

FX Talking

May 2023



The rocky path

to a weaker dollar

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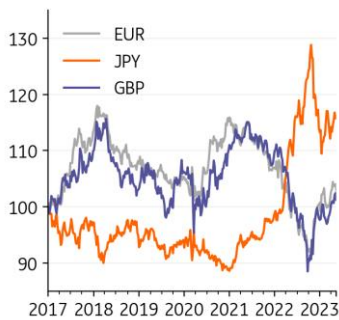
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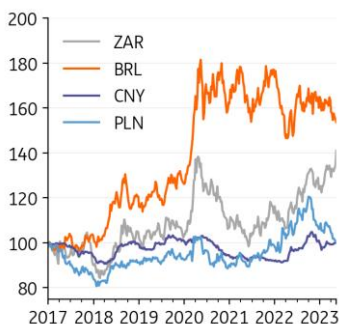
The rocky path to a weaker dollar

USD/Majors (4 Jan 15=100)



Source: Refinitiv, ING forecast

USD/EM (4 Jan 15=100)



Source: Refinitiv, ING forecast

Debt ceiling miscalculation the hurdle to a weaker dollar

What seems clear from events over recent months is that US credit conditions are tightening and that this will weigh on US growth prospects. So far, the Federal Reserve has yet to formally quantify the impact of these developments, but our team forecasts that they are enough to curtail the tightening cycle and prompt 100bp of easing in the fourth quarter.

We argue that Fed cuts later this year should prompt a multi-quarter – probably multi-year – cyclical dollar decline. And given the strained geopolitical backdrop, cyclical dollar weakness may well get confused with the structural dollar decline associated with the de-dollarisation story.

Our year-end targets for EUR/USD and USD/JPY now sit at 1.20 and 120, respectively. As we have argued in prior FX Talking publications, we expect the bulk of the dollar decline to occur in the second half of this year – a view premised on clear signs of US disinflation emerging and a successful resolution to the US debt ceiling stand-off.

Before then, however, we suspect financial market tension will rise. Were political miscalculations in Washington to be made, we fear any seizure in the workings of US money markets could trigger the kind of flash crashes in EUR/USD seen in 2008/2009 and most recently in March 2020. Sub 1.05 levels in EUR/USD would certainly be possible if wholesale USD funding markets became impaired. Any such losses would prove temporary and would be quickly reversed when the Fed – and politicians – restored order.

Looking across the G10, we would therefore reiterate our call for the outperformance of the defensive Japanese yen and Swiss franc over the next couple of months – especially were the Bank of Japan to normalise policy at its June meeting. Equally, it may be too early to look for a sustained rally in the high beta currencies in the commodity bloc and in Scandinavia. Sterling has been doing well, but we still feel the market has priced too much Bank of England tightening – leaving sterling vulnerable.

In the EMEA space, implied yields of the CE4 currencies remain attractive – although the case for central bank easing looks to be building. We think they can mostly hold onto recent gains. Elsewhere, Turkish financial markets look with interest to the Presidential run-off on 28 May. And a new geopolitical front has opened up in South Africa, where the US has accused it of shipping arms to Russia. This may demand a lasting risk premium of the South African rand.

In Latam, the Mexican peso continues to advance. It offers the highest risk-adjusted carry in the Emerging Market space and will also continue to be buoyed by increased FDI prospects from the ‘nearshoring’ story. The Brazilian real is also performing well. Yet gains look more fragile here and any backsliding on fiscal reform or undue pressure on the central bank could prompt the real to hand back recent gains.

And lastly, in Asia, north Asian currencies in particular remain out of favour. Whether that is being driven by concerns over Chinese growth, weak export markets or the semiconductor cycle remains to be seen. Our call is for a second-half recovery in most Asian currencies – premised, however, on a broadly weaker dollar.

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.10	↑	132	↓	1.25	→
3M	1.14	↑	128	↓	1.28	↑
6M	1.18	↑	125	↓	1.31	↑
12M	1.15	↑	120	↓	1.28	↑

	EUR/GBP		EUR/CZK		EUR/PLN	
1M	0.88	↑	23.70	↑	4.56	↑
3M	0.89	↑	24.20	↑	4.65	↑
6M	0.90	↑	24.10	↑	4.58	↓
12M	0.90	↑	24.10	↑	4.53	↓

	USD/CNY		USD/MXN		USD/BRL	
1M	6.90	↓	18.00	↑	5.10	↑
3M	6.83	↓	17.75	↓	5.20	↑
6M	6.70	↓	17.50	↓	5.20	↑
12M	6.40	↓	17.00	↓	5.20	→

↑ / → / ↓ indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright

Source: Refinitiv, ING forecast

FX performance

	EUR/USD	USD/JPY	EUR/GBP	EUR/NOK	NZD/USD	USD/CAD
%MoM	-1.1	1.8	-1.8	1.3	-0.3	1.0
%YoY	4.2	5.4	2.6	13.5	-4.1	5.1

	USD/CNY	USD/KRW	EUR/HUF	EUR/PLN	USD/ZAR	USD/BRL
%MoM	1.2	2.9	-1.1	-2.9	5.3	0.1
%YoY	2.5	4.1	-5.3	-3.2	18.0	-2.9

Source: Refinitiv, ING forecast

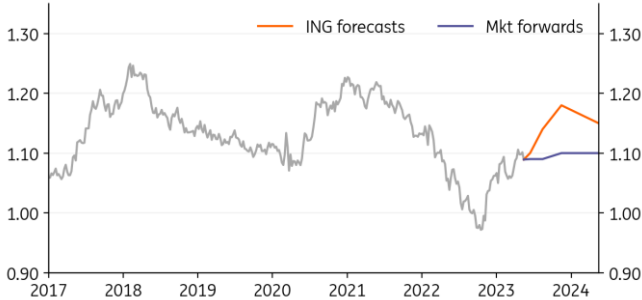


Developed markets

EUR/USD

The bumpy path to a higher EUR/USD

Current spot: 1.0877



Source: Refinitiv, ING forecasts

- Based on our view that the Fed tightening cycle is over and that a credit crunch makes a US recession more likely, we believe the dollar is about to embark on a multi-quarter (if not multi-year) decline. The bulk of that dollar decline may come in 2H23 as the US disinflation story builds and the Fed front-loads easing with 100bp of cuts in 4Q23. That could see EUR/USD at 1.20 end year.
- The road to a dollar decline will not be smooth, however. Most pressing risks are the US banking crisis and the risk of a US Treasury default in the June/July window. Historically, stress in US money markets has triggered a temporary surge in the dollar.
- Any flash-crash below 1.05 should be temporary, however.

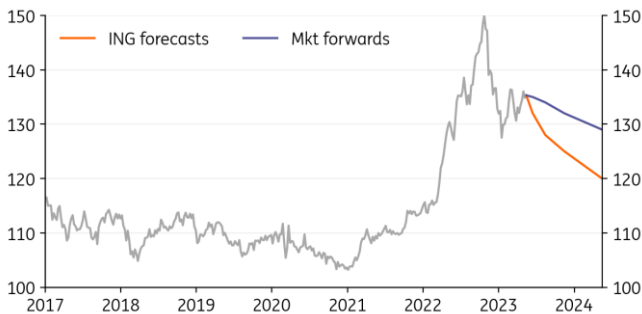
ING forecasts (mkt fwd)	1M 1.10 (1.0898)	3M 1.14 (1.0932)	6M 1.18 (1.0975)	12M 1.15 (1.1041)
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USD/JPY

137/140 should be best levels for a while

Current spot: 135.97



Source: Refinitiv, ING forecasts

- USD/JPY continues to frustrate dollar bears such as ourselves. Neither has the risk environment deteriorated enough nor has US disinflation been strong enough to send USD/JPY sharply lower. However, the US credit crunch makes a recession there more likely, and we have a conviction call that USD/JPY will be trading a lot lower by the end of the year.
- In Japan, USD/JPY rallied when new BoJ Governor Kazuo Ueda's first policy meeting saw the announcement of an 18-month policy review. However, we think there is an under-priced risk that the BoJ does start to normalise policy at its 16 June meeting.
- 137/140 may be the best levels for the next two to three years.

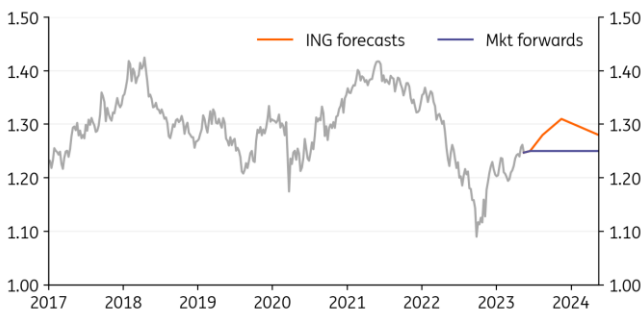
ING forecasts (mkt fwd)	1M 132 (135.29)	3M 128 (134.10)	6M 125 (132.28)	12M 120 (129.03)
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GBP/USD

Sterling's correlation with risk assets declines

Current spot: 1.2505



Source: Refinitiv, ING forecasts

- The Bank of England's trade-weighted sterling index has rallied nearly 9% from its lows last September – the dark days of the brief Liz Truss government. Certainly, that weakness looked an overshoot and part of sterling's strength looks a function of asset managers unwinding sterling shorts. This community is now net long sterling futures contracts for the first time since 21 October.
- Based on our overall dollar view, GBP/USD should be heading higher this year. 1.33 is our target for year-end.
- Interestingly, sterling's correlation with risk assets has fallen a lot this year – a factor probably helping sterling at the moment. Yet we see a less hawkish BoE coming through, limiting GBP gains.

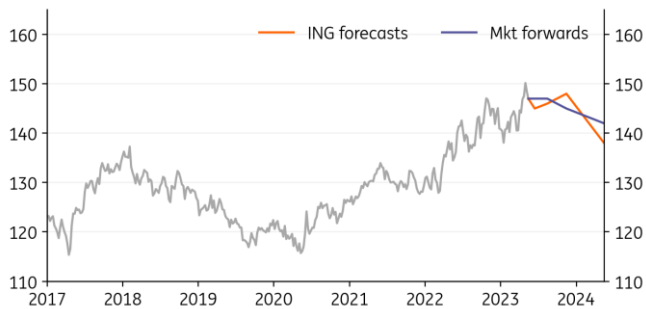
ING forecasts (mkt fwd)	1M 1.25 (1.2514)	3M 1.28 (1.2525)	6M 1.31 (1.2532)	12M 1.28 (1.2515)
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EUR/JPY

Late cycle woes favour EUR/JPY downside

Current spot: 147.93



Source: Refinitiv, ING forecasts

- The tail-end of a business cycle is typically a difficult time for risk assets and 2023 should prove no exception. Looming recessions in both the US and the eurozone will weigh heavily on global growth prospects and should demand some under-performance in this pro-cyclical EUR/JPY cross rate.
- As to ECB policy, our team looks for one last hike (deposit rate to 3.50% in June) before the ECB enters a prolonged pause. As above, we think the BoJ could start to normalise policy in June.
- EUR/JPY reversed sharply from its recent break above 150. Despite still wide differentials between the eurozone and Japan, we favour a break to 140 later this year and 135 next year.

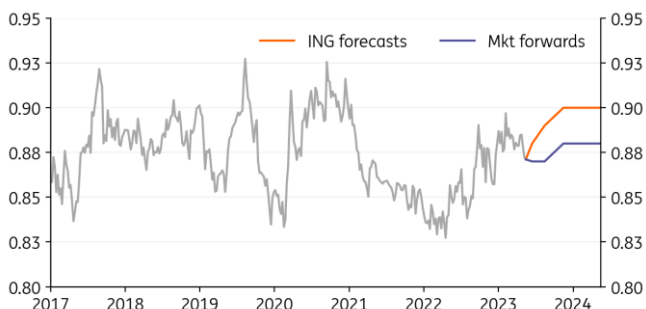
ING forecasts (mkt fwd)	1M 145 (147.44)	3M 146 (146.58)	6M 148 (145.17)	12M 138 (142.47)
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EUR/GBP

Too much Bank of England tightening is priced

Current spot: 0.8700



Source: Refinitiv, ING forecastsEUR

- We have been fighting sterling strength for a while – largely on the view that the BoE would not deliver on the tightening expectations priced in by the markets. However, the BoE has delivered on these hikes after all (Bank Rate now 4.50%) and the market prices a further 40-50bp of tightening.
- We continue to think that further tightening is unlikely. Wage disinflation can allow the BoE to pause at its 22 June meeting.
- If we're right with our BoE call, EUR/GBP should be trading towards 0.88 by the end of June. We suspect that the effects of prior tightening will start to show up, via higher mortgage refinancing costs, in 2H23 and pitch a weak UK activity story.

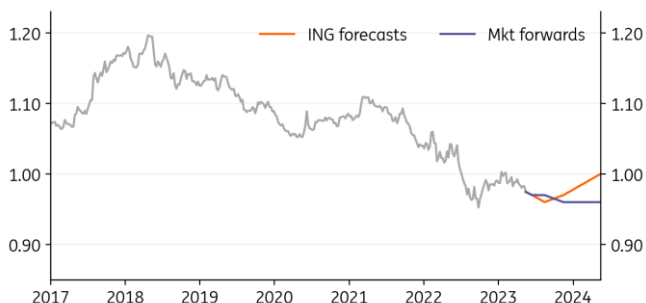
ING forecasts (mkt fwd)	1M 0.88 (0.8709)	3M 0.89 (0.8728)	6M 0.90 (0.8758)	12M 0.90 (0.8822)
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EUR/CHF

Swiss National Bank policy plus risk sentiment aids franc

Current spot: 0.9749



Source: Refinitiv, ING forecasts

- Having been as high as 3.5% YoY last year, Swiss CPI has now dropped to 2.6%. Having seen that drop, however, SNB President, Thomas Jordan, said that interest rates were still not restrictive enough. That suggests the SNB will continue to hike and continues to seek nominal CHF appreciation – if necessary, by selling FX. Last year the SNB sold CHF22b to keep the Swiss franc strong.
- In addition, the US regional banking crisis and debt ceiling standoff make it a difficult risk environment. Expect the franc to remain in demand as a non-correlated currency with the S&P 500.
- Moves will continue to be gradual, however, as the SNB heavily controls this pair. But the bias for EUR/CHF is clearly lower.

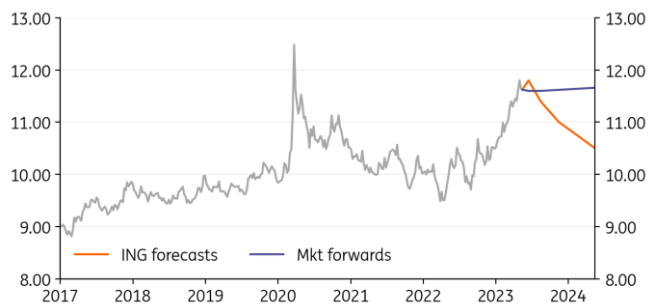
ING forecasts (mkt fwd)	1M 0.97 (0.9731)	3M 0.96 (0.9700)	6M 0.97 (0.9649)	12M 1.00 (0.9560)
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EUR/NOK

Norges Bank support efforts may be insufficient

Current spot: 11.60



Source: Refinitiv, ING forecasts

- Norway's krone has stayed very volatile and exceptionally weak in the past month. Norges Bank is now in a fully-fledged currency-supportive mode and may hike beyond the projected 3.50% peak rate. We also expect larger cuts to the daily FX purchases in June compared to previous months.
- So, domestically, the picture should keep improving for NOK (which is already deeply undervalued), but external factors remain a bigger driver and beyond the central bank's control.
- The recent instability in risk sentiment suggests that the near-term outlook for the relatively illiquid krone remains quite clouded. Volatility should remain high, more selloffs are a tangible risk. Still, we expect a recovery from the second half of 2023.

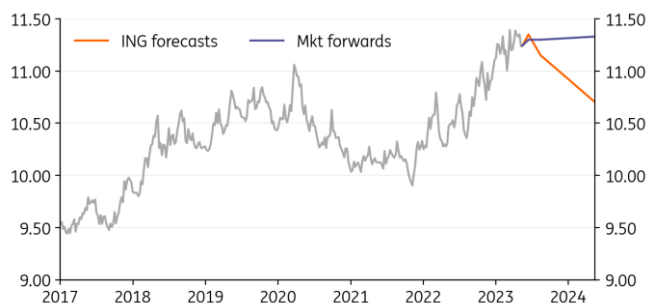
ING forecasts (mkt fwd)	1M 11.80 (11.60)	3M 11.40 (11.60)	6M 11.00 (11.62)	12M 10.50 (11.66)
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EUR/SEK

Riksbank dissent weighs on Swedish krona

Current spot: 11.30



Source: Refinitiv, ING forecasts

- The Riksbank's hawkish tone started to soften at the April meeting when two members verbally protested the 50bp hike, ultimately hindering the Bank's SEK-supporting efforts.
- The Riksbank will hike again by 25bp in June or September, but that now looks quite likely to be the end of the cycle. The housing market remains a concern despite some slightly encouraging data, and we recently saw one of Sweden's largest landlord's (SBB) credit being downgraded to junk.
- We now expect more EUR strength later this year and have revised our EUR/SEK profile higher too. While short-term upside risks remain material in the near term, we expect a stabilisation around 11.00 in the second half of the year.

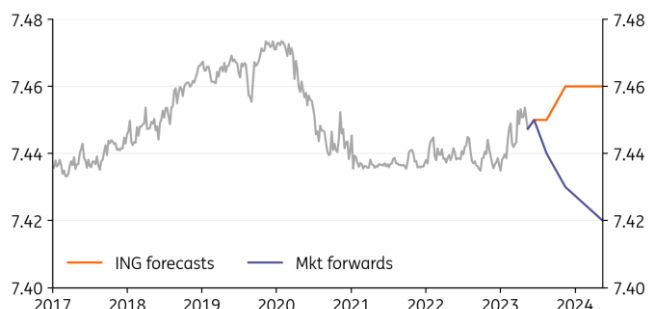
ING forecasts (mkt fwd)	1M 11.35 (11.30)	3M 11.15 (11.30)	6M 11.00 (11.31)	12M 10.70 (11.33)
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EUR/DKK

Danmarks Nationalbank in a comfortable position

Current spot: 7.4480



Source: Refinitiv, ING forecasts

- Danmarks Nationalbank followed the ECB with a 25bp hike in May after another month without FX intervention.
- Denmark's inflation rate dropped quite sharply in April, from 6.7% to 5.3%, driven by lower energy and food prices. That could mean DN will be more comfortable in re-widening the EUR-DKK rate differential if needed with a smaller hike than the ECB, should fresh pressure on EUR/DKK emerge.
- Indeed, May has seen EUR/DKK touch the 7.4450 level, a two-month low, before rebounding. DN can revamp FX intervention if needed, but the rate differential should allow a gradual convergence to 7.4550/7.4600 around the turn of the year.

ING forecasts (mkt fwd)	1M 7.45 (7.4458)	3M 7.45 (7.4415)	6M 7.46 (7.4342)	12M 7.46 (7.4219)
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USD/CAD

Loonie has the best risk-adjusted carry in G10

Current spot: 1.3509



Source: Refinitiv, ING forecasts

- With other central bank's tightening cycles coming to an end, the Bank of Canada's long pause is no longer out of the ordinary. Instead, it has granted more stability to the loonie, which now has the best volatility-adjusted 3-month carry in the G10. We expect 50bp of cuts in 4Q23 by the BoC, but 40bp are already priced in.
- Short-term headwinds for CAD remain non-negligible though, starting from the US banking troubles (Canada is quite exposed), oil's uncertain performance and risk instability.
- In line with our call for USD accelerating its decline in the second half of the year and oil prices to be supported, we think USD/CAD can move sustainably below 1.30 by the end of 2023.

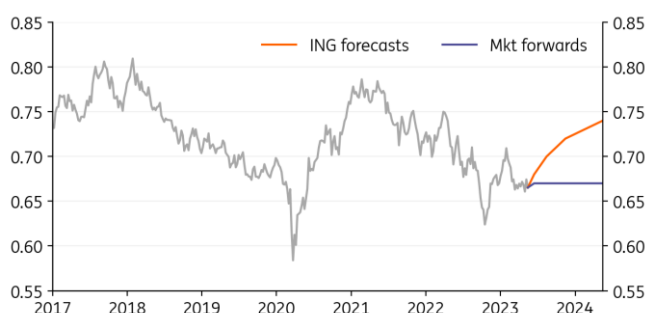
ING forecasts (mkt fwd)	1M 1.35 (1.3500)	3M 1.32 (1.3483)	6M 1.29 (1.3462)	12M 1.25 (1.3444)
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AUD/USD

Room to recover beyond the short-term

Current spot: 0.6686



Source: Refinitiv, ING forecasts

- The Reserve Bank of Australia has alternated between dovish and hawkish surprises lately, and we admit calling the next move is a very hard task. Our base case is one last 25bp hike to bring rates to 4.10%, but much will depend on wage, employment, and inflation data.
- Markets are seeing very little chance of another hike by the summer, so we think there is some mis-pricing in the AUD curve. At the same time, the implications for AUD are not huge, given that external factors remain firmly in the driver's seat.
- China's growth story is still a decent underlying narrative, but iron ore prices have dropped lately and risk sentiment has been unsupportive. AUD/USD upside in the medium-term should largely follow the broad USD decline: we target 0.73 in 4Q23.

ING forecasts (mkt fwd)	1M 0.68 (0.6694)	3M 0.70 (0.6708)	6M 0.72 (0.6726)	12M 0.74 (0.6743)
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NZD/USD

Watch for RBNZ cuts later this year

Current spot: 0.6217



Source: Refinitiv, ING forecasts

- It looks like the Reserve Bank of New Zealand may eventually hit the 5.50% projected rate that some - including us - had judged too high. A May hike, even if not guaranteed given yet more evidence of a faster-than-projected drop in inflation, would be the last one in any case.
- Our longer-term view is unchanged: we think the RBNZ overestimated inflation and domestic strains (like in the housing market) will force rate cuts before the end of this year.
- Markets price in one 25bp rate cut in November at the moment, but we don't exclude that could be as large as 50bp, or that cuts may start in October. This poses risks to the NZD outlook despite an improvement in external factors.

ING forecasts (mkt fwd)	1M 0.63 (0.6216)	3M 0.64 (0.6214)	6M 0.65 (0.6208)	12M 0.68 (0.6182)
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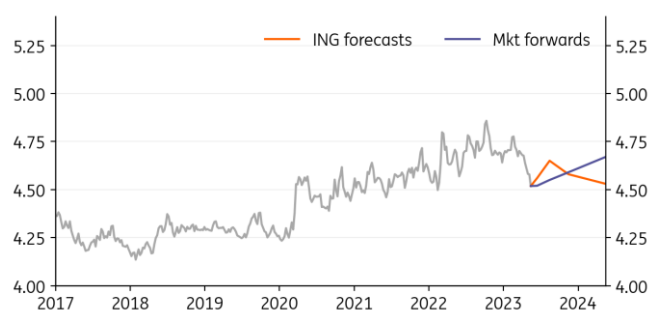


Emerging markets

EUR/PLN

Regional sentiment supportive for the zloty

Current spot: 4.5081



Source: Refinitiv, ING forecasts

- The market has largely shrugged off risks related to the FX mortgage saga, and with the trade surplus, exporters remain strong sellers of the euro. Moreover, as Fed rate cuts approach, the domestic soft-patch and National Bank of Poland easing expectations will play an increasingly less significant role. Given the improving current account and expected weakening of the dollar this prompts us to lower EUR/PLN path for the remainder of the year. Technical analysis suggests that the short term scope for further PLN gains might have been exhausted.
- Domestic political risks ahead of the parliamentary elections in October and potential escalation of the standoff in the Ukraine should prevent EUR/PLN from reaching 4.50 before 2024.

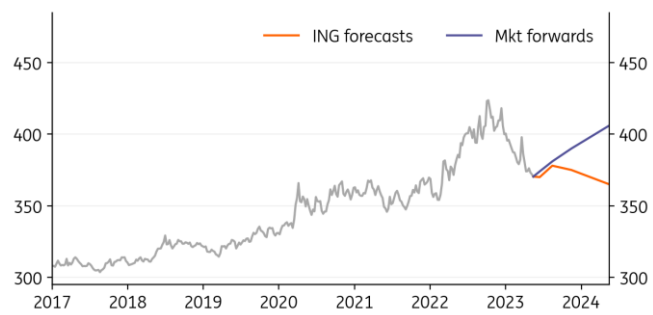
ING forecasts (mkt fwd)	1M 4.56 (4.5247)	3M 4.65 (4.5530)	6M 4.58 (4.5930)	12M 4.53 (4.6726)
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Piotr Poplawski, piotr.poplawski@ing.pl

EUR/HUF

Forint can remain strong despite the monetary easing

Current spot: 369.63



Source: Refinitiv, ING forecasts

- At the global level, conditions for the region remain generally positive, with the forint benefiting the most among its CEE peers, along with positive news on the EU (suspended funds) story.
- At the local level, FX carry in Hungary will remain by far the highest in the CEE region. We believe the right conditions persist for the forint to continue to retain market interest.
- Given the National Bank of Hungary's cautious approach, which sees market pricing as an alignment point in the easing cycle, we remain positive on the forint. Though we see a sideways move in the range of 368 and 378 EUR/HUF depending on the progress in the EU story and the NBH's boldness in the coming months.

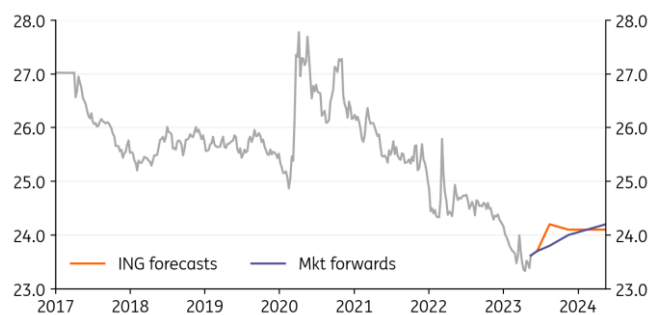
ING forecasts (mkt fwd)	1M 370 (374.03)	3M 378 (380.55)	6M 375 (389.78)	12M 365 (405.61)
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Péter Virovác, peter.virovacz@ing.com

EUR/CZK

Strong Czech koruna reduces the need for more hikes

Current spot: 23.58



Source: Refinitiv, ING forecasts

- The koruna remains supported amid the CNB board's hawkish stance, namely due to the increase in votes for a rate hike, from one to three dissenters, at the May monetary policy meeting.
- In our view, the currency is slightly overvalued at current levels and a decline of headline and core inflation below CNB expectations lessens the risk of a hike in interest rates. We expect stability in rates with a view to a possible symbolic rate cut at the August meeting.
- A soft correction of the koruna's strength and then stability seems likely, on the back of narrowing interest rate differentials against the euro.

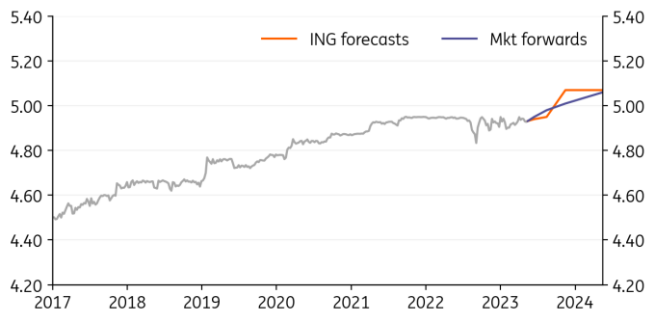
ING forecasts (mkt fwd)	1M 23.7 (23.66)	3M 24.2 (23.79)	6M 24.1 (23.98)	12M 24.1 (24.24)
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EUR/RON

Surplus liquidity pushing carry lower

Current spot: 4.9387



Source: Refinitiv, ING forecasts

- The liquidity surplus in the interbank market reached a stunning RON 30.7bn, by far a historical high. Therefore, the money market rates remain anchored to the deposit facility and less to the key rate.
- In this liquidity context, we believe that the National Bank of Romania will be more than willing to offer euro to the market, should any upside pressures on EUR/RON manifest.
- Given the above, the anticipated upward shift in EUR/RON could take a bit longer to materialise, though we still maintain our call for the pair to shift higher between 2.0% and 3.0% by the end of this year.

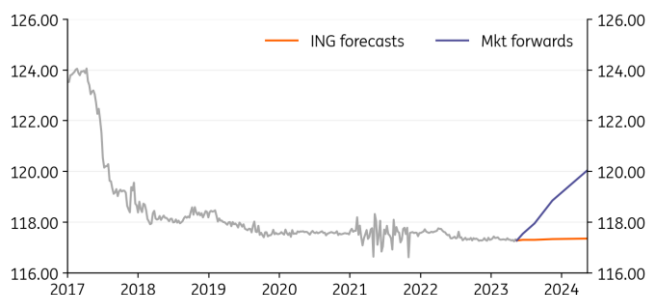
ING forecasts (mkt fwd)	1M 4.94 (4.9521)	3M 4.95 (4.9755)	6M 5.07 (5.0051)	12M 5.07 (5.0618)
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EUR/RSD

The hiking cycle is likely over

Current spot: 117.30



Source: Refinitiv, ING forecasts

- After raising the policy rate by 500bp over the course of a little over a year, the National Bank of Serbia seems to have ended its hiking cycle as the key rate was kept on hold at 6.00% at the 11 May meeting.
- We believe that future policy decisions will be much more data dependent. The inflation peak is clearly behind us, but our central scenario does not envisage headline inflation back within the NBS's 1.5%-4.5% target range over the next two years.
- We maintain our expectations for an essentially flat EUR/RSD profile for the rest of 2023, with FX intervention likely to occur sideways in a rather narrow range.

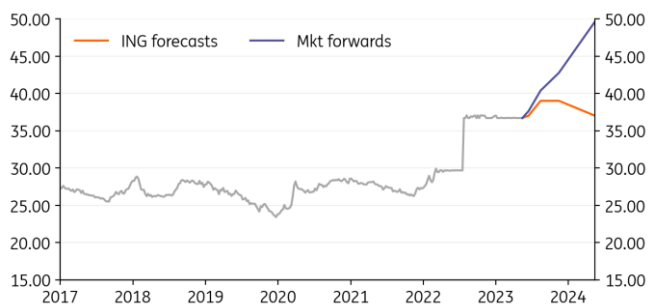
ING forecasts (mkt fwd)	1M 117.30 (117.54)	3M 117.30 (117.95)	6M 117.33 (118.85)	12M 117.35 (120.05)
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USD/UAH

Short term risks less severe, but longer ones remain high

Current spot: 36.92



Source: Refinitiv, ING forecasts

- Foreign aid and lower monthly costs of FX intervention (around US\$1.5bn in April, down from the monthly peak of US\$4bn in June 2022) resulted in Ukraine's international reserves reaching the highest level in 11 years (US\$35.9bn). This significantly lowers the risk of any prompt hryvnia devaluation.
- There is still no end to Russia's war in sight and the economic toll has been increasing. Ukraine's current account also remains in deficit. Therefore, we still anticipate the Ukrainian currency to weaken in the coming months as a measure to bolster competitiveness.

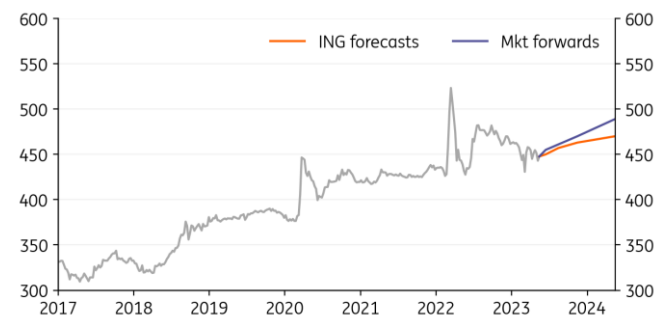
ING forecasts (mkt fwd)	1M 37.00 (37.61)	3M 39.00 (40.38)	6M 39.00 (42.76)	12M 37.00 (49.65)
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USD/KZT

Export flows seem supportive for now

Current spot: 451.06



Source: Refinitiv, ING forecasts

- USD/KZT traded in a narrow 445-455 range in April, approaching our near-term target of 440 in the beginning of May, despite the recent weakness in oil prices, possibly reflecting higher exports via non-Russian trade routes.
- At current levels, the tenge is again close to the peak levels seen earlier this year and in early 2022. Further appreciation from those levels is not out of the question but would require more positive surprises on exports and capital flows.
- Thanks to the recent downgrade of ING's house view on USD, we can slightly strengthen our KZT forecast profile. However, Kazakhstan is still exposed to geopolitical risks due to its close trade relations with Russia.

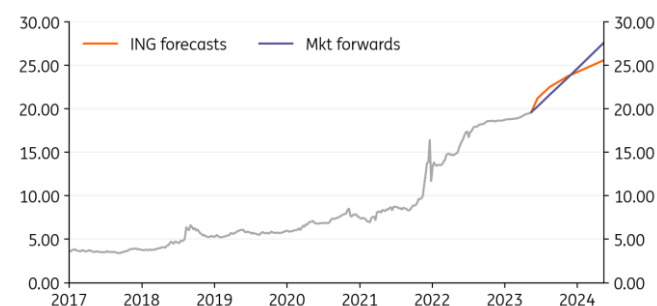
ING forecasts (mkt fwd)	1M 450 (454.54)	3M 457 (460.87)	6M 463 (470.22)	12M 470 (489.10)
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Dmitry Dolgin, dmitry.dolgin@ingbank.com

USD/TRY

Focus now on elections

Current spot: 19.66



Source: Refinitiv, ING forecasts

- At the April MPC, the Central Bank of Turkey reiterated its "Liraization" strategy. It concluded that the current stance was adequate in terms of supporting the necessary recovery after the earthquakes and maintaining price and financial stability.
- The key challenge for the CBT currently is to maintain currency stability in the near term. In April, it asked banks to limit the amount of dollar purchases they make in the interbank market to ease pressure on the lira. Following the move, banks began widening spreads between their bid & ask prices for foreign currencies, while volatility has increased to some extent.
- Given elevated inflation and ongoing upside risks, the real value of the exchange rate will remain in focus – as will elections.

ING forecasts (mkt fwd)	1M 21.20 (20.26)	3M 22.50 (21.61)	6M 23.75 (23.58)	12M 25.60 (27.63)
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Muhammet Mercan, muhammet.mercan@ing.com.tr

USD/ZAR

Taking sides

Current spot: 19.12



Source: Refinitiv, ING forecasts

- The war in Ukraine forced investors to re-assess geopolitical power blocs and examine what being a member of the BRICS meant in practise. China's position on Russia has been reasonably clear, but Brazil, India and South Africa have emphasised neutrality. The bombshell allegation by the US Ambassador in early May is that South Africa supplied military aid to Russia last December.
- The rand took the above news very poorly – and questions whether US Congress will re-examine South Africa's eligibility for duty free access to US markets under the African Growth and Opportunity Act. Sanctions risk is just adding to ZAR malaise.
- Weak growth, a widening current account deficit and now the threat of pariah status can keep the ZAR soft this summer.

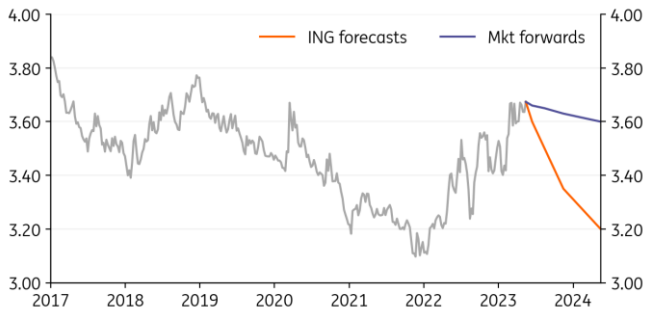
ING forecasts (mkt fwd)	1M 19.00 (19.19)	3M 18.50 (19.31)	6M 18.00 (19.50)	12M 17.75 (19.92)
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Chris Turner, chris.turner@ing.com

USD/ILS

Few signs of ILS recovery

Current spot: 3.6594



Source: Refinitiv, ING forecasts

- USD/ILS continues to press the highs near 3.70. There are no concrete signs as yet that the Bank of Israel has been intervening to sell FX (intervention normally shows up in FX reserve releases). That may be because the political situation is so tense.
- There are no signs that the government is ready to soften its stance on its controversial reforms. But equally the government could fall if it fails to pass a budget by 29 May.
- Our bearish long-term view on USD/ILS is premised on the Fed being able to cut rates and a broad dollar bear trend winning through. However, sticky US inflation and steady Fed rates would leave USD/ILS open to a temporary spike to 3.80.

ING forecasts (mkt fwd)	1M 3.60 (3.6552)	3M 3.50 (3.6453)	6M 3.35 (3.6296)	12M 3.20 (3.6007)
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Chris Turner, chris.turner@ing.com

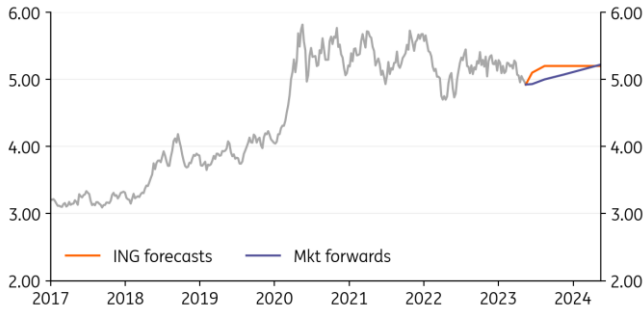


LATAM

USD/BRL

Investors give Lula the benefit of the doubt

Current spot: 4.9040



Source: Refinitiv, ING forecasts

- USD/BRL is starting to break under 5.00 – a move being accompanied by lower traded FX volatility and lower local sovereign yields. It seems that investors are giving the Lula administration the benefit of the doubt in that fiscal reforms can lead to lower sovereign risk and eventually rate cuts.
- So far, the central bank is pushing back against political pressure for rate cuts – still concerned by rising inflation expectations. Two new government nominations for positions on the central bank board could raise fears over political pressure to cut rates.
- We fear the pressure for slippage on the fiscal side is high and those looking for 12% implied yields should focus on MXN not BRL.

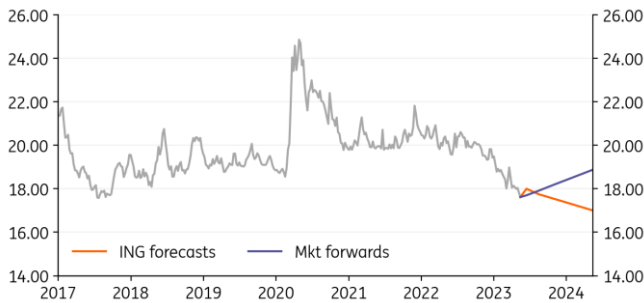
ING forecasts (mkt fwd)	1M 5.10 (4.9333)	3M 5.20 (4.9958)	6M 5.20 (5.0660)	12M 5.20 (5.2230)
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Chris Turner, chris.turner@ing.com

USD/MXN

Mexico's peso the standout performer

Current spot: 17.58



Source: Refinitiv, ING forecasts

- The Mexican peso is now pulling away as the best performing EMFX currency of 2023. Banxico's maintenance of a 600-650bp spread above Fed rates has helped USD/MXN volatility levels fall and the peso stand out as the world's preferred carry trade currency. Banxico meets 18 May and may deliver one last hike (to 11.50%) before pausing/stopping the tightening cycle.
- Remittances back to Mexico remain high at \$5bn per month, but this year's hot topic will remain 'nearshoring' and the promise of large FDI inflows into Mexico.
- Pressure is building for a USD/MXN to break below the 17.45 low of 2017 - and only long MXN positioning stands in the way.

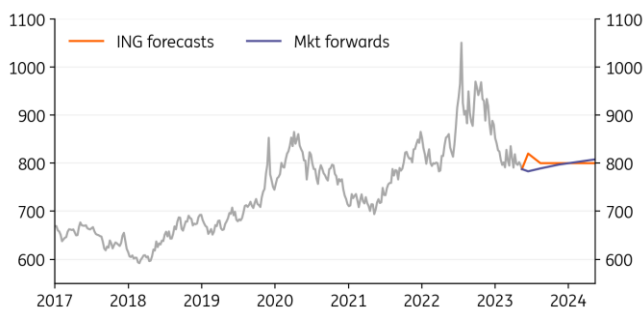
ING forecasts (mkt fwd)	1M 18.00 (17.70)	3M 17.75 (17.91)	6M 17.50 (18.24)	12M 17.00 (18.88)
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Chris Turner, chris.turner@ing.com

USD/CLP

Chilean peso will struggle to hold gains

Current spot: 779.45



Source: Refinitiv, ING forecasts

- Institutional investors have made their minds up that rates have peaked and are now looking to receive rates around the world. Chile is no exception, where the market now prices 150bp of rate cuts over the next six months. Any interest to buy local currency bonds is likely to be unhedged because of high hedging costs.
- Yet we are not big fans of the CLP. The commodity environment looks mixed at best and we think investors will be wary that the government once again allows residents to raid pension pots – as they did during the pandemic. That didn't end well for the CLP.
- We favour USD/CLP trading back over 800. FX reserve restocking may play a role here after Chile lost half of its reserves last year.

ING forecasts (mkt fwd)	1M 820 (782.85)	3M 800 (788.85)	6M 800 (797.26)	12M 800 (807.88)
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Chris Turner, chris.turner@ing.com



Asia

USD/CNY

Weakening global economy is negative for yuan

Current spot: 6.9530



Source: Refinitiv, ING forecasts

- The yuan has weakened against the dollar during the month. This is partly on the back of mixed data which shows an ongoing recovery of the domestic economy and a deteriorating export market. Clearly US and eurozone recessions will not help China.
- For the coming months and before the Fed cuts, the yuan should be more affected by the external environment, including a slowing US economy and possible increase in geopolitical tension.
- We expect a turnaround of CNY and stronger trend in 3Q23 when the domestic economy recovery becomes more solid and clearer signs of the dollar bear trend emerge.

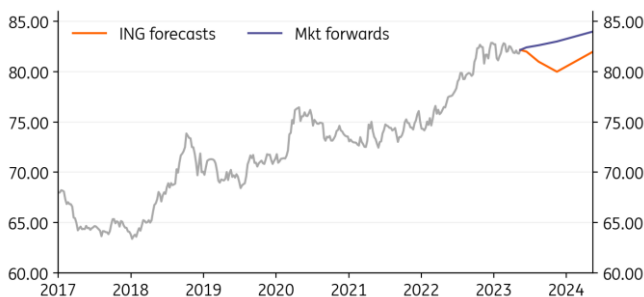
ING forecasts (mkt fwd)	1M 6.90 (6.9300)	3M 6.83 (6.8929)	6M 6.70 (6.8369)	12M 6.40 (6.7603)
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Iris Pang, iris.pang@asia.ing.com

USD/INR

Busy going nowhere

Current spot: 82.28



Source: Refinitiv, ING forecasts

- The Indian rupee has gone almost nowhere over the last month, which is not a bad outcome as most of the Asia FX pack has weakened slightly against the USD.
- A much better outlook for inflation is probably providing some near-term support, though at some stage, this is likely to translate into some easier policy rates from the Reserve Bank of India, though probably not until 3Q23.
- One possible fly in the ointment is that Russia no longer seems keen to accept payment for its oil grades in INR, which could imply some increased INR selling pressure in the months ahead.

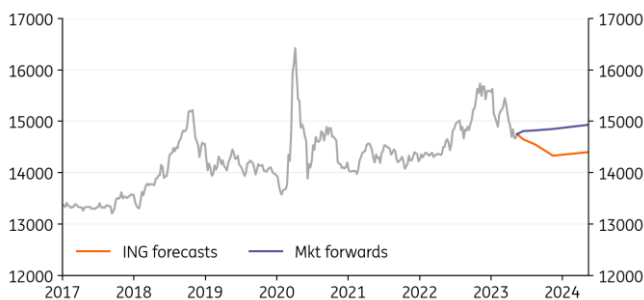
ING forecasts (mkt fwd)	1M 82.00 (82.42)	3M 81.00 (82.63)	6M 80.00 (83.01)	12M 82.00 (84.00)
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Rob Carnell, robert.carnell@asia.ing.com

USD/IDR

Rupiah steadies on foreign flows into bond market

Current spot: 14800



Source: Refinitiv, ING forecasts

- The Indonesian rupiah strengthened due to renewed flows into the local bond market. Inflation continues to cool, helping boost the attractiveness of local bonds. Robust economic growth prospects also helped attract foreign interest into the local equity market.
- Bank Indonesia (BI) has managed to keep borrowing costs unchanged for the past few meetings. The BI governor also hinted at shifting the focus to bolstering growth momentum further, pointing to potential rate cuts as early as 3Q.
- We expect the IDR to steady on renewed flows into the bond market with inflation projected to fade further.

ING forecasts (mkt fwd)	1M 14650 (14808)	3M 14550 (14822)	6M 14330 (14850)	12M 14400 (14932)
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Nicholas Mapa, nicholas.mapa@asia.ing.com

USD/KRW

Korean won to strengthen despite chip slump

Current spot: 1337.77



Source: Refinitiv, ING forecasts

- The Korean won was the worst performer among the Asia FX pack in the month of April. But as the current account is expected to return to a surplus after the dividend season, the KRW should head to the 1,300 level in the near term.
- At mid-year, the excessive weakening of the KRW is expected to reverse partially as monetary policy enters a hiatus while the chip inventory adjustment accelerates.
- The Bank of Korea is expected to stand still at the May meeting. If housing market related financial instability emerges, the BoK and government will spare no policy support to avoid a hard landing.

ING forecasts (mkt fwd)	1M 1300 (1335.42)	3M 1250 (1330.27)	6M 1260 (1322.27)	12M 1200 (1310.57)
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Kang Min Joo, min.joo.kang@asia.ing.com

USD/PHP

Philippine peso slips on sizable corporate demand

Current spot: 56.05



Source: Refinitiv, ING forecasts

- The Philippine peso came under pressure in April after corporate demand for the dollar picked up by mid-month. The PHP managed to make up some lost ground thereafter on renewed foreign flows into the local equity market after a relatively positive earnings season.
- Recent comments from Bangko Sentral ng Pilipinas (BSP) Governor Felipe Medalla hinted at a pause at the next meeting. These dovish comments may have also weighed on the PHP as well.
- The PHP will likely lag any regional rally given expectations that the current account balance should stay in deficit due to our forecast for a sizable trade gap for the rest of the year.

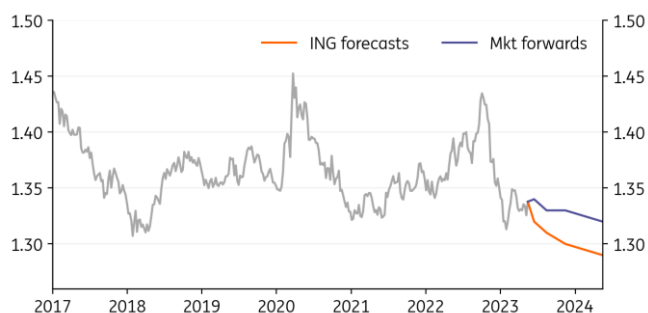
ING forecasts (mkt fwd)	1M 55.40 (56.12)	3M 54.70 (56.21)	6M 54.20 (56.30)	12M 53.80 (56.55)
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USD/SGD

Singapore dollar slips after central bank pause

Current spot: 1.3375



Source: Refinitiv, ING forecasts

- The Singapore dollar slipped after the Monetary Authority of Singapore (MAS) surprised by retaining monetary policy settings at the latest policy meeting. Most had expected the MAS to tighten further to deal with inflation.
- 1Q GDP came in below expectations due to struggling exports and elevated inflation. Slowing growth momentum may have convinced the MAS to pause despite persistent price pressures. The SGD NEER was still steady over the past month.
- We expect the SGD to move sideways with the MAS attempting to strike a balance between fighting off price pressures and providing support for the struggling export sector.

ING forecasts (mkt fwd)	1M 1.32 (1.3358)	3M 1.31 (1.3326)	6M 1.30 (1.3277)	12M 1.29 (1.3196)
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Nicholas Mapa, nicholas.mapa@asia.ing.com

USD/TWD

Weak macro data hints at further Taiwan dollar weakness

Current spot: 30.82



Source: Refinitiv, ING forecasts

- The Taiwan economy fell into recession in 1Q23. Semiconductor manufacturing and exports added to the slowdown of the economy. With global demand for semiconductors slowing, investments in Taiwan will likely shrink in 2Q23. This should give little support to the economy.
- The central bank should pause hiking in 2Q23. We believe that the current policy rate of 1.875% is the terminal rate in this rate hiking cycle.
- Taiwan's dollar could turn stronger in 4Q23 if Mainland China's economic recovery provides more strength to global growth.

ING forecasts (mkt fwd)	1M 30.70 (30.69)	3M 30.50 (30.48)	6M 29.00 (30.17)	12M 28.00 (29.61)
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Iris Pang, iris.pang@asia.ing.com

ING foreign exchange forecasts

EUR cross rates	Spot	1M	3M	6M	12M	USD cross rates	Spot	1M	3M	6M	12M
Developed FX											
EUR/USD	1.09	1.10	1.14	1.18	1.15						
EUR/JPY	147.9	145.20	145.92	147.50	138.00	USD/JPY	135.98	132	128	125	120
EUR/GBP	0.87	0.88	0.89	0.90	0.90	GBP/USD	1.25	1.25	1.28	1.31	1.28
EUR/CHF	0.97	0.97	0.96	0.97	1.00	USD/CHF	0.90	0.88	0.84	0.82	0.87
EUR/NOK	11.60	11.80	11.40	11.00	10.50	USD/NOK	10.66	10.73	10.00	9.32	9.13
EUR/SEK	11.30	11.35	11.15	11.00	10.70	USD/SEK	10.39	10.32	9.78	9.32	9.30
EUR/DKK	7.448	7.450	7.450	7.460	7.460	USD/DKK	6.85	6.77	6.54	6.32	6.49
EUR/CAD	1.47	1.49	1.50	1.52	1.44	USD/CAD	1.351	1.35	1.32	1.29	1.25
EUR/AUD	1.63	1.62	1.63	1.64	1.55	AUD/USD	0.67	0.68	0.70	0.72	0.74
EUR/NZD	1.75	1.75	1.78	1.82	1.69	NZD/USD	0.62	0.63	0.64	0.65	0.68
EMEA											
EUR/PLN	4.51	4.56	4.65	4.58	4.53	USD/PLN	4.14	4.15	4.08	3.88	3.94
EUR/HUF	369.6	370.00	378.00	375.00	365.00	USD/HUF	339.8	336	332	318	317
EUR/CZK	23.58	23.7	24.2	24.1	24.1	USD/CZK	21.67	21.5	21.2	20.4	21.0
EUR/RON	4.94	4.94	4.95	5.07	5.07	USD/RON	4.54	4.49	4.34	4.30	4.41
EUR/RSD	117.3	117.3	117.3	117.3	117.4	USD/RSD	107.8	106.6	102.9	99.4	102.0
EUR/UAH	39.98	40.7	44.5	46.0	42.6	USD/UAH	36.92	37.00	39.00	39.00	37.00
EUR/KZT	490.5	495.0	521.0	546.3	540.5	USD/KZT	451.1	450	457	463	470
EUR/TRY	21.39	23.32	25.65	28.03	29.44	USD/TRY	19.66	21.20	22.50	23.75	25.60
EUR/ZAR	20.79	20.9	21.1	21.2	20.4	USD/ZAR	19.12	19.00	18.50	18.00	17.75
EUR/ILS	3.98	3.96	3.99	3.95	3.68	USD/ILS	3.66	3.60	3.50	3.35	3.20
LATAM											
EUR/BRL	5.33	5.61	5.93	6.14	5.98	USD/BRL	4.90	5.10	5.20	5.20	5.20
EUR/MXN	19.07	19.8	20.2	20.7	19.6	USD/MXN	17.58	18.00	17.75	17.50	17.00
EUR/CLP	847.89	902	912	944	920	USD/CLP	779.45	820	800	800	800
Asia											
EUR/CNY	7.56	7.59	7.79	7.91	7.36	USD/CNY	6.95	6.90	6.83	6.70	6.40
EUR/IDR	16106	16115	16587	16909	16560	USD/IDR	14800	14650	14550	14330	14400
EUR/INR	89.50	90.2	92.3	94.4	94.3	USD/INR	82.28	82.00	81.00	80.00	82.00
EUR/KRW	1455.22	1430	1425	1487	1380	USD/KRW	1337.77	1300	1250	1260	1200
EUR/PHP	60.97	60.9	62.4	64.0	61.9	USD/PHP	56.05	55.4	54.7	54.2	53.8
EUR/SGD	1.45	1.45	1.49	1.53	1.48	USD/SGD	1.34	1.32	1.31	1.30	1.29
EUR/TWD	33.52	33.8	34.8	34.2	32.2	USD/TWD	30.82	30.7	30.5	29.0	28.0

Source: Refinitiv, ING

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