11 January 2019

FX Strategy

FX Talking

Dining out on the Fed's pause

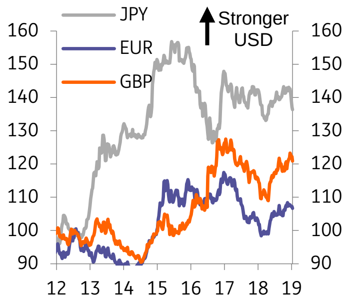
The Fed's clear shift to a pause in its tightening cycle has been welcomed by beleaguered risk assets. After a torrid end-year for asset markets, investors are using this window to put money to work – especially in undervalued emerging currencies. This benign environment may continue into February, but will prove tentative – again subject to political risks largely emanating out of Washington.

While our core theme for 2019 is that the dollar will peak, we believe that's more a story for 2H19. Before then we expect the market to re-price one to two Fed hikes. These will be driven by sufficiently strong US data and core inflation heading up to 2.5% this summer. Bearish re-steepening of the US Treasury curve should drive some fresh dollar strength over coming months – largely against the low yielding EUR and JPY.

We expect EUR/USD to trade back to 1.12 over coming months on the back of modest dollar strength. There's very little to say about the EUR right now apart from: (a) politics look to be on the back-burner until European parliamentary elections in May and (b) weak growth does not present Europe as an obvious beneficiary of the investor rotation out of US asset markets and the dollar.

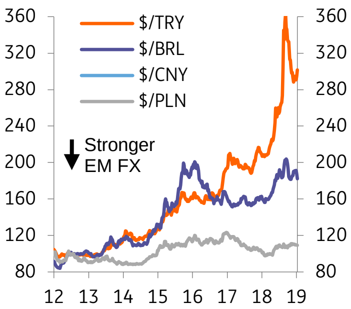
The biggest positive surprise to European currencies (not our baseline) could emerge from Brexit discussions – were a policy path to a second referendum to develop. There is very little clarity on this – but GBP-led gains in EUR/USD to the 1.18 area is an outside risk.

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	1.13	<	110	>	1.26	<
3M	1.12	<	113	>	1.29	>
6M	1.12	<	110	>	1.32	>
12M	1.20	>	100	<	1.41	>
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.90	>	25.70	>	4.27	<
3M	0.87	<	25.60	>	4.30	<
6M	0.85	<	25.50	>	4.24	<
12M	0.85	<	25.40	<	4.27	<
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	6.85	>	18.80	<	3.75	>
3M	7.10	>	18.60	<	3.85	>
6M	7.20	>	18.80	<	3.40	<
12M	7.30	>	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	1.4	-4.3	0.3	0.8	-0.7	-0.7
%YoY	-4.0	-3.3	1.5	1.0	-5.2	6.1
	USD/UAH	**USD/KZT**	**USD/BRL**	**USD/ARS**	**USD/CNY**	**USD/TRY**
%MoM	0.3	1.6	-4.3	-1.2	-1.7	2.5
%YoY	-1.4	14.1	14.9	97.2	4.1	45.4

Source: Bloomberg, ING

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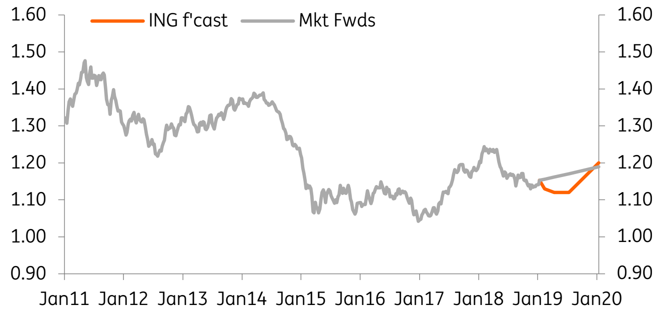
Developed markets

EUR/USD

How much is a Fed pause worth?

Current spot: 1.15



Source: Bloomberg, ING

- The trade weighted dollar is down around 2.5% from its highs in December largely on the back of a re-pricing of the 2019 Fed tightening cycle. Presidential pressure on the Fed, a stock market sell-off and the Fed themselves shifting towards a data-dependent approach have all contributed to the move.
- Our macro team feel that the current pessimism embodied in US asset market is overdone and feels that the Fed will have the opportunity to hike twice in 2019. That's why we still think EUR/USD can trade down to 1.12 this summer.
- The biggest upside risk to EUR/$ near term stems from a second Brexit referendum – where GBP could drag EUR/$ as high as 1.18.

ING forecasts (mkt fwd)	**1M** 1.13 (1.156)	**3M** 1.12 (1.1621.12)	**6M** 1.12 (1.171)	**12M** 1.20 (1.189)

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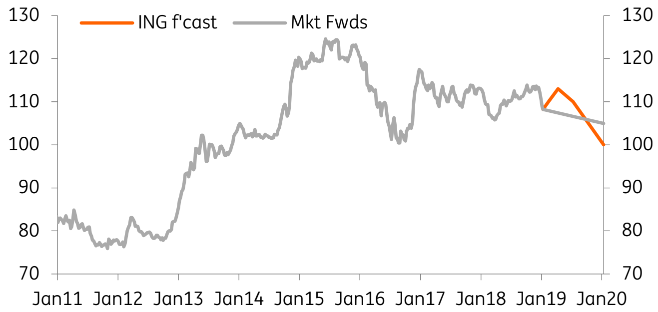
USD/JPY

Core view see bearish US curve re-steepening & higher $

Current spot: 108.22



Source: Bloomberg, ING

- With the Fed pause now anchoring short rates, we expect the next significant move in the US Treasury curve to be a bearish re-steepening – sending the 2-10 spread back to the 35/40bp area. This should be positive for the dollar, especially against the low-yielding JPY. That view embodies an early resolution to the US government shutdown (polls show most voters blaming Trump for this) and some thaw in US-China trade relations.
- We think the $/JPY flash-crash to 105 was overdone (in thin Tokyo conditions) & believe 110-112 levels can be reclaimed.
- Our preference is that the move towards 100 (and higher levels of volatility) is a 2H19 story – when the US is nearer to recession.

ING forecasts (mkt fwd)	**1M** 110.00 (107.9)	**3M** 113.00 (107.4)	**6M** 110.00 (106.6)	**12M** 100.00 (104.9)

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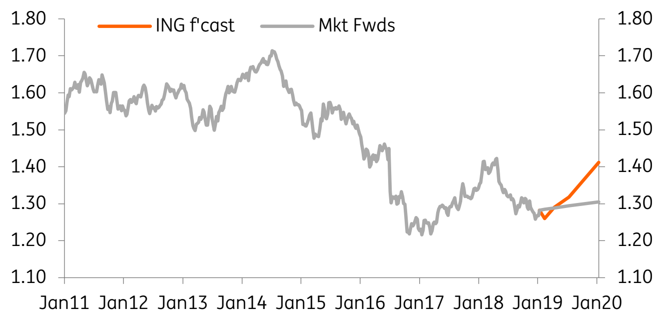
GBP/USD

Eventual Brexit resolution to lead to higher GBP this year

Current spot: 1.28



Source: Bloomberg, ING

- Our base case remains no hard Brexit and a resolution by the year-end (either some form of a deal such as Norway Plus or the second referendum – preceded by Article 50 extension).
- This should lead to higher GBP by end-2019, with the scale of the GBP upside depending on the form of the resolution (large GBP rally if the UK stays in the EU vs a more modest strength if Brexit deal is achieved). Coupled with our constructive EUR/USD view for 2H19, we look for GBP/USD at 1.40.
- The likely Article 50 extension and the associated uncertainty means a further delay to the BoE rate hikes. Should global and UK economy slow further in 2020, the window for the BoE to increase interest rates meaningfully may be limited.

ING forecasts (mkt fwd)	**1M** 1.26 (1.28)	**3M** 1.29 (1.29)	**6M** 1.32 (1.29)	**12M** 1.41 (1.30)

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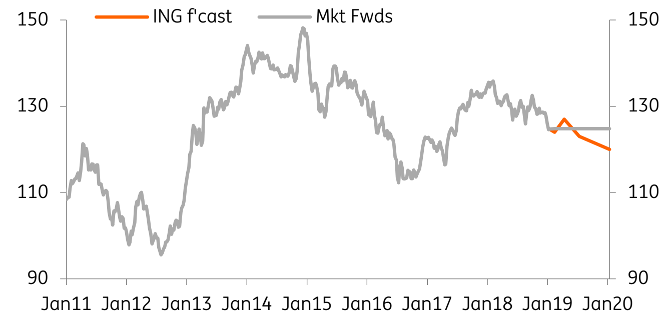
EUR/JPY

Volatility to pick up, EUR/JPY to depreciate



Source: Bloomberg, ING

Current spot: 124.8

- One of our core views in our 2019 FX outlook was that volatility would rise at the business cycle progressed. That has already started to happen and should intensify – more so in the second half. That should lead to JPY outperformance on the cross, including against the EUR.
- For the EUR itself, European parliamentary elections in May will create background noise over coming months. The fragmentation of political support is well documented, but it probably won't deliver a direct impact on the EUR pre-May.
- There's also the wildcard of the next ECB President – to replace Draghi in November. Will it be Weidmann, Hansson or Coeure?

ING forecasts (mkt fwd)	**1M** 124.00 (125)	**3M** 127.00 (125)	**6M** 123.00 (125)	**12M** 120.00 (125)

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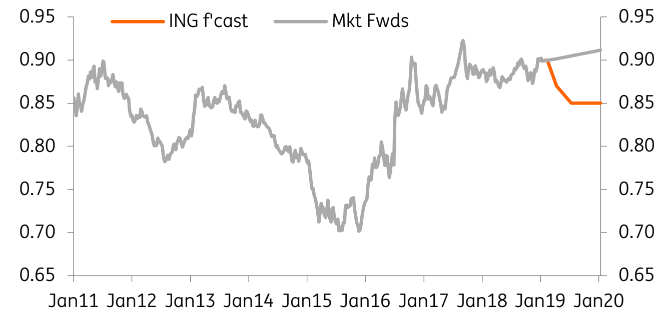
EUR/GBP

The reasons behind Article 50 extension matter for GBP



Source: Bloomberg, ING

Current spot: 0.90

- We expect PM May to lose the meaningful vote on Brexit deal and as result the Article 50 being extended beyond March. The sterling response to the likely Article 50 extension will depend on reasons behind the extension.
- The response to the second referendum would be very positive for GBP (EUR/GBP at 0.85) while early elections would be negative (EUR/GBP at 0.95 – though this is a less likely option). UK aiming to get a Norway Plus deal would not lead to as large GBP gains as the second referendum option as the uncertainty about the deal being passed in the Parliament would remain
- The overriding importance of Brexit for GBP means any positive spill-over from stabilizing risk appetite in GBP should be limited.

ING forecasts (mkt fwd)	**1M** 0.90 (0.90)	**3M** 0.87 (0.90)	**6M** 0.85 (0.90)	**12M** 0.85 (0.91)

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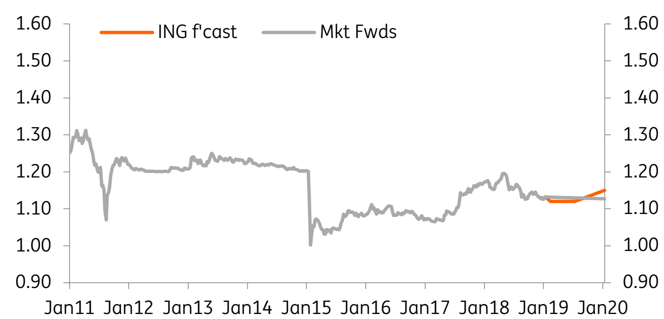
EUR/CHF

Super-low inflation keeps SNB super-dovish



Source: Bloomberg, ING

Current spot: 1.13

- EUR/CHF remains quite fragile even though the resolution of the Italian budget has managed to see Eurozone sentiment improve marginally. EUR/CHF does have a positive correlation with equities however – the correlation is stronger to US than Eurozone equities actually. Thus the travails on Wall Street over the last month partly explain why EUR/CHF remains near 1.12.
- At its last policy meeting in December, the Swiss National Bank (SNB) took a knife to its inflation forecasts and now see CPI at just 0.8% in 2019. This provides plenty of cover to keep rates at -0.75% and to continue to threaten FX intervention to weaken the CHF.
- Expect EUR/CHF to stay soft until the ECB sounds more optimistic.

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

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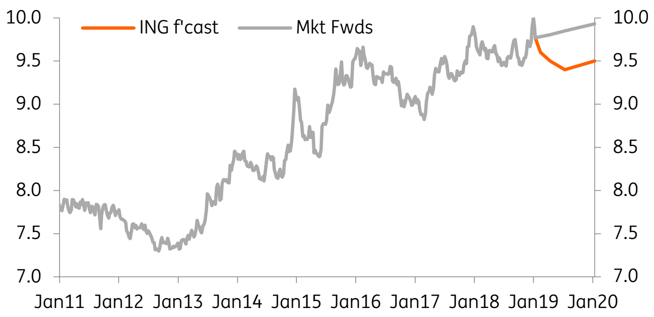
EUR/NOK

Recovery after an overdone weakness in December

Current spot: 9.77



Source: Bloomberg, ING

- NOK weakness in December was overdone and we expect NOK to rebound in coming months benefiting from the mix of stabilizing oil prices and the recovering risk appetite (to which NOK is the most sensitive to among European FX).
- We expect the Norges Bank (NB) to increase interest rates twice this year due to recovering oil price and solid domestic activity. Weaker than expected trade weighted NOK (vs the NB forecast) should also make the case for further tightening.
- We look for EUR/NOK to converge towards 9.60. We see long NOK/SEK positions as particularly attractive. The NB is likely to over hike Riksbank (by at least one 25bp hike this year) and economic activity should be better in Norway vs Sweden in 1H19.

ING forecasts (mkt fwd)	**1M** 9.60 (9.78)	**3M** 9.50 (9.81)	**6M** 9.40 (9.85)	**12M** 9.50 (9.93)

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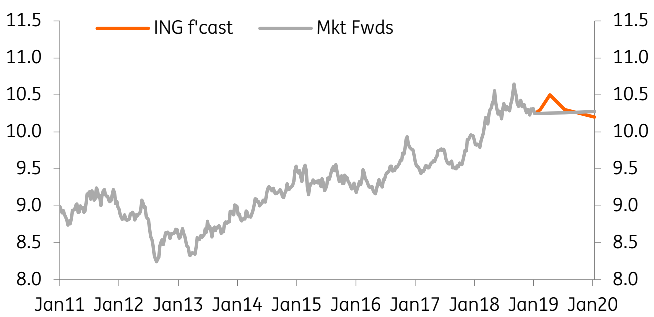
EUR/SEK

SEK upside largely exhausted

Current spot: 10.25



Source: Bloomberg, ING

- We see the upside to SEK as largely exhausted. The December Riksbank hike was a dovish one (with the interest rate path revised lower). We expect the Riksbank to hike at most once more this year this year, with a non-negligible probability of no hike at all in 2019 (due to lower CPI and slowdown in economic activity).
- As a low yielder, SEK is unlikely to benefit materially from the recent recovery in the risk appetite. Also, among the G10 activity currencies, SEK exerts the lowest correlation to risk.
- Our short term model suggests a EUR/SEK undershot (SEK being 2% rich vs EUR) in turn limiting any near-term SEK upside potential. We see EUR/SEK 10.10 as a strong support for the cross and look for EUR/SEK to converge into the 10.30/40 area.

ING forecasts (mkt fwd)	**1M** 10.30 (10.25)	**3M** 10.50 (10.25)	**6M** 10.30 (10.26)	**12M** 10.20 (10.27)

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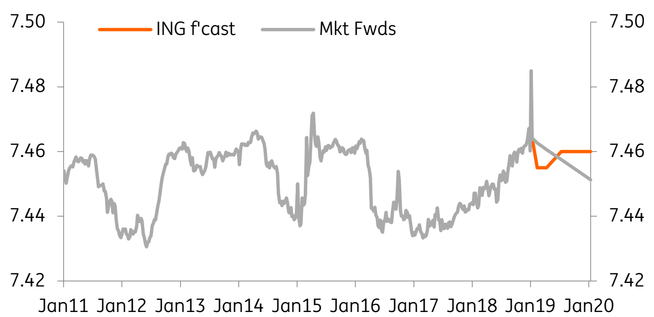
EUR/DKK

Weak DKK makes a hike no longer an unrealistic option

Current spot: 7.464



Source: Bloomberg, ING

- EUR/DKK persistently trading above the central parity rate prompted the first Danmarks Nationalbank (DN) FX interventions since 2016. Factors such as 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 vs EUR.
- We expect the DN to continue leaning against stronger EUR/DKK via FX interventions, but an independent DN rate hikes (of the ECB) 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 trading higher than the recent levels only during post speculative attack EUR/DKK rebound in early 2015) and the DN reaction.

ING forecasts (mkt fwd)	**1M** 7.46 (7.463)	**3M** 7.46 (7.461)	**6M** 7.46 (7.458)	**12M** 7.46 (7.451)

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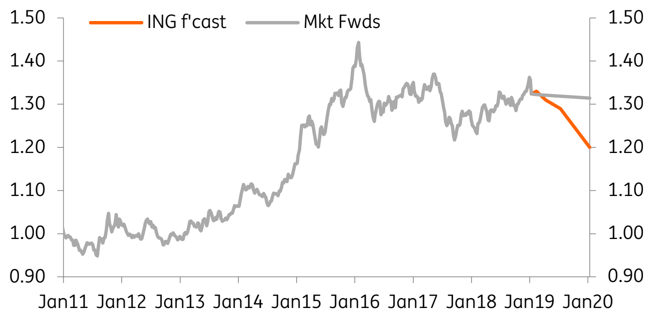
USD/CAD

Corrective action in oil markets helps the CAD



Source: Bloomberg, ING

Current spot: 1.324

- The mood on the CAD has certainly changed since it traded at 1.36 at the start of the year. The Fed pause has certainly helped, but certainly the corrective action taken to cut oil production in Canada has made a big difference. The 325m bpd cut in Alberta oil production has lifted Western Canada Select prices dramatically – narrowing the spread to WTI – lifting the CAD.
- Our oil team think that crude prices can stay a little higher in general as OPEC+ cuts are maintained over coming months. And a Bank of Canada (BoC) still holding out the scope of a rate hike is also supportive. We think there's a chance the BoC tightens further in July.
- $/CAD may well have put in a significant peak at 1.36 this year.

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

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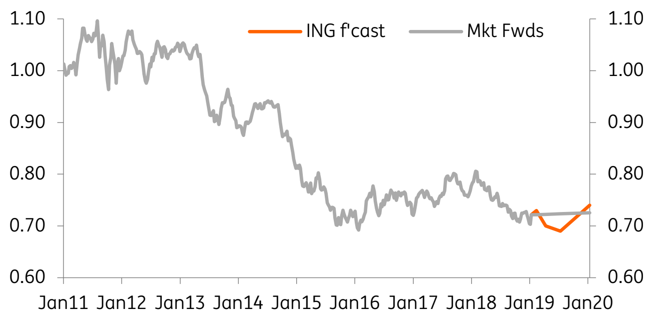
AUD/USD

The recovery in risk appetite benefiting AUD meaningfully



Source: Bloomberg, ING

Current spot: 0.72

- AUD benefited strongly from the mix of the cautious Fed and optimism on the US-China trade negotiations. We think the current recovery in risk has legs and AUD/USD should test 0.73.
- The domestic economy too has seen some more positive news with employment figures and retail sales delivering positive prints. But the housing market story and household debt interaction remain concerns. And expectations for RBA policy are at an uneasy impasse as far as future direction.
- AUD/USD to move back to/below 0.70 around the mid-year as the Fed is expected to re-start its tightening cycle in 2Q19. Yet, the AUD decline should be temporary as USD will reach its peak, embark on the bear cycle from 2H19 onwards and in turn lift AUD/USD higher.

ING forecasts (mkt fwd)	**1M** 0.73 (0.722)	**3M** 0.70 (0.722)	**6M** 0.69 (0.723)	**12M** 0.74 (0.725)

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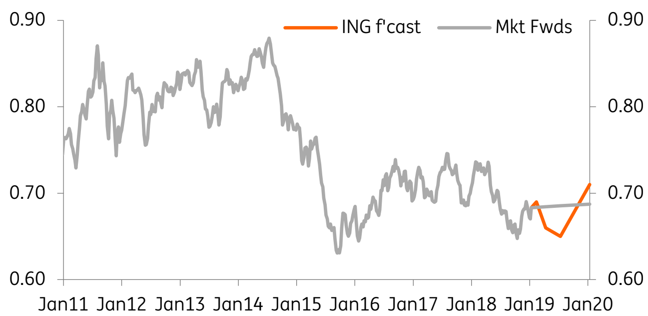
NZD/USD

Steady outperformance vs AUD to continue



Source: Bloomberg, ING

Current spot: 0.68

- NZD has made steady gains against AUD, and this is a trend we can see continuing in 2019. Although recent housing data in NZ has been soft, price trends remain positive against Australia.
- Moreover, the economy and currency are less exposed to a resumption of further US-China trade hostilities, which should add further impetus in the direction of AUDNZD parity as this becomes a background feature once more.
- The RBNZ ended 2018 with ambiguity over the direction of policy. The AUD is now entering the same phase whilst strong NZ wages growth is dragging RBNZ expectations more positive. We anticipate no RBNZ tightening this year, but early 2020 could be another matter.

ING forecasts (mkt fwd)	**1M** 0.69 (0.684)	**3M** 0.66 (0.684)	**6M** 0.65 (0.685)	**12M** 0.71 (0.687)

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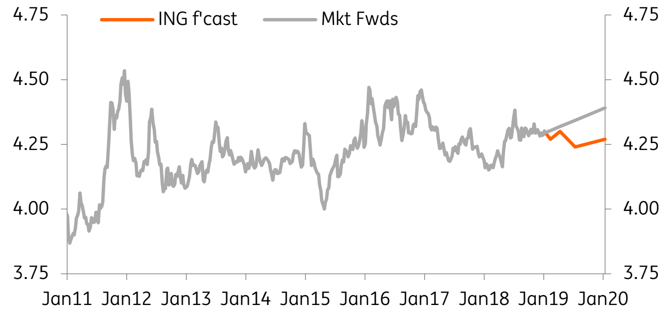
Emerging markets

EUR/PLN

POLGBs/PLN safe haven despite harsh politics



Source: Bloomberg, ING

Current spot: 4.30

- €/PLN remains in a horizontal trend around 4.3 since 1H18. Volatility diminished in 4Q18, due to passive Monetary Policy Council policy, sound fiscal side and impressive resilience of GDP to Eurozone slowdown. That made POLGBs safe haven assets. €/PLN should remain within the current consolidation (4.27-35) in January, likely even in the whole quarter.
- PMI overshoots the pace of slowdown, 2019 should bring 3.6% YoY GDP dynamics. The 0.7-1.1% of GDP pre-election fiscal stimulus also calls for limited GDP deceleration. PLN can benefit from global risk on in 1Q19, but 2-4Q19 is tricky due to European and general elections at a time when the ruling PiS lost momentum. Breaching a medium-term resistance at 4.35 is more likely, but 4.40 may hold.

ING forecasts (mkt fwd)	**1M** 4.27 (4.30)	**3M** 4.30 (4.32)	**6M** 4.24 (4.34)	**12M** 4.27 (4.39)

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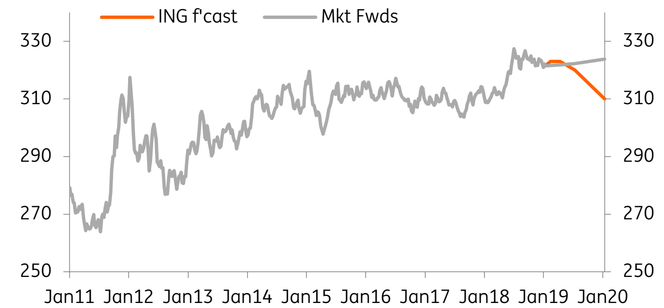
EUR/HUF

HUF set to strengthen as policy normalisation starts in 2H



Source: Bloomberg, ING

Current spot: 321.5

- EUR/HUF remained stable at year-end 2018, hovering in a tight range of 321-323. The recent rather EM positive headlines like the fading tensions concerning trade wars and the Chinese stimulus will help to preserve this stability in the early months of 2019. But given the uncertainty related to how the National Bank of Hungary manages Bubor normalisation (the 'execution' risk), we don't expect EUR/HUF breaking out from the 319-325 range in 1H19.
- We see EUR/HUF to approach 310 by the end of 2019 for the following reasons: (1) stretched short positioning; (2) delivery of a well behaved Bubor normalisation; (3) an ongoing current account surplus; and (4) non-negligible undervaluation vs EUR.

ING forecasts (mkt fwd)	**1M** 323.00 (321.6)	**3M** 323.00 (321.8)	**6M** 320.00 (322.2)	**12M** 310.00 (323.8)

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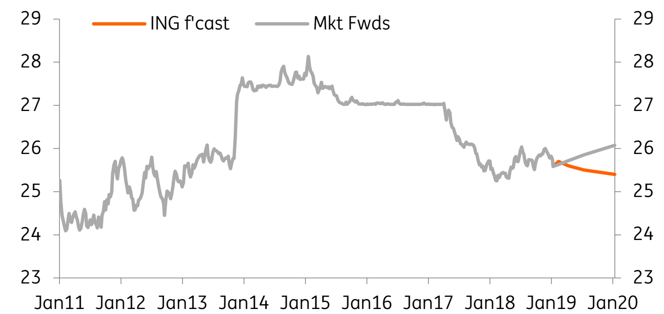
EUR/CZK

Despite market pessimism, the CNB hiking cycle is not over



Source: Bloomberg, ING

Current spot: 25.59

- With core inflation accelerating further to 2.6% YoY in December and the headline CPI only weighed down by volatile food and fuel prices, we expect the Czech National Bank to hike in February and point to further hikes during the rest of the year (we look for at least two in 2019), though further tightening will depend on global environment.
- While modestly constructive on CZK, we expect its gains to be more muted (with breaks below EUR/CZK 25.50 to be limited and shallow) as the pass-through from high interest rates into the exchange rate is very muted due in part to the still saturated positioning.
- As the market is in our view under-pricing the scale of CNB hikes, we expect EUR/CZK forward points to continue grinding higher.

ING forecasts (mkt fwd)	**1M** 25.70 (25.63)	**3M** 25.60 (25.72)	**6M** 25.50 (25.85)	**12M** 25.40 (26.07)

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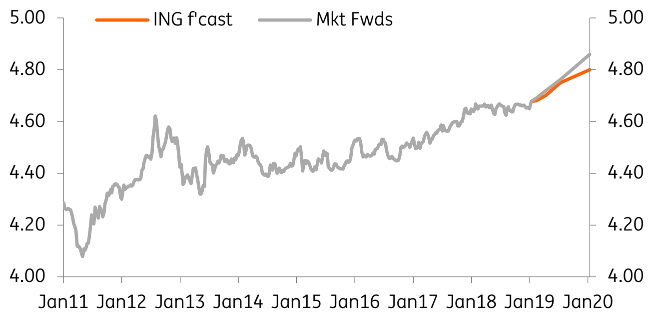
EUR/RON

RON: under pressure



Source: Bloomberg, ING

Current spot: 4.68

- The RON remained relatively stable into the year-end. In 2018 the EUR/RON has been under a tight managed floating regime, with NBR fixing moving within a narrow 1.1ppt as the central bank managed expectations due high FX pass-through.
- With the inflation back within the target band (but still in the upper half), the NBR could allow a shift higher in its comfort zone for the EUR/RON in 2019. The Romanian currency outperformed regional peers in 2018 while Romania is running trade deficits with most of its neighbours. Hence, a correction is overdue. At the same time, after the introduction of the ROBOR-linked bank tax, the NBR saw its flexibility in managing the FX via interest rate differential significantly affected.

ING forecasts (mkt fwd)	**1M** 4.68 (4.69)	**3M** 4.70 (4.72)	**6M** 4.75 (4.76)	**12M** 4.80 (4.86)

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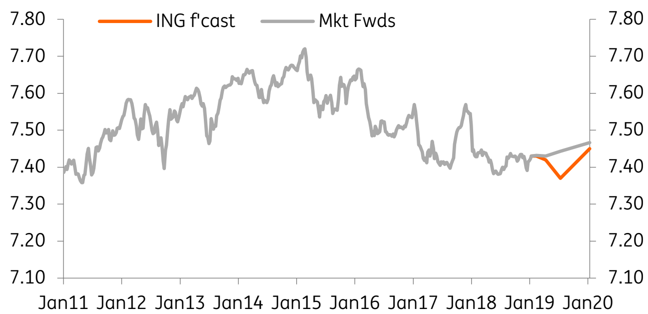
EUR/HRK

HRK: CNB stepping in to tap inflows



Source: Bloomberg, ING

Current spot: 7.43

- The Croatia National Bank stepped in to buy EUR1.08 billion in three interventions during December 2018 amid strong euro inflows. The central bank expects firming pressures to continue in 2019 and is ready to maintain its expansive policy. Croatia aims to enter ERM-2 in 2020 and we expect the volatility of EUR/HRK to decrease gradually as approach this target. The strategy for euro adoption hints a preference for a central parity rate around 7.45.
- On 21 September S&P revised Croatia's outlook to positive from stable citing a sound external position and strong fiscal consolidation efforts. We expect the country to become investment grade in the next 12 months.

ING forecasts (mkt fwd)	**1M** 7.43 (7.43)	**3M** 7.42 (7.43)	**6M** 7.37 (7.44)	**12M** 7.45 (7.47)

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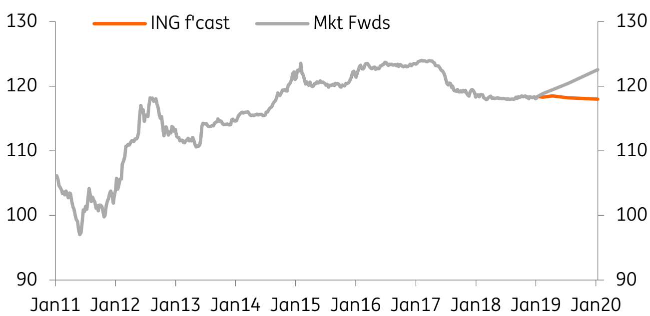
EUR/RSD

RSD: tight managed floating



Source: Bloomberg, ING

Current spot: 118.4

- As the EM backdrop became less positive towards the year end, the NBS interventions turned sideways with the central bank selling euros around the 118.5 mark and thus keeping the pair in a narrow 118.00-188.50 range. This is in line with the Memorandum on the Dinarisation Strategy adopted in December by the Government and the National Bank, which mentions the "relative stability of the exchange rate" as a "key for raising confidence in the national currency".
- In December the S&P revised its outlook from stable to positive, chiefly underlining the good progress obtained in the monetary policy space and paving the way for a rating upgrade by the end of this year.

ING forecasts (mkt fwd)	**1M** 118.30 (118.9)	**3M** 118.50 (119.5)	**6M** 118.20 (120.4)	**12M** 118.00 (122.6)

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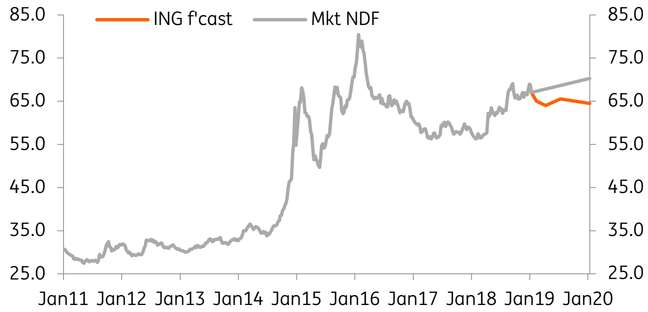
USD/RUB

Remaining constructive **Current spot: 67.06**



Source: Bloomberg, ING

- RUB has been regaining ground YTD toward our target 63-66 range amid global risk-on, related to optimism on US-China trade relations and on Fed, as well as $10/bbl recovery in oil.
- Restart of FX purchases since January is unlikely to prevent RUB appreciation, as interventions will sterilize only 33% of current account surplus in 1Q19 and 50% in 2019. CBR is unlikely to catch up on the ~US$30 billion purchases from 2018 anytime soon.
- Further tightening in the sanctions and possible global risk-off remain the key risk factors to our constructive outlook.

ING forecasts (mkt fwd)	**1M** 65.00 (67.34)	**3M** 64.00 (67.84)	**6M** 65.50 (68.62)	**12M** 64.50 (70.29)

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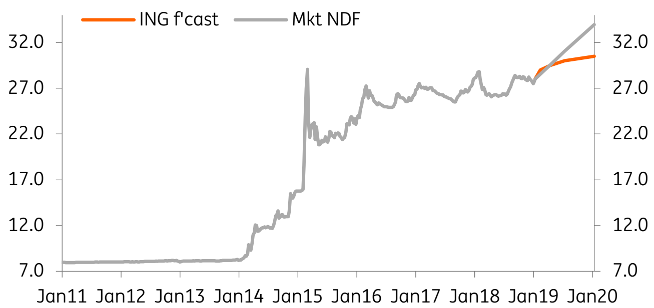
USD/UAH

Keep'em tranches coming **Current spot: 28.04**



Source: Bloomberg, ING

- With NBU FX reserves rising to a 5Y high of US$20.8 billion in 2018 mostly thanks to IMF/WB (US$2.4 billion) and generally favourable external environment.
- It is crucial for Ukraine's macro stability in the election-year to access 2 more tranches of US$1.3bn each set for 2019. A further increase in the HH gas prices by 15% (one of the key requirements) is set for May-19, which remain a factor of uncertainty.

ING forecasts (mkt fwd)	**1M** 29.00 (28.56)	**3M** 29.50 (29.51)	**6M** 30.00 (31.07)	**12M** 30.50 (33.96)

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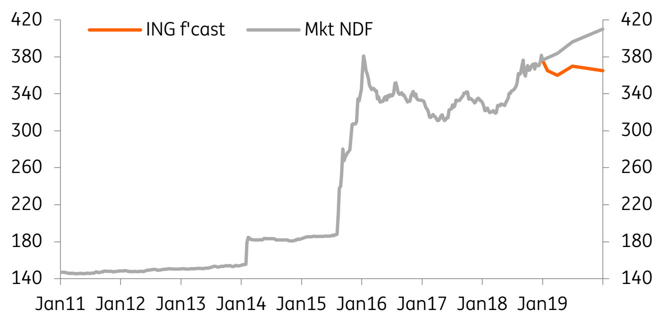
USD/KZT

Recovery possible **Current spot: 376.5**



Source: Bloomberg, ING

- The end of 2018 brought strong pressure on KZT, as global risk-off and collapse in the oil price pushed the rate to KZT380/$, which is significantly weaker than the KZT350/$ we had expected.
- The YTD performance of the global EM and commodity markets suggest that KZT still has a chance to return to the KZT340-370/$ range in 2019 we had forecasted earlier.
- Non-oil risks, including sanctions against Russia remain a risk to KZT, as despite Kazakhstan's higher dependence on oil, the authorities seem to target KZT5.5-5.6 per 1 RUB.

ING forecasts (mkt fwd)	**1M** 365.00 (379.0)	**3M** 360.00 (383.8)	**6M** 370.00 (396.3)	**12M** 365.00 (410.0)

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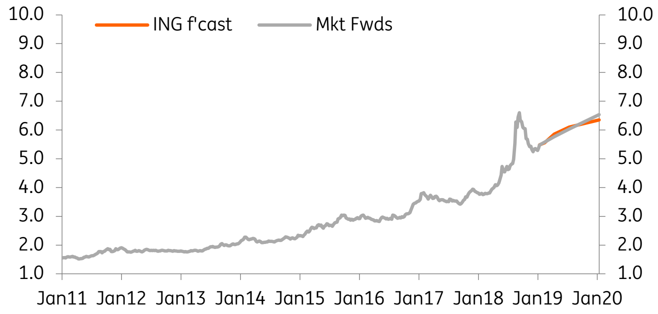
USD/TRY

TRY likely to remain volatile

Current spot: 5.48



Source: Bloomberg, ING

- Inflation turned out to be 20.3% at end-2018, lower than expected earlier, thanks to TRY strength, lower energy prices, weaker domestic demand and the government tax cuts. However, the latest inflation outlook provides little relief for the CBT, since the risks on inflation are tilted to the upside given the marked deterioration in pricing behaviour. The upcoming elections are creating concerns for fiscal policy.
- Recent rapid TRY moves with negative newsflow regarding US relations and concerns about an early easing indicate a still fragile currency. The TRY is likely to remain volatile given the inflation outlook and the possibility of political noise ahead of local elections, especially if the global backdrop turns less EM friendly.

ING forecasts (mkt fwd)	**1M** 5.55 (5.58)	**3M** 5.85 (5.76)	**6M** 6.10 (6.03)	**12M** 6.35 (6.53)

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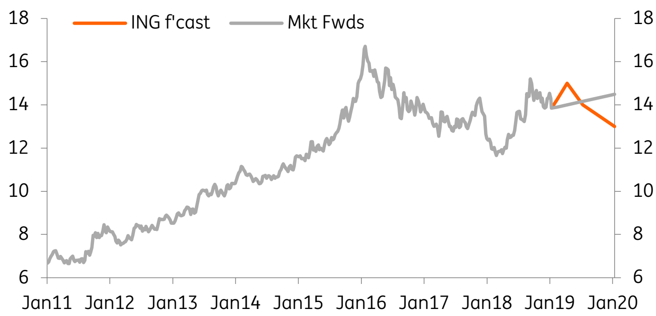
USD/ZAR

Too early to chase the ZAR higher

Current spot: 13.85



Source: Bloomberg, ING

- The Fed pause is allowing investors to dip their toes back into risk/carry and the ZAR's 7%+ yields are attractive. And certainly the SARB's pre-emptive hike to 6.75% last December is ZAR supportive. However, we suspect the 13.50/70 area may contain USD/ZAR downside during 1Q19 before US rates move a little higher and some local S. African stories come back into play.
- For example, investors are worried that up to ZAR100bn of Eskom debt will be taken onto the government's book and threaten a Moody's sovereign downgrade in late Feb/early March. There's also the issue of a general election & land reform to consider.
- But by year-end these issues should be resolved & we favour 13.

ING forecasts (mkt fwd)	**1M** 14.25 (13.90)	**3M** 15.00 (14.00)	**6M** 14.00 (14.16)	**12M** 13.00 (14.49)

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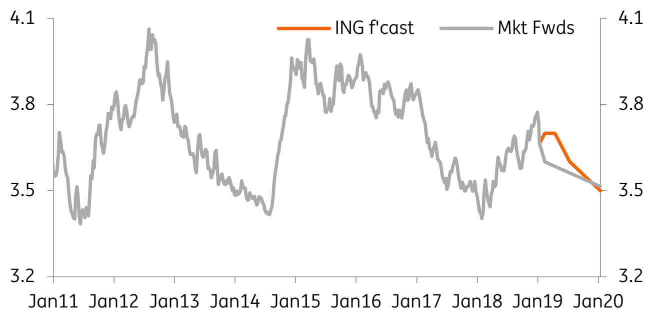
USD/ILS

Rate hike helps, trade deterioration may limit ILS rally

Current spot: 3.67



Source: Bloomberg, ING

- The BoI pulled the trigger in late November on a surprise 15bp rate hike taking the policy rate to 0.25%. The market now prices another 30bp of tightening over the next 6 months. Driving the tightening is decent growth (expected at 3.4% this year) and inflation moving back into the 1-3% target range – now 1.2%.
- We expect the weaker ILS levels versus the dollar also presented an opportunity for the BoI to hike and should 1H19 dollar strength keep $/ILS near 3.70, BoI will follow up with another hike.
- Typically $/ILS is a good bellwether for the broad dollar trend – hence our 3.50 end 2019 forecast – but the widening trade deficit looks the Achilles heel to an otherwise positive ILS story.

ING forecasts (mkt fwd)	**1M** 3.70 (3.60)	**3M** 3.70 (3.58)	**6M** 3.60 (3.56)	**12M** 3.50 (3.51)

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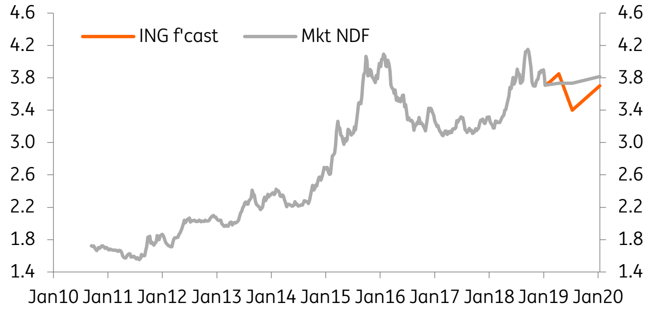
LATAM

USD/BRL

All eyes on the social security reform **Current spot: 3.71**



Source: Bloomberg, ING

- In the coming weeks, the Bolsonaro administration should unveil its social security reform proposal, helping narrow investor attention on the likelihood of its passage in the new Congress, which will be inaugurated early in February.
- Confirmation that Bolsonaro will opt to approve the proposal already under debate in Congress, with amendments, would be well received. Another important positive catalyst would be the re-election of Rodrigo Maia as Lower House President.
- Uncertainty about reform passage is bound to create episodes of volatility in the coming weeks, but we still expect the reform to be approved. The sooner the reform is voted on, the higher its likelihood of success, and the bigger the payoff in terms of activity recovery in 2019. Its eventual passage should trigger a temporary overshooting in the BRL, towards the 3.3-3.5 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** 3.75 (3.72)	**3M** 3.85 (3.73)	**6M** 3.40 (3.73)	**12M** 3.70 (3.82)

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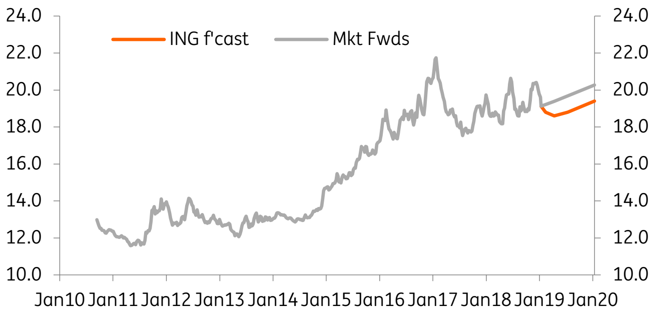
USD/MXN

Attractive carry adds support to the MXN **Current spot: 19.12**



Source: Bloomberg, ING

- Having addressed investor concerns vis-à-vis the 2019 budget and the negotiations with the bondholders of the cancelled Mexico city airport project, local assets are likely to be particularly sensitive to external drivers in the coming weeks.
- High yielding local assets should benefit from a more dovish US monetary policy stance and renewed risk appetite amid falling trade-war concerns. Even though we consider its fair value to be closer to 19-19.5, the attractive carry could trigger a rally towards 18.5, amid benign external conditions.
- A pause by the US Fed should also help Banxico keep its policy rate (8.25%) unchanged in 1Q, possibly bringing its long tightening cycle to a decisive conclusion. Inflation remains uncomfortably high, but it is on track to continue to converge to the targeted range throughout the year. Unless FX volatility surges on the back of surprising market developments, the policy rate should remain unchanged in the foreseeable future.

ING forecasts (mkt fwd)	**1M** 18.80 (19.21)	**3M** 18.60 (19.39)	**6M** 18.80 (19.68)	**12M** 19.40 (20.27)

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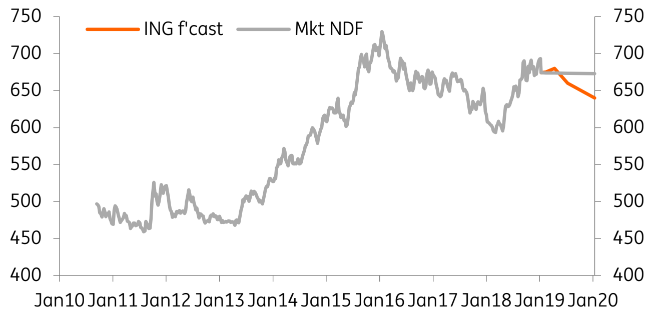
USD/CLP

Still trapped in the trade-war crossfire **Current spot: 674.27**



Source: Bloomberg, ING

- The slump in copper continues to weigh down the Chilean peso, which remains among the worst-performing currencies in LATAM in recent months. A faster resolution of the trade-war impasse would, however, add significant upside to the currency, given the current depressed levels.
- In valuation terms, Andean currencies appear to have particular upside, relative to the BRL and MXN, which are already trading near fair value. But near-term prospects for the currency remain closely linked to these external drivers.
- Solid local macro trends also indicate a relatively benign outlook for the CLP. The sharp mining-led recovery has cooled down a bit, but 2018 GDP growth is still expected at close to 4%. Inflation is on-target but downside from fuel prices and more subdued activity data suggests a more gradual rate hiking path.

ING forecasts (NDF)	**1M** 675.00 (674)	**3M** 680.00 (674)	**6M** 660.00 (673)	**12M** 640.00 (673)

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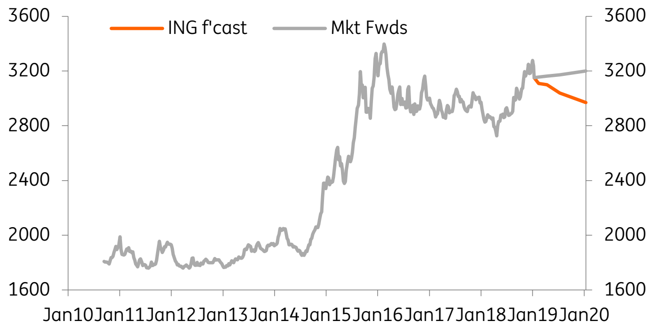
USD/COP

Underperformance is now consistent with external drivers

Current spot: 3151.85



Source: Bloomberg, ING

- Thanks in large part to the sharp correction in oil prices, the COP was the chief underperformer over the past six months in the region, closely in line with Argentina's ARS.
- Improved outlook for portfolio flows, with the approval of tax cuts on local financial holdings by foreigners, together with attractive levels (relative to local peers) suggest a stronger appreciation bias for the COP, if oil prices continue to recover.
- 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 in the nearer term. Evidence of political weakness by the new president, with the lack of a solid Congressional majority, suggests however that yearly battles with Congress may eventually erode investor sentiment, and keep the risk of credit ratings downgrades alive. Inflation is on-target and economic activity has improved, while monetary policy guidance should remain neutral in the foreseeable future.

ING forecasts (NDF)	1M 3110.00 (3156)	3M 3100.00 (3164)	6M 3040.00 (3172)	12M 2970.00 (3200)

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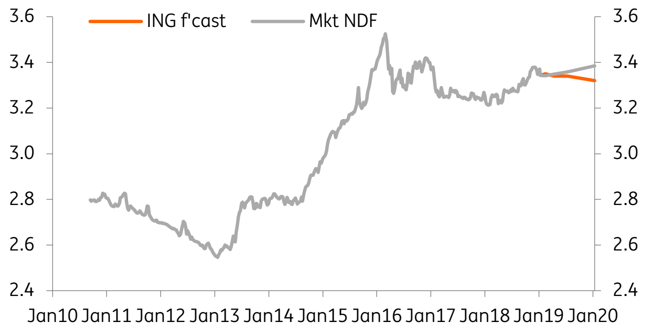
USD/PEN

Solid macro trends help offset trade-war concerns

Current spot: 3.34



Source: Bloomberg, ING

- As usual, the PEN traded with the lowest volatility in the region, underperforming amid the recent rally seen in local currencies.
- Trade-war concerns continue to cloud the outlook for metal prices, but above-trend 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 almost 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 3.35 (3.34)	3M 3.34 (3.35)	6M 3.34 (3.36)	12M 3.32 (3.38)

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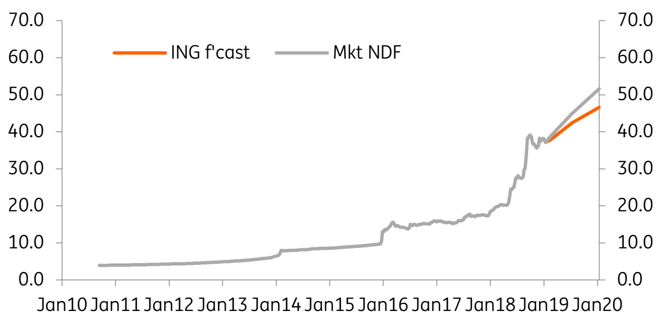
USD/ARS

A consolidated monetary program path

Current spot: 37.16



Source: Bloomberg, ING

- The firm commitment to a tight monetary policy and a tight fiscal program has finally helped stabilize the ARS, and lend more clarity to the currency's near-term path.
- Continued commitment to restrictive policies should support local assets in the coming months, with the ARS trending near the lower-bound of BCRA's FX non-intervention zone.
- As we get closer to mid-year, political uncertainty created by the October presidential elections could weaken local assets, especially if former President Cristina Kirchner remains a competitive Presidential contender. President Macri's popularity has recovered somewhat since reaching a bottom late last year, and could consolidate higher as signs of macro stability solidify. But, ultimately, the election outcome should determine the trajectory of the currency during 2H19.

ING forecasts (NDF)	1M 37.80 (38.61)	3M 39.60 (41.14)	6M 42.40 (44.93)	12M 46.60 (51.59)

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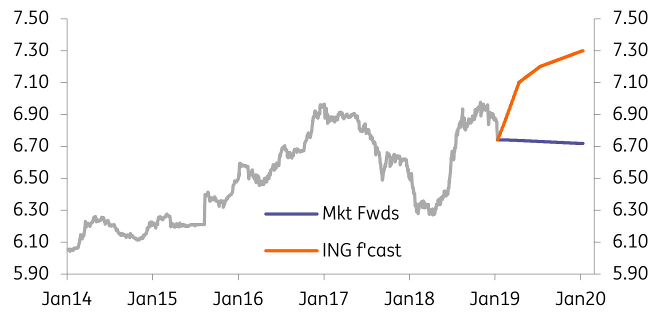
Asia

USD/CNY

Yuan strengthens with dovish Fed

Current spot: 6.7405



Source: Bloomberg, ING

- In its fourth quarter meeting minutes, the central bank (PBoC) changed its exchange rate policy stance to "maintain a stable exchange rate at a reasonable level".
- The current USD/CNY and USD/CNH forecast is 7.30 by the end of 2019. This forecast is under review because of the change in policy stance and recent strength of the yuan against the dollar caused by the dovish Fed tone.
- But the forecast is still dependent on the progress of the trade talks, which remain uncertain. This is the reason we keep the year end forecast at 7.30. Significant improvement of the trade war in the future could move the forecast to a stronger yuan.

ING forecasts (FWDs)	**1M** 6.8500 (6.7404)	**3M** 7.1000 (6.7369)	**6M** 7.2000 (6.7304)	**12M** 7.3000 (6.7173)

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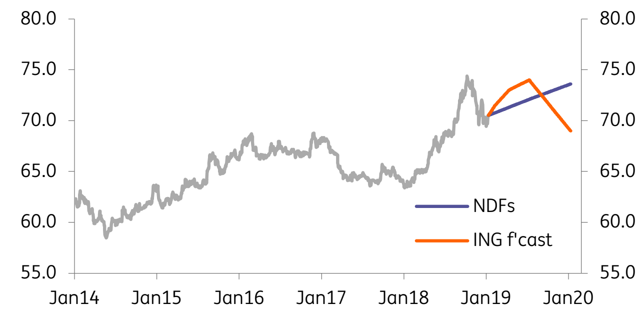
USD/INR

Loosening macro policy ahead of elections

Current spot: 70.54



Source: Bloomberg, ING

- The INR remains the worst-performing Asian currency coming into 2019 albeit with reduced volatility since December. We believe the INR will weaken further above 73 against the USD as political risks mount. General elections will be held in May 2019.
- On a spending spree to boost its odds of staying in power, the Modi government is pursuing more growth-friendly policies. Undoubtedly Finance Minister Jaitley is preparing an election budget for FY20 to be unveiled on 1 Feb. And the RBI, under the new governor Shaktikant Das, has opened its liquidity taps.
- With inflation likely remaining under RBI's 4% comfort level, the odds of an imminent policy rate cut are elevated. Although we aren't expecting a cut, we wouldn't be surprised if we get one.

ING forecasts (NDFs)	**1M** 71.50 (70.78)	**3M** 73.00 (71.32)	**6M** 74.00 (72.10)	**12M** 69.00 (73.62)

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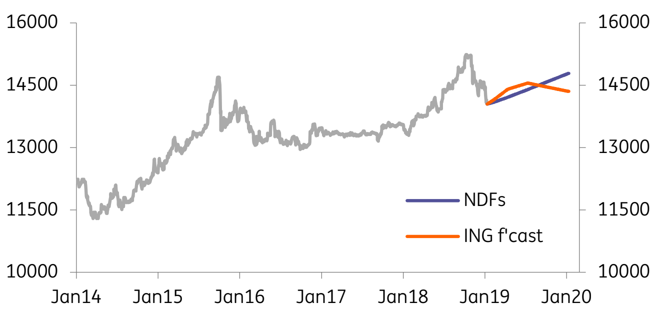
USD/IDR

IDR outperforms on dovish Fed, BI presence in NDF

Current spot: 14048



Source: Bloomberg, ING

- IDR has been outperforming other EM currencies as dovish comments from the Fed push dealers to seek higher yields with investors snatching up Indonesian bonds.
- The currency is also benefiting from comments by Bank Indonesia's Governor expressing confidence in domestic markets and highlighting manageable prices in 2019 while also pledging to maintain its presence in the NDF market.
- Hopes for a positive turnout from trade negotiations between the US and China have helped support the IDR given the "risk-on" tone. But the currency is seen to benefit even if the US-China trade war festers, according to the Indonesian vice president.

ING forecasts (NDFs)	**1M** 14150 (14094)	**3M** 14400 (14210)	**6M** 14550 (14397)	**12M** 14350 (14787)

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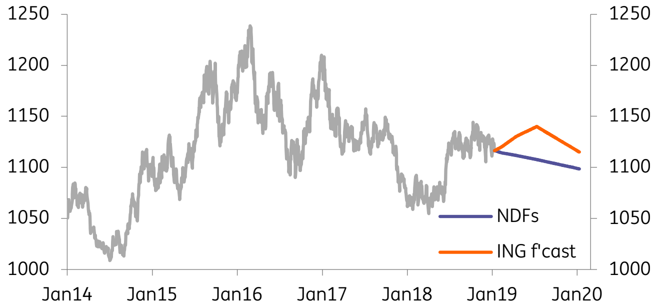
USD/KRW

No more rate hikes

Current spot: 1116



Source: Bloomberg, ING

- No real change to the policy mix in Korea, with the government continuing with President Moon's leftish leaning re-distributive policies.
- But we don't expect any follow up to last year's BoK hike, which we see as a "one and done" and frankly unnecessary response to a regional, sectoral issue (Seoul house prices and household debt) with national monetary policy. It certainly won't help the economy to thrive in 2019.
- The KRW is likely to come under renewed pressure mid-year as the USD resumes its appreciation and potentially spurs a re-run of the EM angst that gripped markets mid-2018. But it should recover lost ground later in the year as USD fortunes reverse.

ING forecasts (NDFs)	**1M** 1120 (1114)	**3M** 1130 (1111)	**6M** 1140 (1107)	**12M** 1115 (1098)

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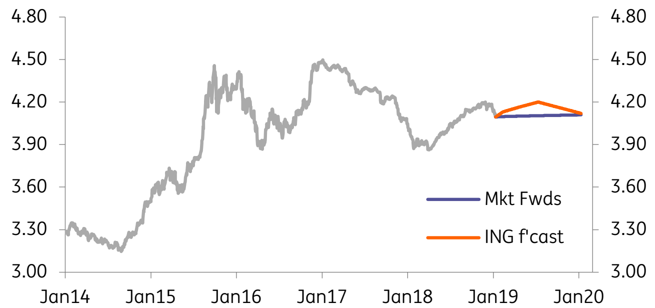
USD/MYR

No sovereign downgrade risk in sight

Current spot: 4.0950



Source: Bloomberg, ING

- The renewed uptrend in crude prices comes as a boon to Malaysia's economy and the currency coming into 2019. This drove the USD/MYR below 4.10, a level not seen since August.
- Moody's sees Malaysia's GDP growth slowing to 4.7% in 2019 and further to 4.5% in 2020, below the 2015-18 average rate of 5%, but no threat to the country's A3/Stable sovereign rating. The agency noted the 'large and diversified economy with healthy medium-term growth prospects, and relatively high government debt partially offset by a favourable debt structure and large domestic savings' as supportive of the sovereign credit profile.
- As for most other Asian central banks, on-hold BNM policy remains our view for 2019, and probably beyond.

ING forecasts (FWDs)	**1M** 4.1300 (4.0974)	**3M** 4.1600 (4.1001)	**6M** 4.2000 (4.1036)	**12M** 4.1200 (4.1095)

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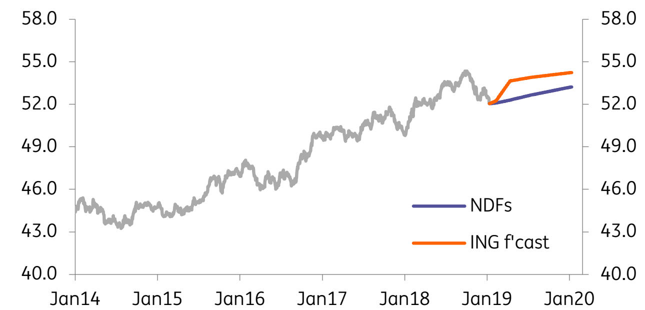
USD/PHP

PHP strengthens on Dollar bond issuance and equity flows

Current spot: 52.04



Source: Bloomberg, ING

- PHP has moved sideways with an appreciation bias as foreign flows return to the local equity market for a sixth straight day given the dovish outlook on the Fed.
- The Philippines successfully launched a new dollar-denominated bond worth US$1.5bn of 10-year bonds in the second week of trading with a spread of 110bp over Treasuries.
- Limiting the Peso's gains was onshore demand from corporates as well as lingering concerns about the country's current account deficit with the country still seen to experience stark demand for imports in the coming year.

ING forecasts (NDFs)	**1M** 52.25 (52.09)	**3M** 53.64 (52.29)	**6M** 53.89 (52.64)	**12M** 54.24 (53.23)

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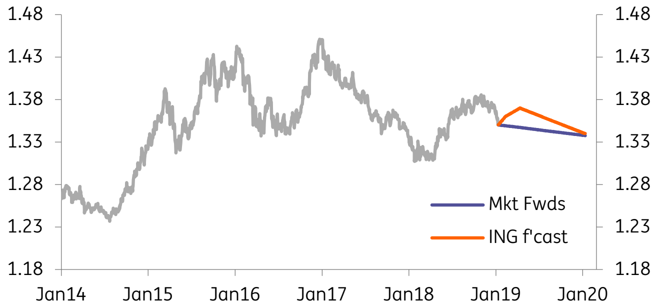
USD/SGD

No change to outlook

Current spot: 1.3505



Source: Bloomberg, ING

- Recent Singaporean dataflow has been softening, and the outlook for 2019 is for moribund growth which will do well to exceed 2.5%.
- As such, further tightening of the NEER path by the MAS seems unlikely, though by the same token, growth and inflation will probably not deteriorate sufficiently to require a reversal of tightening already implemented.
- With the SGD locked into a narrow nominal appreciation range against the traded basket for the rest of the year, we should see some modest nominal USD/SGD appreciation coming through in the second half of the year.

ING forecasts (FWDs)	**1M** 1.3600 (1.3495)	**3M** 1.3700 (1.3475)	**6M** 1.3600 (1.3442)	**12M** 1.3400 (1.3380)

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USD/TWD

Fewer smartphone orders hurt exports

Current spot: 30.78

Source: Bloomberg, ING

- Taiwan manufacturers 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 still uncertain, which adds another unfavourable factor to the growth of the economy. Taiwan faced deflation in December, driven by lower energy prices and vegetable prices, which should be seasonal. So we do not expect the central bank to take any action.
- Overall, we believe that the USD/TWD has switched to a falling trend as foreign capital has continued to flow into the Taiwan market, which offsets rising pressure from weakening exports.

ING forecasts (NDFs)	**1M** 30.70 (30.67)	**3M** 30.60 (30.54)	**6M** 30.60 (30.31)	**12M** 30.40 (29.90)

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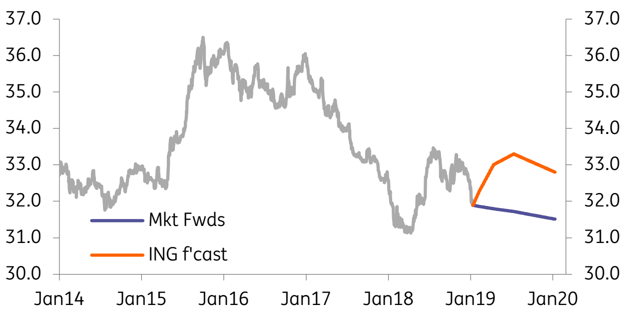
USD/THB

Rising political risk

Current spot: 31.90



Source: Bloomberg, ING

- After a dismal 2018 second half performance, the THB is back to being among Asia's top performers thus far in 2019. If there is anything that could displace it from this position, it is politics, as uncertainty regarding the election timing is growing.
- Just as the policy rate was hiked in December, the BoT governor Veerathai said the bank is ready to act if the economy slows. As such, the argument of having some policy space with a 25bp rate hike last month looks unfounded.
- Growth is indeed slowing and inflation is grinding close to zero. The BoT is finally coming to admit that its 1-4% inflation target is overambitious. It discussed cutting the target in the 4Q18 Monetary Policy Report but stopped short of doing it for 2019.

ING forecasts (FWDs)	**1M** 32.30 (31.86)	**3M** 33.00 (31.80)	**6M** 33.30 (31.73)	**12M** 32.80 (31.52)

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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	1.15	1.13	1.12	1.12	1.20						
EUR/JPY	124.8	124.30	126.56	123.20	120.00	USD/JPY	108.22	110	113	110	100
EUR/GBP	0.90	0.90	0.87	0.85	0.85	GBP/USD	1.28	1.26	1.29	1.32	1.41
EUR/CHF	1.13	1.12	1.12	1.12	1.15	USD/CHF	0.98	0.99	1.00	1.00	0.96
EUR/NOK	9.77	9.60	9.50	9.40	9.50	USD/NOK	8.48	8.50	8.48	8.39	7.92
EUR/SEK	10.25	10.30	10.50	10.30	10.20	USD/SEK	8.89	9.12	9.38	9.20	8.50
EUR/DKK	7.464	7.455	7.455	7.460	7.460	USD/DKK	6.48	6.60	6.66	6.66	6.22
EUR/CAD	1.53	1.50	1.47	1.44	1.44	USD/CAD	1.324	1.33	1.31	1.29	1.20
EUR/AUD	1.60	1.55	1.60	1.62	1.62	AUD/USD	0.72	0.73	0.70	0.69	0.74
EUR/NZD	1.69	1.64	1.70	1.72	1.69	NZD/USD	0.68	0.69	0.66	0.65	0.71
EMEA											
EUR/PLN	4.30	4.27	4.30	4.24	4.27	USD/PLN	3.73	3.78	3.84	3.79	3.56
EUR/HUF	321.5	323.00	323.00	320.00	310.00	USD/HUF	278.9	286	288	286	258
EUR/CZK	25.59	25.7	25.6	25.5	25.4	USD/CZK	22.20	22.7	22.9	22.8	21.2
EUR/RON	4.68	4.68	4.70	4.75	4.80	USD/RON	4.06	4.14	4.20	4.24	4.00
EUR/HRK	7.43	7.43	7.42	7.37	7.45	USD/HRK	6.45	6.58	6.63	6.58	6.21
EUR/RSD	118.4	118.3	118.5	118.2	118.0	USD/RSD	102.7	104.7	105.8	105.5	98.3
EUR/RUB	77.29	73.5	71.7	73.4	77.4	USD/RUB	67.06	65.0	64.0	65.5	64.5
EUR/UAH	32.33	32.8	33.0	33.6	36.6	USD/UAH	28.04	29.00	29.50	30.00	30.50
EUR/KZT	434.2	412.5	403.2	414.4	438.0	USD/KZT	376.5	365	360	370	365
EUR/TRY	6.32	6.27	6.55	6.83	7.62	USD/TRY	5.48	5.55	5.85	6.10	6.35
EUR/ZAR	15.97	16.1	16.8	15.7	15.6	USD/ZAR	13.85	14.25	15.00	14.00	13.00
EUR/ILS	4.23	4.18	4.14	4.03	4.20	USD/ILS	3.67	3.70	3.70	3.60	3.50
LATAM											
EUR/BRL	4.28	4.24	4.31	3.81	4.44	USD/BRL	3.71	3.75	3.85	3.40	3.70
EUR/MXN	22.04	21.2	20.8	21.1	23.3	USD/MXN	19.12	18.80	18.60	18.80	19.40
EUR/CLP	777.21	763	762	739	768	USD/CLP	674.27	675	680	660	640
EUR/ARS	42.84	42.71	44.35	47.49	55.92	USD/ARS	37.16	37.80	39.60	42.40	46.60
EUR/COP	3617.43	3514	3472	3405	3564	USD/COP	3151.85	3110	3100	3040	2970
EUR/PEN	3.84	3.79	3.74	3.74	3.98	USD/PEN	3.34	3.35	3.34	3.34	3.32
Asia											
EUR/CNY	7.79	7.74	7.95	8.06	8.76	USD/CNY	6.76	6.85	7.10	7.20	7.30
EUR/HKD	9.04	8.84	8.74	8.74	9.36	USD/HKD	7.84	7.82	7.80	7.80	7.80
EUR/IDR	16196	15990	16128	16296	17220	USD/IDR	14048	14150	14400	14550	14350
EUR/INR	81.22	80.8	81.8	82.9	82.8	USD/INR	70.50	71.50	73.00	74.00	69.00
EUR/KRW	1286.93	1266	1266	1277	1338	USD/KRW	1116.36	1120	1130	1140	1115
EUR/MYR	4.72	4.67	4.66	4.70	4.94	USD/MYR	4.10	4.13	4.16	4.20	4.12
EUR/PHP	60.01	59.0	60.1	60.4	65.1	USD/PHP	52.04	52.25	53.64	53.89	54.24
EUR/SGD	1.56	1.54	1.53	1.52	1.61	USD/SGD	1.35	1.36	1.37	1.36	1.34
EUR/TWD	35.50	34.7	34.3	34.3	36.5	USD/TWD	30.78	30.7	30.6	30.6	30.4
EUR/THB	36.81	36.5	37.0	37.3	39.4	USD/THB	31.93	32.3	33.0	33.3	32.8

Source: Bloomberg, ING

Disclaimer