ING

THINK Economic and Financial Analysis

FX Talking

August 2023

The dollar's still got the groove

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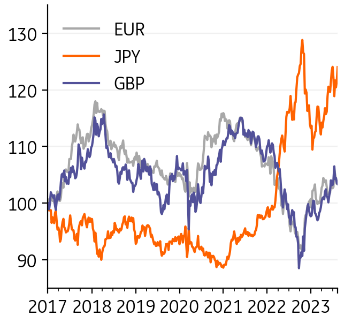
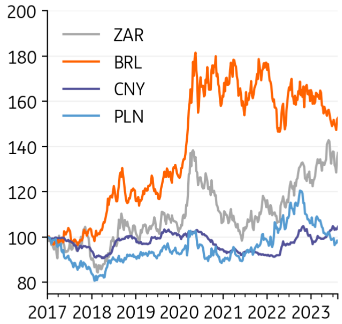
The dollar's still got the groove

USD/Majors (4 Jan 15=100)



Source: Refinitiv, ING forecast

USD/EM (4 Jan 15=100)



Source: Refinitiv, ING forecast

Far from June signalling the next leg of the dollar's cyclical decline, it merely represented noise in a largely range-bound summer for FX markets. It seems that US disinflation is just not enough to drive the dollar lower on a sustained basis. For that to happen we will need to see either the strong US activity data (particularly the labour market) start to weaken or a much more positive assessment of Chinese or European growth prospects.

Our call is still that US activity will succumb to tighter credit conditions later this year, inflation should move back to target and the Fed should be cutting rates by March 2024. After some more range-bound trading over this summer, clearer signs of the dollar bear trend should be emerging into the fourth quarter – a seasonally weak period for the $.

Until then the prospect of major central banks having virtually finished tightening cycles and keeping policy unchanged for an extended period is depressing interest rate volatility. This fuels interest in carry trade strategies, where popular funding currencies remain the north Asia trio of Japanese yen, Chinese renminbi and Taiwanese dollar.

Unless we see another shock emerging – perhaps from China's real estate sector or the US bond market – it looks as though interest in carry will continue. This will see ongoing demand for the Latam high yielders and probably trigger BoJ intervention to sell USD/JPY in the 145-150 area. For EUR/USD, this probably means further range trade in the 1.09-1.11 area before a hard-fought move to 1.15 by year-end.

Two final points. AUD/USD looks very cheap and the Swiss National Bank's FX intervention has made the Swiss franc the strongest currency in the G10 space this year.

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Our main calls this month

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.10	↑	140	↓	1.28	↑
3M	1.12	↑	135	↓	1.29	↑
6M	1.15	↑	130	↓	1.31	↑
12M	1.18	↑	120	↓	1.34	↑
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.86	→	24.50	↑	4.43	↓
3M	0.87	→	24.25	↓	4.50	↑
6M	0.88	↑	24.00	↓	4.52	→
12M	0.88	→	23.50	↓	4.45	↓
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	7.25	↑	17.00	↓	4.80	↓
3M	7.15	↓	17.00	↓	4.80	↓
6M	7.00	↓	16.75	↓	4.80	↓
12M	6.80	↓	16.50	↓	4.80	↓

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

Source: Refinitiv, ING forecast

FX performance

	EUR/USD	USD/JPY	EUR/GBP	EUR/NOK	AUD/USD	USD/CAD
%MoM	-0.3	3.1	1.4	0.2	-2.5	1.4
%YoY	7.0	8.5	2.1	16.3	-8.5	5.0
	USD/CNY	**USD/KRW**	**EUR/HUF**	**EUR/PLN**	**USD/ZAR**	**USD/BRL**
%MoM	0.3	2.4	0.9	-0.1	2.1	0.6
%YoY	7.3	1.7	-2.8	-4.9	16.8	-3.8

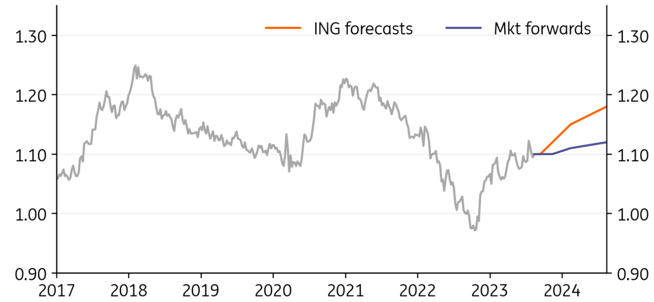
Source: Refinitiv, ING forecast

Developed markets

EUR/USD

Dollar resilience continues

Current spot: 1.0998



Source: Refinitiv, ING forecasts

- Last month we thought the softer US CPI could be the trigger for a cyclical dollar decline – but that has not been the case. Two factors are probably driving this dollar resilience. The first is that US activity (particularly the labour market and consumption) are holding up well, even as growth prospects in China and the eurozone appear to deteriorate.
- The second is the prospect of the Fed staying on hold for an extended period. Low US rate volatility favours the carry trade. With 5%+ overnight rates, the dollar looks neutral here.
- Our house call is, however, that US disinflation continues, activity slows and the Fed cuts in 1Q24. $ decline should take hold 4Q23.

ING forecasts (mkt fwd)	1M 1.10 (1.1014)	3M 1.12 (1.1046)	6M 1.15 (1.1102)	12M 1.18 (1.1191)

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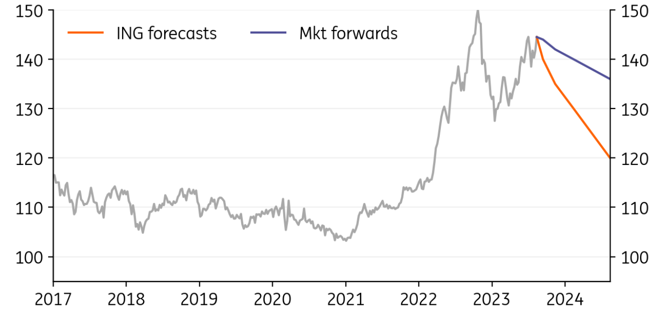
USD/JPY

Carry trade keeps yen under pressure

Current spot: 144.50



Source: Refinitiv, ING forecasts

- As above, quiet markets this summer have favoured the carry trade. Popular funding currencies here remain the JPY and the CNY. Occasional bouts of risk off, like the bond sell-off in early August, will trigger brief short covering rallies in the JPY. But we need to see a sustained rise in volatility to upset the carry trade.
- July's tweak to the BoJ's Yield Curve Control (opaquely lifting the cap on 10yr JGB yields to 1.00% from 0.5%) has failed to lift the yen. No further BoJ change should be expected until late October.
- It looks like the BoJ will have to intervene again above 145 to limit USD/JPY topside and we assume our call for a weaker dollar in 4Q plus some further BoJ adjustments will send it back to 130.

ING forecasts (mkt fwd)	1M 140 (143.81)	3M 135 (142.42)	6M 130 (140.24)	12M 120 (136.44)

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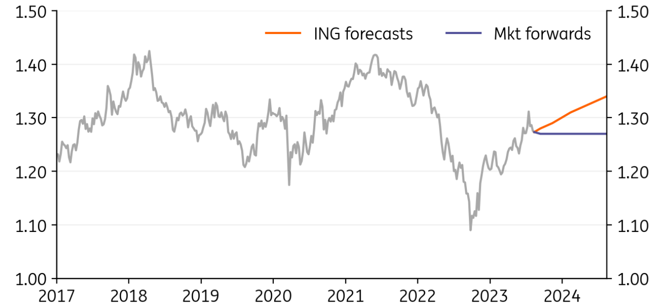
GBP/USD

BoE expectations pared back – not quite enough

Current spot: 1.2732



Source: Refinitiv, ING forecasts

- The dollar's resilient performance in July has seen GBP/USD edge lower. That has been partially helped by the re-rating of the Bank of England tightening cycle, where the Bank Rate is now priced at 5.70% for next February - some 70bp lower than where it was priced at the start of July.
- The BoE is still sounding hawkish and barring a downside surprise to the July CPI or wage data, we look for one final BoE hike in September. But 5.50% should be the peak.
- As for the dollar, the carry trade is neutral for sterling given its 5%+ yields. And if we're right with the call for seasonal and cyclical $ weakness in 4Q23, Cable should be trading near 1.30.

ING forecasts (mkt fwd)	1M 1.28 (1.2735)	3M 1.29 (1.2736)	6M 1.31 (1.2737)	12M 1.34 (1.2706)

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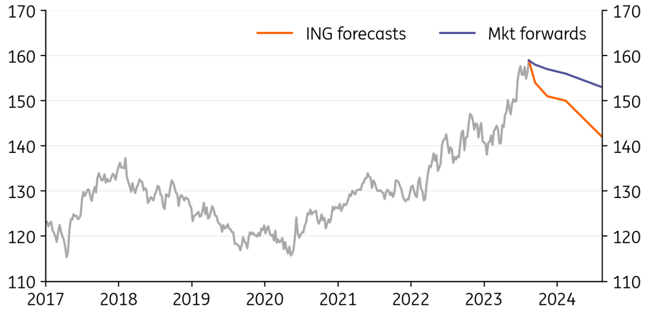
EUR/JPY

Global soft landing keeps EUR/JPY bid

Current spot: 158.92



Source: Refinitiv, ING forecasts

- As usual, equity markets seem to be climbing the wall of worry – whether those worries come from recessions or the prospect of some financial distress from, for example, China's property market. Instead, low unemployment rates are being seen as facilitating soft landings – which is a JPY negative.
- BoJ intervention in the 145-150 area in USD/JPY will occasionally interfere in EUR/JPY pricing, but it will take some global shock – or some very aggressive policy normalisation from the BoJ - to turn this EUR/JPY bull trend around.
- Arguably 2024 will be a more volatile year for risk assets as the November 2024 US elections come into view.

ING forecasts (mkt fwd)	1M 154 (158.39)	3M 151 (157.32)	6M 150 (155.70)	12M 142 (152.69)

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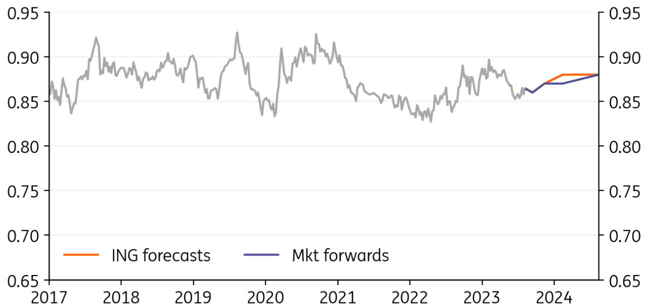
EUR/GBP

Don't write off further hikes from the ECB just yet

Current spot: 0.8638



Source: Refinitiv, ING forecasts

- EUR/GBP is nudging higher – largely on the back of the softer BoE pricing. Regarding the European Central Bank, the market prices 18bp of a 25bp rate hike by year-end – which is probably too little. We think the ECB will push ahead with a further hike in September despite activity levels starting to slow.
- The big question for the eurozone in 2H23 is whether activity levels slow as much as business surveys suggest. We think the ECB will have to downsize its second-half growth forecasts.
- Sterling should also be weighed by developments in the UK housing market, where the feed-through of higher policy rates into mortgage costs will be a pressing theme throughout 2024.

ING forecasts (mkt fwd)	1M 0.86 (0.8649)	3M 0.87 (0.8674)	6M 0.88 (0.8718)	12M 0.88 (0.8808)

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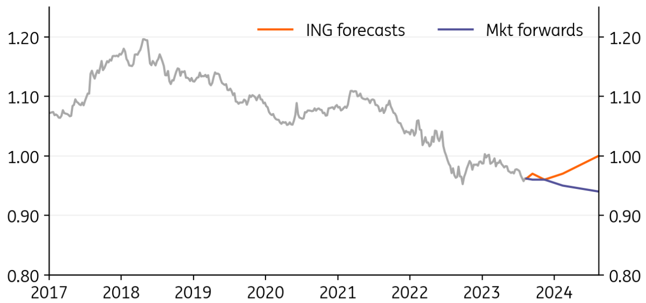
EUR/CHF

SNB is managing CHF stronger more quickly

Current spot: 0.9617



Source: Refinitiv, ING forecasts

- Readers of this section will know that we spend a lot of time talking about the real CHF exchange rate and how the Swiss National Bank keeps it stable by selling FX reserves and guiding the nominal trade weighted exchange rate higher. Looking at the July CHF trade-weighted numbers released by the SNB, the nominal CHF is now 8% stronger YoY and the real CHF is 4% YoY stronger too. It almost seems as though the SNB wants an even stronger CHF.
- We do not see the 2Q23 FX intervention figures until the end of September, but FX reserves are still falling at a fast pace.
- The CHF is the strongest G10 currency this year (helped by the SNB) and EUR/CHF direction of travel looks to be to the 0.95 area.

ING forecasts (mkt fwd)	1M 0.97 (0.9600)	3M 0.96 (0.9566)	6M 0.97 (0.9514)	12M 1.00 (0.9422)

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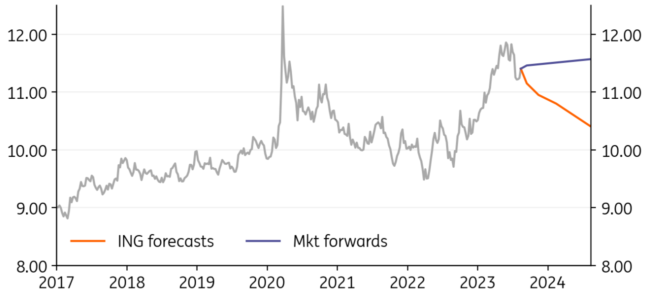
EUR/NOK

No strong arguments against NOK recovery

Current spot: 11.40



Source: Refinitiv, ING forecasts

- We had been calling for the good fundamentals of the Norwegian krone to place it in an advantageous position once the market eyed the end of global tightening cycles. Now that we are observing some NOK recovery, we don't have strong arguments against it.
- It's worth remembering that the NOK is the least liquid G10 currency, so any shocks to risk sentiment would cause sizeable downside risks. Bumps on the road are possible (a temporary equity correction after the big rally, perhaps), but we expect high-beta currencies to attract more demand into year-end.
- Domestically, markets are underestimating the risks of another Norges Bank hike after August, and the economic outlook still looks resilient. EUR/NOK is on track to test 11.00 by 4Q.

ING forecasts (mkt fwd)	1M 11.15 (11.46)	3M 10.95 (11.48)	6M 10.80 (11.51)	12M 10.40 (11.57)

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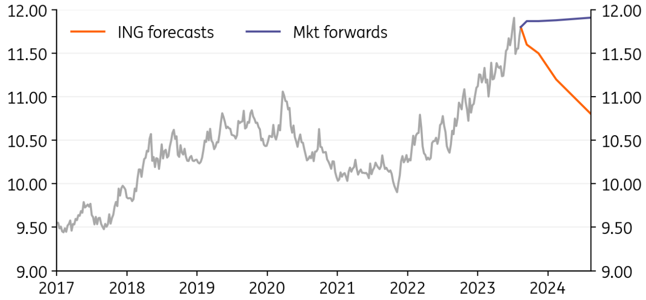
EUR/SEK

Krona embedding a good deal of negatives

Current spot: 11.80



Source: Refinitiv, ING forecasts

- The krona remains the G10 currency with most domestic risks. The SBB saga keeps generating worries on the real-estate market and financial stability, despite the recent rebound in house prices.
- Incidentally, GDP contracted more than expected (-2.5% QoQ in 2Q), and other economic indicators have stayed weak. Still, SEK is now pricing in most of these domestic risks: they should not dissipate soon, but the bar for new selloffs may be higher.
- Furthermore, inflation (especially core) has remained too sticky for the Riksbank to swing on the dovish side. Market expectations are flat after a September hike, so there is room for the RB to support SEK. We still expect EUR/SEK to trend lower by year-end.

ING forecasts (mkt fwd)	1M 11.60 (11.80)	3M 11.50 (11.81)	6M 11.20 (11.81)	12M 10.80 (11.84)

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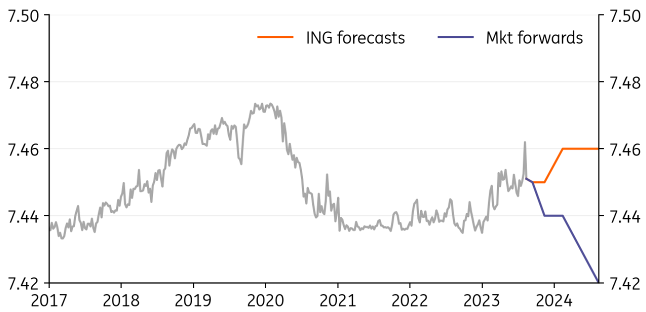
EUR/DKK

Comfortable levels for the central bank

Current spot: 7.4511



Source: Refinitiv, ING forecasts

- Danmarks Nationalbank did not buy or sell DKK in FX interventions for the six straight month in July.
- EUR/DKK has continued to face some upside pressure after last month and was very little impacted by the DN decision to follow the ECB with a 25bp in July.
- The current levels (above 7.4500) are granting a safety cushion to the pair that should keep the DN away from FX interventions for longer, as well as probably disincentivise under-tightening compared to the ECB. In line with our ECB forecast, we expect one last hike in Denmark before the end of the year. EUR/DKK should keep trending modestly higher in the coming months.

ING forecasts (mkt fwd)	1M 7.45 (7.4485)	3M 7.45 (7.4438)	6M 7.46 (7.4363)	12M 7.46 (7.4236)

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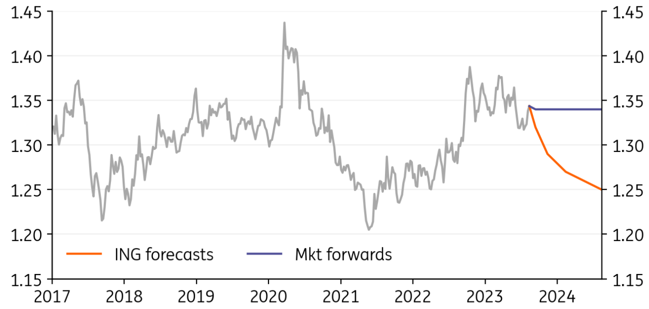
USD/CAD

Bank of Canada tightening on ice

Current spot: 1.3436



Source: Refinitiv, ING forecasts

- Data releases since the Bank of Canada July hike have been quite mixed. Headline inflation slowed more than expected, even though core stayed resilient, GDP numbers were strong, but July's jobs data showed a loss in net employment. The BoC should refrain from hiking again on the back of that.
- The rise in oil prices has been overshadowed by the unsupportive environment for high-beta currencies in the past month. CAD remains in a good position to recover, although its exposure to the US growth story could hinder gains further down the road.
- We take stock of the recent correction, but the chances of a break below 1.30 around the turn of the year as USD enters a steady decline pattern still look reasonably high in our view.

ING forecasts (mkt fwd)	1M 1.32 (1.3431)	3M 1.29 (1.3420)	6M 1.27 (1.3400)	12M 1.25 (1.3390)

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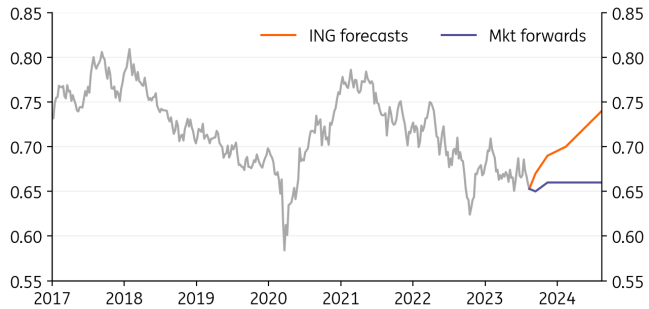
AUD/USD

Lots to like about AUD

Current spot: 0.6529



Source: Refinitiv, ING forecasts

- The recent woes in the Chinese property market present some risks for all currencies exposed to China's sentiment, but AUD is already embedding a risk premium that we strongly believe is attributable to China's recent growth re-rating.
- Aside from that, we see plenty of reasons to like the Aussie dollar. Markets are under-pricing another RBA hike, which is our base case given upside risks to inflation and can benefit from an improved commodity picture and risk stabilisation later this year.
- AUD/USD is undervalued both in the short- and medium-term, and while USD could stay resilient for a bit longer, the end of Fed tightening should see AUD outperform in the coming quarters.

ING forecasts (mkt fwd)	1M 0.67 (0.6537)	3M 0.69 (0.6551)	6M 0.70 (0.6571)	12M 0.74 (0.6594)

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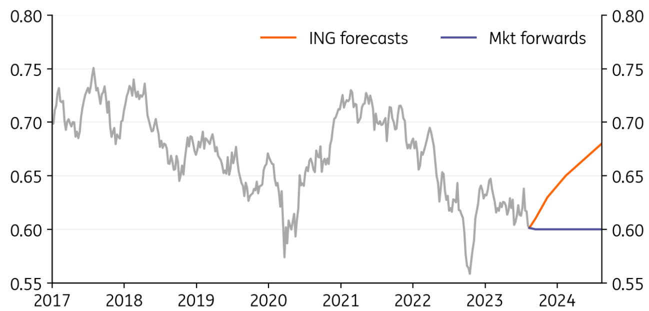
NZD/USD

RBNZ can't depress expectations much further

Current spot: 0.6013



Source: Refinitiv, ING forecasts

- The Reserve Bank of New Zealand has had a chance to look at two key economic indicators since the July meeting: 2Q inflation and employment. The former was higher than expected, but broadly in line with the Bank's estimates despite showing unwelcome core resilience. Unemployment ticked higher, and wages rose less than feared.
- Inflation expectations failed to drop in the latest survey, but a deteriorating economic outlook should keep the RBNZ from sounding too hawkish at the August meeting.
- Still, markets are pricing no more hikes, and if anything, the risks are skewed to the upside for NZD. Like for AUD, NZD is embedding some China risk, and there is room for a recovery by year-end.

ING forecasts (mkt fwd)	1M 0.61 (0.6013)	3M 0.63 (0.6014)	6M 0.65 (0.6014)	12M 0.68 (0.6003)

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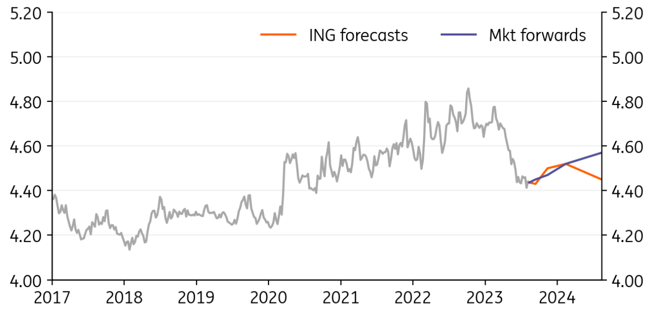
Emerging markets

EUR/PLN

Range-bound, correction possible after the elections

Current spot: 4.4366



Source: Refinitiv, ING forecasts

- We expect €/PLN to continue its range-bound trading until the October general elections. There were multiple attempts to break below 4.40, but demand seems to fade around this level. Possibly MoF refrains from converting hard currencies via the market around this level, unwilling to push €/PLN close to Polish exporters' profitability limit (4.30 based on NBP estimates).
- We see significant odds of PLN easing after the elections. Available opinion polls suggest that the political set-up may prevent access to the Recovery Fund any time soon. Moreover, we see domestic demand rebounding in 2H23, which should trip Poland's trade surplus, given limited external demand.

ING forecasts (mkt fwd)	1M 4.43 (4.4503)	3M 4.50 (4.4740)	6M 4.52 (4.5190)	12M 4.45 (4.5692)

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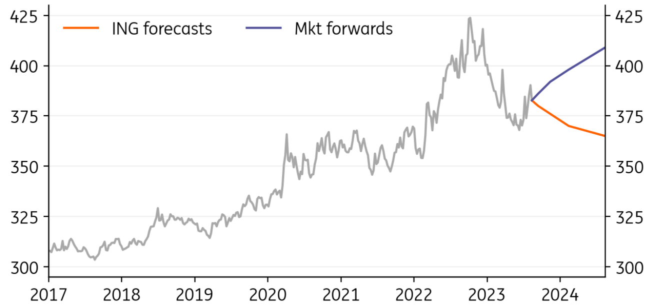
EUR/HUF

We still believe in a turnaround in forint

Current spot: 382.71



Source: Refinitiv, ING forecasts

- Rather than being data-driven, we see a fear or sentiment-driven risk premium added to the forint. This could have been triggered by a number of factors like no progress in EU funds, uncertainties around the fiscal situation and sovereign credit rating views.
- History tells us that HUF tends to be more volatile and prone to weakening during the summer lull. Thus – based on past evidence – we see a correction in the coming months. This will be helped by the improving structural indicators: disinflation, stable debt financing and better-than-expected external balances.
- Also, we believe an agreement with the EU will come before year-end, and thus we see a positive breakout potential later this year.

ING forecasts (mkt fwd)	1M 380 (386.10)	3M 376 (391.63)	6M 370 (398.32)	12M 365 (408.51)

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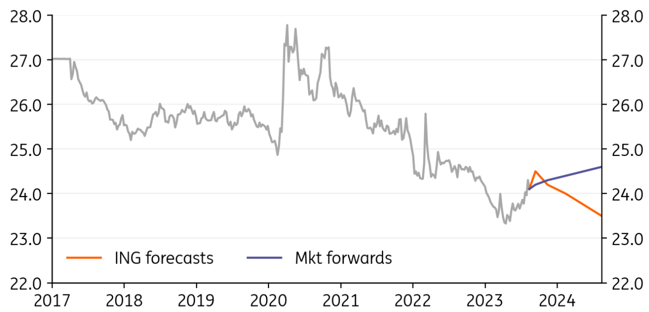
EUR/CZK

CNB formally ends the intervention regime

Current spot: 24.10



Source: Refinitiv, ING forecasts

- The Czech National Bank surprisingly ended the FX intervention regime at its last meeting. In fact, the last time the central bank intervened was in October last year, so this is no change for the market. On the other hand, the insurance that the koruna will not weaken more has disappeared from the market.
- Following the announcement, the koruna slipped to 24.25 EUR/CZK, the weakest levels since mid-2022. For now, the market does not want to test higher levels, but with the rate cut looming, it cannot be ruled out that the market will want to test the CNB's patience. On the other hand, the market is pricing in almost a full cutting cycle and a higher EUR/USD later should keep the koruna below 24.0 EUR/CZK.

ING forecasts (mkt fwd)	1M 24.5 (24.17)	3M 24.2 (24.30)	6M 24.0 (24.42)	12M 23.5 (24.59)

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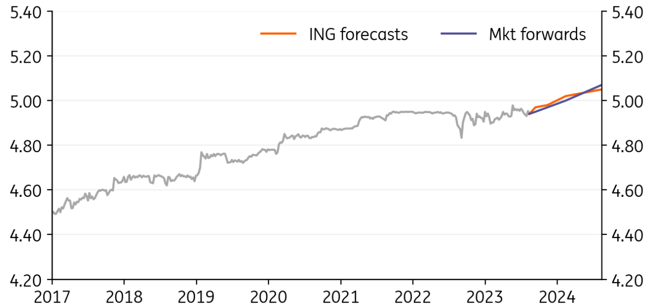
EUR/RON

4.92-4.98 looks to be the new trading range **Current spot: 4.9405**



Source: Refinitiv, ING forecasts

- Throughout the summer the EUR/RON tested the National Bank of Romania's tolerance on the downside and seems to have defined a new trading range of 4.92-4.98.
- The strengthening bias of the RON has been driven mainly by seasonal one-off internal factors which are expected to subside in August-September. As this happens, we expect the pair to trade on the higher end of the 4.92-4.98 range.
- We maintain our 5.02 estimate for the year-end, though it is becoming clearer that the central bank's tolerance for leu depreciation is extremely limited, as the headline inflation could prove a bit stickier than expected on the downside.

ING forecasts (mkt fwd)	1M 4.97 (4.9519)	3M 4.98 (4.9733)	6M 5.02 (4.9974)	12M 5.05 (5.0660)

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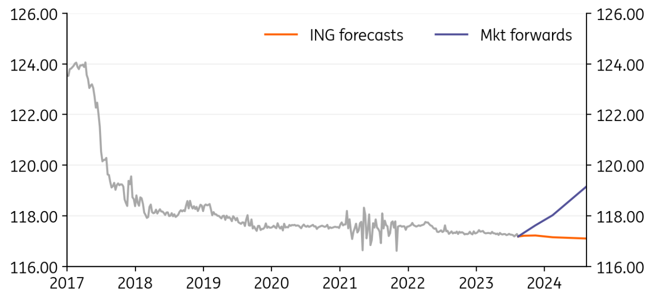
EUR/RSD

Marginal RSD appreciation to help with disinflation **Current spot: 117.18**



Source: Refinitiv, ING forecasts

- The EUR/RSD seems to have subtly resumed a mild downward trend over the last months, as capital inflows are still increasing the National Bank of Serbia's reserves. This is likely tolerated by the central bank as it faces a relatively sticky inflation profile.
- The NBS resumed its tightening cycle, bringing the key rate to 6.50% in July. We believe that this is the end of the hiking cycle. A relatively long pause of at least six months should follow before the next decision is made.
- We believe that the next policy decision will be a rate cut in the first half of 2024. We do not envisage the headline inflation back within NBS's 1.5%-4.5% target range over the next two years.

ING forecasts (mkt fwd)	1M 117.21 (117.33)	3M 117.22 (117.62)	6M 117.15 (118.02)	12M 117.10 (119.16)

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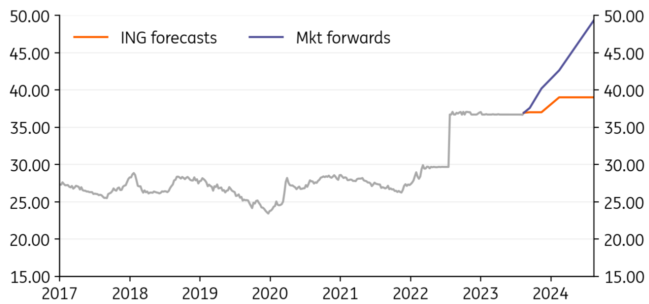
USD/UAH

Foreign aid stabilises the hryvnia **Current spot: 36.93**



Source: Refinitiv, ING forecasts

- Short-term prospects of the hryvnia remain neutral. Foreign aid continued to shore-up Ukraine's international reserves (now at an all-time high of US$41.7bn). At the same time FX intervention costs stabilised around US$2bn monthly. This suggests no imminent risk of the NBU allowing the hryvnia to depreciate.
- However long-term prospects remain mixed at best. The Russian aggression is unlikely to end anytime soon, and lately trade-related infrastructure (primarily ports) are under shelling. This underlines economic challenges of reconstruction and potentially a long period of foreign trade deficits. That is why we still expect the central bank to allow some hryvnia easing in the future.

ING forecasts (mkt fwd)	1M 37.00 (37.58)	3M 37.00 (40.19)	6M 39.00 (42.62)	12M 39.00 (49.39)

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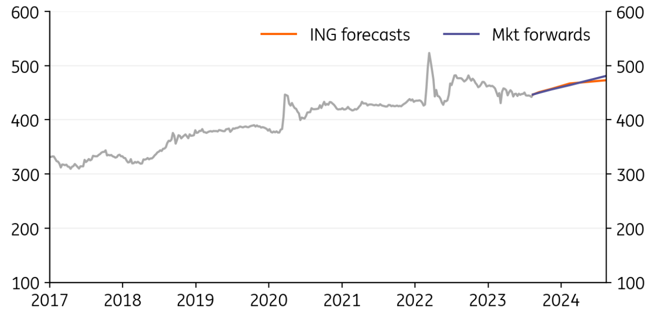
USD/KZT

Range-bound despite stronger oil prices **Current spot: 446.61**



Source: Refinitiv, ING forecasts

- The tenge performance in July confirmed the obstacles to further appreciation. Despite a material increase in Brent prices from $75 to $85/bbl, USD/KZT traded in a narrow 440-445 range throughout most of July.
- State capital is supportive of KZT, given July's $0.6bn transfers from the sovereign fund to the budget and around $0.2bn inflow of non-residents into the state debt. This suggests pressure coming from the private capital outflow.
- The recent Brent price growth is creating upside risks to the tenge, but for the medium term we continue to see gradual KZT depreciation on limited oil output and capital outflow pressure.

ING forecasts (mkt fwd)	1M 451 (449.88)	3M 457 (455.89)	6M 467 (464.38)	12M 473 (480.72)

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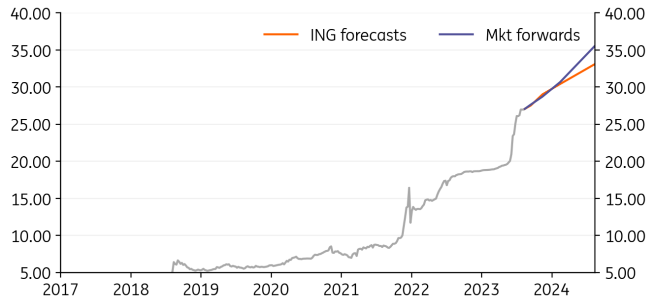
USD/TRY

TRY outlook remains challenging **Current spot: 27.05**



Source: Refinitiv, ING forecasts

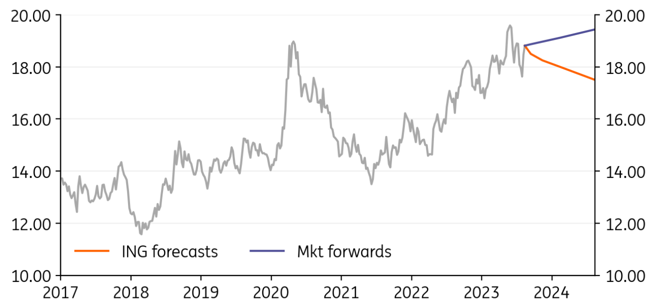
- In a press conference, Central Bank of Turkey Governor Erkan reiterated the decision to provide banks with FX directly, if there is demand due to maturing FX-protected accounts. She added that the CBT does not utilise the protocol signed with the Treasury to facilitate state banks activity in the currency market.
- The CBT's FX reserves have significantly increased since the elections. Its gross FX reserves (including gold) rose by $15.3bn to $113.8bn, while net reserves improved by $15.3bn to $10.9bn. Finally, net reserves excluding FX swaps increased by $9.9bn to -$50.6bn in the same period. Reserve accumulation in the second half of July, however, has lost significant momentum.
- Since the elections, the lira has posted a large drop by more than 30% with a move from the 19-20 range to around 27. While there has been stability lately with lighter liquidity and higher tourism revenues, continuing external imbalances, capital flow developments and the level of FX reserves are likely to determine the TRY outlook in the remainder of this year

ING forecasts (mkt fwd)	1M 27.50 (27.62)	3M 29.00 (28.70)	6M 30.40 (30.66)	12M 33.10 (35.57)

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

USD/ZAR

SARB pauses tightening, rand weakens **Current spot: 18.81**



Source: Refinitiv, ING forecasts

- It may be a coincidence, but the rand seemed to come under pressure in late July after the South African Reserve Bank kept rates on hold at 8.25% - despite expectations of a 25bp hike. The market now prices SARB rates having peaked but doesn't price any easing until late 2024.
- The rand remains a high volatility currency. The prospect of local growth only near 1%, weak Chinese growth and perhaps El Nino hitting agriculture does not make for a compelling investment proposition.
- However, as long as inflation continues to tick lower – leaving real rates somewhere in the positive 3%+ area, the rand should be able to stabilise in the confines of an 18.00-19.00 range.

ING forecasts (mkt fwd)	1M 18.50 (18.87)	3M 18.25 (18.97)	6M 18.00 (19.12)	12M 17.50 (19.44)

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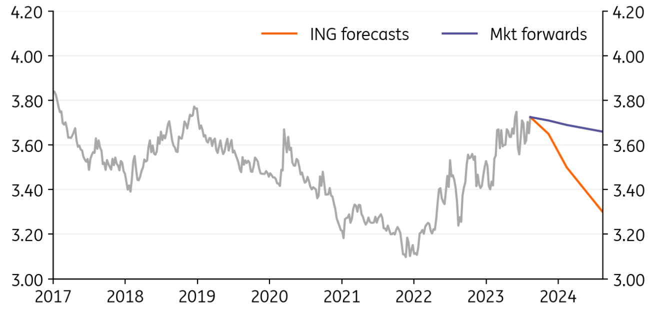
USD/ILS

Judicial reform uncertainty continues

Current spot: 3.7252



Source: Refinitiv, ING forecasts

- The resilient dollar and the ongoing uncertainty over Israeli judicial reforms is keeping USD/ILS towards the top of its 3.60-3.75 range. On the latter issue, it seems that the Netanyahu government is now focused on the Judicial Selection Committee – and taking greater control of it. Opposition remains fierce and 12 September seems to be a key date for whether the Supreme Court can rule against recent government measures.
- We keep checking the FX reserve release every month to see if there has been and Bank of Israel FX intervention to cap USD/ILS above 3.75. But there is no intervention.
- If this thorny issue ever gets resolved, ILS should strongly recover.

ING forecasts (mkt fwd)	**1M** 3.70 (3.7210)	**3M** 3.65 (3.7114)	**6M** 3.50 (3.6932)	**12M** 3.30 (3.6616)

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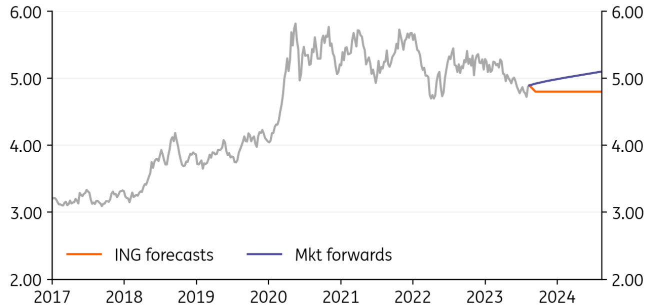
LATAM

USD/BRL

Things are looking up for Brazil

Current spot: 4.8929



Source: Refinitiv, ING forecasts

- Shortly after Fitch's sovereign upgrade of Brazil to BB from BB-, Brazil's central bank surprised markets by delivering a larger than expected 50bp cut – the first in its easing cycle. While the decision to cut 50bp was not unanimous, what was unanimous was the agreement to cut by a similar 50bp at forthcoming meetings. There are three meetings before year-end and investors are actually now pricing in 178bp of rate cuts!
- Given real interest rates are so high in Brazil (at nearly 10% by some measures), the BRL can stay bid in an easing cycle.
- Assuming the China macro picture does not deteriorate sharply, USD/BRL can trade to the lower end of a 4.50-5.00 range.

ING forecasts (mkt fwd)	1M 4.80 (4.9202)	3M 4.80 (4.9634)	6M 4.80 (5.0119)	12M 4.80 (5.1022)

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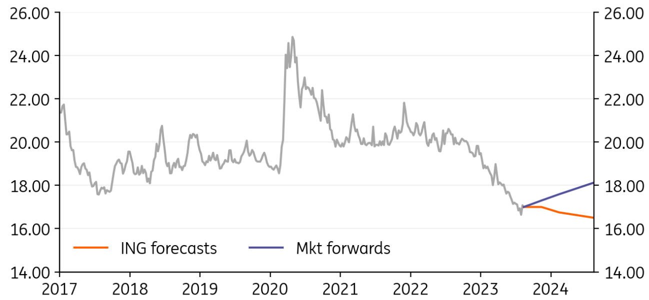
USD/MXN

Looks like Banxico may not be cutting anytime soon

Current spot: 17.00



Source: Refinitiv, ING forecasts

- The Mexican peso remains at the forefront of the carry trade owing to its high volatility-adjusted returns and its liquidity. However, those volatility levels were tested in August when the sell-off in US Treasuries saw volatility spike and the MXN sell off 4-5%. In short, MXN is very much driven by global sentiment.
- Locally, Banxico recently held rates at 11.25% and promised to keep them there for an extended period. Banxico's priority has long been a stable/positive peso and it will not be cutting anywhere as much as Brazil or Chile.
- However, high real rates and exposure to a strong US economy should keep MXN in demand and bring 16.50 levels into play.

ING forecasts (mkt fwd)	1M 17.00 (17.10)	3M 17.00 (17.30)	6M 16.75 (17.59)	12M 16.50 (18.13)

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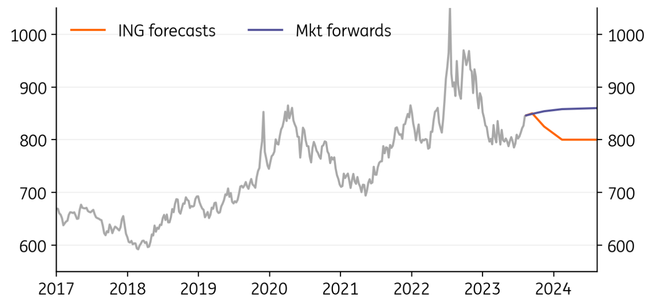
USD/CLP

Easing cycle starts off with a bang

Current spot: 846.13



Source: Refinitiv, ING forecasts

- Chile's central bank started its easing cycle with a 100bp rate cut – taking the policy rate to 10.25%. It cited inflation falling faster than expected and two-year inflation expectations settled at 3%. Naturally the market moved to pricing a much deeper easing cycle and priced the policy rate near 5.50% by year-end! The central bank governor has suggested rates may be closer to 8%.
- The peso softened on the large rate cut and then got caught up in the risk-off move in early August. The China story is not particularly supportive for Chile and copper either.
- Expect USD/CLP to settle somewhere in the 800-850 area in the medium term, but not lower since Chile is rebuilding FX reserves.

ING forecasts (mkt fwd)	1M 850 (849.43)	3M 825 (854.16)	6M 800 (858.09)	12M 800 (860.43)

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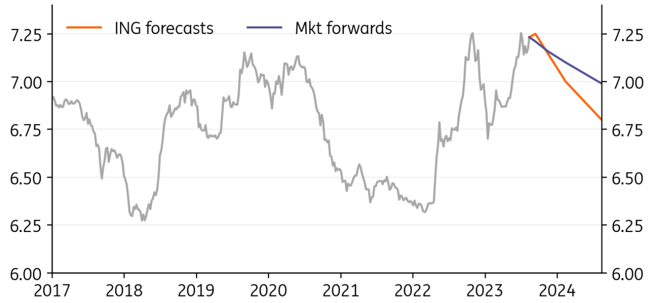
Asia

USD/CNY

Disinflation strikes **Current spot: 7.2324**



Source: Refinitiv, ING forecasts

- Newswires are full of talk of deflation as China's CPI inflation rate turned negative in July. In fact, this is mild (and temporary) disinflation - which is completely different and while it is evidence of economic weakness – is far less malign.
- Still, the news flow remains pretty negative. Weaker-than-expected exports seem to have dominated a slightly brighter service sector Caixin PMI index and sentiment remains bleak.
- Meanwhile, the PBoC has allowed the CNY to soften a little more again. And we think a little more of the same will follow shortly.

ING forecasts (mkt fwd)	1M 7.25 (7.2100)	3M 7.15 (7.1646)	6M 7.00 (7.0969)	12M 6.80 (6.9851)

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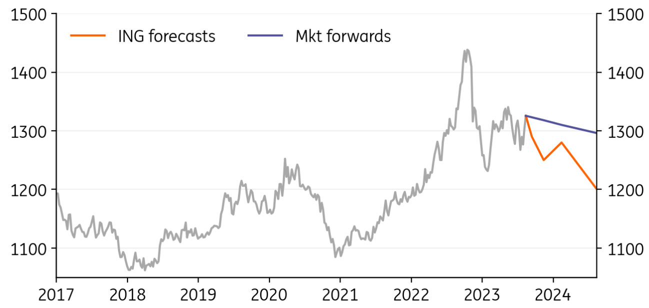
USD/KRW

Equity-led appreciation on chip hype **Current spot: 1325.51**



Source: Refinitiv, ING forecasts

- The KRW reacted substantially to the Fed's rate hike in July and returned the earlier gains brought about by the AI chip hype.
- The trade balance has now recorded a surplus for two consecutive months as imports declined sharply due to falling commodity prices.
- The BoK is likely to maintain its hawkish tone on monetary policy as upside risks for inflation emerge following recent severe weather conditions and the pick-up in global commodity prices. But we expect inflation to remain below 3% for the remainder of the year, thus there is still a chance of a rate cut later this year.

ING forecasts (mkt fwd)	1M 1290 (1323.13)	3M 1250 (1318.34)	6M 1280 (1309.81)	12M 1200 (1295.61)

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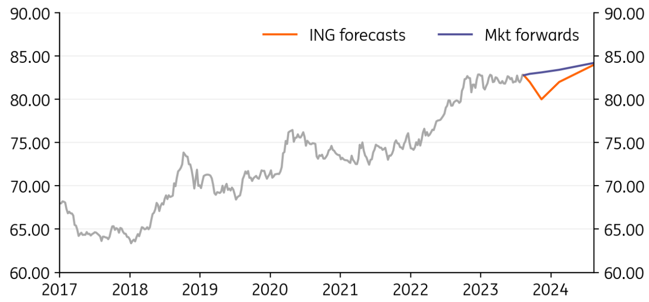
USD/INR

Pushing against the top of the range **Current spot: 82.78**



Source: Refinitiv, ING forecasts

- The INR is still being managed within a very tight range, though recently has been pushed up against the top of its trading band, and it looks clear that absent intervention, it would weaken, perhaps substantially.
- Currently, the Reserve Bank of India doesn't seem to want to let that happen. Headline inflation will surge again this month and will remain high for a few months before it retreats back within its target range. That usually puts pressure on the INR to weaken.
- But rising global food prices are another reason for wanting to keep the currency strong in the near term. A softer INR can wait

ING forecasts (mkt fwd)	1M 82.00 (82.94)	3M 80.00 (83.11)	6M 82.00 (83.41)	12M 84.00 (84.21)

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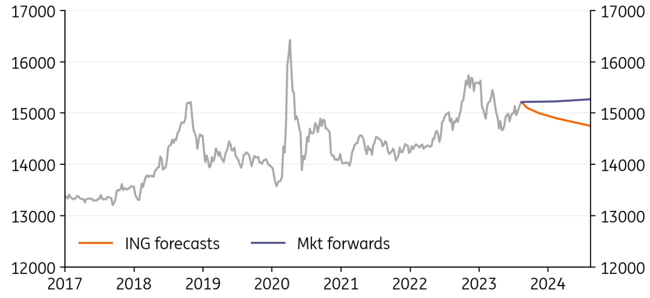
USD/IDR

IDR remains pressured as differentials narrow

Current spot: 15215



Source: Refinitiv, ING forecasts

- The IDR faced pressure in July on the back of a narrower trade surplus, which was met by a requirement for exporters to retain a portion of earnings onshore to help shore up dollar liquidity.
- Meanwhile, interest rate differentials with the US narrowed after the July FOMC rate hike while Bank Indonesia Governor Warjiyo opted to keep policy rates unchanged again (at 5.75%).
- We expect the IDR to take its direction from the balance of trade and interest rate differentials in the coming months. BI has managed to hold off on adjusting rates so far but another rate hike from the Fed will likely prompt a response from BI.

ING forecasts (mkt fwd)	1M 15100 (15219)	3M 15000 (15222)	6M 14900 (15228)	12M 14750 (15270)

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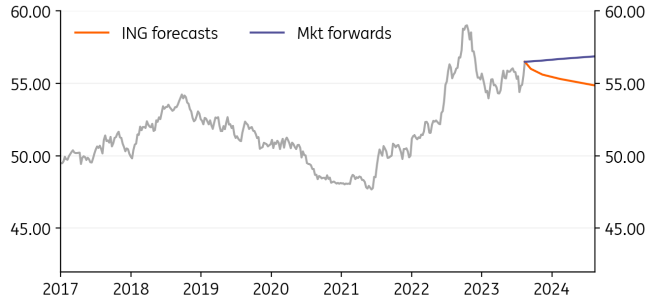
USD/PHP

PHP slips as moderating inflation points to BSP pause

Current spot: 56.49



Source: Refinitiv, ING forecasts

- The PHP was on the back foot after the trade deficit remained sizable despite improving from last year. Despite the surprise expansion in exports, the trade deficit stayed at $3.9bn.
- Meanwhile, the latest inflation and GDP numbers point to a probable pause from Bangko Sentral ng Pilipinas at its meeting in August.
- The PHP will probably remain pressured in the near term. And with policy interest rate differentials with the US now only 75bp, any further narrowing or slippage in the trade deficit could prove costly for the PHP.

ING forecasts (mkt fwd)	1M 56.00 (56.51)	3M 55.60 (56.57)	6M 55.30 (56.68)	12M 54.85 (56.86)

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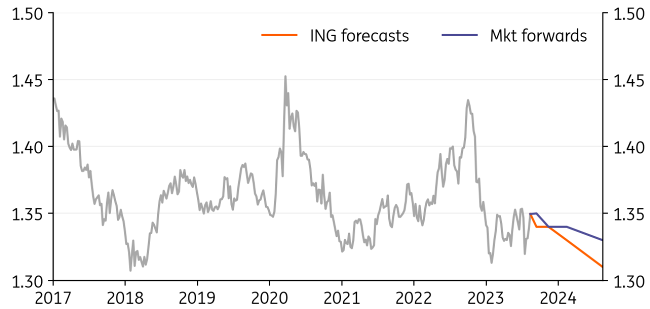
USD/SGD

SGD dragged down by regional peers

Current spot: 1.3496



Source: Refinitiv, ING forecasts

- The SGD stabilised in early July, tracking regional peers, though the second half of July and early August have seen the SGD weaken steadily thanks to diminished US rate cut expectations.
- Better-than-expected second-quarter GDP data and slowing inflation pointed to an increased likelihood that the Monetary Authority of Singapore (MAS) leaves policy settings untouched in October.
- The SGD NEER should continue its modest appreciation path in the months ahead with core inflation still elevated (4.2%). Sustained weakness for the CNY and MYR are likely to weigh on the USDDGD rate in the absence of any broader USD turn.

ING forecasts (mkt fwd)	1M 1.34 (1.3477)	3M 1.34 (1.3438)	6M 1.33 (1.3376)	12M 1.31 (1.3264)

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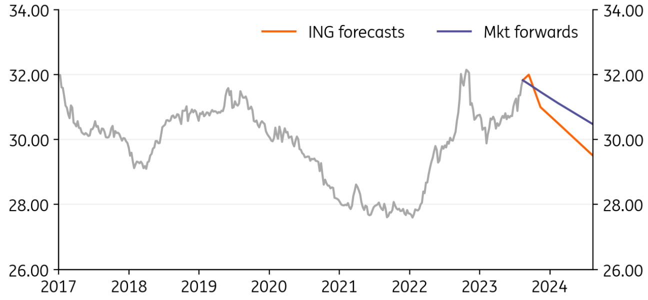
USD/TWD

Signs of stabilisation **Current spot: 31.83**



Source: Refinitiv, ING forecasts

- The TWD remains in weakening mode, though the macro backdrop is slowly improving and so there is some chance of a turn in the coming months.
- Exports for July fell by only 10.4% YoY, much less than the 23.4% decline the previous month, and seem to have been helped by a smaller decline in the dominant semiconductor and electronics sector, where a tentative trough is forming.
- However, the TWD has tended to be dragged along by the CNY, where the outlook remains tough, so the weakening TWD trend may prevail for a little longer yet...

ING forecasts (mkt fwd)	1M 32.00 (31.71)	3M 31.00 (31.47)	6M 30.50 (31.12)	12M 29.50 (30.47)

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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	1.10	1.10	1.12	1.15	1.18						
EUR/JPY	158.9	154.00	151.20	149.50	141.60	USD/JPY	144.74	140	135	130	120
EUR/GBP	0.86	0.86	0.87	0.88	0.88	GBP/USD	1.27	1.28	1.29	1.31	1.34
EUR/CHF	0.96	0.97	0.96	0.97	1.00	USD/CHF	0.88	0.88	0.86	0.84	0.85
EUR/NOK	11.41	11.15	10.95	10.80	10.40	USD/NOK	10.39	10.14	9.78	9.39	8.81
EUR/SEK	11.84	11.60	11.50	11.20	10.80	USD/SEK	10.79	10.55	10.27	9.74	9.15
EUR/DKK	7.452	7.450	7.450	7.460	7.460	USD/DKK	6.79	6.77	6.65	6.49	6.32
EUR/CAD	1.48	1.45	1.44	1.46	1.48	USD/CAD	1.346	1.32	1.29	1.27	1.25
EUR/AUD	1.69	1.64	1.62	1.64	1.59	AUD/USD	0.65	0.67	0.69	0.70	0.74
EUR/NZD	1.83	1.80	1.78	1.77	1.74	NZD/USD	0.60	0.61	0.63	0.65	0.68
EMEA											
EUR/PLN	4.49	4.43	4.50	4.52	4.45	USD/PLN	4.04	4.03	4.02	3.93	3.77
EUR/HUF	387.8	380.00	376.00	370.00	365.00	USD/HUF	349.2	345	336	322	309
EUR/CZK	24.12	24.5	24.3	24.0	23.5	USD/CZK	21.96	22.3	21.7	20.9	19.9
EUR/RON	4.94	4.97	4.98	5.02	5.05	USD/RON	4.50	4.52	4.45	4.37	4.28
EUR/RSD	117.2	117.2	117.2	117.2	117.1	USD/RSD	106.7	106.6	104.7	101.9	99.2
EUR/UAH	40.38	40.7	41.4	44.9	46.0	USD/UAH	36.92	37.00	37.00	39.00	39.00
EUR/KZT	494.1	496.1	511.8	537.1	558.1	USD/KZT	446.6	451	457	467	473
EUR/TRY	29.61	30.25	32.48	34.96	39.06	USD/TRY	27.05	27.50	29.00	30.40	33.10
EUR/ZAR	21.00	20.4	20.4	20.7	20.7	USD/ZAR	18.86	18.50	18.25	18.00	17.50
EUR/ILS	4.11	4.07	4.09	4.03	3.89	USD/ILS	3.73	3.70	3.65	3.50	3.30
LATAM											
EUR/BRL	5.37	5.28	5.38	5.52	5.66	USD/BRL	4.89	4.80	4.80	4.80	4.80
EUR/MXN	18.71	18.7	19.0	19.3	19.5	USD/MXN	17.06	17.00	17.00	16.75	16.50
EUR/CLP	931.33	935	924	920	944	USD/CLP	848.25	850	825	800	800
Asia											
EUR/CNY	7.94	7.98	8.01	8.05	8.02	USD/CNY	7.23	7.25	7.15	7.00	6.80
EUR/IDR	16736	16610	16800	17135	17405	USD/IDR	15215	15100	15000	14900	14750
EUR/INR	90.89	90.2	89.6	94.3	99.1	USD/INR	82.80	82.00	80.00	82.00	84.00
EUR/KRW	1458.88	1419	1400	1472	1416	USD/KRW	1328.92	1290	1250	1280	1200
EUR/PHP	62.04	61.6	62.3	63.6	64.7	USD/PHP	56.52	56.0	55.6	55.3	54.85
EUR/SGD	1.48	1.48	1.50	1.53	1.55	USD/SGD	1.35	1.35	1.34	1.33	1.31
EUR/TWD	34.96	35.2	34.7	35.1	34.8	USD/TWD	31.84	32.0	31.0	30.5	29.5

Source: Refinitiv, ING

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