

FX Talking

September 2023

Strong dollar

overstays its welcome



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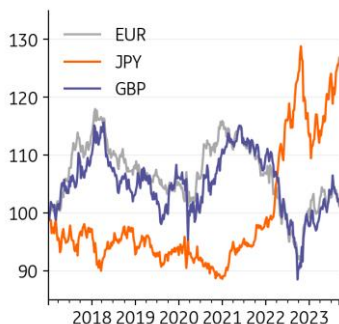
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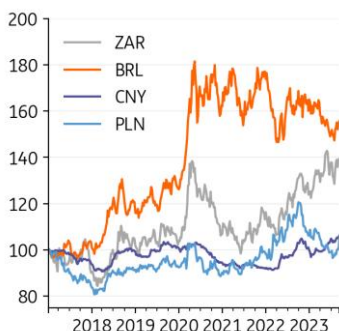
Strong dollar overstays its welcome

USD/Majors (4 Jan 15=100)



Source: Refinitiv, ING forecast

USD/EM (4 Jan 15=100)



Source: Refinitiv, ING forecast

Despite much anticipation of de-dollarisation trends and a new world order, the dollar exits the summer season in rude health. The clear driver remains a surprisingly strong US economy set against deteriorating business trends in Europe and especially China. This dollar strength is starting to look unwelcome in that inflation fears have not entirely receded in the rest of the world and local currency weakness is unhelpful.

The million-dollar question, then, is whether this US ‘exceptionalism’ can last? Our economists think not. We think US consumers will have worked through their pandemic savings over coming months and that tighter credit conditions will take their toll on US businesses and employment trends. We look for a much sharper 2024 Fed easing cycle than the market currently prices and expect the dollar to turn south through 4Q23.

The subdued outlook for the European manufacturing sector means that EUR/USD gains will be hard won. Our year-end forecast of 1.13 may again be too aggressive. Yet the long-awaited bullish steeping of the US yield curve should reflate commodity currencies over coming months and even high beta currencies like the Swedish krona.

Emerging currencies are showing some glaring divergences. In Asia, Chinese authorities will continue to do battle with renminbi weakness until the dollar trend turns. A surprisingly large rate cut in Poland has raised some doubts about premature easing and has hit the zloty. While in Latam, some aggressive easing cycles are underway. However, fears over Banxico wanting a weaker Mexican peso look overblown..

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Our main calls this month

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.08	→	145	↓	1.26	↑
3M	1.12	↑	135	↓	1.27	↑
6M	1.15	↑	130	↓	1.29	↑
12M	1.18	↑	125	↓	1.34	↑

	EUR/GBP		EUR/CZK		EUR/PLN	
1M	0.86	→	24.25	↓	4.67	↑
3M	0.88	↑	24.00	↓	4.72	↑
6M	0.89	↑	23.50	↓	4.60	↓
12M	0.88	→	23.75	↓	4.50	↓

	USD/CNY		USD/MXN		USD/BRL	
1M	7.25	↓	17.00	↓	4.90	↓
3M	7.15	↓	17.00	↓	4.80	↓
6M	7.00	↓	16.75	↓	4.80	↓
12M	6.80	↓	16.50	↓	4.80	↓

↑ / → / ↓ 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	AUD/USD	USD/CAD
%MoM	-4.2	0.3	-1.3	-2.4	2.8	1.1
%YoY	-8.6	6.3	-3.3	-3.0	-4.7	1.8

	USD/CNY	USD/KRW	USD/HUF	USD/PLN	USD/ZAR	USD/BRL
%MoM	6.1	18.6	-3.0	2.7	-0.7	7.1
%YoY	8.1	21.6	-10.1	19.5	-2.9	90.7

Source: Refinitiv, ING forecast

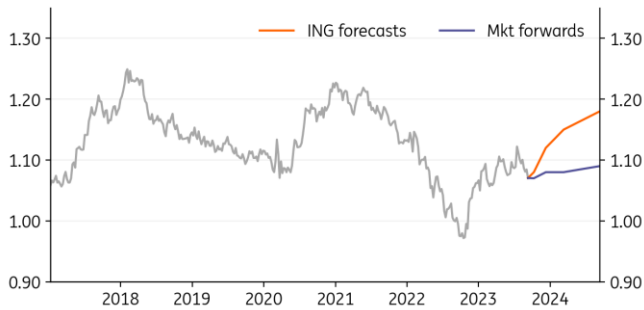


Developed markets

EUR/USD

Perfect storm blowing through

Current spot: 1.0714



Source: Refinitiv, ING forecasts

- It has been a tough couple of months for EUR/USD – falling around 5% from its peak in July. Driving that has been the relentless run of strong US data, plus cratering eurozone business surveys pointing to recession. Add in higher energy prices and you can see why EUR/USD is down here.
- But we're not throwing in the towel on our bullish view. We think the US consumer will blow through their pandemic savings over the next few months and that softer US activity will emerge.
- And we look for one final ECB hike in September as the ECB remains more preoccupied with inflation than soft growth. Moving into 4Q23, the softer dollar trend should be in control.

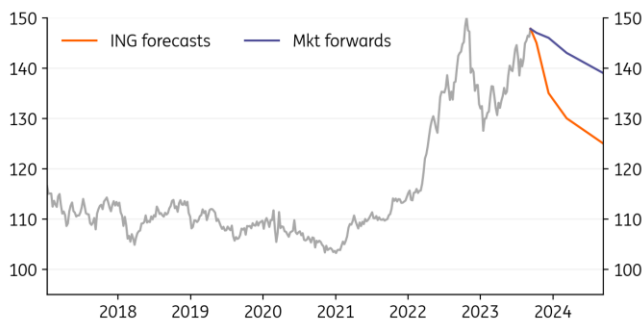
ING forecasts (mkt fwd)	1M 1.08 (1.0728)	3M 1.12 (1.0759)	6M 1.15 (1.0814)	12M 1.18 (1.0911)
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USD/JPY

Expecting intervention soon

Current spot: 147.66



Source: Refinitiv, ING forecasts

- Officials in Tokyo are giving the signals that FX intervention will be imminent. Recall the Bank of Japan sold \$70bn in the 145-150 region in September and October last year. While Japanese officials cannot cite disorderly markets now (volatility is lower) they will still want to break a one-way streak in USD/JPY.
- Intervention will not be enough to turn the current trend, however, given strong interest in the yen-funded carry trade. The BoJ will need to back FX intervention up with a Yield Curve Control tweak – most likely at the late October meeting.
- The big reversal lower in USD/JPY only comes when the dollar trend is ready to turn – something we expect as 4Q progresses.

ING forecasts (mkt fwd)	1M 145 (146.96)	3M 135 (145.53)	6M 130 (143.32)	12M 125 (139.32)
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GBP/USD

Sticky wages keep the Bank of England in a hawkish mode

Current spot: 1.2476



Source: Refinitiv, ING forecasts

- The stronger dollar has taken its toll on GBP/USD as has the repricing of the Bank of England cycle. Some softer price expectation data has seen the BoE terminal rate repriced from 6.50% to 5.60% in just a couple of months. We look for a final 25bp hike to 5.50% on 21 September – which still leaves some room for sterling market rates to come a little lower.
- Key inputs into the BoE story will be the wage data (12th) and the CPI on the 20th. However, one last BoE hike looks likely.
- The better news for sterling is that 2021 GDP has been revised substantially higher. We wonder whether the Tory government will loosen its fiscal position at the November 2022 budget.

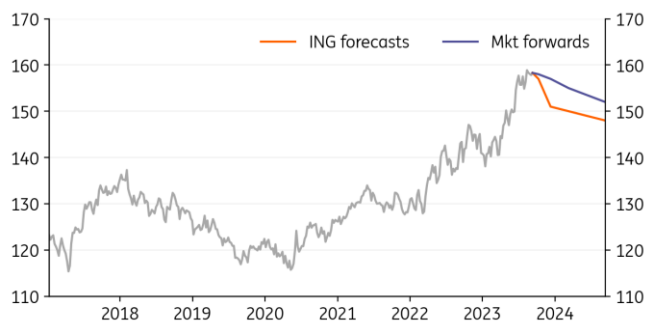
ING forecasts (mkt fwd)	1M 1.26 (1.2475)	3M 1.27 (1.2476)	6M 1.29 (1.2480)	12M 1.34 (1.2468)
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EUR/JPY

Positioning favours the downside

Current spot: 158.21



Source: Refinitiv, ING forecasts

- Positioning data points to speculators being substantially short yen, while still trying to hang onto long euro positions. Were the dollar to push any higher this month, we suspect there would be more room against the euro than yen and EUR/JPY would drop. We could easily see sub-155 levels.
- In terms of the bigger picture, we forecast EUR/JPY to trend lower as US Treasury yields drop into year-end. We have a 3.75% forecast for the US ten year.
- A EUR/JPY move above 160 looks difficult and would probably require some even more benign conditions (hard to see with volatility so low already) and some failed BoJ FX intervention.

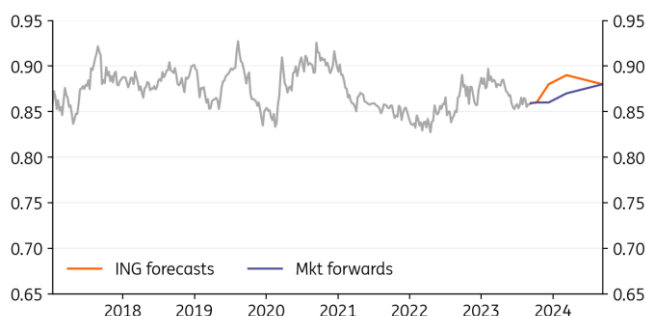
ING forecasts (mkt fwd)	1M 157 (157.67)	3M 151 (156.60)	6M 150 (155.02)	12M 148 (152.01)
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EUR/GBP

Becalmed

Current spot: 0.8588



Source: Refinitiv, ING forecasts

- Sterling has performed poorly considering all the dire data emerging from the eurozone. One area of weakness for the UK going forward will be the housing market. Here, the average rate on the UK mortgage stock is now 3% and expected to rise to 4% into 2024 as more refinancing works through the system. This will deliver a hit to consumption and to house prices.
- We also think that sterling is a little vulnerable to a re-pricing of the BoE curve and that is behind our call for EUR/GBP to be trading up to 0.88 by year-end.
- There will not be a lot to choose between UK and eurozone growth next year – both expected at 0.6%.

ING forecasts (mkt fwd)	1M 0.86 (0.8599)	3M 0.88 (0.8624)	6M 0.89 (0.8665)	12M 0.88 (0.8750)
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EUR/CHF

Nominal CHF trade-weight appreciation at 7% YoY

Current spot: 0.9558



Source: Refinitiv, ING forecasts

- On a trade-weighted basis the CHF is now 7% stronger than a year ago. In real terms, it is 3.5% stronger suggesting the Swiss National Bank is actually being a little bit more aggressive with CHF strength than we thought. We had assumed it wanted a stable real CHF. Given that inflation is running around 1.5-2.0% in Switzerland, it will still probably need around 3-5% nominal CHF appreciation to keep the real exchange rate stable.
- Given USD/CHF is strong, SNB is therefore pursuing a stronger CHF through selling FX reserves to drive EUR/CHF lower. The longer the dollar stay strong, the more likely EUR/CHF trades sub-0.95.
- Expect a final SNB 25bp hike to 2.00% on 21 September.

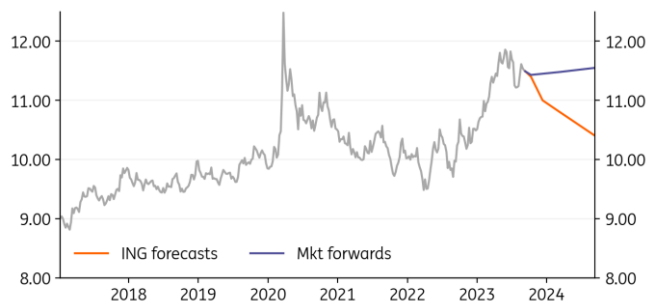
ING forecasts (mkt fwd)	1M 0.95 (0.9542)	3M 0.96 (0.9508)	6M 0.97 (0.9457)	12M 1.00 (0.9366)
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EUR/NOK

One last hike by Norges Bank

Current spot: 11.42



Source: Refinitiv, ING forecasts

- NOK has followed the correction in pro-cyclical currencies since early August, meaning it is now trading with a wider undervaluation compared to its strong fundamentals.
- Norges Bank has one last hike in the barrel according to its own projections and has pre-announced it should deliver it in September (also our base case). The new rate projections may show openness to another hike to support NOK, although the weakness in the currency is not alarming at the moment.
- High oil prices means that the daily FX purchases are even less likely to be scaled back before year-end, so a turn in NOK is fully reliant on worse US activity data and better global risk sentiment.

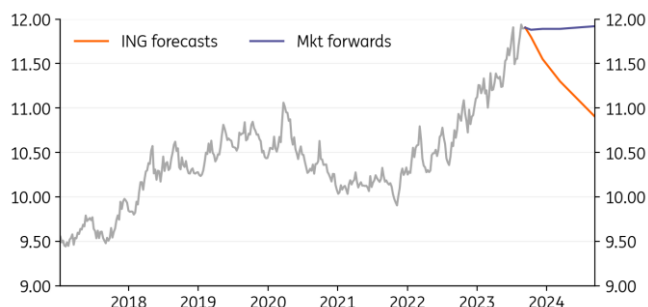
ING forecasts (mkt fwd)	1M 11.40 (11.43)	3M 11.00 (11.45)	6M 10.80 (11.48)	12M 10.40 (11.55)
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EUR/SEK

12.00 risk before a SEK recovery

Current spot: 11.88



Source: Refinitiv, ING forecasts

- We have recently published an update on the [Swedish economic and FX outlook](#). While the domestic activity picture remains challenging, investors may have overestimated the downside risks to economy (including the real estate sector), and we still expect the Riksbank to hike by another 25bp in September.
- We think the RB may include another hike in its rate projections, which can help halt the krona's weakness. Ultimately, however, a sustainable rebound in SEK can only happen once global conditions for high-beta currencies improve (we expect from 4Q).
- The timing of a downtrend in EUR/SEK is uncertain, and before external conditions/the Riksbank allow it, 12.00 can be tested.

ING forecasts (mkt fwd)	1M 11.80 (11.88)	3M 11.55 (11.89)	6M 11.30 (11.89)	12M 10.90 (11.92)
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EUR/DKK

Unusual volatility in DKK

Current spot: 7.4593



Source: Refinitiv, ING forecasts

- Danmarks Nationalbank did not buy or sell DKK in FX interventions for the seventh straight month in August.
- EUR/DKK has faced unusual upward volatility recently. This may be due to speculative flows as the krone approached central parity with the euro (7.4604). EUR/DKK very briefly traded above that level for the first time since May 2020 before declining.
- If indeed speculative flows were behind the move in DKK, DN will hardly be cheering the fact that EUR/DKK is now at the centre of the peg band. Still, DN takes countermeasures when speculative attacks aim at breaking the peg, so for now expect the zero-intervention policy to continue and DN to follow the ECB moves.

ING forecasts (mkt fwd)	1M 7.46 (7.4571)	3M 7.46 (7.4520)	6M 7.46 (7.4443)	12M 7.46 (7.4308)
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USD/CAD

Stretched mis-valuation

Current spot: 1.3625



Source: Refinitiv, ING forecasts

- USD/CAD is trading around 2.3% above its short-term fair value at the time of writing, more than 2.5 times the standard deviation of its mis-valuation over the past year. This is due to CAD not having benefitted from the oil rally and the fact that the USD:CAD near-term rate differential only rose modestly recently.
- Softer US data and some repricing of rate cuts back into the USD curve look necessary to allow that valuation gap to be covered: once this happens, the drop in USD/CAD can be quite sizable.
- The Bank of Canada should offer little help to CAD from now on, as we expect no more hikes after dismal growth figures. Still, CAD retains the best volatility-adjusted carry in G10.

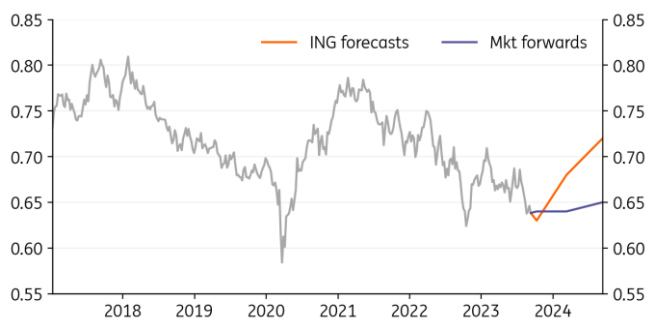
ING forecasts (mkt fwd)	1M 1.35 (1.3620)	3M 1.32 (1.3608)	6M 1.28 (1.3588)	12M 1.25 (1.3566)
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AUD/USD

Still looking for a bottom

Current spot: 0.6387



Source: Refinitiv, ING forecasts

- The cross-fire that had hit the Australian dollar throughout August (combination of high US rates and plummeting Chinese sentiment) has not ceased since the start of September.
- Moving ahead we expect the US growth/Fed easing, and in turn the global USD story, to be the key driver of AUD/USD. This is not to say that China will be put on the backburner, but a lot of the deterioration in Chinese growth is already priced into AUD, and things may gradually improve from here with monetary and fiscal stimulus being deployed in Beijing.
- AUD/USD may still be searching for its bottom, but we still like a strong recovery into the new year, in line with USD decline story.

ING forecasts (mkt fwd)	1M 0.63 (0.6393)	3M 0.65 (0.6407)	6M 0.68 (0.6428)	12M 0.72 (0.6458)
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NZD/USD

All about external drivers

Current spot: 0.5897



Source: Refinitiv, ING forecasts

- The Kiwi dollar has been only driven by external factors since the RBNZ meeting on 16 August, due to a lack of market-moving data releases in New Zealand. GDP numbers are the main highlight in the September calendar, but the Reserve Bank of New Zealand looks unlikely to change its tone at the 4 October policy meeting.
- On 13-14 October, general elections will be held in New Zealand. Opinion polls suggest a centre-right coalition are on track to win the vote, but the impact on the currency should be quite limited.
- We expect an extended period where NZD/USD will almost entirely be driven by the dollar leg. We see downside risks in the near term and a rebound in the longer run.

ING forecasts (mkt fwd)	1M 0.58 (0.5897)	3M 0.60 (0.5898)	6M 0.63 (0.5899)	12M 0.66 (0.5894)
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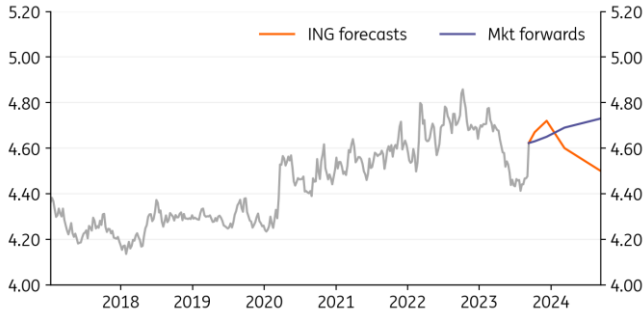


Emerging markets

EUR/PLN

€/PLN rise already on the way

Current spot: 4.6141



Source: Refinitiv, ING forecasts

- The zloty weakened a bit sharper and faster than we expected amid a frontloaded 75bp NBP rate cut as the main catalyst. Unfortunately, we do not expect things to get better by year end. NBP remains on an easing path, while the Fed and ECB still do not rule out hikes. Moreover, we fear some deterioration in Poland's current account, given poor leading indicators from Germany.
- Our relative value model (gauging €/PLN against other market variables) shows further upside potential given i.e. a decline in PLN FRA or IRS contracts. Our estimates suggest scope for the zloty reaching 4.70 or somewhat above against the euro in the coming months. The scale may largely depend on Ministry of Finance willingness to defend against a weaker zloty.

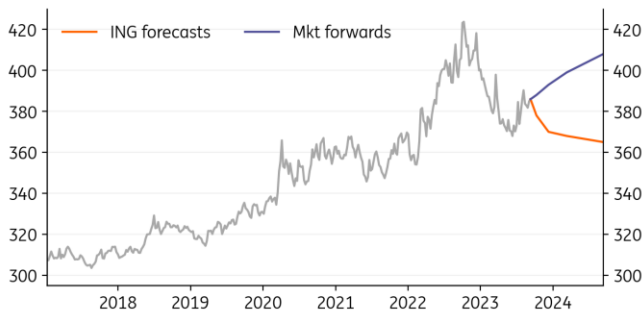
ING forecasts (mkt fwd)	1M 4.67 (4.6262)	3M 4.72 (4.6494)	6M 4.60 (4.6879)	12M 4.50 (4.7313)
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Piotr Poplawski, piotr.poplawski@ing.pl

EUR/HUF

We still see enough reasons to believe in the forint

Current spot: 385.15



Source: Refinitiv, ING forecasts

- After a weak July, we saw a stronger August for the HUF, and which started autumn on a poor footing. Besides a stronger USD, the forint remains vulnerable to country-specific shocks.
- The latest comes from a revised debt financing plan. The additional issuance of 0.9% of GDP is eerily close to the EU funds at risk this year. Understandably, the market is eager to connect the dots, even if we don't think this is a clear bad signal.
- In contrast, the government has made a formal bid for Budapest Airport, which we don't think it would have done if it had known that the EU deal was going to fall through. Improving external balance, high carry, and the awaited EU deal give us faith in HUF.

ING forecasts (mkt fwd)	1M 378 (388.11)	3M 370 (393.18)	6M 368 (399.34)	12M 365 (408.13)
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Péter Virovác, peter.virovacz@ing.com

EUR/CZK

Koruna drops alongside CEE peers

Current spot: 24.35



Source: Refinitiv, ING forecasts

- It has been a softer month for CEE currencies, with the Polish zloty leading the charge after the surprisingly large rate cut. This has seen EUR/CZK trade up to the highs of the year and perhaps suggests it was an inopportune time in August for the Czech National Bank to say it was pulling back from FX intervention.
- With much focus on easing cycles in the region, we think the CNB can cut 25bp in November. The market has priced around 70bp by year-end and around 200bp over the next 12 months on the back of disinflation, slow growth and tighter fiscal policy.
- Czech implied yields are still quite high at 6.5%+ and if we are right with call for a higher EUR/\$, EUR/CZK can soften in 2024.

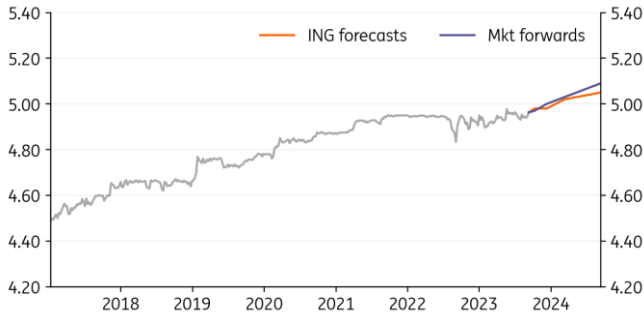
ING forecasts (mkt fwd)	1M 24.2 (24.42)	3M 24.0 (24.54)	6M 23.5 (24.66)	12M 23.8 (24.84)
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EUR/RON

Trending higher as inflows subside

Current spot: 4.9641



Source: Refinitiv, ING forecasts

- As bond-related inflows seem to have faded over the summer together with the one-off seasonal factors, EUR/RON is gradually climbing towards 4.98, which we think is the temporary resistance level.
- The upward bias of the pair correlates with a slowly but gradually decreasing liquidity surplus in the money market, which reached RON23bn in August, from the highs of RON30bn earlier this year.
- We maintain our 5.02 estimate for the year-end while admitting that the central bank's tolerance for leu depreciation seems very limited, especially at a time of consistent fiscal changes which have some potential to slightly derail the inflation story.

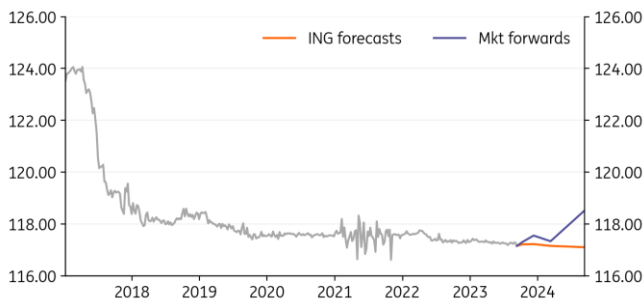
ING forecasts (mkt fwd)	1M 4.98 (4.9745)	3M 4.98 (4.9952)	6M 5.02 (5.0261)	12M 5.05 (5.0893)
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Valentin Tataru, valentin.tataru@ing.com

EUR/RSD

Tightening via higher reserve requirements

Current spot: 117.18



Source: Refinitiv, ING forecasts

- As expected, the National Bank of Serbia (NBS) kept the policy rate on hold at 6.50% in September, which we still view as the end of the road for the hiking cycle.
- Interestingly and largely unanticipated, the NBS has nevertheless continued to tighten monetary conditions by increasing the bank's required reserves rates. This will mop up around 20% of the surplus dinar liquidity and make the key rate level more relevant for the market rates.
- We believe that the next policy decision will be a rate cut in the first half of 2024. We do not envisage headline inflation back within NBS's 1.5%-4.5% target range over the next two years.

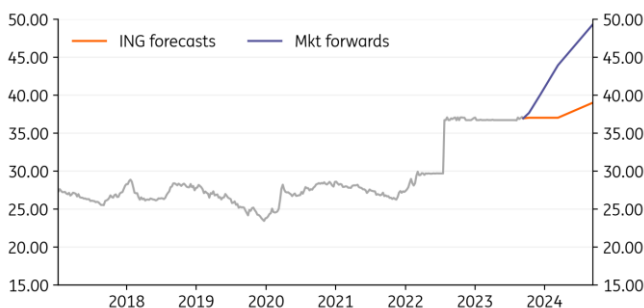
ING forecasts (mkt fwd)	1M 117.21 (117.30)	3M 117.22 (117.55)	6M 117.15 (117.33)	12M 117.10 (118.52)
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USD/UAH

Range-bound, but long-term risks remain

Current spot: 36.92



Source: Refinitiv, ING forecasts

- The situation of the hryvnia remains mostly unchanged. Intervention to stabilise the currency increased in August (nearly US\$2.5bn) likely reflecting the prior National Bank of Ukraine rate cut. However, foreign reserves remain relatively stable above US\$40bn, given the inflow of foreign aid. As such the NBU is unlikely to be forced to adjust its FX strategy anytime soon.
- Long-term prospects are not optimistic though. Some analysts predict the conflict to last at least until the US presidential elections, as Russia reportedly prepares for another wave of mobilisation. The damage to the economy will most likely result in a long period of foreign trade deficit. That is why we expect the NBU to allow some hryvnia weakening in the future, possibly no sooner than the conflict ends.

ING forecasts (mkt fwd)	1M 37.00 (37.63)	3M 37.00 (40.11)	6M 37.00 (43.92)	12M 39.00 (49.34)
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Piotr Poplawski, piotr.poplawski@ing.pl

USD/KZT

Stronger oil outweighed by trade partners' weakness

Current spot: 464.36



Source: Refinitiv, ING forecasts

- The tenge weakened in August from 445 to 458/\$. The direction was in line with our expectations, but the magnitude was surprising given that Brent was strong in the \$83-88/bbl range.
- One possible explanation could be related to oil exports. The announcement of pursuing more seaborne oil exports indicate some potential obstacles on the Russian pipeline route.
- Another explanation would be the weakening of CNY by 1.6% and RUB by 4.6% in August. China and Russia account for a combined 29% of Kazakhstan's exports and 52% of imports. Finally, the replacement of the head of the central bank after just one year and the president criticising the high key rate could be a trigger for some portfolio outflows.

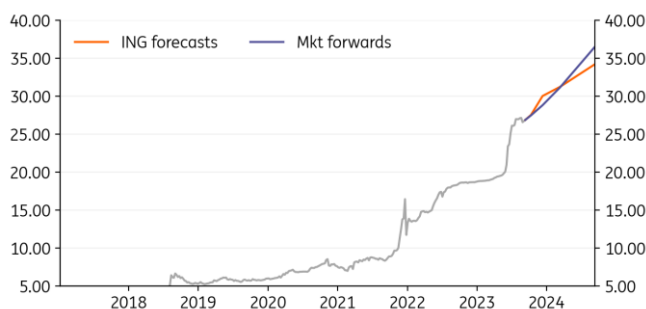
ING forecasts (mkt fwd)	1M 465 (467.74)	3M 460 (473.99)	6M 470 (482.75)	12M 475 (499.79)
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Dmitry Dolgin, dmitry.dolgin@ingbank.com

USD/TRY

Actions in the summer

Current spot: 26.85



Source: Refinitiv, ING forecasts

- The Central Bank of Turkey's (CBT) latest rate hike was significant and raises expectations for the terminal rate. It also announced a new strategy to unwind the FX-protected deposit scheme. These actions are likely to lead banks to hike deposit rates. Risk of FX demand from locals in this process will also be closely watched.
- While the August hike was a surprise, it is still far from enough given another broad uptrend in inflation.
- The Government's Medium-Term Plan envisages higher nominal exchange rate projections, USD/TRY at 36.8 in 2024, implying a 54% annual increase in average USD/TRY. However, the plan sees a significant improvement in inflation to 33% next year, from 65% at end-2023 - likely requiring a very tight monetary stance.

ING forecasts (mkt fwd)	1M 27.50 (27.44)	3M 30.00 (28.79)	6M 31.20 (31.12)	12M 34.20 (36.51)
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Muhammet Mercan, muhammet.mercan@ing.com.tr

USD/ZAR

No evidence of arms shipped to Russia

Current spot: 19.10



Source: Refinitiv, ING forecasts

- Earlier this month, South Africa President Cyril Ramaphosa announced that there was no evidence to suggest that South Africa had shipped arms to Russia - as had been alleged back in May. This may close the chapter on this story, but USD/ZAR is still trading above 19.00. This looks down to the soft China and strong dollar story - neither of which may change imminently.
- The rand still enjoys high real interest rates (using current inflation) of close to 4%. This suggests that the rand should recover whenever external conditions settle.
- Domestically the South African Reserve Bank (SARB) looks as if it's entering a prolonged pause - having taken rates to 8.25%.

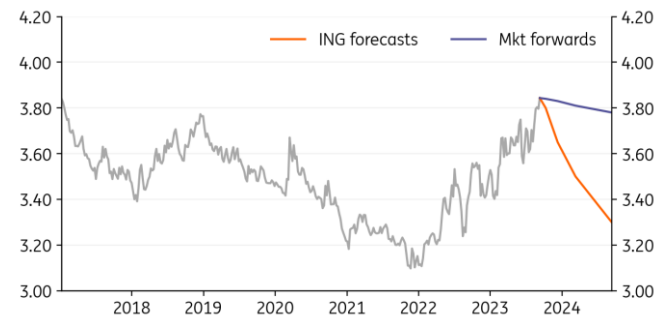
ING forecasts (mkt fwd)	1M 19.00 (19.15)	3M 18.50 (19.25)	6M 18.00 (19.39)	12M 17.50 (19.68)
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USD/ILS

'Excess' shekel depreciation of over 10%, says Bol

Current spot: 3.8455



Source: Refinitiv, ING forecasts

- Israel's constitutional crisis rages on, with little sign of progress. There have been some suggestions that the Israeli President is trying to broker a compromise over PM Netanyahu's contentious judicial reforms – but it feels like we've been here before.
- Interestingly, the Bank of Israel governor, Amir Yaron, says the shekel may have an 'excess' depreciation of over 10% - which has added 1.5% to headline inflation. Clearly any compromise on the reforms should trigger a decent (5%?) rally in the shekel.
- For the time being, however, a difficult external and internal environment are keeping USD/ILS bid. Any moves towards 3.90+ will probably see the Bol hike when it next meets in October.

ING forecasts (mkt fwd)	1M 3.80 (3.8422)	3M 3.65 (3.8320)	6M 3.50 (3.8114)	12M 3.30 (3.7757)
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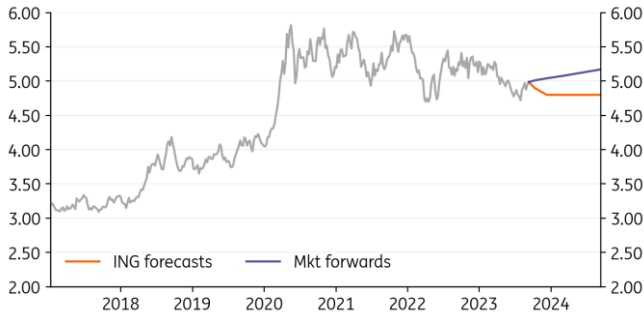


LATAM

USD/BRL

Steady easing cycle remains priced

Current spot: 4.9836



Source: Refinitiv, ING forecasts

- Higher US yields and a stronger dollar have pushed USD/BRL close to 5.00 and seen the market take out about 25bp of expected easing this year. Market pricing of around 155bp of easing by year-end now looks conservative and assumes that Brazil's central bank cuts 50bp at each of the Sep, Nov & Dec meetings.
- Over the last month we have seen Brazil's second-quarter GDP come in at 0.9% QoQ versus 0.3% expected. The central bank is a little worried this could see the government backtrack on plans for fiscal consolidation. But Brazil's CDS has not moved much.
- High real rates for the BRL (around 7% if we use current inflation) should see good demand for BRL once external conditions settle.

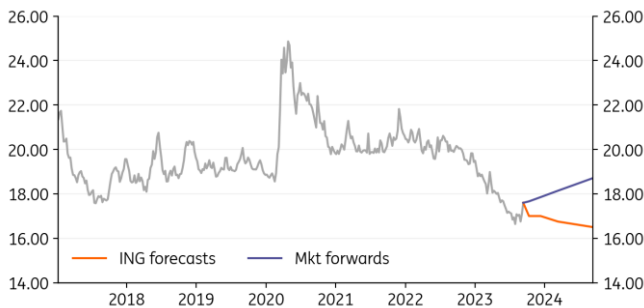
ING forecasts (mkt fwd)	1M 4.90 (5.0088)	3M 4.80 (5.0400)	6M 4.80 (5.0850)	12M 4.80 (5.1684)
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USD/MXN

Banxico makes waves with forward book unwind

Current spot: 17.57



Source: Refinitiv, ING forecasts

- For a change we have had a big local story in Mexico. Banxico has announced that it will start 'gradually' unwinding its \$7.5bn FX forward book starting this month. Banxico had auctioned off dollars in 2017 and 2020 to support the peso when it was under pressure. It now wants to buy those dollars back and will do so by allowing its forward book to roll off. That could mean as much as \$2.5bn of less dollar supply in September.
- Some are arguing that this marks Banxico's protest against a strong peso. We think it is more of a commercial decision.
- A tough external environment could see USD/MXN trade to 18.00 this month, but a good macro story favours 17 again soon.

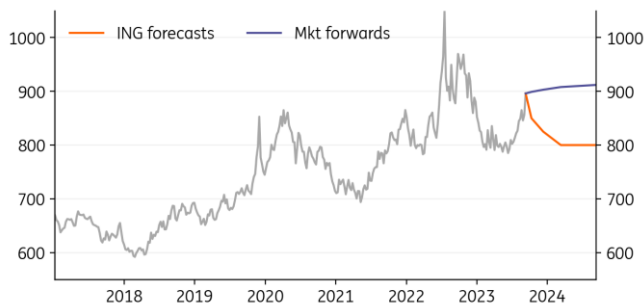
ING forecasts (mkt fwd)	1M 17.00 (17.66)	3M 17.00 (17.85)	6M 16.75 (18.14)	12M 16.50 (18.71)
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USD/CLP

Central bank needs to be a little careful

Current spot: 896.20



Source: Refinitiv, ING forecasts

- Chile's central bank followed up its 100bp easing in July with a 75bp rate cut in September. The policy rate is now 9.50%. Expectations have been guided for the policy rate to be cut to 7.75/8.00% by year-end, with meetings in October & December.
- Confident rate cuts are being made on the fact that two-year inflation expectations are stable at 3%. Yet core inflation is still currently over 8%. Should core not fall as quickly as expected and the central bank still cut, the CLP could be hit harder.
- The external environment has not been kind to Latam currencies. But if we are right with our dollar call, USD/CLP can edge lower later this year. But sub-800 levels seem out of the question.

ING forecasts (mkt fwd)	1M 850 (899.47)	3M 825 (903.35)	6M 800 (907.55)	12M 800 (911.90)
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Asia

USD/CNY

People's Bank of China still holding the line

Current spot: 7.3424



Source: Refinitiv, ING forecasts

- The CNY continues to trade close to 7.30 - a level which the PBoC has defended staunchly with its daily fixes, loosening up requirements to hold foreign currency on reserve, as well as encouragement for banks to sell USD and buy CNY.
- Together with a slew of supply-side measures aimed to breathe life into the property market, the line is being held for now.
- This feels like a holding pattern, no more, in the hope that the US slows, Fed rate expectations dip, and the USD pressure on currencies like the CNY abates. The data has begun to turn in this direction, so it may just pay off... or not.

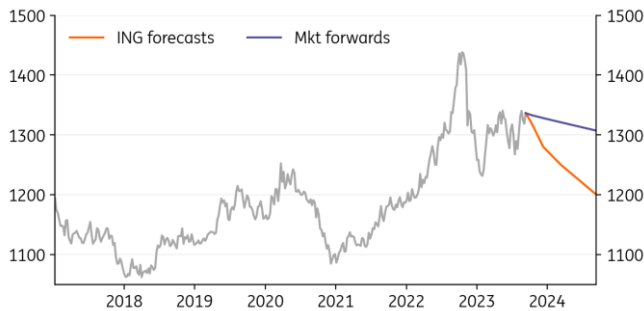
ING forecasts (mkt fwd)	1M 7.25 (7.3227)	3M 7.15 (7.2781)	6M 7.00 (7.2111)	12M 6.80 (7.0819)
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USD/KRW

KRW weakens on China and semiconductor woes

Current spot: 1334.84



Source: Refinitiv, ING forecasts

- The KRW traded above 1,300 throughout August, reacting substantially to the prospect of higher US rates for longer.
- The trade balance has now recorded a surplus for a third month, but rising concerns over China and the Chip industry will be the main drag for the export recovery.
- The BoK will maintain its hawkish tone on monetary policy as inflation surged back above the 3% level, following recent severe weather conditions and a pick-up in global commodity prices. As inflation is expected to stay above 3% for a couple of months, we may only see a rate cut in the second quarter of 2024.

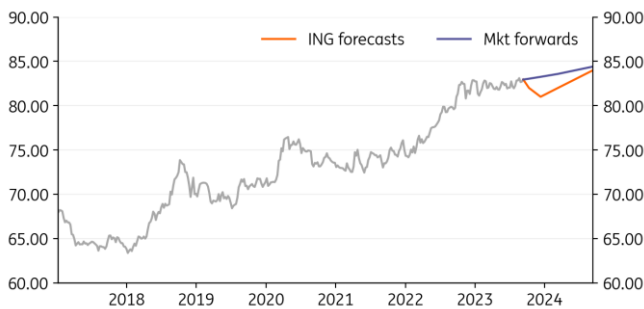
ING forecasts (mkt fwd)	1M 1320 (1332.78)	3M 1280 (1328.28)	6M 1250 (1320.53)	12M 1200 (1306.63)
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Min Joo Kang, min.joo.kang@asia.ing.com

USD/INR

Testing the trade range topside

Current spot: 83.03



Source: Refinitiv, ING forecasts

- The INR traded above the 83 level in mid-August, and it looked as if the Reserve Bank of India had dragged it back within the tight range it had inhabited since last October, but it is testing the topside again.
- Stronger GDP for the second quarter and some much higher inflation figures last month mean that rate cuts are no longer on the calendar for this year.
- But food-based inflation spikes should prove temporary and will already begin to ease lower this month, and so rate cuts can start to be considered again from early next year, which may allow the INR to drift higher against the USD.

ING forecasts (mkt fwd)	1M 82.00 (83.04)	3M 81.00 (83.25)	6M 82.00 (83.58)	12M 84.00 (84.41)
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USD/IDR

IDR slips as trade surplus support fades

Current spot: 15325



Source: Refinitiv, ING forecasts

- The IDR remained under pressure in August and early September. The trade surplus continues to narrow, falling to \$1.3bn in July from \$3.5bn the previous month and much lower than the 2022 high of \$7.6bn.
- Bank Indonesia (BI) kept policy rates unchanged again (at 5.75%) in August with the interest rate differential with the US staying at a meagre 50bp.
- The IDR will likely remain under pressure in the near term given expectations for further dilution of the trade surplus and no increase in the interest rate differential.

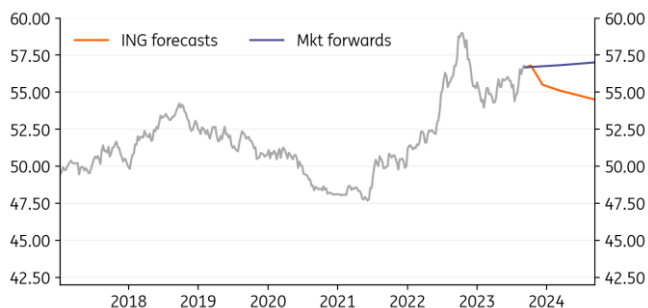
ING forecasts (mkt fwd)	1M 15200 (15327)	3M 15000 (15331)	6M 14900 (15336)	12M 14750 (15372)
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USD/PHP

PHP weakens as import bill is expected to be bloated

Current spot: 56.67



Source: Refinitiv, ING forecasts

- The PHP lost ground in August after a disappointing second-quarter GDP report. GDP growth slid to 4.3% YoY, which could constrain the central bank from hiking policy rates.
- Meanwhile, dollar demand picked up on expectations for an increase in energy and rice imports. The rice shortage will lead to higher rice imports while resurgent global energy costs should translate to a higher energy import bill.
- The PHP is likely to remain on the backfoot with the trade deficit still substantial, but a hawkish Bangko Sentral ng Pilipinas (BSP) could provide some support should BSP be forced to hike rates if inflation rises further.

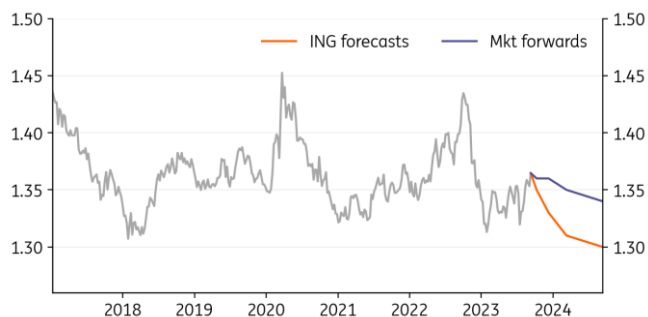
ING forecasts (mkt fwd)	1M 56.80 (56.70)	3M 55.50 (56.75)	6M 55.10 (56.82)	12M 54.50 (57.01)
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USD/SGD

SGD weighed down by regional peers

Current spot: 1.3648



Source: Refinitiv, ING forecasts

- The SGD slid against the USD for most of August as expectations for US rates to stay high persisted. China's weak economy and the CNY have also dragged the SGD weaker.
- Second-quarter GDP data was revised lower, which suggests that the Monetary Authority of Singapore (MAS) will keep policy settings untouched in October to support growth despite still elevated inflation.
- The SGD NEER should continue its modest appreciation path in the months ahead with core inflation still elevated (3.8%). Sustained weakness for the CNY could likely weigh on the SGD in the near term, however.

ING forecasts (mkt fwd)	1M 1.35 (1.3631)	3M 1.33 (1.3593)	6M 1.31 (1.3529)	12M 1.30 (1.3411)
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USD/TWD

Watch out for political noise

Current spot: 32.08



Source: Refinitiv, ING forecasts

- After weakening in early August, the rise in USD/TWD was capped at just below 32, suggesting central bank support for the currency at this level.
- Some slightly less negative semiconductor industry data, together with a slow build-up of Mainland Chinese support for their economy and limited CNY weakness have to be set against a rise in geopolitical tensions and equity weakness.
- With Taiwan's Presidential election in January next year, the political backdrop could turn more negative over the fourth quarter, and the outlook for the TWD will hang on further.

ING forecasts (mkt fwd)	1M 31.00 (31.96)	3M 30.80 (31.71)	6M 30.50 (31.34)	12M 29.50 (30.66)
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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	1.07	1.08	1.12	1.15	1.18						
EUR/JPY	158.3	157	151	150	148	USD/JPY	147.42	145	135	130	125
EUR/GBP	0.86	0.86	0.88	0.89	0.88	GBP/USD	1.25	1.26	1.27	1.29	1.34
EUR/CHF	0.96	0.95	0.96	0.97	1.00	USD/CHF	0.89	0.88	0.86	0.84	0.85
EUR/NOK	11.42	11.40	11.00	10.80	10.40	USD/NOK	10.63	10.56	9.82	9.39	8.81
EUR/SEK	11.89	11.80	11.55	11.30	10.90	USD/SEK	11.07	10.93	10.31	9.83	9.24
EUR/DKK	7.457	7.460	7.460	7.460	7.460	USD/DKK	6.94	6.91	6.66	6.49	6.32
EUR/CAD	1.46	1.46	1.48	1.47	1.48	USD/CAD	1.362	1.35	1.32	1.28	1.25
EUR/AUD	1.68	1.71	1.72	1.69	1.64	AUD/USD	0.64	0.63	0.65	0.68	0.72
EUR/NZD	1.82	1.86	1.87	1.83	1.79	NZD/USD	0.59	0.58	0.60	0.63	0.66
EMEA											
EUR/PLN	4.61	4.67	4.72	4.60	4.50	USD/PLN	4.31	4.32	4.21	4.00	3.81
EUR/HUF	385.2	378.00	370.00	368.00	365.00	USD/HUF	359.5	350	330	320	309
EUR/CZK	24.35	24.3	24.0	23.5	23.8	USD/CZK	22.73	22.5	21.4	20.4	20.1
EUR/RON	4.96	4.98	4.98	5.02	5.05	USD/RON	4.63	4.61	4.45	4.37	4.28
EUR/RSD	117.2	117.2	117.2	117.2	117.1	USD/RSD	109.4	108.5	104.7	101.9	99.2
EUR/UAH	39.60	40.0	41.4	42.6	46.0	USD/UAH	36.92	37.00	37.00	37.00	39.00
EUR/KZT	496.9	502.2	515.2	540.5	560.5	USD/KZT	464.4	465	460	470	475
EUR/TRY	28.76	29.70	33.60	35.88	40.36	USD/TRY	26.85	27.50	30.00	31.20	34.20
EUR/ZAR	20.46	20.5	20.7	20.7	20.7	USD/ZAR	19.10	19.00	18.50	18.00	17.50
EUR/ILS	4.12	4.10	4.09	4.03	3.89	USD/ILS	3.85	3.80	3.65	3.50	3.30
LATAM											
EUR/BRL	5.35	5.29	5.38	5.52	5.66	USD/BRL	4.98	4.90	4.80	4.80	4.80
EUR/MXN	18.73	18.4	19.0	19.3	19.5	USD/MXN	17.45	17.00	17.00	16.75	16.50
EUR/CLP	957.78	918	924	920	944	USD/CLP	891.95	850	825	800	800
Asia											
EUR/CNY	7.89	7.83	8.01	8.05	8.02	USD/CNY	7.34	7.25	7.15	7.00	6.80
EUR/IDR	16447	16416	16800	17135	17405	USD/IDR	15325	15200	15000	14900	14750
EUR/INR	89.10	88.6	90.7	94.3	99.1	USD/INR	82.97	82.00	81.00	82.00	84.00
EUR/KRW	1430.95	1426	1434	1438	1416	USD/KRW	1332.61	1320	1280	1250	1200
EUR/PHP	60.85	61.3	62.2	63.4	64.3	USD/PHP	56.67	56.8	55.5	55.1	54.5
EUR/SGD	1.46	1.46	1.49	1.51	1.53	USD/SGD	1.36	1.36	1.33	1.31	1.30
EUR/TWD	34.41	33.5	34.5	35.1	34.8	USD/TWD	32.05	31.0	30.8	30.5	29.5

Source: Refinitiv, ING

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