Economic & Financial Analysis

FX

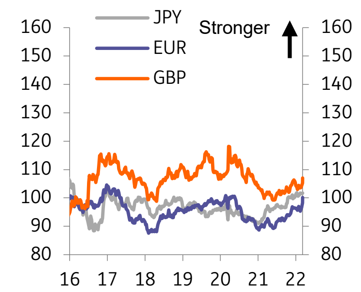
8 March 2022

FX Strategy

FX Talking

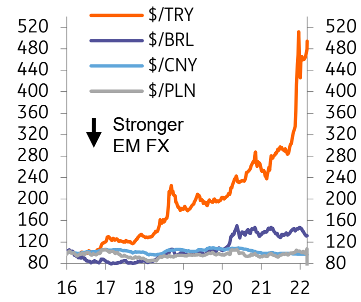
Tectonic shifts in FX

USD/Majors (5 Jan 14=100)



Source: Refinitiv, ING forecast

USD/EM (5 Jan 14=100)



Source: Refinitiv, ING forecast

The tragic events unleashed by Putin's war in Ukraine have also triggered major shifts in global financial markets, including FX. The net macro-financial effect is a stagflationary one – where the world will be left with lower growth, higher inflation and greater uncertainty. Understandably, the dollar will stay in demand as long as the war continues

European currencies have borne the brunt of hostilities, where trade and financial linkages leave their currencies in harm's way. It is not just geopolitical risk, but also the exposure to Russian fossil fuel imports – imports which cannot be easily substituted. Europe is suffering a negative income shock – and one which policy makers may seek to address with a fiscal solution. Expect EUR/USD to trade in a 1.05-1.10 range near term. A Fed still determined to hike – by 4-6 times this year – will keep the dollar bid.

Eastern European currencies remain – literally – on the front line. Local central banks are using rate hikes and now FX intervention to limit losses. We would expect a quick snapback in these currencies were the crisis to take a positive turn. The same probably cannot be said for the Russian Rouble, where counterparty sanctions suggest it is moving to non-deliverable status, with an uncertain future depending on sanctions.

The commodity supply shock has also triggered winners and losers around the world, depending on which side of the import/export ledger one sits. We are concerned by the near-term fate of most emerging currencies, however. The freeze of Russian assets means that the buy-side will have to sell other liquid investments to meet redemptions.

Outperforming has been the Renminbi – enjoying its new-found status as a safe-haven currency. The increase in Russia-China trade will inevitably now see greater use of CNY.

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.08	→	116	↑	1.32	↑
3M	1.10	↑	117	↑	1.34	↑
6M	1.12	↑	118	↑	1.35	↑
12M	1.14	↑	120	↑	1.36	↑
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.82	→	25.40	↑	4.80	↓
3M	0.82	↓	25.00	→	4.60	↓
6M	0.83	→	24.80	↓	4.55	↓
12M	0.84	→	24.50	↓	4.50	↓
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	6.32	↑	21.50	↑	5.30	↑
3M	6.35	↑	21.00	↓	5.50	↑
6M	6.40	↑	21.00	↓	5.60	↑
12M	6.50	↑	21.00	↓	5.75	↑

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

Source: Refinitiv, ING forecast

FX performance

	EUR/USD	USD/JPY	EUR/GBP	EUR/NOK	NZD/USD	USD/CAD
%MoM	-4.2	0.3	-1.3	-2.4	2.8	1.1
%YoY	-8.6	6.3	-3.3	-3.0	-4.7	1.8
	USD/UAH	**USD/KZT**	**USD/BRL**	**USD/MXN**	**USD/CNY**	**USD/TRY**
%MoM	6.1	18.6	-3.0	2.7	-0.7	7.1
%YoY	8.1	21.6	-10.1	19.5	-2.9	90.7

Source: Refinitiv, ING forecast

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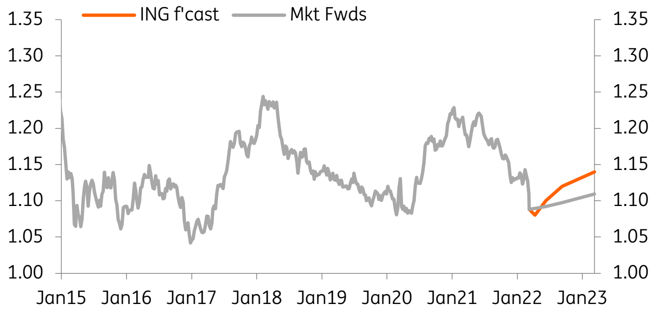
Developed markets

EUR/USD

War in Europe

Current spot: 1.0882



Source: Refinitiv, ING forecasts

- President Putin's terrifying invasion of Ukraine has altered Europe's political landscape. It is also a crisis that is most keenly felt in Europe, depressing growth (by 1%) and raising inflation. Understandably the dollar has been favoured and the Fed still seems comfortable with the market pricing anywhere between four and six hikes this year.
- Liquidity, safety and relative energy independence will keep the dollar in demand as long as this crisis continues.
- Our team still expect the ECB to hike in December. The best hope for EUR/USD stability/recovery, unless hostilities cease, is some kind of coordinated FX intervention – probably closer to 1.00.

ING forecasts (mkt fwd)	1M 1.08 (1.0895)	3M 1.10 (1.0920)	6M 1.12 (1.0972)	12M 1.14 (1.1092)

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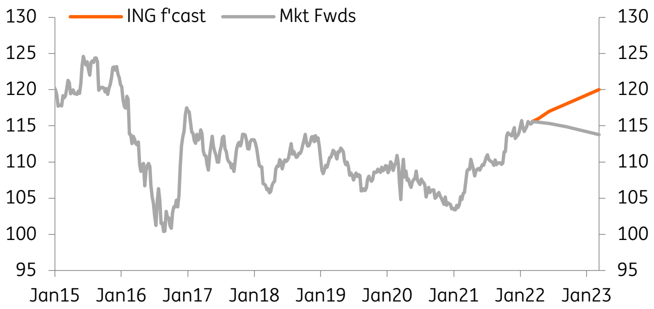
USD/JPY

Yen manages to hold its own with the dollar's rally

Current spot: 115.58



Source: Refinitiv, ING forecasts

- After the commodity currencies, the JPY has been the best performing currency since Russia invaded Ukraine on February 24th. The performance matched that of the dollar and is consistent with the JPY's anti-cyclical status and its position as the third most liquid currency after the USD and EUR.
- The challenge for the JPY is the dramatic decline in Japan's terms of trade as import prices of fossil fuels go through the roof. This will weigh on Japan's external position (trade etc).
- Give that the Fed looks committed to launching its tightening cycle this year (part of US inflation is domestically generated), we still prefer the strong dollar environment dragging $/JPY to 120.

ING forecasts (mkt fwd)	1M 116.00 (115.50)	3M 117.00 (115.32)	6M 118.00 (114.89)	12M 120.00 (113.76)

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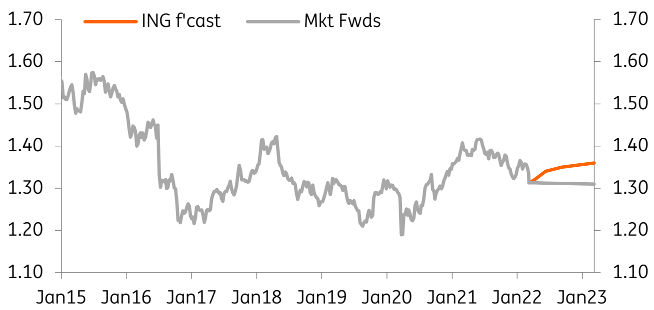
GBP/USD

Dragged lower with Europe

Current spot: 1.3129



Source: Refinitiv, ING forecasts

- The strong dollar has led GBP/USD lower – even though GBP has performed quite well versus European FX. Unless hostilities end soon, it looks as though GBP/USD can drop (perhaps briefly) into the 1.28 area.
- The surge in natural gas prices, where the UK is a big importer from Norway, means the BoE will probably hike twice more this year – taking the Bank Rate to 1.00%. But a further rise in energy prices will really start to hit consumption later this year.
- A recovery in Cable towards year-end is based on the view that European currencies enjoy a reprieve in 2H22. That thesis is under heavy pressure and downside GBP risks should be hedged.

ING forecasts (mkt fwd)	1M 1.32 (1.3127)	3M 1.34 (1.3122)	6M 1.35 (1.3110)	12M 1.36 (1.3100)

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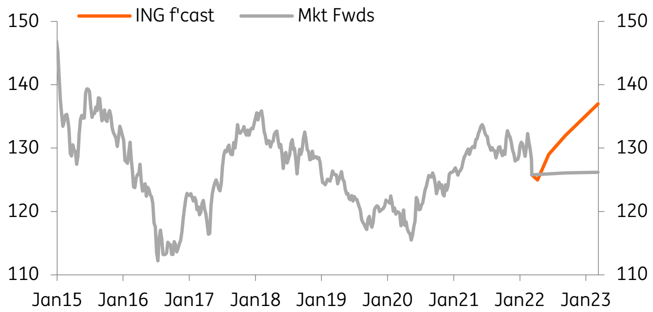
EUR/JPY

Bear market hedge **Current spot: 125.78**



Source: Refinitiv, ING forecasts

- Events in Ukraine have seen EUR/JPY break down from its 128-134 range as investors insert an understandable risk premium into European asset markets. The ECB will be caught between dealing with both the hit to growth and with higher inflation. We expect it to be flexible, but certainly that bullish EUR momentum seen in January on a hawkish ECB has been lost.
- The timing of EUR/JPY's recovery will depend on the length of the conflict and whether ECB can deliver a first hike in 4Q22.
- Some in the BoJ have been sounding less dovish. A stronger JPY would help insulate against higher commodity prices. Yet so far Japanese policymakers have no qualms about the weaker JPY.

ING forecasts (mkt fwd)	1M 125.00 (125.83)	3M 129.00 (125.93)	6M 132.00 (126.07)	12M 137.00 (126.21)

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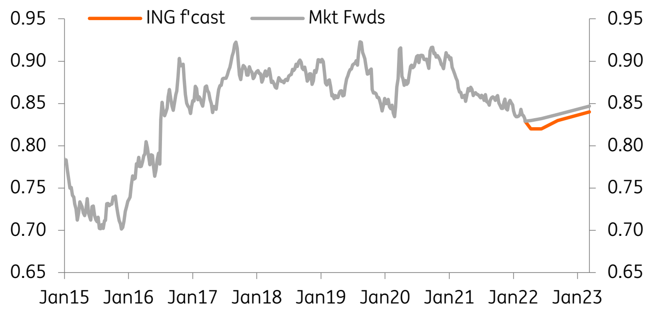
EUR/GBP

UK equity out-performance **Current spot: 0.8290**



Source: Refinitiv, ING forecasts

- While the UK is not a commodity exporter, it does have exposure to this sector through its equity markets. Energy and materials (extraction) have around a 25% weight in the FTSE 100 versus a 15% weight for European equity benchmarks. UK equities have substantially outperformed Europe – perhaps helping GBP.
- EUR/GBP continues to grind lower and is now retracing some of the surge seen in June 2016 on the back of the Brexit referendum. We suspect that GBP can grind out some further gains, but EUR/GBP should turn higher if the ECB hikes in 4Q22.
- We will also need to look into whether the oil sector's divestment of Russian assets is in some way helping GBP too.

ING forecasts (mkt fwd)	1M 0.82 (0.8299)	3M 0.82 (0.8322)	6M 0.83 (0.8369)	12M 0.84 (0.8467)

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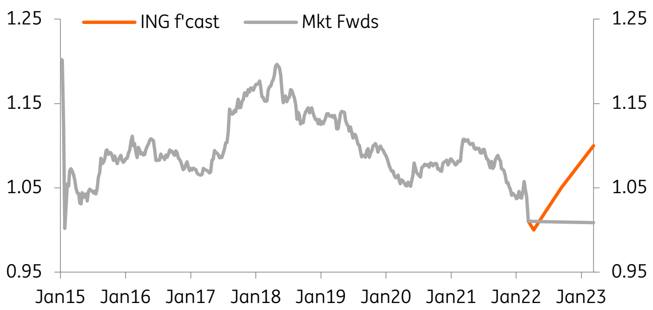
EUR/CHF

SNB shows greater tolerance to CHF strength **Current spot: 1.0105**



Source: Refinitiv, ING forecasts

- War in Europe has briefly seen EUR/CHF trade under 1.00 for the first time since the removal of the 1.20 floor in early 2015. Given the SNB's interventionist credentials, expectations are high that the SNB will want to resist this drop in EUR/CHF.
- Yet the SNB continues to point to the trade-weighted levels of the Swiss Franc as opposed to EUR/CHF itself. And when taking into account inflation differentials, the real, trade-weighted CHF is still some 10% below the highs seen in summer 2011.
- It now seems unclear that the ECB will be hawkish enough to turn this EUR/CHF trend around – and a recovery may not be seen until a new equilibrium has been found in European politics.

ING forecasts (mkt fwd)	1M 1.00 (1.0103)	3M 1.02 (1.0100)	6M 1.05 (1.0096)	12M 1.10 (1.0087)

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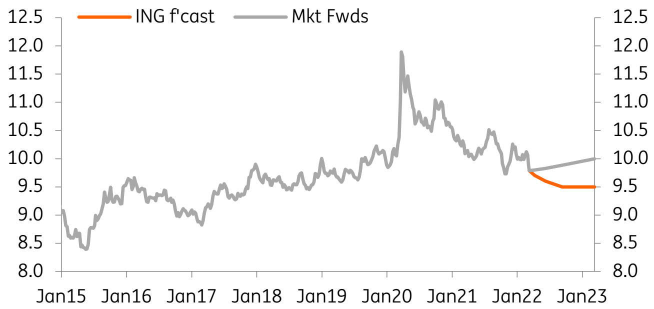
EUR/NOK

Gas prices help NOK amid risk-off

Current spot: 10.37



Source: Refinitiv, ING forecasts

- In the sphere of European currencies, NOK is standing out as a relative outperformer, as sharply rising oil and gas prices continue to offer some shield to the krone despite risk aversion.
- From a monetary policy perspective, the commodity rally likely argues in favour of more or faster tightening by Norges Bank. We think gradual, 25bp rate increases should remain the norm, but that the risks are skewed towards more than the four rate hikes that we currently forecast for 2022.
- As long as gas prices remain elevated, we think EUR/NOK downside risks will prevail in the near term. We target 9.50 by year-end but could see a move to such levels much earlier should Russia's gas flow to Europe be disrupted.

ING forecasts (mkt fwd)	1M 9.70 (9.80)	3M 9.60 (9.83)	6M 9.50 (9.88)	12M 9.50 (10.00)

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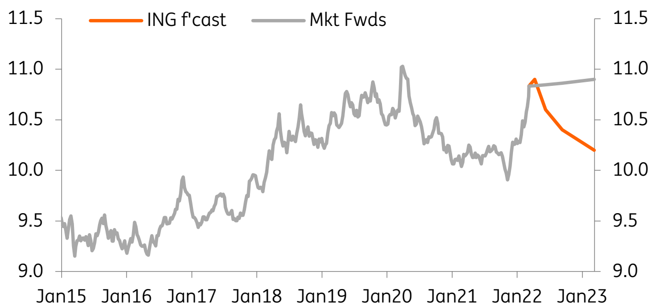
EUR/SEK

Short-term downside risks remain elevated for SEK

Current spot: 10.08



Source: Refinitiv, ING forecasts

- SEK has been the worst performing currency in G10 since the start of the Ukraine crisis, having lost around 8% versus the dollar in the past month.
- EUR/SEK is not particularly overvalued (1%) in the short-term, according to our estimates. This suggests that upside risks for the pair remain sizeable given the SEK's high beta to European sentiment and the lack of any benefits from higher commodity prices (unlike NOK) or from any domestic tightening cycle.
- The Riksbank may start reducing its balance sheet this year, but any hike before 2023 seems unlikely. This limits the krona's upside potential even if geopolitical risk dissipates.

ING forecasts (mkt fwd)	1M 10.90 (10.86)	3M 10.60 (10.87)	6M 10.40 (10.88)	12M 10.20 (10.92)

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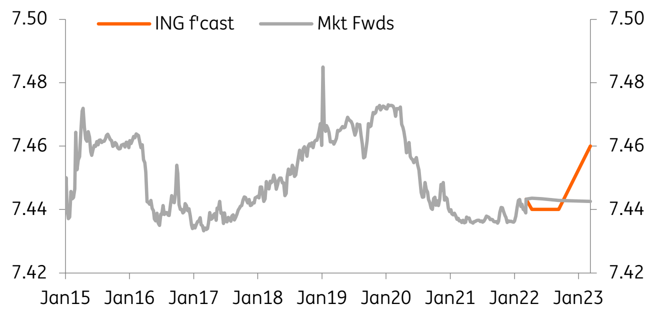
EUR/DKK

DKK bonds emerge as safe havens

Current spot: 7.438



Source: Refinitiv, ING forecasts

- EUR/DKK has been on a depreciating trend since the start of the conflict in Ukraine, following EUR/USD lower. High demand for Denmark's T-bills suggests that markets are looking at the DKK market as a safe haven, which could help to keep EUR/DKK pressured as geopolitical risks persist.
- The Danmarks Nationalbank's did not intervene in the FX market to support the peg for a second consecutive month in February, but with EUR/DKK approaching the bottom of the Bank's tolerance band, we expect a pickup in interventions in March.
- For now, it seems likely that FX interventions will be sufficient to support EUR/DKK, but we could see rising speculation around another rate cut should the pair continue to trend lower.

ING forecasts (mkt fwd)	1M 7.44 (7.44)	3M 7.44 (7.44)	6M 7.44 (7.44)	12M 7.46 (7.44)

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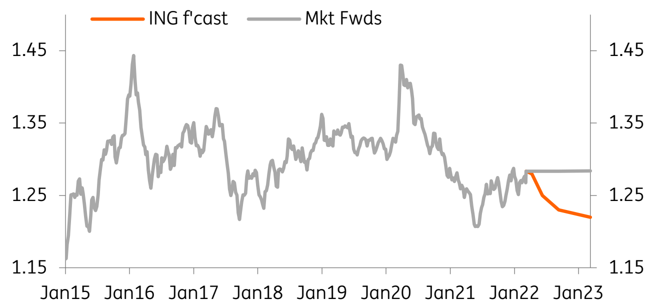
USD/CAD

Oil offering protection to CAD **Current spot: 1.283**



Source: Refinitiv, ING forecasts

- The loonie is somewhat protected from the spillovers of the Ukrainian conflict, largely thanks to the rise in crude prices.
- Domestically, the Bank of Canada has started its tightening cycle with a 25bp hike, and we expect another 125bp of tightening by the end of the year, which are fully warranted by a supportive labour and inflation backdrop.
- The short-term outlook remains tied to whether Western economies will self-impose curbs to Russian oil imports, which could continue to support CAD in the crosses (especially vs European currencies). USD/CAD downside now looks more limited, but a move below 1.25 in 2H22 is still plausible.

ING forecasts (mkt fwd)	1M 1.28 (1.283)	3M 1.25 (1.283)	6M 1.23 (1.283)	12M 1.22 (1.284)

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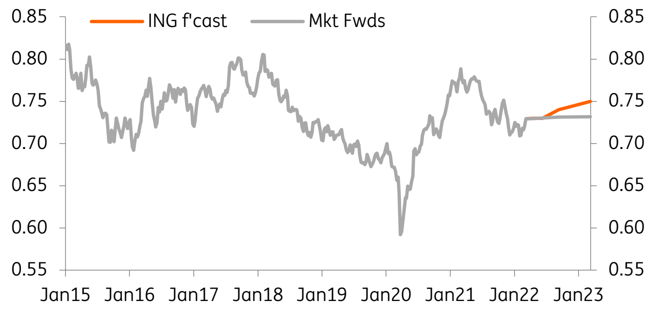
AUD/USD

The big outlier **Current spot: 0.729**



Source: Refinitiv, ING forecasts

- AUD and NZD have performed strongly since the start of the conflict in Ukraine, having attracted most pro-cyclical trades thanks to their reduced geographical exposure, high beta to commodities and positive re-pricing of China's growth outlook.
- The RBA remains tied to wage growth dynamics, and may have to wait until May (when wage data is published) to lay out a tightening plan. Rate expectations still look too hawkish though, meaning somewhat contained medium-term upside for AUD.
- Iron ore prices are back on the rise thanks to high expectations on China's demand and the global commodity rally. Let's see whether a strong CNY prompts a more relaxed stance on high iron ore prices.

ING forecasts (mkt fwd)	1M 0.73 (0.730)	3M 0.73 (0.730)	6M 0.74 (0.731)	12M 0.75 (0.732)

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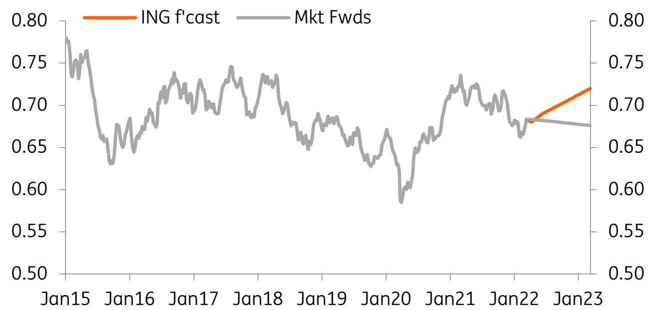
NZD/USD

RBNZ hawkishness a medium-term positive **Current spot: 0.683**



Source: Refinitiv, ING forecasts

- The RBNZ hiked by another 25bp in February, signalled a terminal rate at 3.25% in 2023 and started quantitative tightening. We see no reason at the moment to think the Bank will underdeliver, which should allow NZD to benefit from an attractive rate profile in the medium-term.
- Like AUD, the Kiwi dollar is a market favourite, and the same reasons that have supported it in the past weeks should continue to offer help NZD in the near term. However (unlike AUD), NZD is around 2% overvalued in the short-term, which could limit the upside potential to NZD/USD.
- We think that a move to 0.70 by the summer is possible, and we target 0.72 by year-end in NZD/USD.

ING forecasts (mkt fwd)	1M 0.68 (0.683)	3M 0.69 (0.682)	6M 0.70 (0.680)	12M 0.72 (0.676)

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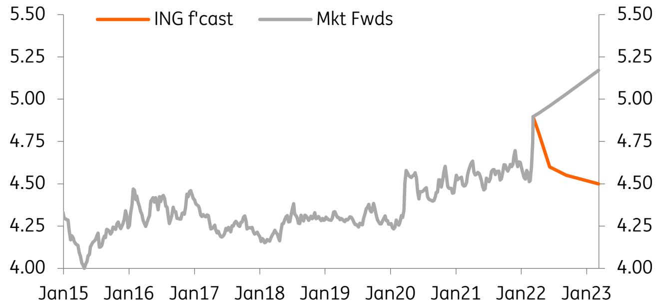
Emerging markets

EUR/PLN

PLN bleeds as the war rages on **Current spot: 4.90**



Source: Refinitiv, ING forecasts

- The zloty will likely remain under pressure as the conflict continues. Analysts suggest fighting may intensify in western Ukraine, close to the Polish border, adding to political and military risks. NBP FX interventions are expected to remain focused on trimming volatility, rather than defending any particular level. Medium-term PLN prospects have improved somewhat though, as MoF wants to convert EU funds via the FX market.
- On our estimates, the zloty is very heavily undervalued based on other market variables (particularly the difference in long rates against the euro). We see short-term €/PLN fair value around 4.50. This suggests big potential for PLN appreciation as soon as global tensions subside.

ING forecasts (mkt fwd)	**1M** 4.80 (4.92)	**3M** 4.60 (4.96)	**6M** 4.55 (5.03)	**12M** 4.50 (5.17)

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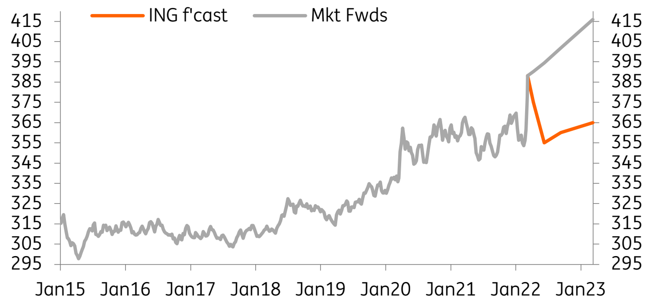
EUR/HUF

Despite the landslide we see better times for the forint **Current spot: 388.09**



Source: Refinitiv, ING forecasts

- Investors are moving to hard currency in these dark days. HUF was not able to resist the exodus from risk assets, reaching a new record at 399 vs EUR.
- The verbal intervention and then the 75bp emergency 1-week deposit rate hike by the National Bank of Hungary in early March showed that it is ready to fight pro-inflationary pressures. We expect more rate hikes to come, although it is questionable how effective rate hikes can be at times like these.
- But they are something and, with crowded positioning, could prevent EUR/HUF moving much higher, sticking around 375. With the hoped-for de-escalation we see HUF returning to 355 quickly.

ING forecasts (mkt fwd)	**1M** 375.0 (390.19)	**3M** 355.0 (394.45)	**6M** 360.0 (401.83)	**12M** 365.0 (415.96)

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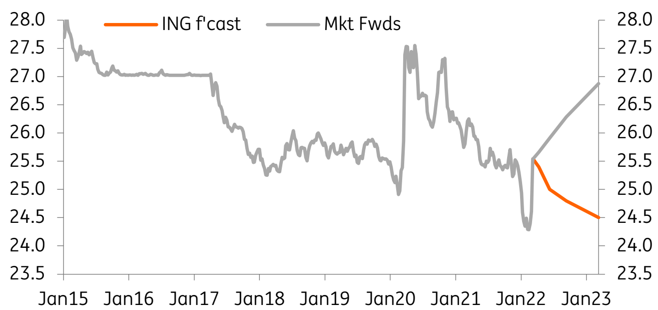
EUR/CZK

CNB joins the intervention club **Current spot: 25.54**



Source: Refinitiv, ING forecasts

- The CNB announced intervention on the FX market to "mitigate excessive fluctuations and depreciation of the koruna". Governor Rusnok did not want to comment on specific levels. However, he suggested that the spot level where the CNB started to intervene is a pain threshold for the central bank (near 26.00).
- Thus, we expect the CZK to stabilise and start appreciating again when the situation improves. The near-record interest rate differential and the prospect of further rate hikes should also support CZK towards stronger levels.
- The market currently expects the peak in key rate at 5% in the coming months, but we believe the rate may go above that level due to new inflationary pressures and a weaker FX.

ING forecasts (mkt fwd)	**1M** 25.40 (25.66)	**3M** 25.00 (25.91)	**6M** 24.80 (26.28)	**12M** 24.50 (26.87)

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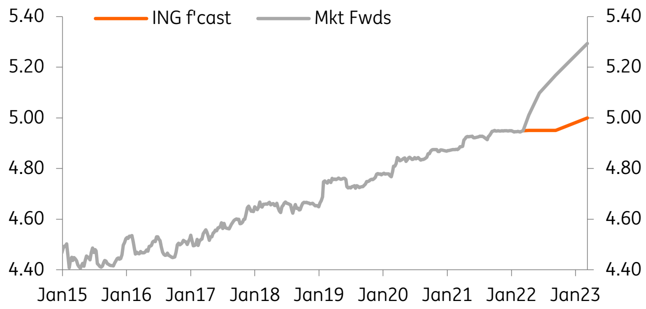
EUR/RON

NBR hands-on at 4.95

Current spot: 4.95



Source: Refinitiv, ING forecasts

- Amid the current crisis, the NBR seems more determined than ever to maintain the EUR/RON flat close to 4.95, as suggested by the meaningfully increased turnover observed over reent days.
- The liquidity situation will likely come into play as well, as we expect high carry rates to deter RON shorts. Currently, all implied yields above 1 month are trading in the 5.00-6.00% range, hence strongly decoupled from the key rate.
- In this context, the key rate level itself might become less relevant. We still expect the key rate at 4.00% by year-end. Risks to this forecast are not to the upside anymore, due to the economic slowdown and global environment.

ING forecasts (mkt fwd)	1M 4.95 (5.01)	3M 4.95 (5.10)	6M 4.95 (5.17)	12M 5.00 (5.29)

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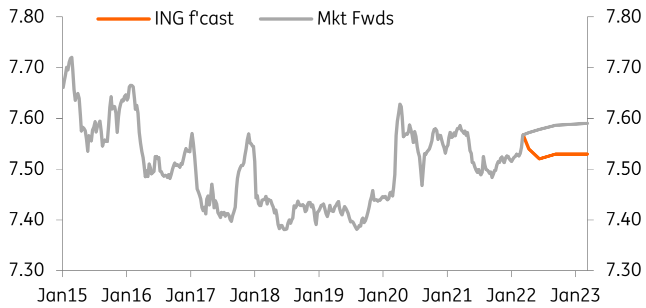
EUR/HRK

Not much can go wrong before 1 January 2023?

Current spot: 7.57



Source: Refinitiv, ING forecasts

- With the conflict in Ukraine intensifying, the Croatian National Bank intervened in the FX market for the first time since June 2021, selling EUR171m at an average rate of 7.5625
- Growth-wise, 4Q21 marked a 0.1% contraction versus the previous quarter and we find little reason to hope for an expansion in 1Q22. We have revised our GDP growth estimate for 2022 from an already below-consensus 4.1% to 3.2%. Risks remain to the downside as the Ukraine conflict could severely dampen consumer sentiment throughout Europe and by extension the tourist season.
- We maintain our year-end EUR/HRK forecasts at 7.53. The recent events are unlikely to prevent euro adoption at 1 January 2023.

ING forecasts (mkt fwd)	1M 7.54 (7.57)	3M 7.52 (7.58)	6M 7.53 (7.59)	12M 7.53 (7.59)

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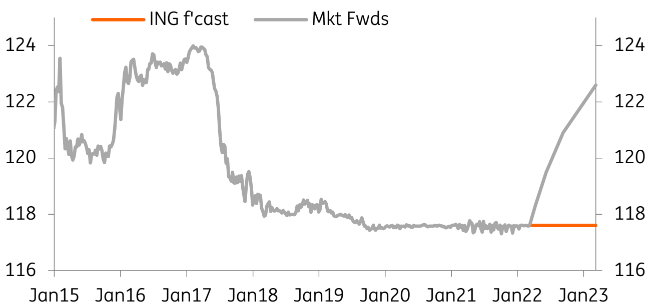
EUR/RSD

NBS still unmoved

Current spot: 117.55



Source: Refinitiv, ING forecasts

- Despite inflation exceeding 8.0% in Jan-22, the key rate looks set to stay at 1.00% in March as well. The average weighted rate in reverse repo auctions climbed from 0.11% in Oct-2021 to 0.86% in early March-2022.
- We still believe that NBS will catch up with rate hikes, most likely beginning with April meeting for which we estimate a 50bp hike.
- By all means, FX stability around 117.6 will most likely remain a top priority and we think that interventions will become one-sided for some time. This will also put pressure on NBS to hike at the April meeting.

ING forecasts (mkt fwd)	1M 117.60 (117.60)	3M 117.60 (117.75)	6M 117.60 (118.18)	12M 117.60 ()

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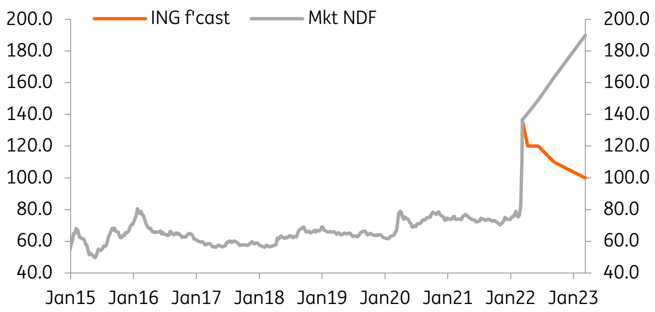
USD/RUB

Tectonic shift in the macro case **Current spot: 136.63**



Source: Refinitiv, ING forecasts

- Military hostilities in Ukraine, several rounds of international sanctions and Russian economic countermeasures completely changed the macro framework for the Russian FX market, which was built on a huge $640bn in international reserves.
- The Bank of Russia no longer has access to its reserves in USD, EUR, JPY, CAD, and AUD, potentially cutting the ruble's fair value by 30-50%. Severe cuts to credit ratings and other restrictive two-way measures lower the attractiveness of portfolio investments. Local private capital outflow is also a concern, causing reinstatement of mild to moderate capital controls.
- On the constructive side, Russia's current account may reach $200+ bn this year, on lower imports amid stable export volumes and higher prices. Exporters are now forced to sell 80% of revenues, replacing CBR in this role. The latest updates from UST and CBR suggest Russia will be able to continue servicing its relatively small foreign debt despite sanctions.

ING forecasts (mkt fwd)	1M 120.00 (140.65)	3M 120.00 (149.08)	6M 110.00 (163.35)	12M 100.00 (189.99)

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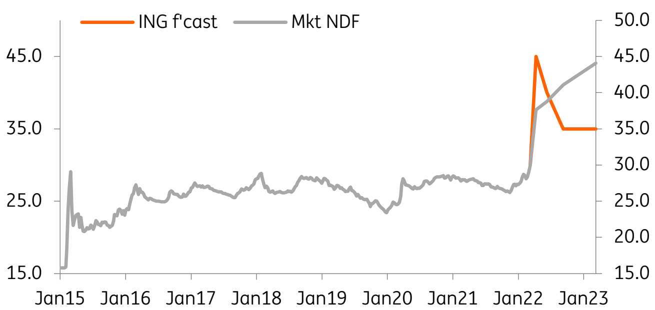
USD/UAH

Politics remain the key driver **Current spot: 30.05**



Source: Refinitiv, ING forecasts

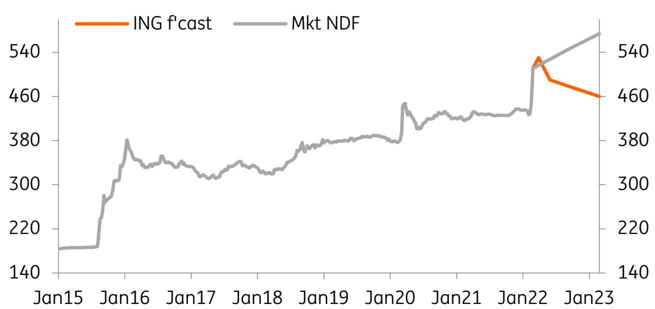
- The hryvnia remains at a major risk, as the country is engulfed in war. The longer the conflict, the higher its economic costs (including war damage). Previous Russian aggression saw a devastating impact on Ukraine GDP, even though conflicts were contained territorially (-7% in 2014 and -10% in 2015).
- Th end of the war, with Ukraine retaining independence from Russia (even if agreeing not to enter NATO in the foreseeable future) would be a major support for the currency, as investors bet on sizable international economic support and the prospects of EU entry.

ING forecasts (mkt fwd)	1M 45.00 (37.62)	3M 40.00 (38.78)	6M 35.00 (41.10)	12M 35.00 (44.09)

Piotr Poplawski, Warsaw +48 22 820 4078

USD/KZT

Tenge trading range shifts on contagion effect **Current spot: 510.32**



Source: Refinitiv, ING forecasts

- In February, KZT fell by 14% to 496, reflecting contagion effect from Russia, the country's main trade partner. To stabilize capital outflows, NBK raised interest rates by 325bp to 13.5% and rolled out $275m in interventions.
- The military conflict in Ukraine resulted in a material increase in oil prices without any noticeable foreign policy risks for Kazakhstan due its neutral stance. Kazakhstan may also benefit from some capital outflow from Russia. Kazakhstan oil exports via Russian infrastructure (CPC and Transneft, over 80% of Kazak oil exports) are a cause for uncertainty.
- We have shifted our USD/KZT forecast in the 460-530 range to reflect uncertainties surrounding the Russia-Ukraine conflict and the global implications.

ING forecasts (mkt fwd)	1M 530.00 (516.22)	3M 490.00 (527.40)	6M 480.00 (543.60)	12M 460.00 (573.93)

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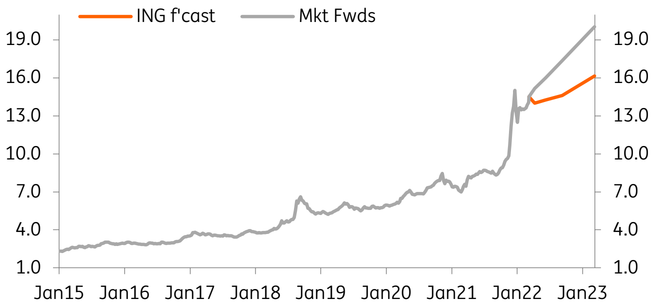
USD/TRY

Risks are on the rise **Current spot: 14.50**



Source: Refinitiv, ING forecasts

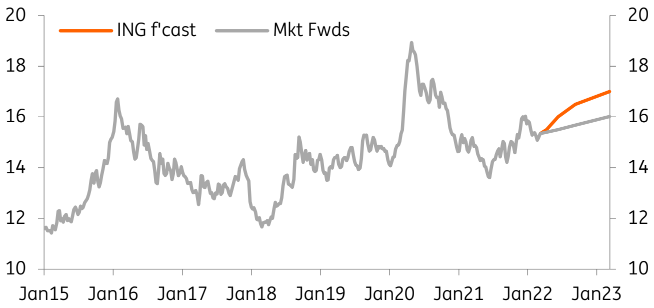
- There are growing risks to the currency outlook: including (i) an acceleration in lending that feeds into local FX demand. This could increase inflationary pressures via accelerating domestic demand along with a weaker currency and put pressure on the c/a balance, (ii) escalating geopolitical risks lead to further inflationary challenges and widening external imbalances via agricultural products and energy (either with price effects or possible trade drags), and (iii) ongoing tightening of global central bank policies can weigh on TRY, given the still-large external financing requirements.
- Given this backdrop, the durability and attractiveness of the FX protected TRY deposit scheme will be key for TRY performance.

ING forecasts (mkt fwd)	1M 14.00 (15.16)	3M 14.25 (16.00)	6M 14.60 (17.35)	12M 16.15 (20.03)

Muhammet Mercan, Istanbul +90 212 329 0751

USD/ZAR

Rand caught between commodities and EMFX risk **Current spot: 15.34**



Source: Refinitiv, ING forecasts

- The ZAR has been riding its luck recently. Despite the ZAR typically having a high beta to global risk, the Russian supply shock has sent commodities higher and benefitted South Africa's terms of trade. Recall that South Africa's key exports are Rhodium, Iron Ore, Platinum and Coal. Prices have all risen here – but not by the stratospheric margins of natural gas and wheat.
- The market expects the SARB to continue its gradual tightening (policy rates now 4.00% off core inflation at 3.5%), but we suspect rates are not high enough to protect the ZAR.
- We are worried that EM investment products are about to see heavy outflows on Russia – and the ZAR looks vulnerable.

ING forecasts (mkt fwd)	1M 15.50 (15.39)	3M 16.00 (15.50)	6M 16.50 (15.67)	12M 17.00 (16.01)

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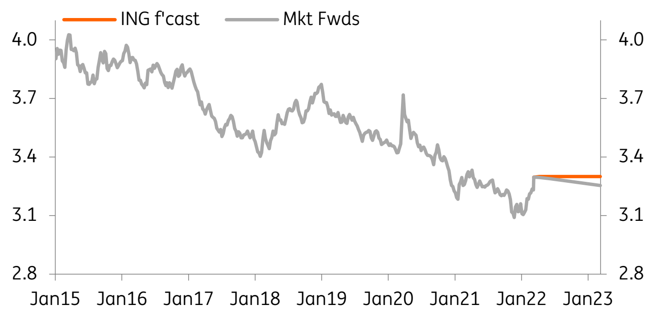
USD/ILS

International environment turns the tide on strong ILS **Current spot: 3.30**



Source: Refinitiv, ING forecasts

- USD/ILS continues to drift higher as emerging market currencies more broadly start to take the strain of war in Europe. The surge in energy prices has been a big negative for Israel's terms of trade – despite Israel having gas – and will shrink what has otherwise been an impressive current account surplus.
- Growth is still expected around 5% this year after a revised 8% last year. But we doubt the Bank of Israel is yet ready to tighten – even though CPI at 3.1% YoY is above target.
- We suspect the ILS might be caught up in the exodus from EM local currency products – where ILS government bonds recently joined the Bloomberg aggregate index with a 4% weighting.

ING forecasts (mkt fwd)	1M 3.30 (3.29)	3M 3.30 (3.29)	6M 3.30 (3.28)	12M 3.30 (3.25)

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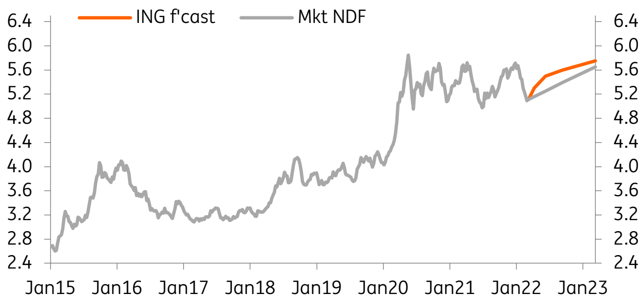
LATAM

USD/BRL

Temporary out-performance **Current spot: 5.11**



Source: Refinitiv, ING forecasts

- BRL remains the strongest EMFX performer this year, up 10% against the USD. Driving that performance must still be equity flows, where data suggests we have seen three months of uninterrupted foreign inflows – worth close to $15bn. 11.5% hedging costs means though equity flow can't have been hedged
- While one could argue that Brazil benefits from higher prices for its commodity exports, disruption to the fertilizer market (Russia is a key supplier) warns for the new planting season.
- Growth near 0.3% this year, inflation still at 10/11% and what should be a close Presidential election in October, warns that Brazilian assets and BRL struggle to hold into early year gains.

ING forecasts (NDF)	1M 5.30 (5.16)	3M 5.50 (5.25)	6M 5.60 (5.39)	12M 5.75 (5.65)

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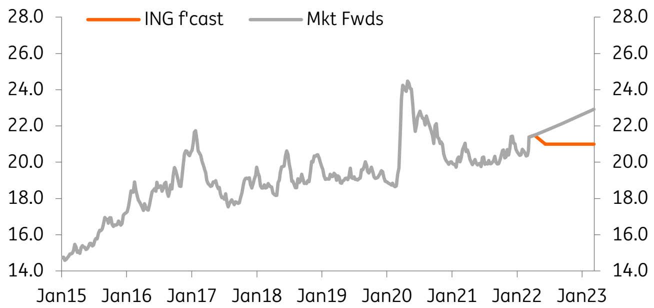
USD/MXN

Peso's main risk looks to be external **Current spot: 21.38**



Source: Refinitiv, ING forecasts

- As we write this the Peso is starting to come under pressure and traded volatility levels are rising. Weighing on MXN is probably its major role in the EM local currency investment universe - it has an 8-10% weight in some local currency EM bond indices. The huge disruption caused by events in Russia may have to see some MXN assets sold to meet redemptions.
- Locally, Banxico has recently cut its 2022 GDP estimate to 2.4% from 3.2%, citing the war. Nonetheless, expect Banxico to match Fed hikes this year – meaning the policy rate goes to 7.50%.
- Were it not for the war, USD/MXN would be steady near 20.50. But EM local currency is now at risk – meaning outside risk to 22.

ING forecasts (mkt fwd)	1M 21.50 (21.50)	3M 21.00 (21.74)	6M 21.00 (22.13)	12M 21.00 (22.93)

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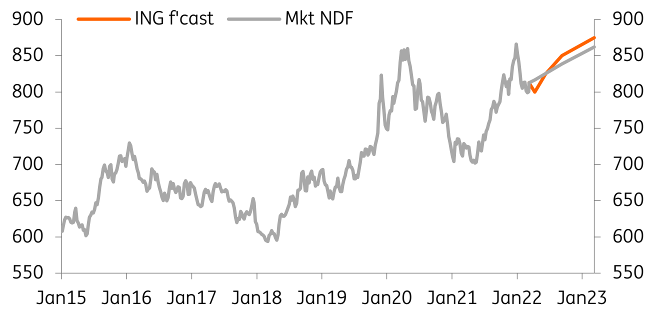
USD/CLP

Copper story is a big +ve for CLP, but politics remains risk **Current spot: 812.56**



Source: Refinitiv, ING forecasts

- The CLP has held onto recent gains as events in Ukraine and the disruption to Russian exports have sent copper prices surging. Many think that copper prices (now $10,700/MT) have a lot of room to move higher. That should be good for the Peso and a break of 790 in USD/CLP opens up 720.
- Also encouraging has been the new Constitutional Convention rejecting some of the more extreme proposals over property rights – which critics argue would undermine investment.
- The market expects another 300bp of tightening in the policy rate (now 5.50%), but we're worried how the new Administration copes with weak growth after last year's 12% GDP boom.

ING forecasts (NDF)	1M 800 (816.76)	3M 825 (825.61)	6M 850 (838.76)	12M 875 (862.26)

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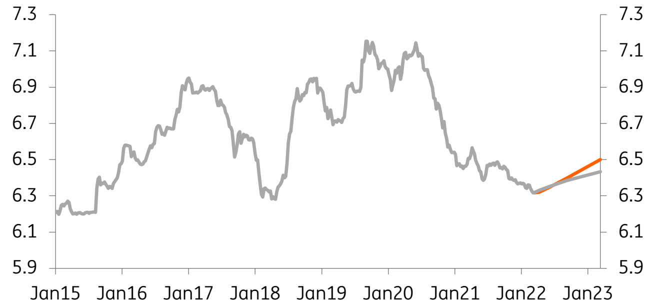
Asia

USD/CNY

A safe haven **Current spot: 6.32**



Source: Refinitiv, ING forecasts

- Investors have been confident in yuan assets. As a result, the CNY has acquired the status of a safe haven currency as geopolitical tensions increase.
- The size of onshore yuan assets held by foreign investors has increased as several global stock and bond indices have included yuan assets since late 2021 and early 2022.
- The confidence in yuan assets comes from the stability of the onshore financial system (in spite of property development issues) and pro-growth policies. We expect that some central banks may be holding more yuan assets in preference to USD, giving support to the yuan's safe-haven status.

ING forecasts (mkt fwd)	1M 6.320 (6.33)	3M 6.350 (6.35)	6M 6.400 (6.39)	12M 6.500 (6.43)

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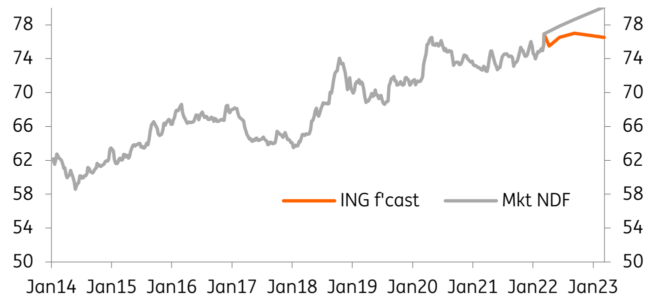
USD/INR

INR to be pressured by higher oil/food prices **Current spot: 76.93**



Source: Refinitiv, ING forecasts

- 4Q21 GDP came in at 5.4%YoY, a bit lower than the 5.9% Consensus expectation and the INR pushed up toward the 75.50 area on the back of these figures, close to where we expect it will finish the quarter.
- With India one of the economies in Asia with the largest energy trade deficits and highest weights of food and energy in the CPI basket, the Russia-Ukraine conflict could see India coming under more pressure than most of the rest of Asia.
- The INR has been trading in a wide range, and is prone to sharp swings, but trend is higher, and we think it is more likely to stay pressured near 76.50 rather than return to 74.50 from here.

ING forecasts (mkt fwd)	1M 75.50 (77.23)	3M 76.50 (77.83)	6M 77.00 (78.62)	12M 76.50 (80.13)

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USD/IDR

IDR closes stronger driven by hopes for reopening **Current spot: 14397.50**

Source: Refinitiv, ING forecasts

- IDR moved sideways in February, managing to close slightly stronger for the month. IDR initially benefited from optimism surrounding growth prospects before retreating on heightened geopolitical tensions and a surge in Covid cases.
- Bank Indonesia (BI) kept policy rates untouched but showed some willingness to eventually hike rates "should inflation become a concern". We expect inflation to heat up, prompting BI policy action by 2Q.
- IDR will likely move sideways with a depreciation bias, ultimately taking its cue from global sentiment, though it could benefit from commodity price increases.

ING forecasts (mkt fwd)	1M 14350 (14427.00)	3M 14528 (14488.00)	6M 14625 (14577.50)	12M 14417 (14810.00)

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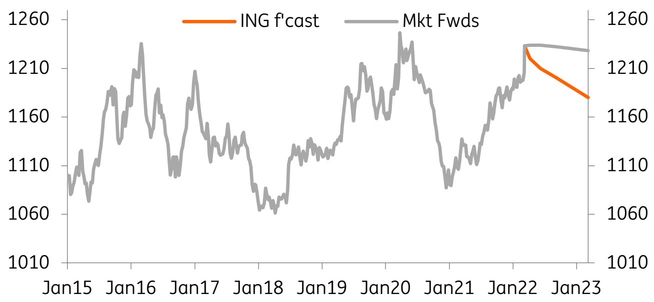
USD/KRW

BoK soon to resume its policy action

Current spot: 1233.05



Source: Refinitiv, ING forecasts

- The KRW's weakness this month was mainly due to net outflows of foreign investment in equity with the KOSPI down -9.2% ytd, the worst performer in the region. The trade deficits during the early months of the year might also have played a role.
- The Bank of Korea took a breather on rates this month, but given higher than expected inflation, is likely to resume its policy hike cycle soon once a new Governor is appointed.
- We expect the KRW to weaken to 1,240/50 in the short-term, mostly due to sliding risk sentiment. Sound fundamentals such as the current account surplus and outperformance of Korean manufacturers should bring the KRW to 1,180 by year-end.

ING forecasts (NDFs)	1M 1220 (1233.80)	3M 1210 (1233.90)	6M 1200 (1232.15)	12M 1180 (1228.24)

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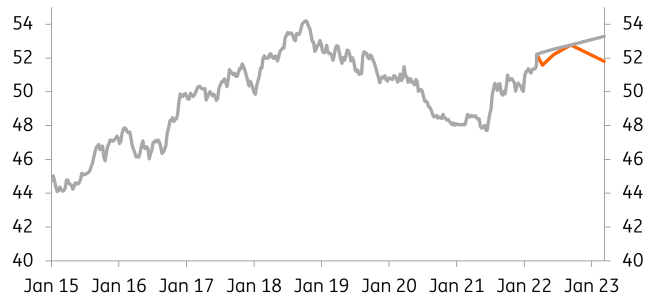
USD/PHP

PHP strengthens on stock flows before giving up gains

Current spot: 52.22



Source: Refinitiv, ING forecasts

- The PHP initially strengthened in February, buoyed by foreign inflows into the local equity market. The equity rally was driven by slowing Covid cases and expectations for further reopening. The PHP gave up gains eventually and came under more pressure as corporate dollar demand recovered and geopolitics weighed.
- Bangko Sentral ng Pilipinas (BSP) Governor, Diokno, reiterated his preference to keep policy rates untouched despite an upward adjustment to his 2022 inflation forecast.
- We expect PHP to remain under pressure in the near term given expectations for a wider trade deficit as oil prices continue to surge.

ING forecasts (mkt fwd)	1M 51.58 (52.33)	3M 52.21 (52.52)	6M 52.76 (52.77)	12M 51.81 (53.28)

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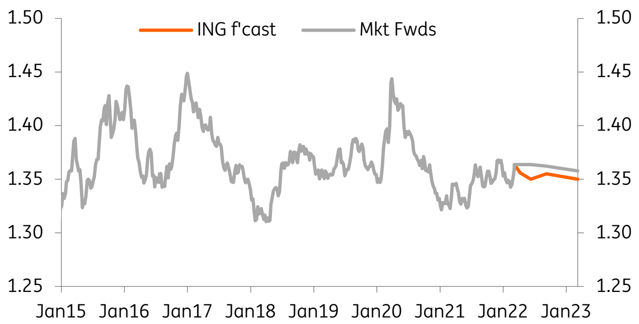
USD/SGD

SGD slips on risk off tone, MAS watches inflation

Current spot: 1.364



Source: Refinitiv, ING forecasts

- The SGD strengthened initially in February, on expectations for a hawkish stance from the Monetary Authority of Singapore. Inflation trended higher, suggesting potential further tightening at the April meeting. The burgeoning risk-off tone, however, resulted in the SGD weakening 0.5% for the month.
- The MAS will likely be wary of a potential acceleration in prices due to surging commodity prices. A more pronounced pick-up in price pressures could prod MAS into a more aggressive tightening stance in the near term.
- The SGD will likely remain rangebound until sentiment improves.

ING forecasts (mkt fwd)	1M 1.356 (1.364)	3M 1.350 (1.363)	6M 1.355 (1.362)	12M 1.350 (1.358)

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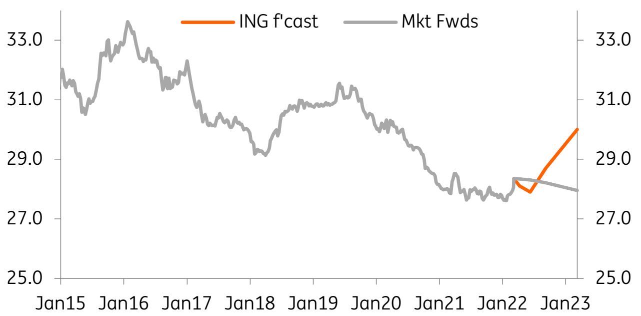
USD/TWD

TWD reversing trend in the midst of asset sales

Current spot: 28.35



Source: Refinitiv, ING forecasts

- It could be just that the market is taking advantage of the risk-off environment to take profits on Taiwan tech stocks and has triggered a sell-off of the TWD.
- But despite rising geopolitical tension, which may well be a particular factor for Taiwan, the comparative advantage of Taiwan being global leader in semiconductor production is not going to disappear overnight. And capital inflows into Taiwan will likely return once sentiment recovers – though the timing of that is clearly very hazy right now.
- Taiwan's central bank could also raise interest rates later in the year - more will be clear after the 17 March central bank meeting.

ING forecasts (mkt fwd)	1M 28.10 (28.34)	3M 27.90 (28.31)	6M 28.70 (28.21)	12M 30.00 (27.96)

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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	1.09	1.08	1.10	1.12	1.14						
EUR/JPY	125.8	125.28	128.70	132.16	136.80	USD/JPY	115.58	116	117	118	120
EUR/GBP	0.83	0.82	0.82	0.83	0.84	GBP/USD	1.31	1.32	1.34	1.35	1.36
EUR/CHF	1.01	1.00	1.02	1.05	1.10	USD/CHF	0.93	0.93	0.93	0.94	0.96
EUR/NOK	9.79	9.70	9.60	9.50	9.50	USD/NOK	8.99	8.98	8.73	8.48	8.33
EUR/SEK	10.83	10.90	10.60	10.40	10.20	USD/SEK	9.96	10.09	9.64	9.29	8.95
EUR/DKK	7.443	7.440	7.440	7.440	7.460	USD/DKK	6.84	6.89	6.76	6.64	6.54
EUR/CAD	1.40	1.38	1.38	1.38	1.39	USD/CAD	1.283	1.28	1.25	1.23	1.22
EUR/AUD	1.49	1.48	1.51	1.51	1.52	AUD/USD	0.73	0.73	0.73	0.74	0.75
EUR/NZD	1.59	1.59	1.59	1.60	1.58	NZD/USD	0.68	0.68	0.69	0.70	0.72
EMEA											
EUR/PLN	4.90	4.80	4.60	4.55	4.50	USD/PLN	4.50	4.44	4.18	4.06	3.95
EUR/HUF	388.1	375.00	355.00	360.00	365.00	USD/HUF	356.7	347	323	321	320
EUR/CZK	25.54	25.4	25.0	24.8	24.5	USD/CZK	23.48	23.5	22.7	22.1	21.5
EUR/RON	4.95	4.95	4.95	4.95	5.00	USD/RON	4.55	4.58	4.50	4.42	4.39
EUR/HRK	7.57	7.54	7.52	7.53	7.53	USD/HRK	6.96	6.98	6.84	6.72	6.61
EUR/RSD	117.6	117.6	117.6	117.6	117.6	USD/RSD	108.1	108.9	106.9	105.0	103.2
EUR/RUB	148.13	129.6	132.0	123.2	114.0	USD/RUB	136.63	120.0	120.0	110.0	100.0
EUR/UAH	33.73	48.6	44.0	39.2	39.9	USD/UAH	30.05	45.00	40.00	35.00	35.00
EUR/KZT	556.2	572.4	539.0	537.6	524.4	USD/KZT	510.3	530	490	480	460
EUR/TRY	15.78	15.12	15.68	16.35	18.41	USD/TRY	14.50	14.00	14.25	14.60	16.15
EUR/ZAR	16.69	16.7	17.6	18.5	19.4	USD/ZAR	15.34	15.50	16.00	16.50	17.00
EUR/ILS	3.59	3.56	3.63	3.70	3.76	USD/ILS	3.30	3.30	3.30	3.30	3.30
LATAM											
EUR/BRL	5.56	5.72	6.05	6.27	6.56	USD/BRL	5.11	5.30	5.50	5.60	5.75
EUR/MXN	23.26	23.2	23.1	23.5	23.9	USD/MXN	21.38	21.50	21.00	21.00	21.00
EUR/CLP	884.23	864	908	952	998	USD/CLP	812.56	800	825	850	875
Asia											
EUR/CNY	6.87	6.83	6.99	7.17	7.41	USD/CNY	6.32	6.32	6.35	6.40	6.50
EUR/IDR	15662	15498	15981	16380	16435	USD/IDR	14398	14350	14528	14625	14417
EUR/INR	83.71	81.5	84.2	86.2	87.2	USD/INR	76.93	75.50	76.50	77.00	76.50
EUR/KRW	1341.80	1318	1331	1344	1345	USD/KRW	1233.05	1220	1210	1200	1180
EUR/PHP	56.83	55.7	57.4	59.1	59.1	USD/PHP	52.22	51.58	52.21	52.76	51.81
EUR/SGD	1.48	1.46	1.49	1.52	1.54	USD/SGD	1.36	1.36	1.35	1.36	1.35
EUR/TWD	30.85	30.3	30.7	32.1	34.2	USD/TWD	28.35	28.1	27.9	28.7	30.0

Source: Refinitiv, ING

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