

FX Talking

December 2023



Calibrating the turn

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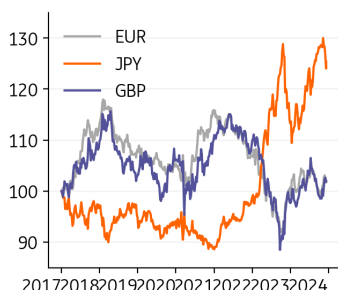


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Calibrating the turn

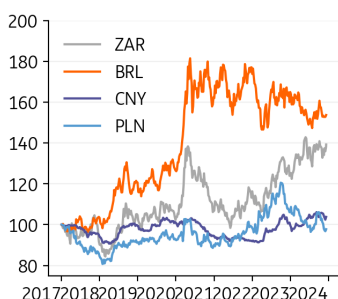
November gave us a glimpse of what we could expect in FX markets next year – a broadly weaker dollar and some outperformance of the pro-cyclical currencies. Yet as we have seen this month, calling the turn in the dollar will not be easy. We suspect it will take a few more months before a clear dollar bear trend emerges.

USD/Majors (4 Jan 15=100)



Source: Refinitiv, ING forecast

USD/EM (4 Jan 15=100)



Source: Refinitiv, ING forecast

Patience is a virtue. And that certainly seems the case in FX markets at the moment as those investors wanting to back a broad sell-off in the dollar will have been left frustrated. Indeed, one core story for the next month should be central bankers in core markets pushing back against aggressive pricing of monetary easing in 2024 – the result of which should be a slightly stronger dollar and weaker pro-cyclical currencies.

That probably means EUR/USD can spend some more time near this 1.07 area. And one of our core themes in our recently published [2024 FX Outlook](#) is that European currencies will not be the major beneficiaries of a weaker dollar. Expect the EUR/USD bull trend only to pick up pace in 2Q24 and end the year somewhere near the 1.15 area.

Very much in focus over the next month will be the Japanese yen. January, rather than this month, should see the larger independent gains in the yen. Elsewhere, we think any setback in the undervalued commodity currencies will be temporary.

In EM, we generally like the currencies in the CEE4 space on the back of politics and some better growth. The soft Chinese renminbi may continue to restrain Asian FX for some time, but the appeal of high real yields should keep Latam currencies in demand.

ING FX forecasts

| | EUR/USD | | USD/JPY | | GBP/USD |
|-----|---------|---|---------|---|---------|
| 1M | 1.07 | ↓ | 148 | ↑ | 1.23 |
| 3M | 1.08 | → | 140 | ↓ | 1.23 |
| 6M | 1.10 | → | 135 | ↓ | 1.24 |
| 12M | 1.15 | ↑ | 130 | ↓ | 1.28 |

| | EUR/GBP | | EUR/CZK | | EUR/PLN |
|-----|---------|---|---------|---|---------|
| 1M | 0.87 | ↑ | 24.70 | ↑ | 4.30 |
| 3M | 0.88 | ↑ | 24.50 | → | 4.25 |
| 6M | 0.89 | ↑ | 24.50 | ↓ | 4.20 |
| 12M | 0.90 | ↑ | 24.00 | ↓ | 4.20 |

| | USD/CNY | | USD/MXN | | USD/BRL |
|-----|---------|---|---------|---|---------|
| 1M | 7.05 | ↓ | 17.25 | ↓ | 4.90 |
| 3M | 7.00 | ↓ | 17.00 | ↓ | 5.00 |
| 6M | 6.90 | ↓ | 16.75 | ↓ | 5.00 |
| 12M | 6.75 | ↓ | 16.75 | ↓ | 4.90 |

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

Source: Refinitiv, ING forecast

FX performance

| | EUR/USD | USD/JPY | EUR/GBP | EUR/NOK | AUD/USD | USD/CAD |
|------|---------|---------|---------|---------|---------|---------|
| %MoM | 0.7 | -3.4 | -2.1 | -0.8 | 3.1 | -1.6 |
| %YoY | 2.1 | 6.3 | -0.4 | 11.8 | -2.8 | -0.4 |

| | USD/CNY | USD/KRW | EUR/HUF | EUR/PLN | USD/ZAR | USD/BRL |
|------|---------|---------|---------|---------|---------|---------|
| %MoM | -1.5 | 0.0 | 1.1 | -2.2 | 2.0 | 0.8 |
| %YoY | 1.7 | 1.2 | -8.1 | -7.7 | 8.6 | -6.5 |

Source: Refinitiv, ING forecast

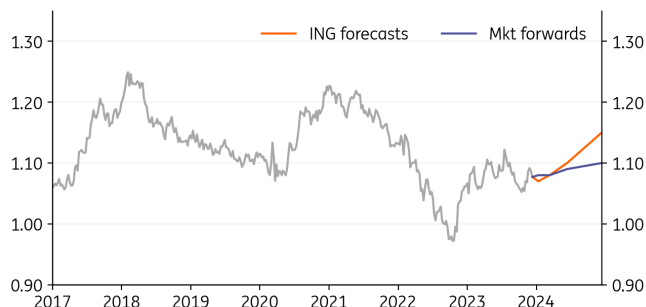


Developed markets

EUR/USD

November provided a glimpse of what's to come

Current spot: **1.0775**



Source: Refinitiv, ING forecasts

- November saw EUR/USD briefly trade to 1.10 – largely on the back of a weaker dollar amid bullish steepening of the US yield curve. This is a glimpse of the trend we expect will come through in 2Q next year and a trend which could carry EUR/USD to 1.15.
- Before that, however, decent US growth looks like it will keep the Federal Reserve in hawkish mode over coming months – making the timing of the dollar turn lower a tricky call. Ultimately, however, we expect US consumption to slow and unemployment to tick higher in 2024.
- We think that the market has got much too far ahead of itself in pricing 125bp of European Central Bank easing next year. ECB pushback against this could provide EUR/USD with some near-term support.

| | | | | |
|--------------------------------|-------------------------|-------------------------|-------------------------|--------------------------|
| ING forecasts (mkt fwd) | 1M 1.07 (1.0792) | 3M 1.08 (1.0818) | 6M 1.10 (1.0864) | 12M 1.15 (1.0968) |
|--------------------------------|-------------------------|-------------------------|-------------------------|--------------------------|

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USD/JPY

USD/JPY has probably peaked

Current spot: **146.21**



Source: Refinitiv, ING forecasts

- It looks like USD/JPY probably peaked near 152 last month. Even though the Bank of Japan may again prove dovish at the 19 December meeting, it looks like 1Q24 could see the BoJ deliver some meaningful adjustments to its Yield Curve Control policy – perhaps even scrapping it if global bond yields are soft.
- Even if there is no move this month, speculation will merely shift to the 23 January meeting when a new Outlook report is released.
- We are quite bearish on USD/JPY in '24, both on the back of BoJ normalisation and a broadly weaker dollar. We could be too pessimistic, however, if the carry trade very much remains en vogue and JPY funding for carry keeps USD/JPY above 140.

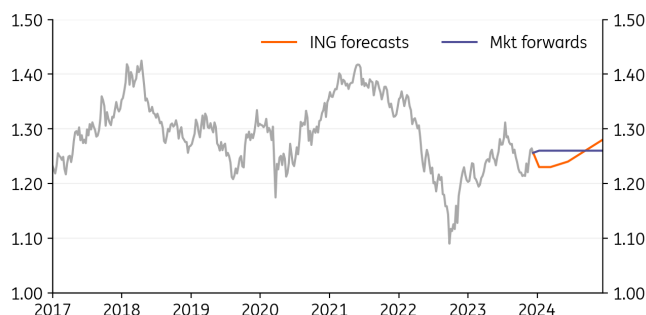
| | | | | |
|--------------------------------|------------------------|------------------------|------------------------|-------------------------|
| ING forecasts (mkt fwd) | 1M 148 (145.38) | 3M 140 (144.10) | 6M 135 (142.08) | 12M 130 (138.49) |
|--------------------------------|------------------------|------------------------|------------------------|-------------------------|

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GBP/USD

Sterling has performed quite well

Current spot: **1.2554**



Source: Refinitiv, ING forecasts

- In terms of total return, sterling has been the strongest of the G10 currencies this year. This is largely a function of the high rates on offer (3m GBP implied yields of 5.20%) and some modest strength against the dollar.
- A key support recently has also been investors aggressively pricing ECB and Fed interest rate cuts next year, while only looking for a modest easing cycle from the Bank of England (just 50-60bp).
- We look for pushback against market pricing of easing at all the Fed, ECB and BoE rate meetings this month. A rise in global yields could knock GBP/USD back into the 1.23/24 area, but our 2024 outlook sees GBP/USD back to 1.28/30 on the weak dollar story.

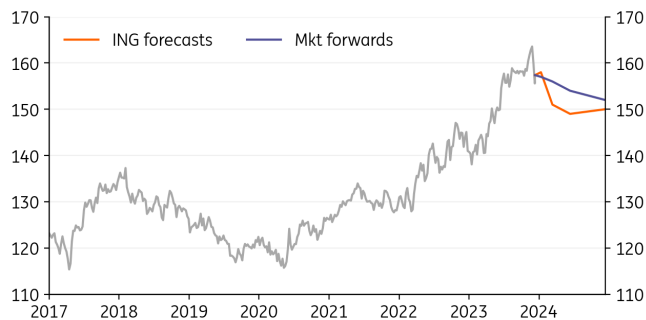
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|--------------------------------|-------------------------|-------------------------|-------------------------|--------------------------|
| ING forecasts (mkt fwd) | 1M 1.23 (1.2559) | 3M 1.23 (1.2564) | 6M 1.24 (1.2569) | 12M 1.28 (1.2572) |
|--------------------------------|-------------------------|-------------------------|-------------------------|--------------------------|

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EUR/JPY

Bearish outlook

Current spot: **157.56**



Source: Refinitiv, ING forecasts

- We think last month's high at 164.30 could be significant and have a bearish set of forecasts for EUR/JPY over the next year. This is not a function of the overall risk environment (which we think can hold up) but more a function of BoJ policy normalisation and weak growth in Europe – especially Germany.
- We look for three consecutive quarters of contraction in the eurozone (3Q23-1Q24) at a time when the BoJ is finally exiting its decades-long super dovish policy.
- The eurozone may also face some fiscal challenges next year when the rightward drift in politics and German political paralysis could see unwanted fiscal consolidation in a recession.

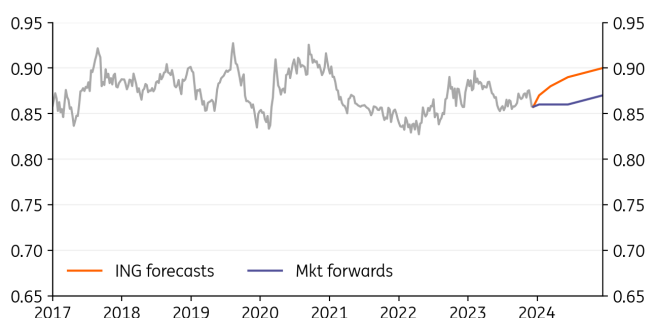
| | | | | |
|-------------------------|-----------------|-----------------|-----------------|------------------|
| ING forecasts (mkt fwd) | 1M 158 (156.91) | 3M 151 (155.90) | 6M 149 (154.37) | 12M 150 (151.91) |
|-------------------------|-----------------|-----------------|-----------------|------------------|

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EUR/GBP

Sterling does not require a large election risk premium

Current spot: **0.8580**



Source: Refinitiv, ING forecasts

- The aggressive pricing of the 2024 ECB easing cycle has weighed on EUR/GBP. However, ECB pushback later this month might be enough to pull EUR/GBP away from a floor near 0.8500. And that is our call for 2024 – namely that the BoE eases more than the ECB and that EUR/GBP can work its way to the 0.88/89 area.
- 2024 will probably be an election year in the UK. Does sterling need to trade lower as an election risk premium is priced in? Not necessarily. The large Labour lead into the 1997 election meant that sterling did not particularly suffer back then.
- EUR/GBP is a low volatility cross rate and generally has a positive correlation with EUR/USD – the latter supporting our EUR/GBP call.

| | | | | |
|-------------------------|------------------|------------------|------------------|-------------------|
| ING forecasts (mkt fwd) | 1M 0.87 (0.8589) | 3M 0.88 (0.8607) | 6M 0.89 (0.8641) | 12M 0.90 (0.8720) |
|-------------------------|------------------|------------------|------------------|-------------------|

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EUR/CHF

Careful chasing the EUR/CHF move lower

Current spot: **0.9476**



Source: Refinitiv, ING forecasts

- EUR/CHF remains under pressure – seemingly driven by the never-ending soft activity data out of the eurozone and the dramatic re-pricing of the ECB monetary cycle. However, we doubt the Swiss National Bank wants a much stronger Swiss franc now – especially with the eurozone moving into recession and Swiss inflation running at just 1.4% year-on-year.
- We will hear more from the SNB at its meeting on 14 December. Have policymakers only been selling FX or will they tell us they have been on both sides of the market?
- In our 2024 FX outlook, we concluded that narrowing inflation differentials between Switzerland and trading partners would see the SNB having an interest in a stable, not stronger CHF.

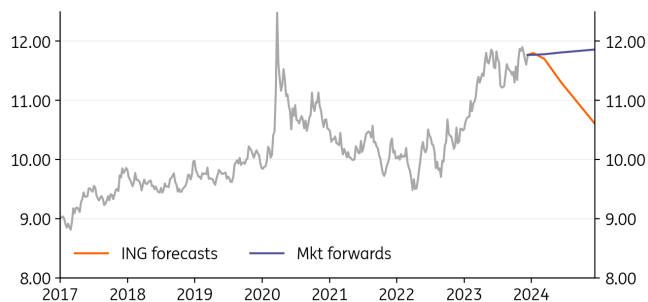
| | | | | |
|-------------------------|------------------|------------------|------------------|-------------------|
| ING forecasts (mkt fwd) | 1M 0.95 (0.9453) | 3M 0.96 (0.9419) | 6M 0.96 (0.9367) | 12M 0.96 (0.9282) |
|-------------------------|------------------|------------------|------------------|-------------------|

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EUR/NOK

Soft environment for krone into year-end

Current spot: **11.77**



Source: Refinitiv, ING forecasts

- Norges Bank may hit the pause button again this week on policy tightening as energy prices, core inflation, and global market rates dropped. Markets have fully priced out a hike, so the negative impact on the krone should not be big, especially since NB may keep signalling the risk of more tightening down the road.
- We think that a pushback against rate cut expectations by the Fed and ECB will penalise risk-sensitive currencies like the krone into year-end. Elevated NB FX buying is also keeping NOK capped.
- We remain positive on a NOK sustained recovery in 2024. The krone is very undervalued and should be at the forefront of a high-beta FX rally once the Fed starts cutting rates.

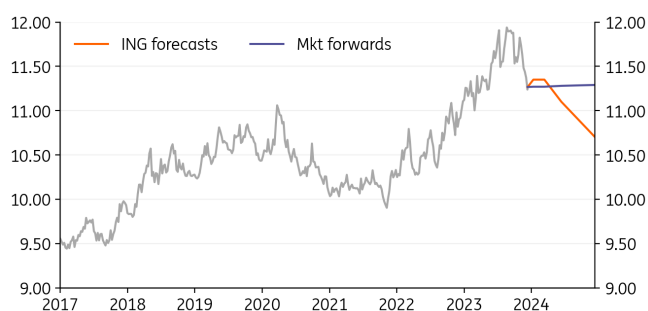
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|-------------------------|------------------|------------------|------------------|-------------------|
| ING forecasts (mkt fwd) | 1M 11.80 (11.77) | 3M 11.70 (11.78) | 6M 11.30 (11.81) | 12M 10.60 (11.86) |
|-------------------------|------------------|------------------|------------------|-------------------|

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EUR/SEK

FX hedging support close to an end

Current spot: **11.27**



Source: Refinitiv, ING forecasts

- The krona's outperformance compared to its pro-cyclical peers remains largely a function of the Riksbank's FX sales. We currently estimate hedging operations will end by mid-February, and that is when we expect SEK to start lagging NOK.
- EUR/SEK may face some upside risks as the ECB pushes back against rate cut bets, even though SEK is less vulnerable than NOK or the antipodeans in the near term given FX sales.
- The Riksbank's hold in November was accompanied by the threat of more hikes if needed, but we expect the deterioration in the Swedish economic outlook to make further tightening very complicated. We still expect EUR/SEK to trade below 11.00 in 2H24, but the pace of SEK appreciation should slow in 1H24.

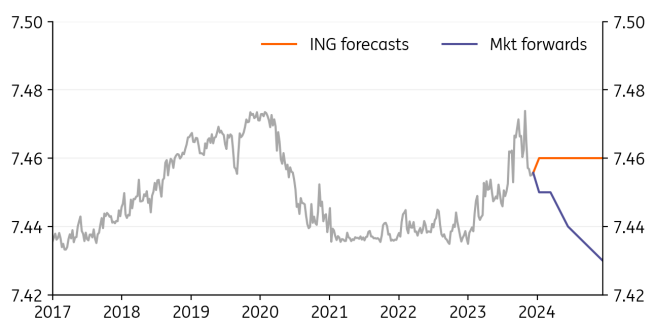
| | | | | |
|-------------------------|------------------|------------------|------------------|-------------------|
| ING forecasts (mkt fwd) | 1M 11.35 (11.27) | 3M 11.35 (11.27) | 6M 11.10 (11.28) | 12M 10.70 (11.29) |
|-------------------------|------------------|------------------|------------------|-------------------|

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EUR/DKK

DN to follow the ECB

Current spot: **7.4561**



Source: Refinitiv, ING forecasts

- Danmarks Nationalbank did not intervene in the FX market for a tenth straight month in November.
- Despite a drop from the 7.4650 peak to 7.4550, EUR/DKK remains well above the bottom of the peg band and very close to central parity. We remain of the view that DN will not sell DKK via FX intervention in 2024.
- The proximity to the 7.4600 level also means that DN will have no incentive to diverge from ECB policy in the foreseeable future. We expect EUR/DKK to stabilise around 7.46 in 2024.

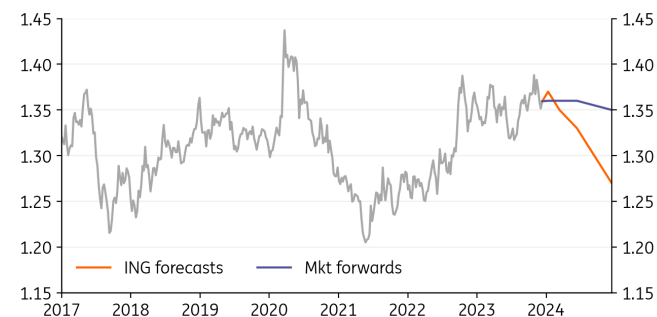
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|-------------------------|------------------|------------------|------------------|-------------------|
| ING forecasts (mkt fwd) | 1M 7.46 (7.4533) | 3M 7.46 (7.4485) | 6M 7.46 (7.4414) | 12M 7.46 (7.4295) |
|-------------------------|------------------|------------------|------------------|-------------------|

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USD/CAD

Last bits of loonie's relative outperformance

Current spot: **1.3591**



Source: Refinitiv, ING forecasts

- The loonie continues to trade as a proxy for US data sentiment. We think that is an undesirable correlation to have heading into next year when we expect the US outlook to deteriorate rapidly. We still see CAD trailing other commodity currencies like NOK, AUD and NZD in 2024.
- In the short run, however, the last bits of US activity data resilience can help CAD find some strength, especially in the crosses.
- Domestically, the Bank of Canada is holding on to its pledge of further tightening if necessary, but markets are growing less confident about the Bank's guidance, and we expect a worsening domestic outlook to lead to cuts from 2Q24.

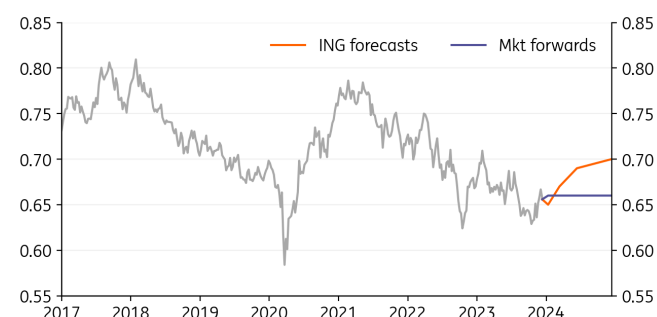
| | | | | |
|-------------------------|------------------|------------------|------------------|-------------------|
| ING forecasts (mkt fwd) | 1M 1.37 (1.3584) | 3M 1.35 (1.3572) | 6M 1.33 (1.3552) | 12M 1.27 (1.3515) |
|-------------------------|------------------|------------------|------------------|-------------------|

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AUD/USD

A pause before a strong 2024

Current spot: **0.6562**



Source: Refinitiv, ING forecasts

- Markets perceived the latest Reserve Bank of Australia policy statement as dovish, although the reference to further tightening if needed has remained intact, and recent history has taught us that the RBA won't think twice about hiking if inflation materially rebounds.
- For this reason - and also given that rates in Australia are not too high and the economic outlook is respectable - we still won't fully rule out another rate increase by the RBA in early 2024. Incidentally, we only expect cuts to start in 4Q24.
- That keeps us very positive on the Aussie dollar in 2024, and especially in the first three quarters. In the next month, we see room for a correction in AUD/USD as the risk environment may soften.

| | | | | |
|-------------------------|------------------|------------------|------------------|-------------------|
| ING forecasts (mkt fwd) | 1M 0.65 (0.6569) | 3M 0.67 (0.6579) | 6M 0.69 (0.6594) | 12M 0.70 (0.6611) |
|-------------------------|------------------|------------------|------------------|-------------------|

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NZD/USD

Helped by a hawkish RBNZ

Current spot: **0.6117**



Source: Refinitiv, ING forecasts

- The upward revision in the OCR path by the Reserve Bank of New Zealand in November came as a surprise to markets, especially after the encouraging news on the inflation side.
- The implied probability of another hike is now 75% according to the projections, although markets are quite sceptical. The lags in key data releases in New Zealand mean that we'll only know in January/February about 4Q inflation, growth and jobs dynamics.
- Until then, we suspect the New Zealand dollar can continue to find support on the hawkish RBNZ hints. Some outperformance against AUD in the short run is possible, but in 2024 we expect AUD to fare better.

| | | | | |
|-------------------------|------------------|------------------|------------------|-------------------|
| ING forecasts (mkt fwd) | 1M 0.61 (0.6119) | 3M 0.62 (0.6119) | 6M 0.63 (0.6118) | 12M 0.64 (0.6109) |
|-------------------------|------------------|------------------|------------------|-------------------|

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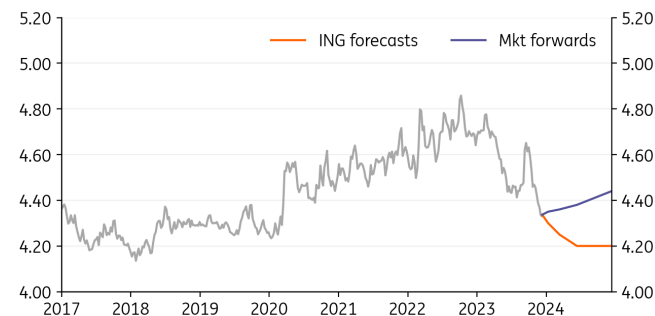


Emerging markets

EUR/PLN

Back in good graces

Current spot: **4.3356**



Source: Refinitiv, ING forecasts

- The October general election in Poland brought a fundamental shift for both the economy and financial markets. For years foreign investors avoided Polish bonds and equities. Now, their return seems underway. In tandem with EU money inflows (from the new EU budget and delayed payments from the Recovery Fund), this is particularly positive for the zloty. There are also structural improvements in Poland's current account.
- The question mark is the new government's reaction to the stronger zloty. We think the main priority will be to let PLN appreciate to facilitate the funding of borrowing needs and to slow inflation. Any attempts to weaken the zloty will be difficult, as we see EUR/USD rising, which is typically supportive for CEE FX.

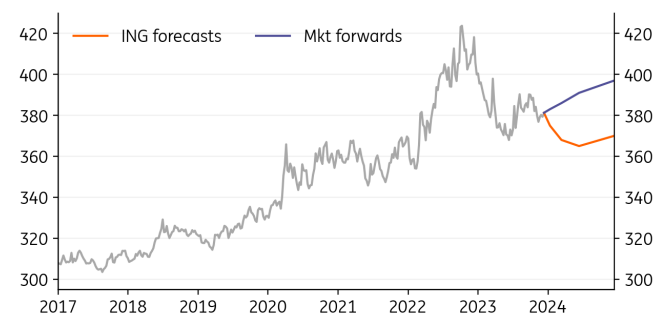
| | | | | |
|-------------------------|------------------|------------------|------------------|-------------------|
| ING forecasts (mkt fwd) | 1M 4.30 (4.3461) | 3M 4.25 (4.3596) | 6M 4.20 (4.3849) | 12M 4.20 (4.4426) |
|-------------------------|------------------|------------------|------------------|-------------------|

Piotr Poplawski, piotr.poplawski@ing.pl

EUR/HUF

We remain positive on the HUF

Current spot: **381.38**



Source: Refinitiv, ING forecasts

- It seems EUR/HUF has found a new gravity line around 380 because of a global shift in market sentiment. In the short term, we will probably need to see some catalyst for fresh gains. The main contributor could be a positive ending in the EU funds story.
- We believe in a deal and as a result, we remain positive on the forint. If all goes well, we expect EUR/HUF to return to the 370-375 range before the end of the year.
- For next year, we see continued disinflation, improving external and internal balances, and the highest positive real interest rate in the CEE region as well as some possible rating upgrades. This could lead to the forint appreciating towards 365 (or even below).

| | | | | |
|-------------------------|-----------------|-----------------|-----------------|------------------|
| ING forecasts (mkt fwd) | 1M 375 (383.21) | 3M 368 (386.49) | 6M 365 (390.68) | 12M 370 (397.02) |
|-------------------------|-----------------|-----------------|-----------------|------------------|

Péter Virovác, peter.virovacz@ing.com

EUR/CZK

Koruna waiting for CNB rate cuts

Current spot: **24.34**



Source: Refinitiv, ING forecasts

- The koruna touched its strongest levels since early October at the end of November, but we remain negative on the currency in the short term. The Czech National Bank is delaying the start of the cutting cycle but it is clear that this move is inevitable.
- The market is currently pricing in 350bp of cuts in the one year horizon and almost the entire cycle is thus fully priced in, in our view. However, we still believe there is some room for faster and larger cuts at the front-end of the curve, damaging FX.
- Therefore, combined with global conditions, we expect CZK to be weaker at the end of this year and early next year, and stronger in the second half of next year.

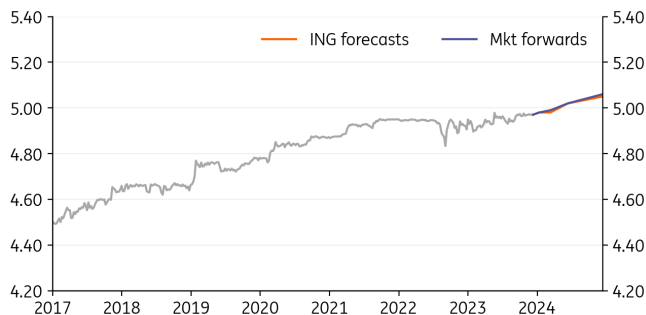
| | | | | |
|-------------------------|-----------------|-----------------|-----------------|------------------|
| ING forecasts (mkt fwd) | 1M 24.7 (24.40) | 3M 24.5 (24.50) | 6M 24.5 (24.61) | 12M 24.0 (24.76) |
|-------------------------|-----------------|-----------------|-----------------|------------------|

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EUR/RON

A new range is still not in sight

Current spot: **4.9706**



Source: Refinitiv, ING forecasts

- The FX space didn't offer many changes over the last few months. The higher volatility from 1H23 is gone and EUR/RON is holding steady in a narrow 4.960-4.975 range, with little prospect of much movement in the short term.
 - With persistent inflation in Romania proving to be the trickiest within the CEE region, the central bank is in no great hurry to address the current account deficit and overvalued FX.
- All things considered, the question of a new trading range doesn't seem to have an imminent answer. Once inflation gets closer to target we might see more openness from the central bank to allow the pair to cross the 5.00 level, but this is likely a matter for mid-2024.

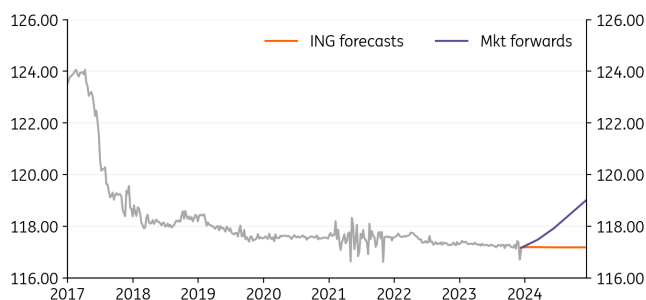
| | | | | |
|-------------------------|------------------|------------------|------------------|-------------------|
| ING forecasts (mkt fwd) | 1M 4.98 (4.9797) | 3M 4.98 (4.9918) | 6M 5.02 (5.0233) | 12M 5.05 (5.0607) |
|-------------------------|------------------|------------------|------------------|-------------------|

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EUR/RSD

As tightly managed as usual

Current spot: **117.18**



Source: Refinitiv, ING forecasts

- While annual growth has picked up pace, political and social stability has been less rosy towards the end of the year. Key risk factors include further complications in relations with Kosovo and snap elections due on 17 December amid internal discontent and EU demands.
- On the other hand, the country's finances have been better than expected and the 2023 fiscal deficit projection has been revised from -3.3% to -2.8% of GDP.
- We maintain our expectations for an essentially flat and intervention-driven EUR/RSD. Should inflation be stickier, a mild appreciation of the dinar could be tolerated by the central bank.

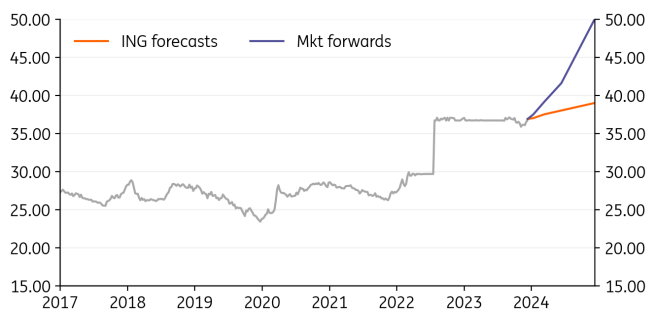
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|-------------------------|--------------------|--------------------|--------------------|---------------------|
| ING forecasts (mkt fwd) | 1M 117.19 (117.27) | 3M 117.19 (117.47) | 6M 117.18 (117.92) | 12M 117.18 (119.02) |
|-------------------------|--------------------|--------------------|--------------------|---------------------|

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USD/UAH

UAH gains unlikely to last

Current spot: **36.89**



Source: Refinitiv, ING forecasts

- The National Bank of Ukraine eased the fixed exchange rate, but increased intervention to drive USD/UAH lower. Half of the move has already corrected, but we expect further hryvnia losses ahead. Ukraine maintains a significant current account deficit, and it is unlikely to phase out for years. The NBU may try to counter that via FX intervention, but despite foreign aid, FX reserves have been falling.
- The long-term prospects of the hryvnia are fundamentally negative. The Russian aggression is unlikely to end anytime soon. The damage to the Ukrainian economy, sadly will likely only intensify. That is why we expect the NBU to allow some hryvnia weakening in the long run, but possibly no sooner than the conflict ends.

| | | | | |
|-------------------------|------------------|------------------|------------------|-------------------|
| ING forecasts (mkt fwd) | 1M 37.00 (37.49) | 3M 37.50 (39.16) | 6M 38.00 (41.59) | 12M 39.00 (50.10) |
|-------------------------|------------------|------------------|------------------|-------------------|

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USD/KZT

Tenge appears well supported in the near-term

Current spot: **458.70**



Source: Refinitiv, ING forecasts

- In October-November, the tenge posted a decent KZT 20 appreciation against the US dollar despite the \$12/bbl drop in the price of Brent over the same period to \$83/bbl. KZT remains strong in early December against the backdrop of declining oil prices, confirming our constructive view for the near-term.
- In line with expectations, the widening current account deficit is being offset by the increased sales of FX out of the sovereign oil fund (NFRK), to \$1.5bn in October with possibly a higher figure in November, compensating for the reduced sales earlier.
- For the next three to six months, the budget and monetary policy should remain supportive of the tenge thanks to the pick-up in FX sales and slower pace of key rate cuts, but the longer-term trend appears less constructive.

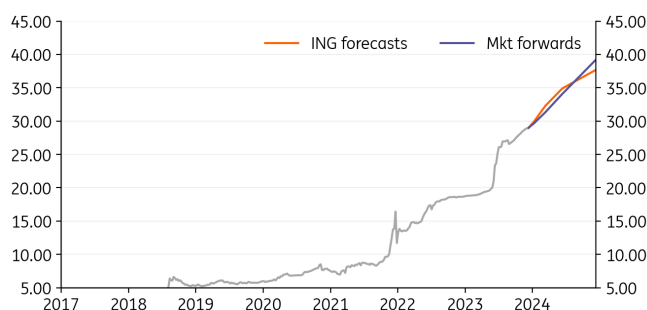
| | | | | |
|-------------------------|-----------------|-----------------|-----------------|------------------|
| ING forecasts (mkt fwd) | 1M 460 (462.05) | 3M 460 (468.40) | 6M 460 (477.76) | 12M 470 (495.55) |
|-------------------------|-----------------|-----------------|-----------------|------------------|

Dmitry Dolgin, dmitry.dolgin@ingbank.com

USD/TRY

CBT tightening supports the lira

Current spot: **29.00**



Source: Refinitiv, ING forecasts

- Annual inflation has remained in a 61-62% range in the last three months as pass-through from the post-election adjustment in FX, wages and taxes has been reflected in prices. We expect inflation to remain elevated until mid-2024 with a further increase above 70% until May. The second half of 2024 will likely see a sharp downtrend – reflecting this year’s high base and further impact of tighter policy, pulling inflation to 40-45% at year-end.
- At the November MPC meeting, the central bank provided guidance that i) the pace of monetary tightening would slow down, ii) the tightening steps would be completed in a short period of time, and iii) the tight stance would be maintained as long as necessary.
- Accordingly, we expect that the interest rate hiking process will be completed at 45.0%, with more limited increases of 250 basis points at the December and January meetings.

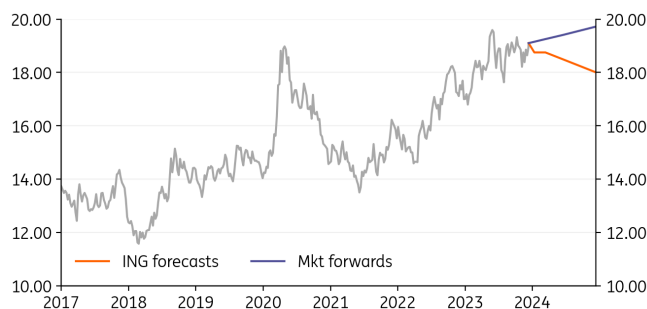
| | | | | |
|-------------------------|------------------|------------------|------------------|-------------------|
| ING forecasts (mkt fwd) | 1M 30.00 (29.71) | 3M 32.30 (31.33) | 6M 34.90 (34.08) | 12M 37.70 (39.24) |
|-------------------------|------------------|------------------|------------------|-------------------|

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

USD/ZAR

Rand is not our favourite currency

Current spot: **19.09**



Source: Refinitiv, ING forecasts

- In our 2024 outlook, we highlighted a couple of key challenges faced by the rand in 2024. The first is elections in May, where the beleaguered ANC may be tempted to opt for some fiscal giveaways. Like Brazil, the fiscal side is the rand’s Achilles Heel. The rand could also face some challenges from the bond side, where India’s inclusion into a key local currency EM bond index could come at the expense of the rand.
- Terms of trade are currently supportive for the rand, however. And probably justify USD/ZAR trading south of 19 now.
- Our call for 18.00 by the end of next year is largely based on the soft dollar story – but many local rand risks exist.

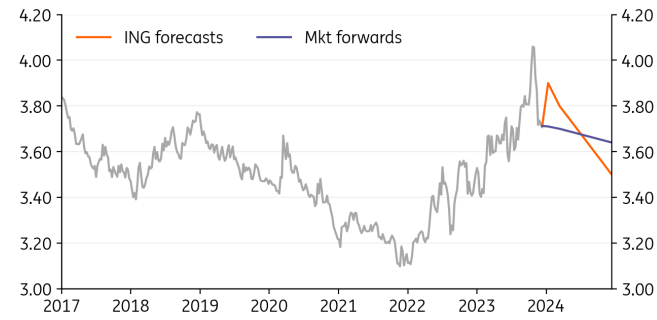
| | | | | |
|-------------------------|------------------|------------------|------------------|-------------------|
| ING forecasts (mkt fwd) | 1M 18.75 (19.15) | 3M 18.75 (19.25) | 6M 18.50 (19.40) | 12M 18.00 (19.72) |
|-------------------------|------------------|------------------|------------------|-------------------|

Chris Turner, chris.turner@ing.com

USD/ILS

Bank of Israel takes control of the shekel

Current spot: 3.7125



Source: Refinitiv, ING forecasts

- The shekel has surprised many by dropping to 3.70 levels – levels below the 7 October attack – quite quickly. The big drop in USD/ILS last month looks to be driven more by market positioning than by Bank of Israel intervention. After selling \$8bn in FX in October, the BoI only sold just over \$300m last month.
- Also helping the shekel has been the lower interest rate environment globally – good for tech stocks – and of course the broad dollar decline. More of this should be expected next year.
- However, for the near term, the uncertainty over the path of the conflict and the path for contentious constitutional reforms may prevent ILS from advancing further.

| | | | | |
|--------------------------------|-------------------------|-------------------------|-------------------------|--------------------------|
| ING forecasts (mkt fwd) | 1M 3.90 (3.7101) | 3M 3.80 (3.6998) | 6M 3.70 (3.6802) | 12M 3.50 (3.6361) |
|--------------------------------|-------------------------|-------------------------|-------------------------|--------------------------|

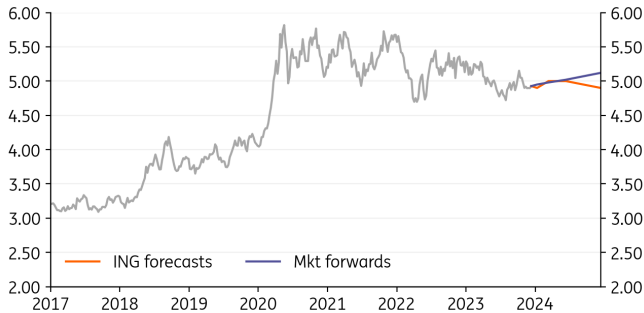
Chris Turner, chris.turner@ing.com

LATAM

USD/BRL

Macro story looks ok, external risks in focus

Current spot: **4.9268**



Source: Refinitiv, ING forecasts

- The Brazilian real has traded on a steady footing over the last month, helped by the softer dollar, slightly better than expected growth and supportive commodity prices. We have not heard too much about the government's fiscal plans for 2024 (does it stick to the zero budget deficit target?) but better growth suggests fiscal concerns could be delayed.
- The central bank is pushing ahead with rate cuts. Another 50bp cut is expected 13 December (11.75%), with the market pricing rates down to 9.50% in 2024. 7.50% could be priced if everything goes well.
- Near 10% implied yields help the real, but external risks of an Argentine maxi-devaluation and events in Guyana should be watched.

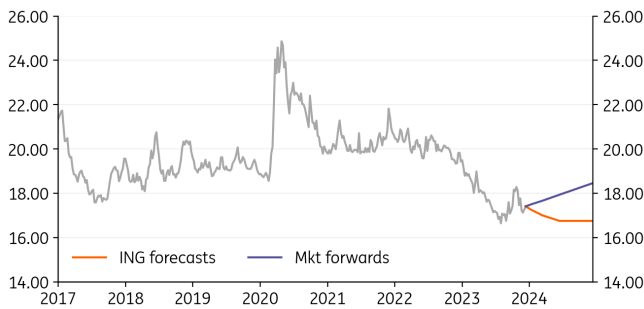
| | | | | |
|-------------------------|------------------|------------------|------------------|-------------------|
| ING forecasts (mkt fwd) | 1M 4.90 (4.9473) | 3M 5.00 (4.9751) | 6M 5.00 (5.0230) | 12M 4.90 (5.1225) |
|-------------------------|------------------|------------------|------------------|-------------------|

Chris Turner, chris.turner@ing.com

USD/MXN

Peso should survive Banxico easing speculation

Current spot: **17.40**



Source: Refinitiv, ING forecasts

- The peso has delivered a 2%+ total return over the last month – largely from high carry rather than gains in spot. Speculation has started to build that Banxico could cut rates before the Fed – perhaps as early as March. Indeed, the February meeting could see some starting to vote for a rate cut. But using the latest core inflation data, MXN still has real implied yields of 6% and the peso should see good buyers on any Banxico-related dip.
- As we discuss in our [2024 outlook](#), Mexico is gearing up fiscal spending plans in an election year. 2% growth may mean that Banxico cannot cut as much as it would like.
- Record remittances (\$5.8bn in Oct) also keeps MXN as a top trade.

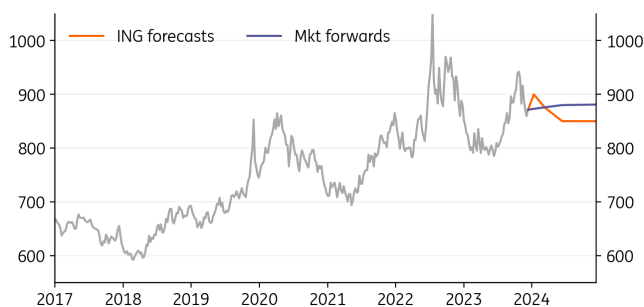
| | | | | |
|-------------------------|------------------|------------------|------------------|-------------------|
| ING forecasts (mkt fwd) | 1M 17.25 (17.50) | 3M 17.00 (17.66) | 6M 16.75 (17.93) | 12M 16.75 (18.46) |
|-------------------------|------------------|------------------|------------------|-------------------|

Chris Turner, chris.turner@ing.com

USD/CLP

Some welcome stability in the peso

Current spot: **871.35**



Source: Refinitiv, ING forecasts

- The October U-turn by Chilean authorities – slowing the pace of easing and cancelling the FX rebuild programme – has delivered some welcome stability in the peso. US data may mean that USD/CLP trades around the 900 area into the early New Year, but further peso gains should be seen thereafter on the softer dollar.
- The central bank will probably continue at its new slower pace of cuts – 50bp – at the December meeting. It seems strange that the policy rate is priced close to 4% in two years' time in Chile, but still priced at near 8% in Mexico.
- Terms of trade are helping the CLP currently, but we see 800 as a floor in 2024 – a level where the FX rebuild can restart.

| | | | | |
|-------------------------|-----------------|-----------------|-----------------|------------------|
| ING forecasts (mkt fwd) | 1M 900 (873.34) | 3M 875 (876.30) | 6M 850 (880.48) | 12M 850 (881.17) |
|-------------------------|-----------------|-----------------|-----------------|------------------|

Chris Turner, chris.turner@ing.com

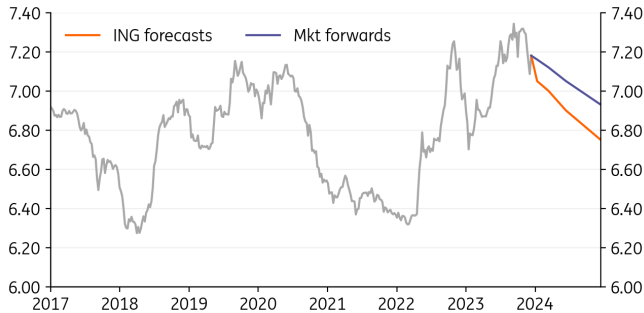


Asia

USD/CNY

A very mixed picture

Current spot: **7.1793**



Source: Refinitiv, ING forecasts

- The Chinese yuan rallied by about 1.8% over the last month, slightly less than some of its regional peers, which is not surprising since it didn't depreciate as much either and the Moody's negative outlook won't have helped either.
- The dataflow remains extremely mixed. Activity indices have shown some signs of firming, but only those that have no direct exposure to the beleaguered real estate market which continues to get worse.
- Policy support measures for real estate continue to be rolled out. If the CNY rallies further, rate cuts may be back on the agenda.

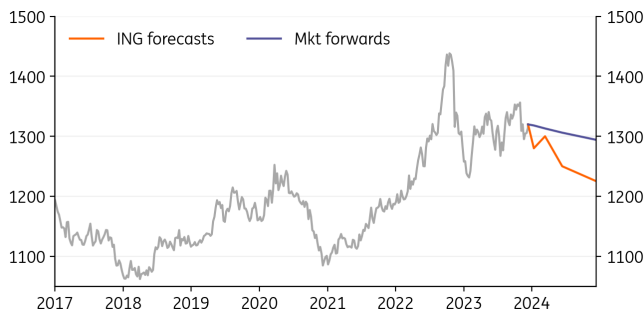
| | | | | |
|-------------------------|------------------|------------------|------------------|-------------------|
| ING forecasts (mkt fwd) | 1M 7.05 (7.1559) | 3M 7.00 (7.1180) | 6M 6.90 (7.0518) | 12M 6.75 (6.9275) |
|-------------------------|------------------|------------------|------------------|-------------------|

Rob Carnell, robert.carnell@asia.ing.com

USD/KRW

KRW will benefit from recovery of semiconductors

Current spot: **1319.88**



Source: Refinitiv, ING forecasts

- USD/KRW moved down to the 1,300 range in November from 1,360 on the back of improved exports. Despite global headwinds, Korean exports are expected to outperform due to the recovery of high-end semiconductor demand.
- Inflation stabilised in November and so we believe that rate hikes are now off the table for the Bank of Korea. However, the rapid rise in private debt will keep the BoK stance restrictive for a while.
- The won will likely fluctuate between 1,280-1,310 in the near term and then show a clearer appreciation trend from 2Q24, when the BoK and Fed's race to cut begins to diverge.

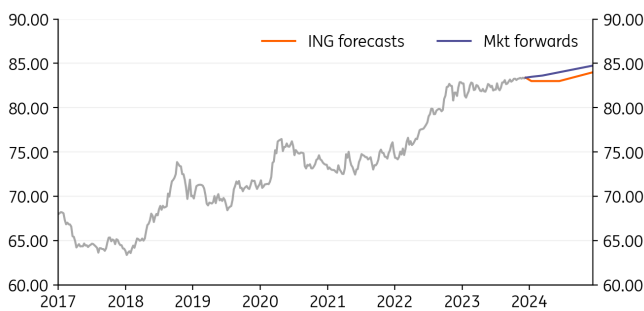
| | | | | |
|-------------------------|-------------------|-------------------|-------------------|--------------------|
| ING forecasts (mkt fwd) | 1M 1280 (1317.72) | 3M 1300 (1313.47) | 6M 1250 (1306.47) | 12M 1225 (1294.17) |
|-------------------------|-------------------|-------------------|-------------------|--------------------|

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USD/INR

INR peg?

Current spot: **83.38**



Source: Refinitiv, ING forecasts

- With almost no variation, the Reserve Bank of India continues to maintain the USD/INR rate at around 83.3. The motivation is likely two-fold 1) to reduce volatility and 2) to curb inflation.
- However, with inflation looking extremely well-behaved right now (the last published data showed the headline rate at only 4.9% - well within the RBI's 2-6% target range) that motivation seems redundant.
- So far, the RBI seems reluctant to see the rupee strengthen despite the broad USD weakness we are seeing, making the current arrangement look very like a pegged system.

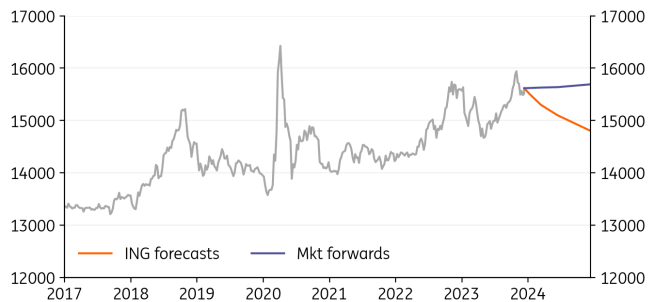
| | | | | |
|-------------------------|------------------|------------------|------------------|-------------------|
| ING forecasts (mkt fwd) | 1M 83.00 (83.48) | 3M 83.00 (83.62) | 6M 83.00 (84.00) | 12M 84.00 (84.75) |
|-------------------------|------------------|------------------|------------------|-------------------|

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USD/IDR

IDR recovers after BI hike and as trade surplus widens

Current spot: 15615



Source: Refinitiv, ING forecasts

- The Indonesian rupiah steadied in November, supported by data showing a better-than-anticipated trade surplus. This development suggests an improving external position, helping provide some stability to the IDR.
- Bank Indonesia's surprise policy rate increase in late October also helped steady the currency. Although still relatively tight, a wider interest rate differential with the Fed helped support the IDR in November.
- The rupiah could enjoy a modest appreciation to close out the year, but gains will be checked as the policy interest rate differential with the Fed remains tight at 50bp.

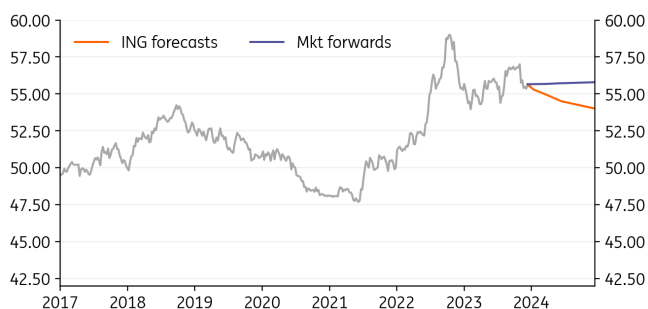
| | | | | |
|--------------------------------|-------------------------|-------------------------|-------------------------|--------------------------|
| ING forecasts (mkt fwd) | 1M 15500 (15620) | 3M 15300 (15628) | 6M 15100 (15636) | 12M 14800 (15690) |
|--------------------------------|-------------------------|-------------------------|-------------------------|--------------------------|

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

USD/PHP

PHP gains on improving GDP outlook and hawkish BSP

Current spot: 55.65



Source: Refinitiv, ING forecasts

- The Philippine peso appreciated in November, helped by an upside surprise to the country's GDP growth figures, which helped improve sentiment.
- BSP Governor Eli Remolona reiterated that he would "remain hawkish for some time". These comments, on top of improved investor sentiment, helped support the PHP.
- The PHP could move sideways in the coming months despite the recent rally, with the economy still running a substantial current account deficit. Exports recently slipped back into contraction and could translate to a renewed widening of the trade deficit.

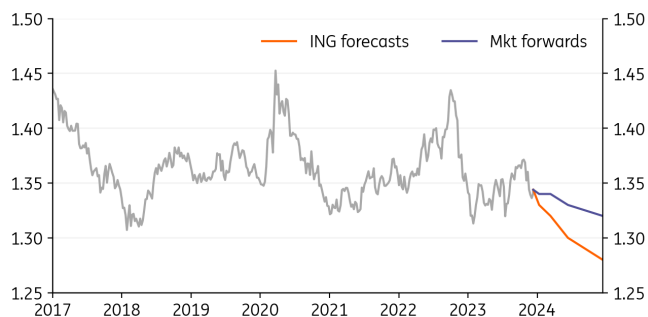
| | | | | |
|--------------------------------|-------------------------|-------------------------|-------------------------|--------------------------|
| ING forecasts (mkt fwd) | 1M 55.30 (55.66) | 3M 55.00 (55.67) | 6M 54.50 (55.72) | 12M 54.00 (55.79) |
|--------------------------------|-------------------------|-------------------------|-------------------------|--------------------------|

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USD/SGD

SGD tracks regional rally

Current spot: 1.3434



Source: Refinitiv, ING forecasts

- The Singapore dollar initially saw a bout of weakness before tracking the regional rally by mid-November. Upside surprises from economic reports have also helped support sentiment with GDP, NODX and retail sales all beating expectations.
- The Monetary Authority of Singapore kept policy settings untouched in October and they will likely retain their current stance through early 2024.
- The SGD NEER should continue its modest appreciation path to close out the year although a potential rally from peers tied to better China data could help support SGD further.

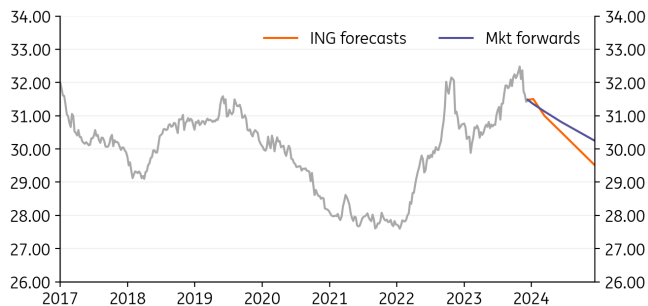
| | | | | |
|--------------------------------|-------------------------|-------------------------|-------------------------|--------------------------|
| ING forecasts (mkt fwd) | 1M 1.33 (1.3414) | 3M 1.32 (1.3378) | 6M 1.30 (1.3322) | 12M 1.28 (1.3222) |
|--------------------------------|-------------------------|-------------------------|-------------------------|--------------------------|

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

USD/TWD

Election could be pivotal for the TWD

Current spot: 31.48



Source: Refinitiv, ING forecasts

- The Taiwan dollar has been the strongest APAC currency over the last month, which probably reflects the continued gains of the stock market as the semiconductor cycle improves.
- That said, the near term could be volatile, as the presidential election is shaping up to be a three-way race after the “Blue White” coalition fell apart, boosting the incumbent DPP’s chance of remaining in power.
- That could result in a spike in geopolitical tensions with Mainland China, and equities and the TWD selling off.

| | | | | |
|--------------------------------|-------------------------|-------------------------|-------------------------|--------------------------|
| ING forecasts (mkt fwd) | 1M 31.50 (31.35) | 3M 31.00 (31.13) | 6M 30.50 (30.81) | 12M 29.50 (30.24) |
|--------------------------------|-------------------------|-------------------------|-------------------------|--------------------------|

Rob Carnell, robert.carnell@asia.ing.com

ING foreign exchange forecasts

| EUR cross rates | Spot | 1M | 3M | 6M | 12M | USD cross rates | Spot | 1M | 3M | 6M | 12M |
|---------------------|--------|--------|--------|--------|--------|-----------------|--------|--------|--------|--------|--------|
| Developed FX | | | | | | | | | | | |
| EUR/USD | 1.08 | 1.07 | 1.08 | 1.10 | 1.15 | | | | | | |
| EUR/JPY | 157 | 158 | 151 | 149 | 150 | USD/JPY | 146 | 148 | 140 | 135 | 130 |
| EUR/GBP | 0.86 | 0.87 | 0.88 | 0.89 | 0.90 | GBP/USD | 1.26 | 1.23 | 1.23 | 1.24 | 1.28 |
| EUR/CHF | 0.95 | 0.95 | 0.96 | 0.96 | 0.96 | USD/CHF | 0.88 | 0.89 | 0.89 | 0.87 | 0.83 |
| EUR/NOK | 11.77 | 11.80 | 11.70 | 11.30 | 10.60 | USD/NOK | 10.92 | 11.03 | 10.83 | 10.27 | 9.22 |
| EUR/SEK | 11.27 | 11.35 | 11.35 | 11.10 | 10.70 | USD/SEK | 10.46 | 10.61 | 10.51 | 10.09 | 9.30 |
| EUR/DKK | 7.46 | 7.46 | 7.46 | 7.46 | 7.46 | USD/DKK | 6.92 | 6.97 | 6.91 | 6.78 | 6.49 |
| EUR/CAD | 1.46 | 1.47 | 1.46 | 1.46 | 1.46 | USD/CAD | 1.36 | 1.37 | 1.35 | 1.33 | 1.27 |
| EUR/AUD | 1.64 | 1.65 | 1.61 | 1.59 | 1.64 | AUD/USD | 0.66 | 0.65 | 0.67 | 0.69 | 0.70 |
| EUR/NZD | 1.76 | 1.75 | 1.74 | 1.75 | 1.80 | NZD/USD | 0.61 | 0.61 | 0.62 | 0.63 | 0.64 |
| EMEA | | | | | | | | | | | |
| EUR/PLN | 4.34 | 4.30 | 4.25 | 4.20 | 4.20 | USD/PLN | 4.03 | 4.02 | 3.94 | 3.82 | 3.65 |
| EUR/HUF | 381 | 375 | 368 | 365 | 370 | USD/HUF | 354 | 350 | 341 | 332 | 322 |
| EUR/CZK | 24.34 | 24.7 | 24.5 | 24.5 | 24.0 | USD/CZK | 22.60 | 23.10 | 22.70 | 22.30 | 20.90 |
| EUR/RON | 4.97 | 4.98 | 4.98 | 5.02 | 5.05 | USD/RON | 4.61 | 4.65 | 4.61 | 4.56 | 4.18 |
| EUR/RSD | 117.20 | 117.20 | 117.20 | 117.20 | 117.20 | USD/RSD | 108.80 | 109.50 | 108.50 | 106.50 | 101.90 |
| EUR/UAH | 39.75 | 39.60 | 40.50 | 41.80 | 44.90 | USD/UAH | 36.90 | 37.00 | 37.50 | 38.00 | 39.00 |
| EUR/KZT | 494.20 | 492.20 | 496.80 | 506.00 | 540.50 | USD/KZT | 458 | 460 | 460 | 460 | 470 |
| EUR/TRY | 31.18 | 32.10 | 34.88 | 38.39 | 43.36 | USD/TRY | 28.99 | 30.00 | 32.30 | 34.90 | 37.70 |
| EUR/ZAR | 20.58 | 20.10 | 20.30 | 20.40 | 20.70 | USD/ZAR | 19.10 | 18.75 | 18.75 | 18.50 | 18.00 |
| EUR/ILS | 4.00 | 4.17 | 4.10 | 4.07 | 4.03 | USD/ILS | 3.71 | 3.90 | 3.80 | 3.70 | 3.50 |
| LATAM | | | | | | | | | | | |
| EUR/BRL | 5.31 | 5.24 | 5.40 | 5.50 | 5.64 | USD/BRL | 4.93 | 4.90 | 5.00 | 5.00 | 4.90 |
| EUR/MXN | 18.74 | 18.50 | 18.40 | 18.40 | 19.30 | USD/MXN | 17.40 | 17.25 | 17.00 | 16.75 | 16.75 |
| EUR/CLP | 938 | 963 | 945 | 935 | 978 | USD/CLP | 871 | 900 | 875 | 850 | 850 |
| Asia | | | | | | | | | | | |
| EUR/CNY | 7.73 | 7.54 | 7.56 | 7.59 | 7.76 | USD/CNY | 7.18 | 7.05 | 7.00 | 6.90 | 6.75 |
| EUR/IDR | 16824 | 16585 | 16524 | 16610 | 17020 | USD/IDR | 15615 | 15500 | 15300 | 15100 | 14800 |
| EUR/INR | 89.81 | 88.80 | 89.60 | 91.30 | 96.60 | USD/INR | 83.37 | 83.00 | 83.00 | 83.00 | 84.00 |
| EUR/KRW | 1422 | 1370 | 1404 | 1375 | 1409 | USD/KRW | 1320 | 1280 | 1300 | 1250 | 1225 |
| EUR/PHP | 59.95 | 59.20 | 59.40 | 60.00 | 62.10 | USD/PHP | 55.65 | 55.30 | 55.00 | 54.50 | 54.00 |
| EUR/SGD | 1.45 | 1.42 | 1.43 | 1.43 | 1.47 | USD/SGD | 1.34 | 1.33 | 1.32 | 1.30 | 1.28 |
| EUR/TWD | 33.93 | 33.70 | 33.50 | 33.60 | 33.90 | USD/TWD | 31.49 | 31.50 | 31.00 | 30.50 | 29.50 |

Source: Refinitiv, ING

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