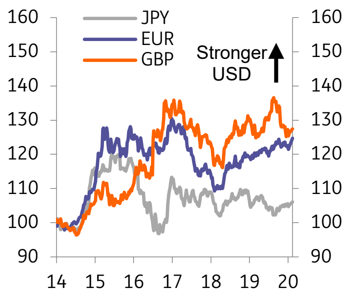
13 February 2020

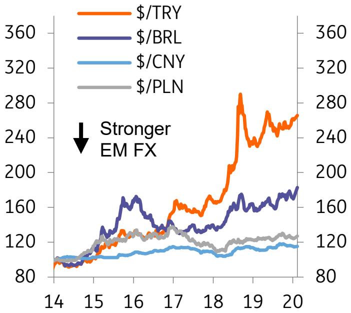
FX Strategy

USD/Majors (12 Jan 14=100)



Source: Macrobond, ING

USD/EM (12 Jan 14=100)



Source: Macrobond, ING

FX Talking

Another dose of pessimism

Chastened after describing the FX environment last month as 'Feelgood', we now have to factor in a dose of pessimism to at least our 1Q20 FX forecasts. Downgrades are largely coming to those currencies exposed to: (i) commodity exports; (ii) general Chinese demand; and (iii) the Chinese supply chain.

Once again, the dollar is left sitting pretty, where US domestic data also happens to be surprising on the upside and President Donald Trump is riding high in the opinion polls. The dollar's biggest threat may come from the White House itself, although the President will largely vent his anger at the Federal Reserve for having kept rates too high, rather than trading partners.

EUR/USD is expected to remain sluggish as investors assess how the European industrial machine is going to creep into gear after stalling last year. 1.07/1.08 is possible here and bullish scenarios are having to be postponed. We're bearish on GBP into the summer and short HUF positions could well see a short squeeze as the NBH battles high inflation.

Elsewhere, we see the medium-term USD/RUB profile slightly lower now on the back of looser fiscal policy, while the ZAR remains vulnerable into February/March.

Asian FX bears the brunt of the coronavirus scare – especially Thailand and its tourist industry. $/KRW could briefly trade 1200+ as we watch the fall-out on the real sector. Latam commodity exporters are also under fire, but we are keeping faith with BRL. Economic recovery later this year should spark a BRL rally.

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.10	↑	107	↓	1.29	→
3M	1.10	↑	108	↓	1.26	↓
6M	1.12	↑	108	→	1.27	↓
12M	1.13	↑	108	↑	1.38	↑
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.85	↑	25.00	↑	4.28	↑
3M	0.87	↑	25.00	→	4.26	↓
6M	0.88	↑	25.00	→	4.31	↑
12M	0.82	↓	24.80	↓	4.27	↓
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	6.98	↑	18.80	↑	4.30	→
3M	7.05	↑	18.90	↑	4.22	↓
6M	7.00	→	19.20	↑	4.05	↓
12M	6.85	↓	19.80	↑	3.90	↓

↑ / → / ↓ 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	-2.2	1.0	-1.4	1.7	-3.1	1.4
%YoY	-3.4	-0.5	-4.1	2.6	-4.7	-0.2
	USD/UAH	**USD/KZT**	**USD/BRL**	**USD/ARS**	**USD/CNY**	**USD/TRY**
%MoM	3.8	-1.3	7.2	2.3	-0.2	1.6
%YoY	-9.9	0.2	15.8	60.2	2.9	14.3

Source: Bloomberg, ING

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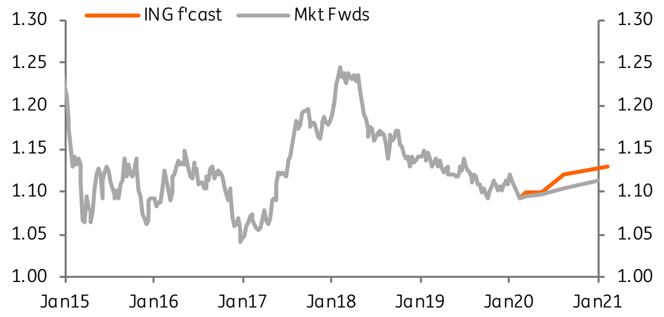
Developed markets

EUR/USD

The case for a dollar bear trend crumbles **Current spot: 1.09**



Source: Bloomberg, ING

- For FX, the outbreak of the coronavirus has effectively reversed the benefits of the Phase One trade deal being agreed. The impact on Chinese demand and its supply chains is prompting a re-rating of EM nations (both Asia and commodity producers) and those economies more dependent on manufacturing, eg, Europe. This leaves the dollar in the ascendancy.
- Unless the effects of the virus impact US confidence and consumption, US relative outperformance stands to sustain the dollar bear trend – as it did in 2018/19.
- President Trump may not like the DXY near 100, but barring more pressure on the Fed, there's little he can do about it.

ING forecasts (mkt fwd)	1M	3M	6M	12M
	1.10 (1.093)	1.10 (1.10)	1.12 (1.103)	1.13 (1.115)

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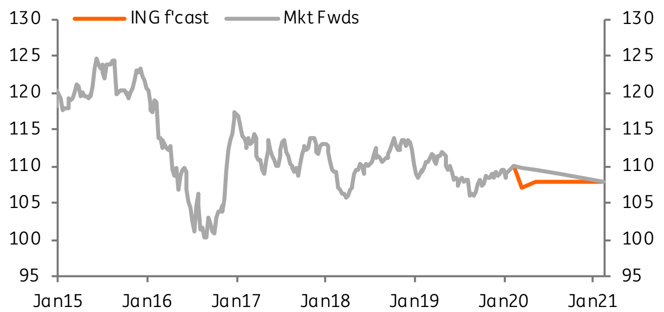
USD/JPY

Remarkable resilience of US equities and USD/JPY **Current spot: 109.94**



Source: Bloomberg, ING

- Once again US equities have proved resilient to external shocks – this time the coronavirus. US economic data has actually been surprising on the upside over the last month (this may change), but with Treasury yields so low, the bar is high to make a wholesale re-allocation out of equities. This keeps $/JPY bid.
- Away from US data, one potential threat to the dollar this year comes from US politics. Were Bernie Sanders to take a clear lead for the Democrats (super Tuesday, 3 March will be key) and US data were to slow, a risk premium could emerge in the USD.
- Until then, Trump re-election looks favoured (betting odds 57%) and $/JPY should press the upper end of 105-110 expected range.

ING forecasts (mkt fwd)	1M	3M	6M	12M
	107.00 (109.8)	108.00 (109.4)	108.00 (108.9)	108.00 (107.8)

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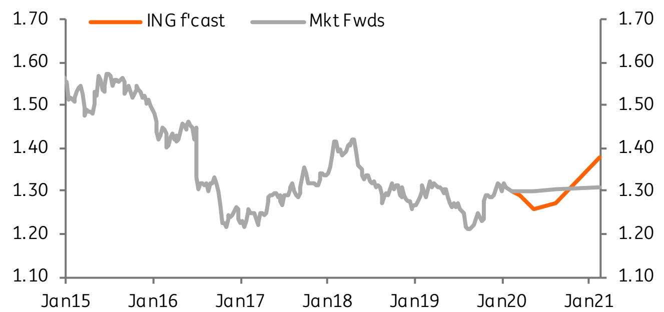
GBP/USD

Trade negotiation uncertainty to eventually kick in **Current spot: 1.30**



Source: Bloomberg, ING

- With the choice being between the free trade agreement (which means friction for goods and services) or trading under WTO (also friction for goods and services but with the addition of tariffs), GBP is set to struggle into 2H20 as: (a) both should be negative for investment and growth; and (b) uncertainty will rise.
- Given the bleak outlook for 2H20 and the struggling EUR/USD (see above), GBP/USD should struggle to move above 1.30 persistently, with the cross heading towards 1.26 in coming months
- Albeit experiencing some modest reversal, the speculative GBP/USD positioning remains net long. This suggests room for a further GBP decline should EU-UK trade negotiations disappoint.

ING forecasts (mkt fwd)	1M	3M	6M	12M
	1.29 (1.30)	1.26 (1.30)	1.27 (1.30)	1.38 (1.31)

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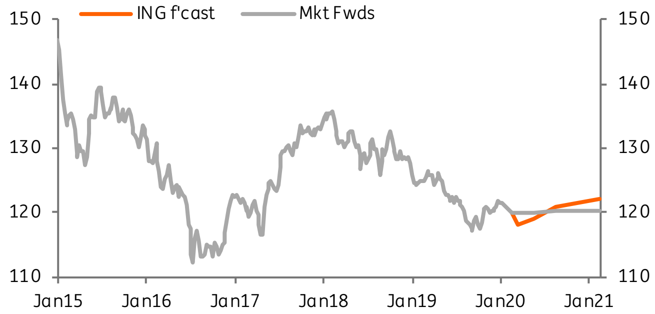
EUR/JPY

Europe is a drag **Current spot: 120.0**



Source: Bloomberg, ING

- 4Q19 Eurozone industrial data was especially weak, with German IP contracting a staggering 6.8% YoY in December. ECB monetary policy looks virtually exhausted and developments in German politics suggest consensus around fresh fiscal stimulus will be hard to achieve. 0.7% is our team's 2020 EZ GDP forecast.
- Expectations that the ECB strategic review may somehow prompt a rise in EUR market rates looks misplaced. The review may take a year and looks unlikely to conclude wholesale changes.
- We doubt Japanese policymakers will have much say in JPY pricing this year, but strong demand from Japanese investors for foreign assets should limit the extent of JPY gains.

ING forecasts (mkt fwd)	1M 118.00 (120)	3M 119.00 (120)	6M 121.00 (120)	12M 122.00 (120)

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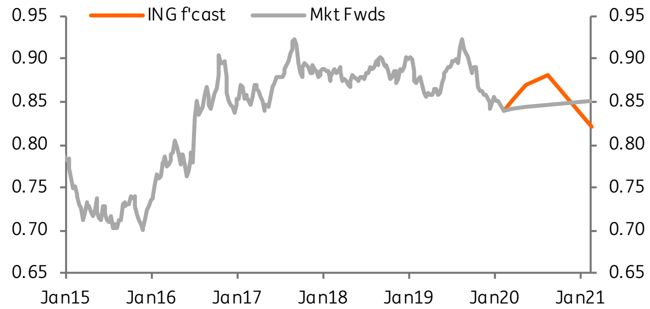
EUR/GBP

Dips below 0.8400 to be short-lived and shallow **Current spot: 0.84**



Source: Bloomberg, ING

- The EUR/GBP dip below 0.8400 should be short-lived and shallow. We don't think the March budget will have a large and immediate growth changing effect, with the spending on infrastructure being spread over years.
- This means that the growth outlook for 2020 should not change drastically and, post EU exit, 2021 downside risks will remain and the market will continue pricing some probability of BoE cuts.
- With EUR/GBP close to the 0.85 level, this is in line with our medium-term BEER equilibrium estimate for the cross. Fundamentally, the sterling upside is thus limited.

ING forecasts (mkt fwd)	1M 0.85 (0.84)	3M 0.87 (0.84)	6M 0.88 (0.85)	12M 0.82 (0.85)

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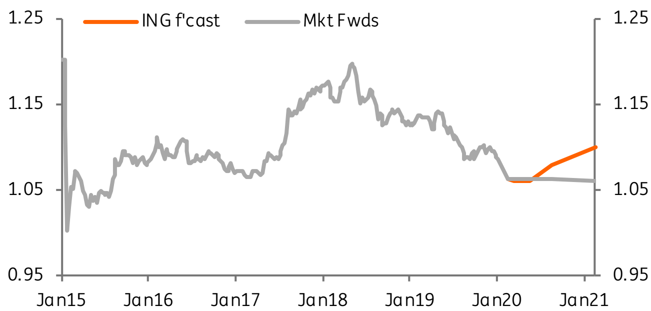
EUR/CHF

SNB losing the battle and the war **Current spot: 1.06**



Source: Bloomberg, ING

- The nominal CHF trade weighted index has recently hit an all-time high and the SNB retains the view that the CHF is highly valued. Ongoing SNB FX intervention to sell CHF looks likely to be continuing. Transparency on FX intervention is low, but we know (from the BoP figures) that the SNB bought CHF12bn worth of FX reserves in 3Q19 to try and hold EUR/CHF above the 1.08 area.
- Driving that CHF strength looks to be the approx. CHF19bn per quarter of FX inflows on the current account, which is not being re-cycled overseas by the Swiss asset managers.
- The coronavirus and its impact on European supply chains delays the recovery in Europe and the recovery of EUR/CHF.

ING forecasts (mkt fwd)	1M 1.06 (1.06)	3M 1.06 (1.06)	6M 1.08 (1.06)	12M 1.10 (1.06)

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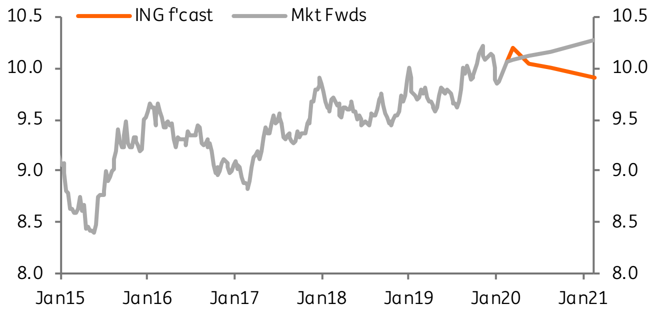
EUR/NOK

Vulnerable in the risk off **Current spot: 10.06**



Source: Bloomberg, ING

- NOK has been the G10 FX underperformer in response to the coronavirus induced sell-off as the mix of high beta, commodity exposure and previous appreciation made NOK highly vulnerable.
- The Jan CPI delivered a material upside surprise (2.9% vs 2.0% expected). While the high price pressures brought back the idea of a hike, the NB should remain on hold in March given the slowing oil investment and uncertainty about global growth.
- Following its sell-off, the NOK moved back to very undervalued levels. Yet, as the January seasonal strength factor is now behind us, the limited upside to oil prices and uncertain risk environment, we expect any further pace of NOK appreciation to slow.

ING forecasts (mkt fwd)	1M 10.20 (10.08)	3M 10.05 (10.11)	6M 10.00 (10.17)	12M 9.90 (10.28)

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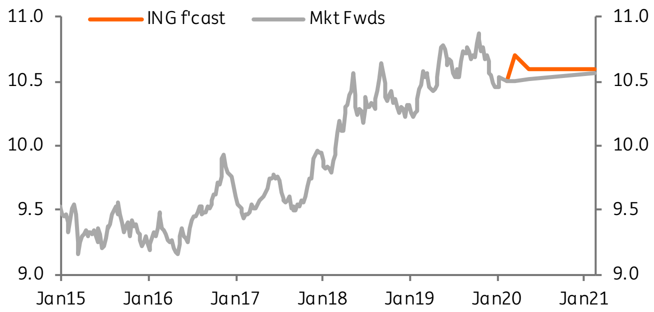
EUR/SEK

Still a very limited upside for the SEK **Current spot: 10.50**



Source: Bloomberg, ING

- The coronavirus dent to risk appetite transformed SEK into an outperformer among G10 cyclical FX as, out of its peer group, the krona is the only non-commodity currency, and hence exerts lower downside risks from the slowdown in China.
- But with Sweden being a small open economy and given the downward revisions to global trade due to the coronavirus impact, SEK upside vs EUR is limited. EUR/SEK to range trade around 10.60.
- With risk of the next Riksbank move being marginally on the dovish vs. the hawkish side (given the upcoming negative effect of global trade slowdown on Sweden as well as marginally below forecasted CPI), the central bank is unlikely to be SEK supportive.

ING forecasts (mkt fwd)	1M 10.70 (10.50)	3M 10.60 (10.51)	6M 10.60 (10.53)	12M 10.60 (10.56)

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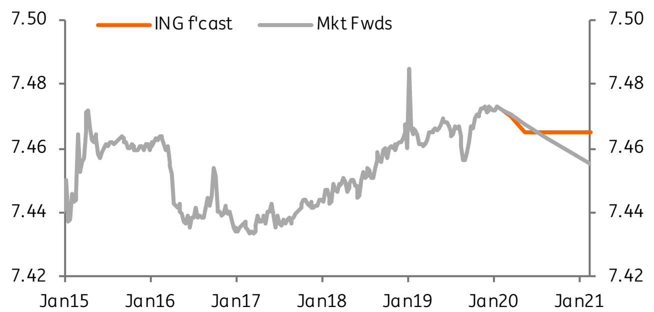
EUR/DKK

Some respite in sight for the DN **Current spot: 7.472**



Source: Bloomberg, ING

- The upside pressure on EUR/DKK eased recently. We expect the same to continue in coming months as the excess liquidity in the Danish banking system declines, thus easing pressure on DKK.
- This reduces the already low probability of a defensive DN rate hike. If anything, possible cuts are creeping back on the table should the ECB decide to cut rates again (not our base case, but the market is pricing in a full 10bp cuts in the next 12 months).
- Still, given that the Sep DN rate cut in response to the ECB cut was of a non-tiering nature (vs a tiering system introduced by the ECB) and in turn translated into pressure on DKK, a simple 10bp DN cut in response to a potential ECB cut is no longer set in stone.

ING forecasts (mkt fwd)	1M 7.470 (7.470)	3M 7.465 (7.467)	6M 7.465 (7.463)	12M 7.465 (7.455)

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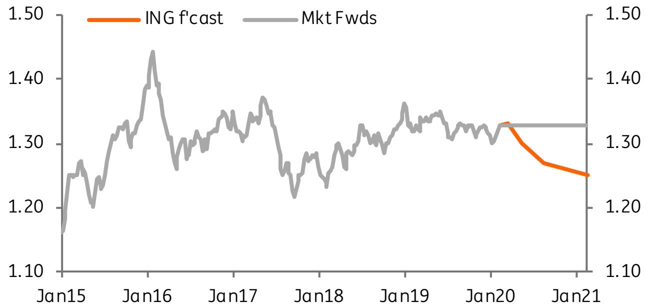
USD/CAD

Loonie's strength is only postponed **Current spot: 1.327**



Source: Bloomberg, ING

- Trade to China makes up a marginal 6% of total Canadian exports, so it does not surprise that the loonie has fared better than the other risk-sensitive G10 currencies lately.
- Most of the virus impact is channelled through weak oil, but (although timing here is uncertain) OPEC+ seems set to support prices with more cuts ahead, thereby averting another slump.
- A BoC cut looks less likely after the strong January jobs numbers, offering some support to rates and making CAD even more attractive. As soon as risk sentiment rebounds, hardly any other currency in G10 is better positioned for a rally than CAD. When this will happen depends, however, still on the virus dynamics.

ING forecasts (mkt fwd)	1M 1.33 (1.33)	3M 1.30 (1.33)	6M 1.27 (1.33)	12M 1.25 (1.33)

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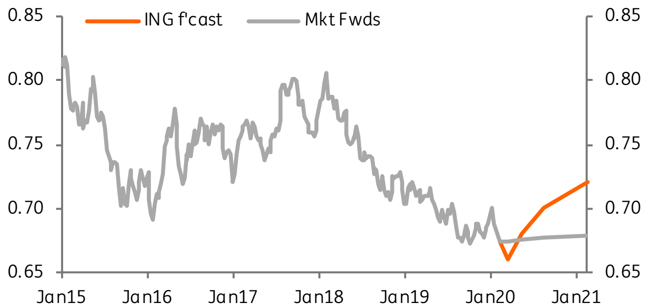
AUD/USD

Short-term gloom **Current spot: 0.67**



Source: Bloomberg, ING

- AUD has shown signs of rebounding in the past few days, likely helped by the lingering net short positioning, but we still look at the short-term outlook with some wariness.
- The combination of bushfires and coronavirus are due to affect the Australian economy from exports to tourism, and still have to see these risks translating into actual data. When these impacts become more evident, we think the RBA won't be able to keep its current upbeat tone and will cut rates by the end of 2Q20.
- We still believe valuation will be able to push AUD higher later in the year, helped by a rebound in activity, but for now it is the currency bearing most short-term downside risk in the $-bloc.

ING forecasts (mkt fwd)	1M 0.660 (0.675)	3M 0.680 (0.676)	6M 0.700 (0.677)	12M 0.720 (0.679)

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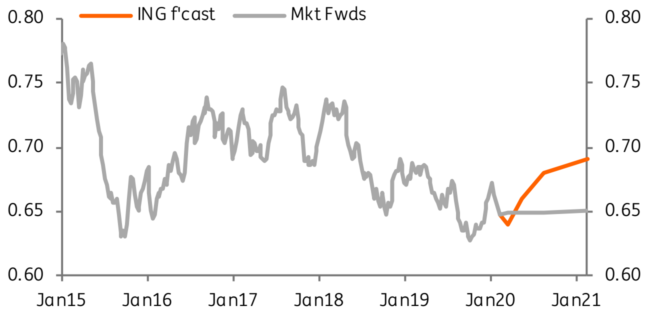
NZD/USD

More resilient than AUD **Current spot: 0.65**



Source: Bloomberg, ING

- The latest RBNZ meeting endorsed our view that there will be no cuts in 2020. With a respectable 1% policy rate, NZD should attract some interest carry-wise when risks will ultimately abate.
- Despite dairy (main NZ export) prices moving lower on virus fears, the latest auction did not show signs of drying Chinese demand, which keeps hopes on for a short-lived impact on the sector. However, some downside may come from the tourism sector: Chinese visitors' spending accounted for NZ$1.7bn in 2018.
- The impact should be milder than in Australia though, and when adding the policy divergence, we see AUD/NZD heading back to 1.03. NZD/USD recovery should instead be a longer-term story.

ING forecasts (mkt fwd)	1M 0.64 (0.648)	3M 0.66 (0.649)	6M 0.68 (0.649)	12M 0.69 (0.650)

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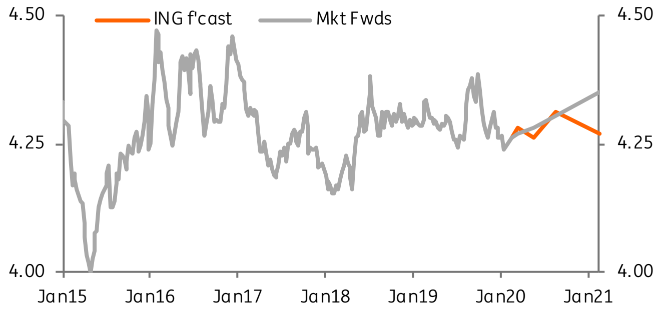
Emerging markets

EUR/PLN

So far subdued CHF loans risk, focus on flows and CPI

Current spot: 4.26



Source: Bloomberg, ING

- Look for €/PLN to move back closer to 4.30 by the end of February. Domestic activity continues to disappoint, despite new social benefits & relatively high wages. Still, interest rate cuts are not an option given high CPI. Also, Polish export-oriented sectors continue to outperform some of CEE peers (eg, given lower share of auto industry in Poland). PLN could outperform CEE in 1Q20.
- We cannot also exclude new social pledges ahead of presidential elections in May. The 2021 budget will be already strained, so new burdens should be both POLGBs and PLN negative.
- The FX mortgage story remains relatively distant – so far banks have created limited provisions for potential losses. However, the momentum is negative & the topic might resurface later in 2020.

ING forecasts (mkt fwd)	1M 4.28 (4.27)	3M 4.26 (4.28)	6M 4.31 (4.30)	12M 4.27 (4.35)

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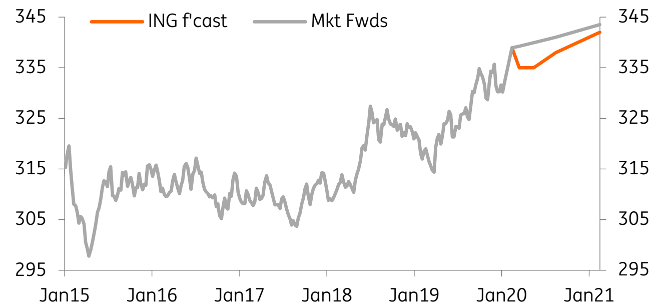
EUR/HUF

Reversal ahead as 340 is the line in the sand

Current spot: 339.0



Source: Bloomberg, ING

- EUR/HUF reached our 340 target. Given the stretched short positioning, we look for a HUF short squeeze. We target EUR/HUF 335 within weeks.
- The CPI has peaked in Jan and should correct sharply lower to 3.1% by May. By 2Q this year the NBH should be overseeing CPI inflation that is closest to the target within the CE3 region.
- With NBH signalling possible additional tightening of monetary conditions via FX swaps, the NBH seems to have put a line in the sand on EUR/HUF at 340. After HUF having been one of the key underperformers this year and technicals showing oversold levels, the time has come for a reversal in HUF fortunes.

ING forecasts (mkt fwd)	1M 335.00 (340.1)	3M 335.00 (340.7)	6M 338.00 (341.8)	12M 342.00 (344.0)

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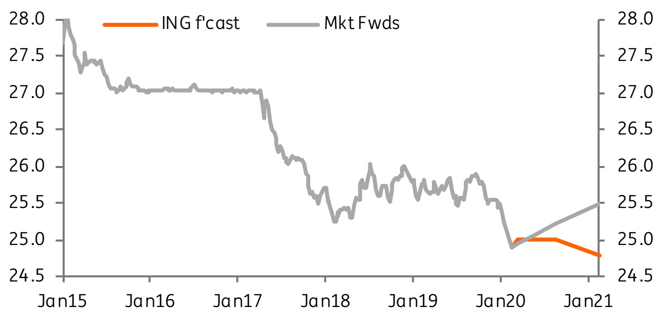
EUR/CZK

The unstoppable koruna

Current spot: 24.90



Source: Bloomberg, ING

- The February CNB hike seems to be the last one in the current cycle and the central bank's dilemma has now shifted whether to stay on hold or cut (at least from the market perspective). In our view, rate cut/s might be on the cards in 2021, but not this year.
- EUR/CZK continues dipping lower, benefiting from its carry advantage, what is in our view a very low probability of cuts this year as well as an attractive bond market (with CZGBs resembling quasi Bund characteristics, yet with a yield pick-up).
- We look for EUR/CZK to broadly range trade around the 25.00 level this year. The possible reversal in the popular CEE RV trade of long CZK/HUF can also tame the CZK upside in coming weeks.

ING forecasts (mkt fwd)	1M 25.00 (24.95)	3M 25.00 (25.05)	6M 25.00 (25.21)	12M 24.80 (25.49)

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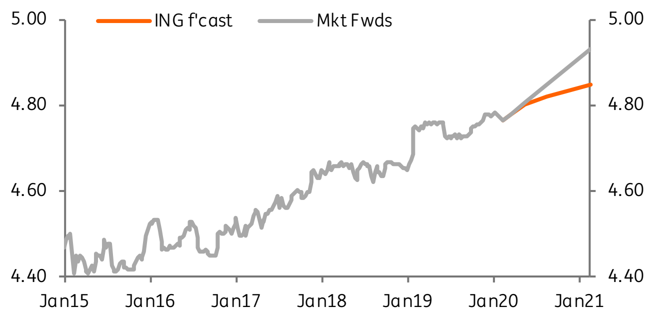
EUR/RON

NBR on top at 4.78 **Current spot: 4.77**



Source: Bloomberg, ING

- RON remained well supported by the generous rate differential which attracted increasing inflows into the local currency bonds. News on possible early elections in June benefited the leu as well.
- We continue to see the leu as being fundamentally overvalued but kept relatively stable either by one-off market factors (like higher bond inflows or seasonal commercial flows) or simply by the NBR interventions (see the resistance at 4.7800 in January).
- The latest NBR inflation forecast sees the CPI profile slightly lower, matching our forecast of 3.0% for the year-end. This might convince the NBR to allow for an FX adjustment higher during the spring months when inflation will go below 3.0%.

ING forecasts (mkt fwd)	**1M** 4.78 (4.78)	**3M** 4.80 (4.81)	**6M** 4.82 (4.85)	**12M** 4.85 (4.93)

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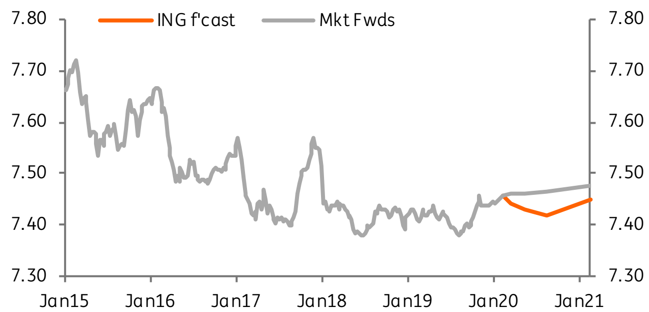
EUR/HRK

ERM-type stability **Current spot: 7.46**



Source: Bloomberg, ING

- The topic for the year will remain ERM-II related developments. Progress has been relatively slow - only 4 out of 19 measures have been implemented, as new complex legislation is required.
- Although still too early to assess its impact, the recent spread of coronavirus could pose challenges to Croatia's tourism-driven economy. Challenges could turn into opportunities as well, should the country reconfirm its safe destination status to European tourists looking for a vacation closer to home.
- On the FX front, the EUR/HRK seems to be stabilising around our long-indicated central parity rate of 7.45. Despite the seasonal inflows getting closer, we expect limited downside potential.

ING forecasts (mkt fwd)	**1M** 7.44 (7.46)	**3M** 7.43 (7.46)	**6M** 7.42 (7.47)	**12M** 7.45 (7.48)

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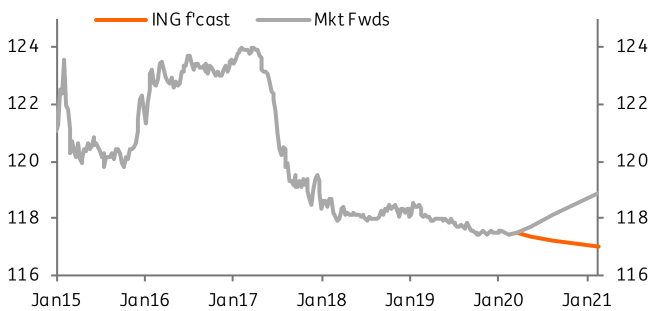
EUR/RSD

117.50 remains an important mid-point for NBS **Current spot: 117.5**



Source: Bloomberg, ING

- The National Bank of Serbia (NBS) continued to steer the dinar very tight around 117.50, intervening on both sides of the already narrow 117.40-117.60 range.
- The news on Serbia being considered for the GBI-EM amplified the scrutiny from investors, but increased inflows into SERBGBs are yet to be seen. In any case, we would expect the NBS to absorb most of them in order to allow only for a very gradual dinar appreciation.
- Faced with the external slowdown, the government has some fiscal room to boost investment spending if needed, but the C/A deficit close to -7.0% of GDP in 2019 will limit any stimulus.

ING forecasts (mkt fwd)	**1M** 117.50 (117.5)	**3M** 117.40 (117.8)	**6M** 117.20 (118.1)	**12M** 117.00 (118.9)

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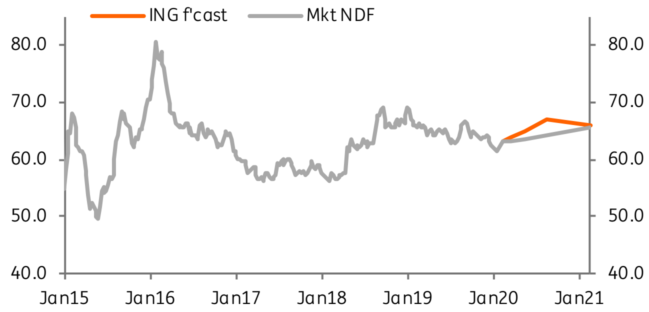
USD/RUB

Coronavirus limits RUB strength

Current spot: 63.08



Source: Bloomberg, ING

- Failure of OPEC+ to respond to a potential 3% drop in global demand for oil, a drop in demand for metals, and reduced international travel from China are pressure factors for Russia's exports of goods and services.
- The recent dovish shift in the monetary policy stance is supportive of the local state debt market, but is neutral for FX, and we reiterate that budget stimulus-driven import recovery should result in RUB depreciation to 66.0 by year-end 2020.
- Potential reduction in FX purchases by US$45bn over 3-7 years (due to NWF purchase of a 50% stake in SBER) is equivalent of easing in the budget rule by US$3-8/bbl and creates RUB0.5-1.5 upside to our forecasts against the US (pending details).

ING forecasts (mkt fwd)	**1M** 64.00 (63.29)	**3M** 65.00 (63.71)	**6M** 67.00 (64.34)	**12M** 66.00 (65.61)

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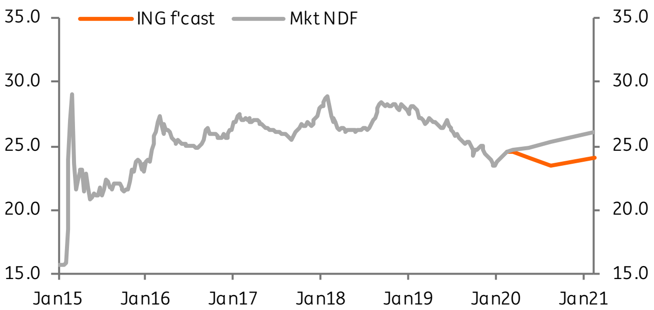
USD/UAH

Signs of stabilisation

Current spot: 24.52



Source: Bloomberg, ING

- The latest developments on the commodities markets under the coronavirus impact will need to be carefully watched as commodities exports remain a large chunk of Ukraine's total exports.
- Despite CPI starting to print below the 5% ± 1 ppt target, we continue to expect the NBU to remain very watchful on how inflation expectations evolve due to the very high FX pass-through into inflation (which we estimate around 40%). For this reason, we see the NBU still allowing for a mild hryvnia appreciation - should the pressure be there - although we believe that the NBU is now broadly comfortable with current FX developments.

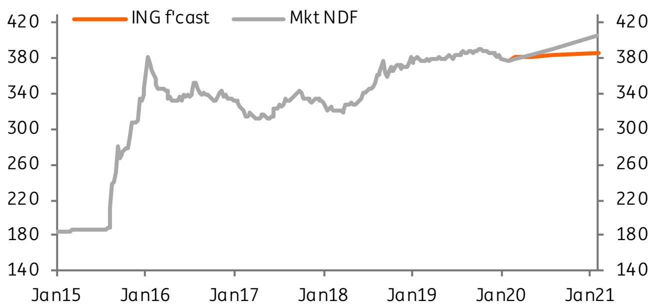
ING forecasts (mkt fwd)	**1M** 24.50 (24.64)	**3M** 24.00 (24.88)	**6M** 23.50 (25.25)	**12M** 24.00 (26.15)

Valentin Tataru, Bucharest +40 31 406 8991

USD/KZT

KZT pressured by gloomier outlook for oil exports to China

Current spot: 376.7



Source: Bloomberg, ING

- KZT's performance has been volatile due to pressure from falling oil prices and counterbalancing NBK's conversion of US$489m from the National Fund and the KZT62.5bn tenge-denominated Eurobond placement by Development Bank of Kazakhstan.
- In the short-run, we expect tenge to depreciate given rising imports amid higher budget support, and reduction of oil exports to China amid excess organochloride detected in January 2020.
- Lower demand in China will also challenge the country's 2020 plans 2020 to increase its exports of oil and gas, copper and ore (in 11M19 the share of total exports to China increased to 13.9% after 10.4% in 11M18), thus limiting tenge appreciation.

ING forecasts (mkt fwd)	**1M** 381.00 (378.7)	**3M** 382.00 (383.5)	**6M** 383.00 (390.6)	**12M** 385.00 (405.5)

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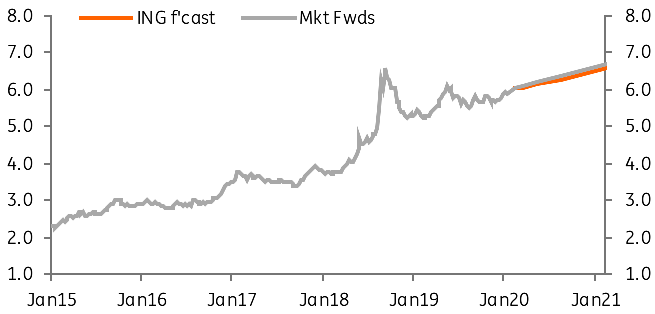
USD/TRY

CBT to be cautious in the near term

Current spot: 6.04



Source: Bloomberg, ING

- The CBT has not made any change to the inflation forecasts and anticipated continuation of the disinflation trend. The Governor highlighted the ex-ante real policy rate that is in positive territory based on the 12M expectations in the CBT's survey. He hinted that the bank would likely remain cautious on the back of likely flat annual inflation with a less supportive base in the near term and real rate buffer close to the long-term average. The CBT should maintain an easing bias and deliver if it sees room to manoeuvre.
- The current CBT stance does not rule out further cuts, though any policy action going forward will likely be determined by the inflation path and currency outlook. The CBT will be cautious given geopolitical risks and the recent pressure on the TRY.

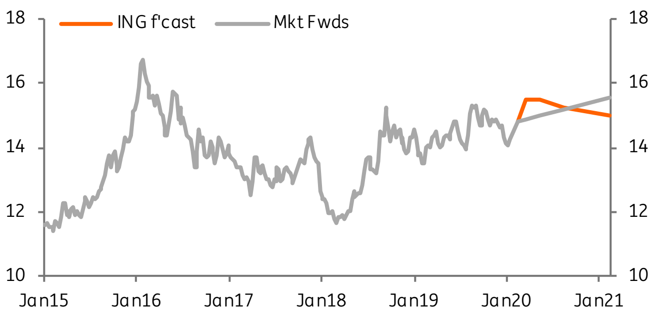
ING forecasts (mkt fwd)	**1M** 6.05 (6.10)	**3M** 6.15 (6.22)	**6M** 6.30 (6.38)	**12M** 6.60 (6.71)

Muhammet Mercan, Istanbul +90 212 329 0751

USD/ZAR

The Rand is poorly positioned

Current spot: 14.79



Source: Bloomberg, ING

- The Rand has been hit the most since the coronavirus started to weigh on equity markets around 21 January. Poorly positioned in terms of a large commodity export-to-GDP ratio and also a correlation with risk assets, recall that the ZAR was also the high beta sell during the Renminbi sell-off last summer.
- With the coronavirus likely to weigh on activity and keep commodity prices weak, expectations of a sustainable ZAR recovery should be postponed until much later this year.
- The ZAR also faces a domestic risk in terms of a crucial budget on 26 February and a possible sovereign downgrade to junk by Moody's on 27 March, which if seen could push $/ZAR closer to 16 as passive funds quite investment grade benchmark indices.

ING forecasts (mkt fwd)	**1M** 15.50 (14.86)	**3M** 15.50 (14.98)	**6M** 15.25 (15.16)	**12M** 15.00 (15.52)

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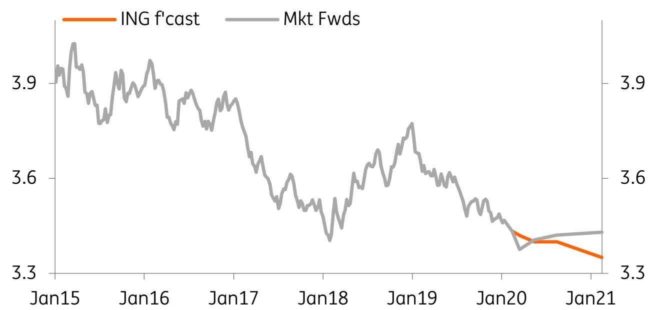
USD/ILS

BoI's intervention picks up in January

Current spot: 3.42



Source: Bloomberg, ING

- The ILS has been incredibly resilient – so much so that despite intervening to the tune of US$3bn in January, the BoI could not hold $/ILS above the 3.45 area. The BoI's position remains one of resisting significant ILS appreciation and we suspect it draws a new line in the sand at the 3.40 area.
- Helping the ILS remains strong current account inflows, with the start of the new Leviathan gas field expected to help. The ILS has also been buoyed by the sovereign's inclusion in the WGBI bond index (effective 1 April).
- BoI doesn't want to seem to cut rates (now 0.25%) and if the dollar turns lower later this year, $/ILS comes under even more pressure.

ING forecasts (mkt fwd)	**1M** 3.42 (3.36)	**3M** 3.40 (3.39)	**6M** 3.40 (3.41)	**12M** 3.35 (3.42)

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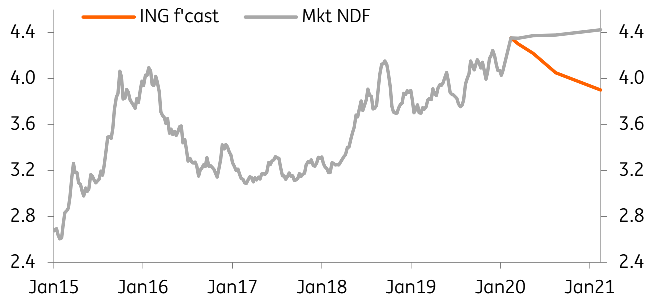
LATAM

USD/BRL

Central bank caution helps limit the BRL's weakening bias

Current spot: 4.33



Source: Bloomberg, ING

- The BRL continued to underperform in recent weeks amid persistent FX outflows triggered by, among other factors, record-low local interest rates. The central bank cut the policy rate again at its latest meeting, to 4.25%, but signalled that the cycle is over for now, which should help limit the BRL's underperforming bias.
- Stronger evidence that an activity recovery is firmly under way is crucial to support the BRL going forward. Recent data has been mixed, and the risk of coronavirus-led export disruptions added some downside for 1Q data, potentially delaying the recovery.
- A recovery is necessary to facilitate a faster fiscal consolidation and, consequently, faster credit-rating upgrades.

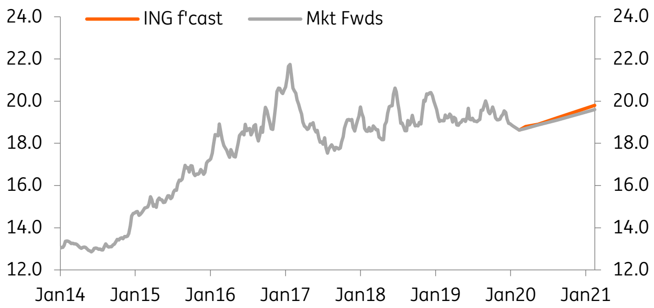
ING forecasts (NDF)	1M 4.30 (4.35)	3M 4.22 (4.37)	6M 4.05 (4.38)	12M 3.90 (4.42)

Gustavo Rangel, New York +1 646 424 6464

USD/MXN

Near-term resilience contrasts with long-term uncertainty

Current spot: 18.63



Source: Bloomberg, ING

- The MXN continues to shine and show greater resilience than its regional peers, and that relative strength may continue.
- The peso's relative outperformance reflects primarily the highly attractive carry, with the highest rate among its regional peers acting as an effective FX anchor. Banxico's resistance to deploy a deeper rate-cutting cycle should continue to support the MXN.
- The peso's relative strength is also justified by the improvement in Mexico's external accounts in recent quarters, notably the sharp fall in the current account deficit. But the lingering recession and the risk of credit-rating downgrades continue to hamper the MXN's longer-term outlook.

ING forecasts (mkt fwd)	1M 18.80 (18.71)	3M 18.90 (18.87)	6M 19.20 (19.11)	12M 19.80 (19.60)

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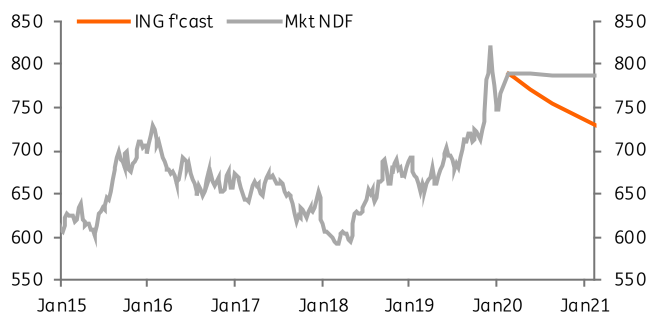
USD/CLP

End of China-led risk-off could help trigger catch-up rally

Current spot: 789.53



Source: Bloomberg, ING

- The Chilean peso performed largely in line with its EM peers in recent weeks. This is relatively surprising given Chile's larger external trade dependence on China and the sharp drop in copper prices seen in the same period.
- The somewhat constructive FX dynamics may reflect the fact that the CLP was already trading at stressed levels, suggesting perhaps a more limited downside and, potentially, larger upside should coronavirus-related risks subside.
- The weakening in activity following the October protests were more subdued than initially feared, but the April constitutional referendum still justify a weaker CLP path in the nearer term.

ING forecasts (NDF)	1M 785.00 (790)	3M 772.00 (789)	6M 755.00 (789)	12M 730.00 (789)

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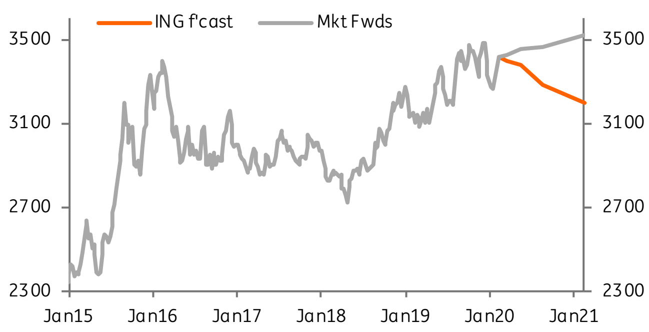
USD/COP

COP is still marked by high sensitivity to external drivers

Current spot: 3419.81



Source: Bloomberg, ING

- The COP underperformed in recent weeks as it continues to display high sensitivity to external shocks. But the currency was also weighed down by the sharp drop in oil prices. The eventual stabilization in risk sentiment suggests material upside but we are not especially bullish on the outlook for oil prices.
- The COP's high-sensitivity reflects concerns over Colombia's wide current account deficit, which has become a crucial argument against additional rate cuts. The large deficit typically places the COP among the most vulnerable EM FX to risk aversion episodes.
- Robust near-potential GDP growth prints together with moderate inflation also help justify a neutral monetary policy guidance.

ING forecasts (NDF)	1M 3400.00 (3426)	3M 3380.00 (3450)	6M 3280.00 (3463)	12M 3200.00 (3522)

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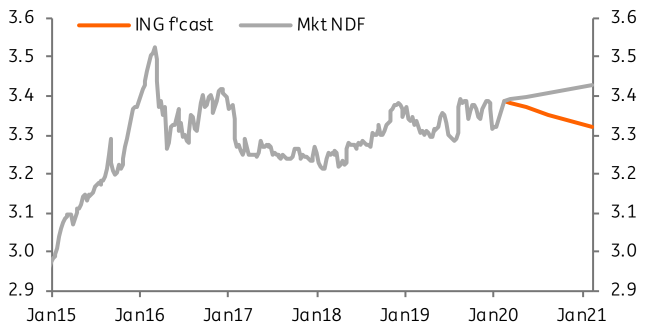
USD/PEN

Solid macro trends help offset global risk worries

Current spot: 3.39



Source: Bloomberg, ING

- The PEN also weakened on the back of coronavirus-related worries, but it continues to trade with low volatility, as usual, weakening much less than its commodity exporter peers.
- Even though Peru is a small open economy that is heavily reliant on commodity exports, the currency remains less affected by fluctuations in risk appetite that affected its EM peers, which reflects Peru's more heavily-managed FX regime.
- Recent Congressional elections resulted in a more fragmented legislature, which reduced the power of the opposition even though a stable government majority is still not ensured. Peru's BCRP cut the policy rate (2.25%) twice in 2019 amid slowing economic activity data and additional cuts are possible.

ING forecasts (NDF)	1M 3.38 (3.39)	3M 3.37 (3.40)	6M 3.35 (3.41)	12M 3.32 (3.43)

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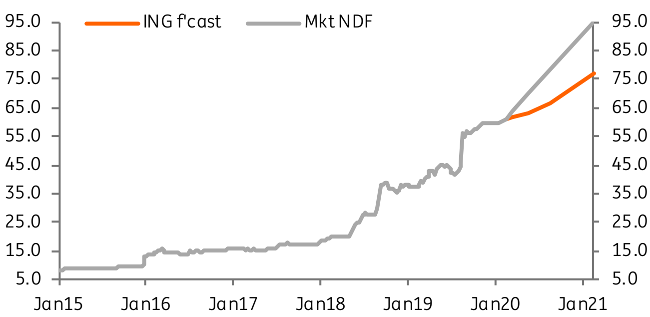
USD/ARS

Waiting for debt negotiations to begin

Current spot: 61.12



Source: Bloomberg, ING

- The Fernandez administration continues to struggle to finance itself, increasing the risk of a broader reprofiling of local bonds.
- The IMF mission arrives this week in Buenos Aires, which should help shed some light on the government's debt-renegotiation strategy. As illustrated by the failed effort by the BA Province to delay an amortization payment, heightened uncertainties should prevail as bondholders, the administration and the IMF convene. The administration continues to favour a quick resolution, to reduce the drag these uncertainties will impose on economic activity, but a March finish still looks too ambitious
- FX will continue to be managed with a mix of stringent controls and intervention, ensuring some stability for the official FX rate.

ING forecasts (NDF)	1M 61.50 (63.95)	3M 63.00 (70.00)	6M 67.00 (78.46)	12M 77.00 (95.25)

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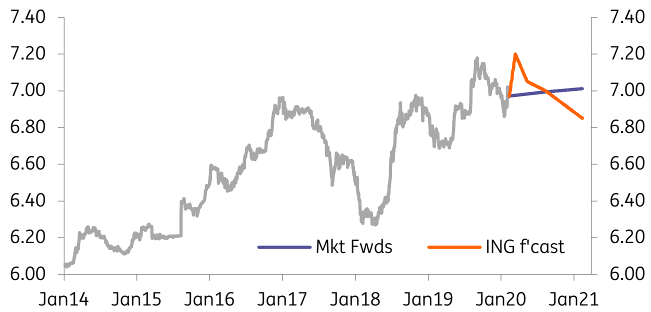
Asia

USD/CNY

Big pressure on manufacturing from the virus

Current spot: 6.971



Source: ING, Bloomberg

- China faces a real threat that the coronavirus will spread further, but the epidemic has already weighed heavily on retail, catering and tourism activities.
- The government has aggressively mobilised resources to fight the virus, but it is uncertain when the spread of the virus will end.
- The Chinese economy and global supply chains are now under huge pressure as some Chinese workers may not be able to resume work in factories due to the lack of protective supplies and the reduced of passenger flows on trains.
- We expect the yuan to weaken further whenever there is bad news on the development of the coronavirus.

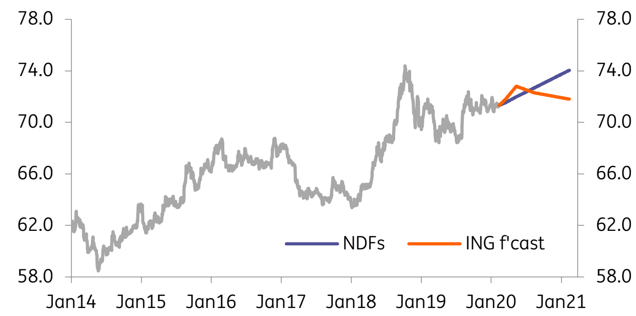
ING forecasts (mkt fwd)	**1M** 7.200 (6.974)	**3M** 7.050 (6.982)	**6M** 7.000 (6.993)	**12M** 6.850 (7.012)

Iris Pang, Hong Kong +852 2848 8071

USD/INR

Benefiting from falling oil price, nothing else

Current spot: 71.32



Source: ING, Bloomberg

- A sharp fall in global crude oil prices underpins the INR's year-to-date strength among Asian currencies. The RBI's decision to leave policy on hold this month was somewhat positive too.
- The RBI resorting to unconventional policy tools (operation twist, LTRO, etc) is a step in the right direction to improve policy transmission as 135bp rate cuts in 2019 failed to drive down lending rates and bond yields. But supply overhang from a sustained high fiscal deficit will continue to push yields higher.
- Continued slow growth and inflation running above or close to the top end of the RBI's 2-6% goal is our baseline for 2020. Lower oil prices may be positive for inflation though.

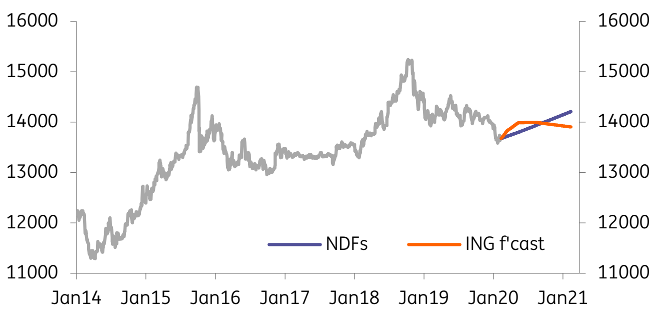
ING forecasts (mkt fwd)	**1M** 71.75 (71.51)	**3M** 72.80 (71.99)	**6M** 72.30 (72.66)	**12M** 71.80 (74.05)

Prakash Sakpal, Singapore +65 6232 6181

USD/IDR

IDR pressured on virus fears, BI steps in to stabilize IDR

Current spot: 13674



Source: ING, Bloomberg

- The IDR was on the back foot to start the year on heightened concerns about the Middle East although the risk episode faded quickly.
- IDR appreciated steadily after the US-China phase 1 deal signing and with investors hopeful for a quick passage to Jokowi's "omnibus" reform bill which would benefit foreign investors.
- Bank Indonesia (BI) kept policy rates unchanged but left the door open for further easing. The disappointing GDP print points to a rate cut in 1Q.
- We expect the IDR to be pressured until concerns about Covid-2019 fades, which should allow BI to cut rates in 1Q.

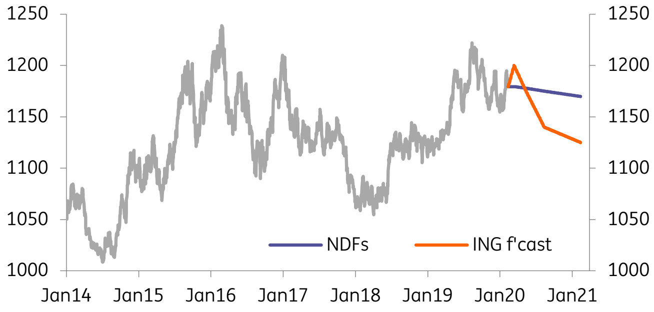
ING forecasts (mkt fwd)	**1M** 13821 (13713)	**3M** 13987 (13797)	**6M** 13993 (13929)	**12M** 13902 (14206)

Nicholas Mapa, Philippines +63 2479 8855

USD/KRW

Stronger, but can this last?

Current spot: 1179



Source: ING, Bloomberg

- The KRW is the litmus currency for Asia and has traded to within a whisker of 1200 and almost down to 1150 already this year on shifting sentiment.
- Markets are taking an optimistic view on the Covid-19 epidemic for now, but that assumes that it does not begin to spread more rapidly outside China, and we think that risk remains in the short term, potentially pushing the KRW back towards 1200 or above.
- But the underlying story for Korea remains a more positive one in 2020 than 2019, with the trade war on the back burner and tech demand likely to improve. As the Northern hemisphere warms, and Covid-19 fades, the KRW should appreciate once more.

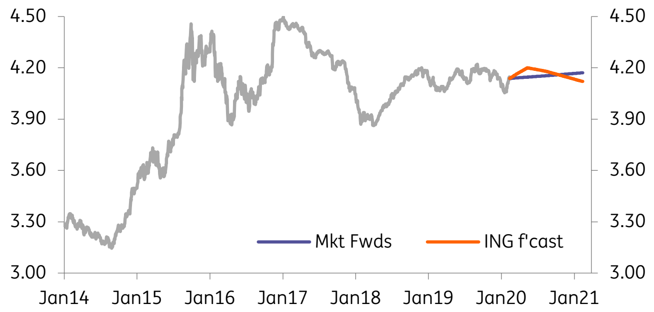
ING forecasts (NDFs)	1M 1200 (1179)	3M 1175 (1177)	6M 1140 (1175)	12M 1125 (1169)

Rob Carnell, Singapore +65 6232 6020

USD/MYR

Proactive macro policy to support growth

Current spot: 4.137



Source: ING, Bloomberg

- The MYR is among Asia's weak currencies since the outbreak of the coronavirus a month ago, a possible re-pricing for a significant impact on the economy via trade and tourism.
- The rapidly spreading disease is going to take a toll on tourism, while a sharp fall in oil prices bodes ill for commodity-driven trade. We would expect a couple more quarters of GDP slowdown ahead, dragging the full-year growth below 4% in 2020.
- A surprising 25bp rate cut in January puts the BNM ahead of the curve in supporting growth, and, with subdued inflation, it could do more. We expect an additional 50bp rate cut by mid-2020, while the government is also mulling a fiscal stimulus package.

ING forecasts (mkt fwd)	1M 4.160 (4.141)	3M 4.200 (4.146)	6M 4.180 (4.153)	12M 4.120 (4.171)

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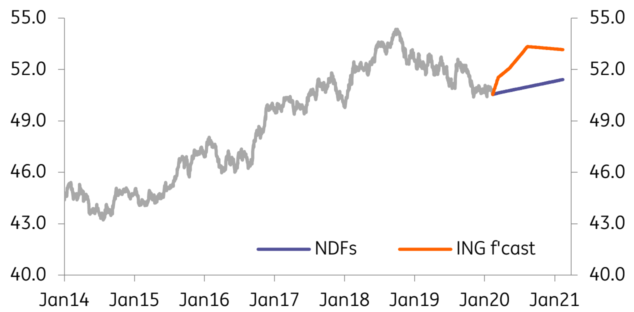
USD/PHP

PHP expected to weaken given economic ties with China

Current spot: 50.54



Source: ING, Bloomberg

- The PHP started the year weak on heightened US-Iran tensions before recovering as concerns faded and with the US-China phase 1 deal signed.
- The Peso weakened further towards the end of January on expectations for a central bank rate cut after GDP growth disappointed at 5.9%.
- The Bangko Sentral ng Pilipinas (BSP) cut policy rates in February by 25 bp in a "pre-emptive" move with global growth expected to take a hit from the 2019-nCoV episode.
- We expect PHP to weaken after more BSP rate cuts and on the broad risk-off tone given PHP's economic ties with China.

ING forecasts (mkt fwd)	1M 51.54 (51.61)	3M 52.09 (50.74)	6M 53.34 (50.96)	12M 53.16 (51.39)

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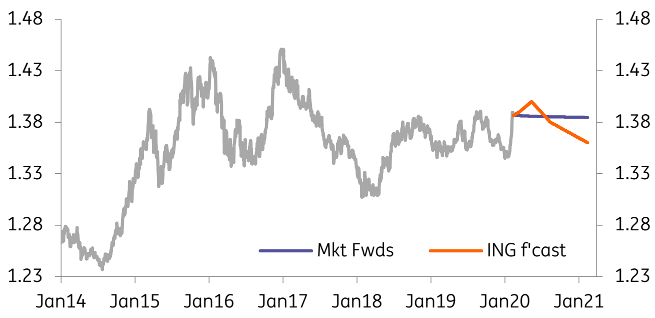
USD/SGD

Exposed to tourism-led weakness

Current spot: 1.386



Source: ING, Bloomberg

- The SGD was an Asian outperformer in 2019 but is a laggard so far this year. The weakening pressure exacerbated since the outbreak of the coronavirus last month, taking the currency down by 2.9% against the USD so far in the year.
- As some of its neighbours, the impact of the virus flows through the tourism sector, prompting the government forecast of a 25-30% plunge in annual visitor arrivals this year. We have cut our 2020 growth forecast to 1.0% from 1.6%.
- The MAS has downplayed any easing in April, noting the room for accommodation within the existing S$-NEER policy band. This means the fiscal policy will need to do all the heavy-lifting.

ING forecasts (mkt fwd)	1M 1.390 (1.386)	3M 1.400 (1.385)	6M 1.380 (1.385)	12M 1.360 (1.384)

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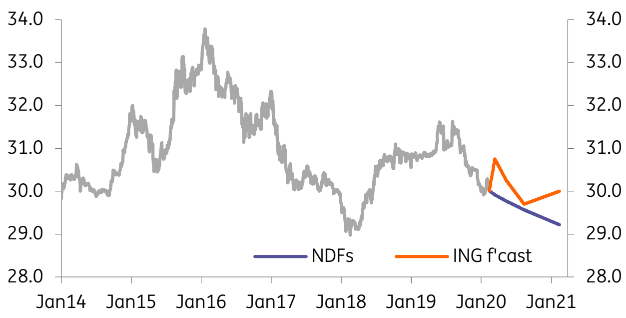
USD/TWD

Moderating capital inflows

Current spot: 30.00



Source: ING, Bloomberg

- Capital inflows into Taiwan's asset markets continue to be strong at the beginning of 2020. But this looks difficult to sustain.
- With China's factories not knowing when they will be able to run at normal capacity, the supply chain with Taiwan, especially on the electronic sector, is likely to be affected.
- This could affect sector performance. Capital inflows may turn to outflows and would therefore weaken the TWD directly.
- This will be increasingly obvious after February when the market expects most Chinese factories to be up and running at their normal capacity.

ING forecasts (mkt fwd)	1M 30.75 (29.91)	3M 30.25 (29.71)	6M 29.70 (29.57)	12M 30.00 (29.22)

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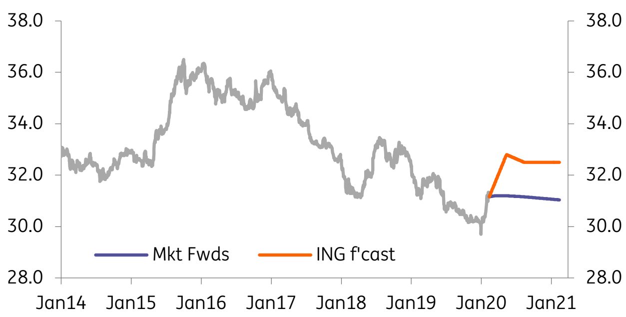
USD/THB

Reversal of fortune

Current spot: 31.17



Source: ING, Bloomberg

- A 4.3% year-to-date depreciation is a reversal of fortune for the THB, which was investors' darling in recent years. We view 31-33 as a new higher USD/THB trading range for 2020 and see it rising toward the top end of this range over the next three months.
- This happens as Thailand's already sluggish economy is poised for a further slowdown this year as the coronavirus keeps tourists away. The impact will be a sharp dent to the current surplus (c.7% of GDP in 2019), the key force behind the THB strength recently.
- Admitting the risk, the BoT resumed its easing cycle this month and cut rates by 25bp. We don't think it's done with easing just yet, and we have pencilled in one more 25bp rate cut in March.

ING forecasts (mkt fwd)	1M 31.70 (31.20)	3M 32.80 (31.20)	6M 32.50 (31.16)	12M 32.50 (31.04)

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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	1.09	1.10	1.10	1.12	1.13						
EUR/JPY	120.0	117.70	118.80	120.96	122.04	USD/JPY	110.04	107	108	108	108
EUR/GBP	0.84	0.85	0.87	0.88	0.82	GBP/USD	1.30	1.29	1.26	1.27	1.38
EUR/CHF	1.06	1.06	1.06	1.08	1.10	USD/CHF	0.98	0.96	0.96	0.96	0.97
EUR/NOK	10.04	10.20	10.05	10.00	9.90	USD/NOK	9.21	9.27	9.14	8.93	8.76
EUR/SEK	10.49	10.70	10.60	10.60	10.60	USD/SEK	9.62	9.73	9.64	9.46	9.38
EUR/DKK	7.472	7.470	7.465	7.465	7.465	USD/DKK	6.85	6.79	6.79	6.67	6.61
EUR/CAD	1.45	1.46	1.43	1.42	1.41	USD/CAD	1.325	1.33	1.30	1.27	1.25
EUR/AUD	1.62	1.67	1.62	1.60	1.57	AUD/USD	0.67	0.66	0.68	0.70	0.72
EUR/NZD	1.68	1.72	1.67	1.65	1.64	NZD/USD	0.65	0.64	0.66	0.68	0.69
EMEA											
EUR/PLN	4.25	4.28	4.26	4.31	4.27	USD/PLN	3.90	3.89	3.87	3.85	3.78
EUR/HUF	339.8	335.00	335.00	338.00	342.00	USD/HUF	311.7	305	305	302	303
EUR/CZK	24.85	25.0	25.0	25.0	24.8	USD/CZK	22.79	22.7	22.7	22.3	21.9
EUR/RON	4.77	4.78	4.80	4.82	4.85	USD/RON	4.37	4.35	4.36	4.30	4.29
EUR/HRK	7.46	7.44	7.43	7.42	7.45	USD/HRK	6.84	6.76	6.75	6.63	6.59
EUR/RSD	117.5	117.5	117.4	117.2	117.0	USD/RSD	107.8	106.8	106.7	104.6	103.5
EUR/RUB	68.78	70.4	71.5	75.0	74.6	USD/RUB	63.09	64.0	65.0	67.0	66.0
EUR/UAH	26.72	27.0	26.4	26.3	27.1	USD/UAH	24.51	24.50	24.00	23.50	24.00
EUR/KZT	410.8	419.1	420.2	429.0	435.1	USD/KZT	376.7	381	382	383	385
EUR/TRY	6.59	6.66	6.77	7.06	7.46	USD/TRY	6.05	6.05	6.15	6.30	6.60
EUR/ZAR	16.19	17.1	17.1	17.1	17.0	USD/ZAR	14.84	15.50	15.50	15.25	15.00
EUR/ILS	3.73	3.76	3.74	3.81	3.79	USD/ILS	3.42	3.42	3.40	3.40	3.35
LATAM											
EUR/BRL	4.73	4.73	4.64	4.54	4.41	USD/BRL	4.34	4.30	4.22	4.05	3.90
EUR/MXN	20.32	20.7	20.8	21.5	22.4	USD/MXN	18.63	18.80	18.90	19.20	19.80
EUR/CLP	859.06	864	849	846	825	USD/CLP	787.81	785	772	755	730
EUR/ARS	66.77	67.65	69.30	75.04	87.01	USD/ARS	61.23	61.50	63.00	67.00	77.00
EUR/COP	3702.00	3740	3718	3674	3616	USD/COP	3394.61	3400	3380	3280	3200
EUR/PEN	3.69	3.72	3.71	3.75	3.75	USD/PEN	3.38	3.38	3.37	3.35	3.32
Asia											
EUR/CNY	7.60	7.92	7.76	7.84	7.74	USD/CNY	6.97	7.20	7.05	7.00	6.85
EUR/HKD	8.47	8.55	8.54	8.69	8.81	USD/HKD	7.77	7.77	7.76	7.76	7.80
EUR/IDR	14928	15203	15386	15672	15709	USD/IDR	13674	13821	13987	13993	13902
EUR/INR	77.88	78.9	80.1	81.0	81.1	USD/INR	71.34	71.75	72.80	72.30	71.80
EUR/KRW	1284.70	1320	1293	1277	1271	USD/KRW	1179.48	1200	1175	1140	1125
EUR/MYR	4.52	4.58	4.62	4.68	4.66	USD/MYR	4.14	4.16	4.20	4.18	4.12
EUR/PHP	55.21	56.7	57.3	59.7	60.1	USD/PHP	50.54	51.54	52.09	53.34	53.16
EUR/SGD	1.51	1.53	1.54	1.55	1.54	USD/SGD	1.39	1.39	1.40	1.38	1.36
EUR/TWD	32.76	33.8	33.3	33.3	33.9	USD/TWD	30.01	30.8	30.3	29.7	30.0
EUR/THB	33.91	34.9	36.1	36.4	36.7	USD/THB	31.09	31.7	32.8	32.5	32.5

Source: Bloomberg, ING

Disclaimer