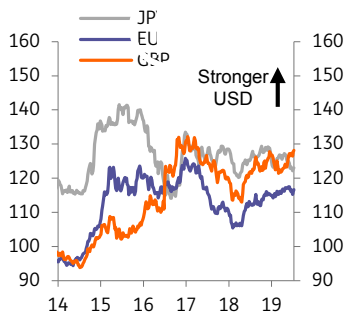


12 July 2019  
FX Strategy

# FX Talking

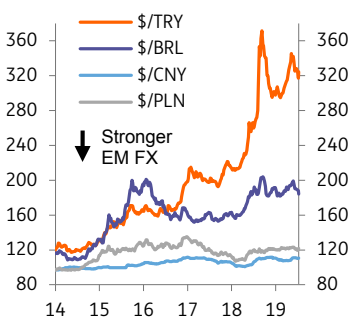
## Toe-to-toe in a currency war

USD/Majors (30 Jan 09=100)



Source: Macrobond, ING

USD/EM (30 Jan 09=100)



Source: Macrobond, ING

Now that the Fed has joined the dots between the trade war and the economy, expectations are that the dollar should also play its role in delivering easier monetary conditions. The problem is that the ECB is moving just as quickly, which may prevent USD/Europe from adjusting lower. The White House won't be happy.

Instead of the global investment story being one of diverging cycles and growth differentials, converging economic cycles could actually see the return of a currency war. It seemed an outrageous suggestion only a short time ago, but US frustration could even result in the President considering [FX intervention to weaken the dollar](#).

The need for a weaker dollar to play its role in the US reflation story is giving investors' confidence that the eight-year dollar bull-run may be over. At the least, dollar upside looks limited and we continue to believe USD/JPY will lead any dollar decline. This trend would be re-enforced were trade tensions to escalate or US fiscal fears to grow.

The EUR/USD outlook remains one of familiar ranges, where European challenges will keep the EUR subdued. GBP continues to face major headwinds – especially in the Sep/Oct period. Also expect EUR/CHF and EUR/DKK to come under pressure on ECB QE.

In the EM space, the Zloty looks set to be the outperformer in Europe, Asian FX should generally stay offered on trade/technology and the reform story looks good for BRL.

### ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.12	→	107	→	1.24	↓
3M	1.12	↓	105	↓	1.22	↓
6M	1.15	↑	103	↓	1.25	↓
12M	1.17	↑	100	↓	1.33	↑

	EUR/GBP		EUR/CZK		EUR/PLN	
1M	0.90	↑	25.70	↑	4.26	↓
3M	0.92	↑	25.80	↑	4.28	↓
6M	0.92	↑	25.90	↑	4.28	↓
12M	0.88	↓	26.30	↑	4.28	↓

	USD/CNY		USD/MXN		USD/BRL	
1M	6.90	↑	19.20	↑	3.60	↓
3M	6.95	↑	19.50	↑	3.60	↓
6M	6.90	↑	19.40	↓	3.70	↓
12M	6.85	↓	19.50	↓	3.70	↓

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

Source: Bloomberg, ING

### FX performance

	EUR/USD	USD/JPY	EUR/GBP	EUR/NOK	NZD/USD	USD/CAD
%MoM	-0.3	-0.1	0.9	-1.7	1.1	-2.3
%YoY	-4.0	-3.1	1.4	1.8	-2.0	-0.8

	USD/UAH	USD/KZT	USD/BRL	USD/ARS	USD/CNY	USD/TRY
%MoM	-3.0	0.0	-3.2	-6.4	-0.4	-0.7
%YoY	-1.3	11.8	-2.9	51.4	3.4	21.3

Source: Bloomberg, ING

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# Developed markets

## EUR/USD

US and Europe go toe-to-toe with easier policy

**Current spot: 1.12**



Source: Bloomberg, ING

- There are tentative signs that the eight-year dollar bull-run is coming to end. The Fed has decisively shifted to an easing bias and should cut rates 25bp on 31 July and follow up with another 25bp in September. We think it's too early for US market rates to rise on the view that the Fed has done enough. Instead, expect secular stagnation fears to dominate and the softer US rate profile to at least put a lid on the dollar, if not drag it lower.
- The ECB could cut the deposit rate 10bp on 25 July and lay the groundwork for fresh QE (targeting corporate debt) in September.
- US frustration with the low EUR/USD rate could blow up into Trump discussing the merits of [intervention to weaken the dollar](#).

<b>ING forecasts (mkt fwd)</b>	<b>1M</b> 1.12 (1.127)	<b>3M</b> 1.12 (1.132/1.12)	<b>6M</b> 1.15 (1.141)	<b>12M</b> 1.17 (1.155)
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## USD/JPY

BoJ's tough juggling act

**Current spot: 108.20**



Source: Bloomberg, ING

- The BoJ has a difficult job on its hands. On the one hand it is well aware that USD/JPY will lead any dollar decline should US activity slow further and the Fed be forced into a prolonged easing cycle. On the other hand, however, it is trying to steepen the JGB curve (by adjusting its buying operations) in order to support Japanese banking profitability. Based on our 10-year US Treasury yield forecasts, we suspect the UST spread to JGBs narrows inside of 200bp and USD/JPY falls further.
- Tariffs and sanctions seem to be escalating around the world, questioning how long the risk environment can stay benign.
- The Japan-Korea political rift will bear watching for impact on JPY.

<b>ING forecasts (mkt fwd)</b>	<b>1M</b> 107.00 (107.9)	<b>3M</b> 105.00 (107.5)	<b>6M</b> 103.00 (106.7)	<b>12M</b> 100.00 (105.4)
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## GBP/USD

Boris drives the GBP bus over a cliff

**Current spot: 1.25**



Source: Bloomberg, ING

- October is shaping up to be a very difficult month for UK politics. Our baseline (35-40% probability) sees Boris Johnson named leader of the Conservative party and PM (24 July). When parliament returns in September, futile attempts to renegotiate the Brexit deal with Brussels can see a 'No Deal' government base case emerge - prompting Labour (in October) to call a No-Confidence vote in the government. Early elections (December?) and another Article 50 extension beckon.
- GBP risk premia look only set to rise over coming months, while the BoE will wave a white flag on the need for any rate hikes.
- Only a softer dollar environment prevents worse levels for Cable.

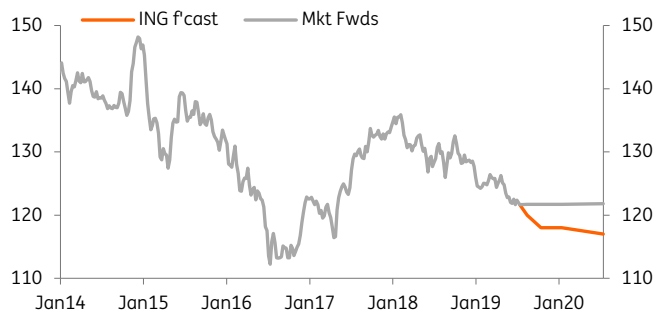
<b>ING forecasts (mkt fwd)</b>	<b>1M</b> 1.24 (1.26)	<b>3M</b> 1.22 (1.26)	<b>6M</b> 1.25 (1.26)	<b>12M</b> 1.33 (1.27)
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## EUR/JPY

ECB QE, auto tariffs, equity correction all favour downside

Current spot: 121.7



Source: Bloomberg, ING

- The Euro certainly faces many headwinds in 2H19. Most pressing is the threat of ECB rate cuts and more QE – which seem likely unless activity data surprise on the upside. Add to that the residual threat of US tariffs on the EU auto sector, more friction around the Italian budget (probably in September) and Brexit.
- We would add to that risk a possible re-pricing in equity markets as CFOs re-align their earnings forecasts with a more difficult global environment – that could well happen in August.
- It remains very cheap for Japanese investors to hedge their FX exposure to European bond markets, which should keep EUR/JPY pressured. We see no impact from Japan elections on 21 July.

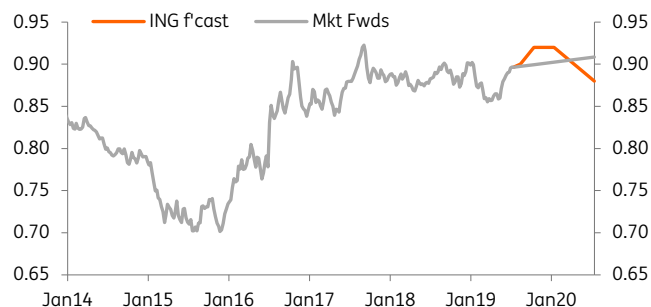
<b>ING forecasts (mkt fwd)</b>	<b>1M</b> 120.00 (122)	<b>3M</b> 118.00 (122)	<b>6M</b> 118.00 (122)	<b>12M</b> 117.00 (122)
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## EUR/GBP

There's scope to get more negative on GBP

Current spot: 0.90



Source: Bloomberg, ING

- EUR/GBP continues to press 0.90 and it's probably the threat of ECB QE that is providing a temporary cap. However, the UK political path looks clearly GBP negative and speculators still have room to increase their short GBP positions. Currently data from the futures market suggests speculators are roughly 30% away from their peak GBP short position.
- UK 2Q19 GDP data, released on 9 August, could well show a contraction – or be flat at best. If the Fed is worried about business investment, the BoE should be scared stiff.
- From pricing a BoE rate hike at the start of the year, money markets now price a cut. Perhaps even fresh QE might feature!

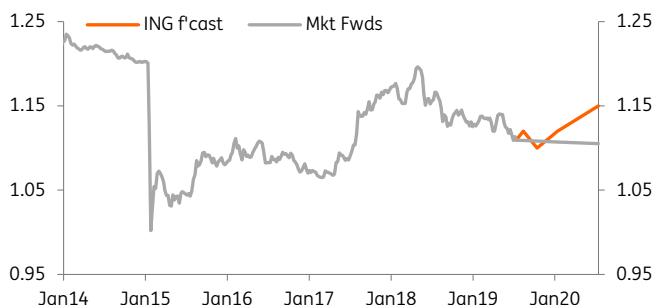
<b>ING forecasts (mkt fwd)</b>	<b>1M</b> 0.90 (0.90)	<b>3M</b> 0.92 (0.90)	<b>6M</b> 0.92 (0.90)	<b>12M</b> 0.88 (0.91)
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## EUR/CHF

Bracing for another round of ECB QE

Current spot: 1.11



Source: Bloomberg, ING

- EUR/CHF has taken little notice of Switzerland's deteriorating relations with the EU and instead remained under pressure. This is not a surprise given suggestions of fresh ECB easing, including QE. Recall that it was the impending threat of ECB QE that prompted the SNB to abandon the 1.20 floor in Jan 2015.
- In response, we suspect the SNB has been intervening again in late June with EUR/CHF briefly under 1.11. SNB can show no let up with its fight with disinflation – especially with manufacturing PMIs collapsing back to levels last seen in 2015.
- QE, Brexit and Italian politics all suggests EUR/CHF stays under pressure in 2H19. FX intervention may upset Washington too.

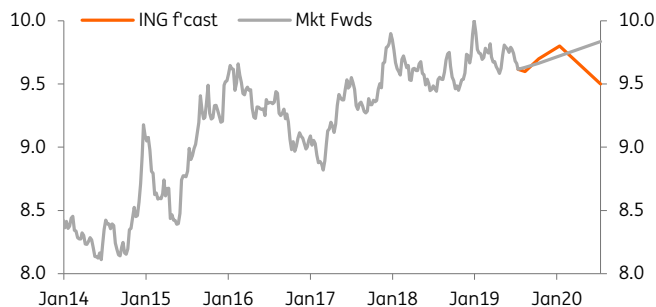
<b>ING forecasts (mkt fwd)</b>	<b>1M</b> 1.12 (1.11)	<b>3M</b> 1.10 (1.11)	<b>6M</b> 1.12 (1.11)	<b>12M</b> 1.15 (1.11)
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## EUR/NOK

Expect a (selectively) strong NOK

Current spot: 9.62



Source: Bloomberg, ING

- A sustained flow of investments in the oil production sector is expected to have a ripple effect on the Norwegian economy, ultimately prompting stronger wage growth, supporting inflation.
- The oil outlook continues to appear constructive after the OPEC+ agreed to extend output cuts and our commodities team is expecting Brent to climb back above US\$70/bbl in 4Q19.
- All seems to indicate that the Norges Bank will retain its hawkish stance. As broadly expected now, a rate hike should come in the next months (December, in our view). Well supported rates should partly offset the trade-related downside risk. All in all, NOK should appreciate against other risk-sensitive currencies (mostly SEK) whereas gains versus the Euro may stay broadly capped.

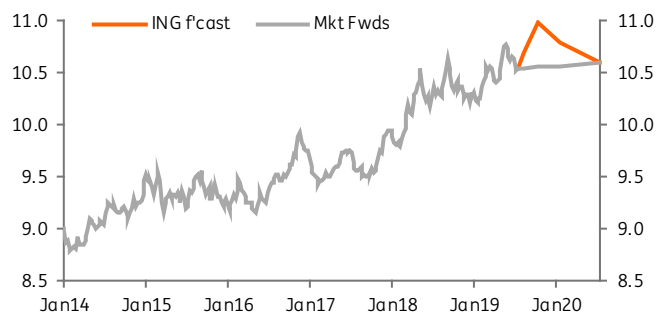
ING forecasts (mkt fwd)	1M 9.60 (9.63)	3M 9.70 (9.67)	6M 9.80 (9.72)	12M 9.50 (9.84)
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## EUR/SEK

SEK strength to revert soon

Current spot: 10.55



Source: Bloomberg, ING

- The combination of external factors that has lifted the value of SEK may soon leave the krona without a solid floor. The positives of a dovish Fed have mostly been absorbed by SEK and a possible re-escalation of trade tensions should have a magnified dampening effect on the krona given Sweden's openness.
- Warning signs of a weakening economy have mounted: PMI slowed, retail sales dropped and household spending contracted.
- We do not expect any Riksbank hike in the foreseeable future, given a below-target inflation and the increasingly dovish ECB. Low yields and a high beta to risk aversion should tamper further SEK upside and EUR/SEK may move back to the 10.90 level in 4Q.

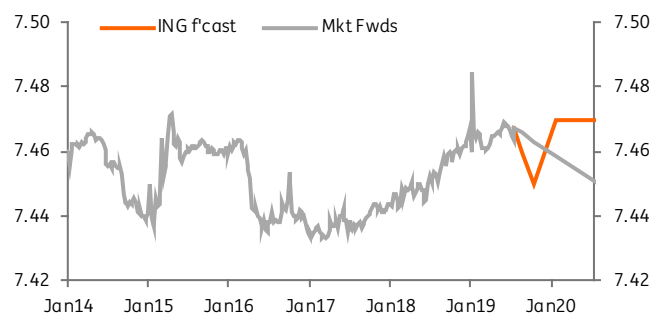
ING forecasts (mkt fwd)	1M 10.70 (10.56)	3M 11.00 (10.56)	6M 10.80 (10.57)	12M 10.60 (10.60)
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## EUR/DKK

DN to match, possibly exceed ECB cuts this year

Current spot: 7.467



Source: Bloomberg, ING

- EUR/DKK is trading slightly above central parity levels of 7.46038. With the ECB set to cut interest rates, possibly as early as 25 July, the DN should move as well. A 10bp move in DN's main rate (certificate of deposit rate) would bring it down to -0.75%.
- Additionally, the ECB have teased the re-starting of the QE, which could place downward pressure on EUR/DKK. However, recall that DN has previously widened the policy rate spread to 55bp during extreme buying of DKK, as in 2015 when the EUR/CHF floor was removed. Now the policy rate spread is 25bp, (unchanged since 2016) and suggests DN has room to widen that spread if need be.
- We expect EUR/DKK to move towards 7.4500 given the possibility of ECB front-loading easing measures this summer.

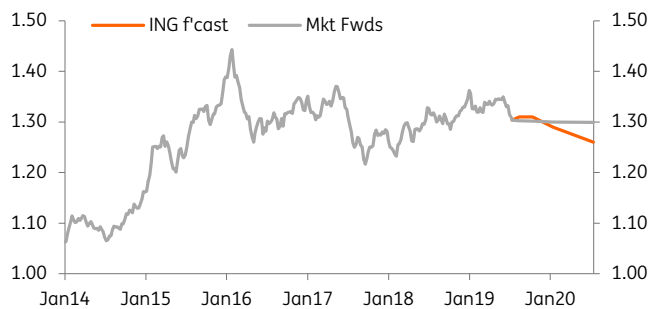
ING forecasts (mkt fwd)	1M 7.46 (7.466)	3M 7.45 (7.463)	6M 7.47 (7.459)	12M 7.47 (7.451)
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## USD/CAD

### Loonie to resume its rally in 4Q19

**Current spot: 1.304**



Source: Bloomberg, ING

- USD/CAD has been locked in a downward spiral lately as easing expectations for the Fed and the BoC followed opposite paths. In the past month, markets have nearly halved the implied probability (from 65% to 34%) of a rate cut in Canada by 4Q19.
- We suspect CAD may have run out of internal pushes for now and attention is likely to shift to external factors. Oil prices still need to parade the benefits of OPEC+ cuts and another upsurge in the US-China trade conflict would weight on risk-sensitive CAD.
- However, we see USD/CAD upsides broadly limited to 1.31, as a possible trade war escalation may coincide with the ratification of the USMCA. In 4Q19, we expect crude prices to surge, trade tensions to abate, and remaining BoC cut expectations to definitively fade, thereby pushing USD/CAD back to 1.28/30.

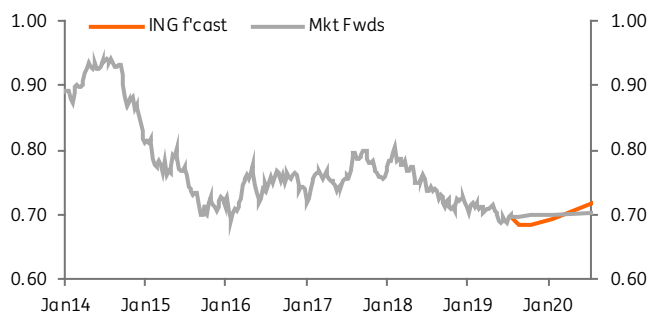
<b>ING forecasts (mkt fwd)</b>	<b>1M</b> 1.31 (1.30)	<b>3M</b> 1.31 (1.30)	<b>6M</b> 1.29 (1.30)	<b>12M</b> 1.26 (1.30)
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## AUD/USD

### External drivers look gloomy

**Current spot: 0.700**



Source: Bloomberg, ING

- The RBA has both cut rates, and simultaneously reduced expectations for more easing, enabling the AUD to rally. Any further easing (-18bp priced in by end-2019) will be driven by labour data, but we do not see persistence of any gap with full employment being sufficient to take rates to their lower bound.
- The commodity outlook may start to prove less supportive. Recently strong iron ore prices are set to face some headwinds after speculation that China may manipulate the price.
- We expect a re-escalation of US-China trade tensions to weigh on AUD in the coming months, although the downside may be limited (0.685 level) given already short AUD market positioning.

<b>ING forecasts (NDFs)</b>	<b>1M</b> 0.685 (0.698)	<b>3M</b> 0.685 (0.700)	<b>6M</b> 0.695 (0.701)	<b>12M</b> 0.720 (0.703)
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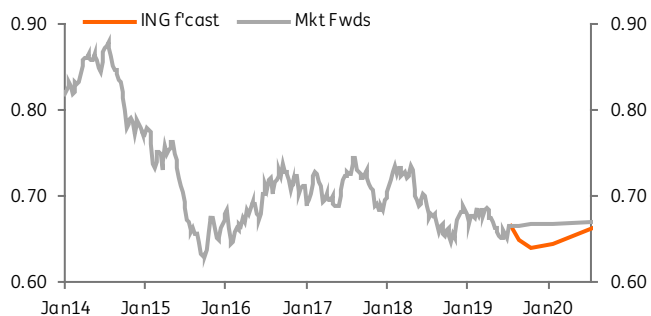
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## NZD/USD

### Signs of slowing Chinese demand

**Current spot: 0.668**



Source: Bloomberg, ING

- The RBNZ has been more cautious with policy rates since they first cut in May. Unlike with AUD rates, NZD implied yields have remained depressed. Markets are pricing one cut in the next 3 months, with another one to follow in the 1H2020.
- The economic newsflow endorses the notion that the economy is still losing momentum, which hints that AUD should continue to outperform NZD ahead. We see AUD/NZD at 1.070 in 3 months.
- New Zealand commodity prices fell for the first time in 2019. Chinese demand for NZ forestry suddenly dried up, which may be seen as a red flag of a broader slowdown in NZ exports to China. This may keep NZD/USD around 0.64-0.65 till the end of this year

<b>ING forecasts (mkt fwd)</b>	<b>1M</b> 0.650 (0.668)	<b>3M</b> 0.640 (0.668)	<b>6M</b> 0.645 (0.669)	<b>12M</b> 0.665 (0.670)
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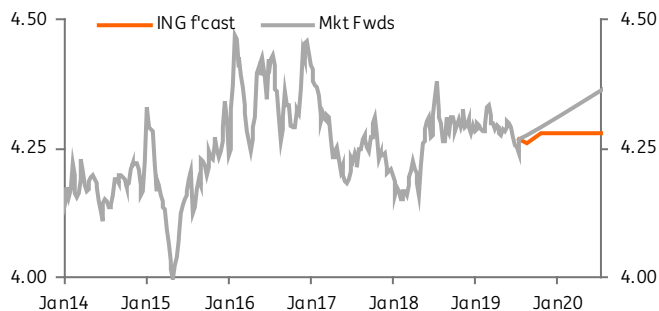
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# Emerging markets

## EUR/PLN

Lowering our EUR/PLN forecasts

Current spot: 4.27



Source: Bloomberg, ING

- The rising core inflation and strong activity are sustainable given the generous fiscal stimulus pledged before Oct-19 elections. Thus, the Polish central bank should remain in neutral mood as opposed to the Fed, ECB and CEE central banks. PLN outperformed €/US\$ last month and should stay resilient in coming months.
- We have lowered our €/PLN forecast for 2019-20 as the Polish economy and MPC should remain countercyclical versus external environment. Also, unlike other CEEs, Poland is highly resilient to trade wars (eg, given low exposure to the US). Hence PLN should outperform other CEE counterparts in times of market stress.
- PLN should also hold relatively low volatility despite elections, as fiscal side is safe also in 2020. Short-term risk is a less dovish Fed.

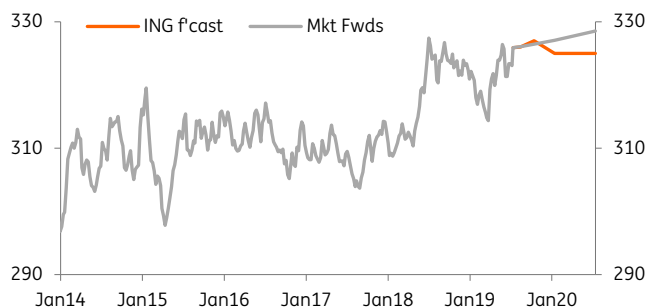
ING forecasts (mkt fwd)	1M 4.26 (4.28)	3M 4.28 (4.29)	6M 4.28 (4.32)	12M 4.28 (4.37)
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## EUR/HUF

Forint is under pressure on global risks, NBH's stance

Current spot: 325.9



Source: Bloomberg, ING

- EUR/HUF is strengthening since early-June after it touched the 320 level. The majority of the move is due to intensified global risks, but the NBH maintaining its dovish stance after the June rate setting meeting has also pushed EUR/HUF higher.
- As major central banks are moving into a direction which sees monetary stimulus as the next move, the chance for the NBH to do the same is rising, albeit still slim. On the other hand, the recent drop in CPI decreases the chance for a hawkish step either.
- External factors along with the slowly but surely elevating chance that the next move by the NBH will be rather a dovish one are expected to push EUR/HUF higher in the short term.

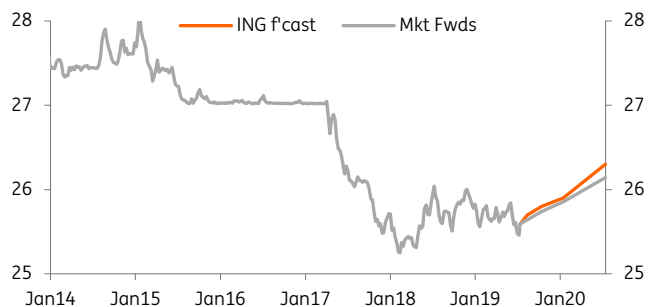
ING forecasts (mkt fwd)	1M 326.00 (326.1)	3M 327.00 (326.5)	6M 325.00 (327.1)	12M 325.00 (328.5)
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## EUR/CZK

CZK stronger due to expected Fed cuts, weaker CZK in 2H

Current spot: 25.59



Source: Bloomberg, ING

- Inflation decelerated to 2.7% in June as expected and is about to further slowdown slightly due to base effects, approaching 2% target in the monetary policy horizon in mid-2020. As such, despite higher CPI now, the CNB should refrain from tightening and remain on hold, mainly due to current global uncertainty.
- CZK remains supported by dovish re-pricing of the Fed, but we remain negative on CZK as we believe economic performance will worsen in the 2H19, particularly if the US imposes tariffs on Eurozone car exports, which is our base case.
- Saturated positioning in CZK together with a more challenging global environment should be catalyst for CZK weakening.

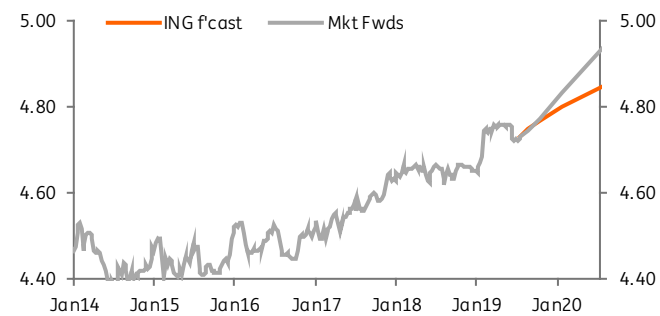
ING forecasts (mkt fwd)	1M 25.70 (25.64)	3M 25.80 (25.74)	6M 25.90 (25.85)	12M 26.30 (26.14)
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## EUR/RON

The leu (lion in English) trapped in 4.72-4.77 cage

Current spot: 4.73



Source: Bloomberg, ING

- Heavy inflows into relatively high yielding ROMGBs led to RON strengthening after the European elections and the referendum backing an anti-corruption path eased concerns about deteriorating institutional strength.
- 4.7200 proved a very strong support in EUR/RON with the NBR likely on the bid side. The NBR governor recently emphasised that the central bank discourages RON appreciation given the ongoing deterioration in the external balance.
- Between January and May, the NBR intervened quite a few times in heavy amounts ahead of 4.7700 to fend-off RON weakness. Hence, we see the 4.72-4.77 range holding on at least until the presidential elections scheduled for November.

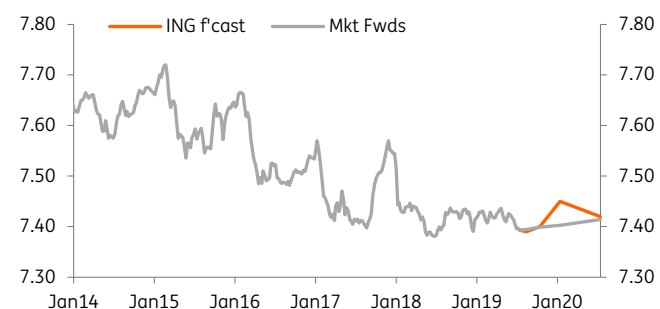
ING forecasts (mkt fwd)	1M 4.75 (4.75)	3M 4.77 (4.77)	6M 4.80 (4.84)	12M 4.85 (4.94)
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## EUR/HRK

Market tests CNB limits pushing EUR/HRK below 7.40

Current spot: 7.39



Source: Bloomberg, ING

- Summer tourist inflows are bringing hard currency with them, pushing EUR/HRK below 7.40. It is hard to imagine that the central bank would allow HRK firming much further from here. Hence, we could see CNB buying EUR as the summer season is nearing its peak. Euro-area finance chiefs and the ECB endorsed Croatia's plans to join the euro after the country sent a letter of intent to join the ERM-II. This comes after German Chancellor Angela Merkel considered Croatia euro adoption "very realistic".
- PM Andrej Plenkovic received party backing for government reshuffling, likely in an attempt to improve HDZ ratings after a disappointing result in the European Parliament elections.

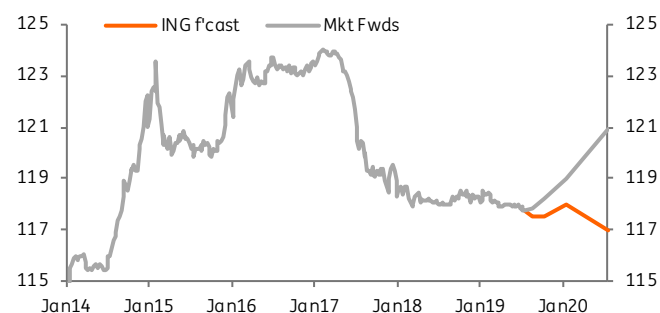
ING forecasts (mkt fwd)	1M 7.39 (7.39)	3M 7.40 (7.40)	6M 7.45 (7.40)	12M 7.42 (7.41)
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## EUR/RSD

RSD in heavy demand on bond inflows

Current spot: 117.8



Source: Bloomberg, ING

- Reports on looming inclusion of SERBGBs in major local currency bond indexes brought heavy demand for RSD government bonds. Bond inflows prompted almost daily FX interventions by NBS to curb dinar gains. Some of the interventions were in unusually high volumes for the RSD market. Given the benign inflation outlook and currency overvaluation worries, we see NBS cutting rates twice, bringing the key rate level to 2.50% by the year-end.
- We find it a bit awkward seeing SERBGB yields trading inside better rated ROMGBs, despite diverging economic fundamentals. Hence, we could see a buy the rumour sell the fact story, once SERBGBs are included in the JPMorgan index.

ING forecasts (mkt fwd)	1M 117.50 (117.8)	3M 117.50 (118.3)	6M 118.00 (119.0)	12M 117.00 (120.9)
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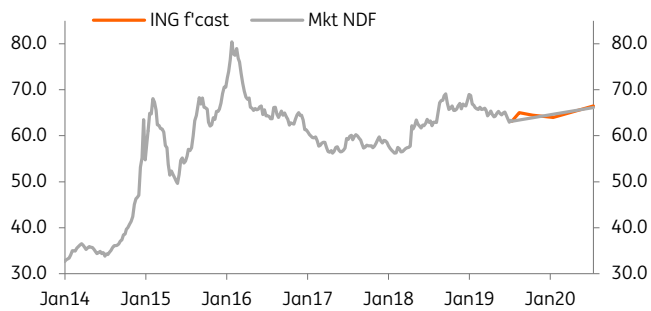
Ciprian Dascalu, Bucharest +40 31 406 89 90



## USD/RUB

Outlook improved, but still no appreciation in sight

Current spot: 63.14



Source: Bloomberg, ING

- We have lowered our 2H19 USDRUB outlook from 65-67 to 63-65, accounting for the global Fed-related re-pricing that happened in the second half of June.
- In the mid-term, domestic factors will play a bigger role, which do not favour strong appreciation, as 2Q19 current account of US\$12bn is much lower than expected on non-oil factors and was offset by US\$16bn of FX interventions and US\$3bn of net private capital outflow.
- The only support factor for RUB is global portfolio inflows into OFZs, that seem to have slowed from US\$3.0-3.5bn in April-May to just US\$1bn in June, despite the risk-on environment.

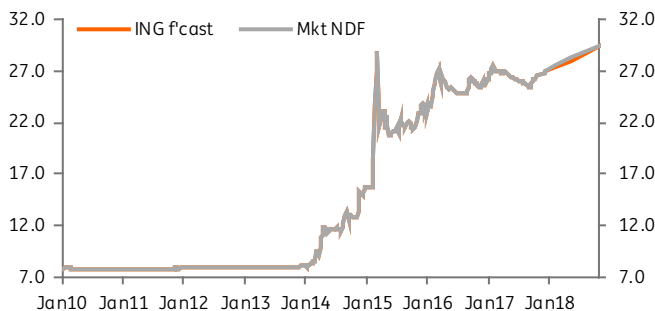
ING forecasts (mkt fwd)	1M 65.00 (63.41)	3M 64.50 (63.92)	6M 64.00 (64.68)	12M 66.50 (66.15)
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Dmitry Dolgin, Russia +7 495 771 7994

## USD/UAH

Good run on lower political uncertainty, now IMF in focus

Current spot: 25.90



Source: Bloomberg, ING

- UAH had a strong run in July ahead of snap parliamentary elections due 21 July, as chances are growing that the president's party will be able to form a functioning government.
- Following the elections the negotiations with IMF will restart. In order to secure the much needed extension of external support (another tranche of the US\$3.9bn programme), the country needs to conduct hikes in the local gas tariffs, to which the president seems to be opposed.
- During the 25 July monetary policy meeting the NBU will have to consider CPI of 9.0% YoY exceeding the 6.5+/-2ppt target range when deciding on the key rate, currently at 17.50%.

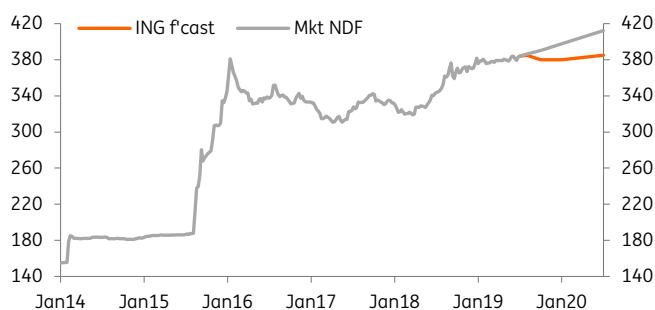
ING forecasts (mkt fwd)	1M 26.00 (26.10)	3M 27.00 (26.75)	6M 27.50 (27.68)	12M 29.00 (29.53)
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## USD/KZT

Favourable external factors outweighed by local woes

Current spot: 384.1



Source: Bloomberg, ING

- Unlike RUB, KZT is failing to benefit from global risk-on and favourable oil price trend, as after briefly touching our long-term target of 380 in June it bounced back towards 385.
- Further performance will depend largely on whether the local central bank will be able to separate its monetary and FX policy from other functions including the need to support the local banking system.
- Rising local price pressure, reflected in acceleration of the CPI growth to 5.4% YoY in June, sets a case against a cut in the key rate by NBK at the upcoming 15 July meeting.

ING forecasts (mkt fwd)	1M 385.00 (386.2)	3M 380.00 (390.2)	6M 380.00 (397.7)	12M 385.00 (412.3)
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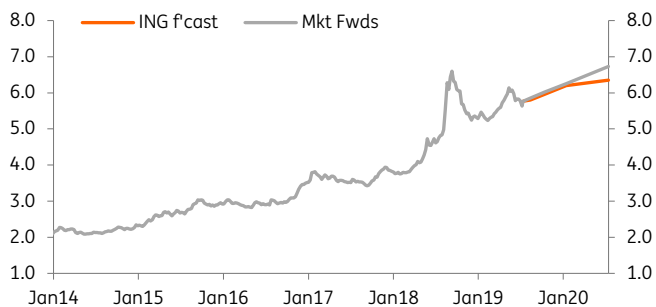
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## USD/TRY

### New Governor's messages to be in focus

**Current spot: 5.77**



- Inflation data hint at improving price pressures with a downside surprise in recent months, reflecting the weakness in domestic demand and the CBT's tight policy, despite the volatile course of the exchange rate and still high services inflation.
- Not only the better-than-expected inflation outlook, but more accommodative policy signals from global CBs and declining geopolitical risks may encourage the CBT to start its easing cycle earlier. Markets are already pricing larger easing for this year.
- Following a significant weakening, TRY has been recovering recently, also with the support of geopolitical news though change in the CBT management has dragged the performance. This shows continuing vulnerability in the TRY outlook.

Source: Bloomberg, ING

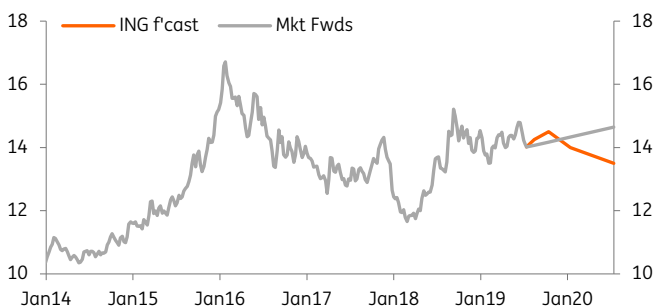
<b>ING forecasts (mkt fwd)</b>	<b>1M</b> 5.80 (5.86)	<b>3M</b> 5.96 (6.02)	<b>6M</b> 6.20 (6.25)	<b>12M</b> 6.35 (6.73)
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**Muhammet Mercan, Istanbul +90 212 329 0751**

## USD/ZAR

### Making hay while the sun shines

**Current spot: 14.01**



- As a high beta EM currency with real yield in excess of 2%, the ZAR is enjoying summer 2019. Stability in USD/CNY amidst stalemate in the trade war is helping and most importantly the Fed is prepared to cut. The market now expects a 25bp cut to 6.50% at the SARB meeting on 18 July, which should allow SAGB yields to continue to fall. Unless something goes wrong, USD/ZAR could drift to 13.55, with outside risk to 13.25.
- But our baseline view is that something does go wrong in that the US-China trade war escalates this summer. And events in Turkey could unnerve the ZAR as well.
- Also watch out for news on Eskom and the government graft probe.

Source: Bloomberg, ING

<b>ING forecasts (mkt fwd)</b>	<b>1M</b> 14.25 (14.07)	<b>3M</b> 14.50 (14.17)	<b>6M</b> 14.00 (14.33)	<b>12M</b> 13.50 (14.65)
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**Chris Turner, London +44 20 7767 1610**

## USD/ILS

### Bol keeping one eye on fresh elections

**Current spot: 3.55**



- USD/ILS remains near recent lows and looks vulnerable to a downside break. Typically USD/ILS does participate in broad dollar trends and softer US rates this summer should keep USD/ILS offered. Noticeably the Bol did not intervene to buy FX in June and a break of 3.5500 would be noteworthy.
- Domestically growth is holding up quite well, though the Bol is starting to take notice of the external environment and also may be reluctant to continuing tightening (10bp of hikes priced over the next 6 months) if ILS does indeed strengthen.
- Bol is also focusing on fresh elections in September and will probably be happy that some fiscal tightening has been seen.

Source: Bloomberg, ING

<b>ING forecasts (mkt fwd)</b>	<b>1M</b> 3.55 (3.60)	<b>3M</b> 3.53 (3.58)	<b>6M</b> 3.50 (3.56)	<b>12M</b> 3.40 (3.51)
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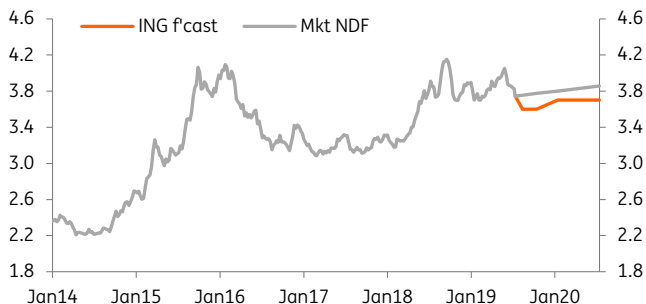
**Chris Turner, London +44 20 7767 1610**

# LATAM

## USD/BRL

The post-reform adjustment

Current spot: 3.74



Source: Bloomberg, ING

- The much-anticipated approval of the pension reform should reduce fiscal uncertainties and prompt an improvement in the outlook for economic activity and for local assets in general.
- BRL prospects have also improved, but a rally should be limited by rate cuts. The SELIC rate could drop by as much as 150bp, starting with a 50bp cut on 31 July. Lower rates reduce the BRL's carry and stimulate the use of the USDBRL as a hedge to external risks for overweight positions in other local assets (FI/equities).
- The lower cost of BRL-financing has also reduced the inflow of USDs in Brazil this year. And this could intensify post-reform and help limit the BRL rally to levels closer to 3.6, instead of 3.4.

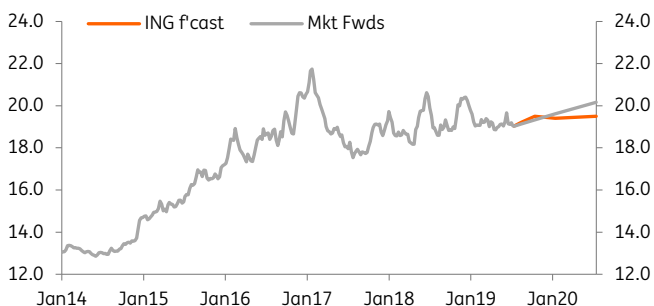
ING forecasts (NDF)	1M 3.60 (3.76)	3M 3.60 (3.78)	6M 3.70 (3.80)	12M 3.70 (3.86)
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Gustavo Rangel, New York +1 646 424 6464

## USD/MXN

Attractive carry partly offsets heightened uncertainties

Current spot: 19.03



Source: Bloomberg, ING

- Episodes of high volatility driven by external and domestic factors marked the MXN's performance over the past couple of months, resulting in a significant underperformance.
- These included the tariff threat by President Trump and, more recently, the abrupt resignation of Finance Minister Carlos Urzua, who cited economic policy disagreements, and raised questions about the outlook for Mexico's macro and credit metrics.
- Monetary policy caution indicates that high rates should remain a chief FX anchor, but poor GDP growth, with the risk of recession rising recently, and the possibility of sooner-than-expected credit rating downgrades (especially for PEMEX) hamper the MXN's outlook.

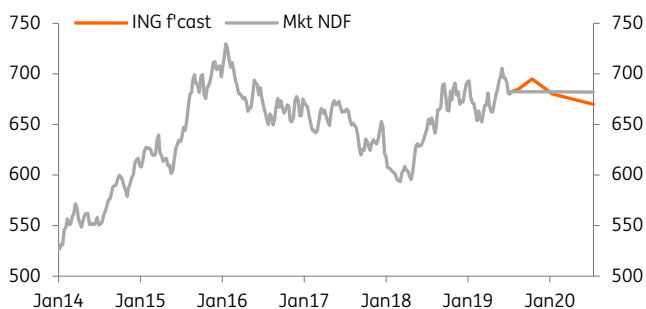
ING forecasts (mkt fwd)	1M 19.20 (19.13)	3M 19.50 (19.32)	6M 19.40 (19.62)	12M 19.50 (20.17)
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## USD/CLP

Trade war concerns continue to drive the CLP outlook

Current spot: 682.35



Source: Bloomberg, ING

- As a small open economy, with an export basket heavily skewed towards copper, the CLP has traded with an underperformance bias in recent months, consistent with the weaker copper prices seen as a result of lingering trade-war concerns.
- A lack of progress in the US-China trade-war impasse in the coming months should extend that weakening bias.
- While external drivers dominate, local macro trends have also become less supportive for the CLP. Subdued inflation and softer economic activity indicators, dragged by mining, pushed BCCh to surprise the market with a large 50bp cut, reversing the hikes seen over the past year. And additional cuts are likely.

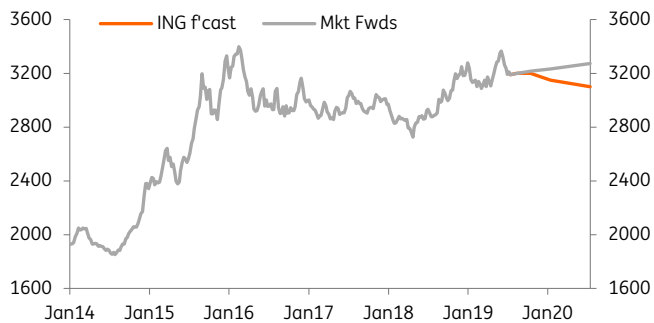
ING forecasts (NDF)	1M 685.00 (682)	3M 695.00 (682)	6M 680.00 (682)	12M 670.00 (682)
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## USD/COP

Balance of risks seem more balanced for the COP now

Current spot: 3190.42



Source: Bloomberg, ING

- The COP continues to be especially sensitive to external shocks and USD fluctuations generally. And even though its correlation with oil prices has become less stable, the recent rise in oil prices seems to have contributed to the COP's recent outperformance.
- The ongoing widening of the current account deficit has become more of a concern, but that is partly offset by domestic drivers, which are more constructive than its peers in the region.
- Robust near-potential GDP growth prints together with muted inflation help justify a neutral monetary policy guidance. However, weak labour market data and the dovish FOMC have increased the risk of rate cuts in the coming quarters.

ING forecasts (NDF)	1M 3200.00 (3198)	3M 3200.00 (3215)	6M 3150.00 (3233)	12M 3100.00 (3272)
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## USD/PEN

Solid macro trends help offset trade-war concerns

Current spot: 3.29



Source: Bloomberg, ING

- As usual, the PEN traded with the lowest volatility in the region, appreciating slightly over the past month. Even though Peru is a small open economy heavily reliant on commodity exports, the currency remains the least affected by gyrations in the USD and the trade-war concerns that affected its EM peers.
- Eventual positive developments on the US-China trade-war front would add support to the currency, but the potential for BCRP's FX intervention would likely limit any major rally in the PEN.
- Peru's BCRP has just adopted a dovish bias for the policy rate (2.75%) citing downside risks for inflation and the moderation in economic activity. With this month's shift, BCRP is now broadly in line with its Andean peers.

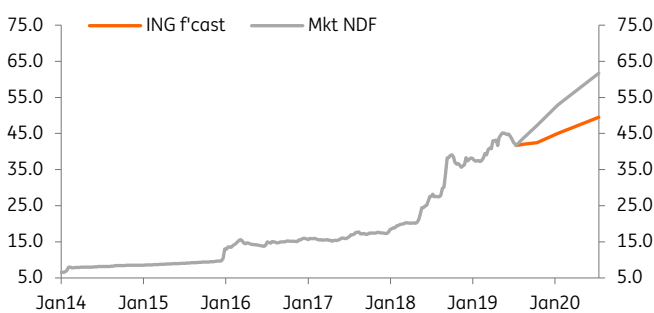
ING forecasts (NDF)	1M 3.28 (3.29)	3M 3.30 (3.30)	6M 3.31 (3.31)	12M 3.31 (3.33)
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## USD/ARS

Improved economic trends helped reduce political risk

Current spot: 41.68



Source: Bloomberg, ING

- The favourable external environment triggered by the dovish shift signalled by developed-market central banks have helped extend the outperformance of the ARS seen over the past couple of months.
- The stronger peso, lower inflation pressures, and signs of stability in economic activity have also helped generate a virtuous cycle as improved economic trends help boost prospects for the re-election of Mauricio Macri in the October presidential election.
- High interest rates should also help support local assets but any evidence that the Kirchnerist ticket would win in the October election should weigh on asset prices. The 11 August primaries are the chief near-term catalyst for local assets.

ING forecasts (NDF)	1M 42.00 (43.67)	3M 42.50 (47.26)	6M 45.00 (52.92)	12M 49.50 (61.69)
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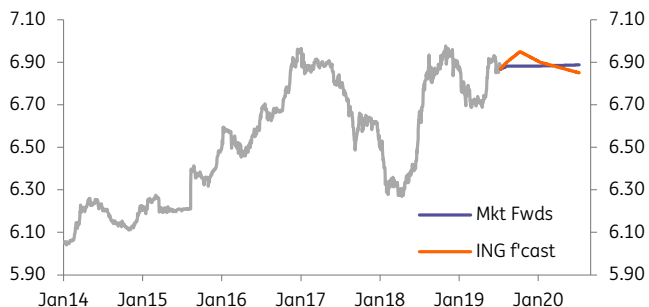
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# Asia

## USD/CNY

Post-G20 yuan should be fairly stable

**Current spot: 6.866**



Source: Bloomberg, ING

- The G20 meeting did not materially change the trade and tech environment. Chinese technology companies continue to suffer from the US' "entity list", which means they cannot trade with any US companies.
- Consequently, we believe that the PBoC, China's central bank, will refrain from depreciating the yuan to cross USDCNY 7.0 because doing so could create unwanted volatility in Mainland asset markets. Possibly some global spillover too.
- USD/CNY's trend should be fairly stable. If there is a formal negotiation between China and US then the Yuan can appreciate to show that China is not going to give in easily.

<b>ING forecasts (FWDs)</b>	<b>1M</b> 6.900 (6.881)	<b>3M</b> 6.950 (6.881)	<b>6M</b> 6.900 (6.882)	<b>12M</b> 6.850 (6.887)
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**Iris Pang, Hong Kong +852 2848 8071**

## USD/INR

Planned foreign borrowing may be positive for INR

**Current spot: 68.40**



Source: Bloomberg, ING

- Despite ongoing economic woes and aggressive central bank rate cuts, the INR remains quite firm. Its 2% gain against the \$ since mid-June is the most among Asian FX pairs, though this is more part of broad EM strength led by the dovish shift in the Fed policy.
- Finance Minister Sitharaman may have scored some points for fiscal prudence by cutting the fiscal deficit target to 3.3% of GDP in the final FY20 Budget from 3.4% in the interim one. But she will likely be challenged by weak growth depressing revenue and her infrastructure investment drive swelling spending.
- The planned foreign borrowing to plug the wide fiscal gap may be mildly positive for the INR by bringing in more USD. But the risk of the USD/INR breaching 70 level remains on the horizon.

<b>ING forecasts (FWDs)</b>	<b>1M</b> 68.80 (68.63)	<b>3M</b> 70.30 (69.13)	<b>6M</b> 70.00 (69.90)	<b>12M</b> 69.50 (71.47)
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**Prakash Sakpal, Singapore +65 6232 6181**

## USD/IDR

Fed cut hopes benefit IDR

**Current spot: 14067**



Source: Bloomberg, ING

- The IDR appreciated initially on hopes for Fed rate cuts with US economic data supporting previous dovish comments from the FOMC. The currency retreated mid-month on general risk off tone with Trump threatening more tariffs on China if they didn't get to meet at the G20.
- With the Fed indicating it was looking to cut rates by 50bp within the year, foreign portfolio flows resumed, helping to boost the IDR. Bank Indonesia opted to keep rates steady but trimmed reserves instead to boost liquidity.
- With Trump and Xi declaring a truce, portfolio flows returned to close the month but IDR gains were capped on dovish comments from BI Governor Warjiyo.

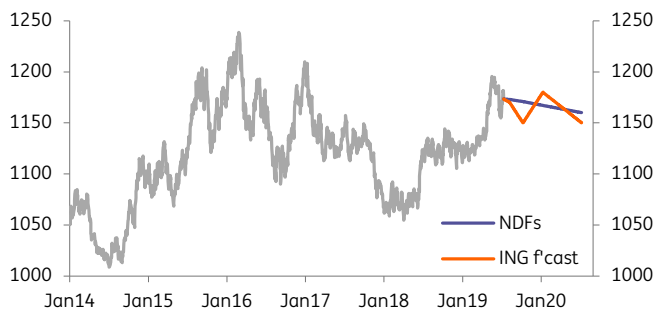
<b>ING forecasts (NDFs)</b>	<b>1M</b> 14100 (14119)	<b>3M</b> 14330 (14242)	<b>6M</b> 14280 (14417)	<b>12M</b> 14100 (14749)
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**Nicholas Mapa, Philippines +63 2479 8855**

## USD/KRW

BoK – on the edge of easing

Current spot: 1173



Source: Bloomberg, ING

ING forecasts (NDFs)	1M 1170 (1173)	3M 1150 (1171)	6M 1180 (1167)	12M 1150 (1160)
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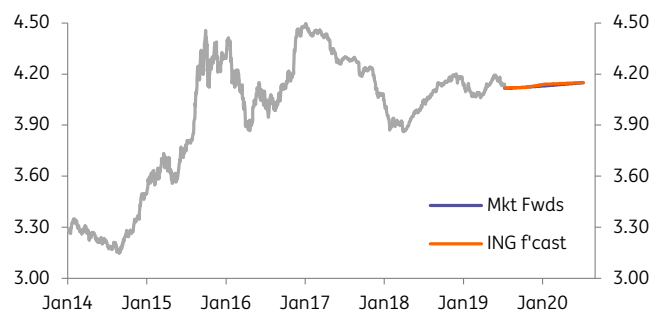
- KRW reeled on fears that the Fed won't deliver a supportive rate cut, but has failed to rally on Powell's testimony that they will.
- A new trade attack from Japan and renewed hopes for some BoK easing may be keeping the KRW under weakening pressure. We look for BoK to remove the November rate hike, perhaps as early as this month, and probably ease again before the year-end.
- While these may not amount to "hawkish cuts", we don't see them being particularly detrimental to the KRW. Real rates are high and there is ample room for some easing, while the economy undoubtedly will benefit from some easier policy.

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## USD/MYR

Benefiting from better economy

Current spot: 4.115



Source: Bloomberg, ING

ING forecasts (FWDs)	1M 4.120 (4.117)	3M 4.120 (4.122)	6M 4.140 (4.130)	12M 4.150 (4.149)
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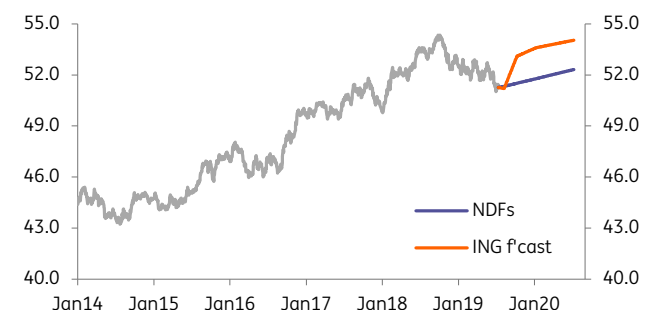
- The MYR is sitting in the middle of the Asian pack in terms of performance since June, with a little under 1% appreciation. As the economy is doing well relative to its Asian peers, we see a greater room for outperformance than underperformance.
- Firmer activity data reinforces our view that GDP growth accelerated in 2Q from 4.5% in 1Q, while the low inflation streak started with the removal of GST in June 2019 has also ended. We think the BNM assessment of economic risks as fairly balanced between growth and inflation. They are likely to stay on hold during the rest of 2019.
- Recent affirmation by the S&P of Malaysia's A- sovereign rating with stable outlook also bodes well for investor confidence.

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## USD/PHP

Peso strengthens on flows

Current spot: 51.26



Source: Bloomberg, ING

ING forecasts (NDFs)	1M 51.20 (51.33)	3M 53.10 (51.51)	6M 53.60 (51.78)	12M 54.04 (52.32)
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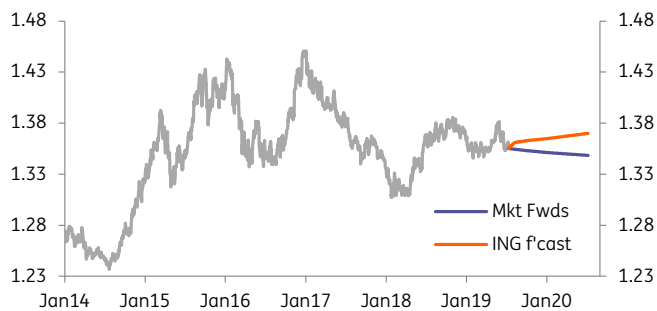
- The Peso appreciated early in the month as May inflation surprised on the upside, which traders thought could delay the BSP's next rate cut. PHP strength faded quickly as the economy posted a substantial current account deficit in 1Q.
- The adjustment to the Fed dot plots however sparked fresh risk-on tone to help bolster the PHP while Trump's truce with Xi also helped the PHP appreciate towards the close of the month.
- The Bankgo Sentral ng Pilipinas (BSP) opted to keep policy rates untouched but Governor Diokno has pledged to slash policy rates further and reduce reserves in the coming months if inflation remains well-behaved and growth slows.

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## USD/SGD

SGD – losing its lustre?

**Current spot: 1.355**



Source: Bloomberg, ING

- Singapore's electronics exports have been hit as hard as any other economy in the region by the trade and tech war / slump and given their prominence in this small open economy, it is taking its toll on official forecasts.
- The SGD has slipped recently, and though it is still up versus the USD year to date, this is now only marginal.
- With government growth forecasts being scaled back and talk rising of a possible inter-meeting change of the policy path for the nominal SGD effective exchange rate, we have adopted a flat NEER as our base forecast. We expect this to be adopted imminently and maintained for the foreseeable future. Near-term slippage against the USD looks entirely possible.

<b>ING forecasts (FWDs)</b>	<b>1M</b> 1.361 (1.354)	<b>3M</b> 1.363 (1.353)	<b>6M</b> 1.365 (1.351)	<b>12M</b> 1.370 (1.349)
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**Rob Carnell, Singapore +65 6232 6020**

## USD/TWD

Nothing for the central bank to ease

**Current spot: 31.02**



Source: Bloomberg, ING

- Exports and imports have turned to positive growth in June, but we believe that this is not a permanent turnaround. We still have to monitor smart-phone sales in August and September to confirm that Taiwan's export sector has returned to positive growth.
- Given already low policy interest rates at 1.375%, and the fact that the economy is not actually in recession, it is hard to see the central bank actually easing monetary policy by cutting rates.
- As such we expect the USD/TWD to be largely driven by dollar index trends and other Asian FX trends.

<b>ING forecasts (NDFs)</b>	<b>1M</b> 31.50 (30.97)	<b>3M</b> 31.70 (30.88)	<b>6M</b> 31.50 (30.75)	<b>12M</b> 31.50 (30.49)
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**Iris Pang, Hong Kong +852 2848 8071**

## USD/THB

Bad politics, weak economy, and yet strong currency

**Current spot: 30.61**



Source: Bloomberg, ING

- The THB remains at the top of the Asian pack with 5.6% year-to-date appreciation against the USD. Although supported by a still large current surplus, the outperformance is mesmerising given persistent political risks and weak economic fundamentals.
- Three months after the general elections, politics remains a key overhang on the economy. A formal government has now been announced, though with a 19-party coalition having just a 4-seat majority, governance will be far from easy or smooth.
- The economy continues on a steady weakening path. As the political stalemate slows the emergence of any fiscal stimulus, monetary policy will have to do all it can to prop up growth. For now, we have pencilled in two BoT policy rate cuts by year-end.

<b>ING forecasts (FWDs)</b>	<b>1M</b> 30.70 (30.60)	<b>3M</b> 30.80 (30.55)	<b>6M</b> 31.00 (30.49)	<b>12M</b> 30.90 (30.39)
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**ING foreign exchange forecasts**

EUR cross rates	Spot	1M	3M	6M	12M	USD cross rates	Spot	1M	3M	6M	12M
<b>Developed FX</b>											
EUR/USD	1.12	1.12	1.12	1.15	1.17						
EUR/JPY	121.7	119.84	117.60	118.45	117.00	USD/JPY	108	107	105	103	100
EUR/GBP	0.90	0.90	0.92	0.92	0.88	GBP/USD	1.25	1.24	1.22	1.25	1.33
EUR/CHF	1.11	1.12	1.10	1.12	1.15	USD/CHF	0.99	1.00	0.98	0.97	0.98
EUR/NOK	9.62	9.60	9.70	9.80	9.50	USD/NOK	8.55	8.57	8.66	8.52	8.12
EUR/SEK	10.55	10.70	11.00	10.80	10.60	USD/SEK	9.39	9.55	9.82	9.39	9.06
EUR/DKK	7.467	7.460	7.450	7.470	7.470	USD/DKK	6.64	6.66	6.65	6.50	6.38
EUR/CAD	1.47	1.47	1.47	1.48	1.47	USD/CAD	1.304	1.31	1.31	1.29	1.26
EUR/AUD	1.61	1.64	1.64	1.65	1.63	AUD/USD	0.70	0.69	0.69	0.70	0.72
EUR/NZD	1.69	1.72	1.75	1.78	1.76	NZD/USD	0.67	0.65	0.64	0.65	0.67
<b>EMEA</b>											
EUR/PLN	4.27	4.26	4.28	4.28	4.28	USD/PLN	3.80	3.80	3.82	3.72	3.66
EUR/HUF	325.9	326.00	327.00	325.00	325.00	USD/HUF	289.9	291	292	283	278
EUR/CZK	25.59	25.7	25.8	25.9	26.3	USD/CZK	22.76	22.9	23.0	22.5	22.5
EUR/RON	4.73	4.75	4.77	4.80	4.85	USD/RON	4.21	4.24	4.26	4.17	4.15
EUR/HRK	7.39	7.39	7.40	7.45	7.42	USD/HRK	6.58	6.60	6.61	6.48	6.34
EUR/RSD	117.8	117.5	117.5	118.0	117.0	USD/RSD	104.7	104.9	104.9	102.6	100.0
EUR/RUB	70.99	72.8	72.2	73.6	77.8	USD/RUB	63.14	65.0	64.5	64.0	66.5
EUR/UAH	29.11	29.1	30.2	31.6	33.9	USD/UAH	25.90	26.00	27.00	27.50	29.00
EUR/KZT	431.6	431.2	425.6	437.0	450.5	USD/KZT	384.1	385	380	380	385
EUR/TRY	6.48	6.50	6.68	7.13	7.43	USD/TRY	5.77	5.80	5.96	6.20	6.35
EUR/ZAR	15.75	16.0	16.2	16.1	15.8	USD/ZAR	14.01	14.25	14.50	14.00	13.50
EUR/ILS	3.99	3.98	3.95	4.03	3.98	USD/ILS	3.55	3.55	3.53	3.50	3.40
<b>LATAM</b>											
EUR/BRL	4.21	4.03	4.03	4.26	4.33	USD/BRL	3.74	3.60	3.60	3.70	3.70
EUR/MXN	21.40	21.5	21.8	22.3	22.8	USD/MXN	19.03	19.20	19.50	19.40	19.50
EUR/CLP	767.17	767	778	782	784	USD/CLP	682.35	685	695	680	670
EUR/ARS	46.84	47.04	47.60	51.75	57.92	USD/ARS	41.68	42.00	42.50	45.00	49.50
EUR/COP	3586.69	3584	3584	3623	3627	USD/COP	3190.42	3200	3200	3150	3100
EUR/PEN	3.70	3.67	3.70	3.81	3.87	USD/PEN	3.29	3.28	3.30	3.31	3.31
<b>Asia</b>											
EUR/CNY	7.74	7.73	7.78	7.94	8.01	USD/CNY	6.88	6.90	6.95	6.90	6.85
EUR/HKD	8.80	8.74	8.75	8.99	9.13	USD/HKD	7.82	7.80	7.81	7.82	7.80
EUR/IDR	15776	15792	16050	16422	16497	USD/IDR	14008	14100	14330	14280	14100
EUR/INR	77.30	77.1	78.7	80.5	81.3	USD/INR	68.68	68.80	70.30	70.00	69.50
EUR/KRW	1327.66	1310	1288	1357	1346	USD/KRW	1178.94	1170	1150	1180	1150
EUR/MYR	4.63	4.61	4.61	4.76	4.86	USD/MYR	4.11	4.12	4.12	4.14	4.15
EUR/PHP	57.52	57.3	59.5	61.6	63.2	USD/PHP	51.10	51.2	53.1	53.6	54.04
EUR/SGD	1.53	1.52	1.53	1.57	1.60	USD/SGD	1.36	1.36	1.36	1.37	1.37
EUR/TWD	35.01	35.3	35.5	36.2	36.9	USD/TWD	31.08	31.5	31.7	31.5	31.5
EUR/THB	34.80	34.4	34.5	35.7	36.2	USD/THB	30.95	30.7	30.8	31.0	30.9

Source: Bloomberg, ING



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