12 October 2020

FX Strategy

FX Talking

On a glide path to November?

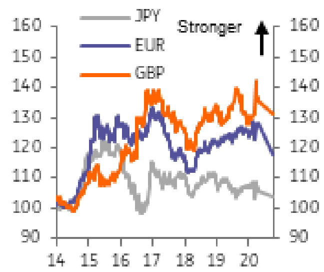
Global asset markets look comfortable. Perhaps too comfortable. The widening of Joe Biden's lead in the opinion polls is giving markets a sense of reassurance that the election will not be contested. We think a Democratic 'Blue Wave' would be good for risk and bad for the dollar in 2021 – but clearly many things have to fall into place, not least Covid-19 second waves remaining contained at local levels.

We favour a continued period of consolidation in FX markets over the next month. That should see EUR/USD trading in a 1.17-1.20 range. Thereafter our preference remains for a rally to 1.25 throughout 2021 as clarity emerges on a potential Biden White House and what it means for a return to a rules-based trading system. The ECB may not like the EUR/USD rally – but may have to accept it as part of the global reflation trade.

Our preference for benign outcomes is also premised on: (i) the UK and the EU securing a free trade deal (probably by the end of November) and (ii) the EU Recovery Fund continuing to progress and being implementable in early 2021. Within the bloc of European currencies, we would favour NOK, SEK and CZK outperformance, while GBP could secure a modest 2% rally on a Brexit deal.

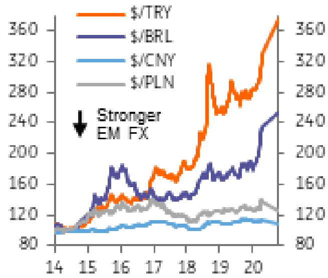
Within the EM space, the apparent liberalisation of the Renminbi is dragging the commodity bloc with it. The MXN could continue to do well over the short term, even though its economy has been one of the worst hit. We suspect that the ZAR's rally is built on weak foundations, while both the TRY and RUB will be sensitive to who occupies the White House in January.

USD/Majors (5 Jan 14=100)



Source: Macrobond, ING

USD/EM (5 Jan 14=100)



Source: Macrobond, ING

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.18	=	105.00	<	1.31	>
3M	1.20	>	102.00	<	1.36	>
6M	1.20	>	102.00	<	1.36	>
12M	1.23	>	102.00	<	1.40	>
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.90	<	26.90	<	4.48	=
3M	0.88	<	26.80	<	4.47	<
6M	0.88	<	26.50	<	4.44	<
12M	0.88	<	26.00	<	4.40	<
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	6.760	<	21.70	>	5.45	<
3M	6.700	<	21.00	<	5.40	<
6M	6.660	<	21.50	=	5.10	<
12M	6.700	<	22.00	>	5.20	<

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

Source: Macrobond, ING

FX performance

	EUR/USD	USD/JPY	EUR/GBP	EUR/NOK	NZD/USD	USD/CAD
%MoM	8.5	-2.1	3.9	-2.9	9.6	-5.2
%YoY	7.2	-1.6	2.1	8.9	4.6	0.1
	USD/UAH	**USD/KZT**	**USD/BRL**	**USD/ARS**	**USD/CNY**	**USD/TRY**
%MoM	3.9	-0.3	8.3	18.2	-3.8	15.6
%YoY	14.5	10.2	37.6	33.1	-4.7	34.4

Source: Macrobond, ING

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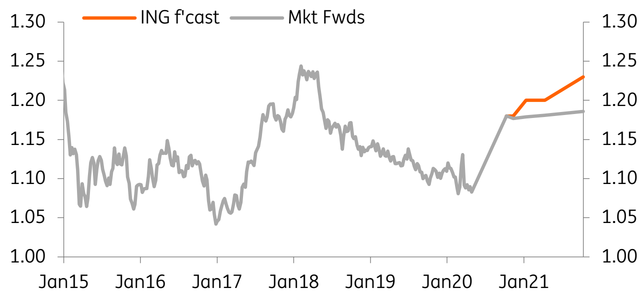
Developed markets

EUR/USD

Three key assumptions

Current spot: 1.18



Source: Macrobond, ING

- Our bullish profile for EUR/USD into 2021 rests on three key assumptions. The first is that the polls and betting odds are correct in predicting a Democratic Blue Wave at the 3 Nov Presidential election. Such an outcome, initially delivering stimulus and promising a return to a rules-based trading system, should be good for risk assets and deliver a benign dollar decline as the Fed allows inflation to build.
- The second is progress on EU Recovery Fund. Despite jostling through October between northern and eastern EU members on Rule of Law conditionality, this should be resolved by year-end – allowing implementation on time in 2021.
- The third is Brexit. Here volatility and brinkmanship into November should fade into a Free Trade Deal by December.

ING forecasts (mkt fwd)	1M 1.18 (1.177)	3M 1.20 (1.179)	6M 1.20 (1.181)	12M 1.23 (1.186)

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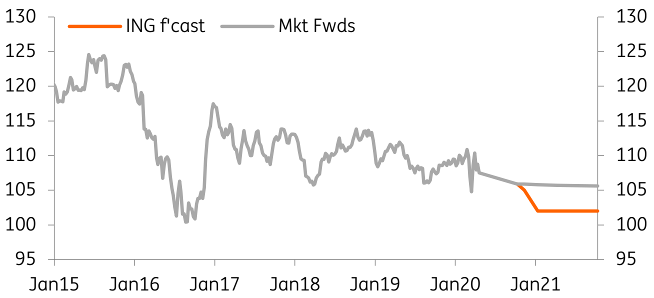
USD/JPY

Betting on Biden

Current spot: 105.9



Source: Macrobond, ING

- A look at the USD/JPY volatility curve – notably a 2% jump in implied volatility over 3 November – tells us that the market does see the election as a big event risk. Yet that volatility has dropped 1% since the first TV debate and as polls have widened in Biden's favour – meaning investors look comfortable with a Biden win.
- In the background, the US economy has been performing well. A full year contraction of just 2.5-3.0% sounds amazing compared to where we were in March. Yet the Fed will pursue more QE instead of a rate change should stimulus talks stall.
- We still like the depressed US real yields story and USD/JPY to 102 scenario – yet we also see merit in a 105 flat-line scenario.

ING forecasts (mkt fwd)	1M 105.00 (105.9)	3M 102.00 (105.8)	6M 102.00 (105.7)	12M 102.00 (105.4)

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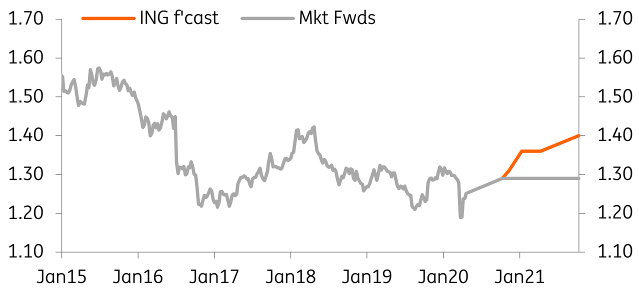
GBP/USD

Positive GBP/USD outlook more about EUR/USD than GBP

Current spot: 1.29



Source: Macrobond, ING

- The renewed economic risks and the meaningful decline of the ruling Conservatives in the polls make an UK-EU trade deal more likely (albeit still far from certain). The government can hardly afford another misstep / economic hit.
- The BoE has tamed expectations about imminent rate cuts into negative territory, but such a move cannot be ruled out in the case of no deal. Even in the case of a light deal, the BoE should top up QE at its November meeting.
- As GBP's upside to a positive negotiation outcome should be limited (see EUR/GBP section), the key driver behind our bullish GBP/USD forecast for 2021 is EUR/USD. Even with a light trade deal, GBP attractiveness is limited (slow growth, current account deficit).

ING forecasts (mkt fwd)	1M 1.31 (1.29)	3M 1.36 (1.29)	6M 1.36 (1.29)	12M 1.40 (1.29)

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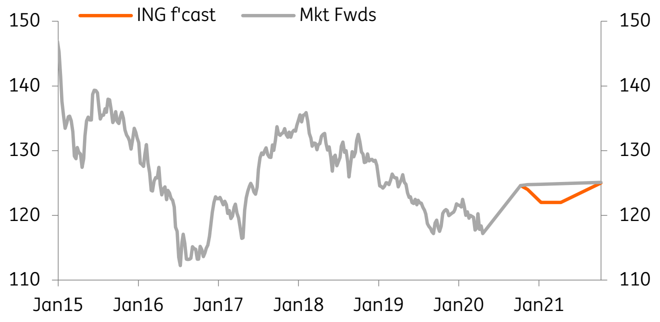
EUR/JPY

Who's more worried by currency strength? ECB or BoJ?

Current spot: 124.6



Source: Macrobond, ING

- Helping to keep a lid on the EUR over the last couple of months has been ECB rhetoric on unwelcome currency strength. This comes at a time when core inflation is just 0.2% YoY and the ECB can credibly threaten to add more stimulus – probably via a EUR400bn top-up to PSPP in December.
- The BoJ won't like JPY strength either (eg, USD/JPY under 105), but the JPY trade weighted index is 5% off its highs and some of the recent FX gains in big trading partners like China and Korea might make Tokyo a little more tolerant of JPY strength.
- However, EUR/JPY looks a play on the global cycle (EUR more correlated to reflation), making us favour a gradual rally through 2021 – once US macro-trade policy looks clearer.

ING forecasts (mkt fwd)	1M 124.00 (124.8)	3M 122.00 (124.8)	6M 122.00 (124.9)	12M 125.00 (125.1)

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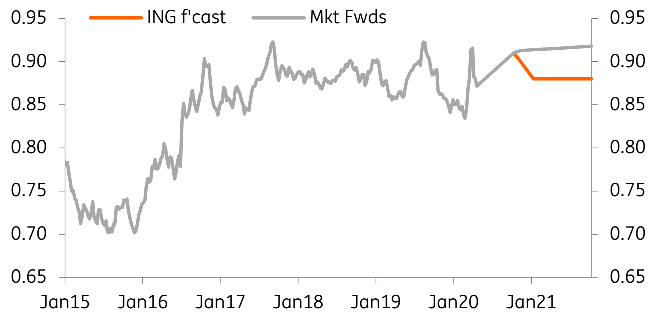
EUR/GBP

Asymmetric GBP reaction to outcome of negotiations

Current spot: 0.91



Source: Macrobond, ING

- Although the UK and the EU remain apart on issues of fisheries and state aid, the latest comments suggest some progress towards a positive outcome. Negotiations should drag beyond 15 October, into early November.
- While odds have shifted slightly towards an UK-EU trade deal, we see the GBP reaction function to the negotiation outcome as asymmetric and heavily skewed to GBP losses (in terms of no deal) vs. limited gains (in case of a deal). This is because of complacency and no risk premium currently priced into GBP.
- We expect EUR/GBP to dip to 0.88 in the case of a deal (our base case, albeit only modestly above 50% probability), while no deal would likely to send EUR/GBP to parity, at least temporarily.

ING forecasts (mkt fwd)	1M 0.90 (0.91)	3M 0.88 (0.91)	6M 0.88 (0.92)	12M 0.88 (0.92)

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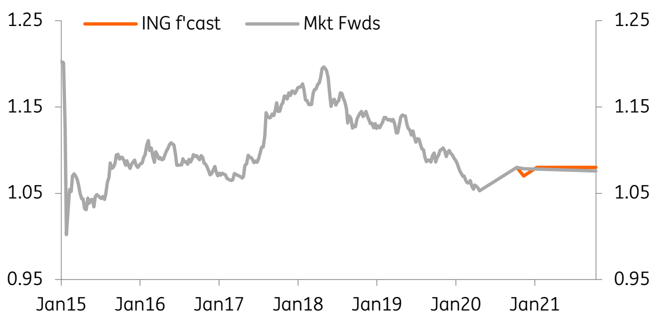
EUR/CHF

SNB intervened to the tune of CHF90bn in 1H20

Current spot: 1.08



Source: Macrobond, ING

- The Swiss National Bank surprised the markets in late September by releasing their half year figures on FX intervention (typically such news had been confined to the annual report). The SNB said it had bought CHF90bn in 1H20, which is 13% of GDP. If the US Treasury does want to name Switzerland a currency manipulator – this intervention data now means that all the boxes are ticked.
- Despite EUR/CHF flat-lining, the CHF nominal trade weighted index continues to grind to a new high – meaning the SNB cannot relax its FX intervention and negative rate policy.
- Any uncertainty on the EU Recovery Fund or US elections over the next month suggests EUR/CHF presses 1.0715/25.

ING forecasts (mkt fwd)	1M 1.07 (1.08)	3M 1.08 (1.08)	6M 1.08 (1.08)	12M 1.08 (1.08)

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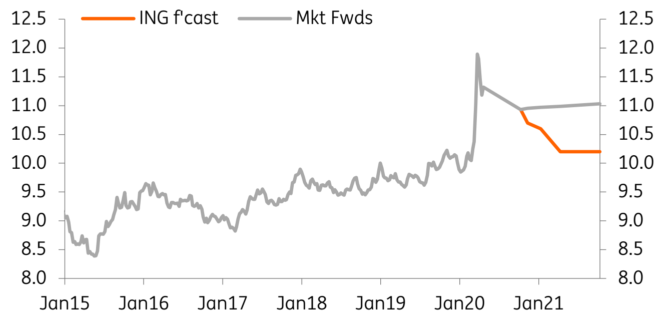
EUR/NOK

Largely in the hands of global risk appetite

Current spot: 10.93



Source: Macrobond, ING

- The high beta NOK (highest correlation to risk in the G10) remains largely driven by global risk appetite. The rising odds of a Biden victory and a Blue Wave points to support for NOK.
- Due to global growth concerns in September and the rise in Covid cases, Norges Bank put a break on its relatively hawkish guidance, indicating rates will stay unchanged for years to come. While hopes of earlier NB tightening (vs its peers) are no longer a supportive factor for NOK, EUR/NOK should nonetheless head lower in a soft USD environment.
- We are constructive on oil with a further fall in oil prices being met with production cuts. This should help NOK but given the seasonally soft fourth quarter, EUR/NOK should not sustainably break below 10.60.

ING forecasts (mkt fwd)	1M 10.70 (10.95)	3M 10.60 (10.97)	6M 10.20 (10.99)	12M 10.20 (11.03)

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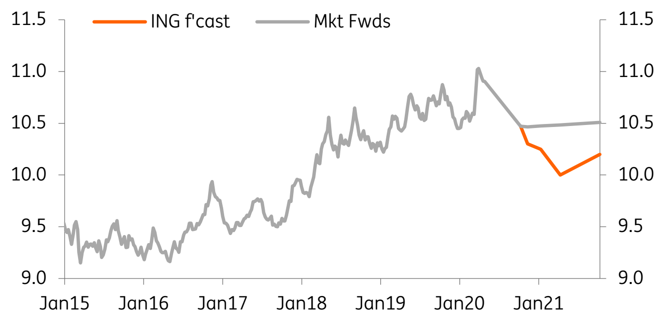
EUR/SEK

The neutral Riksbank to allow SEK to benefit in 2021

Current spot: 10.47



Source: Maxcrobond, ING

- The de-rating of European growth in September was disproportionately more negative for SEK vs its cyclical peers such as CAD, AUD and NZD. But with a soft outlook for USD post-election intact, SEK should recover into the year-end /early next year.
- The Riksbank retains a neutral stance and the bar for moving rates back into negative territory remains high (rates stayed unchanged during the peak of the Covid crisis in the spring). Compared to prior years, the Riksbank's stance should not be negative for SEK.
- The latter means that SEK, a currency of small open economy, should enjoy the 2021 global economic and trade recovery and EUR/SEK should move to the 10.00 level next year.

ING forecasts (mkt fwd)	1M 10.300 (10.47)	3M 10.250 (10.47)	6M 10.000 (10.48)	12M 10.200 (10.51)

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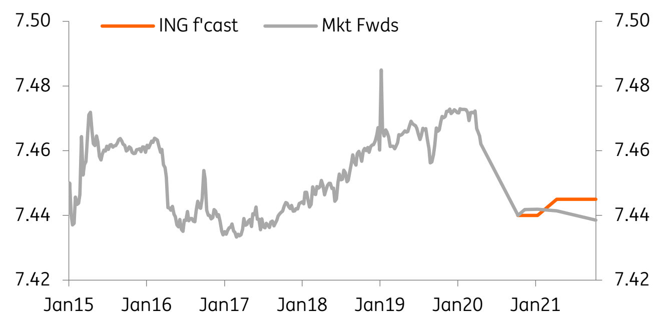
EUR/DKK

The case for cuts is rising as DKK remains strong

Current spot: 7.440



Source: Macrobond, ING

- EUR/DKK continues to bounce off the 7.4400 level. While the excess liquidity in the Danish system may increase into the year-end, the likely top up of the ECB asset purchases programme in December suggests a limited upside to EUR/DKK and a little respite for Danmarks Nationalbank.
- We continue to see FX interventions as the primary DN tool to lean against the DKK strength (the bank kept its powder dry during September). While FX purchases should be the first line of defence, the case for a rate cut is rising as DKK is strengthening.
- The Danish economy weathered the Covid crisis better than Sweden or Finland. As is the case in most parts of the developed world, the housing market remains supported and house prices are rising.

ING forecasts (mkt fwd)	1M 7.440 (7.44)	3M 7.440 (7.44)	6M 7.445 (7.44)	12M 7.445 (7.44)

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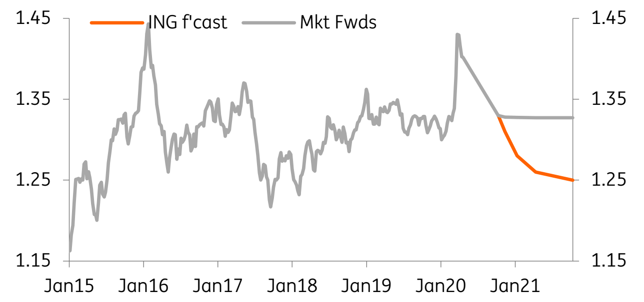
USD/CAD

Regaining downside momentum

Current spot: 1.33



Source: Macrobond, ING

- CAD has proven more resilient than most of the other activity currencies over the past few weeks amid risk setbacks.
- We think this is due to the still relatively solid CAD fundamentals: well-paced recovery (as signalled by employment gains), a not too-dovish BoC and resilient oil prices. Overstretched CAD shorts also signal limited downside risk. We think CAD is the best choice in the G10 $-bloc at the moment.
- We expect these factors to continue helping CAD heading into year-end, but the risk of a contested election may take a toll on risk-sensitive currencies and we may have to wait until next year to see USD/CAD trade sustainably below 1.30.

ING forecasts (mkt fwd)	1M 1.31 (1.33)	3M 1.28 (1.33)	6M 1.26 (1.33)	12M 1.25 (1.33)

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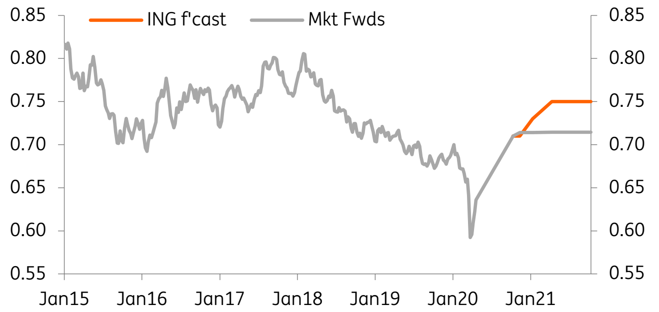
AUD/USD

RBA – no bias to near-term policy

Current spot: 0.710



Source: Macrobond, ING

- Having laid out a number of options for additional monetary stimulus in September, the Reserve Bank of Australia left its policy stance unchanged in October.
- Leaving options for further easing open in the latest statement, we prefer to view Governor Lowe's remarks as neutral, not indicating an imminent bias towards those choices unless the labour market takes an unexpected turn for the worse.
- But the market is talking itself into an expectation of further easing, and in the short term, those thoughts, even if misguided, could see the AUD capped despite USD weakness.

ING forecasts (mkt fwd)	1M 0.710 (0.714)	3M 0.730 (0.714)	6M 0.750 (0.714)	12M 0.750 (0.714)

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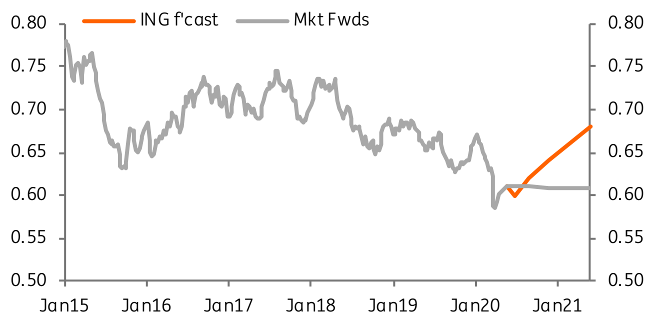
NZD/USD

RBNZ keeps all options open

Current spot: 0.660



Source: Macrobond, ING

- Where the RBA strikes us as neutrally poised, the Reserve Bank of New Zealand looks more eager to deliver further stimulus, is keeping more doors open than the RBA and also seems more intent on moving towards some of them.
- In all likelihood, the RBNZ will expand its asset purchase programme, and may even widen its yield curve targeting along the curve to longer maturity assets.
- Negative rates will likely remain a menu item, but one they are unlikely to adopt with the economy now in recovery mode, and as core agricultural commodity prices begin to recover.

ING forecasts (mkt fwd)	1M 0.670 (0.659)	3M 0.680 (0.659)	6M 0.700 (0.659)	12M 0.690 (0.660)

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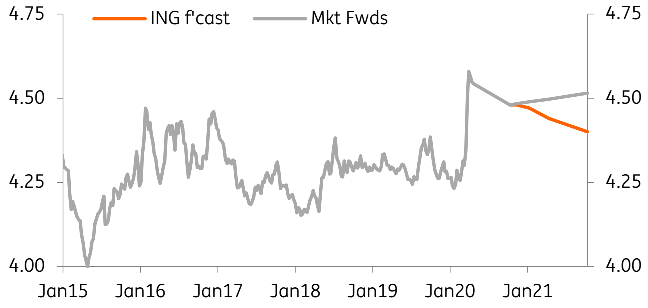
Emerging markets

EUR/PLN

Positive surprise with 2020 C/A to offset loose monetary

Current spot: 4.48



Source: Macrobond, ING

- The PLN recovery in late September/early October shows that investors see €/PLN levels significantly above 4.50 as fundamentally unjustified, despite loose NBP policy. This coincides with our relative value model results (based on market variables). We expect €/PLN to trade sideways in the year-end, above 4.40-45.
- The rate should stay elevated in 1H21 as well. We expect the NBP not only to keep its soft policy, but even ease it further by extending its open-ended QE programme into next year. The central bank would welcome some additional PLN weakness to foster growth and remains focused on supporting the government's fiscal impulse. As such we see little reason for €/PLN moving below 4.40-45 in the coming months.

ING forecasts (mkt fwd)	1M 4.48 (4.48)	3M 4.47 (4.49)	6M 4.44 (4.50)	12M 4.40 (4.51)

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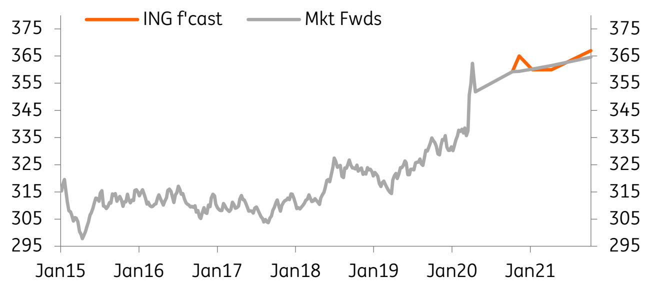
EUR/HUF

A quiet NBH hike

Current spot: 359.3



Source: Macrobond, ING

- The NBH executed a quiet hike in the 1-week depo rate to support the forint, ending HUF underperformance. The hike was a clear statement that the central bank is not willing to tolerate forint underperformance. We see further hikes as likely should EUR/HUF move again above the 365 level.
- When global sentiment improved at the start of 4Q, pressure eased on the forint too. With a stronger pass-through from FX to CPI, the recent HUF appreciation has given the NBH some breathing room as inflation moves closer to the target in 4Q.
- We expect PLN/HUF to move lower to 79.00 as we believe the worst for HUF is behind us while the NBP is the most dovish CEE central bank.

ING forecasts (mkt fwd)	1M 365.0 (359.0)	3M 360.0 (360.2)	6M 360.0 (361.5)	12M 367.0 (364.6)

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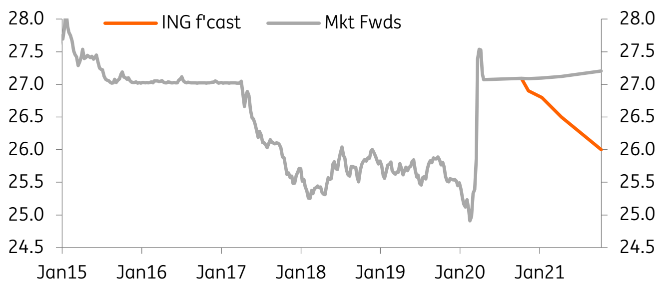
EUR/CZK

Recovery ahead after big under-performance

Current spot: 27.09



Source: Macrobond, ING

- Long koruna positioning has continued to take a toll on the CZK, particularly when CEE FX underperformed due to the de-rating of European growth. This is now priced in and with USD expected to weaken after US elections, the worst for the CZK should be behind us.
- Domestically, the Covid cases have risen sharply but a full national lockdown measure is still unlikely. With CPI well above target and only muted recession risk, CNB should remain on hold. We see a very high bar for CNB to shift to -ve rates or QE.
- The year-end should be less detrimental for CZK as implied yields should not collapse sharply. CZK is meaningfully undervalued based on our short-term model.

ING forecasts (mkt fwd)	1M 26.90 (27.09)	3M 26.80 (27.09)	6M 26.50 (27.12)	12M 26.00 (27.21)

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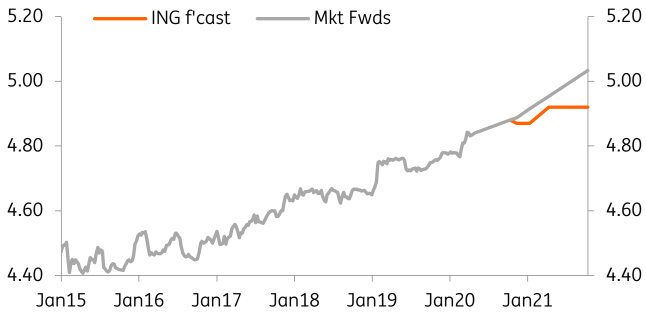
EUR/RON

Renewed pressures

Current spot: 4.88



Source: Macrobond, ING

- Pressures are mounting but we think the NBR will be there to prevent RON weakness under any outcome, at least until the electoral cycle ends with Parliamentary elections in Dec-20.
- In September, the NBR's reserves fell by EUR3.2bn to EUR32.6bn. Most of the fall was due to a EUR2.1bn Eurobond repayment, but that still leaves around EUR1.1bn to be explained. We believe that a large chunk of this amount was spent on FX interventions to defend the RON.
- We maintain our 4.87 year-end forecast with a view that after the December elections a readjustment towards the 4.90-4.92 area will take place.

ING forecasts (mkt fwd)	**1M** 4.87 (4.89)	**3M** 4.87 (4.92)	**6M** 4.92 (4.95)	**12M** 4.92 (5.03)

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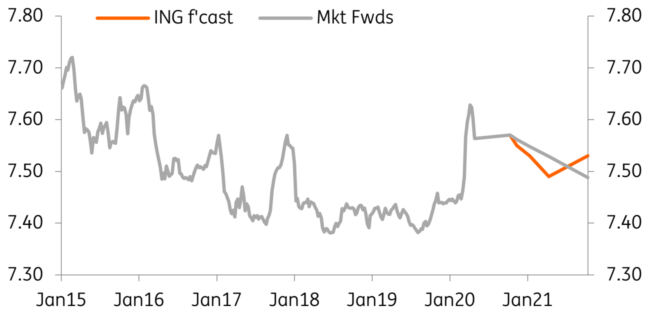
EUR/HRK

Seasonal depreciation

Current spot: 7.57



Source: Macrobond, ING

- Given the above expectations numbers for the tourism sector with arrivals at 60-70% of the precious year, the economy performed above expectations in 2Q20. We have therefore marginally revised our 2020 GDP forecast from -9.3% to -8.5%.
- The second wave of coronavirus is making its way into Croatia as well but so far, no significant lockdown measures were applied. While additional measures are expected, they are more likely to target specific areas and categories rather than be nationwide.
- We have already revised marginally lower our year-end forecast from 7.55 to 7.53 on the back of the improved market sentiment and comfortable CNB FX reserves position.

ING forecasts (mkt fwd)	**1M** 7.55 (7.56)	**3M** 7.53 (7.55)	**6M** 7.49 (7.53)	**12M** 7.53 (7.49)

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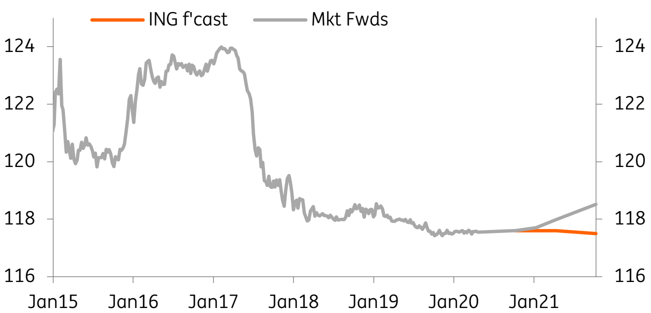
EUR/RSD

Not even a blink of weakness

Current spot:117.6



Source: Macrobond, ING

- The NBS has seemingly entered into "auto-pilot" mode as it looks comfortable with its 1.25% key rate and the current FX level. While predominantly one-sided, its interventions to preserve dinar stability have been limited in size.
- The economy looks on track to be the best performing in Europe this year, with material chances of seeing positive economic growth. FDI inflows have diminished but remain sufficient to cover the C/A gap.
- We expected the NBS to allow a minor depreciation this year towards 117.8 but chances for that seem more remote now. Stability around 117.6 looks most probable.

ING forecasts (mkt fwd)	**1M** 117.60 (117.6)	**3M** 117.60 (117.7)	**6M** 117.60 (118.0)	**12M** 117.50 (118.5)

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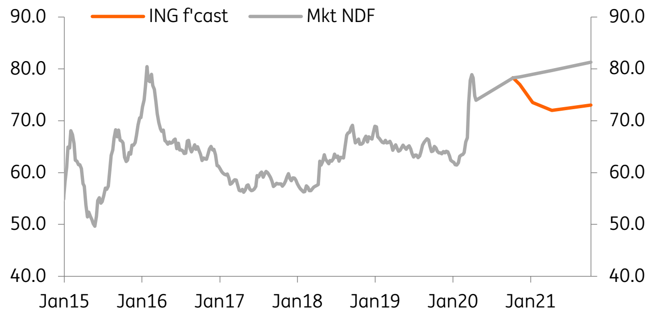
USD/RUB

RUB derailed by externalities, but recovery possible

Current spot: 78.30



Source: Macrobond, ING

- Ruble performance remained negative in September and early October, but unlike in July-August, it was not a reflection of higher Russia-specific risk perception (without this new round of sanction fears RUB would have been USDRUB 4-6 stronger), but rather a response to global EM risk-off and USD's global rebound.
- SBER's dividends, up to US$2.5bn of which could be attributable to non-residents and the electoral cycle in the US make any material rebound in RUB unlikely in the near term.
- In the medium-term we continue to believe in the return to the more appropriate USDRUB 70-75 range on expected global USD weakening and higher-than-expected CBR FX sales (US$2.4bn in October), provided foreign policy brings no new surprises.

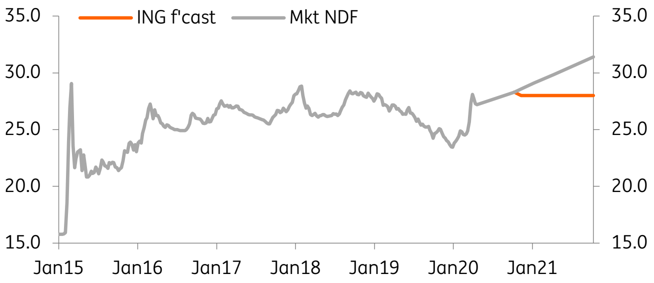
ING forecasts (mkt fwd)	1M 77.00 (78.47)	3M 73.50 (78.97)	6M 72.00 (79.70)	12M 73.00 (81.29)

Dmitry Dolgin, Russia +7 495 771 7994

USD/UAH

Mild depreciation

Current spot: 28.30



Source: Macrobond, ING

- The NBU was a net FX seller in September of around 200m dollars, as it let the FX rate slide marginally higher towards the 28.3 area.
- Stability is likely to prevail around current levels, with 28.0 apparently turning into a support while on the upside, the "hard-cap" is probably at 30.0.
- Arguably, a policy of a relatively stable exchange rate is the optimal solution to reconcile many diverging influences and interests, ranging from the inflation pass-through to budgetary assumptions and debt metric levels.

ING forecasts (mkt fwd)	1M 28.00 (28.59)	3M 28.00 (29.11)	6M 28.00 (29.85)	12M 28.00 (31.40)

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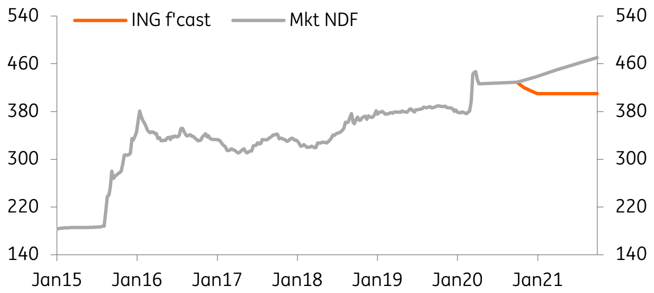
USD/KZT

Cautiously optimistic for the year-end

Current spot: 429.1



Source: Macrobond, ING

- USDKZT stayed under pressure in end-September following USD's global rebound, EM risk-off and maintenance works on oilfields. Volatility remains high given the new wave of Covid-19 lockdown fears, uncertainties regarding global stimulus and unclear prospects of oil prices.
- For October, we are more optimistic on KZT, than on RUB, given the former's lower exposure to foreign policy risks, and expect tenge to appreciate amid a return to an 18% oil production cut (from the current 21%) and FX selling by exporters for quarterly tax payments. Yet improved global risk sentiment is a prerequisite.
- In the long-term, assuming a further increase in USD oil prices, we expect KZT to be limited at 410-415, which would return KZT oil price toward the 23,000-25,000 KZT/bbl seen in 2018-19 from the current 18,000 KZT/bbl, providing the government with some fiscal room.

ING forecasts (mkt fwd)	1M 420.00 (432.5)	3M 410.00 (438.9)	6M 410.00 (449.9)	12M 410.00 (470.4)

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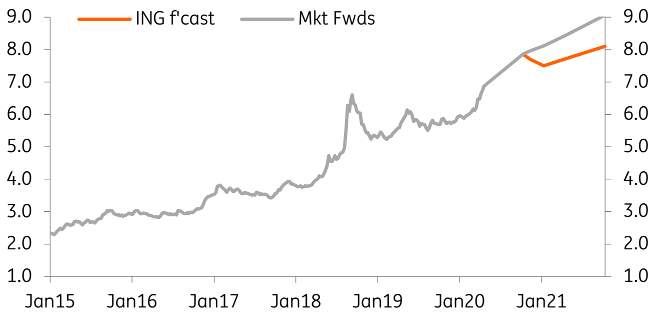
USD/TRY

Policy normalisation continues **Current spot: 7.86**



Source: Macrobond, ING

- Exchange rate developments, tax adjustments and elevated services inflation being highly sticky at current levels point to continuing challenges for the inflation outlook.
- Following the outright hike at the September MPC meeting, the Central Bank of Turkey maintained tightening via changes in the liquidity composition. The level that the CBT will settle the effective cost of funding will determine the extent of tightening continuing since early August.
- We see increasing normalisation efforts to stabilise the currency given not only is the CBT tightening but also the BRSA is moving to curb lending, easing macro-prudential regulations related to offshore swap transactions and tax cuts on FX transactions, etc. The continuation of normalisation will remain key for the TRY outlook.

ING forecasts (mkt fwd)	**1M** 7.70 (7.96)	**3M** 7.50 (8.12)	**6M** 7.70 (8.41)	**12M** 8.10 (9.06)

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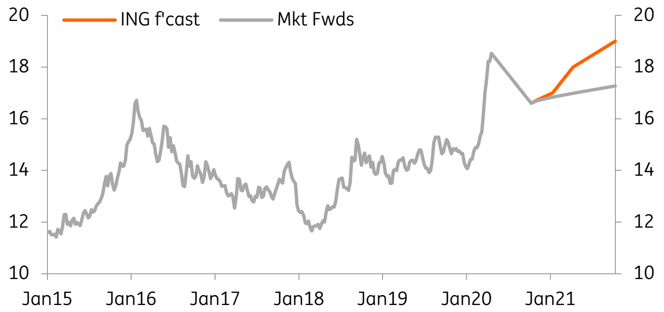
USD/ZAR

Riding the China recovery **Current spot: 16.60**



Source: Macrobond, ING

- The ZAR continues to perform surprisingly well. This looks largely down to the Chinese recovery, where South Africa, as a metals exporter, stands to benefit. Over the last twelve months and apart from the SGD (which is formally managed against the Renminbi) the ZAR has the highest EMFX correlation with the CNY.
- Last month, the SARB chose not to cut the policy rate one more time to 3.25%. With the policy rate left at 3.50%, the real policy rate is still just in positive territory and with inflation set to pick up presumably the SARB did not want to deal with negative real rates.
- Watch out for the medium-term budget later this month. Debt sustainability is a ZAR negative and could come back to haunt.

ING forecasts (mkt fwd)	**1M** 16.75 (16.71)	**3M** 17.00 (16.83)	**6M** 18.00 (16.98)	**12M** 19.00 (17.27)

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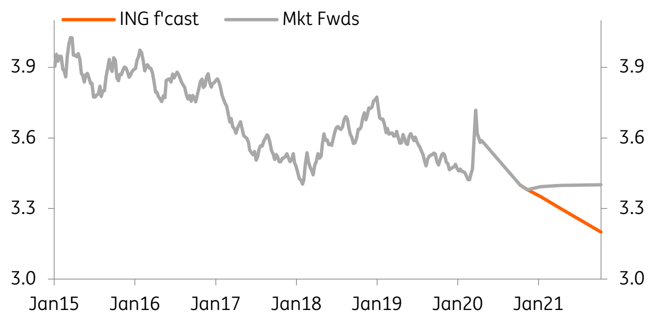
USD/ILS

National lock can't keep ILS down **Current spot: 3.40**



Source: Macrobond, ING

- The correction in global markets in September, plus Israel returning to national lockdown, has taken its toll on the ILS. The rally to 3.49 in USD/ILS allowed the BoI to scale back on its FX intervention last month – buying a mere US$280m vs US$2.5bn in August. Expect BoI's battle with the market to resume at 3.35/3.40.
- We still think the ILS looks a good play on the global dollar story. If the dollar trend develops as we think, we expect the BoI will again have to allow a drop to back to the 3.35 low seen in late August and ultimately to the 3.20 area in late 2021.
- Typically, Israeli politics has little impact on the ILS and we doubt PM Netanyahu's struggle with a second lockdown will hurt ILS much.

ING forecasts (mkt fwd)	**1M** 3.38 (3.38)	**3M** 3.35 (3.39)	**6M** 3.30 (3.40)	**12M** 3.20 (3.40)

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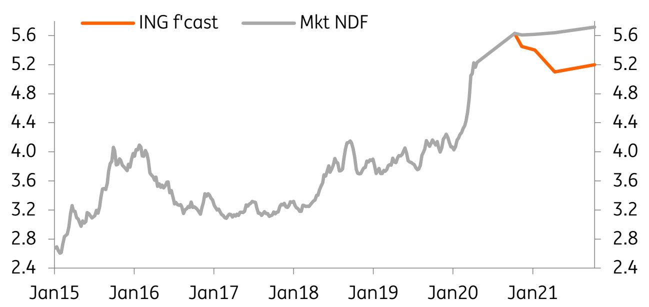
LATAM

USD/BRL

Fiscal uncertainties escalate, intensifying FX volatility



Source: Macrobond, ING

Current spot: 5.63

- The sharp deterioration in fiscal accounts expected for 2020 is weighing heavily on local financial assets. Moreover, uncertainties about Congressional commitment to fiscal responsibility after 2020 are unlikely to abate anytime soon.
- This suggests that short-term dynamics for the BRL should continue to stand out for its outsized volatility, which has been exacerbated by the central bank's aggressive rate-cutting.
- Additional rate cuts (from 2.0%) appear unlikely, but low inflation suggests that a BRL-supportive rate policy is unlikely anytime soon. But we expect a more favourable BRL trend to gradually emerge amid continued evidence of a faster economic recovery.

ING forecasts (NDF)	1M 5.45 (5.61)	3M 5.40 (5.62)	6M 5.10 (5.64)	12M 5.20 (5.72)

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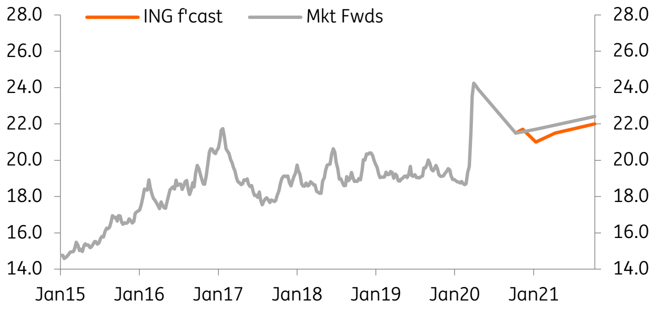
USD/MXN

Yield-advantage helps offset policy mistakes



Source: Macrobond, ING

Current spot: 21.50

- The current economic policy strategy, marked by a relatively hawkish fiscal and monetary policy stance, has proven successful at boosting appetite for some local assets.
- The unusually modest policy stimulus is not without risks, as it should deepen the recession and likely harm Mexico's long-term trajectory. But, in the shorter term, it should continue to be seen by investors as a safer path, when compared to regional peers.
- The recent rise in volatility could reduce the appeal of the carry trade but Mexico's local fixed-income assets should remain attractive and seen as the asset-of-choice to boost LATAM/EM exposure in the context of a weakening USD and low global rates.

ING forecasts (mkt fwd)	1M 21.70 (21.55)	3M 21.00 (21.70)	6M 21.50 (21.93)	12M 22.00 (22.41)

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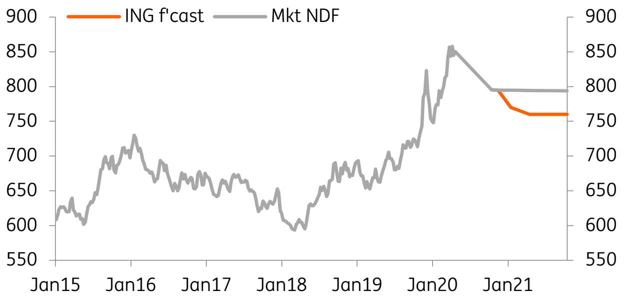
USD/CLP

Copper upside limited by the severe domestic crisis



Source: Macrobond, ING

Current spot:795

- The CLP has been among the best-performing currencies YTD in LATAM and, if past correlations hold, the currency could strengthen further on the back of copper price strength.
- But, as the recent sell-off indicates, unsupportive domestic drivers call for caution. The severe Covid-19 crisis and latent political and social risks, with the late-October constitutional re-write vote, suggest that the likelihood of a more lasting negative reassessment of the macro prospects is likely.
- Chile's assertive policy stimulus bodes well for a faster recovery, despite recent weakness, but the CB's appetite for material stimulus through QE could also add downside for the currency.

ING forecasts (NDF)	1M 790 (795)	3M 770 (795)	6M 760 (794)	12M 760 (794)

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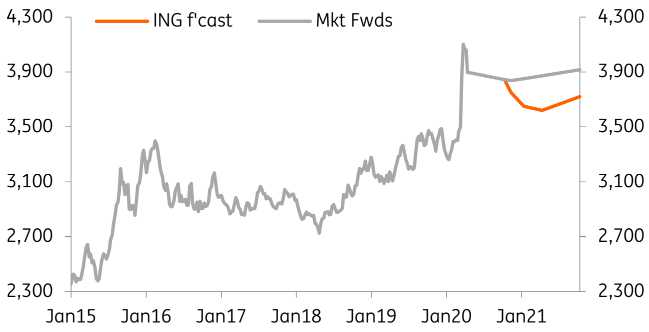
USD/COP

Risk of credit rating downgrades calls for caution **Current spot: 3843**



Source: Macrobond, ING

- The COP performed relatively well in recent weeks, but we remain worried about the lasting post-pandemic fiscal damage, and Colombia's precarious "investment grade" status amid continued elevated risk of rating downgrades. Overall, risk of FX outflows should persist until long-term fiscal dynamics are re-anchored.
- The increase and partial withdrawal of the IMF's FCL was well-received and helped reduce fiscal funding risks but the uncertain macro outlook should limit the scope for COP outperformance.
- The possibility of additional rate cuts, from 1.75% now, is also unsupportive for the COP, but current monetary policy guidance is closer to neutral, suggesting a higher bar for additional cuts.

ING forecasts (NDF)	1M 3750 (3837)	3M 3650 (3852)	6M 3620 (3872)	12M 3720 (3916)

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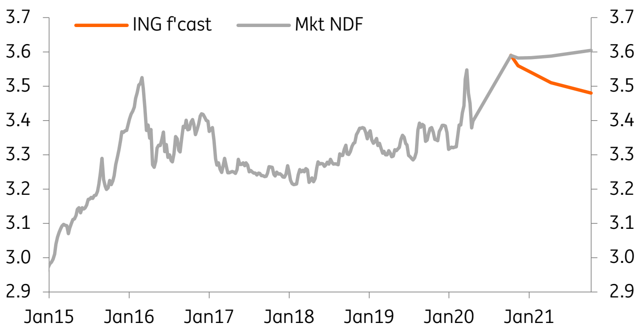
USD/PEN

Aggressive stimulus is unable to prevent a deep recession **Current spot:3.59**



Source: Macrobond, ING

- Like Chile, Peru is suffering one of the most severe consequences of the Covid-19 outbreak in LATAM. This, together with controversial initiatives advancing in Congress and lingering political instability, add important macroeconomic headwinds for local assets.
- Peru's superior ability to deploy economic policy stimulus, including large fiscal outlays and the lowest policy rate in LATAM, should help alleviate the impact of the crisis, but having had the worst contraction in the region so far, it's hard to be optimistic.
- Large FX reserves suggest, however, that Peru should be able to continue to heavily manage its FX dynamics, and shield the PEN from the wider fluctuations that typically affect its EM peers.

ING forecasts (NDF)	1M 3.56 (3.58)	3M 3.54 (3.58)	6M 3.51 (3.59)	12M 3.48 (3.60)

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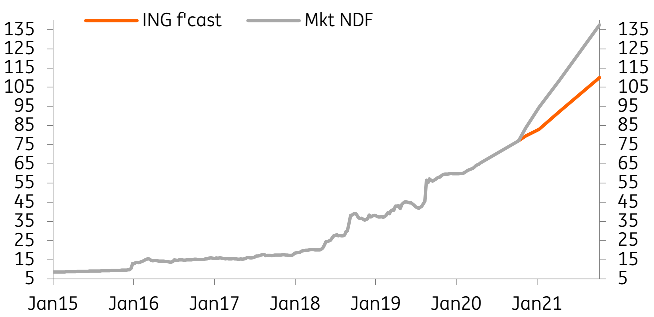
USD/ARS

Pessimism returns amid uncertain policy directives **Current spot:77.1.**



Source: Macrobond, ING

- The successful conclusion of the negotiations with external bondholders did not buy the Argentinean government as much time and investor goodwill as the administration had hoped.
- In fact, given continued intense FX pressures and dwindling FX reserves, the government has announced stricter FX control measures, without effectively altering the currency's medium-term outlook.
- A credible fiscal adjustment plan, with the IMF's imprimatur, is still crucial for demand for the ARS to stabilise. The government's unwillingness or inability to pursue that path suggests that FX pressures will remain unabated in the foreseeable future.

ING forecasts (NDF)	1M 79.50 (83.67)	3M 83.00 (94.50)	6M 92.00 (108.30)	12M 110.00 (137.50)

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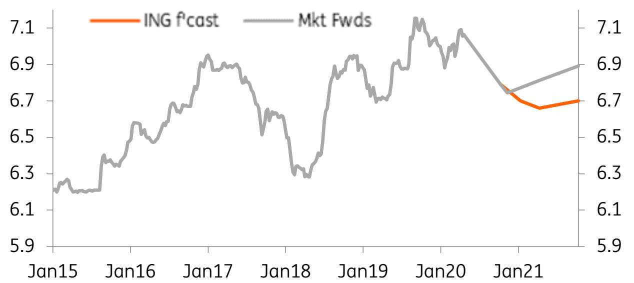
Asia

USD/CNY

In tandem

Current spot: 6.79



Source: Macrobond, ING

- USD/CNY has been seen to be moving very closely with the broad dollar trend. This could be a reflection of the PBoC governor mentioning exchange rate and interest rate liberalisation.
- Between now and the time of the US presidential election result, the market could be volatile – even though the current trend is a benign decline.
- The internal circulation of the Chinese economy will continue to support Chinese growth, which we now see at 1.2% in 2020 and 3.9% in 2021. But this is not the key factor moving the USD/CNY.

ING forecasts (FWDs)	**1M** 6.76 (6.74)	**3M** 6.70 (6.77)	**6M** 6.66 (6.81)	**12M** 6.70 (6.89)

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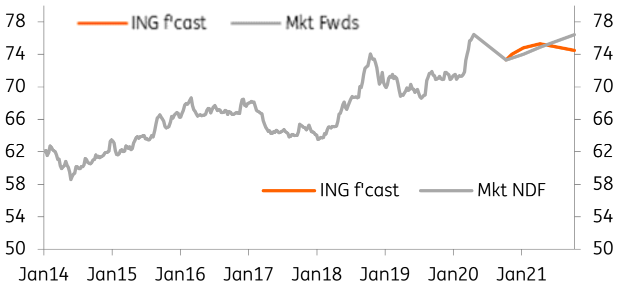
USD/INR

INR depreciation pressure returns

Current spot:73.30



Source: Macrobond, ING

- After three months of consolidation the INR depreciation pressure returned in September. Surprisingly, its 0.2% fall on the month wasn't as bad as some Asian peers – the IDR, THB, or even SGD.
- A strong bounce in composite PMI in September to 54.6 from 46.0 in August reflects some pick-up in economic activity. But the underlying trend is far from better as evident from persistent double-digit export and manufacturing declines.
- We have cut our GDP growth view for the current fiscal year to -16.4% from -10.3%. The macro policy support has almost ended. Meanwhile, high inflation and resurgent government borrowing are pressuring bond yields higher – not positive for the recovery.

ING forecasts (FWDs)	**1M** 74.00 (73.525)	**3M** 74.80 (74.028)	**6M** 75.30 (74.871)	**12M** 74.50 (76.431)

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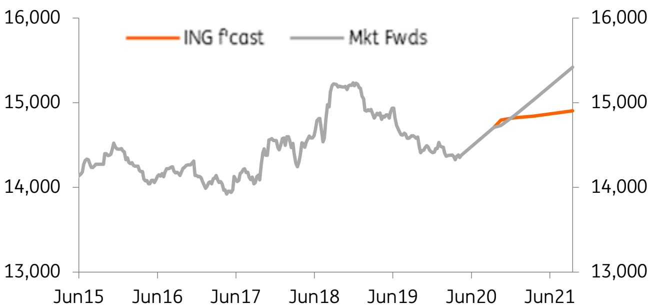
USD/IDR

IDR on the backfoot as lockdowns return

Current spot: 14710



Source: Macrobond, ING

- The IDR depreciated for most of September on growth concerns with Jakarta and West Java placed under mobility restrictions to slow the spread of Covid-19 after new daily infections spiked.
- Bank Indonesia (BI) opted to pause at the 17 September meeting despite inflation dipping below the central bank's target range to help provide currency stability.
- The IDR was able to steady in recent weeks given optimism after President Jokowi passed the omnibus labour bill which will is designed to simplify labour market laws and foreign investments.

ING forecasts (NDFs)	**1M** 14798 (14733)	**3M** 14823 (14845)	**6M** 14841 (15030)	**12M** 14905 (15420)

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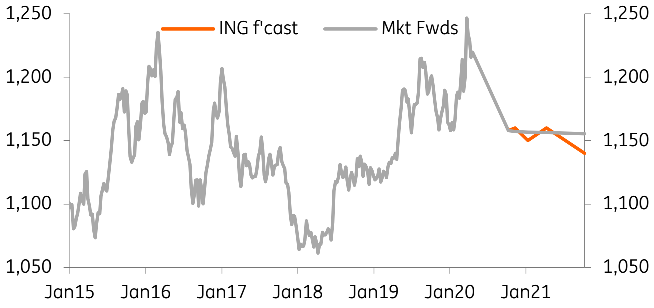
USD/KRW

Back on the winners' podium

Current spot:1158



Source: Macrobond, ING

- The KRW has been the best performing currency since this time last month, reflecting its regional high beta characteristics as the USD reversed course to resume weakening.
- Locally, data has been supportive, including stronger-than-expected inflation figures and also some decent looking export numbers.
- But local data are probably distorted by seasonal anomalies connected to a public holiday falling in a different month to 2019 and high prices are partly a temporary weather effect on fresh food and will not persist. BoK is currently in neutral mode – and is likely to stay there for some time. Government is spending again.

ING forecasts (NDFs)	**1M** 1160 (1157)	**3M** 1150 (1157)	**6M** 1160 (1157)	**12M** 1140 (1155)

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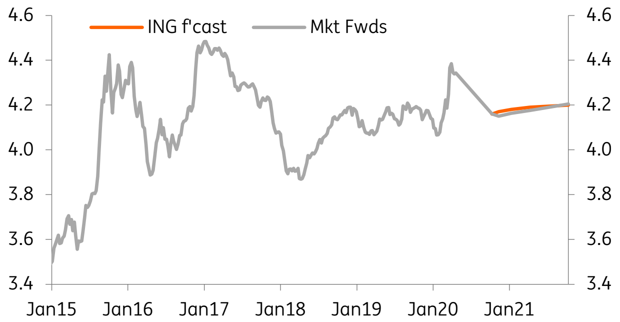
USD/MYR

Political upheavals

Current spot:4.16



Source: Macrobond, ING

- A spike in political risk in the run-up to the state elections in Sabha depressed sentiment towards the MYR in September. Another overhang was the FTSE Russell's decision on retaining Malaysian government securities in its bond index.
- In the end, there was relief on both counts and MYR eked out a 0.2% gain on the month. A coalition backed by PM Muhyiddin Yassin won the Sabha elections, further strengthening an otherwise shaky coalition at the national level. And, the FTSE Russell left MGS as part of its index.
- The BNM's on-hold policy in September meeting marks an end of the easing cycle. The focus now is on the 2021 Budget next month.

ING forecasts (FWDs)	**1M** 4.170 (4.15)	**3M** 4.180 (4.16)	**6M** 4.190 (4.18)	**12M** 4.200 (4.21)

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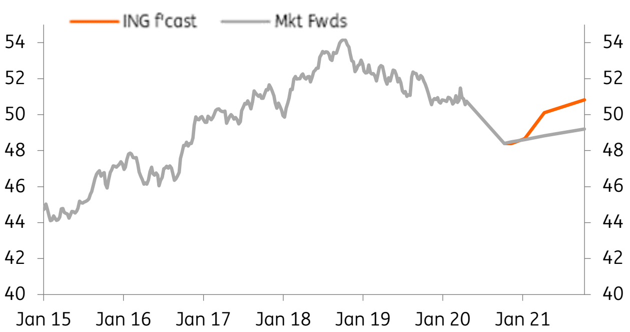
USD/PHP

PHP appreciates as import demand remains weak

Current spot:48.40



Source: Macrobond, ING

- The PHP sustained the appreciation trend in September as corporate demand failed to rebound as the capital and surrounding provinces remain under partial lockdown measures.
- Bangko Sentral ng Pilipinas (BSP) Governor Diokno points to investor confidence for the continued resilience in the currency, helping boost the peso as he pointed to a monetary pause for the rest of the year.
- The PHP may have its appreciation muted as BSP shores up its gross international reserves to close out the year with some recovery in import demand surfacing in 4Q.

ING forecasts (NDFs)	**1M** 48.39 (48.49)	**3M** 48.66 (48.61)	**6M** 50.11 (48.82)	**12M** 50.82 (49.20)

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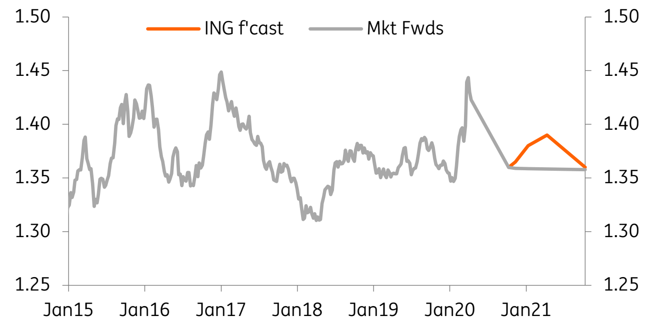
USD/SGD

Export-led recovery is gaining traction

Current spot:1.36



Source: Macrobond, ING

- Ending its steady appreciation trend since the opening of the economy in June, SGD had a bit of volatile patch in September. We think it was more reflective of swings in the USD/majors rather than local factors, leaving SGD 0.4% weaker on the month.
- Firmer exports and manufacturing are leading Singapore's way out of recession. But a lot depends on the services sector, which is where more jobs are concentrated. The 3.4% jobless rate in August was the highest since the global financial crisis in 2009.
- That said, we see GDP contraction moderating to -8.4% YoY in 3Q from -13.2% in 2Q and the MAS leaving monetary policy on hold. Both announcements are scheduled on 14 October.

ING forecasts (NDFs)	**1M** 1.365 (1.36)	**3M** 1.380 (1.36)	**6M** 1.390 (1.36)	**12M** 1.360 (1.36)

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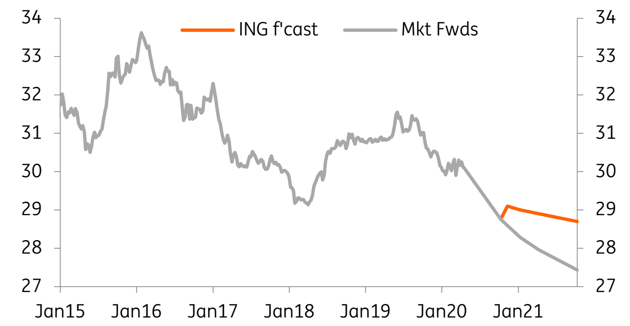
USD/TWD

Keeping its strength

Current spot: 28.76



Source: Macrobond, ING

- Taiwan's economic indicators show a recovering economy.
- But the US' restriction on Chinese technology companies have hurt Taiwan technology producers, which could begin to reflect in production and delivery data in the coming month.
- The geopolitical relationship with the Mainland China government is a risk that the market has ignored for now but the market might pick this topic up when the risk increases.
- If there is a change in US president, it is unsure how this will change Taiwan's international and domestic politics and economy. Yet any change is expected to be gradual.

ING forecasts (NDFs)	**1M** 29.10 (28.59)	**3M** 29.00 (28.29)	**6M** 28.90 (27.96)	**12M** 28.70 (27.44)

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USD/THB

Economy on a slow recovery path

Current spot: 31.24

Source: Macrobond, ING

- The THB appears to be settled in a 31.0-31.5 trading range against the USD since August. A weakening bias dominates though, judging from occasional spurts above this range. It's in line with a weak economy and political noise.
- Latest data suggest the economic recovery is coming along slowly. However, tourism is still non-existent and until that returns, positive GDP growth will be nowhere in sight. We expect 8.4% YoY GDP fall in 3Q (-12.2% in 2Q).
- Even so, the external payments position is supportive of the THB. The BoT policymakers continue to worry about a strong currency hurting the recovery. But there is nothing they could do about it.

ING forecasts (FWDs)	**1M** 31.80 (31.29)	**3M** 32.30 (31.34)	**6M** 33.00 (31.36)	**12M** 32.80 (31.41)

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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	1.182	1.18	1.20	1.20	1.23						
EUR/JPY	125.04	123.90	122.40	122.40	125.46	USD/JPY	105.84	105	102	102	102
EUR/GBP	0.911	0.90	0.88	0.88	0.88	GBP/USD	1.296	1.31	1.36	1.36	1.40
EUR/CHF	1.077	1.07	1.08	1.08	1.08	USD/CHF	0.912	0.91	0.90	0.90	0.88
EUR/NOK	10.842	10.70	10.60	10.20	10.20	USD/NOK	9.182	9.07	8.83	8.50	8.29
EUR/SEK	10.415	10.30	10.25	10.00	10.20	USD/SEK	8.818	8.73	8.54	8.33	8.29
EUR/DKK	7.440	7.440	7.440	7.445	7.445	USD/DKK	6.299	6.31	6.20	6.20	6.05
EUR/CAD	1.551	1.56	1.54	1.51	1.54	USD/CAD	1.313	1.31	1.28	1.26	1.25
EUR/AUD	1.637	1.66	1.64	1.60	1.64	AUD/USD	0.721	0.71	0.73	0.75	0.75
EUR/NZD	1.779	1.76	1.76	1.71	1.78	NZD/USD	0.663	0.67	0.68	0.70	0.69
EMEA											
EUR/PLN	4.462	4.48	4.47	4.44	4.40	USD/PLN	3.777	3.80	3.73	3.70	3.58
EUR/HUF	356.35	365.00	360.00	360.00	367.00	USD/HUF	301.65	309	300	300	298
EUR/CZK	27.109	26.9	26.8	26.5	26.0	USD/CZK	22.946	22.8	22.3	22.1	21.1
EUR/RON	4.871	4.87	4.87	4.92	4.92	USD/RON	4.123	4.13	4.06	4.10	4.00
EUR/HRK	7.569	7.55	7.53	7.49	7.53	USD/HRK	6.407	6.40	6.28	6.24	6.12
EUR/RSD	117.56	117.6	117.6	117.6	117.5	USD/RSD	99.562	99.7	98.0	98.0	95.5
EUR/RUB	90.813	90.9	88.2	86.4	89.8	USD/RUB	76.876	77.0	73.5	72.0	73.0
EUR/UAH	33.383	33.0	33.6	33.6	34.4	USD/UAH	28.256	28.00	28.00	28.00	28.00
EUR/KZT	504.47	495.6	492.0	492.0	504.3	USD/KZT	426.98	420	410	410	410
EUR/TRY	9.348	9.09	9.00	9.24	9.96	USD/TRY	7.912	7.70	7.50	7.70	8.10
EUR/ZAR	19.399	19.8	20.4	21.6	23.4	USD/ZAR	16.421	16.75	17.00	18.00	19.00
EUR/ILS	3.991	3.99	4.02	3.96	3.94	USD/ILS	3.378	3.38	3.35	3.30	3.20
LATAM											
EUR/BRL	6.554	6.43	6.48	6.12	6.40	USD/BRL	5.547	5.45	5.40	5.10	5.20
EUR/MXN	25.071	25.6	25.2	25.8	27.1	USD/MXN	21.223	21.70	21.00	21.50	22.00
EUR/CLP	939.5	932	924	912	935	USD/CLP	795.15	790	770	760	760
EUR/ARS	91.061	93.81	99.60	110.40	135.30	USD/ARS	77.063	79.50	83.00	92.00	110.00
EUR/COP	4537	4425	4380	4344	4576	USD/COP	3839.34	3750	3650	3620	3720
EUR/PEN	4.208	4.20	4.25	4.21	4.28	USD/PEN	3.580	3.56	3.54	3.51	3.48
Asia											
EUR/CNY	7.915	7.98	8.04	7.99	8.24	USD/CNY	6.699	6.76	6.70	6.66	6.70
EUR/HKD	9.155	9.15	9.30	9.30	9.54	USD/HKD	7.75	7.75	7.75	7.75	7.76
EUR/IDR	17348	17462	17788	17809	18333	USD/IDR	14700	14798	14823	14841	14905
EUR/INR	86.282	87.3	89.8	90.4	91.6	USD/INR	73.132	74.00	74.80	75.30	74.50
EUR/KRW	1349	1369	1380	1392	1402	USD/KRW	1153	1160	1150	1160	1140
EUR/MYR	4.890	4.92	5.02	5.03	5.17	USD/MYR	4.1347	4.17	4.18	4.19	4.20
EUR/PHP	56.884	57.1	58.4	60.1	62.5	USD/PHP	48.314	48.39	48.66	50.11	50.82
EUR/SGD	1.60	1.61	1.66	1.67	1.67	USD/SGD	1.354	1.37	1.38	1.39	1.36
EUR/TWD	33.905	34.3	34.8	34.7	35.3	USD/TWD	28.831	29.1	29.0	28.9	28.7
EUR/THB	36.667	37.5	38.8	39.6	40.3	USD/THB	31.07	31.8	32.3	33.0	32.8

Source: Macrobond, ING

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