23 July 2018
FX Strategy

FX talkING

Trump gives and Trump takes (the USD strength)

President Trump's criticism of China and EU for manipulating exchange rates and the Fed for hiking rates reversed some of the USD strength. As for near-term implications, this should put some floor under EUR/USD, limit further USD/JPY upside and in the absence of the escalating trade wars be supportive of EM FX.

However, as the Fed policy path is set to remain intact for now (in the direction of a further gradual tightening) and the trade war overhang being firmly in place, the broad-based USD weakness of EM FX rally may not last for too long and can be easily derailed.

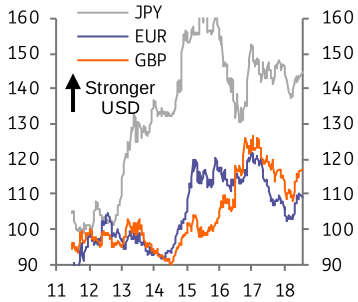
The price of GBP continues to reflect an enigma of uncertainties: a fragile UK government, uncertainty over the Brexit end-state and economic policy uncertainty. Risks are that EUR/GBP heads to 0.92 in 3Q if Brexit noise picks up.

In the Latam space, we remain wary of BRL as the room for a surge in voter support for the establishment candidate (ie, Geraldo Alckmin) is relatively limited. We expect demand for FX hedge to remain high and result in additional BRL weakness.

Asian FX will be particularly vulnerable to the impacts of this developing trade war. With CNY weakness fully in place, the next wave of the trade war may hit Asia's commodity currencies hardest (MYR and IDR).

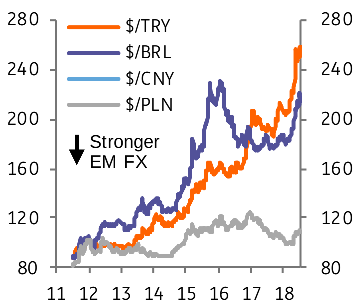
In the CEE FX space, we remain negative on HUF and look for EUR/HUF to re-test the 330 level this summer. Further tightening from the CNB this year should be supportive of CZK, but this may not a story for the August CNB meeting.

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	1.17	=	111	=	1.30	<
3M	1.17	=	110	=	1.36	>
6M	1.23	>	110	>	1.39	>
12M	1.30	>	105	<	1.48	>
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.90	>	25.80	>	4.30	<
3M	0.88	<	25.50	>	4.25	<
6M	0.88	<	25.20	>	4.20	<
12M	0.86	<	24.80	<	4.17	<
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	6.80	=	19.00	<	3.90	>
3M	6.90	>	18.80	<	4.20	>
6M	7.00	>	18.70	<	3.75	<
12M	6.80	=	18.60	<	3.75	<

> / = / < 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	1.1	1.7	1.2	-2.4	-0.1
%YoY	1.5	-0.5	0.4	2.6	-7.9	4.4
	USD/UAH	**USD/KZT**	**USD/BRL**	**USD/ARS**	**USD/CNY**	**USD/TRY**
%MoM	0.6	2.3	1.4	2.6	5.7	1.3
%YoY	2.2	6.1	20.3	61.5	0.8	34.4

Source: Bloomberg, ING

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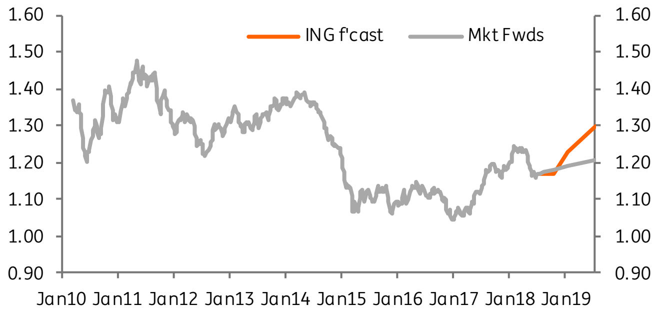
Developed markets

EUR/USD

Trump putting a floor under EUR/USD

Current spot: 1.17



Source: Bloomberg, ING

- The latest President Trump criticism of (a) China and EU for manipulating their exchange rates; and (b) the Fed for hiking interest rates are likely to put some floor under EUR/USD. The cross continues to exert a degree of short-term risk premia (around 1.5% based on our estimates).
- Yet, the ongoing trade war overhang (with auto tariffs being the key risk to EUR) and the ECB dovish forward rate guidance on rates equally make near-term EUR/USD upside limited.
- All this suggests EUR/USD hovering around the 1.1700 level in coming weeks. With the ECB already providing a guidance on QE and deposit rates in June, the July ECB meeting should be a non-event for the euro.

ING forecasts (mkt fwd)	**1M** 1.17 (1.174)	**3M** 1.17 (1.179)	**6M** 1.23 (1.188)	**12M** 1.30 (1.207)

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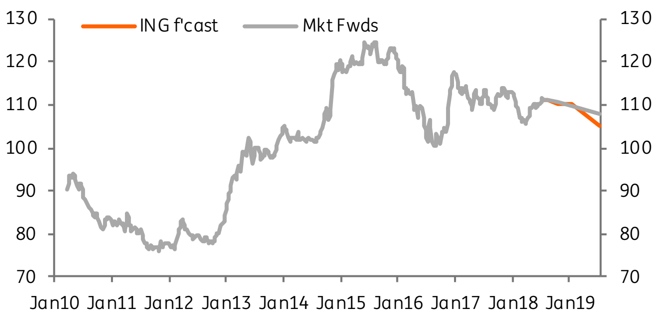
USD/JPY

Yen dynamics shift from bearish to bullish on Trump & BoJ

Current spot: 111.31



Source: Bloomberg, ING

- While USD/JPY's breakout above 112 attracted some attention – with the yen not exhibiting its typical safe-haven characteristics amid being caught-up in the Asia FX sell-off – President Trump's antagonistic comments on Fed policy and $ strength means that the cross may well have posted a short-term top for the summer.
- The yen's domestic story remains marred by downside risks to Japanese GDP in a global trade war. But speculation the BoJ may make some minor policy tweaks has lifted JGB yields; any follow-through will be seen as a hawkish move and a big JPY positive.
- We see the yen flipping back to being a safe-haven if the US opts to push ahead with auto tariffs. USD/JPY risks to 105-108 on this.

ING forecasts (mkt fwd)	**1M** 111.00 (111.0)	**3M** 110.00 (110.6)	**6M** 110.00 (109.8)	**12M** 105.00 (108.1)

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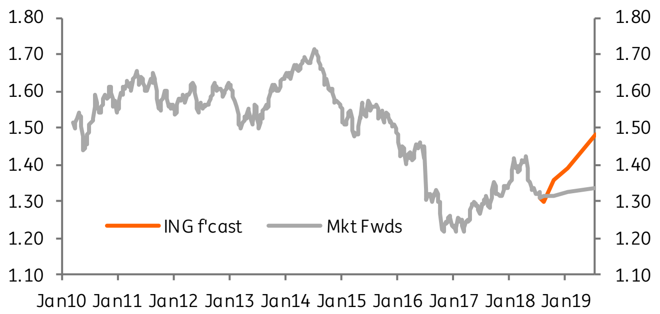
GBP/USD

Risk of 1.27-1.28 in 3Q18 if Westminster storm continues

Current spot: 1.31



Source: Bloomberg, ING

- All the positive drivers for Cable have turned on their head of late – with a strong $ (weak global economy), UK political uncertainty and a muted UK economic cycle all weighing on the pound.
- While a cyclical top in the USD rally may place a floor on GBP/USD around 1.30 for now, we feel that near-term Brexit 'No Deal' risks may stay elevated as the UK government struggles to agree on a clear plan. PM May's fragile leadership will keep investors nervous.
- We think the stormy political clouds over Westminster will stay in place until at least Oct – and are confined to pencilling in a 1.27-1.28 trough for GBP/USD in 3Q18. This accounts for a large degree of political uncertainty – and is in spite of a likely August BoE hike.

ING forecasts (mkt fwd)	**1M** 1.30 (1.31)	**3M** 1.36 (1.32)	**6M** 1.39 (1.32)	**12M** 1.48 (1.33)

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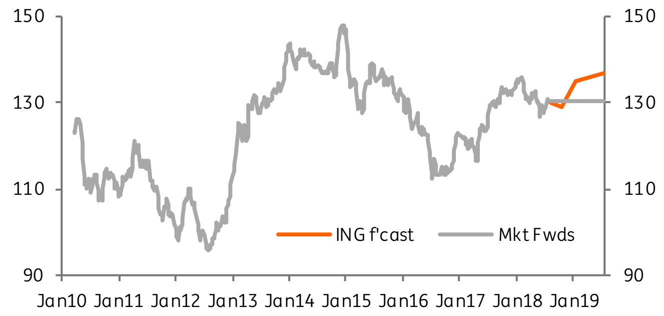
EUR/JPY

Notable downside risks this summer

Current spot: 130.3



Source: Bloomberg, ING

- US equity markets have held up well in spite of growing global trade tensions. Yet, there has been a notable underperformance in the more domestic Russell 2000 index versus the much more international S&P 500. If auto imports from the EU are next to be subject to tariffs, we think equities would turn decisively lower.
- The nature of this shock would be relatively negative for the more cyclical EUR – thus presenting EUR/JPY as a speculative short.
- Helping EUR/JPY recently may have been Japanese demand for higher yielding Eurozone debt – with fund managers seeing the Italian sell-off as a buying opportunity for long-term EZ debt. We have a tough time seeing upside risks to EUR/JPY this summer.

ING forecasts (mkt fwd)	**1M** 130.00 (130)	**3M** 129.00 (130)	**6M** 135.00 (130)	**12M** 137.00 (131)

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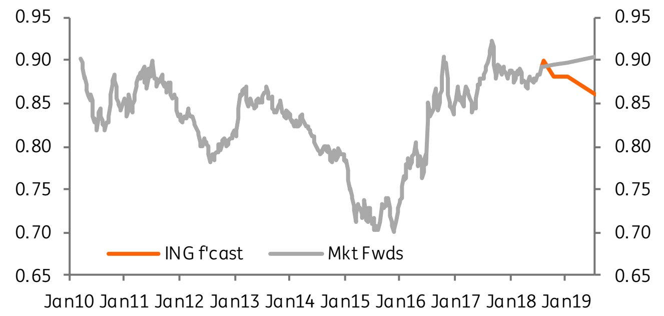
EUR/GBP

Politics to outweigh the economics for GBP in 3Q18

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 political chaos in the UK makes it a good reason to trade at a discount.
- Despite the BoE likely to raise rates in August, we believe the politics will continue to outweigh the economics for GBP in the short-term – especially if the Brexit strategy of the UK government remains one that is seemingly trying to fit a square peg in a round hole. Risks are that EUR/GBP heads to 0.92 in 3Q if Brexit noise picks up.
- We could be positively surprised by Brexit progress and a possible last-minute deal. This will help EUR/GBP move back to 0.85-0.87.

ING forecasts (mkt fwd)	**1M** 0.90 (0.89)	**3M** 0.88 (0.90)	**6M** 0.88 (0.90)	**12M** 0.86 (0.90)

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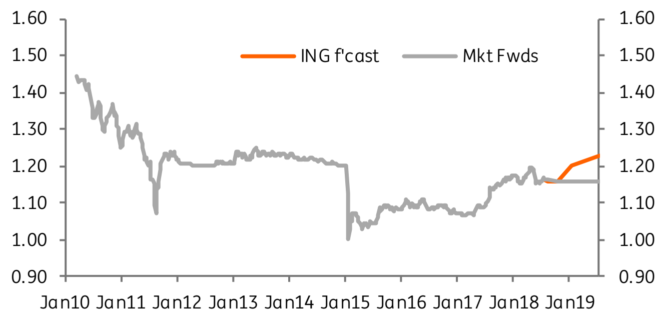
EUR/CHF

Rally delayed amid rising trade war tensions

Current spot: 1.16



Source: Bloomberg, ING

- The Swiss franc is set to remain bid this summer as global trade war tensions are likely to stay elevated. Yet despite the headline risks, markets hold a significantly short CHF position against the USD. Should the $ face pressure from Trump jawboning, a large unwind in long USD/CHF positions may keep CHF pairs supported.
- The SNB has cut its 2020 inflation forecast – and has said there's less reason to adjust policy. We could never understand why markets felt the SNB could hike in 1Q19. We still expect the SNB to hike well after the ECB – potentially not until early 2020.
- FX intervention remains part of SNB toolkit, thus we see EUR/CHF downside limited and temporary below the 1.15 area.

ING forecasts (mkt fwd)	**1M** 1.16 (1.16)	**3M** 1.16 (1.16)	**6M** 1.20 (1.16)	**12M** 1.23 (1.16)

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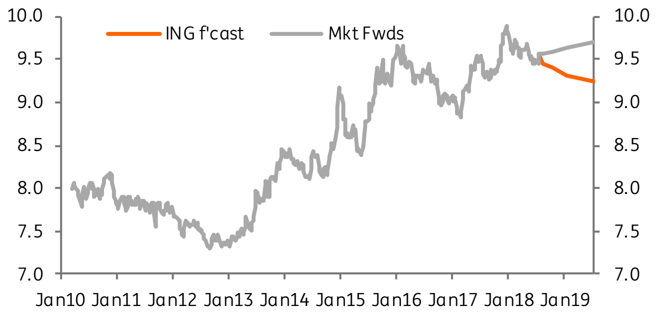
EUR/NOK

NB tightening to provide support to NOK

Current spot: 9.60



Source: Bloomberg, ING

- EUR/NOK spiked in the second half of July hand in hand with the declining in oil price. Falling commodity prices more than offset the NOK's support from the hawkish Norges Bank (NB).
- During the June meeting, the NB explicitly confirmed its intention to raise rates in September, making it (along with the BoE and the CNB) the hawkish outlier in the European central banking space. While NOK is currently under pressure, we expect the NB policy to provide a cushion to krone and eventually translate into NOK gains, with EUR/NOK moving to the 9.40 level by September.
- Given the clear divergence between the stances of Norges Bank and Riksbank and its implication for the respective currencies, we expect NOK/SEK to move above the 1.10 level in coming months.

ING forecasts (mkt fwd)	**1M** 9.45 (9.57)	**3M** 9.40 (9.60)	**6M** 9.30 (9.64)	**12M** 9.25 (9.72)

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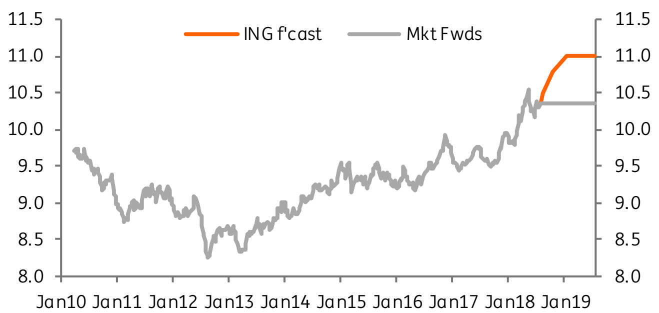
EUR/SEK

Very vulnerable to global trade tensions

Current spot: 10.40



Source: Bloomberg, ING

- We look for higher EUR/SEK in the coming months as the risk of escalating trade tension, the lower summer liquidity and the cheap cost of shorting SEK (the second lowest in the G10 FX space) make SEK vulnerable.
- While there was one more dissenter against the current loose policy set up and the Riksbank continues to signal a hike in 4Q18, we expect it to remain on hold in coming quarters as underlying inflation shows little signs of picking up. We don't expect Riksbank to materially front run the ECB in terms of rate increases.
- While SEK remains cheap vs EUR on a medium-term basis, we see few catalysts for the undervaluation to correct. We look for EUR/SEK to break above the 10.50 level in coming months.

ING forecasts (mkt fwd)	**1M** 10.50 (10.35)	**3M** 10.80 (10.35)	**6M** 11.00 (10.35)	**12M** 11.00 (10.36)

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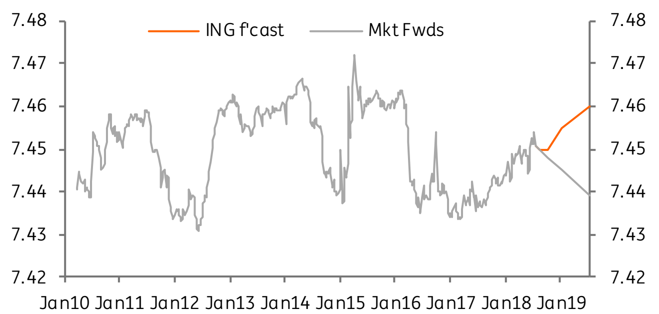
EUR/DKK

The DN mimicking the ECB

Current spot: 7.451



Source: Bloomberg, ING

- EUR/DKK showed some modest gains during the first part of July as easing pressure on risk assets sent the cross higher.
- With the ECB striking a more dovish tone in relation to its interest rate forward guidance during the June meeting, the DN mimicking the ECB is likely to keep interest rates unchanged at least until summer next year.
- With EUR/DKK still below the central rate of 7.46038, there is indeed no pressing need for the central bank to adjust its current policy stance. We look for EUR/DKK to trade round the 7.4500 level in coming months, yet slowly but surely converge towards the central parity rate over the next quarters as the ECB policy becomes less expansionary.

ING forecasts (mkt fwd)	**1M** 7.450 (7.450)	**3M** 7.450 (7.448)	**6M** 7.455 (7.445)	**12M** 7.460 (7.439)

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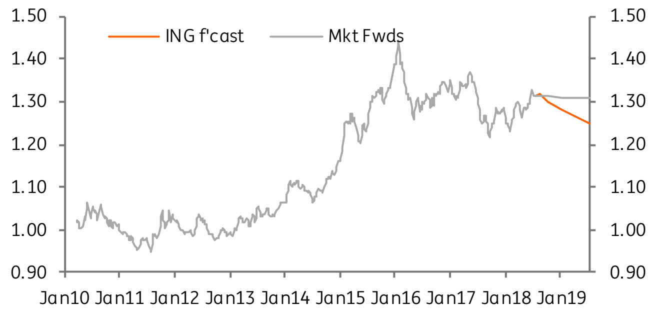
USD/CAD

Bank of Canada hikes... CAD falls on external risks

Current spot: 1.316



Source: Bloomberg, ING

- While the BoC delivered a 25bp rate hike in July – and noted that higher rates will be warranted in the future – CAD investors were unflustered; the loonie weakened to its lowest level since the BoC began tightening. A strong USD, weaker terms of trade (lower oil) and US trade policy risks have been the bigger CAD driving forces.
- NAFTA progress continues to stagnate; there's an element of CAD markets giving up hope and expecting the worst (short USD/CAD positions are at their highest in over a year). While we believe the pair is overvalued on a short-term basis above 1.32, we'll need to see some positive NAFTA news to see a corrective move to 1.30.
- An escalation in US trade tensions could see USD/CAD up at 1.36.

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

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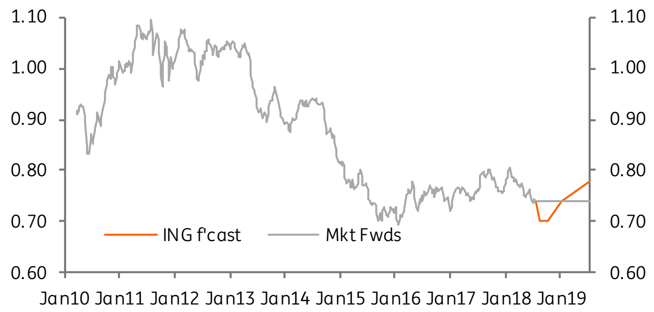
AUD/USD

A major casualty of the current US policy mix

Current spot: 0.74



Source: Bloomberg, ING

- The current US policy mix is particularly toxic for the AUD; higher US rates (due to a relentlessly hawkish Fed) and sliding industrial metal prices (a by-product of the US-China trade war) is weighing heavily on the currency – keeping AUD/USD anchored below 0.75.
- While there's always the risk of a short-term squeeze, our view of a further escalation in the global trade war narrative means that we have a big picture negative outlook on high-beta FX. AUD risks falling to 0.70 if the US follow-through with $200bn China tariffs.
- With the Australian economy stuck in 'lowflation' mode, we think the RBA will be one of the last of the G10 FX central banks to hike. While the $ rally may fizzle, risks of a big AUD move higher is low.

ING forecasts (mkt fwd)	**1M** 0.70 (0.739)	**3M** 0.70 (0.739)	**6M** 0.74 (0.740)	**12M** 0.78 (0.741)

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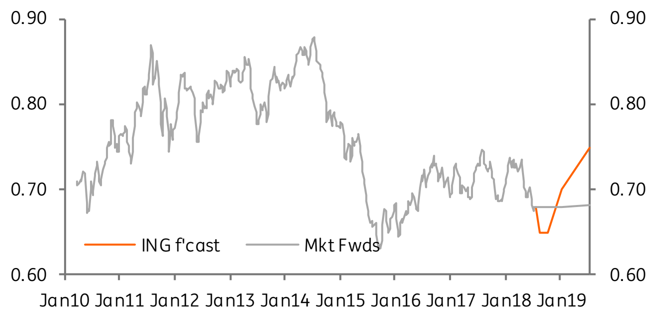
NZD/USD

Global headwinds outweigh decent domestic news

Current spot: 0.68



Source: Bloomberg, ING

- It's been a turbulent summer for NZD/USD – which fell to a fresh multi-year low below 0.67 as global trade war fears rose sharply.
- Aside from the external global headwinds, the local NZD outlook has turned slightly more favourable; the 2Q NZ CPI report saw the RBNZ's core inflation measure pick up to 1.7% YoY (a 7-year high) and this is likely to provide some comfort to central bank officials. It's too early to see any explicit hawkish shift from the RBNZ – but 2Y NZ rates look to have bottomed out (may begin to move up).
- We think the move lower in NZD/USD may hit a pause for now as the US dollar rally comes to end. An escalation in the global trade war and sell-off in risky assets would take NZD/USD down to 0.65.

ING forecasts (mkt fwd)	**1M** 0.65 (0.679)	**3M** 0.65 (0.679)	**6M** 0.70 (0.680)	**12M** 0.75 (0.681)

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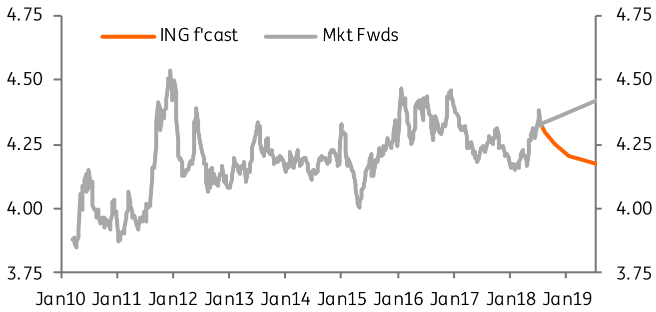
Emerging markets

EUR/PLN

Polish activity data call for end of Eurozone slowdown

Current spot: 4.33



Source: Bloomberg, ING

- A turnaround in Eurozone activity data for May and EM assets rebound helped PLN to recover 10 figures against the euro in July. The sharp PLN rise was followed by a technical correction, which opened a way for further strengthening if not trade wars risk.
- We find Polish activity data leading Eurozone figures due to a very close relation of Polish manufacturing with German supply chain. Positive surprises with the Polish IP in May-June call for an end of the Eurozone soft patch. Given that the sentiment towards CEE FX should improve, although trade wars risk persists.
- The Trumps tariffs for the Eurozone automotive are CEE FX negative, but the least for PLN due to Poland's diversified exports.

ING forecasts (mkt fwd)	**1M** 4.30 (4.33)	**3M** 4.25 (4.35)	**6M** 4.20 (4.37)	**12M** 4.17 (4.42)

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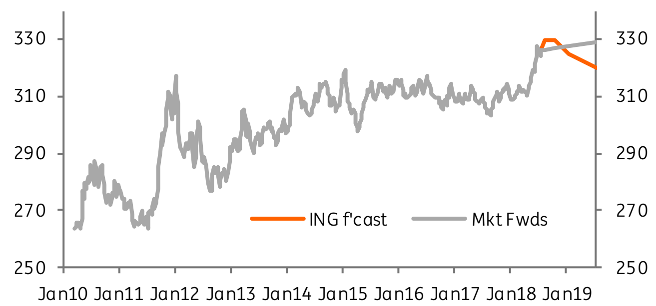
EUR/HUF

The recently found stability could be an illusion

Current spot: 326.3



Source: Bloomberg, ING

- We remain wary of HUF as the NBH keeps the monetary policy loose, it is unwilling to tighten and a softer HUF may re-start the inflation concerns. We look for EUR/HUF to re-test 330 in summer.
- The swift move in EUR/HUF from 330 down to 322 in the first half of July was largely positioning driven and doesn't in our view reflect a changing perception of HUF. The market currently expects a very tight NBH policy but we hardly see the NBH rising rates meaningfully before the ECB.
- The next turning point could come as soon as in September, when the NBH will update its inflation report. However, with the oil prices heading south, we hardly see a change in its dovishness. This in turn keeps downside risks to HUF in place.

ING forecasts (mkt fwd)	**1M** 330.00 (326.5)	**3M** 330.00 (326.9)	**6M** 325.00 (327.4)	**12M** 320.00 (329.3)

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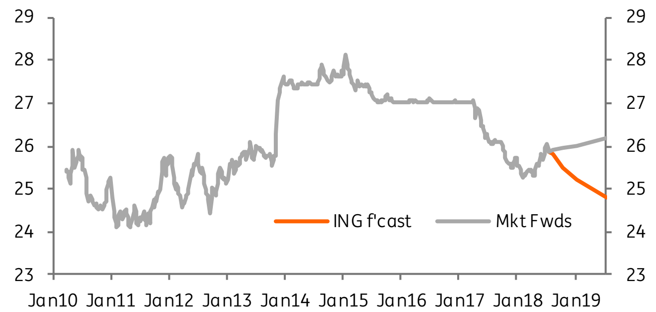
EUR/CZK

Additional CNB hikes in 2H18 (but not Aug) to support CZK

Current spot: 25.86



Source: Bloomberg, ING

- We don't expect the CNB to deliver another 25bp hike in August, despite stronger CPI, which risen to 2.6%YoY. The rise was largely driven by non-monetary relevant factors and the CNB itself acknowledged that more than 2/3 of the deviation from its own CPI forecast was caused by the oil and food prices.
- Still, the monetary policy is in a need of normalization and further hikes (1 or even 2) are likely to come in the September and November meetings. This should support koruna, though it is still strongly influenced by global factors.
- After range trading in forthcoming weeks, we expect CZK to slightly appreciate closer towards the 25.50 level in 3 months, supported by a more hawkish CNB stance.

ING forecasts (mkt fwd)	**1M** 25.80 (25.90)	**3M** 25.50 (25.94)	**6M** 25.20 (25.98)	**12M** 24.80 (26.16)

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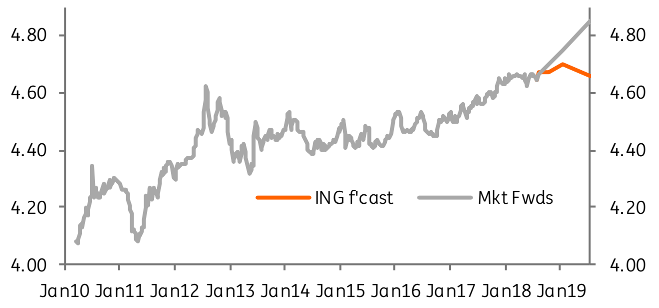
EUR/RON

Official offers and high carry protecting the leu **Current spot: 4.65**



Source: Bloomberg, ING

- The leu has been diverging from peers during the recent sell-off in emerging market currencies. The decoupling has been on very large volumes supporting the idea of official offer in EUR/RON. We estimate May and June interventions at a total of up to EUR2.5bn. The NBR stance, together with the high carry make leu seem well protected for now. The NBR governor mentioned that "the central bank welcomes a stronger monetary policy stance". We see another rate hike this autumn.
- Tensions between the president and ruling coalition have diminished somewhat, after the president dismissed the chief anti-corruption prosecutor, but other topics are in the pipeline.

ING forecasts (mkt fwd)	**1M** 4.70 (4.67)	**3M** 4.68 (4.70)	**6M** 4.70 (4.75)	**12M** 4.67 (4.86)

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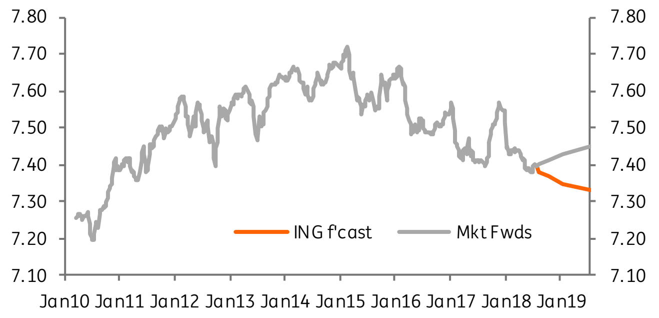
EUR/HRK

Seasonal inflows to support HRK **Current spot: 7.40**



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 the weaker side, the economy's 'euroisation' is noted, as well as the low potential growth.
- On 13 July, the Croatian Parliament reappointed Boris Vujcic as central bank governor for another six-year mandate. Though largely expected, this should reconfirm the current central bank policy stance focused on currency stability against the euro.
- Joining ERM II by 2020 is feasible, but adopting the euro by 2023 looks less probable after the rules of the game have slightly changed as Bulgaria recently found out.

ING forecasts (mkt fwd)	**1M** 7.36 (7.40)	**3M** 7.33 (7.41)	**6M** 7.30 (7.43)	**12M** 7.30 (7.45)

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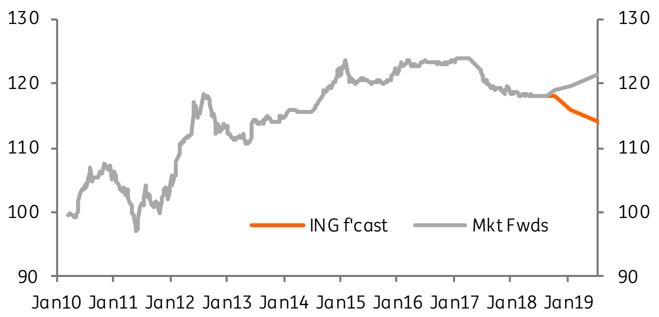
EUR/RSD

RSD backed by debt inflows **Current spot: 118.0**



Source: Bloomberg, ING

- The NBS continued to intervene in July to curb RSD appreciation as rate cutting cycle was stopped on external uncertainties and inflation picking-up. The NBS bought EUR350m in June and almost EUR100m in July up to date.
- S&P and Fitch reaffirmed Serbia's 'BB' rating last month, both giving it a stable outlook on the back of improving external position, public finances and public debt metrics.
- The current account is widening and could reach -6.3% of GDP this year. Its structure, however, is improving as it relates more to investment-related imports. The net FDI's should comfortably cover the gap.

ING forecasts (mkt fwd)	**1M** 118 (118.1)	**3M** 118 (118.9)	**6M** 116 (119.6)	**12M** 114 (121.5)

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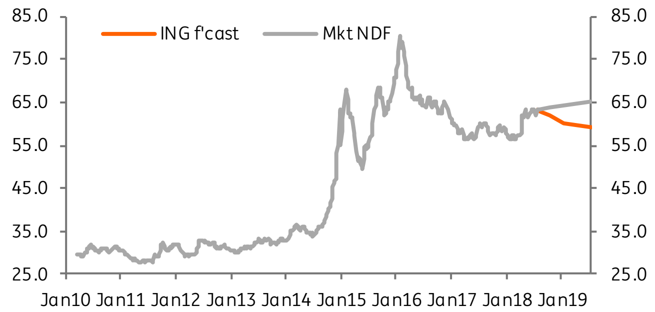
USD/RUB

Benefiting from stable and high real rates

Current spot: 63.14



Source: Bloomberg, ING

- With the CBT signalling pro-inflationary risks stemming from the VAT rise next year, the central bank should stay on hold in July, keeping RUB's attractive carry and real rates in place.
- While the recent decline in oil prices weighed on RUB somewhat, the ruble depreciation was muted with the RUB correlation to the oil price declining modestly in July
- We look for a fairly range bound USD/RUB in coming weeks, with a downward bias towards the 60 level by the year end. We see RUB as the most attractive EMEA high yielder given its lower volatility, stable and high real rates and more predictable domestic politics. The fiscal rule also contributes to the more stable RUB volatility.

ING forecasts (mkt fwd)	**1M** 63.00 (63.35)	**3M** 62.00 (63.72)	**6M** 60.00 (64.28)	**12M** 59.00 (65.38)

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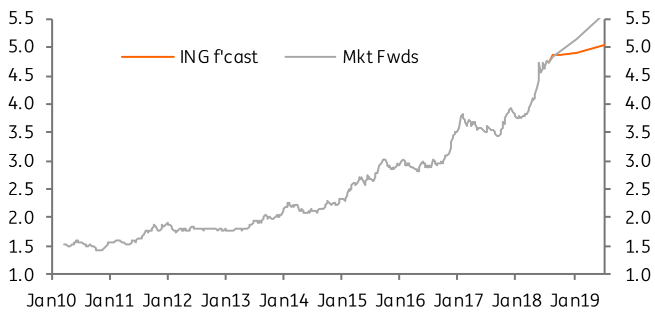
USD/TRY

Challenging times for TRY

Current spot: 4.74



Source: Bloomberg, ING

- We expect the CBT to deliver a measured 100bp tightening on the back of the sharp deterioration in the inflation outlook, ongoing deterioration in forward-looking expectations, the external imbalances, on a rising path since early 2016 and resulting larger financing needs although the rebalancing has already started and likely be the main theme in the rest of 2018.
- Any deterioration in global risk appetite and a further change in the risk attitude towards Turkey in the face of the current inflation uptrend along with other ongoing macro vulnerabilities, imply the importance of keeping rate buffer strong. In the near term, global sentiment, new cabinet's economic policy perspective as well the July MPC outcome would determine TRY's performance.

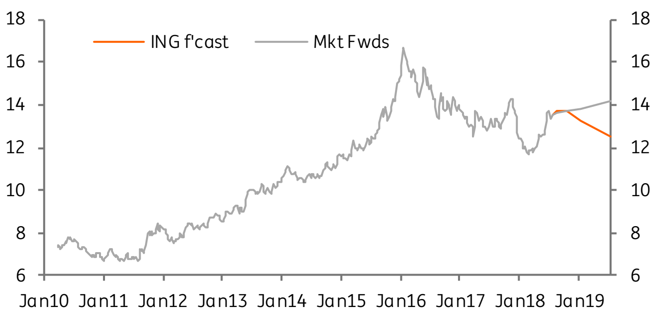
ING forecasts (mkt fwd)	**1M** 4.85 (4.88)	**3M** 4.85 (5.01)	**6M** 4.90 (5.23)	**12M** 5.05 (5.66)

Muhammet Mercan, Istanbul +90 212 329 0751

USD/ZAR

SARB in hurry to provide a support to ZAR

Current spot: 13.53



Source: Bloomberg, ING

- Although assessing risks to the inflation as being on the upside, the SARB left rates unchanged in the July meeting as CPI is not expected to move out of the 3-6% tolerance band and the growth outlook deteriorated.
- With SARB in no hurry to provide support to ZAR (since the previous SARB meeting in May, ZAR was the second worst performing EM currency, only surpassed by ARS) and the threat of global trade wars alive, USD/ZAR should remain under upward pressure during the summer months.
- We estimate ZAR as being the only overvalued currency among the three EMEA high yielders (vs undervalued TRY and RUB), suggesting a limited scope for a ZAR strength.

ING forecasts (mkt fwd)	**1M** 13.70 (13.59)	**3M** 13.75 (13.69)	**6M** 13.25 (13.85)	**12M** 12.50 (14.17)

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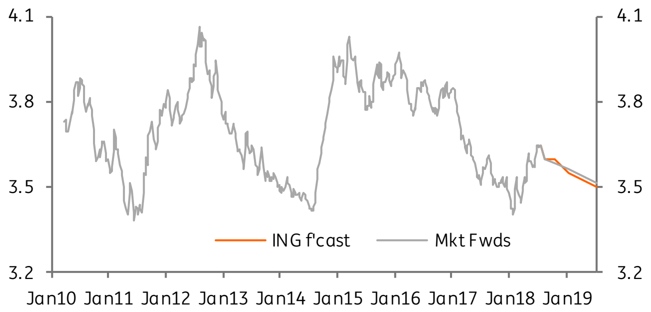
USD/ILS

Following the EUR/USD **Current spot: 3.64**



Source: Bloomberg, ING

- For the first time in four years, the Israel CPI moved back into the 1-3% tolerance band, rising to 1.3%YoY in June. We don't expect it to have major near-term implication for BoI outlook, with the central bank to likely stay on hold this year.
- USD/ILS price action seems to be primarily driven by the EUR/USD, with its correlation to ILS increasing and being close to the multi-quarter highs. Indeed, the bulk of this year ILS sell off coincided with the April–May EUR/USD fall, while USD/ILS stabilised in recent weeks in line with EUR/USD.
- The upgrade in Moody's credit rating outlook from stable to positive is a marginal positive for ILS. We look for flat USD/ILS in coming weeks in line with flattish EUR/USD.

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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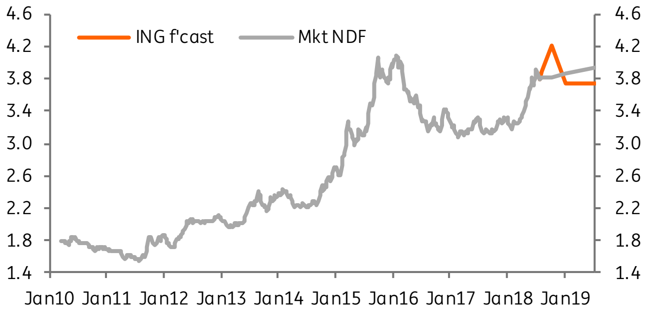
LATAM

USD/BRL

A temporary reprieve

Current spot: 3.80



Source: Bloomberg, ING

- The recent stability in the USD helped stabilise the BRL, allowing the central bank to temporarily halt its FX intervention program. But we remain bearish about the BRL, and still consider the currency to be among the most vulnerable in the EM space.
- Brazilian officials continue to vow to fight any "excessive" depreciation in the real with FX intervention. But, in our view, intervention serves mostly to delay the currency's adjustment.
- A weaker BRL is justified by Brazil's precarious fiscal accounts and the challenges the next administration will face next year to reverse its explosive debt trajectory. Demand for FX hedge should remain high amid weak prospects for electing an establishment candidate in the October election. We consider the equilibrium level for the USD/BRL to be closer to 4-4.2, ahead of the race. A surge in voter support for an establishment candidate (ie, Geraldo Alckmin) is the main risk to our more pessimistic BRL call.

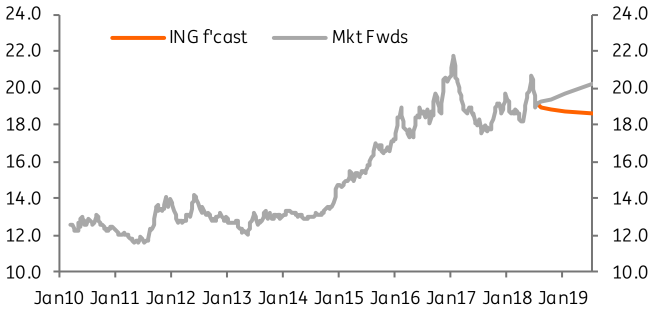
ING forecasts (NDF)	**1M** 3.90 (3.80)	**3M** 4.20 (3.83)	**6M** 3.75 (3.86)	**12M** 3.75 (3.93)

Gustavo Rangel, New York +1 646 424 6464

USD/MXN

No fear of AMLO

Current spot: 19.15



Source: Bloomberg, ING

- Local market concerns about the seismic shift that is about to take place in Mexico's political landscape, with a larger-than-expected left-leaning Congressional base, barely weighed on local assets since the landslide Lopez Obrador victory on July 1.
- Ultimately, attractive valuations (FX and rates) and the market-friendly post-election rhetoric adopted by AMLO lent a persistent appreciating bias to local assets.
- FX trends seem fairly balanced, with external drivers such as the USD and general risk appetite becoming the chief near-term drivers for the MXN. We consider NAFTA more of a medium-term concern, despite signs that negotiations can regain momentum sooner than expected. The risk of rate hikes has fallen sharply, while rate cuts are more likely to be considered earlier in 2019.

ING forecasts (mkt fwd)	**1M** 19.00 (19.24)	**3M** 18.80 (19.42)	**6M** 18.70 (19.70)	**12M** 18.60 (20.22)

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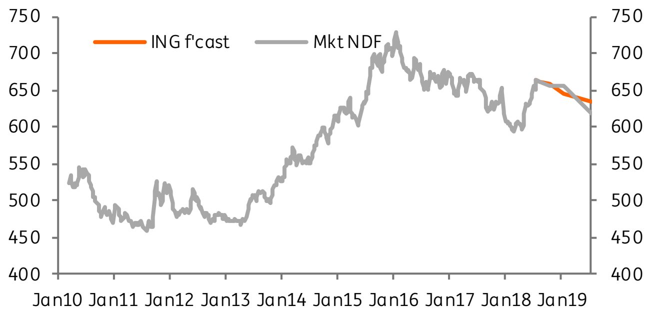
USD/CLP

Caught in the trade-war crossfire

Current spot: 662.90



Source: Bloomberg, ING

- The sharp decline in copper prices, which sank to a one-year low due to the escalation of trade-war concerns, turned the CLP into the worst-performing currency in the region, in the past month.
- Near-term prospects for the currency remain closely linked to external drivers. Additional near-term weakness is possible, but ING expects trade-war rhetoric to cool down after the US mid-term elections, suggesting firmer price levels by yearend.
- Improved domestic macro trends suggest a generally benign outlook for the CLP. The sharp mining-led recovery in economic activity is solidly under way. Inflation remains below the target but it is on the rise, confirming that an earlier-than-expected rate hike (i.e. before yearend) is a real possibility.

ING forecasts (NDF)	**1M** 662.00 (661)	**3M** 660.00 (656)	**6M** 645.00 (656)	**12M** 635.00 (620)

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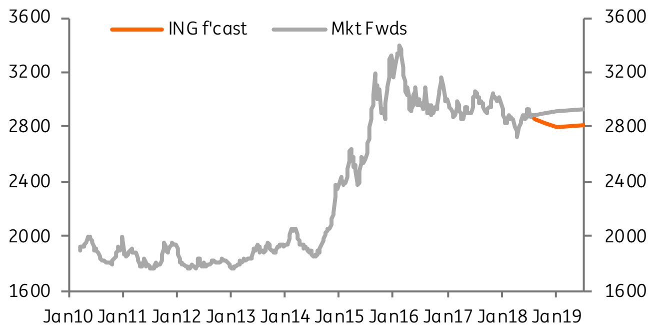
USD/COP

Scope for COP appreciation in catch-up with oil **Current spot: 2887.20**



Source: Bloomberg, ING

- The COP has been an outperformer in LATAM, lagging only the MXN in its election-related relief rally, and prospects for continued outperformance are good. In particular, 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. Persistent supply constraints suggest that the outlook for oil prices remain relatively bullish.
- Domestic drivers are likewise relatively constructive. President-elect Iván Duque announced that Alberto Carrasquilla will take over as Finance Minister. The appointment helps alleviate concerns about Duque's commitment to the fiscal rule.
- Improved domestic demand indicators suggest meanwhile that BanRep should keep the current neutral guidance for the policy rate (4.25%) in the foreseeable future.

ING forecasts (NDF)	**1M** 2850.00 (2887)	**3M** 2830.00 (2896)	**6M** 2800.00 (2908)	**12M** 2810.00 (2936)

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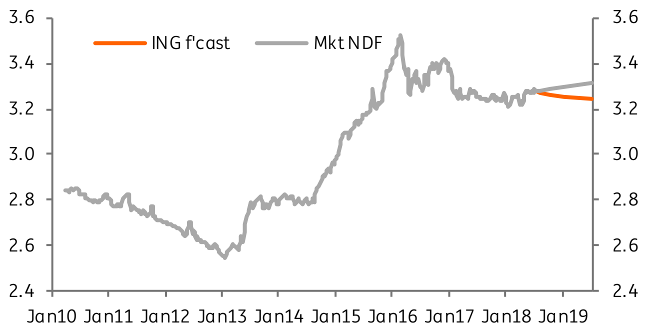
USD/PEN

Improved macro trends help offset trade-war concerns **Current spot: 3.28**



Source: Bloomberg, ING

- As usual, the PEN traded with the lowest volatility in the region, outperforming amid sell-offs and underperforming during rallies.
- Trade-war concerns dented the outlook for metal prices, adding downside to Peru's terms of trade. But stronger evidence of a surge in economic activity (thanks to stronger manufacturing and construction), together with the more favourable domestic political environment 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 greater conviction regarding economic activity together with the recent rise in inflation suggests that the BCRP should keep its "neutral" bias in the foreseeable future.

ING forecasts (NDF)	**1M** 3.27 (3.28)	**3M** 3.26 (3.29)	**6M** 3.25 (3.30)	**12M** 3.24 (3.31)

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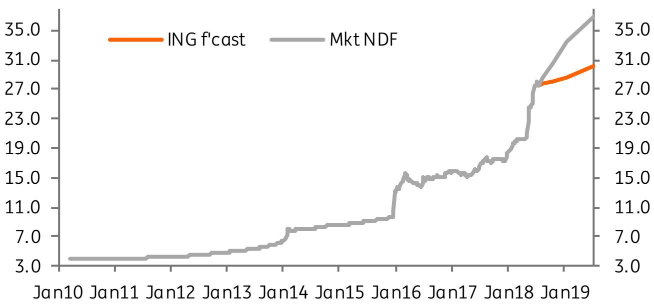
USD/ARS

An unstable balance **Current spot: 27.62**



Source: Bloomberg, ING

- The IMF-endorsed sharply hawkish turn in policy guidance, which aims to reverse Argentina's large fiscal and current account deficits, has yet to produce a lasting local market stability.
- A cabinet reshuffle was generally well-received by the market but the damage to Argentina's macro outlook is considerable, evident in the higher inflation, lower growth, and diminished political capital to enact fiscal tightening (i.e. energy subsidies).
- The start of an FX intervention program (US$100mn daily) along with a commitment to tight monetary policy helps limit ARS vulnerabilities but market dynamics remain too unsettled to keep high-conviction calls on ARS assets. In particular, as policy continuity remains critical to assess longer-term investor appetite towards Argentina, investors should gradually shift focus towards assessing Macri's chance to get re-elected next year.

ING forecasts (NDF)	**1M** 27.90 (28.65)	**3M** 28.10 (30.59)	**6M** 28.60 (33.35)	**12M** 30.10 (36.92)

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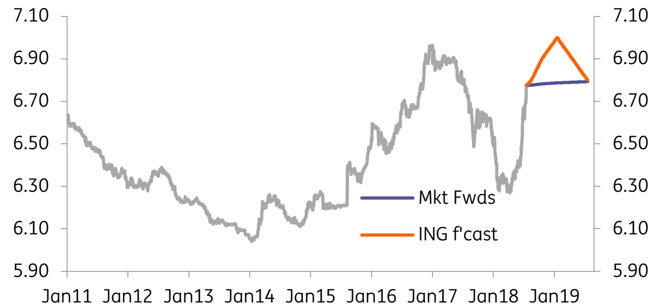
Asia

USD/CNY

Weaker daily fixing signals an even weaker yuan

Current spot: 6.7727



Source: Bloomberg, ING

- The US announcement to impose 10% tariffs on $200 billion worth of goods surprised markets on 10 July. The yuan reacted by weakening further.
- Since then China's government has calmed asset markets by talking down the risks of trade war on the economy.
- But the central bank has weakened the yuan daily fixing rate bit by bit. This signals a weaker yuan trend ahead even intraday volatilities sometimes push yuan closing slightly stronger.
- The yuan will weaken even more if the US does not limit the tariff rate and/or the amount of goods to be imposed tariff by 30 August.

ING forecasts (FWDs)	**1M** 6.8000 (6.7753)	**3M** 6.9000 (6.7808)	**6M** 7.0000 (6.7855)	**12M** 6.8000 (6.7915)

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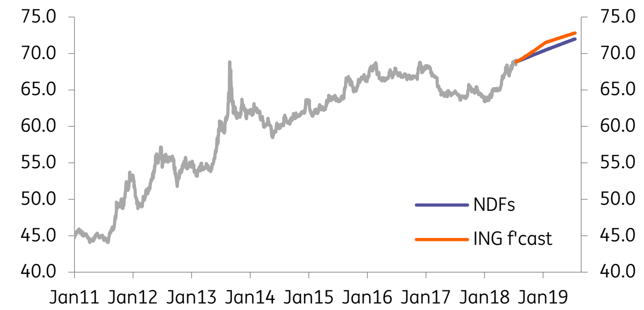
USD/INR

Some stability, but not forever

Current spot: 68.87



Source: Bloomberg, ING

- The depreciation pressure on the INR has eased a bit since June, swinging the currency from underperformer to outperformer in the region. But the worst isn't over yet, as high oil imports cause the trade deficit to balloon. The $45bn deficit in 1Q FY2018-19 was $5bn wider on the year, and half of it was from oil.
- The economy slowed coming into FY2018-19 on weaker manufacturing, an increasing drag from net exports, and elevated inflation. We have cut our GDP growth forecast for the current financial year from 7.2% to 6.7%.
- A weak currency, leading to rising import prices worsens the inflation outlook. CPI inflation rose to 5% in June. RBI policy remains on track for a second rate hike at the August meeting. And we now forecast one more hike in October.

ING forecasts (FWDs)	**1M** 69.20 (69.10)	**3M** 70.10 (69.67)	**6M** 71.50 (70.48)	**12M** 72.80 (72.00)

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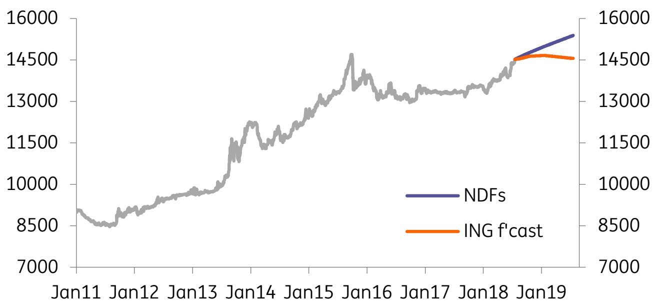
USD/IDR

BI remains vigilant

Current spot: 14525



Source: Bloomberg, ING

- Bank Indonesia (BI) and the government remain in stabilization mode following 100bp of hikes since May.
- IDR has traded in a range of IDR14350 to IDR14480 since BI's aggressive 50bp rate hike at its last policy rate meeting. With a more stable IDR, BI paused at the July 19 meeting.
- But the Hawkish tone remains. BI stands ready to act against any instability or significant weakness of the IDR. We expect IDR to gradually weaken in the next twelve months as BI resumes its tightening cycle in 3Q or 4Q with a total of another 75bp of hikes by end 2019. Presidential elections raise leadership and policy uncertainties. A worsening current account deficit, global trade tensions and continued US monetary policy tightening add to the local concerns.

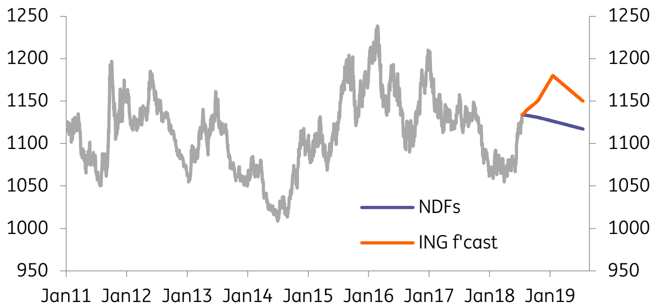
ING forecasts (NDFs)	**1M** 14540 (14604)	**3M** 14630 (14765)	**6M** 14660 (14985)	**12M** 14550 (15385)

Joey Cuyegkeng, Philippines +63 2479 8855

USD/KRW

Down, but not out

Current spot: 1134



Source: Bloomberg, ING

- If there was a peace dividend for the KRW following the Trump-Kim 'love-In' in Singapore, we can't spot it. Concern about the tech industry in the wake of China's ZTE issues with the US may be partly to blame for the KRW's regional underperformance.
- But the Korean economy has also not been looking nearly as good as it had, with exports and production slowing. This is partially transitory, the result of an old-fashioned inventory cycle. That said, there is a lasting impact, and we have trimmed our GDP forecasts as a result (2019 now 2.3% from 2.6%), and also because of the likely impact of the trade war.
- While central bank action does not look imminent, the weakness of the currency has caused import prices to spike. An eventual BoK response will depend on how the KRW evolves from now.

ING forecasts (NDFs)	**1M** 1140 (1133)	**3M** 1150 (1131)	**6M** 1180 (1126)	**12M** 1150 (1117)

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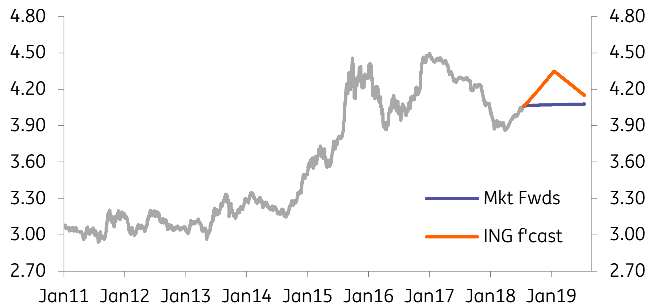
USD/MYR

Trade war clouds economic outlook

Current spot: 4.0628



Source: Bloomberg, ING

- We have revised our USD/MYR forecast higher on our view that the pass-through of weak global trade to commodity prices, and then to Malaysia's export weakness, will shift the MYR from being Asia's outperformer to being one of its underperformer in the rest of the year.
- Weak exports have already started to depress manufacturing, a sign that the Malaysia's GDP growth is poised to slow. The second quarter GDP data due in mid-August will testify to this. We have cut our GDP growth forecast for 2018 to 5.2% from 5.5%.
- We have also cut our inflation forecast for this year to 1.0% from 1.8%, as 'removal' of the GST tax dented inflation below 1%. This allows more scope for stable BNM rate policy to support GDP growth.

ING forecasts (FWDs)	**1M** 4.1000 (4.0668)	**3M** 4.2000 (4.0709)	**6M** 4.3500 (4.0741)	**12M** 4.1500 (4.0791)

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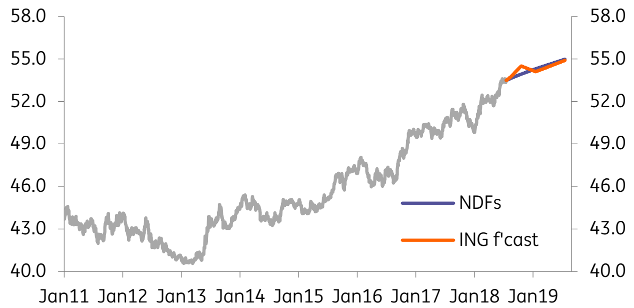
USD/PHP

Central bank is reluctant to take aggressive action

Current spot: 53.50



Source: Bloomberg, ING

- The PHP has stabilized since the central bank (BSP) decided to raise policy rates a second time this year in June. Some hawkish tone as well as direct market intervention has kept PHP in a narrow range of PHP53.20 to PHP53.55.
- Talk of a more aggressive BSP action came after the upside inflation surprise for June. The market started to entertain views of a 50bp hike at the next meeting, as second round effects on prices kept inflation on a rising trend. The market considers the BSP to be behind the curve with real policy rates at -1.7% in June.
- However, the recent central bank tone has dialled back policy rate expectations. A key monetary official indicated that the next policy rate hike of 25bps would likely be the last this year. Direct intervention through the use of its FX reserves is likely to continue to moderate any weakness.

ING forecasts (NDFs)	**1M** 53.75 (53.65)	**3M** 54.50 (53.93)	**6M** 54.10 (54.32)	**12M** 54.90 (54.97)

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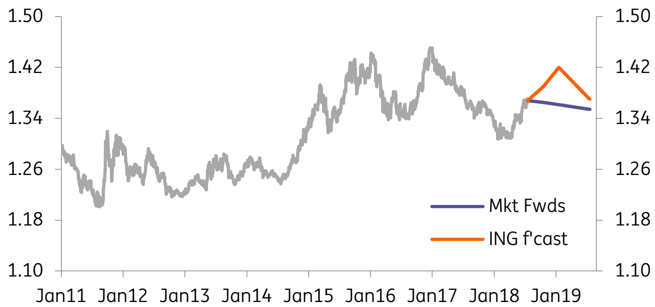
USD/SGD

Change of underlying assumptions **Current spot: 1.3680**



Source: Bloomberg, ING

- The SGD has barely depreciated any less than any of its ASEAN neighbours over the last three months (Baht excluded). That suggests that the NEER has been broadly flat, rather than modestly appreciating as the MAS indicated at the April meeting.
- Indeed, the SGD NEER is broadly unchanged since April, which suggests that if this policy is still in place, it doesn't seem to be being followed mechanically.
- Indeed, recent economic performance has been quite disappointing – June NODX in particular. And we can envisage the MAS slipping policy back to neutral at the October meeting, as the Singaporean economy is vulnerable to a regional and global slowdown. We have cut our 2019 GDP forecasts this month from 2.7% to 2.5% (2018 now 2.8% from 3.2%).

ING forecasts (FWDs)	**1M** 1.3750 (1.3671)	**3M** 1.3900 (1.3652)	**6M** 1.4200 (1.3617)	**12M** 1.3700 (1.3543)

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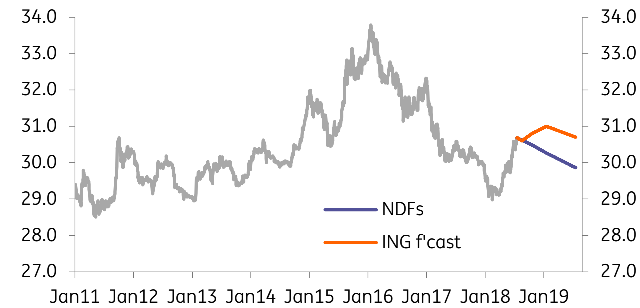
USD/TWD

Taiwan central bank – can't hike, no need to cut **Current spot: 30.69**



Source: Bloomberg, ING

- The beginning of the bilateral trade war between China and the US could benefit economies that produce substitute goods. Taiwan may be one of them. It produces electronic machinery, which can substitute for Chinese production. Agriculture too, can substitute for US produce.
- But if the trade war is long-lasting (over a year), then even economies that produce substitute goods could be unable to avoid falling profits, reduced business opportunities, and even job cuts.
- We do not think the Taiwan central bank has room to raise interest rate against this backdrop. But the economy is not bad enough to merit rate cuts either. Policy will likely remain on hold.

ING forecasts (NDFs)	**1M** 30.60 (30.63)	**3M** 30.80 (30.49)	**6M** 31.00 (30.27)	**12M** 30.70 (29.86)

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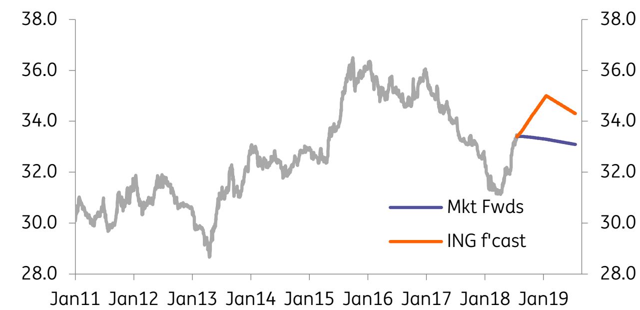
USD/THB

Falling trade surplus **Current spot: 33.40**



Source: Bloomberg, ING

- The THB has lost 4.4% of its value against the USD since June, the third-most after the KRW and the CNY. This comes as a test of claims of insensitivity of local financial markets to external turmoil due to low foreign ownership.
- A shift of the THB from Asia's outperformer in 2017 to underperformer this year may be ascribed to Thailand's falling trade surplus. The $1.9bn trade surplus in the first five months of 2018 was $3.8bn narrower than year ago. This was associated with $1.4bn narrowing in the current surplus to $17.3bn.
- The global trade war raises the risk of GDP growth slipping below 4% and inflation ticking higher in the rest of 2018. We don't think the central bank (BoT) will rush to tighten policy this year.

ING forecasts (FWDs)	**1M** 33.60 (33.41)	**3M** 34.20 (33.37)	**6M** 35.00 (33.30)	**12M** 34.30 (33.10)

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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	1.17	1.17	1.17	1.23	1.30						
EUR/JPY	130.3	129.87	128.70	135.30	136.50	USD/JPY	111.31	111	110	110	105
EUR/GBP	0.89	0.90	0.88	0.88	0.86	GBP/USD	1.31	1.30	1.36	1.39	1.48
EUR/CHF	1.16	1.16	1.16	1.20	1.23	USD/CHF	0.99	0.99	0.99	0.98	0.95
EUR/NOK	9.57	9.45	9.40	9.30	9.25	USD/NOK	8.18	8.08	8.03	7.56	7.12
EUR/SEK	10.36	10.50	10.80	11.00	11.00	USD/SEK	8.86	8.97	9.23	8.94	8.46
EUR/DKK	7.451	7.450	7.450	7.455	7.460	USD/DKK	6.37	6.37	6.37	6.06	5.74
EUR/CAD	1.54	1.54	1.52	1.57	1.63	USD/CAD	1.316	1.32	1.30	1.28	1.25
EUR/AUD	1.58	1.67	1.67	1.66	1.67	AUD/USD	0.74	0.70	0.70	0.74	0.78
EUR/NZD	1.72	1.80	1.80	1.76	1.73	NZD/USD	0.68	0.65	0.65	0.70	0.75
EMEA											
EUR/PLN	4.33	4.30	4.25	4.20	4.17	USD/PLN	3.70	3.68	3.63	3.41	3.21
EUR/HUF	326.3	330	330	325	320	USD/HUF	278.8	282	282	264	246
EUR/CZK	25.86	25.8	25.5	25.2	24.8	USD/CZK	22.10	22.1	21.8	20.5	19.1
EUR/RON	4.65	4.67	4.67	4.70	4.66	USD/RON	3.97	3.99	3.99	3.82	3.58
EUR/HRK	7.40	7.38	7.37	7.35	7.33	USD/HRK	6.32	6.31	6.30	5.98	5.64
EUR/RSD	118.0	118.0	118.0	116.0	114.0	USD/RSD	100.9	100.9	100.9	94.3	87.7
EUR/RUB	73.88	73.7	72.5	73.8	76.7	USD/RUB	63.14	63.0	62.0	60.0	59.0
EUR/TRY	5.55	5.67	5.67	6.03	6.57	USD/TRY	4.74	4.85	4.85	4.90	5.05
EUR/ZAR	15.84	16.0	16.1	16.3	16.3	USD/ZAR	13.53	13.70	13.75	13.25	12.50
EUR/ILS	4.26	4.21	4.21	4.37	4.55	USD/ILS	3.64	3.60	3.60	3.55	3.50
LATAM											
EUR/BRL	4.44	4.56	4.91	4.61	4.88	USD/BRL	3.80	3.90	4.20	3.75	3.75
EUR/MXN	22.41	22.2	22.0	23.0	24.2	USD/MXN	19.15	19.00	18.80	18.70	18.60
EUR/CLP	775.70	775	772	793	826	USD/CLP	662.90	662	660	645	635
EUR/ARS	32.32	32.64	32.88	35.18	39.13	USD/ARS	27.62	27.90	28.10	28.60	30.10
EUR/COP	3348.00	3335	3311	3444	3653	USD/COP	2887.20	2850	2830	2800	2810
EUR/PEN	3.84	3.83	3.81	4.00	4.21	USD/PEN	3.28	3.27	3.26	3.25	3.24
Asia											
EUR/CNY	7.95	7.96	8.07	8.61	8.84	USD/CNY	6.79	6.80	6.90	7.00	6.80
EUR/HKD	9.18	0.00	0.00	0.00	0.00	USD/HKD	7.85	0.00	0.00	0.00	0.00
EUR/IDR	16957	17012	17117	18032	18915	USD/IDR	14482	14540	14630	14660	14550
EUR/INR	80.66	81.0	82.0	87.9	94.6	USD/INR	68.86	69.20	70.10	71.50	72.80
EUR/KRW	1324.85	1334	1346	1451	1495	USD/KRW	1131.22	1140	1150	1180	1150
EUR/MYR	4.76	4.80	4.91	5.35	5.40	USD/MYR	4.06	4.10	4.20	4.35	4.15
EUR/PHP	62.62	62.9	63.8	66.5	71.4	USD/PHP	53.49	53.75	54.5	54.1	54.9
EUR/SGD	1.60	1.61	1.63	1.75	1.78	USD/SGD	1.37	1.38	1.39	1.42	1.37
EUR/TWD	35.95	35.8	36.0	38.1	39.9	USD/TWD	30.64	30.6	30.8	31.0	30.7
EUR/THB	39.14	39.3	40.0	43.1	44.6	USD/THB	33.44	33.6	34.2	35.0	34.3

Source: Bloomberg, ING

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