16 February 2018

FX Strategy

FX talkING

Regime Change

The dollar looks to be on the cusp of a regime change. Washington's policy mix is now seeing global investors demand a concession in the pricing for both US Treasuries and the dollar. These types of trends are difficult to reverse and USD/JPY may well hit our year-end target of 100 much earlier than expect.

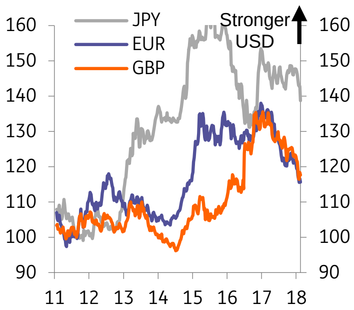
EUR/USD is also enjoying the weak dollar story. We doubt there is much the ECB can do about its strength. However, we would warn that the market is probably too complacent on the risk of SPD party members bringing down both the grand coalition and Angela Merkel when they vote on March 4th. But any EUR/USD pull-back should be temporary.

Elsewhere in the DM space, GBP looks set to see huge volatility over the next four weeks. Reaching an agreement on a Brexit transition deal ahead of the March 22nd EU leaders' meeting will be a challenge. Yet we favour progress and a supportive BoE environment to send GBP/USD to 1.45.

EMFX has so far taking its cue more from the weaker dollar than higher US Treasury yields. We think the speed of the rise in yields is more important than the absolute yield level per se. And we think the global growth story will allow discriminating investors to see the EM glass half-full.

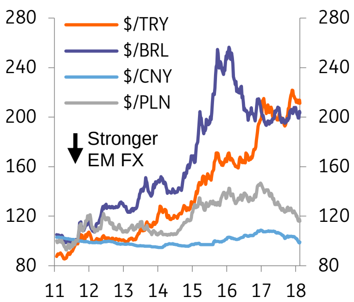
In the EM space, we think the decline in USD/Asia has a lot further to run. BRL could also prove the surprise package if social security reform were passed over coming weeks.

USD/Majors (30 Jan 09=100)



Source: Reuters, ING

USD/EM (30 Jan 09=100)



Source: Reuters, ING

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.24	=	107	>	1.43	>
3M	1.26	>	106	>	1.43	>
6M	1.28	>	105	>	1.45	>
12M	1.30	>	100	<	1.53	>
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.87	<	25.30	>	4.16	=
3M	0.88	=	25.20	>	4.15	<
6M	0.88	<	25.00	=	4.12	<
12M	0.85	<	24.80	<	4.12	<
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	6.30	=	18.60	=	3.24	>
3M	6.25	<	19.20	>	3.30	>
6M	6.20	<	18.80	<	3.45	>
12M	6.00	<	18.60	<	3.25	<

> / = / < indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright

Source: Bloomberg, ING

FX performance

	EUR/USD	USD/JPY	EUR/GBP	EUR/NOK	NZD/USD	USD/CAD
%MoM	2.6	-4.5	0.2	0.4	1.9	0.6
%YoY	17.1	-6.7	4.3	9.2	2.9	-4.2
	USD/UAH	**USD/KZT**	**USD/BRL**	**USD/ARS**	**USD/CNY**	**USD/TRY**
%MoM	-5.7	-2.6	0.7	4.1	-1.9	-0.8
%YoY	-0.6	-0.4	4.9	26.8	-7.6	2.2

Source: Bloomberg, ING

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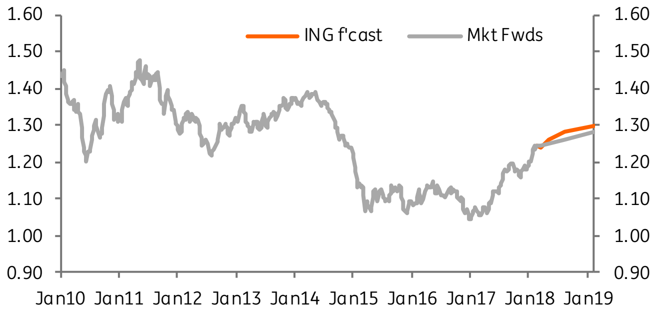
Developed markets

EUR/USD

Weak dollar slips into the driving seat

Current spot: 1.24



Source: Bloomberg, ING

- If last year's rally in EUR/USD was made in Europe, this year's rally has been made in America. Rising protectionism, a US Treasury Secretary highlighting the benefits of a weaker dollar and growing concerns about the US fiscal trajectory are all contributing to a loss of confidence in the dollar. It will take a lot to change this mind-set and not just Washington paying lip-service to a stronger dollar at the next G20 meeting March 19th.
- The market already prices 82bp of Fed hikes this year, suggesting that USD will struggle to benefit from a more hawkish Fed.
- March 4th is the biggest risk to the EUR near term – marking Italian elections and SPD member vote on the German coalition.

ING forecasts (mkt fwd)	**1M** 1.24 (1.246)	**3M** 1.26 (1.2521.26)	**6M** 1.28 (1.261)	**12M** 1.30 (1.280)

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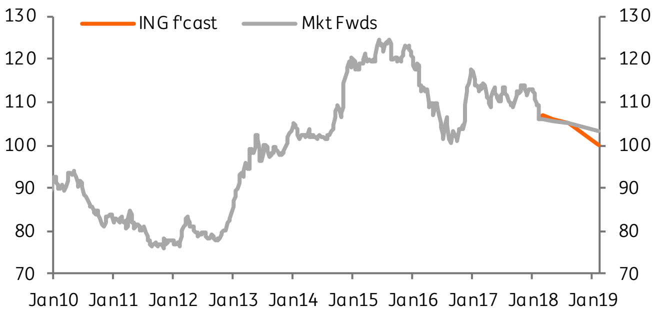
USD/JPY

Regime change most evident here

Current spot: 106.23



Source: Bloomberg, ING

- US Treasury yields rose sharply in late 2016 and again in early 2018. USD/JPY rose sharply on the first occasion and collapsed on the second. Why the difference? We think this year's rise in Treasury yields have been largely driven by a wider term premium – which includes supply/demand risks. The term premium is where US fiscal risks should emerge. We suspect that investors are already demanding concessions in the dollar for the deterioration in US fiscal balances into 2019.
- Japanese MoF have started to complain about JPY strength – but intervention would see UST name Japan as an FX manipulator.
- 104 is our fair-value for $/JPY. A period of undervaluation beckons

ING forecasts (mkt fwd)	**1M** 107.00 (106.1)	**3M** 106.00 (105.6)	**6M** 105.00 (104.9)	**12M** 100.00 (103.4)

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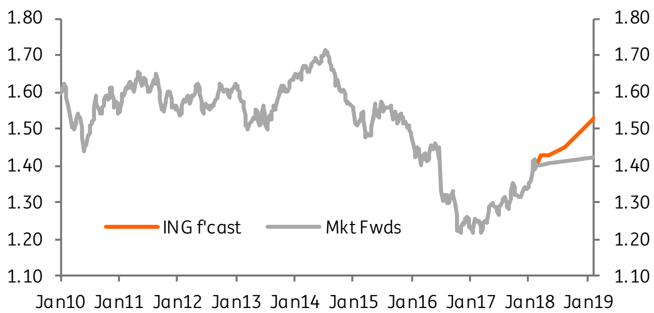
GBP/USD

Bank of England delivers Brexit-contingent hawkish signal

Current spot: 1.40



Source: Bloomberg, ING

- While we expected GBP/USD to rally up to 1.40 in 1Q18 – even we were surprised by the speed of the move in January. But as we note, we still think there are 4 misconceptions in markets right now about GBP/USD's move higher. In particular, we don't think recent strength is a function of optimism over a 'soft' Brexit and note the correlation between GBP/USD and EUR/USD is at a post-Brexit high (suggesting broad USD weakness is the key driver).
- We think it's a misconception that markets are extremely long GBP/USD; while net positioning is at its highest since 3Q14, this has been driven by (a) leveraged funds (asset managers still net short) and (b) mainly a short-squeeze (versus a pick-up in longs).
- Given the BoE's Brexit-contingent hawkish signal in Feb, we look for a latent GBP/USD move up to 1.45 as (i) a Brexit transition deal gets agreed and (ii) the UK economy regains its cyclical swagger

ING forecasts (mkt fwd)	**1M** 1.43 (1.40)	**3M** 1.43 (1.41)	**6M** 1.45 (1.41)	**12M** 1.53 (1.42)

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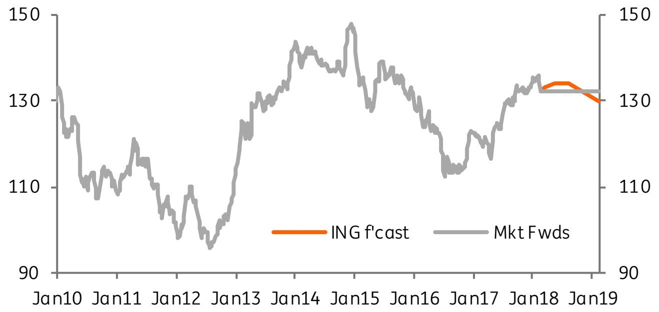
EUR/JPY

Re-assessing the trajectory

Current spot: 132.1



Source: Bloomberg, ING

- Having been bullish on EUR/JPY for several years, we are now becoming more cautious. This is because the benign dollar decline of 2017 is turning into something more fractious. Here we see concerns growing over the US sovereign balance sheet – ushering greater headwinds for the risk environment sooner than we had expected.
- BoJ's Kuroda re-appointment for another 5 year term as governor has had no discernible impact on the JPY so far and we suspect a weak USD/JPY may delay any BoJ normalisation plans.
- Any untoward developments on March 4th (e.g. Eurosceptic gains in Italian elections or SPD voters bringing down the coalition government and Angela Merkel) could deliver a temporary set-back to the EUR. However ECB policy looks EUR supportive.

ING forecasts (mkt fwd)	**1M** 133.00 (132)	**3M** 134.00 (132)	**6M** 134.00 (132)	**12M** 130.00 (132)

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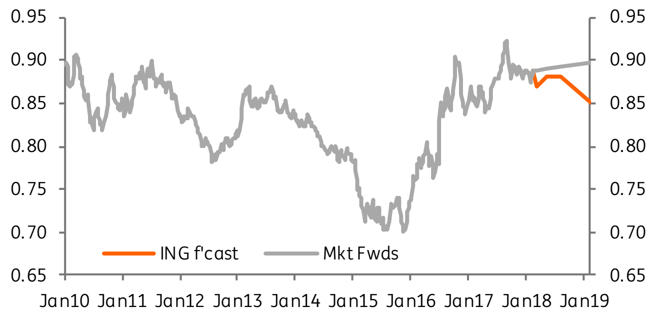
EUR/GBP

Bad Brexit vibes return... but this time may be different

Current spot: 0.89



Source: Bloomberg, ING

- Brexit-headline risks for GBP are likely to increase after the EU's Brexit negotiator Michel Barnier stated that a transition period is 'not a given'. Prime Minister Theresa May and her Cabinet are also set to outline their vision on the UK's future relationship with the EU in a series of speeches over the next few weeks.
- It may be wishful thinking to expect things to go smoothly – with the risk that leading Brexiteers muddy the landscape and reduce the perceived odds of a Brexit transition deal being agreed by end-March. This may see a modest risk premium priced into GBP.
- Given the Divorce Deal precedence of a last minute solution, our house view is that a Brexit transition will be agreed at the 22-23 Mar EU leaders summit. We see EUR/GBP at 0.86 in this scenario.

ING forecasts (mkt fwd)	**1M** 0.87 (0.89)	**3M** 0.88 (0.89)	**6M** 0.88 (0.89)	**12M** 0.85 (0.90)

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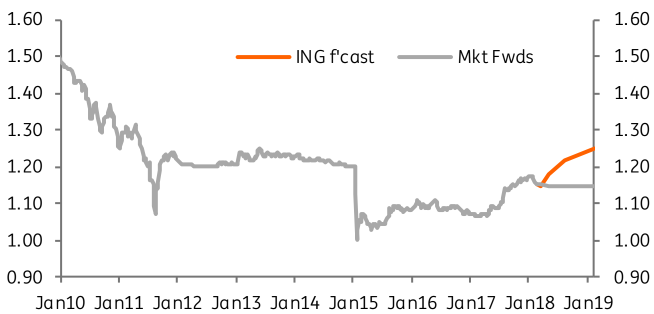
EUR/CHF

CHF real trade-weighted index drops back to 2013 levels

Current spot: 1.15



Source: Bloomberg, ING

- Global equity concerns and investors looking for the next CB normalisation story saw both the JPY and the CHF perform well from mid-January onwards. EuroSwiss interest rate futures now price 59bp of SNB tightening by end 2019. This seems too much for us, though we acknowledge that at major turns in monetary cycles like this, expectations can swing wildly.
- We are also watching the CHF real trade weighted indices carefully. Adjusted for producer prices, the CHF trade weighted EUR index has now dropped to levels last seen in 2013 – when EUR/CHF was trading 1.25. Will the SNB now turn less dovish?
- For time being, we'll stick with a 1.25 story on back of strong EUR.

ING forecasts (mkt fwd)	**1M** 1.15 (1.15)	**3M** 1.18 (1.15)	**6M** 1.22 (1.15)	**12M** 1.25 (1.15)

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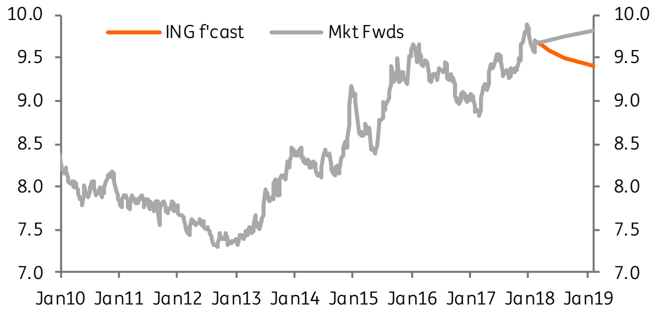
EUR/NOK

NOK is cheap, but near term appreciation should slow **Current spot: 9.68**



Source: Bloomberg, ING

- Due in part to its previous material gains, NOK underperformed other G10 currencies during the February market sell-off. But as the risk environment stabilizes, stock markets grind higher and the oil prices rise, the worst for NOK seems to be behind us.
- However, given our commodity's team base case for a limited upside to the oil price, we see scope for material EUR/NOK downside as limited. We don't expect EUR/NOK to persistently to break below the 9.60 level in coming weeks.
- Yet, the krone remains undervalued (11% cheap against EUR based on our medium-term BEER model) pointing to a gradual EUR/NOK decline over course of 2018, towards the 9.40 level (further helped by the NB hike we expect to be delivered in 4Q18)

ING forecasts (mkt fwd)	**1M** 9.65 (9.69)	**3M** 9.60 (9.71)	**6M** 9.50 (9.75)	**12M** 9.40 (9.82)

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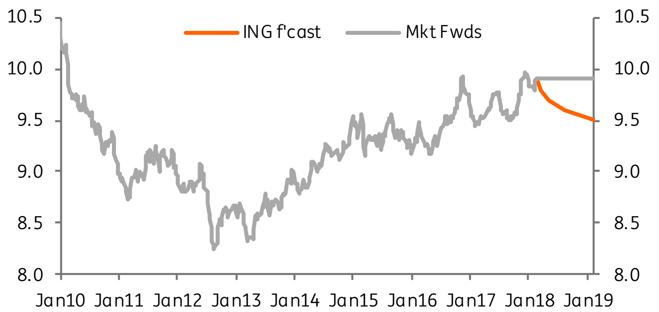
EUR/SEK

Strong EUR/USD reducing scope for a EUR/SEK decline **Current spot: 9.91**



Source: Bloomberg, ING

- Despite the growing division, the Riksbank struck a modestly dovish tone in the February meeting (a) downgrading the CPI forecast; (b) modestly altering its forward rate guidance. Market is already pricing close to 30bps hike by the year-end, suggesting a fairly limited potential for the SEK upside.
- Trade weighted SEK remains weak and Riksbank's own forecast points to its appreciation. Yet, this may not still mean an overly strong SEK vs EUR as long as EUR/USD continues pushing higher (which in turn leads to SEK strength against the USD-bloc FX).
- SEK's cheap valuation and indications of a soft landing in the housing market are krona positive, but cautious Riksbank and higher EUR/USD suggest a limited scope for a EUR/SEK decline.

ING forecasts (mkt fwd)	**1M** 9.80 (9.91)	**3M** 9.70 (9.90)	**6M** 9.60 (9.90)	**12M** 9.50 (9.91)

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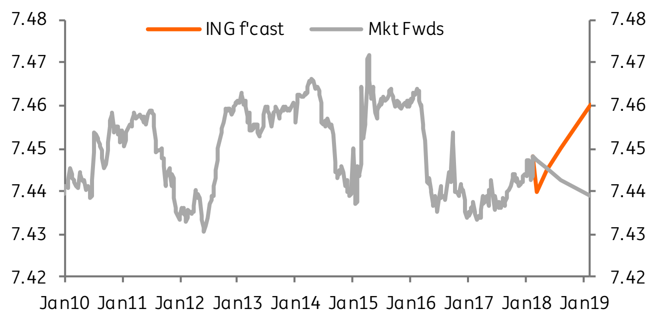
EUR/DKK

The DN in wait-and-see mode as EUR/DKK is range bound **Current spot: 7.448**



Source: Bloomberg, ING

- The DN is likely content with the EUR/DKK slowly grinding towards the central rate of 7.46038, which suggests no need for the central bank to adjust its current policy stance. Rather, the DN is to wait for the ECB to (a) end its QE programme and (b)embark on the depo rate hikes, before rising its own rates.
- Our economists expect the ECB to deliver the first depo rate hike around mid-2019, meaning that the DN is unlikely to increase interest rates before 2H 2019.
- Over coming weeks, we see a risk of EUR/DKK moving back towards 7.4400 ahead of the March Italian elections (the pair saw a mild decline ahead of the French elections in 2017 too).

ING forecasts (mkt fwd)	**1M** 7.44 (7.447)	**3M** 7.45 (7.446)	**6M** 7.45 (7.443)	**12M** 7.46 (7.439)

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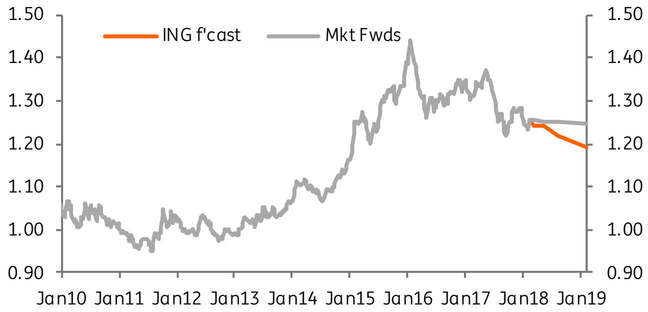
USD/CAD

Prolonged NAFTA uncertainty may keep CAD side-lined

Current spot: 1.254



Source: Bloomberg, ING

- Despite the Bank of Canada restarting its hiking cycle in January, CAD has underperformed in the G10 FX space – gaining the least against the US dollar on the back of (1) lower oil prices; (2) NAFTA uncertainty and (3) a volatile global risk environment. Sensitivity to the latter highlights CAD's high-beta and pro-cyclical features.
- The immediate risks around a NAFTA break-up have died down as the sixth round of talks ended with some hope and progress. Yet, given the mercurial nature of US trade policy, it will be difficult for investors to rest on their laurels. CAD to remain a G10 FX laggard.
- If risks of a NAFTA break-up rose, CAD downside would be initially seen through a dovish re-pricing of BoC policy expectations. In this tail-risk scenario, we would expect USD/CAD to move to 1.30.

ING forecasts (mkt fwd)	**1M** 1.24 (1.25)	**3M** 1.24 (1.25)	**6M** 1.22 (1.25)	**12M** 1.19 (1.25)

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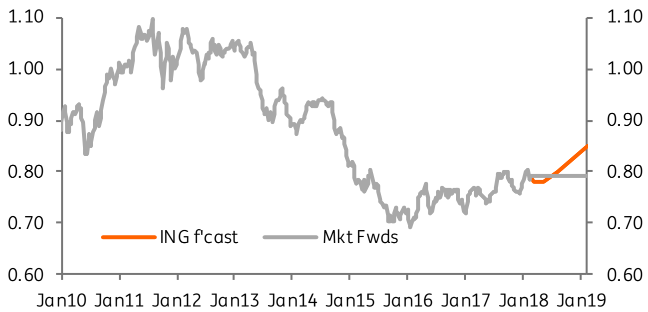
AUD/USD

Navigating a tricky and muddled external environment

Current spot: 0.79



Source: Bloomberg, ING

- The near-term dynamics for AUD/USD remains a function of the external global environment – with the mixed backdrop of falling equities and a structurally weak $ working in opposite directions. A stabilisation in risk sentiment would see AUD/USD upside bias return, although we note the domestic AUD factors are negative.
- The strong start to 2018 for industrial metals is helping to keep AUD supported. Our commodities team believe the rally in the iron ore looks overdone and see a fall to US$55-60/tn in 2Q18. US protectionist policies on steel may be the catalyst for a jolt lower.
- Moreover, with the Australian economy stuck in 'lowflation' mode – we think the RBA will be one of the last of the G10 central banks to hike. This should limit the degree of AUD upside over 2018.

ING forecasts (mkt fwd)	**1M** 0.78 (0.792)	**3M** 0.78 (0.792)	**6M** 0.80 (0.792)	**12M** 0.85 (0.794)

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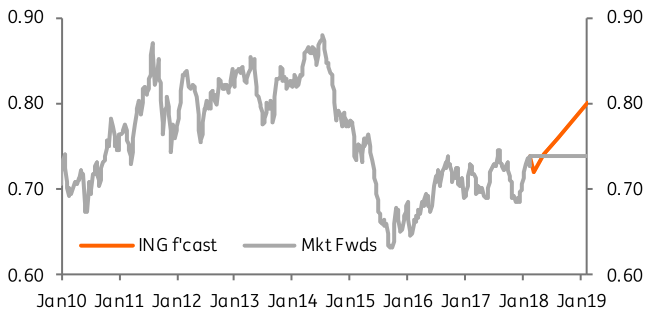
NZD/USD

Running out of reasons for further upside

Current spot: 0.74



Source: Bloomberg, ING

- Though a weak $ environment mostly explains the NZD/USD rally to 0.72-0.74, we do note the kiwi has been somewhat resilient in the face of volatile equity markets and deteriorating global risk appetite. While this may be telling of a 'flight to quality' effect, we would expect a sustained market downturn to weigh on NZD.
- The domestic NZ story has turned from positive to neutral of late. The lacklustre 4Q NZ CPI release saw the RBNZ retain a relatively dovish tone at its Feb meeting. Officials were keen to stress two-way risks to policy – which saw the NZD OIS curve flatten. Markets now see a 50% chance of RBNZ hike in 2018 (versus 70% in Jan).
- Look for NZD/USD to stay range-bound within the 0.7150-0.7450 broad range (risks for a topside breakout if the $ falls further).

ING forecasts (mkt fwd)	**1M** 0.72 (0.738)	**3M** 0.74 (0.738)	**6M** 0.76 (0.738)	**12M** 0.80 (0.739)

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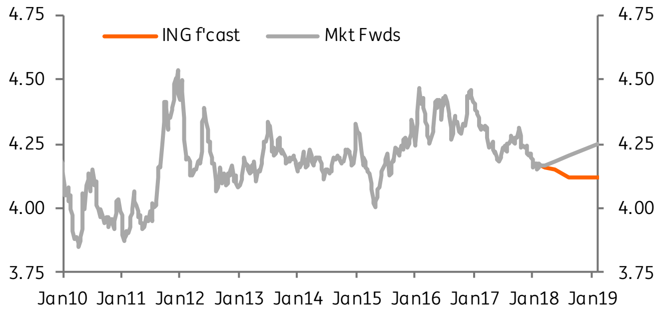
Emerging markets

EUR/PLN

PLN rather range bound in coming weeks



Source: Bloomberg, ING

Current spot: 4.16

- CEE FX&PLN underperformed during Jan-18 €/US$ rally showing FI flows returning from US to Eurozone are not that beneficial for the local markets. Consistently, CEE FX and PLN served as low beta FX during the equity sell-off and the €/US$ correction in Feb-18.
- The likely €/US$ advance above 1.25 calls for a limited PLN strengthening in our view. The technicals and our fair value model shows PLN is already rich, while MPC should cool tightening expectations in Mar-18 as new CPI projection will be revised down.
- Long term PLN outlook remains positive, as the local economy continues to shine (especially on GDP and the fiscal side). Political risks are mostly a 2019 story and any meaningful EU sanctions are unlikely. Given expected USD decline, risks to our EUR/PLN are on the downside, reflecting possible capital inflows towards CEEs.

ING forecasts (mkt fwd)	**1M** 4.16 (4.17)	**3M** 4.15 (4.18)	**6M** 4.12 (4.20)	**12M** 4.12 (4.25)

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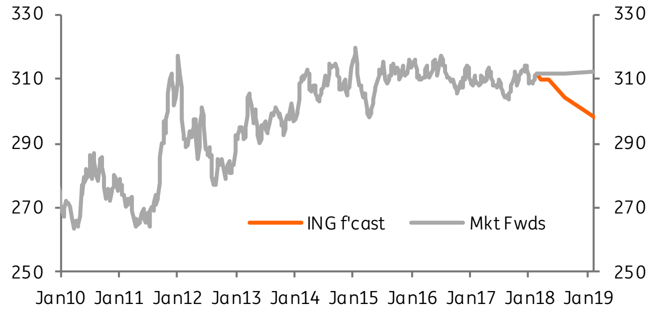
EUR/HUF

EUR/HUF trading around the 310 gravity line



Source: Bloomberg, ING

Current spot: 311.5

- Our view for EUR/HUF remains intact. We expect the cross to trade around the 310 gravity line in coming months. We don't expect the influx of liquidity (from the mortgage bond QE) to weigh on HUF.
- The experience of 2H16 and 2017 (when the NBH pushed HUF 2trn out of the 3-m depo facility) suggests that the new excess liquidity does not tend to weigh on HUF meaningfully .
- We look for a back-loaded HUF strength in 2H18 (to EUR/HUF 300, that is close to the NBH's pain threshold of 2017) as the current flattening programmes are likely to be nearing the end and the strong Hungarian C/A surplus works in favour of HUF.

ING forecasts (mkt fwd)	**1M** 310.00 (311.4)	**3M** 310.00 (311.5)	**6M** 304.00 (311.9)	**12M** 298.00 (312.4)

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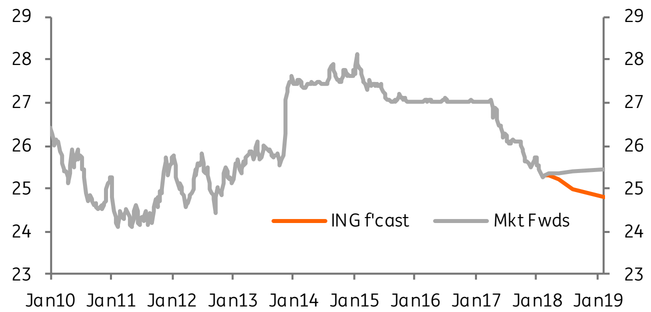
EUR/CZK

CNB will need to hike to achieve stronger CZK



Source: Bloomberg, ING

Current spot: 25.32

- The CNB hiked by 25bp in February, yet it delivered a dovish rate forecast pointing at no additional hikes this year (though Gov Rusnok acknowledged a likelihood of one more hike 2018).
- Instead, the CNB expects the tightening of monetary conditions to be delivered via a stronger exchange rate. The CNB projects EUR/CZK at 24.6 in 4Q18. We have hard time seeing EUR/CZK at this level in the absence of hikes this year.
- Hence, we expect the CNB to deliver at least one hike (more likely two) this year to push EUR/CZK lower. Yet, within the realm of monetary conditions, two hikes mean a lower need for an overly strong CZK as tightening will be delivered via rates. Hence, we look for EUR/CZK at 24.80 (vs. CNB forecast of 24.60)

ING forecasts (mkt fwd)	**1M** 25.30 (25.33)	**3M** 25.20 (25.36)	**6M** 25.00 (25.40)	**12M** 24.80 (25.47)

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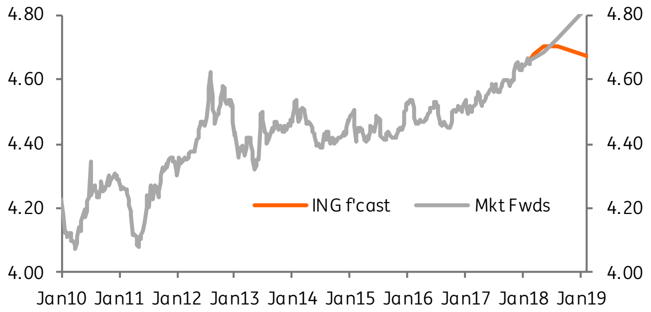
EUR/RON

The NBR governor keeps talking down the RON

Current spot: 4.66



Source: Bloomberg, ING

- The NBR governor reiterated that he sees no room for RON gains, but favours relatively low volatility due to its impact on inflation and inflation expectations. He also mentioned that the central bank discourages carry trade. The NBR follows the real effective exchange rate (REER). Minutes for the latest meeting highlight the importance of FX pass-through. Moreover, the NBR inflation outlook is dependent on "gradually less accommodative" and "quasi-neutral" monetary conditions in 2019.
- The Inflation Report notes that REER is expect to "diminish and even reverse" its "stimulative stance" for exports. Hence, the central bank sees a nominal RON weakness at most equal to the inflation differential of c2.5ppt. This broadly translates into an EUR/RON average for 2018 of around 4.68.

ING forecasts (mkt fwd)	**1M** 4.68 (4.67)	**3M** 4.70 (4.69)	**6M** 4.70 (4.72)	**12M** 4.67 (4.82)

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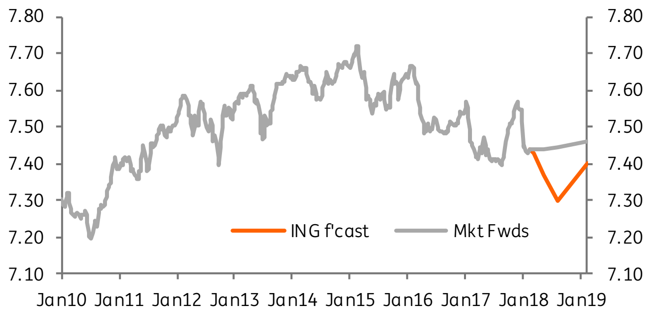
EUR/HRK

Debt restructuring at the largest company looming

Current spot: 7.44



Source: Bloomberg, ING

- The CNB intervened on 4-January buying EUR405.5m at an average rate of 7.453515 in order to curb HRK firming due market positioning ahead of expected heavy hard currency inflows at the start of holiday season. The amount is large by local market standards. Hence, this led to a stabilisation of the exchange rate.
- The strategy for adopting the euro suggest that the government is comfortable with the average exchange rate for EUR/HRK since 2001 of 7.45 as a likely central parity rate.
- So far, the problems at the largest Croatian company seem to be ignored by markets. With the deadline for an orderly debt restructuring of the company looming, things might get complicated. Still, summer inflows should support the HRK.

ING forecasts (mkt fwd)	**1M** 7.43 (7.44)	**3M** 7.37 (7.44)	**6M** 7.30 (7.44)	**12M** 7.40 (7.46)

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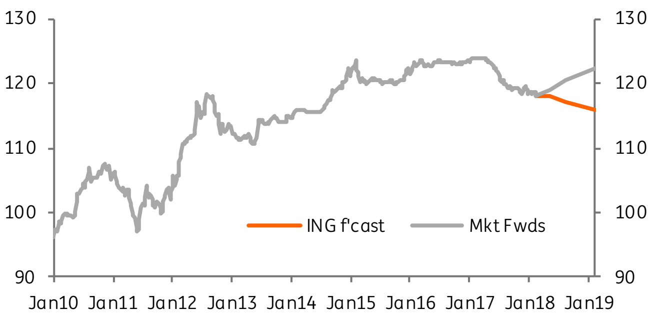
EUR/RSD

Tightly managed, RSD supported by debt inflows

Current spot: 118.1



Source: Bloomberg, ING

- The NBS intervened only to curb RSD weakening since the start of the year. NBS governor verbally intervened recently to discourage RSD gains on the back of heavy inflows into the local currency bonds which saw a bid-to-cover ratio at 5.5x.
- The governor Tabakovic telegraphed a rate cut for the March meeting at the Inflation Report presentation due to the projected sharp drop in inflation in the near term. With March Fed hike fully priced in by the markets, we see NBS cutting the key rate by 25bps to 3.25%. Nevertheless, she linked the rate decision to possible currency weakness effects. We tend to believe an opposite impact will play out - as the outlook for lower rates should bring even more inflows into local currency debt.

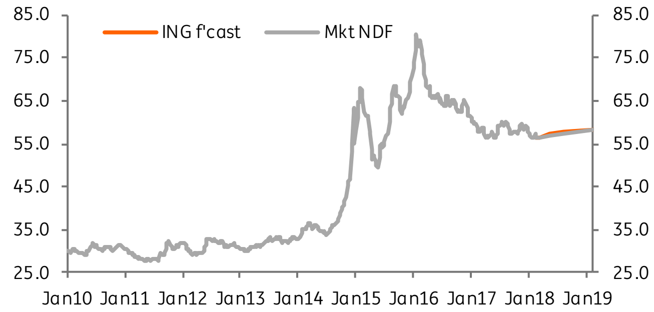
ING forecasts (mkt fwd)	**1M** 118.00 (118.3)	**3M** 118.00 (119.1)	**6M** 117.00 (120.4)	**12M** 116.00 (122.2)

Ciprian Dascalu, Bucharest +40 21 209 1393

USD/RUB

Comfortably living with broken oil link

Current spot: 56.40



Source: Bloomberg, ING

- RUB's 1.4% gain over 2018 proves its resilience vs a 5% drop in Brent prices. The seasonally strong current account (C/A) surplus in 1Q supported the RUB, but to a lesser extent than in the past due to the new fiscal rule, i.e. the related direct FX purchases.
- This is seen in Jan-18 BoP data of the US$12.8bn C/A surplus vs US$7.1bn in private capital outflows and US$4.5bn in MinFin FX purchases. The fiscal rule will continue limiting oil impact on the RUB, making it further exposed to capital flows to a bigger extent.
- The recent global market volatility saw a negative RUB response, but due to solid fundamentals and mostly a secure BoP position in 1H, we still see the RUB rather flat with some volatility.

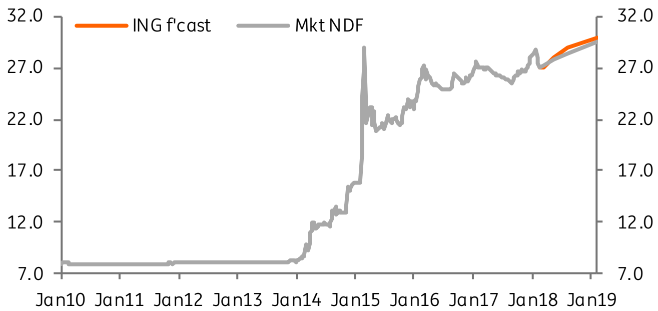
ING forecasts (mkt fwd)	**1M** 56.50 (56.57)	**3M** 57.30 (56.97)	**6M** 58.00 (57.50)	**12M** 58.30 (58.42)

Dmitry Polevoy, Russia +7 495 771 7994

USD/UAH

Taking a breather after a slide, but will it last?

Current spot: 26.98



Source: Bloomberg, ING

- UAH gained 4.5% YTD to 26.85/USD after a steady drop in Sep- Jan-18 to as low as 28.90. Low payments abroad, higher export flows, portfolio inflows into local gov't bonds and eased devaluation expectations all helped the UAH to recover.
- The BoP in 2017 posted a surplus of US$2.6bn, but in 4Q17 it declined compared to previous quarters (to US$0.6bn) reflecting a mix of current account (C/A) gap and financial account (F/A) surplus. With limited upside for the C/A, the F/A will be key.
- NBU plans to remove capital controls in 2018, but it would also make UAH more sensitive to capital flows swings, incl. those trailing sentiments about prospects of the IMF funding.

ING forecasts (mkt fwd)	**1M** 27.00 (27.31)	**3M** 28.00 (27.78)	**6M** 29.00 (28.47)	**12M** 30.00 (29.60)

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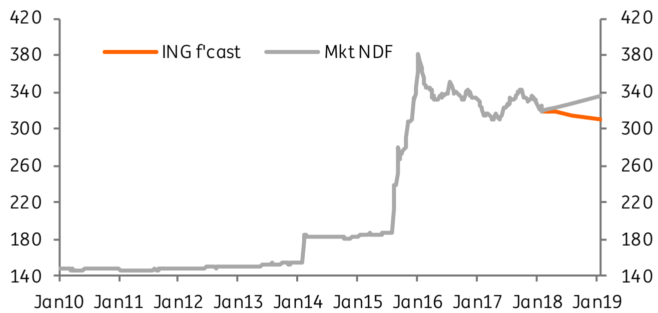
USD/KZT

Stronger now, stronger going forward

Current spot: 319.7



Source: Bloomberg, ING

- KZT underperformed only Georgian lari and Ukraine hryvnia on a YTD basis after gaining nearly 4% vs USD. The move was mostly in line with our constructive view on KZT, but we expected to see 320/USD levels only in 2Q18. It likely benefited from high oil price and tax-related flows which are paid in the second month of 1Q
- Relatively weak KZT over 2017 supported BoP adjustment processes with the current account gap shrinking to about zero in 4Q17 even despite a US$1.2bn gap on the financial account side mostly driven by the Oil Fund assets rise and errors&omissions.
- The better BoP position and still solid fundamentals justify stable-to-stronger KZT in 2018, which may approach 300-310/USD.

ING forecasts (mkt fwd)	**1M** 320.00 (320.9)	**3M** 320.00 (323.5)	**6M** 315.00 (326.9)	**12M** 310.00 (335.3)

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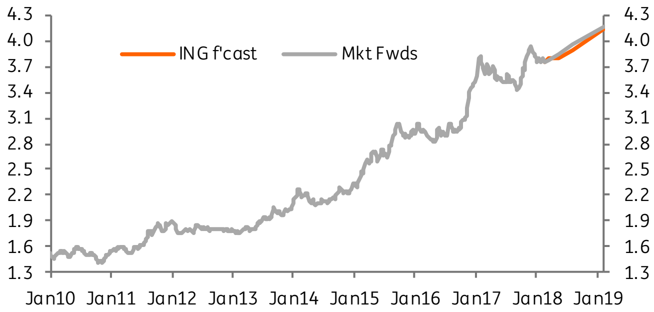
USD/TRY

The CBT to maintain policy as long as TRY remains stable

Current spot: 3.75



Source: Bloomberg, ING

- The January data show a further fall in the headline inflation with the easing base effects that will continue to support the outlook until April. Downside surprises on the food inflation and continuing TRY strength may support ongoing disinflation, while turning of global risk appetite to negative with rising volatility in the currency, an additional increase in oil prices and further deterioration in pricing behaviour can weigh on the TRY outlook.
- In the near term, continuation of supportive global environment, high carry, and headline disinflation can further contribute TRY stability. On the flip side, appetite of residents for FX deposits, at all-time high, should be a factor limiting downside moves, while geopolitics issues will remain as a major negative factor.

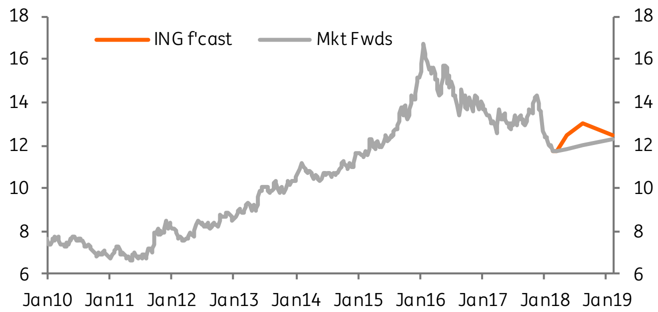
ING forecasts (mkt fwd)	**1M** 3.80 (3.78)	**3M** 3.80 (3.85)	**6M** 3.90 (3.95)	**12M** 4.15 (4.17)

Muhammet Mercan, Istanbul +90 212 329 0751

USD/ZAR

New dawn

Current spot: 11.68



Source: Bloomberg, ING

- The ZAR is performing very well, buoyed by optimism that new President Rampahosa will enact much needed reforms to improve growth and the budget trajectory. The first big test may come on February 21st with a new budget. The mid-year budget review hit the ZAR hard last October when it revealed a ZAR50bn shortfall in expected tax revenues.
- At 11.60, we believe ZAR has moved into over-valued territory against the dollar and we would not want to chase USD/ZAR lower. Indeed, ZAR 12 implied yields have fallen closer to 7% from 8.50% and with ZAR so strong suggest it's a good time to hedge.
- It looks as though ZAR already prices an improved ratings status.

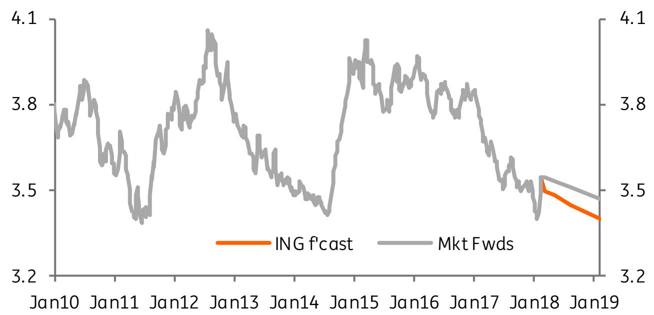
ING forecasts (mkt fwd)	**1M** 11.75 (11.74)	**3M** 12.50 (11.84)	**6M** 13.00 (11.98)	**12M** 12.50 (12.26)

Chris Turner, London +44 20 7767 1610

USD/ILS

Fighting the tide of dollar bearishness

Current spot: 3.55



Source: Bloomberg, ING

- The BoI have done a good job of fighting the USD bear trend and intervening on such a scale that USD/ILS has corrected above 3.50. FX reserve data confirmed the BoI intervened to the tune of US$1.8bn in January – the largest since 2015. The correction has also been helped by the global equity sell-off. That said, MSCI EM is off 6% this month, but the Tel Aviv 125 index is only off 4%.
- It is therefore hard to blame the ILS sell-off on corruption allegations against PM Netanyhu. It looks like he'll try and face these allegations down – delivering political continuity.
- While the BoI may not like ILS strength, we still think the negative dollar story will dominate this year and 3.40 will be retested.

ING forecasts (mkt fwd)	**1M** 3.50 (3.54)	**3M** 3.48 (3.53)	**6M** 3.45 (3.51)	**12M** 3.40 (3.47)

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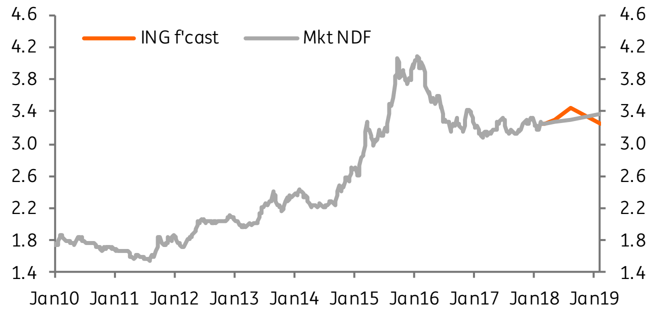
LATAM

USD/BRL

Potential social security reform vote still in the spotlight

Current spot: 3.24



Source: Bloomberg, ING

- Considering investor optimism with the second court conviction of former-President Lula, BRL's underperformance has been significant. Lack of investor enthusiasm for BRL assets may reflect the uncertain outlook for fiscal consolidation and for the elections, even though economic data such as external accounts, inflation and activity have remained broadly BRL-supportive.
- Lula is likely to be ineligible to run in the October presidential election, but that has failed to provide much clarity about electoral dynamics, which remain unusually hard to predict.
- A potential vote on a social security reform over next two weeks should be the primary domestic catalyst for the BRL. Approval is not expected. A surprise approval could trigger a material rally.

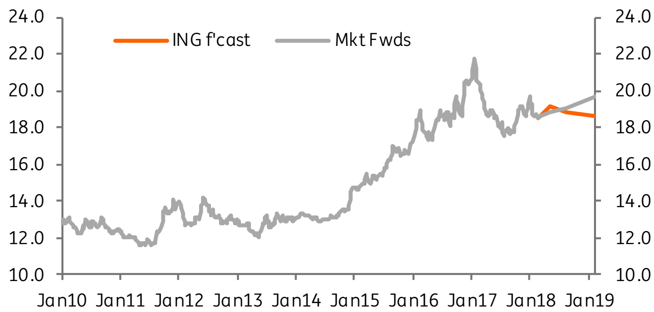
ING forecasts (NDF)	**1M** 3.24 (3.25)	**3M** 3.30 (3.28)	**6M** 3.45 (3.31)	**12M** 3.25 (3.37)

Gustavo Rangel, New York +1 646 424 6464

USD/MXN

NAFTA-related headline risk should abate

Current spot: 18.52



Source: Bloomberg, ING

- NAFTA-related concerns have abated over the past month amid signs that US negotiators remain committed to continuing the dialogue, while praising Mexican officials for their willingness to compromise. Another round is scheduled to start on February 25.
- Emerging consensus is that NAFTA will progressively cease to be a key catalyst for MXN weakness. With this headline risk receding, MXN should trade with a more neutral bias, largely following USD.
- Investor focus should gradually shift to the Presidential election however, on July 1. And with left-leaning contender Lopez Obrador (AMLO) keeping a solid lead in the polls, a weakening bias should re-emerge for the MXN. That weakening FX bias should keep monetary authorities cautious, and likely willing to match any US Fed rate hikes with a hike of their own.

ING forecasts (mkt fwd)	**1M** 18.60 (18.60)	**3M** 19.20 (18.79)	**6M** 18.80 (19.07)	**12M** 18.60 (19.66)

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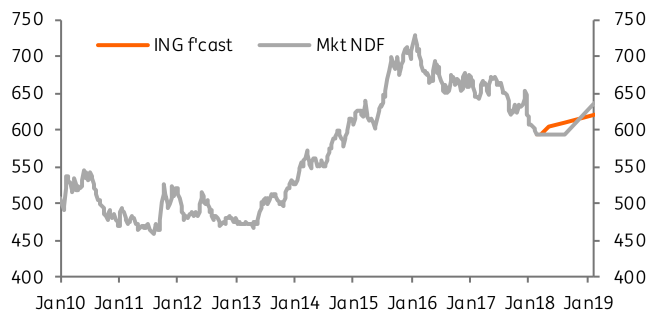
USD/CLP

CLP continues to lead, buoyed by copper

Current spot: 593.66



Source: Bloomberg, ING

- The CLP continues to stand out as the best-performing currency in LATAM over the past few months, buoyed by the sustained rally in copper prices, which has extend into the new year.
- Optimism with the election of Sebastian Piñera and confirmation that a recovery in economic activity is solidly under way have also contributed to enhance investor interest in CLP assets. Further gains or, at least, still supportive copper prices this year could push CLP toward fresh highs, amid robust trade flows.
- Inflation remains below the target but it has bottomed out and re-entered the targeted range, which has reduced the risk that BCCh will re-launch the rate-cutting cycle this year.

ING forecasts (NDF)	**1M** 595.00 (594)	**3M** 605.00 (594)	**6M** 610.00 (595)	**12M** 620.00 (638)

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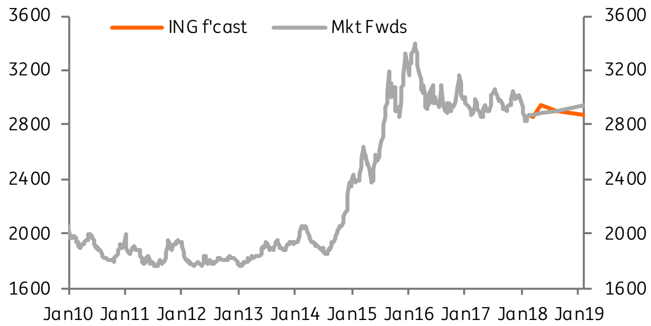
USD/COP

COP is once again tracking oil

Current spot: 2867.32



Source: Bloomberg, ING

- The COP has underperformed slightly in recent weeks, largely following the fluctuations seen in oil prices, and the USD.
- External accounts have improved with the faster correction in the trade balance, thanks to the surge in the energy balance and falling imports. But broad COP fundamentals remain fragile as fiscal concerns have intensified. Commitment to the fiscal rule will continue to be tested amid disappointing activity data and lingering questions over fiscal proposals by the chief contenders in the upcoming presidential election (May). Election concerns may also creep up as leftist Gustavo Petro appears to have solidified his position in the polls. His victory in a second-round vote (not our base-case scenario) would trigger a large sell-off.
- BanRep opted for caution when it paused the easing cycle in December but additional cuts are likely (in 2Q) as economic activity indicators disappoint and inflation declines.

ING forecasts (NDF)	**1M** 2850.00 (2874)	**3M** 2950.00 (2887)	**6M** 2900.00 (2906)	**12M** 2870.00 (2944)

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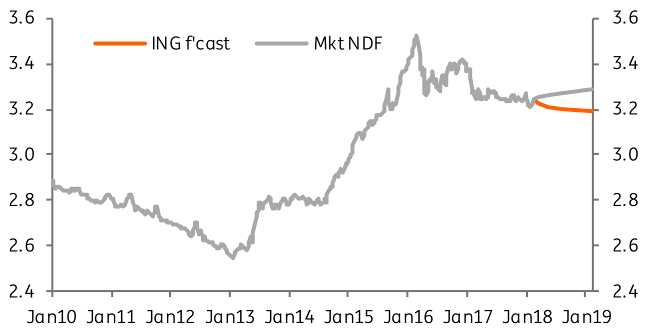
USD/PEN

Solid fundamentals but heightened political risks

Current spot: 3.25



Source: Bloomberg, ING

- The PEN traded with low volatility for most of the past month but it weakened following the correction of the USD early in February, and is only gradually recovering the lost ground.
- Continued attempts to oust President Kuczynski, amid allegations related to the Odebrecht scandal, may also be weighing on investor sentiment, especially as it helps explain the recent weakness seen in economic activity indicators.
- Peru's BCRP started off the year with another rate cut, following the collapse in inflation seen in recent months (to 1.3% YoY now), but opted for a pause in February, at 3.0%. Further disinflation, and renewed concerns about the activity outlook, should result in at least one more rate cut, to 2.75%, possibly in March. But that timing could be altered by political events.

ING forecasts (NDF)	**1M** 3.23 (3.25)	**3M** 3.21 (3.26)	**6M** 3.20 (3.27)	**12M** 3.19 (3.29)

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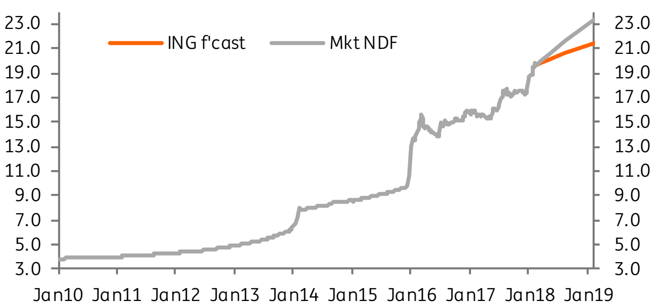
USD/ARS

Monetary policy changes still cloud the horizon

Current spot: 19.63



Source: Bloomberg, ING

- The administration's decision to relax the inflation targets for 2018-19 triggered a rise in inflation expectations, which curtailed BCRA's ability to cut rates much beyond the 150bp in cuts seen so far this year.
- BCRA's pause, at its last meeting, was seen as reassuring by investors, who still worry about the bank's policy autonomy.
- High inflation, signs that the recovery in economic activity has moderated, and the persistent rise in the trade deficit also do not bode well for the peso. More worryingly still, for the currency, is the fact that Argentina remains especially dependent on external financing, which should get less abundant as yields rise abroad.

ING forecasts (NDF)	**1M** 19.80 (19.97)	**3M** 20.10 (20.63)	**6M** 20.55 (21.63)	**12M** 21.45 (23.47)

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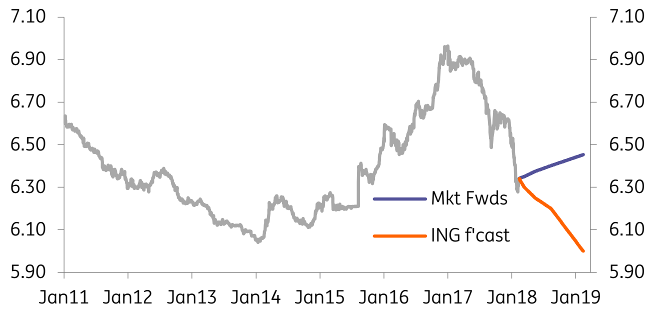
Asia

USD/CNY

Yuan strengthening to continue with weaker dollar

Current spot: 6.3415



Source: Bloomberg, ING

- CNY has fluctuated with the volatile dollar index. We believe that the central bank would like to take this opportunity to show the market that the yuan can deviate from the daily fixing in intraday sessions.
- We expect the yuan to strengthen to 6.10 (from our previous forecast of 6.30) by the end of 2018, mainly due to dollar weakness.
- CNY and CNH, the offshore yuan, exchange rate spreads will keep narrowing. We forecast that USD/CNY and USD/CNH will be the same rate, though CNH could be more volatile than CNY due to the limited yuan liquidity pool in the offshore market.

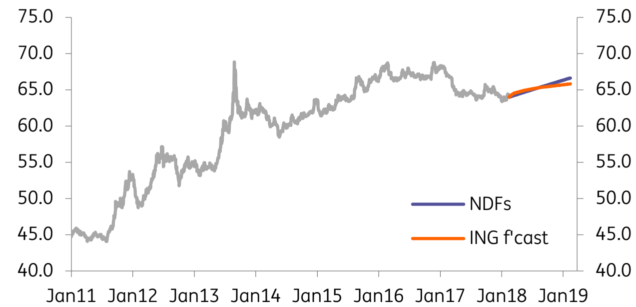
ING forecasts (FWDs)	**1M** 6.3000 (6.3504)	**3M** 6.2500 (6.3747)	**6M** 6.2000 (6.4017)	**12M** 6.0000 (6.4530)

Iris Pang, Hong Kong +852 2848 8071

USD/INR

Inflation spectre continues to hound

Current spot: 63.95



Source: Bloomberg, ING

- The INR remains under depreciation pressure from weak economic fundamentals dogged by rising inflation. The RBI has warned of continued upward price pressure, at least through 1H FY18-19, with fiscal slippage exacerbating the issue.
- Raising interest rates isn't a choice the RBI has to curb inflation and support the INR, even as growth is now on the improving trend. Higher rates not only worsens the market for government borrowing, they also hurt already-weak private investment.
- Not a favourable economic backdrop for the 8% GDP growth the Modi government is dreaming about before elections in 2019. There is little policy leeway to support this dream.

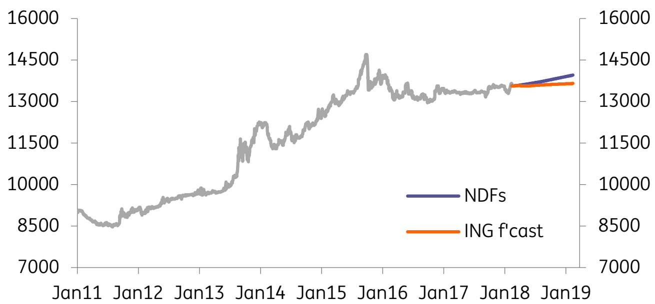
ING forecasts (FWDs)	**1M** 64.40 (64.17)	**3M** 64.90 (64.64)	**6M** 65.30 (65.31)	**12M** 65.80 (66.61)

Prakash Sakpal, Singapore +65 6232 6181

USD/IDR

Resolution of local uncertainties to help

Current spot: 13559



Source: Bloomberg, ING

- The IDR shifted from strength in January to weakness while posting a 7-month low in the first full week of February. Offshore investors cut $1.5bn from their local currency bond holdings for the month to February 12 as US benchmark yields increased.
- The Current account deficit also deteriorated in 4Q 2017 to -$5.8bn or to -2.2% of GDP) from 3Q's -$4.8bn (or -1.7% of GDP). Strong global growth is likely to support exports and reduce the current deficit to -1.62% of GDP in 2018 (consensus -1.9%).
- Leadership uncertainties also affect sentiment. BI could have a new Governor by May unless the President reappoints Gov. Agus for another term. There will be regional and local elections in June this year and Presidential elections in April 2019.

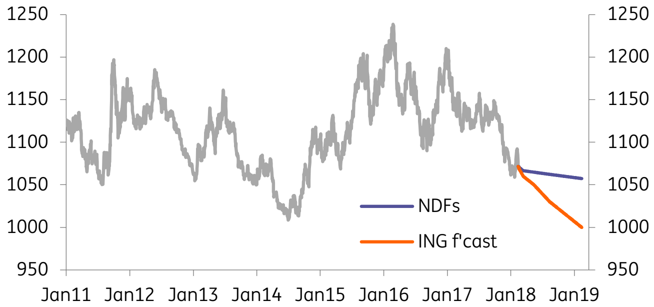
ING forecasts (NDFs)	**1M** 13575 (13574)	**3M** 13560 (13631)	**6M** 13600 (13728)	**12M** 13650 (13951)

Joey Cuyegkeng, Philippines +63 2479 8855

USD/KRW

Canary in a coalmine

Current spot: 1069



Source: Bloomberg, ING

- At one stage during February, USDKRW came within a hairs breadth of 1100, but it has since retraced almost all of the February weakness.
- Korea's economic news flow continues to make us nervous. Inflation remains soft, banishing any thoughts of a return of the BoK to tightening mode any time soon. Falling export prices make us also a little concerned about the strength of the semiconductor cycle – this will not be just a problem for Korea if it softening.
- As calm returns to markets, the KRW should gain from renewed USD weakness.

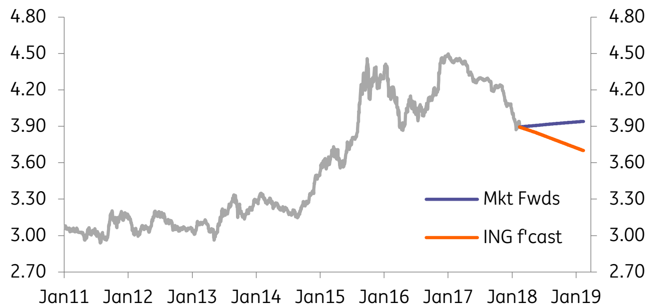
ING forecasts (NDFs)	**1M** 1060 (1067)	**3M** 1050 (1065)	**6M** 1030 (1063)	**12M** 1000 (1058)

Rob Carnell, Singapore +65 6232 6020

USD/MYR

BNM starts policy normalisation

Current spot: 3.8945



Source: Bloomberg, ING

- The MYR remains among Asia's outperforming currencies with 2.7% year-to-date appreciation. Malaysia's strong economic state remains supportive of continued MYR appreciation. GDP growth eased to 5.9% in 4Q17 from 6.2% in 3Q. Still, the 5.9% full-year growth was better than 5.2%-5.7% official forecast.
- With improved commodity price support to exports and election-spending boosting domestic demand, GDP growth should stay above 5% in 2018. We do not anticipate inflation becoming an issue, especially with the appreciating currency.
- The strong economic performance has allowed Bank Negara to begin policy normalisation with a 25bp policy rate hike in January. We forecast one more 25bp policy rate hike in 3Q.

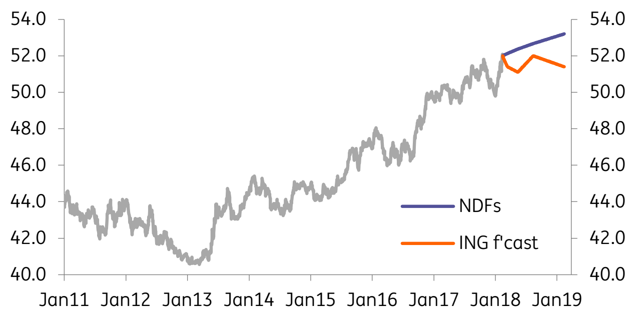
ING forecasts (FWDs)	**1M** 3.8800 (3.8990)	**3M** 3.8500 (3.9066)	**6M** 3.8000 (3.9194)	**12M** 3.7000 (3.9410)

Prakash Sakpal, Singapore +65 6232 6181

USD/PHP

Three factors keep PHP on weakening bias

Current spot: 52.01



Source: Bloomberg, ING

- PHP tested an 11-year low as the market fretted over economic managers' higher tolerance of a weaker PHP, wider trade deficits and relatively dovish central bank. The USD/PHP fiscal assumption is a range with the low end at PHP52 from PHP51 previously.
- Trade deficit hit a record $4bn in December as imports surged and exports softened. We expect 2018 imports to continue to outpace exports, widening trade deficit to $35bn from $30bn in 2017. The financing gap between the trade deficit and overseas worker remittances is likely to widen to $6bn from $2bn.
- The Central bank (BSP) expects inflation to trend to within the target range of 2-3% by March 2019. A long monetary policy lag increases the likelihood of another year of steady policy rates.

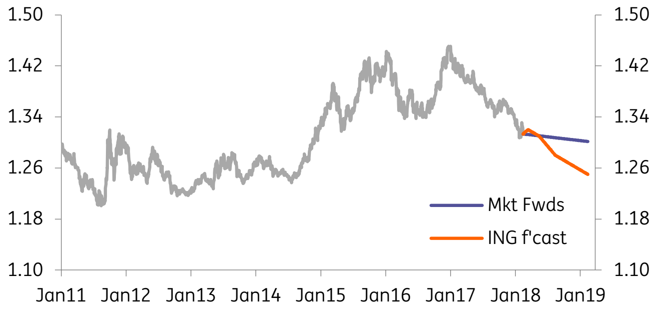
ING forecasts (NDFs)	**1M** 51.40 (52.15)	**3M** 51.10 (52.38)	**6M** 52.00 (52.69)	**12M** 51.40 (53.20)

Joey Cuyegkeng, Philippines +63 2479 8855

USD/SGD

Domestic economy a concern despite GDP growth

Current spot: 1.3132



Source: Bloomberg, ING

- We remain uncertain about the strength of Singapore's domestic demand. Industrial production fell for a second consecutive month in December, though the GDP numbers somehow managed to beat expectations, and deliver annual growth of a respectable 3.6%.
- February NODX also looked decent, though we anticipate NODX growth to return to the mid-single digit range for the rest of the year.
- The April MAS call remains a very tough call, and we are still uncomfortable with our long-standing tightening forecast. But it remains the central view for now. Further domestic softness could change that view.

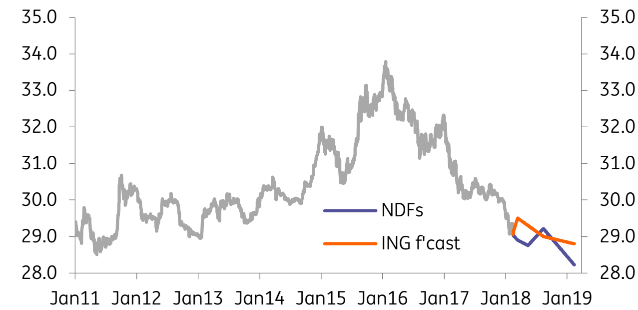
ING forecasts (FWDs)	**1M** 1.3200 (1.3126)	**3M** 1.3100 (1.3106)	**6M** 1.2800 (1.3075)	**12M** 1.2500 (1.3016)

Rob Carnell, Singapore +65 6232 6020

USD/TWD

TWD jumps on exporters' conversion of export receipts

Current spot: 29.06



Source: Bloomberg, ING

- It has become a seasonal pattern that the TWD strengthens until the end of 1Q of the year as exporters convert dollar receipts from exports into the local currency.
- We expect strong global growth and demand for semi-conductors in 2018, which would benefit Taiwan exports. This would offset the cost of a strong TWD.
- The continued inflows into Taiwan's asset market would also help the TWD continue its appreciation trend.
- We expect USDTWD to strengthen to 28.80 by end of 2018.

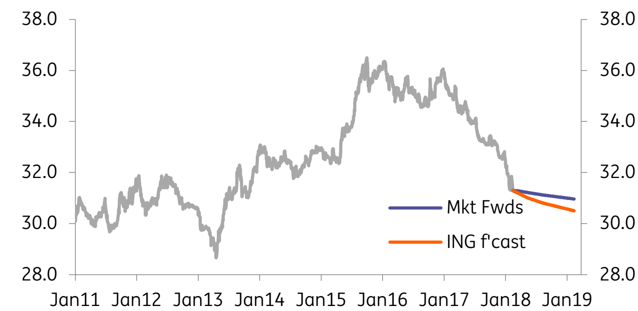
ING forecasts (NDFs)	**1M** 29.50 (28.91)	**3M** 29.30 (28.76)	**6M** 29.00 (28.61)	**12M** 28.80 (28.23)

Iris Pang, Hong Kong +852 2848 8071

USD/THB

No let-up in THB appreciation trend yet

Current spot: 31.30



Source: Bloomberg, ING

- There was no let-up in the THB appreciation trend coming into 2018 with 2.8% year-to-date appreciation against the USD.
- The key force behind THB strength is persistent large current account surplus. At about 11% of GDP in 2017, the surplus was barely changed from 2016, and together with inward capital flows this swelled reserves by US$31bn YoY to record US$203bn in 2017.
- The large current account surplus is the result of weak domestic demand. The textbook remedy for such an imbalance is demand-boosting economic policies. With no scope for monetary easing, more needs to come from the fiscal side. Without this, a repeat of 2017's THB performance looks difficult this year.

ING forecasts (FWDs)	**1M** 31.20 (31.29)	**3M** 31.00 (31.21)	**6M** 30.80 (31.12)	**12M** 30.50 (30.96)

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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	1.24	1.24	1.26	1.28	1.30						
EUR/JPY	132.1	132.68	133.56	134.40	130.00	USD/JPY	106.23	107	106	105	100
EUR/GBP	0.89	0.87	0.88	0.88	0.85	GBP/USD	1.40	1.43	1.43	1.45	1.53
EUR/CHF	1.15	1.15	1.18	1.22	1.25	USD/CHF	0.93	0.93	0.94	0.95	0.96
EUR/NOK	9.68	9.65	9.60	9.50	9.40	USD/NOK	7.79	7.78	7.62	7.42	7.23
EUR/SEK	9.91	9.80	9.70	9.60	9.50	USD/SEK	7.97	7.90	7.70	7.50	7.31
EUR/DKK	7.448	7.440	7.445	7.450	7.460	USD/DKK	5.99	6.00	5.91	5.82	5.74
EUR/CAD	1.56	1.54	1.56	1.56	1.55	USD/CAD	1.254	1.24	1.24	1.22	1.19
EUR/AUD	1.57	1.59	1.62	1.60	1.53	AUD/USD	0.79	0.78	0.78	0.80	0.85
EUR/NZD	1.68	1.72	1.70	1.68	1.63	NZD/USD	0.74	0.72	0.74	0.76	0.80
EMEA											
EUR/PLN	4.16	4.16	4.15	4.12	4.12	USD/PLN	3.35	3.35	3.29	3.22	3.17
EUR/HUF	311.5	310.00	310.00	304.00	298.00	USD/HUF	250.5	250	246	238	229
EUR/CZK	25.32	25.3	25.2	25.0	24.8	USD/CZK	20.36	20.4	20.0	19.5	19.1
EUR/RON	4.66	4.68	4.70	4.70	4.67	USD/RON	3.75	3.77	3.73	3.67	3.59
EUR/HRK	7.44	7.43	7.37	7.30	7.40	USD/HRK	5.98	5.99	5.85	5.70	5.69
EUR/RSD	118.1	118.0	118.0	117.0	116.0	USD/RSD	95.0	95.2	93.7	91.4	89.2
EUR/RUB	70.14	70.1	72.2	74.2	75.8	USD/RUB	56.40	56.5	57.3	58.0	58.3
EUR/UAH	33.59	33.5	35.3	37.1	39.0	USD/UAH	26.98	27.00	28.00	29.00	30.00
EUR/KZT	397.5	396.8	403.2	403.2	403.0	USD/KZT	319.7	320	320	315	310
EUR/TRY	4.67	4.71	4.79	4.99	5.40	USD/TRY	3.75	3.80	3.80	3.90	4.15
EUR/ZAR	14.53	14.6	15.8	16.6	16.3	USD/ZAR	11.68	11.75	12.50	13.00	12.50
EUR/ILS	4.41	4.34	4.38	4.42	4.42	USD/ILS	3.55	3.50	3.48	3.45	3.40
LATAM											
EUR/BRL	4.03	4.02	4.16	4.42	4.23	USD/BRL	3.24	3.24	3.30	3.45	3.25
EUR/MXN	23.03	23.1	24.2	24.1	24.2	USD/MXN	18.52	18.60	19.20	18.80	18.60
EUR/CLP	738.33	738	762	781	806	USD/CLP	593.66	595	605	610	620
EUR/ARS	24.42	24.55	25.33	26.30	27.89	USD/ARS	19.63	19.80	20.10	20.55	21.45
EUR/COP	3551.00	3534	3717	3712	3731	USD/COP	2867.32	2850	2950	2900	2870
EUR/PEN	4.06	4.01	4.04	4.10	4.15	USD/PEN	3.25	3.23	3.21	3.20	3.19
Asia											
EUR/CNY	7.89	7.81	7.88	7.94	7.80	USD/CNY	6.34	6.30	6.25	6.20	6.00
EUR/HKD	9.73	9.70	9.84	9.96	10.09	USD/HKD	7.82	7.82	7.81	7.78	7.76
EUR/IDR	16953	16833	17086	17408	17745	USD/IDR	13524	13575	13560	13600	13650
EUR/INR	80.19	80.0	81.8	83.6	85.5	USD/INR	64.22	64.50	64.90	65.30	65.80
EUR/KRW	1334.62	1314	1323	1318	1300	USD/KRW	1063.10	1060	1050	1030	1000
EUR/MYR	4.88	4.81	4.85	4.86	4.81	USD/MYR	3.89	3.88	3.85	3.80	3.70
EUR/PHP	65.47	63.7	64.4	66.6	66.8	USD/PHP	52.22	51.4	51.1	52.0	51.4
EUR/SGD	1.63	1.64	1.65	1.64	1.63	USD/SGD	1.31	1.32	1.31	1.28	1.25
EUR/TWD	36.31	36.6	36.9	37.1	37.4	USD/TWD	28.98	29.5	29.3	29.0	28.8
EUR/THB	38.93	38.7	39.1	39.4	39.7	USD/THB	31.30	31.2	31.0	30.8	30.5

Source: Bloomberg, ING

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