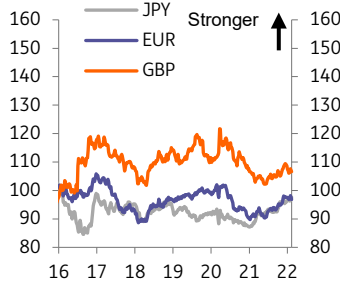


11 February 2022  
FX Strategy

# FX Talking

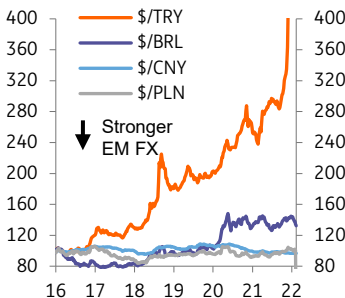
## Release the hawks

USD/Majors (5 Jan 14=100)



Source: Refinitiv, ING forecast

USD/EM (5 Jan 14=100)



Source: Refinitiv, ING forecast

Realised FX volatility is picking up as surging heading inflation prompts many central banks around the world to re-assess monetary policy settings. The more hawkish central banks implicitly – and in Poland’s case explicitly – welcome stronger currencies. The very few resolutely dovish central banks – such as those in Japan, Switzerland and Sweden – seem happy to suffer weaker currencies. We do not see this dynamic changing soon.

In advance of what could be a very aggressive Fed tightening cycle, we remain bullish on the dollar. Currently we would favour that strength being played out selectively. But were Fed tightening to get out of hand, raising fears of recession, we would expect the dollar to rally more broadly. That is not our base case.

The recent hawkish turn from the ECB suggests EUR/USD will probably play out a broad 1.10-1.15 range this year. USD/JPY looks a more compelling dollar bull story – 120 remains our target here. GBP can outperform in the first half of the year as the BoE takes rates to 1.00%. And SEK could be slow to reclaim recent losses.

Geopolitics clouds the CEE region, but in general hawkish central banks should keep CEE mostly bid. Watch out for Hungarian elections in April, however. TRY is enjoying some new-found stability, but high inflation remains a concern here.

Elsewhere, Chinese investment growth looks to be providing some support to EM commodity currencies. BRL and CLP stand out here, though local politics warns that risk premia could be inserted later this year. For USD/CNY itself, Chinese authorities look happy for it to trace out a 6.35-6.50 range – despite strong trade and portfolio inflows.

### ING FX forecasts

	EUR/USD	USD/JPY	GBP/USD
1M	1.13 →	116 ↑	1.36 ↑
3M	1.13 ↓	117 ↑	1.38 ↑
6M	1.12 ↓	118 ↑	1.35 →
12M	1.14 ↓	120 ↑	1.36 ↑

	EUR/GBP	EUR/CZK	EUR/PLN
1M	0.83 →	24.30 ↑	4.50 ↓
3M	0.82 ↓	24.30 ↑	4.48 ↓
6M	0.83 ↓	24.30 ↓	4.45 ↓
12M	0.84 ↓	24.50 ↓	4.41 ↓

	USD/CNY	USD/MXN	USD/BRL
1M	6.35 ↑	20.50 →	5.50 ↑
3M	6.38 ↑	20.75 ↑	5.60 ↑
6M	6.40 ↓	21.00 ↓	5.75 ↑
12M	6.55 ↑	21.00 ↓	5.75 ↑

↑ / → / ↓ indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright

Source: Refinitiv, ING forecast

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### FX performance

	EUR/USD	USD/JPY	EUR/GBP	EUR/NOK	NZD/USD	USD/CAD
%MoM	0.4	0.6	0.5	0.7	-1.8	0.5
%YoY	-5.9	10.6	-4.3	-1.7	-7.6	0.0

	USD/UAH	USD/KZT	USD/BRL	USD/MXN	USD/CNY	USD/TRY
%MoM	1.7	-1.1	-7.3	2.6	-0.2	-0.9
%YoY	0.9	2.8	-3.0	20.1	-1.5	91.0

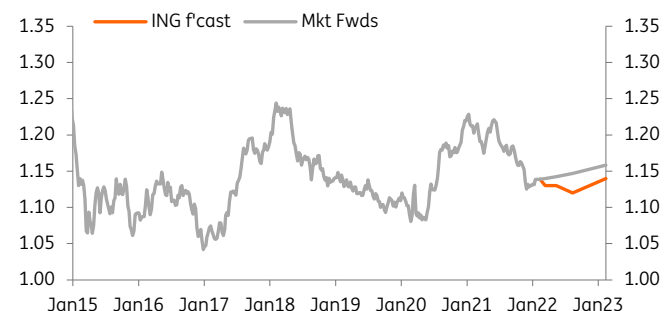
Source: Refinitiv, ING forecast



# Developed markets

## EUR/USD

### Race to the top



Source: Refinitiv, ING forecasts

**Current spot: 1.1391**

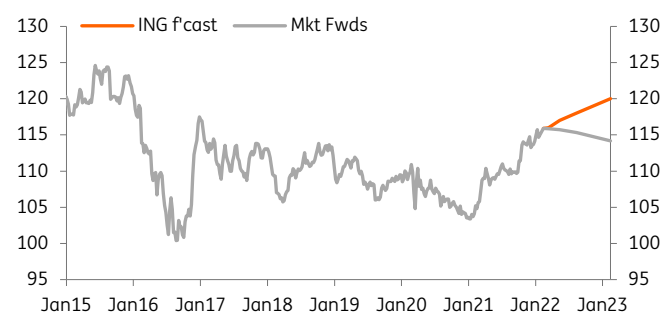
- We have seen two key developments since last month's publication; i) the market pricing an earlier and more aggressive Fed tightening cycle and ii) the ECB sounding less relaxed on inflation and its dovish settings.
- March will be a pivotal month for financial markets. 10 March sees the ECB release new inflation forecasts and potentially opens the door for a 4Q rate hike. 16 March sees the Fed release new Dot Plots and possibly starts off the cycle with a 50bp hike. We currently look for five hikes in total from the Fed in 2022.
- Expect realised volatility to continue to rise. Our preference now is that EUR/USD traces out something like a 1.10/1.12 to 1.15 trading range as we brace for major central bank tightening.

<b>ING forecasts (mkt fwd)</b>	<b>1M 1.13 (1.1400)</b>	<b>3M 1.13 (1.1423)</b>	<b>6M 1.12 (1.1470)</b>	<b>12M 1.14 (1.1584)</b>
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## USD/JPY

### So far, the Bank of Japan remains resolutely dovish



Source: Refinitiv, ING forecasts

**Current spot: 115.92**

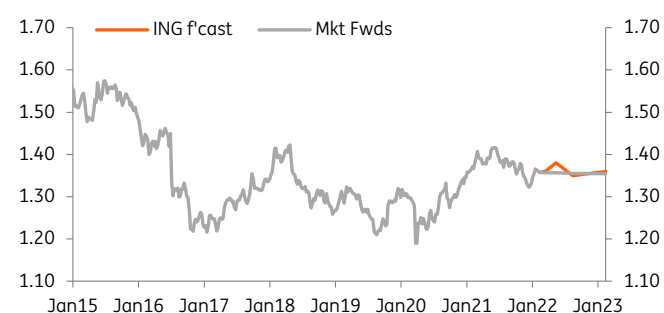
- USD/JPY has re-approached the highs of the year consistent with its tight correlation with US interest rates. So far, the BoJ is one of the very few central banks (like the Riksbank) to disavow the need for tighter policy. Most recently it confirmed its stance to continue with QE and manage 10-year JGB yields in a 0-0.25% range by offering to buy unlimited 10yr JGBs at 0.25% at auction.
- BoJ Governor Kuroda has also seemed, surprisingly, to be welcoming a weaker JPY and not to be concerned over higher energy prices. The door now seems open to 120.
- The main risk is an extended equity correction should the Fed tighten too fast. Lower long-dated US yields would be the signal.

<b>ING forecasts (mkt fwd)</b>	<b>1M 116.00 (115.88)</b>	<b>3M 117.00 (115.71)</b>	<b>6M 118.00 (115.33)</b>	<b>12M 120.00 (114.20)</b>
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## GBP/USD

### Front-loaded GBP strength



Source: Refinitiv, ING forecasts

**Current spot: 1.3572**

- GBP continues to perform well, with the Bank of England trade-weighted Sterling index near the highs. The BoE is firmly in the hawkish camp with the Fed (and with quite a few CEE central banks). The 3 February MPC was a surprise. There was dissent over the 25bp rate hike - but the dissent came from 4 of 9 voting for 50bp. We now look for further 25bp hikes on 17 March and 5 May.
- Our call is that the BoE will pause at a 1.00% base rate to take stock. And the market will then focus on BoE active Gilt sales. But the market prices a 2.00% bank rate by year-end. That's unlikely.
- For 1H22, we expect BoE to be happy with a strong pound to insulate against higher gas prices and GBP can withstand \$ strength.

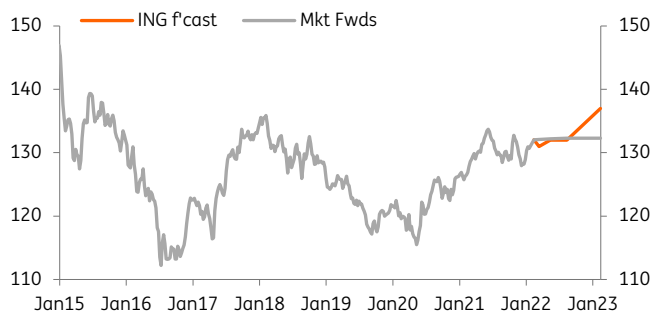
<b>ING forecasts (mkt fwd)</b>	<b>1M 1.36 (1.3569)</b>	<b>3M 1.38 (1.3564)</b>	<b>6M 1.35 (1.3554)</b>	<b>12M 1.36 (1.3542)</b>
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## EUR/JPY

Expect a bullish break-out this year

Current spot: 132.05



Source: Refinitiv, ING forecasts

- EUR/JPY has been pressing the top of its 128-134 trading range recently and at some point should break higher this year. Whether that is on the back of independent JPY weakness or EUR strength has yet to be seen. The former would be driven on a more benign view of the world, where many central banks are hiking for good reason, while the BoJ stands pat.
- From the EUR side, the 10 March ECB meeting is key. How high does the ECB revise 2023/24 CPI forecasts and does it announce the end of APP in September to prepare for a hike in 4Q?
- Volatility looks set to pick up (which may favour JPY) but it seems too early to call recession/bear market – thus we favour €/JPY up.

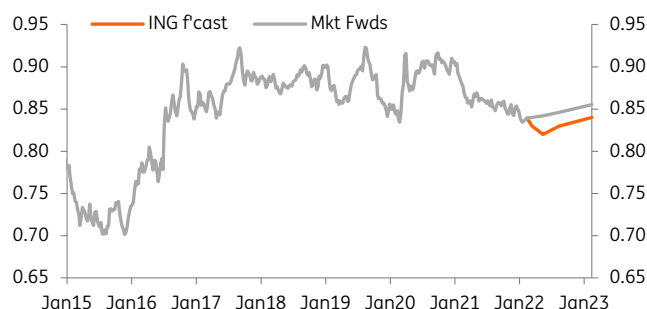
ING forecasts (mkt fwd)	1M 131.00 (132.09)	3M 132.00 (132.17)	6M 132.00 (132.29)	12M 137.00 (132.28)
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## EUR/GBP

UK equity markets outperforming on Materials

Current spot: 0.8393



Source: Refinitiv, ING forecasts

- EUR/GBP did indeed get close to the early 2020 lows of 0.8280 – but it was only for a split second. Then President Lagarde’s hawkish ECB press conference sent the EUR flying. GBP is slowly recovering lost ground and we back that trend in 1H22. The BoE has firmly set out its hawkish stall, while the ECB monetary normalisation plans are more of an unknown.
- Also helping GBP at the start of the year is the relative out-performance of UK equities. Here China’s efforts to stimulate demand/fire up investments are good for the big miners – who have a 12% weighting in the UK FTSE benchmark.
- UK politics looks more of an embarrassing sideshow at present.

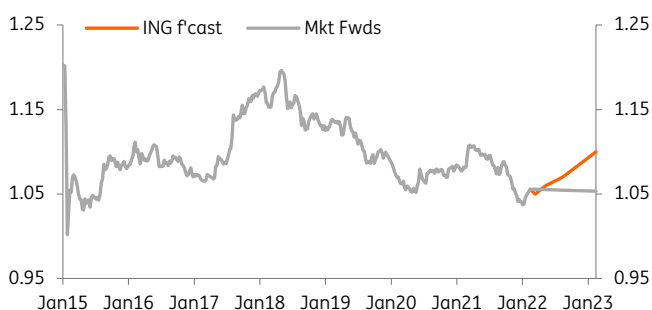
ING forecasts (mkt fwd)	1M 0.83 (0.8400)	3M 0.82 (0.8420)	6M 0.83 (0.8461)	12M 0.84 (0.8553)
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## EUR/CHF

The best chance for EUR/CHF to rally in over a decade

Current spot: 1.0557



Source: Refinitiv, ING forecasts

- The hawkish turn in the ECB has lifted EUR/CHF off its lows and presents one of the best chances for EUR/CHF to turn higher since 2007/08. We assume that the SNB, with forecast inflation dropping back to 0.6/0.8% in 2023/24, would still prefer a weaker CHF. Accordingly, it would be no surprise for the SNB to lag the ECB tightening cycle by 12 months or so.
- The big ECB meeting is 10 March, while the quarterly Swiss National Bank meeting is not until 24 March – EUR/CHF could be at 1.07 then.
- We do not really subscribe to the view that the SNB wants a stronger CHF to insulate against higher energy prices. Having fought CHF strength for so long, it should now let CHF soften.

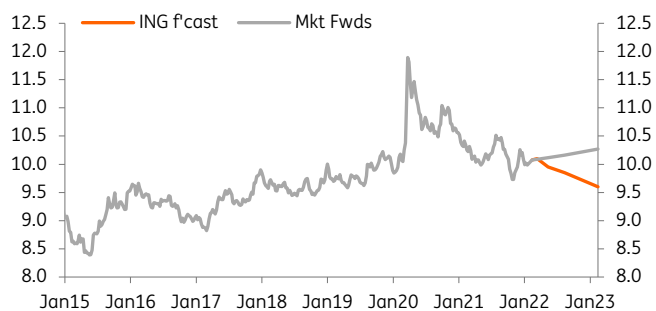
ING forecasts (mkt fwd)	1M 1.05 (1.0555)	3M 1.06 (1.0551)	6M 1.07 (1.0545)	12M 1.10 (1.0532)
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## EUR/NOK

Stalling before a move below 10.00

Current spot: 10.08



Source: Refinitiv, ING forecasts

- NOK is set to continue benefiting from Norges Bank tightening, and we expect an upgrade to the rate path projections in March to signal four rate hikes in 2022. This is also our base case and we doubt that the deceleration in inflation in January will derail NB's plans given the backdrop of high oil prices and overseas rates.
- In the near term, the instability in risk appetite may hold back some of the upside potential for NOK, with a flattening US yield curve potentially hitting the whole pro-cyclical segment.
- EUR/NOK may hover around 10.10 into the start of the Fed's hiking cycle, but we expect a decisive break below 10.00 from 2Q onwards and we target 9.65 by year-end.

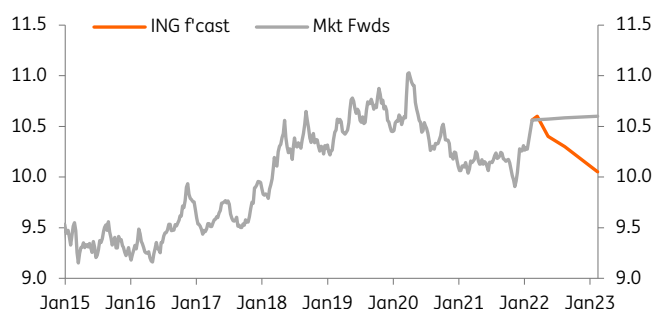
ING forecasts (mkt fwd)	1M 10.10 (10.09)	3M 9.95 (10.12)	6M 9.85 (10.16)	12M 9.60 (10.27)
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## EUR/SEK

Riksbank's dovishness caps the upside for SEK

Current spot: 10.56



Source: Refinitiv, ING forecasts

- The Riksbank's February meeting defied hawkish expectations and signalled that a policy shift in Sweden is not a story for the near future, as inflation is still seen as mostly transitory.
- While SEK is around 1.5% undervalued vs EUR in the short term, its high exposure to swings in equities (especially US tech stocks) in a risk environment made fragile by the global tightening cycles should prevent a sustained SEK recovery in the short run.
- The Riksbank could announce a faster reduction in maturing asset reinvestment at the April meeting, which could revamp some hawkish market pricing. Still, until the first projected hike is brought forward to at least 2023, SEK upside is capped. We expect a very gradual EUR/SEK depreciation to 10.15 this year.

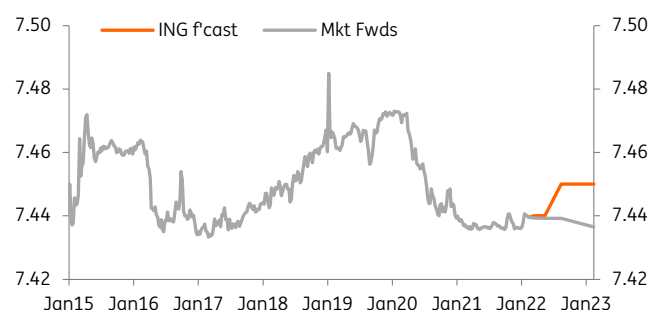
ING forecasts (mkt fwd)	1M 10.60 (10.56)	3M 10.40 (10.57)	6M 10.30 (10.58)	12M 10.05 (10.60)
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## EUR/DKK

Much calmer waters

Current spot: 7.440



Source: Refinitiv, ING forecasts

- The Danmarks Nationalbank did not intervene in the FX market in January after having deployed the highest amount of monthly intervention (DKK47bn) since 2015 in December.
- This was made possible by the significant recovery in EUR/DKK throughout January, with the pair trading within the 7.4400-7.4450 range, touching levels last seen in 2020.
- The new EUR/DKK range has definitely calmed the DN's nerves, and while more interventions may be needed to defend the peg later this year, the ECB's hawkish shift should generate enough policy/liquidity divergence to support EUR/DKK. The prospect of another rate cut in Denmark looks quite remote now.

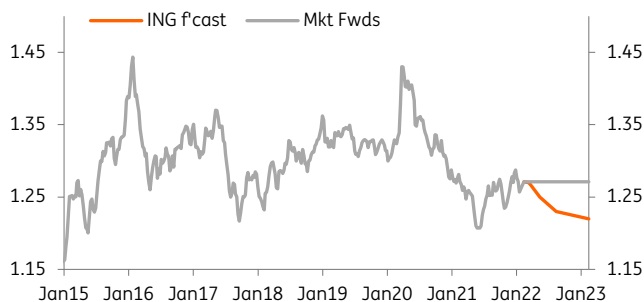
ING forecasts (mkt fwd)	1M 7.44 (7.439)	3M 7.44 (7.439)	6M 7.45 (7.439)	12M 7.45 (7.437)
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## USD/CAD

### Loonie still on track for gradual appreciation

**Current spot: 1.271**



Source: Refinitiv, ING forecasts

- USD/CAD has traded in a tight range after the BoC announced a March hike and the jobless rate spiked in January. With most Covid restriction now being lifted in Canada and given the proven resilience of the jobs market throughout the pandemic, we doubt the latest jobs data can interfere with the BoC tightening plans.
- While a 50bp hike in March seems unlikely, we expect six 25bp increases by the BoC in 2022, in line with market expectations. A slightly faster tightening by the BoC compared to the Fed should contribute to a gradual downtrend in USD/CAD this year.
- The short term looks more uncertain due to risk instability, but with high oil prices set to offer a shield, we expect a break below 1.25 by the summer.

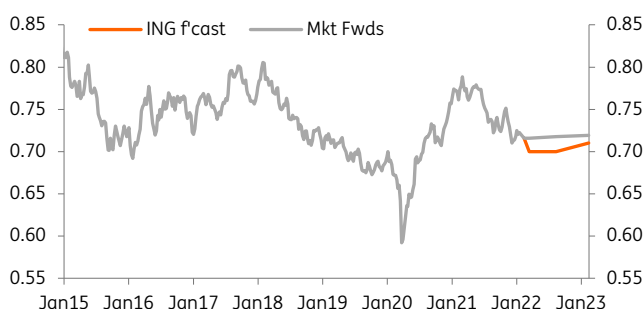
<b>ING forecasts</b> (mkt fwd)	<b>1M 1.27</b> (1.271)	<b>3M 1.25</b> (1.271)	<b>6M 1.23</b> (1.271)	<b>12M 1.22</b> (1.271)
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## AUD/USD

### Don't get excited with the rebound

**Current spot: 0.716**



Source: Refinitiv, ING forecasts

- Despite a few hiccups, the Aussie dollar has recovered some ground after touching sub-0.70 levels at the end of January, with its overstretched short positioning allowing it to participate more in the upside swings in sentiment than in the corrections.
- The improvement in China's growth sentiment thanks to accommodative government and central bank policies are also helping the highly exposed AUD, but Beijing's zero-Covid policy continues to cloud the outlook in the region.
- The Reserve Bank of Australia has proved to be a secondary factor for AUD, but we think that rate expectations are way overdone, and expect only one hike in 4Q. Downside risks should prevail for AUD/USD in the first half of the year, also due to USD strength.

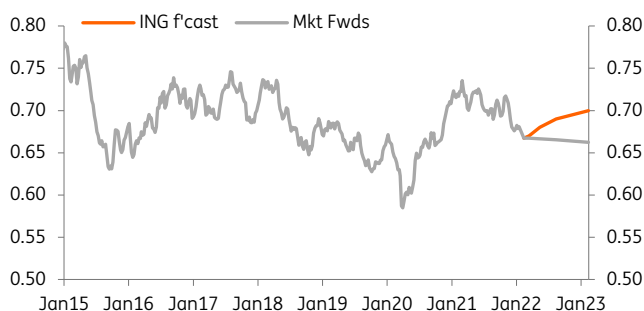
<b>ING forecasts</b> (mkt fwd)	<b>1M 0.70</b> (0.716)	<b>3M 0.70</b> (0.717)	<b>6M 0.70</b> (0.718)	<b>12M 0.71</b> (0.719)
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## NZD/USD

### Time to re-connect with fundamentals?

**Current spot: 0.667**



Source: Refinitiv, ING forecasts

- The Kiwi dollar has a strong set of domestic fundamentals it can count on, and this should continue to be the case in the foreseeable future. The issue is that this has not mattered much for the currency, which has faced multiple external headwinds and a major unwinding of net longs in 2022.
- A positioning shift to oversold territory means that we could see some stabilisation in NZD, and a February Reserve Bank of New Zealand hike may revamp the currency's correlation with rate differentials. The market is pricing six hikes in 2022, which seems reasonable (it is our forecast) and we see much less scope for dovish repricing compared to AUD.
- Milk prices back to the 2021 highs may also help NZD. We expect a recovery in NZD/USD to 0.70 by the end of the year.

<b>ING forecasts</b> (mkt fwd)	<b>1M 0.67</b> (0.667)	<b>3M 0.68</b> (0.666)	<b>6M 0.69</b> (0.665)	<b>12M 0.70</b> (0.662)
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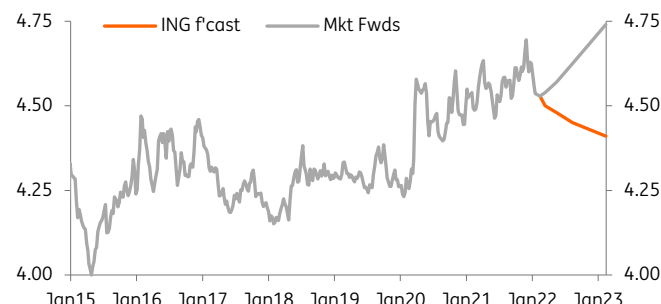


# Emerging markets

## EUR/PLN

Support from NBP policy, political risks partially dissipate

Current spot: 4.53



Source: Refinitiv, ING forecasts

- We expect the zloty to extend gains in the remainder of the year. The National Bank of Poland policy should provide a major support, as recent Monetary Policy Council comments point to faster and higher rate hikes (4.50% in the year end), while the EUR rate profile should be less aggressive.
- Moreover, the presidential bill aimed at reforming the Supreme Court suggests that the ruling PiS may be willing to end the legal conflict with the EU, unlocking money from the Recovery Fund. This is clear support for the zloty in the short / medium term, but the bill has to go through a full legal process. The government will likely be forced to seek support from the opposition. Also, some of the amendments in the bill may not satisfy EU provisions.

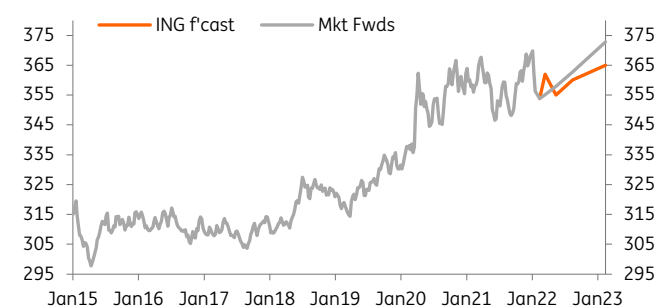
ING forecasts (mkt fwd)	1M 4.50 (4.54)	3M 4.48 (4.57)	6M 4.45 (4.63)	12M 4.41 (4.74)
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## EUR/HUF

Forint to see increased volatility in coming months

Current spot: 353.87



Source: Refinitiv, ING forecasts

- 2022 has been a good year for the forint so far and we see the Hungarian currency staying supported by monetary policy, as we see further rate hikes to at least 5.5% in 1H22.
- The calm will disappear in the coming weeks as HUF might come under pressure again with the looming detrimental "rule-of-law" legal decision (16 February). The official campaign season also starts in mid-February lasting until the general election on 3 April.
- In two months' time we look for EUR/HUF to test and break the resistance level at 362 (toppish 365). As the dust settles on the election, it can move back again to its recent anchor at around 355.

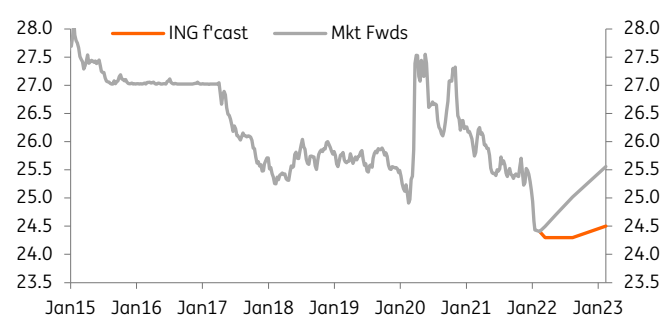
ING forecasts (mkt fwd)	1M 362.0 (355.11)	3M 355.0 (357.90)	6M 360.0 (362.77)	12M 365.0 (372.81)
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## EUR/CZK

Hawkish CNB approaches the end of its tightening cycle

Current spot: 24.40



Source: Refinitiv, ING forecasts

- In taking the policy rate 75bp higher to 4.50% on 3 February, the CNB signalled that it was close to the top of its tightening cycle. The FRA market had been expecting that top at 5.00%, though the CNB signalled it could be 4.75%. The CZK softened a little on that but has softened some more on the unwind of the short PLN/long CZK trades - after the NBP turned very hawkish.
- But we do not see strong reasons for the CZK to weaken a lot more. 4.50% interest rates are huge for a high-quality European currency and unhedged flows into Czech bonds should help CZK.
- The key risk will be whether Czech CPI drops quickly over the summer and raises expectations for CNB cuts in 4Q22.

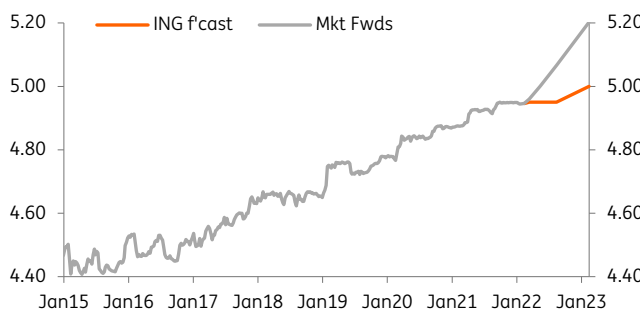
ING forecasts (mkt fwd)	1M 24.30 (24.50)	3M 24.30 (24.70)	6M 24.30 (25.02)	12M 24.50 (25.56)
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## EUR/RON

Stable for as long as needed

Current spot: 4.95



Source: Refinitiv, ING forecasts

- The pace of monetary tightening has been increased as the National Bank of Romania hiked by 50bp to 2.50% in Feb-2022. We expect the key rate at 4.00% by the end of 2022, with risks still to the upside.
- 4.95 continues to be a very strong resistance as official offers seem to prop the leu by as much as needed. We expect much of the same for the most of 2022, with the support of higher carry rates as well.
- With inflation likely to print in double-digits in the second quarter, the NBR has little choice but to keep the EUR/RON quasi-flat just below 4.95. We still expect the pair to slide higher towards 5.00 in late 4Q22, but that is conditional on inflation firmly being on a downward trend.

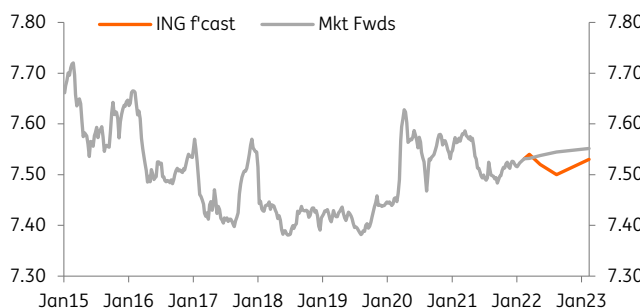
ING forecasts (mkt fwd)	1M 4.95 (4.96)	3M 4.95 (5.00)	6M 4.95 (5.07)	12M 5.00 (5.20)
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## EUR/HRK

Not much can go wrong before 1 January 2023

Current spot: 7.53



Source: Refinitiv, ING forecasts

- Most growth estimates for 2021 (ours included) show that Croatian GDP expanded by more than 10% in 2021, recovering all pandemic-related losses. We remain slightly downbeat on 2022 prospects for which we still estimate a below-consensus 4.1% growth, with downside risks.
- Euro adoption looks set to go live on 1 January 2023 as authorities are dealing with technicalities needed to make euro a legal tender, especially of legislative nature.
- We maintain our year-end EUR/HRK forecasts at 7.53.

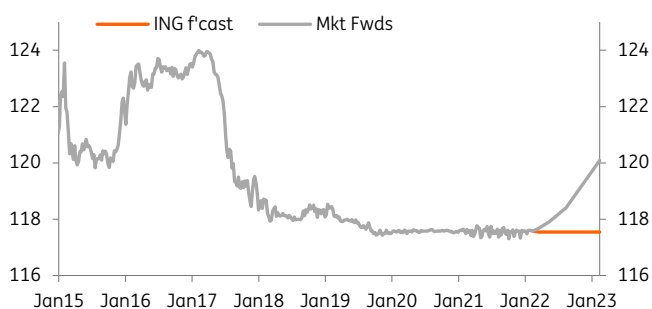
ING forecasts (mkt fwd)	1M 7.54 (7.53)	3M 7.52 (7.54)	6M 7.50 (7.54)	12M 7.53 (7.55)
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## EUR/RSD

NBS still unmoved by the hawkish regional wave

Current spot: 117.58



Source: Refinitiv, ING forecasts

- The relative complacency of the National Bank of Serbia facing an inflation rate that should exceed 8.0% in 1Q22 remains noteworthy. The key rate remained at 1.00% as the average weighted rate in reverse repo auctions climbed from 0.11% in Oct-2021 to 0.75% in early Feb-2022.
- We believe that the Bank will have to catch up with rate hikes, most likely beginning with the April meeting, where we estimate a 50bp hike.
- We do not envisage the EUR/RSD deviating from the current levels (ie, 117.6) over the 2-year forecast horizon.

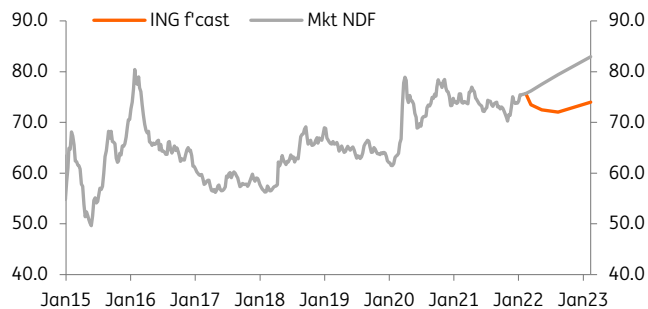
ING forecasts (mkt fwd)	1M 117.55 (117.67)	3M 117.55 (117.90)	6M 117.55 (118.40)	12M 117.55 ( )
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Valentin Tataru, valentin.tataru@ing.com

## USD/RUB

Back on track after tumultuous January

Current spot: 75.67



Source: Refinitiv, ING forecasts

- In January, a spike in foreign policy tensions sent USD/RUB flying to the upper end of its 75-80 range and forced the CBR to [suspend FX purchases](#) on 24 January. The subsequent signs of de-escalation allowed ruble to return below 75.0, but the country discount to peers is still 1-2ppt higher than at year-end 2021.
- Assuming no new rounds of external pressure, the ruble seems to be back on track towards the initial 72-74 range, but the busy [foreign policy agenda](#), risks of higher capital outflow and premature restart of FX purchases may hamper the recovery.
- Medium-term prospects appear constructive, thanks to a strong current account and hawkish central bank, but the uncertainties regarding global risk appetite and country-specific tensions may still prevent ruble assets from catching up with fundamentals.

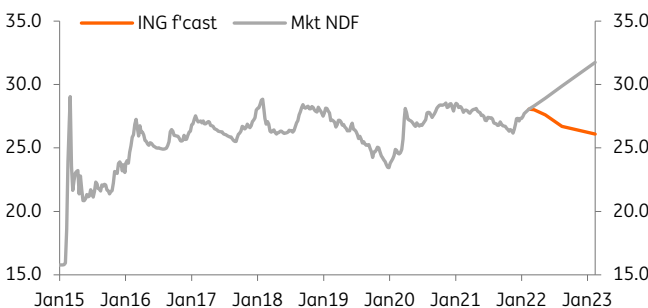
ING forecasts (mkt fwd)	1M 73.50 (76.19)	3M 72.50 (77.50)	6M 72.00 (79.40)	12M 74.00 (82.91)
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Dmitry Dolgin, dmitry.dolgin@ingbank.com

## USD/UAH

Politics remain the key driver

Current spot: 28.06



Source: Refinitiv, ING forecasts

- The risk of Russia's invasion should remain the major driver for the hryvnia in the coming weeks. NBU interventions should remain less effective during market tensions, as seen earlier this year. Still, many political and military analysts suggests that the optimal timing for Russia's invasion has already past and a conflict now would be very costly. This view seems to be shared by the market, as US\$/UAH is off the early 2022 peaks.
- Domestic political macro story remains supportive for the hryvnia. The latest central bank projection suggests inflation will remain elevated for longer, supporting a call for additional monetary tightening (terminal rate at 10%).

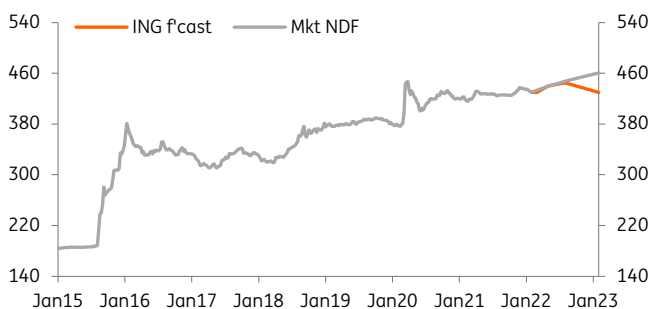
ING forecasts (mkt fwd)	1M 28.00 (28.32)	3M 27.60 (28.91)	6M 26.70 (29.87)	12M 26.10 (31.75)
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Piotr Poplawski, piotr.poplawski@ing.pl

## USD/KZT

Political pressure subsided but the view is still cautious

Current spot: 430.05



Source: Refinitiv, ING forecasts

- In January, USD/KZT traded in line with our view, in a 435-437 range thanks to US\$1.3bn state support including transfers from the sovereign fund, central bank interventions and FX sales by state-controlled companies. This was followed by a rapid appreciation to the 425-430 range in February on easing of domestic nervousness.
- The trade balance will keep growing on high oil prices with a further increase of OPEC+ quotas, but the recent decision to route more fuel to the domestic market may limit the FX benefits.
- Key rate hikes by 50 basis points to 10.25% kept Kazakhstan's real yields at the top of its BBB peers. But the risks of local private capital outflows driven by intra-elite transition may keep USD/KZT in the 430-440 range in the near term.

ING forecasts (mkt fwd)	1M 430.00 (433.49)	3M 440.00 (439.27)	6M 445.00 (447.79)	12M 430.00 (460.48)
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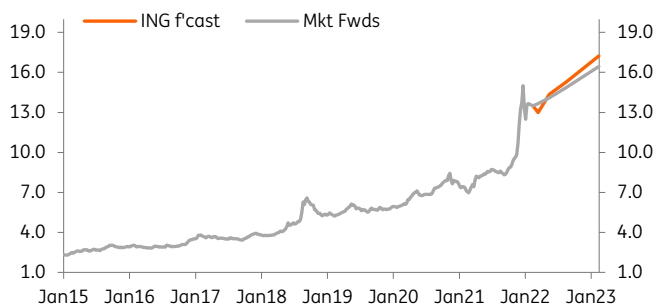
Dmitry Dolgin, dmitry.dolgin@ingbank.com



## USD/TRY

### Reserves show gradual improvement signals

**Current spot: 13.49**



Source: Refinitiv, ING forecasts

- Regarding the external outlook, in the last two months of 2021, we have seen import strength, while early indicators for January show a significant widening in the trade deficit towards the levels seen in late-2018 – driven by spiking energy imports.
- Net FX reserves have shown gradual recovery, likely reflecting the supporting impact of new FX-guaranteed TRY deposit instruments – attracting as much as US\$23bn in inflows.
- Pricing pressures have remained elevated with a likely further increase in inflation, while real rates at deeply negative levels should be a risk factor for the currency outlook along with vulnerability to shifts in global sentiment.

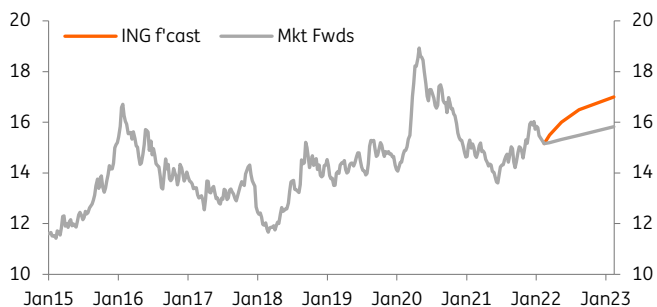
<b>ING forecasts</b> (mkt fwd)	<b>1M 13.00</b> (13.67)	<b>3M 14.36</b> (14.11)	<b>6M 15.25</b> (14.83)	<b>12M 17.23</b> (16.44)
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Muhammet Mercan, muhammet.mercan@ing.com.tr

## USD/ZAR

### Chinese recovery helps ZAR, but higher US rates the threat

**Current spot: 15.15**



Source: Refinitiv, ING forecasts

- The ZAR is the second-best performing currency after the BRL this year. Presumably the commodity story is still proving supportive here, as is the growing view that Chinese authorities want to stimulate domestic demand after a year of 'clean-up' in 2021. Remember that important commodities for South Africa are rhodium, iron ore, platinum and coal. Certainly, the on-going natural gas crisis in Europe is keeping coal bid and South Africa's Terms of Trade are again moving in favour of the ZAR.
- The reason we are bearish on the ZAR is that US rates should rise sharply this year and South Africa's trade surplus should evaporate.
- Real interest rates neutral/slightly negative leave ZAR vulnerable.

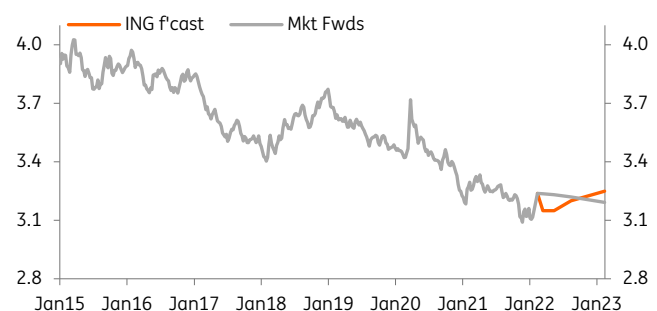
<b>ING forecasts</b> (mkt fwd)	<b>1M 15.50</b> (15.20)	<b>3M 16.00</b> (15.32)	<b>6M 16.50</b> (15.49)	<b>12M 17.00</b> (15.83)
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Chris Turner, chris.turner@ing.com

## USD/ILS

### Bol in no hurry to tighten

**Current spot: 3.24**



Source: Refinitiv, ING forecasts

- USD/ILS has drifted a little higher so far in 2022 – probably driven by Fed-inspired dollar strength, a dovish Bol and perhaps the 'tech-wreck' which may have hit tech-related FDI into Israel. The central bank story is probably the most pressing, where most recently the Deputy Bank of Israel governor has said there is no need to tighten this year.
- Inflation (at 2.8% YoY in December) may briefly push out of the Bol's 1-3% target range, but the Bol seems in no hurry to act.
- Strong growth in Israel at 5.5% this year should keep Israeli assets in demand, while the Bol should continue to intervene in FX markets – probably buying USD/ILS near 3.10/3.15.

<b>ING forecasts</b> (mkt fwd)	<b>1M 3.15</b> (3.24)	<b>3M 3.15</b> (3.23)	<b>6M 3.20</b> (3.22)	<b>12M 3.25</b> (3.19)
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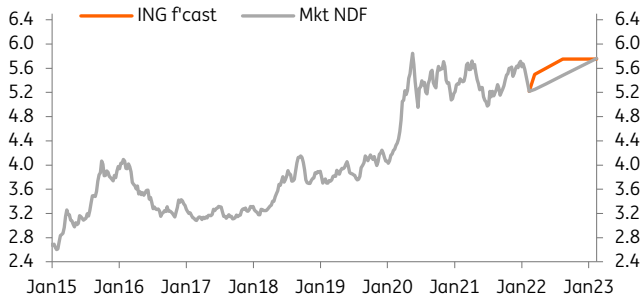
Chris Turner, chris.turner@ing.com



# LATAM

## USD/BRL

### Brazil's moment in the sun



Source: Refinitiv, ING forecasts

ING forecasts (NDF)	1M 5.50 (5.25)	3M 5.60 (5.34)	6M 5.75 (5.48)	12M 5.75 (5.76)
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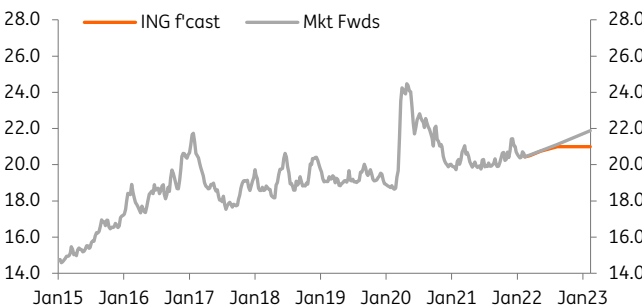
Chris Turner, [chris.turner@ing.com](mailto:chris.turner@ing.com)

**Current spot: 5.22**

- BRL is the best EMFX performer this year. Driving that strength has been the surprise US\$6bn of foreign money going into Brazil's equity market – on bargain-hunting. Additionally, the threat of a Lula administration after October elections is seen as less negative now that Lula intends to choose a centrist VP candidate, Alckmin, and is looking to woo centrist parties.
- The Brazil policy rate is now 10.75% and could edge higher to 12% this summer. The big question is whether inflation peaks around here, ie, 10-11% YoY, leaving real rates to rise in 2H22.
- Our concern remains politics. Very weak growth runs the risk of populist measures and sovereign risk premia hitting the BRL.

## USD/MXN

### Banxico manoeuvres MXN into position



Source: Refinitiv, ING forecasts

ING forecasts (mkt fwd)	1M 20.50 (20.54)	3M 20.75 (20.77)	6M 21.00 (21.13)	12M 21.00 (21.89)
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Chris Turner, [chris.turner@ing.com](mailto:chris.turner@ing.com)

**Current spot: 20.44**

- At her first Banxico meeting as governor, Victoria Roderiquez oversaw a 50bp hike in the policy rate to 6.00%. We think Banxico has now nicely built up a 600bp cushion over US rates to provide protection for the MXN through the start of the Fed tightening cycle. One now could expect Banxico to match every Fed step this year (Banxico next meets one week after the FOMC).
- Stability in the 20.50/21.00 area is what we foresee for USD/MXN this year – bearing in mind Banxico managed to keep USD/MXN stable through years when President Trump dismantled NAFTA.
- Key threats to MXN probably come through it being used as a proxy to hedge political risk in either Brazil or Chile.

## USD/CLP

### Copper story is a big +ve for CLP, but politics remains risk



Source: Refinitiv, ING forecasts

ING forecasts (NDF)	1M 830 (805.91)	3M 850 (814.18)	6M 875 (826.64)	12M 875 (849.83)
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Chris Turner, [chris.turner@ing.com](mailto:chris.turner@ing.com)

**Current spot: 802.83**

- The CLP has been recovering well – helped by: i) new elected President Boric appointing a market-friendly Fin Min and ii) the central bank continuing to hike rates aggressively. The market prices another 300bp of hikes in the policy rate (now 5.50%) as the central bank tries to rein in inflation (last 7.7% YoY).
- Aggressive tightening and high copper prices (China) should be good news for the CLP. A break of technical support at 790/795 in USD/CLP portends a drop to 720 – reconnecting with copper.
- But the reason we're still bullish USD/CLP is: i) higher US rates and ii) a prolonged political risk premium as the new, left-wing Constitutional Assembly takes a good look at property rights.



# Asia

## USD/CNY

Two-way movements, for now



Source: Refinitiv, ING forecasts

**Current spot: 6.36**

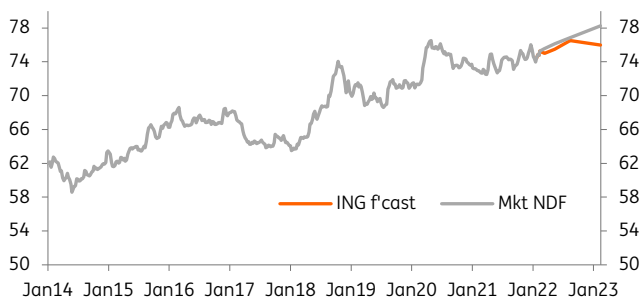
- The Chinese government has commented that the yuan's exchange rate should see two-way volatility.
- Weakening after the Chinese New Year holiday, the yuan has been dominated by the dollar. But some asset managers will still be buying onshore assets, which should support the yuan exchange rate. The two forces will be in play during the first quarter. This will create two-way flows of the yuan in line with the government's objectives.
- Once the Fed commences actual rate hikes, we expect that yuan weakening could resume for the rest of the 2022. Investors will also watch how China's sizable trade surplus develops.

ING forecasts (mkt fwd)	1M 6.350 (6.37)	3M 6.375 (6.39)	6M 6.395 (6.41)	12M 6.550 (6.45)
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## USD/INR

Struggling as capital flows dry up



Source: Refinitiv, ING forecasts

**Current spot: 75.28**

- The INR has had a mixed start to the year, but after losing all its early January gains and more in the second half of that month, the INR has clawed back some ground and now lies only 0.46% down from the beginning of the year.
- This month saw the release of the Union Budget, which was heavy on infrastructure expenditure and set a deficit target of 6.4%, not much lower than the 2021/22 estimate target of 6.9%. The result was an exodus from Indian government bonds, whose yields are now up 40bp from the beginning of the year.
- India's equity markets have also been struggling, and capital inflows, which supported the INR last year, look challenged.

ING forecasts (mkt fwd)	1M 75.00 (75.58)	3M 75.50 (76.15)	6M 76.50 (76.86)	12M 76.00 (78.27)
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## USD/IDR

Expectations for Fed rate hike force IDR to depreciate



Source: Refinitiv, ING forecasts

**Current spot: 14351.50**

- The IDR weakened in January with investors becoming anxious as the start of the Fed rate hike cycle looms near. The IDR also lost some ground as export momentum took a hit after government officials banned exports of coal in a move to ensure a stable domestic supply.
- Bank Indonesia (BI) retained its accommodative stance but signalled an eventual normalisation, beginning with a hike in its reserve requirements by March. BI, however, reiterated that it prefers to refrain from hiking rates for now.
- The IDR will likely be on the backfoot as the trade surplus narrows further and market sentiment weakens in the face of Fed hikes.

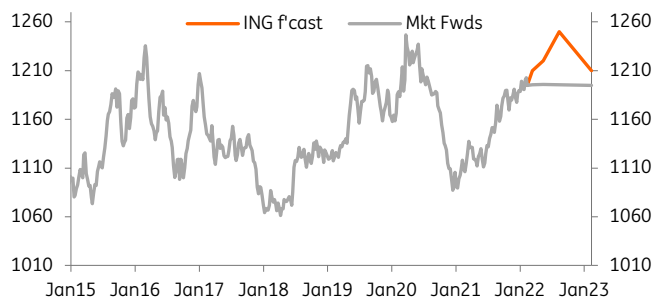
ING forecasts (mkt fwd)	1M 14382 (14382.00)	3M 14653 (14446.00)	6M 14549 (14549.00)	12M 14450 (14779.00)
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Nicholas Mapa, nicholas.mapa@asia.ing.com

## USD/KRW

Some reward for proactivity

Current spot: 1194.62



Source: Refinitiv, ING forecasts

- Year-to-date, the KRW is the second worst performing “Asian” currency (-0.9%) after the IDR (-1.04%), though to put it into perspective and looking at broader APAC performance, it has done a lot better than the AUD, which is down 2.45% ytd.
- Some of that relative outperformance may owe to the BoK’s proactive tightening, which has increased the policy 7-D repo rate by 75bp since the 0.5% trough last year, and there is a good chance of more hikes before the end of this quarter.
- Korea’s inflation figures continue to look high relative to their recent history, though the headline rate at 3.5% YoY looks a lot more manageable than rates of 7%+ in the US.

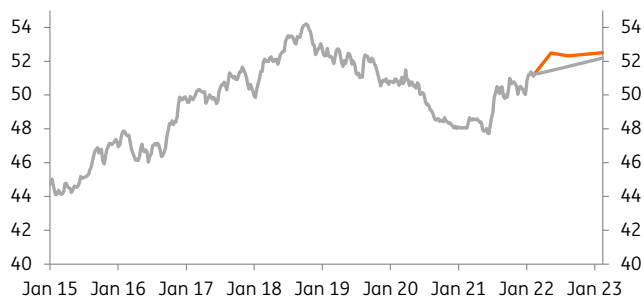
ING forecasts (NDFs)	1M 1210 (1195.52)	3M 1220 (1195.87)	6M 1250 (1195.52)	12M 1210 (1194.72)
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Rob Carnell, robert.carnell@asia.ing.com

## USD/PHP

PHP retreats as BSP stays dovish

Current spot: 51.23



Source: Refinitiv, ING forecasts

- The PHP was under pressure in January with the Philippine external position likely moving to a negative current account balance. Imports have surged in the past few months as the economy gradually reopens, forcing the current account into deficit territory.
- Meanwhile, the PHP was also pressured as market participants reacted to dovish comments from the Bangko Sentral ng Pilipinas (BSP) Governor. BSP Governor Diokno, vowed to retain accommodation despite hawkish signals from the US Fed.
- We expect PHP to remain under pressure in the coming months leading up to the projected Fed rate hikes.

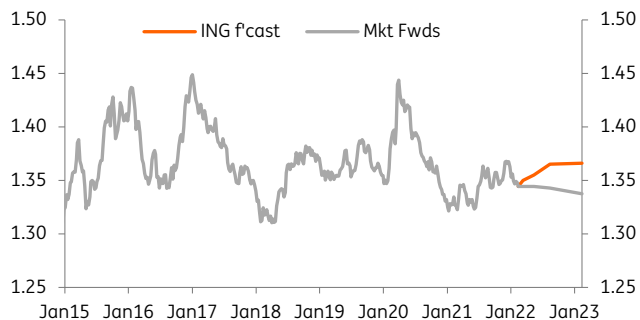
ING forecasts (mkt fwd)	1M 51.65 (51.30)	3M 52.49 (51.44)	6M 52.31 (51.69)	12M 52.50 (52.17)
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## USD/SGD

Pre-emptive MAS move helped steady SGD somewhat

Current spot: 1.344



Source: Refinitiv, ING forecasts

- The SGD steadied somewhat in January after the Monetary Authority of Singapore (MAS) tightened further in response to accelerating inflation. This was the second adjustment from the MAS in the past 4 months and they have not ruled out further tightening should inflation remain worrisome.
- MAS's pre-emptive strike was carried out in anticipation of core inflation surging to 3% sometime mid-year. An improving economic situation and the persistence of supply bottlenecks and high oil prices suggest that more aggressive tightening is likely.
- The USD/SGD will likely trade roughly sideways now that the NEER is placed on a slight appreciating trend.

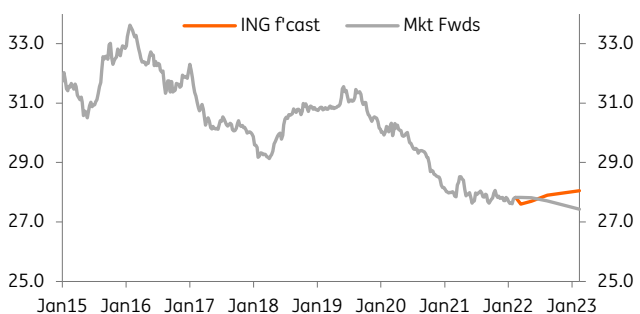
ING forecasts (mkt fwd)	1M 1.350 (1.344)	3M 1.355 (1.344)	6M 1.365 (1.343)	12M 1.366 (1.338)
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## USD/TWD

Strong dollar suppressed inflows

Current spot: 27.83



Source: Refinitiv, ING forecasts

- Though there have been strong capital inflows into Taiwan's stock market, these have not been big enough to counter the impact of the strong dollar. And the Taiwan dollar weakened after the Chinese New Year.
- But this depreciation pressure should be small for the TWD as semiconductors continue to be in strong demand, and Taiwan has the niche technology to manufacture very advanced chips, which should continue to attract capital inflows into the Taiwan stock market.
- The TWD will therefore only show slight weakness around the Fed's hike.

ING forecasts (mkt fwd)	1M 27.60 (27.83)	3M 27.70 (27.81)	6M 27.90 (27.70)	12M 28.05 (27.43)
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Iris Pang, iris.pang@asia.ing.com

**ING foreign exchange forecasts**

EUR cross rates	Spot	1M	3M	6M	12M	USD cross rates	Spot	1M	3M	6M	12M
<b>Developed FX</b>											
EUR/USD	1.14	1.13	1.13	1.12	1.14						
EUR/JPY	132.0	131.08	132.21	132.16	136.80	USD/JPY	115.92	116	117	118	120
EUR/GBP	0.84	0.83	0.82	0.83	0.84	GBP/USD	1.36	1.36	1.38	1.35	1.36
EUR/CHF	1.06	1.05	1.06	1.07	1.10	USD/CHF	0.93	0.93	0.94	0.96	0.96
EUR/NOK	10.08	10.10	9.95	9.85	9.60	USD/NOK	8.85	8.94	8.81	8.79	8.42
EUR/SEK	10.56	10.60	10.40	10.30	10.05	USD/SEK	9.27	9.38	9.20	9.20	8.82
EUR/DKK	7.440	7.440	7.440	7.450	7.450	USD/DKK	6.53	6.58	6.58	6.65	6.54
EUR/CAD	1.45	1.44	1.41	1.38	1.39	USD/CAD	1.271	1.27	1.25	1.23	1.22
EUR/AUD	1.59	1.61	1.61	1.60	1.61	AUD/USD	0.72	0.70	0.70	0.70	0.71
EUR/NZD	1.71	1.69	1.66	1.62	1.63	NZD/USD	0.67	0.67	0.68	0.69	0.70
<b>EMEA</b>											
EUR/PLN	4.53	4.50	4.48	4.45	4.41	USD/PLN	3.97	3.98	3.96	3.97	3.87
EUR/HUF	353.9	362.00	355.00	360.00	365.00	USD/HUF	310.6	320	314	321	320
EUR/CZK	24.40	24.3	24.3	24.3	24.5	USD/CZK	21.43	21.5	21.5	21.7	21.5
EUR/RON	4.95	4.95	4.95	4.95	5.00	USD/RON	4.34	4.38	4.38	4.42	4.39
EUR/HRK	7.53	7.54	7.52	7.50	7.53	USD/HRK	6.61	6.67	6.65	6.70	6.61
EUR/RSD	117.6	117.6	117.6	117.6	117.6	USD/RSD	103.3	104.0	104.0	105.0	103.1
EUR/RUB	86.19	83.1	81.9	80.6	84.4	USD/RUB	75.67	73.5	72.5	72.0	74.0
EUR/UAH	31.85	31.6	31.2	29.9	29.8	USD/UAH	28.06	28.00	27.60	26.70	26.10
EUR/KZT	489.8	485.9	497.2	498.4	490.2	USD/KZT	430.1	430	440	445	430
EUR/TRY	15.35	14.69	16.23	17.08	19.64	USD/TRY	13.49	13.00	14.36	15.25	17.23
EUR/ZAR	17.26	17.5	18.1	18.5	19.4	USD/ZAR	15.15	15.50	16.00	16.50	17.00
EUR/ILS	3.69	3.56	3.56	3.58	3.71	USD/ILS	3.24	3.15	3.15	3.20	3.25
<b>LATAM</b>											
EUR/BRL	5.94	6.22	6.33	6.44	6.56	USD/BRL	5.22	5.50	5.60	5.75	5.75
EUR/MXN	23.27	23.2	23.4	23.5	23.9	USD/MXN	20.44	20.50	20.75	21.00	21.00
EUR/CLP	914.47	938	961	980	998	USD/CLP	802.83	830	850	875	875
<b>Asia</b>											
EUR/CNY	7.24	7.18	7.20	7.16	7.47	USD/CNY	6.36	6.35	6.38	6.40	6.55
EUR/IDR	16252	16558	16295	16473	16252	USD/IDR	14382	14653	14549	14450	14382
EUR/INR	84.8	85.3	85.7	86.6	84.8	USD/INR	75.00	75.50	76.50	76.00	75.00
EUR/KRW	1367	1379	1400	1379	1367	USD/KRW	1210	1220	1250	1210	1210
EUR/PHP	58.4	59.3	58.6	59.9	58.4	USD/PHP	51.23	51.65	52.49	52.31	52.5
EUR/SGD	1.53	1.53	1.53	1.56	1.53	USD/SGD	1.34	1.35	1.36	1.37	1.37
EUR/TWTD	31.2	31.3	31.2	32.0	31.2	USD/TWTD	27.83	27.6	27.7	27.9	28.1

Source: Refinitiv, ING

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