17 January 2020

FX Strategy

FX Talking

#FeelGood

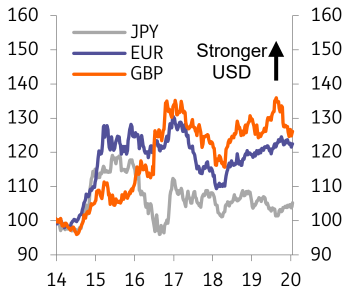
It has been a positive start to the year for most asset classes and in the FX space those currencies hit hardest on the trade war have been the biggest beneficiaries. With G3 central banks unlikely to take away the punchbowl of cheap money anytime soon and strong inflows to the asset management industry, the risk environment looks encouraging for the near future.

The dollar story is playing out in line with our FX 2020 outlook – namely weaker against activity FX but staying firm in the G3 space. Talk of a Republican Tax Cut 2.0 may cement that trend – at least in the G3 space. US macro weakness looks less of a concern now, but the market will soon turn to US election risks – especially were Warren or Sanders to win the Democratic nomination.

In Europe, GBP once again is the outlier given the prospect of a Bank of England rate cut over coming months. The EUR remains grid-locked and a lot more interesting are developments in the CEE space. Here inflation is surging and how central banks respond - and what that means for real interest rates – is in focus. The Czech National Bank looks the most likely to respond, the National Bank of Hungary the least likely and Poland somewhere in the middle. CZK to outperform HUF. Political changes in Russia so far look Rouble neutral – expect a $/RUB 62-64 range.

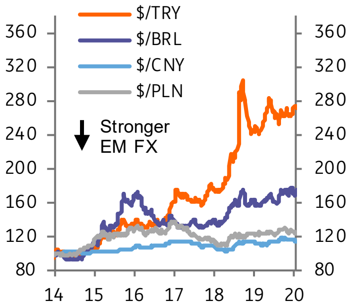
Asia once again remains a high-beta on the global risk environment – especially KRW – but the roll-out of 5G looks a positive for some in the region. In Latam, we still like the BRL despite its soft start to the year and feel that MXN strength starts to fade.

USD/Majors (12 Jan 14=100)



Source: Macrobond, ING

USD/EM (12 Jan 14=100)



Source: Macrobond, ING

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.11	→	110	↑	1.28	↓
3M	1.10	↓	110	↑	1.26	↓
6M	1.11	↓	108	→	1.31	→
12M	1.13	→	108	↑	1.38	↑
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.87	↑	25.20	↑	4.24	→
3M	0.87	↑	25.20	↑	4.28	↑
6M	0.85	→	25.00	→	4.33	↑
12M	0.82	↓	25.00	→	4.30	↓
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	6.98	↑	18.80	→	4.15	↓
3M	7.05	↑	19.00	↑	4.10	→
6M	7.00	↑	19.10	↓	4.00	↓
12M	6.85	↓	19.70	→	3.90	↓

↑ / → / ↓ 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	0.0	0.8	0.9	-1.7	0.7	-1.0
%YoY	-2.7	1.1	-3.8	1.5	-2.3	-1.6
	USD/UAH	**USD/KZT**	**USD/BRL**	**USD/ARS**	**USD/CNY**	**USD/TRY**
%MoM	3.1	-2.1	2.1	0.2	-2.0	0.3
%YoY	-13.5	-0.5	12.1	60.4	1.4	8.8

Source: Bloomberg, ING

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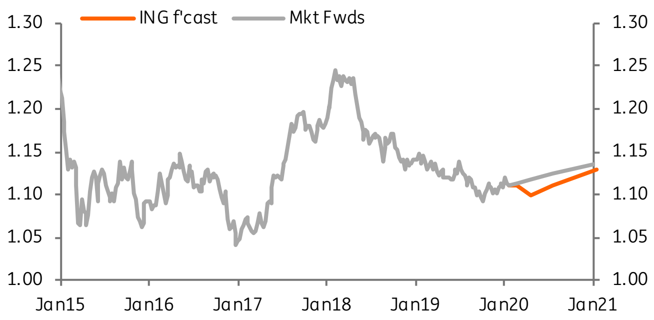
Developed markets

EUR/USD

Look elsewhere for the dollar bear trend

Current spot: 1.11



Source: Bloomberg, ING

- Those expecting a broad-based dollar bear trend in 2020 have so far been frustrated. True there has been a re-rating of commodity currencies and Asian FX on the US-China trade deal, but in the G3 space the dollar is holding its gains. So far there are no signs that the slowdown in the US manufacturing sector is spreading more broadly and the prospects of a Republican Tax Cut 2.0 should be watched closely – a dollar positive.
- US election risk premia has yet to emerge in the dollar. Let's see whether Warren or Sanders do well into 3 March Super Tuesday.
- Soft EZ manufacturing in 1H20 and an ECB on hold throughout the year sees the EUR retain its funding currency status.

ING forecasts (mkt fwd)	**1M** 1.11 (1.113)	**3M** 1.10 (1.118)	**6M** 1.11 (1.124)	**12M** 1.13 (1.136)

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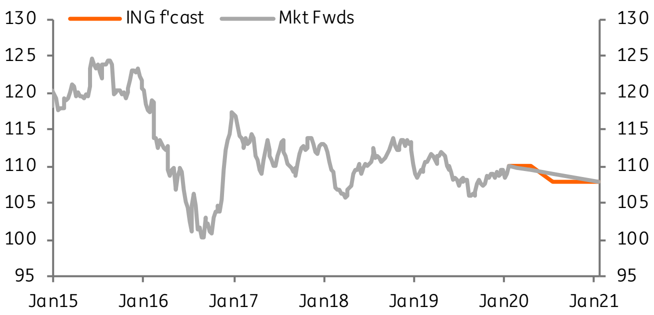
USD/JPY

Low yield world depresses volatility and the JPY

Current spot: 110.09



Source: Bloomberg, ING

- Events in the Middle East provided only a fleeting lift to FX volatility and the safe-haven JPY. Indeed, one-year implied JPY volatility is now sinking to a new all-time low – undoubtedly a function of rock bottom interest rates and ongoing QE.
- Benign global conditions suggest the JPY will remain soft on the crosses. It is tempting to call USD/JPY substantially higher now, but we note that USD hedging costs for Japanese investors (using 3m forwards) have narrowed inside 200bp and if the market shifts towards a Fed cut in 2Q20 (unclear), $/JPY should edge lower.
- US election risks are $/JPY -ve, but in March the GPIF pension fund may announce higher foreign portfolio weights - JPY negative.

ING forecasts (mkt fwd)	**1M** 110.00 (109.9)	**3M** 110.00 (109.5)	**6M** 108.00 (109.0)	**12M** 108.00 (107.9)

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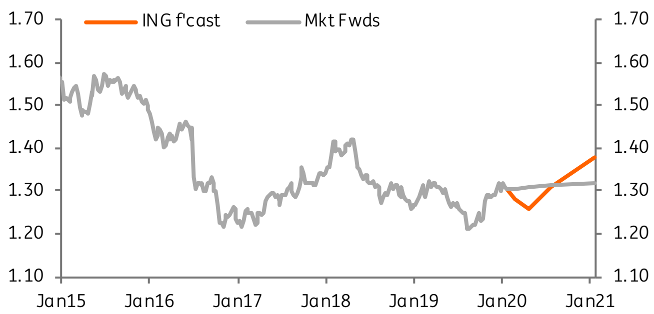
GBP/USD

BoE rate cut & non-stretched positioning negative for GBP

Current spot: 1.30



Source: Bloomberg, ING

- The post Dec election GBP bounce proved very short-lived (largely due to PM Johnson's refusal of the transition period extension) and risks to GBP are now skewed to the downside.
- With UK economic data remaining soft and inflation further dropping below the target, the case for a BoE cut is rising. The key will be the Jan UK PMIs (24 Jan). In the absence of a rebound, the BoE is likely to cut rates at the 30 Jan meeting already. Dovish comments from MPC members points to a low bar for a rate cut.
- With the GBP/USD speculative positioning turning sharply over recent months - from large net shorts to modest net longs - the scope for GBP downside is in place. GBP/USD to test 1.26 in 1H20.

ING forecasts (mkt fwd)	**1M** 1.28 (1.31)	**3M** 1.26 (1.31)	**6M** 1.31 (1.31)	**12M** 1.38 (1.32)

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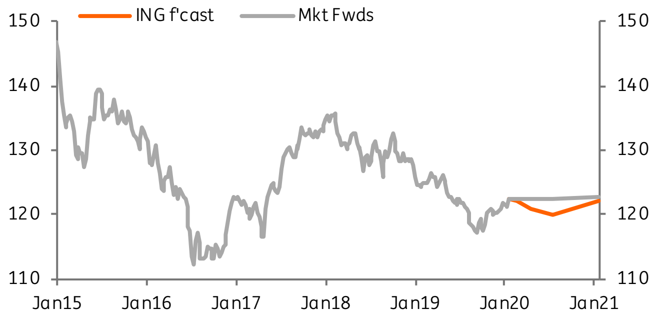
EUR/JPY

US election may be biggest threat to EUR/JPY this year **Current spot: 122.4**



Source: Bloomberg, ING

- Despite the EUR joining the JPY as one of the world's funding currencies, the JPY still has the greater inverse correlation with equity markets. Thus, the EUR/JPY trend should continue to trade in line with global equity markets. At present, the prognosis here is positive. World growth rates are recovering and G3 central banks look reluctant to withdraw the punchbowl this year.
- The greatest threat to equities is probably US elections. Were Warren or Sanders to get the nod as the Democrat nominee, swings in opinion polls could see greater impact on US equities.
- Upside risk to EUR/JPY could stem from ECB – particularly in 2H20 – should accommodative policy be increasingly challenged.

ING forecasts (mkt fwd)	**1M** 122.00 (122)	**3M** 121.00 (122)	**6M** 120.00 (122)	**12M** 122.00 (123)

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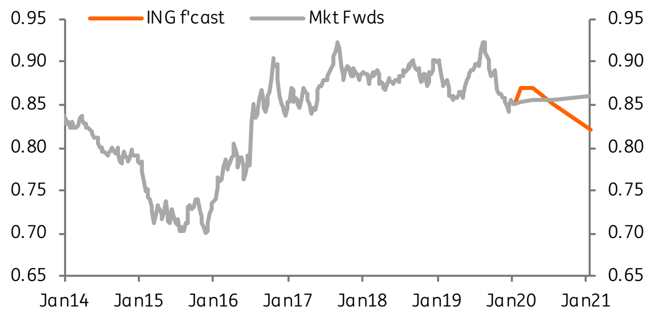
EUR/GBP

Moving towards EUR/GBP 0.87 as negative factors bite **Current spot: 0.85**



Source: Bloomberg, ING

- We expect EUR/GBP to move to 0.87 in 1H20. Rising likelihood of a BoE cut is negative for GBP (even if the BoE doesn't cut in Jan, risk of easing in months thereafter should keep GBP at low levels) while UK-EU trade negations are unlikely to prove GBP positive.
- With PM Johnson adamant not to extend the transition period and have (any) trade deal done by end-2020, the uncertainty about the form/details of the deal and its possible non-positive implications for the UK economy (ie, low likelihood of frictionless trade) should weigh on GBP in next two/three quarters.
- Following the deterioration in GBP fundamentals, GBP isn't cheap. Our BEER model sees both GBP/USD and EUR/GBP as fairly valued.

ING forecasts (mkt fwd)	**1M** 0.87 (0.85)	**3M** 0.87 (0.85)	**6M** 0.85 (0.86)	**12M** 0.82 (0.86)

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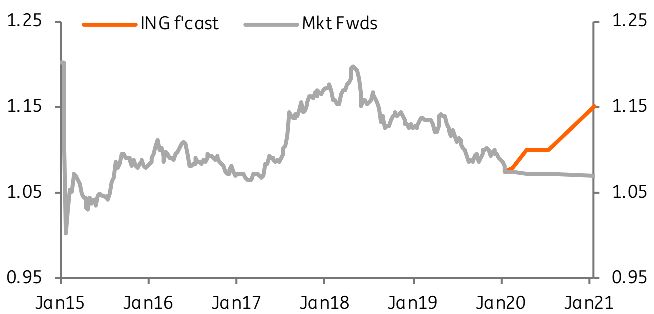
EUR/CHF

Are the SNB's hands tied on FX intervention? **Current spot: 1.07**



Source: Bloomberg, ING

- EUR/CHF has broken to the lowest levels since early 2017 – not driven by risk aversion, but more by a view that Washington is frowning on FX intervention. Switzerland was put on the US Treasury's Monitoring List in January and if FX intervention continues at its present rate (looks like CHF20bn over the last 3 months) Switzerland could be named a currency manipulator in the October 2020 US Treasury report.
- We doubt that the SNB will step back from intervention, however. Growth is weak, deflation remains a risk and despite remarks to the contrary, we doubt the SNB wants to cut the -0.75% policy rate.
- This leaves the SNB praying for a rebound in the EUR.

ING forecasts (mkt fwd)	**1M** 1.08 (1.07)	**3M** 1.10 (1.07)	**6M** 1.10 (1.07)	**12M** 1.15 (1.07)

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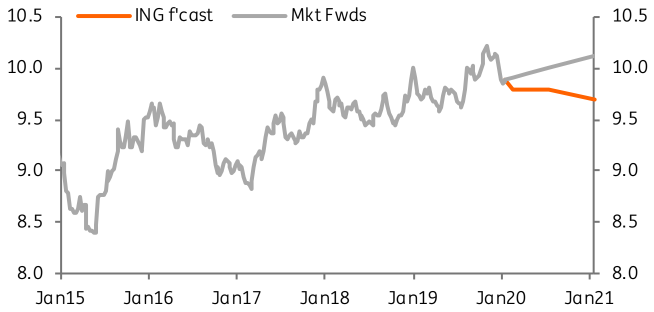
EUR/NOK

Still cheap and offering superior carry

Current spot: 9.89



Source: Bloomberg, ING

- EUR/NOK is close to our end-Jan forecast of 9.80 and we expect this level to be hit in coming weeks. Benign risk sentiment, attractive carry (currently exhibiting highest yield among G10 FX) and strong seasonality in Jan and Feb support the NOK outlook.
- The NB is to reiterate the view from Dec for stability of rates in 2020. Still, if the current NOK appreciation trend fades and the domestic data / global economy pick up modestly, another rate hike from the mechanically minded NB in 2H20 is on the cards.
- Even after the recent rally, NOK remains cheap based on our medium-term BEER valuation framework, by around 6% vs EUR. This keeps scope for further gradual krone appreciation in place.

ING forecasts (mkt fwd)	**1M** 9.80 (9.91)	**3M** 9.80 (9.95)	**6M** 9.80 (10.00)	**12M** 9.70 (10.12)

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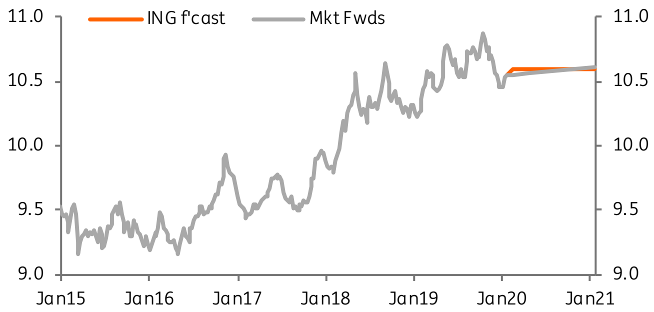
EUR/SEK

The laggard among the cyclical G10 currencies

Current spot: 10.55



Source: Bloomberg, ING

- We see SEK as a laggard among G10 cyclical FX. Even after the Dec rate hike, SEK still suffers from the most negative real rate in the G10 FX space and lowest nominal yield among cyclical G10 currencies. Dips in EUR/SEK below 10.50 are to be short-lived.
- Although cheap, SEK undervaluation doesn't stand out vs the likes of NOK or AUD (which, in contrast to SEK, show more appealing carry). Within the region, we have a strong preference for NOK vs. SEK and look for NOK/SEK to reach 1.10 by mid-2020.
- With growth / inflation dynamics soft, additional Riksbank tightening is not likely. Should downside risks materialize, a re-start of QE is more likely than rate cuts back in negative territory.

ING forecasts (mkt fwd)	**1M** 10.60 (10.55)	**3M** 10.60 (10.56)	**6M** 10.60 (10.58)	**12M** 10.60 (10.61)

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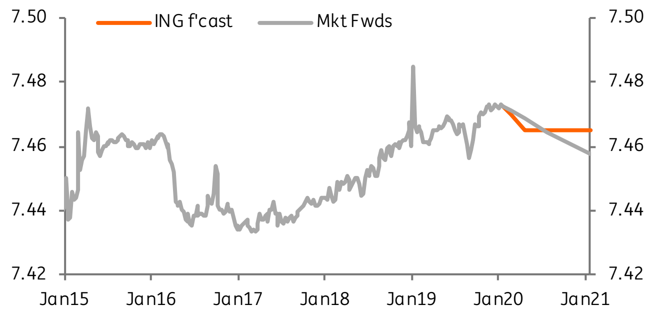
EUR/DKK

Waiting for the EZ excess liquidity to kick in

Current spot: 7.473



Source: Bloomberg, ING

- The DN has been intervening for three consecutive months, with EUR/DKK trading on the strong side of intervention band. Yet, as the EZ excess liquidity start to rise in coming months (due to the re-start of ECB QE) the upside pressure on EUR/DKK is set to ease.
- Another factor keeping EUR/DKK high was the non-tiering nature of the Sep DN rate cut (as opposed to the tiering introduced by the ECB). This in turn translated into a more powerful DN 10bp cut vs the ECB 10bp cut, putting upside pressure on EUR/DKK.
- However, once the EZ excess liquidity kicks in and the stable risk environment keeps DKK unattractive from the safe-haven point of view, a modest reversal in EUR/DKK lower is likely.

ING forecasts (mkt fwd)	**1M** 7.470 (7.471)	**3M** 7.465 (7.469)	**6M** 7.465 (7.465)	**12M** 7.465 (7.458)

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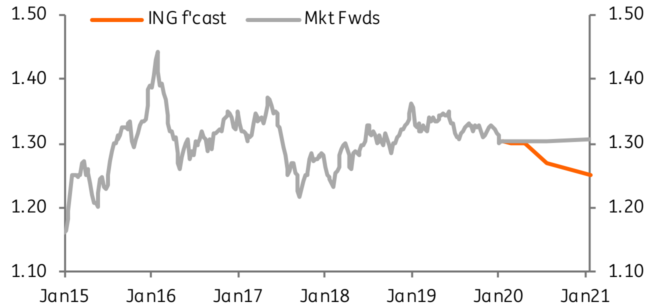
USD/CAD

Conflicting drivers

Current spot: 1.304



Source: Bloomberg, ING

- The US-China trade deal is fuelling hopes that a period of stabilized risk sentiment lies ahead, and CAD is well positioned to take advantage of it, thanks to its attractive implied yield.
- Oil, however, is standing in the way of any emphatic CAD rally. Crude market's surplus in 1H20 depresses the price outlook, at least until March, when OPEC+ may opt for more cuts (the meeting may be delayed, though). Also, we suspect the market is underestimating the chances of a one-off cut by the BoC in the next months, although we expect no change at the Jan meeting.
- These two factors may to put a floor under USD/CAD, which may struggle to consistently trade below 1.30 in the next few months.

ING forecasts (mkt fwd)	**1M** 1.30 (1.30)	**3M** 1.30 (1.30)	**6M** 1.27 (1.30)	**12M** 1.25 (1.30)

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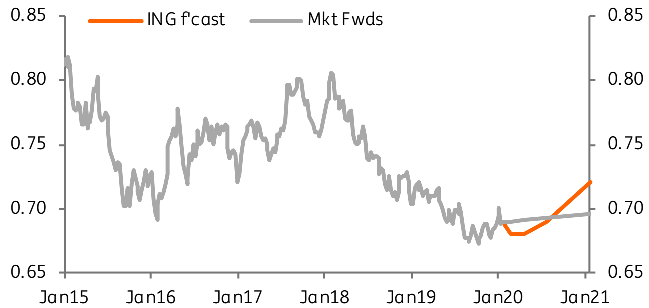
AUD/USD

RBA to throw water on the fire

Current spot: 0.69



Source: Bloomberg, ING

- The bushfire emergency in Australia is far from over: the fire season is still long, and indications of a quick resolution are scarce. The backlash on the already uninspiring economic outlook may be sizable and weigh on AUD in the long term.
- This situation further convinced us the RBA will have to step in with one cut in Feb or March (56% priced in). We expect no additional easing in 2020, but we acknowledge the non-negligible risk of one more cut, which would endorse the prospect of QE.
- We do not embed QE in our forecast yet, but AUD is the commodity currency bearing most downside risk in our view, and we continue to see NZD as safer in the antipodeans sphere.

ING forecasts (mkt fwd)	**1M** 0.680 (0.690)	**3M** 0.680 (0.691)	**6M** 0.690 (0.693)	**12M** 0.720 (0.696)

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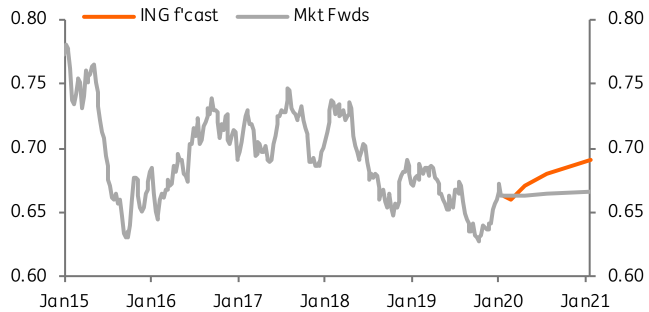
NZD/USD

Untouched fundamentals

Current spot: 0.66



Source: Bloomberg, ING

- The Kiwi $ is the worst performing G10 currency in 2020 but, in our view, the (positive) fundamentals have remained untouched.
- NZD has lost its "positioning advantage" after net speculative positions moved in neutral territory from highly negative, so that downside moves now tend to be exacerbated. However, no data releases can be blamed for the recent underperformance and we expect upcoming dataflow to be broadly supportive for NZD, with CPI possibly converging to the RBNZ target.
- We do not expect the RBNZ to follow the RBA into more stimulus (10bp of easing are priced in for 1H) and such policy divergence should assist a new decline in AUD/NZD.

ING forecasts (mkt fwd)	**1M** 0.66 (0.663)	**3M** 0.67 (0.664)	**6M** 0.68 (0.664)	**12M** 0.69 (0.666)

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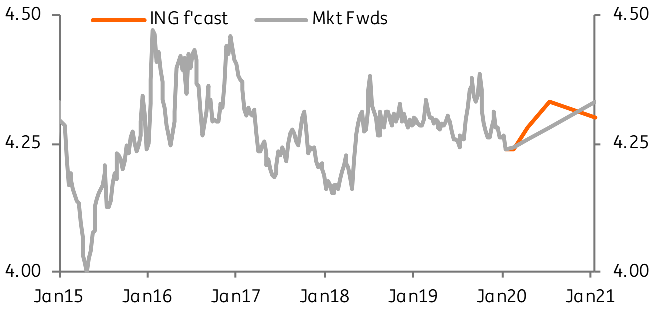
Emerging markets

EUR/PLN

So far subdued CHF loans risk, focus on flows and CPI

Current spot: 4.24



Source: Bloomberg, ING

- A firmer EUR/$, US-China truce triggering risk-on and supporting EM have helped PLN in recent weeks. CPI spiked much above expectations and undermined the central bank's rhetoric behind their dovish stance, but NBP is still less dovish than NBH, which is proving PLN positive.
- In 2020 Polish banks will start to issue TLAC/MREL eligible bonds (PLN60bn in 2020-25), also in the euro markets. If converted to PLN it may offset the outflow of PLN10bn stemming from Commerzbank selling its Polish subsidiary (if bought by a local institution) and risks related to FX mortgages.
- We are more worried about FX outflows caused by bank provisions on FX mortgages rather than the spike in number of cases against banks. We see €/PLN above, but close to 4.30.

ING forecasts (mkt fwd)	**1M** 4.24 (4.24)	**3M** 4.28 (4.26)	**6M** 4.33 (4.28)	**12M** 4.30 (4.33)

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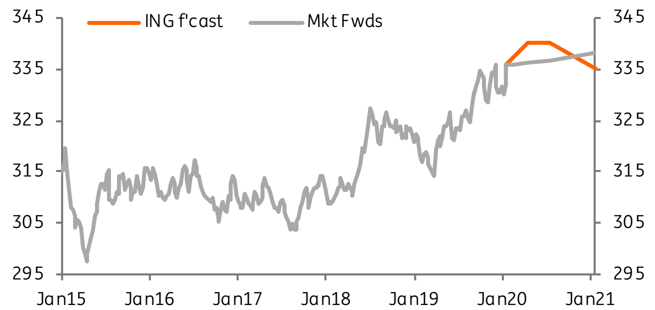
EUR/HUF

Forint underperformance continues

Current spot: 335.7



Source: Bloomberg, ING

- HUF was a clear underperformer in the region in 2019 and it seems that the start of 2020 hasn't brought any change in that. However, it is no surprise taking into consideration the C/A deficit, the deep negative real interest rates and the expectation that the NBH maintains its loose stance throughout this year.
- As long as the NBH won't set up red lines in FX – and in our view this is off the table – and the Eurozone economy does not rebound strongly, the drivers for HUF weakness remain with us.
- The nominal forint depreciation will also be needed to prevent real HUF from strengthening due to the high inflation differential vs. the Eurozone. We target EUR/HUF 340 within 6 months.

ING forecasts (mkt fwd)	**1M** 337.50 (335.8)	**3M** 340.00 (336.2)	**6M** 340.00 (336.7)	**12M** 335.00 (338.0)

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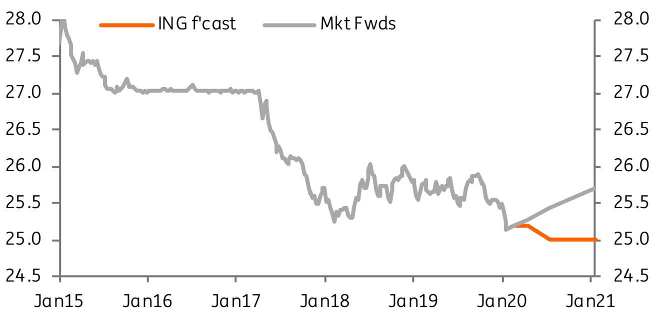
EUR/CZK

Too strong CZK reduces odds of an imminent hike

Current spot: 25.14



Source: Bloomberg, ING

- EUR/CZK reached the new post FX floor exit lows as the mix of improving risk sentiment, rising odds of the CNB rate hike (Dec inflation printed further above the upper 3% tolerance band) and important technical levels being broken pushed CZK higher.
- We see a limited upside to CZK from here as koruna strength is tightening monetary conditions and delivers implicit hike/s (recall the CNB rule of thumb of 1% EUR/CZK fall = 1 hike). This suggests a less hawkish, wait-and-see CNB approach for now. EUR/CZK to stay above the psychological 25.00 level in coming months.
- Still, the koruna remains our top CEE FX pick due to its carry and expected stability (vs downside risks to HUF as well as PLN).

ING forecasts (mkt fwd)	**1M** 25.20 (25.19)	**3M** 25.20 (25.29)	**6M** 25.00 (25.43)	**12M** 25.00 (25.71)

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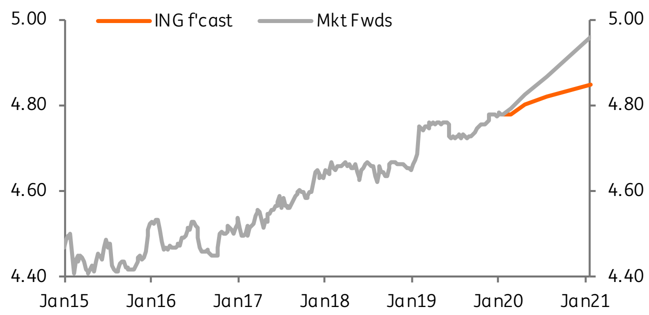
EUR/RON

NBR on top at 4.7800 **Current spot: 4.78**



Source: Bloomberg, ING

- As the capital inflows determined by the generous interest rate differential start to fade away, the leu's weak fundamentals resurface. The National Bank of Romania (NBR) seems to be actively protecting the 4.7800 level.
- We believe that the NBR will allow for a correction higher towards 4.8000 in the first stance. The timing for the upward adjustment will likely be synchronised with some political events, like triggering the snap elections process.
- Twin deficits will remain the Achilles' heel for the Romanian economy in 2020 as well, limiting the central bank's function in the short term to some (well done) damage controls.

ING forecasts (mkt fwd)	**1M** 4.78 (4.79)	**3M** 4.80 (4.82)	**6M** 4.82 (4.87)	**12M** 4.85 (4.96)

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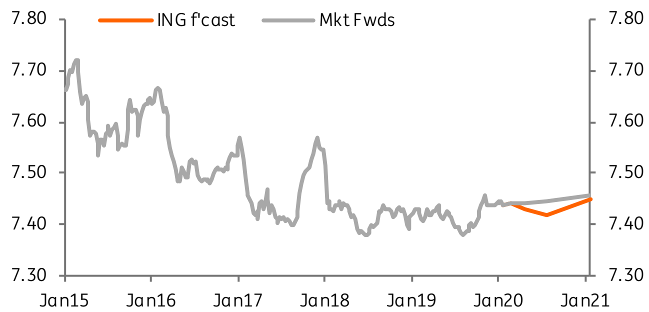
EUR/HRK

ERM-type stability **Current spot: 7.44**



Source: Bloomberg, ING

- The likely admission of Croatia into ERM-II this year has slightly changed the rules of the game for the kuna, as volatility decreased under the watchful eye of the Croatian National Bank.
- We continue to see the 7.45 level as a likely central parity rate once admitted into ERM-II. A decision in this respect will most likely come after Croatia will complete the rotating presidency of the EU, meaning in the second part of 2020.
- Overall, the picture remains broadly unchanged, with the tourism-generated current account surpluses remaining supportive for the kuna, well contained inflationary pressures and a loose monetary stance, mimicking the ECB.

ING forecasts (mkt fwd)	**1M** 7.44 (7.44)	**3M** 7.43 (7.44)	**6M** 7.42 (7.45)	**12M** 7.45 (7.46)

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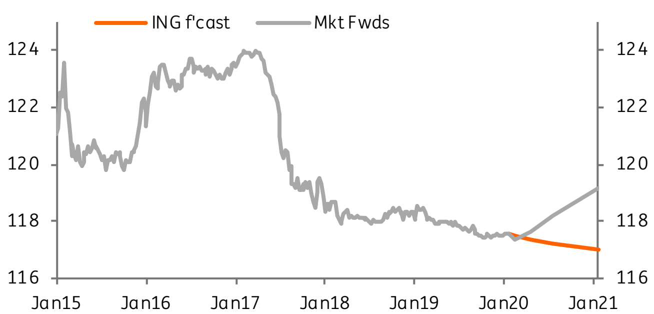
EUR/RSD

NBS still on the bid side around 117.5 **Current spot: 117.6**



Source: Bloomberg, ING

- The National Bank of Serbia (NBS) closed the year with historical high FX reserves (EUR13.4bn). This is largely attributable to the FX interventions which – as a net sum - totalled EUR2.7bn in 2019.
- An eventual rating upgrade to investment grade (not our base case for 2020) would likely prompt more capital inflows, but this is looking rather distant right now. We maintain our year-end forecast of 117.0 for the EUR/RSD as we look for a modest dinar appreciation throughout 2020.
- We remain mildly positive on Serbia as the EU convergence story is still there (albeit it has faded a bit). Parliamentary elections are due in April 2020.

ING forecasts (mkt fwd)	**1M** 117.50 (117.4)	**3M** 117.40 (117.7)	**6M** 117.20 (118.2)	**12M** 117.00 (119.2)

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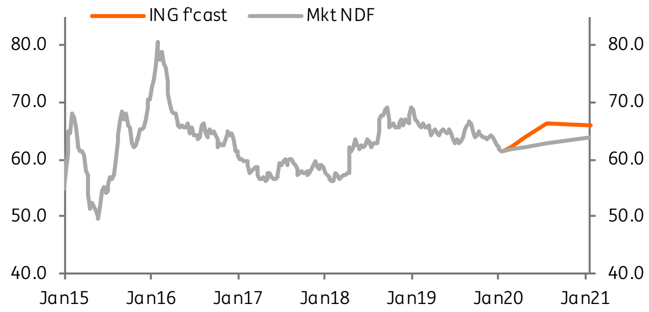
USD/RUB

Shrinking current account could leave RUB vulnerable

Current spot: 61.40



Source: Bloomberg, ING

- The ruble gained 12% vs USD in 2019, outperforming its peers and narrowing its country discount from 17% to 10%, reflecting lower sanction risk perception and stronger macro stability, and the near-term outlook remains favourable, mainly thanks to EM risk-on.
- Meanwhile, the increase in FX purchases to an 18-month-high of US$5.9bn in January amid import-driven contraction in the current account surplus could increase RUB vulnerability to volatile capital flows. We continue to expect USDRUB to return to 62-64 range in 1Q20 and depreciate further into 2020 on other factors.
- The governmental and constitutional shakeup so far appears neutral for the ruble unless material fiscal easing takes place.

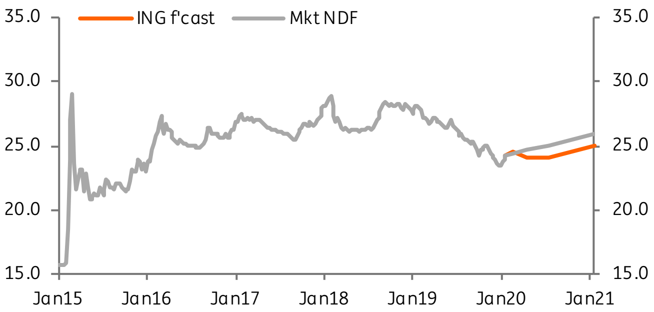
ING forecasts (mkt fwd)	**1M** 62.00 (61.63)	**3M** 64.00 (62.04)	**6M** 66.50 (62.76)	**12M** 66.00 (63.91)

Dmitry Dolgin, Russia +7 495 771 7994

USD/UAH

Hryvnia strength to persist

Current spot: 24.30



Source: Bloomberg, ING

- After a 2019 when hryvnia beat all expectations by strengthening almost 15% against the US dollar, the question for 2020 is whether the capital inflows will continue to pour into the government UAH bonds and strengthen the local currency or the weaker fundamentals kick-in and at least stop the current trend.
- We tend to believe that the National Bank of Ukraine (NBU) might still allow for some (a lot milder) appreciation of the hryvnia (should the capital inflows continue) as this will greatly help to consolidate the disinflationary process and anchor inflation expectations. Compared to 2019 however, 2020 is likely to look more like a stabilisation rather than continuation of the trend.

ING forecasts (mkt fwd)	**1M** 24.50 (24.42)	**3M** 24.00 (24.68)	**6M** 24.00 (25.07)	**12M** 25.00 (25.90)

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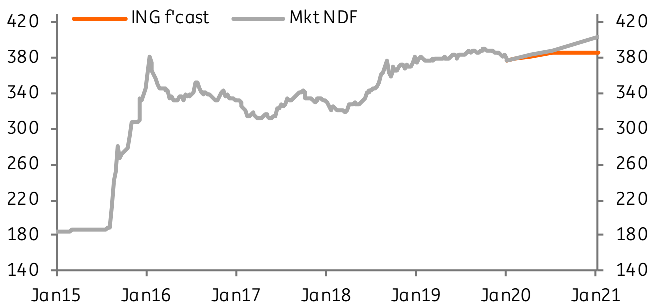
USD/KZT

Losing support from oil production recovery

Current spot: 376.6



Source: Bloomberg, ING

- Tenge outperformed by appreciating to 383 at year-end 2019 thanks to oil prices and a rapid recovery in oil production after oilfield maintenance, which contributed to the 3.8% YoY jump in industrial output in 2019 (vs our 2.4% forecast).
- In the current 375-380 range tenge is at historical highs relative to the Russian ruble which may make the authorities uncomfortable, challenging further appreciation.
- Though our view on tenge is still more constructive than consensus, we see depreciation on stabilization of oil production growth and demand for FX from the population, which the government is attempting to curb through regulation.

ING forecasts (mkt fwd)	**1M** 380.00 (378.8)	**3M** 382.00 (382.7)	**6M** 385.00 (389.1)	**12M** 385.00 (403.1)

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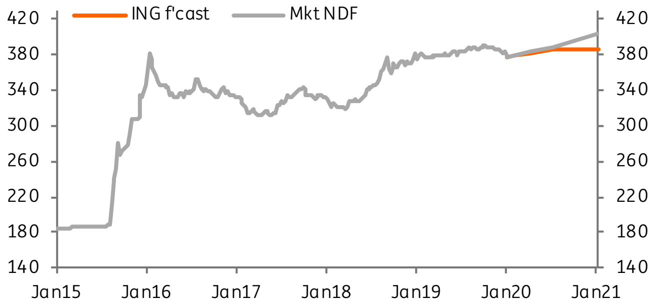
USD/TRY

Decline in real rate buffer entails risk to TRY outlook

Current spot: 5.87



Source: Bloomberg, ING

- Given that benign food prices have contributed markedly to the disinflation process last year, a likely reversion in unprocessed food CPI towards its long-term average and inertia in services CPI can be risk factors for the continuation of disinflation in 2020.
- The Central Bank of Turkey has been using not only rate reductions but also other means to ease the policy given weak domestic demand, stable currency and improving price pressures and has been taking further steps to dis-incentivize dollarization and support FX reserves to maintain currency stability. However, the decline in (ex-post) real policy rate with large rate cuts and recent rise in inflation entails a risk to TRY stability along with shifts in the geo-political backdrop.

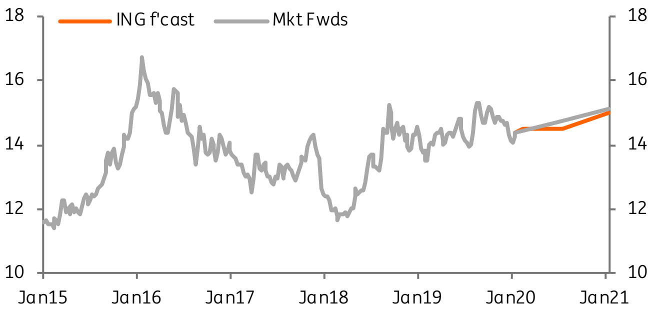
ING forecasts (mkt fwd)	**1M** 6.00 (5.91)	**3M** 6.15 (5.99)	**6M** 6.35 (6.10)	**12M** 6.60 (6.36)

Muhammet Mercan, Istanbul +90 212 329 0751

USD/ZAR

SARB surprises in January

Current spot: 14.40



Source: Bloomberg, ING

- The South African Reserve Bank surprised in January by cutting the repo rate 25bp to 6.25%. It rationalised the decision as taking advantage of the 'space' provided by low inflation and low inflation expectations. SARB models predict another rate cut in 4Q20.
- But much stands to change before 4Q20. February is a big month for South Africa with a budget and then a Moody's ratings decision by the end of the month. We see about a 60% chance that Moody's downgrades SA's local currency debt to junk status.
- $/ZAR is a high beta on global risk appetite. ZAR has already enjoyed a good run in late 2019 and we suspect that a local risk premium will return to it, sending USD/ZAR back to 14.50/75.

ING forecasts (mkt fwd)	**1M** 14.50 (14.46)	**3M** 14.50 (14.57)	**6M** 14.50 (14.75)	**12M** 15.00 (15.10)

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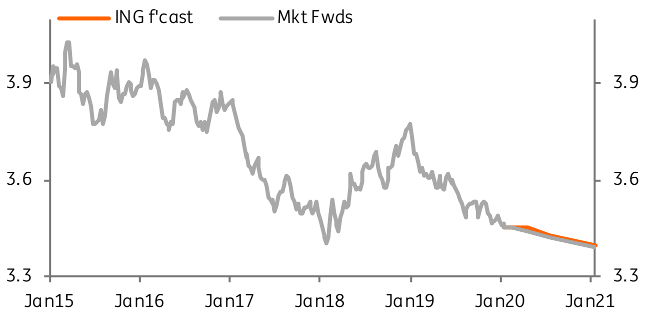
USD/ILS

BoI's battle with the strong Shekel continues

Current spot: 3.46



Source: Bloomberg, ING

- The Bank of Israel's battle with the strong Shekel has become more overt, with the central bank spending US$2.3bn in December to hold USD/ILS above 3.45. The BoI has been one of the more interventionist central banks over the last thirty years and does not fall foul of the US Treasury's currency manipulator report since goods volume is less than the US$40bn threshold.
- The BoI's official policy on the ILS is to 'prevent excessive appreciation'. Typically, it has drawn lines in the sand on USD/ILS and looks in no mood to cut rates to support its FX strategy.
- As the dollar turns lower later this year – and if global growth picks up – we expect BoI to lower its defence to the 3.40 area.

ING forecasts (mkt fwd)	**1M** 3.45 (3.45)	**3M** 3.45 (3.44)	**6M** 3.43 (3.42)	**12M** 3.40 (3.39)

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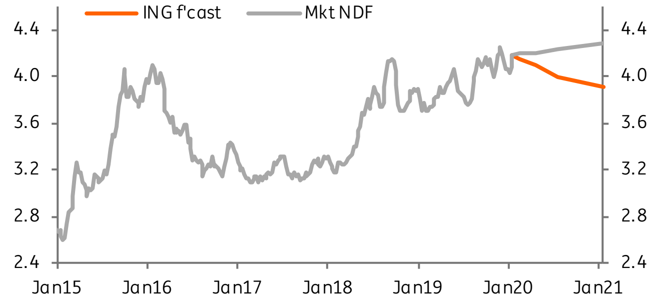
LATAM

USD/BRL

Record levels of FX outflows continue to prevail

Current spot: 4.18



Source: Bloomberg, ING

- Persistent FX outflows triggered by, among other factors, record-low local interest rates, continued to drive BRL dynamics recently, extending its underperforming bias into the new year.
- The replacement of external debt with (cheap) local-currency alternatives is one of the chief drivers for these outflows, but portfolio outflows and the current account deficit have also risen, the latter thanks to the ongoing fall in the external trade surplus.
- A more supportive BRL environment depends on the eventual confirmation that the monetary easing cycle has been concluded (with no additional rate cut in February) and, more importantly, stronger evidence that an activity recovery is firmly under way.

ING forecasts (NDF)	**1M** 4.15 (4.20)	**3M** 4.10 (4.20)	**6M** 4.00 (4.23)	**12M** 3.90 (4.28)

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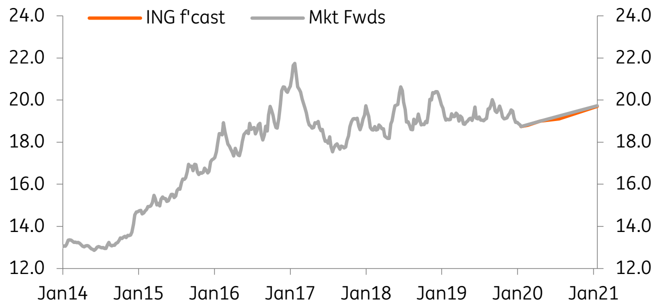
USD/MXN

Near-term resilience contrasts with long-term uncertainty

Current spot: 18.74



Source: Bloomberg, ING

- The MXN has proven to be more resilient than its regional peers and that relative strength should continue in the very near term.
- The *peso*'s relative outperformance reflects primarily the very attractive carry, with high rates acting as an effective FX anchor, and the fact that Banxico remains especially vigilant about FX stability, when compared to the other central banks in the region.
- Larger-than-expected rate cuts would be a catalyst for a weaker FX, but policy caution indicates that rates should remain high in the nearer term. Still, faltering fundamentals, as seen in the poor GDP growth and the possibility of credit rating downgrades, should continue to hamper the MXN's longer-term outlook.

ING forecasts (mkt fwd)	**1M** 18.80 (18.83)	**3M** 19.00 (19.00)	**6M** 19.10 (19.24)	**12M** 19.70 (19.73)

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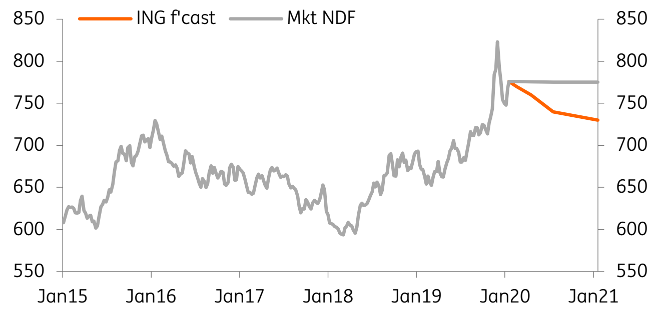
USD/CLP

The CLP's decoupling from copper prices persists

Current spot: 775.92



Source: Bloomberg, ING

- As a small open economy, with an export basket heavily skewed towards copper, the CLP has historically followed a trajectory that closely matched copper price trends. That has changed since the socio-economic turmoil generated by the October protests.
- Since then, the sharp weakening in activity and fiscal metrics and, specially, the lingering uncertainties represented by the April constitutional referendum, have helped justify a weaker CLP path and a larger gap between copper and FX trends.
- FX intervention has helped narrow that gap, but it's unlikely to close it so soon thanks in part to lasting macro uncertainties, and despite the apparent normalisation of local business conditions.

ING forecasts (NDF)	**1M** 770.00 (776)	**3M** 760.00 (776)	**6M** 740.00 (775)	**12M** 730.00 (775)

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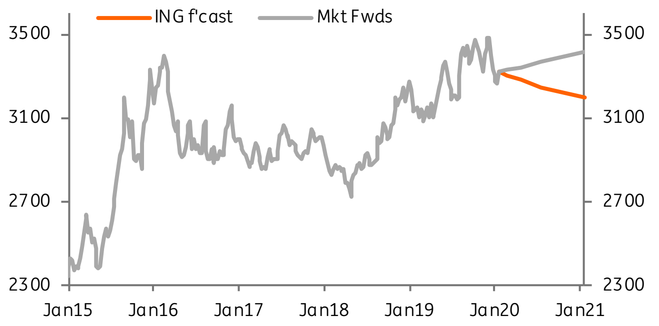
USD/COP

COP is still marked by high sensitivity to external drivers

Current spot: 3322.40



Source: Bloomberg, ING

- The COP continues to display heightened sensitivity to external shocks and USD fluctuations in general. The *peso*'s correlation with oil prices remains another important FX driver, even though that correlation has become far less stable in recent quarters.
- The COP's high-sensitivity likely reflects concerns over the widening of Colombia's current account deficit, which has become an increasingly persuasive argument against additional rate cuts. The large deficit typically places the COP among the most vulnerable EM currencies to risk aversion episodes.
- Robust near-potential GDP growth prints together with moderate inflation also help justify a neutral monetary policy guidance.

ING forecasts (NDF)	**1M** 3300.00 (3330)	**3M** 3280.00 (3344)	**6M** 3250.00 (3368)	**12M** 3200.00 (3416)

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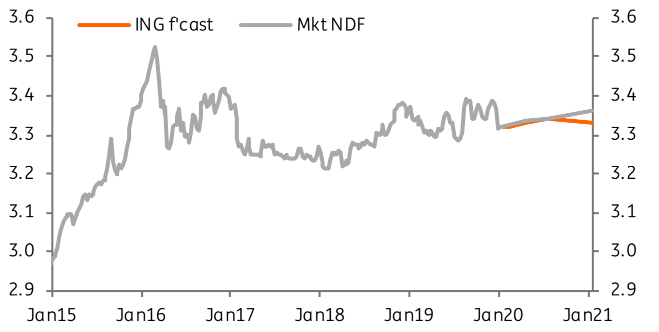
USD/PEN

Solid macro trends help offset enduring political tension

Current spot: 3.32



Source: Bloomberg, ING

- The PEN continues to trade with the lowest volatility in the region. Even though Peru is a small open economy that is heavily reliant on commodity exports, the currency remains less affected by fluctuations in the USD and the trade-war/geopolitical concerns that affected its EM peers. Political turmoil, amid the dissolution of Congress and its new election set for later this month, has also had reduced impact over local assets so far.
- Positive developments on the US-China trade-war front has added support to the currency, but the threat of FX intervention and additional rate cuts would limit a rally in the PEN.
- Peru's BCRP cut the policy rate (2.25%) twice in 2019 amid slowing economic activity data and additional cuts are possible.

ING forecasts (NDF)	**1M** 3.32 (3.33)	**3M** 3.33 (3.33)	**6M** 3.34 (3.34)	**12M** 3.33 (3.36)

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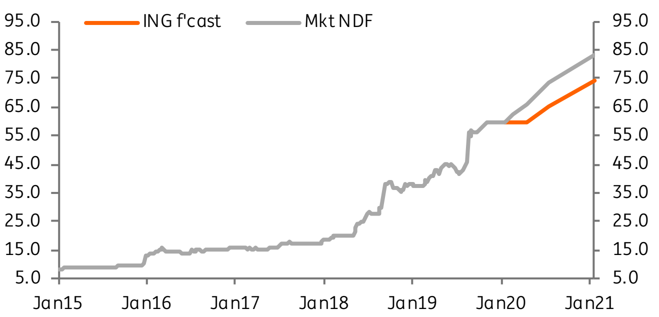
USD/ARS

Assertive policies suggest that FX stability is a priority

Current spot: 59.98



Source: Bloomberg, ING

- The Fernandez administration has managed to limit FX volatility with a mix of stringent FX restrictions and heavy FX intervention.
- It's unclear how long FX stability will prevail, as much should depend on the outcome of the debt-restructuring process that Fernandez aims to conclude by March. A longer negotiation process, and the risk of a credit event in the coming quarters, also suggest that little visibility should prevail beyond the near term.
- Price freezes, FX controls and evidence of fiscal and monetary policy restraint should help ease inflation pressures in the nearer term. But the large gap between official and non-official FX rates is one evidence that permanent policy solutions are still lacking and appear conditional on the debt renegotiation process.

ING forecasts (NDF)	**1M** 60.00 (62.26)	**3M** 60.00 (66.15)	**6M** 65.00 (73.35)	**12M** 74.00 (83.28)

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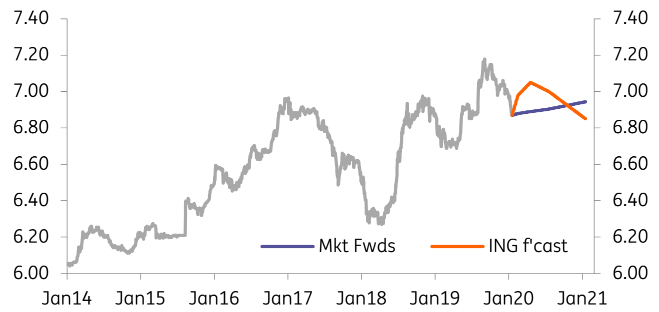
Asia

USD/CNY

What's next after Phase-1?

Current spot: 6.869



Source: Bloomberg, ING

- China and US phase-one deal has been signed and from now on the market will focus on the implementation, especially with Liu He's comment on buying US goods "will be driven by demand". The two sides also have to face more difficult negotiations on a phase-two agreement.
- Apart from this, the two sides are also in a technology war. The US has banned Chinese technology companies from laying out the 5G network. Other parts of the world may follow.
- These factors should lead to a more volatile yuan in 2020 with news flowing between agreements and disagreements between China and the rest of the world on trade and technology.

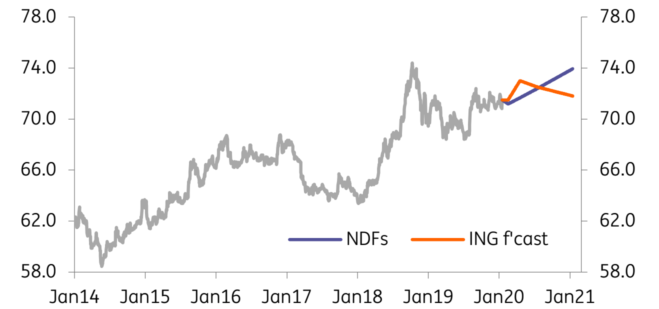
ING forecasts (mkt fwd)	**1M** 6.980 (6.879)	**3M** 7.050 (6.890)	**6M** 7.000 (6.903)	**12M** 6.850 (6.944)

Iris Pang, Hong Kong +852 2848 8071

USD/INR

Not out of woods just yet

Current spot: 70.94



Source: Bloomberg, ING

- USD/INR reminded us of its vulnerability to oil prices during yet another spike in US-Iran risk at the start of the year, though there was no breach of the 71-72 range it's been in since August. We see increased domestic risks driving the pair towards 73 by March.
- After two years of weakness, the INR's plight is far from over. GDP growth continues to be sluggish, while inflation has hit over a five-year high of 7.4% in December. Adding to the risk is growing political noise against PM Modi's nationalistic policies.
- While high inflation will keep the RBI from cutting rates further in 2020, the sharp deficit has shut doors for more fiscal stimulus.

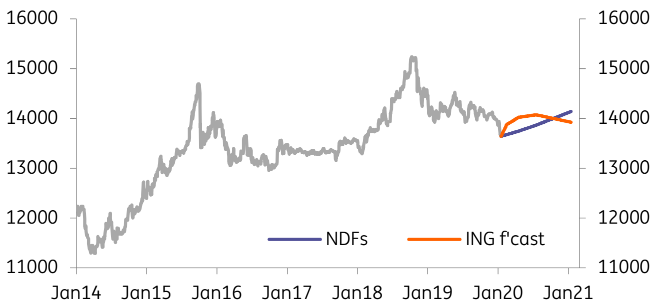
ING forecasts (mkt fwd)	**1M** 71.50 (71.18)	**3M** 73.00 (71.67)	**6M** 72.50 (72.41)	**12M** 71.80 (73.95)

Prakash Sakpal, Singapore +65 6232 6181

USD/IDR

IDR strengthens on investment flows, opens door for BI cut

Current spot: 13641



Source: Bloomberg, ING

- The IDR managed to stabilize in 2019 following the narrowing of the trade gap and return of portfolio flows after the Fed's rate reversal. In early 2020, IDR also outperformed peers, up 1.56% with capital flows sustained after the US-Iran tension fizzled out.
- Bank Indonesia (BI) cut policy rates a total of 100bp in 2019 with IDR relatively stable and the central bank remains open to cut policy rates further to help fuel Jokowi's investment directive.
- We are currently pencilling in up to 50bp worth of rate cuts from BI should IDR continue to strengthen with capital inflows expected to offset a projected widening of the trade gap as capital intensive projects resume in 2020.

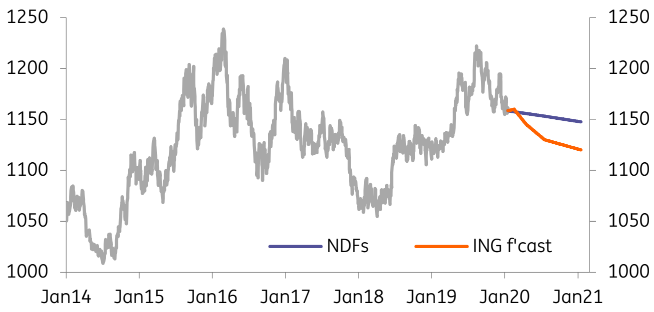
ING forecasts (mkt fwd)	**1M** 13879 (13675)	**3M** 14022 (13745)	**6M** 14072 (13864)	**12M** 13922 (14140)

Nicholas Mapa, Philippines +63 2479 8855

USD/KRW

Better, but volatile

Current spot: 1158



Source: Bloomberg, ING

- The KRW was the worst performing Asian currency in 2019, falling by almost 3.5% from the beginning of the year to its end. It is looking slightly better in the first few weeks of 2020, but it has shown its tendency towards volatile moves in both directions.
- Helping the currency of the world's fifth biggest trading nation (9th biggest economy) is the scaling back of tensions on the trade war and bottoming of the tech slump.
- But as we have also seen when fears about Middle East conflict surged recently, the KRW is the first and fastest currency to be sold when things turn sour, and this could set the scene for a generally positive, but very choppy year ahead.

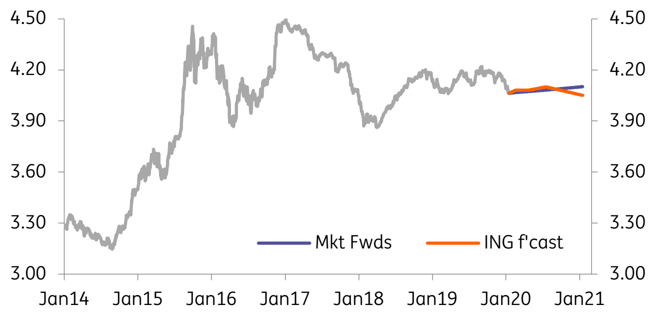
ING forecasts (NDFs)	**1M** 1160 (1157)	**3M** 1145 (1156XXX)	**6M** 1130 (1153)	**12M** 1120 (1148)

Rob Carnell, Singapore +65 6232 6020

USD/MYR

Steady as it goes

Current spot: 4.063



Source: Bloomberg, ING

- The MYR remains among the most resilient Asian currencies coming into 2020, thanks to the relatively unscathed economy by the global trade war, persistently low inflation, and stable macro policy – all are expected to remain in place in 2020.
- The electronics-led export strength in early 2019 faded towards the close of the year, but the prospects look brighter in 2020 as the rollout of 5G lifts semiconductor demand.
- We see GDP growth clawing back to about 5% this year, without stoking any inflation. As such, a stable BNM policy is the baseline for 2020. But we do imagine some political risk surrounding leadership transition lurking on the horizon.

ING forecasts (mkt fwd)	**1M** 4.080 (4.067)	**3M** 4.080 (4.073)	**6M** 4.100 (4.081)	**12M** 4.050 (4.102)

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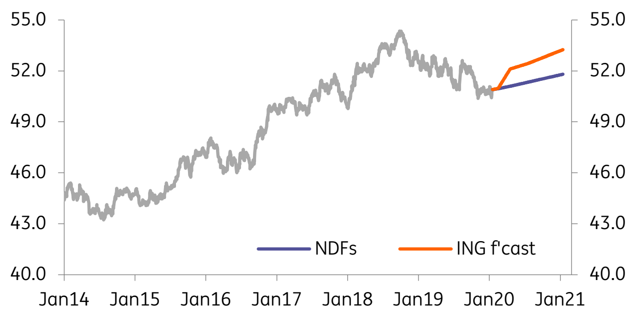
USD/PHP

PHP could weaken as trade gap expected to swell in 2020

Current spot: 50.90



Source: Bloomberg, ING

- PHP was one of the best performing currencies in 2019 on import compression and portfolio inflows given the Fed's switch to policy accommodation.
- The Bangko Sentral ng Pilipinas (BSP) cut policy rates by 75bp and reduced reserve requirements by 400bp given benign inflation trends.
- Inflation is forecast to be stable affording BSP scope to cut policy rates further as the governments sets a higher growth target in 2020.
- We expect PHP to weaken as interest rate differentials tighten and the trade gap swells in 2020.

ING forecasts (mkt fwd)	**1M** 50.97 (50.95)	**3M** 52.11 (51.10)	**6M** 52.43 (51.33)	**12M** 53.25 (51.81)

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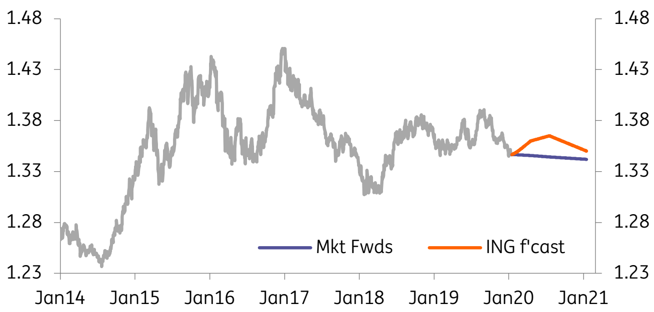
USD/SGD

Light at the tunnel for electronics sector **Current spot: 1.347**



Source: Bloomberg, ING

- The SGD was an Asian outperformer in 2019 but is a laggard so far this year. The large current surplus (~18% of GDP) and heavy management of the SGD-NEER - keep Singapore on the US Treasury's FX manipulator radar. This weakness should reverse.
- 2019 ended as the worst year for the economy since the 2009 global financial crisis. Electronics had been a weak link in both exports and manufacturing. This could change this year with the rollout of 5G and improved external trade environment.
- The MAS would prefer to stay on hold in April, while the government has promised more fiscal measures to shore up growth.

ING forecasts (mkt fwd)	**1M** 1.350 (1.346)	**3M** 1.360 (1.346)	**6M** 1.365 (1.344)	**12M** 1.350 (1.342)

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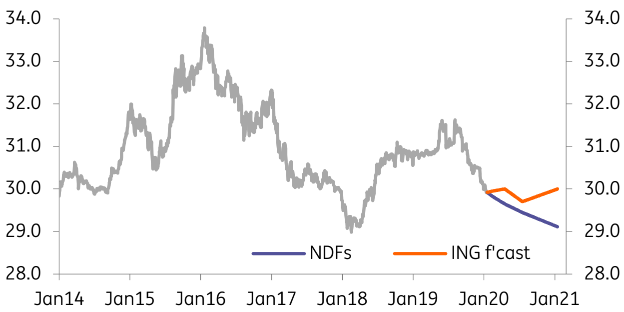
USD/TWD

Moderating capital inflows **Current spot: 29.92**



Source: Bloomberg, ING

- Capital inflows into Taiwan's asset markets were strong in 2019. It will be difficult to repeat the scale of this in 2020.
- Taiwan's semiconductor companies are suppliers to Chinese technology companies. As we expect Chinese technology companies will face challenges in exporting their products and services, Taiwan semiconductor companies will also get hurt.
- We expect that there will still be inflows into the Taiwan asset market because Taiwan is considered to be outside of the trade war, but the volumes should be lower compared to a year ago.
- The forecast of TWD has been strengthened in 1H to reflect the current strong level of TWD. But this may not last long.

ING forecasts (mkt fwd)	**1M** 29.95 (29.82)	**3M** 30.00 (29.65)	**6M** 29.70 (29.45)	**12M** 30.00 (29.11)

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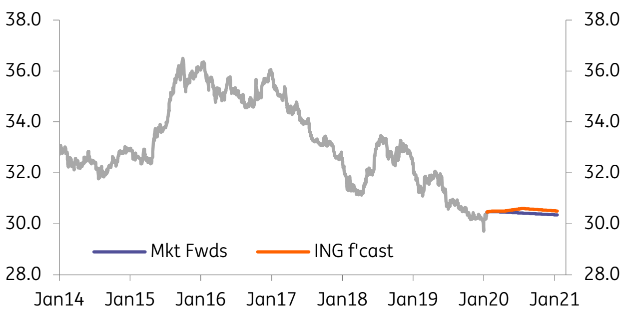
USD/THB

The battle to curb THB appreciation continues **Current spot: 30.47**



Source: Bloomberg, ING

- The THB started the year on a weaker tone as the authorities stepped up the battle against runaway appreciation with more steps to stimulate outward capital flows. With a persistently big current surplus, we doubt new measures will do any good beyond defending the USD/THB at 30.
- Indeed, 9% THB appreciation in 2019 contrasts with weak economic fundamentals. Our estimate of 2.4% growth in 2019 would be the lowest rate in five years, with weak domestic demand and the strong currency keeping inflation below 1%.
- While we expect stable monetary policy throughout 2020, fiscal policy may be hampered by political uncertainty.

ING forecasts (mkt fwd)	**1M** 30.50 (30.48)	**3M** 30.50 (30.46)	**6M** 30.60 (30.42)	**12M** 30.50 (30.35)

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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	1.11	1.11	1.10	1.11	1.13						
EUR/JPY	122.4	122.10	121.00	119.88	122.04	USD/JPY	110.09	110	110	108	108
EUR/GBP	0.85	0.87	0.87	0.85	0.82	GBP/USD	1.30	1.28	1.26	1.31	1.38
EUR/CHF	1.07	1.08	1.10	1.10	1.15	USD/CHF	0.97	0.97	1.00	0.99	1.02
EUR/NOK	9.89	9.80	9.80	9.80	9.70	USD/NOK	8.90	8.83	8.91	8.83	8.58
EUR/SEK	10.55	10.60	10.60	10.60	10.60	USD/SEK	9.49	9.55	9.64	9.55	9.38
EUR/DKK	7.473	7.470	7.465	7.465	7.465	USD/DKK	6.72	6.73	6.79	6.73	6.61
EUR/CAD	1.45	1.44	1.43	1.41	1.41	USD/CAD	1.304	1.30	1.30	1.27	1.25
EUR/AUD	1.61	1.63	1.62	1.61	1.57	AUD/USD	0.69	0.68	0.68	0.69	0.72
EUR/NZD	1.68	1.68	1.64	1.63	1.64	NZD/USD	0.66	0.66	0.67	0.68	0.69
EMEA											
EUR/PLN	4.24	4.24	4.28	4.33	4.30	USD/PLN	3.81	3.82	3.89	3.90	3.81
EUR/HUF	335.7	337.50	340.00	340.00	335.00	USD/HUF	302.1	304	309	306	296
EUR/CZK	25.14	25.2	25.2	25.0	25.0	USD/CZK	22.62	22.7	22.9	22.5	22.1
EUR/RON	4.78	4.78	4.80	4.82	4.85	USD/RON	4.30	4.31	4.36	4.34	4.29
EUR/HRK	7.44	7.44	7.43	7.42	7.45	USD/HRK	6.69	6.70	6.75	6.68	6.59
EUR/RSD	117.6	117.5	117.4	117.2	117.0	USD/RSD	105.8	105.9	106.7	105.6	103.5
EUR/RUB	68.23	68.8	70.4	73.8	74.6	USD/RUB	61.40	62.0	64.0	66.5	66.0
EUR/UAH	27.00	27.2	26.4	26.6	28.3	USD/UAH	24.30	24.50	24.00	24.00	25.00
EUR/KZT	418.5	421.8	420.2	427.4	435.1	USD/KZT	376.6	380	382	385	385
EUR/TRY	6.53	6.66	6.77	7.05	7.46	USD/TRY	5.87	6.00	6.15	6.35	6.60
EUR/ZAR	16.00	16.1	16.0	16.1	17.0	USD/ZAR	14.40	14.50	14.50	14.50	15.00
EUR/ILS	3.84	3.83	3.80	3.81	3.84	USD/ILS	3.46	3.45	3.45	3.43	3.40
LATAM											
EUR/BRL	4.66	4.61	4.51	4.44	4.41	USD/BRL	4.18	4.15	4.10	4.00	3.90
EUR/MXN	20.83	20.9	20.9	21.2	22.3	USD/MXN	18.74	18.80	19.00	19.10	19.70
EUR/CLP	863.70	855	836	821	825	USD/CLP	775.92	770	760	740	730
EUR/ARS	66.80	66.60	66.00	72.15	83.62	USD/ARS	59.98	60.00	60.00	65.00	74.00
EUR/COP	3700.00	3663	3608	3608	3616	USD/COP	3322.40	3300	3280	3250	3200
EUR/PEN	3.70	3.69	3.66	3.71	3.76	USD/PEN	3.32	3.32	3.33	3.34	3.33
Asia											
EUR/CNY	7.62	7.75	7.76	7.77	7.74	USD/CNY	6.86	6.98	7.05	7.00	6.85
EUR/HKD	8.63	8.62	8.55	8.61	8.81	USD/HKD	7.77	7.77	7.77	7.76	7.80
EUR/IDR	15191	15406	15424	15620	15732	USD/IDR	13645	13879	14022	14072	13922
EUR/INR	78.98	79.4	80.3	80.5	81.1	USD/INR	71.08	71.50	73.00	72.50	71.80
EUR/KRW	1291.26	1288	1260	1254	1266	USD/KRW	1159.50	1160	1145	1130	1120
EUR/MYR	4.51	4.53	4.49	4.55	4.58	USD/MYR	4.05	4.08	4.08	4.10	4.05
EUR/PHP	56.73	56.6	57.3	58.2	60.2	USD/PHP	50.90	50.97	52.11	52.43	53.25
EUR/SGD	1.50	1.50	1.50	1.52	1.53	USD/SGD	1.35	1.35	1.36	1.37	1.35
EUR/TWD	33.34	33.2	33.0	33.0	33.9	USD/TWD	29.94	30.0	30.0	29.7	30.0
EUR/THB	33.77	33.9	33.6	34.0	34.5	USD/THB	30.39	30.5	30.5	30.6	30.5

Source: Bloomberg, ING

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