

# FX Talking

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# No margin for error

## Strong dollar pressure tests the system

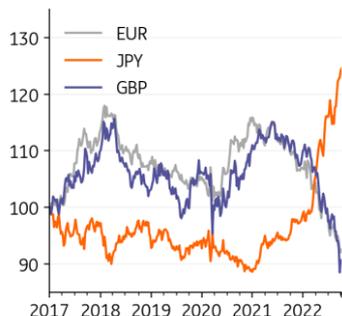
One of the most important market developments over the last month has been the Bank of England intervening in the UK Gilt market on grounds of financial stability. That Gilts and sterling had to fall so far on UK fiscal concerns owed in part to the restrictive Federal Reserve conditions and the strong dollar. The hawkish Fed will increase pressure in the system still further into year-end – a move that will undoubtedly punish any poor policy choices.

The Fed’s relentless and most aggressive tightening cycle since the early 1980s is starting to create a few casualties. Though the wounds in UK asset markets were self-inflicted, the occasion did show that the tighter liquidity conditions being created by the Fed are leaving no margin for error. There are still few signs of any ‘pivot’ in Fed policy coming through this year and we do not see that until 1Q23 at the earliest.

As the Fed tightens into a recession and yield curves invert further, expect the dollar to stay bid. We could easily see further gains of 5-7% across the board. With the eurozone likely entering three quarters of negative growth, dollar strength can probably see EUR/USD building a new 0.90-0.95 trading range. Again, we would say the euro is not especially undervalued – having been damaged by the negative terms of trade adjustment.

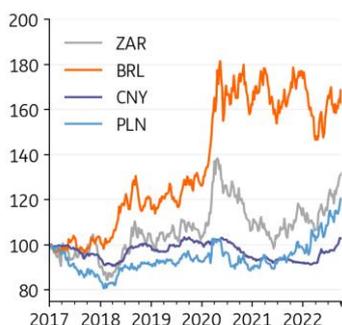
In Europe, heightened scrutiny on policy choices can see GBP/USD nearing parity later this year. The high beta Scandinavian currencies also look vulnerable as do some of those in Central and Eastern Europe (including the Polish zloty) where hiking cycles have been curtailed. In Asia, we think USD/CNY can rally further to 7.40, taking most of the region with it. And the commodity-centric Latam currencies also remain vulnerable as investors shun Emerging Market asset markets.

USD/Majors (4 Jan 15=100)



Source: Refinitiv, ING forecast

USD/EM (4 Jan 15=100)



Source: Refinitiv, ING forecast

### ING FX forecasts

	EUR/USD	USD/JPY	GBP/USD
1M	0.95 ↓	146 ↑	1.07 ↓
3M	0.92 ↓	148 ↑	1.02 ↓
6M	0.92 ↓	148 ↑	1.02 ↓
12M	0.98 ↓	143 ↑	1.11 ↑

	EUR/GBP	EUR/CZK	EUR/PLN
1M	0.89 ↑	24.60 ↑	4.93 ↑
3M	0.90 ↑	24.60 ↑	4.90 ↓
6M	0.90 ↑	24.60 ↓	4.80 ↓
12M	0.88 ↓	25.00 →	4.67 ↓

	USD/CNY	USD/MXN	USD/BRL
1M	7.30 ↑	20.50 ↑	5.35 ↑
3M	7.40 ↑	20.50 ↑	5.50 ↑
6M	7.30 ↑	20.00 ↓	5.75 ↑
12M	6.95 ↑	20.00 ↓	5.90 ↑

↑ / → / ↓ 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	-3.5	2.1	1.3	3.6	-8.6	5.2
%YoY	-15.8	22.9	3.4	4.4	-19.3	9.3

	USD/CNY	USD/ZAR	USD/BRL	USD/MXN	USD/KRW	USD/TRY
%MoM	3.1	4.3	0.7	0.3	2.3	1.9
%YoY	9.9	17.5	-6.3	-3.7	15.4	51.7

Source: Refinitiv, ING forecast



# Developed markets

## EUR/USD

Volatility returns to levels last seen in April 2020

**Current spot: 0.9705**



Source: Refinitiv, ING forecasts

- EUR/USD realised volatility is now back to levels last seen in the early days of the pandemic. Tighter liquidity conditions as central banks raise rates and sell bonds typically do see volatility levels increase. This should be the story for this autumn.
- Is the dollar about to top? From a risk management perspective, we would say 'no'. The Fed looks set to push ahead with tightening into a recession (rates peaking 4.25-4.50% early next year), which should keep the dollar broadly bid.
- The eurozone is just entering three consecutive quarters of negative growth. As a pro-cyclical currency, this is not the time for the euro to shine. We see a 0.90-0.95 trading range developing.

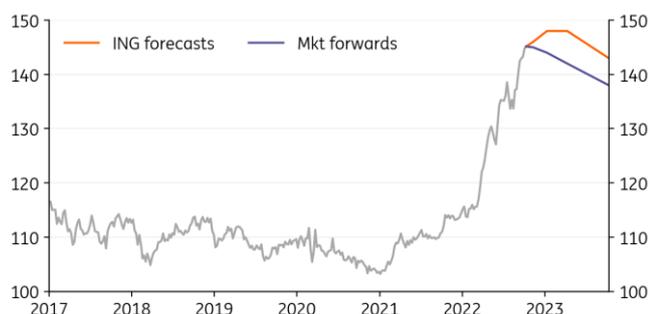
<b>ING forecasts</b> (mkt fwd)	<b>1M 0.95</b> (0.9728)	<b>3M 0.92</b> (0.9781)	<b>6M 0.92</b> (0.9841)	<b>12M 0.98</b> (0.9943)
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## USD/JPY

Tokyo pulls the trigger

**Current spot: 145.44**



Source: Refinitiv, ING forecasts

- In late September, Tokyo confirmed that it had intervened to sell USD/JPY (seemingly from the 145.70 area). The amounts were a large \$20bn and show that Tokyo means business. Importantly, the US Treasury said it 'understood' the need for intervention. Does the G20 FX Communique get altered on 12 October?
- We doubt the Bank of Japan's FX intervention will define the exact top for USD/JPY. The macro factors driving the rally - hawkish Fed/energy crisis are still with us. And we see intervention as more of a campaign that might slow a move towards 150.
- Talk of a Plaza accord to reverse the dollar look premature, too. The BoJ will need to hike to support this - unlikely before 2Q23.

<b>ING forecasts</b> (mkt fwd)	<b>1M 146</b> (144.98)	<b>3M 148</b> (143.80)	<b>6M 148</b> (142.03)	<b>12M 143</b> (138.39)
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## GBP/USD

Policy mistakes get punished

**Current spot: 1.1076**



Source: Refinitiv, ING forecasts

- It looks like the Fed will be pushing real interest rates deeper into more restrictive territory over coming months. That will tighten liquidity conditions still further and see that any policy mistakes get punished. The new UK government admitted such a policy mistake when reversing plans to scrap the top rate income tax bracket. The UK Gilt market was just not ready for huge supply.
- Key dates for the diary are 14 and 31 October. The BoE intervened to buy Gilts but said it would stop on 14 October. Does the Gilt market allow that to happen? And 31 October sees the medium-term fiscal plan released. Do the numbers add up?
- Cable does not seem out of the woods yet.

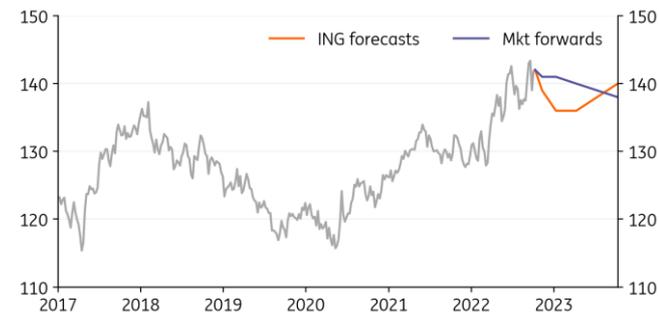
<b>ING forecasts</b> (mkt fwd)	<b>1M 1.07</b> (1.1085)	<b>3M 1.02</b> (1.1098)	<b>6M 1.02</b> (1.1089)	<b>12M 1.11</b> (1.1038)
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## EUR/JPY

Downside bias remains

Current spot: 141.16



Source: Refinitiv, ING forecasts

- EUR/JPY has been holding up quite well despite the global bear market in risk assets. Our bias would be that EUR/JPY struggles to sustain a break above 145 in an environment where central banks are actively looking to slow aggregate demand.
- For the European Central Bank, we are looking for a 75bp hike in October, perhaps 50bp in December and another 25bp in 1Q23. The ECB will also have to think about quantitative tightening in its Asset Purchase Programme portfolio, which may create problems for the eurozone's peripheral bond markets.
- Typically, the Japanese have been more interventionist than the eurozone and on that basis – and given the forthcoming eurozone recession – EUR/JPY risks look skewed lower the next six months.

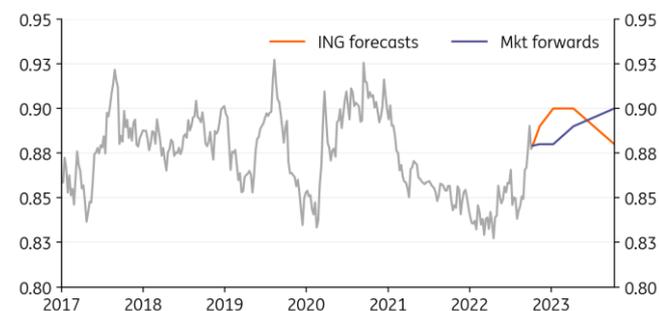
ING forecasts (mkt fwd)	1M 139 (141.02)	3M 136 (140.63)	6M 136 (139.75)	12M 140 (137.58)
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## EUR/GBP

Dangerous UK cocktail leaves GBP vulnerable

Current spot: 0.8763



Source: Refinitiv, ING forecasts

- Sterling has been driven by the fiscal credibility story. And it is interesting to note that the 10-year Gilt-Bund spread is struggling to narrow inside 200bp again – suggesting credibility is hard won and easily lost.
- The Chancellor's U-turn on the upper income tax bracket does little to assuage fiscal concerns. It only saves around £2bn compared to what could be £200bn of Gilt supply in FY23/24. Instead, the Chancellor will somehow need to find spending cuts or more likely tax increases – U-turn on energy windfall tax?
- Clearly this is a challenging picture and combined with a difficult global environment, sterling risks remain skewed lower.

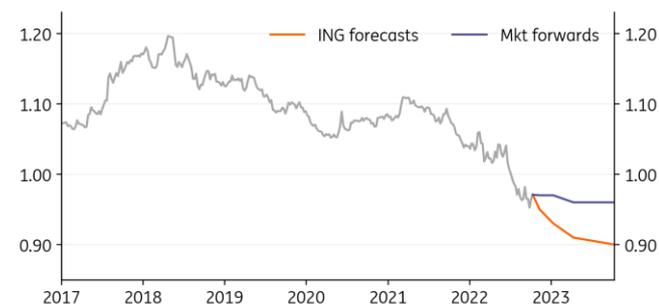
ING forecasts (mkt fwd)	1M 0.89 (0.8777)	3M 0.90 (0.8813)	6M 0.90 (0.8875)	12M 0.88 (0.9008)
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## EUR/CHF

SNB looks set to guide EUR/CHF lower

Current spot: 0.9681



Source: Refinitiv, ING forecasts

- In September, the Swiss National Bank hiked 75bp to take the policy rate back to 0.50% and end the experience with negative interest rates. It also introduced an interesting reverse tiering on deposits, where any excess reserves would be remunerated at zero. ECB watchers are taking great notice here.
- We still think the SNB is running a kind of monetary conditions framework, using both policy rates and the trade-weighted Swiss franc to tighten conditions. With inflation among trading partners running 5-6% above Switzerland, the SNB will want a weaker EUR/CHF to keep the real franc stable.
- If we're right, the SNB could be guiding EUR/CHF to 0.90 next year.

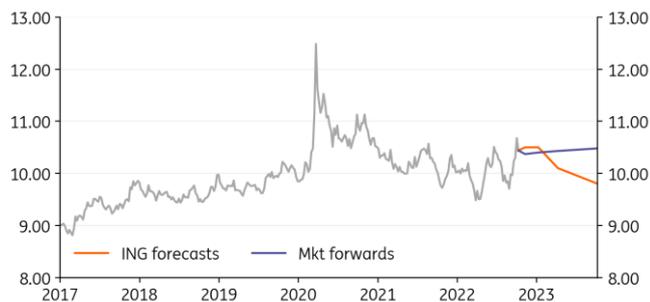
ING forecasts (mkt fwd)	1M 0.95 (0.9676)	3M 0.93 (0.9658)	6M 0.91 (0.9626)	12M 0.90 (0.9559)
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## EUR/NOK

### OPEC+ lifeline not enough

**Current spot: 10.35**



Source: Refinitiv, ING forecasts

- Norway's krone has dropped by more than 6% this past month, with its low-liquidity character leaving it highly exposed to the rocky risk environment.
- A decisive turn in the krone will need to wait for a recovery in risk assets, which may only occur in the new year. The OPEC+ output cuts may suggest a slightly better outlook for oil currencies (in the crosses) into year-end, but not enough to trigger a NOK recovery at this stage.
- Norges Bank should stick to the rate hikes it signalled at its latest meeting: 50bp in November, 25bp in December. There is some room for a hawkish surprise, but FX implications are small.

<b>ING forecasts</b> (mkt fwd)	<b>1M 10.50</b> (10.37)	<b>3M 10.50</b> (10.40)	<b>6M 10.10</b> (10.43)	<b>12M 9.80</b> (10.48)
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## EUR/SEK

### Riksbank's FX protest no help to krona

**Current spot: 10.95**



Source: Refinitiv, ING forecasts

- Riksbank Governor Stefan Ingves recently said the Bank must keep a comfortable distance to the ECB with rate hikes, not least because the Bank is explicitly seeking a stronger krona.
- In practice, rate hikes may still prove largely ineffective to strengthen the krona given the challenging risk environment. Slowing the pace of FX reserve-related SEK selling could actually do more to help SEK, but the central bank has signalled reluctance here.
- There is an elevated risk that EUR/SEK breaks above 11.00 before the end of the year as the energy crisis deepens and risk assets remain pressured. We look for a gradual 2023 recovery in SEK, but the timing remains highly uncertain.

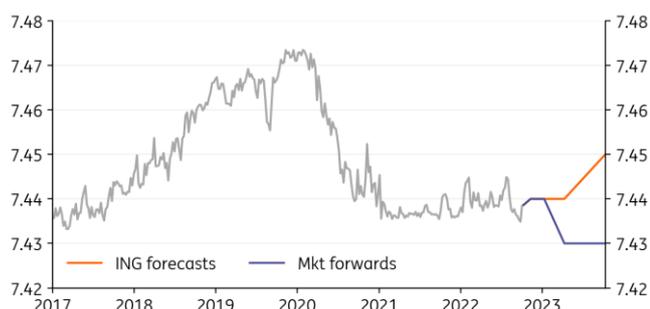
<b>ING forecasts</b> (mkt fwd)	<b>1M 11.00</b> (10.96)	<b>3M 11.00</b> (10.97)	<b>6M 10.90</b> (10.98)	<b>12M 10.40</b> (11.02)
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## EUR/DKK

### DN back to FX intervention

**Current spot: 7.4383**



Source: Refinitiv, ING forecasts

- For the first time in 2022, Danmarks Nationalbank jumped back into the currency market, selling DKK 23bn to weaken Denmark's krone in September. This is half the size of the last FX intervention (47bn in December 2021).
- For now, it looks like DN will stick to replicating the size of ECB rate increases and intervening to support EUR/DKK. However, we expect more EUR weakness into the winter and this may start to cast doubt over the sustainability of FX intervention.
- We still see a non-negligible risk that DN hikes rates by less than the ECB (10bp would be a start) in one of the coming meetings. This risk is likely higher if the ECB sticks to large hikes.

<b>ING forecasts</b> (mkt fwd)	<b>1M 7.44</b> (7.4379)	<b>3M 7.44</b> (7.4367)	<b>6M 7.44</b> (7.4328)	<b>12M 7.45</b> (7.4273)
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## USD/CAD

Loonie's attractiveness underappreciated for longer

Current spot: 1.3722



Source: Refinitiv, ING forecasts

- We haven't changed our view that the loonie should emerge as a key outperformer once sentiment stabilises, thanks to low exposure to Europe and China, the positive impact from high energy prices and a hawkish Bank of Canada (which recently reiterated its commitment to fighting inflation despite economic pain).
- Still, CAD's high beta and USD strength will keep USD/CAD in the 1.35/1.40 region into the new year, in our view, regardless of the BoC matching the Fed's tightening.
- The recent output cuts by OPEC+ are surely a good sign for oil-sensitive currencies, and may somewhat limit the downside risks for CAD even if risk assets remain weak.

ING forecasts (mkt fwd)	1M 1.38 (1.3723)	3M 1.37 (1.3715)	6M 1.31 (1.3699)	12M 1.27 (1.3665)
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## AUD/USD

Downturn should continue

Current spot: 0.6323



Source: Refinitiv, ING forecasts

- We remain bearish on AUD/USD into year-end, as risk sentiment fragility, China's economic (and currency) woes and a strong USD all point to continuous weakness in the pair.
- We currently forecast a bottom of about 0.60-0.61 around year-end before a rebound that should accelerate in the second half of 2023. A break below 0.60 this year is entirely possible though.
- The Reserve Bank of Australia surprised on the dovish side in October as it delivered a "small" 25bp hike. Indeed, policymakers in Australia have greater flexibility given policy meetings are scheduled for each month; but our base case is that 25bp increases will become the norm. The FX implications, for now, should remain quite secondary.

ING forecasts (mkt fwd)	1M 0.62 (0.6326)	3M 0.61 (0.6340)	6M 0.65 (0.6359)	12M 0.68 (0.6380)
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## NZD/USD

Eyeing 0.50?

Current spot: 0.5603



Source: Refinitiv, ING forecasts

- The Reserve Bank of New Zealand has steered away from any dovish signals as it hiked by another 50bp in October and signalled more tightening is on the way. Another 50bp increase is largely expected at the November meeting.
- As with the Australian dollar – and many other developed currencies – the role of monetary policy remains secondary compared to global risk dynamics.
- NZD/USD is looking at the 0.50 2009 lows as the next key support: that would be a 12% drop from the current levels and seems too stretched in our view. However, a move to the 0.52-0.53 area cannot be excluded should risk assets fall further.

ING forecasts (mkt fwd)	1M 0.55 (0.5604)	3M 0.55 (0.5607)	6M 0.58 (0.5614)	12M 0.60 (0.5614)
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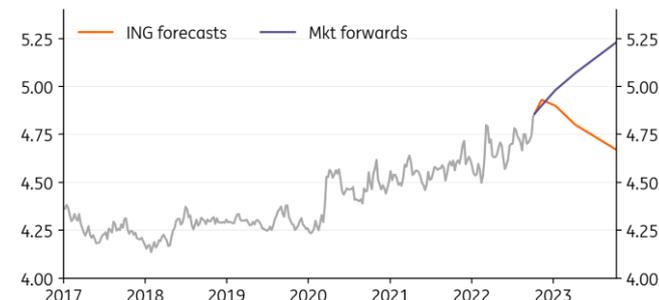


# Emerging markets

## EUR/PLN

PLN remains at risk, due to NBP and global tensions

**Current spot: 4.8688**



Source: Refinitiv, ING forecasts

- Poland's zloty remains at risk of further depreciation. Global sentiment is negative for the CEE region and the National Bank of Poland stuck to its promise of a pause in rate hikes this month. Still, positioning against PLN is already significant (shown by the high costs of FX swaps) and should offer some scope for recovery when external factors improve. However, EUR/PLN is likely to stay above 4.80 in 4Q22 regardless.
- Prospects for 2023 may be largely dependent on Poland retaining access to the larger pool of EU funds. Some warn of new EU tensions ahead of general elections in 2023. The Ministry of Finance's strategy of converting EU funds via the market should provide PLN support (less so than Czech National Bank FX intervention) even as the current account remains in deficit.

ING forecasts (mkt fwd)	1M 4.93 (4.9037)	3M 4.90 (4.9817)	6M 4.80 (5.0652)	12M 4.67 (5.2250)
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## EUR/HUF

Forint breaks away from gloom by mid-2023

**Current spot: 426.59**



Source: Refinitiv, ING forecasts

- A new round of energy woes and related fears of external financing issues have arisen. These concerns have met with fiscal uncertainty and the sudden end of the rate hike cycle, providing reasons for investors to ignite a sell-off in the forint.
- Hungary's deferral of payments to Gazprom can ease pressure on the current account and break the link between energy spikes and HUF weakness. The central bank's effort to dry up forint liquidity will bear fruit. We see EUR/HUF back to sub-410 levels.
- We maintain our optimism relating to an EU deal being sealed before year-end, giving the forint a boost to 400 vs the euro. Looking into 2023, we expect HUF appreciation on reduced country-specific risks, fading inflation and recurring growth.

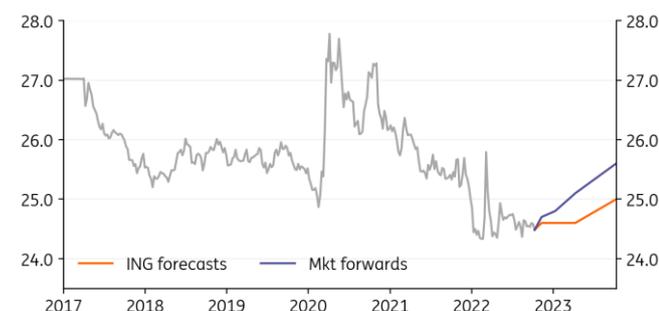
ING forecasts (mkt fwd)	1M 409 (431.46)	3M 397 (440.14)	6M 387 (453.80)	12M 383 (479.52)
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## EUR/CZK

CNB intervention costs raise eyebrows again

**Current spot: 24.52**



Source: Refinitiv, ING forecasts

- As expected, the Czech National Bank left rates unchanged at the September meeting and confirmed the end of its hiking cycle. We think the chances of another rate hike are slightly higher than in August given the central bank's focus on rising wages. However, this is far from our baseline scenario of stable rates.
- Of more interest is the recent increase in FX intervention costs. If the pace of intervention and market pressure persist during the November and December meetings, we can expect the CNB to be pushed to rethink its approach at the end of the year.
- For now, however, our baseline remains unchanged, implying a stable koruna near 24.60 EUR/CZK until 1Q23.

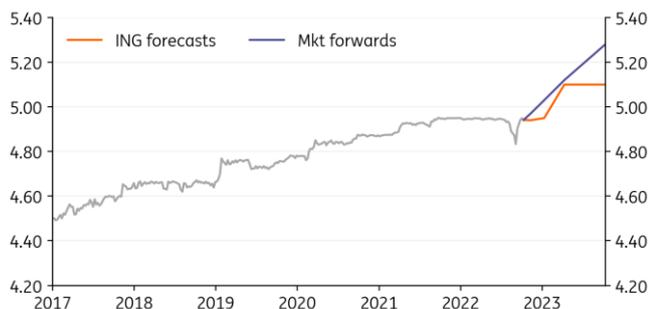
ING forecasts (mkt fwd)	1M 24.6 (24.65)	3M 24.6 (24.85)	6M 24.6 (25.12)	12M 25.0 (25.59)
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## EUR/RON

Back to normal after seasonal inflows are over

Current spot: 4.9400



Source: Refinitiv, ING forecasts

- After seasonal inflows (largely bond-related) ended in early September, the EUR/RON returned to its previous 4.95 level with virtually no intermediary resistance levels.
- There has been a [hawkish twist from the National Bank of Romania](#) which recently increased the key rate by 75bp while other CEE3 central banks have stopped hiking. This will likely support the currency even better in the short term.
- We believe that the global selling pressure on the CEE region is steadily making it more and more expensive for the NBR to keep the currency stable. While we do not see any short-term threat to EUR/RON, it is understandable that stability cannot last forever.

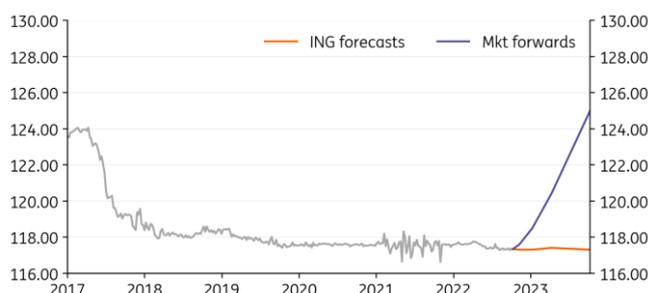
ING forecasts (mkt fwd)	1M 4.94 (4.9659)	3M 4.95 (5.0318)	6M 5.10 (5.1182)	12M 5.10 (5.2791)
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## EUR/RSD

Managed floating at its best

Current spot: 117.34



Source: Refinitiv, ING forecasts

- In line with our view, the National Bank of Serbia continued to hike in October as the key rate reached 4.00%. We maintain our terminal key rate estimate at 4.50%
- In an [opinion piece](#) published on the NBS website, Governor Jorgovana Tabakovic did not shy away from expressing strong views about FX, e.g., "...for as long as I am Governor - the relative stability of the exchange rate will have no alternative" or (our preferred one) "In an environment where we cannot forecast the weather with certainty by looking at weather radars, stability of the FX market is still certain!".
- We maintain our year-end EUR/RSD forecast at 117.30 for both 2022 and 2023.

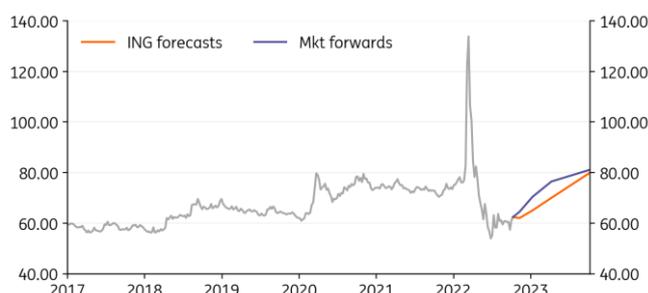
ING forecasts (mkt fwd)	1M 117.30 (117.60)	3M 117.30 (118.50)	6M 117.40 (120.40)	12M 117.30 (125.00)
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## USD/RUB

Volatility is likely to continue

Current spot: 62.17



Source: Refinitiv, ING forecasts

- USD/RUB ended September precisely at our 60.0 target after a volatile month: mobilisation-driven demand for FX mid-month was followed by a corporate FX sell-off on high tax payments and fears of new sanctions against the financial system, including the National Clearing Center. That scenario has not materialised yet.
- October may also prove volatile, as higher oil prices post the OPEC+ meeting, Gazprom's extra tax and dividends should create a push for a stronger rouble, while geopolitical escalation may steer it in the other direction.
- Our longer-term view on RUB depreciation remains unchanged due to the EU oil embargo, recovery in imports and likely resumption of foreign asset accumulation by Russia, including MinFin.

ING forecasts (mkt fwd)	1M 62.00 (64.47)	3M 65.00 (70.36)	6M 70.00 (76.47)	12M 80.00 (81.14)
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## USD/UAH

Stable for now, long term prospects uncertain

Current spot: 36.93



Source: Refinitiv, ING forecasts

- Russian mobilisation suggests no end to the war anytime soon, despite Ukrainian military successes. As such, the National Bank of Ukraine will remain forced to defend the hryvnia, largely relying on international aid to shore up its FX reserves (as the trade balance remains in deep deficit). If the war escalates, the risk of renewed UAH depreciation remains high.
- Uncertainty over the long-term prospects of the hryvnia remains very high. The Russian aggression will most likely continue in 2023, as freshly mobilised troops arrive in bulk. Moreover, the NBU may be more prone to directly supporting the government, after the Governor Kyrylo Shevchenko resigned.

ING forecasts (mkt fwd)	1M 38.50 (37.91)	3M 40.00 (39.92)	6M 40.00 (43.13)	12M 38.00 (47.32)
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## USD/KZT

Between higher oil price and global USD rally

Current spot: 474.56



Source: Refinitiv, ING forecasts

- The Kazakhstan tenge traded slightly stronger than our USD/KZT 480 target despite lower oil prices, suggesting a recovery in physical exports in September. FX spot trading volume was thin, with exporters' FX repatriation and sovereign fund's FX sales for state spending jointly accounting for 32% of it vs. 20% in August.
- The recent OPEC+ deal appears supportive for oil prices without any negative effect on Kazakhstan's exports. Private capital flows should remain KZT-neutral to positive as long as President Tokaev's re-election on 20 November is perceived as likely.
- The tenge's longer-term bias remains bearish till 1-2Q23 amid global USD strength. Also, recent comments from the sovereign wealth fund suggest that FX sales from the fund may be reversed until year-end and may shift to FX asset accumulation next year.

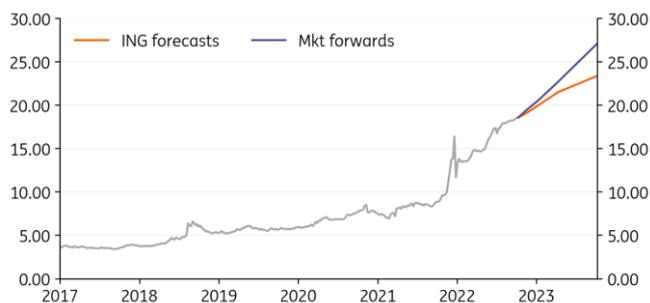
ING forecasts (mkt fwd)	1M 470 (478.96)	3M 490 (486.70)	6M 470 (497.35)	12M 480 (516.73)
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## USD/TRY

A more supportive policy stance

Current spot: 18.58



Source: Refinitiv, ING forecasts

- The policy mix has tilted to a more supportive stance lately given i) another Credit Guarantee Fund package (reportedly at least TRY50bn) which could reverse the recent loss in momentum in lending, though the timing is not specified yet ii) signs of a more expansionary stance on the fiscal side in the medium term plan compared to the previous one iii) 200bp of rate cuts by the Central Bank of Turkey with an emphasis on the importance of keeping financial conditions supportive.
- However, given tighter regulations on the asset side that selectively limit loan growth, cuts are not easing the financial conditions as fast currently.
- TRY is likely remain under pressure in the near term due to elevated inflation and pressure on the external balance amid the unsupportive global backdrop etc. A recovery in FX reserves will be more challenging in this environment.

ING forecasts (mkt fwd)	1M 19.00 (19.31)	3M 20.00 (20.57)	6M 21.50 (22.68)	12M 23.40 (27.16)
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## USD/ZAR

A challenging next six months for the rand

Current spot: 18.14



Source: Refinitiv, ING forecasts

- USD/ZAR recently rose above 18.00 as US yields and the dollar punched to the highs of the year. We are not looking for a top in the dollar until 1Q/2Q next year, meaning that USD/ZAR still risks pushing up to 18.50 and possibly 19.00. The rand is a high beta on Chinese growth and EM prospects in general – neither of which look compelling this year.
- South Africa’s current account has moved a little deeper into deficit, earlier than expected (1.3% of GDP in 2Q) and the central bank will likely have to keep hiking (now 6.25%) to stabilise the rand.
- Political event risk exists at the December ANC conference. President Ramaphosa is under pressure, but alternatives are few.

<b>ING forecasts</b> (mkt fwd)	<b>1M</b> 18.00 (18.19)	<b>3M</b> 18.50 (18.28)	<b>6M</b> 17.50 (18.39)	<b>12M</b> 17.00 (18.68)
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## USD/ILS

Shekel looks too cheap

Current spot: 3.5626



Source: Refinitiv, ING forecasts

- The move of USD/ILS to 3.60 has surprised us – but should be quickly reversed. Israel still enjoys a sizable current account surplus in excess of \$4bn per quarter and has a central bank hiking in 75bp increments in the face of full employment and GDP growth expected at 6% this year and 3% next year. The market expects the Bank of Israel to continue hiking to the 3.75% area – another 100bp.
- The main risk to the shekel is the investment environment, where high US rates are damaging the tech sector and FDI into Israel. These conditions may persist into early 2023.
- We are big fans of the shekel and see it capped in the 3.50/3.60 area – and the Bol may struggle to keep it over 3.00 next year.

<b>ING forecasts</b> (mkt fwd)	<b>1M</b> 3.50 (3.5529)	<b>3M</b> 3.50 (3.5325)	<b>6M</b> 3.40 (3.5128)	<b>12M</b> 3.00 (3.4766)
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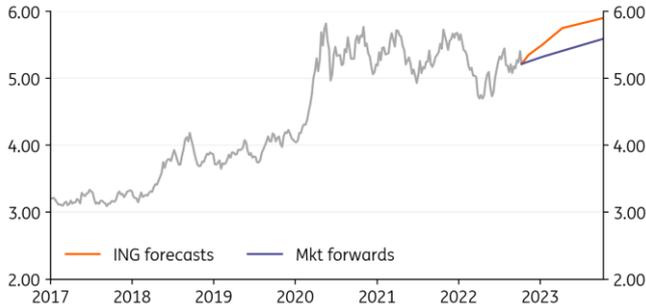


# LATAM

## USD/BRL

### Brazilian assets rally on first round results

**Current spot: 5.1999**



Source: Refinitiv, ING forecasts

- Brazilian assets enjoyed strong gains on the first round election results. Incumbent Bolsonaro did better than expected at 43%, while challenger Lula received 48% support. The run-off is held on 30 October. The better than expected showing of the right in the elections – and particularly the strong showing of the right in Congress – means that either Lula will be dragged to the centre or Bolsonaro can continue his free-market policies.
- There is still the risk, however, of a narrow Lula win on 30 October and contested election results – a big BRL negative.
- A tough external environment, both from higher US rates and lower China/US growths keeps us bearish on the real.

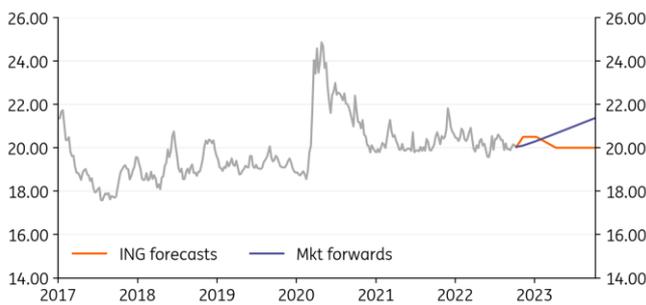
<b>ING forecasts</b> (mkt fwd)	<b>1M 5.35</b> (5.2486)	<b>3M 5.50</b> (5.3191)	<b>6M 5.75</b> (5.4136)	<b>12M 5.90</b> (5.5895)
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## USD/MXN

### Banxico dances toe-to-toe with the Fed

**Current spot: 19.98**



Source: Refinitiv, ING forecasts

- Though it is not official policy, Banxico is doing an exceptionally good job of keeping USD/MXN stable near 20.00. It does this by matching the Fed hike-for-hike. The policy rate is now 9.25% in Mexico and is expected to be hiked another 125bp over the next six months – matching Fed expectations.
- Arguably the peso should perform better than many in EM given its exposure to the strong US economy and relatively low debt to GDP ratio (near 50%) as AMLO espoused new debt during 20/21.
- However, Mexico is a big beast in EM indices. A tough time for EM as the Fed raises rates into a recession could easily see MXN come under pressure over the next three to six months.

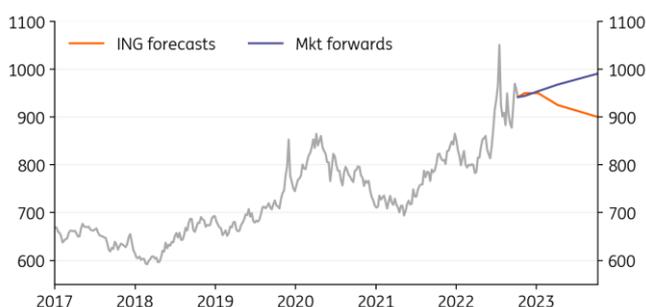
<b>ING forecasts</b> (mkt fwd)	<b>1M 20.50</b> (20.10)	<b>3M 20.50</b> (20.31)	<b>6M 20.00</b> (20.66)	<b>12M 20.00</b> (21.38)
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## USD/CLP

### In the thick of it

**Current spot: 938.33**



Source: Refinitiv, ING forecasts

- Chile's currency remains in the thick of financial market pressure as ill-winds blow from the international environment. Chile's large current account deficit leaves the peso vulnerable and investors can see that central bank FX reserves have dropped 25% from late last year as it tries to support the peso. Tapping the IMF's \$18bn Flexible Credit Line (FCL) to support the CLP would be a new low point – FCL's are precautionary and never meant to be used.
- In response, the central bank is hiking aggressively, with the policy rate now 10.75%. It may have to hike more.
- Weak China and US growth over the next six months and our call for ongoing dollar strength, suggests USD/CLP retests 1000.

<b>ING forecasts</b> (mkt fwd)	<b>1M 950</b> (943.94)	<b>3M 950</b> (954.46)	<b>6M 925</b> (968.30)	<b>12M 900</b> (991.17)
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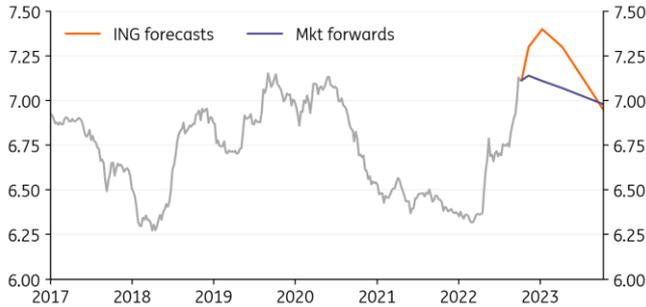


# Asia

## USD/CNY

Saved by the holidays

Current spot: 7.1467



Source: Refinitiv, ING forecasts

- China's yuan slid sharply through most of September in defiance of warnings from the People's Bank of China about one-way bets and some aggressive daily fixes. The currency hit its weakest level in 14 years. A global risk rally on pivot hopes and the Golden Week holidays probably stopped the CNY from weakening even further.
- Ongoing problems relating to the property sector and only gradual tweaks to the zero Covid policy will likely keep the CNY under pressure towards the end of the year.
- The 20th Congress starting on 16 October may provide a reason for a re-think, but until then, weaker seems the more likely direction for the CNY than stronger.

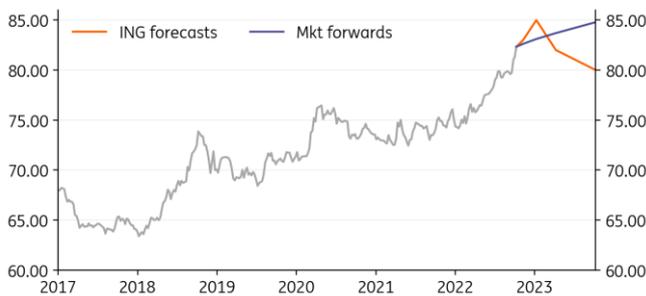
ING forecasts (mkt fwd)	1M 7.30 (7.1354)	3M 7.40 (7.1113)	6M 7.30 (7.0678)	12M 6.95 (6.9752)
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## USD/INR

Bond index hopes smashed

Current spot: 82.33



Source: Refinitiv, ING forecasts

- India's rupee was one of the best-performing Asian currencies in the first half of September, though rapidly falling Reserve Bank of India FX reserves suggest that this came at a price.
- Maybe the RBI decided that there was no point depleting reserves further, or maybe it was the news that JP Morgan would not include Indian government securities in its global bond index until next year, in any case, the INR has reverted to type and slumped past 82.00.
- We doubt this is it. Inflation is picking up again, and the RBI will probably want to feather its next rate moves to give the economy every chance after disappointing in 2Q22.

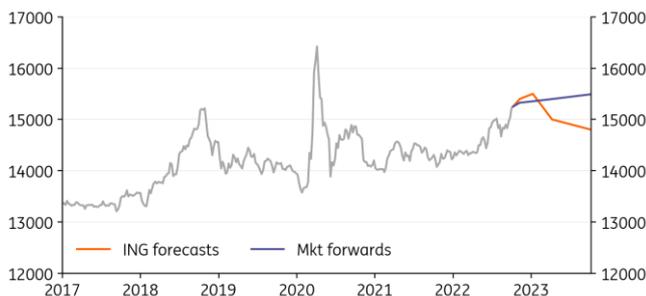
ING forecasts (mkt fwd)	1M 83.00 (82.62)	3M 85.00 (83.11)	6M 82.00 (83.70)	12M 80.00 (84.79)
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## USD/IDR

Rupiah weakens as inflation rises

Current spot: 15312



Source: Refinitiv, ING forecasts

- Indonesia's rupiah traded sideways in early September before retreating on inflation concerns and as foreign investors grew more anxious about EM exposure in the light of Fed rate intentions.
- Bank Indonesia surprised markets with a punchy 50bp rate hike at its 22 September meeting. BI Governor Warjiyo justified the move as pre-emptive action ahead of the impact of price hikes on subsidised fuel.
- BI has stepped up intervention to steady the rupiah, but we still expect currency weakness as risk sentiment fades. Additional tightening from BI may slow the pace of weakness, and Indonesia's inflation is less worrying than some of its peers.

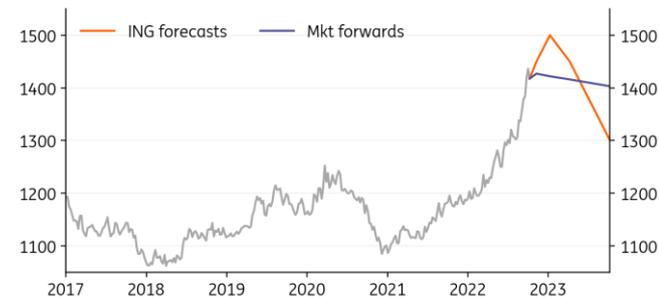
ING forecasts (mkt fwd)	1M 15400 (15326)	3M 15500 (15354)	6M 15000 (15398)	12M 14800 (15492)
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## USD/KRW

Weak won despite central bank intervention

Current spot: 1427.60



Source: Refinitiv, ING forecasts

- The Korean won has been on a roller coaster ride during September, showing typical high beta currency movement.
- FX reserves fell by USD 19.6bn over the month as the authorities intervened. However, trade weakness continued, and as global liquidity conditions become tighter, and the interest gap between Korea and the US continues to widen, we expect more weakness.
- Despite growing concerns about recession, the Bank of Korea has made it clear that hikes will not end until inflation slows significantly. September inflation came down to 5.4% year-on-year, but it will rise again in October. As such, we expect the BoK to make a 50bp hike decision in October and a 25bp hike in November.

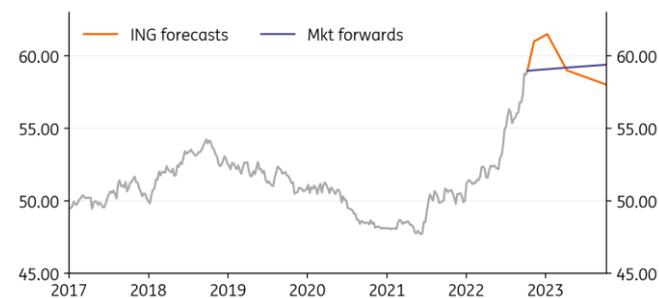
ING forecasts (mkt fwd)	1M 1450 (1426.82)	3M 1500 (1421.58)	6M 1450 (1415.78)	12M 1300 (1403.38)
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## USD/PHP

Peso tumbles as trade deficit widens to new record

Current spot: 58.98



Source: Refinitiv, ING forecasts

- The Philippine peso took a tumble like most of its regional peers in September, sliding 3.8% for the month. A worsening balance of payments on the back of surging imports weighed on the currency as the July trade deficit widened to a record \$5.9bn. Foreign selling in the local equity market did not help the PHP either.
- Bangko Sentral ng Pilipinas hiked policy rates by 50bp on 22 September as expected and BSP Governor Medalla vowed to retain a hawkish bias in the near term.
- The PHP is likely to face sustained weakness for the rest of the year as the Philippine current account remains in deep deficit while financial outflows related to Fed tightening persist.

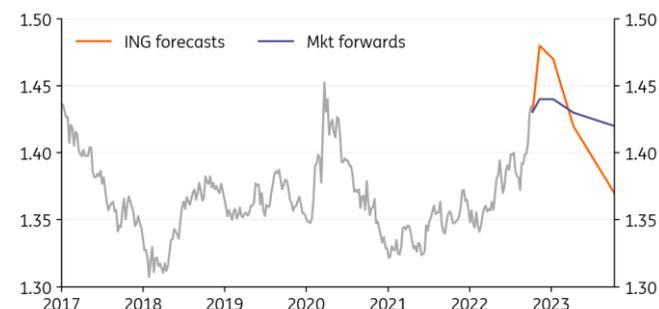
ING forecasts (mkt fwd)	1M 61.00 (59.01)	3M 61.50 (59.08)	6M 59.00 (59.19)	12M 58.00 (59.39)
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## USD/SGD

Singapore dollar dragged down by its peers

Current spot: 1.4368



Source: Refinitiv, ING forecasts

- The Singapore dollar tracked regional currencies on souring sentiment tied to the hawkish Fed tone and expectations for further US rate hikes.
- Inflation continued to accelerate with headline inflation rising to 7.5% YoY and core inflation to 5.1%. The Monetary Authority of Singapore is likely to tighten further in October and will probably need to act aggressively to steady the SGD and combat inflation even as the fiscal support undermines such tightening.
- The SGD will remain pressured in the near term as substantial weakness in trading partner currencies allows the nominal effective exchange rate to remain relatively strong even as USD/SGD rises.

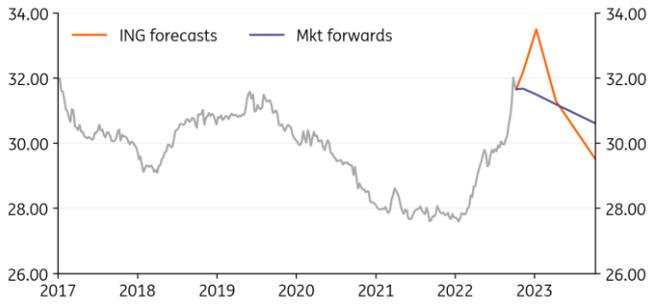
ING forecasts (mkt fwd)	1M 1.48 (1.4367)	3M 1.47 (1.4352)	6M 1.42 (1.4314)	12M 1.37 (1.4230)
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# USD/TWD

## Central bank fails to impress markets

**Current spot: 31.74**



Source: Refinitiv, ING forecasts

- The latest news on the global semiconductor cycle has confirmed the downturn in demand. And as the pre-eminent chip manufacturer in the region, this has hit the Taiwan dollar harder than any other APAC currency except for the KRW and AUD.
- Taiwan's central bank, the CBC, does not have the same inflation problems as other regional central banks. Inflation is currently only 2.75% YoY (Sept). But nonetheless, the 12.5bp rate hike in September taking the policy rate to 1.625% did not impress markets, even with the accompanying 25bp increase in the reserve ratio. Further weakness beckons.

<b>ING forecasts</b> (mkt fwd)	<b>1M</b> 32.20 (31.68)	<b>3M</b> 33.50 (31.50)	<b>6M</b> 31.30 (31.20)	<b>12M</b> 29.50 (30.61)
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## ING foreign exchange forecasts

EUR cross rates	Spot	1M	3M	6M	12M	USD cross rates	Spot	1M	3M	6M	12M
<b>Developed FX</b>											
EUR/USD	0.97	0.95	0.92	0.92	0.98						
EUR/JPY	141.2	138.70	136.16	136.16	140.14	USD/JPY	145.44	146	148	148	143
EUR/GBP	0.88	0.89	0.90	0.90	0.88	GBP/USD	1.11	1.07	1.02	1.02	1.11
EUR/CHF	0.97	0.95	0.93	0.91	0.90	USD/CHF	1.00	1.00	1.01	0.99	0.92
EUR/NOK	10.35	10.50	10.50	10.10	9.80	USD/NOK	10.67	11.05	11.41	10.98	10.00
EUR/SEK	10.95	11.00	11.00	10.90	10.40	USD/SEK	11.29	11.58	11.96	11.85	10.61
EUR/DKK	7.438	7.440	7.440	7.440	7.450	USD/DKK	7.66	7.83	8.09	8.09	7.60
EUR/CAD	1.33	1.31	1.26	1.21	1.24	USD/CAD	1.372	1.38	1.37	1.31	1.27
EUR/AUD	1.53	1.53	1.51	1.42	1.44	AUD/USD	0.63	0.62	0.61	0.65	0.68
EUR/NZD	1.73	1.73	1.67	1.59	1.63	NZD/USD	0.56	0.55	0.55	0.58	0.60
<b>EMEA</b>											
EUR/PLN	4.87	4.93	4.90	4.80	4.67	USD/PLN	5.02	5.19	5.33	5.22	4.77
EUR/HUF	426.6	409.00	397.00	387.00	383.00	USD/HUF	439.4	431	432	421	391
EUR/CZK	24.52	24.6	24.6	24.6	25.0	USD/CZK	25.26	25.9	26.7	26.7	25.5
EUR/RON	4.94	4.94	4.95	5.10	5.10	USD/RON	5.09	5.20	5.38	5.54	5.20
EUR/RSD	117.3	117.3	117.3	117.4	117.3	USD/RSD	120.8	123.5	127.5	127.6	119.7
EUR/RUB	61.06	58.9	59.8	64.4	78.4	USD/RUB	62.18	62.0	65.0	70.0	80.0
EUR/UAH	35.84	36.6	36.8	36.8	37.2	USD/UAH	36.93	38.50	40.00	40.00	38.00
EUR/KZT	460.5	446.5	450.8	432.4	470.4	USD/KZT	474.6	470	490	470	480
EUR/TRY	18.04	18.05	18.40	19.78	22.93	USD/TRY	18.58	19.00	20.00	21.50	23.40
EUR/ZAR	17.60	17.1	17.0	16.1	16.7	USD/ZAR	18.14	18.00	18.50	17.50	17.00
EUR/ILS	3.46	3.33	3.22	3.13	2.94	USD/ILS	3.56	3.50	3.50	3.40	3.00
<b>LATAM</b>											
EUR/BRL	5.05	5.08	5.06	5.29	5.78	USD/BRL	5.20	5.35	5.50	5.75	5.90
EUR/MXN	19.50	19.5	18.9	18.4	19.6	USD/MXN	19.98	20.50	20.50	20.00	20.00
EUR/CLP	910.65	903	874	851	882	USD/CLP	938.33	950	950	925	900
<b>Asia</b>											
EUR/CNY	6.94	6.94	6.81	6.72	6.81	USD/CNY	7.15	7.30	7.40	7.30	6.95
EUR/IDR	14851	14630	14260	13800	14504	USD/IDR	15313	15400	15500	15000	14800
EUR/INR	79.90	78.9	78.2	75.4	78.4	USD/INR	82.34	83.00	85.00	82.00	80.00
EUR/KRW	1385.48	1378	1380	1334	1274	USD/KRW	1427.60	1450	1500	1450	1300
EUR/PHP	57.24	58.0	56.6	54.3	56.8	USD/PHP	58.98	61.0	61.5	59.0	58.0
EUR/SGD	1.39	1.41	1.35	1.31	1.34	USD/SGD	1.44	1.48	1.47	1.42	1.37
EUR/TWD	30.80	30.6	30.8	28.8	28.9	USD/TWD	31.74	32.2	33.5	31.3	29.5

Source: Refinitiv, ING

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