecasts

- The Chilean peso remains under pressure – having failed to rally when copper was strong, and now under pressure as copper dips on the China growth story. Our commodities team thinks that China will have to stimulate the property sector and that copper should recover.
- But the weak CLP is now proving a problem and the recent hike in the policy rate to 8.25% looks the precursor to rates at 10% this summer – as the central bank (BCC) tries to ride out the inflation hump.
- BCC may also consider trying to intervene in FX near the USD/CLP highs at 875. Also, look out for constitutional reform this summer. Changes could damage investment prospects and hit the CLP.

ING forecasts (mkt fwd)	1M 860 (864.64)	3M 875 (875.34)	6M 875 (889.64)	12M 875 (912.89)
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Asia

USD/CNY

CNY has shaky period



Source: Refinitiv, ING forecasts

ING forecasts (mkt fwd)	1M 6.70 (6.7306)	3M 6.55 (6.7341)	6M 6.50 (6.7329)	12M 6.45 (6.7296)
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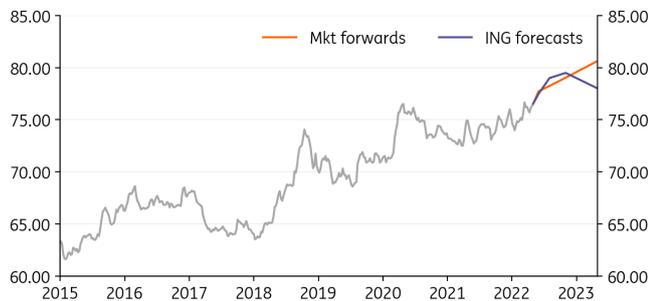
Current spot: 6.7261

- China's yuan has abruptly depreciated over the last month, following a weaker-than-expected daily fix. This suggested a sanctioned CNY weakening by the People's Bank of China in response to weak growth following Covid-19 related lockdowns.
- Well into this depreciation, and a less-than-convincing response to the government announcement of economic support measures saw USD/CNY touch 6.70, with speculation growing for a push to the 6.80 area.
- So far, PBOC measures to slow the renminbi's decline (stronger fixes, FX reserve requirement adjustments) have failed to help.

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USD/INR

RBI begins reluctant hiking cycle



Source: Refinitiv, ING forecasts

ING forecasts (mkt fwd)	1M 77.50 (77.74)	3M 79.00 (78.24)	6M 79.50 (79.04)	12M 78.00 (80.65)
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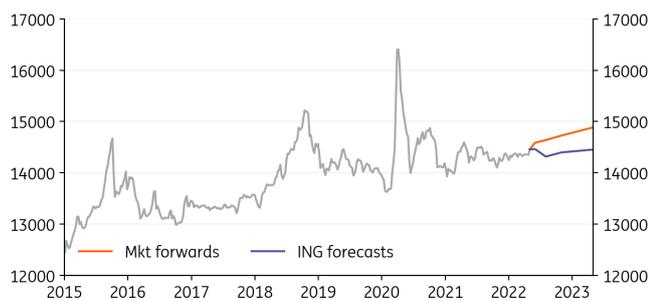
Current spot: 77.47

- The Reserve Bank of India took markets by surprise this month, hiking rates by 40bp in an unscheduled meeting after they left rates unchanged at their April meeting.
- Soaring inflation suggests that the RBI will be hiking rates more over the coming months, but they are still suggesting that they will retain a growth supportive stance, which suggests that they won't be hiking too hard.
- The rupee took little comfort from the unscheduled hike, and if rates rise slower than inflation over the coming months, then it seems likely that the INR will soften versus the USD and other Asian peers that are hiking more enthusiastically.

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USD/IDR

USD/IDR jumps in reaction to palm oil export ban



Source: Refinitiv, ING forecasts

ING forecasts (mkt fwd)	1M 14462 (14587)	3M 14316 (14638)	6M 14398 (14728)	12M 14453 (14886)
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Current spot: 14558

- The Indonesian rupiah moved sideways for most of the month. The currency was supported after Indonesia's March trade surplus widened. But the IDR weakened to close out the month in reaction to the export ban imposed on palm oil.
- Bank Indonesia (BI) kept policy rates untouched at the April meeting and even struck a dovish tone. BI Governor, Perry Warjiyo, expressed concern over global growth prospects, suggesting any rate hike would be delayed with a preference for RRR moves first.
- Further sideways trading is likely, though concerns about the palm oil export ban may keep IDR pressured in the near term.

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USD/KRW

KRW to remain under pressure

Current spot: 1277.40



Source: Refinitiv, ING forecasts

- The Korean won briefly crossed the 1,270 level in late-April, in line with the overall weakness of Asian currencies. Seasonal factors related to dividend pay-outs in April pushed up the KRW even more.
- Meanwhile, Korea's trade balance has been in the red for two consecutive months and it is expected to remain so for a few more months due to higher energy prices. In addition, despite the BoK's relatively rapid normalisation, the Fed's faster rate hikes should keep weighing on the KRW for a while.
- Thus, we expect the KRW to remain at an elevated level above 1.260.

ING forecasts (mkt fwd)	1M 1260 (1277.70)	3M 1260 (1276.30)	6M 1240 (1273.20)	12M 1220 (1265.40)
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USD/PHP

PHP weakens ahead of the elections and as imports rise

Current spot: 52.66



Source: Refinitiv, ING forecasts

- The Philippine peso strengthened early in the month, supported by inflows related to a foreign currency bond issuance by the government. But it steadily weakened afterwards as these flows reversed given increased demand for foreign currency to cover the rising import bill.
- A hawkish slant from Bangko Sentral ng Pilipinas (BSP) Governor, Benjamin Diokno, helped support the PHP towards the end of the month. Governor Diokno indicated that a policy rate hike would be considered at their June meeting
- The PHP will likely remain pressured in the near term given increased demand for foreign currency to cover bloated imports.

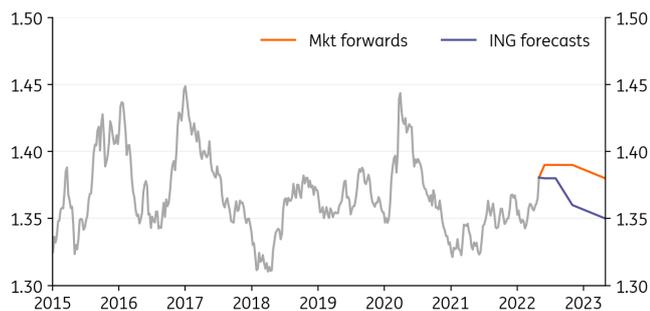
ING forecasts (mkt fwd)	1M 52.31 (52.74)	3M 53.45 (52.89)	6M 52.79 (53.12)	12M 52.81 (53.57)
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USD/SGD

SGD weakens despite MAS tightening

Current spot: 1.3928



Source: Refinitiv, ING forecasts

- The Singapore dollar weakened over the last month, driven by fears of global stagflation. Despite central bank (MAS) tightening, market participants priced in faster inflation due to elevated commodity prices and tight supply chains.
- The MAS tightened policy at the April meeting, adjusting the slope and midpoint of their policy band. Meanwhile, core inflation forecasts were nudged higher, suggesting inflation is likely to persist for most of the year.
- The SGD should firm over the year, though this may require further MAS action.

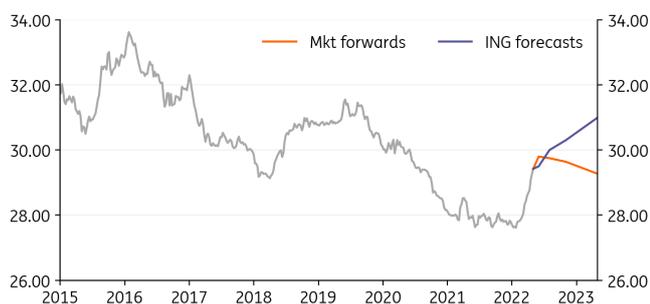
ING forecasts (mkt fwd)	1M 1.38 (1.3929)	3M 1.38 (1.3925)	6M 1.36 (1.3905)	12M 1.35 (1.3843)
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USD/TWD

TWD weakness persists on market gloom

Current spot: 29.81



Source: Refinitiv, ING forecasts

- The Taiwan dollar has been one of the weakest currencies versus the USD in the Asia pack since the start of the year, only beaten on the downside by the Japanese yen.
- That weakening trajectory continued over the last month, in spite of a rare 25bp rate hike by the central bank, taking the policy rate up to 1.375%. This takes policy rates in Taiwan to pre-Covid levels.
- Equity weakness seems the most probable cause for the TWD's ongoing malaise, and in the near term, there doesn't seem an obvious catalyst for a turn towards currency strength.

ING forecasts (mkt fwd)	1M 29.50 (29.80)	3M 30.00 (29.75)	6M 30.30 (29.64)	12M 31.00 (29.27)
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ING foreign exchange forecasts

EUR cross rates	Spot	1M	3M	6M	12M	USD cross rates	Spot	1M	3M	6M	12M
Developed FX											
EUR/USD	1.05	1.05	1.05	1.08	1.10						
EUR/JPY	138.1	136.50	136.50	138.24	138.60	USD/JPY	131.23	130	130	128	126
EUR/GBP	0.86	0.85	0.85	0.86	0.87	GBP/USD	1.23	1.24	1.24	1.26	1.26
EUR/CHF	1.04	1.02	1.02	1.05	1.10	USD/CHF	0.99	0.97	0.97	0.97	1.00
EUR/NOK	10.06	9.85	9.75	9.55	9.45	USD/NOK	9.55	9.38	9.29	8.84	8.59
EUR/SEK	10.53	10.35	10.25	10.00	9.80	USD/SEK	10.00	9.86	9.76	9.26	8.91
EUR/DKK	7.439	7.440	7.440	7.440	7.460	USD/DKK	7.07	7.09	7.09	6.89	6.78
EUR/CAD	1.36	1.34	1.32	1.34	1.34	USD/CAD	1.294	1.28	1.26	1.24	1.22
EUR/AUD	1.50	1.50	1.50	1.50	1.51	AUD/USD	0.70	0.70	0.70	0.72	0.73
EUR/NZD	1.66	1.64	1.62	1.59	1.55	NZD/USD	0.63	0.64	0.65	0.68	0.71
EMEA											
EUR/PLN	4.71	4.60	4.55	4.50	4.40	USD/PLN	4.47	4.38	4.33	4.17	4.00
EUR/HUF	383.5	380.00	375.00	360.00	355.00	USD/HUF	364.4	362	357	333	323
EUR/CZK	25.08	25.0	25.3	25.0	24.5	USD/CZK	23.84	23.8	24.1	23.1	22.3
EUR/RON	4.95	4.95	4.95	4.95	5.05	USD/RON	4.70	4.71	4.71	4.58	4.59
EUR/HRK	7.53	7.53	7.51	7.54	7.53	USD/HRK	7.16	7.17	7.15	6.98	6.85
EUR/RSD	117.7	117.7	117.7	117.6	117.6	USD/RSD	111.8	112.0	112.1	108.9	106.9
EUR/RUB	73.92	73.5	84.0	97.2	110.0	USD/RUB	70.49	70.0	80.0	90.0	100.0
EUR/UAH	31.83	30.5	30.5	29.2	27.5	USD/UAH	30.25	29.00	29.00	27.00	25.00
EUR/KZT	450.4	472.5	483.0	496.8	495.0	USD/KZT	439.4	450	460	460	450
EUR/TRY	15.78	15.86	16.17	17.39	19.47	USD/TRY	14.99	15.10	15.40	16.10	17.70
EUR/ZAR	17.03	17.1	17.3	18.1	18.7	USD/ZAR	16.18	16.25	16.50	16.75	17.00
EUR/ILS	3.61	3.36	3.36	3.46	3.47	USD/ILS	3.43	3.20	3.20	3.20	3.15
LATAM											
EUR/BRL	5.34	5.25	5.51	5.94	6.16	USD/BRL	5.08	5.00	5.25	5.50	5.60
EUR/MXN	21.24	903.0	918.8	945.0	962.5	USD/MXN	20.32	860.00	875.00	875.00	875.00
EUR/CLP	903.83	21	22	22	23	USD/CLP	858.99	20	21	21	21
Asia											
EUR/CNY	7.08	7.04	6.88	7.02	7.10	USD/CNY	6.73	6.70	6.55	6.50	6.45
EUR/IDR	15301	15185	15032	15550	15898	USD/IDR	14558	14462	14316	14398	14453
EUR/INR	81.52	81.4	83.0	85.9	85.8	USD/INR	77.48	77.50	79.00	79.50	78.00
EUR/KRW	1344.08	1323	1323	1339	1342	USD/KRW	1233.05	1220	1210	1200	1180
EUR/PHP	55.41	54.9	56.1	57.0	58.1	USD/PHP	52.66	52.31	53.45	52.79	52.81
EUR/SGD	1.47	1.45	1.44	1.47	1.49	USD/SGD	1.39	1.38	1.38	1.37	1.36
EUR/TWDD	31.36	31.0	31.5	32.7	34.1	USD/TWDD	29.81	29.5	30.0	30.3	31.0

Source: Refinitiv, ING

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