13 June 2022

FX Strategy

FX Talking

Summer of discontent keeps dollar in demand

The global economy can now be characterised as one in which many central bankers are poised to hike rates more forcefully, even as growth prospects are being revised lower. Investors are now having to ask which economies can best withstand these tighter monetary conditions and which currency to back?

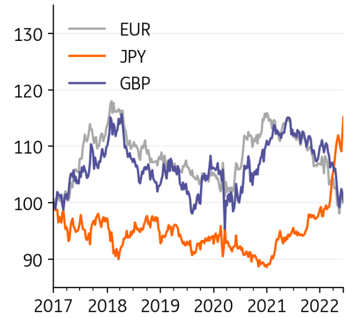
During this summer of discontent the answer to these questions largely remains the US economy and the dollar. Unlike the supply-driven inflation suffered in Europe, price rises in the US are far more a function of demand-side factors and suggest stagflation is less of a likelihood in the US than in Europe. And with no end in sight to tight energy markets, the US remains better positioned here too.

We expect the Fed to deliver at least another 175bp of hikes this year as the Fed drives real US interest rates into restrictive territory. This is not good news for global growth – but that is the point, the Fed needs to slow demand. Flatter yield curves consistent with the latter stages of the US business cycle are normally good news for the dollar.

In all this means that the dollar should stay bid this summer (1.00/1.02 is possible in EUR/USD), while USD/JPY in the 135/140 region looks ready to trigger Japanese intervention. GBP/USD can move to the low 1.20s as the BoE cycle is repriced lower and the CHF should start to outperform in Europe as the SNB guides it higher. CEE FX has become more mixed. We still favour the PLN, but HUF and now CZK look more vulnerable.

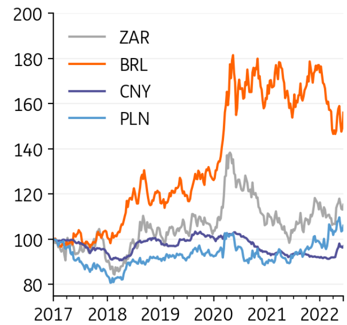
This will be a fragile environment for most EMFX – especially those most exposed to China. Here USD/CNY can still push higher taking most of $/Asia with it.

USD/Majors (4 Jan 15=100)



Source: Refinitiv, ING forecast

USD/EM (4 Jan 15=100)



ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.05	↑	132	↓	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	→	24.60	↑	4.55	↓
3M	0.85	↓	24.60	↓	4.52	↓
6M	0.86	→	24.80	↓	4.49	↓
12M	0.87	→	24.50	↓	4.43	↓
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	6.90	↑	19.50	↓	5.00	→
3M	6.78	↑	19.50	↓	5.25	↑
6M	6.68	↓	19.75	↓	5.50	↑
12M	6.57	↓	20.00	↓	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	-13.5	19.8	-0.6	-0.3	-11.7	6.9
	EUR/PLN	**EUR/CZK**	**USD/BRL**	**USD/ZAR**	**USD/CNY**	**USD/TRY**
%MoM	3.3	2.4	-1.0	0.9	6.2	9.1
%YoY	5.3	-1.3	0.2	-14.6	5.2	75.9

Source: Refinitiv, ING forecast

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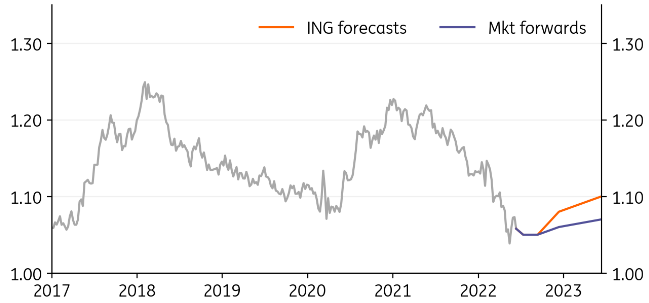
Developed markets

EUR/USD

A long, hot summer for the euro — **Current spot: 1.0476**



Source: Refinitiv, ING forecasts

- Both the Fed and the ECB are in hawkish mode – both battling inflation near 8%. Both are probably happy with stronger currencies. The difference is the stagflationary shock from the war in Ukraine which makes the ECB unlikely to deliver on the 150bp of tightening priced in. There is also the issue of growth differentials and what they mean for international equity flows. These could start generating some euro under-performance.
- EUR/USD looks biased towards the lower end of a 1.02-1.08 range this summer. It looks far too early to pick the top in the Fed cycle.
- Higher US real rates also spell trouble for risk assets, including EM in general. This will also lend further support to the dollar.

ING forecasts (mkt fwd)	1M 1.05 (1.0494)	3M 1.05 (1.0536)	6M 1.08 (1.0602)	12M 1.10 (1.0737)

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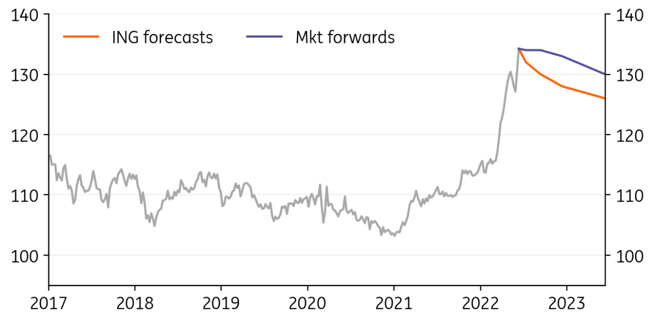
USD/JPY

Official concern and stretched valuations may help JPY — **Current spot: 134.43**



Source: Refinitiv, ING forecasts

- The combination of aggressive Fed tightening (we look for at least another 175bp of Fed rate hikes this year), high energy prices and BoJ dovishness has sent USD/JPY to 135.
- Japanese officials are now officially unhappy with the rapid pace of JPY weakness. Sensible arguments go that the BoJ cannot intervene to sell $/JPY since: a) markets are not disorderly and b) BoJ is still printing money with QQE. Yet intervention is political & one never knows whether deals get cut behind the scenes
- We cannot rule out USD/JPY marching towards 140 given that this is a fundamentally driven, but intervention signals are flashing amber/red. Traded USD/JPY volatility can rise further.

ING forecasts (mkt fwd)	1M 132 (134.24)	3M 130 (133.75)	6M 128 (132.71)	12M 126 (129.85)

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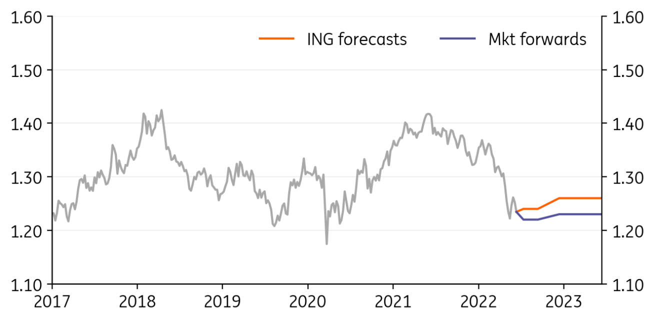
GBP/USD

Bank of England tightening expectations are extreme — **Current spot: 1.2227**



Source: Refinitiv, ING forecasts

- GBP/USD looks as though it can trade back down to the 1.21/22 levels – largely on the back of dollar strength. But certainly an Unexploded Bomb (UXB) for sterling is the incredibly aggressive 175bp of tightening priced into the BoE cycle for year-end. This seems very extreme given that not all the MPC were on board with May's 25bp hike. The 16 June BoE meeting is an event risk.
- UK growth will struggle in 2Q, although there is increasing speculation over tax cuts coming through this Autumn – in a bid to shore up Conservative support ahead of a possible '23 election.
- We doubt a Tory leadership change or Brexit tension has too much impact on sterling – a lot of bad news is already priced.

ING forecasts (mkt fwd)	1M 1.24 (1.2229)	3M 1.24 (1.2237)	6M 1.26 (1.2255)	12M 1.26 (1.2305)

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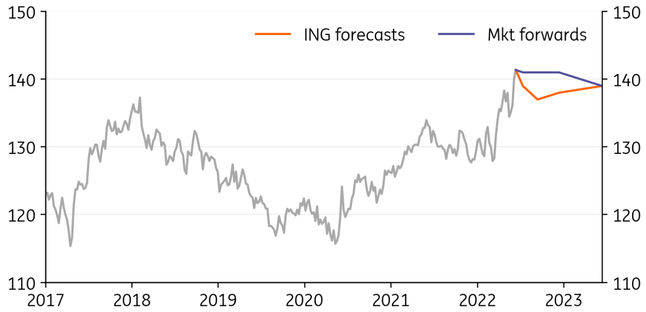
EUR/JPY

Don't chase EUR/JPY strength

Current spot: 140.83



Source: Refinitiv, ING forecasts

- High energy prices and a hawkish ECB have seen the EUR/JPY rally extend. The ECB has now pre-committed to a 25bp hike in July and at least another 25bp hike in September. The BoJ remains resolutely dovish. Japanese officials would like to slow JPY depreciation through means of intervention – though EUR/JPY may have to be closer to 150 for intervention to be seen.
- The reason we do not like forecasting a much higher EUR/JPY is the risk environment. Higher real rates around the world will challenge equities and could generate some JPY outperformance.
- How ECB copes with fragmentation risks (eg, BTP-Bund spread moving to 250bp) remains to be seen – and may weigh on EUR.

ING forecasts (mkt fwd)	1M 139 (140.88)	3M 137 (140.91)	6M 138 (140.70)	12M 139 (139.42)

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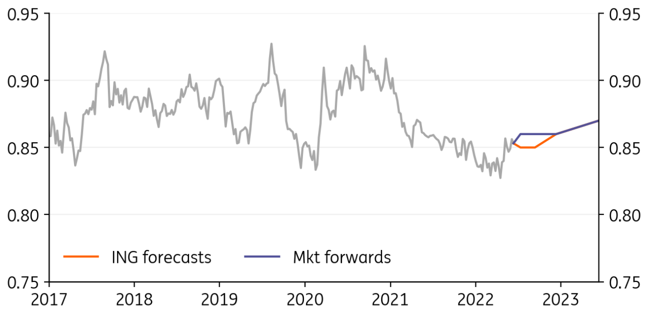
EUR/GBP

We are not in the 'end of days' camp for sterling

Current spot: 0.8567



Source: Refinitiv, ING forecasts

- There has been a lot written recently about sterling being a terrible currency. Yes, it has weakened about 4% this year on a trade-weighted basis, but that is partly down to a very strong dollar. We are not as bearish as some and do not expect the political noise of the current Tory government to do much damage – largely since the Tories have a large majority.
- And the euro does not look particularly attractive either at the minute – both currencies under pressure based on their growth credentials and stagflationary challenges.
- But the re-assessment of the BoE cycle looks a clear risk. EUR/GBP resistance at 0.8600 will come under increasing pressure.

ING forecasts (mkt fwd)	1M 0.85 (0.8580)	3M 0.85 (0.8609)	6M 0.86 (0.8650)	12M 0.87 (0.8725)

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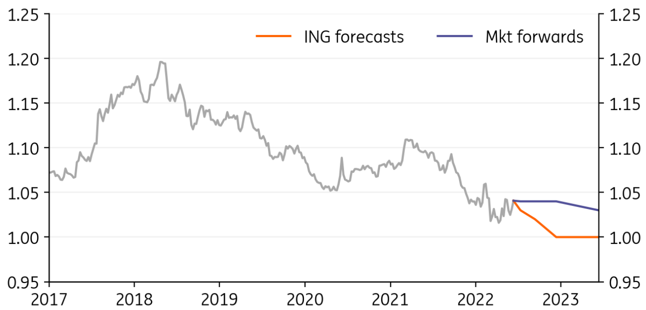
EUR/CHF

We are changing our forecast

Current spot: 1.0380



Source: Refinitiv, ING forecasts

- For many years the Swiss National Bank has fought CHF strength and, in the process, acquired about CHF800bn in FX reserves. But this was in a deflationary environment. The SNB has been sounding more hawkish recently and spelled out that it needs to keep the real exchange rate stable to fight inflation. Given low inflation in Switzerland, a stable real CHF requires nominal CHF appreciation of roughly 4% per annum.
- With massive FX reserves, the SNB certainly has the firepower to keep a lid on EUR/CHF (near 1.05) and engineer it towards 1.00.
- Of course, the risk is of us being whip-sawed with views here, but stagflation in Europe doesn't bode well for the euro either.

ING forecasts (mkt fwd)	1M 1.03 (1.0380)	3M 1.02 (1.0377)	6M 1.00 (1.0365)	12M 1.00 (1.0331)

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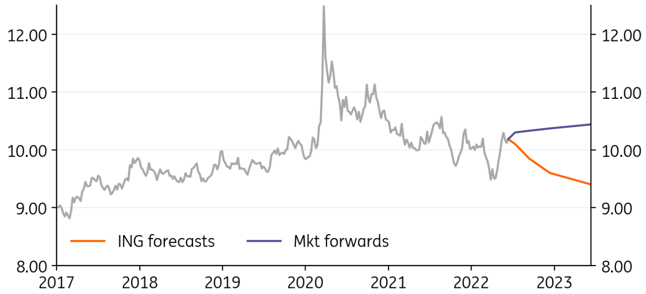
EUR/NOK

More room to benefit from oil's rally

Current spot: 10.29



Source: Refinitiv, ING forecasts

- The short-term outlook for the krone remains tied to global market volatility, as NOK is the least liquid currency in G10 and suffers from market turmoil more than its peers, especially if that is linked with a global tightening of financial conditions.
- At the same time, the EU-Russia standoff on oil trade and higher crude prices means more long-term benefits for the Norwegian economy. We think the commodity factor will prevail beyond the short-term and drive NOK higher in the remainder of the year.
- Norges Bank recently hinted at an acceleration in monetary tightening; we expect it to bring the policy rate to the 2.00% mark by the end of the year, which should also help to lift NOK.

ING forecasts (mkt fwd)	1M 10.10 (10.30)	3M 9.85 (10.33)	6M 9.60 (10.37)	12M 9.40 (10.44)

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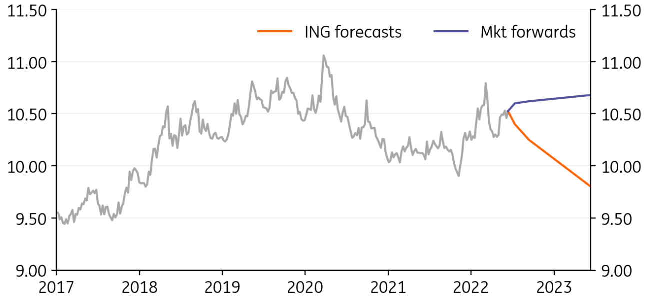
EUR/SEK

We expect a 50bp hike in June by the Riksbank

Current spot: 10.60



Source: Refinitiv, ING forecasts

- We have updated our Riksbank call and now expect a 50bp hike in June, followed by two 25bp hikes in September and November. This is largely in line with market expectations, which however appear too hawkish on the terminal rate side.
- We expect a faster QT to start doing the heavy lifting later in the tightening cycle, and the policy rate to peak at 1.75-2.0%, but any dovish re-pricing may only be a concern for SEK in early '23.
- The short-term rate differential should reconnect with FX in 2H22, in our view, driving EUR/SEK depreciation. In the coming weeks, risk sentiment and incoming European data will remain the key drivers of SEK. Surely, short-term downside risks for SEK persist.

ING forecasts (mkt fwd)	1M 10.40 (10.60)	3M 10.25 (10.62)	6M 10.10 (10.64)	12M 9.80 (10.68)

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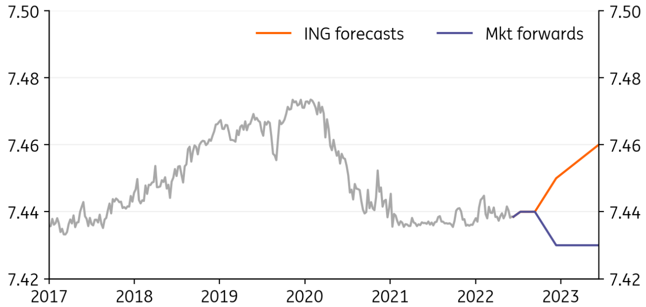
EUR/DKK

DN and ECB likely to move in tandem

Current spot: 7.4386



Source: Refinitiv, ING forecasts

- Danmarks Nationalbank stuck with zero FX interventions in May, as EUR/DKK has appeared quite solidly anchored to the 7.4400 mark recently.
- The focus is shifting to the timing of rate hikes in Denmark. We see no reasons for now to expect a diverging tightening path between the DN and the ECB. After all, the October 2021 cut in the Danish repo rate has created a safety cushion between DKK and EUR rates that should keep limiting EUR/DKK downside.
- Should the pair face fresh pressure, we still think FX interventions will remain the preferred tool rather than opting for a less dovish policy compared to the ECB. We target 7.45 in 4Q22.

ING forecasts (mkt fwd)	1M 7.44 (7.4384)	3M 7.44 (7.4374)	6M 7.45 (7.4342)	12M 7.46 (7.4318)

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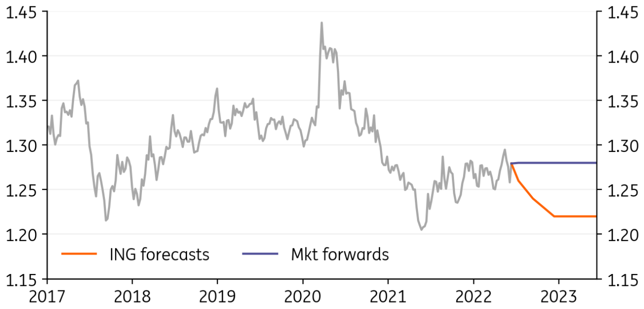
USD/CAD

Loonie strength to extend into 2H22

Current spot: 1.2840



Source: Refinitiv, ING forecasts

- The loonie has been the best performing G10 currency in the past month (+3% vs USD), benefiting from a desirable combination of rising oil prices, limited exposure to main sources of global risks (Russia/Ukraine and China) and a hawkish domestic central bank.
- In our view, the USD/CAD downtrend has further to go, as the factors that have helped CAD strengthen of late should last into year-end. We target 1.22 in 4Q, with risks skewed to 1.20. However, in the shorter term, some temporary spikes back to 1.29-1.30 can't be excluded given the unstable risk environment.
- Given Canada's strong domestic economic performance and high inflation, we expect 50bp hikes by the BoC in July and September. We estimate the BoC's terminal rate 50bp above the Fed's.

ING forecasts (mkt fwd)	1M 1.26 (1.2840)	3M 1.24 (1.2844)	6M 1.22 (1.2848)	12M 1.22 (1.2844)

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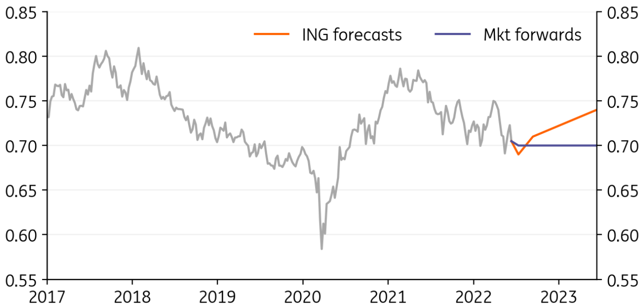
AUD/USD

Still looking unattractive

Current spot: 0.6994



Source: Refinitiv, ING forecasts

- We remain of the view that the Australian dollar is the commodity currency with the least attractive outlook for the remainder of the year.
- The RBA has surprised with a 50bp rate hike in June, but a) AUD has been quite detached from domestic monetary policy developments and b) markets are pricing in too much tightening (285bp in the next 12 months) considering the inflation picture in Australia is less worrying than in the US or the eurozone.
- External risks remain significant, especially from China's economic slowdown and potential spill-over into the iron ore market. We see a drop below 0.70 in the near-term, and a return to 0.72 only in 4Q22.

ING forecasts (mkt fwd)	1M 0.69 (0.6996)	3M 0.71 (0.6998)	6M 0.72 (0.6997)	12M 0.74 (0.6991)

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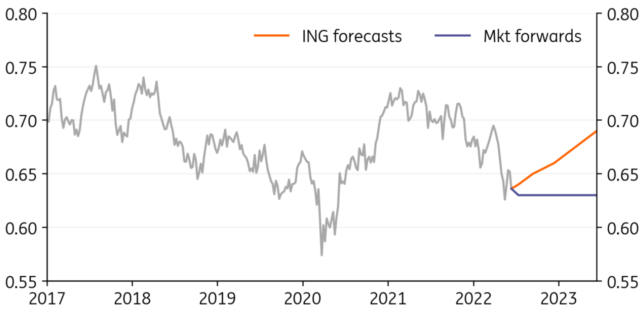
NZD/USD

A safer option than AUD?

Current spot: 0.6313



Source: Refinitiv, ING forecasts

- The Kiwi dollar is also set to be negatively impacted by the clouded outlook for the Chinese economy. However, New Zealand's exports are not as reliant on China as Australia's.
- Incidentally, inflation is higher and appears more entrenched into the NZ economy than in Australia, which suggests the RBNZ will remain more hawkish for longer.
- We expect the RBNZ to bring rates to 3.5% at the start of 2023, potentially earlier should housing inflation prove sticky. In our view, all this should lead AUD/NZD to slip back to 1.07-1.09 in 2H22, and NZD/USD to climb to the 0.69 mark towards the end of the year, benefiting from some potential USD weakness.

ING forecasts (mkt fwd)	1M 0.64 (0.6311)	3M 0.65 (0.6302)	6M 0.66 (0.6291)	12M 0.69 (0.6279)

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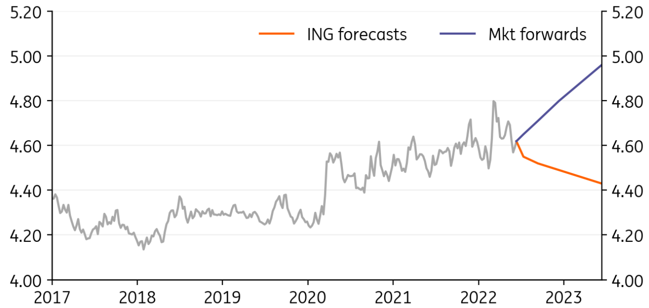
Emerging markets

EUR/PLN

NBP hikes call for further PLN gains | **Current spot: 4.6252**



Source: Refinitiv, ING forecasts

- The National Bank of Poland's policy tightening will be much stronger than either the Fed's or the ECB's. This justifies further appreciation of the zloty, especially as market tensions related to the war are clearly easing. Moreover, comments from the EC point to the imminent launch of the Recovery Fund (actual flows may start as soon as in September but will not be large). This will provide some support for the zloty, as EU funds will be exchanged on the open FX market, not off-market via the NBP.
- We expect €/PLN to reach 4.50 or slightly below by the end of the year. In 2023, the appreciation of the zloty should continue, driven by high NBP rates and inflow of EU money, even below 4.40 in 4Q23. We see the policy rate heading to 8.5% into 2023.

ING forecasts (mkt fwd)	1M 4.55 (4.6508)	3M 4.52 (4.7078)	6M 4.49 (4.7960)	12M 4.43 (4.9580)

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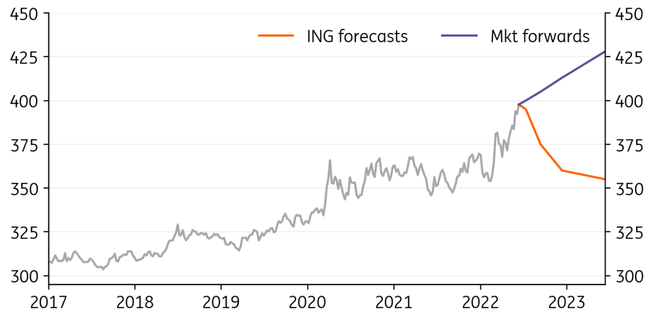
EUR/HUF

Too many burdens for the forint to shine | **Current spot: 397.44**



Source: Refinitiv, ING forecasts

- The forint took a major blow after the government announced new fiscal measures and the situation was not helped by the NBH raising rates by "only" 75bp.
- HUF is still our least preferred currency in the CEE region, but on the other hand it still has the greatest potential for appreciation.
- In the short term, we see EUR/HUF around 395 with a possible quick move to 385 if any of the external factors (war, rule of law debate, etc) show early signs of improvement, which would reduce the risk premium.

ING forecasts (mkt fwd)	1M 395 (399.75)	3M 375 (404.59)	6M 360 (412.61)	12M 355 (428.20)

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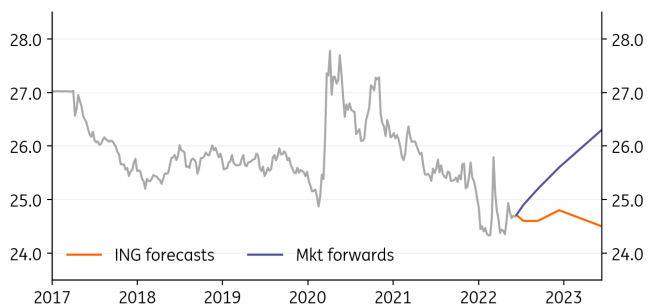
EUR/CZK

FX intervention as new standard | **Current spot: 24.71**



Source: Refinitiv, ING forecasts

- The appointment of new Czech National Bank board members has made the situation a little clearer. However, regardless of the board's view, we think that more CNB activity in the FX market is inevitable in 2H22.
- The CNB does not comment on FX interventions, but our estimates are that it has been more and more active recently and we continue to believe that the EUR/CZK 25 level is a key pain threshold.
- With inflation rising, we believe they will gradually move down to 24.70-24.90 levels. However, we do not see much reason for CZK to appreciate without CNB intervention. Therefore, we expect it to remain relatively stable.

ING forecasts (mkt fwd)	1M 24.6 (24.86)	3M 24.6 (25.18)	6M 24.8 (25.61)	12M 24.5 (26.27)

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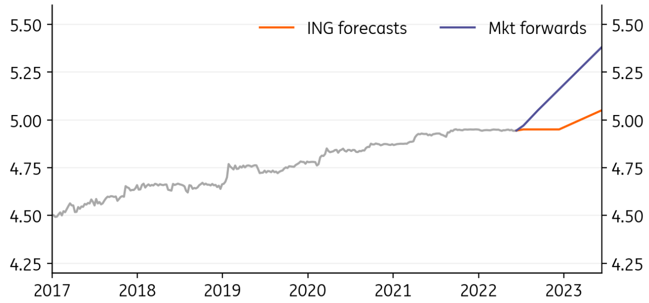
EUR/RON

Business as usual still

Current spot: 4.9463



Source: Refinitiv, ING forecasts

- The 4.95 level remains untouchable for the moment, with strong offers in the 4.9480-4.9500 range taming any upward pressure.
- We expect another 75bp hike from NBR in July to bring the key rate at 4.50%. Inflation continued to surprise to the upside and will most likely exceed 15.0% in June. This should be the peak but the road to lower levels will be very gradual.
- The liquidity shortage remained ample in May, at over RON12bn. This continues to keep market rates very much decoupled from the NBR's key rate and even from the credit facility. We maintain our 5.50% estimate for the terminal key rate, but upside risks are building again.

ING forecasts (mkt fwd)	**1M** 4.95 (4.9723)	**3M** 4.95 (5.0461)	**6M** 4.95 (5.1591)	**12M** 5.05 (5.3838)

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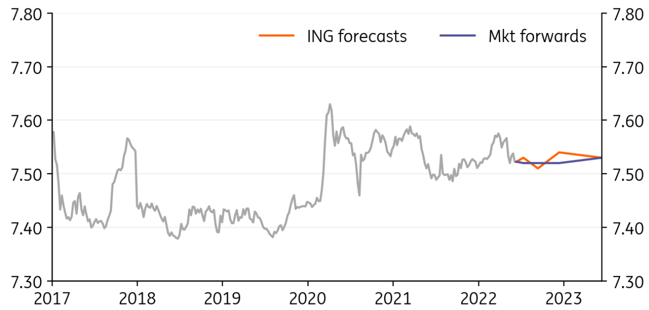
EUR/HRK

On autopilot until 1 January 2023

Current spot: 7.5225



Source: Refinitiv, ING forecasts

- In the 2022 Convergence Report issued on 1 June, the European Commission and the ECB have concluded that Croatia is ready to adopt the euro on 1 January 2023. The decision was largely expected.
- The Convergence report shows that Croatia meets the nominal convergence criteria. The final decision on euro adoption -which at this point seems only a formal one – will be taken by the EU Council in the first half of July.
- The FX rate at which the euro adoption will take place will likely be very close to the 7.5345 central parity rate at which Croatia was included in the ERM-II.

ING forecasts (mkt fwd)	**1M** 7.53 (7.5237)	**3M** 7.51 (7.5245)	**6M** 7.54 (7.5214)	**12M** 7.53 (7.5315)

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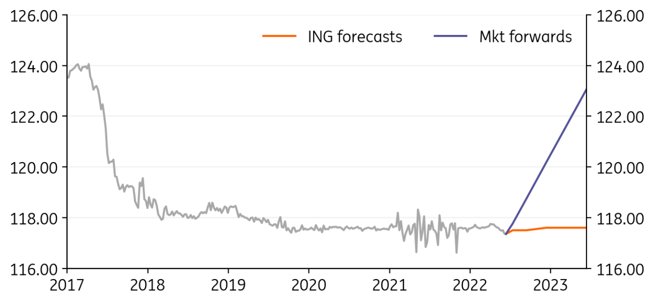
EUR/RSD

Increased – but still limited – flexibility

Current spot: 117.42



Source: Refinitiv, ING forecasts

- After selling EUR1.17bn in March – an historically high amount, the NBS reduced its selling to only EUR155m in April. The trend has reversed in May when the NBS intervened by buying euros.
- Somewhat surprisingly but fully explainable by the inflation dynamics, the NBS has allowed the dinar to appreciate mildly in May towards 117.4 area. This might signal that the FX rate could be used in-sync with the interest rates to tame inflationary pressures.
- The 50bp rate hike pace continued in June, bringing the key rate to 2.50%. We maintain our estimate for the key rate to reach 3.50% by the end of 2022.

ING forecasts (mkt fwd)	**1M** 117.50 (117.76)	**3M** 117.50 (118.74)	**6M** 117.60 (120.19)	**12M** 117.60 (123.07)

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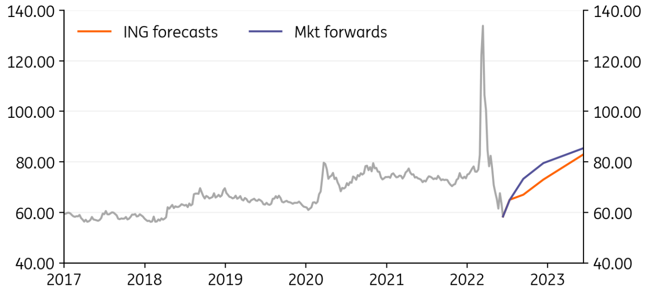
USD/RUB

View improved, but gradual depreciation still possible

Current spot: 57.02



Source: Refinitiv, ING forecasts

- Having touched 67 in May (we expected 70), USD/RUB is back into 55-60 range in June on higher oil and weak imports. To help banks rebalance FX positions, Russia abandoned mandatory FX sales for exporters, allowed them to accumulate foreign FX assets, and raised limits for outward FX transfers for individuals.
- Capital flows are still limited externally, meaning the ruble is driven by trade flows. In May, the current account surplus narrowed to more "normal" US$14.5bn vs US$37.6bn in April on a moderation of exports.
- We still see gradual ruble depreciation into the year-end on finalization of EU oil embargo for non-pipeline supplies, but do not exclude near-term volatility on recent regulatory actions and tax periods that take place every second half of the month.

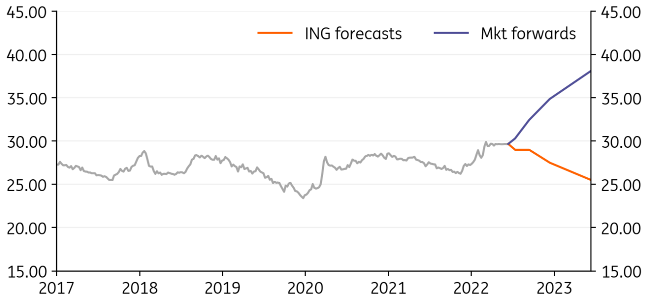
ING forecasts (mkt fwd)	**1M** 65.00 (64.88)	**3M** 67.00 (73.28)	**6M** 73.00 (79.52)	**12M** 83.00 (85.43)

Dmitry Dolgin, dmitry.dolgin@ingbank.com

USD/UAH

NBU prevents depreciation as the war continues

Current spot: 29.55



Source: Refinitiv, ING forecasts

- USD/UAH stabilized very close to 29.55 in the recent weeks. With continued Russian aggression in sight, this requires massive NBU FX interventions. Stabilizing the FX rate is one of the key factors needed to curb inflation. The central bank reaffirmed this goal, when it hiked rates by 15ppt earlier this month – from 10% to 25%.
- While currently only the NBU policy prevents hryvnia's losses, we expect the currency to gain as the war de-escalates. Frozen Russian assets worldwide are expected to partially serve as post-war relief for Ukraine. Foreign aid will also be mobilized. Those in turn should be converted at least partially via the market. Stabilizing, or strengthening the currency should be one of the tools used to curb inflation during the post-war reconstruction.

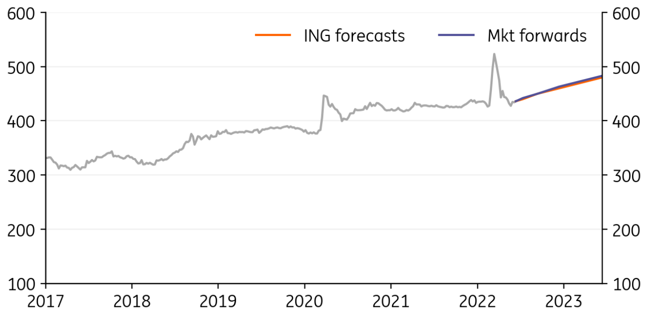
ING forecasts (mkt fwd)	**1M** 29.00 (30.30)	**3M** 29.00 (32.44)	**6M** 27.50 (34.87)	**12M** 25.50 (38.12)

Piotr Poplawski, piotr.poplawski@ing.pl

USD/KZT

Tenge withstands geopolitical uncertainties so far

Current spot: 437.05



Source: Refinitiv, ING forecasts

- USD/KZT moved to 420-440, in line with our positive scenario. High prices keep oil exports strong (+98% YoY in 1Q22), and capital account is protected by capped outward FX transfers, 10% subsidy to KZT deposits, and forced 75% FX sales by oil exporters.
- Kazakhstan renamed its oil exports via Russia (totaling 80% of annualised oil export) to KEBCO, allowing to reach US$11-12bn oil exports in 2Q22F (US$7.9bn in 1Q21) under average Brent price US$110/bbl.
- Geopolitics, trade ties with Russia (c.11% exports and c.42% imports) and potential relaxation of capital controls may return USD/KZT to 440-500 range, but a stronger KZT is also possible on higher oil, repatriation of previous grey capital outflows, and more inward FDI following the recent constitutional referendum.

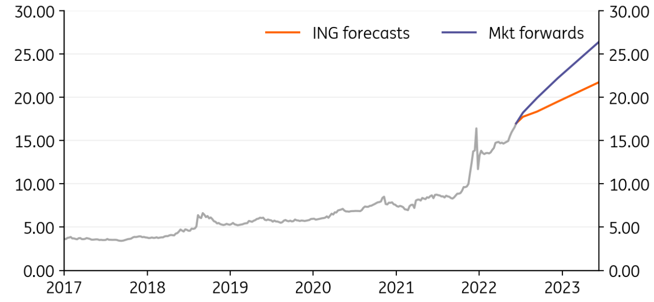
ING forecasts (mkt fwd)	**1M** 440 (441.75)	**3M** 450 (450.42)	**6M** 460 (462.56)	**12M** 480 (483.44)

Dmitry Dolgin, dmitry.dolgin@ingbank.com

USD/TRY

Currency pressures rising again

Current spot: 17.25



Source: Refinitiv, ING forecasts

- May inflation showed no respite with continuing broad-based pricing pressures mainly driven by an accommodative monetary policy stance. Upside price risks remain at the forefront with ongoing geopolitical issues and less supportive global backdrop.
- Current account deficit has remained on expansionary path in March driven by commodity imports - particularly higher energy bills. As oil prices are expected to remain elevated, the current account will likely maintain the widening trend in the near term.
- Given this backdrop, sentiment in the currency market has turned negative since early May. Global developments as well as inflation expectations in an environment of negative real rates will remain as the determinants of the currency.

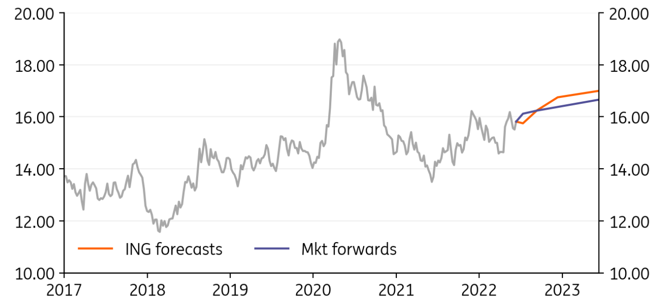
ING forecasts (mkt fwd)	**1M** 17.75 (18.23)	**3M** 18.35 (19.93)	**6M** 19.50 (22.21)	**12M** 21.75 (26.42)

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

USD/ZAR

Impressive rand recovery

Current spot: 16.06



Source: Refinitiv, ING forecasts

- The strength of the rand recovery has surprised us. ZAR real yields are not particularly impressive, where the policy rate is 4.75% and headline inflation is at 5.9%. The commodity story no doubt continues to help and was evidenced by a decent 1Q22 current account surplus of 2.2% of GDP.
- We still have our doubts about the strength of the Chinese recovery and unless Beijing introduces some bazooka-style stimulus after a late July politburo meeting, ZAR stays fragile.
- Our baseline view is that higher US real rates lead to a stronger dollar in 2H22 and $/ZAR heads back to the 16.00/16.20 area again. Later in the year politics will again play a role with ANC elections held in December. Ramaphosa remains the favourite to win.

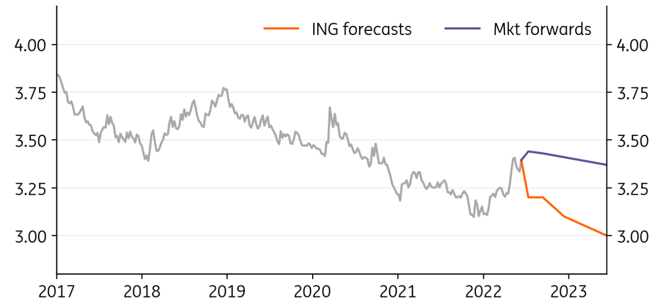
ING forecasts (mkt fwd)	**1M** 15.75 (16.12)	**3M** 16.25 (16.24)	**6M** 16.75 (16.38)	**12M** 17.00 (16.66)

Chris Turner, chris.turner@ing.com

USD/ILS

ILS poised to recover

Current spot: 3.4422



Source: Refinitiv, ING forecasts

- $/ILS is consolidating about 3% off the highs of the year seen in mid-May. Interestingly in its review of FX markets in 1Q22, the BoI blamed ILS weakness on the domestic buy-side for uncharacteristically buying FX. It is not clear that those outflows will continue, but what may have a little more longevity are Israel's current and FDI inflows, helped by the service sector.
- On the policy rate, the market may be too aggressive in pricing the policy rate at 2.50% next summer, but with growth still strong, hikes towards 1.00/1.25% look likely this year.
- When the dollar trend turns (early 2023?), $/ILS should turn decisively lower and sub 3.00 may well be the 2023 story.

ING forecasts (mkt fwd)	**1M** 3.20 (3.4390)	**3M** 3.20 (3.4268)	**6M** 3.10 (3.4073)	**12M** 3.00 (3.3682)

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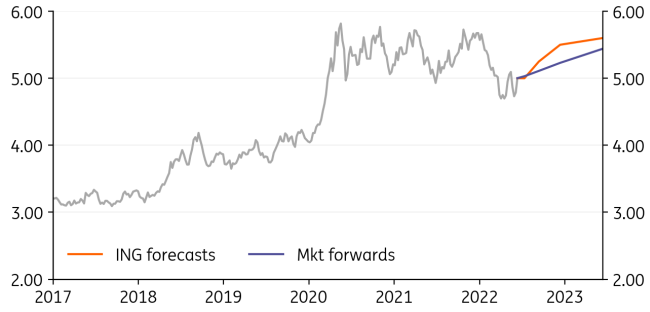
LATAM

USD/BRL

High rates versus high risk — **Current spot: 4.9878**



Source: Refinitiv, ING forecasts

- The softening in dollar rates in May allowed for a better EM environment and some resumption of equity inflows into Brazil – a key driver of strength in the real. BRL implied yields above 12% are very attractive and discourage hedging. So far there is no real sign that BACEN is ready to stop the tightening cycle and the policy rate is expected to be lifted 50bp to 13.25% in June.
- Politics is the main challenge for the BRL now. With 4 months to go until elections and Bolsonaro trailing Lula in the polls 30% to 46%, fiscal giveaways are the risk – eg, cutting fuel duties.
- US real rates heading higher this summer mean a difficult external environment, tipping the scales towards a higher $/BRL.

ING forecasts (mkt fwd)	1M 5.00 (5.0271)	3M 5.25 (5.1132)	6M 5.50 (5.2307)	12M 5.60 (5.4400)

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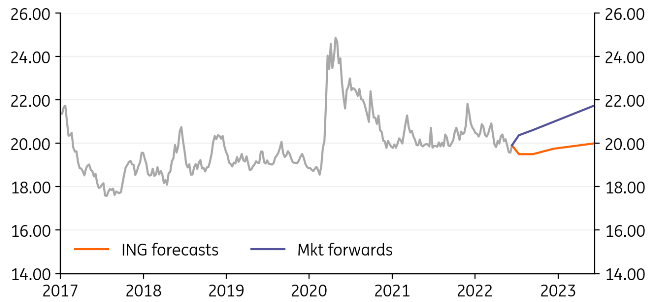
USD/MXN

Banxico ready to take 'more forceful' tightening measures — **Current spot: 20.26**



Source: Refinitiv, ING forecasts

- The Mexican peso has been one of the strongest EMFX performers over the last month, alongside Latam currencies. MXN strength looks less driven by commodities and more by last month's hawkish shift by Banxico. When hiking 50bp to 7.00% last month, Banxico said it is ready to take 'more forceful' tightening measures. This has led to widespread expectations of a 75bp hike at the June and perhaps August meeting.
- We had thought Banxico would merely match the Fed this year to keep a 600/625bp spread in rates. This spread could actually move nearer to 700bp and keep USD/MXN offered near 19.50.
- Mexico is a better-quality carry trade given its solid BBB rating.

ING forecasts (mkt fwd)	1M 19.50 (20.37)	3M 19.50 (20.61)	6M 19.75 (20.99)	12M 20.00 (21.75)

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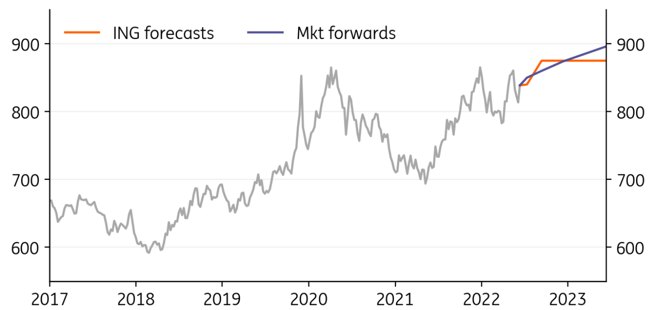
USD/CLP

Monetary policy struggles to keep pace with inflation — **Current spot: 844.62**



Source: Refinitiv, ING forecasts

- Chile's central bank has recently taken the policy rate to 9%, slowing the rate hikes to a pace of 75bp. Markets price the policy rate topping out around 9.75% this summer. The problem is that inflation is still running up around the 11% YoY area and that the economy contracted in 1Q.
- Despite the positive commodity backdrop, we're still a little bearish on the peso. The constitutional reform will be presented in early July and voted on in September. Some of the harsher nationalization ideas have been taken out, but concerns remain.
- Unless China introduces massive stimulus soon, copper prices look unlikely to surge and a current account deficit keeps CLP soft.

ING forecasts (mkt fwd)	1M 840 (850.08)	3M 875 (860.08)	6M 875 (874.08)	12M 875 (896.18)

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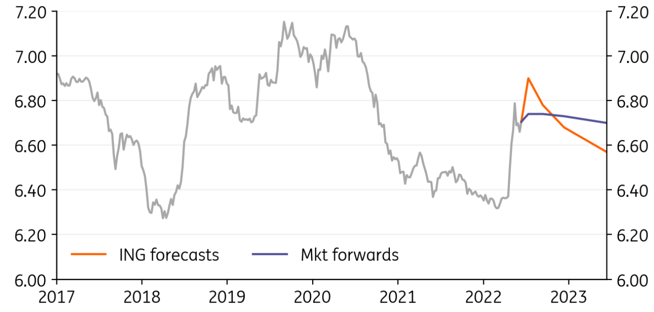
Asia

USD/CNY

Lockdown remains the main risk

Current spot: 6.7344



Source: Refinitiv, ING forecasts

- The Yuan weakened in May due to a two-month long lockdown in Shanghai. The announcement of an easing in movement restrictions has led to a moderate appreciation.
- We can't rule out further lockdowns. But we expect they will be more flexible and will not do as much damage to the economy. Consequently, future yuan weakness should be less dramatic.
- The recovery of economic activity is focussed on the rebound of retail sales in June. But as residents are still hesitant about cross-province travel due to uncertain travel restrictions, we believe the retail sales recovery in June could remain quite soft.

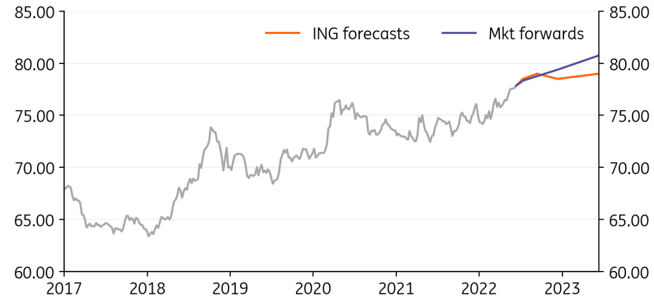
ING forecasts (mkt fwd)	1M 6.90 (6.7366)	3M 6.78 (6.7367)	6M 6.68 (6.7269)	12M 6.57 (6.7044)

Iris Pang, iris.pang@asia.ing.com

USD/INR

Protected by the RBI, but for how long?

Current spot: 78.14



Source: Refinitiv, ING forecasts

- After its sharp depreciation at the beginning of May, the INR has been improbably stable during the second half of May and early June. The stability in the INR is consistent with the shift of the Reserve Bank to a more hawkish stance, and the first rate-hike this cycle. But it also looks as if there has been some considerable central bank action behind its stability.
- We don't think this will last, and we don't think the Reserve Bank of India is fundamentally opposed to depreciation, just "disorderly" depreciation, so we believe it will depreciate further.
- Even with the RBI hiking again, we believe the INR will resume its weakening in the near-term.

ING forecasts (mkt fwd)	1M 78.50 (78.33)	3M 79.00 (78.76)	6M 78.50 (79.39)	12M 79.00 (80.76)

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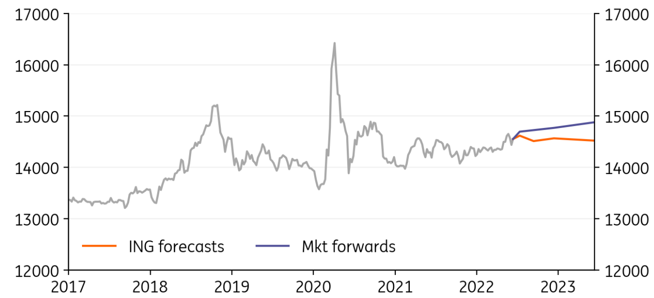
USD/IDR

IDR under pressure following palm oil export ban

Current spot: 14680



Source: Refinitiv, ING forecasts

- In early May, the IDR retreated sharply as the government's palm oil export ban was expected to weigh on export earnings. A narrowing of the trade surplus could undermine a key support for the currency.
- Bank Indonesia also (BI) kept policy rates untouched at their last meeting, citing "manageable" inflation. They did, however, announce a plan to hike reserve requirements to 9% by 3Q to mop up excess liquidity.
- The IDR has since stabilized after the authorities allowed select companies to resume palm oil exports. But the currency will remain pressured as long as the partial ban remains in place.

ING forecasts (mkt fwd)	1M 14618 (14696)	3M 14512 (14726)	6M 14566 (14770)	12M 14521 (14880)

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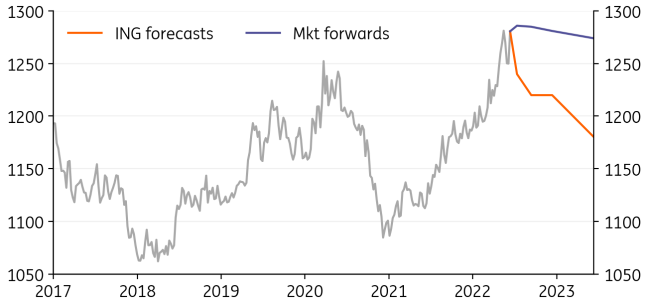
USD/KRW

Likely passed the peak of the year but volatile path awaits



Source: Refinitiv, ING forecasts

Current spot: 1286.96

- The KRW touched 1,289 in mid-May, the highest since the pandemic, yet, rapidly unwound its earlier weakness as the market expected FX-related policy changes to be favourable to the KRW and foreign investors returned to the KOSPI.
- The Bank of Korea is expected to hike policy rates until the end of this year. There has been ongoing discussion on a swap-like US-Korea FX agreement, while the government is planning to present an fx market improvement plan soon. This could lead to the KOSPI being included in the MSCI World Index in a few years' time.
- We expect the KRW to appreciate further, albeit at a slower pace than the recent rapid movement.

ING forecasts (mkt fwd)	1M 1240 (1286.28)	3M 1220 (1284.73)	6M 1220 (1281.48)	12M 1180 (1273.58)

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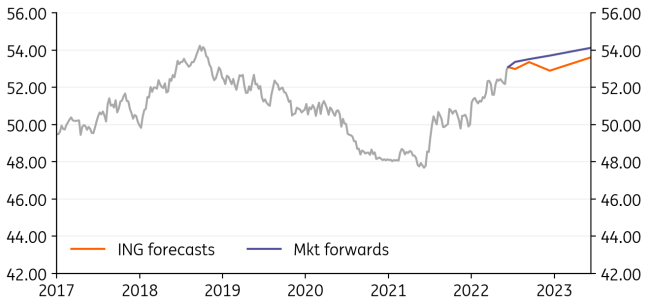
USD/PHP

PHP weakens on widening trade deficit



Source: Refinitiv, ING forecasts

Current spot: 53.30

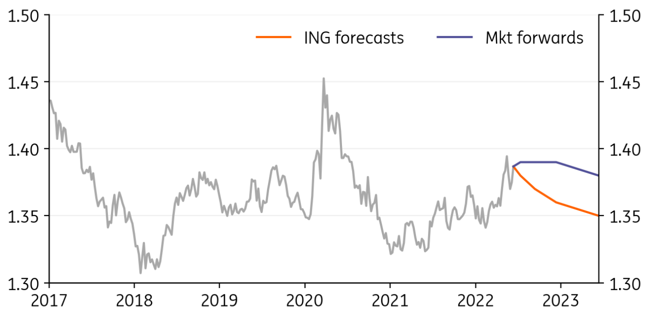
- The PHP depreciated after several sessions of selling by foreign investors in the local equity market. The currency was also under pressure as the trade balance stayed in deep deficit due to surging imports.
- Bangko Sentral ng Pilipinas (BSP) finally joined the rate hike club, increasing policy rates by 25bp in May. But the PHP barely reacted as the move was priced in by market participants.
- The PHP faces further weakening pressure as the trade balance remains in deep deficit as imports rise. BSP has hinted at additional rate hikes, but the PHP may require more aggressive hiking to find support.

ING forecasts (mkt fwd)	1M 52.98 (53.36)	3M 53.35 (53.51)	6M 52.89 (53.70)	12M 53.61 (54.12)

Nicholas Mapa, nicholas.mapa@asia.ing.com

USD/SGD

SGD weakens on dimming global outlook



Source: Refinitiv, ING forecasts

Current spot: 1.3892

- The SGD tracked regional peers and weakened in May as investor sentiment wavered on concerns about global growth. But the SGD steadied at the end of May after China announced a gradual re-opening after extended lockdowns, lifting market sentiment.
- Core inflation continues to accelerate suggesting that the Monetary Authority of Singapore will remain on the alert to take further action. The MAS can consider additional action in October, or at unscheduled meetings before then should core inflation move close to 4%.
- The SGD should steady in the near term if global growth prospects improve after China's economy gradually reopens.

ING forecasts (mkt fwd)	1M 1.38 (1.3893)	3M 1.37 (1.3889)	6M 1.36 (1.3870)	12M 1.35 (1.3806)

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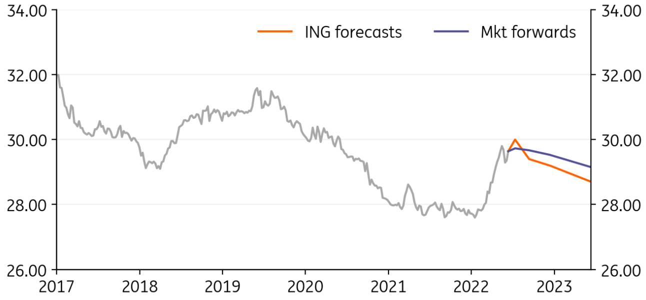
USD/TWD

Capital flows vs central bank hike



Source: Refinitiv, ING forecasts

Current spot: 29.76

- The TWD has been weaker than the CNY since the 1 June and has been trending more like the JPY recently – possibly as a result of capital outflows from the stock market as the Chinese economy begins to recover.
- The next central bank meeting will be on 16 June. The market expects a hike of 12.5bp to 1.5%. The central bank is worried that inflation will rise as a result of higher energy prices in 2022. The next hike should support the TWD. After this, the central bank is expected to pause for the rest of the year as there are still headwinds in the economy from Covid to the electricity supply.

ING forecasts (mkt fwd)	1M 30.00 (29.73)	3M 29.40 (29.67)	6M 29.20 (29.53)	12M 28.70 (29.15)

Iris Pang, iris.pang@asia.ing.com

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	140.8	138.60	136.50	138.24	138.60	USD/JPY	134.43	132	130	128	126
EUR/GBP	0.86	0.85	0.85	0.86	0.87	GBP/USD	1.22	1.24	1.24	1.26	1.26
EUR/CHF	1.04	1.03	1.02	1.00	1.00	USD/CHF	0.99	0.98	0.97	0.93	0.91
EUR/NOK	10.29	10.10	9.85	9.60	9.40	USD/NOK	9.82	9.62	9.38	8.89	8.55
EUR/SEK	10.60	10.40	10.25	10.10	9.80	USD/SEK	10.11	9.90	9.76	9.35	8.91
EUR/DKK	7.439	7.440	7.440	7.450	7.460	USD/DKK	7.10	7.09	7.09	6.90	6.78
EUR/CAD	1.35	1.32	1.30	1.32	1.34	USD/CAD	1.284	1.26	1.24	1.22	1.22
EUR/AUD	1.50	1.52	1.48	1.50	1.49	AUD/USD	0.70	0.69	0.71	0.72	0.74
EUR/NZD	1.66	1.64	1.62	1.64	1.59	NZD/USD	0.63	0.64	0.65	0.66	0.69
EMEA											
EUR/PLN	4.63	4.55	4.52	4.49	4.43	USD/PLN	4.42	4.33	4.30	4.16	4.03
EUR/HUF	397.4	395.00	375.00	360.00	355.00	USD/HUF	379.1	376	357	333	323
EUR/CZK	24.71	24.6	24.6	24.8	24.5	USD/CZK	23.59	23.4	23.4	23.0	22.3
EUR/RON	4.95	4.95	4.95	4.95	5.05	USD/RON	4.72	4.71	4.71	4.58	4.59
EUR/HRK	7.52	7.53	7.51	7.54	7.53	USD/HRK	7.18	7.17	7.15	6.98	6.85
EUR/RSD	117.4	117.5	117.5	117.6	117.6	USD/RSD	112.0	111.9	111.9	108.9	106.9
EUR/RUB	60.89	68.3	70.4	78.8	91.3	USD/RUB	57.03	65.0	67.0	73.0	83.0
EUR/UAH	30.95	30.5	30.5	29.7	28.1	USD/UAH	29.55	29.00	29.00	27.50	25.50
EUR/KZT	457.8	462.0	472.5	496.8	528.0	USD/KZT	437.1	440	450	460	480
EUR/TRY	18.07	18.64	19.27	21.06	23.93	USD/TRY	17.25	17.75	18.35	19.50	21.75
EUR/ZAR	16.83	16.5	17.1	18.1	18.7	USD/ZAR	16.06	15.75	16.25	16.75	17.00
EUR/ILS	3.60	3.36	3.36	3.35	3.30	USD/ILS	3.44	3.20	3.20	3.10	3.00
LATAM											
EUR/BRL	5.23	5.25	5.51	5.94	6.16	USD/BRL	4.99	5.00	5.25	5.50	5.60
EUR/MXN	21.00	20.5	20.5	21.3	22.0	USD/MXN	20.26	19.50	19.50	19.75	20.00
EUR/CLP	884.83	882	919	945	963	USD/CLP	844.63	840	875	875	875
Asia											
EUR/CNY	7.05	7.25	7.12	7.21	7.23	USD/CNY	6.73	6.90	6.78	6.68	6.57
EUR/IDR	15463	15349	15238	15731	15973	USD/IDR	14681	14618	14512	14566	14521
EUR/INR	81.87	82.4	83.0	84.8	86.9	USD/INR	78.15	78.50	79.00	78.50	79.00
EUR/KRW	1348.22	1302	1281	1318	1298	USD/KRW	1286.96	1240	1220	1220	1180
EUR/PHP	55.84	55.6	56.0	57.1	59.0	USD/PHP	53.30	52.98	53.35	52.89	53.61
EUR/SGD	1.46	1.44	1.44	1.47	1.49	USD/SGD	1.39	1.38	1.37	1.36	1.36
EUR/TWD	31.17	31.5	30.9	31.5	31.6	USD/TWD	29.76	30.0	29.4	29.2	28.7

Source: Refinitiv, ING

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