

FX Talking

July 2022



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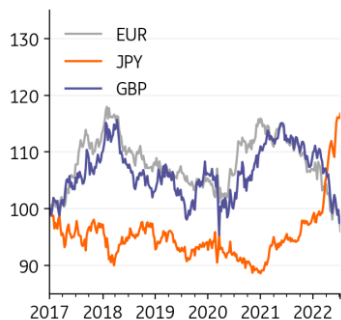
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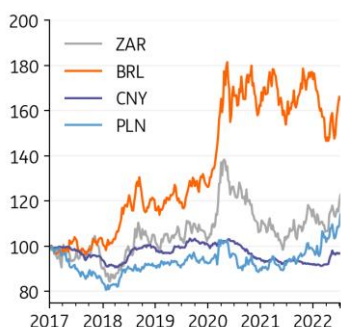
How low can you go?

USD/Majors (4 Jan 15=100)



Source: Refinitiv, ING forecast

USD/EM (4 Jan 15=100)



Source: Refinitiv, ING forecast

Given fears of a global recession, ‘How low can you go?’ is now a pressing question being asked of many risk assets and of key FX pairs like EUR/USD. Investors hold out little hope for improvement in energy supplies anytime soon and central bankers are showing no signs of being distracted from forceful monetary tightening cycles. That all points to equity markets perhaps another 10% lower and a worst case for EUR/USD near 0.95.

The ECB in particular faces the conundrum of trying to address inflation fears, while at the same time trying to avoid driving the Eurozone economy into recession. While it may only deliver 100bp of the 175bp tightening currently priced by the market, our team now look for a Eurozone technical recession in 4Q22/1Q23. This will weigh on pro-cyclical currencies like the euro, sterling, the Swedish krona, and many currencies in CEE.

Outperformers in what will be a difficult summer for risk will likely remain the dollar, the yen and the Swiss franc. In fact, the Swiss National Bank is now using its huge war chest of FX reserves to ensure the franc does just that – strengthen.

Peak pain this summer and the focus on demand destruction will keep commodity currencies on the back foot. Most vulnerable may well be the likes of the South African rand and the Brazilian real – the latter shaping up for contentious elections in October.

And in Asia, high beta currencies like the Korean won will remain soft as will the Philippine peso and Indonesian rupiah, the latter pair left vulnerable by dovish central banks. USD/CNY set to remain range-bound while Covid policy and geopolitics dominate.

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.02	↑	133	↓	1.20	↑
3M	1.05	↑	132	↓	1.22	↑
6M	1.08	↑	128	↓	1.26	↑
12M	1.12	↑	126	↓	1.29	↑
	EUR/GBP		EUR/CZK		EUR/PLN	
1M	0.85	↑	24.60	↑	4.87	↑
3M	0.86	↑	24.60	↓	4.70	↓
6M	0.86	↑	24.80	↓	4.65	↓
12M	0.87	↑	24.50	↓	4.60	↓
	USD/CNY		USD/MXN		USD/BRL	
1M	6.68	↓	20.75	↑	5.50	↑
3M	6.70	→	20.75	↓	5.60	↑
6M	6.50	↓	20.50	↓	5.70	↑
12M	6.20	↓	20.25	↓	5.80	↑

↑ / → / ↓ 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	AUD/USD	USD/CAD
%MoM	-3.9	1.8	-1.0	0.6	-3.7	1.7
%YoY	-17.2	19.4	-1.0	-0.3	-9.8	4.2
	USD/CNY	USD/KRW	USD/BRL	EUR/CZK	EUR/HUF	USD/TRY
%MoM	0.0	2.7	5.1	-0.3	2.5	1.3
%YoY	3.4	12.0	1.5	-4.3	13.0	50.0

Source: Refinitiv, ING forecast

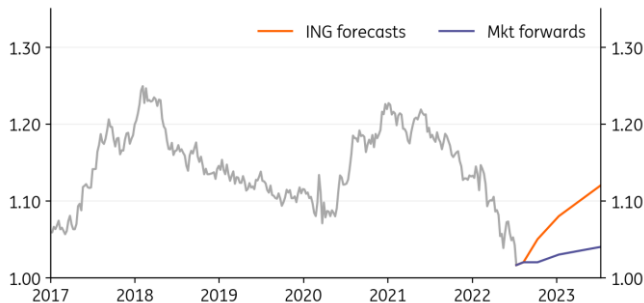


Developed markets

EUR/USD

How low can you go?

Current spot: 1.0133



Source: Refinitiv, ING forecasts

- As we put pen to paper, EUR/USD is within striking distance of parity. The stagflationary effects of the war in Ukraine are being felt far more in Europe than in N. America. Thus, short term rate spreads continue to move against EUR/USD as does the risk environment, where equities could have another 10% leg lower.
- Based on [recent correlations](#), a 10% fall in equities and a 25bp widening in spreads this summer would put EUR/USD somewhere near 0.98. A 50bp widening in spreads, were the Fed to move more aggressively or ECB hawks to soften, would be worth 0.95.
- Don't look for a substantial turn higher in EUR/USD this summer, since it seems far too early for Fed hawks to back down.

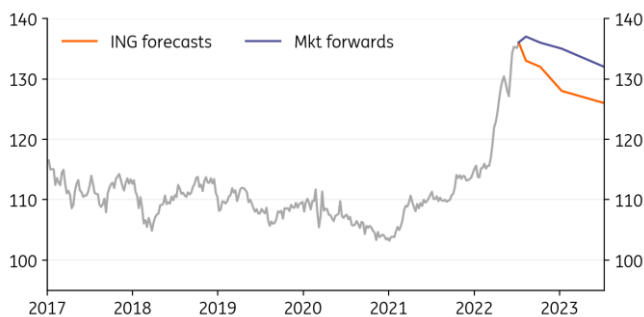
ING forecasts (mkt fwd)	1M 1.02 (1.0156)	3M 1.05 (1.0201)	6M 1.08 (1.0282)	12M 1.12 (1.0416)
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USD/JPY

Deteriorating risk sentiment to support the JPY

Current spot: 136.97



Source: Refinitiv, ING forecasts

- One of the core challenges faced by central banks the world over is to get inflation lower. The only tool they have at their disposal is to tighten monetary conditions and try to slow demand. Slowing demand is taking its toll on equity markets, which look vulnerable as central banks tighten further even as growth slows. The JPY, like the USD and CHF, should out-perform this summer.
- The big USD/JPY rally looks to have stalled near 135 and certainly the going above here will be harder. US 10-year yields, a key driver of USD/JPY, have probably peaked at 3.50%.
- The BoJ meeting of July 21st is unlikely to see the BoJ turn hawkish. A lower USD/JPY will be driven by equities & US yields.

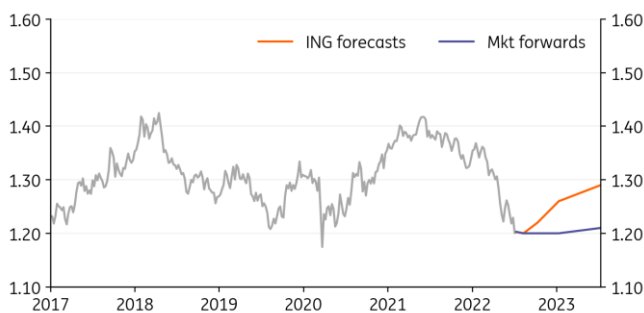
ING forecasts (mkt fwd)	1M 133 (136.68)	3M 132 (136.03)	6M 128 (134.63)	12M 126 (131.93)
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GBP/USD

Bank of England keeping a close eye on sterling

Current spot: 1.1971



Source: Refinitiv, ING forecasts

- Away from the political circus in Westminster, sterling has been hit by the super-strong dollar, but is outperforming the euro. Here the BoE has started to highlight sterling's role in monetary conditions. With UK CPI expected to push up to 11% in October, expect the BoE to stay hawkish and to hike 50bp on August 4th.
- Yet, as a growth-sensitive currency, sterling will be in for a tough summer and Cable looks set to trade down to 1.17 and possibly 1.14/15 again. We tentatively think these could again prove the lows for the year if, as we expect the \$ turns by yr-end.
- UK politics mean we won't have a working government until September, but looser fiscal policy this Autumn can help GBP.

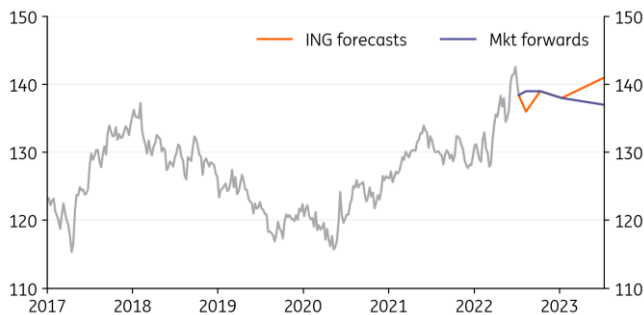
ING forecasts (mkt fwd)	1M 1.20 (1.1979)	3M 1.22 (1.1994)	6M 1.26 (1.2028)	12M 1.29 (1.2066)
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EUR/JPY

The worst of both worlds

Current spot: 138.79



Source: Refinitiv, ING forecasts

- EUR/JPY is being hit by the double-whammy of European stagflation and the global bear market in equities. On the former the focus is very much on natural gas and whether the likes of Germany are completely cut off from Russian supplies. Such an outcome would cement already strong fears of German and eurozone recession. We see a technical recession in 4Q22/1Q23.
- For the ECB, the challenge will be to threaten even more hawkish policy – even as Eurozone growth fears sink the euro. We think ECB can only deliver 100bp of the 175bp tightening priced.
- A long hot summer for risk should see JPY in demand. A short squeeze in JPY & fresh shorts in EUR could see EUR/JPY trade 132.

ING forecasts (mkt fwd)	1M 136 (138.81)	3M 139 (138.77)	6M 138 (138.43)	12M 141 (137.42)
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EUR/GBP

BoE can prevent a worst case outcome

Current spot: 0.8465



Source: Refinitiv, ING forecasts

- The energy surge has hit both the UK and the Eurozone equally (terms of trade losses), but GBP looks to be outperforming on the back of a more hawkish BoE. Unlike in May when the last BoE inflation report was released, the BoE in August might embrace the tightening expectations priced into the market as a means to keep GBP supported. Who wants a weaker currency right now?
- EUR/GBP has outside risk to the 0.8300 area – should EUR/USD's break of 1.00 generate fireworks. But a difficult risk environment this summer should send EUR/GBP back up to 0.85/86.
- Wild card: will the new UK PM being any less hostile to Brussels and could that help GBP? We should find out in September.

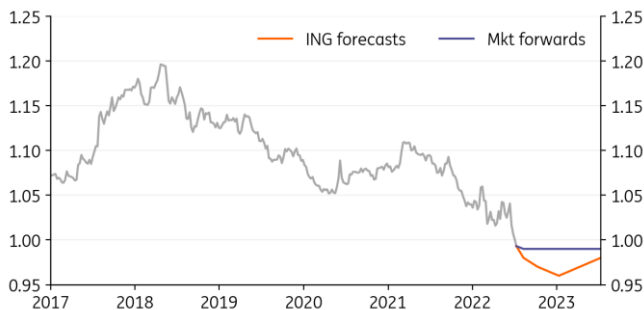
ING forecasts (mkt fwd)	1M 0.85 (0.8479)	3M 0.86 (0.8506)	6M 0.86 (0.8549)	12M 0.87 (0.8634)
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EUR/CHF

No messing around from the SNB

Current spot: 0.9929



Source: Refinitiv, ING forecasts

- Last month the SNB ripped up its prior script, [hiked 50bp](#) and implied it could be intervening in FX markets to [strengthen](#) the CHF. We had warned of that risk last month - in that the SNB wanted the real trade-weighted CHF to remain stable. Because of low Swiss inflation compared to trading partners, a stable real CHF now requires a stronger nominal CHF.
- In practise this may mean the SNB wants EUR/CHF 4-5% lower on the year – perhaps lower were USD/CHF to break above 1.00.
- No longer is the CHF 'highly valued'. Expect another large rate hike from the SNB in September (perhaps 75bp if the ECB has done 75bp by then?) and EUR/CHF to remain offered throughout.

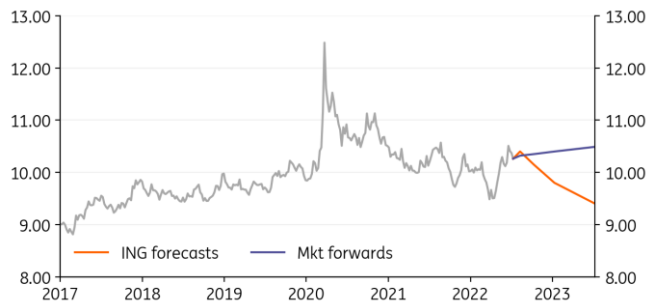
ING forecasts (mkt fwd)	1M 0.98 (0.9930)	3M 0.97 (0.9928)	6M 0.96 (0.9919)	12M 0.98 (0.9896)
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EUR/NOK

It's going to take some time for NOK to recover

Current spot: 10.30



Source: Refinitiv, ING forecasts

- NOK has remained weak as its relatively low liquidity makes it vulnerable to global risk sentiment deterioration. The recent woes in the oil market are another reason for concern.
- We think some more weakness over the coming weeks is possible, but the outlook for the latter part of the year and 2023 remains rather constructive, thanks to an attractive rate profile (NB to tighten by 100bp more by year-end) and good exposure to higher energy prices and increased demand for exports.
- In our view, there is some room for a return below 10.00 in EUR/NOK by the end of the year, but that will mostly depend on a stabilisation/recovery in global risk assets.

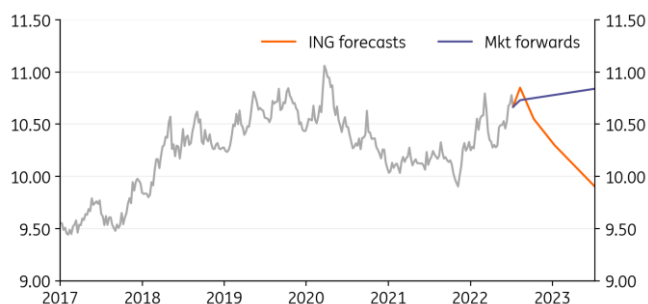
ING forecasts (mkt fwd)	1M 10.40 (10.32)	3M 10.15 (10.35)	6M 9.80 (10.40)	12M 9.40 (10.49)
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EUR/SEK

Riksbank's fast tightening can't help SEK now

Current spot: 10.72



Source: Refinitiv, ING forecasts

- Following the recent hawkish shift, we expect the Riksbank to deliver another 50bp rate hike in September, followed by 25bp in November.
- A hawkish Riksbank may still fail to lift the krona, which is negatively exposed to the global (and especially European) economic woes and risk-off environment.
- In the near term, we may well see a spike above 10.80 in EUR/SEK, but there could be room for a return to the 10.50-10.60 area by the end of 3Q. A stabilisation in risk sentiment in 4Q may help EUR/SEK reconnect with a deeply negative rate differential and bring EUR/SEK close to 10.20-10.40.

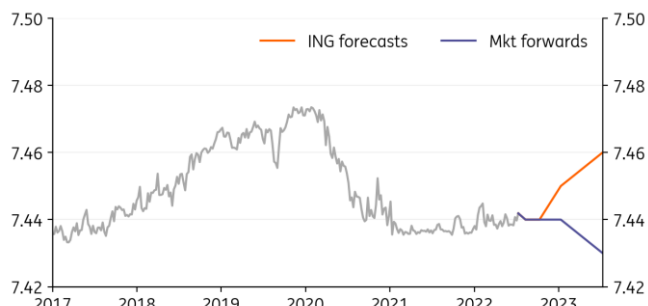
ING forecasts (mkt fwd)	1M 10.85 (10.73)	3M 10.55 (10.75)	6M 10.30 (10.78)	12M 9.90 (10.84)
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EUR/DKK

Denmark eyeing the end of negative rates

Current spot: 7.4414



Source: Refinitiv, ING forecasts

- Denmark's National Bank stuck with zero FX interventions in June, and EUR/DKK has continued to hover around the 7.4400 mark without signs of the peg coming under pressure.
- We expect 100bp of tightening by the ECB before the end of the year, and currently see no reasons for the DN to diverge significantly from this pattern. This means that Denmark looks set to exit negative rates for the first time since 2014 by this fall.
- We believe that any fresh pressure on EUR/DKK should be countered predominantly with FX interventions, and an intentional further widening of the EUR-DKK short-term rate differential may only be a last-resort move.

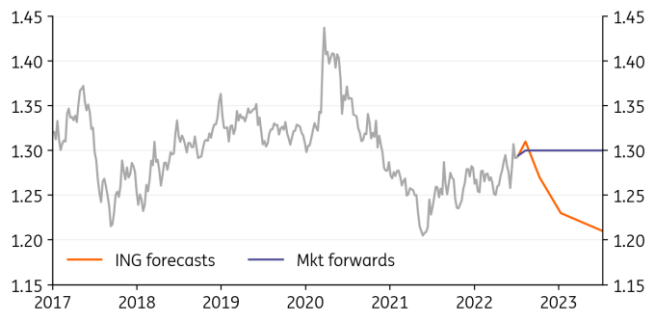
ING forecasts (mkt fwd)	1M 7.44 (7.4411)	3M 7.44 (7.4403)	6M 7.45 (7.4385)	12M 7.46 (7.4346)
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USD/CAD

A bit more pain before a CAD rebound

Current spot: 1.2991



Source: Refinitiv, ING forecasts

- We still think that among G10 commodity currencies, CAD remains the least vulnerable. As markets trade increasingly in line with recession fears, North America's lower exposure to global headwinds is good news for CAD. The commodity story should also offer some help, barring another oil correction.
- This doesn't mean that there are no upside risks to USD/CAD: unstable risk sentiment and USD strength may remain themes for the short-term. A temporary spike to 1.31-1.33 is possible, but strong fundamentals suggest CAD will rebound fiercely once sentiment stabilises.
- The Bank of Canada's steep tightening path (we expect a 75bp hike in July) may pay dividends for CAD in the medium term.

ING forecasts (mkt fwd)	1M 1.31 (1.2992)	3M 1.27 (1.2989)	6M 1.23 (1.2986)	12M 1.21 (1.2986)
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AUD/USD

Short-term downside risks persist

Current spot: 0.6812



Source: Refinitiv, ING forecasts

- The RBA surprised on the hawkish side with a 50bp rate hike, but the FX impact of monetary policy has been negligible, and this should continue to be the case throughout a summer of hikes.
- AUD should continue to be driven almost solely by external drivers. Uncertainty around China's outlook remains elevated despite recent stimulus from Beijing, and potential fresh curbs on steel production could increase downside risks for iron ore prices.
- Still, the AUD/USD short-term outlook should remain mostly a function of global risk sentiment dynamics and USD swings. We could see a slip to 0.66-0.67 in the coming weeks, but are sticking with an upward-sloping forecast profile for year-end - in line with other high-beta currency pairs.

ING forecasts (mkt fwd)	1M 0.67 (0.6814)	3M 0.69 (0.6818)	6M 0.71 (0.6822)	12M 0.73 (0.6813)
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NZD/USD

RBNZ considering a dovish rethink?

Current spot: 0.6166



Source: Refinitiv, ING forecasts

- The RBNZ should hike by another 50bp in July, in line with latest projections and market expectations. However, New Zealand's housing market dropped by the most since 2009 in 2Q22 (-2.3% QoQ) and there are multiple signs - especially on the consumer side - that the economy is slowing significantly.
- We think there is an increasing risk of the RBNZ having to review its rate profile lower in August, or anyway by the end of the year.
- That can have an impact on AUD/NZD, making a sustainable return to sub-1.10 levels less likely. But when it comes to NZD/USD, it's still all about global factors, and a drop below 0.6000 in the near term surely can't be excluded.

ING forecasts (mkt fwd)	1M 0.60 (0.6165)	3M 0.62 (0.6161)	6M 0.64 (0.6155)	12M 0.66 (0.6143)
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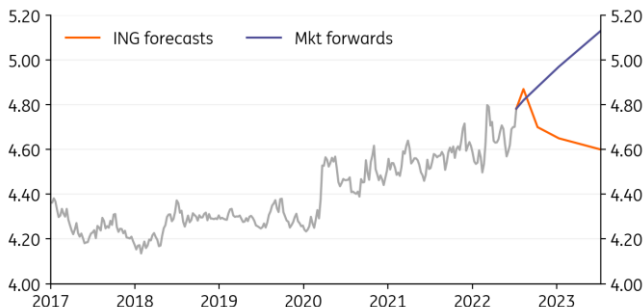


Emerging markets

EUR/PLN

NBP underdelivers in tightening in July, PLN at risk.

Current spot: 4.7865



Source: Refinitiv, ING forecasts

- NBP failed to meet expectations and hiked rates by 50bp in July instead of 75bp. While we still expect the MPC to gradually move the reference rate to 8.5%, market bets for future hikes have diminished. The unsupportive external environment (likely recession in Europe, strong dollar) puts the zloty at risk. We don't consider EUR/PLN moving back to 5 (its peak after the Russian invasion shock) as a baseline scenario, but certainly possible.
- Longer term prospects are largely muted, as the deterioration of Poland's external balance largely offsets NBP rate hikes. EUR/PLN moving to 4.60 would require both a significant improvement in CEE sentiment and further NBP policy tightening.

ING forecasts (mkt fwd)	1M 4.87 (4.8210)	3M 4.70 (4.8820)	6M 4.65 (4.9726)	12M 4.60 (5.1308)
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Piotr Poplawski, piotr.poplawski@ing.pl

EUR/HUF

Forint remains in the grip of external factors

Current spot: 407.51



Source: Refinitiv, ING forecasts

- EUR/HUF reached a new high at 417 in July, keeping the central bank busy. With several decisive steps, it raised the effective interest rate to 9.75%.
- The government has also stepped up to the plate, sending messages resonating well with nervous markets. With some positive comments on the Rule of Law debate and energy supply security, EUR/HUF moved to the vicinity of 400.
- We continue to watch headlines from Brussels signalling a turnaround in the EU funds dispute that should unlock the hidden potential of the forint. A second round of recovery could be fuelled by the CEE's highest positive real interest rate in 1H23.

ING forecasts (mkt fwd)	1M 400 (411.42)	3M 385 (419.64)	6M 380 (432.96)	12M 360 (458.45)
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Péter Virovác, peter.virovacz@ing.com

EUR/CZK

CNB determined to further defend koruna

Current spot: 24.65



Source: Refinitiv, ING forecasts

- Czech National Bank continues FX intervention and keeps the koruna close to EUR 24.75/CZK. Based on our calculations, the central bank has sold roughly EUR9bn since the beginning of May, equivalent to 5.8% of FX reserves at the end of April.
- At the same time, FX interventions are becoming more costly, suggesting that the situation will become more complicated for the CNB. Although the CNB has some of the largest FX reserves relative to GDP in the world, the nominal volume is not that large.
- However, this looks more of an issue for the fourth quarter. Until then, we expect no change in the current situation. Testing the CNB's resolve will not give investors enough reward for the expensive cost in shorting the koruna.

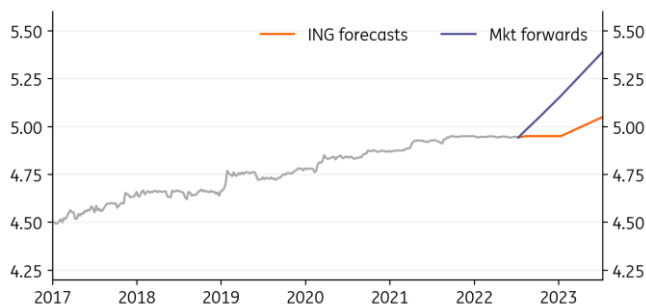
ING forecasts (mkt fwd)	1M 24.6 (24.85)	3M 24.6 (25.19)	6M 24.8 (25.59)	12M 24.5 (26.34)
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EUR/RON

Untouchable threshold

Current spot: 4.9441



Source: Refinitiv, ING forecasts

- The NBR recently raised the key rate by 100bp to 4.75% in response to rising inflation, which we expect to exceed 15% in June.
- This leaves Romania with the most negative real rates not only in the region but almost in the entire EM space. Catching up with peers in the region is very likely to demand further rate hikes and the pace of moves may continue to accelerate.
- We continue to expect the NBR to hold EUR/RON below 4.95 until at least the end of this year. Moreover, inflationary pressures are rising, which should strengthen the central bank's resolve to keep FX stable given the large FX passthrough to inflation in Romania.

ING forecasts (mkt fwd)	1M 4.95 (4.9774)	3M 4.95 (5.0466)	6M 4.95 (5.1638)	12M 5.05 (5.3884)
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EUR/HRK

One step closer to the euro world

Current spot: 7.5175



Source: Refinitiv, ING forecasts

- At the end of June, the European Union summit approved the introduction of the euro in Croatia. The country will become the 20th member of the euro area from January 2023. The use of the euro in Croatia will be formally confirmed in July by finance ministers.
- The report was followed by Moody's announcement of a possible two-notch upgrade to Baa2 in the event of a positive outcome of the EU negotiations.
- The FX rate at which 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.
- **Due to the likely approval of euro adoption, we will cease coverage of HRK in FX Talking from the next issue.**

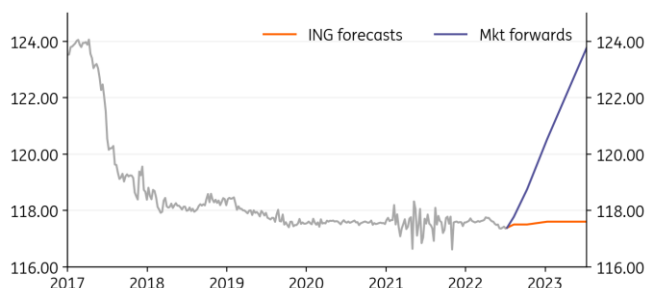
ING forecasts (mkt fwd)	1M 7.53 (7.5180)	3M 7.51 (7.5191)	6M 7.54 (7.5197)	12M 7.53 (7.5217)
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EUR/RSD

Concerted effort to minimise inflationary pressures

Current spot: 117.35



Source: Refinitiv, ING forecasts

- The NBS raised the key rate by 25bp to 2.75% in July, disappointing market expectations. In a statement, the bank said it wanted to continue to fight inflation but at the same time it had to take into account the growth of the economy. At the same time, the central bank said that stable FX limits the pass-through to import prices and limits further inflation.
- The dinar has moved slightly below 117.50 since the beginning of June but remains stable and we expect this to continue with a possible further very gradual slide lower to coordinate interest rate and FX tools in an effort to minimize inflationary pressures.

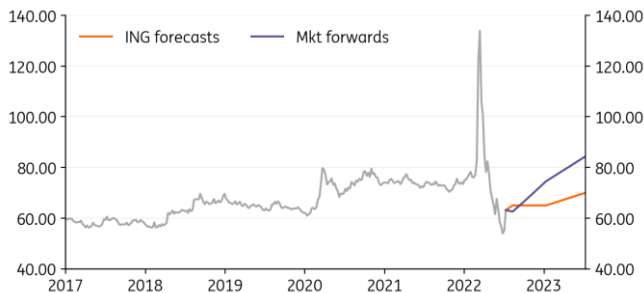
ING forecasts (mkt fwd)	1M 117.50 (117.77)	3M 117.50 (118.75)	6M 117.60 (120.53)	12M 117.60 (123.77)
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USD/RUB

Intra-month volatility up, longer-term trend more stable

Current spot: 61.38



Source: Refinitiv, ING forecasts

- Given the paralyzed capital account, ruble performance is becoming more volatile intra-month, with a strong 2nd half of the month during tax periods and sharp depreciations afterwards.
- Gazprom's refusal to pay RUB1,2 tr (\$20 bn) dividend limits the scope for RUB appreciation in summer, but the government's decision to boost taxation on GAZP by RUB400 bn per month in Sep-Nov suggests that demand for RUB is merely postponed.
- With a current account surplus of \$20-30bn per month, RUB is likely to tend to appreciate, but this should be offset by the recent decision to allow non-repatriation of FX export proceeds and possible restart of FX purchases in alternative FX (CNY?) – meaning a more even RUB performance in the medium term.

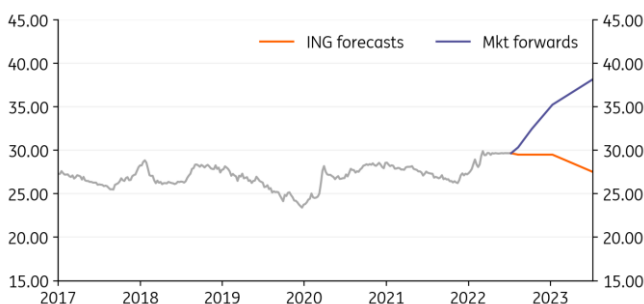
ING forecasts (mkt fwd)	1M 65.00 (62.56)	3M 65.00 (67.20)	6M 65.00 (74.52)	12M 70.00 (84.38)
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USD/UAH

NBU continues to defend the hryvnia

Current spot: 29.52



Source: Refinitiv, ING forecasts

- NBU policy and currency restrictions remain the driving force for the hryvnia. This is unlikely to change as long as the Russian aggression continues. Recent monetary tightening by the central bank confirms FX stabilization should remain a major tool for combating high inflation.
- With no end to the conflict in sight, USD/UAH is likely to remain close to current levels at least until the end of the year. We still see scope for gains in the longer term, largely driven by the inflow of capital for reconstruction, likely funded to a large extent by seized Russian assets worldwide. According to Prime Minister Denys Shmyhal a recovery may cost up to US\$750bn. A fraction of this should suffice to drive USD/UAH lower, provided the war subsidies or even stops.

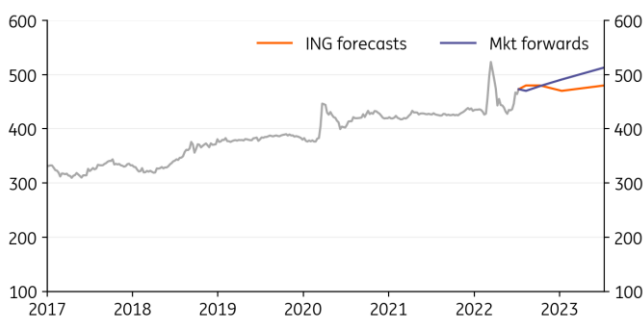
ING forecasts (mkt fwd)	1M 29.50 (30.33)	3M 29.50 (32.45)	6M 29.50 (35.24)	12M 27.50 (38.18)
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Piotr Poplawski, piotr.poplawski@ing.pl

USD/KZT

Geopolitical risks are materializing

Current spot: 465.11



Source: Refinitiv, ING forecasts

- The Tenge showed weakness in June-July, in line with our base case, due to deterioration of Kazakhstan-Russia relations, the souring mood on global commodity markets, and the dividend season adding to the local pressure.
- Full [suspension of CPC's oil](#) transit (80% of annual oil exports) will cut Kazakhstan's monthly oil export proceeds by \$4-4.3 bn from \$5.0-5.4 bn under an average Brent price of \$110-120/bbl. Potential rerouting could limit losses to \$2.0-2.5 bn/month.
- Geopolitical tensions with Russia and risk of global recession should keep the tenge in 450-500 range. Presidential efforts to develop trade with USA, EU, and China along with [diversification](#) of trade routes are strategically positive.

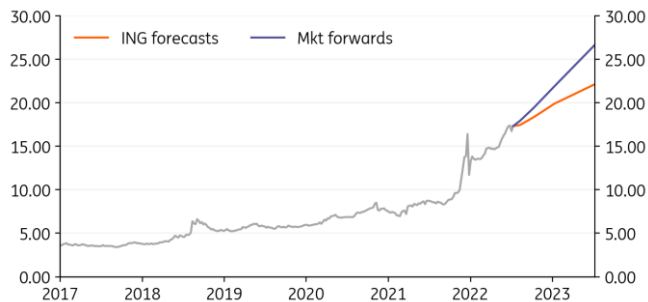
ING forecasts (mkt fwd)	1M 480 (470.10)	3M 480 (478.88)	6M 470 (490.87)	12M 480 (512.80)
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Dmitry Dolgin, dmitry.dolgin@ingbank.com

USD/TRY

Regulatory activity supports TRY

Current spot: 17.32



Source: Refinitiv, ING forecasts

- Policy makers, trying to replicate some parts of the monetary transmission mechanism, have introduced a number of measures since late April. With these moves, short-term TRY pressure can ease. However, sustaining stability, managing disinflation and restoring reserves in the current environment require application of more conventional policy tools, in our view.
- We have seen relative TRY strength against the USD on the back of recent measures, particularly the regulation which restricts access to TRY loans for firms with FX cash buffers recently.
- Whether this performance is sustained will be determined by not only the global backdrop given recent pressures on lira with risk-off mode in global financial markets but also inflation expectations in an environment of negative real rates.

ING forecasts (mkt fwd)	1M 17.45 (17.94)	3M 18.35 (19.43)	6M 19.90 (21.90)	12M 22.15 (26.69)
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Muhammet Mercan, muhammet.mercan@ing.com.tr

USD/ZAR

Perfect storm for EM commodity currencies

Current spot: 16.92



Source: Refinitiv, ING forecasts

- June proved the perfect storm for the EM commodity complex, where higher US rates met a growing conviction that demand destruction would mean lower commodity prices after all. As in Brazil, South Africa's terms of trade are now down YTD – wiping out all of the March spike.
- As a big high beta EM currency, we think the ZAR can fall further this summer – with outside risk in USD/ZAR to the 18 area. We are worried that Fed tightening pushes equities down another 10%.
- SARB hiked 50bp in May to 4.75%. But this looks quite low relative to 6.5% CPI and the market expects further rate hikes to 6.00% by year-end. We suspect ZAR weakness prompts larger hikes.

ING forecasts (mkt fwd)	1M 17.50 (16.98)	3M 18.00 (17.07)	6M 17.75 (17.20)	12M 17.25 (17.51)
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Chris Turner, chris.turner@ing.com

USD/ILS

Bol probably wants a stronger Shekel

Current spot: 3.4843



Source: Refinitiv, ING forecasts

- \$/ILS recently hit 3.50, helped by the stronger dollar and the under-performance of the tech 'growth' industry. The Bol uses FX management quite actively to support monetary policy and we suspect the shekel is too weak for it. We wonder whether the Bol, like the SNB, will want to use its large FX reserves to drive \$/ILS lower to tighten monetary conditions?
- Last month the Bol accelerated its hiking cycle to a 50bp increment. But the policy rate is very low at just 1.25%. The market prices 2.50% by early next year – but Bol could do more.
- Israeli growth at 5% this year will be the envy of the world. Tight labour markets suggest inflation will keep Bol hawkish all year.

ING forecasts (mkt fwd)	1M 3.50 (3.4804)	3M 3.50 (3.4647)	6M 3.40 (3.4411)	12M 3.10 (3.4027)
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Chris Turner, chris.turner@ing.com

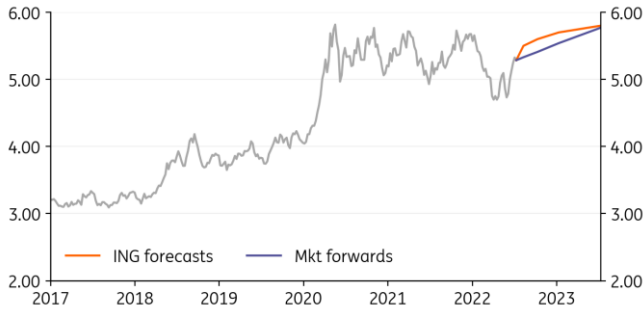


LATAM

USD/BRL

Gearing up for contentious elections

Current spot: 5.2551



Source: Refinitiv, ING forecasts

- The real has fallen 10% over the last month as global recession fears hit home. Somewhat amazingly Brazil's early year Terms of Trade gains have completely vanished as Soybeans, Oil and Iron Ore all turn lower. Unless we see some substantial stimulus from China to support industrial commodities, BRL looks vulnerable.
- BACEN hiked rates 50bp last month to 13.25% and promised another 25-50bp in August. Inflation looks to be peaking here around 12% and could come lower with tax cuts.
- Government pre-election give-aways have raised fiscal concerns and pushed the sovereign CDS through 300bp. A contentious election – US Capitol Hill-like riots? – to keep a risk premium in BRL

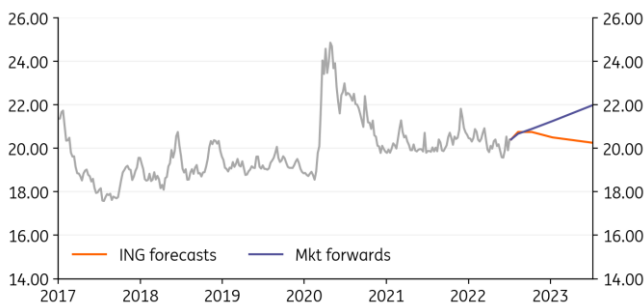
ING forecasts (mkt fwd)	1M 5.50 (5.3266)	3M 5.60 (5.4120)	6M 5.70 (5.5359)	12M 5.80 (5.7717)
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USD/MXN

Banxico maintains 625bp spread and stable MXN

Current spot: 20.54



Source: Refinitiv, ING forecasts

- Consistent with its promise to deliver 'more forceful tightening', Banxico hiked 75bp in June and has left the door open for the same again in early August. No doubt it will see whether the Fed does 50bp or 75bp on July 27th and will copy that. Such a move will maintain the 625bp spread over Fed rates – which seems a sufficient spread to keep USD/MXN stable near 20.00/20.50.
- Ratings agencies are liking what authorities are doing and S&P this month has shifted Mexico's outlook to stable from negative. At BBB, S&P has Mexico 4 notches above Brazil.
- A tricky summer for risk could see \$/MXN briefly trade 21.00/50 as equities stay pressured, but favour a return to 20.00 later.

ING forecasts (mkt fwd)	1M 20.75 (20.67)	3M 20.75 (20.89)	6M 20.50 (21.25)	12M 20.25 (21.99)
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USD/CLP

Crash

Current spot: 974.11



Source: Refinitiv, ING forecasts

- Tighter US rates, a stronger dollar and most recently a collapse in copper prices have proved toxic for the Chilean peso. USD/CLP jumped 20% in a month! It seems that the central bank was not particularly active in fighting the move given that FX reserves stayed at \$45bn in June. The Min Fin is promising new measures to support the CLP, but FX reserves aren't particularly large.
- Expect the central bank perhaps to re-assess the extent of its tightening cycle. The policy rate is at 9% after a 75bp hike in June. The policy rate may now need to go well above 10%.
- Sep 4th sees the nation vote on a new constitution. A rejection could deliver unwelcome political uncertainty.

ING forecasts (mkt fwd)	1M 980 (980.06)	3M 1000 (992.15)	6M 1000 (1009.77)	12M 950 (1036.90)
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Asia

USD/CNY

Short term upbeat



Source: Refinitiv, ING forecasts

Current spot: 6.7137

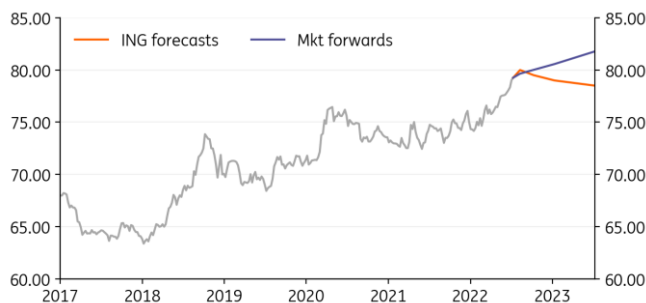
- The recovery of economic growth should put appreciation pressure on the yuan this month. But we should be aware that the risk of another lockdown still exists.
- Activity data to be released on 15 July should be positive for the currency even though the GDP release for 2Q22 is expected to show a contraction in the quarter.
- The economy and therefore the yuan face some headwinds further down the road. It is still uncertain if the US is going to lift tariffs on Chinese goods, or whether it will impose new tariffs or new regulations that deter imports of Chinese tech parts and products.

ING forecasts (mkt fwd)	1M 6.68 (6.7115)	3M 6.70 (6.7053)	6M 6.50 (6.6932)	12M 6.20 (6.6751)
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USD/INR

Fighting a losing battle



Source: Refinitiv, ING forecasts

Current spot: 79.42

- Punctuated by occasional rallies, the passage of USD/INR since early 2021 has been steadily upwards, and for forecasting, the main concern has been timing the temporary rallies as the INR has moved higher.
- Driving the depreciation is an inflation outlook that, while not much different currently to that in the US, seems likely to exceed it over the medium term. The RBI is stepping up its anti-inflation stance, but it is late to the game and may lack a little credibility.
- Further rate hikes in the coming quarters are likely to be 50bp or bigger. Though some respite may be due as falling global agricultural prices could see inflation moderating.

ING forecasts (mkt fwd)	1M 80.00 (79.65)	3M 79.50 (80.02)	6M 79.00 (80.57)	12M 78.50 (81.79)
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USD/IDR

IDR slides as investors dump bonds on rising inflation



Source: Refinitiv, ING forecasts

Current spot: 14972

- The IDR was on the defensive in June with the recent partial palm oil export ban cutting down the trade surplus from record highs. Hefty export receipts helped insulate the IDR early in 2022 but this support appears to be fading.
- Bank Indonesia opted to keep policy rates untouched despite inflation moving past their target, citing subdued core inflation. Meanwhile, higher inflation and expectations for an eventual rate hike forced selling in the bond market, weighing on the IDR.
- The IDR is likely to weaken further in the near term as BI remains dovish while inflation pressures mount. Resumption of partial palm oil exports may mitigate the slide but IDR still likely to weaken in near term.

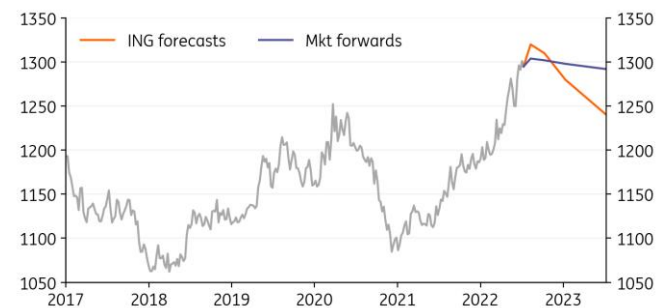
ING forecasts (mkt fwd)	1M 15250 (14981)	3M 14950 (15006)	6M 14780 (15038)	12M 14570 (15098)
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Nicholas Mapa, nicholas.mapa@asia.ing.com

USD/KRW

KRW to test the next resistance level of 1320 soon

Current spot: 1304.65



Source: Refinitiv, ING forecasts

- The KRW showed movements typical of a high beta currency last month and this downward pressure is expected to continue in the short-term as market expectations for a US recession grow.
- The Bank of Korea will raise its repo rate 50bp at its 13 July meeting in response to higher-than-expected CPI inflation for June and rapidly soaring inflation expectations. But any differential over US rates will likely disappear when the Fed hikes 75bp at the end of the month.
- Solid global demand for IT and vessels (LNG tankers) is likely to support Korea's exports in medium term. In financial markets, foreigners' positioning in the equity market has become very light, so cash outflows are not likely to be as large as in the first half of this year.

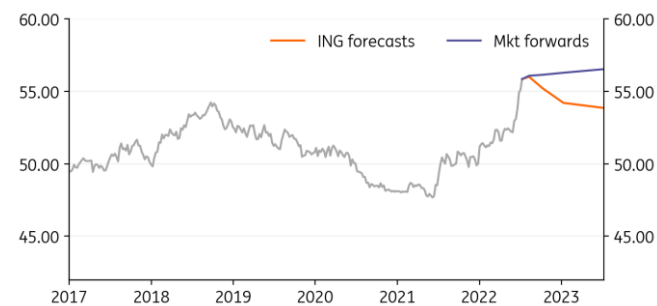
ING forecasts (mkt fwd)	1M 1320 (1304.39)	3M 1310 (1302.30)	6M 1280 (1298.30)	12M 1240 (1291.70)
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USD/PHP

PHP battered as BSP stays dovish despite inflation surge

Current spot: 56.03



Source: Refinitiv, ING forecasts

- The PHP plunged to multi-year lows in June as the trade deficit continued to widen to new records. Meanwhile, inflation zoomed past target to hit multi-year highs sparking some concern about near-term growth prospects.
- PHP was also on the back foot given Bangko Sentral ng Pilipinas' (BSP) relatively dovish stance in the face of high inflation. BSP hiked policy rates last June but opted for a measured 25bp increase compared to more hawkish tightening from global central banks.
- The PHP is set to weaken further in the near term as BSP stays dovish while inflation heats up further.

ING forecasts (mkt fwd)	1M 56.00 (56.07)	3M 55.20 (56.14)	6M 54.20 (56.28)	12M 53.85 (56.53)
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USD/SGD

Surging inflation could force inter-meeting MAS action

Current spot: 1.4013



Source: Refinitiv, ING forecasts

- The SGD slid in June, dragged weaker by fading risk sentiment on heightened concerns about a hawkish Fed rate hike cycle and slowing global growth projections.
- Inflation continued to edge higher with both headline and core inflation readings accelerating to multi-year highs. A sustained pickup in inflation could spark additional tightening from the Monetary Authority of Singapore even ahead of the scheduled October meeting.
- The SGD is likely to face sustained pressure to weaken on a broad risk-off tone ahead of key central bank meetings and rising recession fears.

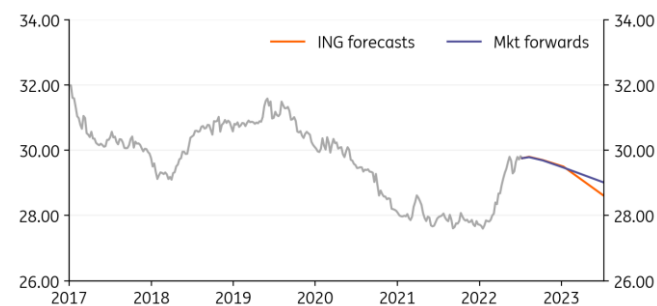
ING forecasts (mkt fwd)	1M 1.42 (1.4012)	3M 1.39 (1.4005)	6M 1.37 (1.3984)	12M 1.35 (1.3924)
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USD/TWD

Inflation risk lowered

Current spot: 29.83



Source: Refinitiv, ING forecasts

- Taiwan's economy should continue to be buoyed by strong sales of semiconductors in the medium term.
- Inflation risks are set to subside as food prices are falling. Consequently, Taiwan's central bank might not hike again in September. And even if they do hike, this will likely be a very small increase of 12.5bp.
- There are media reports that Europe is trying to build its own semiconductor manufacturing hub. This should not be a threat to Taiwan anytime soon. But over the longer-term, supply of semiconductors could rise and eat into profit margins of Taiwan's semiconductor manufacturers, undermining GDP.

ING forecasts (mkt fwd)	1M 29.80 (29.79)	3M 29.70 (29.69)	6M 29.50 (29.47)	12M 28.60 (29.01)
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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	1.01	1.02	1.05	1.08	1.12						
EUR/JPY	138.8	135.66	138.60	138.24	141.12	USD/JPY	137	133	132	128	126
EUR/GBP	0.85	0.85	0.86	0.86	0.87	GBP/USD	1.20	1.20	1.22	1.26	1.29
EUR/CHF	0.99	0.98	0.97	0.96	0.98	USD/CHF	0.98	0.96	0.92	0.89	0.88
EUR/NOK	10.30	10.40	10.15	9.80	9.40	USD/NOK	10.17	10.20	9.67	9.07	8.39
EUR/SEK	10.72	10.85	10.55	10.30	9.90	USD/SEK	10.58	10.64	10.05	9.54	8.84
EUR/DKK	7.441	7.440	7.440	7.450	7.460	USD/DKK	7.34	7.29	7.09	6.90	6.66
EUR/CAD	1.32	1.34	1.33	1.33	1.36	USD/CAD	1.30	1.31	1.27	1.23	1.21
EUR/AUD	1.49	1.52	1.52	1.52	1.53	AUD/USD	0.68	0.67	0.69	0.71	0.73
EUR/NZD	1.64	1.70	1.69	1.69	1.70	NZD/USD	0.62	0.60	0.62	0.64	0.66
EMEA											
EUR/PLN	4.79	4.87	4.70	4.65	4.60	USD/PLN	4.72	4.77	4.48	4.31	4.11
EUR/HUF	407.5	400.00	385.00	380.00	360.00	USD/HUF	402.0	392	367	352	321
EUR/CZK	24.65	24.6	24.6	24.8	24.5	USD/CZK	24.33	24.1	23.4	23.0	21.9
EUR/RON	4.94	4.95	4.95	4.95	5.05	USD/RON	4.88	4.85	4.71	4.58	4.51
EUR/HRK	7.52	7.53	7.51	7.54	7.53	USD/HRK	7.42	7.38	7.15	6.98	6.72
EUR/RSD	117.4	117.5	117.5	117.6	117.6	USD/RSD	115.8	115.2	111.9	108.9	105.0
EUR/RUB	64.40	66.3	68.3	70.2	78.4	USD/RUB	61.38	65.0	65.0	65.0	70.0
EUR/UAH	29.92	30.1	31.0	31.9	30.8	USD/UAH	29.52	29.50	29.50	29.50	27.50
EUR/KZT	470.8	489.6	504.0	507.6	537.6	USD/KZT	465.1	480	480	470	480
EUR/TRY	17.55	17.80	19.27	21.49	24.81	USD/TRY	17.32	17.45	18.35	19.90	22.15
EUR/ZAR	17.14	17.9	18.9	19.2	19.3	USD/ZAR	16.92	17.50	18.00	17.75	17.25
EUR/ILS	3.53	3.57	3.68	3.67	3.47	USD/ILS	3.48	3.50	3.50	3.40	3.10
LATAM											
EUR/BRL	5.32	5.61	5.88	6.16	6.50	USD/BRL	5.26	5.50	5.60	5.70	5.80
EUR/MXN	20.81	21.2	21.8	22.1	22.7	USD/MXN	20.54	20.75	20.75	20.50	20.25
EUR/CLP	987	1000	1050	1080	1064	USD/CLP	974	980	1000	1000	950
Asia											
EUR/CNY	6.80	6.81	7.04	7.02	6.94	USD/CNY	6.71	6.68	6.70	6.50	6.20
EUR/IDR	15181	15555	15698	15962	16318	USD/IDR	14973	15250	14950	14780	14570
EUR/INR	80.48	81.6	83.5	85.3	87.9	USD/INR	79.42	80.00	79.50	79.00	78.50
EUR/KRW	1322	1346	1376	1382	1389	USD/KRW	1304	1320	1310	1280	1240
EUR/PHP	56.78	57.1	58.0	58.5	60.3	USD/PHP	56.03	56.0	55.2	54.2	53.85
EUR/SGD	1.42	1.45	1.46	1.48	1.51	USD/SGD	1.40	1.42	1.39	1.37	1.35
EUR/TWDD	30.22	30.4	31.2	31.9	32.0	USD/TWDD	29.83	29.8	29.7	29.5	28.6

Source: Refinitiv, ING

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