12 April 2021
FX Strategy

FX Talking

Waiting for the European phoenix

1Q21 will not be remembered as the finest hours of European politics. The glacial roll-out of vaccination programmes and the 'crown jewel' of the EU's fiscal stimulus – the EU's €750bn Recovery Fund – is gathering dust in a Karlsruhe courtroom stand in stark contrast to the achievements in the US. Yet all is not lost. European manufacturing is holding up well and there are signs of life in the EU vaccine roll-out.

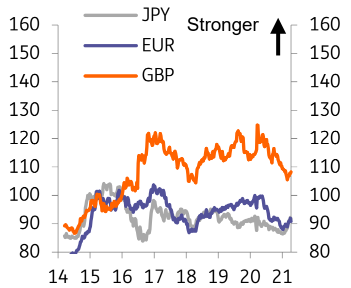
Our EUR/USD profile is slightly dimmed, but we still expect the EUR to arise from the ashes of European policy. It should be in a position to challenge 1.25 – though probably not now until the third quarter. This all assumes that the Fed can withstand the coming tide of inflation and that US 10-year yields can move to 2.00% in an orderly manner.

Having not abandoned a call for the EUR to rally, CE4 currencies should strengthen through the year led by the CZK and then PLN. HUF should underperform in 2Q as real rates turn more negative. EMEA high yielders face a more difficult time, although we suspect a lot of the bad news (a fresh round of US sanctions) may be already in the RUB.

A delayed, but not derailed global recovery should continue to support the commodity bloc, where both NOK and CAD are backed by central banks at the front of the queue when it comes to policy normalisation. We also think the MXN can outperform, helped in part by some of the US stimulus finding its way to Mexico via remittances.

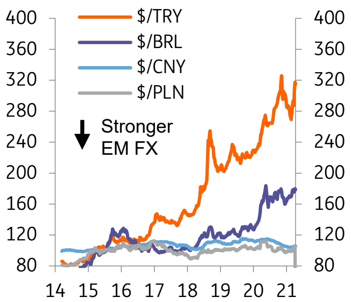
Elsewhere, the dollar bounce in 1Q has set back the Asian FX rally and the story is certainly more mixed now. CNY and KRW can still advance, yet semi-conductor challenges may well be doing some lasting damage to the TWD's long-term prospects.

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	1.20	↑	110	↑	1.41	↑
3M	1.22	↑	108	↓	1.44	↑
6M	1.25	↑	108	↓	1.47	↑
12M	1.28	↑	108	↓	1.52	↑
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.85	↓	25.80	↓	4.55	↑
3M	0.85	↓	25.70	↓	4.50	↓
6M	0.85	↓	25.60	↓	4.43	↓
12M	0.84	↓	25.40	↓	4.43	↓
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	6.53	↑	20.00	↓	5.60	→
3M	6.48	↓	19.80	↓	5.50	↓
6M	6.40	↓	19.50	↓	5.50	↓
12M	6.25	↓	20.50	↓	5.60	↓

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

FX performance

	EUR/USD	USD/JPY	EUR/GBP	EUR/NOK	NZD/USD	USD/CAD
%MoM	-0.6	1.5	0.9	-0.5	-2.4	-0.7
%YoY	9.6	0.8	-1.3	-9.6	16.9	-10.7
	USD/UAH	**USD/KZT**	**USD/BRL**	**USD/MXN**	**USD/CNY**	**USD/TRY**
%MoM	0.2	3.3	0.2	-3.8	1.0	8.8
%YoY	2.4	-0.2	10.0	-16.0	-7.1	21.4

Source: Refinitiv, ING forecast

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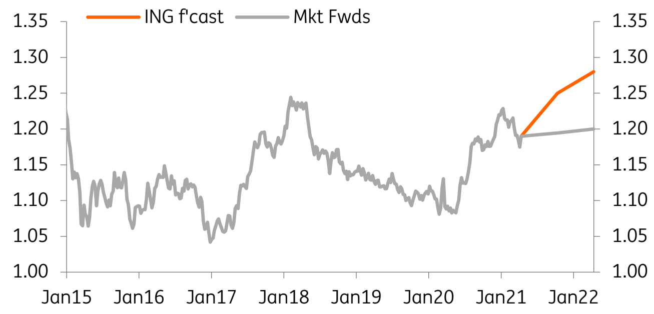
Developed markets

EUR/USD

Tricky!

Current spot: 1.1898



Source: Refinitiv, ING

- Last month we warned about a mid-month correction to 1.1700, which we've seen, but conviction about a strong EUR/USD recovery now is absent. For that rally to be seen, we need: i) Europe to dramatically step up vaccinations (possible), ii) clear signs that the EU Recovery Fund will be put to work in early 3Q (possible), iii) signs that US yields have found the 'right level' and won't push aggressively higher (less likely).
- A strong quarter for US growth in 2Q, pressuring a change in Fed language on 16 June, may keep the dollar stronger for longer.
- Clear signs of synchronised global growth coming through in 2H21 – still our baseline – should be good for commodities and bad for $. Especially if the Fed does not react to higher inflation.

ING forecasts (mkt fwd)	1M 1.20 (1.1905)	3M 1.22 (1.1921)	6M 1.25 (1.1945)	12M 1.28 (1.1999)

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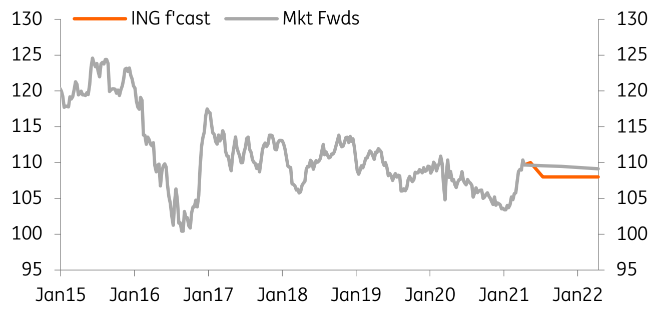
USD/JPY

USD/JPY correlation with US yields dominates

Current spot: 109.67



Source: Refinitiv, ING

- The correlation between US 10-year yields and USD/JPY has risen to a staggering 67% over the last month. It is not very clear what is driving it – perhaps algo-driven funds are re-wiring to this successful strategy? From our side, given the exceptionally low USD hedging costs, we would still expect Japanese investors to be buying US Treasuries at these high yields, but hedging the FX risk. It is making it unclear why $ is rallying.
- Locally the BoJ strategy meeting in March struck a discordant note, perhaps allowing greater flexibility in the 10-year JGB range to +/-20bp around zero, while also offering protection to banks in case rates were taking more deeply into negative territory. No impact for JPY.
- A re-weighting to Japanese equities may start to help JPY in 2Q.

ING forecasts (mkt fwd)	1M 110.00 (109.63)	3M 108.00 (109.57)	6M 108.00 (109.47)	12M 108.00 (109.14)

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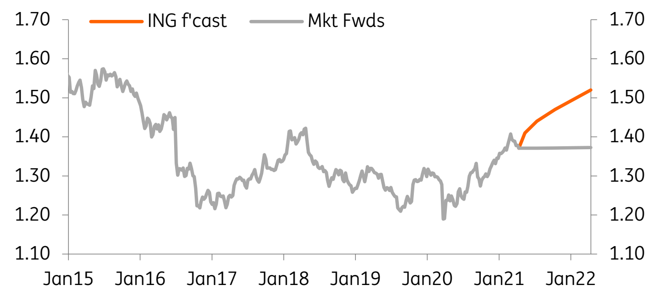
GBP/USD

The positioning squeeze won't last for long

Current spot: 1.3710



Source: Refinitiv, ING

- GBP has turned into the G10 underperformer so far in April as the mix of a positioning squeeze and the concerns about vaccination prospects weighed on the currency.
- Prior to the sell-off, GBP was the biggest speculative long in the G10 FX space vs USD (as measured by the CFTC). As a result, the move in GBP lower was heavily exaggerated.
- With the UK govt's plan to offer the first dose to every adult by end July intact, the reversal of restrictive measures under way & the expected sharp recovery in 2Q, GBP should regain ground in coming months. In addition, the expected EUR/USD rise this summer should lift GBP/USD back above 1.40.

ING forecasts (mkt fwd)	1M 1.41 (1.3710)	3M 1.44 (1.3712)	6M 1.47 (1.3716)	12M 1.52 (1.3726)

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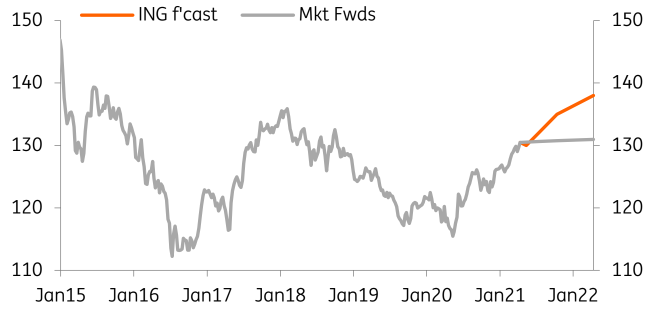
EUR/JPY

Steady path higher is favoured **Current spot: 130.49**



Source: Refinitiv, ING

- EUR/JPY continues to trade above 130 – basically a function of the dollar rallying harder against the JPY than the EUR. As noted above, it seems unlikely that the US yield spike has run its course. We can probably only call US treasuries a two-way market when US 10-year yields are closer to 2.00%. This will keep EUR/JPY bid.
- Also helping EUR/JPY should be the re-rating of EUR through 2Q. Many self-inflicted wounds have delayed this re-appraisal, but the manufacturing sector is doing well and re-openings after lockdowns should be EUR positive later in the quarter. An early German ruling on the EU recovery fund would be welcome too.
- The ECB should also be less concerned over EUR strength, now that the trade-weighted EUR has corrected 2.5% from its highs.

ING forecasts (mkt fwd)	1M	3M	6M	12M
	130.00 (130.53)	132.00 (130.63)	135.00 (130.76)	138.00 (130.97)

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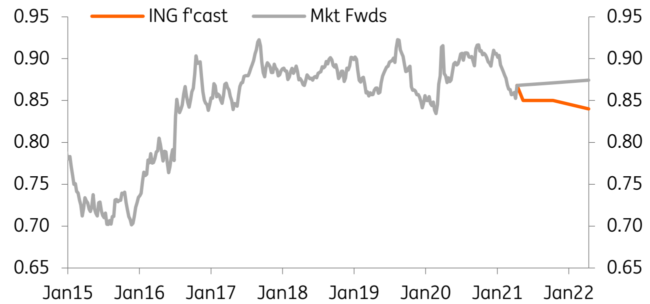
EUR/GBP

The perfect, but temporary storm for GBP **Current spot: 0.8681**



Source: Refinitiv, ING

- GBP felt the perfect storm of vaccination concerns and heavy one-way positioning. On vaccinations, the UK regulator pointed out that the balance of benefits and risks still favours the AstraZeneca vaccine. The UK government reiterated that its plan to offer the first dose to all adults by end-July remains intact.
- This means that the constructive case for GBP remains in place and we expect EUR/GBP to return to the 0.85 level this quarter.
- The exaggerated fall in sterling moved EUR/GBP into the overvalued territory for the first time since mid-January based on our short-term financial fair value model. EUR/GBP now screens as 1.6% expensive. This also suggests a scope for GBP recovery.

ING forecasts (mkt fwd)	1M	3M	6M	12M
	0.85 (0.8686)	0.85 (0.8696)	0.85 (0.8711)	0.84 (0.8744)

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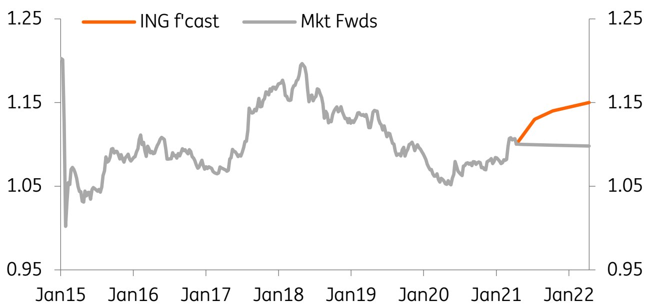
EUR/CHF

Focus on Polish mortgages **Current spot: 1.1003**



Source: Refinitiv, ING

- A more difficult growth environment in Europe sees EUR/CHF pressing the lower end of its 1.1000-1.1150 range. Progress on the EU Recovery Fund and the vaccination roll-out are required to trigger the break-out above 1.12 – still a possibility for late 2Q.
- A more immediate topic is the issue of Polish CHF mortgages. Here the ECJ will make a ruling on 29 April, largely on whether Polish banks can charge CHF Libor or Polish Wibor on these mortgages. But the decision, its impact on Polish banks' capital ratios and potentially whether to wind these products up entirely – CHF25bn still outstanding – are very much in focus.
- We can't believe this CHF risk is unhedged by Polish banks and instead see EUR/CHF finding good support in the 1.09/1.10 area.

ING forecasts (mkt fwd)	1M	3M	6M	12M
	1.11 (1.1000)	1.13 (1.0997)	1.14 (1.0991)	1.15 (1.0980)

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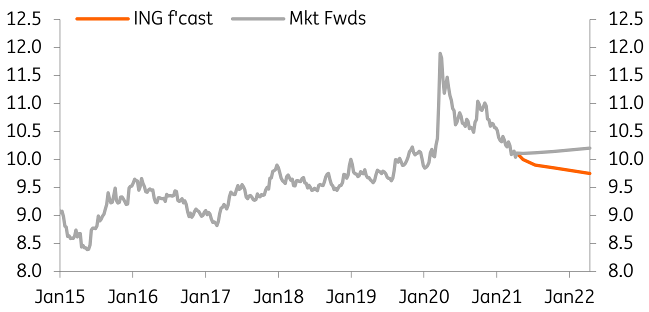
EUR/NOK

Krone set to benefit from the hawkish Norges Bank

Current spot: 10.11



Source: Refinitiv, ING

- EUR/NOK briefly broke below 10.00 and we expect it to push persistently below this level by summer as the EZ economy rebounds and global recovery becomes more synchronized.
- The recovering EZ and Norwegian economies should lead to further speculation on timing of the first Norges Bank interest rate hike. The first 25bp hike in 4Q21 is our base case but we don't rule out an earlier hike given supportive oil prices and high Norwegian CPI.
- NOK should be the best performing European G10 currency this year as the krone will benefit from the mix of a global economic recovery (NOK is one of the highest beta G10 FX currencies) and the hawkish central bank. We target EUR/NOK 9.80 in 2H21.

ING forecasts (mkt fwd)	1M 10.00 (10.11)	3M 9.90 (10.12)	6M 9.85 (10.14)	12M 9.75 (10.20)

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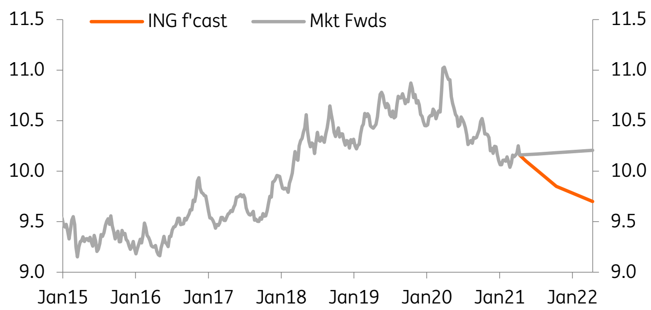
EUR/SEK

Recovering after the relatively big crumble

Current spot: 10.16



Source: Refinitiv, ING

- After trading a tight multi-month range of EUR/SEK 10.00-10.20, the krona crumbled and EUR/SEK spiked to the 10.30 level – largely due to concerns about the Covid situation in Europe.
- EUR/SEK is now back into the prior range and we expect a gradual move lower, eventually testing the 10.00 level as vaccinations in Europe / Sweden gain pace in 2Q and the data start to improve.
- With the global economy to experience a more synchronised recovery in 2H21 (vs the large divergence between US and Europe in 1H21) the cyclical SEK levered to global growth should benefit. But unlike NOK, SEK shouldn't get the tailwind of a more hawkish central bank. Riksbank looks to keep rates at 0% this year and next.

ING forecasts (mkt fwd)	1M 10.00 (10.11)	3M 9.90 (10.12)	6M 9.85 (10.14)	12M 9.75 (10.20)

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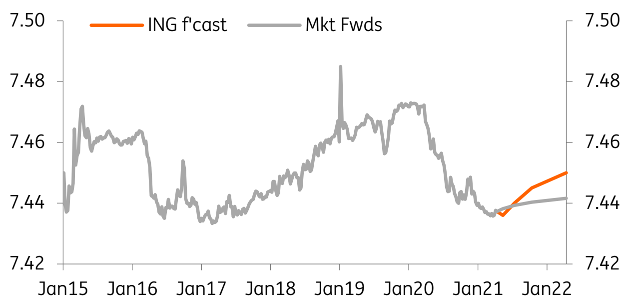
EUR/DKK

The pressure is building

Current spot: 7.437



Source: Refinitiv, ING

- The pressure on EUR/DKK is building and Danmarks Nationalbank was forced to embark on the highest monthly FX intervention since 2016, selling DKK17bn in March.
- For now, the downward pressure on EUR/DKK should remain. April and May have been seasonally the two strongest months for DKK in past 10 years, the spread between DN and EU money market rates remain high and ECB is dovish.
- The balance of risks has moved towards an eventual rate cut. But for now, we expect the DN to continue with FX interventions as the preferred tool to tame the DKK upside. Should the size of FX interventions increase further from here, DN will consider a cut.

ING forecasts (mkt fwd)	1M 7.436 (7.438)	3M 7.440 (7.439)	6M 7.445 (7.440)	12M 7.450 (7.442)

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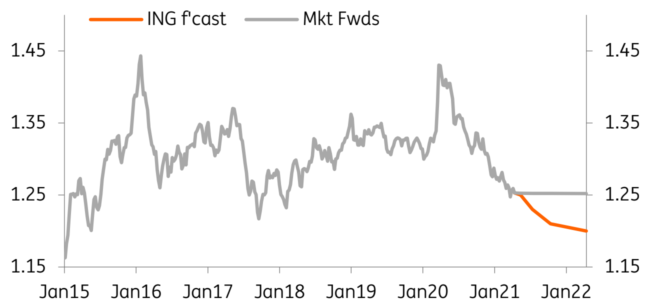
USD/CAD

Tapering versus third wave **Current spot: 1.253**



Source: Refinitiv, ING

- A spike in Covid cases in Canada is causing a re-rating of the so-far strong recovery story that has supported CAD in 2021. Canada has only vaccinated half (16%) the percentage of population than that achieved in the US.
- We doubt this will discourage the BoC from moving forward with its tapering announcement at the 21 April meeting, also considering the improved environment for bonds lately.
- BoC's tapering may broadly match market expectations, and CAD may be left vulnerable in the short term to the grim domestic story. Moving forward, vaccines should ultimately remove virus concerns from of the equation, and USD/CAD should consolidate in its downward trend towards 1.20.

ING forecasts (mkt fwd)	1M 1.25 (1.252)	3M 1.23 (1.252)	6M 1.21 (1.252)	12M 1.20 (1.252)

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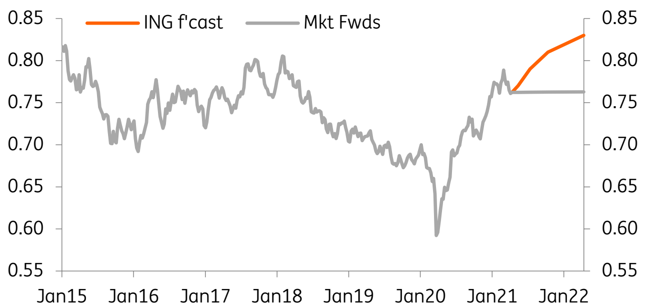
AUD/USD

Looking beyond the usual risks **Current spot: 0.762**



Source: Refinitiv, ING

- The RBA was successful in defending its 3-year bond target, but it will soon have to decide whether to keep the April 2024 bond as a target or to roll over to the November 2024 one.
- Rising house prices have been increasingly in focus in Australia, but macroprudential measures will come before any shift in the monetary policy stance to curb a housing bubble.
- AUD is still facing at least two key potential idiosyncratic downside risks – iron ore price correction and re-escalating tensions with China – but with the global recovery supporting risk assets, we think AUD/USD can climb above 0.80 in 2H21. However, the rate differential still points at a weaker AUD/NZD.

ING forecasts (mkt fwd)	1M 0.77 (0.762)	3M 0.79 (0.762)	6M 0.81 (0.763)	12M 0.83 (0.763)

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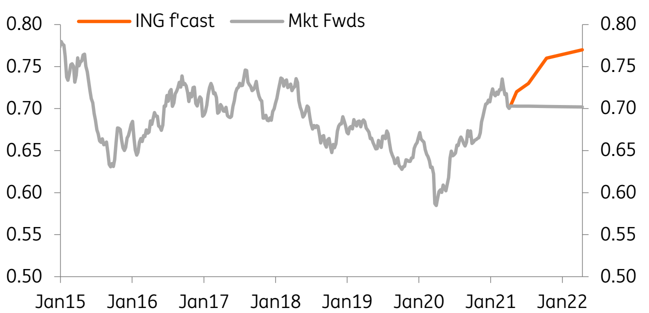
NZD/USD

Most negatives in the price **Current spot: 0.703**



Source: Refinitiv, ING

- After the NZ government announced measures to curb housing demand, RBNZ rate expectations dropped sizably.
- Indeed, the GDP contraction in 4Q20 should encourage the RBNZ to keep a dovish tone, although house prices are likely to determine the moves in rate expectations for longer.
- Negative rates are off the cards and there is no need to expand the already (too) large QE, so front-end rates can't reasonably fall further. This should put a limit to NZD downside, also considering that speculative net-long positioning is no longer overstretched and there is some short-term undervaluation (2%) to make up for. We still see NZD/USD rising above 0.75 in the second half of 2021.

ING forecasts (mkt fwd)	1M 0.720 (0.703)	3M 0.730 (0.703)	6M 0.760 (0.703)	12M 0.770 (0.702)

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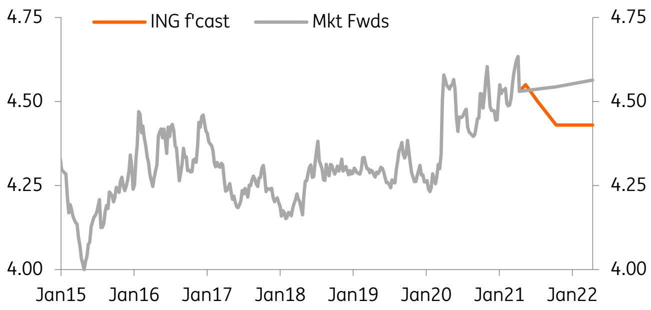
Emerging markets

EUR/PLN

Current levels unsustainable, a decline likely in late April **Current spot: 4.53**



Source: Refinitiv, ING

- Most of the FX [options positions opened ahead of the Supreme Court rulings (now delayed to 11 May) on FX mortgages]() have already expired (according to Bloomberg). Thus, the upside pressure on EUR/PLN should be limited.
- We expect any conversion to take place off-market, via NBP reserves. Otherwise it would result in a substantial depreciation of the zloty. Already it is widely expected that CPI will top 4% YoY in late 2021 and on average exceed the upper NBP target band.
- As the risk stemming from FX mortgages fades, we expect €/PLN to move back towards levels consistent with solid fundamentals (e.g. a current account surplus). Our model based on other market variables shows €/PLN equilibrium around 4.45.

ING forecasts (mkt fwd)	1M	3M	6M	12M
	4.55 (4.53)	4.50 (4.54)	4.43 (4.54)	4.43 (4.56)

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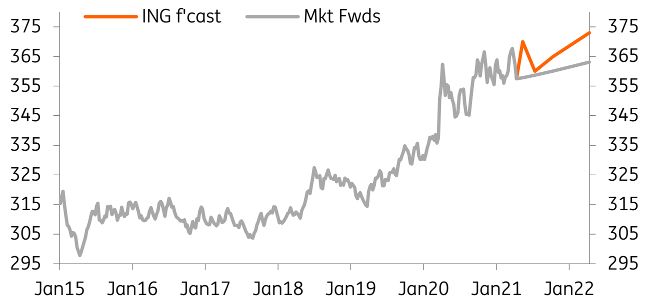
EUR/HUF

The calm in HUF could be ostensible **Current spot: 357.46**



Source: Refinitiv, ING

- Thanks to improving global risk appetite, HUF is among those benefiting from this along with other CEE FX. For the first time since February, EUR/HUF is back below 360.
- We see this ostensible peace coming to an end as soon as the April 5% YoY CPI figure arrives (11 May). The reopening of the economy, inflation spiking and double-digit nominal GDP growth will run counter to the NBH's wait-and-see approach and low rates.
- These may reinstate disorderly selling pressure in the HUF, pushing it to 370 again and in turn lead to emergency hikes via the 1-week depo rate. More than one 15bp hike is likely in 2Q and tightening should be frontloaded to reverse HUF weakness.

ING forecasts (mkt fwd)	1M	3M	6M	12M
	370.0 (357.83)	360.0 (358.69)	365.0 (360.09)	373.0 (363.10)

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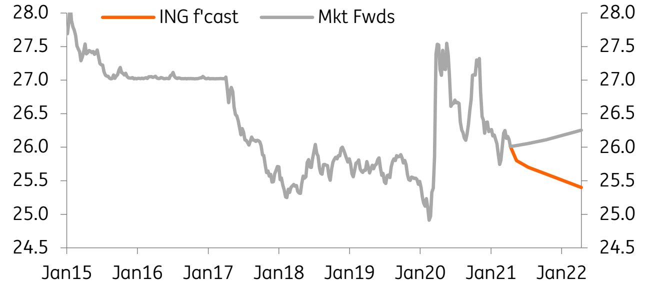
EUR/CZK

More CZK gains ahead **Current spot: 26.01**



Source: Refinitiv, ING

- EUR/CZK decisively pushed through the 26.00 level and we expect more CZK gains to come, targeting 25.50 in 2H21.
- CZK remains our top pick in the region. The CNB is the most fundamentally hawkish central bank in the CEE (we expect 50bp tightening in 4Q21 and three more 25bp hikes next year). Unlike its regional peers, the CNB does not lean against currency strength. The expected economic rebound in late 2Q and in 3Q (as vaccination gains pace) will be a CZK positive.
- Compared to the pre-pandemic period, CZK now benefits from the tailwind of the current account surplus. We expect the surplus to remain meaningful this year – around 2% of GDP.

ING forecasts (mkt fwd)	1M	3M	6M	12M
	25.80 (26.03)	25.70 (26.06)	25.60 (26.11)	25.40 (26.25)

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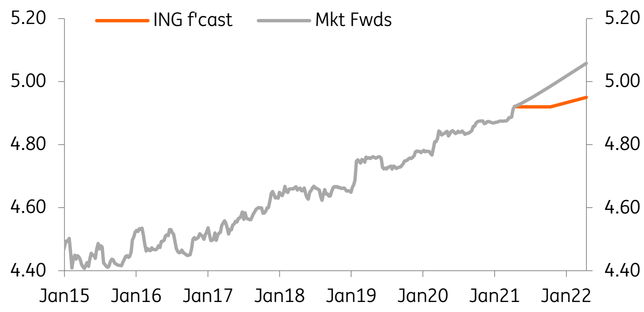
EUR/RON

The adjustment has finally happened

Current spot: 4.92



Source: Refinitiv, ING

- The long-awaited upward correction in EUR/RON has finally occurred and it closely matched our expectations. The pair started to be pushed back when trading above 4.9250, likely on the back of official offers.
- Following the re-adjustment higher, a period of prolonged stability should follow, with 4.9250 a strong resistance level and 4.8800 a good support on the downside.
- We re-affirm our 4.92 year-end forecast. The central bank will likely keep as many balls in the air for as long as possible. FX stability should remain sacrosanct, while the money market will be kept in check through a careful liquidity management policy.

ING forecasts (mkt fwd)	1M 4.92 (4.93)	3M 4.92 (4.95)	6M 4.92 (4.99)	12M 4.95 (5.06)

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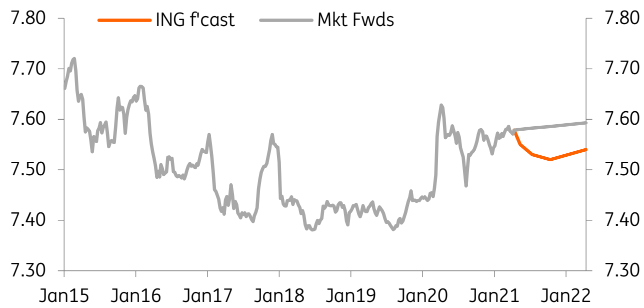
EUR/HRK

CNB to keep buying FX

Current spot: 7.58



Source: Refinitiv, ING

- EUR/HRK seems to have settled in a comfortable 7.55-7.58 range, which should soon be tested on the downside as the summer season looms.
- Croatian National Bank Governor Boris Vujcic recently stated that it expects the foreign exchange purchases of the central bank to be "very sizeable in the next couple of years". This is likely due to expected EU funds inflows, but we believe that it also signals a policy preference towards not permitting kuna appreciation.
- We maintain our year-end EUR/HRK forecasts at 7.53 and now see risks more balanced rather than skewed towards kuna appreciation as we have previously signalled.

ING forecasts (mkt fwd)	1M 7.55 (7.58)	3M 7.53 (7.58)	6M 7.52 (7.59)	12M 7.54 (7.59)

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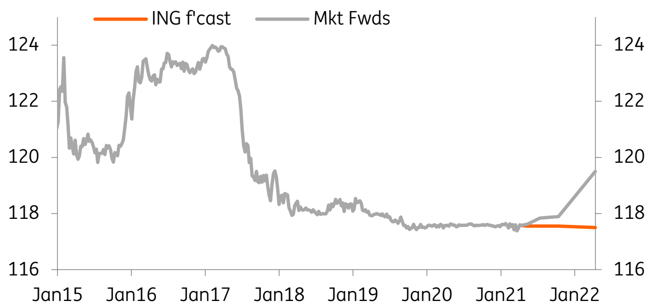
EUR/RSD

Managed float

Current spot: 117.58



Source: Refinitiv, ING

- With inflation in check, a strong macro outlook and so far a successful vaccination campaign, the National Bank of Serbia will likely continue through 2021 to pursue its FX-centred policy of ensuring relative dinar stability, while maintaining the interest rates at historical low levels.
- Particularly on the inflation side we remain slightly wary about the demand-side pressures which could surprise the policymakers given the context of direct fiscal stimuli and the approaching elections.
- Policy tightening should not come earlier than 1Q22 and it can be through a mixture of interest rate hikes and currency appreciation, though the latter will be limited.

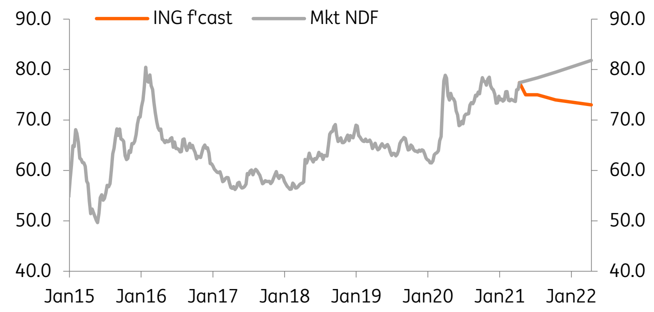
ING forecasts (mkt fwd)	1M 117.55 (117.62)	3M 117.55 (117.84)	6M 117.55 (117.89)	12M 117.50 (119.50)

Valentin Tataru, Bucharest +40 31 406 89 91

USD/RUB

Shift to 75-80 on country-specific factors

Current spot: 77.42



Source: Refinitiv, ING

- After staying at our 73 target till mid-March, RUB collapsed to 77-78 amid a stable EM risk environment. RUB's discount to peers widened from under 14% to above 16% on increased political tensions, leading to increased sanctions risks. These may be announced before a 4 June deadline.
- Portfolio outflows from OFZ intensified from US$1bn in February to US$1.6bn in March, but the local private outflow of US$4-8bn per month is a bigger concern.
- Given increased foreign policy tensions and likely tightening in some sanctions by mid-year, our previous 2Q21 target of 72 is no longer sustainable. However, if sanction risks fail to materialise, our year-end target of 73 is still viable.

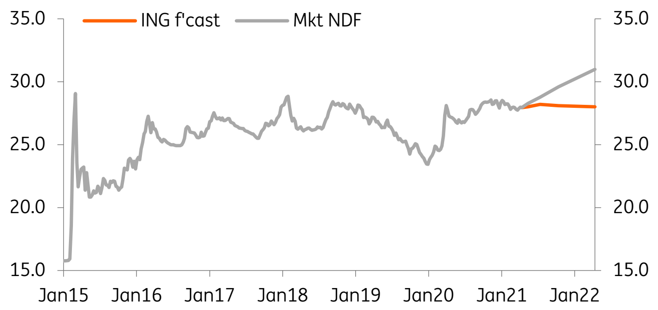
ING forecasts (mkt fwd)	1M	3M	6M	12M
	75.00 (77.72)	75.00 (78.38)	74.00 (79.49)	73.00 (81.82)

Dmitry Dolgin, Russia +7 495 771 7994

USD/UAH

NBU battles with rising inflation

Current spot: 27.94



Source: Refinitiv, ING

- We expect the Ukrainian currency to remain range-bound around 28.0. The global shift from services to industry has already provided some relief to the Ukraine economy, enjoying the benefits to its manufacturing sector. Also, the central bank is more willing to deliver monetary tightening than previously expected. Still, GDP growth should remain a major focus for the NBU, given the lack of fiscal space.
- External burdens remain a major risk though. Ukraine will continue to rely on external debt issuance. Market access for Ukraine will continue to rest on the IMF relationship and a full breakdown appears unlikely at this time.

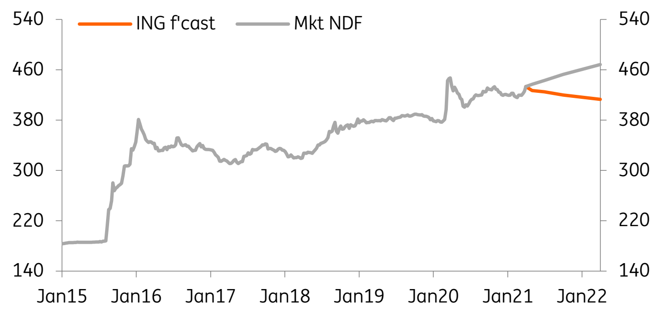
ING forecasts (mkt fwd)	1M	3M	6M	12M
	28.00 (28.27)	28.20 (28.77)	28.10 (29.59)	28.00 (30.98)

Piotr Poplawski, Warsaw +48 22 820 4078

USD/KZT

KZT under pressure from Russia and Covid

Current spot: 433.36



Source: Refinitiv, ING

- A new wave of Covid-19, the low speed of vaccination and RUB weakness (Russia accounts for 37% of Kazakhstan's imports) have derailed USD/KZT, pushing it to 430.
- OPEC+ eased Kazakhstan's quote restrictions by 20,000bbl/d in April, but the oversupply of 38,000bbl/d in March combined with planned oilfield repairs in April may limit the positive effect on the current account.
- USD/KZT has room for appreciation in 3Q-4Q based on ING's 2021 oil price forecast of US$64.5/bbl and the narrowing current account deficit to 1.8% of GDP. Meanwhile, the near-term prospects are clouded by Covid-19 and Ruble volatility.

ING forecasts (mkt fwd)	1M	3M	6M	12M
	427.00 (436.84)	425.00 (443.01)	420.00 (452.58)	413.00 (468.31)

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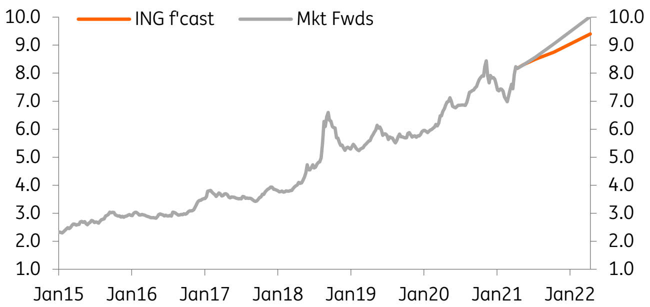
USD/TRY

Challenges continue on the inflation outlook

Current spot: 8.17



Source: Refinitiv, ING

- Following the March inflation print, in line with expectations, at 1.1% MoM, the annual figure has maintained an uptrend. This driven by broad-based service prices along with pressure on processed and international food prices, while clothing prices are well above their historical average.
- Rising Domestic Producer Price Index (D-PPI) inflation, on the other hand, to 31.2% reflects elevated cost-push pressures.
- After his appointment, Governor Kavcioglu has signalled that there would not be a major policy reversal and an early policy rate cut. With the latest inflation outlook and the recent currency volatility, the CBT is likely to remain on hold at the April MPC.

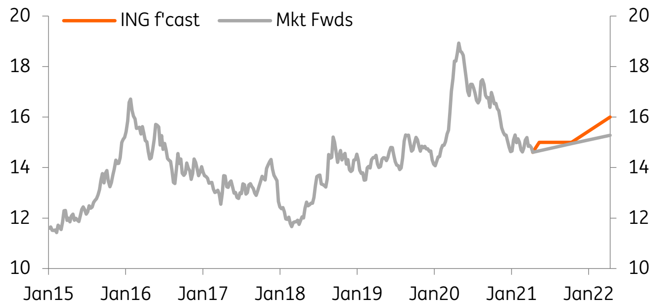
ING forecasts (mkt fwd)	1M 8.30 (8.30)	3M 8.50 (8.57)	6M 8.75 (9.05)	12M 9.40 (10.02)

Muhammet Mercan, Istanbul +90 212 329 0751

USD/ZAR

Trade balance holding up well, debt very much a burden

Current spot: 14.60



Source: Refinitiv, ING

- The ZAR is the best performing EM currency YTD, registering a net 1% gain against the dollar. It has certainly held up very well in the face of higher US yields, probably because of its better current account position. That was still at a net positive 3% of GDP in 4Q20 and even February 2021 trade data is still showing quite a healthy surplus. Here South Africa's weak domestic demand and strong commodity export position is helping the ZAR.
- South Africa's 50% increase in Terms of Trade certainly helps, though trade surplus should shrink as domestic demand picks up.
- It is undoubtedly expensive to hedge ZAR exposure, but high debt servicing costs (20% of government revenues) keep ZAR fragile.

ING forecasts (mkt fwd)	1M 15.00 (14.66)	3M 15.00 (14.78)	6M 15.00 (14.95)	12M 16.00 (15.28)

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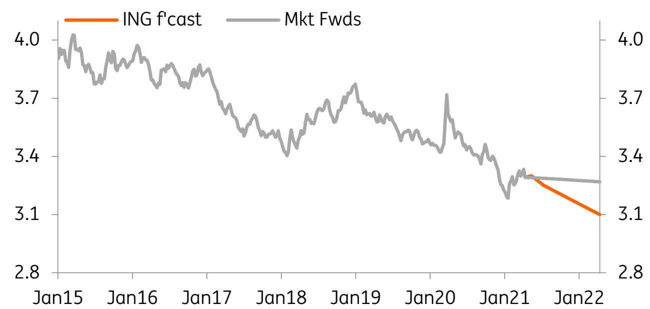
USD/ILS

BoI has so far used $13.7bn of its $30bn intervention plan

Current spot: 3.29



Source: Refinitiv, ING

- The market-led correction to the broad dollar bear trend in March means that the BoI did not have to do as much FX buying that month. While the BoI has bought US$13.7bn of FX in 1Q, well ahead of its annual US$30bn programme, we don't see $30bn as a constraint – it could always raise that to $50bn if it was struggling to rein in a strengthening Shekel.
- If we're right about the $ turning lower again later this year, we don't see the BoI showing too much concern with USD/ILS moving to 3.20 – coming at a time when both the Israeli and global recoveries are more assured.
- Expect Israeli assets to remain popular. For example, Israeli 10 year govt bond yields have risen only 33bp YTD – outperforming their EM peers and comparing well with Europe.

ING forecasts (mkt fwd)	1M 3.30 (3.29)	3M 3.25 (3.29)	6M 3.20 (3.28)	12M 3.10 (3.27)

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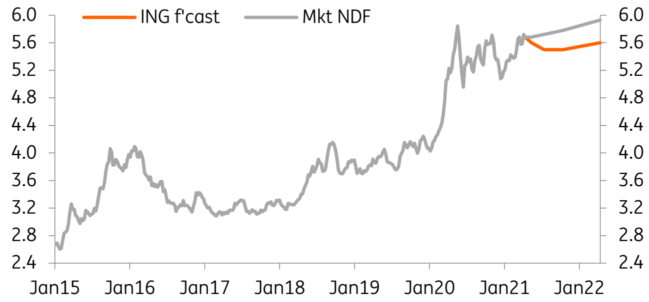
LATAM

USD/BRL

BACEN sharpens its defence of the Real — **Current spot: 5.68**



Source: Refinitiv, ING

- Brazilian assets have been big under-performers this year with the local Bovespa equity index down 1% YTD and Brazil local currency debt only outperforming Lebanon and Turkey. At the heart of the story is Brazil's battle with Covid, which only makes Brazil's fiscal challenges worse. A budget deficit near 9% of GDP, debt at 100% of GDP and debt servicing costs at 20% of government revenues all leave Brazil fiscally vulnerable.
- BACEN stepped up with a 75bp hike in March. 175bp of further tightening is priced for end-2021. FX intervention continue.
- Yet with inflation pushing up above 6%, real rates remain very negative and BACEN will continue to do battle in $/BRL at 5.80/90.

ING forecasts (NDF)	1M 5.60 (5.68)	3M 5.50 (5.72)	6M 5.50 (5.78)	12M 5.60 (5.93)

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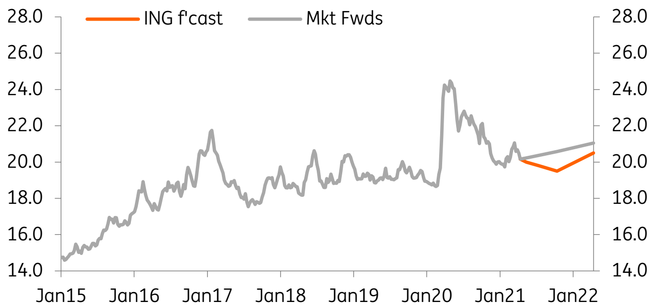
USD/MXN

Remittances could be very MXN positive in 2Q — **Current spot: 20.16**



Source: Refinitiv, ING

- MXN witnessed an important turn around in March, helped by Banxico unanimously voting to leave rates unchanged at 4.00%. Expectations of any further Banxico easing have declined and instead the market prices around 50bp of tightening by year-end as Banxico tries to keep real rates in positive territory.
- Also helping the MXN must be the large US stimulus package. Some of that stimulus will find its way to Mexico in the form of remittances. These are running at over $3bn per month and typically pick up in the second quarter.
- And economic ties leave Mexico well positioned to benefit from US growth in excess of 6% this year. Consensus expects Mexico to grow around 4.5% this year.

ING forecasts (mkt fwd)	1M 20.00 (20.23)	3M 19.80 (20.36)	6M 19.50 (20.58)	12M 20.50 (21.05)

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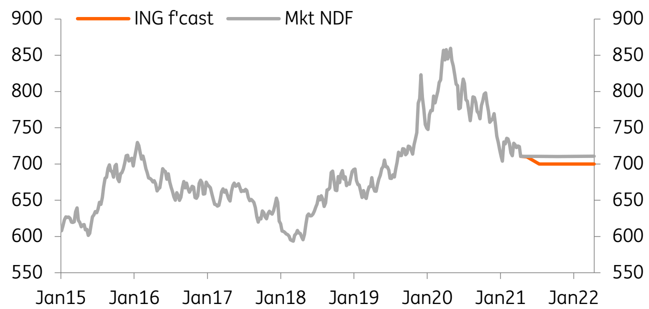
USD/CLP

Pressing the $/700 level — **Current spot: 710.60**



Source: Refinitiv, ING

- The CLP is performing very well, despite the government's mixed record on the pandemic. On the one hand, Chile has done brilliantly to get 39% of its population vaccinated. But perhaps too early a softening of lockdown restrictions has seen Covid-19 cases spike and much of the country return to lockdown.
- We think the market is right to reward the vaccine progress and USD/CLP is again not far from the $/700 level which prompted the central bank to announce a $12bn intervention programme.
- Our commodities team expect copper to stay bid near $8/9k/MT this year, helping sustain Chile's copper exports at over $4bn per month. Let's see whether the intervention plan is increased.

ING forecasts (NDF)	1M 710.0 (710.65)	3M 700.0 (710.54)	6M 700.0 (710.32)	12M 700.0 (710.85)

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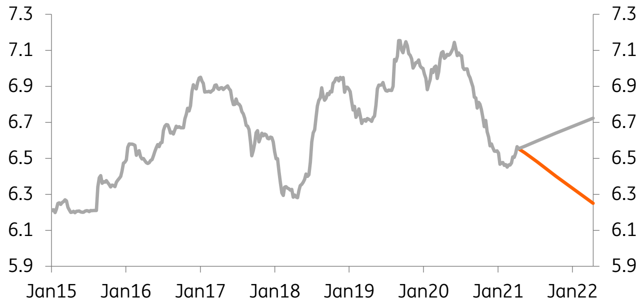
Asia

USD/CNY

Depreciation driven by weak dollar **Current spot: 6.55**



Source: Refinitiv, ING

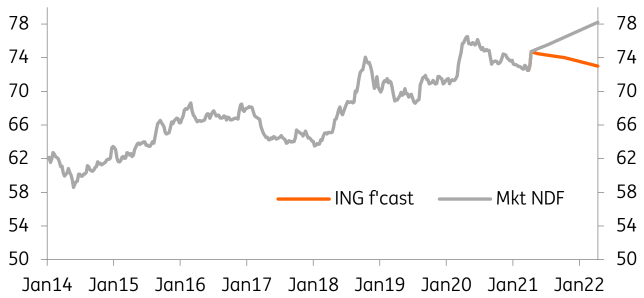
- The yuan depreciated against the dollar for the whole of March 2021. We therefore have revised the pair's forecasts to 6.30 by end 2021.
- This revision is mainly due to the stronger-than-expected dollar, which has been driven by a few things, including Covid restrictions in Europe, occasional increases in Covid cases in the US, the Suez Canal incident, and speculation on Fed policy.
- Domestically, we do not see sign of weakness in the economy. Quite the opposite, the Chinese central government has been deepening the deleveraging reform of real estate developers. This shows that the economy is growing on the right track.

ING forecasts (mkt fwd)	**1M** 6.530 (6.57)	**3M** 6.480 (6.60)	6M 6.400 (6.64)	**12M** 6.250 (6.72)

Iris Pang, Hong Kong +852 2848 8071

USD/INR

Covid-19 second wave is here and it's worse than the first **Current spot: 74.73**



Source: Refinitiv, ING

- The INR surprisingly bucked the global sell-off in March, but the strength fizzled out in April as the rapid second wave of Covid-19 forced the Reserve Bank of India to open its liquidity taps wide. The INR gave away all the appreciation it had since Nov-2020.
- A 7-fold jump in daily new Covid-19 cases in just one month (currently 126k) suggests a far more intense second wave than the first which took six months for the daily cases to peak at 97k. This will derail the recovery, while inflation also is on an upswing.
- The Legislative Assembly elections in West Bengal and few other states taking place during April-May will be a vote of confidence in PM Modi's government handling of the crisis.

ING forecasts (mkt fwd)	**1M** 74.50 (75.01)	**3M** 74.30 (75.55)	**6M** 74.00 (76.45)	**12M** 73.00 (78.21)

Prakash Sakpal, Singapore +65 6232 6181

USD/IDR

IDR pressured anew with BI forced to hold **Current spot: 14565.00**

Source: Refinitiv, ING

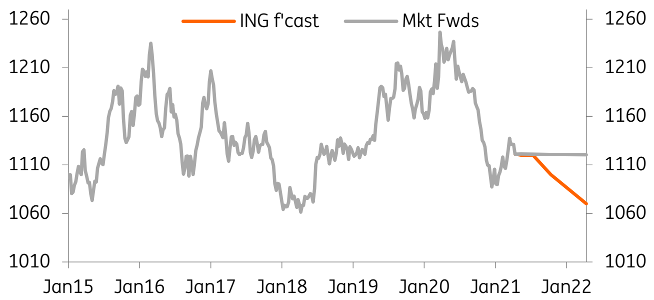
- The IDR was pressured anew in March with rising global bond yields forcing some foreign investors to exit from the bond market. Anxiety over proposed legislation that is viewed to undermine monetary policy independence also added pressure.
- Bank Indonesia (BI) was forced to pause at their policy meeting as it vowed to support the IDR given the recent depreciation pressure. BI had signalled space for additional cuts was limited and we expect them to be on hold in the near term.
- We expect the IDR to remain pressured in the near term as global bond yields are expected to track the move of US Treasuries with the reflation story gaining steam.

ING forecasts (mkt fwd)	**1M** 14485 (14605.50)	**3M** 14515 (14672.00)	**6M** 14472 (14785.50)	**12M** 14498 (15077.50)

Nicholas Mapa, Philippines +63 2479 8855

USD/KRW

Making up lost ground **Current spot: 1121.12**



Source: Refinitiv, ING

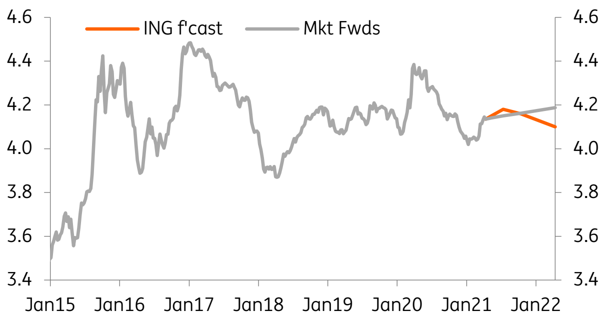
- The KRW has recovered some of the ground it lost last month and now pushed down through our end-1Q21 USDKRW 1120 forecast. That said, it remains volatile, and subject to big swings in portfolio flows into the Korean Treasury bond market.
- With a less dramatic EUR/USD backdrop now expected, we are scaling back the KRW appreciation we previously had pencilled in, pushing it back towards the second half of the year, and reducing its pace.
- We still don't expect any tightening from the BoK in 2021. But if you had to choose which Asian central banks would be first to tighten policy in this upturn, the BoK would definitely be one.

ING forecasts (NDFs)	1M 1120 (1121.22)	3M 1120 (1121.07)	6M 1100 (1120.72)	12M 1070 (1120.42)

Rob Carnell, Singapore +65 6232 6020

USD/MYR

Under pressure from plunging oil **Current spot: 4.14**



Source: Refinitiv, ING

- The MYR shifted from being an Asian outperformer in February to an underperformer in March. The crash in global oil prices in March amidst recent blockage of the Suez Canal explains this performance shift, while domestic politics continues to weigh.
- The second wave of Covid-19 has been subsiding. PM Muhyiddin Yassin announced an extra stimulus of MYR20bn (1.4% of GDP) to soften the blow. Separately, the central bank (BNM) unveiled MYR700m in funding support for SMEs.
- A year-long negative inflation trend ended in February (+0.1% YoY). The base effects will push inflation further up in the months ahead. BNM will see through it and remain on hold in 2021.

ING forecasts (mkt fwd)	1M 4.150 (4.14)	3M 4.180 (4.15)	6M 4.160 (4.16)	12M 4.100 (4.19)

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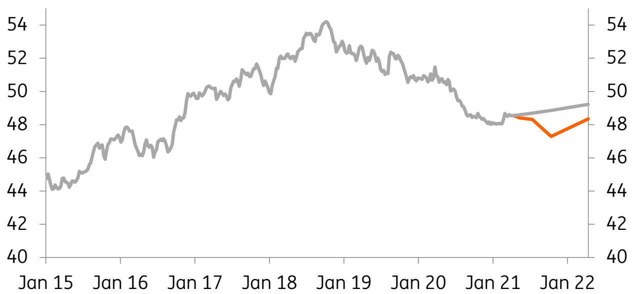
USD/PHP

PHP appreciates unexpectedly as import demand softens **Current spot: 48.55**



Source: Refinitiv, ING

- The PHP was initially weaker on concerns about possible central bank tightening due to rising global bond yields. PHP managed to stabilize by the end of the month as import demand dried up with authorities forced to reinstate strict lockdowns after Covid-19 infections spiked.
- Bangko Sentral ng Pilipinas (BSP) kept policy rates unchanged at its meeting despite accelerating inflation to help support the fledgling economic recovery.
- PHP will likely remain stable in the coming months, outperforming the region as import demand stays light due to renewed economic lockdowns.

ING forecasts (mkt fwd)	1M 48.40 (48.60)	3M 48.32 (48.70)	6M 47.29 (48.86)	12M 48.35 (49.22)

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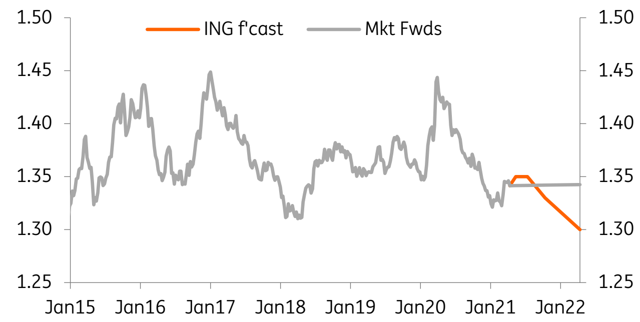
USD/SGD

MAS not ready to tighten the policy just yet

Current spot: 1.341



Source: Refinitiv, ING

- The SGD has not escaped the global sell-off in March. It briefly traded above 1.35 against the USD in early March before settling in a new higher trading range of 1.34-1.35 than 1.32-1.33 earlier. We have revised our USD/SGD forecast higher.
- Meanwhile, strong Jan-Feb NODX and manufacturing surges by 8% YoY and 12% YoY respectively herald much faster 1Q21 GDP growth than our 0.2% YoY forecast for the quarter. Inflation has also gained further traction in the positive territory.
- All eyes are on the Monetary Authority of Singapore's half-yearly policy statement in April. As the global Covid-19 spread threatens recovery, we don't think the MAS is ready to tighten just yet.

ING forecasts (mkt fwd)	**1M** 1.320 (1.330)	**3M** 1.310 (1.329)	**6M** 1.305 (1.329)	**12M** 1.290 (1.328)

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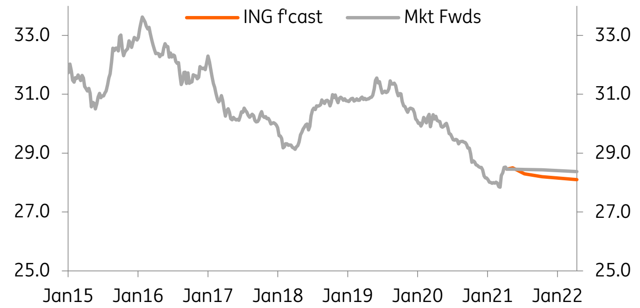
USD/TWD

Long term issue with chip production

Current spot: 28.46



Source: Refinitiv, ING

- TWD depreciated against the dollar in March. And we take this chance to revise the pair's forecast to 28.10 from 26.88.
- The weakness lies not only in the shortage of semiconductor chips, but also the adverse weather in Taiwan. The drought since last summer is having a negative impact on the production of semiconductor chips.
- Given delivery challenges, global semiconductor buyers have been driven to prepare for a backup plan if there are further shortages of chips from Taiwan.
- Buyers are increasingly sourcing from more producers. This is negative for TWD not only for the short term, but also for the long term.

ING forecasts (mkt fwd)	**1M** 28.50 (28.45)	**3M** 28.30 (28.45)	**6M** 28.20 (28.43)	**12M** 28.10 (28.37)

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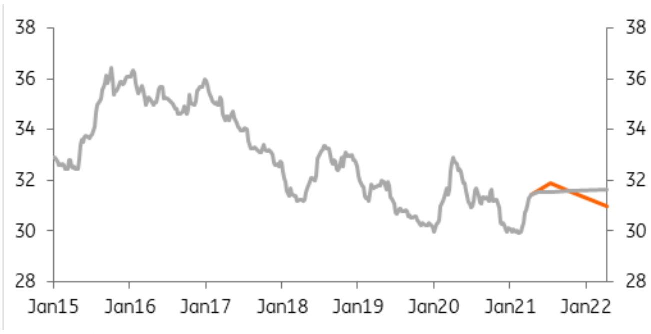
USD/THB

Weak currency is something they wanted all along

Current spot: 31.46



Source: Refinitiv, ING

- The THB's 3.7% depreciation against the USD in March puts it at the bottom of the Asian FX performance table. The authorities should celebrate the currency weakness, something that they strived hard to achieve via many policy steps recently but failed.
- Indeed, weak THB is their best hope of exports and tourism recovery whenever it comes along. And, the hope is receiving support from deteriorating external payments.
- As the central bank continues take a backseat on stimulus, the Cabinet cleared the way for THB250bn (1.6% of GDP) support package for businesses in March. More than stimulus, what Thailand needs is a return of tourism which may not come over the course of 2021.

ING forecasts (mkt fwd)	**1M** 31.60 (31.52)	**3M** 31.90 (31.55)	**6M** 31.60 (31.59)	**12M** 31.00 (31.63)

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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	1.19	1.20	1.22	1.25	1.28						
EUR/JPY	130.5	132.00	131.76	135.00	138.24	USD/JPY	109.67	110	108	108	108
EUR/GBP	0.87	0.85	0.85	0.85	0.84	GBP/USD	1.37	1.41	1.44	1.47	1.52
EUR/CHF	1.10	1.11	1.13	1.14	1.15	USD/CHF	0.93	0.93	0.93	0.91	0.90
EUR/NOK	10.11	10.00	9.90	9.85	9.75	USD/NOK	8.49	8.33	8.11	7.88	7.62
EUR/SEK	10.16	10.10	10.00	9.85	9.70	USD/SEK	8.54	8.42	8.20	7.88	7.58
EUR/DKK	7.437	7.436	7.440	7.445	7.450	USD/DKK	6.25	6.20	6.10	5.96	5.82
EUR/CAD	1.49	1.50	1.50	1.51	1.54	USD/CAD	1.253	1.25	1.23	1.21	1.20
EUR/AUD	1.56	1.56	1.54	1.54	1.54	AUD/USD	0.76	0.77	0.79	0.81	0.83
EUR/NZD	1.69	1.67	1.67	1.64	1.66	NZD/USD	0.70	0.72	0.73	0.76	0.77
EMEA											
EUR/PLN	4.53	4.55	4.50	4.43	4.43	USD/PLN	3.81	3.79	3.69	3.54	3.46
EUR/HUF	357.5	370.00	360.00	365.00	373.00	USD/HUF	300.6	308	295	292	291
EUR/CZK	26.01	25.8	25.7	25.6	25.4	USD/CZK	21.86	21.5	21.1	20.5	19.8
EUR/RON	4.92	4.92	4.92	4.92	4.95	USD/RON	4.14	4.10	4.03	3.94	3.87
EUR/HRK	7.58	7.55	7.53	7.52	7.54	USD/HRK	6.37	6.29	6.17	6.02	5.89
EUR/RSD	117.6	117.6	117.6	117.6	117.5	USD/RSD	98.8	98.0	96.4	94.0	91.8
EUR/RUB	92.00	90.0	91.5	92.5	93.4	USD/RUB	77.42	75.0	75.0	74.0	73.0
EUR/UAH	33.22	33.6	34.4	35.1	35.8	USD/UAH	27.94	28.00	28.20	28.10	28.00
EUR/KZT	515.1	512.4	518.5	525.0	528.6	USD/KZT	433.4	427	425	420	413
EUR/TRY	9.72	9.96	10.37	10.94	12.03	USD/TRY	8.17	8.30	8.50	8.75	9.40
EUR/ZAR	17.37	18.0	18.3	18.8	20.5	USD/ZAR	14.60	15.00	15.00	15.00	16.00
EUR/ILS	3.92	3.96	3.97	4.00	3.97	USD/ILS	3.29	3.30	3.25	3.20	3.10
LATAM											
EUR/BRL	6.76	6.72	6.71	6.88	7.17	USD/BRL	5.68	5.60	5.50	5.50	5.60
EUR/MXN	23.98	24.0	24.2	24.4	26.2	USD/MXN	20.16	20.00	19.80	19.50	20.50
EUR/CLP	845.83	852	854	875	896	USD/CLP	710.60	710	700	700	700
Asia											
EUR/CNY	7.80	7.84	7.91	8.00	8.00	USD/CNY	6.55	6.53	6.48	6.40	6.25
EUR/HKD	9.26	9.34	9.47	9.69	9.95	USD/HKD	7.78	7.78	7.76	7.76	7.77
EUR/IDR	17085	17382	17708	18090	18557	USD/IDR	14565	14485	14515	14472	14498
EUR/INR	88.96	89.4	90.6	92.5	93.4	USD/INR	74.73	74.50	74.30	74.00	73.00
EUR/KRW	1334.47	1344	1366	1375	1370	USD/KRW	1121.12	1120	1120	1100	1070
EUR/MYR	4.92	4.98	5.10	5.20	5.25	USD/MYR	4.14	4.15	4.18	4.16	4.10
EUR/PHP	57.79	58.1	59.0	59.1	61.9	USD/PHP	48.55	48.4	48.32	47.29	48.35
EUR/SGD	1.60	1.62	1.65	1.66	1.66	USD/SGD	1.34	1.35	1.35	1.33	1.30
EUR/TWD	33.87	34.2	34.5	35.3	36.0	USD/TWD	28.46	28.5	28.3	28.2	28.1
EUR/THB	37.43	37.9	38.9	39.5	39.7	USD/THB	31.46	31.6	31.9	31.6	31.0

Source: Refinitiv, ING

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