26 May 2020

FX Strategy

FX Talking

Blind optimism

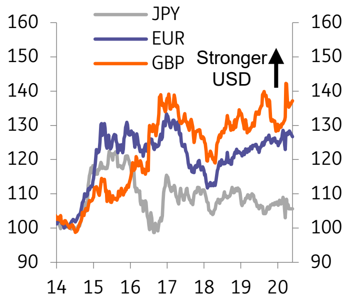
Over the last month we have seen a wave of confidence lift the high beta, commodity currency bloc – especially those EM currencies which had been hit hardest. At the same time concerns over a resumption in the US-China trade conflict has seen Asian FX underperform. What we have not seen, yet, are signs of a clear dollar bear trend emerging. That is still our call for the second half of the year – but several factors will need to fall into place first.

The turnaround in the energy market has probably played a big factor in driving appetite for commodity FX, including EM. A further, immediate rally in crude is not our team's call right now and suggests an extension in the global equity rally will have to rely on larger earnings multiples, also a difficult call given poor visibility on corporate earnings and on the economic environment after lockdowns ease.

Helping the risk environment would also be some transparency on Washington's strategy on China this year. Our assumption would be that President Trump would not want to open a fresh round in the trade war so close to November elections. More evidence of that, allowing a broader sell-off in $/Asia, would help confirm signs of the dollar topping.

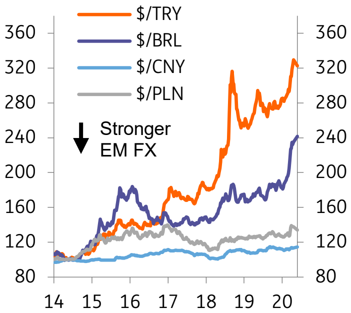
Before that, however, we suspect EUR/USD consolidates near 1.10 over coming months and GBP underperforms as the UK refuses to extend its EU transition period. European FX should stay reasonably supported. Latin FX has seen a big turnaround as local authorities show greater resistance to weakness, while Asia FX should continue fragile.

USD/Majors (5 Jan 14=100)



Source: Macrobond, ING

USD/EM (5 Jan 14=100)



Source: Macrobond, ING

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.10	↑	106	↓	1.21	↓
3M	1.12	↑	105	↓	1.22	↓
6M	1.18	↑	100	↓	1.31	↑
12M	1.15	↑	105	↓	1.31	↑
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.91	↑	27.20	↑	4.55	↑
3M	0.92	↑	27.00	→	4.50	↑
6M	0.90	↑	26.80	↓	4.47	↑
12M	0.88	↓	26.20	↓	4.42	↓
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	7.15	↑	22.00	↓	5.25	↓
3M	7.10	→	21.50	↓	5.10	↓
6M	7.05	↓	22.10	↓	4.85	↓
12M	7.00	↓	23.00	↓	4.70	↓

↑ / → / ↓ 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	0.8	-0.6	1.5	-3.2	2.8	-1.3
%YoY	-1.8	-2.3	1.1	11.4	-5.0	3.0
	USD/UAH	**USD/KZT**	**USD/BRL**	**USD/ARS**	**USD/CNY**	**USD/TRY**
%MoM	-1.2	-4.0	3.5	4.5	1.1	-1.1
%YoY	2.1	9.0	32.7	51.6	3.4	10.7

Source: Bloomberg, ING

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
London +44 20 7767 1610
chris.turner@ing.com

Petr Krpata, CFA
Chief EMEA FX and IR Strategist
London +44 20 7767 6561
petr.krpata@ing.com

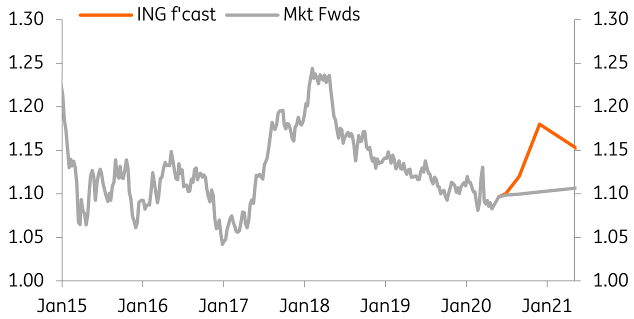
Francesco Pesole
Foreign Exchange Strategy
London +44 20 7767 6405
francesco.pesole@ing.com

View all our research on Bloomberg at ING5<GO>

Developed markets

EUR/USD

Risk On, Dollar Off **Current spot: 1.10**



Source: Bloomberg, ING

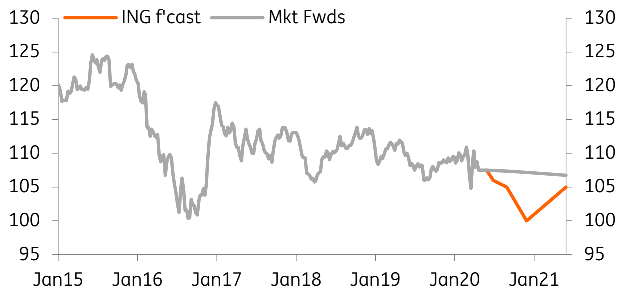
- The Fed's success in calming financial market volatility in March and April comes with a cost for the dollar – effectively wiping out any US yield advantage. This should be negative for the dollar via: i) foreign investors in US markets (especially bond markets) now able to run much higher dollar hedging ratios and ii) US asset managers looking for more attractive recovery stories overseas - when investor confidence fully returns – with a focus on EM.
- Europe is making some progress on an EU recovery fund and our team sees the risk of an EZ sovereign debt crisis contained this year.
- Our EUR/$ forecast of move up to 1.18/20 into year-end is based on an assumption of a benign global recovery – as yet uncertain.

ING forecasts (mkt fwd)	1M 1.10 (1.098)	3M 1.12 (1.100)	6M 1.18 (1.102)	12M 1.15 (1.107)

Chris Turner, London +44 20 7767 1610

USD/JPY

Stubbornly bid **Current spot: 107.51**



Source: Bloomberg, ING

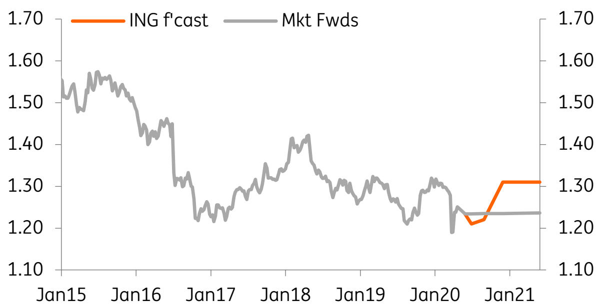
- USD/JPY is carving itself out a 106-108 trading range. We would have thought USD/JPY would be a little lower right now but issues like: i) Japanese banks still seems to be in need of dollars as judged by the latest $9bn take-up of the 7-day USD swap auction, ii) equities have generally stayed bid and iii) Japan's April trade deficit grew to nearly JPY1tr as exports fell 22% YoY.
- Over time, however, we still look for $/JPY to turn lower. A continued recovery in risk assets is far from assured and now the dollar has little protection in terms of growth or yield differentials.
- Bank of Japan is prepared to buy unlimited JGBS, but BoJ balance sheet expansion is unlikely to match that of the Fed, leaving $ vulnerable.

ING forecasts (mkt fwd)	1M 106.00 (107)	3M 105.00 (107)	6M 100.00 (107)	12M 105.00 (107)

Chris Turner, London +44 20 7767 1610

GBP/USD

Unprepared pound, under-priced risks **Current spot: 1.23**



Source: Bloomberg, ING

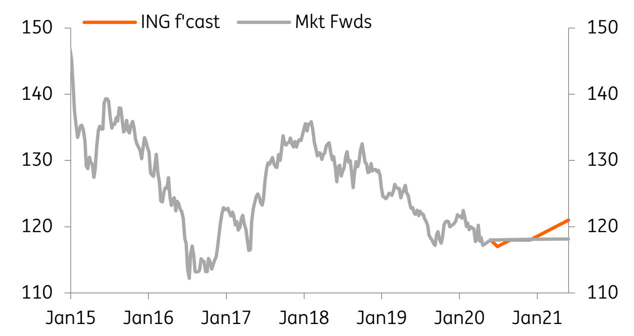
- Resurfacing hard Brexit risks and concerns about additional Bank of England easing measures are clear negatives for the unprepared pound.
- Not only is not enough risk premium priced into GBP spot, but the speculative GBP/USD shorts remain close to neutral (only 8% of open interest) while GBP implied volatility curve doesn't account for non-extension of the transition period and hard Brexit risks.
- We see BoE negative rates as unlikely but expect more QE. Should the UK economy enter a double-dip recession as a result of failed trade negotiations, the expectations of looser BoE policy and deteriorating fiscal stance (both in relative terms to its peers) should bring GBP lower. GBP/USD may dip below 1.20 in summer.

ING forecasts (mkt fwd)	1M 1.21 (1.23)	3M 1.22 (1.23)	6M 1.31 (1.23)	12M 1.31 (1.23)

Petr Krpata, London +44 20 7767 6561

EUR/JPY

Risks skewed lower **Current spot: 118.0**



Source: Bloomberg, ING

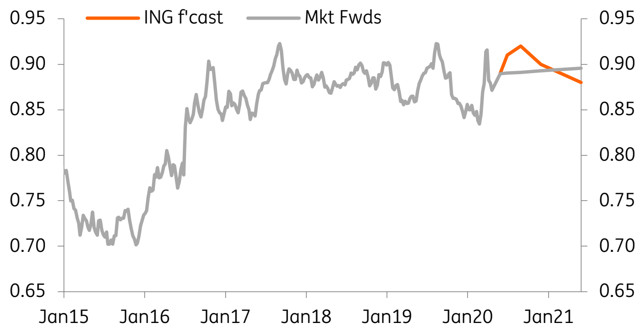
- The generally positive sentiment for equities and some re-assessment of European political risk has allowed EUR/JPY to recover a little ground. There could be more to come if the detractors of the EU recovery fund are placated and Europe witnesses grants to southern Europe backed by mutual debt. However, this story probably has a long road to travel first.
- Instead, the risk of any setback in equities would probably see JPY outperform. And that is our concern over coming months – ie, the equity rally is based on unrealistic earnings expectations.
- President Trump opening fresh fronts against China also make for a fragile risk environment, which could turn quite easily in 2Q.

ING forecasts (mkt fwd)	1M 117.00 (118)	3M 118.00 (118)	6M 118.00 (118)	12M 121.00 (118)

Chris Turner, London +44 20 7767 1610

EUR/GBP

Resurfacing no deal risk **Current spot: 0.89**



Source: Bloomberg, ING

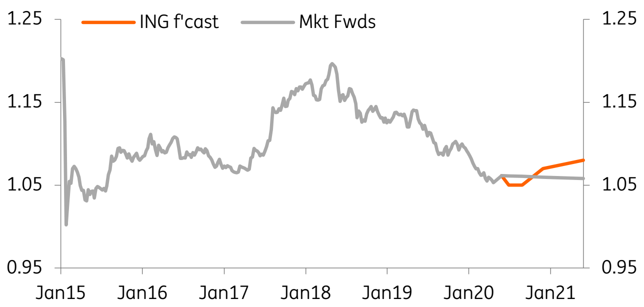
- We revise our GBP forecast lower as an extension of the transition period no longer seems likely. This should add pressure to GBP and send EUR/GBP to 0.91 by end-June. We note only limited risk premium (around 1%) is currently priced into the cross
- The uncertainty on whether the UK-EU trade deal is reached (with the process likely accompanied by unfriendly rhetoric from both sides) should keep GBP under pressure into summer as hard Brexit concerns resurface. EUR/GBP to keep moving higher to 0.92
- A trade deal struck by October remains our base case, but the uncertainty in its form and whether it is reached should remain high. There are clear upside risks to our 6-12m EUR/GBP forecast.

ING forecasts (mkt fwd)	1M 0.91 (0.89)	3M 0.92 (0.89)	6M 0.90 (0.89)	12M 0.88 (0.90)

Petr Krpata, London +44 20 7767 6561

EUR/CHF

Is 1.05 the new 1.20? **Current spot: 1.06**



Source: Bloomberg, ING

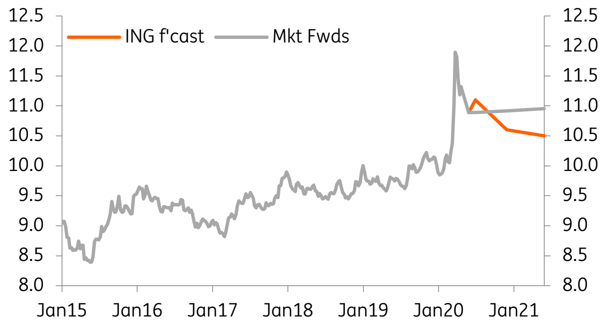
- It looks as though the Swiss National Bank has bought around CHF80bn so far this year to limit CHF appreciation. Intervention seemed to pick up near the 1.05 level in EUR/CHF, raising questions whether 1.05 is the new 1.20? (a reference to the 2011-2015 floor)
- We doubt the SNB is interested in confirming a new floor and in a recent article we lay out three reasons why: i) the real or inflated adjusted CHF is not at extremely strong readings, ii) the SNB would have to spend CHF180bn to match ECB balance sheet expansion this year and will not do so and iii) the SNB is falling foul of Washington's currency manipulation criteria.
- Expect rallies off 1.05 to prove shallow and temporary this year.

ING forecasts (mkt fwd)	1M 1.05 (1.06)	3M 1.05 (1.06)	6M 1.07 (1.06)	12M 1.08 (1.06)

Chris Turner, London +44 20 7767 1610

EUR/NOK

Near-term NOK upside limited, but bright outlook for 2H20 **Current spot: 10.89**



Source: Bloomberg, ING

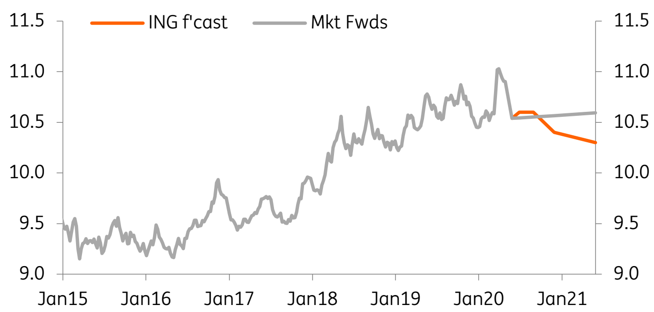
- The highly undervalued NOK benefited for the sharp recovery in energy. But with our commodity team seeing the recent spike in oil price as exaggerated, near term NOK upside looks limited.
- Norges Bank should be done with easing. Its last move brought rates to zero, and neither negative rates nor QE seem likely. The NB purchases of NOK (from liquidation of the oil fund assets denominated in foreign currencies) to fund the rising fiscal deficit are also beneficial for NOK, particularly when NB doesn't engage in QE.
- NOK upside remains larger vs SEK given its larger undervaluation, positive oil price outlook for 2H20 and no QE from the NB. Hence, NOK/SEK should continue its recovery towards parity.

ING forecasts (mkt fwd)	**1M 11.10** (10.89)	**3M 10.90** (10.90)	**6M 10.60** (10.92)	**12M 10.50** (10.96)

Petr Krpata, London +44 20 7767 6561

EUR/SEK

Big change in SEK fortunes – for the better **Current spot: 10.54**



Source: Bloomberg, ING

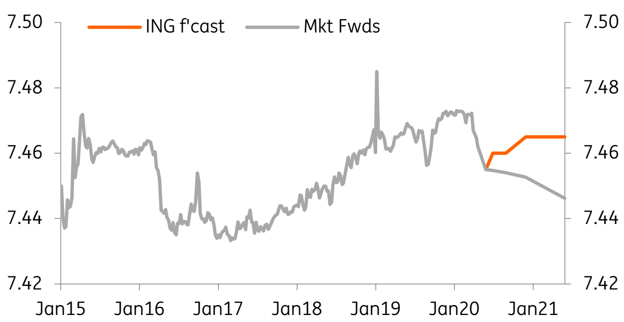
- SEK fortunes changed drastically (for the better) and it remains one of the G10 FX outperformers. Riksbank yet again kept rates on hold at zero. Given the mixed experience with negative rates in the past, we see a high bar for rates to move into negative again.
- As Riksbank didn't cut rates during the Covid-19 crisis, the previously detrimental negative SEK rate differential vs its peers improved materially. Because of the large fall in Swedish CPI, SEK now also benefits as one of the highest real rates in G10 FX space.
- With fiscal position one of the strongest in G10 space and SEK still being undervalued, the SEK outlook is constructive. Recovery in EUR/USD also benefits SEK, with larger SEK gains expected vs USD.

ING forecasts (mkt fwd)	**1M 10.60** (10.54)	**3M 10.60** (10.55)	**6M 10.40** (10.57)	**12M 10.30** (10.59)

Petr Krpata, London +44 20 7767 6561

EUR/DKK

No need for FX interventions any more **Current spot: 7.455**



Source: Bloomberg, ING

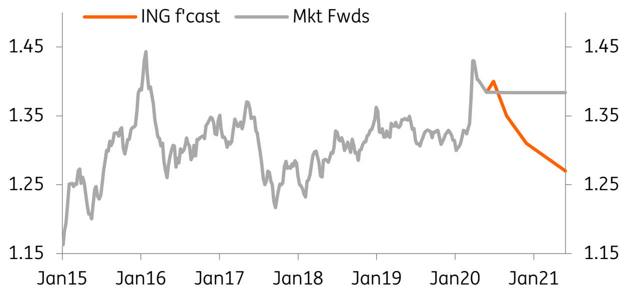
- After reversing the Sep 2019 cut with a 15bp hike this March, DKK now not only benefits from an improved interest rate differential vs EUR but has also regained its quasi safe-haven properties, with correlation with the safe haven CHF being back to positive.
- Danmarks Nationalbank didn't intervene in April for the first time in 6 months (as the rate hike did the trick). Despite measures by other global central banks, QE by DN is unlikely as it would bring back the issue of weak DKK (something DN fought against in prior months).
- Despite the growing government deficit, the large issuance of FX debt reduced concerns about the (lack of) demand for the DKK denominated debt and in turn makes QE less urgent.

ING forecasts (mkt fwd)	**1M 7.460** (7.45)	**3M 7.460** (7.45)	**6M 7.465** (7.45)	**12M 7.465** (7.45)

Petr Krpata, London +44 20 7767 6561

USD/CAD

Likely the least vulnerable commodity currency **Current spot: 1.387**



Source: Bloomberg, ING

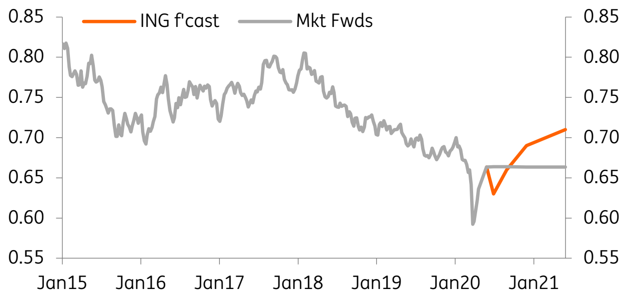
- The loonie likely moved from being one of the most vulnerable to being the most protected commodity currency in G10. Oil, the key factor, has recovered and stabilised, providing an incentive to Canadian producers to restart production.
- Global tensions with China at the centre can affect global appetite and CAD, which may stay capped until 3Q20 vs the USD and low-yielders. Still, CAD is way less exposed than AUD and NZD and should therefore show some relative outperformance.
- The BoC does not stand out as a dovish outlier in the global picture, and new Governor Macklem will hardly take a leap into negative rates, whilst keeping the current amount of stimulus.

ING forecasts (mkt fwd)	1M **1.40** (1.39)	3M **1.35** (1.39)	6M **1.31** (1.39)	12M **1.27** (1.39)

Francesco Pesole, London +44 20 7767 6405

AUD/USD

Now, it's all about China **Current spot: 0.66**



Source: Bloomberg, ING

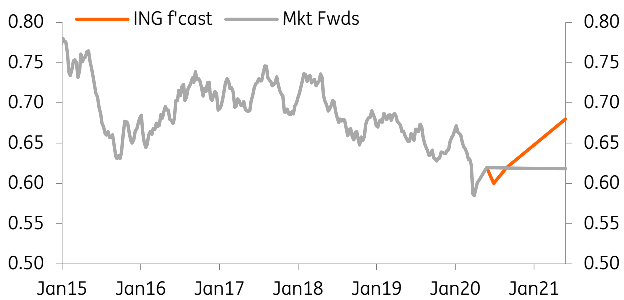
- We have repeatedly highlighted how AUD presents relatively strong fundamentals to lead the charge in the risk recovery. Among others: good commodity backdrop (thanks to iron ore), low Covid-19 contagion, not too-dovish RBA, large fiscal spending.
- We have not changed our minds on this. But the recent tensions between Australia and China can, if ultimately mutate into a trade war, and obliterate any AUD bullish momentum in one go.
- Speculation that the Chinese government may start to target Aussie iron ore (AU's number 1 export, with China the main buyer) are quite concerning. AUD now deals with a very "fat tail" on the downside, and thus offers a worse risk-reward profile than CAD, NZD and NOK.

ING forecasts (mkt fwd)	1M **0.630** (0.663)	3M **0.660** (0.663)	6M **0.690** (0.663)	12M **0.710** (0.662)

Rob Carnell, Singapore +65 6232 6020, Francesco Pesole +44 207 767 6405

NZD/USD

The RBNZ may no longer be a hindrance **Current spot: 0.62**



Source: Bloomberg, ING

- The possibility of the Reserve Bank of New Zealand venturing into negative rates – which had kept NZD upside limited – was watered down by recent remarks from Governor Orr. He indicated that more QE would be the first step if more stimulus is needed. In the meantime, however, the Bank announced a reduction in the pace of asset purchases.
- The RBNZ should therefore be less of a hindrance to any NZD rally now. The key question, however, is to which extent the bank will tolerate NZD appreciation. We would not be surprised to hear negative rates speculation mounting again in the near future.
- NZD/USD may suffer the spill-over of Aussie-China tensions, but NZD now looks better than AUD. AUD/NZD may retrace to 1.05.

ING forecasts (mkt fwd)	1M **0.60** (0.618)	3M **0.62** (0.618)	6M **0.64** (0.618)	12M **0.68** (0.617)

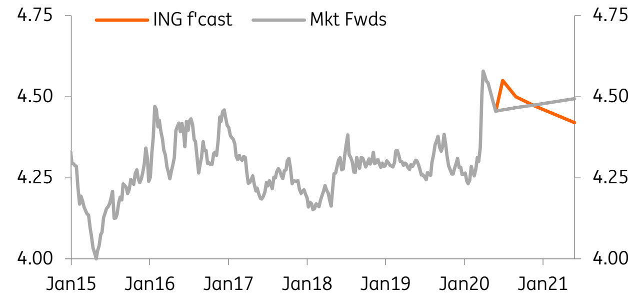
Rob Carnell, Singapore +65 6232 6020, Francesco Pesole +44 207 767 6405

Emerging markets

EUR/PLN

Biggest fiscal programme in Europe forces large QE

Current spot: 4.46



Source: Bloomberg, ING

- €/PLN should trade around 4.45 short term, but we expect the cross to move back to 4.50-4.60 consolidation in June.
- Foreign investors seem largely uninterested in aggressive NBP operations. However, PLN liquidity is very low, so volatility is likely to increase should EM tensions resurface. We don't expect a rate cut in May, but poor domestic data should sustain market expectations for more easing in 2020.
- As soon as global tensions (Covid-19, US-China stand-off, etc) fade investors should focus more on local fundamentals. Massive NBP QE (no less than 8-10% of GDP) is a major drag and should delay the PLN recovery in 2H20, possibly also resulting in the zloty underperforming CEE counterparts.

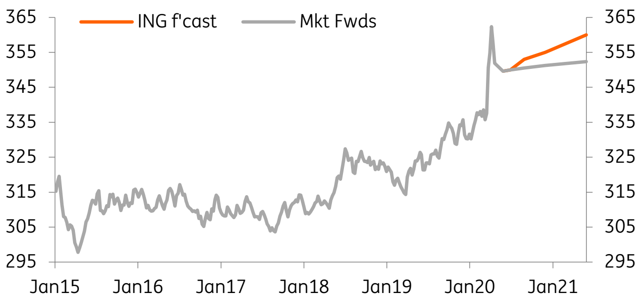
ING forecasts (mkt fwd)	1M 4.55 (4.46)	3M 4.50 (4.47)	6M 4.47 (4.47)	12M 4.42 (4.49)

Rafal Benecki, Warsaw +48 22 820 4696, Piotr Poplawski, Warsaw +48 22 820 4078

EUR/HUF

Recent HUF stability can lead to modest easing by NBH

Current spot: 349.6



Source: Bloomberg, ING

- HUF was able to maintain a modest trend of appreciation in the past month on the back of NBH measures elevating real interest rates. The QE programme is quasi sterilized, so the central bank managed to maintain HUF stability, a clear success story.
- While the mix of a stable HUF and the expected decline in the CPI should eventually lead to some reversal of the prior hikes (to stabilise HUF), if done in a gradual way with the CPI in check, then HUF should not come under pressure.
- In our base case, with economic activity returning to normal, NBH can go return to "old habits", providing stimulus to the economy via lower rates and reigniting a mild forint weakening trend.

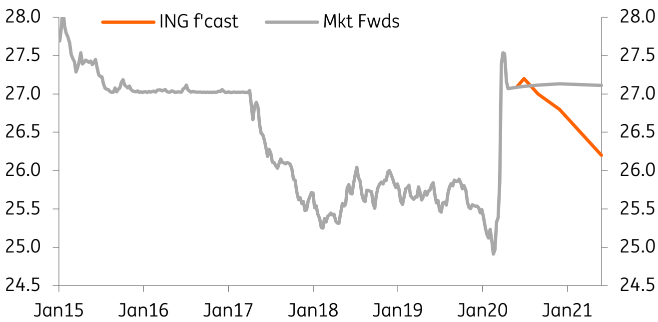
ING forecasts (mkt fwd)	1M 350.00 (350.0)	3M 353.00 (350.5)	6M 355.00 (351.3)	12M 360.00 (352.4)

Petr Krpata, London +44 20 7767 6561, Péter Virovácz, Budapest +36 1 235 8757

EUR/CZK

Exaggerated FX floor speculations

Current spot: 27.09



Source: Bloomberg, ING

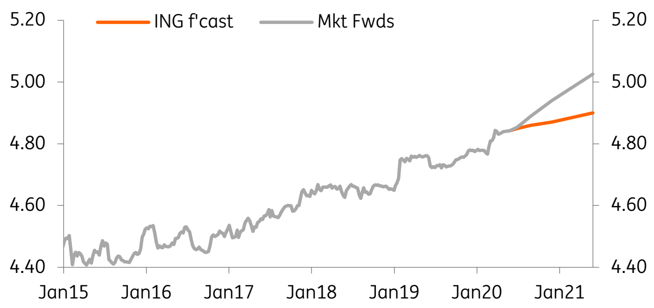
- The Czech National Bank delivered frontloaded monetary easing in May with a 75bp cut. This provides a chance that rates remain stable in June, if economic developments don't disappoint. A technical zero level in 2H20 looks a likely scenario now.
- We viewed the recent speculation about a re-imposition of the FX floor and the subsequent CZK weakness as exaggerated. Such a last resort measure would only be needed if the economy faces a deflation risk – neither our, nor CNB baseline.
- With an FX floor or other unorthodox measures such as negative rates or QE unlikely, EUR/CZK should head back towards the 27.00 level. EUR/CZK forward points should stabilise around current levels.

ING forecasts (mkt fwd)	1M 27.20 (27.10)	3M 27.00 (27.12)	6M 26.80 (27.13)	12M 26.20 (27.11)

Petr Krpata, London +44 20 7767 6561, Jakub Seidler, Prague +420 257 474 432

EUR/RON

Resuming the upward trend **Current spot: 4.84**



Source: Bloomberg, ING

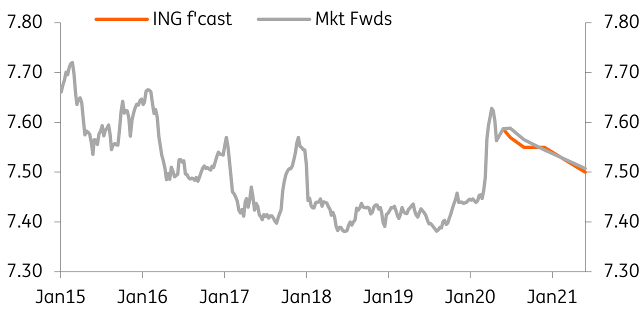
- The Romanian leu remains the "safe haven" of the CEE, on heavy central bank support. We see little appetite to short the leu due to the high carry costs.
- In April 2020 the overall liquidity shortage in the system reached RON14.5bn, a level unseen since the previous crisis. We expect a sharp improvement in liquidity conditions in the next months, but this turning into a persistent surplus may only occur much closer to year-end.
- On the downside, 4.8250 proved to be a strong support for the EUR/RON. The pair is now re-testing the upside, but we believe that 4.8500 will hold again for a while. We maintain our 4.88 year-end forecast.

ING forecasts (mkt fwd)	1M **4.85** (4.85)	3M **4.86** (4.89)	6M **4.87** (4.94)	12M **4.90** (5.03)

Valentin Tataru, Bucharest +40 31 406 8891

EUR/HRK

The worst is behind **Current spot: 7.59**



Source: Bloomberg, ING

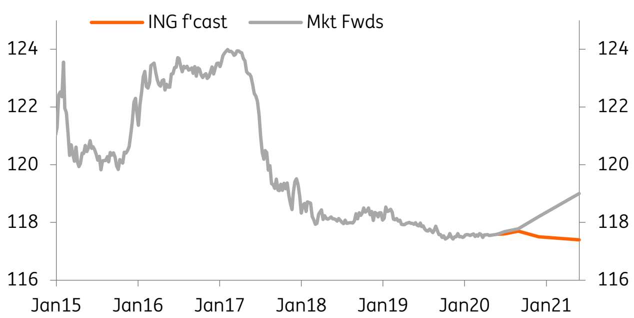
- Tourism receipts are expected by officials to drop to around one-third of 2019 levels, or c.€4bn, with May and June being "completely lost" according to the tourism minister.
- After it sold €2.25bn in March, the Croatian National Bank stepped-up its interventions in April, selling over €5.3bn, while continuing to inject liquidity and buy government bonds.
- We continue to see the kuna on a very mild appreciation path in the upcoming period and maintain our 7.55 year-end forecast. Risks are probably skewed to the upside, but not in a meaningful way, if at all. ERM-II entrance remains a target for mid-July and could prove to be currency supportive if achieved.

ING forecasts (mkt fwd)	1M **7.57** (7.59)	3M **7.55** (7.56)	6M **7.55** (7.54)	12M **7.50** (7.51)

Valentin Tataru, Bucharest +40 31 406 8991

EUR/RSD

Tightly managed **Current spot: 117.6**



Source: Bloomberg, ING

- The National Bank of Serbia paused its key rate cut cycle at 1.50% in May. We believe that interest rates are now very close to a longer-term equilibrium level. We expect one more 25bp cut to 1.25% this quarter.
- We have revised our year-end forecast from 118.00 back to 117.50 as the NBS seems committed to maintain the dinar almost pegged to the euro.
- Serbia will likely be one of the best performing European economies in 2020. The loose monetary conditions, public spending boost and relatively well managed epidemy are laying the groundwork for a strong V-shaped recovery.

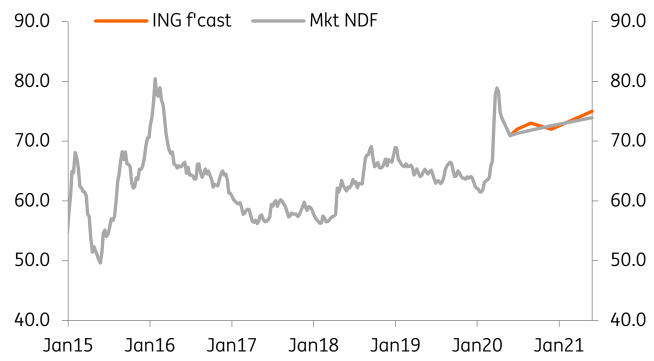
ING forecasts (mkt fwd)	1M **117.60** (117.7)	3M **117.70** (117.8)	6M **117.50** (118.2)	12M **117.40** (119.0)

Valentin Tataru, Bucharest +40 31 406 8991

USD/RUB

Trading range narrowing thanks to FX interventions

Current spot: 70.93



Source: Bloomberg, ING

- The ruble continued appreciating in May, the key driver being higher-than-expected Central Bank of Russia FX sales of at least US$150m per day vs the initial US$50m under comparable oil prices. CBR activity lowers the near-term downside to RUB.
- Further appreciation is possible amid potential suspension of the fiscal rule (meaning higher FX sales), improved EM risk appetite and continued inflows into OFZ (LCCY govt bonds), which has taken place since April, and an improvement in the non-oil Current Account position.
- Meanwhile, the eventual budget concerns, reduction in the CBR FX sales (FX sales commitments are now close to the FX purchase backlog of US$22 bn) as well as heightened private capital outflow are limiting the long-term scope of RUB appreciation.

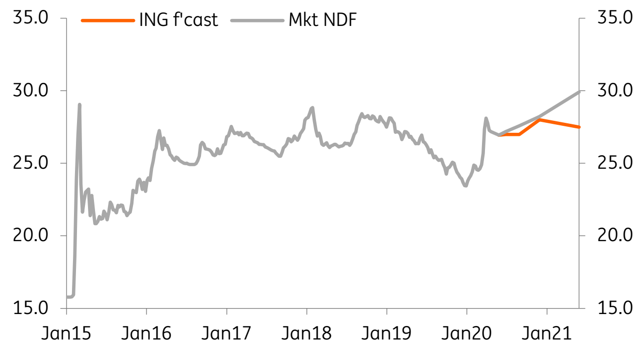
ING forecasts (mkt fwd)	1M 72.00 (71.28)	3M 73.00 (71.81)	6M 72.00 (72.59)	12M 75.00 (73.93)

Dmitry Dolgin, Russia +7 495 771 7994

USD/UAH

Seasonal UAH appreciation

Current spot: 26.94



Source: Bloomberg, ING

- The NBU was a net FX buyer in April of around 700m dollars. Considering the IMF tranche(s) as well, the NBU's FX reserves will remain in a comfortable position, well above USD20bn at the year-end or even better if we will see some external debt issuance.
- The natural seasonal appreciation pattern has continued to pose downward pressure on the USD/UAH rate, triggering relatively frequent FX intervention to stop the downside trend around 26.5.
- The lower-than-expected inflation profile and strengthening UAH will allow the NBU to continue its rate-cutting cycle. We now see the key rate at 6.00% by year-end and an FX rate capped at 28.

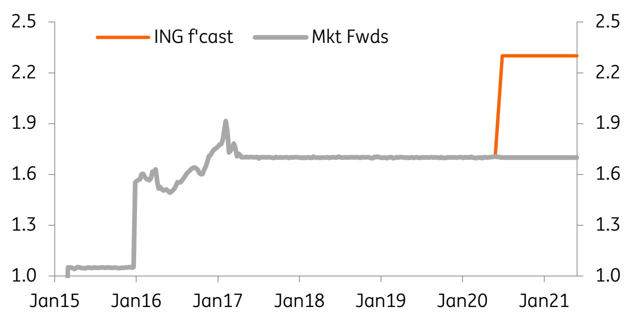
ING forecasts (mkt fwd)	1M 27.00 (27.18)	3M 27.00 (27.58)	6M 28.00 (28.23)	12M 27.50 (29.91)

Valentin Tataru, Bucharest +40 31 406 8991

USD/AZN

Manat depreciation: subject to oil

Current spot: 1.70



Source: Bloomberg, ING

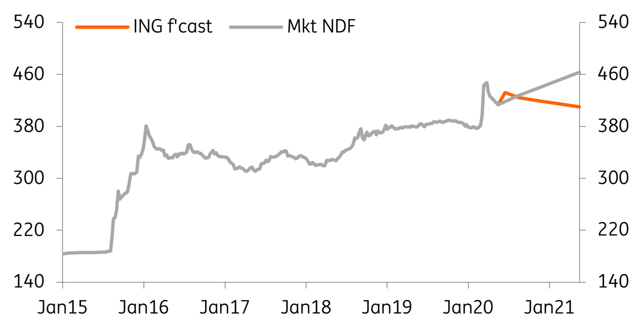
- In order to keep manat pegged at 1.7 to USD Azerbaijan continues spending state oil fund SOFAZ's reserves, US$0.8bn Apr-May on scheduled and extraordinary FX auctions only.
- The authorities still adhere to defending USD/AZN peg, afraid of households' financial disruption and a crisis in the poorly regulated financial sector – the latter is already facing liquidity issues since the CBAR has revoked the licenses of four banks in Apr-May.
- The county's reserves are high, but manat depreciation still seems a plausible scenario. However, the sooner than expected recovery in oil prices may stave off this option, lowering the probability to devalue.

ING forecasts (mkt fwd)	1M 2.30 (1.70)	3M 2.30 (1.70)	6M 2.30 (1.70)	12M 2.30 (1.70)

Dmitry Dolgin, Russia +7 495 771 7994

USD/KZT

Depreciate – then appreciate **Current spot: 413.4**



Source: Bloomberg, ING

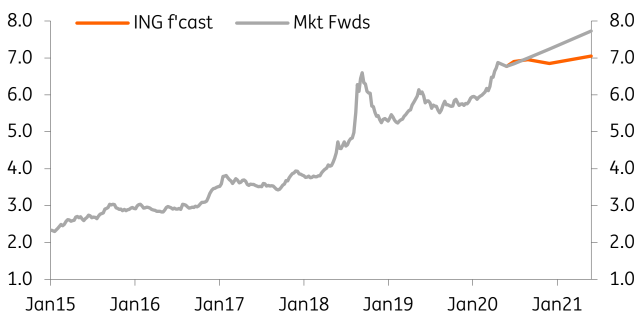
- Tenge's appreciation in May is due to higher-than-expected oil prices and continued FX selling by quasi-state enterprises – in Apr-May rising Brent by US$1/bbl strengthened KZT by 0.7-0.8 to USD. As a result, we improve our KZT expectations.
- Yet, in the short-term we expect tenge to depreciate given the OPEC++ deal: in May-June Kazakhstan will cut oil production by 27% compared to Apr 2020, leading to declining export revenues. Suspending oil production on 'Tengiz' field due to the spread of Covid-19 among its workers will create additional pressure.
- In the long term, KZT is likely to return to current levels under an expected oil price recovery, but this is subject to risks of a second wave of the coronavirus pandemic and the weak institutional environment.

ING forecasts (mkt fwd)	1M 432.00 (418.2)	3M 424.00 (427.5)	6M 419.00 (439.5)	12M 410.00 (463.2)

Dmitry Dolgin, Russia +7 495 771 7994

USD/TRY

Disinflationary factors to prevail **Current spot: 6.77**



Source: Bloomberg, ING

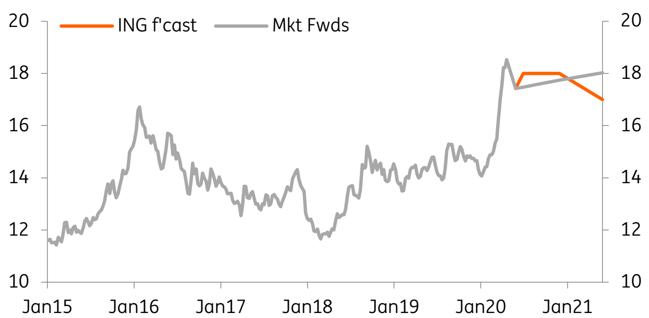
- In May, the Central Bank of Turkey extended the easing cycle with a 50bp cut in the policy rate to 8.25%. The decision is likely attributable to the ongoing stance of providing additional support to easing Turkey's broad policy mix on the fiscal and credit side and a negative output gap weighing on inflation. The shift in global policies has also been encouraging.
- On the inflation side, following the temporary elevated course in the near term because of "seasonal and pandemic-related effects on food prices", the bank sees a "demand driven" disinflation trend to be more evident in the second half of the year.
- Going forward, the CBT's policy and the global backdrop will drive TRY performance.

ING forecasts (mkt fwd)	1M 6.90 (6.84)	3M 6.95 (7.00)	6M 6.85 (7.24)	12M 7.05 (7.73)

Muhammet Mercan, Istanbul +90 212 329 0751

USD/ZAR

A rally built on unstable foundations **Current spot: 17.42**



Source: Bloomberg, ING

- The ZAR has performed exceptionally well over the last month as some of the worst performing currencies have started to make a strong recovery. The rally in energy prices and the support they have provided to the commodity complex in general have undoubtedly helped. South Africa's sovereign risk (as evidenced by 5 year CDS dropping to 355bp from 500bp) has been repriced.
- The big rally in domestic bonds (SAGBs) has been driven more by locals than foreigners – which is a worry. And fiscal fears will continue to haunt the ZAR – next budget update due 24 June.
- The 50bp SARB rate cut to 3.75% is welcome, but with real rates dropping close to zero, the ZAR will lead the pack in a downturn.

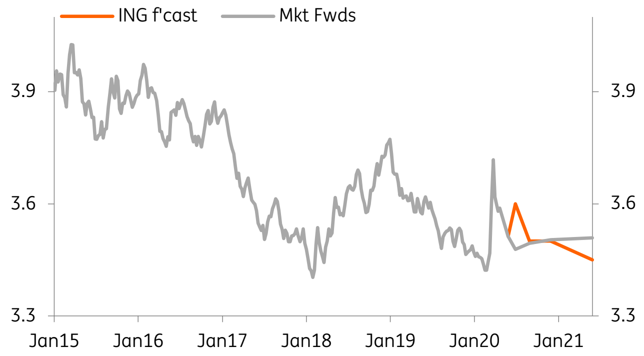
ING forecasts (mkt fwd)	1M 18.00 (17.48)	3M 18.00 (17.59)	6M 18.00 (17.74)	12M 17.00 (18.03)

Chris Turner, London +44 20 7767 1610

USD/ILS

3.50 looks to be the new line in the sand for BoI

Current spot: 3.51



Source: Bloomberg, ING

- The ILS continues to perform well and as discussed last month, it seems as though the BoI might see 3.50 as some kind of temporary floor – against which it is buying FX. BoI FX intervention totalled US$727m in April. Given the poor environment for exports and inflation now running at -0.6% YoY – we doubt the interventionist Bank of Israel will be prepared to allow a large rally in the ILS anytime soon.
- The BoI has been successful in calming market volatility by supplying $7.5bn in USD swaps against it reserves, buying government debt (ILS13bn so far) and now accepting corporate debt as collateral.
- We'd back ILS to be one of the most stable/+ve EM performers.

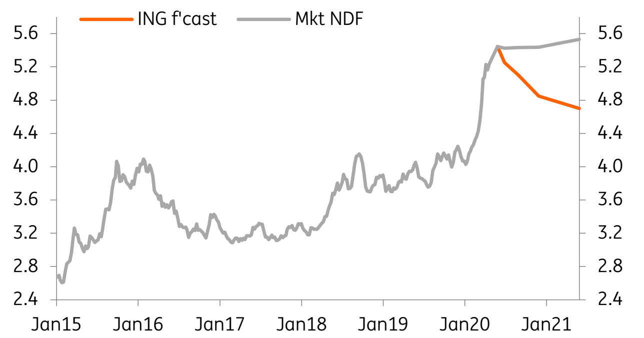
ING forecasts (mkt fwd)	1M	3M	6M	12M
	3.60 (3.48)	3.50 (3.49)	3.50 (3.50)	3.45 (3.51)

Chris Turner, London +44 20 7767 1610

LATAM

USD/BRL

Less dovish monetary signalling brings respite for the BRL **Current spot: 5.45**



Source: Bloomberg, ING

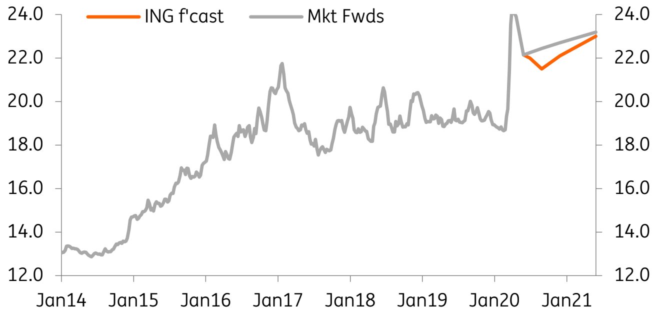
- The BRL appears to have finally found a bottom after CB officials emphasized the limits for additional rate cuts, while stressing their concern that further rate cuts could destabilise FX markets.
- Officials also renewed their resolve to intervene in FX markets. But, in our view, the firmer indication that the rate-cutting cycle is nearly over, with room for only one additional 75bp cut, to 2.25%, is the crucial factor helping limit additional FX weakness.
- Investors and monetary authorities also worry about a persistent damage to Brazil's fiscal outlook. Political noise and initiatives to support a permanent increase in fiscal spending are key sources of concern, that should help keep fiscal risks elevated in 2H20.

ING forecasts (NDF)	**1M 5.25** (5.43)	**3M 5.10** (5.43)	**6M 4.85** (5.44)	**12M 4.70** (5.53)

Gustavo Rangel, New York +1 646 424 6464

USD/MXN

MXN to remain supported by its yield-advantage **Current spot: 22.14**



Source: Bloomberg, ING

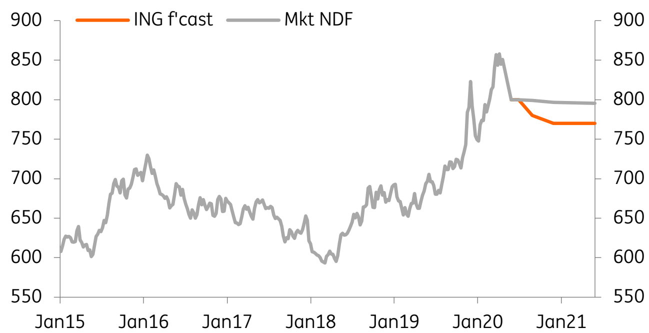
- Mexico's CB has shown greater willingness to support economic activity through rate cuts. But dovish developments elsewhere suggest that the MXN's yield advantage may continue to benefit the currency, in relation to its LATAM peers, in the nearer term.
- We expect Banxico to cut its refence rate to 4.0% by August, after three additional 50bp cuts during "emergency" and regularly-scheduled meetings.
- Credit rating agencies have downgraded Mexico recently, with the collapse in oil prices likely acting as a chief catalyst. Further downgrades are possible, but Mexico still retains a credit-rating advantage relative to regional peers like Brazil and Colombia.

ING forecasts (mkt fwd)	**1M 22.00** (22.25)	**3M 21.50** (22.44)	**6M 22.10** (22.71)	**12M 23.00** (23.18)

Gustavo Rangel, New York +1 646 424 6464

USD/CLP

Aggressive stimulus program could facilitate recovery **Current spot: 804.71**



Source: Bloomberg, ING

- Chile's assertive policy stimulus implies a faster recovery, but latent political and social risks suggest that the likelihood of episodic volatility should remain high, especially considering the ongoing health crisis and the looming constitutional re-write.
- A 7%-of-GDP fiscal package was announced, and the CB lowered the policy rate to its "technical minimum" of 0.5%. A broad range of liquidity provisions should help ease financial conditions while an IMF credit line should help boost sharply Chile's FX reserves.
- As usual, copper remains a key FX driver and the metal's recent price trajectory suggests that an outperforming bias for the CLP could persist, if firmer prospects for a global recovery consolidate.

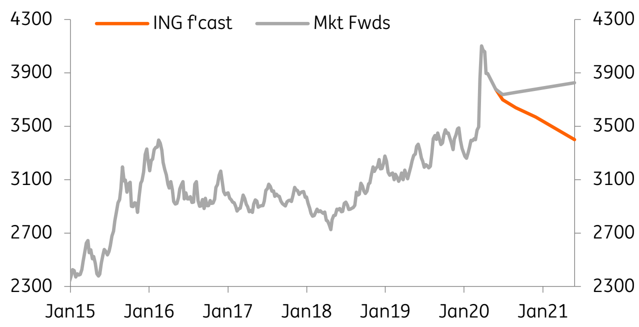
ING forecasts (NDF)	**1M 800.00** (805)	**3M 780.00** (804)	**6M 770.00** (802)	**12M 770.00** (800)

Gustavo Rangel, New York +1 646 424 6464

USD/COP

Recovery in oil prices offers important upside

Current spot: 3778.46



Source: Bloomberg, ING

- Colombia's economic policy reaction to the ongoing crisis has been considerably tamer than the one seen in Chile and Peru.
- This reflects Colombia's mix of relatively stronger economic momentum (pre-pandemic) and concern over lasting damage to fiscal accounts, especially considering the recent negative action by credit-rating agencies, likely driven by the fall in oil prices.
- The COP looks fairly priced, closely following the evolution of oil prices, which should remain the most important near-term FX driver. This adds a potential upside for the COP, if crude prices extend the recent trajectory, while Colombia's relatively higher reference rate (3.25%) could act as an FX stabiliser.

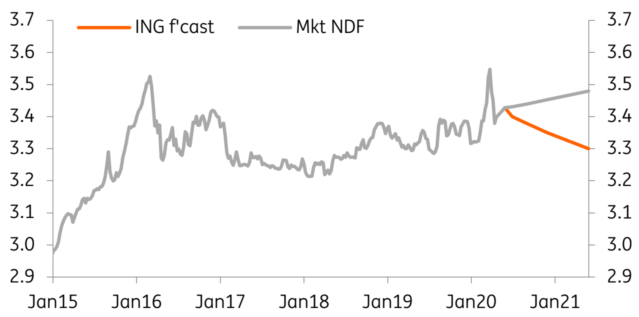
ING forecasts (NDF)	**1M 3700.00** (3736.84)	**3M 3640.00** (3755.24)	**6M 3570.00** (3779.08)	**12M 3400.00** (3826.44)

Gustavo Rangel, New York +1 646 424 6464

USD/PEN

Aggressive stimulus to limit the economic downside

Current spot: 3.43



Source: Bloomberg, ING

- The PEN has underperformed its regional peers in recent weeks but this reflects the fact that the currency never reached the lows seen elsewhere in the region, which suggests that the currency should underperform if risk appetite continues to recover.
- Even though Peru is a small open economy that is heavily reliant on commodity exports, Peru's more heavily-managed FX regime shields its currency from the wider fluctuations in risk appetite that affected its EM peers.
- Peru's Covid-related health crisis remains especially lethal, but the country's superior ability to deploy economic policy stimulus, including the lowest reference rate in LATAM at 0.25%, should help alleviate the economic impact of the crisis.

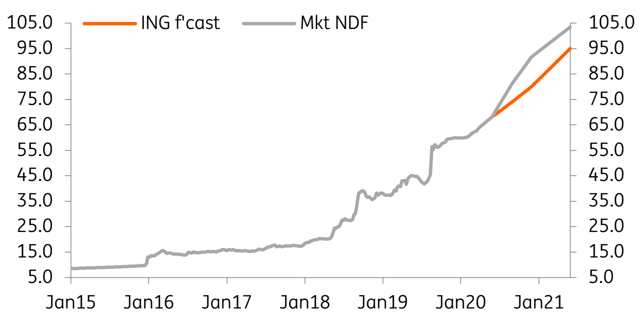
ING forecasts (NDF)	**1M 3.40** (3.43)	**3M 3.38** (3.44)	**6M 3.35** (3.45)	**12M 3.30** (3.48)

Gustavo Rangel, New York +1 646 424 6464

USD/ARS

Officially in default, but debt negotiations continue

Current spot: 68.17



Source: Bloomberg, ING

- The administration's external debt exchange offer was rejected by a large majority of external bondholders, as expected.
- The limited progress in the negotiations led Argentina to opt to cease servicing external bonds, moving closer to a default and extending the widening premium between the official and the non-official FX rate. The situation remains fluid however, as negotiations continue, and the default can still be "cured" if an agreement is reached in the coming weeks.
- In our view, the ongoing economic crisis appears to have both added urgency and complicated the negotiating process. A compromise solution is still possible, but enormous uncertainty prevails, extending local market instability into the near future.

ING forecasts (NDF)	**1M 70.00** (72.58)	**3M 74.00** (81.12)	**6M 80.00** (91.69)	**12M 95.00** (103.42)

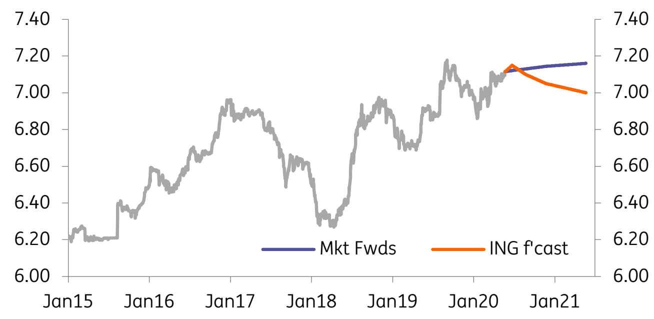
Gustavo Rangel, New York +1 646 424 6464

Asia

USD/CNY

Yuan moving with news on the technology war

Current spot: 7.115



Source: Bloomberg, ING forecasts

- The US has continued the technology war with China by banning US companies from using technological parts and products made in China.
- The action has created volatility in USD/CNY. And we expect this to continue for the rest of 2020. It may even escalate with a retaliation from China.
- Though we still expect a strengthening trend for the yuan, this trend would be slower than our previous forecasts because of the potential second wave of Covid-19 and a chance of another trade war. The technology war is going to intensify, which will continue to create volatility for the yuan from time to time.

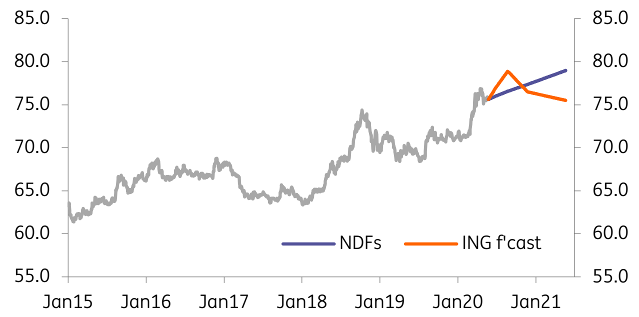
ING forecasts (mkt fwd)	**1M 7.150** (7.124)	**3M 7.100** (7.132)	6M **7.050** (7.147)	**12M 7.000** (7.160)

Iris Pang, Hong Kong +852 2848 8071

USD/INR

More weakness ahead

Current spot: 75.62



Source: Bloomberg, ING forecasts

- The intensified INR weakness in March and April paused in May, stabilising the USD/INR rate in a 75-76 range as subsiding Covid-19 spread elsewhere (not in India) lifted global risk-on and portfolio inflows returned. We see another off-cycle, 40bp RBI rate cut on 22 May reigniting the depreciation pressure and drive the USD/INR toward 79 over the next three months.
- The economy continues to grapple with the pandemic that has sent exports tumbling 60% YoY and manufacturing 17% in recent months, signaling a big GDP fall in 2Q20 (ING forecast -5% YoY).
- The latest 10% of GDP stimulus bazooka is more about long-term reforms rather than immediate real boost to the economy.

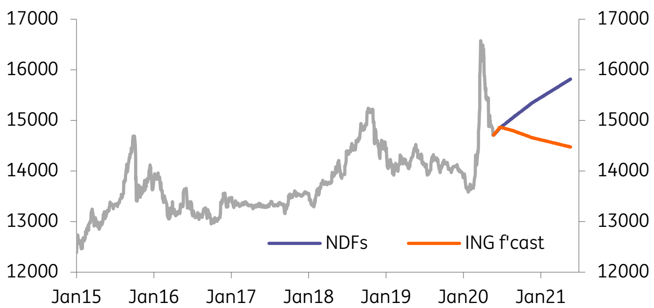
ING forecasts (mkt fwd)	**1M 76.80** (75.94)	**3M 78.90** (76.55)	**6M 76.50** (77.32)	**12M 75.50** (78.98)

Prakash Sakpal, Singapore +65 6232 6181

USD/IDR

IDR stabilises but BI holds off on rate cuts for now

Current spot: 14710



Source: Bloomberg, ING forecasts

- Indonesia welcomed renewed foreign investor inflows over the past few weeks, given attractive yields and after the central bank secured the repo line with the Fed. Even as the currency appreciated, central bank officials described IDR as "undervalued".
- Despite the sharp rebound in IDR, Bank Indonesia (BI) refrained from cutting policy rates at two separate meetings despite market consensus expecting the central bank to ease.
- BI Governor Warjiyo maintained an accommodative stance by indicating he remained open to cutting rates in the near term with the decision tied largely to IDR stability.

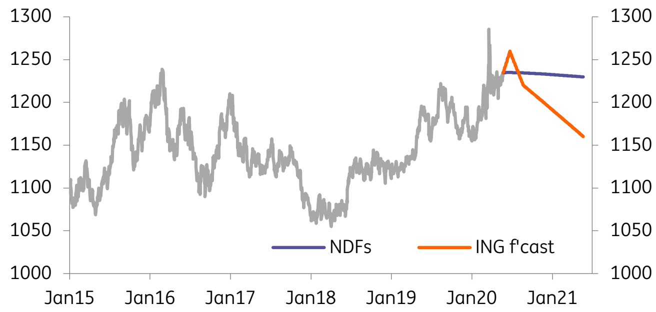
ING forecasts (mkt fwd)	**1M 14867** (14889)	**3M 14799** (15093)	**6M 14657** (15384)	**12M 14475** (15864)

Nicholas Mapa, Philippines +63 2479 8855

USD/KRW

Most volatile

Current spot: 1235



Source: Bloomberg, ING forecasts

- Despite a new outbreak associated with a nightclub district in Seoul, Korea remains a model of how to tackle a coronavirus outbreak.
- That has not stopped the KRW from underperforming the average for the Asian FX bloc this month so far, though this has basically reflected a broad range trade in USD/KRW since the end-March stabilisation.
- USD/KRW remains the regional currency we would expect to perform the best in the event that Covid-19 news is good – a vaccine for example, or to sell off the hardest in the event of a negative shock – e.g. a second wave or renewed trade tensions.

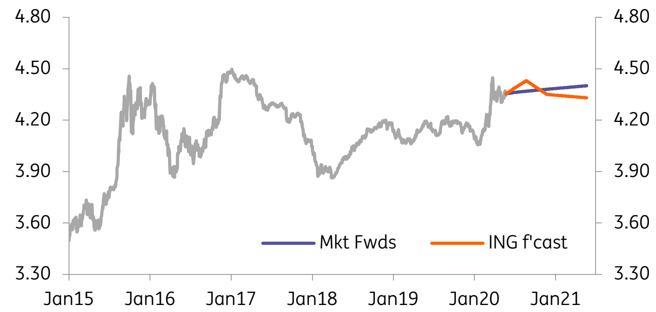
ING forecasts (NDFs)	**1M 1260** (1236)	**3M 1220** (1235)	**6M 1200** (1234)	**12M 1160** (1231)

Rob Carnell, Singapore +65 6232 6020

USD/MYR

Firmly on path of recession

Current spot: 4.354



Source: Bloomberg, ING forecasts

- A 1.2% month-to-date depreciation in May puts the MYR at the weak end of the Asian pack even as oil recovered some ground after losses in the last two months. The outlook remains clouded by the economic fallout of Covid-19 and lingering political risks.
- GDP eked out 0.7% YoY growth in 1Q20, better than the -1.0% consensus. Still, it's the worst performance in over a decade. A 2% QoQ SA GDP fall and significant inactivity in 2Q make economic recession a grim certainty.
- 18% of GDP stimulus (although with only 4% of GDP in real thrust), should help the recovery once the pandemic ends. We expect an additional 100bp of BNM rate cuts in this easing cycle

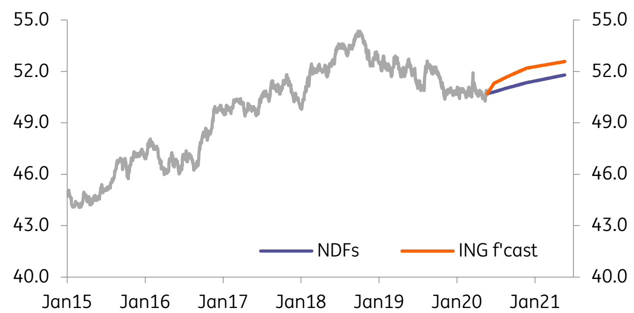
ING forecasts (mkt fwd)	**1M 4.380** (4.365)	**3M 4.430** (4.372)	**6M 4.350** (4.385)	**12M 4.330** (4.403)

Prakash Sakpal, Singapore +65 6232 6181

USD/PHP

PHP appreciates as import demand fades

Current spot: 50.72



Source: Bloomberg, ING forecasts

- The PHP appreciated during the lockdown with corporate dollar demand disappearing with economic activity grinding to a halt. With economic activity at a standstill, import demand has waned, helping support the PHP.
- The Bangko Sentral ng Pilipinas (BSP) Governor cut policy rates by 50bp at an emergency policy meeting although Governor Diokno indicated he would pause from here.
- We expect PHP to move sideways with a depreciation bias once the lockdown is lifted on 1 June as corporate demand returns. Overseas remittances are also likely to dry up with 92,000 Filipinos based abroad returning to the country.

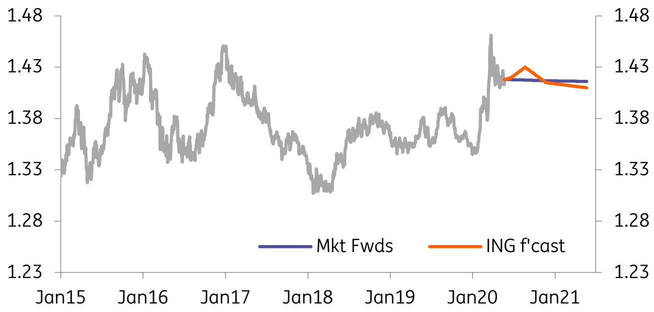
ING forecasts (mkt fwd)	**1M 51.30** (50.84)	**3M 51.68** (51.06)	**6M 52.19** (51.41)	**12M 52.58** (51.83)

Nicholas Mapa, Philippines +63 2479 8855

USD/SGD

No return to positive GDP growth this year

Current spot: 1.418



Source: Bloomberg, ING forecasts

- The USD/SGD has hovered around 1.42 since the MAS policy easing in end-March. This stability squares with the stable DXY, while the MAS policy drives the trade-weighted exchange rate (S$-NEER) on a zero appreciation path.
- Surprising export and manufacturing strength in recent months is rather lopsided, lifted mainly by pharmaceuticals benefiting from the global pandemic. Everything else is weak.
- The Covid-19 circuit breaker is set to ease on 1 June, but it will be a long wait for the economy to be fully back on its feet. We see GDP growth bottoming at -6.8% YoY in 2Q but no return to positive territory during the rest of the year.

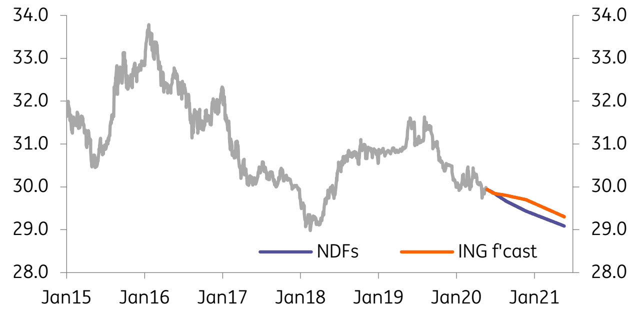
ING forecasts (mkt fwd)	**1M 1.420** (1.419)	**3M 1.430** (1.418)	**6M 1.415** (1.417)	**12M 1.410** (1.417)

Prakash Sakpal, Singapore +65 6232 6181

USD/TWD

Taiwan needs 5G for capital inflows into the stock market

Current spot: 29.94



Source: Bloomberg, ING forecasts

- Taiwan experienced negative year on year exports in April and a sub-50 manufacturing PMI.
- But such weak data are not weak enough to move the TWD weaker. It has to be reflected in the corporate earnings of Taiwan companies to result in possible capital outflows from the Taiwan stock market for us to see a weaker TWD.
- This could happen if the US continues to pick battles with Chinese technology companies, which are Taiwan companies' buyers.
- Mainland China will also put political and military pressure on Taiwan after Tsai has been re-elected as the president. As such, we revise our forecasts to a slower strengthening trend of TWD.

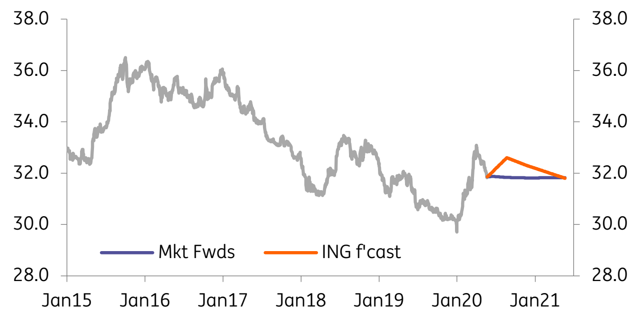
ING forecasts (mkt fwd)	**1M 29.85** (29.87)	**3M 29.80** (29.68)	**6M 29.70** (29.45)	**12M 29.30** (29.10)

Iris Pang, Hong Kong +852 2848 8071

USD/THB

Already in recession

Current spot: 31.86



Source: Bloomberg, ING forecasts

- Moving against all odds, the THB is now back to be Asia's top currency in May. A steady appreciation since April recovered almost half of the 10% loss incurred in the first quarter.
- Covid-19 is well under control with only 90 active cases currently (in about 3000 total infections). But the economy is already in a recession that's going to be deeper and more prolonged than any in recent history. We expect a -5.4% GDP decline in 2020.
- Inflation of -3% in April, the most negative since the Global Financial Crisis, moved the Bank of Thailand to cut rates a further 25bp in May. As this easing option via conventional routes is about to be exhausted, talk of unconventional easing may gain momentum.

ING forecasts (mkt fwd)	**1M 32.10** (31.87)	**3M 32.60** (31.86)	**6M 32.30** (31.86)	**12M 31.80** (31.86)

Prakash Sakpal, Singapore +65 6232 6181

ING foreign exchange forecasts

EUR cross rates	Spot	1M	3M	6M	12M	USD cross rates	Spot	1M	3M	6M	12M
Developed FX											
EUR/USD	1.10	1.10	1.12	1.18	1.15						
EUR/JPY	117.9	116.60	117.60	118.00	120.75	USD/JPY	107.48	106	105	100	105
EUR/GBP	0.89	0.91	0.92	0.90	0.88	GBP/USD	1.23	1.21	1.22	1.31	1.31
EUR/CHF	1.06	1.05	1.05	1.07	1.08	USD/CHF	0.97	0.95	0.94	0.91	0.94
EUR/NOK	10.89	11.10	10.90	10.60	10.50	USD/NOK	9.93	10.09	9.73	8.98	9.13
EUR/SEK	10.56	10.60	10.60	10.40	10.30	USD/SEK	9.63	9.64	9.46	8.81	8.96
EUR/DKK	7.456	7.460	7.460	7.465	7.465	USD/DKK	6.80	6.78	6.66	6.33	6.49
EUR/CAD	1.52	1.54	1.51	1.55	1.46	USD/CAD	1.385	1.40	1.35	1.31	1.27
EUR/AUD	1.65	1.75	1.70	1.71	1.62	AUD/USD	0.66	0.63	0.66	0.69	0.71
EUR/NZD	1.77	1.83	1.81	1.84	1.69	NZD/USD	0.62	0.60	0.62	0.64	0.68
EMEA											
EUR/PLN	4.45	4.55	4.50	4.47	4.42	USD/PLN	4.06	4.14	4.02	3.79	3.84
EUR/HUF	349.5	350.00	353.00	355.00	360.00	USD/HUF	318.7	318	315	301	313
EUR/CZK	27.10	27.2	27.0	26.8	26.2	USD/CZK	24.72	24.7	24.1	22.7	22.8
EUR/RON	4.84	4.85	4.86	4.87	4.90	USD/RON	4.42	4.41	4.34	4.13	4.26
EUR/HRK	7.59	7.57	7.55	7.55	7.50	USD/HRK	6.92	6.88	6.74	6.40	6.52
EUR/RSD	117.6	117.6	117.7	117.5	117.4	USD/RSD	107.2	106.9	105.1	99.6	102.1
EUR/RUB	77.62	79.2	81.8	85.0	86.3	USD/RUB	70.79	72.0	73.0	72.0	75.0
EUR/UAH	29.52	29.7	30.2	33.0	31.6	USD/UAH	26.92	27.00	27.00	28.00	27.50
EUR/KZT	452.8	475.2	474.9	494.4	471.5	USD/KZT	412.9	432	424	419	410
EUR/TRY	7.38	7.59	7.78	8.08	8.11	USD/TRY	6.73	6.90	6.95	6.85	7.05
EUR/ZAR	19.05	19.8	20.2	21.2	19.6	USD/ZAR	17.37	18.00	18.00	18.00	17.00
EUR/ILS	3.85	3.96	3.92	4.13	3.97	USD/ILS	3.51	3.60	3.50	3.50	3.45
LATAM											
EUR/BRL	5.90	5.78	5.71	5.72	5.41	USD/BRL	5.38	5.25	5.10	4.85	4.70
EUR/MXN	24.34	24.2	24.1	26.1	26.5	USD/MXN	22.20	22.00	21.50	22.10	23.00
EUR/CLP	876.87	880	874	909	886	USD/CLP	799.70	800	780	770	770
EUR/ARS	74.31	77.00	82.88	94.40	109.25	USD/ARS	68.17	70.00	74.00	80.00	95.00
EUR/COP	4117.54	4070	4077	4213	3910	USD/COP	3778.46	3700	3640	3570	3400
EUR/PEN	3.74	3.74	3.79	3.95	3.80	USD/PEN	3.43	3.40	3.38	3.35	3.30
Asia											
EUR/CNY	7.82	7.87	7.95	8.32	8.05	USD/CNY	7.13	7.15	7.10	7.05	7.00
EUR/HKD	8.50	8.53	8.69	9.16	8.97	USD/HKD	7.75	7.75	7.76	7.77	7.80
EUR/IDR	16169	16354	16575	17295	16646	USD/IDR	14755	14867	14799	14657	14475
EUR/INR	82.79	84.5	88.4	90.3	86.8	USD/INR	75.67	76.80	78.90	76.50	75.50
EUR/KRW	1348.37	1386	1366	1416	1334	USD/KRW	1234.25	1260	1220	1200	1160
EUR/MYR	4.78	4.82	4.96	5.13	4.98	USD/MYR	4.36	4.38	4.43	4.35	4.33
EUR/PHP	55.24	56.4	57.9	61.6	60.5	USD/PHP	50.55	51.3	51.68	52.19	52.58
EUR/SGD	1.55	1.56	1.60	1.67	1.62	USD/SGD	1.42	1.42	1.43	1.42	1.41
EUR/TWD	32.78	32.8	33.4	35.0	33.7	USD/TWD	29.97	29.9	29.8	29.7	29.3
EUR/THB	34.97	35.3	36.5	38.1	36.6	USD/THB	31.88	32.1	32.6	32.3	31.8

Source: Bloomberg, ING

Disclaimer