ING

Economic & Financial Analysis

FX

11 February 2019

FX Strategy

FX Talking

Clear and present danger

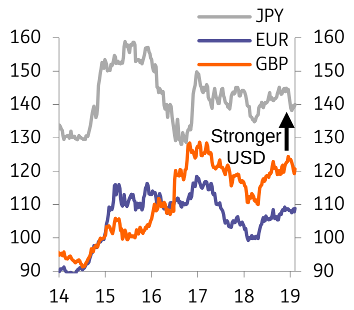
A Fed pause and a trade truce has encouraged investors to put money to work in 2019. This environment has fostered recoveries in the activity and commodity–sensitive currencies which had been battered by protectionism last year. Our baseline views assume a continuation of this generally benign trend, although we feel the need to highlight one particular risk for the month of February.

The US Commerce Department is due to report back to Donald Trump, by 17 February, on whether US auto and auto-part imports pose a national security threat. If so, import tariffs would be recommended and world trade would face a major new headwind. Those most exposed to increased tariffs in the US auto sector would be Mexico, Canada, Korea and Europe. With Eurozone growth forecasts already being slashed, this story would see our alternative EUR/USD scenario materialise of a move below 1.10.

Assuming the above doesn't happen, we expect European currencies, in any case, to lag recovery stories elsewhere. The deadlock in Brexit negotiations is not helping and what seems an inevitable delay in Article 50 prolongs the agony. SEK appears most vulnerable here, not helped by the hang-over from the housing boom.

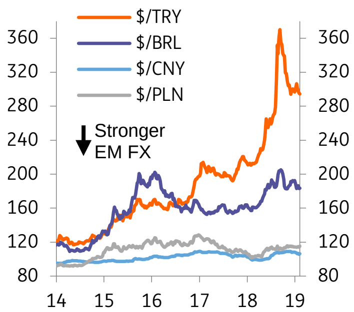
The currencies most able to take advantage of current conditions should be those with high rates and credible central banks. Banxico's credible performance in 2018 leaves the MXN well-positioned in 1H19. And Turkey's CBT is now gaining some new admirers in its commitment to fight inflation. TRY outperformance may be the 2019 surprise!

USD/Majors (30 Jan 09=100)



Source: Reuters, ING

USD/EM (30 Jan 09=100)



Source: Reuters, ING

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.12	↓	110	↑	1.29	→
3M	1.12	↓	110	↑	1.29	→
6M	1.15	→	108	→	1.35	↑
12M	1.20	↑	100	↓	1.41	↑
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.87	→	25.70	↑	4.29	↓
3M	0.87	→	25.60	↑	4.28	↓
6M	0.85	↓	25.50	↓	4.29	↓
12M	0.85	↓	25.50	↓	4.33	↓
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	6.74	↑	19.00	↓	3.80	↑
3M	6.85	↑	18.90	↓	4.00	↑
6M	6.85	↑	18.60	↓	3.40	↓
12M	6.70	→	19.40	↓	3.70	↓

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

Source: Bloomberg, ING

FX performance

	EUR/USD	USD/JPY	EUR/GBP	EUR/NOK	NZD/USD	USD/CAD
%MoM	-0.9	1.0	-2.9	-0.8	0.1	-0.8
%YoY	-8.0	0.4	-1.1	0.7	-7.2	6.1
	USD/UAH	**USD/KZT**	**USD/BRL**	**USD/ARS**	**USD/CNY**	**USD/TRY**
%MoM	-3.9	-0.2	-1.1	0.9	-0.9	-3.1
%YoY	-1.7	16.4	13.7	91.5	7.8	38.3

Source: Bloomberg, ING

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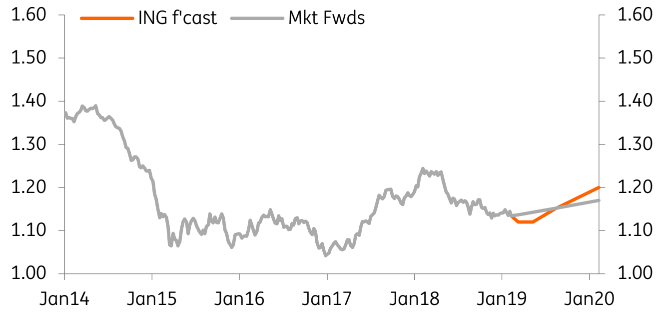
Developed markets

EUR/USD

Clear and present danger **Current spot: 1.13**



Source: Bloomberg, ING

- The Fed's pause has created a window of recovery for under-valued currencies, but the EUR has conspicuously failed to benefit. That is not a surprise given the terrible run of Eurozone activity data and collapsing market-derived expectations of Eurozone CPI. That said, our team feel the ECB could still hike the negative deposit rate in 4Q19, largely to support the banks.
- Our biggest near-term concern is US trade policy. Were the Commerce Dept. to conclude that auto imports proved a national security threat & recommend tariffs, EUR/$ could trade sub 1.10.
- One of the few EUR/$ supports is its valuation and the narrowing forward points - encouraging USD sales 1 & 2 years forward.

ING forecasts (mkt fwd)	**1M** 1.12 (1.137)	**3M** 1.12 (1.1431.12)	**6M** 1.15 (1.152)	**12M** 1.20 (1.170)

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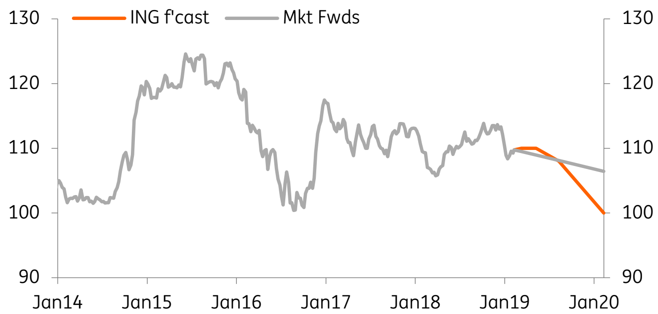
USD/JPY

Peak dollar remains more a story for 2H19 **Current spot: 109.77**



Source: Bloomberg, ING

- Despite the massive re-pricing of the Fed cycle over the winter months, we still think it's a little premature to be calling the start of a major dollar bear trend against the low yielders. Our macro team feel the Fed will be in a position to tighten again this summer and our rates team favour some bearish steepening of the US rates curve. Clearly this assumes no worst case scenario on trade, ie, full China tariffs plus auto import tariffs.
- Bearish re-steepening should provide a window for $/JPY to push through 110 in 1H19, before a broader $ bear trend emerges.
- A global slowdown in trade and a planned Japanese VAT hike in October 2019 will keep BoJ in perma-dovish mode.

ING forecasts (mkt fwd)	**1M** 110.00 (109.5)	**3M** 110.00 (109.0)	**6M** 108.00 (108.1)	**12M** 100.00 (106.5)

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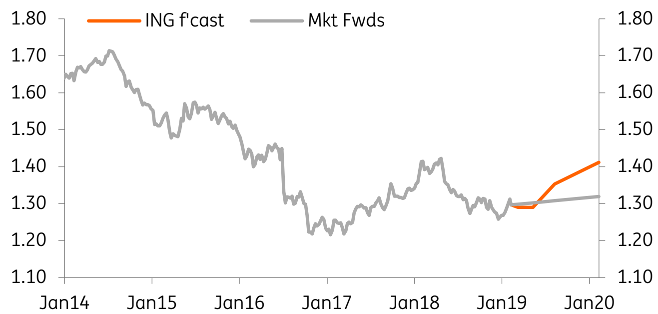
GBP/USD

More clarity needed for GBP to re-start appreciation trend **Current spot: 1.30**



Source: Bloomberg, ING

- With UK-EU negations coming down to the wire and downside pressure on EUR/USD, we expect GBP/USD to struggle to move meaningfully above 1.30 this month. As per below, scope for GBP upside should only re-appear once odds of tangible deal increase. But this may not be the case until March (or later).
- The Brexit stand-off resolution is the key ingredient for large GBP upside. With the economy suffering from the Brexit uncertainty (as evident on the dismal January UK PMIs) and the BoE unlikely to raise rates anytime soon, GBP upside look limited.
- Under the no deal scenario we expect a sharp move in GBP lower, with EUR/GBP above 0.95 (and even testing parity in case of flash crash) and GBP/USD dropping to the 1.10-1.20 area.

ING forecasts (mkt fwd)	**1M** 1.29 (1.30)	**3M** 1.29 (1.30)	**6M** 1.35 (1.31)	**12M** 1.41 (1.32)

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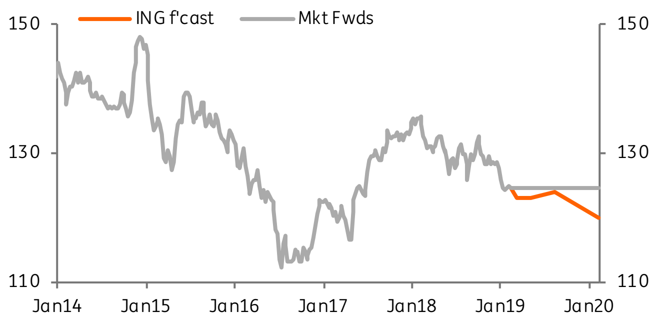
EUR/JPY

Balance of risks favour JPY outperformance

Current spot: 124.5



Source: Bloomberg, ING

- The hope for the EUR is that we're now at peak pessimism in the Eurozone activity cycle and that over coming months, the German economy can bounce back. As above, US trade policy poses a significant challenge to the 'glass-half-full' approach to 2019 strategies. Were these risks to materialise, global equities would reverse 2019 gains and EUR/JPY would collapse.
- Our base case assumes the EUR can survive in the first half of the year, before underperforming from 2H19 onwards as US late cycle risks materialise and JPY-positive market volatility picks up.
- Another risk we're not factoring in is even more dovish BoJ policy. The chances of BoJ policy normalisation look very slim indeed.

ING forecasts (mkt fwd)	**1M** 123.00 (125)	**3M** 123.00 (125)	**6M** 124.00 (125)	**12M** 120.00 (125)

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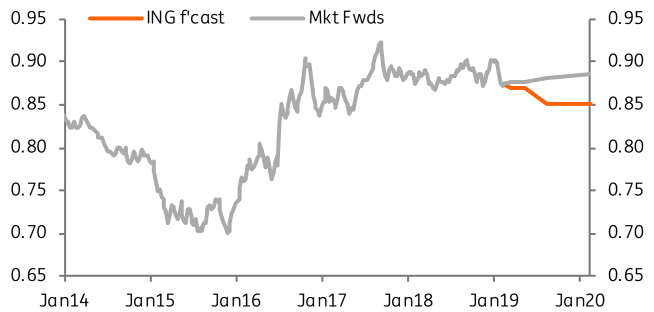
EUR/GBP

Article 50 extension no longer enough to prompt GBP gains

Current spot: 0.87



Source: Bloomberg, ING

- GBP gains stalled as: (a) perceptions of declining probability of a no-deal Brexit were priced in; and (b) a still uncertain path to the eventual deal. The latter is evident in the current stand-off between the EU and UK government on the Irish backstop.
- Our base case remains no hard Brexit at the end of March. In terms of the most probable outcomes, they currently are: (a) an extension of Article 50 for the purpose of negotiating a new deal including a permanent customs union; or (b) a last minute Parliamentary approval of PM May's current deal.
- EUR/GBP to break below 0.85 only once the actual deal is close to being struck. At this point, the extension of Article 50 alone (without a tangible Brexit deal) is unlikely to translate into meaningful GBP gains as this is now expected by the market.

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

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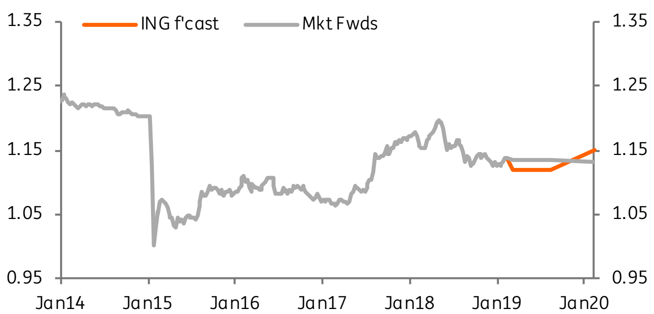
EUR/CHF

SNB rooted to the spot

Current spot: 1.14



Source: Bloomberg, ING

- The slowdown in world trade, US-China relations and also Brexit see the SNB maintain the ultra-dovish position of: (a) negative rates and (b) a preparedness to sell CHF should market conditions dictate. The market does not price a 25bp rate hike from the SNB until end-2020 - clearly the SNB will lag any ECB normalisation.
- Despite the CHF nominal trade weighted index being close to all-time highs, Switzerland's low inflation means that the real CHF is still 5% off the highs - providing a little room for exporters.
- Given USD/CHF looks rooted to parity, the EUR/CHF trajectory largely looks a function of EUR/USD. A subdued 1H19 beckons, with the best chance of a recovery towards the end of the year.

ING forecasts (mkt fwd)	**1M** 1.12 (1.14)	**3M** 1.12 (1.14)	**6M** 1.12 (1.13)	**12M** 1.15 (1.13)

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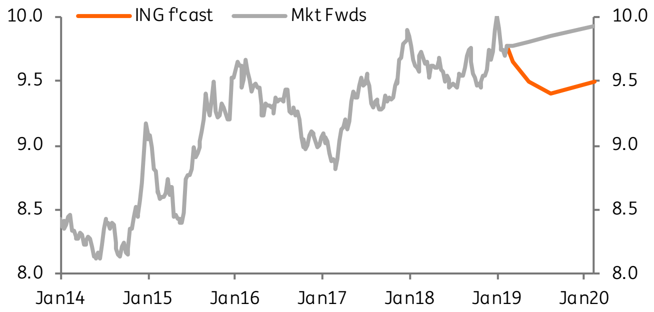
EUR/NOK

The hawkish Norges Bank supports NOK in a dovish Europe

Current spot: 9.77



Source: Bloomberg, ING

- NOK should stay supported against EUR and continue grinding higher against SEK as the hawkish NB and the recovering oil price support krone. The NB kept its forward guidance for a March hike unchanged. We see it as likely that the bank hikes one more time in 2H19 (vs increasing likelihood of no hikes from the Riksbank).
- The hike-prone NB remains an outlier in the European G10 FX space (particularly vs a cautious ECB and Riksbank). We continue to expect NOK/SEK moving towards 1.10 in coming months.
- On the oil front, our commodity team expects further gradual rise in oil price towards US$75/bbl by end-2019 due to the supply-demand balance moving into a deficit (ie, production cuts in Venezuela, slowing US shale production). This should benefit NOK.

ING forecasts (mkt fwd)	**1M** 9.65 (9.78)	**3M** 9.50 (9.80)	**6M** 9.40 (9.84)	**12M** 9.50 (9.93)

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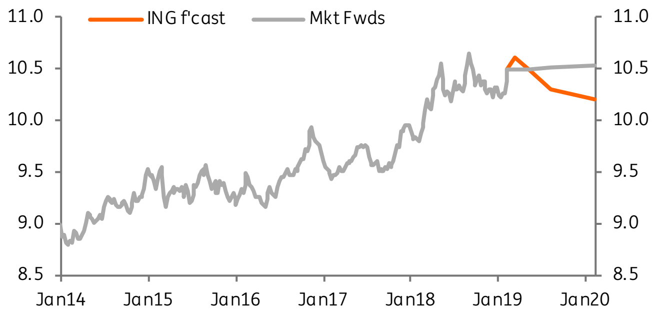
EUR/SEK

Still more weakness ahead

Current spot: 10.50



Source: Bloomberg, ING

- SEK has been the weakest G10 currency so far this year given the deteriorating domestic data and lack of SEK upside during risk-on days. The latter is due to the still negative rates and SEK exerting the lowest correlation to risk among G10 activity currencies.
- While we expect the pace of SEK decline to moderate vs. its year-to-date performance (partly because EUR/SEK is no longer cheap on a short term basis), we still remain negative on krona. The economic data should remain soft (PMIs likely to sink into contractionary territory) while Riksbank should offer little support to SEK (at current levels) given low CPI and slower growth.
- We see a non-negligible probability of Riksbank staying on hold this year. Expect EUR/SEK to move to into the 10.50-10.60 area.

ING forecasts (mkt fwd)	**1M** 10.60 (10.50)	**3M** 10.50 (10.50)	**6M** 10.30 (10.51)	**12M** 10.20 (10.53)

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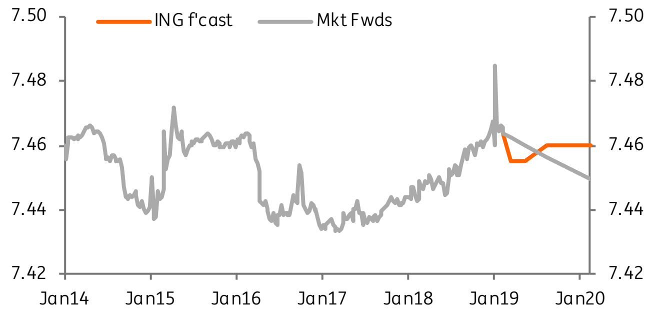
EUR/DKK

Weak DKK makes a DN hike no longer an unrealistic option

Current spot: 7.464



Source: Bloomberg, ING

- EUR/DKK persistently trading above the central parity rate prompted a second, subsequent monthly FX intervention. Factors such as the declining Danish current account surplus as well as the decrease in ECB QE purchases in 2H18 (which has now ended in net terms) contributed to the DKK decline versus EUR.
- We expect the DN to continue leaning against stronger EUR/DKK via FX interventions, but an independent (of the ECB) DN rate hike can no longer be ruled out if the DKK weakness persists.
- We thus see the EUR/DKK upside as limited from here given the already elevated levels (during the past decade the pair was only trading higher than recent levels during the rebound after a speculative attack in early 2015) and the DN's reaction.

ING forecasts (mkt fwd)	**1M** 7.46 (7.462)	**3M** 7.46 (7.460)	**6M** 7.46 (7.456)	**12M** 7.46 (7.450)

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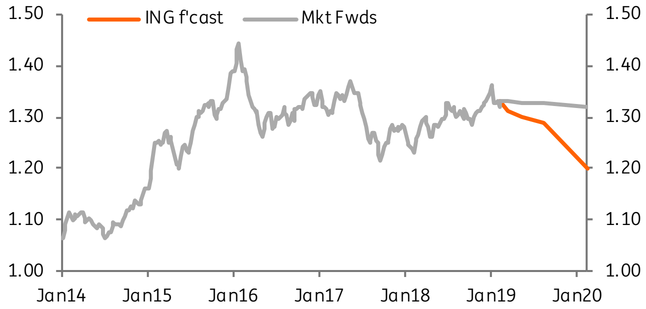
USD/CAD

Tough call on trade

Current spot: 1.331



Source: Bloomberg, ING

- Like fellow activity currencies, it's been a good start for the year for the CAD. Further consolidation/strength of the CAD very much relies on Washington not turning the screws in trade and sinking equities. CAD has had a consistently positive correlation with SPX.
- If – as our commodities team expect - crude prices remain on an upward trajectory (Brent target $75/bbl) and local fundamentals stay healthy, then BoC should push rates higher in July.
- And if we get the expected relief for global trade, it is likely that the BoC may adopt a more hawkish position as we enter the fourth quarter – here we see the potential for a second rate hike, reinforcing our bullish sentiment for early 2020 of $/CAD at 1.20.

ING forecasts (mkt fwd)	**1M** 1.31 (1.33)	**3M** 1.30 (1.33)	**6M** 1.29 (1.33)	**12M** 1.20 (1.32)

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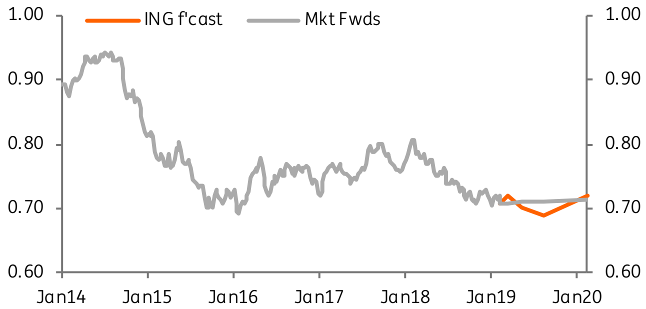
AUD/USD

RBA shifts to two-way risk

Current spot: 0.71



Source: Bloomberg, ING

- In a speech preceding this month's monetary policy report, RBA Governor Lowe indicated that policy rates next move could be down as likely as up. AUD has not benefited from these remarks, though this was something the market had been highlighting for some months, and we have been warning since last year.
- Had it not been for the softer tone of the USD, we would have probably seen AUDUSD break 0.70 by now. As it is, optimism about the trade story and Fed dovishness has kept it afloat.
- Any or all of a combination of a more negative twist in the trade/ China economy/Fed/domestic Australian economic story could see AUD trading 0.6-something. Longer term, some slightly higher inflation might provide an upside risk, though this has to be set against the falling property scene. For us, the question is more one of how much lower than 0.70 and when.

ING forecasts (mkt fwd)	**1M** 0.72 (0.708)	**3M** 0.70 (0.709)	**6M** 0.69 (0.710)	**12M** 0.72 (0.712)

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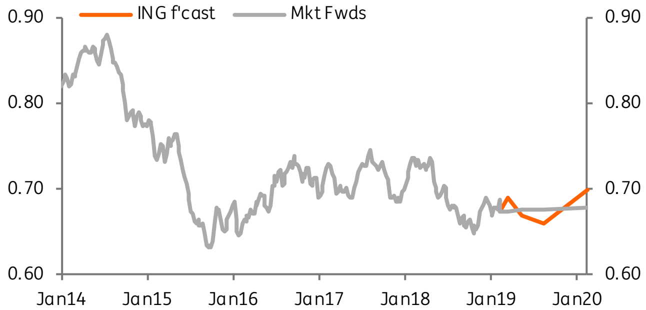
NZD/USD

Better than the AUD

Current spot: 0.67



Source: Bloomberg, ING

- The NZD suffered a loss recently on weaker than expected labour data. And GDP also slowed in the fourth quarter. But this needs putting into perspective.
- Ordinary time private sector wages growth in New Zealand is 3.7%, (faster than the US!). The property market might be cooling, but it is still rising year on year unlike Australia. Business investment growth may be slowing, but it remains positive. And the economy is less geared to the US-China trade outcome, which ultimately, we expect no significant progress from.
- Yes, momentum may be slowing. But it is doing so more gradually and from a higher base than in Australia, and we expect a slow grind of the AUD/NZD rate towards parity this year, whilst not actually reaching it.

ING forecasts (mkt fwd)	**1M** 0.69 (0.675)	**3M** 0.67 (0.675)	**6M** 0.66 (0.677)	**12M** 0.70 (0.679)

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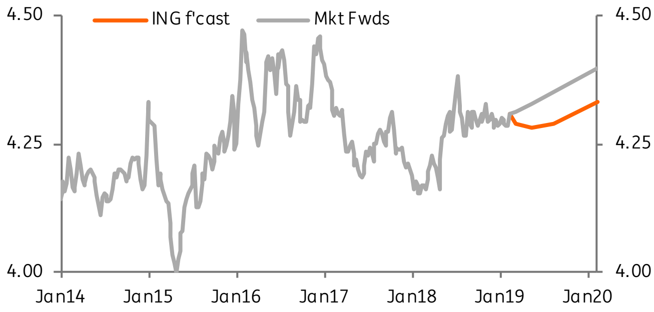
Emerging markets

EUR/PLN

Sound fundamentals so far, pre-election measures ahead

Current spot: 4.31



Source: Bloomberg, ING

- €/PLN is expected to remain within the current consolidation (4.27-35) in February and likely throughout 1Q19. Stable NBP policy, a solid macro story and resilience to external shocks discourage short-term trading.
- The fiscal measures to be detailed in February should only slow debt-to-GDP reduction. Moreover, other CEE currencies, particularly HUF, encourage short-term trading more.
- €/PLN is expected to trade around 4.30 later into 2019 as well, but with higher volatility (thus possibly breaking out from the current consolidation). This reflects a mix of €/US$ shifts seen ahead and risks related to further spending pledges ahead of the parliamentary elections in October.

ING forecasts (mkt fwd)	**1M** 4.29 (4.31)	**3M** 4.28 (4.33)	**6M** 4.29 (4.35)	**12M** 4.33 (4.40)

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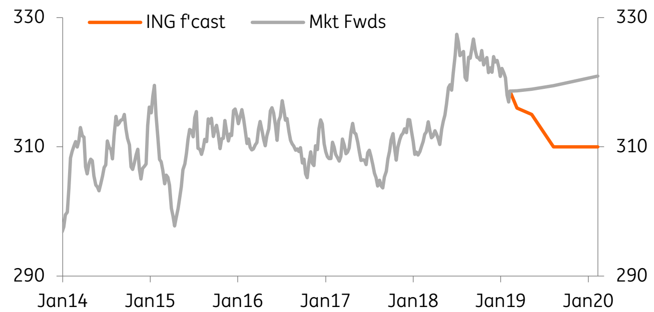
EUR/HUF

NBH normalization to facilitate HUF strength

Current spot: 318.6



Source: Bloomberg, ING

- HUF partly reversed its January gains given (a) investors' concerns about the scale of the NBH tightening; and (b) softer Eurozone data that negatively affected CEE FX
- We still see HUF as the outperformer in the CEE space as the NBH is likely to start the policy normalisation in its March meeting (via a depo rate hike and the reduction of the size of the FX swap portfolio). January inflation (on 12 Feb) should be the next trigger for more HUF gains as core CPI ex tax is to move above 3%.
- HUF outlook looks constructive, given the (a) policy normalisation; (b) still stretched short HUF positioning; (c) Hungary's C/A surplus; and (d) cheap HUF valuation.

ING forecasts (mkt fwd)	**1M** 316.00 (318.7)	**3M** 315.00 (318.9)	**6M** 310.00 (319.5)	**12M** 310.00 (320.9)

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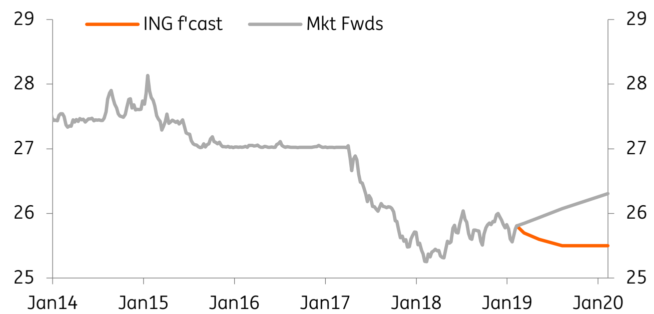
EUR/CZK

Lack of clear CZK upside

Current spot: 25.81



Source: Bloomberg, ING

- The CNB stayed on hold in February. Despite the domestic economy remaining solid and warranting hikes, it is the external uncertainty that currently matters more for the CNB.
- With the CNB unlikely to hike rates at least until the May meeting, the prospects for CZK gains are fairly limited. This is further exaggerated by the soft data in Germany and the Eurozone, which in turn reduce the potential for the CNB to support the overbought CZK.
- Even if CNB delivers two hikes this year, the broken/muted transmission mechanism from interest rates into CZK does not mean meaningfully lower EUR/CZK. Instead we see EUR/CZK struggling to move below 25.50 this year.

ING forecasts (mkt fwd)	**1M** 25.70 (25.85)	**3M** 25.60 (25.94)	**6M** 25.50 (26.07)	**12M** 25.50 (26.30)

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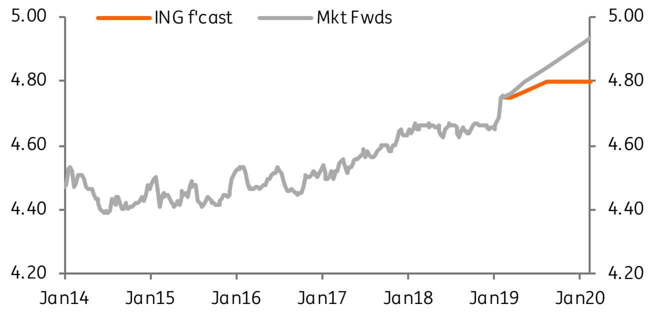
EUR/RON

Something has to give in: rates or RON? Or both?

Current spot: 4.75



Source: Bloomberg, ING

- With the twin deficits picture unlikely to see any improvement, GDP growth to slow and the political scene to heat-up in an election year, RON vulnerabilities are clearly on the rise. A 3-4% weaker RON on average in 2019 looks like a balanced trade-off between CPI and external trade. The cancellation of the link between interbank interest rate indices and the level of bank tax, when announced, could spur a short-lived RON rally. The NBR's new range seems to be 4.7200-4.7700 in EUR/RON for now with another 2% shift higher likely in the second half of the year.
- The National Committee for Macroprudential Oversight meets again on 18 February to discuss the bank levy. We believe that any positive news is mostly priced-in.

ING forecasts (mkt fwd)	**1M** 4.75 (4.76)	**3M** 4.77 (4.80)	**6M** 4.80 (4.84)	**12M** 4.80 (4.93)

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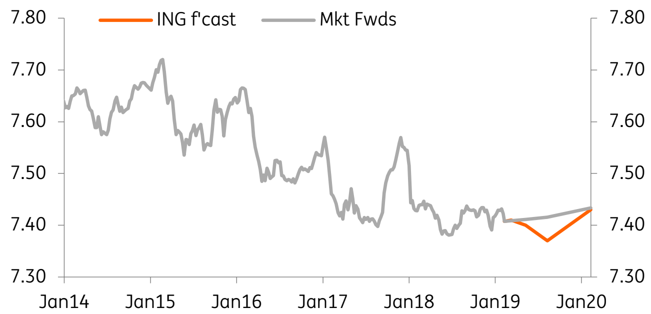
EUR/HRK

Testing CNB appetite for stronger HRK

Current spot: 7.41



Source: Bloomberg, ING

- After CNB heavy interventions in December when it bought EUR1.08 billion at an average rate of 7.4048 to fend-off HRK strength, EUR/HRK pair seems to have stabilized above 7.40. The rise in seasonal inflows is likely to test again the central bank's appetite for a stronger currency and we could see it allow some moderate HRK appreciation below 7.40/EUR.
- Croatia targets 2020 to enter ERM-2, but the above 60% debt-to-GDP ratio could be a reason for delays despite its commitment to fiscal consolidation. The budget deficit target for 2019 is -0.4% of GDP and the government is planning to cut public debt levels to 71% of GDP. The strategy for euro adoption hints a preference for a central parity rate around 7.45.

ING forecasts (mkt fwd)	**1M** 7.41 (7.41)	**3M** 7.40 (7.41)	**6M** 7.37 (7.42)	**12M** 7.43 (7.43)

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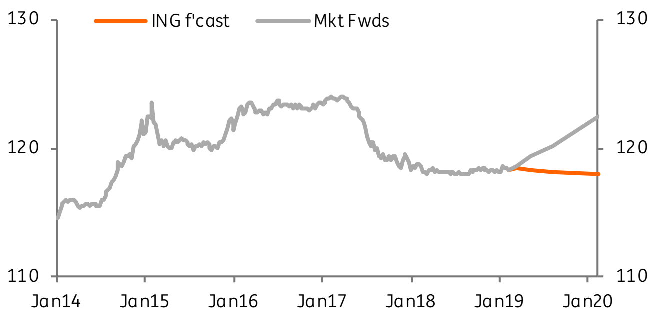
EUR/RSD

Tight managed floating part of dinarisation strategy

Current spot: 118.4



Source: Bloomberg, ING

- EUR/RSD is trading near the upper bound of the 118.00-118.50 range with NBS quite active on top, selling EUR130 million in January alone. News about the main government party mulling snap elections are weighing on sentiment, despite opinion polls showing President Vucic's party getting an outright majority. A deadlock in Kosovo negotiations have not helped either. Despite mild depreciation pressure, the NBS provided RSD liquidity via FX swap auctions.
- "A relatively stable dinar exchange rate against the euro" was reiterated by the NBS as part of its dinarisation strategy. With lower probability for ECB tightening this year and a contained domestic inflation backdrop, we see no rate changes from the NBS this year.

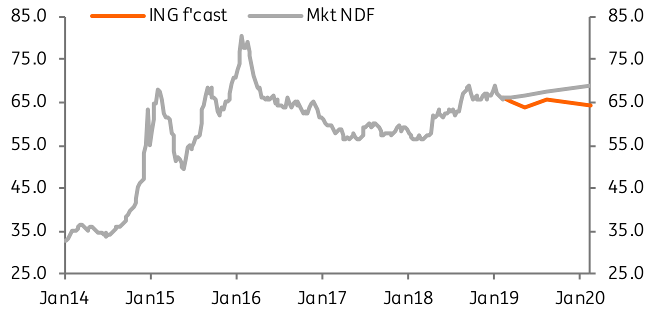
ING forecasts (mkt fwd)	**1M** 118.50 (118.6)	**3M** 118.30 (119.3)	**6M** 118.20 (120.1)	**12M** 118.00 (122.5)

Ciprian Dascalu, Bucharest +40 31 406 89 90

USD/RUB

BoP position should support RUB in 1Q19.

Current spot: 66.03



Source: Bloomberg, ING

- We are positive on the rouble in short term thanks to the relaxed global mood and Russia's seasonally strong US$9-10bn monthly current account in 1Q, covering the US$4bn of monthly FX interventions and US$1bn net foreign debt redemptions. Outflows from local state bonds (OFZ) also seem to have stopped.
- The rouble will become more vulnerable to possible external negativity in 2-3Q, when the current account is likely to shrink to US$3-5bn per month, and the current global optimism on Fed may be challenged.
- The risks to our constructive view remain focused on the sanctions uncertainty, given the situation around Venezuela, Ukraine, and the investigation of alleged Russian meddling into the US elections.

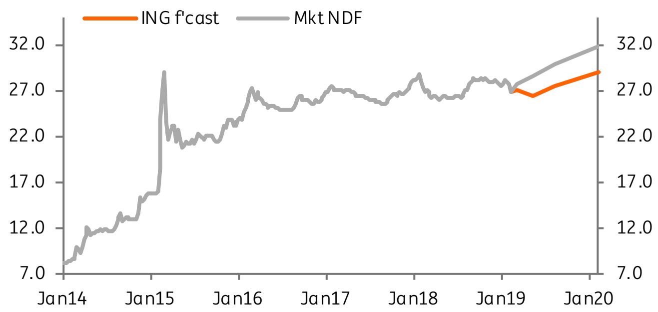
ING forecasts (mkt fwd)	**1M** 65.00 (66.28)	**3M** 64.00 (66.81)	**6M** 65.50 (67.59)	**12M** 64.50 (69.14)

Dmitry Dolgin, Russia +7 495 771 7994

USD/UAH

A strong start to the year for the UAH

Current spot: 26.87



Source: Bloomberg, ING

- The UAH has performed very well at the start of 2019, buoyed by the risk friendly external environment and perhaps some luck on the trade account. A milder winter helps on the gas import bill.
- FX reforms by the NBU are also an important story for corporates. Reforms include: (i) cancellation of T-1 deposit of UAH for FX buyers, (ii) obligatory sale of FX export proceeds cut to 30% from 50% and (iii) new hedging products for corporates such as FX swaps and an ambition to re-develop the NDF market.
- Seasonality trend suggest UAH should stay supported into the summer, but (a) Presidential elections on 31 March and (b) large external debt payments, (€1.3bn in May) pose large challenges.

ING forecasts (mkt fwd)	**1M** 27.00 (27.61)	**3M** 26.50 (28.59)	**6M** 27.50 (29.88)	**12M** 29.00 (31.75)

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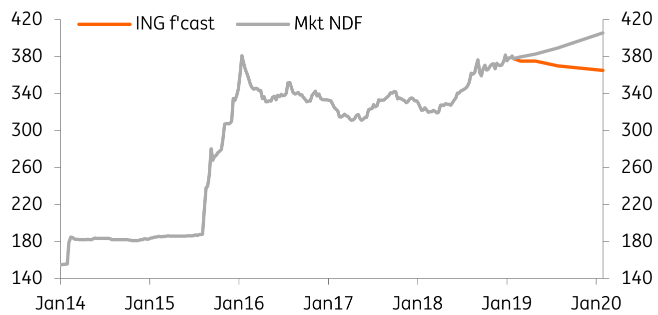
USD/KZT

Under-performing

Current spot: 377.8



Source: Bloomberg, ING

- The KZT has failed to take advantage of the recovery in energy prices and has dramatically underperformed the rouble so far this year. Potentially there has been some focus on the need for a state bail-out of Tsesnabank, although this hasn't impacted Kazakh's sovereign CDS. However, it does serve as a reminder of the challenges faced by the Kazakh banking system.
- There is also the speculation over the departure of President Nazarbayev (now 78), although nothing seems imminent.
- KZT is now at the weaker end of the 5.5/6.0 range versus RUB and given our bullish/stable call on RUB and oil, we think the KZT should be in a position to outperform the steep forward curve.

ING forecasts (mkt fwd)	**1M** 375.00 (379.5)	**3M** 375.00 (382.8)	**6M** 370.00 (389.4)	**12M** 365.00 (405.6)

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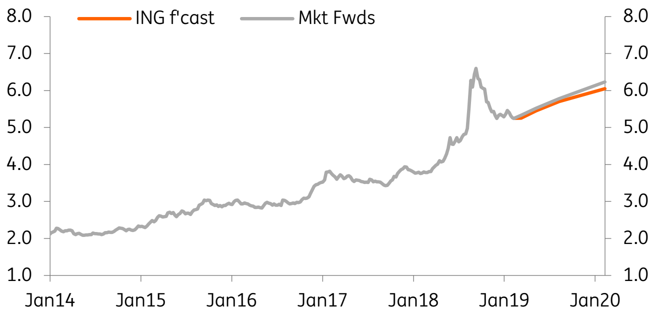
USD/TRY

No signs of complacency

Current spot: 5.25



Source: Bloomberg, ING

- Despite (i) recent TRY strength (helped by benign Fed tailwinds of late), (ii) the improvement in inflation dynamics and (iii) the ongoing adjustment in external balances, the CBT has showed no sign of complacency and maintained the hawkish stance.
- Such a strong stance with a promise to maintain a policy that will reduce inflation to single digits in the least possible time has contributed positive sentiment in the TRY. Despite a continuation of the supportive global backdrop with the dovish Fed shift, Turkey's challenging inflation outlook with core and services inflation remaining elevated and likely growth supportive fiscal measures in the period ahead have potential to weigh on TRY through the course of 2019.

ING forecasts (mkt fwd)	**1M** 5.25 (5.33)	**3M** 5.45 (5.52)	**6M** 5.70 (5.79)	**12M** 6.05 (6.23)

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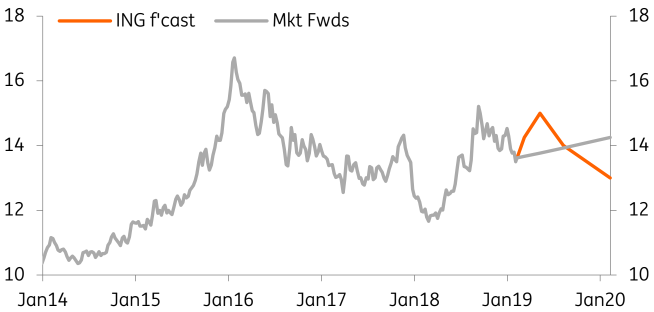
USD/ZAR

Too far, too fast

Current spot: 13.62



Source: Bloomberg, ING

- The extent of the early year ZAR rally has surprised us, where investors rotated into the high-yielding commodity sector earlier than we had expected. With growth slowing in Europe and the jury out on the extent of the Chinese slowdown, we would still be cautious on long ZAR exposure in 1H19.
- Locally there's focus on domestic politics (general election held May-August 19) and weak domestic growth. Risks exist that: either state support of Eskom and subsequent ratings downgrades or a government move on land reform could un-nerve international investors.
- Prefer ZAR to rally in 2H19, when $ bear trend becomes clearer.

ING forecasts (mkt fwd)	**1M** 14.25 (13.67)	**3M** 15.00 (13.77)	**6M** 14.00 (13.92)	**12M** 13.00 (14.25)

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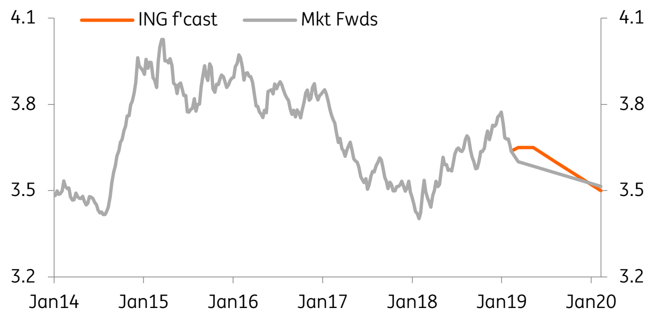
USD/ILS

Elections in focus

Current spot: 3.64



Source: Bloomberg, ING

- The ILS has certainly enjoyed the Fed's pause and $/ILS has moved to the 3.60 area a lot more quickly than we had forecast. Another year of loose fiscal policy looks likely ahead of elections, which take place on 9 April. PM Netanyahu looks like he's in a tight race with opposition leader, Benny Gantz. Despite corruption allegations, Netanyahu's Likud party is still polling strongly.
- After the surprise BoI rate hike in November which built in expectations of a new cycle, tightening expectations have actually corrected 25bp and 50bp lower on a 1, 2 year horizon - presumably hit by the Fed pause and a stronger ILS.
- Loose fiscal/tighter monetary policy to send $/ILS to 3.50 in 2019.

ING forecasts (mkt fwd)	**1M** 3.65 (3.60)	**3M** 3.65 (3.58)	**6M** 3.60 (3.56)	**12M** 3.50 (3.51)

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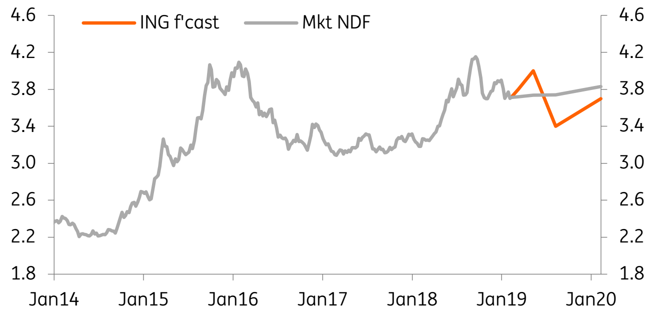
LATAM

USD/BRL

Social security reform faces reality check

Current spot: 3.71



Source: Bloomberg, ING

- Bolsonaro is about to unveil its social security reform proposal. A relatively "ambitious" plan should generate both cheers (from investors) and political resistance to such unpopular legislation.
- The new administration was able to elect allies to preside in both legislative chambers, but the effective size of its support-base remains unclear. Confirmation that Congress will not allow the new reform proposal to be fast-tracked, delaying its approval by at least two months, has lent a weakening bias for local assets.
- Uncertainty about the reform passage should create episodes of volatility in the coming months, but we still expect the reform to be approved. Its eventual passage should trigger a temporary overshooting in the BRL, towards the 3.3-3.4 range, relative to fair-value in the 3.6-3.7 range. Failure to approve the reform would, meanwhile, trigger a sell-off towards 4.0.

ING forecasts (NDF)	**1M** 3.80 (3.72)	**3M** 4.00 (3.74)	**6M** 3.40 (3.74)	**12M** 3.70 (3.83)

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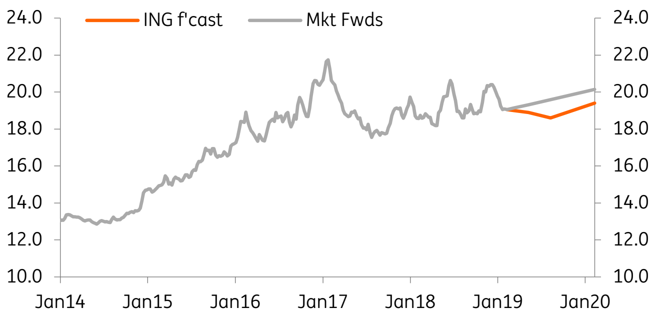
USD/MXN

A "glass half-full" perspective for the MXN

Current spot: 19.05



Source: Bloomberg, ING

- Despite lingering policy uncertainties, we believe that the Lopez Obrador administration is now settling into a more conservative policymaking stage, after having solidified some key controversial "political victories" in recent months.
- The risk of rupture in market credibility in issues like fiscal prudence, PEMEX and central bank independence should take longer to emerge. If Brazil's experience is any indication, that risk would intensify if economic activity disappoints, as pressure on the administration to find alternative means to boost economic growth would rise, increasing the risk of policy mistakes.
- For now, however, the mix of attractive rates, solid macro fundamentals and the relatively benign external environment suggests that a "glass half-full" perspective is likely to prevail, adding a benign near-term bias for local assets.

ING forecasts (mkt fwd)	**1M** 19.00 (19.14)	**3M** 18.90 (19.32)	**6M** 18.60 (19.59)	**12M** 19.40 (20.14)

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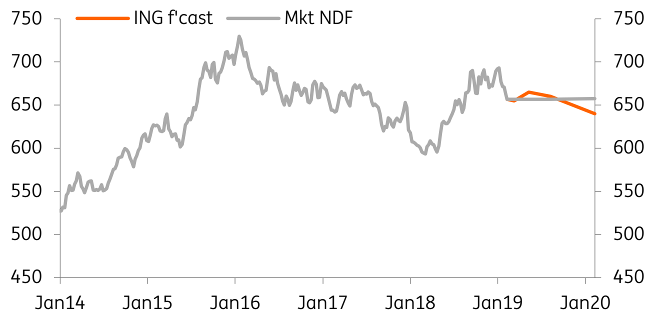
USD/CLP

A copper-fuelled rally, from worst to best

Current spot: 656.72



Source: Bloomberg, ING

- After standing out among the worst-performing currencies in LATAM in recent months, the recent rally in copper prices helped the CLP break out from its previous trading ranges, with the currency now trading considerably stronger than its moving averages.
- Hopes for a faster resolution of the US-China trade-war impasse would support the CLP but, at current levels, the currency already incorporates a fairly benign external outlook, and no longer appears attractive, in purely valuation terms.
- Near-term CLP prospects are closely linked to external drivers but solid local macro trends also indicate a supportive CLP outlook. The mining-led recovery has cooled down a bit, but growth dynamics continue solid, while BCCh remains on track to extend the only rate-hiking cycle in LATAM during 1H19.

ING forecasts (NDF)	**1M** 655.00 (657)	**3M** 665.00 (657)	**6M** 660.00 (657)	**12M** 640.00 (657)

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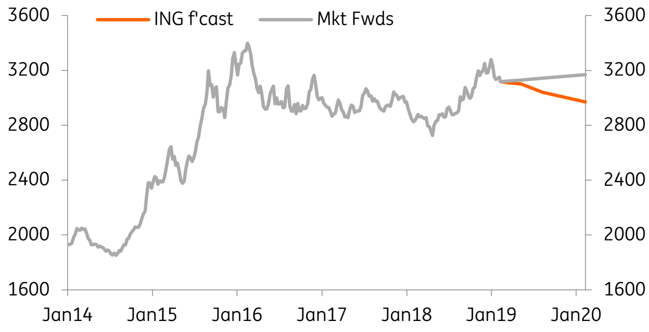
USD/COP

Following external drivers **Current spot: 3118.29**



Source: Bloomberg, ING

- After underperforming for much of the past six months, thanks in large part to the sharp correction in oil prices, the COP has steadied now and appears closer to fair-value.
- Future performance appears chiefly dependent on oil price fluctuations, as domestic drivers should remain COP-neutral.
- President Duque failed to persuade lawmakers to approve his ambitious tax reform but the more modest proposal approved should be enough to keep the fiscal rule intact this year. Evidence of political weakness by the new president and the lack of a solid Congressional majority suggest, however, that yearly battles with Congress may eventually erode investor sentiment, and keep the risk of credit ratings downgrades alive. Macro trends have improved, with inflation on-target and economic activity accelerating, but monetary policy guidance should remain neutral in the foreseeable future.

ING forecasts (NDF)	**1M** 3110.00 (3121)	**3M** 3100.00 (3130)	**6M** 3040.00 (3143)	**12M** 2970.00 (3170)

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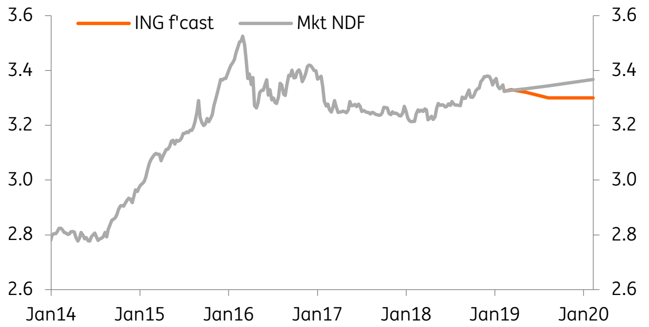
USD/PEN

Solid macro trends help offset trade-war concerns **Current spot: 3.32**



Source: Bloomberg, ING

- As usual, the PEN traded with the lowest volatility in the region, trading mostly sideways over the past month.
- Trade-war concerns continue to cloud the outlook for metal prices, but solid economic growth, thanks to stronger investment and greater political stability, with President Vizcarra's stronger political capital and a more subdued opposition, should be supportive for the PEN.
- Peru's BCRP has kept the policy rate unchanged, at 2.75%, for about one year now. Signs of moderation in economic activity and on-target inflation suggests that authorities should be in no rush to follow Chile and tighten monetary policy, extending the current "neutral" bias for longer than we initially thought.

ING forecasts (NDF)	**1M** 3.33 (3.33)	**3M** 3.32 (3.33)	**6M** 3.30 (3.34)	**12M** 3.30 (3.37)

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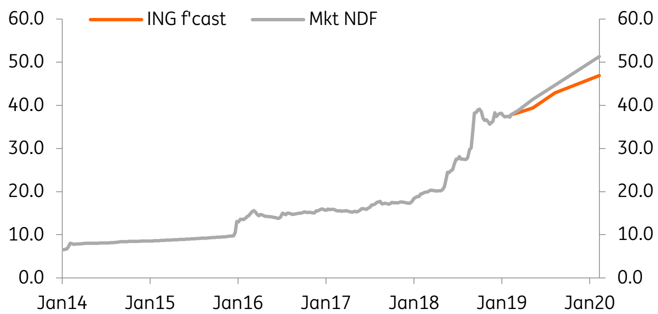
USD/ARS

ARS is appealing again, for investors with risk appetite **Current spot: 37.84**



Source: Bloomberg, ING

- Improved global risk appetite, thanks in large part to the dovish shift by the US Fed, together with attractive levels and the high carry have triggered a significant improvement in investor appetite for Argentinean assets.
- The peso has appreciated beyond the central bank's non-intervention zone, pushing BCRA to increase its daily intervention to US$75m, up from US$50m, but the overall impact of the measure has been relatively muted, highlighting the improved investor sentiment towards local assets.
- We still expect local assets to suffer from the political uncertainty generated by the upcoming Presidential election, but election-elected risk premium should be incorporated into prices closer to May-June. Until then, external drivers should play a bigger role and potentially lend an appreciating bias for local asset prices.

ING forecasts (NDF)	**1M** 38.30 (38.84)	**3M** 39.40 (41.39)	**6M** 42.90 (44.65)	**12M** 46.90 (51.31)

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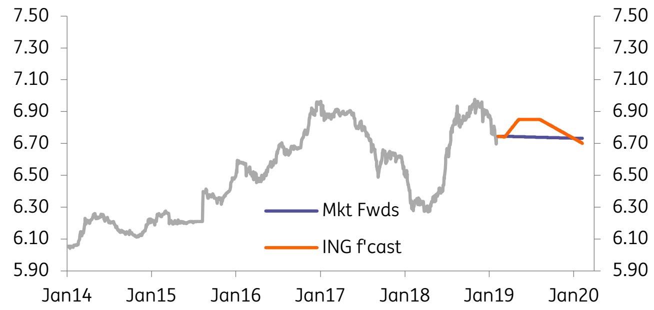
Asia

USD/CNY

Strong yuan to stay **Current spot: 6.7451**



Source: Bloomberg, ING

- We have revised our yuan forecasts to reflect the CNY's appreciation since the beginning of the year and an apparent change in direction from the PBoC. For now, it appears that they will take their steer for the CNY from the dollar index and will be keeping the yuan roughly stable against a basket of currencies.
- One side effect of the stronger yuan is that it will help support imports from US near-term, which will provide a helpful backdrop to trade negotiations.
- However, some renewed CNY weakness during the middle of the year will support the weakening economy and Chinese export markets. We anticipate some recovery by the year end, though, with USD/CNY ending the year at 6.75.

ING forecasts (FWDs)	**1M** 6.7400 (6.7447)	**3M** 6.8500 (6.7424)	**6M** 6.8500 (6.7384)	**12M** 6.7000 (6.7314)

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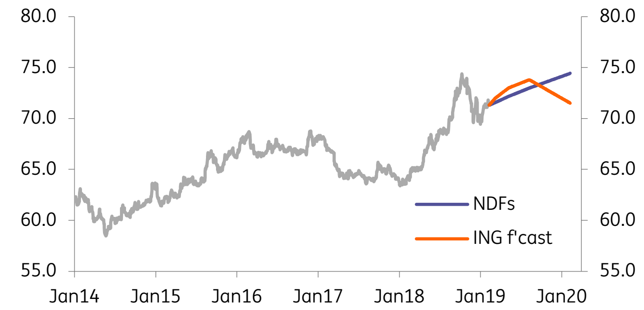
USD/INR

Politics overtakes economy **Current spot: 71.30**



Source: Bloomberg, ING

- Politics has clearly overtaken the economy ahead of general elections in May 2019. In a last-ditch attempt to lure voters, the incumbent government has not only put up a populist budget for FY20 but has also pushed the central bank (RBI) to ease policy.
- The authorities appear to be ignoring what's good for the economy over the longer term, namely fiscal sustainability and sustained low inflation. This isn't good for investor sentiment. Moreover, scepticism about populist policies helping the Modi administration to remain in power prevails.
- We continue to see Indian financial assets, including the INR, remaining under weakening pressure until the political dust settles.

ING forecasts (NDFs)	**1M** 72.00 (71.57)	**3M** 73.00 (72.17)	**6M** 73.80 (72.98)	**12M** 71.50 (74.43)

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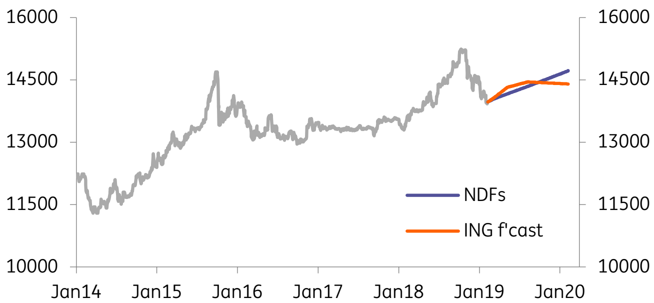
USD/IDR

IDR benefits from flows and confident central bank **Current spot: 13969**



Source: Bloomberg, ING

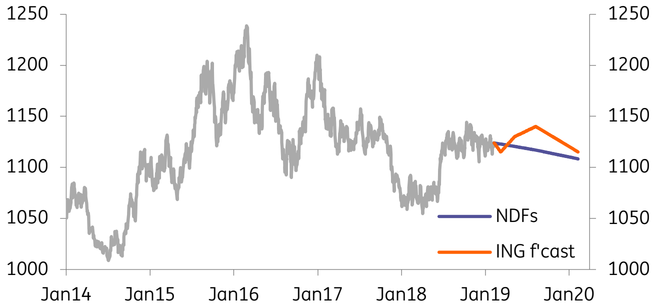
- The IDR continues to outperform other currencies in the region with foreign flows propping up the currency and like other Asian FX, helped by the market pricing in a less aggressive rate hike cycle by the US Federal Reserve.
- Limiting the upside to some extent have been comments from BI Governor, Warjiyo, indicating that the recent tightening cycle may be "close to peak" while concerns about China's economic health (Indonesia's top trade partner), have also capped the IDR rally.
- Bank Indonesia (BI) has forecast a narrowing of the current account deficit in 2019 as the government implements measures to curb imports and bolster exports to help stabilize the currency. Meanwhile, Governor Warjiyo has reiterated that the IDR is "undervalued" given Indonesia's fundamentals, also helping lend additional strength to the currency.

ING forecasts (NDFs)	**1M** 14070 (14042)	**3M** 14320 (14162)	**6M** 14450 (14342)	**12M** 14400 (14720)

Nicholas Mapa, Philippines +63 2479 8855

USD/KRW

Better eventually, but first, worse | **Current spot: 1123**



Source: Bloomberg, ING

- The Korea story is one of a currency that isn't performing well, ranking worse than all Asian peers except the INR so far this year. That's not FX company the KRW should be keeping.
- Macro flows do not support any further tightening by the BoK, but likewise, the prospect that they could reverse their ill-timed November hike, seems remote.
- Meanwhile, the newsflow on exports, domestic activity, business confidence and inflation continue to get worse. Something has to give, and it might well be the currency. Expect it to get worse, before it eventually gets better.

ING forecasts (NDFs)	**1M** 1115 (1123)	**3M** 1130 (1120)	**6M** 1140 (1117)	**12M** 1115 (1108)

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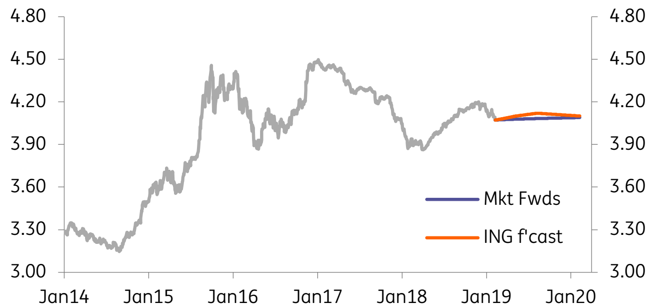
USD/MYR

Balanced risks between growth and inflation | **Current spot: 4.0723**



Source: Bloomberg, ING

- Malaysia's GDP growth likely accelerated in the final quarter of 2018 as firmer global oil prices supported exports and widened the trade surplus. Manufacturing performance also improved. We estimate 4Q18 GDP growth of 4.6% YoY, up from 4.4% in 3Q and yielding full-year growth of 4.7% (data due on 14 February).
- Meanwhile, inflation remains subdued, ending 2018 at 0.2%. Finance Minister Lim sees it rising to 1.6-2.0% this year. The risk to this forecast is tilted downward, more so in an environment of on-hold US Fed policy and softer USD.
- We think the central bank (BNM) assesses economic risks as fairly balanced between growth and inflation. We maintain our on-hold BNM policy view for 2019.

ING forecasts (FWDs)	**1M** 4.0800 (4.0745)	**3M** 4.1000 (4.0783)	**6M** 4.1200 (4.0827)	**12M** 4.1000 (4.0898)

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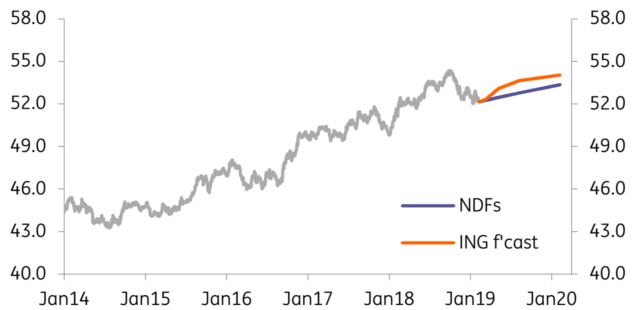
USD/PHP

PHP lags region but sees strength from foreign flows | **Current spot: 52.11**



Source: Bloomberg, ING

- PHP has seen bouts of appreciation but generally underperformed the region, which rallied on the back of expectations that the Fed would be less aggressive in hiking policy rates in 2019.
- Foreign flows have returned to the Philippines with both the local bond and equity market registering weeks of positive inflow given the risk-on tone, providing brief episodes of appreciation.
- Offsetting the inflow of foreign funds was substantial corporate demand given still elevated import demands as well as softer 4Q GDP numbers, which increases the likelihood that the central bank's next move will be in an accommodative direction.

ING forecasts (NDFs)	**1M** 52.30 (52.22)	**3M** 53.09 (52.44)	**6M** 53.64 (52.76)	**12M** 54.04 (53.35)

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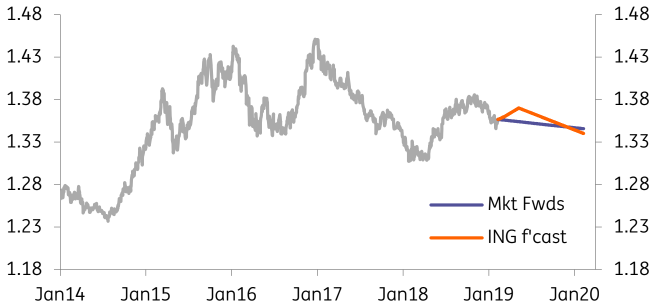
USD/SGD

Middle of the pack **Current spot: 1.3565**



Source: Bloomberg, ING

- As you would expect from a Nominal exchange rate targeting regime, the SGD is a solid middle of the pack performer so far this year, with a very slight appreciation vs the USD.
- That performance will likely continue over the rest of the year, though with inevitable patches of fluctuation.
- Making up for some fairly obviously weakening economic indicators, the main policy levers are likely to be fiscal, with support likely in the forthcoming budget, allowing monetary policy to remain steady, rather than backtracking. A return to a neutral monetary setting is only likely in the event of a much more negative trade scenario. Though those risks are substantial.

ING forecasts (FWDs)	**1M** 1.3600 (1.3558)	**3M** 1.3700 (1.3540)	**6M** 1.3600 (1.3511)	**12M** 1.3400 (1.3456)

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USD/TWD

Strong investor support for TWD **Current spot: 30.81**

Source: Bloomberg, ING

- Taiwan's manufacturers continue to face a downward cycle of orders placed by smartphone sellers. This is a key factor that has weakened Taiwan's export and import activities.
- Progress in the China-US trade talks is difficult to guess as China has not issued any statements after recent meetings, and the hints from the US trade side have been inconsistent.
- Inflows from foreign investors have provided some stabilisation to the TWD. With the policy interest rate low at 1.375%., there is little further room for the central bank to move, and any easing will likely be done only as a last resort.

ING forecasts (NDFs)	**1M** 30.70 (30.78)	**3M** 30.60 (30.68)	**6M** 30.60 (30.49)	**12M** 30.40 (30.11)

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USD/THB

Still the darling of investors **Current spot: 31.41**

Source: Bloomberg, ING

- The THB's 4% year-to-date appreciation against the USD puts it at the top spot among Asian currencies. This is despite lingering political risks before general elections scheduled for 24 March. Even so, we have revised our USD/THB forecast lower.
- Aside from the large current account surplus, a major source of confidence in the currency probably lies in the fact that the military Junta will likely maintain its grip on the government after elections, sustaining political and economic stability.
- The 2018 current account surplus came in at 7% of GDP, a sharp narrowing from 11% in the previous two years. We expect 5% in 2019 as exports falter with slower global growth. We think the authorities have more reason to be worried about a strong currency.

ING forecasts (FWDs)	**1M** 31.60 (31.38)	**3M** 32.00 (31.33)	**6M** 31.90 (31.25)	**12M** 31.60 (31.09)

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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	1.13	1.12	1.12	1.15	1.20						
EUR/JPY	124.5	123.20	123.20	124.20	120.00	USD/JPY	109.77	110	110	108	100
EUR/GBP	0.87	0.87	0.87	0.85	0.85	GBP/USD	1.30	1.29	1.29	1.35	1.41
EUR/CHF	1.14	1.12	1.12	1.12	1.15	USD/CHF	1.00	1.00	1.00	0.97	0.96
EUR/NOK	9.77	9.65	9.50	9.40	9.50	USD/NOK	8.61	8.62	8.48	8.17	7.92
EUR/SEK	10.50	10.60	10.50	10.30	10.20	USD/SEK	9.26	9.46	9.38	8.96	8.50
EUR/DKK	7.464	7.455	7.455	7.460	7.460	USD/DKK	6.58	6.66	6.66	6.49	6.22
EUR/CAD	1.51	1.47	1.46	1.48	1.44	USD/CAD	1.331	1.31	1.30	1.29	1.20
EUR/AUD	1.60	1.56	1.60	1.67	1.67	AUD/USD	0.71	0.72	0.70	0.69	0.72
EUR/NZD	1.68	1.62	1.67	1.74	1.71	NZD/USD	0.67	0.69	0.67	0.66	0.70
EMEA											
EUR/PLN	4.31	4.29	4.28	4.29	4.33	USD/PLN	3.80	3.83	3.82	3.73	3.61
EUR/HUF	318.6	316.00	315.00	310.00	310.00	USD/HUF	280.9	282	281	270	258
EUR/CZK	25.81	25.7	25.6	25.5	25.5	USD/CZK	22.75	22.9	22.9	22.2	21.3
EUR/RON	4.75	4.75	4.77	4.80	4.80	USD/RON	4.18	4.24	4.26	4.17	4.00
EUR/HRK	7.41	7.41	7.40	7.37	7.43	USD/HRK	6.53	6.62	6.61	6.41	6.19
EUR/RSD	118.4	118.5	118.3	118.2	118.0	USD/RSD	104.3	105.8	105.6	102.8	98.3
EUR/RUB	74.88	72.8	71.7	75.3	77.4	USD/RUB	66.03	65.0	64.0	65.5	64.5
EUR/UAH	30.46	30.2	29.7	31.6	34.8	USD/UAH	26.87	27.00	26.50	27.50	29.00
EUR/KZT	428.5	420.0	420.0	425.5	438.0	USD/KZT	377.8	375	375	370	365
EUR/TRY	5.96	5.88	6.10	6.56	7.26	USD/TRY	5.25	5.25	5.45	5.70	6.05
EUR/ZAR	15.45	16.0	16.8	16.1	15.6	USD/ZAR	13.62	14.25	15.00	14.00	13.00
EUR/ILS	4.13	4.09	4.09	4.14	4.20	USD/ILS	3.64	3.65	3.65	3.60	3.50
LATAM											
EUR/BRL	4.21	4.26	4.48	3.91	4.44	USD/BRL	3.71	3.80	4.00	3.40	3.70
EUR/MXN	21.61	21.3	21.2	21.4	23.3	USD/MXN	19.05	19.00	18.90	18.60	19.40
EUR/CLP	744.88	734	745	759	768	USD/CLP	656.72	655	665	660	640
EUR/ARS	42.92	42.90	44.13	49.34	56.28	USD/ARS	37.84	38.30	39.40	42.90	46.90
EUR/COP	3538.86	3483	3472	3496	3564	USD/COP	3118.29	3110	3100	3040	2970
EUR/PEN	3.77	3.73	3.72	3.80	3.96	USD/PEN	3.32	3.33	3.32	3.30	3.30
Asia											
EUR/CNY	7.65	7.55	7.67	7.88	8.04	USD/CNY	6.75	6.74	6.85	6.85	6.70
EUR/HKD	8.90	8.76	8.74	8.97	9.36	USD/HKD	7.85	7.82	7.80	7.80	7.80
EUR/IDR	15821	15758	16038	16618	17280	USD/IDR	13955	14070	14320	14450	14400
EUR/INR	80.89	80.6	81.8	84.9	85.8	USD/INR	71.31	72.00	73.00	73.80	71.50
EUR/KRW	1273.93	1249	1266	1311	1338	USD/KRW	1123.75	1115	1130	1140	1115
EUR/MYR	4.61	4.57	4.59	4.74	4.92	USD/MYR	4.07	4.08	4.10	4.12	4.10
EUR/PHP	59.02	58.6	59.5	61.7	64.8	USD/PHP	52.07	52.3	53.09	53.64	54.04
EUR/SGD	1.54	1.52	1.53	1.56	1.61	USD/SGD	1.36	1.36	1.37	1.36	1.34
EUR/TWD	34.94	34.4	34.3	35.2	36.5	USD/TWD	30.82	30.7	30.6	30.6	30.4
EUR/THB	35.72	35.4	35.8	36.7	37.9	USD/THB	31.49	31.6	32.0	31.9	31.6

Source: Bloomberg, ING

Disclaimer