11 May 2018
FX Strategy

FX talkING

Enough already

We think the three week, 4% dollar rally might have gone far enough. True the US growth story looks strong. But unless one thinks US economic/interest rate divergence with the Rest of the World is going to widen a lot further and that a Trump risk premium does not re-appear, this dollar correction need not extend.

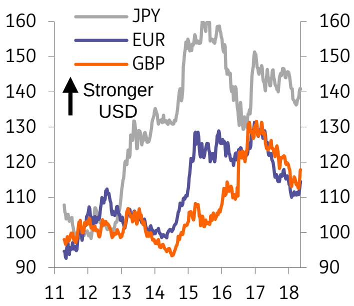
EUR/USD has perhaps seen a short term low just above 1.18. If, and only if, rate spreads drive the EUR/USD trend over the next six months, we see an outside chance of a temporary dip to the 1.15/17 area. However, our preference is for consolidation near 1.20 before EUR/USD makes a bid for new highs probably in 4Q18.

This month it is also worth highlighting the referendum risk in Switzerland on 10 June. A populist call for 'sovereign money' – effectively killing the banking system's ability to create credit – is a very low probability, very high impact event. Were it to succeed, EUR/CHF could quickly move towards fair value readings in the 1.50 area!

High yield EMFX has been under heavy pressure over recent weeks, exposed largely by higher US rates. We expect a CBT policy response to support the TRY before elections in June. And RUB now looks better supported with oil prices so high.

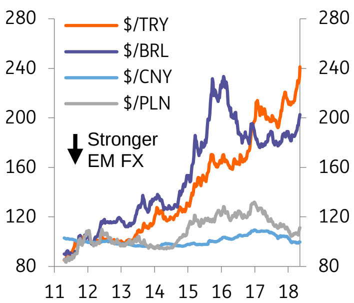
Latam FX is certainly back on the map. An IMF line of credit can bring a little stability to the ARS and BRL could also find some more support if BACEN signals its next rate cut is its last. July Presidential elections in Mexico will limit the extent of the MXN recovery.

USD/Majors (30 Jan 09=100)



Source: Reuters, ING

USD/EM (30 Jan 09=100)



Source: Reuters, ING

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.19	=	109	=	1.35	<
3M	1.22	>	107	<	1.39	>
6M	1.28	>	105	<	1.51	>
12M	1.32	>	102	<	1.59	>
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.88	=	25.40	>	4.25	<
3M	0.88	=	25.20	>	4.20	<
6M	0.85	<	25.00	=	4.14	<
12M	0.83	<	24.80	<	4.12	<
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	6.36	>	19.70	>	3.51	>
3M	6.35	>	19.10	<	3.65	>
6M	6.33	>	18.70	<	3.60	=
12M	6.27	<	18.45	<	3.45	<

> / = / < 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	-2.9	2.1	1.0	-0.8	-4.6	0.3
%YoY	9.8	-3.8	4.4	1.6	1.2	-6.8
	USD/UAH	**USD/KZT**	**USD/BRL**	**USD/ARS**	**USD/CNY**	**USD/TRY**
%MoM	0.2	1.2	5.6	13.7	0.7	6.0
%YoY	-1.0	3.2	12.3	48.1	-8.3	20.1

Source: Bloomberg, ING

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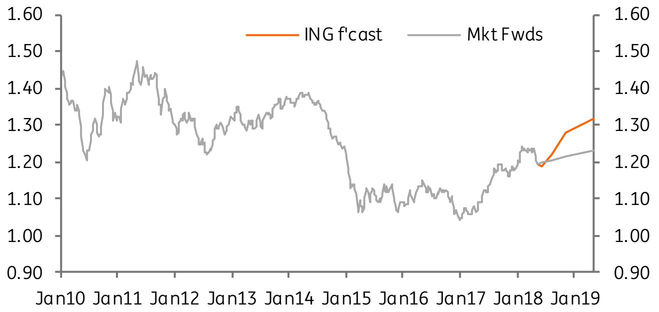
Developed markets

EUR/USD

Peak pain? **Current spot: 1.20**



Source: Bloomberg, ING

- Higher US rates and peak economic divergence between the US and the Eurozone have delivered peak pain for EUR/USD bulls like ourselves. There's a lot riding on the EUR/USD rally – including large positions invested in EM growth stories. IF rate spreads and only rate spreads drive EUR/USD this summer, then there is a risk of a temporary dip to 1.15/17.
- However as we discuss in our recent USD report, rate spreads have had little bearing on EUR/USD over recent quarters – and there is enough short and long term uncertainty with Trump policy for a risk premium to be priced back into the dollar.
- We're convinced EUR/USD will be a lot higher in 2019.

ING forecasts (mkt fwd)	**1M** 1.19 (1.198)	**3M** 1.22 (1.2041.22)	**6M** 1.28 (1.212)	**12M** 1.32 (1.232)

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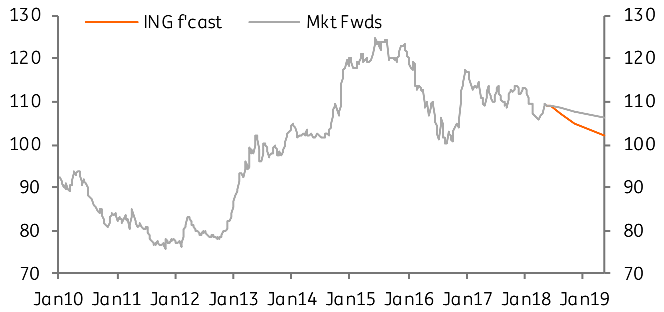
USD/JPY

Trump's 'cheap' dollar policy to dominate **Current spot: 109.22**



Source: Bloomberg, ING

- We were pleased to hear Eisuke Sakakibara's ('Mr Yen') recent interview on Bloomberg generally agreeing with our story that USD/JPY is heading towards 100. Trump's 'cheap' dollar policy looks set to dominate here, despite the recent rise in US yields. In short we doubt Washington will want higher US rates to drive the dollar much higher and hurt the outlook for US exporters.
- Has PM Abe's recent travails hurt the JPY? Not clear. Recent scandals mean that his approval ratings are the lowest since 2012. But would a change in administration, arguably less reflationary, really be negative for the JPY?
- A pick-up in protectionism late May/early June could also hit USD.

ING forecasts (mkt fwd)	**1M** 109.00 (109.0)	**3M** 107.00 (108.6)	**6M** 105.00 (107.8)	**12M** 102.00 (106.2)

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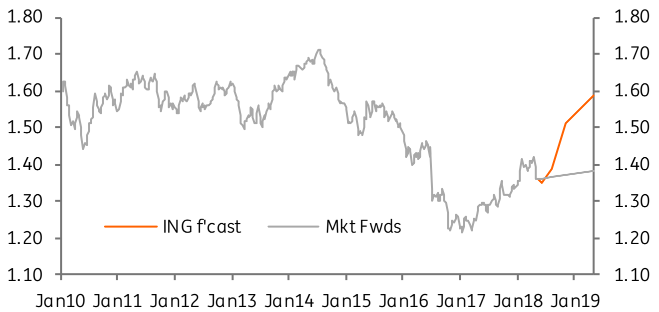
GBP/USD

Sucker punched but too early to throw in the bullish towel **Current spot: 1.36**



Source: Bloomberg, ING

- While GBP looked to be breezing its way through the early rounds of 2018, a couple of heavy sucker punches – landed by softer 1Q UK data and a more guarded Bank of England – have knocked the pound lower, leaving GBP/USD on the ropes around the 1.35 level.
- Taking a step back, we feel that the forces that have underpinned a more buoyant GBP in 2018 – namely a re-pricing of a structural Brexit risk premium and lower economic uncertainty – still remain in place to some degree. This should keep GBP/USD supported.
- The near-term dynamics will be a function of how quickly the UK economic data recovers from its 1Q lull. The decline in GBP/USD to 1.35 looks overcooked relative to even the more tempered BoE policy expectations. We see short-term fair value at 1.38-1.40.

ING forecasts (mkt fwd)	**1M** 1.35 (1.36)	**3M** 1.39 (1.36)	**6M** 1.51 (1.37)	**12M** 1.59 (1.38)

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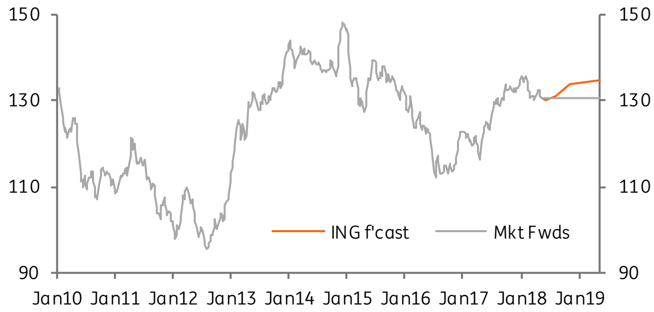
EUR/JPY

129.00 developing into good support

Current spot: 130.5



Source: Bloomberg, ING

- Despite a variety of geo-political challenges, the risk environment has held up quite well. Equity markets have taken the rise of US yields in their stride and are happy to focus on the positives of the growth/earnings story. Indeed, US equities are enjoying the US$1tr or so of dividends/share buy-backs so far this year. Positive risk is typically positive for EUR/JPY.
- We tend to think that both the EUR and the JPY can advance gradually against the dollar, probably more from 3Q18 onwards. We probably have a slight bias for the EUR over the JPY. Expect focus to return to the ECB normalisation story – probably in 4Q18.
- The US decision on Chinese tariffs in early June is a risk here.

ING forecasts (mkt fwd)	**1M** 130.00 (131)	**3M** 131.00 (131)	**6M** 134.00 (131)	**12M** 135.00 (131)

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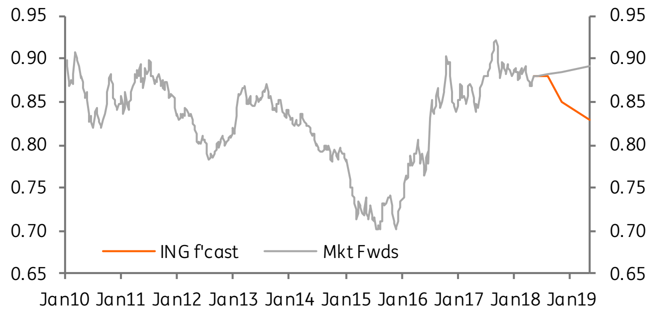
EUR/GBP

Two cyclical stories offsetting each other

Current spot: 0.88



Source: Bloomberg, ING

- The weaker 1Q cyclical dynamics in the UK and EZ have seen GBP and EUR weaken against the $. This has left EUR/GBP fairly stable – with near-term fluctuations due to relative ECB-BoE sentiment.
- With cliff-edge Brexit tail risks diminishing – and UK political risks remaining in check for now – the case for EUR/GBP moving above 0.90 looks fairly shaky. Instead, we think the balance of risks are for an overvalued EUR/GBP to drift down towards 0.85 this year.
- For now, look for stability within the broad 0.85-0.90 range as UK and EZ cyclical economic factors continue to offset each other. This synchronicity in EUR and GBP fundamentals would only be tested if there were a large enough uptick in UK political risks.

ING forecasts (mkt fwd)	**1M** 0.88 (0.88)	**3M** 0.88 (0.88)	**6M** 0.85 (0.88)	**12M** 0.83 (0.89)

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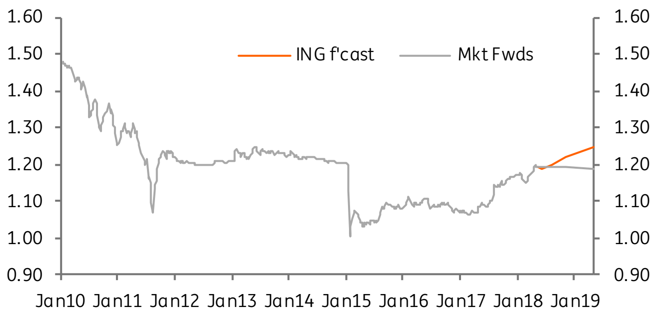
EUR/CHF

Vollgeld follies

Current spot: 1.19



Source: Bloomberg, ING

- The near term highlight for the EUR/CHF horizon is the Swiss referendum on sovereign money or 'Vollgeld' to be held on 10 June. This is a populist move to curb/destroy the commercial banking system, premised on the view that the SNB should be the sole institution to create money. Proponents argue the benefits are: (i) no more bank bail-outs and risk of lost deposits, (ii) no more boom-bust cycles and (iii) more seignorage profits for the SNB which could be re-cycled into tax cuts. What's not to like?
- The move would destroy the credit creation process and trigger 2-3 years of uncertainty. The 'Yes' vote currently stands at 35%.
- A 'Yes' vote could see EUR/CHF trade 1.50. So worth watching.

ING forecasts (mkt fwd)	**1M** 1.19 (1.19)	**3M** 1.20 (1.19)	**6M** 1.22 (1.19)	**12M** 1.25 (1.19)

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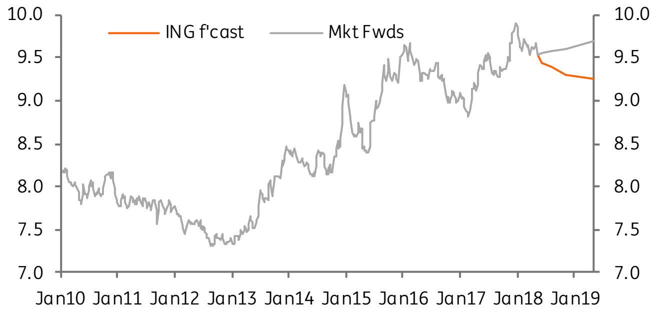
EUR/NOK

NOK to reap benefits from the higher oil price **Current spot: 9.54**



Source: Bloomberg, ING

- We expect the EUR/NOK downtrend to continue with the krone benefiting from the rising oil prices both via the economic channel (Norway being an oil exporter) and the monetary policy channel (given the mechanical approach of the NB to the interest rate decision making - where higher oil price raises odds of hikes).
- The rise in the oil price is likely to offset the lower April core CPI (1.3% vs 1.6% forecast) and should keep the prospect of the Sep rate hike intact despite the likely softer 1Q GDP print.
- On long-term basis EUR/NOK decoupled from the oil price (bulk of decoupling occurred since late 2017). This is also evident in our medium-term fair value model, which sees EUR/NOK as 5% rich.

ING forecasts (mkt fwd)	**1M** 9.45 (9.55)	**3M** 9.40 (9.57)	**6M** 9.30 (9.61)	**12M** 9.25 (9.69)

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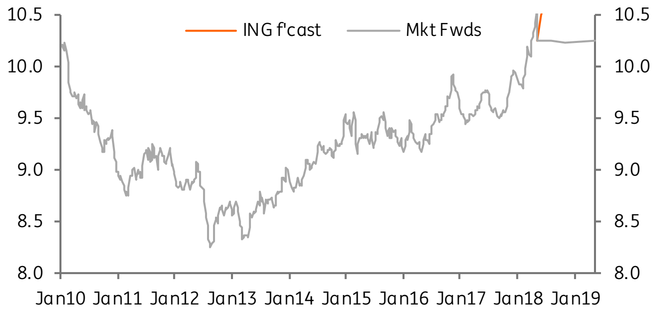
EUR/SEK

Still swimming naked… **Current spot: 10.25**



Source: Bloomberg, ING

- We revised our EUR/SEK forecast higher, targeting the 11.00 level in 3Q. We expect the current positioning driven EUR/SEK correction lower not to last and SEK to weaken due in part to the re-intensifying global trade tensions (US vs China and EU).
- In addition, the low summer liquidity, tricky domestic politics (upcoming election in Sep and the rise of the far-right Swedish Democrats), slowing economy and deteriorating current account surplus all point to a limited scope for a prolonged SEK recovery.
- The recent SEK rebound reduces the odds of more hawkish Riksbank to prompt an additional SEK rally. We see a high bar for the Riksbank to respond with rate hikes to stop further SEK weakness due to the transitory nature of the inflation shock.

ING forecasts (mkt fwd)	**1M** 10.50 (10.25)	**3M** 10.80 (10.25)	**6M** 11.00 (10.24)	**12M** 11.00 (10.25)

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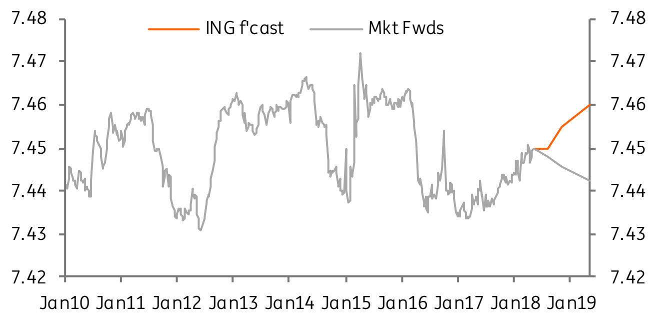
EUR/DKK

The DN in wait-and-see mode **Current spot: 7.450**



Source: Bloomberg, ING

- PM Rasmussen suggested that it may be time for Denmark to drop opt-outs from the full EU membership (the opt-outs include defence, justice, citizenship and single currency), largely due to the defence consideration.
- However, we see it as highly unlikely for any referendum (which would only take place after the next year's parliamentary elections) to generate a Yes vote for the EUR adoption.
- We look for EUR/DKK to trade around the 7.4500 level in coming months. The DN is likely content with the EUR/DKK slowly grinding towards the central rate of 7.46038, which suggests no need for the central bank to adjust its current policy stance.

ING forecasts (mkt fwd)	**1M** 7.45 (7.449)	**3M** 7.45 (7.448)	**6M** 7.46 (7.445)	**12M** 7.46 (7.443)

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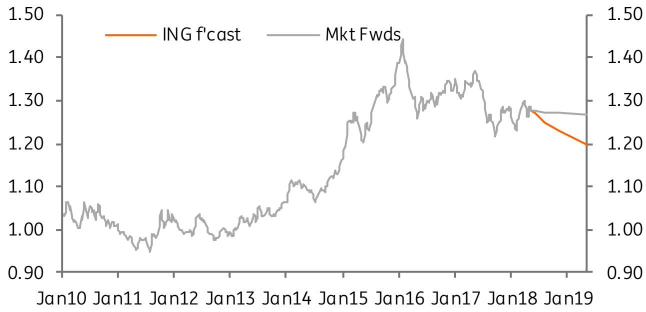
USD/CAD

Steady until clarity on the future of NAFTA

Current spot: 1.277



Source: Bloomberg, ING

- After coming under severe pressure at the start of March due to rising US protectionist policies, Canada's exemption to steel and aluminium tariffs – as well as some alleged NAFTA progress – has helped CAD to recover and consolidate from its undershot levels.
- A 25bp BoC rate hike in July is all but priced into the CAD curve – though we note this remains contingent on NAFTA break-up risks staying benign and Canadian activity data showing signs of life. A normalisation in Canadian macro data surprises looks underway.
- USD/CAD around 1.27-1.28 looks to be trading fair relative taking stock of current Fed-BoC policy expectations. If risks of a NAFTA break-up flare up again, expect USD/CAD to move up to 1.35.

ING forecasts (mkt fwd)	**1M** 1.27 (1.28)	**3M** 1.25 (1.27)	**6M** 1.23 (1.27)	**12M** 1.20 (1.27)

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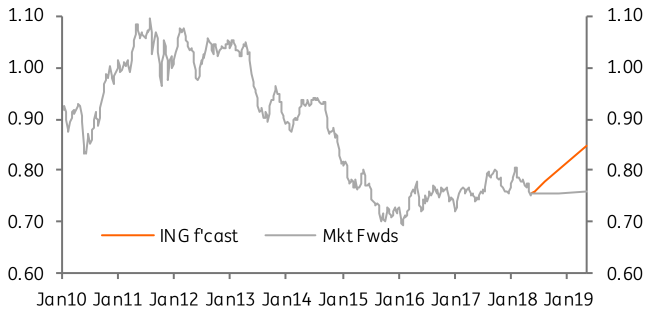
AUD/USD

Fading headwinds suggest AUD is down but not under

Current spot: 0.76



Source: Bloomberg, ING

- AUD has been a relative G10 underperformer year-to-date amid a relatively weak local economy that is still in transition mode, a central bank that remains content on keeping policy rates steady and a rebalancing in iron ore markets that has seen prices adjust lower. A late April $ rally has merely fuelled the decline to 0.75.
- But a lot of bad news looks to be priced into the AUD now. Some stabilisation in the AUD terms-of-trade story – and a recovery in risk sentiment – should keep us in the 0.75-0.80 range for 2H18.
- Yet, with the Australian economy stuck in 'lowflation' mode – we think the RBA will be one of the last of the G10 FX central banks to hike. This should limit the degree of AUD/USD upside over 2018.

ING forecasts (mkt fwd)	**1M** 0.76 (0.756)	**3M** 0.78 (0.756)	**6M** 0.80 (0.757)	**12M** 0.85 (0.759)

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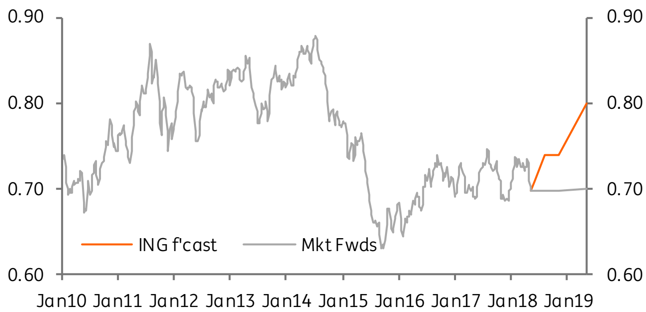
NZD/USD

New RBNZ policy mandate, same dovish central bank

Current spot: 0.70



Source: Bloomberg, ING

- Much like the rest of the G10 space, the combination of extreme long positioning and softer 1Q local data – noting in particular the latest NZ CPI data printing at a tepid 1.1% YoY – has seen a sharp adjustment lower in NZD/USD from 0.74 to below 0.70 recently.
- Under the new stewardship of Governor Orr, it's pretty clear that the RBNZ will be one of the last G10 central banks to join in any global synchronised policy normalisation. The steady policy rates signalled out to 2H19 – plus the reiteration of two way risks to the OCR – will keep the NZ OIS curve flat until the 2Q CPI print (16 Jul).
- We think the move lower in NZD/$ looks to be complete – and see little room for further downside below 0.70. Look for 0.72 in 2Q18.

ING forecasts (mkt fwd)	**1M** 0.71 (0.697)	**3M** 0.74 (0.697)	**6M** 0.74 (0.698)	**12M** 0.80 (0.699)

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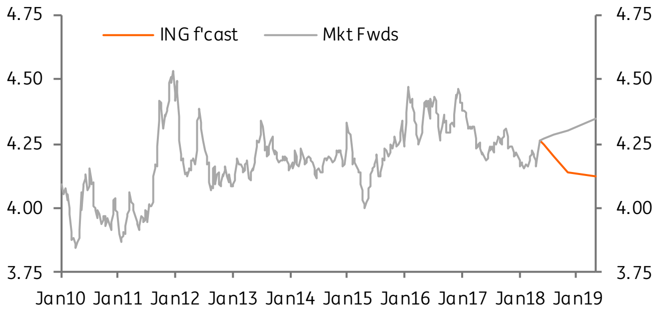
Emerging markets

EUR/PLN

Hit by €/US$ & dovish MPC, still favourable fundamentals

Current spot: 4.26



Source: Bloomberg, ING

- The zloty broadly depreciated in early May. The local story had little to do with the move. Rather it was the negative impact of a stronger $ on CEE FX and EM debt – USD was likely used to finance long positions on local assets. That was exaggerated by low liquidity (long weekend in Poland). In the coming weeks we expect EUR/PLN to stay range bound around 4.25 as May MPC meeting should deliver further softening of the tone and EM sentiment is uncertain.
- But the macro outlook supports a scenario of an outlook upgrade in 2H18 or 1H19. In tandem with an expected resumption of strong economic momentum (and high resilience to potential global trade tensions) it suggests EUR/PLN moving closer to 4.10 by year-end.

ING forecasts (mkt fwd)	**1M** 4.25 (4.27)	**3M** 4.20 (4.28)	**6M** 4.14 (4.30)	**12M** 4.12 (4.35)

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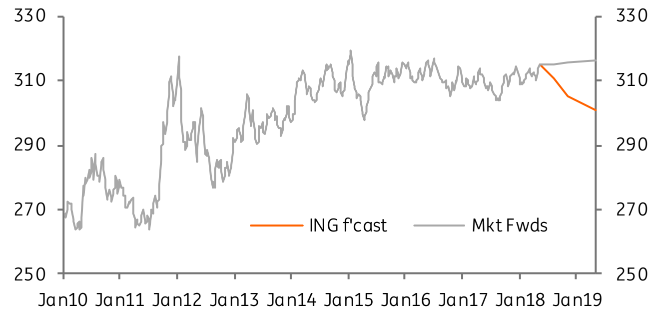
EUR/HUF

EUR/HUF to stabilize in line with EUR/USD

Current spot: 315.0



Source: Bloomberg, ING

- After Fidesz-KDNP won the election, the market breathed a sigh of relief, pushing EUR/HUF to 310. Yet this was quickly reversed as broad-based USD strength, EM FX weakness and a lower EUR/USD weighed on CEE currencies including HUF.
- In the short-term, we see EUR/HUF staying around 313-315, but lack a further upside bias. This is because we see EUR/USD bottoming, while we see limited reasons for the market to meaningfully express domestic risk premia associated with NBH monetary policy (the issue of a technically driven rise in Bubor, and the higher fixed rate offered on 10y IRS tender) in HUF spot.
- We look for back-loaded HUF strength in 2H18, as fundamentals have remained unchanged (current account surplus, positive credit story) and continue to work in favour of HUF.

ING forecasts (mkt fwd)	**1M** 313.50 (315.1)	**3M** 311.00 (315.3)	**6M** 305.00 (315.7)	**12M** 301.00 (316.4)

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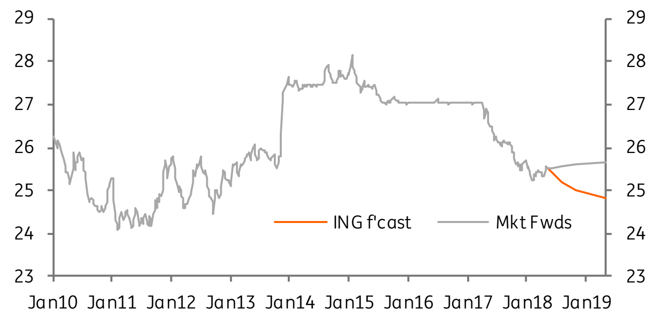
EUR/CZK

More CZK strength only in response to hawkish CNB

Current spot: 25.50



Source: Bloomberg, ING

- The CNB remained on hold in May. Yet, the new set of CNB forecasts had a hawkish tilt as CNB assumed 100bp worth of implicit hikes this year (25bp via rates, 75bp via stronger CZK).
- We don't believe EUR/CZK will decline in line with the projections (24.6 in 4Q18) in the absence of more imminent hikes/hawkish signals. This means that the FX channel won't deliver the needed/intended tightening, which will in turn allow CNB to hike earlier - already at the August meeting.
- After range trading over coming weeks, we expect CZK to appreciate towards 25.20 around the mid-year, as this might be the time when the CNB will turn more hawkish again.

ING forecasts (mkt fwd)	**1M** 25.40 (25.51)	**3M** 25.20 (25.54)	**6M** 25.00 (25.60)	**12M** 24.80 (25.67)

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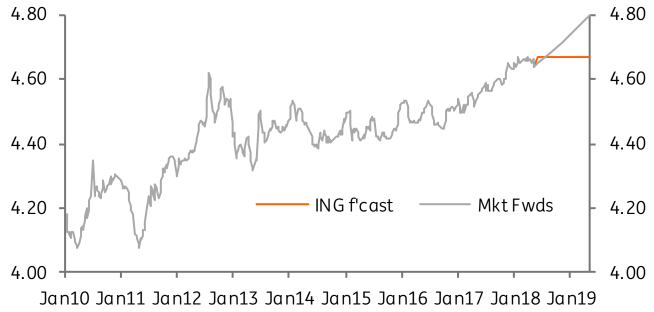
EUR/RON

The EUR/RON trades quiet within tight range

Current spot: 4.64



Source: Bloomberg, ING

- NBR hiked the key rate for the third time this year, pointing to "gradually less accommodative monetary conditions" by the end of 2018. The May 2018 Inflation Report mentions that "in real effective terms, the national currency is envisaged to continue its appreciation" due to the high inflation differential. Hence, the 4.6400-4.6700 range could hold for some time, with higher carry supporting the leu despite weak fundamentals.
- NBR should continue to sterilise the huge surplus liquidity by organising weekly deposit auctions, maintaining a significant pick-up in carry. The NBR noted in a reply to a letter from the PSD head that it wants to avoid a "depreciation-inflation-depreciation" spiral. Hence, if depreciation pressures re-emerge, the NBR is likely to respond by hiking rates.

ING forecasts (mkt fwd)	**1M** 4.67 (4.65)	**3M** 4.67 (4.67)	**6M** 4.67 (4.71)	**12M** 4.67 (4.80)

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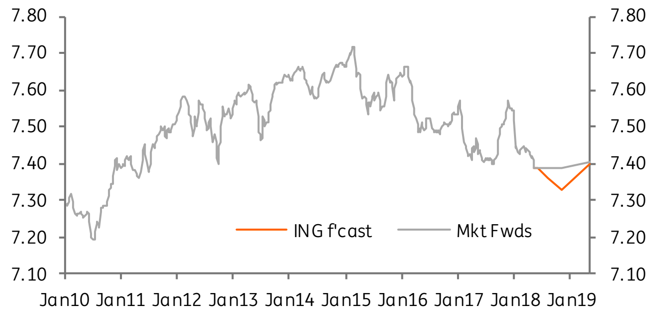
EUR/HRK

Tourism industry looks set for another record year

Current spot: 7.39



Source: Bloomberg, ING

- Foreign tourists' arrivals to Croatia increased 11% YoY in Jan-Apr 2018, tempering worries of an eventual growth moderation. This should continue to support the improved external position, external deleveraging and growth of foreign currency reserves.
- The strategy for adopting the euro suggests that the government is comfortable with the average exchange rate for EUR/HRK of 7.45. Central bank governor Boris Vujcic stated that adopting the euro would have "numerous and lasting benefits", though he didn't want to validate/invalidate PM's Andrej Plenkovic statement regarding ERM-2 adherence by 2020.
- Agrokor's restructuring is still lingering. A settlement plan approved by creditors must be submitted by 10 July.

ING forecasts (mkt fwd)	**1M** 7.39 (7.39)	**3M** 7.36 (7.39)	**6M** 7.33 (7.39)	**12M** 7.40 (7.41)

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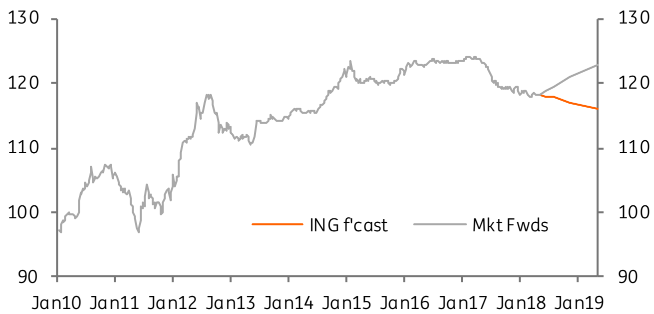
EUR/RSD

NBS steps in to prevent stronger RSD, against IMF advice

Current spot: 118.2



Source: Bloomberg, ING

- The NBS stopped the easing cycle at 3.00%, after two consecutive rate cuts of 25bp each, despite a benign inflation outlook. Another rate cut is still likely and accompanied by a further narrowing of the standing facilities corridor to ±1ppt from ±1.25ppt to partially offset its impact. Nevertheless, the window of opportunity is closing over the next couple of months.
- Negotiations have started for a new agreement with the IMF, a precautionary one, focused on policy advice and monitoring. The resignation of the FinMin does change the government commitment to sound fiscal policy. The NBS intervened more frequently to prevent RSD appreciation. Interventions could remain one sided for now, absent fiscal slippages.

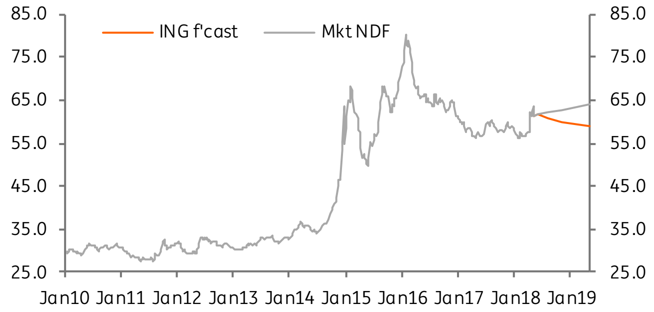
ING forecasts (mkt fwd)	**1M** 118.00 (119.0)	**3M** 118.00 (119.5)	**6M** 117.00 (120.9)	**12M** 116.00 (122.8)

Ciprian Dascalu, Bucharest +40 31 406 89 90

USD/RUB

Affected by sanctions, supported by oil

Current spot: 61.48



Source: Bloomberg, ING

- The RUB has lost 7% since early Apr-18 seeing a double whammy of (1) the new US sanctions against individuals and, what was more important, a few big Russia companies; and (2) the EM weakness due to global USD rally and higher US-Treasury yields.
- The panic-driven RUB slide seems over, but the rebound looks muted as the RUB/bbl oil price hit all-time highs of 4750-4850 vs below 4000 before. Rising MinFin FX buying under the fiscal rule when the current account (C/A) seasonality starts to deteriorate keeps sentiment to RUB cautious, even though the weaker RUB should see higher C/A partly absorbing the higher FX purchases.
- Global sentiment and sanction risks are key for RUB outlook, but we stay constructive on high oil prices and fundamentals.

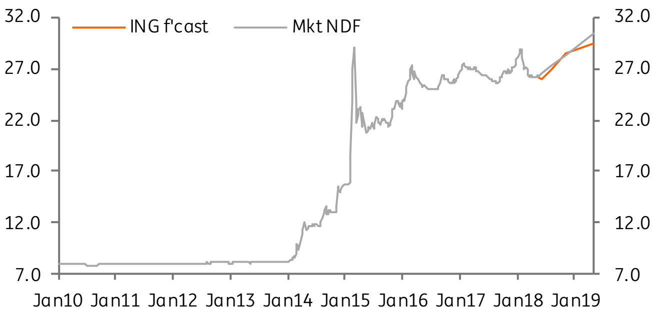
ING forecasts (mkt fwd)	**1M** 61.50 (61.70)	**3M** 61.00 (62.14)	**6M** 60.00 (62.78)	**12M** 59.10 (63.88)

Dmitry Polevoy, Russia +7 495 771 7994

USD/UAH

UAH staying surprisingly resilient

Current spot: 26.20



Source: Bloomberg, ING

- UAH has been mostly unchanged since April despite all the global headwinds pushing all EM currencies lower. The resilience stems from already relatively high risk premia factored in UAH assets due to the delayed IMF tranche, reduced economic dependence on Russia, the end of the heating season, still growing economy and no game-changers in terms of domestic political risks. Seasonal factors of recovering agricultural exports and net supply from households have helped the UAH stability too.
- The above factors have been reflected in a partial narrowing in the BoP deficit in Feb-Mar-18 to US$120-240m vs US$450m in Jan-18, flagging the observed UAH levels look relatively OK from the BoP perspective. With no new ST risks ahead and prudent NBU stance, the UAH may continue being an "island of stability".

ING forecasts (mkt fwd)	**1M** 26.00 (26.55)	**3M** 27.00 (27.27)	**6M** 28.50 (28.35)	**12M** 29.50 (30.44)

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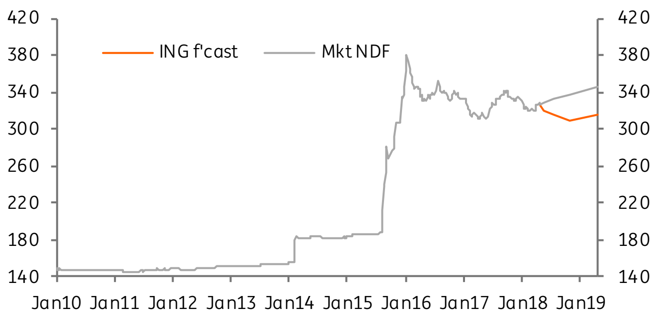
USD/KZT

KZT looks following the EM pattern and not the RUB fears

Current spot: 327.5



Source: Bloomberg, ING

- The KZT has lost 2.9% over April-May, ie, as much as the USD gained vs key DM peers (DXY index). So it looks more like the general EM retreat to the dollar rally and not a capitulation to the negative RUB sentiment. RUB/KZT at 5.25-5.35 is only down to the upper bound of the range prevailing over last 5-10 years.
- With Kazakhstan having no Russia-style fiscal rule and KZT staying at relatively weak levels, we see the currently-high oil prices bringing material positives to the BoP metrics. With a solid GDP pace (c.4% growth in 1Q18) and prudent monetary policy (with falling CPI and decent 2.5% real rate) this is all KZT-positive.
- All this keeps us confident that KZT may approach stronger levels of 310-315/USD later in 2018 when "the dust settles down".

ING forecasts (mkt fwd)	**1M** 320.00 (329.6)	**3M** 315.00 (332.8)	**6M** 310.00 (336.9)	**12M** 315.00 (346.2)

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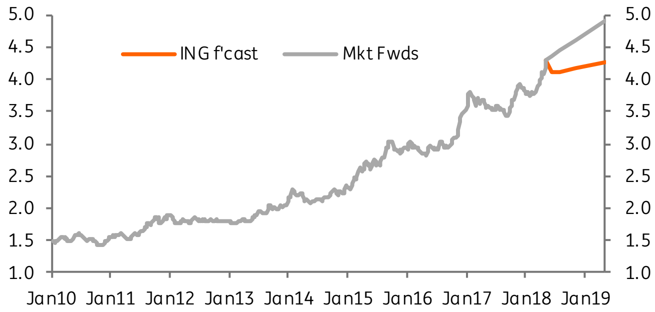
USD/TRY

Another hike before elections?

Current spot: 4.30



Source: Bloomberg, ING

- The recent rise in import prices on the back of TRY depreciation and upward pressure on energy prices were the major reasons for a reversal in headline inflation in April. Looking ahead, we expect a continuation of inflationary pressures given recent TRY depreciation further weighing on the outlook for core goods, a likely rise in energy inflation with unsupportive base effects and upward pressure from domestic PPI dynamics. The latest fiscal package will also have a meaningful inflationary impact too.
- Following the higher-than-expected April inflation and further acceleration in the period ahead, the CBT is expected to respond ahead of elections by hiking rates and normalising its policy.

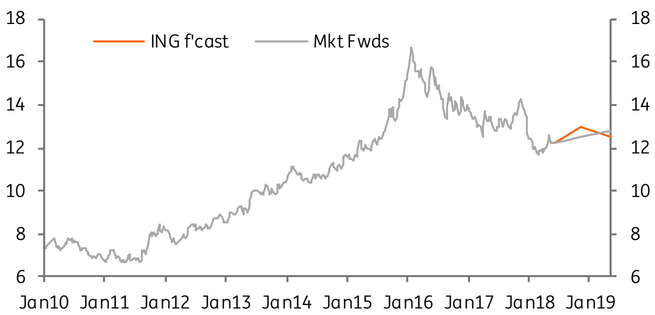
ING forecasts (mkt fwd)	**1M** 4.10 (4.34)	**3M** 4.10 (4.44)	**6M** 4.18 (4.59)	**12M** 4.28 (4.90)

Muhammet Mercan, Istanbul +90 212 329 0751

USD/ZAR

Looking for confidence to turn into activity

Current spot: 12.21



Source: Bloomberg, ING

- The ZAR has weathered the dollar rally relatively well. Investors are happy to hold onto the re-rating story in 2018. Here business and consumer confidence is rising on the back of the new Ramaphosa administration and March's 25bp rate cut from the SARB. Currently the market prices flat SARB policy at 6.50% over the next year, although the market could look for further easing.
- The SARB thinks the ZAR is 'somewhat over-valued' near 12.00/USD and we agree. Given that we're positive on global demand trends which will be positive for the ZAR, this all tends to suggest a 12.00/12.50 trading range.
- But good confidence data needs to evolve into hard activity data.

ING forecasts (mkt fwd)	**1M** 12.25 (12.26)	**3M** 12.50 (12.35)	**6M** 13.00 (12.49)	**12M** 12.50 (12.76)

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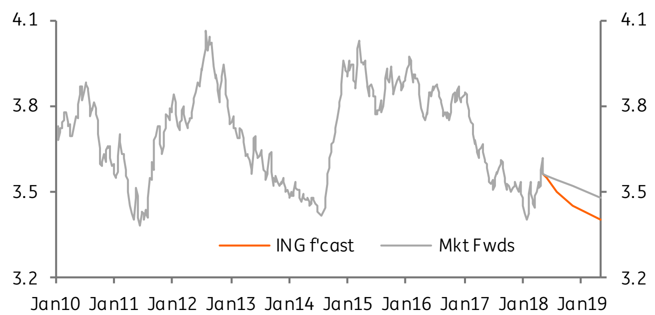
USD/ILS

Short squeeze in USD/ILS may be over

Current spot: 3.57



Source: Bloomberg, ING

- We were a little surprised that USD/ILS managed to trade through 3.60 on this broad-based short squeeze in dollar positions – but the worst may be over. Perhaps it was a case of sell ILS on the rumour of Trump pulling out of the Iran deal and buy on the fact?
- Typically the ILS is not a clean sell on Mid East tensions and over the last ten years the ILS has tended to have a positive correlation with energy prices. It is probably too early to say that crude trades US$100/bbl, but with oil supply-demand conditions better balanced, an escalation in Mid-East tension could see it.
- We're bearish on the dollar into year-end and 2019 and think that USD/ILS participates. 3.40 looks viable.

ING forecasts (mkt fwd)	**1M** 3.55 (3.56)	**3M** 3.50 (3.54)	**6M** 3.45 (3.52)	**12M** 3.40 (3.48)

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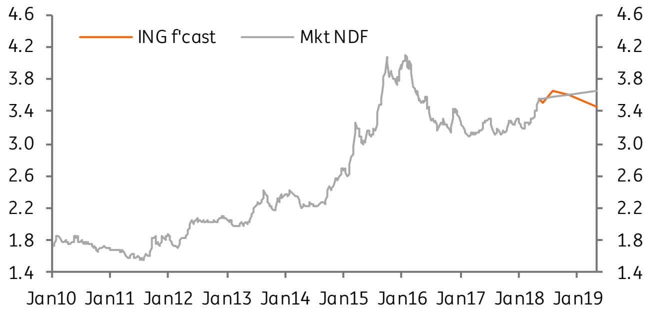
Latam

USD/BRL

BRL sensitivity to local rates has intensified

Current spot: 3.56



Source: Bloomberg, ING

- The BRL has traded broadly in line with its regional peers over the past month but the currency remains a clear underperformer when considering longer 2018 timeframes. And one of the crucial factors weighing on the BRL is the historically low carry/cost-to-hedge, exacerbated by recent dovish monetary policy surprises.
- We have recently altered our BRL trajectory forecasted for the next few months, incorporating a weaker BRL path ahead of the October elections, with an average of 3.70 during 3Q. Still, we expect the BRL sell-off to be orderly, eased by considerable FX intervention firepower and robust trade inflows.
- Despite these two buffers, the risk of stress scenarios in which the currency tests all-time highs, near 4.0, has increased materially amid persistent political risk and surging demand for FX hedges.

ING forecasts (NDF)	**1M** 3.51 (3.56)	**3M** 3.65 (3.58)	**6M** 3.60 (3.61)	**12M** 3.45 (3.66)

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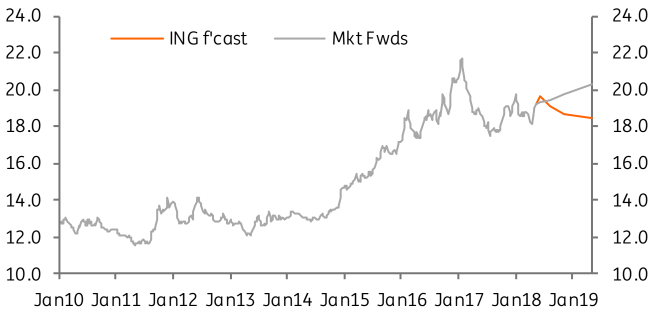
USD/MXN

Under the weight of the mighty USD

Current spot: 19.21



Source: Bloomberg, ING

- MXN proved to be, once again, the most sensitive currency in LATAM to the surge in US yields and the sharp USD correction.
- A near-term breakthrough in the NAFTA negotiations still seems possible but the deadline for a pre-election agreement (17 May according to US Congressman Paul Ryan) is nearly closed, increasing the risk of a post-election agreement, with new Mexican negotiators (likely) taking over.
- Assuming the USD stabilizes, investor reaction to an eventual confirmation that left-leaning contender Lopez Obrador (AMLO) is bound to win the 1 July presidential race should become a key catalyst for the MXN, with investor assessment over the likely Congressional composition also helping drive market reaction.

ING forecasts (mkt fwd)	**1M** 19.70 (19.29)	**3M** 19.10 (19.47)	**6M** 18.70 (19.75)	**12M** 18.45 (20.29)

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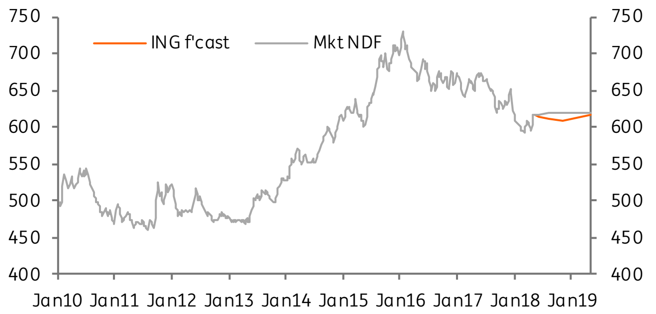
USD/CLP

Room to catch up with copper

Current spot: 618.26



Source: Bloomberg, ING

- Should the USD stabilize, as we believe, CLP should be able to re-establish a closer correlation with copper & appreciate somewhat
- Overall, we continue to believe that a favourable outlook for copper and improved domestic macro trends, suggest a generally benign outlook for the CLP.
- FX gains would also reflect optimism with the new government and confirmation that a recovery in economic activity, led by mining, is solidly under way. Inflation remains deep below the target but it appears to have bottomed out. This, together with consistent signs of recovery have reduced the risk that BCCh would re-launch the rate-cutting cycle this year.

ING forecasts (NDF)	**1M** 615.00 (618)	**3M** 612.00 (621)	**6M** 610.00 (621)	**12M** 618.00 (620)

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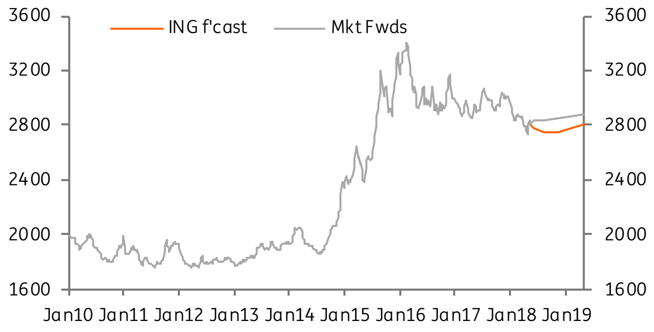
USD/COP

Scope for COP appreciation in catch-up with oil **Current spot: 2809.33**



Source: Bloomberg, ING

- Similar to the CLP, the Colombian peso was also not immune to the USD appreciation of the recent weeks, which created a divergence between the currency and its chief driver, oil prices. As a result, should USD trends stabilize, as we expect, the case for the re-establishment of a closer correlation with oil, and a significant COP appreciation, seems to be particularly persuasive.
- The surge by market-friendly presidential candidate Ivan Duque in the polls is also supportive of the peso, despite lingering questions over the candidates' commitment to the fiscal rule.
- BanRep opted to signal caution when it decided to match market expectations and cut the policy rate once again to 4.25% in April. One additional cut (to 4.0%) is possible, after the elections, but the decision is contingent on good news on the inflation front or, more likely, disappointing activity data.

ING forecasts (NDF)	**1M** 2780.00 (2827)	**3M** 2750.00 (2834)	**6M** 2750.00 (2843)	**12M** 2800.00 (2871)

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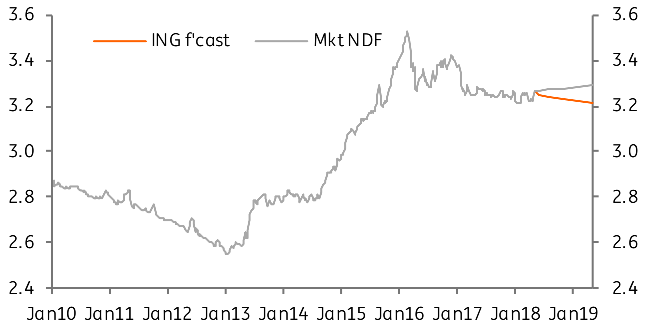
USD/PEN

Reduced political tension to help stabilise the PEN **Current spot: 3.27**



Source: Bloomberg, ING

- True to form, the PEN was the chief outperformer in the region over the past month, as the currency's typical low volatility resulted in outperformance amid the widespread sell-off.
- Supportive commodity prices along with the more constructive domestic political environment should also lend a gradually appreciating trend for the PEN.
- Peru's BCRP cut the policy rate twice this year, to 2.75%, following the collapse in inflation seen in recent months (to an impressively low 0.5% YoY now) amid sharp drops in food prices. Further disinflation, and renewed concerns about the activity outlook, could result in more cuts, but BCRP has adopted a "neutral" bias, suggestive of no further cuts.

ING forecasts (NDF)	**1M** 3.25 (3.26)	**3M** 3.24 (3.27)	**6M** 3.23 (3.28)	**12M** 3.21 (3.29)

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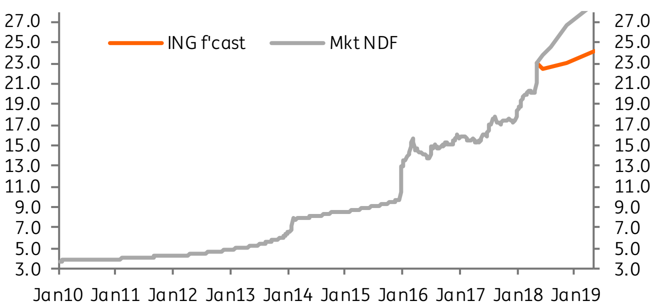
USD/ARS

Robust policy action should help steady FX trends **Current spot: 22.94**



Source: Bloomberg, ING

- Faced with a severe FX volatility crisis, monetary authorities reacted by turning policy guidance markedly hawkish, with the announcement of a sharp 1,275bp increase in the benchmark policy rate and a fiscal tightening program.
- As those measures proved insufficient to stabilize the currency, the administration opted, as a last-resort measure, to seek a Stand-by Agreement with the IMF. The strings attached to such an agreement could bolster investor sentiment but they could also hurt Macri politically in Argentina, creating some challenges for his eventual re-election bid.
- Financial market turmoil added downside to near-term macro trends, with prospects for higher inflation and lower growth, but the policy tightening was all but inevitable in light of the persistent imbalances represented by the large twin-deficits.

ING forecasts (NDF)	**1M** 22.50 (23.76)	**3M** 22.65 (24.61)	**6M** 23.00 (26.61)	**12M** 24.25 (28.83)

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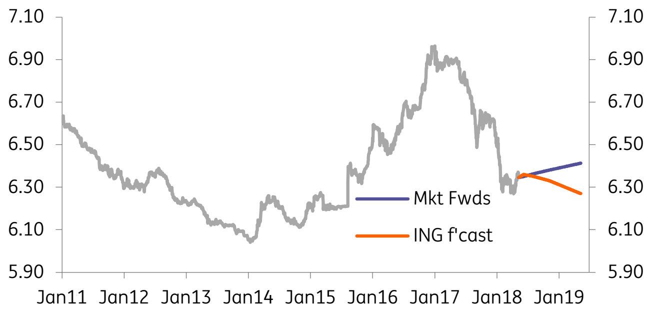
Asia

USD/CNY

Hopes of trade tension receding are still alive

Current spot: 6.3456



Source: Bloomberg, ING

- Due to dollar appreciation of 2.56% in April, the CNY has depreciated 1.23%. That indicates that the PBoC isn't allowing the yuan to follow the USD closely, or else the CNY could have been even weaker.
- We have revised our forecasts for 2018 and 2019 to a milder CNY appreciation trend because it will be difficult for the CNY to play catch up with the strength we had originally expected.
- We do not think the PBoC will allow the CNY on a depreciation path this year or next as this could cause capital outflows and a fall in foreign exchange reserves that China experienced between mid-2014 and late 2016. This is a worry that the PBoC would like to avoid.

ING forecasts (FWDs)	**1M** 6.3600 (6.3501)	**3M** 6.3500 (6.3638)	**6M** 6.3300 (6.3808)	**12M** 6.2700 (6.4127)

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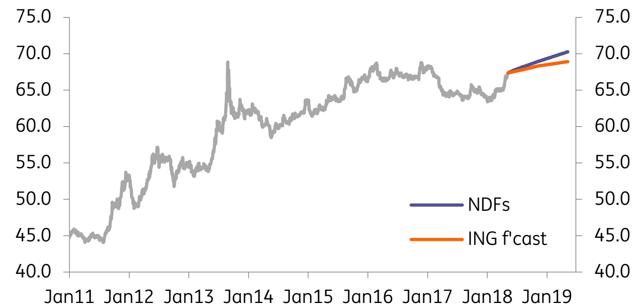
USD/INR

Weak, weaker and weakest

Current spot: 67.38



Source: Bloomberg, ING

- The sell-off in the INR intensified in April, prompting another upward revision to our USD/INR forecast. Increased selling of Indian stocks and bonds by foreigners is one thing. Higher gold and oil prices and widening trade deficit are the other factors.
- The US Treasury placed India under monitoring list for currency manipulation. Of three conditions for this India ticked two – over $20bn trade deficit with US, and persistent one-side intervention with next FX purchases in excess of 2% of GDP. It's far from meeting the third, a large current surplus.
- An accelerated INR weakness will nudge the RBI to tightening. Signals of such a move were evident from the minutes of April meeting. We maintain our view of a 25bp rate hike in August.

ING forecasts (FWDs)	**1M** 67.50 (67.67)	**3M** 67.80 (68.20)	**6M** 68.30 (68.92)	**12M** 68.90 (70.25)

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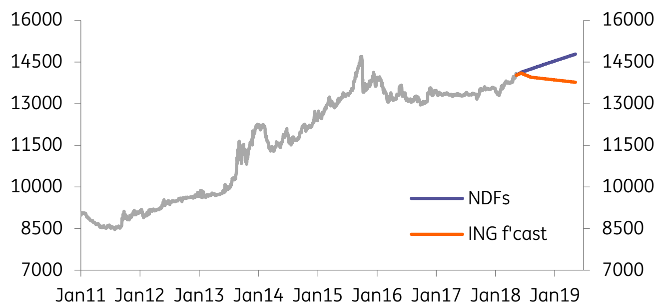
USD/IDR

BI tightening due to a weak IDR

Current spot: 14023



Source: Bloomberg, ING

- IDR has been an underperforming Asian currency so far this year with about 5% year-to-date depreciation against the USD.
- Inflation expectations and the fiscal programme assumed an IDR rate of around IDR13400-13500 this year. Current IDR level is 4% to 5% weaker than that. The weakness comes from narrowing interest rate differentials and the view that the use of FX Reserves is unsustainable. FX Reserves are down $5bn YTD in April, which is associated with an estimated $4.6bn of net hot money outflow.
- BI is likely to move to a tightening mode in either May or June to protect inflation, to manage inflation expectations, and shield the financial sector from repercussions of a significantly weak IDR.

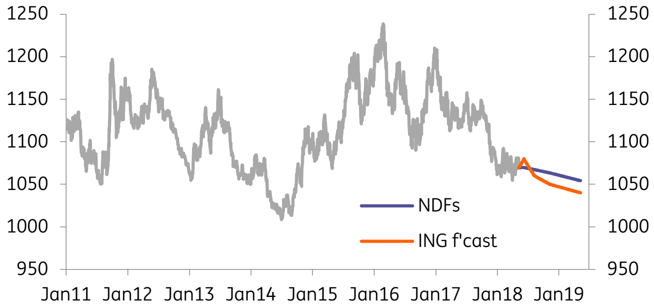
ING forecasts (NDFs)	**1M** 14100 (14124)	**3M** 13950 (14249)	**6M** 13890 (14431)	**12M** 13770 (14781)

Joey Cuyegkeng, Philippines +63 2479 8855

USD/KRW

No dividend from thawing of tensions with North

Current spot: 1069



Source: Bloomberg, ING

- On the political front, the thawing of tensions between N and S Korea should have provided a peace dividend in the form of a stronger KRW. If it did, then we don't think the effect was very big. Continuing scepticism of N Korea's motives, coupled with growing tolerance of the regime's more belligerent acts last year leaves little to unwind as the good news dominates.
- On the macro front, the news continues to be reasonably upbeat, with Korea's exports better than the most recent headline figures suggest, and semiconductors holding up against the backdrop of weaker demand for tech.
- We have revised our KRW forecast weaker to 1040 in 12M.

ING forecasts (NDFs)	**1M** 1080 (1070)	**3M** 1060 (1067)	**6M** 1050 (1063)	**12M** 1040 (1054)

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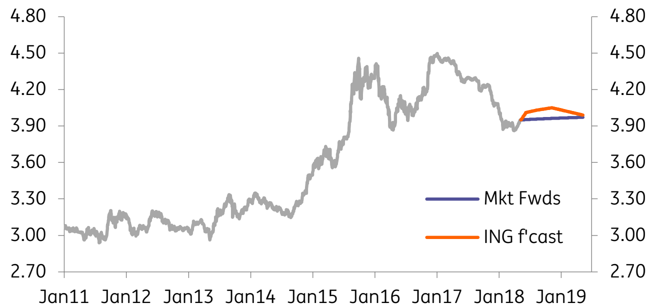
USD/MYR

Mahathir returns, uncertainty lingers

Current spot: 3.9498



Source: Bloomberg, ING

- A surprise shift in Malaysia's political landscape instils a greater degree of uncertainty for the economy and markets, reducing our confidence in the MYR retaining itself among Asia's outperforming currencies in the period ahead.
- The risk of an undesirable shift in economic policies under the Mahathir administration is elevated. If implemented, Mahathir's election promises of scrapping Goods and Services Tax and raising of fuel subsidies will derail the fiscal reforms, the key negative for the MYR.
- BNM's statement a day after election showed no policy stress, but it wouldn't be a surprise if it moves to hike earlier than our 3Q18 forecast should the MYR suffer intense weakening pressure.

ING forecasts (FWDs)	**1M** 4.0100 (3.9528)	**3M** 4.0300 (3.9569)	**6M** 4.0500 (3.9627)	**12M** 3.9900 (3.9718)

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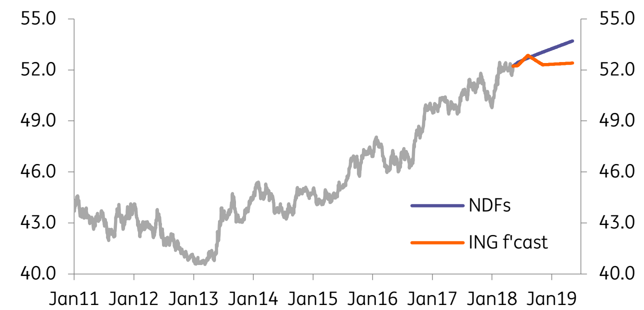
USD/PHP

Central bank turns hawkish

Current spot: 52.22



Source: Bloomberg, ING

- The central bank (BSP) raised its policy rates by 25bps to 3.25% this month on increased worries of higher inflation. It also signals its readiness to act further to cap second round effects.
- BSP raised its 2018 inflation forecast to 4.6% from 3.9% and 2019 to 3.4% from 3%. Further hikes would be determined if upcoming data and developments indicate that inflation would remain elevated above the target range for an extended period. We expect another hike but only in 4Q.
- Market has expected the tightening since late last month which has insulated PHP from the recent weakness of EM currencies. With weak external payments and less likelihood of another rate hike in the very near term, expect PHP to remain on a weaker bias.

ING forecasts (NDFs)	**1M** 52.25 (52.43)	**3M** 52.85 (52.70)	**6M** 52.30 (53.05)	**12M** 52.40 (53.70)

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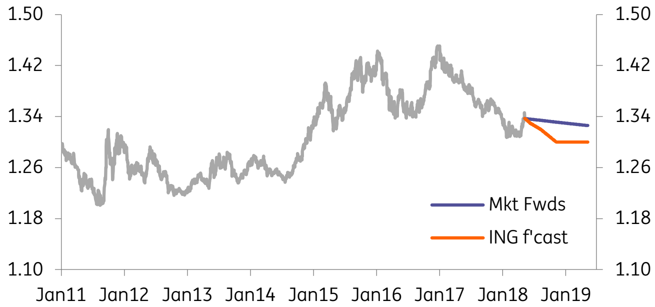
USD/SGD

MAS moves to an appreciation path

Current spot: 1.3368



Source: Bloomberg, ING

- Following the MAS April policy tightening, we now expect the SGD NEER is on a 1% appreciation path on a 12m basis. With the USD also appreciating currently, this results in a very modest appreciation of the SGD vs the USD over the coming forecast period.
- We remain unconvinced by the April decision, however. That seemed to contain elements of "hike now in order to cut later", which never makes much sense.
- Reversing the April decision at the MAS' October meeting remains an outlier call. Though the chance odds of some sort of "about-face" in 2019 if growth weakens or inflation remain high.

ING forecasts (FWDs)	**1M** 1.3300 (1.3360)	**3M** 1.3200 (1.3341)	**6M** 1.3000 (1.3312)	**12M** 1.3000 (1.3259)

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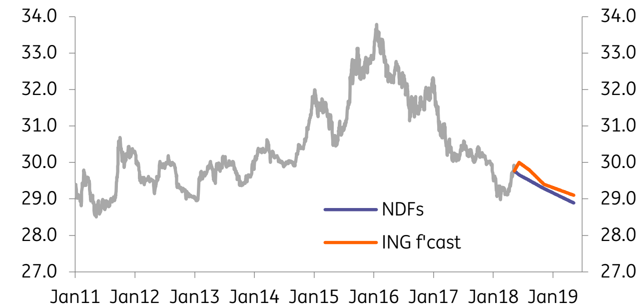
USD/TWD

Trade war the main risk to our growth optimism

Current spot: 29.77



Source: Bloomberg, ING

- The dim outlook for the sales of smart-devices is already being reflected in the recent sell-off in Taiwanese stocks and the weakening pressure on TWD. Adding to this weakening pressure is the renewed strength of the USD.
- If trade tensions between mainland China and the US escalate, lower earnings prospects of Taiwan companies could put further pressure on TWD. We revise our forecast of USDTWD to 29.40 from 29.00 by the end of 2018.
- We have also revised our forecast for Taiwan's GDP growth this year to 2.6% from 3.2%, as trade tensions pose downside risks to growth via weak exports.

ING forecasts (NDFs)	**1M** 30.00 (29.66)	**3M** 29.80 (29.51)	**6M** 29.40 (29.28)	**12M** 29.10 (28.89)

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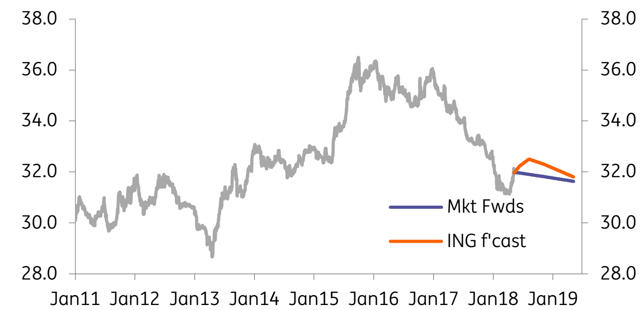
USD/THB

End of the THB appreciation trend

Current spot: 31.96



Source: Bloomberg, ING

- April was the weakest month for the THB in more than a year and weakness continued in May. In the second revision to our forecast in less than a month, we now see USD/THB erasing all the gains made earlier this year within the next three months.
- The high-frequency activity data suggests that GDP growth slowed in 1Q18 (INGf 3.6% vs 4.0% in 4Q17, data due 21 May). Narrower trade surplus was a drag. A still overvalued currency and a global trade war undermine the official optimism on growth picking up to 4.2% this year from 3.9% in 2017 on steady exports and tourism support to the economy.
- Consumer price inflation rose above 1% in April, but that's not enough to justify a central bank tightening anytime soon.

ING forecasts (FWDs)	**1M** 32.20 (31.96)	**3M** 32.50 (31.90)	**6M** 32.30 (31.81)	**12M** 31.80 (31.63)

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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	1.20	1.19	1.22	1.28	1.32						
EUR/JPY	130.5	129.71	130.54	134.40	134.64	USD/JPY	109.22	109	107	105	102
EUR/GBP	0.88	0.88	0.88	0.85	0.83	GBP/USD	1.36	1.35	1.39	1.51	1.59
EUR/CHF	1.19	1.19	1.20	1.22	1.25	USD/CHF	1.00	1.00	0.98	0.95	0.95
EUR/NOK	9.54	9.45	9.40	9.30	9.25	USD/NOK	7.98	7.94	7.70	7.27	7.01
EUR/SEK	10.25	10.50	10.80	11.00	11.00	USD/SEK	8.58	8.82	8.85	8.59	8.33
EUR/DKK	7.450	7.450	7.450	7.455	7.460	USD/DKK	6.23	6.26	6.11	5.82	5.65
EUR/CAD	1.53	1.51	1.53	1.57	1.58	USD/CAD	1.277	1.27	1.25	1.23	1.20
EUR/AUD	1.58	1.57	1.56	1.60	1.55	AUD/USD	0.76	0.76	0.78	0.80	0.85
EUR/NZD	1.71	1.68	1.65	1.73	1.65	NZD/USD	0.70	0.71	0.74	0.74	0.80
EMEA											
EUR/PLN	4.26	4.25	4.20	4.14	4.12	USD/PLN	3.56	3.57	3.44	3.23	3.12
EUR/HUF	315.0	313.50	311.00	305.00	301.00	USD/HUF	263.6	263	255	238	228
EUR/CZK	25.50	25.4	25.2	25.0	24.8	USD/CZK	21.33	21.3	20.7	19.5	18.8
EUR/RON	4.64	4.67	4.67	4.67	4.67	USD/RON	3.88	3.92	3.83	3.65	3.54
EUR/HRK	7.39	7.39	7.36	7.33	7.40	USD/HRK	6.18	6.21	6.03	5.73	5.61
EUR/RSD	118.2	118.0	118.0	117.0	116.0	USD/RSD	98.9	99.2	96.7	91.4	87.9
EUR/RUB	73.47	73.2	74.4	76.8	78.0	USD/RUB	61.48	61.5	61.0	60.0	59.1
EUR/UAH	31.30	30.9	32.9	36.5	38.9	USD/UAH	26.20	26.00	27.00	28.50	29.50
EUR/KZT	391.7	380.8	384.3	396.8	415.8	USD/KZT	327.5	320	315	310	315
EUR/TRY	5.14	4.88	5.00	5.35	5.65	USD/TRY	4.30	4.10	4.10	4.18	4.28
EUR/ZAR	14.60	14.6	15.3	16.6	16.5	USD/ZAR	12.21	12.25	12.50	13.00	12.50
EUR/ILS	4.26	4.22	4.27	4.42	4.49	USD/ILS	3.57	3.55	3.50	3.45	3.40
LATAM											
EUR/BRL	4.25	4.18	4.45	4.61	4.55	USD/BRL	3.56	3.51	3.65	3.60	3.45
EUR/MXN	22.95	23.4	23.3	23.9	24.4	USD/MXN	19.21	19.70	19.10	18.70	18.45
EUR/CLP	738.95	732	747	781	816	USD/CLP	618.26	615	612	610	618
EUR/ARS	27.43	26.78	27.63	29.44	32.01	USD/ARS	22.94	22.50	22.65	23.00	24.25
EUR/COP	3360.00	3308	3355	3520	3696	USD/COP	2809.33	2780	2750	2750	2800
EUR/PEN	3.90	3.87	3.95	4.13	4.24	USD/PEN	3.27	3.25	3.24	3.23	3.21
Asia											
EUR/CNY	7.57	7.57	7.75	8.10	8.28	USD/CNY	6.33	6.36	6.35	6.33	6.27
EUR/HKD	9.38	9.34	9.55	10.01	10.30	USD/HKD	7.85	7.85	7.83	7.82	7.80
EUR/IDR	16637	16779	17019	17779	18176	USD/IDR	13960	14100	13950	13890	13770
EUR/INR	80.36	80.3	82.7	87.4	90.9	USD/INR	67.33	67.50	67.80	68.30	68.90
EUR/KRW	1272.92	1285	1293	1344	1373	USD/KRW	1069.40	1080	1060	1050	1040
EUR/MYR	4.71	4.77	4.92	5.18	5.27	USD/MYR	3.95	4.01	4.03	4.05	3.99
EUR/PHP	62.35	62.2	64.5	66.9	69.2	USD/PHP	52.31	52.25	52.85	52.3	52.4
EUR/SGD	1.59	1.58	1.61	1.66	1.72	USD/SGD	1.33	1.33	1.32	1.30	1.30
EUR/TWD	35.42	35.7	36.4	37.6	38.4	USD/TWD	29.77	30.0	29.8	29.4	29.1
EUR/THB	38.05	38.3	39.7	41.3	42.0	USD/THB	31.83	32.2	32.5	32.3	31.8

Source: Bloomberg, ING

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