Economic & Financial Analysis

FX

15 October 2018

FX Strategy

FX talkING

Survival of the fittest

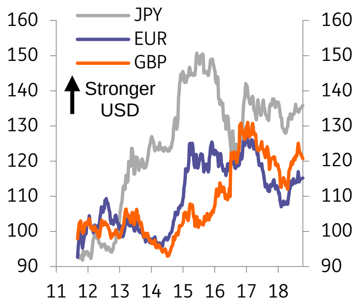
Fiscal-powered US outperformance continues to dominate FX markets. Despite a market already long US assets, it's difficult for investors to rotate away from the US (and the dollar) at a time when global trade volumes are slowing and US rates have yet to peak. Positioning and November US mid-terms are the biggest threat to the dollar right now, but overall we see the dollar holding gains into year-end.

Italian politics are weighing on the EUR. There seems little incentive for the populists to make major concessions to Brussels right now. And while cheap and potentially receiving support from ECB policy into 2019, EUR/USD will do well to hold above the 1.15 area into year-end.

Elsewhere in Europe, GBP could perform a little better if a Brexit withdrawal deal finally gets agreed. And the seasonal decline in inter-bank rates in Sweden and Czech Republic could mark out SEK and the CZK as underperformers into year-end.

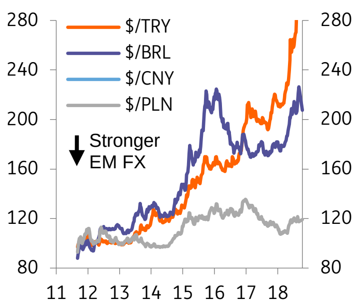
Recent stability in Turkey and Argentina is starting to help EM FX in general, though China remains a major vulnerability. We fear a test and marginal break of 7.00 in USD/CNY will undermine the nascent EM recovery. Despite China slow-down fears, the likes of BRL and MXN may outperform over coming months as investors warm to new Presidents. The honeymoon period may only last a few months, but given general EM gloom, honeymoons will nonetheless be welcome.

USD/Majors (30 Jan 09=100)



Source: Reuters, ING

USD/EM (30 Jan 09=100)



Source: Reuters, ING

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.15	=	112	=	1.31	<
3M	1.15	<	110	<	1.34	>
6M	1.20	>	108	<	1.38	>
12M	1.28	>	102	<	1.51	>
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.88	>	26.00	>	4.30	=
3M	0.86	<	25.70	>	4.26	<
6M	0.87	<	25.50	>	4.22	<
12M	0.85	<	25.30	<	4.26	<
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	6.90	=	19.00	>	3.60	<
3M	7.00	>	18.80	<	3.70	<
6M	7.00	>	18.80	<	3.95	>
12M	7.00	>	18.70	<	3.80	<

> / = / < indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright

Source: Bloomberg, ING

FX performance

	EUR/USD	USD/JPY	EUR/GBP	EUR/NOK	NZD/USD	USD/CAD
%MoM	-0.4	1.2	-2.7	-2.7	-2.3	0.0
%YoY	-2.1	0.0	-2.1	1.0	-8.2	4.1
	USD/UAH	**USD/KZT**	**USD/BRL**	**USD/ARS**	**USD/CNY**	**USD/TRY**
%MoM	-0.2	2.0	-7.3	13.6	1.1	-6.0
%YoY	4.9	8.0	19.4	108.9	4.8	60.2

Source: Bloomberg, ING

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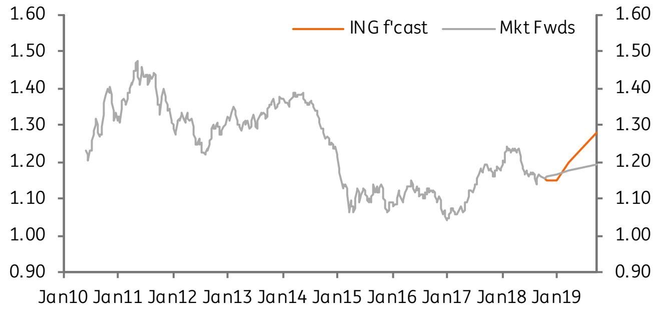
Developed markets

EUR/USD

A question of survival **Current spot: 1.16**



Source: Bloomberg, ING

- Investors remain long the dollar and long US assets in general on the back of the de-synchronised global growth story. At present there are no clear signs emerging of a significant US slow-down. Indeed, US wages look set to break above 3% YoY over coming months and our team looks for a Fed hike in December and then three more during 2019. US ten year yields are expected to stay firm and peak in the 3.30/3.50% region in 1Q19.
- Rather than President Trump's criticism of the Fed, the biggest threat to USD longs is probably US mid-term elections on 6 Nov. A Republican loss of the House could trigger a modest USD sell-off.
- Italian politics is likely to limit chances of a EUR recovery in 4Q18. Look out for the 26 October Italian ratings review from S&P.

ING forecasts (mkt fwd)	**1M** 1.15 (1.159)	**3M** 1.15 (1.1661.15)	**6M** 1.20 (1.175)	**12M** 1.28 (1.195)

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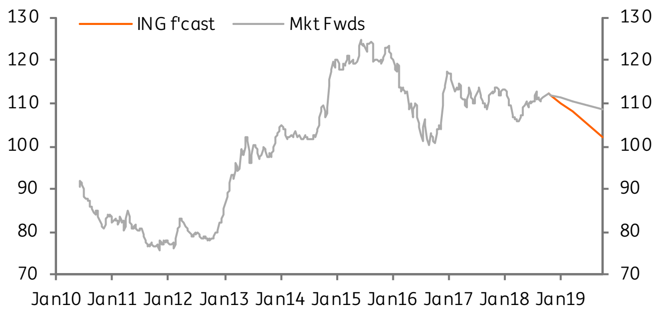
USD/JPY

Caught between US bonds and equities **Current spot: 112.28**



Source: Bloomberg, ING

- The re-assessment of the top in the Fed cycle (the market now thinks it's closer to 3.00% than 2.75%) has lifted US yields and USD/JPY. We think there's a little more to go in this story, suggesting upside risks to our baseline set of USD/JPY forecasts. However the market is long dollars and we're expecting some noise around the US mid-term elections.
- Most investors we meet are bearish on the dollar medium term and like us are looking for a significant peak in the next 3-6 months. Were the Republicans to surprisingly hold Congress we would have to revise up our medium-term dollar forecasts.
- Japan's economy is doing well, but BoJ policy is a sideshow. The consumption tax hike in Oct-19 to limit BoJ's room to manoeuvre.

ING forecasts (mkt fwd)	**1M** 112.00 (112.0)	**3M** 110.00 (111.4)	**6M** 108.00 (110.6)	**12M** 102.00 (108.7)

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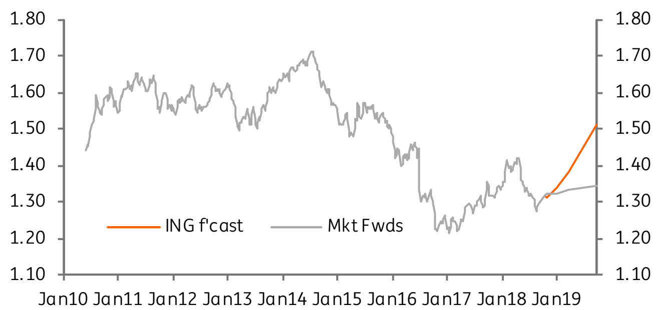
GBP/USD

Risk-reward favours positioning for a GBP/USD rebound **Current spot: 1.32**



Source: Bloomberg, ING

- We expect GBP to remain highly sensitive to Brexit headlines over the coming months as the focus narrows on whether the UK and EU can resolve the Irish border backstop issue – in effect finalising the Withdrawal Agreement and eliminating cliff-edge Brexit risks.
- With a lot of bad news having been priced in over 3Q, the recent run of positive headlines has helped to trigger a partial re-pricing of no-deal risks. Any concrete Withdrawal Deal – that stands the test of UK and EU political hurdles – would give GBP a further lift.
- With the pound safely seeing off the Tory Party Conference fairly unscathed, we reintroduce our tactical bullish GBP call – and see Cable overshooting to 1.35-1.36 in 4Q18 on an agreed Brexit deal.

ING forecasts (mkt fwd)	**1M** 1.31 (1.32)	**3M** 1.34 (1.33)	**6M** 1.38 (1.33)	**12M** 1.51 (1.34)

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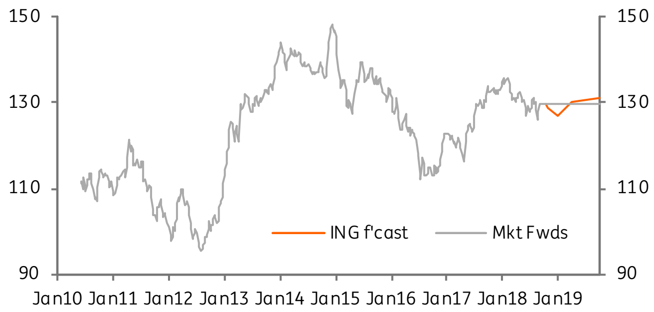
EUR/JPY

Later cycle favours downside risks

Current spot: 129.8



Source: Bloomberg, ING

- It certainly feels like we're getting later in the US business cycle and episodes of US equity corrections should become more frequent. After all, the huge repatriation of US corporate offshore earnings will probably have decreasing marginal impact on US share buy-backs, leaving US equities more susceptible to the US earnings cycle. Our team looks for US growth to slow to 2% in 19.
- Noise surrounding the Italian budgetary process could be with us into European parliamentary elections in May. One clear risk, though, is a S&P downgrade of Italy 26 Oct – that's not priced in.
- ECB looks on course to normalise policy through 2019, however, a change at the helm (Draghi leaves in Nov) is worth watching. A rise in EZ core inflation will be required to support the ECB story.

ING forecasts (mkt fwd)	**1M** 129.00 (130)	**3M** 127.00 (130)	**6M** 130.00 (130)	**12M** 131.00 (130)

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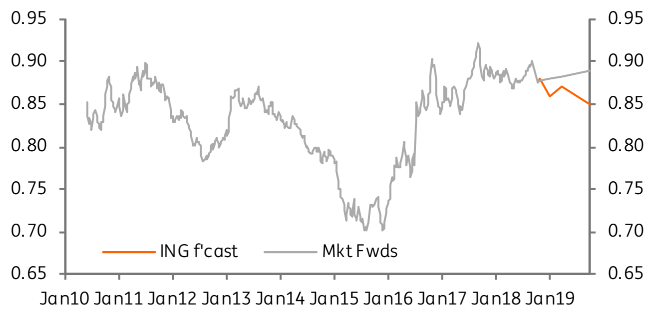
EUR/GBP

A gauge of relative Brexit and Italian political risks

Current spot: 0.88



Source: Bloomberg, ING

- The price of GBP continues to reflect an enigma of political risks: (1) a fragile UK government; (2) uncertainty over the Brexit end-state; and (3) economic uncertainty stemming from doubts over a Brexit Withdrawal Deal and smooth transition come April 2019.
- While Brexit uncertainties may keep EUR/GBP anchored, we think a sustained breakout beyond 0.90 is unlikely – unless the odds of a no-deal Brexit rise sharply in the coming months. Italian budget risks are also keeping EUR/GBP offered on rallies in the near-term.
- A solution on the Irish border backstop would be the catalyst for a sharp EUR/GBP move down to 0.85-0.87 as no deal Brexit risks are priced out. This is where we think the balance of risks now lie.

ING forecasts (mkt fwd)	**1M** 0.88 (0.88)	**3M** 0.86 (0.88)	**6M** 0.87 (0.88)	**12M** 0.85 (0.89)

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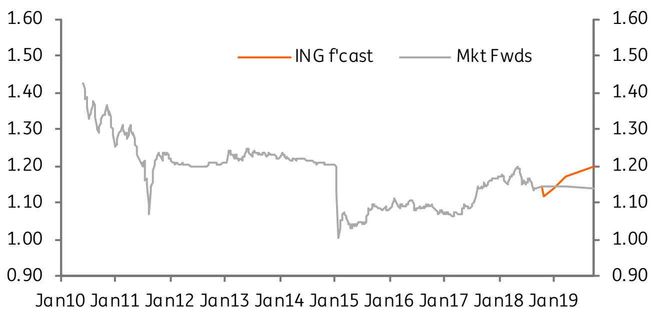
EUR/CHF

Enigmatic

Current spot: 1.15



Source: Bloomberg, ING

- Despite BTP:Bund spreads pushing through 300bp, EUR/CHF is rising! To be honest it is not clear what is driving the move. One can't blame policy differentials, even if the SNB tends to sound more dovish than the ECB. In fact the market is pricing a 25bp hike in the SNB policy rate by end-2019 and just a 10bp lift in the ECB's deposit rate, according to EONIA futures.
- At its September meeting, the SNB expressed some concern over the stronger the CHF and, as usual, delivered a significant cut to its inflation forecast. 2019 CPI is seen at just 0.8% and clearly the SNB will be in no rush to tighten policy.
- Rocky Italian politics suggest downside risks to EUR/CHF remain. But assuming ECB gets to normalise policy, 1.20 is the direction.

ING forecasts (mkt fwd)	**1M** 1.12 (1.15)	**3M** 1.14 (1.14)	**6M** 1.17 (1.14)	**12M** 1.20 (1.14)

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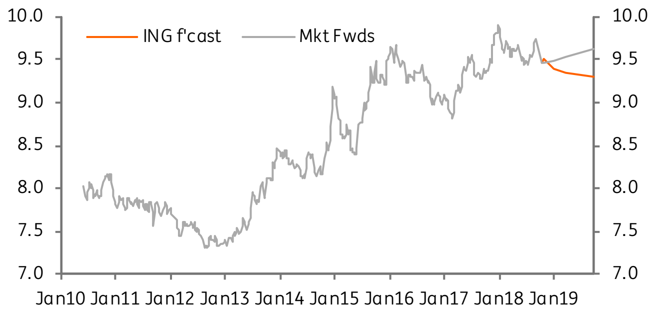
EUR/NOK

NOK still set to outperform SEK

Current spot: 9.45



Source: Bloomberg, ING

- While the NB surprised with a dovish hike in Sep (the disappointment came from the lower than expected interest rate path forecast, which was in fact downgraded) its negative effect on NOK had just a one-off impact.
- Elevated oil prices, solid domestic economic data and the NB delivering two additional hikes next year (we still don't rule out three hikes next year) is supportive for NOK.
- We look for more NOK/SEK strength into the year-end and the pair re-testing the 1.1100 level as the NOK does not suffer from the seasonal year-end weakness (which is the case of SEK, weighed by lower interbank rates on resolution fund charges). Medium term, NOK is undervalued, but less so than SEK.

ING forecasts (mkt fwd)	**1M** 9.50 (9.47)	**3M** 9.40 (9.49)	**6M** 9.35 (9.53)	**12M** 9.30 (9.61)

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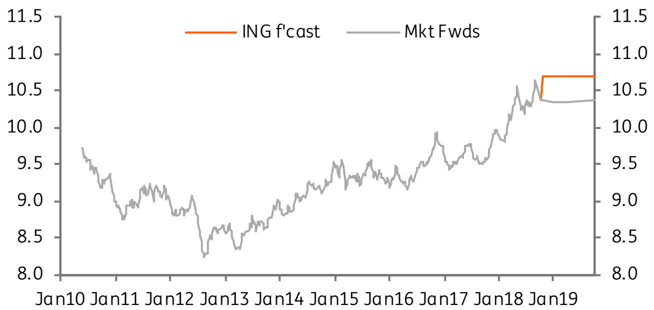
EUR/SEK

Remaining SEK bearish into the year-end

Current spot: 10.36



Source: Bloomberg, ING

- Despite the higher than expected Sep CPI and the meaningful medium-term SEK undervaluation (10% cheap vs EUR based on our BEER model) we retain a bearish view on SEK into the year-end as the resolution fund related decline in inter-bank rates should weigh on SEK in coming months.
- Plenty of good news seems to be already priced into SEK: the currency rallied meaningfully after the CPI print, the market is pricing in excess of one 25bp hike by 1Q19 and EUR/SEK no longer exerts any short-term risk premium (compared to the pre Sep elections). This should limit further material SEK upside.
- We expect EUR/SEK to re-test the 10.70 level this quarter, but given the 50:50 probability of Riksbank hiking already in Dec, we downgrade our year-end EUR/SEK forecast from 11.00 to 10.70.

ING forecasts (mkt fwd)	**1M** 10.70 (10.36)	**3M** 10.70 (10.35)	**6M** 10.70 (10.36)	**12M** 10.70 (10.37)

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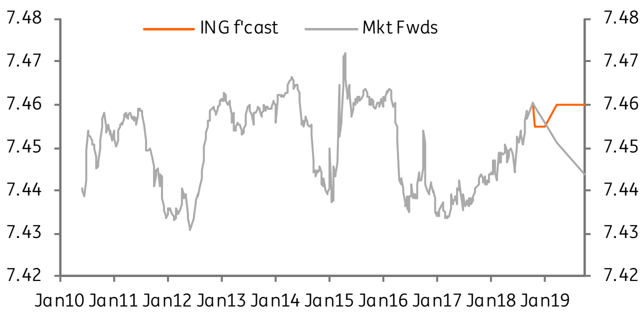
EUR/DKK

The DN mimicking the ECB

Current spot: 7.461



Source: Bloomberg, ING

- EUR/DKK has been trading in a tight range for the past months, failing to meaningfully move above the 7.4600 level, with DKK largely looking through the spike in the 10y BTP-Bund spread.
- We view the gradual convergence towards the central rate of 7.46038 as natural (as the ECB policy is becoming less expansionary – ie, it's about to end the QE programme). Although EUR/DKK currently is close to the central rate, there is no pressing need for the DN to adjust its current policy stance.
- With the ECB firmly sticking to its relatively dovish interest rate forward guidance, there are limited prospects for a change from the DN front, with the central bank continuing to mimick the ECB on the interest rates front.

ING forecasts (mkt fwd)	**1M** 7.46 (7.459)	**3M** 7.46 (7.456)	**6M** 7.46 (7.451)	**12M** 7.46 (7.444)

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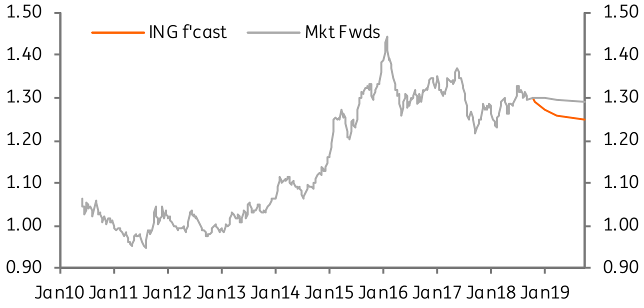
USD/CAD

NAFTA 2.0 optimism short-lived as external risks prevail

Current spot: 1.301



Source: Bloomberg, ING

- The last-minute NAFTA 2.0 trilateral trade deal between Canada, the US and Mexico (or 'USMCA') has all but removed the tail risk of a break-up of the trading bloc that could have adversely weighed on Canadian consumer and business activity. While USD/CAD saw a move down to 1.28 – any NAFTA 2.0 euphoria was short-lived.
- External factors are likely to continue dominating the CAD – with volatile oil prices and a negative global risk environment weighing on the currency. This provides a challenging near-term backdrop at a time when domestic fundamentals remain relatively robust.
- With an Oct BoC rate hike already fully priced in, we see USD/CAD stabilising in the 1.28-1.30 range – with no directional conviction.

ING forecasts (mkt fwd)	**1M** 1.29 (1.30)	**3M** 1.27 (1.30)	**6M** 1.26 (1.30)	**12M** 1.25 (1.29)

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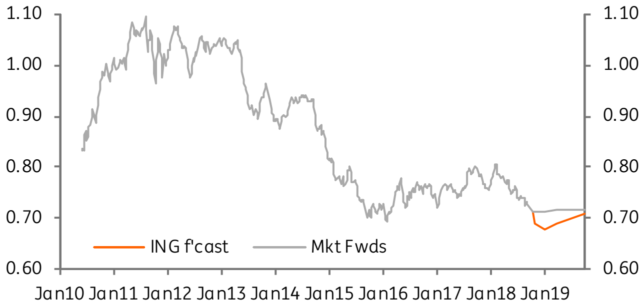
AUD/USD

Growing risks of going down under 0.70

Current spot: 0.71



Source: Bloomberg, ING

- The current US policy mix is particularly toxic for the AUD; higher US rates (due to a relentlessly hawkish Fed) and a deterioration in global risk appetite (a by-product of the US-China trade war) is weighing heavily – resulting in AUD/USD sliding sharply to 0.70.
- The local drivers have also turned unfavourable. Major domestic banks have been pressured to raise mortgage lending rates as a result of rising wholesale funding costs. This has weighed on RBA tightening expectations – further denting the AUD's carry appeal.
- With the Australian economy stuck in 'lowflation' mode, a 2019 RBA hike remains questionable. With Australian federal elections in 1H19 as well – we now see risks of AUD/$ falling towards 0.68.

ING forecasts (mkt fwd)	**1M** 0.69 (0.714)	**3M** 0.68 (0.714)	**6M** 0.69 (0.715)	**12M** 0.71 (0.718)

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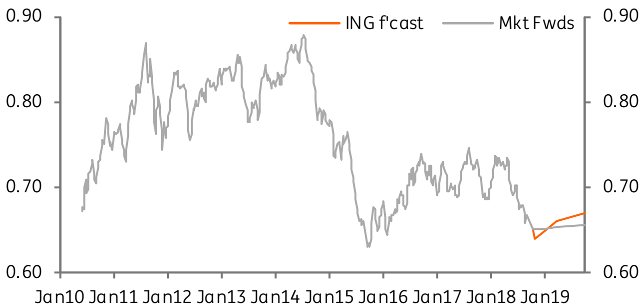
NZD/USD

RBNZ rate cut sentiment adding to kiwi's external pain

Current spot: 0.65



Source: Bloomberg, ING

- NZD/USD has been on a declining trend since April – with the pair down by around 13%. While this has largely been due to external forces, the domestic story has also unravelled – with lower short-term NZ rates and weaker terms of trade adding to NZD's pain.
- Rising speculation of a near-term RBNZ rate cut has been fuelled by waning business confidence – which has prompted the central bank to take a more dovish stance. Markets are pricing in a 15% chance of a 25bp rate cut in Feb-19 – supported by soft NZ data.
- With NZD/USD having broken the 0.65 level, and very few positive catalysts on the horizon, there's a risk that we could see a decline to 0.61-0.62 (2015 lows) on the back of rising US Treasury yields.

ING forecasts (mkt fwd)	**1M** 0.64 (0.652)	**3M** 0.65 (0.652)	**6M** 0.66 (0.653)	**12M** 0.67 (0.656)

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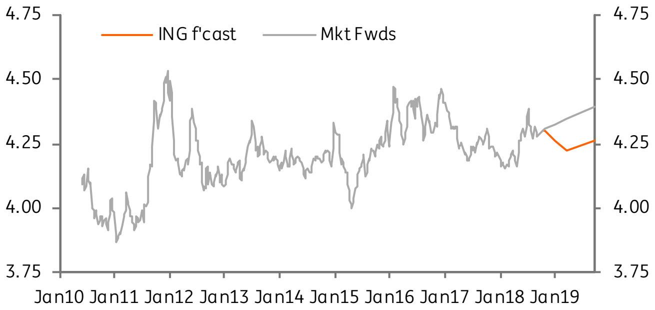
Emerging markets

EUR/PLN

PLN largely unaffected by external tensions

Current spot: 4.30



Source: Bloomberg, ING

- €/PLN was range-bound (close to 4.3) since July. This reflected low vulnerability to external tensions (limited trade links with USA, low US$ debt) and a market looking for the NBP to follow ECB hikes. €/PLN is expected to hover close to 4.30 in the coming weeks as well.
- We anticipate a decline in €/PLN in early 2019, hinging on EM sentiment (€/US$ moving up in particular). Strong domestic figures (3Q18 GDP close to 5% YoY) should sustain market rate hike pricing. Still, a looming slowdown (as hinted by PMIs), MPC renouncing hike bets and the ongoing stand-off with the European Commission should prevent €/PLN breaching 4.20 until 2Q19. In 2H19 we assume negative pressure ahead of the parliamentary elections.

ING forecasts (mkt fwd)	**1M** 4.30 (4.31)	**3M** 4.26 (4.32)	**6M** 4.22 (4.35)	**12M** 4.26 (4.40)

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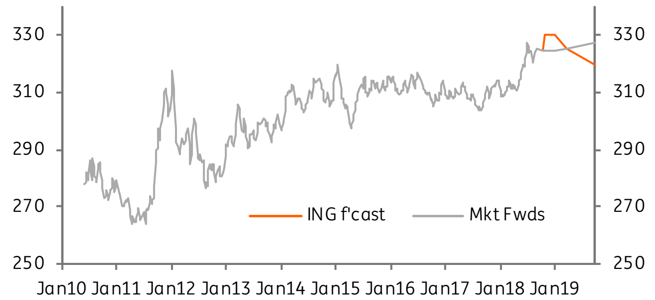
EUR/HUF

HUF is under scrutiny again

Current spot: 324.4



Source: Bloomberg, ING

- EUR/HUF has enjoyed some breathing room recently, stabilising around its new "gravity line" at 325. An important factor in the relative stability is positioning, showing that the cumulative speculative position of foreign investors against the forint increased to a record high HUF2.7tr by mid-September.
- This overcrowded positioning limits the scale of downside pressure looking forward, but still HUF remains the most vulnerable CEE currency and we look for EUR/HUF to re-test 330.
- This is because the: (a) the NBH remains behind the curve; (b) the real rate is the most negative in the region; (c) the funding costs are the lowest in the region and (d) the currency has been losing the support from the deteriorating C/A account surplus.

ING forecasts (mkt fwd)	**1M** 330.00 (324.5)	**3M** 330.00 (324.5)	**6M** 325.00 (325.3)	**12M** 320.00 (327.3)

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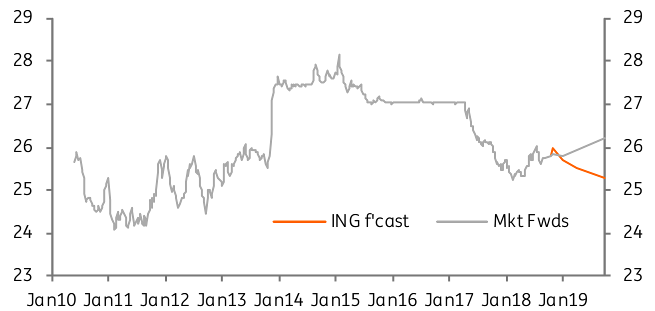
EUR/CZK

CNB hikes not translating into strong CZK

Current spot: 25.80



Source: Bloomberg, ING

- CPI decelerated to 2.3% in Sep due to newly-introduced bus and rail fare discounts and falling prices for holiday packages. Still, this is no game changer for the central bank and we expect the CNB to hike rates in November due to mounting inflationary pressures in a 1Y horizon and not appreciating CZK.
- Despite the hawkish CNB, we retain a negative view on CZK into the year. As plenty is already priced in, the hiking CNB should not have a material impact on CZK
- More importantly, the seasonal CZK weakness going into the year-end (as implied yields fall sharply due to the resolution fund effect) and the still heavy positioning are negative for CZK. We look for EUR/CZK to test 26.00 in coming weeks/months.

ING forecasts (mkt fwd)	**1M** 26.00 (25.84)	**3M** 25.70 (25.81)	**6M** 25.50 (25.93)	**12M** 25.30 (26.22)

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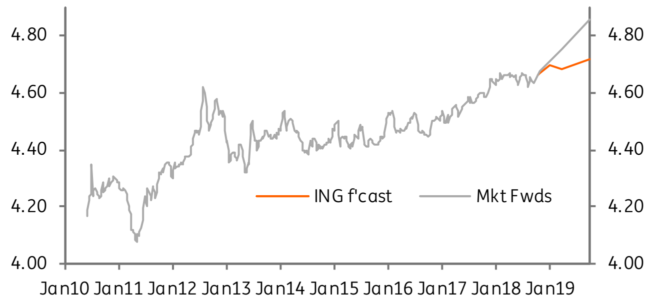
EUR/RON

RON: under pressure **Current spot: 4.66**



Source: Bloomberg, ING

- The RON remained relatively stable with clustered trading and above average turnover around 4.6700 supporting the suspicions about official offers. The NBR might continue to offer support to the leu for some time, but it is likely to allow a gradual depreciation if the emerging market backdrop remains negative.
- The Romanian currency has outperformed regional peers so far this year and Romania is running trade deficits with most of its neighbours. Hence, a correction is overdue. Still, the timing for a shift higher in the NBR comfort range is difficult to call. Maybe, once inflation starts to fall into the year-end on base effects, the NBR could become more flexible. Still, low beta and relatively high carry is likely to discourage speculative positioning.

ING forecasts (mkt fwd)	**1M** 4.67 (4.68)	**3M** 4.70 (4.71)	**6M** 4.68 (4.76)	**12M** 4.72 (4.86)

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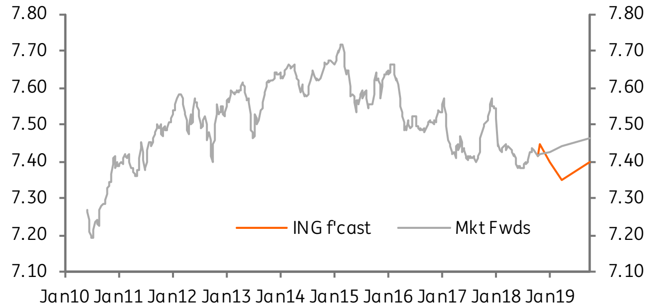
EUR/HRK

HRK: supportive seasonal inflows subside **Current spot: 7.41**



Source: Bloomberg, ING

- On 21 September S&P revised Croatia's outlook to positive from stable citing its sound external position and strong fiscal consolidation efforts. Earlier in July, Fitch also raised Croatia's outlook to positive from stable. Hence, we could see the country becoming investment grade in the next 12 months.
- EUR/HRK remained stable as the tourism season is ending. HRK appreciation pressure should subside until the next booking season. Croatia aims to enter ERM-II in 2020. The strategy for euro adoption released last autumn by the government hints at a preference for a central parity rate around 7.45. Hence we could see the volatility of EUR/HRK decreasing gradually as the (auto-imposed) deadline approaches.

ING forecasts (mkt fwd)	**1M** 7.45 (7.42)	**3M** 7.40 (7.43)	**6M** 7.35 (7.44)	**12M** 7.40 (7.46)

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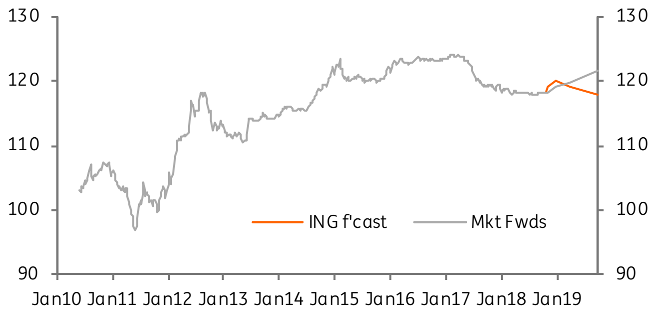
EUR/RSD

RSD: can't escape contagion **Current spot: 118.3**



Source: Bloomberg, ING

- This year dinar's fairy tale seems to be done for now as the NBS intervened in September, for the first this time year, to curb RSD depreciation. We tend to see this move more in the larger context of a negative EM backdrop and less related to particular country specifics. Nevertheless, a widening trade gap and geopolitical issues still in the background are not helping; hence we could see more upside tests for EUR/RSD with the NBS ready to smooth volatility.
- NBS kept its key rate unchanged at 3.0% at the October meeting citing the inflation outlook and assessment of the past easing. The rate cutting cycle is behind us and the next move is likely to be a hike, but not ahead of the ECB's first normalisation step.

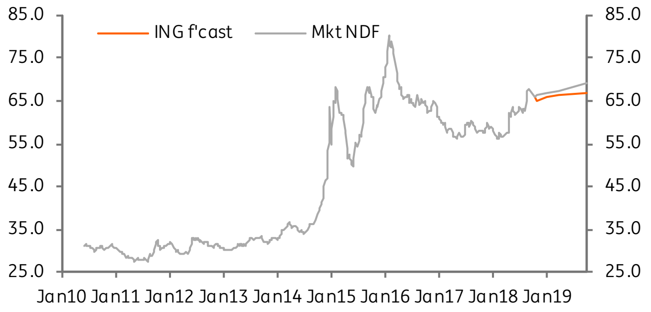
ING forecasts (mkt fwd)	**1M** 119.00 (118.2)	**3M** 120.00 (119.0)	**6M** 119.00 (119.8)	**12M** 118.00 (121.5)

Ciprian Dascalu, Bucharest +40 31 406 89 90

USD/RUB

Regaining ground on fundamentals – but for how long?

Current spot: 66.01



Source: Bloomberg, ING

- In the short-term, the RUB exchange rate is insulated by the strong current account surplus of US$26bn in 3Q, which is set to widen in 4Q18, and is not going to be sterilized by Minfin.
- Yet the longer-term appreciation is challenged by the mounting capital outflows: the private sector saw US$19bn in net outflows in 3Q18 and may accelerate further in case the US sanctions new Russian state debt, corporates accelerate foreign debt redemptions and we see a slower repatriation of FX revenues
- The scope for potential improvement in the outlook next year will be limited as the Bank of Russia might catch up on the ~US$30bn FX interventions postponed from 2018 in addition to the ~US$50bn of intervention attributable to 2019.

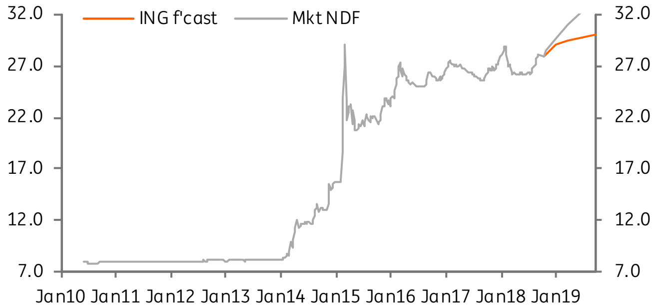
ING forecasts (mkt fwd)	**1M** 65.00 (66.24)	**3M** 66.00 (66.62)	**6M** 66.50 (67.35)	**12M** 67.00 (69.01)

Dmitry Dolgin, Russia +7 495 771 7994

USD/UAH

Temporary, export-led recovery in the UAH.

Current spot: 27.96



Source: Bloomberg, ING

- The IMF left Ukraine in September without releasing funds from its fourth review of the US$17.5bn EFF facility agreed back in 2015. The fourth tranche is worth close to US$2bn and is seen as crucial for Ukraine to meet its financing needs this winter. Reports suggests Ukraine needs to hike gas prices and cut subsidies – a difficult move ahead of Presidential elections in March 2019.
- Because of high food and agri prices it seems like exporters were late in selling their export proceeds this summer, suggesting UAH could still receive some support through the October window.
- However, the seasonal deterioration in trade balance on the back of energy demand should send $/UAH through 29 into year end.

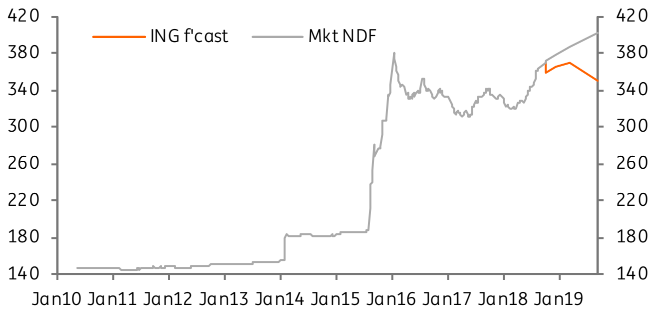
ING forecasts (mkt fwd)	**1M** 28.00 (28.49)	**3M** 29.00 (29.58)	**6M** 29.50 (30.98)	**12M** 30.00 (33.57)

Chris Turner, London +44 20 7767 1610

USD/KZT

All calm on the Tenge

Current spot: 369.1



Source: Bloomberg, ING

- The sharp recovery in the RUB has helped drag USD/KZT lower. Unlike during the pegged USD/KZT regime until 2015, KZT is now closely managed against the RUB and we see RUB/KZT staying pretty steady near 5.50. While BoP trends are a RUB positive, we are worried about the threat of new US sanctions against Russia – meaning upside risk to USD/KZT.
- Locally, Kazakh authorities expect the current account deficit to re-widen towards 4% of GDP in 2019 - which could weigh on the Tenge. However, this is based off a conservative oil forecast of US$60/bbl.
- And to re-iterate - Kazakh government bonds have started clearing through Clearstream. Investors should one day add to the US$1.3bn already in Kazakhstan.

ING forecasts (mkt fwd)	**1M** 360.00 (371.6)	**3M** 365.00 (377.6)	**6M** 370.00 (386.2)	**12M** 350.00 (401.2)

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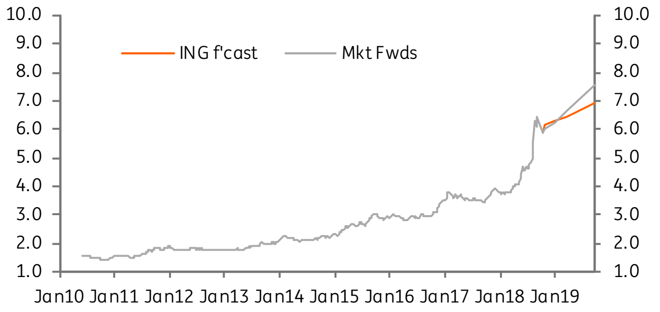
USD/TRY

Inflation surprise shifts focus on October MPC

Current spot: 5.89



Source: Bloomberg, ING

- Given a broad-based pick-up in price pressures with an across the board increase in all major price categories, a continuation of the exchange rate impact as well as a strengthening in cost-led price pressures as evidenced by a widening above 46% of annual PPI inflation, Turkish headline CPI is likely to rise further in the coming months. Sep. inflation should also increase pressure on the CBT, with risk of further tightening in the policy rate following a large, higher than expected rate hike in September. This is because the ex-post real rate has, once again, fallen into negative territory.
- For the performance of the TRY, expectations of a CBT reaction following a higher-than-expected spike in September inflation reading will likely be a major driver in the near term, ahead of the MPC meeting on 25 October.

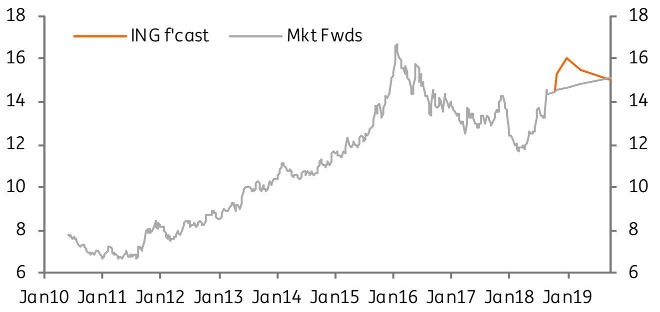
ING forecasts (mkt fwd)	**1M** 6.15 (6.00)	**3M** 6.27 (6.24)	**6M** 6.47 (6.63)	**12M** 6.90 (7.52)

Muhammet Mercan, Istanbul +90 212 329 0751

USD/ZAR

Cheap for a reason

Current spot: 14.45



Source: Bloomberg, ING

- Most in the market, including the SARB, feel that the ZAR is under-valued. Yet there are good reasons behind this. South Africa is exposed to the Chinese headwinds to the commodity cycle, has a large current account deficit and its real rates – of around 1-1.5% - aren't particularly high by EM standards.
- Because we think higher US rates and slowing Chinese growth will be a story for 3-6 months, we think it is too early to start chasing the ZAR higher – hence our bearish set of forecasts.
- Locally, the SARB very nearly raised rates in September (4-3 for unchanged policy at 6.5%), but in line with other EM central banks we imagine they'll be forced into hikes over next 6 months.

ING forecasts (mkt fwd)	**1M** 15.25 (14.51)	**3M** 16.00 (14.62)	**6M** 15.50 (14.79)	**12M** 15.00 (15.13)

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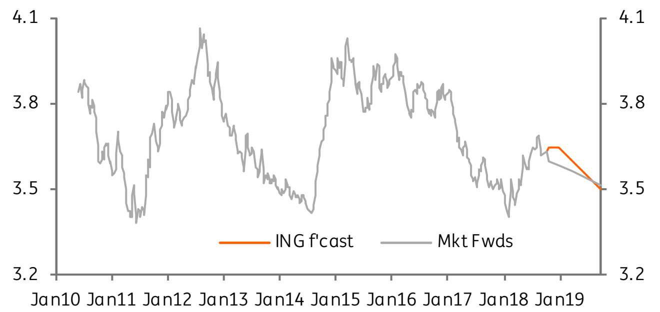
USD/ILS

Trade deterioration may soften the ILS rally

Current spot: 3.63



Source: Bloomberg, ING

- USD/ILS is consolidating, meaning that ILS is out-performing the generally softer EM profile this autumn. The BoI is showing no signs of tightening just yet – despite growth hovering above 3.5% - largely because inflation is staying quite contained just above 1%. However, the market is looking for the first hike in 1H19, which should continue to provide the ILS with support.
- The BoP situation is not looking quite as strong for the ILS as it once did. Strong domestic demand is driving a wider trade deficit and helps the BoI in its traditional efforts to keep ILS week.
- The difficult EM environment could keep $/ILS in a 3.60-70 range over the next 3-6 months, before turning lower in 2H19.

ING forecasts (mkt fwd)	**1M** 3.65 (3.60)	**3M** 3.65 (3.58)	**6M** 3.60 (3.56)	**12M** 3.50 (3.51)

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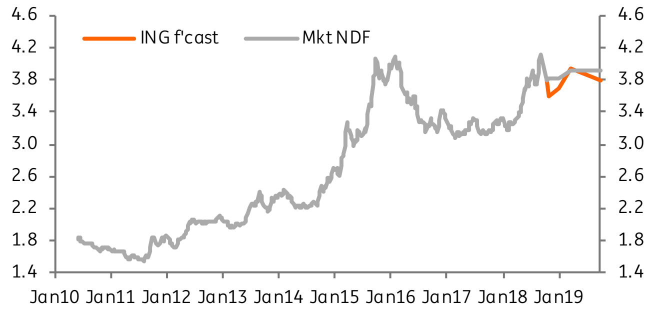
LATAM

USD/BRL

Elections trigger a benign fiscal reassessment **Current spot: 3.78**



Source: Bloomberg, ING

- Barring a major deterioration in external markets, Brazilian assets are likely to extend the recent appreciation trend if Jair Bolsonaro's victory is confirmed at the 28 October runoff election.
- In that case, which we expect to be confirmed given the great enthusiasm his candidacy has generated, we expect the BRL to strengthen beyond 3.70, perhaps dropping as low as 3.50.
- However, we consider 3.70 to be closer to fair-value, given the uncertainties regarding the ability of the new administration to deliver the much-needed fiscal adjustment next year, including the passage of a social security reform, a less generous rule for the annual increase in the minimum-wage, and a significant cut in the 2019 budget. Doubts relating to the next administration's ability to approve these initiatives in Congress, are bound to gradually creep back in, helping partially reverse the ongoing rally, with the BRL displaying a volatile path next year, when it could test the 4.0 level again.

ING forecasts (NDF)	**1M** 3.60 (3.80)	**3M** 3.70 (3.81)	**6M** 3.95 (3.92)	**12M** 3.80 (3.91)

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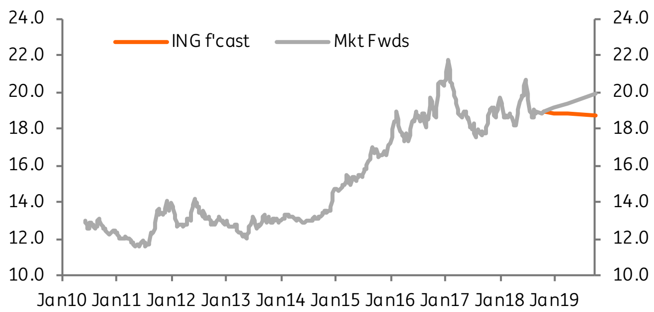
USD/MXN

Improved outlook and high rates led to greater resilience **Current spot: 18.86**



Source: Bloomberg, ING

- The MXN continues to display surprising resilience in face of testy global sentiment towards EM. The peso is still highly sensitive to external drivers but Mexico's high level of interest rates and improved outlook, with two major risks (elections and NAFTA) now fully-addressed, or following a benign trajectory, implies a more MXN-supportive environment.
- Local market political concerns also seems to have abated, with expectations that economic policy, under Lopez Obrador, will remain broadly market-friendly and fiscally-responsible.
- External drivers and general risk appetite should remain the chief near-term drivers for the MXN. The risk of rate hikes by Banxico has fallen sharply, in our view, but higher-than-expected inflation and Fed rate hikes suggest that a hawkish guidance should prevail in the nearer term. Cuts may be considered later in 2019.

ING forecasts (mkt fwd)	**1M** 19.00 (18.95)	**3M** 18.80 (19.12)	**6M** 18.80 (19.39)	**12M** 18.70 (19.91)

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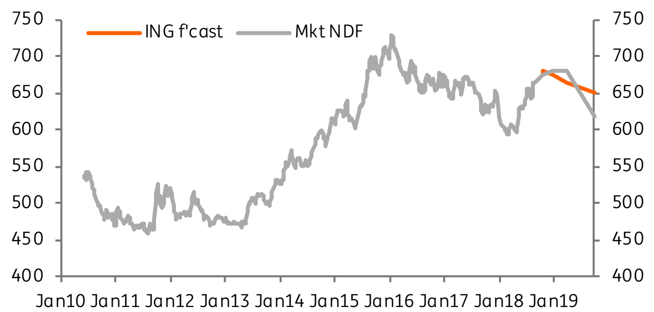
USD/CLP

Trapped in the trade-war crossfire **Current spot: 675.99**



Source: Bloomberg, ING

- Sharply lower copper prices, a reaction to ongoing China/trade-war concerns, continue to weigh down on the CLP, which is now the worst-performing currency in LATAM, after Argentina, over the past six months.
- Near-term prospects for the currency remain closely linked to these external drivers. Additional near-term weakness is possible, but ING expects the heated trade-war rhetoric to cool down after the US mid-term elections, suggesting a firmer CLP by year-end.
- Improved local macro trends also indicate a more benign outlook for the CLP. The sharp mining-led recovery has cooled down a bit but GDP growth is still expected to top 4% this year. Inflation rose and is on target, paving the way for an earlier-than-expected policy rate normalisation, with an imminent hike from 2.5% likely.

ING forecasts (NDF)	**1M** 680.00 (676)	**3M** 675.00 (681)	**6M** 665.00 (681)	**12M** 650.00 (620)

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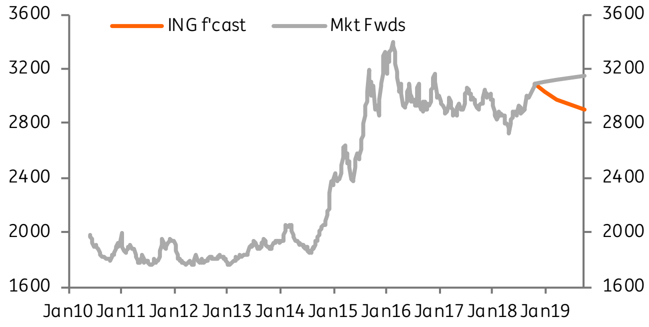
USD/COP

We still see scope for COP appreciation in catch-up with oil **Current spot: 3072.03**



Source: Bloomberg, ING

- The COP also has underperformed over the past six months, somewhat closely matching the CLP even though the COP's chief commodity driver, oil, has vastly outperformed copper and other growth-sensitive metals in the period.
- Portfolio outflows help explain part of the sell-off, while the new options-based reserve accumulation program limits slightly the room for fast FX appreciation. Still, we see the selloff as excessive, considering the large correlation gap that opened up between the COP and oil. A significant catch-up rally remains likely, as supply restrictions keep oil prices supported in the near term.
- Domestic drivers remain constructive. Inflation is on-target and economic activity has improved, but could prove to be shallow, unless spillovers from the surge in oil prices prove to be substantive. Monetary policy guidance should remain neutral in the foreseeable future. Investor sentiment could suffer however due to concerns over the ability of the new administration to tighten fiscal accounts, to meet the fiscal rule target. The lack of a solid Congressional majority suggests challenges ahead.

ING forecasts (NDF)	**1M** 3090.00 (3094)	**3M** 3035.00 (3102)	**6M** 2975.00 (3114)	**12M** 2900.00 (3150)

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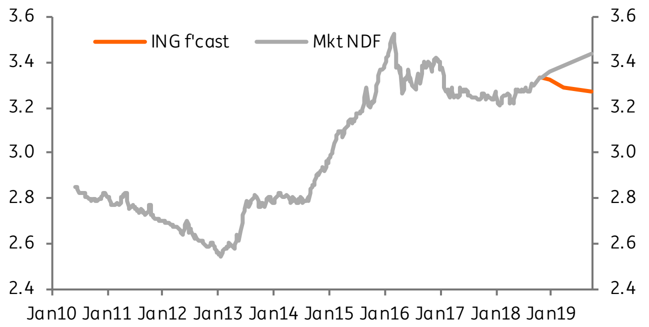
USD/PEN

Improved macro trends help offset trade-war concerns **Current spot: 3.33**



Source: Bloomberg, ING

- As usual, the PEN traded with the lowest volatility in the region, outperforming amid the sell-off. Political turmoil continues, with the arrest of the leader of opposition, on campaign financing fraud charges, and the upcoming political reform referendum, but these have had limited impact over financial markets.
- Trade-war concerns dented the outlook for metal prices, adding downside to Peru's terms of trade. But above-trend growth in economic activity, thanks to stronger investment, should be supportive for the PEN.
- Peru's BCRP cut the policy rate twice this year, to 2.75%, following the collapse in inflation seen during 1H, but robust economic activity, and prospects for higher inflation ahead, suggest that BCRP's current "neutral" bias should turn more hawkish in the coming months, with rate hikes likely earlier next year.

ING forecasts (NDF)	**1M** 3.33 (3.33)	**3M** 3.32 (3.36)	**6M** 3.29 (3.38)	**12M** 3.27 (3.44)

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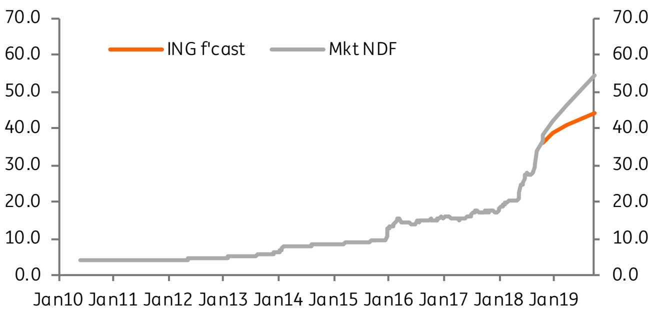
USD/ARS

Signs of stability emerge **Current spot: 36.42**



Source: Bloomberg, ING

- The revamped agreement with the IMF has helped stabilize local financial markets, as it ensures the full coverage of FX financing needs through the end of next year.
- The commitment to sharply tighten monetary and fiscal accounts should likewise help stabilize financial assets, but the risk of a deep recession and the erosion of President Macri's political capital has also increased the risk of failure to deliver on the commitments to the Fund, ultimately calling into question the agreement's survival.
- The damage to Argentina's macro outlook has been severe, with inflation topping 40% this year and GDP contracting 2%. Monitoring the risk of social unrest and the government's ability to implement IMF-set targets will remain important.

ING forecasts (NDF)	**1M** 36.00 (38.36)	**3M** 38.70 (42.12)	**6M** 40.80 (46.51)	**12M** 44.00 (54.60)

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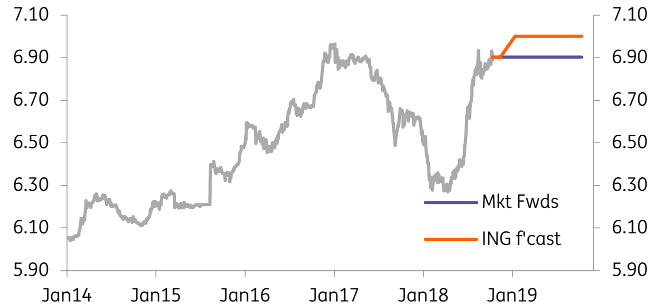
Asia

USD/CNY

CNY riding the strengthening dollar trend to depreciate

Current spot: 6.9014



Source: Bloomberg, ING

- The trade war is already putting negative pressure on the Chinese economy. A strong dollar at this moment, and therefore a weaker yuan, is helping exporters, but not much, and raises problems for other Asian currencies which get dragged down by the gravity exerted by the dominant regional currency unit.
- Neither the US nor China are talking about trade currently, and recent commentary from the US Vice President, the Microchip scandal, and naval brinksmanship suggest that the trade war will worsen as we head into 2019.
- We will review the CNY forecast for downgrade subject to developments in the US mid-terms and further trade policy developments. But it is likely that we will see USD/CNY 7.0 being broken on the upside, though maybe not by too much.

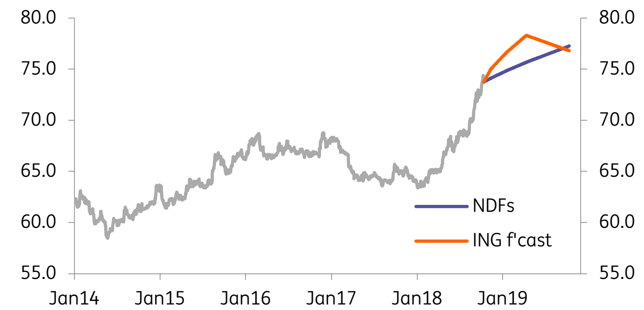
ING forecasts (FWDs)	**1M** 6.9000 (6.9021)	**3M** 7.0000 (6.9022)	**6M** 7.0000 (6.9018)	**12M** 7.0000 (6.9021)

Iris Pang, Hong Kong +852 2848 8071

USD/INR

Central bank leaves rupee on path to free fall

Current spot: 73.75



Source: Bloomberg, ING

- By keeping the policy on hold at the October meeting, it seems the central bank (RBI) has dumped the INR as a policy concern. The USD/INR sold off to a record 74.2 in a knee-jerk reaction to RBI' decision. We now see the pair trading up to 76.50 over the next three months and to 78.3 in six months.
- The stable policy was despite policymakers opting for a shift in the policy bias from "neutral" to "calibrated tightening". But the decision had more to do with the liquidity squeeze from a major non-bank finance company going bust. Although inflation has been well behaved in the 2-6% target, we believe it's transitory.
- We continue to expect a RBI rate hike in December. Until then the onus of curbing INR depreciation rests with the government. Alas none of the government measures so far were effective.

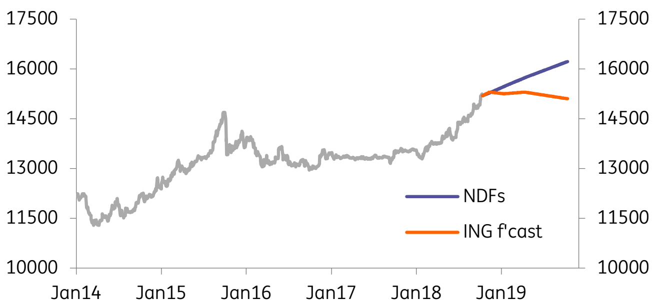
ING forecasts (FWDs)	**1M** 75.00 (74.10)	**3M** 76.50 (74.78)	**6M** 78.30 (75.67)	**12M** 76.80 (77.25)

Prakash Sakpal, Singapore +65 6232 6181

USD/IDR

IDR slides to weakest level since the Asian Financial Crisis

Current spot: 15193



Source: Bloomberg, ING

- IDR recently posted its weakest level since the Asian Financial Crisis in mid-1998.
- Rising oil prices are seen worsening the current account deficit. Central bank efforts through its twin-market intervention (in spot and bond markets) and policy rate hikes have moderated the weakness as the market waits for signs that government efforts will improve the trade balance. US monetary tightening and higher US benchmark yields also contributed to the weakness.
- BI is likely to continue tightening monetary policy with further rate hikes while offering hedging tools for corporations. These measures are likely to moderate the weak IDR bias.

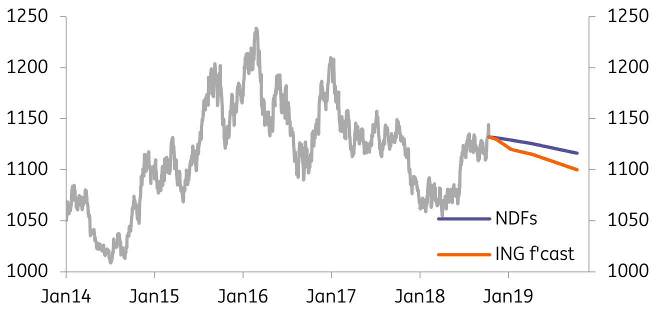
ING forecasts (NDFs)	**1M** 15300 (15271)	**3M** 15250 (15465)	**6M** 15300 (15725)	**12M** 15100 (16210)

Joey Cuyegkeng, Philippines +63 2479 8855

USD/KRW

BoK hawks may support the KRW

Current spot: 1132



Source: Bloomberg, ING

- For some months now, the USD/KRW has traded within a fairly narrow range of 1110 to 1140. Generalised EM weakness, and some disappointing local economic dataflow have helped keep the KRW towards the higher end of that range and we are not changing our 1130 1M view.
- Further out, hawkish central bank noises mean that the BoK will most likely hike rates once before the New Year. Whilst we find the justification for this in terms of high household debt ratios a questionable one (there are other more focussed policies that could achieve the same desired effect), this also hints at a stronger KRW by year end.
- Our 3M forecast of 1120 stands, with an outside chance of 1110.

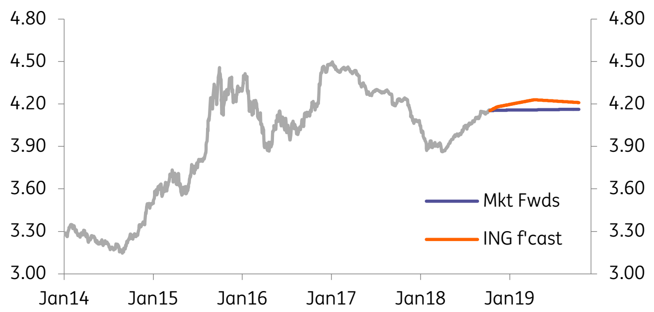
ING forecasts (NDFs)	**1M** 1130 (1131)	**3M** 1120 (1129)	**6M** 1115 (1125)	**12M** 1100 (1116)

Rob Carnell, Singapore +65 6232 6020

USD/MYR

Some de-coupling from oil

Current spot: 4.1528



Source: Bloomberg, ING

- The MYR's performance is positively correlated with the global oil price. However, the currency's shift from being a top-performing Asian currency in the first half of the year to the middle of the pack is at odds with the higher oil and better terms of trade.
- The clawback of the MYR underperformance relative to the oil will hinge on the trajectory that exports and GDP growth will now take. And recent export data showing the first negative growth in two years doesn't bode well here. We believe GDP growth is poised to slow further from the 4.5% printed in 2Q18.
- The economy is enjoying the lowest inflation in Asia. With sufficiently positive real interest rates as a key support for the MYR, an on-hold BNM policy is our baseline view through 2019.

ING forecasts (FWDs)	**1M** 4.1800 (4.1555)	**3M** 4.2000 (4.1568)	**6M** 4.2300 (4.1582)	**12M** 4.2100 (4.1628)

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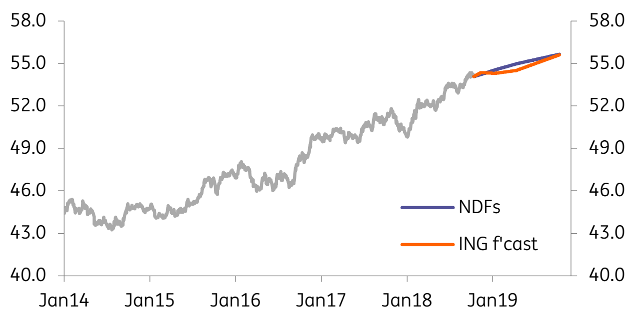
USD/PHP

Weak trend remains

Current spot: 54.07



Source: Bloomberg, ING

- PHP recently posted a 13-year low. High import demand as well as demand from hedgers continues to bid for USD.
- The central bank's (BSP's) back-to-back 50bp of rate hike has pushed policy rates to 4.5%, a 150bp rate increase YTD. The aggressive rate hikes try to anchor inflation expectations while addressing PHP's volatility and weakness.
- Temporary shallow relief is still expected in 4Q as a result of foreign participation in a massive equity offering in 4Q. This net inflow together with seasonally higher overseas worker remittances and further BSP rate hikes would allow for some rare strengthening. A worsening current account deficit would likely keep the weak PHP trend intact and the relief shallow. But a further positive oil price shock could see significant weakness.

ING forecasts (NDFs)	**1M** 54.35 (54.23)	**3M** 54.30 (54.56)	**6M** 54.50 (54.97)	**12M** 55.60 (55.65)

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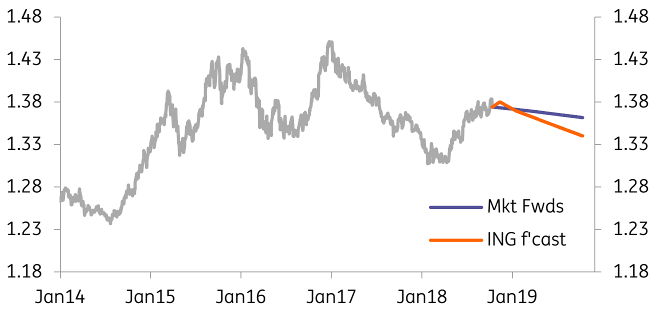
USD/SGD

Stronger by default

Current spot: 1.3740



Source: Bloomberg, ING

- The SGD is currently sitting close to our 1M 1.38 USD/SGD forecast, and we think it will remain roughly there in the near term.
- But it was threatening to break higher – mainly because weakness in regional trading partners' currencies had left the SGD NEER looking "stronger" on a relative basis.
- 3M interest rates have been remarkably steady as the currency has chopped around, suggesting that the MAS sees no strong reason to lean against market moves.
- Nonetheless, the MAS still chose to marginally steepen the SGD NEER path at its October meeting. This will not have a substantial impact on our forecasts, which already envisaged appreciation.

ING forecasts (FWDs)	**1M** 1.3800 (1.3730)	**3M** 1.3700 (1.3712)	**6M** 1.3600 (1.3682)	**12M** 1.3400 (1.3615)

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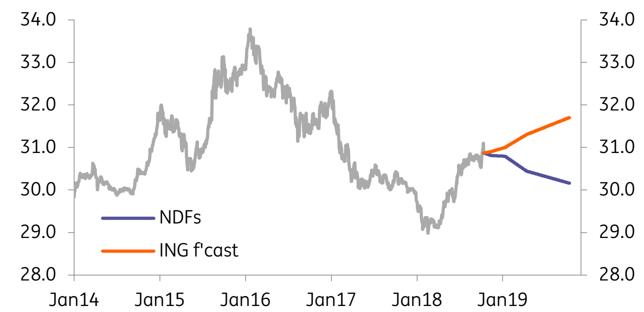
USD/TWD

Trade war leads to slow TWD depreciation

Current spot: 30.86



Source: Bloomberg, ING

- The market believes that the bilateral trade war between Mainland China and the US is negative for the Taiwan economy, which is reflected in a depreciation of the TWD, which has recently skirted with USD/TWD 31.0.
- Policy interest rates in Taiwan are at a low level (1.375%). The central bank has limited room to cut interest rates to support growth. Indeed, the trade war impact through the supply chain means that Taiwan's economy will likely see a further slowdown with limited scope for offsetting policies by the Central Bank.
- As we expect the trade war will continue into 2019, TWD is likely to maintain its slow depreciation.

ING forecasts (NDFs)	**1M** 30.90 (30.80)	**3M** 31.00 (30.79)	**6M** 31.30 (30.44)	**12M** 31.70 (30.16)

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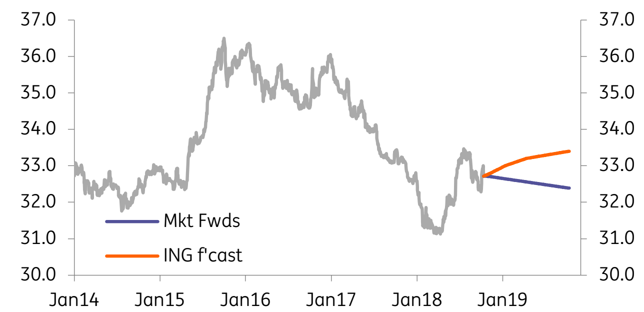
USD/THB

Weakening support from the current account

Current spot: 32.70



Source: Bloomberg, ING

- The THB seems to be coming under the shadow of the INR and the IDR, Asian underperformers this year. In a sudden reversal of fortune, the THB's 1.1% month-to-date depreciation in October maybe excessive given the still large current account surplus.
- The narrowing trade surplus is weighing on the current account surplus while slowing tourism has also started to depress the services balance. While our forecast 7% of GDP current surplus this year is a sharp contraction from 11% in the last two years, it's still large for the region and a key positive for the THB.
- Recent manufacturing data signals continued GDP slowdown ahead, while inflation also has started to slow. These forthcoming trends will drag on the BoT's path to rate policy normalisation.

ING forecasts (FWDs)	**1M** 32.80 (32.70)	**3M** 33.00 (32.64)	**6M** 33.20 (32.55)	**12M** 33.40 (32.38)

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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	1.16	1.15	1.15	1.20	1.28						
EUR/JPY	129.8	128.80	126.50	129.60	130.56	USD/JPY	112.28	112	110	108	102
EUR/GBP	0.88	0.88	0.86	0.87	0.85	GBP/USD	1.32	1.31	1.34	1.38	1.51
EUR/CHF	1.15	1.12	1.14	1.17	1.20	USD/CHF	0.99	0.97	0.99	0.98	0.94
EUR/NOK	9.45	9.50	9.40	9.35	9.30	USD/NOK	8.18	8.26	8.17	7.79	7.27
EUR/SEK	10.36	10.70	10.70	10.70	10.70	USD/SEK	8.96	9.30	9.30	8.92	8.36
EUR/DKK	7.461	7.455	7.455	7.460	7.460	USD/DKK	6.45	6.48	6.48	6.22	5.83
EUR/CAD	1.50	1.48	1.46	1.51	1.60	USD/CAD	1.301	1.29	1.27	1.26	1.25
EUR/AUD	1.62	1.67	1.69	1.74	1.80	AUD/USD	0.71	0.69	0.68	0.69	0.71
EUR/NZD	1.77	1.80	1.77	1.82	1.91	NZD/USD	0.65	0.64	0.65	0.66	0.67
EMEA											
EUR/PLN	4.30	4.30	4.26	4.22	4.26	USD/PLN	3.72	3.74	3.70	3.52	3.33
EUR/HUF	324.4	330.00	330.00	325.00	320.00	USD/HUF	280.7	287	287	271	250
EUR/CZK	25.80	26.0	25.7	25.5	25.3	USD/CZK	22.32	22.6	22.3	21.3	19.8
EUR/RON	4.66	4.67	4.70	4.68	4.72	USD/RON	4.03	4.06	4.09	3.90	3.69
EUR/HRK	7.41	7.45	7.40	7.35	7.40	USD/HRK	6.41	6.48	6.43	6.13	5.78
EUR/RSD	118.3	119.0	120.0	119.0	118.0	USD/RSD	102.3	103.5	104.3	99.2	92.2
EUR/RUB	76.30	74.8	75.9	79.8	85.8	USD/RUB	66.01	65.0	66.0	66.5	67.0
EUR/UAH	32.29	32.2	33.4	35.4	38.4	USD/UAH	27.96	28.00	29.00	29.50	30.00
EUR/KZT	427.6	414.0	419.8	444.0	448.0	USD/KZT	369.1	360	365	370	350
EUR/TRY	6.81	7.07	7.21	7.76	8.83	USD/TRY	5.89	6.15	6.27	6.47	6.90
EUR/ZAR	16.70	17.5	18.4	18.6	19.2	USD/ZAR	14.45	15.25	16.00	15.50	15.00
EUR/ILS	4.20	4.20	4.20	4.32	4.48	USD/ILS	3.63	3.65	3.65	3.60	3.50
LATAM											
EUR/BRL	4.38	4.14	4.26	4.74	4.86	USD/BRL	3.78	3.60	3.70	3.95	3.80
EUR/MXN	21.80	21.9	21.6	22.6	23.9	USD/MXN	18.86	19.00	18.80	18.80	18.70
EUR/CLP	781.49	782	776	798	832	USD/CLP	675.99	680	675	665	650
EUR/ARS	42.11	41.40	44.51	48.96	56.32	USD/ARS	36.42	36.00	38.70	40.80	44.00
EUR/COP	3553.00	3554	3490	3570	3712	USD/COP	3072.03	3090	3035	2975	2900
EUR/PEN	3.86	3.83	3.82	3.95	4.19	USD/PEN	3.33	3.33	3.32	3.29	3.27
Asia											
EUR/CNY	8.00	7.94	8.05	8.40	8.96	USD/CNY	6.92	6.90	7.00	7.00	7.00
EUR/HKD	9.06	8.97	8.97	9.36	9.98	USD/HKD	7.84	7.80	7.80	7.80	7.80
EUR/IDR	17613	17595	17538	18360	19328	USD/IDR	15197	15300	15250	15300	15100
EUR/INR	85.19	86.3	88.0	94.0	98.3	USD/INR	73.57	75.00	76.50	78.30	76.80
EUR/KRW	1311.43	1300	1288	1338	1408	USD/KRW	1131.27	1130	1120	1115	1100
EUR/MYR	4.81	4.81	4.83	5.08	5.39	USD/MYR	4.15	4.18	4.20	4.23	4.21
EUR/PHP	62.69	62.5	62.4	65.4	71.2	USD/PHP	54.08	54.35	54.3	54.5	55.6
EUR/SGD	1.59	1.59	1.58	1.63	1.72	USD/SGD	1.38	1.38	1.37	1.36	1.34
EUR/TWD	35.79	35.5	35.7	37.6	40.6	USD/TWD	30.86	30.9	31.0	31.3	31.7
EUR/THB	37.82	37.7	38.0	39.8	42.8	USD/THB	32.72	32.8	33.0	33.2	33.4

Source: Bloomberg, ING

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