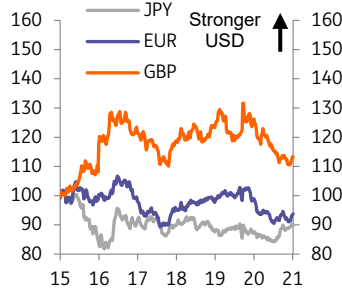


12 July 2021
 FX Strategy

FX Talking

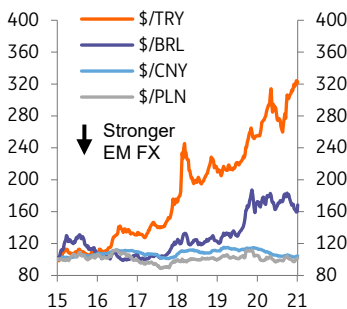
Time to revise the dollar forecasts

USD/Majors (5 Jul 15=100)



Source: Refinitiv, ING forecast

USD/EM (5 Jul 15=100)



Source: Refinitiv, ING forecast

Having been bearish on the dollar since April 2020, this month we feel compelled to outline a more positive medium-term scenario. At the heart of this is the likelihood that the Fed's exit sequence from ultra-loose monetary policy is more compressed than they would have us believe. ING now sees the [first hike in 3Q22](#).

The earlier-than-expected Fed tightening cycle suggests our prior end-2021 EUR/USD forecast of 1.28 was just too high. Yet November and December are seasonally weak months for the dollar and assuming that the Eurozone recovery goes to plan, EUR/USD should still rally to the 1.23 area. 2Q22 is when the dollar should be rallying more broadly – coinciding with some decisive bearish flattening in the US yield curve.

1.17-1.23 may well be the rough trading range for EUR/USD for the next six months – after all Fed tapering does not necessarily mean lift-off in the dollar. This consolidative environment can allow local stories to play out. Despite the recent (exaggerated in our minds) correction, commodity currencies should still do well. Norway may hike twice this year, and Canada and New Zealand may not be far behind. We could see all of these retesting their cycle highs against the dollar later this year.

And in the EM world, front-loaded tightening cycles in the likes of Brazil, Mexico, Russia and even in the CE3 FX space would favour out-performance of these currencies despite the recent correction. Most disappointing has been Asian FX, where pockets of Covid-19 are taking their toll. These, including the Renminbi, may struggle to recoup recent losses.

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.20	↑	111	↑	1.40	↑
3M	1.23	↑	111	↑	1.45	↑
6M	1.23	↑	112	↑	1.45	↑
12M	1.20	↑	115	↑	1.45	↑
	EUR/GBP		EUR/CZK		EUR/PLN	
1M	0.86	↑	25.50	↑	4.55	→
3M	0.85	→	25.30	↑	4.50	↓
6M	0.85	↓	25.30	↑	4.38	↓
12M	0.83	↓	25.20	↓	4.43	↓
	USD/CNY		USD/MXN		USD/BRL	
1M	6.50	↑	19.75	↓	5.10	↓
3M	6.52	↑	19.75	↓	5.25	↓
6M	6.44	↓	19.75	↓	5.50	↑
12M	6.28	↓	20.50	↓	6.00	↑

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

Source: Refinitiv, ING forecast

FX performance

	EUR/USD	USD/JPY	EUR/GBP	EUR/NOK	NZD/USD	USD/CAD
%MoM	-2.6	0.4	-0.3	2.1	-3.2	3.5
%YoY	4.9	2.5	-4.4	-3.0	6.2	-7.7
	USD/UAH	USD/KZT	USD/BRL	USD/MXN	USD/CNY	USD/TRY
%MoM	0.0	0.4	3.2	0.4	1.5	1.3
%YoY	0.9	4.5	-1.2	-11.7	-7.4	26.3

Source: Refinitiv, ING forecast

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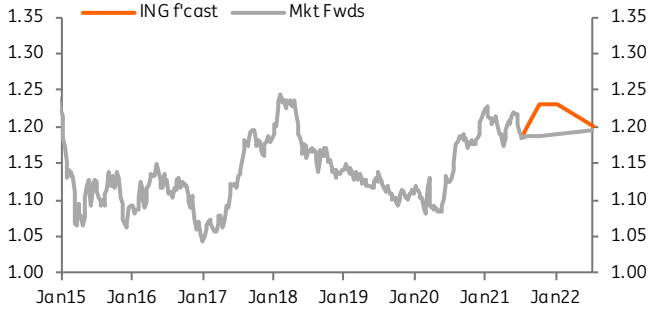
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Developed markets

EUR/USD

Time to revise the EUR/USD forecast



Source: Refinitiv, ING forecasts

Current spot: 1.1858

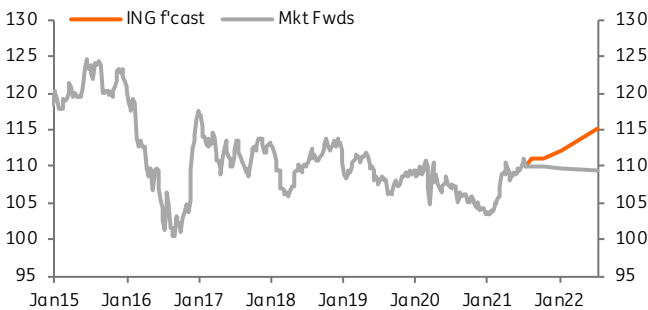
- This month we are revising our EUR/USD profile to adjust for a Fed seemingly ready to hike rates in late 2022. That is much earlier than the 2024 initially envisaged under its new inflation targeting framework. That window for our forecast EUR/USD move as high as 1.28 looks to be closed on a more hawkish Fed.
- Yet the big, broad turn higher in the dollar should really start in 2Q22 – six months before the Fed starts tightening. Before then, EUR/USD should be able to trace out a 1.17-1.23 range.
- We still think 1.23 is possible because of strong growth momentum into 2H21 and an ECB that may too have to re-consider its ultra-dovish settings when it meets in September.

ING forecasts (mkt fwd)	1M 1.20 (1.1865)	3M 1.23 (1.1880)	6M 1.23 (1.1907)	12M 1.20 (1.1952)
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Chris Turner

USD/JPY

Too hot, too cold – what’s going on with rates & FX?



Source: Refinitiv, ING forecasts

Current spot: 109.97

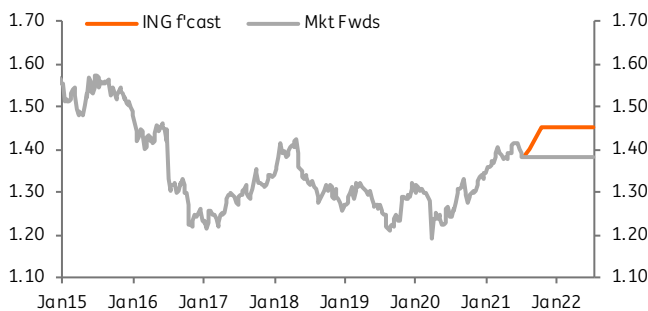
- Instead of settling into a low volatility of summer carry, investors seemed to have been spooked out of widely held positions. At time of writing, summer carry trades are being unwound, with EUR, CHF and JPY all in demand. The market is even starting to re-price the Fed cycle lower – withdrawing support for USD/JPY.
- Carry unwinds tend to be short, sharp affairs – thus this period of JPY strength may not last long. We are firmly in the global recovery – not recession camp and therefore expect US rates to start moving higher later this summer and send USD/JPY up too.
- A much broader spread of the Delta-variant (including in the US) is probably the biggest risk to a resumption of the recovery trade.

ING forecasts (mkt fwd)	1M 111.00 (109.94)	3M 111.00 (109.88)	6M 112.00 (109.73)	12M 115.00 (109.50)
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Chris Turner

GBP/USD

Is Downing Street far-sighted or playing with fire?



Source: Refinitiv, ING forecasts

Current spot: 1.3817

- In the UK the focus is very much on the full re-opening of the economy despite rising case numbers. Here the government thinks the link between getting Covid-19 and hospitalizations has been broken by the vaccines. UK activity data is actually softening a little now, but full-year growth is still seen near 6.5%.
- BoE Governor Bailey has poured cold water on early rate hike ideas. The first 10bp BoE hike is now priced for summer 2022 and the first full 25bp hike by March 2023. That may still be a little too soon.
- We think GBP can hold onto its gains but do note event risks in September when: i) unemployment could rise when furlough ends and ii) N. Ireland friction could resume with the EU.

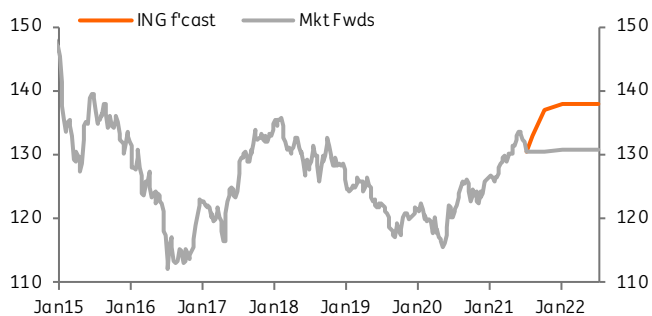
ING forecasts (mkt fwd)	1M 1.40 (1.3818)	3M 1.45 (1.3819)	6M 1.45 (1.3826)	12M 1.45 (1.3825)
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Chris Turner

EUR/JPY

The global recovery... they think it's all over...

Current spot: 130.40



Source: Refinitiv, ING forecasts

- EUR/JPY is typically correlated with the global economic cycle. The recent drop to 130 from 134 therefore begs the question whether the global recovery is over, and we are instead waiting for central banks to start turning dovish in response to slowdown fears? That seems very wide of the mark unless one has a conviction view that we are heading into a recession.
- We do not hold that view and instead see the recent EUR/JPY dip as a correction and retain a view of a move to 140 next year.
- A big part of this view rests on the Eurozone playing its part in the global recovery. We need to see hard data delivering on bullish survey data – and our macro team is confident of 4%+ EZ growth.

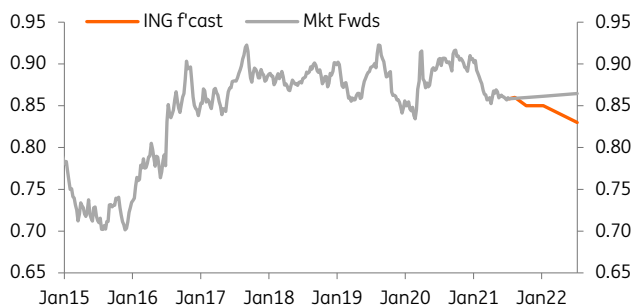
ING forecasts (mkt fwd)	1M 133.00 (130.45)	3M 137.00 (130.53)	6M 138.00 (130.65)	12M 138.00 (130.88)
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Chris Turner

EUR/GBP

Traded volatility levels drop below 2020 lows!

Current spot: 0.8584



Source: Refinitiv, ING forecasts

- Somewhat amazingly EUR/GBP traded volatility levels have fallen well below those seen in early 2020. So rather than GBP ploughing its own furrow post Brexit, it looks like GBP could be traded more like a Euro-centric currency pair such as EUR/CHF (where one-year trades at 5%, versus EUR/GBP now at 5.8%).
- In terms of event risks that are not central bank related, we can think of two related to politics. I) French presidential elections in April/May 2022 and II) Boris Johnson deciding to call an early general election to take advantage of current polling.
- We think fair value for EUR/GBP is closer to the 0.82 area and it should work its way there over the next 6 quarters.

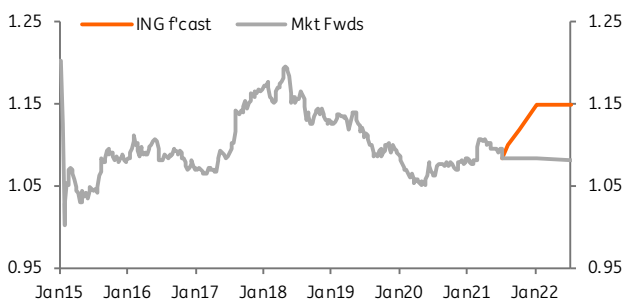
ING forecasts (mkt fwd)	1M 0.86 (0.8588)	3M 0.85 (0.8598)	6M 0.85 (0.8613)	12M 0.83 (0.8645)
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Chris Turner

EUR/CHF

Is EUR liquidity depressing EUR/CHF?

Current spot: 1.0849



Source: Refinitiv, ING forecasts

- Recently released data show that the Swiss National Bank only conducted CHF296m of FX intervention in 1Q21, compared to CHF8.9bn in 4Q20 and a peak of CHF51bn in 2Q20. Perhaps the low 1Q21 number was not a surprise given that EUR/CHF was naturally bid. Q: Will intervention have picked up in 2Q? A: Probably.
- EUR/CHF remains surprisingly heavy, which we attribute to the ECB printing an extra EUR100bn each month. Excess reserves parked at the ECB now stand at a staggering EUR4.3trn.
- We'd expect 1.0850 to now be the lower end of the trading range and probably elicit more SNB intervention. An ECB adjustment in PEPP in September could give EUR/CHF a lift.

ING forecasts (mkt fwd)	1M 1.10 (1.0847)	3M 1.12 (1.0842)	6M 1.15 (1.0837)	12M 1.15 (1.0824)
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Chris Turner

EUR/NOK

Emerging as an attractive buy-the-dip

Current spot: 10.33



Source: Refinitiv, ING forecasts

- The Krone has been the worst performing currency in G10 over the last month (-5% vs USD), being penalized by its high beta to risk appetite and lately embedding a risk premium linked to fears of a break-up in the OPEC+ deals that may cause oil prices to fall.
- As soon as market sentiment stabilises, NOK should, in our view, emerge as an attractive buy-the-dip opportunity. It can still count on the most hawkish central bank in G10, with two hikes in 2H21 (we expect them in September and December) set to attach to NOK the best carry among peers.
- In line with our commodities team's view that oil prices will remain broadly supported in 2H21, we think there is still scope for a break below 10.00 in EUR/NOK by year-end.

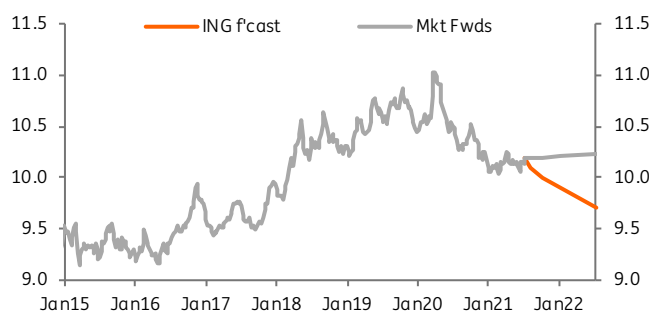
ING forecasts (mkt fwd)	1M 10.20 (10.34)	3M 10.00 (10.35)	6M 9.90 (10.38)	12M 9.75 (10.45)
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Francesco Pesole

EUR/SEK

Riksbank unlikely to fuel a SEK rebound

Current spot: 10.19



Source: Refinitiv, ING forecasts

- The Riksbank has not provided any signal that it will diverge from its firmly dovish stance at its June meeting. Despite acknowledging the economic outlook has improved, the inflation outlook remains muted and we do not expect any hawkish tilt in the coming meetings.
- This leaves SEK with a rather unattractive carry profile, which should make it a laggard among pro-cyclical currencies should risk appetite improve.
- Still, SEK can continue to benefit from the supportive recovery story in Europe and a medium-term undervaluation. We continue to see EUR/SEK trade below 10.00 by 4Q21.

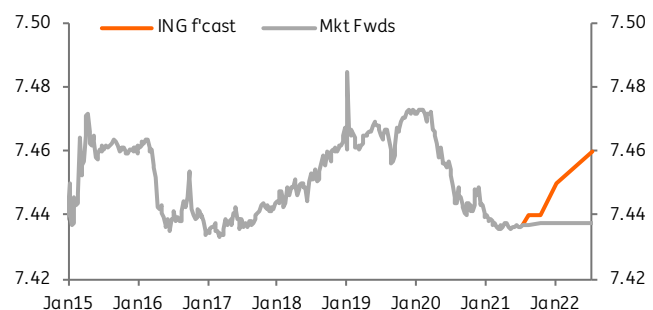
ING forecasts (mkt fwd)	1M 10.10 (10.19)	3M 10.00 (10.20)	6M 9.90 (10.21)	12M 9.70 (10.23)
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Francesco Pesole

EUR/DKK

FX interventions have slowed, but rate cut still on the table

Current spot: 7.437



Source: Refinitiv, ING forecasts

- The pace of FX interventions by the DN has slowed in June, with only DKK2.2bn worth of interventions (bringing to a total of 44.4bn since February) compared to May's DKK2.2bn.
- Part of the market is reading such smaller intervention as a sign that pressures on the currency are easing, and that the central bank will not eventually have to step in with a rate cut.
- We'll monitor the upcoming data on FX interventions to see whether this has indeed been the case. Lack of further evidence that the DN is consistently scaling back interventions should re-fuel expectations for an autumn rate cut: either way, we do not expect EUR/DKK to break below the 7.4350 floor.

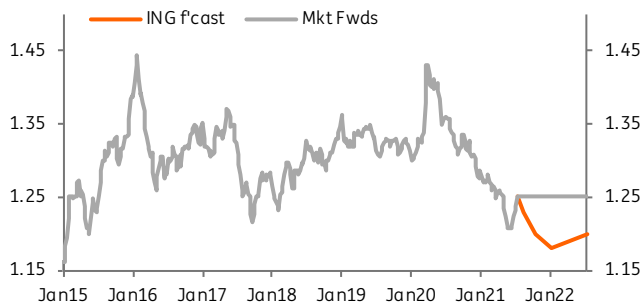
ING forecasts (mkt fwd)	1M 7.44 (7.437)	3M 7.44 (7.437)	6M 7.45 (7.437)	12M 7.46 (7.438)
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Francesco Pesole

USD/CAD

Higher risks, but constructive loonie profile persists

Current spot: 1.251



Source: Refinitiv, ING forecasts

- The loonie has been caught in the crossfire of unstable risk appetite and the impasse at the OPEC+, but is still counting on a solid set of fundamentals (as emerged from the latest jobs data).
- The worst of the data-flow affected by the spring flare-up in Covid-19 cases in Canada is likely past us, and the fast vaccination roll-out is offering hope for a summer of robust data.
- The Bank of Canada will, in our view, taper asset purchases again in 3Q, keeping the policy message firmly on the hawkish side. The main risks for the loonie are related to a slowdown in the US recovery or a sharp drop in oil prices. Neither of these are our base case, and we still expect sub-1.20 levels in USD/CAD in 4Q21.

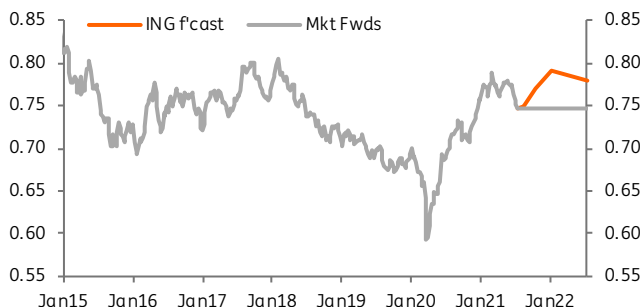
ING forecasts (mkt fwd)	1M 1.23 (1.251)	3M 1.20 (1.251)	6M 1.18 (1.251)	12M 1.20 (1.252)
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Francesco Pesole

AUD/USD

In search of more RBA hawkishness

Current spot: 0.747



Source: Refinitiv, ING forecasts

- The RBA has continued to buck the hawkish trend of peer central banks as a small tapering of asset purchases (from AU\$5bn to AU\$4bn per week) was accompanied by a reiteration of the 2024 forward guidance for the first hike at the July policy meeting.
- A shift in forward guidance to 2023 looks likely before the end of the year, but markets are already pricing it in, and the AUD will likely need more hawkishness from the RBA to see some benefits.
- Despite a less attractive rate profile than its pro-cyclical peers, AUD can still rely on a lingering net-short positioning and a wider room for a hawkish re-pricing. We think this could happen if good data keep coming the RBA's way, and the most likely profile for AUD/USD remains upward-sloping, in our view.

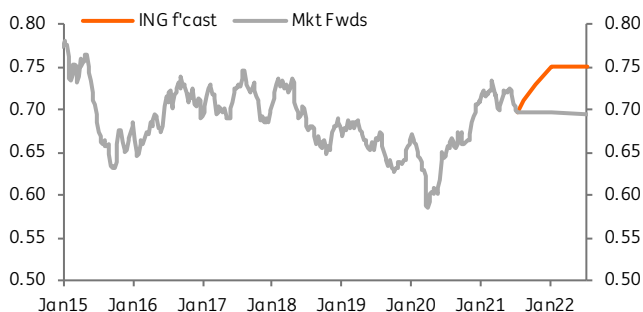
ING forecasts (mkt fwd)	1M 0.75 (0.747)	3M 0.77 (0.747)	6M 0.79 (0.747)	12M 0.78 (0.748)
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Francesco Pesole

NZD/USD

RBNZ doves are running out of arguments

Current spot: 0.698



Source: Refinitiv, ING forecasts

- Markets have likely turned a blind eye to domestic factors for many pro-cyclical currencies over the past few weeks, with global risk dynamics driving most losses. This was the case for NZD too.
- Markets are almost fully pricing in a rate hike by year-end from the RBNZ, which is now looking increasingly likely. 1Q GDP jumped to 2.4% YoY (exceeding expectations), inflation may have moved to the 2.5-3.0% region in 2Q, housing inflation has remained high, and a weaker NZD is surely welcome by the Bank.
- We think the chances of a late-2021 hike are 50/50, but surely the reasons to keep the stimulus going in other forms are lacking, so some material tapering should be on the way. This should keep the rate profile of NZD significantly more attractive than AUD and support a move to 0.75 in NZD/USD by year-end.

ING forecasts (mkt fwd)	1M 0.71 (0.697)	3M 0.73 (0.697)	6M 0.75 (0.697)	12M 0.75 (0.695)
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Francesco Pesole

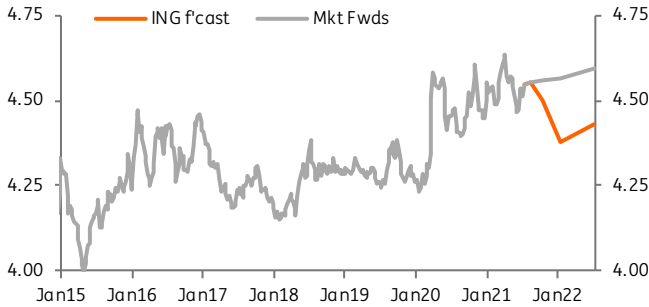


Emerging markets

EUR/PLN

Pandemic in focus for now, but fundamentals are strong.

Current spot: 4.55



Source: Refinitiv, ING forecasts

- We see fears of another worldwide Covid-19 wave as a key risk for PLN in the coming weeks. Not only is the general market sentiment a factor, but investors may also fade expected rate hikes domestically.
- Local fundamentals are solid though. We see strong growth ahead, driven by reopening and EU funds. In tandem with elevated CPI this should trigger the MPC to hike this year. The Polish economy should also be relatively resilient to global supply chain disruptions should the next Covid-19 wave hit emerging markets. Local industry is more diversified compared to the CEE space. Also, the vaccination rate is around the EU average.

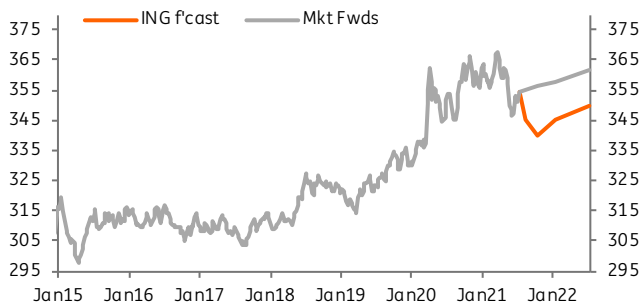
ING forecasts (mkt fwd)	1M 4.55 (4.55)	3M 4.50 (4.56)	6M 4.38 (4.57)	12M 4.43 (4.59)
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Rafal Benecki

EUR/HUF

Forint to gain from hawkish commitment of the NBH

Current spot: 354.72



Source: Refinitiv, ING forecasts

- By the next inflation report meeting (Sep) of the NBH, the base rate should be at 1.20% and there is more room to overdeliver. This meaningful shift and commitment to a hawkish bias should in turn benefit HUF, in our view.
- However, HUF couldn't keep the tightening cycle induced gains due to the renewed dollar rally in early July. Also, the market is nervous about the latest episode of the Brussels-Budapest saga and the new green lending and mortgage programmes.
- We see the NBH to walk the talk, delivering more meaningful hikes to calm the market, strengthening the forint. We expect forint to test the 345 level this summer. We are [short EUR/HUF](#).

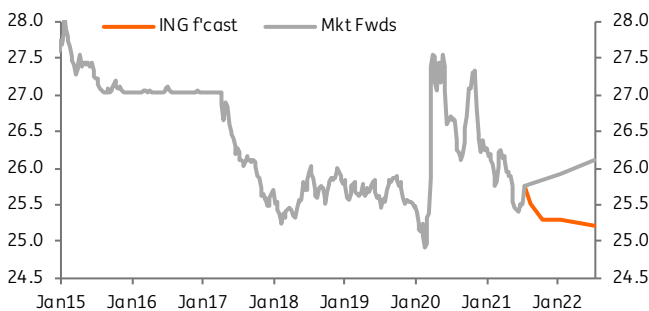
ING forecasts (mkt fwd)	1M 345.00 (355.14)	3M 340.00 (356.10)	6M 345.00 (357.53)	12M 350.00 (361.85)
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Péter Virovác

EUR/CZK

CNB delivers hawkish hike with more to come

Current spot: 25.77



Source: Refinitiv, ING forecasts

- As expected, the CNB kicked off its tightening cycle with a 25bp hike to 0.50% in late June. It was a 4 out of 7 majority vote, with Benda looking for 50bp, while Michl and Dedek favoured no change. The tone behind the hike was hawkish, with Governor Rusnok suggesting the CNB could hike at every remaining meeting (Aug, Sep, Nov and Dec) this year.
- We look for at least 3 more hikes, likely Aug, Sep and then Nov or Dec - tightening which is yet to be fully priced by money markets.
- A heavily back CZK has meant that EUR/CZK has struggled to break under the 25.35 area - but a front-loaded tightening cycle and a healthy current account surplus targets 25.30 for year-end.

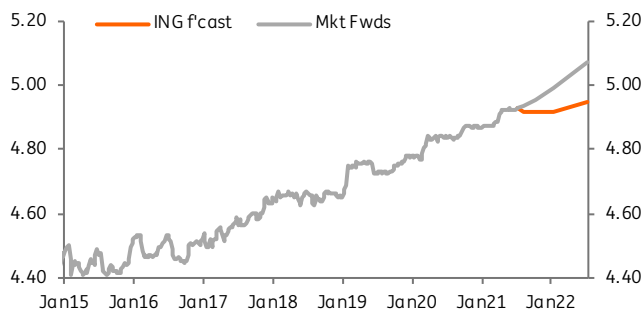
ING forecasts (mkt fwd)	1M 25.50 (25.79)	3M 25.30 (25.83)	6M 25.30 (25.91)	12M 25.20 (26.11)
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Chris Turner

EUR/RON

Higher carry will help FX stability

Current spot: 4.93



Source: Refinitiv, ING forecasts

- The EUR/RON has been testing to the upside again over the last month, but firm offers appear once the pair gets into the 4.9250-4.9300 range.
- After the 7 July NBR Board meeting, Governor Isarescu admitted that the recent deposit taking operations are part of a “more serious control of market liquidity” and that the front-end rates “shouldn’t move necessarily higher, but not lower either”.
- We believe that marginally higher carry rates can be expected in the following months as the NBR will rollover the deposit taking operations. We re-affirm our 4.92 year-end forecast.

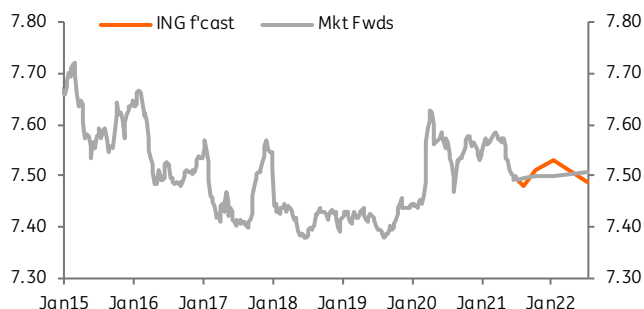
ING forecasts (mkt fwd)	1M 4.92 (4.94)	3M 4.92 (4.96)	6M 4.92 (4.99)	12M 4.95 (5.07)
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Valentin Tataru

EUR/HRK

Croatia National Bank to keep buying FX

Current spot: 7.49



Source: Refinitiv, ING forecasts

- As the EUR/HRK tested below 7.50 the Croatian National Bank stepped-in and purchased EUR120m in June in order to smooth kuna appreciation. This moved back the pair to 7.50 from 7.47 at the time of intervention.
- Given the “very sizeable” FX purchases expected by the central bank over the next two years, this intervention was likely not a one-off. While not imposing a strict floor, it seems that the central bank turns more vigilant once the pair is testing below 7.50 and is not comfortable with material departures from this level.
- We maintain our year-end EUR/HRK forecasts at 7.53.

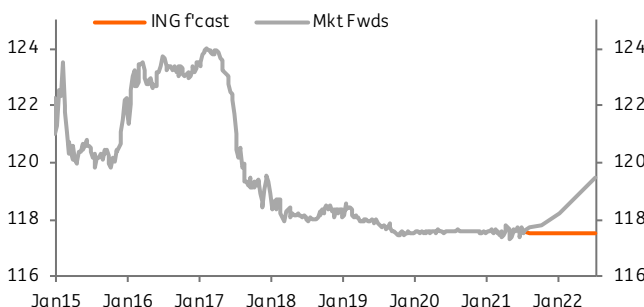
ING forecasts (mkt fwd)	1M 7.48 (7.50)	3M 7.51 (7.50)	6M 7.53 (7.50)	12M 7.49 (7.51)
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Valentin Tataru

EUR/RSD

NBS accommodating inflows

Current spot: 117.59



Source: Refinitiv, ING forecasts

- On 18 June the IMF approved a 30-month Policy Coordination Instrument aimed at supporting the reform agenda and economic recovery. The new PCI continues the 2018 PCI completed in January 2021.
- The new medium-term fiscal plan adopted in mid-June, aims at bringing the budget deficit to 1.0% in 2024, one year later than in the previous plan. The projections assume a 4.0% annual growth every year, which – in our view – could be seen as a touch conservative.
- The inclusion of SERBGBs in the JP Morgan index triggered strong inflows according to NBS. The Bank bought EUR150m in June in order to stop dinar appreciation.

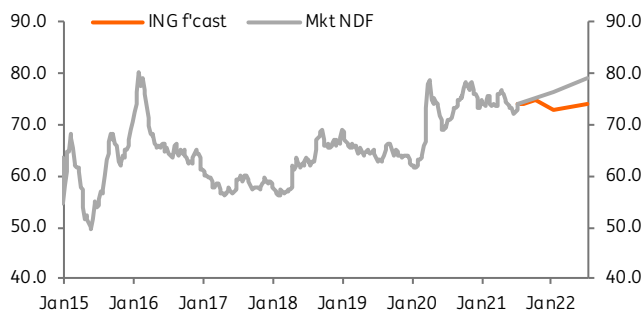
ING forecasts (mkt fwd)	1M 117.55 (117.69)	3M 117.55 (117.79)	6M 117.55 (118.22)	12M 117.50 (119.50)
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Valentin Tataru

USD/RUB

Seeing obstacles to RUB appreciation for 3Q21

Current spot: 74.25



Source: Refinitiv, ING forecasts

- In June, USDRUB performance was in line with our expectations, ending the month near 73, falling to 75 in the beginning of July. Higher oil prices and strong export volumes were offset by a stronger USD and the continuing dividend season amid a tepid recovery in portfolio inflows.
- We remain cautious on RUB, as the tightening in the monetary policy is a response to higher CPI expectations (ie, neutral in terms of real rate), while higher oil export revenues are neutralised by the fiscal rule. Foreign policy risks are high, and there is \$2bn dividend outflow to deal with in July-early August.
- For the longer run we remain constructive, but the global USD volatility and the [potential deterioration in Russia's non-oil balance of payments](#) are the key risk factors.

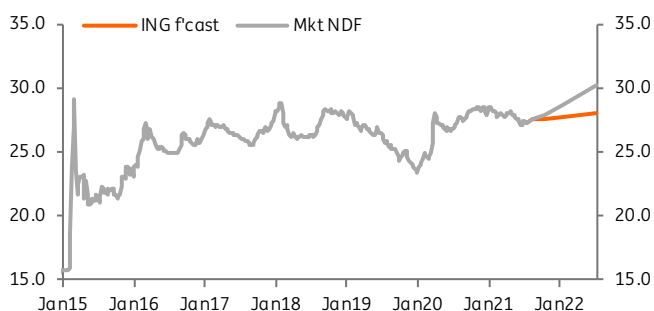
ING forecasts (mkt fwd)	1M 74.00 (74.60)	3M 75.00 (75.37)	6M 73.00 (76.60)	12M 74.00 (79.15)
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Dmitry Dolgin

USD/UAH

Short term gains, another Covid-19 wave a major risk

Current spot: 27.32



Source: Refinitiv, ING forecasts

- Hryvnia is to lose ground against US\$ due to rising expectations of an earlier normalisation of monetary policy by the Fed. Moreover, Ukraine the next Covid-19 wave in early autumn might have a potentially devastating course, due to low inoculation levels: only 2.3% of the population is fully vaccinated. Reinstatement of economic restrictions is likely, and UAH may lose as a result.
- In 2022 US\$/UAH is unlikely to move back towards 27.0. The Fed will be in a process of policy normalisation: QE tapering first and rate hikes at the end of the year. On the other hand, the NBU should start to ease policy as soon as 1Q22 given slowing inflation. US\$/UAH will move towards 28.5 in late 2022 as a result.

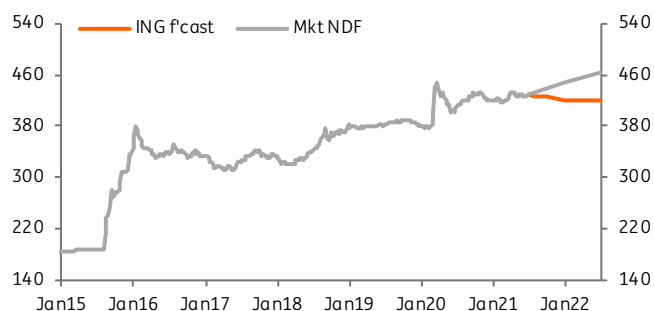
ING forecasts (mkt fwd)	1M 27.50 (27.52)	3M 27.50 (27.93)	6M 27.75 (28.58)	12M 28.00 (30.15)
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Piotr Poplawski

USD/KZT

Positive outlook challenged by stronger dollar

Current spot: 429.05



Source: Refinitiv, ING forecasts

- Weaker EM risk sentiment combined with June dividend payments of around \$1.6bn prevented tenge appreciation despite the stronger oil price environment. USDKZT has consolidated in the 425-430 range, slightly weaker than our forecast of 425.
- Depending on the outcome of the OPEC+ negotiations, the positive expectations for tenge could be reinforced by higher oil prices or further increase in Kazakhstan's OPEC+ quota by 6,000 bbl/d in July, lifting monthly oil production by 10% YoY. But for the longer-term a breakdown of the OPEC+ deal would be price negative.
- USDKZT still has some room for appreciation, but the low vaccination rollout, local FX demand and the upgrade in the global USD has narrowed the expected upside to the tenge.

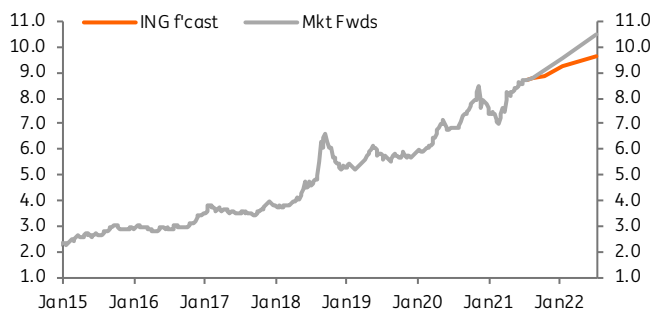
ING forecasts (mkt fwd)	1M 427.00 (432.52)	3M 425.00 (438.66)	6M 420.00 (448.21)	12M 420.00 (463.74)
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Dmitry Dolgin

USD/TRY

Current inflation risks reduce extent of likely policy easing

Current spot: 8.67



Source: Refinitiv, ING forecasts

- With an upside surprise in June inflation, the annual figure jumped to 17.5%, a two-year high, with broad-based pricing pressures driven by a weaker currency, higher commodity prices and easing pandemic control measures. While PPI inflation maintained a strong uptrend to 42.9% leading to further widening in the gap with the CPI to a record level, the recent increases in natural gas and electricity prices will have a significant impact on inflation.
- In the latest investor meeting in early July, CBT Governor Sahap Kavcioglu reiterated that the current stance would be maintained until there is a significant fall in inflation that is expected to be realized in late 3Q or early 4Q. However, the latest CPI surprise and administrative price hikes will likely make the CBT more cautious and reduce the extent of policy easing expected in 4Q.

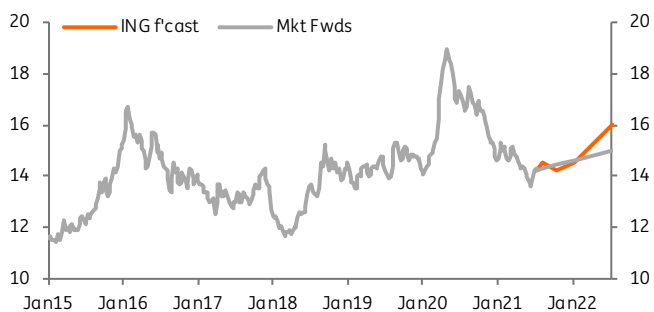
ING forecasts (mkt fwd)	1M 8.75 (8.81)	3M 8.90 (9.08)	6M 9.25 (9.53)	12M 9.65 (10.47)
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Muhammet Mercan

USD/ZAR

Covid-19 case numbers rising sharply

Current spot: 14.26



Source: Refinitiv, ING forecasts

- The ZAR is starting to show signs of weakness and portfolio flow data show that investors have been starting to leave local equity and debt markets since mid-June. No doubt the rise in case numbers and S. Africa's very low vaccination rates (just 6% of the population having received the first jab) are taking a toll.
- Yet commodity prices and South Africa's terms of trade are staying firm and could mean that the large trade and current account surplus endures more into 2H21. Our \$/ZAR profile favours some ZAR improvement into year-end, but a fragile 2022.
- Locally the focus is on former President Zuma's arrest for contempt of court, favouring anti-corruption trends.

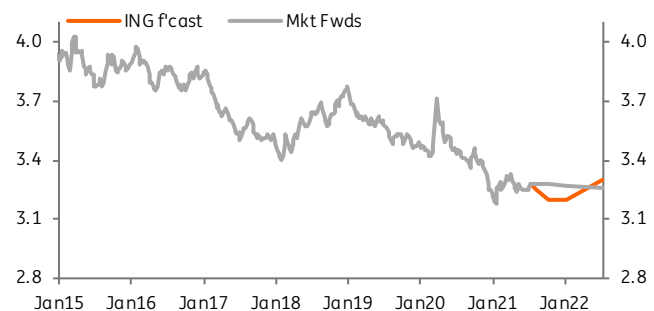
ING forecasts (mkt fwd)	1M 14.50 (14.32)	3M 14.25 (14.43)	6M 14.50 (14.61)	12M 16.00 (14.97)
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Chris Turner

USD/ILS

FX intervention- 'a special plan for a very special situation'

Current spot: 3.28



Source: Refinitiv, ING forecasts

- The ILS remains one of the better performing EM currencies and continues to be buoyed by the strong (but likely declining) current account position on the back of services exports. At its latest meeting, the Bol governor said that the \$30bn FX intervention plan announced in January had been 'a special plan for a very special situation'. Yet he emphasised that the Bol could do more intervention if needed, ie, \$30bn or end-21 is not a limit.
- Given that we're turning more bullish on the dollar in 2022, we're revising up the 12m \$/ILS forecast to 3.30 from 3.10.
- Politics rarely moves the ILS, but the new opposition government (eight parties aligning to defeat Netanyahu) does look shaky.

ING forecasts (mkt fwd)	1M 3.25 (3.28)	3M 3.20 (3.28)	6M 3.20 (3.27)	12M 3.30 (3.26)
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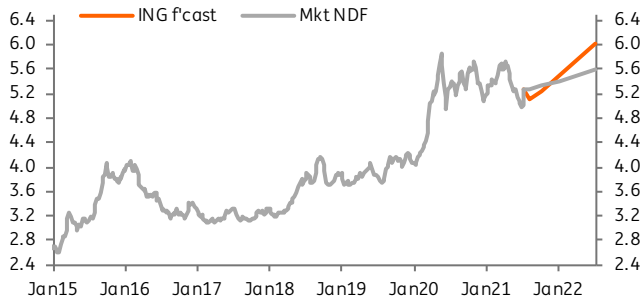
Chris Turner

LATAM

USD/BRL

BRL should continue to find demand this summer

Current spot: 5.26



Source: Refinitiv, ING forecasts

- USD/BRL has corrected sharply from a low at 4.89, yet we suspect investors will be looking to sell the rallies this summer. On the Covid-19 side, cases numbers look to have turned lower and Brazil's vaccination rates – 37% of population having received first dose – are not bad by international standards.
- Keeping BRL supported should also be a hawkish BACEN. Minutes to the 16 June meeting showed a BACEN thinking of shifting to 100bp from 75bp rate hikes – perhaps taking the Selic rate to 5.25% at the 4 August meeting.
- We expect commodity prices to hold gains this year, thus Brazil's record trade surplus position also provides BRL insulation.

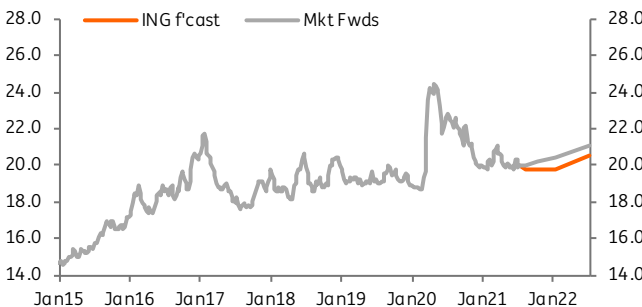
ING forecasts (NDF)	1M 5.10 (5.28)	3M 5.25 (5.32)	6M 5.50 (5.40)	12M 6.00 (5.58)
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Chris Turner

USD/MXN

MXN is one of our preferred outperformers

Current spot: 19.93



Source: Refinitiv, ING forecasts

- In a surprise move, in June Banxico hiked the policy rate 25bp to 4.25% - by a majority vote. At the heart of the move was an effort to maintain inflation fighting credentials given CPI running near 6% and not expected to return to Banxico's target until 3Q22. Banxico is concerned that inflation is becoming more persistent, with the drought adding to pandemic bottlenecks.
- 3m implied yields on the MXN are now 4.65% and expectations of another 100bp of tightening this year can probably hold up.
- We like the MXN because of its carry advantage, but also Mexico's exposure to strong US domestic demand – exposure which continues to generate \$4.5bn in remittances home each month.

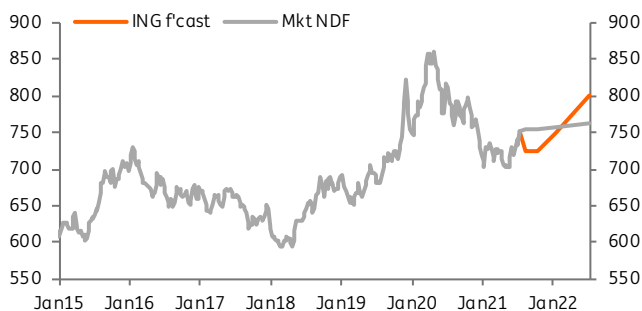
ING forecasts (mkt fwd)	1M 19.75 (20.01)	3M 19.75 (20.18)	6M 19.75 (20.43)	12M 20.50 (21.03)
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Chris Turner

USD/CLP

Headwinds to CLP are building

Current spot: 753.20



Source: Refinitiv, ING forecasts

- We had thought that \$/CLP would have a window to press the 700 level again later this year, but that window looks to be closing. Copper prices look likely to go into consolidation mode now that China is releasing strategic stockpiles and the broader dollar view is flatter for the next 6 months.
- And it looks like politics is taking its toll on the CLP too – as an aggressive tax on mining royalties goes through Congress and investors prepare for what could be wide-open Nov. elections.
- One supporting factor is the central bank preparing to hike given strong growth and inflation trends. Markets are pricing nearly a 50bp hike for 14 July. But \$/CLP may not get back under 725.

ING forecasts (NDF)	1M 725.0 (754.00)	3M 725.0 (755.12)	6M 750.0 (757.43)	12M 800.0 (763.00)
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Chris Turner



Asia

USD/CNY

Revising to a softer yuan in 3Q21

Current spot: 6.48



Source: Refinitiv, ING forecasts

- We have revised our USDCNY forecasts to 6.55 and 6.45 for the end of 3Q21 and 4Q21, respectively.
- The pair ranged between 6.46 and 6.48 since late June. But this is likely to change as we expect a softening of the yuan in 3Q21 that will stem from more hawkish talk by the Fed but a “balanced” tone by PBoC, which means no hike for this year.
- Market sentiment on the yuan could change from appreciation to depreciation against the dollar.
- On fundamentals, Covid has subsided after a localised outbreak in Guangdong that affected electronic factory output and port operations. But most are back to normal.

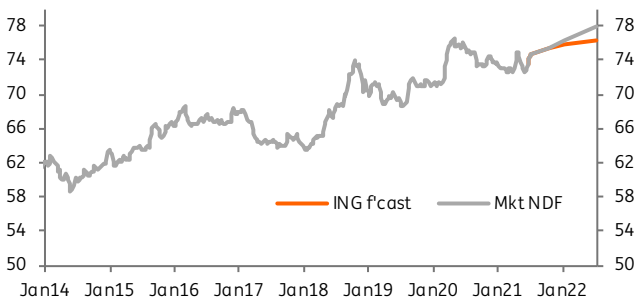
ING forecasts (mkt fwd)	1M 6.50 (6.50)	3M 6.52 (6.53)	6M 6.44 (6.57)	12M 6.28 (6.64)
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Iris Pang

USD/INR

Back to being an Asian underperformer

Current spot: 74.60



Source: Refinitiv, ING forecasts

- As expected, the INR’s surprising strength in May at the height of the Covid-19 second wave proved to be transitory. The currency lost 2.3% against the USD last month, erasing the appreciation in the previous month and more.
- While the exceptionally weak domestic economic fundamentals weighed on sentiment towards the INR, rising global oil prices reasserted themselves as the main negative for this currency.
- A spike in inflation in May above the central bank’s 6% policy limit was alarming for markets. But given that it’s mainly a supply-driven inflation surge, there is little the Reserve Bank of India can do about it.

ING forecasts (mkt fwd)	1M 74.90 (74.89)	3M 75.30 (75.42)	6M 75.80 (76.24)	12M 76.40 (78.00)
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Prakash Sakpal

USD/IDR

IDR retreats on renewed Covid surge

Current spot: 14527.50



Source: Refinitiv, ING forecasts

- The IDR tracked regional weakness in June, but additional depreciation pressure mounted by mid-month as Covid-19 infections spiked.
- Bank Indonesia (BI) kept policy rates unchanged at the 17 June with Governor Warjiyo highlighting the need to support the economy given the uptick in infections. Warjiyo maintains that the IDR is undervalued and should appreciate in-line with fundamentals.
- We expect the IDR to move sideways with BI likely supporting the currency given BI’s mandate to help maintain FX stability to deliver price and financial market stability.

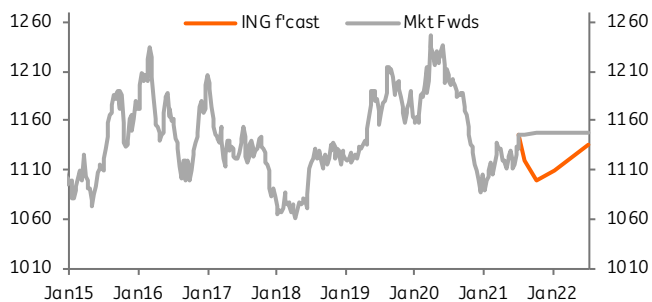
ING forecasts (mkt fwd)	1M 14638.00 (14561.50)	3M 14835.00 (14633.50)	6M 14987.00 (14743.00)	12M 15198.00 (15017.50)
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Nicholas Mapa

USD/KRW

Two-way risks ahead

Current spot: 1146.36



Source: Refinitiv, ING forecasts

- Like most of the Asian FX complex, the KRW has been slightly weaker over the last month, reflecting some broad-based USD strength, and some negative local Covid developments. Over the last month, the KRW has weakened by 2.21% vs the USD and sits closer to 1140 than to our prior end of 2Q forecast of 1120.
- We still see scope for some KRW appreciation near term, with our USD view still being for some further weakness as we near the year-end and the possibility also of a 4Q21 BoK rate hike.
- But thereafter, the backdrop could turn more USD positive again, and we anticipate the KRW heading higher, with our 12M forecast at 1135 and rising.

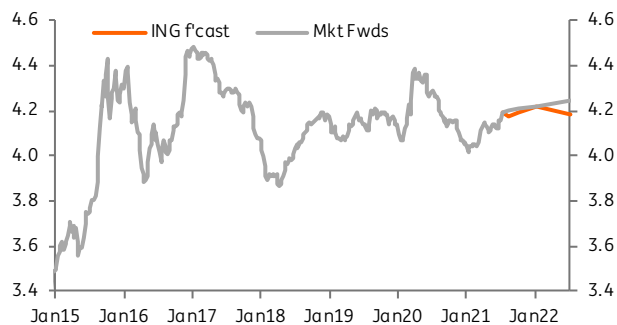
ING forecasts (NDFs)	1M 1120.00 (1146.66)	3M 1100.00 (1146.96)	6M 1110.00 (1147.36)	12M 1135.00 (1148.36)
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Rob Carnell

USD/MYR

Growth forecast downgrade

Current spot: 4.19



Source: Refinitiv, ING forecasts

- The MYR's 0.6% MoM depreciation in June was one of the least in the broader EM currency basket. Rising global oil prices explain the MYR's resilience, while the Malaysian economy continued to deteriorate due to the raging Covid-19 pandemic.
- After nearly two months of nationwide movement restrictions, the virus spread has shown no signs of subsiding. We have cut our forecast of GDP growth in 2Q21 from 13.9% YoY to 11.0% and for full-year 2021 from 5.3% to 4.4%.
- The government stepped up support measures in late June with a MYR 150 billion (10% of GDP) stimulus package, but inflation above 4% currently allows no scope for central bank easing.

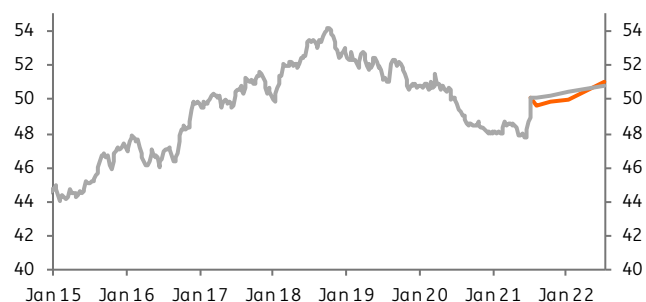
ING forecasts (mkt fwd)	1M 4.17 (4.20)	3M 4.19 (4.21)	6M 4.22 (4.22)	12M 4.18 (4.24)
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Prakash Sakpal

USD/PHP

PHP walloped in June due to inclusion in grey list

Current spot: 50.07



Source: Refinitiv, ING forecasts

- The PHP tracked the regional sell-off for most of June before underperforming as foreign investors exited after the Philippines was added to the Financial Action Task Force (FATF) grey list. Improved import demand also contributed to PHP's woes.
- Bangko Sentral ng Pilipinas (BSP) kept policy rates unchanged on 24 June as Governor Diokno vowed support for the economic recovery. Inflation slowed to 4.1%, taking some pressure off BSP to adjust policy in the near term.
- The PHP may enjoy a near term correction if the Bureau of the Treasury begins to offload proceeds from a recent Dollar issuance.

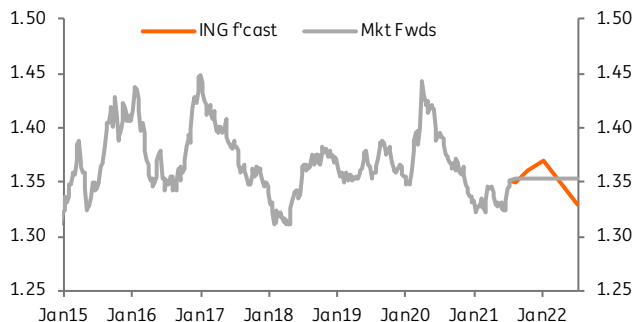
ING forecasts (mkt fwd)	1M 49.67 (50.14)	3M 49.82 (50.25)	6M 49.96 (50.43)	12M 51.05 (50.81)
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Nicholas Mapa

USD/SGD

Export-led recovery is on pause

Current spot: 1.352



Source: Refinitiv, ING forecasts

- Without much impetus of its own, the USD/SGD tracked the DXY higher in June. And, the S\$-NEER drifted closer to the mid-point of an estimated MAS policy band.
- The easing of Covid-19 restrictions from mid-June put some life back into the domestic economy, though both exports and manufacturing lost their vigour in 2Q. Restrictions will persist until two-thirds of the population is vaccinated, which is expected to occur by August.
- The announcement of S\$1.2 billion in additional support for SMEs in early July followed an S\$800 million package in mid-May. This should support the recovery for the rest of the year.

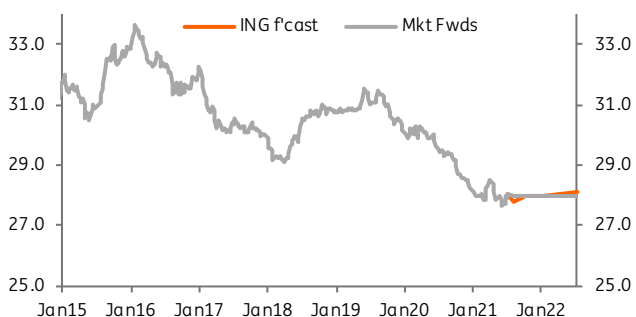
ING forecasts (mkt fwd)	1M 1.35 (1.352)	3M 1.36 (1.352)	6M 1.37 (1.353)	12M 1.33 (1.353)
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Prakash Sakpal

USD/TWD

Covid is still troubling Taiwan

Current spot: 28.02



Source: Refinitiv, ING forecasts

- Covid is still spreading in Taiwan although the number of cases per day has come down gradually.
- The unemployment rate in May rose to 4.11% from the previous rate of 3.64% following this latest Covid surge.
- This signals other economic data for May and June could also be weaker, and this dataflow could continue to weigh on the TWD against the USD
- There is better news on export orders, with electronics orders remaining strong compared to a year ago, which should support the semiconductor industry, the main pillar of Taiwan's economic engine.

ING forecasts (mkt fwd)	1M 27.80 (28.01)	3M 28.00 (28.01)	6M 28.00 (28.00)	12M 28.10 (27.95)
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Iris Pang

USD/THB

Staying at the bottom

Current spot: 32.53



Source: Refinitiv, ING forecasts

- The USD/THB remains at the bottom of the Asian performance charts. The pair traded above 32 in June, a level not seen for more than a year, and continues to head upwards as the worsening local Covid-19 situation postpones any tourism recovery.
- The authorities recently tightened Covid-19 measures in Bangkok and nearby provinces, but they also opened the Phuket island for vaccinated foreign tourists. Meanwhile, the domestic vaccination drive continues to be lacklustre.
- The Bank of Thailand left policy on hold at the last meeting on 23 June but cut the 2021 GDP growth outlook to 1.8% from 3.0%.

ING forecasts (mkt fwd)	1M 32.50 (32.58)	3M 32.60 (32.63)	6M 33.00 (32.68)	12M 32.50 (32.72)
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Prakash Sakpal

ING foreign exchange forecasts

EUR cross rates	Spot	1M	3M	6M	12M	USD cross rates	Spot	1M	3M	6M	12M
Developed FX											
EUR/USD	1.19	1.20	1.23	1.23	1.20						
EUR/JPY	130.4	133.20	136.53	137.76	138.00	USD/JPY	109.97	111	111	112	115
EUR/GBP	0.86	0.86	0.85	0.85	0.83	GBP/USD	1.38	1.40	1.45	1.45	1.45
EUR/CHF	1.08	1.10	1.12	1.15	1.15	USD/CHF	0.91	0.92	0.91	0.93	0.96
EUR/NOK	10.33	10.20	10.00	9.90	9.75	USD/NOK	8.72	8.50	8.13	8.05	8.13
EUR/SEK	10.19	10.10	10.00	9.90	9.70	USD/SEK	8.59	8.42	8.13	8.05	8.08
EUR/DKK	7.437	7.440	7.440	7.450	7.460	USD/DKK	6.27	6.20	6.05	6.06	6.22
EUR/CAD	1.48	1.48	1.48	1.45	1.44	USD/CAD	1.251	1.23	1.20	1.18	1.20
EUR/AUD	1.59	1.60	1.60	1.56	1.54	AUD/USD	0.75	0.75	0.77	0.79	0.78
EUR/NZD	1.70	1.69	1.68	1.64	1.60	NZD/USD	0.70	0.71	0.73	0.75	0.75
EMEA											
EUR/PLN	4.55	4.55	4.50	4.38	4.43	USD/PLN	3.84	3.79	3.66	3.56	3.69
EUR/HUF	354.7	345.00	340.00	345.00	350.00	USD/HUF	299.2	288	276	280	292
EUR/CZK	25.77	25.5	25.3	25.3	25.2	USD/CZK	21.73	21.3	20.6	20.6	21.0
EUR/RON	4.93	4.92	4.92	4.92	4.95	USD/RON	4.16	4.10	4.00	4.00	4.13
EUR/HRK	7.49	7.48	7.51	7.53	7.49	USD/HRK	6.32	6.23	6.11	6.12	6.24
EUR/RSD	117.6	117.6	117.6	117.6	117.5	USD/RSD	99.4	98.0	95.6	95.6	97.9
EUR/RUB	88.04	88.8	92.3	89.8	88.8	USD/RUB	74.25	74.0	75.0	73.0	74.0
EUR/UAH	32.39	33.0	33.8	34.1	33.6	USD/UAH	27.32	27.50	27.50	27.75	28.00
EUR/KZT	508.8	512.4	522.8	516.6	504.0	USD/KZT	429.0	427	425	420	420
EUR/TRY	10.26	10.50	10.95	11.38	11.58	USD/TRY	8.67	8.75	8.90	9.25	9.65
EUR/ZAR	16.91	17.4	17.5	17.8	19.2	USD/ZAR	14.26	14.50	14.25	14.50	16.00
EUR/ILS	3.89	3.90	3.94	3.94	3.96	USD/ILS	3.28	3.25	3.20	3.20	3.30
LATAM											
EUR/BRL	6.24	6.12	6.46	6.77	7.20	USD/BRL	5.26	5.10	5.25	5.50	6.00
EUR/MXN	23.63	23.7	24.3	24.3	24.6	USD/MXN	19.93	19.75	19.75	19.75	20.50
EUR/CLP	893.14	870	892	923	960	USD/CLP	753.20	725	725	750	800
Asia											
EUR/CNY	7.69	7.80	8.02	7.92	7.54	USD/CNY	6.48	6.50	6.52	6.44	6.28
EUR/HKD	9.21	9.31	9.54	9.54	9.31	USD/HKD	7.77	7.76	7.76	7.76	7.76
EUR/IDR	17227	17566	18247	18434	18238	USD/IDR	14528	14638	14835	14987	15198
EUR/INR	88.46	89.9	92.6	93.2	91.7	USD/INR	74.60	74.90	75.30	75.80	76.40
EUR/KRW	1359.30	1344	1353	1365	1362	USD/KRW	1146.36	1120	1100	1110	1135
EUR/MYR	4.97	5.00	5.15	5.19	5.02	USD/MYR	4.19	4.17	4.19	4.22	4.18
EUR/PHP	59.38	59.6	61.3	61.5	61.3	USD/PHP	50.07	49.67	49.82	49.96	51.05
EUR/SGD	1.60	1.62	1.67	1.69	1.60	USD/SGD	1.35	1.35	1.36	1.37	1.33
EUR/TWD	33.21	33.4	34.4	34.4	33.7	USD/TWD	28.02	27.8	28.0	28.0	28.1
EUR/THB	38.58	39.0	40.1	40.6	39.0	USD/THB	32.53	32.5	32.6	33.0	32.5

Source: Refinitiv, ING

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