10 September 2018
FX Strategy

FX talkING

Turning the screw

Buoyed by a strong domestic economy and a stock market inflated by repatriated corporate profits, the White House continues to look for concessions from major trading partners. We see no let-up in this protectionism ahead of November US mid-term elections, spelling trouble for pro-cyclical currencies.

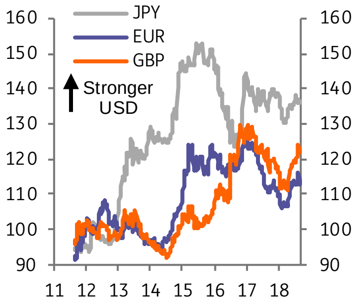
The US economy continues to grow near 4%, US equities continue to perform well and the Fed looks on course to hike in both September and December. Expect President Trump to continue to use this window of US out-performance to pressure China into trade concessions. Expect the $/EM complex as a whole to stay bid into November.

This environment should see EUR/USD remain under pressure – especially until the Italian 2019 budget is submitted in late September. Perhaps the biggest hope for a EUR/USD recovery now comes from President Trump trying to talk the dollar lower – potentially again via soft criticism of Fed tightening.

Within Europe uncertainty reigns. The market is increasingly wary of a 'no-deal' Brexit, but we think this unlikely and that GBP could again enjoy a short squeeze into year-end. CEE does not look quite as compelling as it did earlier this year, although we continue to see good stories in the likes of the PLN and the CZK.

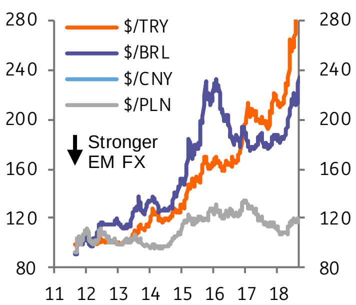
And of course investors will be monitoring developments in Turkey, Argentina and Brazil at a time when the external environment looks particularly challenging.

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	<	108	<	1.28	<
3M	1.17	>	108	<	1.33	>
6M	1.20	>	108	<	1.36	>
12M	1.28	>	102	<	1.49	>
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.90	>	25.70	>	4.31	=
3M	0.88	<	25.70	>	4.26	<
6M	0.88	<	25.20	>	4.25	<
12M	0.86	<	25.00	<	4.27	<
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	6.85	>	19.20	<	4.20	>
3M	7.00	>	19.00	<	3.80	<
6M	7.00	>	18.80	<	3.90	<
12M	6.80	<	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	-0.3	-0.1	0.1	2.4	-2.8	1.1
%YoY	-3.1	2.3	-2.3	5.1	-9.4	7.4
	USD/UAH	**USD/KZT**	**USD/BRL**	**USD/ARS**	**USD/CNY**	**USD/TRY**
%MoM	4.5	6.9	8.1	33.9	0.3	22.0
%YoY	9.7	11.4	30.3	115.1	5.1	87.1

Source: Bloomberg, ING

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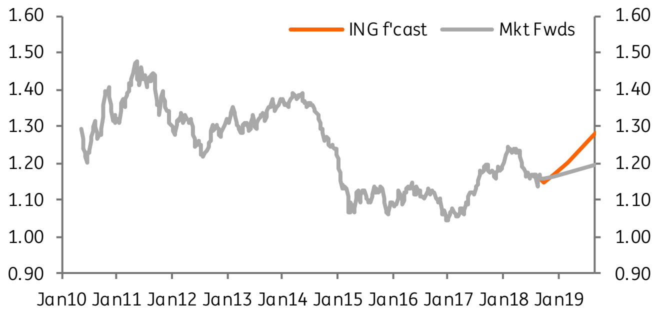
Developed markets

EUR/USD

Dollar differentiation

Current spot: 1.16



Source: Bloomberg, ING

- The US economy continues to power ahead, with 3Q18 GDP expected near 4% QoQ annualised, matching that of 2Q18. The Fed looks certain to raise rates another 25bp on 26 September and another rate hike is nearly priced for December. Prospects of 3% YoY wage growth in the September NFP (due out 5 October) should keep US rates firm.
- US equities have been insulated from the Trump trade agenda by the 2018 tax cut. US corporates repatriated a massive US$170bn in 1Q18 – largely for share dividends and buy-backs.
- EUR/USD is vulnerable through September, but the resolution of Italy's budget in October and Trump's concern over dollar strength should keep the downside relatively limited below 1.15.

ING forecasts (mkt fwd)	**1M** 1.15 (1.160)	**3M** 1.17 (1.1661.17)	**6M** 1.20 (1.175)	**12M** 1.28 (1.195)

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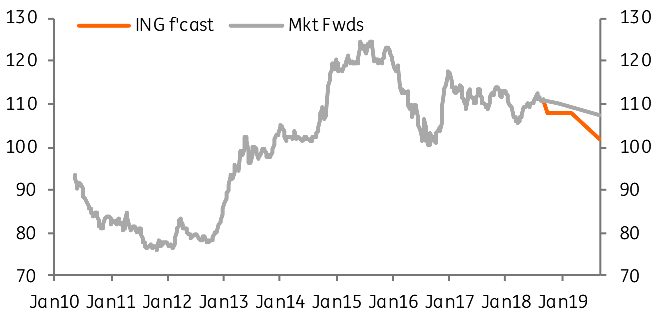
USD/JPY

US politics is the wild-card into November

Current spot: 111.16



Source: Bloomberg, ING

- Beyond what seems a good US activity story, focus is starting to build on what US mid-term elections mean for the dollar. We think the Democrats will win the house – and noise about impeachment will certainly rise – but there is no clarity on how far this escalates. Equally there is little clarity on whether a swing in the House to the Democrats is enough to curb protectionism, given the enormous powers the President has over trade policy.
- We suspect at some point that noise around mid-terms finally takes its toll on US equities. USD/JPY will be the vehicle to express this and also any more verbal intervention to weaken the USD
- Trump's focus on the Japan deficit is ambiguous for $/JPY.

ING forecasts (mkt fwd)	**1M** 108.00 (110.9)	**3M** 108.00 (110.4)	**6M** 108.00 (109.6)	**12M** 102.00 (107.8)

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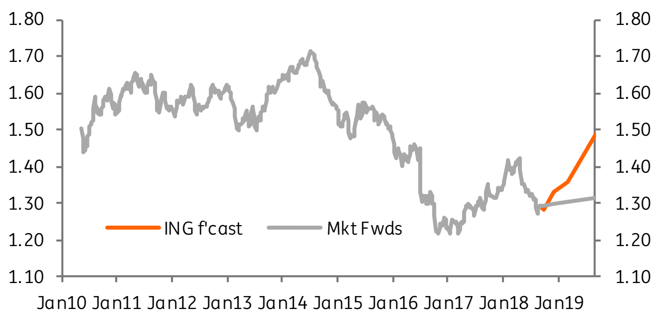
GBP/USD

Risk-reward favours positioning for a GBP rebound

Current spot: 1.29



Source: Bloomberg, ING

- GBP/USD had been unravelling in recent months due to extrinsic factors, with GBP assets hit by a double dose of risk premia: (1) a UK-specific risk premium capturing heightened 'no deal' Brexit risks; and (2) a global risk premium (geopolitics and EM turmoil).
- A lot of bad Brexit news is priced in and a last-minute deal on the Irish backstop means that risk-reward no longer favours pricing in no-deal Brexit risks – with any sharp GBP rebound in this scenario (1.36 in 6 m) now outweighing momentum-driven moves lower.
- It's too early to reintroduce our bullish GBP call – not least with a number of UK political hurdles to overcome (UK Party Conference season). But we still see GBP/USD at 1.40 in 2019 on a Brexit deal.

ING forecasts (mkt fwd)	**1M** 1.28 (1.30)	**3M** 1.33 (1.30)	**6M** 1.36 (1.31)	**12M** 1.49 (1.32)

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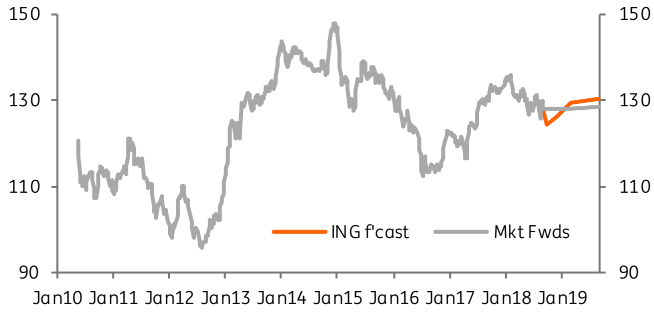
EUR/JPY

Still favour the downside **Current spot: 128.7**



Source: Bloomberg, ING

- Eurozone activity data remains mixed and we doubt the ECB will have much fresh to say at its 13 September meeting. Currently the US and the EU have an uneasy truce on trade – with Trump preferring to focus his attention on China. The more immediate challenge for the EUR will be the Italian budget – due in late September. The S&P rating in late October will also be crucial to the BTP story.
- Domestic activity is holding up quite well in Japan, where the virtuous cycle of better capex to wages is still hoped for. Yet if China is slowing, we very much doubt the issue of BoJ normalising monetary policy will come to dominate.
- A defensive environment suggests JPY benefits on the cross.

ING forecasts (mkt fwd)	**1M** 124.20 (129)	**3M** 126.36 (129)	**6M** 129.60 (129)	**12M** 130.56 (129)

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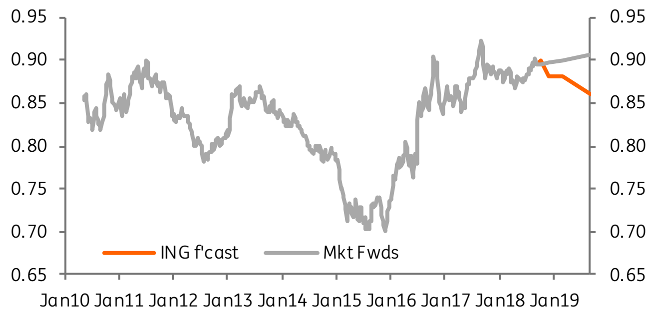
EUR/GBP

A gauge of relative Brexit and Italy political risks **Current spot: 0.89**



Source: Bloomberg, ING

- The price of GBP continues to reflect an enigma of uncertainties: a fragile UK government, uncertainty over the Brexit end-state and economic policy uncertainty. GBP is cheap – but the Brexit chaos in the UK makes it a good reason to trade at a discount.
- While UK political uncertainty may keep EUR/GBP supported, we do feel the topside risks of a breakout beyond 0.92 are limited – partly as no deal Brexit risks would be sufficiently priced in, but also as Italian politics over the coming month will cap EUR upside.
- 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** 0.90 (0.89)	**3M** 0.88 (0.90)	**6M** 0.88 (0.90)	**12M** 0.86 (0.91)

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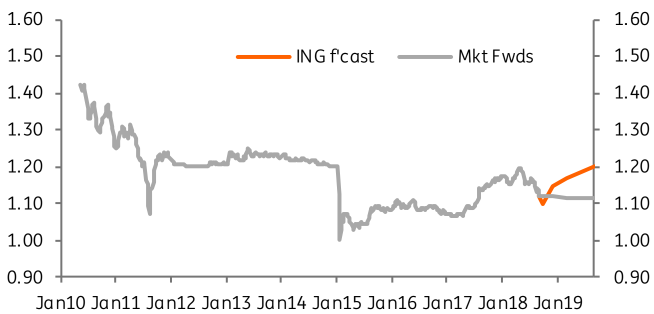
EUR/CHF

SNB support crumbles **Current spot: 1.12**



Source: Bloomberg, ING

- EUR/CHF has broken down to the lowest levels since July 2017. The Italian budgetary story has certainly taken its toll, but we wonder whether a couple of other issues could be playing a role as well. The first is the prospect of US sanctions targeting some high profile Russian banks. Perhaps Russian investors are switching out of dollars and into CHF to avoid USD exposure to the US Treasury? The second is the down-sizing of the Swiss-based GAM buy-side account, potentially leading to CHF demand.
- We also wonder whether the SNB has been less keen to intervene for fear of being labelled a currency manipulator by US Treasury.
- We now see risks to 1.10 into the Italian budget in late September.

ING forecasts (mkt fwd)	**1M** 1.10 (1.12)	**3M** 1.15 (1.12)	**6M** 1.17 (1.12)	**12M** 1.20 (1.12)

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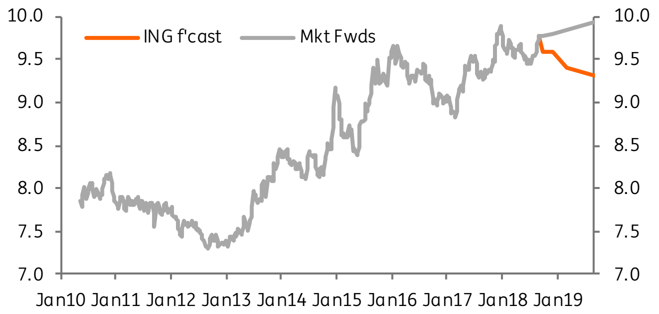
EUR/NOK

Soft NOK to translate into even more hawkish NB **Current spot: 9.76**



Source: Bloomberg, ING

- The scale of NOK decline has been very surprising in the context of stable oil prices, a hawkish Norges Bank (NB, signalling a September hike). Fragile risk appetite has clearly outweighed these two positive factors. Although NOK has a modestly larger beta to risk than SEK, its stable performance versus the battered SEK was also surprising in our view.
- We look for a 25bp hike from NB in September and given ongoing NOK softness, another 25bp hike is likely to follow in 1Q19. This should provide some cushion to NOK as less than one hike is priced in over the next 6 months.
- With NB's mechanical approach to its own interest forecast, we look for the NB to out-hike the Riksbank by around 50bp by end-2019, thus leading to medium-term NOK outperformance vs. SEK.

ING forecasts (mkt fwd)	**1M** 9.60 (9.77)	**3M** 9.60 (9.80)	**6M** 9.40 (9.84)	**12M** 9.30 (9.92)

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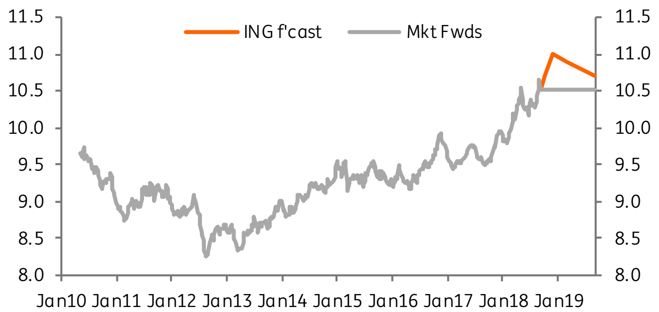
EUR/SEK

Firmly bearish SEK **Current spot: 10.50**



Source: Bloomberg, ING

- Despite the Riksbank signal for a hike in either in December or February, we remain firmly bearish on SEK and expect EUR/SEK to reach the 11.00 level by year-end.
- Not only does the Riksbank have a strong track record of delaying the signalled hikes, but the market is already largely pricing the 25bp hike by 1Q19. This means that even were the Riksbank to tighten it is unlikely to have an overly positive effect on SEK. We also think more SEK weakness is a pre-requisite for an earlier Riksbank hike, which is consistent with our bearish SEK view.
- The seasonal fall in Stibor rates in 4Q should keep the downside pressure on SEK while the spectre of trade wars is a negative for the currency of a small open economy such as Sweden.

ING forecasts (mkt fwd)	**1M** 10.70 (10.50)	**3M** 11.00 (10.50)	**6M** 10.90 (10.50)	**12M** 10.70 (10.51)

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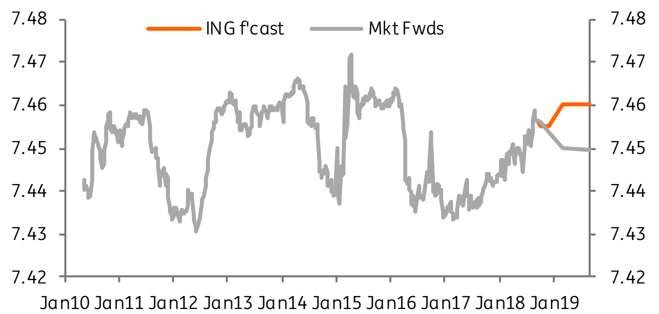
EUR/DKK

The DN mimicking the ECB **Current spot: 7.457**



Source: Bloomberg, ING

- EUR/DKK has been inversely trading with global equity markets, declining in late August but modestly rallying in September.
- 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 continue mimicking the ECB on the interest rates front.
- As EUR/DKK is still below the central rate of 7.46038, there is no pressing need for the DN to adjust its current policy stance. We look for EUR/DKK to slowly but surely converge towards the central parity rate over the next quarters as the ECB policy becomes less expansionary (i.e., ending the QE programme this year and eventually hiking the depo rate in 2H19).

ING forecasts (mkt fwd)	**1M** 7.46 (7.456)	**3M** 7.46 (7.454)	**6M** 7.46 (7.451)	**12M** 7.46 (7.447)

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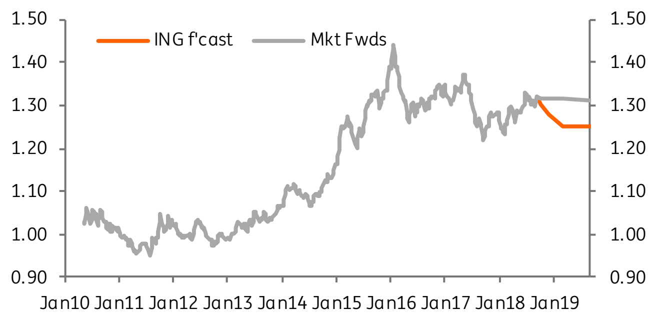
USD/CAD

Big move lower on the horizon as NAFTA fears fade

Current spot: 1.316



Source: Bloomberg, ING

- While the US and Mexico reached a bilateral trade deal in August, the risk of a NAFTA break-up has counterintuitively increased as the US and Canada remain at loggerheads over key trade issues – with President Trump actively threatening to tear up NAFTA. We estimate a 2-3% NAFTA break-up risk premium is priced into CAD.
- Although ongoing NAFTA uncertainty may weigh on CAD in the near-term, the risks of a calamitous break-up are very low. With the Canadian economy resilient and the BoC teeing us up for an October rate hike, we think the risks to USD/CAD lie to the downside.
- We look for USD/CAD to move to 1.28 in 3Q18 – before gradually finding a base around 1.25. Geopolitics is the key risk to our view.

ING forecasts (mkt fwd)	**1M** 1.30 (1.32)	**3M** 1.28 (1.31)	**6M** 1.25 (1.31)	**12M** 1.25 (1.31)

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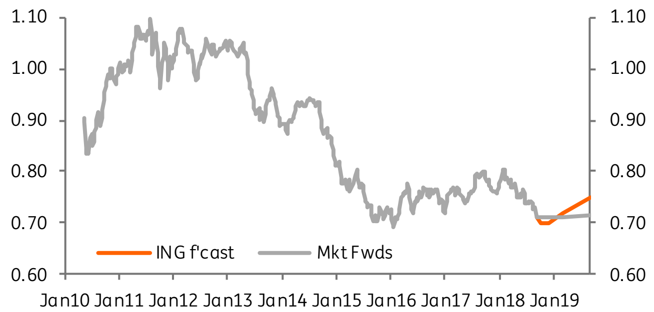
AUD/USD

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, the RBA will be one of the last in the G10 to hike. While the USD rally may fizzle, independent AUD weakness could take us down to 0.70.

ING forecasts (mkt fwd)	**1M** 0.70 (0.714)	**3M** 0.70 (0.714)	**6M** 0.72 (0.715)	**12M** 0.75 (0.717)

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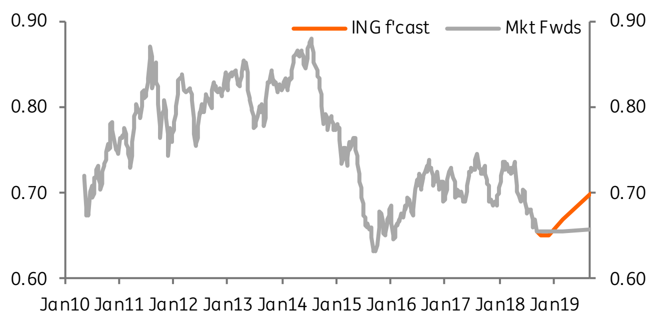
NZD/USD

RBNZ rate cut sentiment adding to kiwi's pain

Current spot: 0.66



Source: Bloomberg, ING

- It's been a turbulent summer for NZD/USD – which fell to a fresh multi-year low below 0.65 as deteriorating global investment and liquidity conditions weighed heavily on high-beta G10 currencies.
- Adding to the kiwi's short-term pain has been rising speculation of an RBNZ rate cut in the next 6 months. Following some dovish talk from Governor Orr at Jackson Hole, the NZD OIS curve is now sloping downwards – and pricing in a 27% chance of a rate cut in February 2019. Further NZ data weakness could see these odds rise.
- In the absence of this, we see the decline in NZD/USD pausing as the USD rally tops out. Tail risk of an escalation in the global trade war and sell-off in risky assets would see a sharp move sub 0.65.

ING forecasts (mkt fwd)	**1M** 0.65 (0.655)	**3M** 0.65 (0.655)	**6M** 0.67 (0.656)	**12M** 0.70 (0.658)

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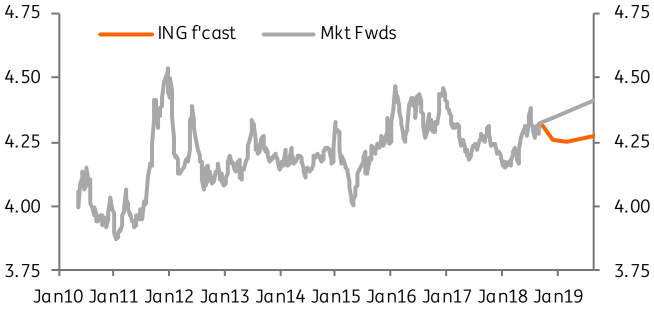
Emerging markets

EUR/PLN

Light foreign positioning and a sound budget helps PLN **Current spot: 4.31**



Source: Bloomberg, ING

- PLN was under pressure in August, reflecting broad negative sentiment towards EMEA caused by the TRY FX crisis. Still PLN was much more resilient than during the shock caused by the US-China trade war – €/PLN increased from 4.26 to 4.34 in the first two weeks and corrected to 4.31 now (vs. tops at 4.40 back then).
- Positioning of active foreign investors in POLGBs is lighter recently, which may explain PLN resilience. Additionally, MinFin calmed market fears of higher POLGBs supply in 2H18. The 2019 budget plan seems safe given less generous election pledges.
- PMIs in PL/CEE have surprised on the downside supporting our forecast of GDP slowing to 4.4% YoY in 2H18 vs 5.1% YoY in 1H18.

ING forecasts (mkt fwd)	**1M** 4.31 (4.32)	**3M** 4.26 (4.33)	**6M** 4.25 (4.36)	**12M** 4.27 (4.41)

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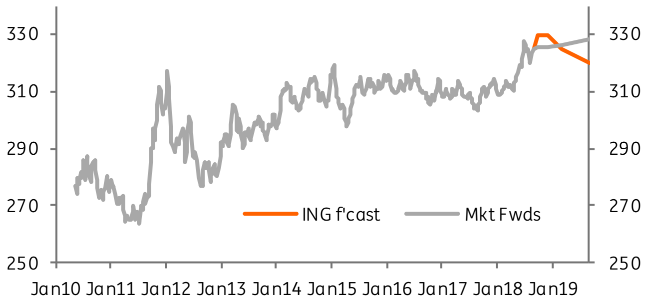
EUR/HUF

HUF is under scrutiny again **Current spot: 325.2**



Source: Bloomberg, ING

- The relative stability of EUR/HUF has come to an end. The market looks to be testing the NBH's commitment to loose policy and the HUF's wide exposure to EM geopolitical risks. We see HUF as the most vulnerable CEE FX in the current challenging risk environment.
- According to the NBH's latest chart-pack, HUF is still under pressure, as new short HUF positions were opened in August, especially in the second half of the month. The cumulative speculative positions of non-residents against the HUF is around HUF2.5tr.
- We expect the NBH to take baby step towards policy normalisation in September, but should the NBH fail to send out a clear message, we see EUR/HUF testing the 330 level once again.

ING forecasts (mkt fwd)	**1M** 330.00 (325.3)	**3M** 330.00 (325.6)	**6M** 325.00 (326.2)	**12M** 320.00 (328.2)

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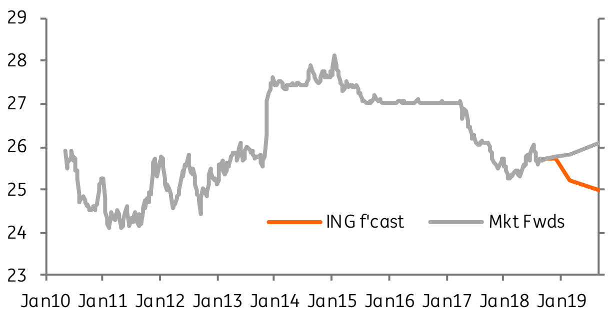
EUR/CZK

CNB hikes not translating into a stronger CZK **Current spot: 25.69**



Source: Bloomberg, ING

- Due to mounting inflationary pressures (CPI should remain close to 2.5 % in coming months) and the still relatively weak CZK, the CNB is likely to deliver hikes both in September and in November.
- Despite the hawkish CNB, we see a limited downside to EUR/CZK given that: (a) two rate hikes are fully priced in by the market for the reminder of the year and (b) the fragile risk environment.
- Moreover, as we move towards the year-end, the anticipated seasonal sharp decline in CZK implied yields (due to the resolution fund consideration) should be a negative for CZK and prevent a material koruna appreciation in 4Q.

ING forecasts (mkt fwd)	**1M** 25.70 (25.72)	**3M** 25.70 (25.78)	**6M** 25.20 (25.84)	**12M** 25.00 (26.08)

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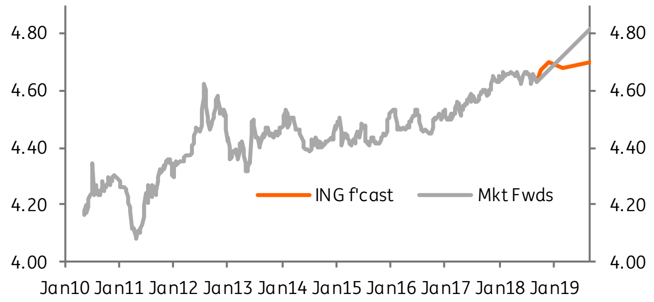
EUR/RON

NBR's bazooka and high carry protecting the Leu

Current spot: 4.64



Source: Bloomberg, ING

- The Leu has been resilient amid EM jitters as its high carry and hands-on central bank behavior, (despite the lack of noticeable official offers over the last two months), is discouraging bets against the Romanian currency. The NBR is walking a fine line by trying to delay as much as possible rate hikes ahead of ECB tightening and keeping the currency relatively stable due to high FX pass-through. So far, it worked. If relative outperformance versus peers proves more permanent in nature, we would expect NBR to allow gradual and limited RON weakening towards 4.70/EUR once inflation starts to fall on base effects.
- Political tensions between the ruling government coalition and the president remain elevated. Four elections scheduled over the next couple of years mean RON vulnerabilities are to stay high.

ING forecasts (mkt fwd)	**1M** 4.67 (4.65)	**3M** 4.70 (4.68)	**6M** 4.68 (4.73)	**12M** 4.70 (4.82)

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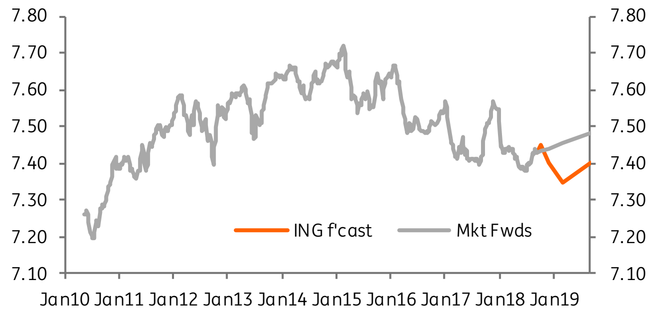
EUR/HRK

Less support for HRK as holiday season is ending

Current spot: 7.43



Source: Bloomberg, ING

- On 6 July, Fitch upgraded the outlook for Croatia to positive, while maintaining its 'BB+' rating. Sound fiscal metrics and the current account surplus were the main reasons cited.
- On 13 July, Croatian Parliament reappointed Boris Vujcic as central bank governor for another six-year mandate. Though largely expected, this should reconfirm the commitment to join the Eurozone. Joining ERM II by 2020 is within reach, but adopting the euro by 2023 looks less probable after the rules of the game have changed somewhat as Bulgaria recently found out.
- EUR/HRK is stable as the tourism season is close to its end. HRK appreciation pressure should subside until the next booking season, but volatility should be subdued due to CNB policy.

ING forecasts (mkt fwd)	**1M** 7.45 (7.43)	**3M** 7.40 (7.44)	**6M** 7.35 (7.45)	**12M** 7.40 (7.48)

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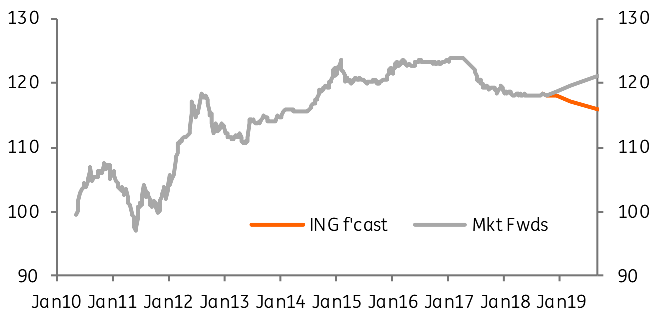
EUR/RSD

NBS draws a thick line in the sand at 118 in EUR/RSD

Current spot: 118.3



Source: Bloomberg, ING

- The NBS volumes in interventions decreased from EUR 350m in June to EUR210m in July and EUR190m in August.
- S&P and Fitch recently reaffirmed Serbia's 'BB' rating, both giving it a stable outlook on the back of an improving external position, public finances and public debt metrics.
- 2Q18 GDP growth was revised by 0.4ppt higher to 4.8% YoY putting the annual growth for the first semester at 4.9%.
- The presidents of Serbia and Kosovo floated the idea of a land swap to reach an agreement that would enable both parties to pursue their EU integration ambitions. The possibility of changing borders received mixed reactions from external partners. 55% of Serbs are in favour of joining the EU - a historical high.

ING forecasts (mkt fwd)	**1M** 118.00 (118.1)	**3M** 118.00 (118.7)	**6M** 117.00 (119.8)	**12M** 116.00 (121.4)

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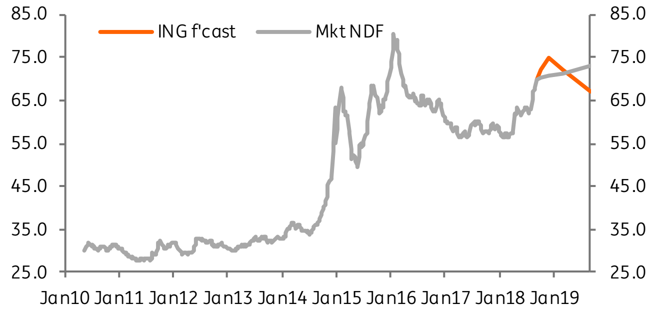
USD/RUB

Bracing for fresh US sanctions

Current spot: 69.46



Source: Bloomberg, ING

- Fears of increased US sanctions against Russia are dominating RUB price action. US Congress is currently deliberating a tougher set of measures, including preventing US residents buying new sovereign issuance. This would be a marked escalation. The fact that the Russian Min Fin is discussing potentially intervening in the OFZ market show these threats are treated seriously. Foreigners own around 27% of OFZ market (around US$30bn).
- In response to the weaker RUB the Min Fin has cancelled the purchase of FX until late September – and the market is now pricing 200bp of CBR hikes over the next 6 months – a sea change in view.
- Russian authorities so far seem relaxed with RUB depreciation.

ING forecasts (mkt fwd)	**1M** 72.00 (69.66)	**3M** 75.00 (70.12)	**6M** 72.00 (70.86)	**12M** 67.00 (72.54)

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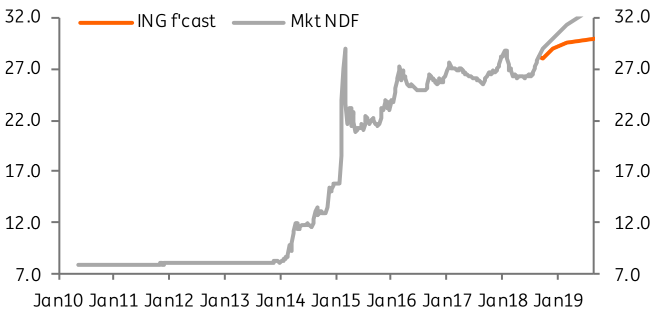
USD/UAH

Waiting on the IMF

Current spot: 28.29



Source: Bloomberg, ING

- The IMF is currently in Ukraine undertaking their fourth review of the US$17.5bn EFF facility agreed back in 2015. The fourth tranche is worth close to US$2bn and seen as crucial for Ukraine to meet its financing needs this winter. News reports suggests Ukraine has probably done enough to get the tranche released, although negotiations over the rise in gas prices are ongoing.
- Because of high food and agri prices its seems like exporters have been late to sell their export proceeds this summer, suggesting UAH could receive some support in the Sep/Oct 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 (28.95)	**3M** 29.00 (29.98)	**6M** 29.50 (31.37)	**12M** 30.00 (32.94)

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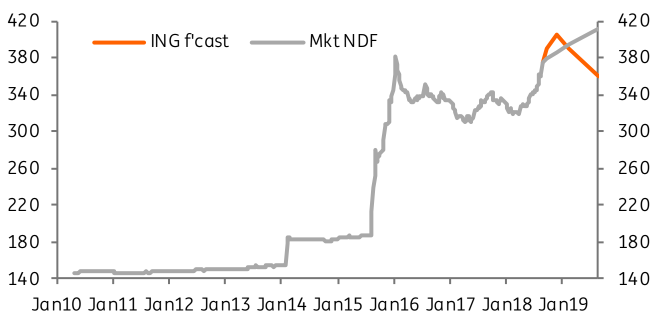
USD/KZT

KZT/RUB managed tightly, $/KZT to go through 400

Current spot: 374.6



Source: Bloomberg, ING

- Unlike in 2014/15, when KZT/RUB rallied from 20 to 35 during the Crimean conflict, it seems like Kazakh authorities are very tightly managing the KZT to the Rouble. This has seen sharp gains in $/KZT this year, despite firm energy prices. Assuming a steady KZT/RUB rate and based on our USD/RUB forecasts, we can now see USD/KZT trading above 400 later this year.
- Real interest rates remain near 2.5/3%, but are providing no support to the KZT. EM investors are more interested in capital preservation right now rather than looking at carry trades.
- Kazakh government bonds have started clearing through Clearstream. Investors should one day add to the US$1.3bn they hold of government bonds already.

ING forecasts (mkt fwd)	**1M** 390.00 (378.8)	**3M** 405.00 (385.6)	**6M** 390.00 (395.5)	**12M** 360.00 (412.8)

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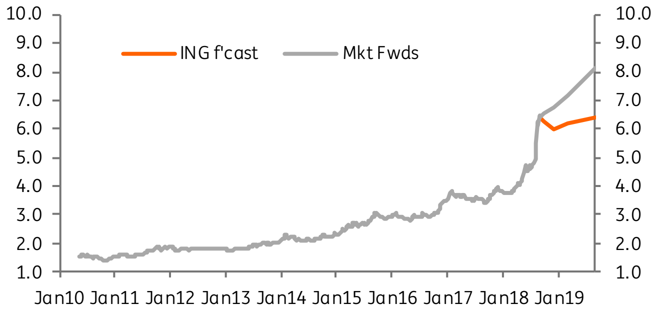
USD/TRY

CBT promises adjustment in monetary stance, Sep 13th **Current spot: 6.41**



Source: Bloomberg, ING

- August inflation shows the outlook remains poor with further worsening in the price dynamics driven by cost factors, while the evolution of the TRY and food prices will likely determine the CPI given ongoing slowdown in demand pressures. The CBT, on the other hand, started liquidity tightening again last month with currency volatility pulling effective cost of funding up by 150bp to 19.25% and signaled an upward revision in policy rates following the inflation release to stop TRY slide and restore price stability.
- Given concerns about fiscal and monetary policy as well as continuing geopolitical risks, TRY has significantly underperformed. We see expectations about the medium term plan (MTP) and changes in the inflation outlook to determine TRY's performance along with news on US-Turkey relations.

ING forecasts (mkt fwd)	**1M** 6.30 (6.52)	**3M** 6.00 (6.77)	**6M** 6.20 (7.20)	**12M** 6.40 (8.13)

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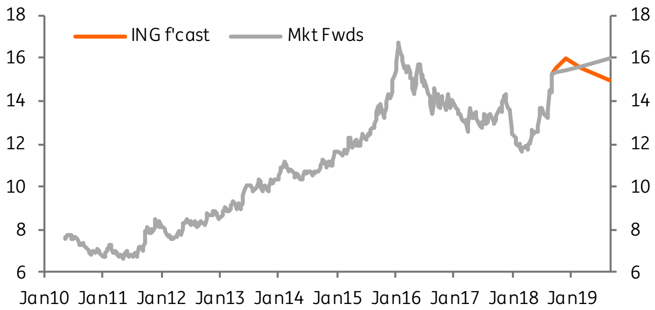
USD/ZAR

A perfect storm for the ZAR **Current spot: 15.14**



Source: Bloomberg, ING

- Internal and external challenges continue to take their toll on the high beta ZAR. On the internal side, 2Q18 GDP growth shocked the market with a 0.7% QoQ GDP contraction, following a revised lower 2.6% QoQ contraction in 1Q18. The 2Q18 current account deficit did however narrow to 3.3% of GDP from 4.6%.
- Yet South Africa's external imbalance leaves it exposed to the strong dollar and higher US rates at a time when it looks as though tariffs are starting to impact Chinese activity. South Africa is exposed here through industrial metals, which are off 20% YTD.
- Investors are also wary of US sanctions on S.Africa, as the US seeks to pressure the local government on proposed land reforms. We could hear more on this ahead of US mid-terms.

ING forecasts (mkt fwd)	**1M** 15.50 (15.20)	**3M** 16.00 (15.33)	**6M** 15.50 (15.51)	**12M** 15.00 (15.89)

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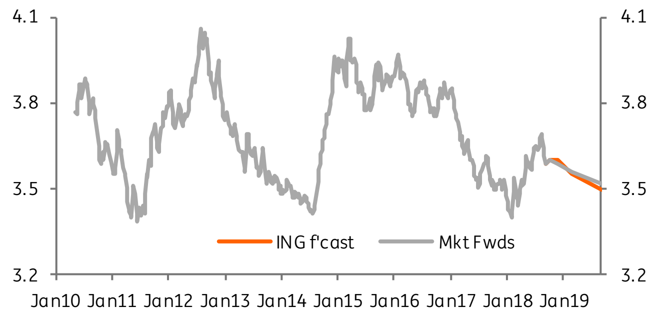
USD/ILS

Hawkish BoI helps the Shekel **Current spot: 3.58**



Source: Bloomberg, ING

- ILS is trading stronger against the dollar in anticipation of a 25bp rate BoI hike in 4Q18. Previously, the strong ILS had prevented the BoI from considering rate hikes, but that's changed since USD/ILS rallied above 3.70. Previously the fear had been that a rate hike could have taken $/ILS below 3.40 and have hurt exporters.
- CPI is up 1.4% YoY, however Monetary Committee members expect short- and medium-term inflation to remain in the lower part of their target range of 1-3%, then pick up in 2019.
- ILS has noticeably managed to de-couple from the high beta EM currencies, particularly during August. However we see a tough environment for EM over coming months, $/ILS could see 3.65.

ING forecasts (mkt fwd)	**1M** 3.60 (3.60)	**3M** 3.60 (3.58)	**6M** 3.55 (3.56)	**12M** 3.50 (3.51)

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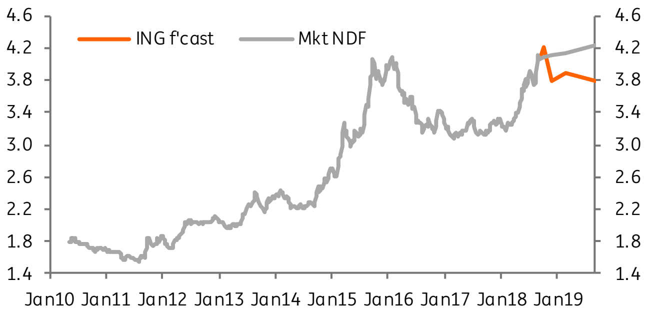
LATAM

USD/BRL

All eyes on the Presidential election polls **Current spot: 4.06**



Source: Bloomberg, ING

- Helped by the surge in risk aversion affecting EM, the BRL has already tested our expected 4.20 pre-election forecast. The stabbing of front-runner Bolsonaro was seen as reducing the chances of the left winning the race, and resulted in a brief BRL rally, but we still consider the equilibrium level for the USD/BRL to be close to 4-4.2, ahead of the Elections. The 1st-round vote is set for October 7 and the 2nd-round for October 28. A break from this range depends on a mix of election polls and global risk aversion.
- The CB appears more reluctant to intervene in the FX market, probably reflecting an assessment that the market has been able to absorb the volatility quite well, following the surge in FX hedge positions seen in June.
- But we still consider the BRL to be among the most vulnerable EM currencies. This reflects Brazil's precarious fiscal stance and the challenges the next administration will face to reverse its soaring debt trajectory next year.

ING forecasts (NDF)	**1M** 4.20 (4.09)	**3M** 3.80 (4.11)	**6M** 3.90 (4.15)	**12M** 3.80 (4.23)

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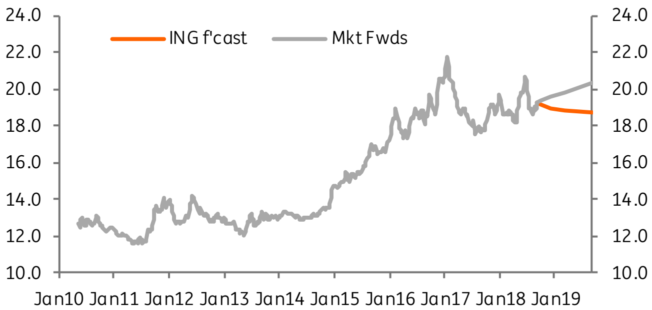
USD/MXN

Displaying greater resilience **Current spot: 19.23**



Source: Bloomberg, ING

- The MXN has often behaved as the LATAM currency most sensitive to external EM sentiment. That seems to be changing. The peso is still the most liquid currency in the region but its high level of interest rates and Mexico's improved outlook, with two major risks (elections and NAFTA) now out-of-the-way, or following a benign trajectory, lending support to the currency.
- 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 such as the USD and general risk appetite should remain the chief near-term drivers for the MXN. The risk of rate hikes by Banxico has fallen sharply, but higher-than-expected inflation and Fed rate hikes suggest that room for rate cuts is limited. They are more likely to be considered only later in 2019.

ING forecasts (mkt fwd)	**1M** 19.20 (19.32)	**3M** 19.00 (19.50)	**6M** 18.80 (19.76)	**12M** 18.70 (20.31)

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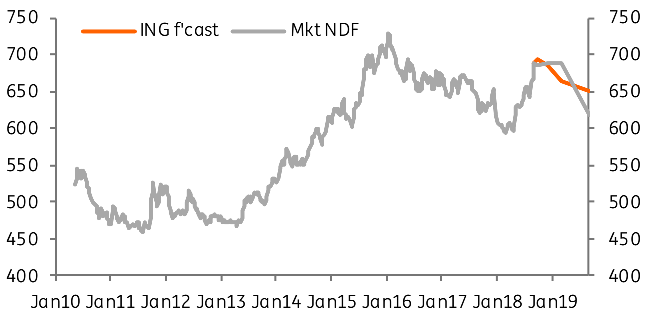
USD/CLP

Trapped in the trade-war crossfire **Current spot: 688.47**



Source: Bloomberg, ING

- The sharp decline in copper prices, which continued to test new lows due to China/trade-war concerns, kept the CLP among the worst-performing currencies in the region for three months now.
- Near-term prospects for the currency remain closely linked to these external drivers. Additional near-term weakness is possible, but ING expects 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 in economic activity is solidly under way, with GDP growth expected to top 4% this year. Inflation is very close to the target now, paving the way for an earlier-than-expected policy rate normalization, up from 2.5%.

ING forecasts (NDF)	**1M** 695.00 (687)	**3M** 685.00 (689)	**6M** 665.00 (689)	**12M** 650.00 (620)

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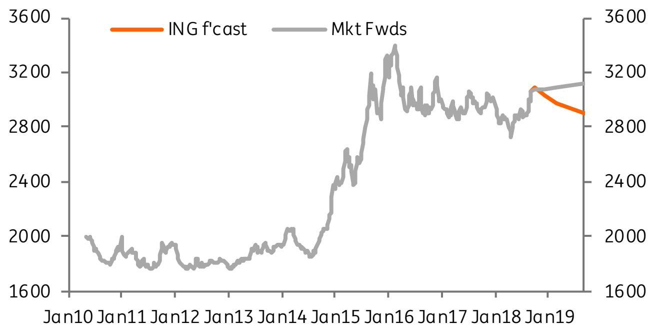
USD/COP

Scope for COP appreciation in catch-up with oil **Current spot: 3064.89**



Source: Bloomberg, ING

- The COP has not been immune to the rise in risk aversion across EM and the currency has weakened considerably, with some investors singling Colombia out as a particularly vulnerable local market due to the large rise in portfolio inflows in recent years.
- We are not as concerned, and consider that the risk of outflows is more limited than some expect. Moreover, the correlation gap that opened up between the COP and its chief driver, oil prices, suggest that the case for a significant catch-up rally remains persuasive.
- Domestic drivers are likewise relatively constructive. The appointment of Alberto Carrasquilla as Finance Minister helps alleviate concerns about Duque's commitment to the fiscal rule. But lack of a solid Congressional majority suggests that some fiscal challenges may lay ahead. Improved domestic demand indicators and benign inflation trends suggest meanwhile that BanRep should keep the current neutral guidance for the policy rate (4.25%) in the foreseeable future.

ING forecasts (NDF)	**1M** 3090.00 (3098)	**3M** 3035.00 (3107)	**6M** 2975.00 (3121)	**12M** 2900.00 (3148)

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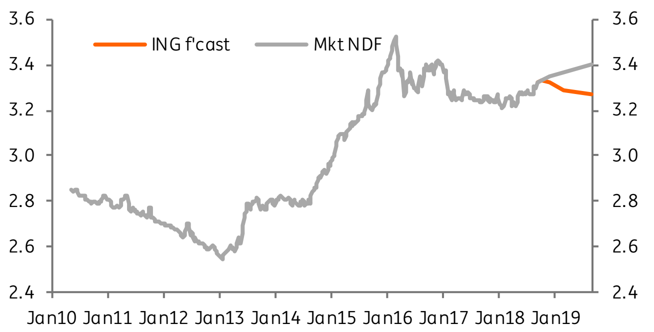
USD/PEN

Improved macro trends help offset trade-war concerns **Current spot: 3.32**



Source: Bloomberg, ING

- As usual, the PEN traded with the lowest volatility in the region, outperforming amid sell-offs and underperforming during rallies. As a result, given the widespread sell-off, the PEN was the best-preforming currency in the region over the past month.
- 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 stronger 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 (3.35)	**6M** 3.29 (3.36)	**12M** 3.27 (3.40)

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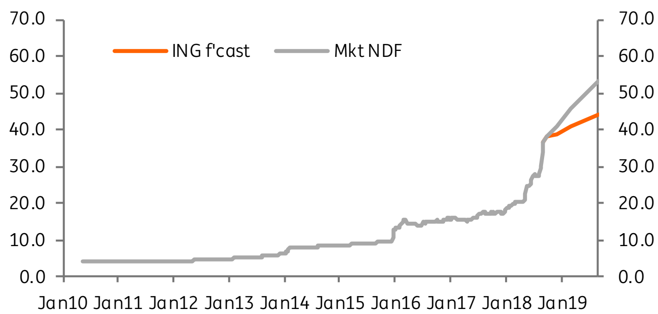
USD/ARS

Confidence crisis management **Current spot: 37.04**



Source: Bloomberg, ING

- The Macri administration has stepped up its effort to stabilize local markets, by hiking the benchmark interest rates to 60% and adopting a faster-than-expected fiscal consolidation plan, aiming to a balanced primary fiscal budget by next year.
- Investors remain reluctant to call an end to the confidence crisis however, which still lack an IMF agreement to frontload a significant portion of the remaining US$35bn included in the 3-yr stand-by program. Rollover risk of FX-denominated debt maturing next year must be reduced in order to stabilize the ARS.
- The damage to Argentina's macro outlook has been considerable, with inflation expected to top 40% this year and GDP to contract 2%. Macri's diminished political capital suggests that monitoring the risk of social unrest and the government's ability to implement IMF-set targets will remain important.

ING forecasts (NDF)	**1M** 38.00 (38.44)	**3M** 38.70 (41.32)	**6M** 40.80 (46.20)	**12M** 44.00 (53.74)

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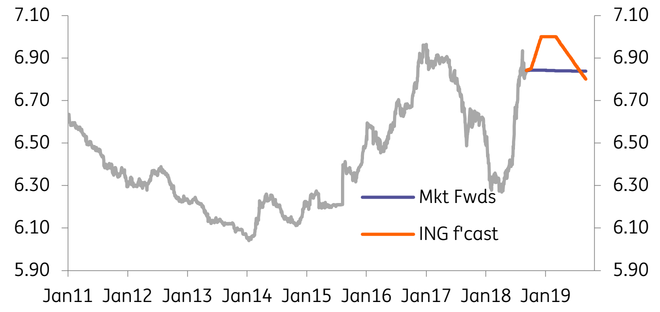
Asia

USD/CNY

Counter-cyclical factor slows down yuan depreciation

Current spot: 6.8417



Source: Bloomberg, ING

- China restarted its counter-cyclical factor for its daily fixing in August. And since it announced this, CNY has depreciated slower than before the announcement was made.
- What happens next to USD/CNY depends on what the US announces on the next round of tariffs. Will the US$200 billion headline be trimmed down? And how much will be 25%, rather than 10%? Depending on the outcome, this could either be a trend-changing moment, alternatively, the market may view it as merely a gradual escalation in the trade war.
- In any case, we do not expect US to cut the tariff list down to US$60 billion, which is China's retaliation amount if the US imposes 25% tariffs on the whole US$200 billion list. Therefore we expect the yuan to continue to depreciate against the dollar.

ING forecasts (FWDs)	**1M** 6.8500 (6.8424)	**3M** 7.0000 (6.8428)	**6M** 7.0000 (6.8402)	**12M** 6.8000 (6.8377)

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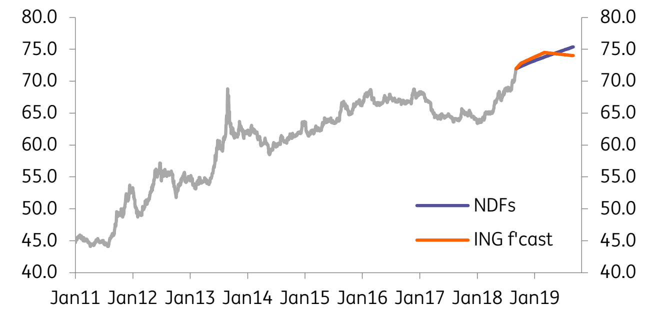
USD/INR

No light at the end of the tunnel

Current spot: 71.99



Source: Bloomberg, ING

- The INR's 2.5% depreciation since the eruption of the Turkish financial crisis in mid-August is the worst among Asian FX. Unrelenting weakening pressure could move the RBI to undertake aggressive policy tightening at the next meeting in early October.
- But we are sceptical that more rate hikes will help the INR, given its exposure to a continually widening current account deficit due to a surging oil import bill and also rising political uncertainty ahead of elections in early 2019. We now expect USD/INR trading towards the 74-75 area over the next six months.
- In a surprisingly strong showing, GDP grew by 8.2% in 1Q FY19 despite all of India's economic woes. We believe growth is poised to slow as current market uncertainty filters through to economic activity.

ING forecasts (FWDs)	**1M** 72.80 (72.33)	**3M** 73.50 (72.99)	**6M** 74.50 (73.82)	**12M** 74.00 (75.39)

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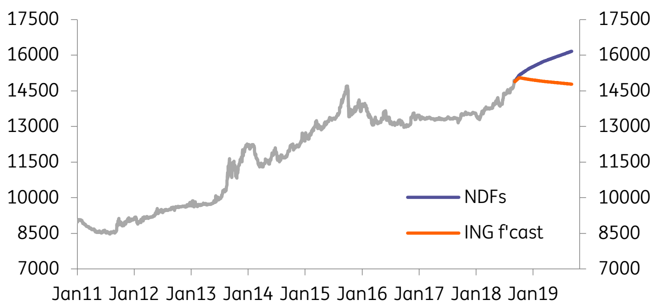
USD/IDR

BI's tightening is not enough to arrest IDR's slide

Current spot: 14890



Source: Bloomberg, ING

- IDR has weakened by 1.5% since the last policy rate hike. High exposure to offshore funds as well as concern over a wider current account deficit add to the already weak EM sentiment.
- Efforts to stabilize the IDR have been inadequate to prevent the currency weakening to levels last seen during the Asian Financial Crisis. Bank Indonesia (BI) surprised with a 25bp rate hike at the last policy rate meeting to bring the total increase this year to 125bp. The government has also taken steps to improve the external balance.
- BI's tightening cycle is likely to continue with a further rate hike at the September meeting while BI and the government implement prudential and other measures to moderate speculation and curb imports.

ING forecasts (NDFs)	**1M** 15050 (15165)	**3M** 14980 (15435)	**6M** 14900 (15725)	**12M** 14780 (16163)

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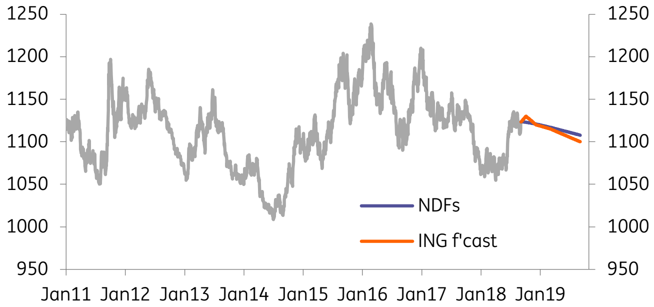
USD/KRW

More DM than EM



Source: Bloomberg, ING

Current spot: 1124

- Although the KRW has weakened a bit since April when the CNY began to give back its gains, it strikes us as behaving more like a DM currency than an EM one since the EM Rout began.
- Since early July, the KRW has traded in a fairly narrow range, and though we could see 1130 tested again near term, we aren't inclined to stick to our previous bearish forecasts of last month, and have flattened the KRW forecast profile considerably.
- Our year-end expectations see roughly today's FX rate, though having been a little weaker first, so the momentum is strengthening into the year end. We don't see the BoK needing to provide any support, either through rates, or directly in markets.

ING forecasts (NDFs)	**1M** 1130 (1123)	**3M** 1120 (1121)	**6M** 1115 (1117)	**12M** 1100 (1108)

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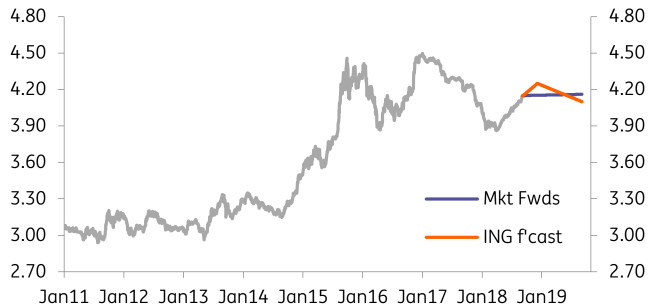
USD/MYR

From Asian outperformer to underperformer



Source: Bloomberg, ING

Current spot: 4.1475

- The commodity currencies have started to feel the heat and the MYR isn't spared with a 1.3% depreciation since mid-August shifting it from being Asian outperformer to one of the underperformers. Besides emerging market contagion, PM Mahathir's rhetoric against foreign investors has added to the currency weakness.
- BNM seems to be accommodating the MYR weakening pressure as long as it is from external factors. The currency enjoys decent external payments support, obviating any need for a policy response.
- GDP growth slowed sharply to 4.5% in 2Q18 from 5.4% in 1Q and inflation has continued to be subdued. We expect no BNM policy change over the rest of the year, and expect the MYR reacquiring its Asian outperformer status once the external uncertainty lifts.

ING forecasts (FWDs)	**1M** 4.1800 (4.1505)	**3M** 4.2500 (4.1530)	**6M** 4.2000 (4.1545)	**12M** 4.1000 (4.1603)

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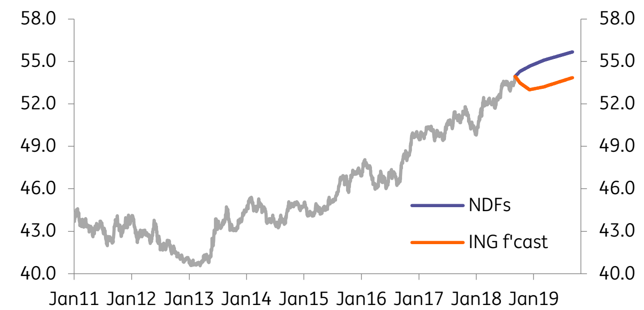
USD/PHP

Hawkish BSP and capital inflows would help PHP



Source: Bloomberg, ING

Current spot: 53.94

- PHP has traded within the range of PHP52.85 to PHP53.55 since mid-June. One reason is BSP's hawkish actions.
- The central bank (BSP) took an aggressive step in August with a 50bps hike in policy rates. Hawkish rhetoric continues as BSP re-anchors inflation expectations to within its target range.
- The surge of inflation in August to 6.4%, the highest since March 2009, would likely argue for another aggressive BSP response at the policy rate meeting later this month. The chances of another 50bps rate hike have increased as real policy rates sink deeper into the red and as BSP tries to re-anchor inflation expectations. A hawkish BSP and capital inflows as large as those seen in 4Q17 could come from a re-IPO of a food and beverage conglomerate next month, which could support the PHP.

ING forecasts (NDFs)	**1M** 53.50 (53.30)	**3M** 53.00 (54.66)	**6M** 53.20 (55.08)	**12M** 53.85 (55.67)

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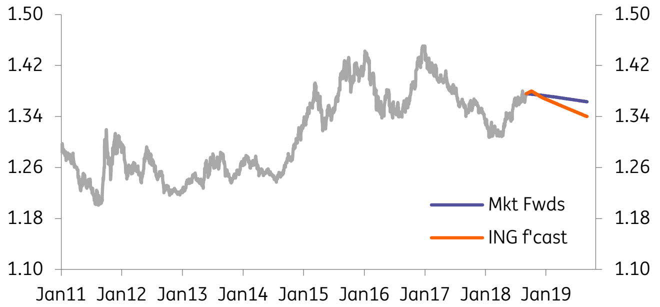
USD/SGD

Good but not great

Current spot: 1.3757



Source: Bloomberg, ING

- For a currency that is supposed to be seeing slight nominal effective exchange rate appreciation, the SGD has not performed much better than many other Asian currencies, and has been weaker than others (MYR, THB).
- The economic newsflow has not been exactly bad, but it is difficult to look at the run of GDP, production, inflation and export figures and confidently assert that all is well. Weak spots remain, and headline figures are often flattered by what look like one-off bounces.
- With the regional concern over trade tariffs, we struggle to see how the MAS can tighten further in October, though things may have calmed sufficiently for them to leave policy unchanged.

ING forecasts (FWDs)	**1M** 1.3800 (1.3750)	**3M** 1.3700 (1.3733)	**6M** 1.3600 (1.3702)	**12M** 1.3400 (1.3631)

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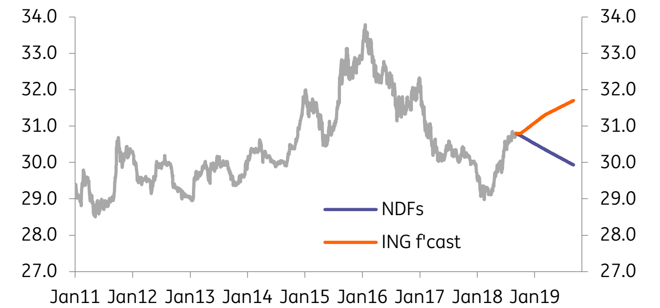
USD/TWD

Central bank to stay put but doesn't mean no depreciation

Current spot: 30.79



Source: Bloomberg, ING

- The USD/TWD exchange rate reflects the market belief that the bilateral trade war between Mainland China and the US is negative for the Taiwan economy.
- However, as interest rates in Taiwan are already low, the central bank has no room to cut interest rates to support growth…
- …and concern over trade war spill overs from China means that the central bank cannot raise rates either.
- With no room for support, we anticipate that in the short run, the TWD will depreciate against the dollar along with other Asian export oriented currencies.

ING forecasts (NDFs)	**1M** 30.80 (30.74)	**3M** 31.00 (30.58)	**6M** 31.30 (30.36)	**12M** 31.70 (29.93)

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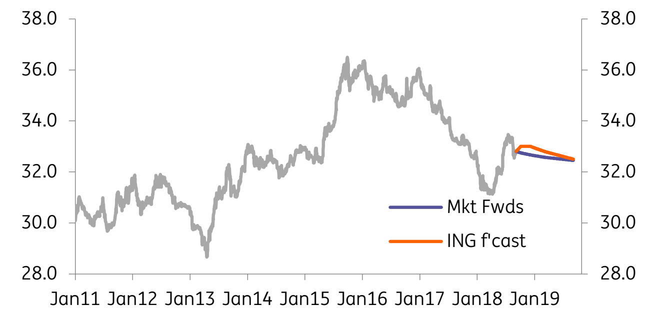
USD/THB

Bucking the emerging market currency sell-off

Current spot: 32.81



Source: Bloomberg, ING

- Bucking the emerging currency sell-off, the THB has been the best performing Asian currency with a 1.3% gain since mid-August. We credit: a persistently high current account surplus, steady GDP growth, low inflation and policy certainty to this outcome.
- The oil-price-led surge in imports and slower exports due to trade wars will dent the current surplus to below 10% of GDP this year from over 11% in the last two years. But it's still large enough to shield the THB during this external turmoil.
- GDP growth surprised on the upside at 4.6% in 2Q18, although it was a slowdown from 4.9% in 1Q. Inflation has peaked at 1.6% in July and will retrace back to the low end of the BoT's target of 1-4%. We maintain our view of the BoT staying on hold this year.

ING forecasts (FWDs)	**1M** 33.00 (32.76)	**3M** 33.00 (32.68)	**6M** 32.80 (32.58)	**12M** 32.50 (32.46)

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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	1.17	1.20	1.28						
EUR/JPY	128.7	124.20	126.36	129.60	130.56	USD/JPY	111.16	108	108	108	102
EUR/GBP	0.89	0.90	0.88	0.88	0.86	GBP/USD	1.29	1.28	1.33	1.36	1.49
EUR/CHF	1.12	1.10	1.15	1.17	1.20	USD/CHF	0.97	0.96	0.98	0.98	0.94
EUR/NOK	9.76	9.60	9.60	9.40	9.30	USD/NOK	8.43	8.35	8.21	7.83	7.27
EUR/SEK	10.50	10.70	11.00	10.90	10.70	USD/SEK	9.07	9.30	9.40	9.08	8.36
EUR/DKK	7.457	7.455	7.455	7.460	7.460	USD/DKK	6.44	6.48	6.37	6.22	5.83
EUR/CAD	1.52	1.50	1.50	1.50	1.60	USD/CAD	1.316	1.30	1.28	1.25	1.25
EUR/AUD	1.62	1.64	1.67	1.67	1.71	AUD/USD	0.71	0.70	0.70	0.72	0.75
EUR/NZD	1.77	1.77	1.80	1.79	1.83	NZD/USD	0.66	0.65	0.65	0.67	0.70
EMEA											
EUR/PLN	4.31	4.31	4.26	4.25	4.27	USD/PLN	3.72	3.75	3.64	3.54	3.34
EUR/HUF	325.2	330.00	330.00	325.00	320.00	USD/HUF	280.9	287	282	271	250
EUR/CZK	25.69	25.7	25.7	25.2	25.0	USD/CZK	22.19	22.3	22.0	21.0	19.5
EUR/RON	4.64	4.67	4.70	4.68	4.70	USD/RON	4.00	4.06	4.02	3.90	3.67
EUR/HRK	7.43	7.45	7.40	7.35	7.40	USD/HRK	6.42	6.48	6.32	6.13	5.78
EUR/RSD	118.3	118.0	118.0	117.0	116.0	USD/RSD	102.2	102.6	100.9	97.5	90.6
EUR/RUB	80.40	82.8	87.8	86.4	85.8	USD/RUB	69.46	72.0	75.0	72.0	67.0
EUR/UAH	32.73	32.2	33.9	35.4	38.4	USD/UAH	28.29	28.00	29.00	29.50	30.00
EUR/KZT	434.4	448.5	473.9	468.0	460.8	USD/KZT	374.6	390	405	390	360
EUR/TRY	7.42	7.25	7.02	7.44	8.19	USD/TRY	6.41	6.30	6.00	6.20	6.40
EUR/ZAR	17.52	17.8	18.7	18.6	19.2	USD/ZAR	15.14	15.50	16.00	15.50	15.00
EUR/ILS	4.15	4.14	4.21	4.26	4.48	USD/ILS	3.58	3.60	3.60	3.55	3.50
LATAM											
EUR/BRL	4.71	4.83	4.45	4.68	4.86	USD/BRL	4.06	4.20	3.80	3.90	3.80
EUR/MXN	22.26	22.1	22.2	22.6	23.9	USD/MXN	19.23	19.20	19.00	18.80	18.70
EUR/CLP	796.88	799	801	798	832	USD/CLP	688.47	695	685	665	650
EUR/ARS	42.89	43.70	45.28	48.96	56.32	USD/ARS	37.04	38.00	38.70	40.80	44.00
EUR/COP	3567.00	3554	3551	3570	3712	USD/COP	3064.89	3090	3035	2975	2900
EUR/PEN	3.85	3.83	3.88	3.95	4.19	USD/PEN	3.32	3.33	3.32	3.29	3.27
Asia											
EUR/CNY	7.92	7.88	8.19	8.40	8.70	USD/CNY	6.84	6.85	7.00	7.00	6.80
EUR/HKD	9.09	9.02	9.18	9.41	10.04	USD/HKD	7.85	7.85	7.85	7.85	7.85
EUR/IDR	17274	17308	17527	17880	18918	USD/IDR	14820	15050	14980	14900	14780
EUR/INR	83.28	83.7	86.0	89.4	94.7	USD/INR	71.74	72.80	73.50	74.50	74.00
EUR/KRW	1305.80	1300	1310	1338	1408	USD/KRW	1122.81	1130	1120	1115	1100
EUR/MYR	4.83	4.81	4.97	5.04	5.25	USD/MYR	4.15	4.18	4.25	4.20	4.10
EUR/PHP	62.56	61.5	62.0	63.8	68.9	USD/PHP	53.72	53.5	53.0	53.2	53.85
EUR/SGD	1.59	1.59	1.60	1.63	1.72	USD/SGD	1.38	1.38	1.37	1.36	1.34
EUR/TWD	35.84	35.4	36.3	37.6	40.6	USD/TWD	30.77	30.8	31.0	31.3	31.7
EUR/THB	37.98	38.0	38.6	39.4	41.6	USD/THB	32.81	33.0	33.0	32.8	32.5

Source: Bloomberg, ING

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