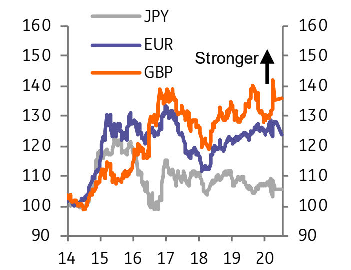
3 July 2020

FX Strategy

FX Talking

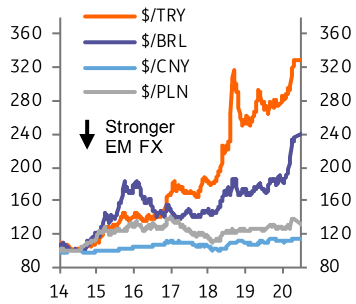
Keeping the (bullish) faith

USD/Majors (5 Jan 14=100)



Source: Macrobond, ING

USD/EM (5 Jan 14=100)



Source: Macrobond, ING

Despite many opportunities to do so, risk assets have so far avoided the kind of sharp re-alignment with Main Street that so many commentators expect. No doubt this is driven by expectations that policymakers have a light trigger-finger for fresh stimulus. Whether risk assets can survive any fresh lockdowns remains to be seen, but we continue to see risk supported on dips, US$ sold on rallies.

FX markets are trading more in line with equity than debt markets. Or perhaps one could argue that Fed money creation is lifting all financial assets. Either way, Fed policy – both printing money and promising to keep rates low indefinitely – looks dollar negative to us. And after a potentially quiet few weeks ahead of us, US elections should add another layer of bearishness to the dollar story in late summer.

Assuming the EU Recovery Fund gets over the line, we remain bullish EUR/USD for 1.20 by the end of the year. Also in Europe, we look for outperformance by both the undervalued NOK and SEK. GBP still looks as though it has too much Brexit baggage and EUR/GBP could trade over 0.92 in 3Q. In CEE, the CZK is our top pick, PLN looks fragile.

Elsewhere, Asian FX has proved somewhat of a laggard. It will be interesting to see whether USD/CNY stays in a 7.05-7.10 range despite signs of optimism in China. We still like BRL – even after the enormous easing cycle – and of the high beta, commodity currencies, we would say both MXN and ZAR are most at risk of handing back gains.

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.13	>	107	=	1.23	<
3M	1.18	>	106	<	1.28	>
6M	1.20	>	105	<	1.33	>
12M	1.15	>	105	<	1.31	>
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.92	>	26.50	<	4.50	>
3M	0.92	>	26.20	<	4.45	<
6M	0.90	=	25.90	<	4.40	<
12M	0.88	<	25.70	<	4.43	<
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	7.07	>	22.20	<	5.20	<
3M	7.06	<	22.00	<	5.10	<
6M	7.05	<	22.00	<	4.70	<
12M	7.00	<	22.50	<	4.50	<

↑ / → / ↓ 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	3.3	-0.6	3.0	-5.0	8.3	-3.2
%YoY	-0.6	-0.5	0.5	10.6	-2.3	3.7
	USD/UAH	**USD/KZT**	**USD/BRL**	**USD/ARS**	**USD/CNY**	**USD/TRY**
%MoM	-0.5	-5.5	3.1	8.2	0.1	0.8
%YoY	3.9	6.1	40.1	67.5	2.8	21.7

Source: Bloomberg, ING

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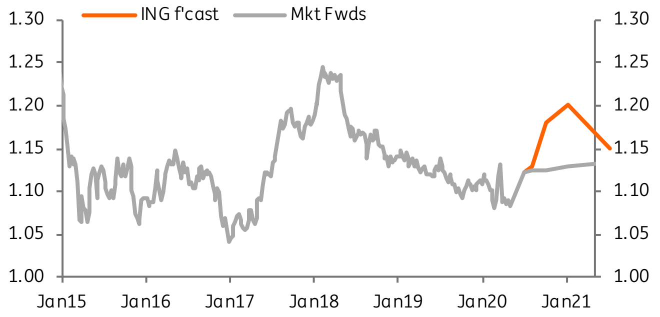
Developed markets

EUR/USD

Summer lull sets in

Current spot: 1.12



Source: Bloomberg, ING

- The FX option market is telling us not to expect too much price action over the next weeks and months. The early June excitement over a top-side breakout has faded and one could make a narrative of steady ranges into late August/early September – when US election fever should begin to rise.
- As we've discussed recently, a clear negative correlation has developed between the dollar and equities. Equities are climbing the wall of worry, but with the Fed making it clear that rates will stay low for a long time, the bar to buying risk assets is low.
- Progress on the EU Recovery Fund at the mid-July leader summit could be a useful bullish catalyst for the EUR, however.

ING forecasts (mkt fwd)	**1M** 1.13 (1.124)	**3M** 1.18 (1.125)	**6M** 1.20 (1.128)	**12M** 1.15 (1.133)

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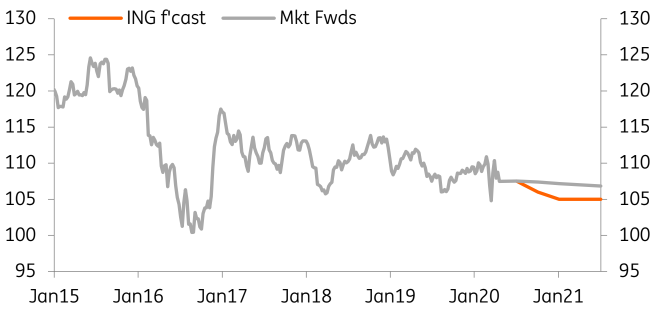
USD/JPY

Trapped between a reflation and deflation story

Current spot: 111.43



Source: Bloomberg, ING

- USD/JPY is becoming even more of a side show as investors struggle to define the forthcoming macro-investment environment. As discussed here last month, periods of reflationary (JPY negative) trading have been brief and the US yield curve is more minded towards stagnation – with Fed Funds still priced in negative territory in late 2021/22.
- Higher inflation expectations look a challenge, but if seen would bring forward the story of deeper negative US real rates – good for gold, bad for the dollar.
- The BoJ is left to manage the JGB curve (rise in 30yr JGB yields bears watching) and hopes that USD/JPY doesn't break below 105.

ING forecasts (mkt fwd)	**1M 107.00** (107.37)	**3M 106.00** (107.28)	**6M 105.00** (107.05)	**12M 105.00** (106.70)

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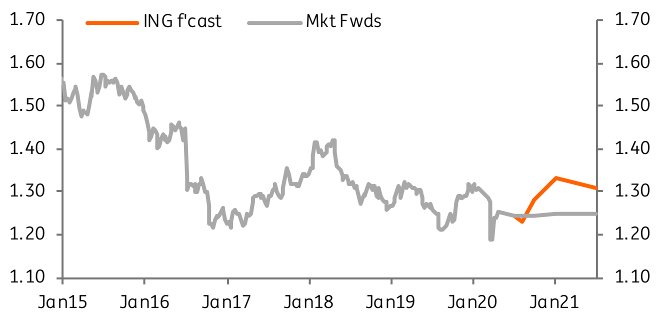
GBP/USD

Less downside vs USD, but still a G10 underperformer

Current spot: 1.25



Source: Bloomberg, ING

- We don't see many idiosyncratic factors to be upbeat on GBP, but our bullish EUR/USD view means GBP is to stay supported vs USD. Negative GBP view is better expressed vs EUR rather than vs USD.
- Valuation wise, and despite the GBP underperformance in 2Q20, the currency is still not attractive vs its European peers. Both SEK and NOK screen as more undervalued vs USD (and EUR).
- We note the structural change in GBP sensitivity to risk post the Brexit referendum, with GBP suffering proportionally more in falling markets than benefiting in rising markets. This should make GBP a laggard among G10 currencies during the U-shaped economic recovery and the expected rise in risk assets in 2H20.

ING forecasts (mkt fwd)	**1M** 1.23 (1.25)	**3M** 1.28 (1.25)	**6M** 1.33 (1.25)	**12M** 1.31 (1.25)

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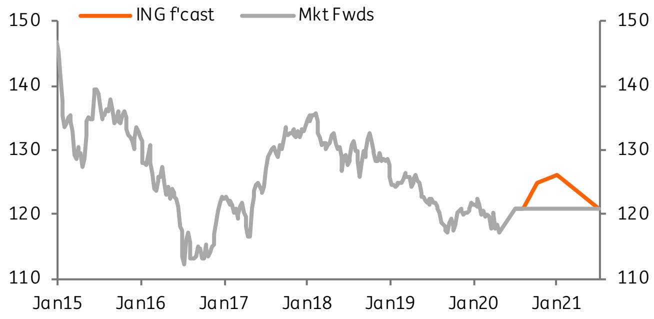
EUR/JPY

GPIF takes a hit in 1Q20

Current spot: 120.8



Source: Bloomberg, ING

- Just as was the case for the SNB FX reserve portfolio, Japan's GPIF pension fund suffered heavily with stock sell-off in 1Q20 and lost 11%, or US$165bn. Its heavy weighting in equities (benchmark 50% of the portfolio) and to foreign assets (40%) left it exposed to the Covid shock. Two remarks: (i) shocks like these will have to be accepted in a world of low rates, where pension funds go in search of yield, (ii) we doubt the GPIF will reduce foreign allocations, since it could lead to a run on USD/JPY below 100.
- EUR/JPY retains its steady positive correlation with equities and the reflation story. That's why we're looking for 125/126 here.
- Let's see whether German presidency of the EU makes its mark.

ING forecasts (mkt fwd)	1M 121.00 (121)	3M 125.00 (121)	6M 126.00 (121)	12M 121.00 (121)

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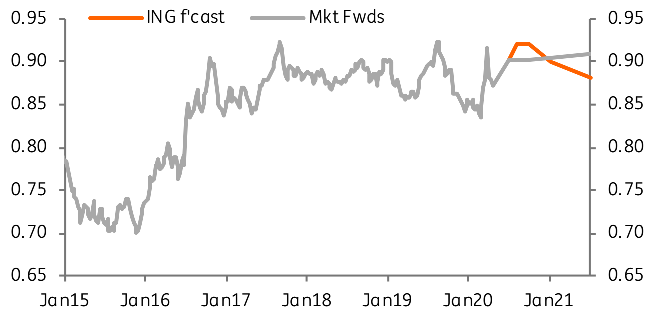
EUR/GBP

The ongoing sterling disappointment

Current spot: 0.90



Source: Bloomberg, ING

- EUR/GBP breached our quarter end target of 0.91. We still remain negative on GBP as the uncertainty about the UK-EU trade negotiations (and limited progress being made on this front in summer months) is to make sterling the G10 underperformer.
- We see the recent GBP rebound (to EUR/GBP 0.90) as short-term correction from oversold levels but not a start of a bullish trend.
- We estimate that 3% risk premium is currently priced in GBP (vs EUR). This is still below the around 5% risk premium observed last August and means more risk premium can be built in GBP. This is consistent with our 3m forecast of EUR/GBP 0.92. EUR/GBP to only modestly recover in 4Q if some form of trade deal is agreed.

ING forecasts (mkt fwd)	1M 0.92 (0.90)	3M 0.92 (0.90)	6M 0.90 (0.90)	12M 0.88 (0.91)

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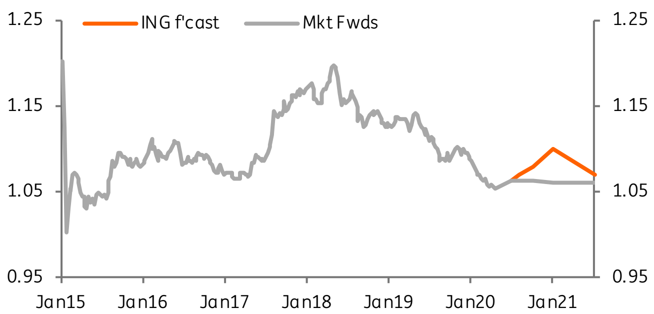
EUR/CHF

Poor performance

Current spot: 1.06



Source: Bloomberg, ING

- With equities generally having held onto their rebound and the BTP-Bund spread having narrowed into mid-March levels, one might have thought EUR/CHF would be higher. Instead it remains heavy near 1.06 and the ECB aggressive money printing may be weighing here. This will always undermine EUR/CHF rallies.
- At its June quarterly meeting the SNB outlined a growth forecast at -6% and understandably cut the inflation forecast profile. Its policy remains: (i) negative rates; (ii) a willingness to intervene more strongly; and (iii) CHF10bn bridging loans via a CRF facility.
- We are also watching whether ABB's large share buyback, using US$7bn of divestment proceeds, will also keep the CHF strong.

ING forecasts (mkt fwd)	1M 1.07 (1.06)	3M 1.08 (1.06)	6M 1.10 (1.06)	12M 1.07 (1.06)

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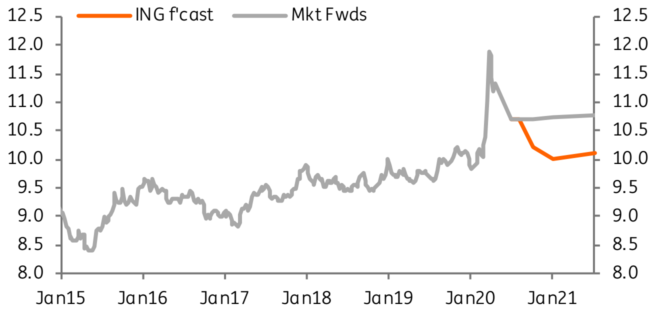
EUR/NOK

Still looking good for 2H20 as a whole

Current spot: 10.69



Source: Bloomberg, ING

- Risk environment is the key NOK driver. While the NB delivered a modestly hawkish bias in June (upgrading growth and interest rate outlook), impact on NOK was one-off as imminent tightening is off the table (rather a story for 2023, as per the NB forecast)
- Although the summer lull and pause in the risk asset rally may translate into limited near-term NOK gains, our constructive view on risk environment for 2H20 as a whole and ongoing U-shaped recovery means EUR/NOK trending lower for the rest of the year
- Even after the rally in 2Q20, NOK still screens as the cheapest G10 currency. Our upbeat outlook on the oil price (we target US$50/bbl in 4Q20) should be also NOK supportive in 2H20

ING forecasts (mkt fwd)	**1M** 10.70 (10.69)	**3M** 10.20 (10.71)	**6M** 10.00 (10.73)	**12M** 10.10 (10.77)

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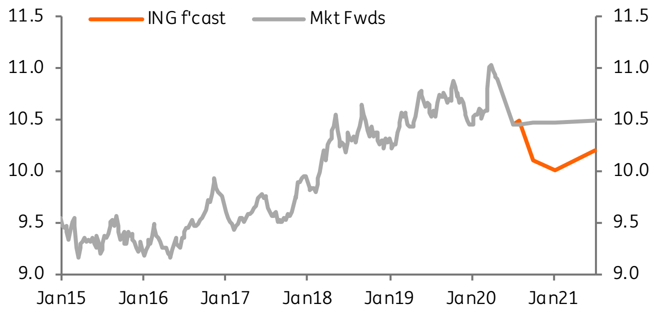
EUR/SEK

Gradual strengthening ahead

Current spot: 10.46



Source: Bloomberg, ING

- Riksbank increased the QE programme and downgraded its interest rate forecast in the July meeting. We don't see this modestly dovish decision as a game changer for SEK and the currency remains attractive among G10 cyclical FX.
- The bar for a rate cut is still very high while the extension of QE is not a complete surprise (the timing of the decision may be, but not the extension itself). Given the former and the falling CPI, SEK currently enjoys one of the highest real rates in the G10 FX space.
- With the general risk environment likely constructive in 2H20, the still undervalued SEK should gradually appreciate. EUR/SEK to move towards 10.00 by the year end.

ING forecasts (mkt fwd)	**1M** 10.500 (10.46)	**3M** 10.100 (10.47)	**6M** 10.000 (10.48)	**12M** 10.200 (10.50)

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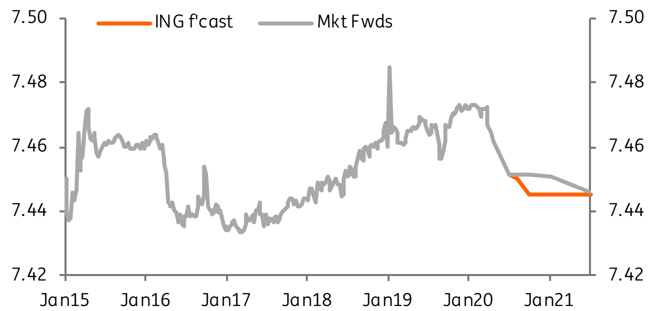
EUR/DKK

A reversal of fortune

Current spot: 7.452



Source: Bloomberg, ING

- DKK fortunes have changed and following the ongoing DKK depreciation prior to the March rate hike, the DN is now facing DKK strength, with EUR/DKK below the central parity rate.
- While the March 15bp rate hike worked and stemmed the DKK decline, what seems to be the main driver of DKK strength at this point is the large increase in EUR excess liquidity vs DKK. This is caused by the material ECB QE and TLTROs programme.
- Despite stronger DKK, it is probably too early for the DN to lean against currency strength via rate cuts (only four months after it delivered a hike to stem currency weakness). FX interventions (against stronger DKK) would likely be the first course of action.

ING forecasts (mkt fwd)	**1M** 7.450 (7.45)	**3M** 7.445 (7.45)	**6M** 7.445 (7.45)	**12M** 7.445 (7.45)

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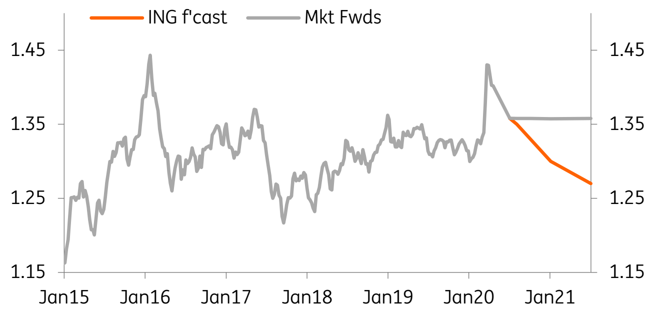
USD/CAD

Exposed to US second waves, but not without some buffers

Current spot: 1.357



Source: Bloomberg, ING

- The inability of USD/CAD to trend back below 1.35 may continue in the coming weeks as risk sentiment stays on check while markets assess the impact of second Covid-19 waves.
- CAD is more exposed than other pro-cyclicals to any new lockdown measure being imposed in the US. At the same time, the resilience in oil prices and a stubbornly short market positioning can still offer a floor to CAD.
- Later in the year, we expect a benign risk environment, the oil market shifting to a deficit (offering more upside potential for prices), a broadly unchanged stance by the BoC and a weakening in the USD to push USD/CAD to the 1.30 mark by the end of 4Q.

ING forecasts (mkt fwd)	**1M** 1.24 (1.36)	**3M** 1.27 (1.36)	**6M** 1.27 (1.36)	**12M** 1.27 (1.36)

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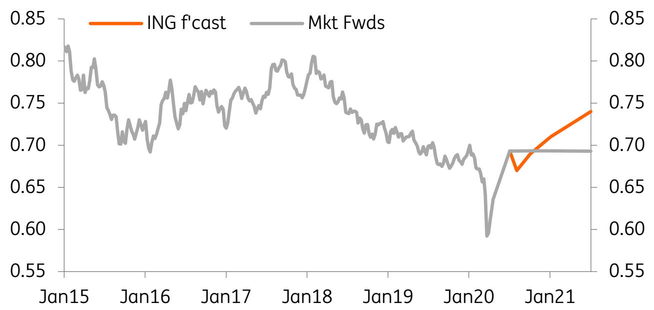
AUD/USD

Not out of the woods

Current spot: 0.69



Source: Bloomberg, ING forecasts

- The reinstatement of lockdowns in Victoria are a timely reminder that all countries remain vulnerable to flare ups of the Covid-19 virus, and that the bounce back of the economy is likely to be slower, and take longer than some think.
- The RBA indicated that both fiscal and monetary policy will have to remain supportive for years and, certainly, there seems little prospect of a normalisation of rates any time soon.
- China's slow recovery, coupled with Covid-19 related global supply disruptions is keeping Australia's commodity prices supported. We see the risk of a correction in the short term but still expect the undervalued AUD to outperform later in 2H.

ING forecasts (mkt fwd)	**1M 0.67** (0.69)	**3M** 0.69(0.69)	**6M** 0.71 (0.69)	**12M** 0.74 (0.69)

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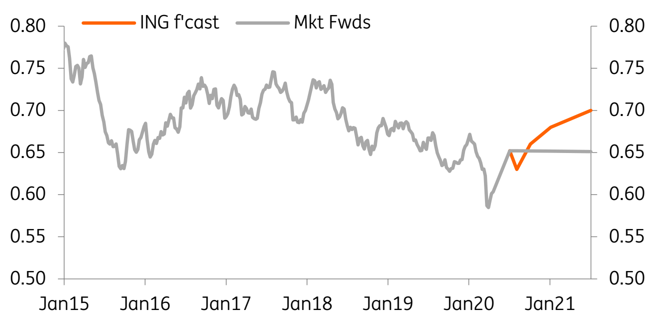
NZD/USD

Negative rate threat lingers

Current spot: 0.65



Source: Bloomberg, ING forecasts

- RBNZ Governor, Adrian Orr, is keeping alive the possibility of a negative official cash rate (OCR) but doesn't seem to be pushing it hard, preferring that banks focus on lending to spur the recovery.
- The NZD's recovery from the March lows has so far not had a substantial impact on export strength, with year-on-year exports down a little more than 6%YoY, a small decline compared to other nations. Though this will need watching.
- 1Q20 GDP came in worse than expected at -1.5%YoY, but this is largely of only historical interest now, and of little consequence for FX rates though it will keep the RBNZ dovish. We expect NZD to follow AUD but likely facing more limited downside risks.

ING forecasts (mkt fwd)	**1M** 0.63 (0.65)	**3M** 0.66 (0.65)	**6M** 0.68 (0. 65)	**12M** 0.70 (0. 65)

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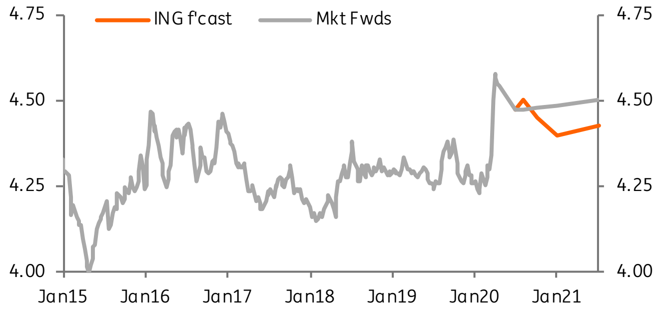
Emerging markets

EUR/PLN

NBP policy should be a lasting drag on PLN

Current spot: 4.47



Source: Bloomberg, ING

- The market no longer believes the Gazprom payment (US$1.5bn) to the Polish natural gas operator will be converted via the market. The risk of that discouraged bets against PLN in late June. The zloty should now track the general CEE sentiment and very loose NBP policy. Still, the resilient current account performance signals domestic fundamentals are not as PLN-negative as it may seem.
- The NBP is vocally concerned with PLN appreciation, but should refrain from direct interventions. However the central bank is very likely to extend the already record QE programme (8-10% of GDP this year) into 2021. This doesn't seem to be priced in by the market. Therefore, we stick with our call of €/PLN remaining close to 4.40 next year rather than anything more PLN bullish.

ING forecasts (mkt fwd)	**1M** 4.50 (4.47)	**3M** 4.45 (4.48)	**6M** 4.40 (4.49)	**12M** 4.43 (4.51)

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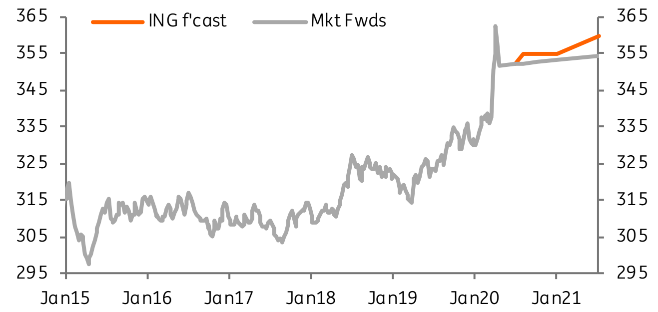
EUR/HUF

HUF rebounds from oversold levels

Current spot: 352.0



Source: Bloomberg, ING

- HUF weakened noticeably following the surprising June NBH cut, but it didn't last long. Not only was the 15bp cut modest, but the latest NBH guidance suggests that only one additional 15bp cut will be delivered and the base rate is to stay at 0.60%.
- The fact that the NBH has paused its QE and did not roll over any maturing FX swaps last time suggests the central bank is cautious and opting for limited easing in order not to generate a profound HUF weakness (as seen earlier in the year).
- The relatively lower sensitivity of HUF to risk vs PLN would appear to make short PLN/HUF a good hedge against deteriorating wider risk sentiment. EUR/HUF to range trade around 355 in 2H20.

ING forecasts (mkt fwd)	**1M** 355.0 (352.3)	**3M** 355.0 (352.8)	**6M** 355.0 (353.1)	**12M** 360.0 (354.4)

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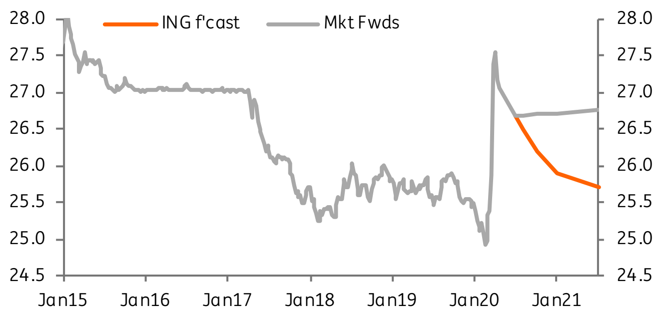
EUR/CZK

Gradual appreciation ahead

Current spot: 26.66



Source: Bloomberg, ING

- The CNB kept rates unchanged during its June meeting, with Governor Rusnok indicating no imminent need for further easing via cuts. This suggests that rates might have reached the bottom for now.
- There are neither strong dis-inflation nor deflation pressures, meaning that the CNB is most likely to be able to maintain its inflation target with the conventional tools. Easing via unconventional measures (negative rates, QE or FX-floor), which would be CZK negative, seems highly unlikely at this point.
- We would argue CZK seems a preferred CEE currency for 2H20 given the limited scope for further CNB easing and the low odds of the CNB leaning against CZK strength via the potential FX-floor renewal.

ING forecasts (mkt fwd)	**1M** 26.50 (26.69)	**3M** 26.20 (26.71)	**6M** 25.90 (26.72)	**12M** 25.70 (26.76)

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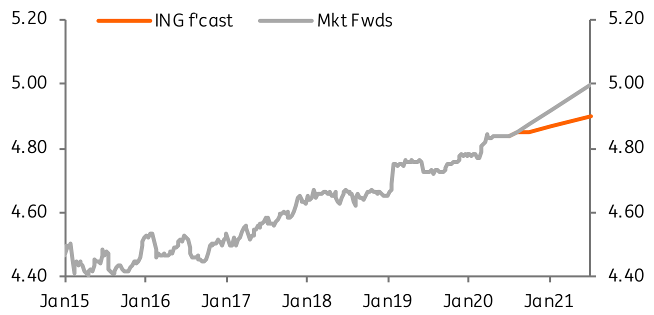
EUR/RON

Summer mood **Current spot: 4.84**



Source: Bloomberg, ING

- As the summer mood gently sets in, the leu has been seeing a diminished turnover over the past month. Even the mild upside tests have been quickly tapered by firm offers close to 4.8450.
- While we should normally have a quieter period during the summer, the electoral campaign is getting closer. Although the date is not fixed yet, local elections will probably take place in September with general ones in December. Hence, we think the current calm waters could soon be disturbed.
- We maintain our 4.87 year-end forecast with some asymmetrical risks building up as the pre-election period could see additional populist measures being pushed through Parliament.

ING forecasts (mkt fwd)	1M 4.85 (4.85)	3M 4.85 (4.87)	6M 4.87 (4.92)	12M 4.90 (4.99)

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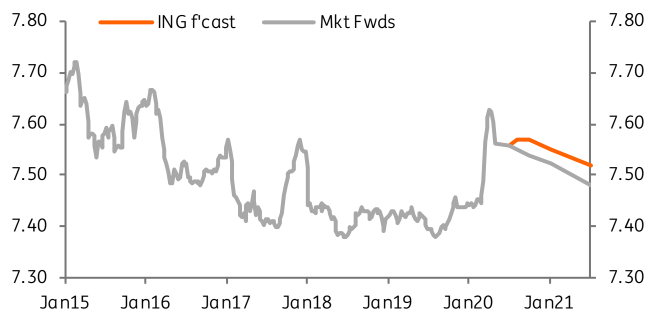
EUR/HRK

ERM-II accession to solidify the kuna **Current spot: 7.56**



Source: Bloomberg, ING

- In June, PM Plenkovic sent the official letter asking for Croatia's entry into the ERM-II mechanism. The actual entry date is still a moving target, with ECB officials mentioning only that it should be by end-2020.
- We believe the ERM-related developments are largely priced-in already and are likely to have been behind the latest S&P and Fitch decisions to maintain Croatia's investment grade rating.
- The political horse trading in the aftermath of the 5 July general elections could be lengthy but, whatever the result, we believe that policy continuity will be ensured. We maintain our 7.55 year-end forecast, which could also be the central rate for ERM-II admission.

ING forecasts (mkt fwd)	1M 7.57 (7.55)	3M 7.57 (7.54)	6M 7.55 (7.52)	12M 7.52 (7.48)

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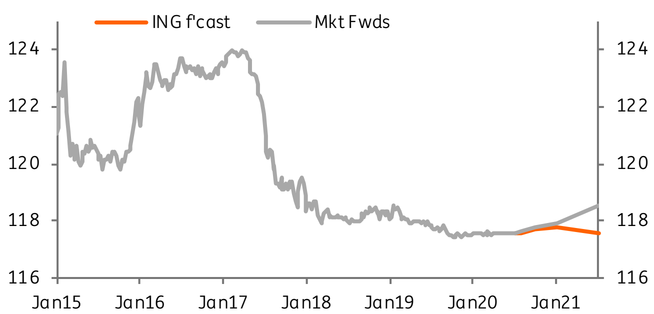
EUR/RSD

Expecting some post-election weakness **Current spot: 117.6**



Source: Bloomberg, ING

- With the Serbian general elections now over and SNS obtaining a large majority (63%), policy continuity is warranted.
- The impressive stability of the dinar has not come freely this year. The NBS sold close to €1bn in 1H20 and the pace doesn't look to soften. We believe that the NBS could allow for a marginal uptick of the FX rate, now that the electoral context is behind.
- We continue to see Serbia as one of the most resilient economies this year. We forecast a 1.9% contraction in 2020 followed by a 6.8% expansion next year. The dinar depreciation pressures and a mild rebound in inflation expected in 2H20 should keep the NBS on hold at 1.25% for some time.

ING forecasts (mkt fwd)	1M 117.60 (117.60)	3M 117.70 (117.80)	6M 117.80 (118.00)	12M 117.60 (118.60)

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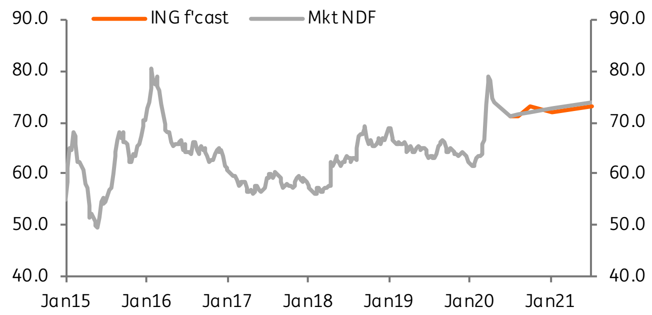
USD/RUB

Wave of recovery facing headwinds in 2H20 **Current spot: 71.17**



Source: Bloomberg, ING

- After trading in line with peers in a 68-70 range throughout June, RUB depreciated beyond 70 to USD at the very end of the month on renewed sanction concerns. Given the US electoral cycle, foreign policy risks are likely to persist in 2H20.
- With the key rate (4.5%) approaching its mid-term low (likely 4.0%, to be reached in 2H20) portfolio inflows are unlikely to exceed US$1.0bn per month, unless new drivers are seen.
- Currently, RUB is supported by stable US$140-150m daily FX sales by the CBR, contrary to our initial expectations. However, the CBR presence on the FX market may still need to be reduced.
- Private capital outflow, already at US$7-10bn per month, remains a risk factor for RUB, guiding for a 2H USD/RUB trading range of 70-75.

ING forecasts (mkt fwd)	1M	3M	6M	12M
	71.00 (71.43)	73.00 (71.91)	72.00 (72.68)	73.00 (74.04)

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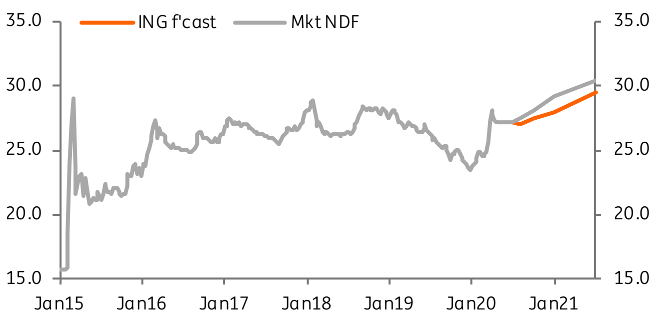
USD/UAH

Appreciation pressures reversed ***Current spot: 27.10***



Source: Bloomberg, ING

- Just when things were apparently moving onto the right track again after the IMF agreement had been signed, the resignation of the NBU governor sent some shivers through the markets.
- In the aftermath of the event, the central bank will probably need to spend away some reserves to provide FX liquidity to both the government and markets. The starting point for FX reserves of US$25bn last month is strong enough, in our view, to ensure safe navigation through these turbulent times.
- We maintain our 27.00 year-end forecast but acknowledge that the risks balance has now reversed and tilts to the upside.

ING forecasts (mkt fwd)	1M	3M	6M	12M
	27.00 (27.48)	27.50 (28.11)	28.00 (29.14)	29.50 (30.46)

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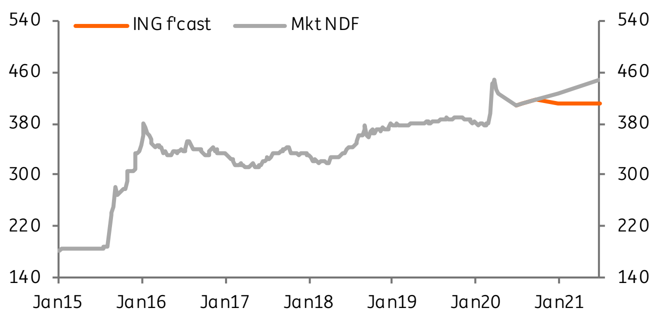
USD/KZT

Pressuring tenge from deeper oil cuts and COVID-19 **Current spot: 406.5**



Source: Bloomberg, ING

- The Tenge has so far been supported by Kazakhstan's lax compliance with the OPEC+ deal in May (71%) and probably June. To ensure deeper cuts in August and September 2020, the government introduced temporary restrictions on the use of subsoil plots.
- The oil industry is suffering the impact of Covid-19 with 1.2k miners affected on 'Tengiz' only. Kazakhstan had c.490 daily cases at end-June vs 260 at the beginning. The president has introduced new lockdown measures, which may further limit recovery of GDP and exports.
- Currently, the KZT is still too strong from the budget perspective (tenge oil price is 16k/bbl vs 23-35k/bbl previously), while the need for extra budget support may increase. A higher USD oil price will not guarantee a stronger KZT, in our view.

ING forecasts (mkt fwd)	1M	3M	6M	12M
	410.00 (410.2)	417.00 (417.1)	410.00 (428.0)	410.00 (448.6)

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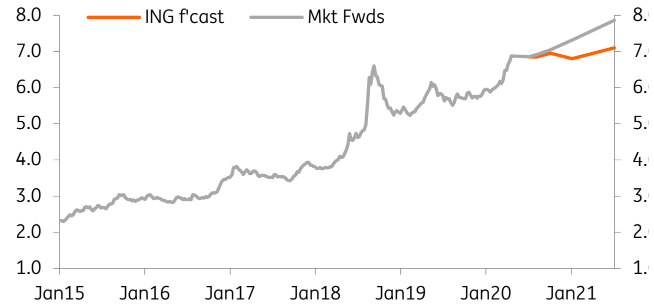
USD/TRY

Long easing cycle comes to an end

Current spot: 6.8569



Source: Bloomberg, ING

- The rate cut cycle from mid-2019, with an objective of lowering cost of funding for banks, seems to have come to an end. The CBT now signals a wait-and-see period with no imminent rate changes in the near term.
- This shifting stance is likely attributable to a focus on financial stability against a backdrop of a widening external deficit, already low real rates and rising money supply. Risks on the inflation outlook should be another driver here. Yet signs of economic recovery should also be a relief factor for the bank.
- The TRY has been one of the underperformers in recent weeks, being in a stable narrow range, while it will also remain sensitive to shifts in global backdrop in the near term.

ING forecasts (mkt fwd)	**1M** 6.85 (6.92)	**3M** 6.95 (7.06)	**6M** 6.80 (7.33)	**12M** 7.10 (7.88)

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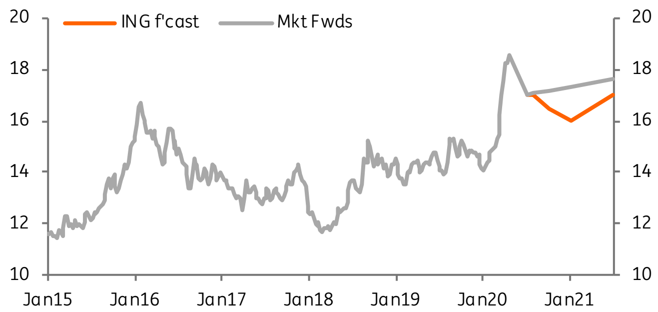
USD/ZAR

A Herculean task in balancing the budget.

Current spot: 17.03



Source: Bloomberg, ING

- In its recent supplementary budget, the South African Treasury acknowledged that it would be running a near 16% of GDP budget deficit this fiscal year and the debt to GDP ratio would be heading up to 82% by March 2021. That debt level would be one of the highest in the EM space and the government is looking at austerity measures to address that in October's budget.
- Fortunately for South Africa, investors are willing to lend money at the moment and the country will seek to tap the local and external debt markets – or resort to the IMF in an emergency.
- The fragile nature of South Africa's finances will keep the ZAR as a high beta play on the global recovery – and quick to hand back gains.

ING forecasts (mkt fwd)	**1M** 17.00 (17.09)	**3M** 16.50 (17.19)	**6M** 16.00 (17.34)	**12M** 17.00 (17.61)

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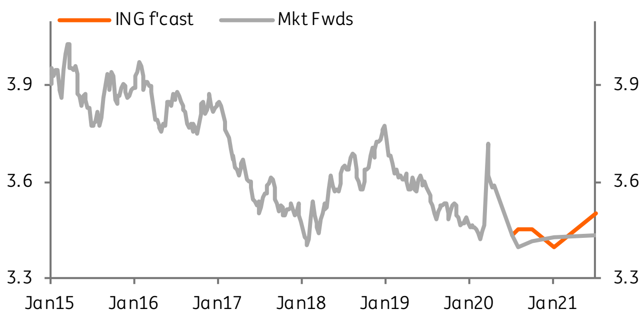
USD/ILS

ILS in demand

Current spot: 3.44



Source: Bloomberg, ING

- Interesting news that Israel tops the table for EM sovereign bond issuance in 1Q20, with issuance totalling US$15bn. No doubt investors are keen to get hold of good quality EM debt (Israel rated AA- by S&P) even if yields are less than US Treasuries.
- Looking at USD/ILS, it would be no surprise to hear news of BoI FX intervention picking up again. After all CPI is running at -1.6% YoY and when it comes to monetary policy, the 0.10% leaves little room for manoeuvre. A rate cut into negative territory on 6 July would be a big surprise, however, despite BoI hints earlier.
- Israel's big current account surplus (3% of GDP) keeps ILS in demand and if the big dollar turns lower, 3.30/35 beckons.

ING forecasts (mkt fwd)	**1M** 3.45 (3.40)	**3M** 3.45 (3.42)	**6M** 3.40 (3.43)	**12M** 3.50 (3.43)

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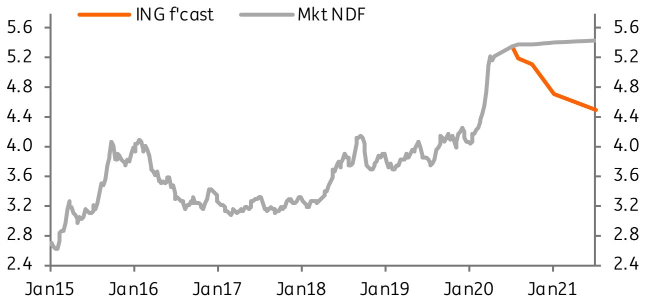
LATAM

USD/BRL

Focus on external drivers amid softer domestic agenda

Current spot: 5.36



Source: Bloomberg, ING

- The BRL continues to stand out for its outsized volatility, perhaps the largest in EM. But we expect greater clarity on the domestic front (ie, monetary policy) to gradually bring about a more closely synchronized BRL trend, when compared to its EM peers.
- The large drop in interest rates was, in our view, the single most important BRL driver in the past year. But with the SELIC rate now very near its lower-bound, material additional cuts are unlikely.
- As a result, even though current interest rate levels are not particularly attractive, from a carry perspective, the chief near-term BRL driver should be external factors, such as global risk appetite, likely linked to Covid-19 developments, and the USD.

ING forecasts (NDF)	**1M** 5.20 (5.37)	**3M** 5.10 (5.39)	**6M** 4.70 (5.41)	**12M** 4.50 (5.44)

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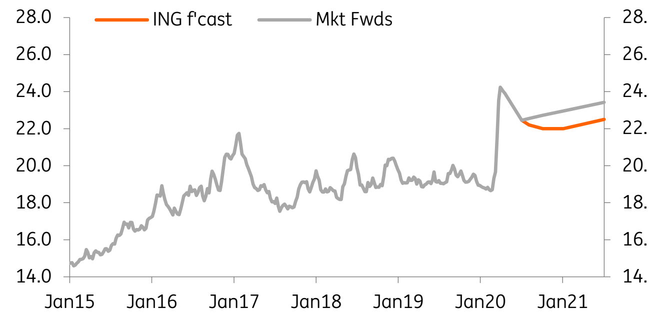
USD/MXN

Yield-advantage only partially offset policy mistakes

Current spot: 22.54



Source: Bloomberg, ING

- The MXN underperformed in recent weeks, which may reflect the fact that even though the currency still offers a relatively high carry, Mexico's macro outlook appears especially worrisome.
- Mexico's GDP is likely to face one of the deepest slumps in LATAM this year, but the country has opted for modest countercyclical initiatives, exacerbating the risk of greater permanent damage to the economy, and delaying the eventual recovery.
- The administration's frequent public disputes with the private sector also continues to undermine investor confidence and call into question whether MXN's persistent yield advantage would suffice to ensure a supportive environment for the MXN.

ING forecasts (mkt fwd)	**1M** 22.20 (22.63)	**3M** 22.00 (22.81)	**6M** 22.00 (23.04)	**12M** 22.50 (23.51)

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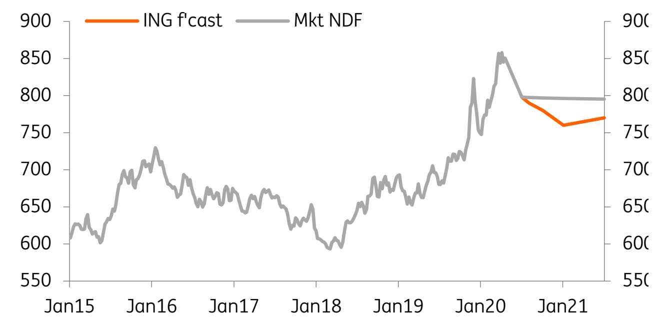
USD/CLP

Severe health crisis and the extended lockdown stands out

Current spot: 802.18



Source: Bloomberg, ING

- The especially severe health crisis seen in Chile, together with the extended lockdown, suggest that the likelihood of a more lasting negative reassessment of the country's prospects is possible, especially considering latent political and social risks.
- Chile stands out for its assertive policy stimulus measures, with a large fiscal package and aggressive rate cuts, along with the commitment to keep the policy rate at its "technical minimum" of 0.5% for a long period, apart from official appetite to deliver material further unconventional stimulus.
- Unsupportive domestic drivers are partly offset by rising copper, a key short-term FX driver adding important CLP upside.

ING forecasts (NDF)	**1M** 790 (802)	**3M** 780 (801)	**6M** 760 (801)	**12M** 770 (800)

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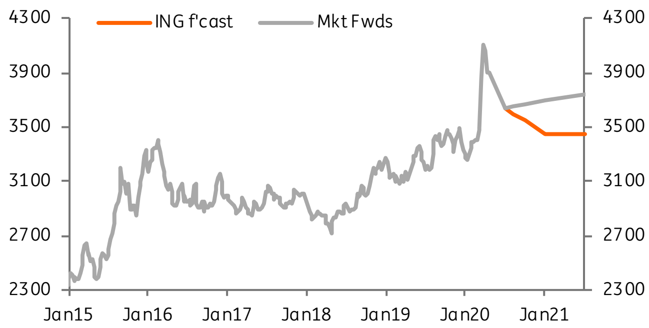
USD/COP

Risk of credit rating downgrades calls for caution

Current spot: 3645.39



Source: Bloomberg, ING

- Colombia's economic policy reaction to the ongoing crisis has been considerably tamer than the ones seen in Chile and Peru. The hawkish surprise in its latest monetary policy meeting, in fact, highlights a growing concern over local financial market instability, potentially driven by non-resident FX outflows.
- The concern over lasting fiscal damage, especially considering Colombia's precarious "investment grade" status amid continued elevated risk of rating downgrades, suggests that risk of outflows should persist until long-term fiscal dynamics are re-anchored.
- The recovery in crude prices, a crucial near-term FX driver, reduces fiscal risks but the COP looks fairly priced.

ING forecasts (NDF)	**1M** 3600 (3656.23)	**3M** 3550 (3673.89)	**6M** 3450 (3698.89)	**12M** 3450 (3744.47)

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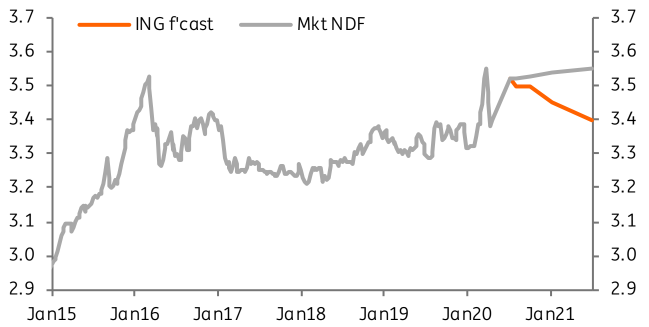
USD/PEN

Aggressive stimulus is unable to prevent a deep recession

Current spot: 3.52



Source: Bloomberg, ING

- Like Chile, Peru is suffering one of the most severe consequences of the Covid-19 outbreak in LATAM. This, together with controversial initiatives advancing in Congress, perhaps help explain the unusually large FX correction seen in recent weeks, when compared to historical patterns for the PEN.
- Peru's superior ability to deploy economic policy stimulus, including large fiscal outlays and the lowest policy rate in LATAM, should help alleviate the impact of the crisis, but having had the worst contraction in the region so far, it's hard to be optimistic.
- Large FX reserves suggest, however, that Peru should be able to continue to heavily manage its FX dynamics, and shield the PEN from the wider fluctuations that typically affect its EM peers.

ING forecasts (NDF)	**1M** 3.50 (3.52)	**3M** 3.50 (3.53)	**6M** 3.45 (3.54)	**12M** 3.40 (3.55)

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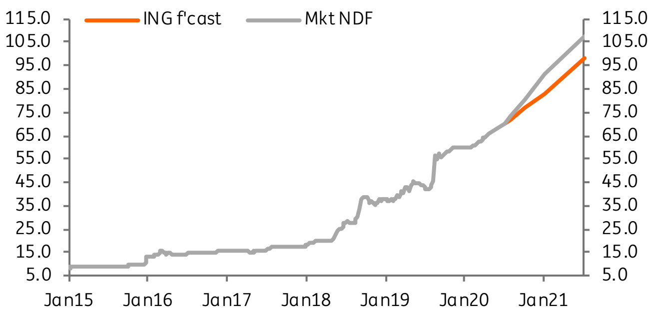
USD/ARS

In default but still hopeful of a compromise solution

Current spot: 70.58



Source: Bloomberg, ING

- Argentina opted to cease servicing external bonds but decided to extend negotiations with external bondholders once again, keeping alive the possibility of a negotiated compromise solution that would "cure" the default.
- Stringent FX controls have, meanwhile, helped limit the widening premium between the official and the non-official FX rate. But at about 50%, that premium remains exceedingly high, illustrating both Argentina's difficult predicament and the limits of the government's strategy.
- Covid-19 appears to have both added urgency and complicated the negotiating process. A compromise solution is still possible, but uncertainty prevails, deepening local market instability.

ING forecasts (NDF)	**1M** 72.20 (73.43)	**3M** 77.00 (80.60)	**6M** 83.00 (91.58)	**12M** 98.00 (107.68)

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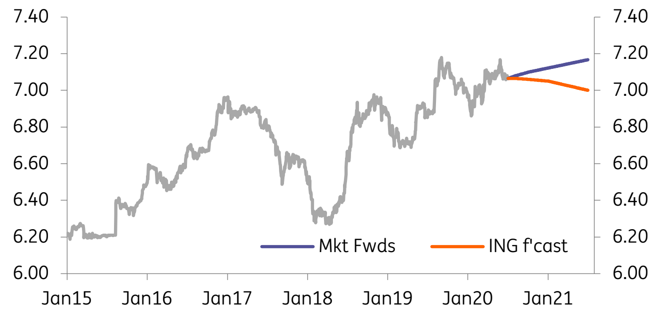
Asia

USD/CNY

Yuan strengthen as the economy recovers



Source: Bloomberg, ING forecasts

Current spot: 7.064

- Though the media reported that China resumed purchases of US agricultural products, actually China has created a list of import restrictions on various food companies from the US, South America, the UK and Europe.
- Furthermore, the market is waiting for more disclosure of the Hong Kong national security law, and awaiting further US actions.
- Even with this potentially negative news, the yuan has strengthened against the dollar from 7.14 at the end of May to around 7.07 on 30 June. As the economy shows only a slow recovery, the yuan should stabilise at the current level for some time.

ING forecasts (mkt fwd)	**1M** 7.065 (7.078)	**3M** 7.060 (7.099)	6M 7.050 (7.122)	**12M** 7.000 (7.167)

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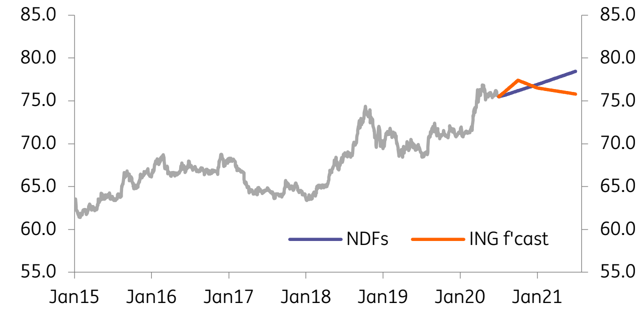
USD/INR

Covid-19 outbreak has worsened



Source: Bloomberg, ING forecasts

Current spot: 75.48

- A spike in India-China border tensions in mid-June briefly nudged the USD/INR above the 75-76 trading range it has been in since May. But broader USD weakness capped the weakness, leaving the INR near the low end of the Asian spectrum in June.
- The economy is headed into a deeper slump as the Covid-19 crisis has worsened. With over half a million cases, it's now the fourth worst-affected country in the world. We have cut our GDP growth forecast for the current fiscal year to -5.2% from -2.1%.
- Tight public finances limit the availability of fiscal support. The RBI continuing on a rate cut path, despite high inflation, remains the best hope for the economy, though not for the INR.

ING forecasts (mkt fwd)	**1M** 76.10 (75.69)	**3M** 77.40 (76.19)	**6M** 76.50 (76.92)	**12M** 75.80 (78.46)

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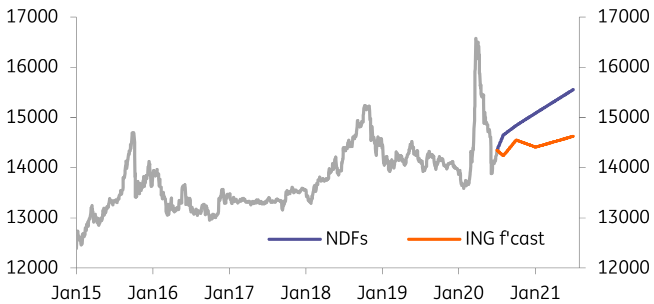
USD/IDR

IDR appreciation momentum fades as virus spreads



Source: Bloomberg, ING forecasts

Current spot:14344

- The IDR appreciated for most of June with global sentiment improving on hopes for an economic turnaround. Indonesia relaxed partial lockdown measures in most regions to jumpstart economic activity.
- Bank Indonesia (BI) finally cut policy rates by 25bp with inflation benign and the IDR steadying with foreign investors returning to the bond and equity markets. BI Governor Warjiyo signalled further rate cuts were possible and that the IDR remained "undervalued".
- IDR's recent strength has faded as risk tone has soured with new daily Covid-19 infections on the rise.

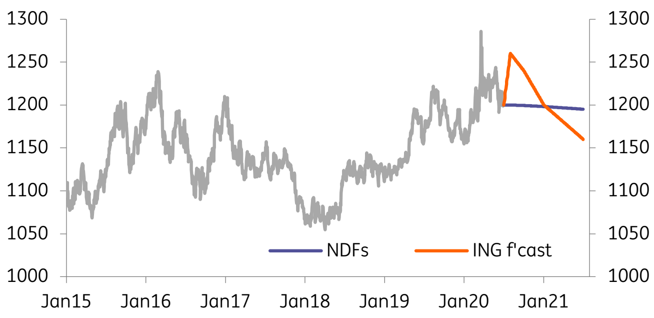
ING forecasts (mkt fwd)	**1M** 14238 (14648)	**3M** 14549 (14840)	**6M** 14407 (15085)	**12M** 14625 (15555)

Nicholas Mapa, Philippines +63 28479 8855

USD/KRW

The easy appreciation is done

Current spot: 1200



Source: Bloomberg, ING forecasts

- The KRW has been Asia's third-best performing currency against the USD over the past month, lagging slightly behind the THB and IDR.
- The early June appreciation from 1245 to 1189 has not been maintained. This is largely a function of global market sentiment which has stayed positive, but with a decreasing sense of conviction as Covid-19 case numbers have crept higher again in many countries and re-opening has been reversed or postponed in others.
- The BoK seems to prefer the government to do the heavy lifting for the economy now and its easing is probably over.

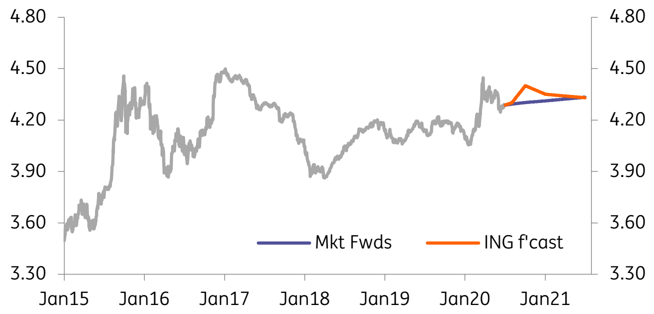
ING forecasts (NDFs)	**1M** 1260 (1200)	**3M** 1240 (1199)	**6M** 1200 (1198)	**12M** 1160 (1195)

Rob Carnell, Singapore +65 6232 6020

USD/MYR

Holding up well in broader EM strength

Current spot: 4.287



Source: Bloomberg, ING forecasts

- The USD/MYR has traded in a narrow range of 4.25-4.30 for most of the last month. Some broader EM strength at the very beginning of June leaves it 1.4% stronger on the month.
- Exports continued to decline at more than a 20% YoY rate for a second straight month in May. In combination with a fall of over 30% in manufacturing, this is consistent with our forecast of an 8.3% YoY GDP fall in 2Q20. Adding to the MYR's woes was some negative rating action reflecting weakening public finances as well as persistent political risk.
- Weak GDP growth and negative CPI inflation (-2.9% in May) make a strong case for a further imminent BNM policy rate cut.

ING forecasts (mkt fwd)	**1M** 4.300 (4.293)	**3M** 4.400 (4.302)	**6M** 4.350 (4.312)	**12M** 4.330 (4.333)

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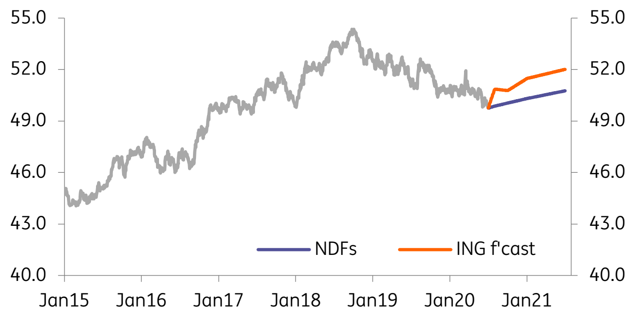
USD/PHP

PHP resilient, supported by foreign borrowings

Current spot: 49.75



Source: Bloomberg, ING forecasts

- The PHP weakened slightly in mid-June on renewed corporate demand with the economy emerging from lockdown. It strengthened sharply by end-June however, boosted by substantial inflows linked to the government's aggressive borrowings from multilateral institutions.
- The Bangko Sentral ng Pilipinas (BSP) surprised with a 50bp rate cut to aid the economy. Despite the surprise move, PHP strengthened as governor Diokno indicated he would likely pause on rate cuts for "a couple of quarters".
- PHP will likely enjoy short-term strength fuelled by government foreign loans but the continued fade in remittances could offset.

ING forecasts (mkt fwd)	**1M** 50.86 (49.87)	**3M** 50.77 (50.05)	**6M** 51.48 (50.31)	**12M** 52.01 (50.76)

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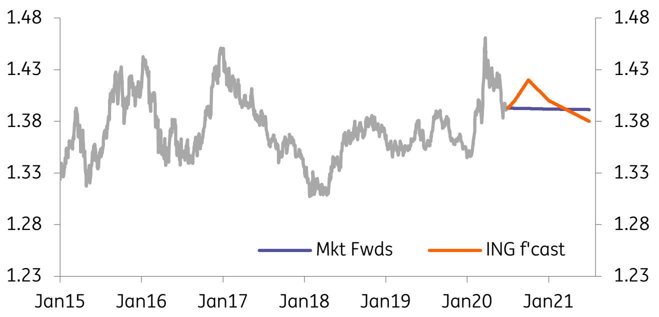
USD/SGD

Singapore goes to poll on 10 July

Current spot: 1.393



Source: Bloomberg, ING forecasts

- The USD/SGD moved to a new lower trading range of 1.38-1.40 in June. Barring any negative spurt on the Covid-19 front, we would look for this range to prevail in the short-term.
- The second phase of reopening from the Covid-19 circuit-breaker may have got the economy back on its feet. But its struggle to grow still has a long way to go. Meanwhile, the advance 2Q20 GDP data due in early July will shed light on the extent of the damage; we forecast a 9.2% YoY GDP contraction.
- Politics becomes a feature in the near term as general elections will be held on 10 July. Unlike most Asian countries, elections in Singapore are typically not disruptive for the markets.

ING forecasts (mkt fwd)	**1M** 1.400 (1.393)	**3M** 1.420 (1.392)	**6M** 1.400 (1.392)	**12M** 1.380 (1.391)

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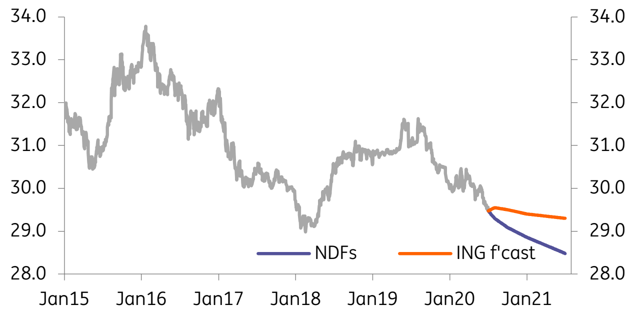
USD/TWD

Speedy strengthening

Current spot: 29.47



Source: Bloomberg, ING forecasts

- Capital continued to flow into the Taiwan stock market (TWSE) which rose around 5% in June alone. Taiwan semiconductor companies benefited from the US-China technology war and can tap both markets.
- However, the rest of the economy is failing to show any signs of recovery. The unemployment rate continued to edge up, industrial production grew more slowly, and retail sales kept shrinking on a yearly basis. Exports did not recover due to weak global demand, and were still in contraction year-on-year .
- TWD strength that builds only on semiconductor strength could be a volatile base for the currency.

ING forecasts (mkt fwd)	**1M** 29.55 (29.30)	**3M** 29.50 (29.08)	**6M** 29.40 (28.85)	**12M** 29.30 (28.48)

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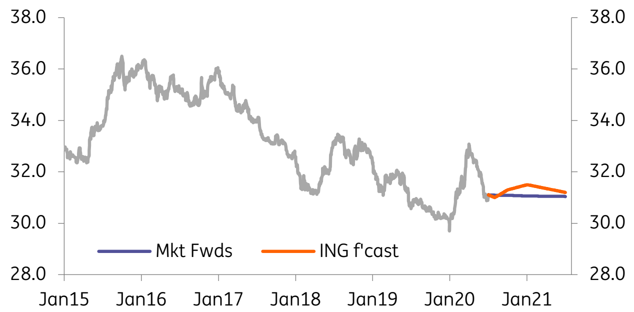
USD/THB

End of central bank easing cycle

Current spot: 31.11



Source: Bloomberg, ING forecasts

- The THB ended June with 3% appreciation against the USD, topping the EM universe. Nothing much has changed in terms of underlying economic fundamentals though.
- The current account returned to a small surplus of US$64m in May from a US$654m deficit in April even as net outflows on services trade continued to swell for the third straight month. Exports and tourism will remain key headwinds for the THB.
- The more than 20% YoY manufacturing fall in April-May supports our forecast of an 8.3% YoY GDP fall in 2Q. Inflation continues to grind lower, too, though this doesn't much help the central bank which has no more space for rate cuts.

ING forecasts (mkt fwd)	**1M** 31.00 (30.09)	**3M** 31.30 (30.09)	**6M** 31.50 (30.06)	**12M** 31.20 (30.04)

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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	1.12	1.13	1.18	1.20	1.15						
EUR/JPY	120.7	120.91	125.08	126.00	120.75	USD/JPY	107.45	107	106	105	105
EUR/GBP	0.90	0.92	0.92	0.90	0.88	GBP/USD	1.25	1.23	1.28	1.33	1.31
EUR/CHF	1.06	1.08	1.09	1.10	1.07	USD/CHF	0.95	0.96	0.92	0.92	0.93
EUR/NOK	10.68	10.50	10.20	10.00	10.10	USD/NOK	9.50	9.29	8.64	8.33	8.78
EUR/SEK	10.46	10.30	10.10	10.00	10.20	USD/SEK	9.31	9.12	8.56	8.33	8.87
EUR/DKK	7.451	7.455	7.455	7.455	7.460	USD/DKK	6.63	6.60	6.32	6.21	6.49
EUR/CAD	1.52	1.40	1.50	1.52	1.46	USD/CAD	1.357	1.35	1.33	1.30	1.27
EUR/AUD	1.62	1.69	1.71	1.69	1.55	AUD/USD	0.69	0.67	0.69	0.71	0.74
EUR/NZD	1.72	1.79	1.79	1.76	1.64	NZD/USD	0.65	0.63	0.66	0.68	0.70
EMEA											
EUR/PLN	4.46	4.51	4.45	4.40	4.43	USD/PLN	3.98	3.99	3.77	3.67	3.85
EUR/HUF	351.3	355.00	355.00	355.00	360.00	USD/HUF	312.8	314	301	296	313
EUR/CZK	26.59	26.50	26.2	25.9	25.70	USD/CZK	23.69	22.8	21.8	21.2	21.7
EUR/RON	4.84	4.85	4.85	4.87	4.90	USD/RON	4.31	4.29	4.11	4.06	4.26
EUR/HRK	7.56	7.57	7.57	7.55	7.52	USD/HRK	6.73	6.70	6.42	6.29	6.54
EUR/RSD	117.6	117.6	117.7	117.8	117.6	USD/RSD	104.7	104.1	99.7	98.2	102.3
EUR/RUB	79.28	80.2	86.1	86.4	84.0	USD/RUB	70.56	71.0	73.0	72.0	73.0
EUR/UAH	30.58	30.5	32.5	33.6	33.9	USD/UAH	27.22	27.00	27.50	28.00	29.50
EUR/KZT	456.7	463.3	492.1	492.0	471.5	USD/KZT	406.4	410	417	410	410
EUR/TRY	7.71	7.74	8.20	8.16	8.17	USD/TRY	6.86	6.85	6.95	6.80	7.10
EUR/ZAR	19.03	19.2	19.5	19.2	19.6	USD/ZAR	16.94	17.00	16.50	16.00	17.00
EUR/ILS	3.86	3.90	4.07	4.08	4.03	USD/ILS	3.43	3.45	3.45	3.40	3.50
LATAM											
EUR/BRL	6.03	5.48	5.43	5.40	5.29	USD/BRL	5.36	4.85	4.60	4.50	4.60
EUR/MXN	25.23	24.6	25.3	26.4	25.9	USD/MXN	22.45	21.80	21.40	22.00	22.50
EUR/CLP	901.33	864	879	900	886	USD/CLP	802.17	765	745	750	770
EUR/ARS	79.30	80.68	89.68	98.40	111.55	USD/ARS	70.58	71.40	76.00	82.00	97.00
EUR/COP	4096.00	4068	4130	4140	3910	USD/COP	3642.80	3600	3500	3450	3400
EUR/PEN	3.96	3.88	4.00	4.03	3.85	USD/PEN	3.52	3.43	3.39	3.36	3.35
Asia											
EUR/CNY	7.94	7.98	8.33	8.46	8.05	USD/CNY	7.07	7.07	7.06	7.05	7.00
EUR/HKD	8.71	8.76	9.15	9.31	8.92	USD/HKD	7.75	7.75	7.75	7.76	7.76
EUR/IDR	16311	16089	17168	17288	16819	USD/IDR	14523	14238	14549	14407	14625
EUR/INR	83.90	86.0	91.3	91.8	87.2	USD/INR	74.65	76.10	77.40	76.50	75.80
EUR/KRW	1349.13	1424	1463	1440	1334	USD/KRW	1198.65	1260	1240	1200	1160
EUR/MYR	4.82	4.86	5.19	5.22	4.98	USD/MYR	4.29	4.30	4.40	4.35	4.33
EUR/PHP	55.71	57.5	59.9	61.8	59.8	USD/PHP	49.57	50.86	50.77	51.48	52.01
EUR/SGD	1.57	1.58	1.68	1.68	1.59	USD/SGD	1.39	1.40	1.42	1.40	1.38
EUR/TWD	33.17	33.4	34.8	35.3	33.7	USD/TWD	29.53	29.6	29.5	29.4	29.3
EUR/THB	34.96	35.0	36.9	37.8	35.9	USD/THB	31.11	31.0	31.3	31.5	31.2

Source: Bloomberg, ING

Disclaimer