

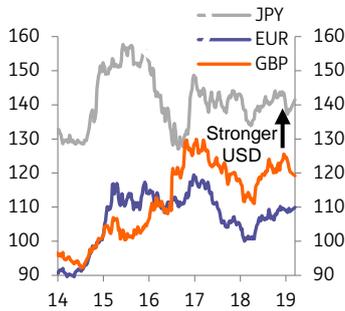
15 March 2019

FX Strategy

FX Talking

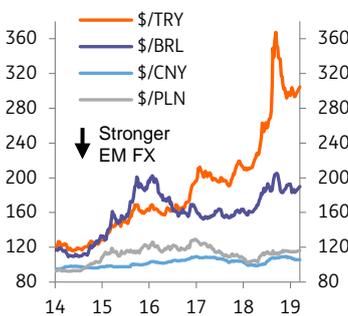
It's all happening (outside of G3)

USD/Majors (30 Jan 09=100)



Source: Reuters, ING

USD/EM (30 Jan 09=100)



Source: Reuters, ING

Flat yield curves and the prospect of unchanged G3 monetary policy into 2020 have seen volatility collapse across G3 FX pairs. Yet there's plenty going on elsewhere with Brexit, tightening in Eastern Europe and a re-assessment of some Asian FX trends. Local stories and relative value will be in focus this month.

The ECB's decision to extend its forward guidance into year-end has smashed interest rate and FX volatility in Europe. EUR/USD implied volatility has dropped back to levels last seen in 2014. We see EUR/USD staying subdued into 2Q19 with potential to drop closer to 1.10 if, as we believe, the Fed will be in a position to hike rates in 3Q19.

But low volatility in the Eurozone masks the fireworks of Brexit. March will be make-your-mind-up time for the pound. There is a potentially bullish cocktail out there of a long delay/fiscal stimulus/rate hike, but key votes later in March will determine whether GBP can fulfil its potential. Clearer stories exist in Norway and Hungary where high inflation should prompt tighter policy and further strength in both the NOK and HUF.

Lower volatility also helps carry trades by increasing risk-adjusted returns. If, and it's a big if, trade tensions do not flare up again and European activity can start to recover (there are early signs) then emerging markets should do well. Here we favour the high yield MXN, which should substantially outperform its forward curve. However, watch out for the high yield RUB. Current levels may be the best of the year before the current account deteriorates and the US sanctions threat re-appears this summer. A new central bank governor also poses a threat to what was the outperforming PHP.

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.12	↓	112	↑	1.32	→
3M	1.10	↓	113	↑	1.29	↓
6M	1.15	↑	108	↓	1.35	↑
12M	1.20	↑	100	↓	1.41	↑

	EUR/GBP		EUR/CZK		EUR/PLN	
1M	0.85	→	25.70	↑	4.28	↓
3M	0.85	→	25.60	↑	4.30	↓
6M	0.85	→	25.50	↑	4.32	↓
12M	0.85	↓	25.40	↓	4.36	↓

	USD/CNY		USD/MXN		USD/BRL	
1M	6.74	↑	19.20	↓	3.85	↑
3M	6.85	↑	19.00	↓	4.00	↑
6M	6.85	↑	19.10	↓	3.40	↓
12M	6.70	→	19.50	↓	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	-0.7	2.2	-2.9	-0.6	1.0	0.5
%YoY	-8.3	5.0	-3.5	1.5	-6.2	2.9

	USD/UAH	USD/KZT	USD/BRL	USD/ARS	USD/CNY	USD/TRY
%MoM	-3.4	0.3	2.8	8.8	-0.9	2.1
%YoY	3.1	18.0	18.0	101.3	6.2	40.8

Source: Bloomberg, ING

Chris Turner

Head of Foreign Exchange Strategy
London +44 20 7767 1610
chris.turner@ing.com

Petr Krpata, CFA

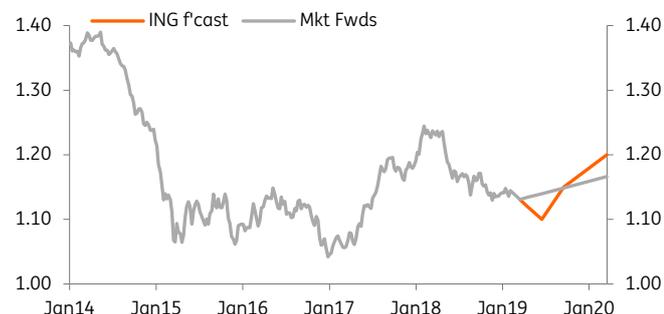
Chief EMEA FX and IR Strategist
London +44 20 7767 6561
petr.krpata@ing.com

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Developed markets

EUR/USD

Lower for longer



Source: Bloomberg, ING

Current spot: 1.13

- The dollar is consolidating near the highs and there seems no immediate signs of an impending sell-off. US activity is running in the 1-2% area and our team continue to favour a Fed hike in 3Q19. This would be a surprise to a money market curve priced for 20bp of Fed easing by the end of 2020. Expect the Fed to initially stay patient, suggesting US yield curves steepen.
- The ECB's dramatic cutting of 2019 GDP forecasts (to 1.1% from 1.9%) provided cover for the forward guidance of unchanged ECB rates into year-end. EUR money markets curve are very flat now.
- A summer re-pricing of the Fed could see EUR/USD test 1.10, before expectations of a 2020 US slowdown turn the dollar trend.

ING forecasts (mkt fwd)	1M 1.12 (1.134)	3M 1.10 (1.140/1.10)	6M 1.15 (1.148)	12M 1.20 (1.166)
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Chris Turner, London +44 20 7767 1610

USD/JPY

What's the call on the S&P?



Source: Bloomberg, ING

Current spot: 111.64

- USD/JPY is one of the most highly correlated dollar pairs with the US S&P 500. The latter's strong recovery this year shows no signs of stalling, which will be welcome news to the White House. And the December sell-off in US equities probably is one of the biggest reasons Washington is making progress on China trade right now. The same applies to US-EU trade negotiations. Is President Trump prepared to risk an equity crash by imposing auto tariffs?
- We see \$/JPY as the purest expression of US yield curve steepening and a Fed hike this summer. 113 should be achievable
- Into late 2019, however, the temptation to use a weaker dollar to narrow the US trade deficit may prove too much for Washington.

ING forecasts (mkt fwd)	1M 112.00 (111.3)	3M 113.00 (110.8)	6M 108.00 (110.0)	12M 100.00 (108.4)
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Chris Turner, London +44 20 7767 1610

GBP/USD

Crunch time



Source: Bloomberg, ING

Current spot: 1.32

- We really are at crunch time for the Brexit story. Event risk, as priced by the option market, is huge in the final two weeks of March, where parliament [probably votes on PM May's deal for the third time on the 19th](#) and the EU council considers a request for an Article 50 delay on 21-22 March. The paths are starting to look a little more GBP constructive. For example, approval of May's deal would buy a bit of certainty until end-2020, while a rejection would see a coalition start to build around a softer Brexit.
- We prefer to see how these events unfold before making any wholesale changes to the GBP forecast profile.
- A sustained break of 1.33/34 could catch out some GBP shorts.

ING forecasts (mkt fwd)	1M 1.32 (1.33)	3M 1.29 (1.33)	6M 1.35 (1.34)	12M 1.41 (1.35)
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Chris Turner, London +44 20 7767 1610

EUR/JPY

The benchmark for risk

Current spot: 126.2



Source: Bloomberg, ING

- While both the EUR and the JPY are typically the most susceptible to any dollar recovery, we do have greater conviction over a higher USD/JPY than a lower EUR/USD. This does embody a view that US auto tariffs may not be employed after all – EUR/JPY would trade sharply lower were this scenario to emerge.
- 2Q19 could see some better Eurozone data emerging, were manufacturing PMIs to show greater confidence in this sector. E.g. water levels in the Rhine are now dramatically higher than late last year and will prove less disruptive to German industry.
- The 2Q period typically sees JPY underperform in the new Japanese fiscal year, where fund managers put assets to work.

ING forecasts (mkt fwd)	1M 125.00 (126)	3M 124.00 (126)	6M 124.00 (126)	12M 120.00 (126)
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Chris Turner, London +44 20 7767 1610

EUR/GBP

0.85 seems right for the time being

Current spot: 0.85



Source: Bloomberg, ING

- We've generally been constructive on GBP over the last year, expecting EUR/GBP to gravitate to 0.85 as London and Brussels thrash out a deal. One could argue that at 0.85, EUR/GBP is currently fairly priced for the risks. We do see a scenario for 0.83 out there, eg, should a long transition deal or long delay emerge, but upcoming events will probably determine this new path.
- Despite low unemployment and higher wages, the UK economy is still performing poorly. However some clarity on Brexit could unlock: (a) fiscal stimulus in the form of the Chancellor's £26bn Brexit dividend and (b) 1-2 25bp BoE hikes.
- Loose fiscal, tighter monetary policy would be a GBP positive.

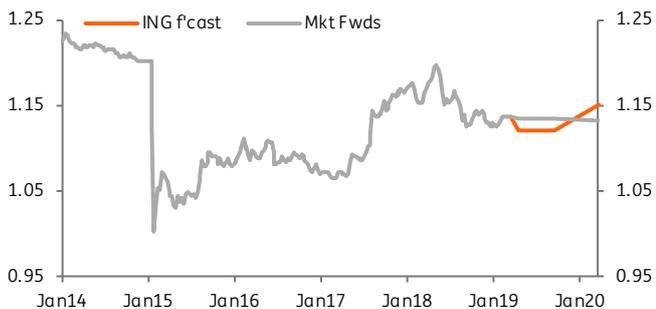
ING forecasts (mkt fwd)	1M 0.85 (0.86)	3M 0.85 (0.86)	6M 0.85 (0.86)	12M 0.85 (0.87)
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Chris Turner, London +44 20 7767 1610

EUR/CHF

Game over?

Current spot: 1.14



Source: Bloomberg, ING

- Incredibly narrow trading ranges are being seen in EUR/CHF right now and it's hard to say when it will end. The SNB meets to review monetary policy on 21 March and will no doubt have carefully reviewed the ECB's stance of lower rates for longer. Currently interest rate futures market price unchanged SNB rates (3m Libor at -0.75%) through 2019 and a 25bp hike by end-2020.
- A soft 4Q18 GDP reading suggests the SNB will probably cut their 1.5% 2019 GDP forecasts, adding weight to the view that negative rates and continued FX intervention is a multi-year proposition.
- Downside risks prevail into European Parliamentary elections in 23-26 May, where the populist threat could strengthen.

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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Chris Turner, London +44 20 7767 1610

EUR/NOK

Relatively hawkish Norges Bank to support NOK

Current spot: 9.68



Source: Bloomberg, ING

- NOK has strengthened ahead of Norges Bank's (NB) March meeting, which is likely to see the NB become the only G10 central bank to raise rates in 1Q. The recently released Norges Bank regional survey supports this story, as does core CPI running at 2.6% YoY.
- While the March hike may be largely priced in at this point, a robust outlook for the Norwegian economy, and in particular the very strong February inflation figure, suggests the NB remains on track for another hike in the second half of 2019, even as most other G10 central banks are likely to remain on hold.
- With a rising oil price offering further support, we see scope for EUR/NOK to move lower towards the 9.60/9.50 area.

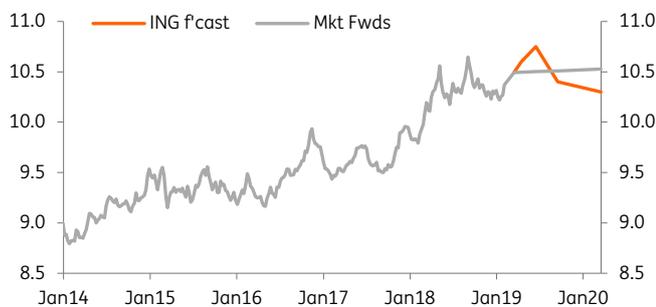
ING forecasts (mkt fwd)	1M 9.60 (9.70)	3M 9.50 (9.72)	6M 9.40 (9.76)	12M 9.50 (9.86)
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Jonas Goltermann, London +44 207 767 1000

EUR/SEK

Underperformance set to continue

Current spot: 10.49



Source: Bloomberg, ING

- The Swedish krona remains the whipping boy of the G10 as a weakening economy combined with increasing headwinds from abroad mean the Riksbank is unlikely to raise rates this year.
- Weak data combined with the ECB's recent dovish shift, suggests the Riksbank's recent attempt at a (slightly) more hawkish approach is unlikely to be sustained and we now think a rate hike is unlikely to come until well into 2020.
- In addition, SEK faces seasonal headwinds over the next couple of months as dividend payments in Swedish listed companies are due. We see EUR/SEK as likely to retest the post-crisis highs around 10.72/73 over coming months.

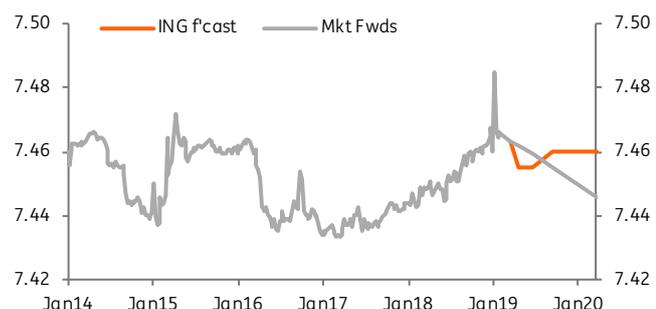
ING forecasts (mkt fwd)	1M 10.60 (10.50)	3M 10.75 (10.50)	6M 10.40 (10.51)	12M 10.30 (10.53)
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Jonas Goltermann, London +44 207 767 1000

EUR/DKK

Back on target without need of much help

Current spot: 7.463



Source: Bloomberg, ING

- After some modest FX intervention to support the DKK in January, the central bank did not intervene in February and EUR/DKK still managed to shift back to the central ERM II parity rate near 7.46. The dovish ECB will have helped, with Eurozone money market rates now priced flat well into 2020.
- The dovish ECB story should make it easier for DN to keep EUR/DKK near target and there's a chance EUR/DKK could even trade under 7.46 were European elections to throw up a more populist setting in Brussels in late May.
- Contrary to the above, the populist right-wing DF is losing support and a socialist coalition could win Danish elections in June.

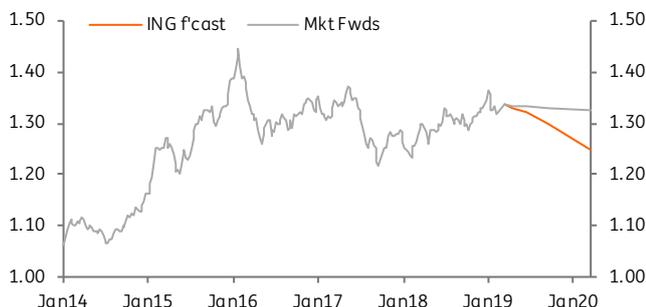
ING forecasts (mkt fwd)	1M 7.46 (7.462)	3M 7.46 (7.459)	6M 7.46 (7.455)	12M 7.46 (7.446)
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Chris Turner, London +44 20 7767 1610

USD/CAD

Bullish sentiment weakened – thanks to the BoC

Current spot: 1.335



Source: Bloomberg, ING

- The steep downside miss on fourth-quarter GDP, which emerged largely because of the sub-par outlook for the energy sector, pushed the Bank of Canada to drop its hawkish bias. In light of this, \$/CAD will struggle to break below 1.30 in the short term.
- But it isn't all bad news. The labour market is strong, and oil prices – unless we see a negative twist in trade – should remain on an upward trajectory. Mirroring our expectations for the Fed, we still think the central bank will make one move later this year in 4Q.
- Based on the above, CAD direction is likely to be hinged to USD sentiment, meaning – once the dollar passes its peak (around 3Q) we see scope for CAD gains; early 2020 \$/CAD at 1.25.

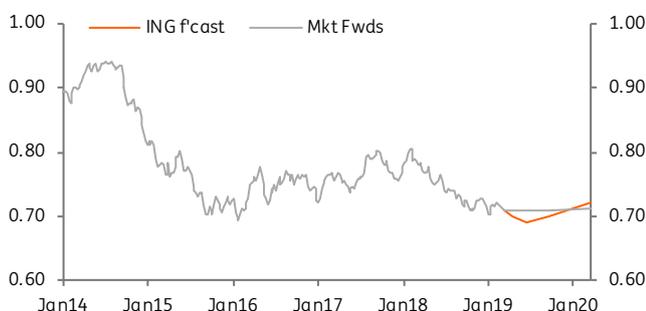
ING forecasts (mkt fwd)	1M 1.33 (1.33)	3M 1.32 (1.33)	6M 1.30 (1.33)	12M 1.25 (1.32)
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Chris Turner, London +44 20 7767 1610

AUD/USD

Two-way risk

Current spot: 0.71



Source: Bloomberg, ING

- The market has been rushing to price in cuts from the RBA in response to some more dovish commentary from RBA Governor Lowe. Some of the recent dataflow has been soft, and we would agree that risks are two-way currently – though not imminent.
- Bank bill rates have also been falling as US\$-Libor rates drop and this could well lead to a reversal of last year's mortgage and other lending rate increases, even without any RBA movement, which is why we think they will remain on hold for the foreseeable future.
- The AUD still looks vulnerable just above 0.70, and we anticipate a 0.69 figure before the end of next quarter.

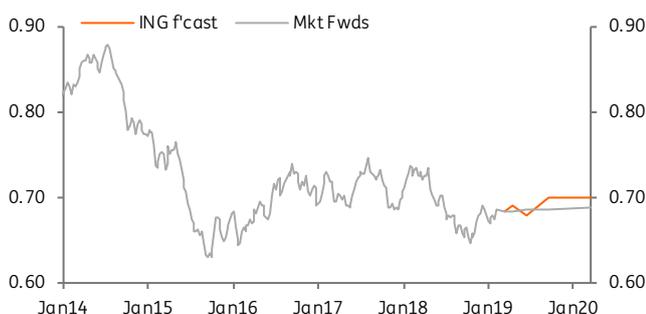
ING forecasts (mkt fwd)	1M 0.70 (0.708)	3M 0.69 (0.709)	6M 0.70 (0.710)	12M 0.72 (0.712)
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Rob Carnell, Singapore +65 6232 6020

NZD/USD

A lower beta on China risk

Current spot: 0.68



Source: Bloomberg, ING

- The RBNZ has been more cautious on the rate outlook for longer than the RBA, and recent confirmations of the two-way risk to policy come across as more nuanced than the swing in the view from across the Tasman Straits.
- Nonetheless, in absolute terms, the policy bias remains finely balanced, with external weakness and slowing trade the things that seem to worry Governor Orr more anything else.
- With the newsflow for New Zealand running perceptibly stronger than in Australia (the China influence is less direct) this supports our thought that AUDNZD moves towards parity in the coming quarters, even with both AUD and NZD under pressure.

ING forecasts (mkt fwd)	1M 0.69 (0.685)	3M 0.68 (0.685)	6M 0.70 (0.686)	12M 0.70 (0.689)
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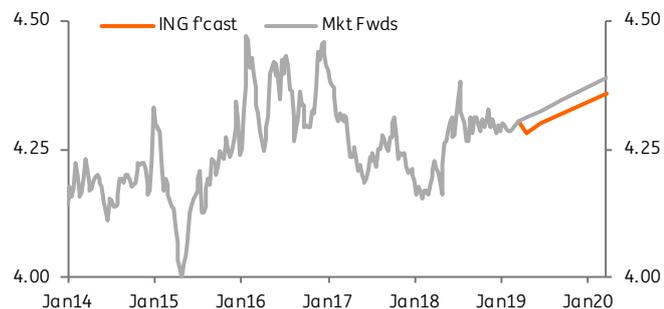
Rob Carnell, Singapore +65 6232 6020

Emerging markets

EUR/PLN

Fiscal stimulus is only a short-term PLN positive

Current spot: 4.30



Source: Bloomberg, ING

- € / PLN outperformed CZK and RON in February. POLGBs reaction to fiscal stimulus (1.7% of GDP) was so far subdued, helping PLN to benefit from a less dovish MPC. We expect € / PLN to breach local support at 4.30 in 1-2 weeks and near the bottom of consolidation (4.27-35). The rate should remain within the band throughout most of 2Q19, as the MPC should maintain a neutral bias. € / PLN is also relatively close to our medium-term models.
- The medium-term outlook is slightly PLN negative. Weakening PiS support (European Parliament elections in May are a key proxy) may trigger more spending pledges, pushing the medium-term deficit into a danger zone. Still, domestic risks should be largely offset by a rise in € / US\$, typically supportive for CEE currencies.

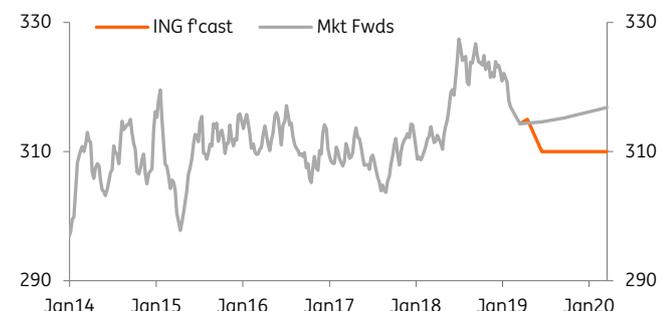
ING forecasts (mkt fwd)	1M 4.28 (4.31)	3M 4.30 (4.33)	6M 4.32 (4.35)	12M 4.36 (4.39)
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Rafal Benecki, Warsaw +48 22 820 4696

EUR/HUF

Start of Bubor normalisation provides tailwind for HUF

Current spot: 314.3



Source: Bloomberg, ING

- EUR/HUF went from 318.5 to 315 by mid-March, mainly on the February inflation data, as all of the main indicators rose above the 3% target. The NBH previously emphasised, that reaching the target will be a clear trigger to start normalisation. Against this backdrop, the NBH has reached the point of no return in our view.
- The only remaining question is the size of the first step. A 10bp hike in the O/N depo rate and a HUF200bn decrease in FX swaps will provide enough evidence that the NBH has really changed its ultra-loose stance. So the step itself could be the next trigger for more pronounced HUF gains, with EUR/HUF likely trading below recent levels and pushing to the 310 area this summer.

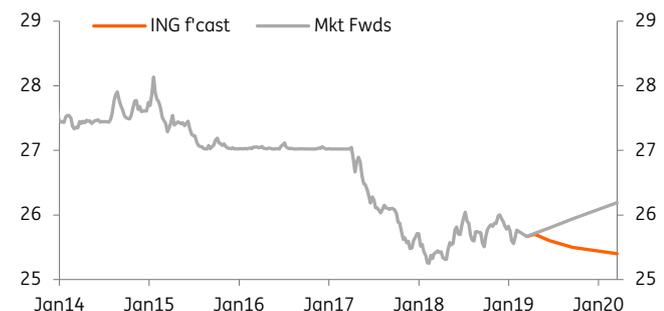
ING forecasts (mkt fwd)	1M 315.00 (314.4)	3M 310.00 (314.6)	6M 310.00 (315.2)	12M 310.00 (316.8)
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Péter Virovác, Budapest +36 1 235 8757

EUR/CZK

CNB on hold in March, CZK gains limited

Current spot: 25.67



Source: Bloomberg, ING

- Following the more dovish ECB meeting, underlying uncertainties for the Eurozone growth and the lower-than-expected Czech 4Q18 wage growth (6.9% vs the CNB expectation of 7.9%), we see the CNB remaining on hold at the end of March and only delivering a rate hike at the beginning of May.
- Due to the solid domestic economy, however, we still see room for two hikes to be delivered this year by the CNB due to the intention of the central bank to further normalise rates.
- Despite that, room for CZK gains is limited this year due to its overbought condition and muted sensitivity to the interest rate differential, keeping the EUR/CZK mostly above the 25.5 level.

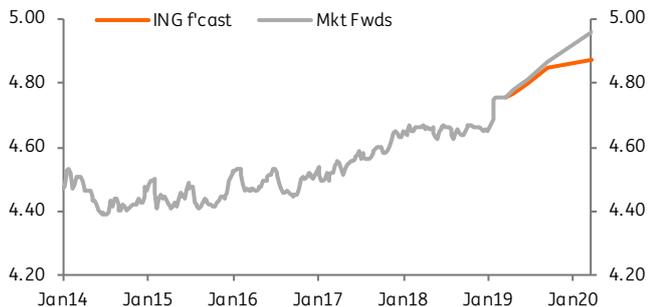
ING forecasts (mkt fwd)	1M 25.70 (25.72)	3M 25.60 (25.80)	6M 25.50 (25.94)	12M 25.40 (26.19)
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Jakub Seidler, Prague +420 257 474 432

EUR/RON

Defending the RON becomes costly

Current spot: 4.76



Source: Bloomberg, ING

- Upside pressure on EUR/RON re-emerged as the high frequency data started to reflect the impact of government emergency decree 114 (ED114) issued in the last days of 2018. Trade balance sharply widened on gas imports as the price for local production was capped by ED114. Energy sector contracted due to strikes on ED114 dragging down industrial production. CPI jumped above NBR/consensus forecast to 3.8% YoY, in line with our call. Public sector wages started the year with a 6.1% monthly rise leading to a 26.7% YoY advance. Building imbalances caught the eyes of rating agencies. In the meantime, the NBR is drawing a line in the sand around 4.7700 in EUR/RON. This could hold for a while, but eventually the defence line will be moved higher.

ING forecasts (mkt fwd)	1M 4.77 (4.78)	3M 4.80 (4.81)	6M 4.85 (4.86)	12M 4.87 (4.96)
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Ciprian Dascalu, Bucharest +40 31 406 89 90

EUR/HRK

Pressure for stronger HRK intensify

Current spot: 7.42



Source: Bloomberg, ING

- Despite heavy CNB interventions in December (EUR1.08 billion) to fend-off HRK strength, the kuna continued to perform well and triggered another sizeable FX intervention in early February when the CNB bought EUR450 million at an average rate of 7.4168. The appreciation pressures for kuna emerged from a mix of factors ranging from MinFin's refinancing operations to investment grade prospects, seasonal inflows and supportive external balances. Nevertheless, the CNB seem less willing to allow for currency volatility at the same levels as in the previous years. In its [latest country report](#), the European Commission assessed that Croatia no longer runs excessive macroeconomic imbalances. The road for joining the EMU in 2020 looks clear now.

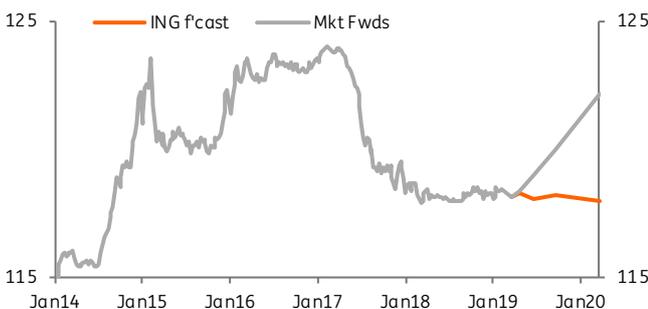
ING forecasts (mkt fwd)	1M 7.41 (7.42)	3M 7.39 (7.42)	6M 7.40 (7.43)	12M 7.44 (7.44)
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Ciprian Dascalu, Bucharest +40 31 406 89 90

EUR/RSD

Tight, managed float remains the norm

Current spot: 118.1



Source: Bloomberg, ING

- The EUR/RSD has been trading within a tight 118.00-118.50 range for quite a while now, with the NBS active on both sides when needed. While in real terms the dinar looks a bit overvalued, we see the currency fairly stable in the short run, supported by still solid FDI's and FX-lending. The 118.00 and 118.50 lower and upper bounds seems to remain the lines in the sand for now.
- The NBS has stepped in to address the reduced dinar liquidity organizing two EUR/RSD swap auctions in February, injecting RSD13.1bn and RSD8.3bn each over a two-week period. With a lower probability for ECB tightening this year and contained domestic inflation backdrop, we see no rate changes from NBS this year.

ING forecasts (mkt fwd)	1M 118.30 (118.4)	3M 118.10 (119.0)	6M 118.20 (120.0)	12M 118.00 (122.2)
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Ciprian Dascalu, Bucharest +40 31 406 89 90

USD/RUB

Headwinds in 2-3Q19 on weak balance of payments

Current spot: 65.35



Source: Bloomberg, ING

- YTD, RUB managed to rebound 6% to USD, thanks to strong oil prices and portfolio inflows into local state bonds (OFZ) of ~US\$1 billion in January and probably February. For the short-term we maintain a positive outlook on the RUB.
- The longer term view has deteriorated as the corporate preference for FX revenue repatriation declined: 2M19 net capital outflow totalled US\$18 billion or 83% of the current account surplus vs 30-40% in the previous years. This was driven by higher foreign asset accumulation due to weak local investment demand.
- For 2-3Q19, balance of risks is favouring RUB depreciation on shrinking current account surplus amid persisting external risks.

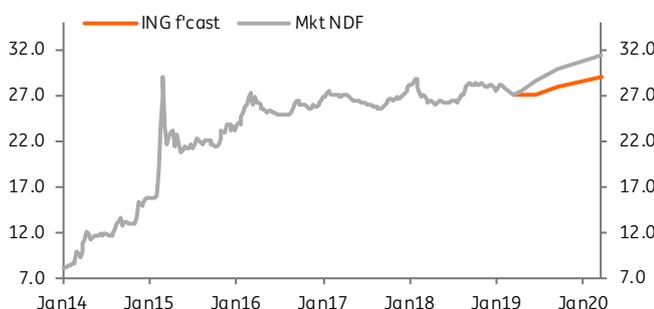
ING forecasts (mkt fwd)	1M 65.50 (65.64)	3M 66.50 (66.18)	6M 67.00 (66.98)	12M 67.00 (68.47)
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Dmitry Dolgin, Russia +7 495 771 7994

USD/UAH

Stand-by mode

Current spot: 27.06



Source: Bloomberg, ING

- Local FX market seems to have positively reacted to recent FX reforms and has shrugged off uncertainties related to upcoming elections. Ahead of 31 March, the 1st round of elections, the polls favour a protest candidate Volodymyr Zelenskiy, whose policy agenda and credibility with international investors is uncertain.
- Ukraine awaits 2nd tranche of IMF's US\$3.9 billion loan, crucial to repayment of external debt in May and September. Cooperation with the IMF is conditional on the economic policy continuity.
- Balance of risks related to balance of payments seems to favour gradual depreciation of UAH vs USD, in line with other currencies in the region.

ING forecasts (mkt fwd)	1M 27.00 (27.57)	3M 27.00 (28.53)	6M 28.00 (29.93)	12M 29.00 (31.47)
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Dmitry Dolgin, Russia +7 495 771 7994

USD/KZT

Outlook downgraded on weaker policy framework

Current spot: 379.8



Source: Bloomberg, ING

- Tenge is range-bound YTD on the lack of positive drivers, and we cease to expect KZT appreciation. The reasons include but are not limited to a weaker RUB outlook, as the two currencies are linked via trade and portfolio channels
- At least a 1-month halt in production on 3 major oilfields accounting for 60% of national production should lead to a ~5% decline in annual oil production and a weaker current account.
- The President's decision to give 2.3% GDP fiscal stimulus to households highlights risks of policy easing ahead of elections, though recent reaffirmation of S&P/Moody's rating means that it is not an immediate threat to the country's macro stability.

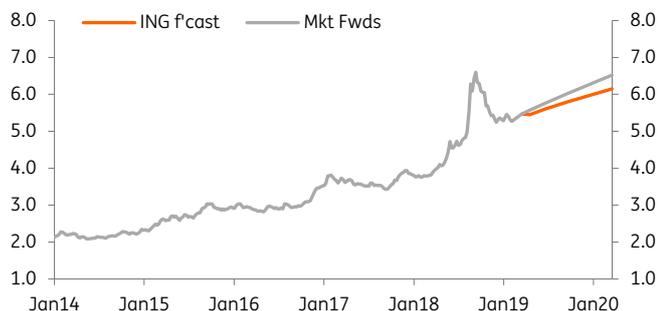
ING forecasts (mkt fwd)	1M 375.00 (380.8)	3M 377.00 (384.7)	6M 380.00 (390.3)	12M 380.00 (403.9)
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Dmitry Dolgin, Russia +7 495 771 7994

USD/TRY

The near-term TRY upside seems limited

Current spot: 5.47



Source: Bloomberg, ING

- February inflation data pulled the annual figure below the 20% threshold given weak domestic demand, a stable currency and the tight CBT stance. However, the risks remain tilted to the upside given the marked deterioration in pricing behaviour.
- The CBT stance of being cautious on signalling any rate cuts has been supportive for the currency in recent months. However, with the contribution of broader risk sentiment and geopolitical newsflow, the currency weakened lately. A still challenging inflation outlook (with core and services inflation remaining elevated and the possibility of growth supportive fiscal measures in the period ahead) has the potential to weigh on the TRY.

ING forecasts (mkt fwd)	1M 5.45 (5.57)	3M 5.60 (5.75)	6M 5.80 (6.02)	12M 6.15 (6.52)
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Muhammet Mercan, Istanbul +90 212 329 0751

USD/ZAR

Hanging in there

Current spot: 14.47



Source: Bloomberg, ING

- The ZAR has survived the challenges posed by ailing state utility Eskom and our credit team feel that authorities have done enough to avoid a sovereign downgrade by Moody's at their rating review on 29 March. Remember that a cut in the local currency rating to junk could prompt enforced bond selling.
- Weak growth and steady inflation currently sees the market price SARB rates flat at 6.75% well into 2020 and leaves the ZAR with an attractive implied yield near 7.00%. A low-conviction bias towards better global trade and a steady CNY is ZAR positive.
- Elections on 8 May are in focus. A two-thirds majority for the ANC would be useful and cement Ramaphosa's position as leader.

ING forecasts (mkt fwd)	1M 14.50 (14.53)	3M 14.75 (14.63)	6M 14.00 (14.79)	12M 13.00 (15.12)
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Chris Turner, London +44 20 7767 1610

USD/ILS

Looking good

Current spot: 3.60



Source: Bloomberg, ING

- USD/ILS is hovering above the 3.60 area and the Bol is again intervening in small amounts to limit ILS strength. Israeli activity bounced back strongly in 4Q18 to above 3% (annualised) and some positive trends on the current account certainly favour some ILS strength year – should the dollar trend oblige.
- The Bol is still minded to tighten policy and the market prices another hike from the Bol much later in the year. Typically the Bol is very sensitive to \$/ILS, such that any surprise move in \$/ILS above 3.70 would make a rate hike more likely.
- Given our view of a broader dollar bear trend starting later this year, we have quite a high conviction that \$/ILS is a 3.50 story.

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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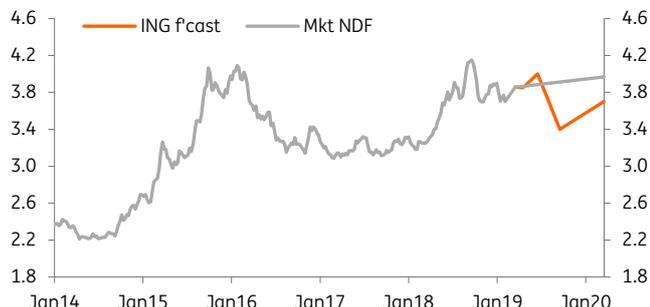
Chris Turner, London +44 20 7767 1610

LATAM

USD/BRL

Social security reform debate is initiated in Congress

Current spot: 3.86



Source: Bloomberg, ING

- The social security reform debate is finally under way in Congress. Government leaders remain optimistic about its prospects, but entrenched resistance by powerful special-interest groups suggest a less-than-smooth legislative process.
- The opposition is not large enough to block the reform, but the government does not have the votes yet, to ensure its approval. Lawmakers' support must be negotiated with the government.
- The BRL has underperformed recently and uncertainty about the reform's approval should keep a high-volatility underperforming bias in place. But we still expect the reform to be approved in 3Q, triggering a temporary BRL rally, towards the 3.3-3.4 range.

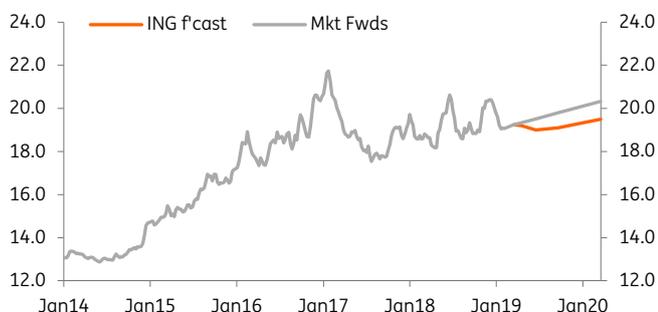
ING forecasts (NDF)	1M 3.85 (3.87)	3M 4.00 (3.88)	6M 3.40 (3.91)	12M 3.70 (3.97)
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Gustavo Rangel, New York +1 646 424 6464

USD/MXN

Still-attractive carry to keep the MXN resilient

Current spot: 19.24



Source: Bloomberg, ING

- Despite lingering policy uncertainties and growing concerns about Mexico's economic growth outlook, we believe that the risk of negative policymaking headlines is smaller in the nearer term.
- In particular, the risk of rupture in market credibility in issues like fiscal prudence, PEMEX and central bank independence should take longer to emerge. We believe that risk should intensify as economic activity disappoints, raising the risk of policy mistakes.
- For now, even though we expect Banxico to shift to a dovish monetary policy stance in the coming months, the mix of attractive interest rates and solid macro fundamentals suggests that the MXN should continue to outperform its regional peers.

ING forecasts (mkt fwd)	1M 19.20 (19.34)	3M 19.00 (19.51)	6M 19.10 (19.79)	12M 19.50 (20.33)
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Gustavo Rangel, New York +1 646 424 6464

USD/CLP

Catch-up to higher copper prices suggests outperformance

Current spot: 669.75



Source: Bloomberg, ING

- The CLP was not immune to the latest USD rally that affected most EM FX but, as copper prices have stayed mildly supportive, there's some room for CLP outperformance in the coming weeks.
- Constructive Chinese data and a favourable resolution to the US-China trade-war impasse would further support the CLP but, at current levels, room for appreciation is relatively limited.
- Near-term CLP prospects are closely linked to external drivers, while local macro trends have become more FX neutral. Inflation has surprised to the downside while economic activity indicators have softened, dragged by mining, which should, in practice, reduce BCCh's rate-hiking appetite.

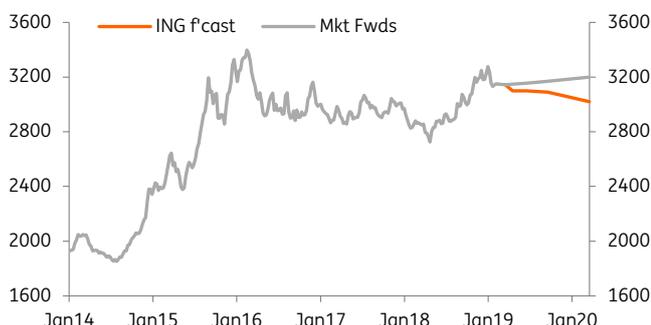
ING forecasts (NDF)	1M 660.00 (670)	3M 665.00 (670)	6M 660.00 (670)	12M 645.00 (670)
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Gustavo Rangel, New York +1 646 424 6464

USD/COP

A supportive COP environment amid higher oil prices

Current spot: 3144.65



- Much like the CLP, the COP was not immune to the USD rally seen in the past month but, as oil prices remain supportive, there's now some scope for a catch-up appreciation in the COP.
- Future FX performance should remain chiefly dependent on external drivers (ie, oil prices and the USD) with domestic drivers remaining closer to COP-neutral, if a bit more constructive.
- The most notable local macro development has been the surprising resilience of activity data, with GDP growth on track to expand near its potential this year amid solid domestic demand. On-target inflation suggests however that a neutral monetary policy guidance should remain for longer than initially expected.

Source: Bloomberg, ING

ING forecasts (NDF)	1M 3100.00 (3148)	3M 3100.00 (3155)	6M 3090.00 (3168)	12M 3020.00 (3200)
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Gustavo Rangel, New York +1 646 424 6464

USD/PEN

Solid macro trends help offset trade-war concerns

Current spot: 3.30



- As usual, the PEN traded with the lowest volatility in the region, outperforming sharply amid the widespread sell-off. As a result, the PEN was effectively the least affected by the USD move, following the benign commodity trend more closely than its peers in the region.
- At current levels, further upside seems limited, with BCRP's FX intervention back in the radar, but developments on the US-China front and economic growth would add support to the currency.
- Peru's BCRP should extend the current "neutral" bias for the policy rate (2.75%) longer than we initially thought amid moderate economic activity and on-target inflation.

Source: Bloomberg, ING

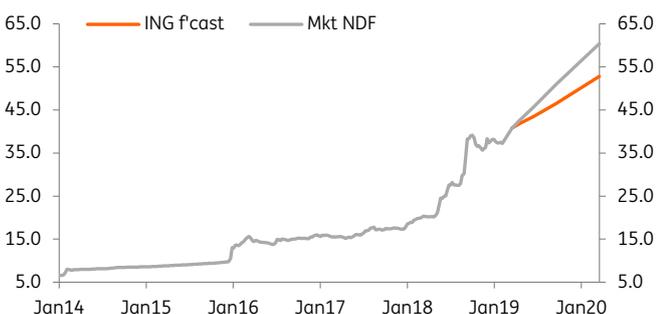
ING forecasts (NDF)	1M 3.29 (3.30)	3M 3.29 (3.31)	6M 3.30 (3.32)	12M 3.27 (3.34)
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Gustavo Rangel, New York +1 646 424 6464

USD/ARS

Evidence of ARS's vulnerability resurfaces

Current spot: 40.75



- The USD rally together with the persistent and higher-than-expected inflation data ended the brief period of calm for ARS assets, pushing the ARS firmly inside the non-intervention zone.
- Local market turbulence led BCRA to raise rates aggressively, and re-establish some level of stability, but the episode confirmed the level of vulnerability that should persist in the local market at least until the October Presidential election is concluded.
- The higher carry and USD-liquidity measures should help stabilise local assets in the nearer term but the combination of high inflation and poor economic activity should complicate the outlook for the presidential election dynamics, keeping alive the risk of a return of Cristina Kirchner to office, if she decides to run.

Source: Bloomberg, ING

ING forecasts (NDF)	1M 41.80 (42.53)	3M 43.50 (45.75)	6M 46.50 (50.93)	12M 52.80 (60.39)
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Gustavo Rangel, New York +1 646 424 6464

Asia

USD/CNY

Yuan central to trade talks

Current spot: 6.7185



Source: Bloomberg, ING

- PBoC governor, Yi Gang, has said that the yuan is one of the discussion topics of the trade negotiations, noting that China would have autonomy over the exchange rate mechanism, and both China and the US would adhere to a market-driven exchange rate system. Let's see what emerges in any FX specific section of a US-China trade deal.
- From Yi Gang's statements, the discussion of the yuan topic seems to be positive for a mutually acceptable deal as it does not require the yuan only to appreciate – stability seems favoured.
- We believe that the USD/CNY will largely trade with the dollar index to reflect its "market driven" nature.

ING forecasts (FWDs)	1M 6.7400 (6.7182)	3M 6.8500 (6.7186)	6M 6.8500 (6.7191)	12M 6.7000 (6.7208)
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Iris Pang, Hong Kong +852 2848 8071

USD/INR

Politics overtakes the economy

Current spot: 69.18



Source: Bloomberg, ING

- In a reversal of fortune, the INR became Asia's best currency vs the USD since February from the worst one earlier.
- The consolidation comes despite the escalation of border tensions with Pakistan. Although things have calmed down now, this could kick off again amid rising political heat domestically. General elections will be held in seven phases from 11 April to 19 May with the results expected to be out from 23 May.
- Lack of policy support and wide trade and fiscal deficits remain the key negatives for INR, while President Trump's 60-day notice on 5 March to end India's GSP trade status clouds prospects further.

ING forecasts (NDFs)	1M 71.50 (69.50)	3M 73.00 (70.00)	6M 72.80 (70.65)	12M 71.50 (71.87)
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Prakash Sakpal, Singapore +65 6232 6181

USD/IDR

Current account miss hits IDR confidence

Current spot: 14268



Source: Bloomberg, ING

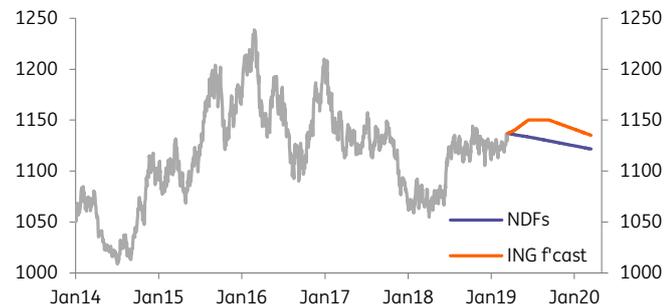
- The IDR has fluctuated over the last month, initially gaining on the Fed's increasingly dovish stance, and some lacklustre US economic data.
- But the IDR's fortunes reversed as Bank Indonesia reported a wider-than-expected current account deficit. Given well-publicized efforts to narrow the gap via import curbs, the downside surprise on the external front sparked selling interest.
- Bank Indonesia (BI) kept policy rates unchanged on 21 February 2019 given the then relative stability of the IDR, but after its more recent swoon, the central bank has looked to restore confidence by establishing its presence in the spot market.

ING forecasts (NDFs)	1M 14070 (14313)	3M 14320 (14431)	6M 14450 (14623)	12M 14300 (14981)
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Nicholas Mapa, Philippines +63 2479 8855

USD/KRW

Bottom of the pack



Source: Bloomberg, ING

ING forecasts (NDFs)	1M 1140 (1136)	3M 1150 (1134)	6M 1150 (1130)	12M 1135 (1122)
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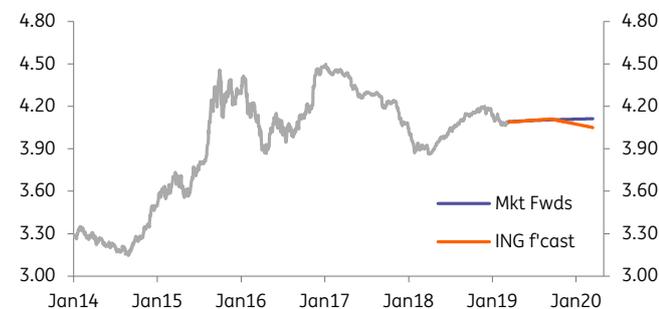
Rob Carnell, Singapore +65 6232 6020

Current spot: 1137

- The KRW has been one of the most consistently underperforming currencies in Asia this year, ranking in the bottom three currencies in January, February and month to date March. For the full year, it is ranked worst of the pack.
- Collapsing exports, a weak domestic economy, and a central bank that not so long ago felt the need to hike rates (it seems to regret this now) have not helped at all. Expectations are now switching to rate cuts.
- There may be some additional impact from the re-animation of N Korea as a potential military aggressor, but we suspect that this is overdone as a reason for KRW weakness.

USD/MYR

The door is open for central bank policy easing



Source: Bloomberg, ING

ING forecasts (FWDs)	1M 4.0900 (4.0939)	3M 4.1000 (4.0990)	6M 4.1100 (4.1048)	12M 4.0500 (4.1126)
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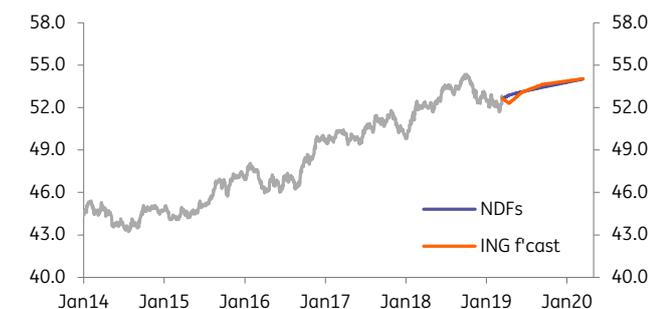
Prakash Sakpal, Singapore +65 6232 6181

Current spot: 4.0913

- The MYR remains among Asian outperformers this year, the state of affairs supported by Malaysia's sound external payment position is likely to prevail in a soft USD environment.
- January exports and manufacturing data support our view of a further GDP slowdown to 4.2% in 1Q19 from 4.7% in 4Q18.
- The ongoing currency strength is one of our arguments why the central bank (BNM) should ease the policy now to prevent further downside to growth, rather than waiting to cut later. Besides, the persistent low inflation has pushed real interest rates higher when the economy suffering from weak investment. We expect a 25bp BNM rate cut in May.

USD/PHP

PHP suffers from "Pro-growth" governor



Source: Bloomberg, ING

ING forecasts (NDFs)	1M 52.30 (52.87)	3M 53.09 (53.12)	6M 53.64 (53.43)	12M 54.04 (54.02)
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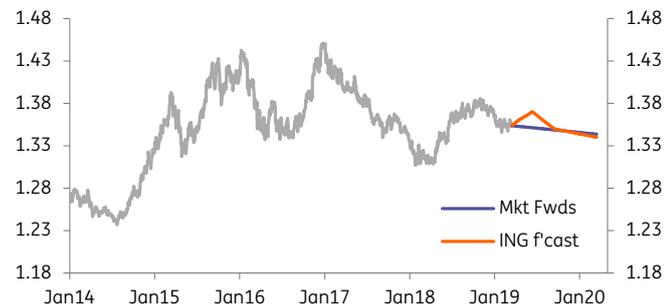
Nicholas Mapa, Philippines +63 2479 8855

Current spot: 52.63

- PHP outperformed the rest of the region in February on the back of strong portfolio flows given a dovish Fed and expectations that the FOMC would be on hold for the year.
- But in March, the surprise appointment of Budget Secretary Diokno by the President to fill the empty post of Bangko Sentral ng Pilipinas Governor after the death of Governor Espenilla, sent the PHP tumbling.
- Diokno's background on the fiscal team spooked traders given his supposed pro-growth bias. Early pronouncements point to his openness to cut reserve requirements every quarter and reduce policy rates, forcing the PHP to have a weakening bias.

USD/SGD

Middle of the pack



Source: Bloomberg, ING

Current spot: 1.3537

- Year-to-date, the SGD is up about 0.35% against the USD, which almost a quarter through the year, suggests we are on track for an annual increase of about 1.2-1.5%. That sounds about right given the MAS' two "tightenings" of policy through their nominal effective exchange rate targeting.
- We don't anticipate the MAS adding to its tightening at the April meeting. The domestic Singaporean economy is not firing on all cylinders, and the external sector is looking downright soft.
- More of the same – slow appreciation – looks likely for the SGD. Chances of a policy reversal seem distant absent a turn for the worse.

ING forecasts (FWDs)	1M 1.3600 (1.3528)	3M 1.3700 (1.3513)	6M 1.3500 (1.3488)	12M 1.3400 (1.3437)
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Rob Carnell, Singapore +65 6232 6020

USD/TWD

TWD Forecasts revised weaker



Source: Bloomberg, ING

Current spot: 30.87

- Taiwan has relied heavily on the production and export of smart-devices. When the product life cycle of these items slows down, the economy suffers.
- Exports fell 8.8% YoY in February even given last year's negative base effects. Together with the PMI falling below 50 for 4 months in a row, the manufacturing and related export sectors are clearly shrinking.
- This weakness will affect corporate earnings. As such, foreign capital inflows into the Taiwan asset markets could reverse. Consequently, we revise the TWD to be weaker vs the dollar from 30.40 to 30.95 by end-2019.

ING forecasts (NDFs)	1M 30.80 (30.82)	3M 30.85 (30.73)	6M 30.90 (30.58)	12M 31.00 (30.23)
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Iris Pang, Hong Kong +852 2848 8071

USD/THB

Elevated political risks



Source: Bloomberg, ING

Current spot: 31.70

- The THB remains Asia's best currency based on the year-to-date performance. But its appreciation has almost stalled since February, putting it among underperformers. The shift can be ascribed to rising political risk, though little is changed in terms of underlying economic trends.
- General elections will be held on 24 March. Incumbent Prime Minister Prayut Chan-o-cha may remain in power. However, the transition to the new government may not be smooth.
- GDP growth remains on a downtrend and inflation non-existent. As these trends intensify further, they could force the BoT to reverse its latest rate hike.

ING forecasts (FWDs)	1M 32.00 (31.71)	3M 32.50 (31.66)	6M 31.90 (31.62)	12M 31.60 (31.52)
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Prakash Sakpal, Singapore +65 6232 6181

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	1.10	1.15	1.20						
EUR/JPY	126.2	125.44	124.30	124.20	120.00	USD/JPY	111.64	112	113	108	100
EUR/GBP	0.85	0.85	0.85	0.85	0.85	GBP/USD	1.32	1.32	1.29	1.35	1.41
EUR/CHF	1.14	1.12	1.12	1.12	1.15	USD/CHF	1.00	1.00	1.02	0.97	0.96
EUR/NOK	9.68	9.60	9.50	9.40	9.50	USD/NOK	8.56	8.57	8.64	8.17	7.92
EUR/SEK	10.49	10.60	10.75	10.40	10.30	USD/SEK	9.28	9.46	9.77	9.04	8.58
EUR/DKK	7.463	7.455	7.455	7.460	7.460	USD/DKK	6.60	6.66	6.78	6.49	6.22
EUR/CAD	1.51	1.49	1.45	1.50	1.50	USD/CAD	1.335	1.33	1.32	1.30	1.25
EUR/AUD	1.60	1.60	1.59	1.64	1.67	AUD/USD	0.71	0.70	0.69	0.70	0.72
EUR/NZD	1.65	1.62	1.62	1.64	1.71	NZD/USD	0.68	0.69	0.68	0.70	0.70
EMEA											
EUR/PLN	4.30	4.28	4.30	4.32	4.36	USD/PLN	3.81	3.82	3.91	3.76	3.63
EUR/HUF	314.3	315.00	310.00	310.00	310.00	USD/HUF	278.0	281	282	270	258
EUR/CZK	25.67	25.7	25.6	25.5	25.4	USD/CZK	22.70	22.9	23.3	22.2	21.2
EUR/RON	4.76	4.77	4.80	4.85	4.87	USD/RON	4.21	4.26	4.36	4.22	4.06
EUR/HRK	7.42	7.41	7.39	7.40	7.44	USD/HRK	6.56	6.62	6.72	6.43	6.20
EUR/RSD	118.1	118.3	118.1	118.2	118.0	USD/RSD	104.4	105.6	107.4	102.8	98.3
EUR/RUB	73.90	73.4	73.2	77.1	80.4	USD/RUB	65.35	65.5	66.5	67.0	67.0
EUR/UAH	30.58	30.2	29.7	32.2	34.8	USD/UAH	27.06	27.00	27.00	28.00	29.00
EUR/KZT	429.5	420.0	414.7	437.0	456.0	USD/KZT	379.8	375	377	380	380
EUR/TRY	6.19	6.10	6.16	6.67	7.38	USD/TRY	5.47	5.45	5.60	5.80	6.15
EUR/ZAR	16.36	16.2	16.2	16.1	15.6	USD/ZAR	14.47	14.50	14.75	14.00	13.00
EUR/ILS	4.07	4.09	4.02	4.14	4.20	USD/ILS	3.60	3.65	3.65	3.60	3.50
LATAM											
EUR/BRL	4.36	4.31	4.40	3.91	4.44	USD/BRL	3.86	3.85	4.00	3.40	3.70
EUR/MXN	21.76	21.5	20.9	22.0	23.4	USD/MXN	19.24	19.20	19.00	19.10	19.50
EUR/CLP	757.37	739	732	759	774	USD/CLP	669.75	660	665	660	645
EUR/ARS	46.05	46.82	47.85	53.48	63.36	USD/ARS	40.75	41.80	43.50	46.50	52.80
EUR/COP	3547.52	3472	3410	3554	3624	USD/COP	3144.65	3100	3100	3090	3020
EUR/PEN	3.73	3.68	3.62	3.80	3.92	USD/PEN	3.30	3.29	3.29	3.30	3.27
Asia											
EUR/CNY	7.59	7.55	7.54	7.88	8.04	USD/CNY	6.71	6.74	6.85	6.85	6.70
EUR/HKD	8.88	8.78	8.60	8.97	9.36	USD/HKD	7.85	7.84	7.82	7.80	7.80
EUR/IDR	16143	15758	15752	16618	17160	USD/IDR	14262	14070	14320	14450	14300
EUR/INR	78.22	80.1	80.3	83.7	85.8	USD/INR	69.10	71.50	73.00	72.80	71.50
EUR/KRW	1287.82	1277	1265	1323	1362	USD/KRW	1137.10	1140	1150	1150	1135
EUR/MYR	4.63	4.58	4.51	4.73	4.86	USD/MYR	4.09	4.09	4.10	4.11	4.05
EUR/PHP	59.65	58.6	58.4	61.7	64.8	USD/PHP	52.67	52.3	53.09	53.64	54.04
EUR/SGD	1.53	1.52	1.51	1.55	1.61	USD/SGD	1.35	1.36	1.37	1.35	1.34
EUR/TWD	34.97	34.5	33.9	35.5	37.2	USD/TWD	30.89	30.8	30.9	30.9	31.0
EUR/THB	35.84	35.8	35.8	36.7	37.9	USD/THB	31.69	32.0	32.5	31.9	31.6

Source: Bloomberg, ING

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