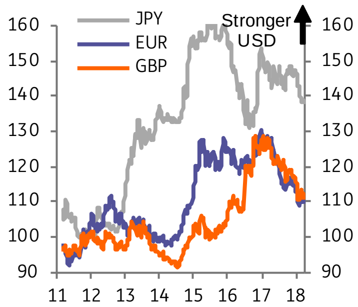
28 March 2018
FX Strategy

FX talkING

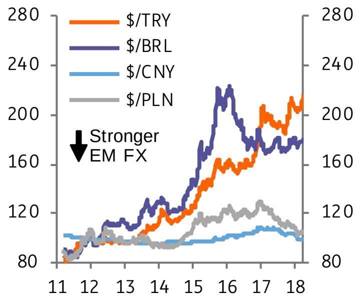
Protectionist pay off

USD/Majors (30 Jan 09=100)



Source: Macrobond, ING

USD/EM (30 Jan 09=100)



Source: Macrobond, ING

Kim Jong Un's arrival at the negotiating table and Seoul's concessions to the US auto industry will only encourage President Trump that his negotiating stance is paying dividends. Expect Washington to push its protectionist agenda heavily before November mid-term elections. The risk environment will stay fragile.

We expect the dollar to stay on the back-foot during this period. US protectionism clearly embodies a desire for a weaker dollar and an orderly decline diffuses some of the risks normally associated with a consumption-driven widening of US deficits. Serious retaliation by China and the EU to US tariffs may well be the next chapter on trade.

USD/JPY should stay fragile and we retain a forecast of 100 for later this year. April's release of the US Treasury's semi-annual FX report should prove a reminder that FX intervention is not an option for the BoJ in 2018 – at least not this side of 100. Germany's huge trade surplus with the US also means pressure is building for a higher EUR/USD too.

GBP is recovering as Brexit negotiators find some common ground. We continue to see GBP holding its own against the EUR and rallying further versus USD. The CHF also continues to soften. We think Swiss pension funds will struggle to roll increasingly expensive FX hedges on US assets, giving support to both USD/CHF and EUR/CHF.

Elsewhere we remain generally positive on EM currencies. CZK and PLN remain our top picks in the EMEA space. TRY to continue to struggle – especially as new hawks in the White House turn their attention to Iran. CNY should continue to perform well in Asia.

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.25	>	105	=	1.44	>
3M	1.28	>	105	=	1.45	>
6M	1.28	>	103	<	1.45	>
12M	1.31	>	100	<	1.54	>
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.87	=	25.40	>	4.23	>
3M	0.88	>	25.20	>	4.16	<
6M	0.88	=	25.00	=	4.14	<
12M	0.85	<	24.80	<	4.12	<
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	6.26	>	18.60	>	3.24	<
3M	6.25	<	19.20	>	3.30	=
6M	6.20	<	18.80	=	3.45	>
12M	6.00	<	18.60	<	3.25	<

> / = / < 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	0.9	-0.8	-0.8	-0.2	-0.5	1.2
%YoY	15.0	-4.4	1.6	4.8	3.3	-3.6
	USD/UAH	**USD/KZT**	**USD/BRL**	**USD/ARS**	**USD/CNY**	**USD/TRY**
%MoM	-1.9	-0.3	2.4	0.7	-0.8	5.3
%YoY	-2.3	1.3	6.1	30.3	-8.6	10.0

Source: Bloomberg, ING

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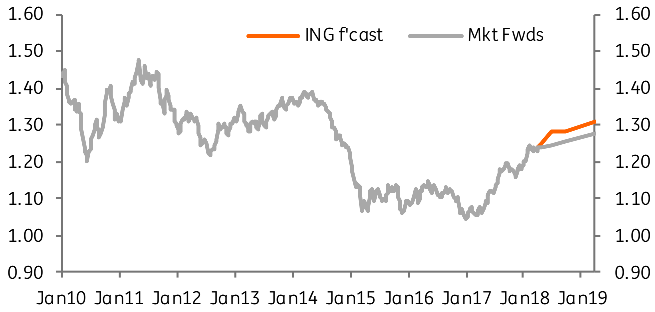
Developed markets

EUR/USD

Emboldened White House

Current spot: 1.24



Source: Bloomberg, ING

- Donald Trump must be thinking his aggressive tactics are paying off. They appear to have brought N.Korean leader, Kim Jong Un, to the negotiating table. And tariffs in steel and aluminium have already seen S. Korea concede better terms to the US auto industry. The next big story will be whether this trade war escalates – eg, China and EU retaliate – or whether compromise can be found. We think things get worse before they get better.
- President Trump has also upgraded his foreign policy staff to a more hawkish setting. Tension with Iran may rise in 2Q18.
- We think USD weakens either for good reasons (global growth) or bad (protectionism). The Fed cycle looks already priced.

ING forecasts (mkt fwd)	**1M** 1.25 (1.241)	**3M** 1.28 (1.247)	**6M** 1.28 (1.256)	**12M** 1.31 (1.276)

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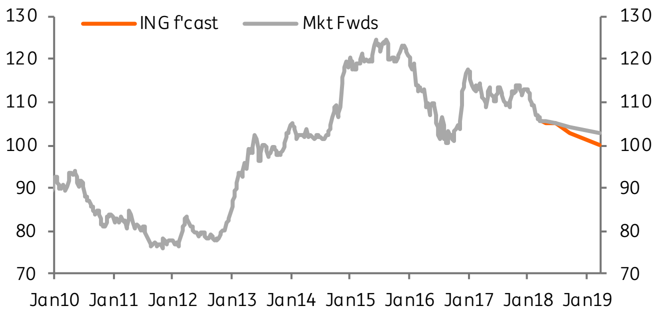
USD/JPY

Little the BoJ can do to support USD/JPY

Current spot: 105.65



Source: Bloomberg, ING

- USD/JPY has been at the epicentre of the US protectionism story, with the JPY understandably the safe haven of choice. Given the direction of travel in US economic policy, which is increasingly tied in with national strategic policy, we continue to see risks that USD/JPY trades well under fair value at 104/105.
- Recent Japanese cabinet office survey show the USD/JPY break-even rate for Japanese exporters is 100. They're just above water.
- There's much focus on the rise on the USD Libor-OIS spread and whether it's been driven by: i) heavy T-Bill issuance or ii) US corporates liquefying their USD assets ready for repatriation. Our team feels this spread settles, and we don't think it's a $ positive.

ING forecasts (mkt fwd)	**1M** 105.00 (105.5)	**3M** 105.00 (105.0)	**6M** 103.00 (104.3)	**12M** 100.00 (102.8)

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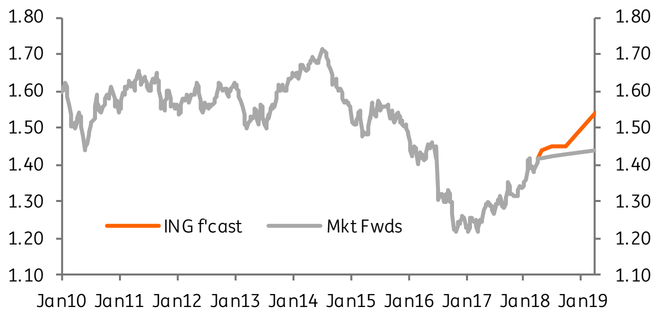
GBP/USD

Boosted by a positive reappraisal of UK economic risks

Current spot: 1.42



Source: Bloomberg, ING

- All the cards needed to fall into place for GBP to break out higher in the near-term – & they pretty much have. The agreement of a Brexit transition deal, constructive UK macro data (including early signs of strong wage growth) and a hawkish March BoE meeting – with 2 MPC dissenters voting for an immediate rate hike – are combining to keep GBP/USD supported above the 1.40 handle.
- Additional GBP gains will now be a function of USD weakness and UK economic data; should the latter outperform the broadly low expectations of investors, we would expect to see sentiment for two BoE rate hikes in 2018 (May and Nov) gain further traction.
- Under a 'Cold Trade War' environment, we suspect GBP could be a relative G10 outperformer amid a positive re-appraisal of short-term UK economic and political risks. Our conviction call remains for GBP/USD to move up to 1.45 in 2Q18 (stabilising thereafter).

ING forecasts (mkt fwd)	**1M** 1.44 (1.42)	**3M** 1.45 (1.42)	**6M** 1.45 (1.43)	**12M** 1.54 (1.44)

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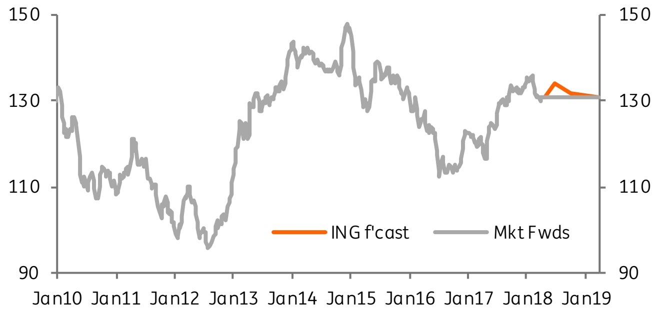
EUR/JPY

Mixed

Current spot: 131.4



Source: Bloomberg, ING

- The ECB story is relatively quiet at present. The ECB remain sensitive to a stronger EUR, but ECB-driven EUR strength may not be a story until the next serious discussion of policy in June. However, the huge Eurozone current account surplus of 3.5% of GDP should keep the EUR well supported this summer. And the slowdown in ECB PSPP will be a story for the whole year.
- EUR/JPY looks to be a function of protectionism this summer. An increasingly noisy President Trump in the run-up to US mid-term elections in November favours JPY out-performance.
- We doubt the BoJ will be in a position to seriously consider policy normalisation given that the JPY could rally at any moment.

ING forecasts (mkt fwd)	**1M** 131.00 (131)	**3M** 134.00 (132)	**6M** 132.00 (132)	**12M** 131.00 (132)

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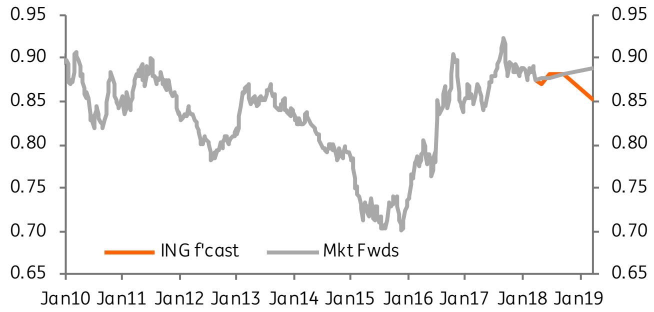
EUR/GBP

Brexit transition deal strengthens the case for 0.85 in 2018

Current spot: 0.88



Source: Bloomberg, ING

- The agreement of a Brexit transition deal at the March EU leaders' summit came as a positive surprise – especially given that all the negative talk preceding the event had caused investors to reduce their odds of a deal being struck that early. Brexit headways have seen EUR/GBP briefly trade sub-0.87 for the first time since June.
- We now look for stability within the broad 0.85-0.90 range as UK and EZ cyclical economic factors counterbalance each other.
- With cliff-edge Brexit tail risks diminishing – and UK political risks remaining in check for now – the case for EUR/GBP moving above 0.90 looks fairly shaky. Instead, we think the balance of risks are for an overvalued EUR/GBP to drift down towards 0.85 this year.

ING forecasts (mkt fwd)	**1M** 0.87 (0.88)	**3M** 0.88 (0.88)	**6M** 0.88 (0.88)	**12M** 0.85 (0.89)

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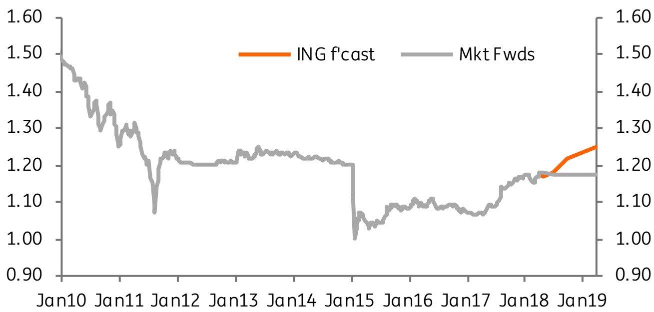
EUR/CHF

Higher US hedging costs supporting USD/CHF?

Current spot: 1.18



Source: Bloomberg, ING

- Volatility in global equity markets is not delivering lasting CHF strength. The safe haven CHF correlation is certainly there, but we suspect the SNB has found ways to intervene without it showing up in CHF sight deposits. Remember FX intervention is under intense scrutiny from an aggressive White House.
- At its recent monetary policy meeting the SNB remained dovish, not changing its tune on the need for negative rates and continued intervention. We don't see the need for early SNB hikes
- In our 2018 FX outlook we made the point that Swiss pension funds were holding more foreign assets, but these were hedged. 3% USD hedging costs suggests US purchases will be unhedged.

ING forecasts (mkt fwd)	**1M** 1.17 (1.18)	**3M** 1.18 (1.18)	**6M** 1.22 (1.18)	**12M** 1.25 (1.18)

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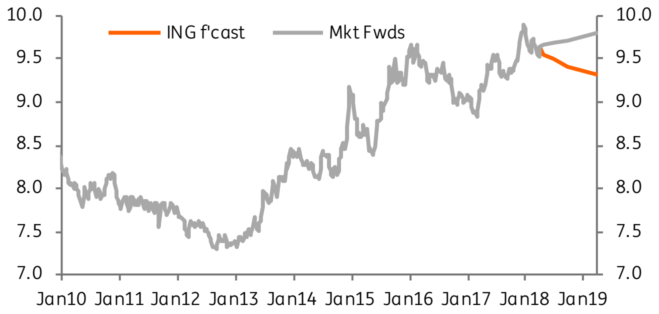
EUR/NOK

Underperforming the NB hawkishness **Current spot: 9.63**



Source: Bloomberg, ING

- Despite the hawkish NB (signalling a rate hike after summer 2018) and high oil prices, EUR/NOK failed to persistently break below the 9.50 level. We attribute this to the decline in global stock markets which offset the other positive factors.
- We expect EUR/NOK to reach 9.40 and 9.30 in 6- and 12-months. We look only for a gradual decline given plenty is already priced in for NB for this year (around 30bp of hikes vs our call for 25bp).
- However, the NB actual hiking rates in 2H18 and signalling more hikes to come in 2019 (due in part to the functioning Phillips curve in Norway) should be NOK positive in an environment where other central banks (ECB, SNB, Riksbank) remain dovish.

ING forecasts (mkt fwd)	**1M** 9.55 (9.64)	**3M** 9.50 (9.67)	**6M** 9.40 (9.70)	**12M** 9.30 (9.79)

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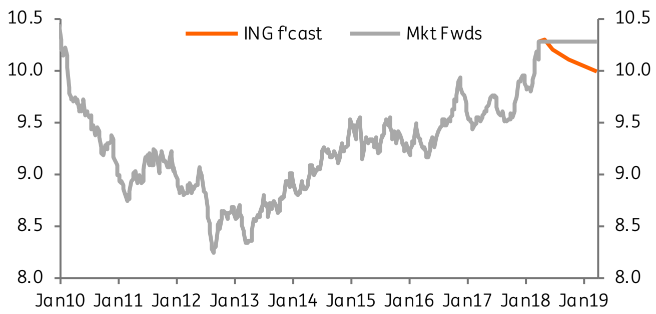
EUR/SEK

Swimming naked... **Current spot: 10.28**



Source: Bloomberg, ING

- In SEK: Swimming naked? we revised our EUR/SEK forecast higher, expecting the cross to stay above the 10.00 level throughout the entire 2018.
- This is a function of the persistently dovish Riksbank which is likely to continue delaying interest rate increases (as per Skingsley's comments to better hike too late than too early) as well as the deteriorating Swedish current account surplus (which is going to undershoot that of the Eurozone later this year).
- Global growth levered SEK also remains very vulnerable to the notion of escalating trade wards given the openness of its economy, attractive funding costs (due to the deeply negative depo rate) and low currency liquidity.

ING forecasts (mkt fwd)	**1M** 10.30 (10.28)	**3M** 10.20 (10.28)	**6M** 10.10 (10.27)	**12M** 10.00 (10.28)

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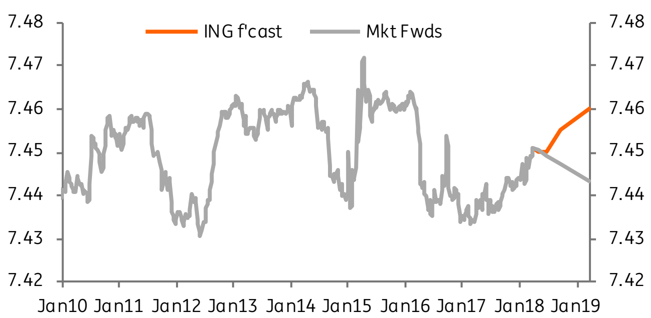
EUR/DKK

The DN in wait-and-see mode **Current spot: 7.451**



Source: Bloomberg, ING

- The DN is likely content with the EUR/DKK slowly grinding towards the central rate of 7.46038, which suggests no need for the central bank to adjust its current policy stance. Rather, the DN is to wait for the ECB to (a) end its QE programme; and (b) embark on the depo rate hikes, before rising its own rates.
- Our economists expect the ECB to deliver the first depo rate hike around mid-2019, meaning that the DN is unlikely to increase interest rates before 2H19.
- Following the non-market-negative outcome of the March Italian elections and the lack of EZ political risk events on the horizon, we expect EUR/DKK to stabilize around 7.4500.

ING forecasts (mkt fwd)	**1M** 7.45 (7.451)	**3M** 7.45 (7.449)	**6M** 7.46 (7.446)	**12M** 7.46 (7.443)

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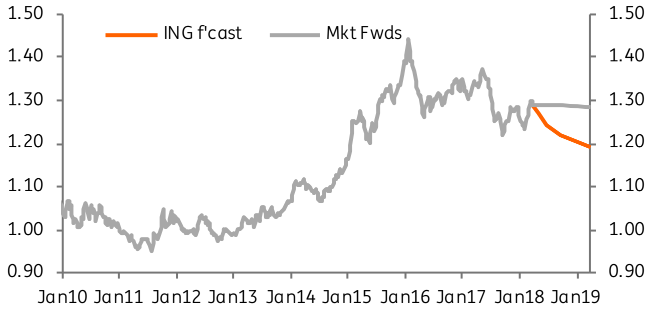
USD/CAD

Ever-changing US trade policy = CAD risk premium

Current spot: 1.290



Source: Bloomberg, ING

- After coming under severe pressure at the start of March due to rising US protectionist policies, Canada's exemption to steel and aluminium tariffs – as well as some alleged NAFTA progress – has helped CAD to recover and consolidate from its undershot levels.
- With the situation around NAFTA and US trade policy extremely volatile, we note that there is a high bar for the BoC to raise rates again in May (≈60% priced in). A wait-and-see approach may be more apt unless the macro data screams out for a rate hike. CAD is therefore vulnerable to a dovish BoC re-pricing in the short-run.
- Should risks of a NAFTA break-up flare up again, expect USD/CAD to move up to 1.35 – while fears of this may keep CAD sidelined.

ING forecasts (mkt fwd)	**1M** 1.27 (1.29)	**3M** 1.24 (1.29)	**6M** 1.22 (1.29)	**12M** 1.19 (1.28)

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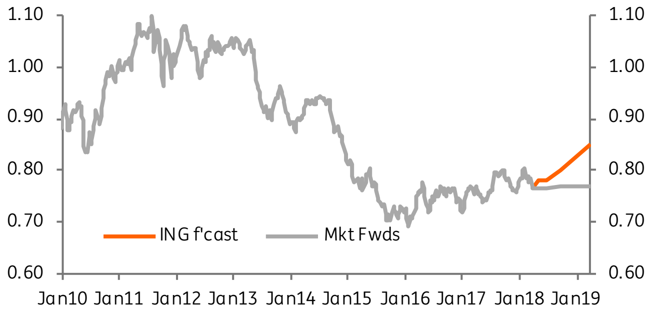
AUD/USD

AUD may be a proxy short under US-China trade tensions

Current spot: 0.77



Source: Bloomberg, ING

- The near-term dynamics for AUD are very much a function of the external global environment, with the backdrop of escalating US-China trade tensions and a structurally weak US dollar working in opposite directions. AUD could end up being a proxy short for any US-Asia trade war – given its liquid and directly exposed nature.
- As our commodities team predicted, the rally in iron ore reversed course over the past month – with prices falling back to US$60/tn as the oversupply story kicked-in. Lower terms-of-trade is taking away one fundamental reason for the AUD to push on from here.
- Moreover, with the Australian economy stuck in 'lowflation' mode – we think the RBA will be one of the last of the G10 central banks to hike. This should limit the degree of AUD upside over 2018.

ING forecasts (mkt fwd)	**1M** 0.78 (0.767)	**3M** 0.78 (0.767)	**6M** 0.80 (0.767)	**12M** 0.85 (0.769)

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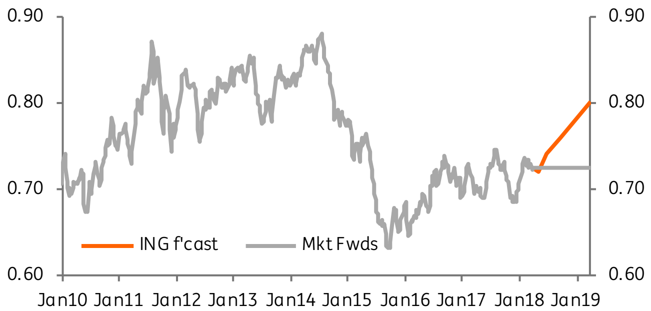
NZD/USD

Relatively immune from a more protectionist White House

Current spot: 0.73



Source: Bloomberg, ING

- Though a weak $ environment mostly explains the NZD/USD rally to 0.72-0.74, we do note the kiwi has been somewhat resilient in the face of rising global trade war fears and waning risk appetite. While this may be telling of a 'flight to quality' effect, we would still expect a sustained market downturn to weigh on NZD (with New Zealand commanding a sizable net foreign liability position).
- The domestic NZ story has turned from positive to neutral of late. The lacklustre 4Q NZ CPI and GDP prints have resulted in market expectations over RBNZ policy turning somewhat dovish (odds of a 2018 hike have slipped to 30%). The RBNZ's new dual-mandate warrants some caution – but the curve is starting to look 'too flat'.
- Look for NZD/USD to stay range-bound within the 0.7150-0.7450 broad range (risks for a topside breakout if the US$ falls further).

ING forecasts (mkt fwd)	**1M** 0.72 (0.725)	**3M** 0.74 (0.725)	**6M** 0.76 (0.725)	**12M** 0.80 (0.726)

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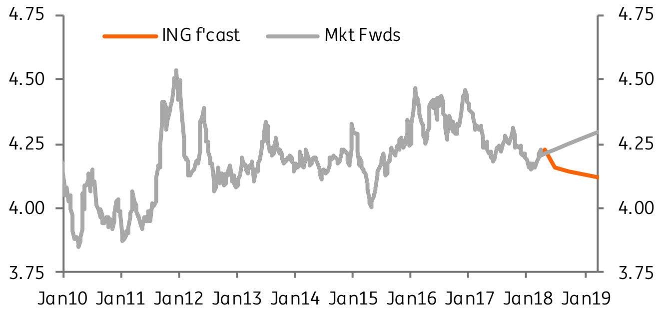
Emerging markets

EUR/PLN

Slow PLN recovery due to low CPI and still dovish MPC **Current spot: 4.21**



Source: Bloomberg, ING

- PLN underperformed CEE FX in March due to a dovish MPC and low CPI for Feb-18 (both below consensus, close to our expectations). The currency recovered later, but further gains are unlikely as we see another low CPI reading for Mar-18 reinforcing the dovish MPC. PLN can test 4.25/€ at the beginning of April.
- We expect moderate appreciation of the Polish currency in 2018, with EUR/PLN at 4.10-12 at year-end. The zloty is backed by strong GDP growth, expected lower fiscal deficit helping POLGBs inflows. PLN used to serve as an "activity currency" (strong GDP and rate hikes facilitated appreciation), but the current MPC is much more dovish than in the past. Poland's trade links to US are low, so the zloty should be relatively resilient to trade tensions.

ING forecasts (mkt fwd)	**1M** 4.23 (4.21)	**3M** 4.16 (4.23)	**6M** 4.14 (4.25)	**12M** 4.12 (4.29)

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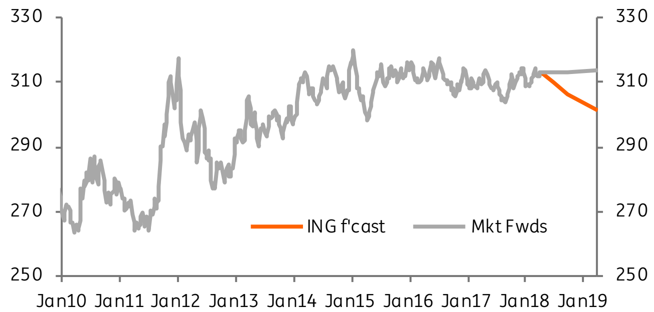
EUR/HUF

Forint is preparing for general election **Current spot: 312.5**



Source: Bloomberg, ING

- After two months of strengthening, EUR/HUF changed course, heading back to 311. As we are approaching the general election (8 April), uncertainty pushed HUF back to 313 vs EUR.
- Once the general elections are behind us (with Fidesz/KDNP winning comfortably being the base case), we look for a back-loaded HUF strength in 2H18 as the current flattening programmes are likely to be nearing the end, while the mix of a strong C/A surplus, an upbeat economic outlook, the positive credit story (and possible rating upgrades) work in favour of HUF.
- Should we see a surprise win by opposition, a quick sell-off could push EUR/HUF above 320, temporarily.

ING forecasts (mkt fwd)	**1M** 312.00 (312.6)	**3M** 310.00 (312.7)	**6M** 306.00 (313.0)	**12M** 301.00 (313.5)

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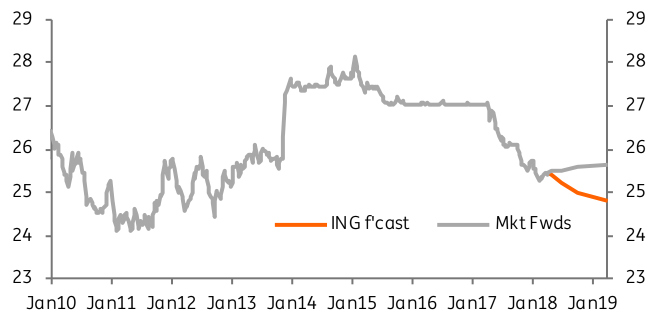
EUR/CZK

Dovish stance limiting CZK appreciation in 2Q **Current spot: 25.47**



Source: Bloomberg, ING

- The CNB is to stay on hold during its March meeting, which was expected outcome given the February forecast and the dovish rhetoric of CNB Board members. The latest developments in GDP growth, wages and CZK path are in line with the February CNB forecast, only CPI inflation declined more than expected.
- Given the lower than projected CPI, we expect the CNB to remain dovish in 2Q18, limiting CZK strength compared to its own forecasts. The lack of CZK strength (and thus insufficient tightening of monetary conditions via the exchange rate) will enable the CNB to hike interest rates in 2H18 via rates.
- Hikes will push EUR/CZK modestly below 25.00 by year-end.

ING forecasts (mkt fwd)	**1M** 25.40 (25.49)	**3M** 25.20 (25.52)	**6M** 25.00 (25.58)	**12M** 24.80 (25.64)

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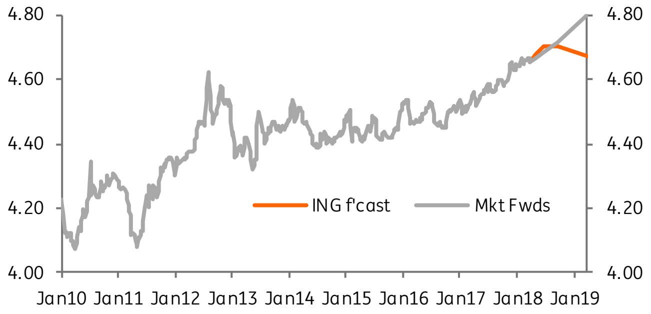
EUR/RON

The EUR/RON trades quiet within tight range **Current spot: 4.66**



Source: Bloomberg, ING

- The EUR/RON seems to have found a comfortable range between 4.6500 and 4.6700 and the low turnover from recent weeks doesn't suggest any market positioning ahead of April 4 MPC. The range bodes well with NBR Governor Isarescu's last messages which mentioned limited room for RON gains while the February Inflation report envisaged some REER appreciation this year.
- We don't expect strong messages regarding the EUR/RON at the 4 April MPC meeting, since the central bank sees the current level as "very much in line with fundamentals". Nevertheless, the NBR might want to sterilise some of the huge February surplus liquidity by capping any depreciation of the leu, whenever it is given the chance.

ING forecasts (mkt fwd)	**1M** 4.68 (4.67)	**3M** 4.70 (4.68)	**6M** 4.70 (4.72)	**12M** 4.67 (4.80)

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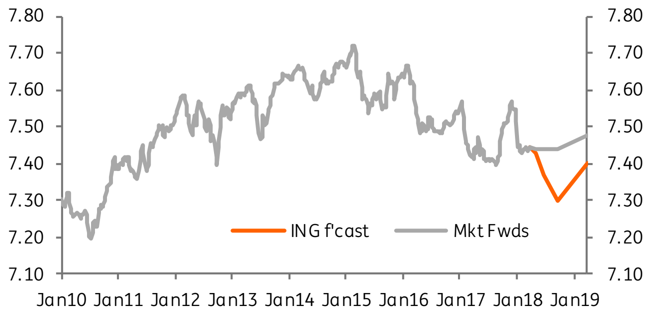
EUR/HRK

Debt restructuring at the largest company still looming **Current spot: 7.44**



Source: Bloomberg, ING

- On 23 March 2018, S&P upgraded Croatia to 'BB+' from 'BB' with stable outlook, citing the improved external position, external deleveraging and growth of foreign currency reserves as the main reasons. This could provide an additional boost to FCY inflows, together with the approaching tourism season.
- The strategy for adopting the euro suggest that the government is comfortable with the average exchange rate for EUR/HRK since 2001 of 7.45 as a likely central parity rate.
- Agrokor's restructuring is still lingering, though the company seems committed to the 10 April deadline. The uncertainties surrounding this process have already hit to some extent business and consumer confidence over the last year, thus we expect a limited impact on the Croatian economy going forward.

ING forecasts (mkt fwd)	**1M** 7.43 (7.44)	**3M** 7.37 (7.44)	**6M** 7.30 (7.45)	**12M** 7.40 (7.48)

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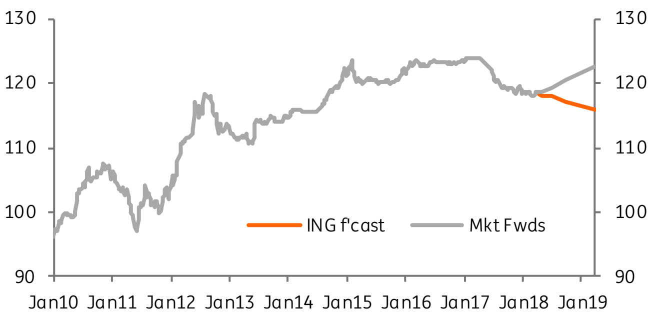
EUR/RSD

Tightly managed, RSD supported by debt inflows **Current spot: 118.6**



Source: Bloomberg, ING

- The NBS surprised the market again by cutting another 25bp rates to 3.25%, highlighting that "inflation pressures remain subdued" and "a more favourable outlook for the period ahead". Nevertheless, the decision was in line with our call.
- Moreover, the government expressed interest in a new agreement with the IMF, a precautionary one, focused on policy advice and monitoring.
- The NBS intervened only to curb RSD weakening since the start of the year. Given the outlook for lower rates, new IMF programme and pre-accession EU funds, the NBS's interventions could remain one sided for some time, absent fiscal slippages.

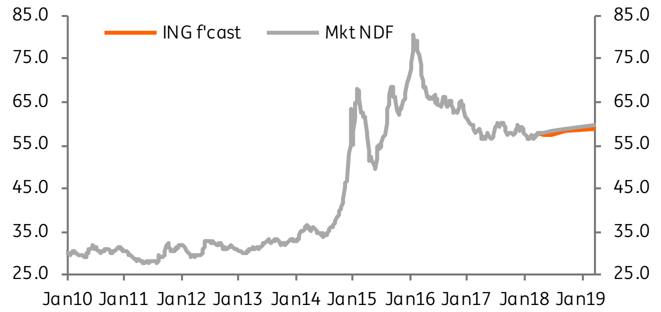
ING forecasts (mkt fwd)	**1M** 118.00 (118.8)	**3M** 118.00 (119.5)	**6M** 117.00 (120.5)	**12M** 116.00 (122.8)

Ciprian Dascalu, Bucharest +40 31 406 89 90

USD/RUB

Still having no directional bias

Current spot: 57.57



Source: Bloomberg, ING

- RUB's flat performance YTD looks like a weak result given the near 5% rally in Brent prices. High oil prices have been supportive for market sentiment towards RUB, especially under the usually-supportive C/A seasonality in 1Q18, but external risks, including from reignited geopolitical tensions, have eroded RUB upside.
- Another reason for the RUB performance is the adjusted fiscal rule, which has effectively removed all excess US$ supply from the market. 2M18 BoP data saw the C/A surplus of US$20.8bn vs US$9.8bn of capital outflows with the rest – US$11bn – nearly fully absorbed in the fiscal coffers via the MinFin FX buying, ie, implicitly showing that the RUB has been close to fair levels.
- With no changes in ING global/Brent forecasts we keep our RUB projections unchanged assuming a gradual weakness in 2-4Q18.

ING forecasts (mkt fwd)	**1M** 57.30 (57.77)	**3M** 57.50 (58.14)	**6M** 58.20 (58.65)	**12M** 58.60 (59.54)

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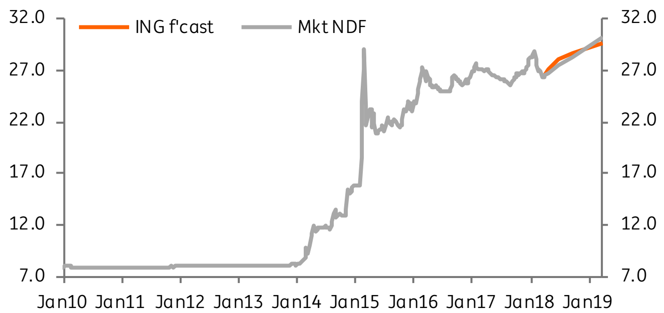
USD/UAH

Stabilising when external pressures have eased

Current spot: 26.91



Source: Bloomberg, ING

- UAH gained 6% YTD to 26.45/USD vs the 2018 highs/lows of 26/29USD reflected improving global prices for major export items, higher food exports and no political turbulence. This allowed the NBU to proceed with selective easing of FX controls.
- In REER terms, UAH has approached its strongest levels since early-2014. With a high CPI differential, external competitiveness will be eroding. To have the REER stable at current levels, the UAH should weaken to 28.5-29/USD in 2018-19. This comes vs our current account/BoP based fair UAH 27.30-31.30/USD in Dec-Jan.
- External/internal backdrop looks relatively safe for UAH for now, but major risks comes from IMF-related uncertainty and politics. Yet, the new law on currency control will ease FX operations.

ING forecasts (mkt fwd)	**1M** 27.00 (27.25)	**3M** 27.50 (27.69)	**6M** 28.00 (28.41)	**12M** 29.50 (29.61)

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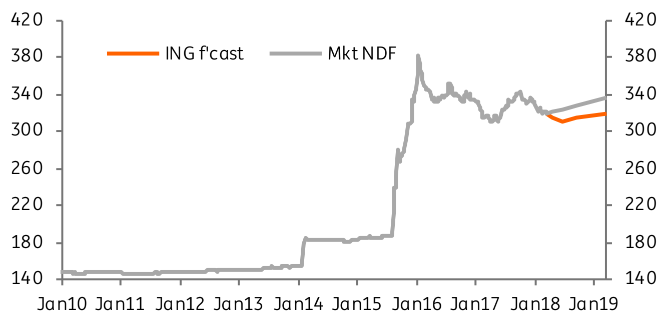
USD/KZT

It is about when, not if, the KZT strengthens

Current spot: 330.3



Source: Bloomberg, ING

- KZT has secured its top-3 status by the YTD gain of 4.2% vs USD. Unlike Russia, it has clearly seen a positive spill-over from rising oil prices and further adjustments on the BoP side.
- The list of KZT-positive arguments hasn't changed: still solid GDP growth outlook, balanced BoP position, falling inflation vs prudent NBK monetary policy and very strong fiscal stance. The NBK governor recently said that there was no hurdles for KZT growth after banks met their early-18 demand for FX liquidity related to provisions against NPLs. Now the process is mostly over.
- All this keeps us very comfortable with our view of stable-to-stronger KZT in 2018, which may approach 300-310/USD.

ING forecasts (mkt fwd)	**1M** 330.00 (332.6)	**3M** 330.00 (335.4)	**6M** 335.00 (339.4)	**12M** 315.00 (349.9)

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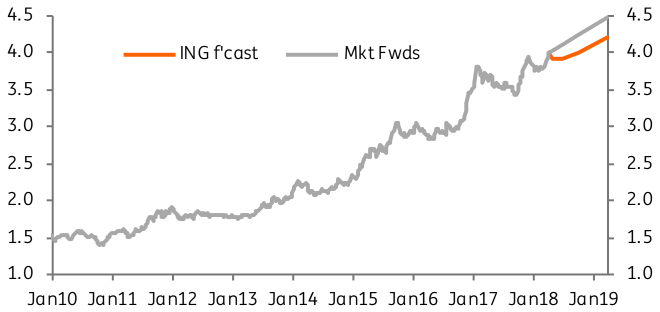
USD/TRY

TRY in the spotlight again **Current spot: 4.00**



Source: Bloomberg, ING

- TRY has been vulnerable to shifts in geopolitical risk, while large external imbalances, persistently high inflation in comparison to CBT rates and residents' inclination to hold FX deposits have been the factors that have long weighed on TRY's performance. With higher-than-expected February inflation, Moody's downgrade and further widening of the external deficit, TRY has weakened again recently. Accordingly, we are around the spot level of the USD/TRY peak of early 2017, while the 50:50 USD:EUR basket has moved to an all-time high.
- We think the high risk adjusted carry and attractive TRY valuation should limit the extent of weakness. However, the global outlook will remain key and high CPI may erode TRY undervaluation.

ING forecasts (mkt fwd)	**1M** 3.90 (4.04)	**3M** 3.90 (4.11)	**6M** 4.00 (4.23)	**12M** 4.20 (4.48)

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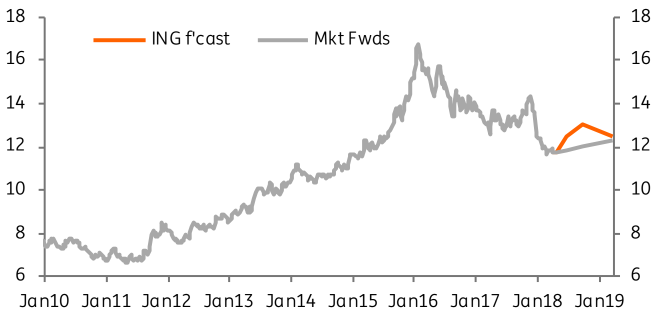
USD/ZAR

Has the rally got legs? **Current spot: 11.69**



Source: Bloomberg, ING

- ZAR continues to perform well and continues to receive inflows into both equity and debt markets. Moody's recent revision in the outlook for local currency debt from negative to stable was the icing on the cake. After major collapses the ZAR has recovered 60% (2001-03) and 45% (2009-11). The current recovery from the low is already 35% - could we see another 10% recovery, taking USD/ZAR to 10.50?
- Our medium term fair value model has the ZAR 11% overvalued – so we think further gains will be hard won. That said, ZAR stability could see more aggressive SARB cuts, helping SAGBs.
- Yet headwinds to EM from US yields later this year (10-year USTs to 3.4% this summer) should hold ZAR gains in check.

ING forecasts (mkt fwd)	**1M** 11.75 (11.74)	**3M** 12.50 (11.83)	**6M** 13.00 (11.97)	**12M** 12.50 (12.23)

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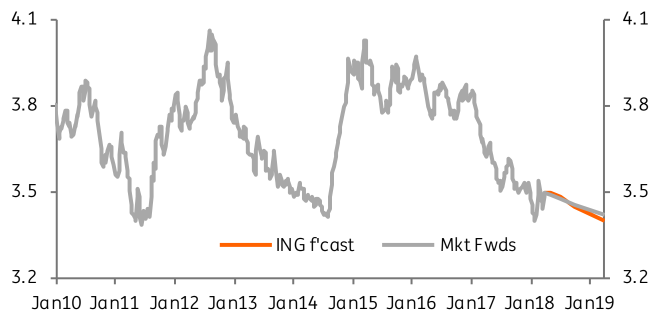
USD/ILS

Middle East tensions to escalate in May? **Current spot: 3.50**



Source: Bloomberg, ING

- Two months of consolidation in the broader dollar trend has allowed USD/ILS to trade in a broad 3.40-3.50 range. The BoI should welcome this, meaning that it doesn't need to intervene as much in FX markets. Domestically growth trends seem positive, although CPI remains incredibly low – at just 0.2% YoY. Despite tight labour markets, broader price trends are clearly not picking up & the BoI is warning against a loss of competitiveness.
- Typically Middle-east tension has not played a major role in the ILS. However, a more hawkish White House threatens to stoke tensions with Iran over coming months, suggesting investors may not be quite so keen to run risk in Israeli asset markets.

ING forecasts (mkt fwd)	**1M** 3.50 (3.49)	**3M** 3.48 (3.48)	**6M** 3.45 (3.46)	**12M** 3.40 (3.42)

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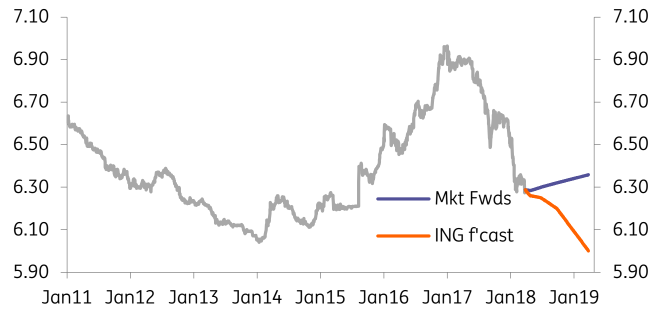
Asia

USD/CNY

Hopes of trade tension receding are still alive

Current spot: 6.2891



Source: Bloomberg, ING

- CNY appreciated 0.3% against USD on the trading day following the US announcement of US$50bn tariff on Chinese exports, and has been the second-best Asian FX performer since.
- China's US$3bn counter tariff seems too small but it's a strong retaliatory signal message from China. Subsequent suggestions by US Treasury Secretary Mnuchin of a possible compromise keeps hopes alive of trade tensions receding.
- We consider CNY one of the biggest early-beneficiaries of the better sentiment towards global trade. And as one of our most bullish calls this year, the resumption of CNY gains is encouraging. Despite a New Governor, we do not see the PBoC's currency policy changing materially in 2018.

ING forecasts (FWDs)	**1M** 6.2600 (6.2841)	**3M** 6.2500 (6.2999)	**6M** 6.2000 (6.3202)	**12M** 6.0000 (6.3584)

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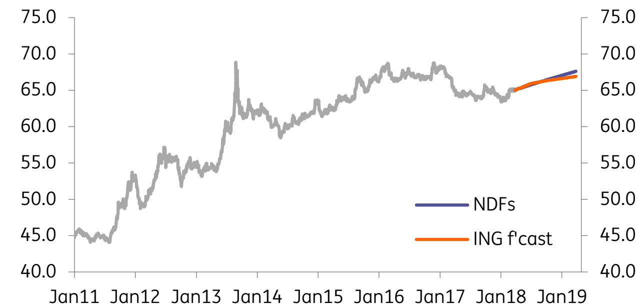
USD/INR

Some good economic news, not all

Current spot: 65.03



Source: Bloomberg, ING

- USD/INR has returned to a narrow trading range around 65 in March. The stability stems from positive economic news on growth and inflation, while recent steps by the government to stem the bond market sell-off may help it further.
- The government has capped the bond issuance for 1H FY19 to 47% of the full-year borrowing plan, a departure from the usual front-loading of up to two-thirds of annual borrowing in the period. The move postpones the woes of the bond market but doesn't eliminate them as the government still needs to borrow more to fund a wider fiscal deficit.
- Persistent inflation risk has prompted a revision to our forecast for RBI policy to two rate hikes in FY19 from none.

ING forecasts (FWDs)	**1M** 65.30 (65.26)	**3M** 65.90 (65.72)	**6M** 66.30 (66.38)	**12M** 66.90 (67.62)

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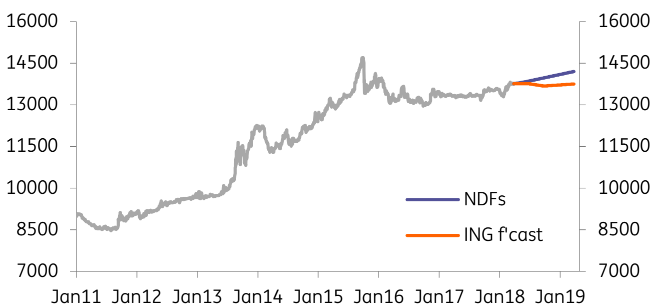
USD/IDR

Two key risks for the central bank

Current spot: 13757



Source: Bloomberg, ING

- March was a better month for the USD/IDR with reduced volatility. The pair settled in a narrow trading range of 13700-13800.
- Bank Indonesia, the central bank, kept monetary policy on hold in March as the government is expected to moderate administered price increases to keep CPI inflation under control. We expect inflation to stay within BI's target range of 2.5-4.5% over the forecast horizon. We also forecast no change to BI policy in 2018.
- Pressure on public finances has increased due to oil prices and the level of the Indonesian rupiah, both of which are significantly higher than this year's budget assumptions. An excessive IDR weakness may challenge our view of steady BI policy this year.

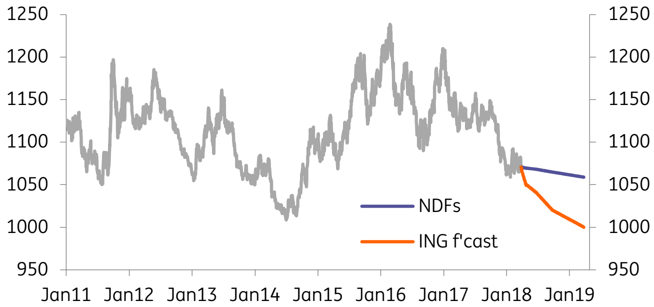
ING forecasts (NDFs)	**1M** 13760 (13783)	**3M** 13760 (13852)	**6M** 13675 (13967)	**12M** 13750 (14199)

Joey Cuyegkeng, Philippines +63 2479 8855

USD/KRW

Next stop 1000

Current spot: 1071



Source: Bloomberg, ING

- Despite having one of the strongest economies in the Asia region, the KRW was not immune to the market volatility that hit Asian FX markets in February and March.
- The news-flow on both activity and inflation has been generally stronger than expected over the last month in Korea, though nonetheless, it appears to be running at a slightly more moderate pace than it was doing through most of 2017. Thoughts of a BoK tightening remain extremely distant.
- As one of the first currencies to be sold when times were looking less promising, we would expect the KRW to be one of the first to gain in a more supportive backdrop.

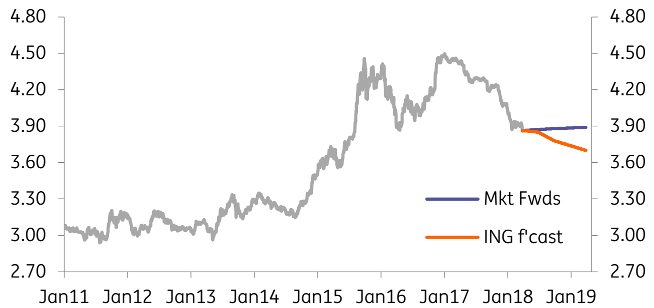
ING forecasts (NDFs)	**1M** 1050 (1069)	**3M** 1040 (1068)	**6M** 1020 (1065)	**12M** 1000 (1059)

Rob Carnell, Singapore +65 6232 6020

USD/MYR

Rising election heat as inflation cools

Current spot: 3.8620



Source: Bloomberg, ING

- USD/MYR has stabilized around 3.90 level since February after a sharp fall from 4.23 in previous three months. With 3.9% year-to-date appreciation the MYR remains an Asian outperformer.
- Manufacturing continues to support GDP growth coming into 2018 while inflation has started to slow despite a sustained strong wage growth. We reiterate our view of a gradual normalization of BNM monetary policy with one more 25bp rate hike in the third quarter, once the political uncertainty lifts.
- The political heat is rising ahead of general elections to be held by August. PM Najib is expected to dissolve parliament anytime to hold the election, in which his ruling coalition is set to contest against the opposition led by former PM Mahathir.

ING forecasts (FWDs)	**1M** 3.8600 (3.8661)	**3M** 3.8500 (3.8721)	**6M** 3.7800 (3.8793)	**12M** 3.7000 (3.8900)

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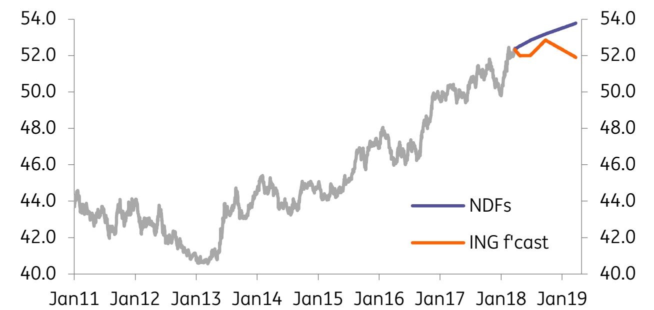
USD/PHP

Three factors keep PHP on weakening bias

Current spot: 52.34



Source: Bloomberg, ING

- The PHP remains on a weakening bias with the authorities' tolerance of a weaker currency, wider trade deficits, and relatively dovish central bank. The USD/PHP fiscal assumption is a range with the low end at PHP52 from PHP51 previously.
- A surprisingly strong 9.7% YoY remittances growth in January was of little help for the PHP while trade deficit also narrowed to US$3.3bn in January from a record US$4bn hit in December. An inadequate remittances cover for the trade deficit continues to be the main negative for the currency.
- The Central bank (BSP) left the policy unchanged in March on hopes that the latest inflation spike above 4% was transitory. This prompted us to expect no change to the BSP policy in all of 2018.

ING forecasts (NDFs)	**1M** 52.00 (52.53)	**3M** 52.00 (52.84)	**6M** 52.85 (53.19)	**12M** 51.90 (53.78)

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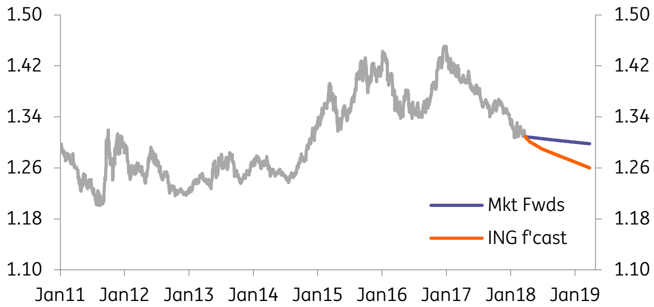
USD/SGD

Domestic economy a concern despite GDP growth

Current spot: 1.3089



Source: Bloomberg, ING

- The looming April MAS call remains a very tough forecast. We recently chopped out our long-standing call for a slight strengthening of the NEER target from April onwards, brought on by a combination of mixed data and trade war fears.
- We are still comfortable with this change in view, though in truth, the raging spat on global trade was one of the factors driving the change of forecast, and this is no longer looking such a threat.
- The SGD NEER recovered some lost ground during March. And if the global backdrop is improving, then we should see the SGD trading slightly stronger against the USD for an overall steady trade weighted exchange rate over the rest of the year.

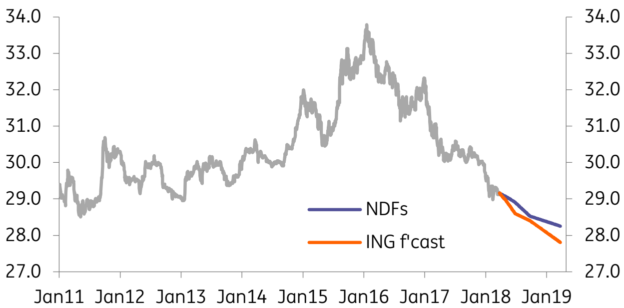
ING forecasts (FWDs)	**1M** 1.3000 (1.3080)	**3M** 1.2900 (1.3061)	**6M** 1.2800 (1.3032)	**12M** 1.2600 (1.2980)

Rob Carnell, Singapore +65 6232 6020

USD/TWD

Trade war the main risk to our growth optimism

Current spot: 29.16



Source: Bloomberg, ING

- If trade tensions escalate, we assume the US dollar would be weaker against major currencies. We expect USD/TWD to reach 28.00 by the end of the year and so far our forecast is on track.
- With tourism and electronics exports proceeds both firmer, the economy is in a good shape, and we expect it to grow by 3.2% in 2018, well above the consensus of 2.7%. If anything, the escalation of a trade war will be the main risk to our forecast.
- As expected, the central bank (CBC) kept the monetary policy on hold at the quarterly meeting in March. New CBC governor, Yang Chin-long pointed to stable inflation being the main policy stance. We forecast on-hold CBC policy in all of 2018.

ING forecasts (NDFs)	**1M** 29.00 (29.08)	**3M** 28.60 (28.87)	**6M** 28.40 (28.53)	**12M** 27.80 (28.22)

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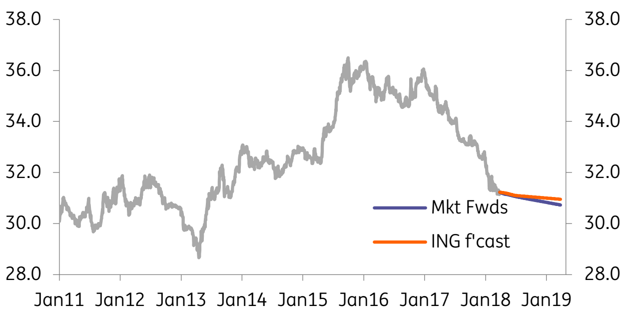
USD/THB

Re-pricing for narrowing trade surplus, political risk

Current spot: 31.23



Source: Bloomberg, ING

- Despite the reduced pace of appreciation over the last two months, THB remains the best performing Asia ex-japan currency this year with 4.6% year-to-date appreciation against the USD.
- Persistent large trade and current account surpluses support positive sentiment toward the THB even as the trade surplus narrowed by US$1.7bn YoY in the first two months of 2018. At this rate, the account surplus should drop below 10% of GDP in 2018 from around 11% in the last two years.
- We believe re-pricing for narrower external surplus and lingering political uncertainty surrounding the timing of general elections will weigh on the THB performance going forward. We forecast a tight range trading of USD/THB around 31 in the next 12 months.

ING forecasts (FWDs)	**1M** 31.20 (31.16)	**3M** 31.10 (31.06)	**6M** 31.05 (30.95)	**12M** 30.95 (30.73)

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ING foreign exchange forecasts

EUR cross rates	Spot	1M	3M	6M	12M	USD cross rates	Spot	1M	3M	6M	12M
Developed FX											
EUR/USD	1.24	1.25	1.28	1.28	1.31						
EUR/JPY	131.1	131.25	134.40	131.84	131.00	USD/JPY	106.18	105	105	103	100
EUR/GBP	0.88	0.87	0.88	0.88	0.85	GBP/USD	1.41	1.44	1.45	1.45	1.54
EUR/CHF	1.18	1.17	1.18	1.22	1.25	USD/CHF	0.95	0.94	0.92	0.95	0.95
EUR/NOK	9.66	9.55	9.50	9.40	9.30	USD/NOK	7.82	7.64	7.42	7.34	7.10
EUR/SEK	10.25	10.30	10.20	10.10	10.00	USD/SEK	8.30	8.24	7.97	7.89	7.63
EUR/DKK	7.451	7.450	7.450	7.455	7.460	USD/DKK	6.03	5.96	5.82	5.82	5.69
EUR/CAD	1.59	1.59	1.59	1.56	1.56	USD/CAD	1.289	1.27	1.24	1.22	1.19
EUR/AUD	1.61	1.60	1.64	1.60	1.54	AUD/USD	0.77	0.78	0.78	0.80	0.85
EUR/NZD	1.71	1.74	1.73	1.68	1.64	NZD/USD	0.72	0.72	0.74	0.76	0.80
EMEA											
EUR/PLN	4.21	4.23	4.16	4.14	4.12	USD/PLN	3.40	3.38	3.25	3.23	3.15
EUR/HUF	312.5	312.00	310.00	306.00	301.00	USD/HUF	253.0	250	242	239	230
EUR/CZK	25.46	25.4	25.2	25.0	24.8	USD/CZK	20.61	20.3	19.7	19.5	18.9
EUR/RON	4.65	4.68	4.70	4.70	4.67	USD/RON	3.77	3.74	3.67	3.67	3.56
EUR/HRK	7.44	7.43	7.37	7.30	7.40	USD/HRK	6.03	5.94	5.76	5.70	5.65
EUR/RSD	118.5	118.0	118.0	117.0	116.0	USD/RSD	96.0	94.4	92.2	91.4	88.5
EUR/RUB	71.22	71.6	73.6	74.5	76.8	USD/RUB	57.68	57.3	57.5	58.2	58.6
EUR/UAH	32.68	33.8	35.8	36.5	38.6	USD/UAH	26.47	27.00	28.00	28.50	29.50
EUR/KZT	394.5	393.8	396.8	403.2	419.2	USD/KZT	319.2	315	310	315	320
EUR/TRY	4.95	4.88	4.99	5.12	5.50	USD/TRY	4.00	3.90	3.90	4.00	4.20
EUR/ZAR	14.54	14.7	16.0	16.6	16.4	USD/ZAR	11.77	11.75	12.50	13.00	12.50
EUR/ILS	4.33	4.38	4.45	4.42	4.45	USD/ILS	3.50	3.50	3.48	3.45	3.40
LATAM											
EUR/BRL	4.12	4.05	4.22	4.42	4.26	USD/BRL	3.34	3.24	3.30	3.45	3.25
EUR/MXN	22.61	23.3	24.6	24.1	24.4	USD/MXN	18.30	18.60	19.20	18.80	18.60
EUR/CLP	748.25	744	774	781	812	USD/CLP	605.72	595	605	610	620
EUR/ARS	24.87	24.75	25.73	26.30	28.10	USD/ARS	20.14	19.80	20.10	20.55	21.45
EUR/COP	3444.00	3563	3776	3712	3760	USD/COP	2774.89	2850	2950	2900	2870
EUR/PEN	3.98	4.04	4.11	4.10	4.18	USD/PEN	3.23	3.23	3.21	3.20	3.19
Asia											
EUR/CNY	7.78	7.83	8.00	7.94	7.86	USD/CNY	6.30	6.26	6.25	6.20	6.00
EUR/HKD	9.69	9.80	10.04	10.05	10.22	USD/HKD	7.85	7.84	7.84	7.85	7.80
EUR/IDR	17063	17200	17613	17504	18013	USD/IDR	13764	13760	13760	13675	13750
EUR/INR	80.81	81.6	84.4	84.9	87.6	USD/INR	65.18	65.30	65.90	66.30	66.90
EUR/KRW	1326.13	1313	1331	1306	1310	USD/KRW	1070.74	1050	1040	1020	1000
EUR/MYR	4.79	4.83	4.93	4.84	4.85	USD/MYR	3.86	3.86	3.85	3.78	3.70
EUR/PHP	64.90	65.0	66.6	67.6	68.0	USD/PHP	52.35	52.0	52.0	52.85	51.9
EUR/SGD	1.62	1.63	1.65	1.64	1.65	USD/SGD	1.31	1.30	1.29	1.28	1.26
EUR/TWD	36.16	36.3	36.6	36.4	36.4	USD/TWD	29.16	29.0	28.6	28.4	27.8
EUR/THB	38.64	39.0	39.8	39.7	40.5	USD/THB	31.29	31.2	31.1	31.1	31.0

Source: Bloomberg, ING

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