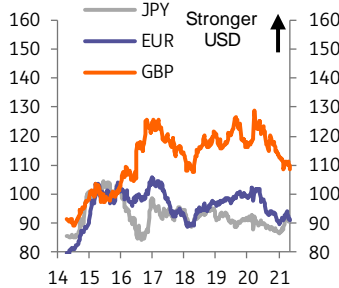


10 May 2021  
FX Strategy

# FX Talking

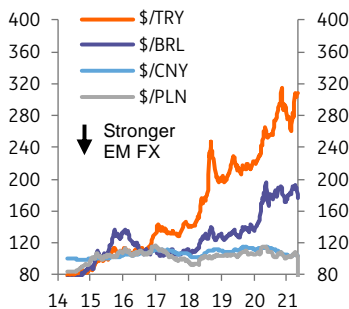
## Feeling the heat

USD/Majors (5 Jan 14=100)



Source: Refinitiv, ING forecast

USD/EM (5 Jan 14=100)



Source: Refinitiv, ING forecast

Commodity prices are booming. A continuation of this trend is one of the highest conviction calls in the market. This is also evidenced by a continued rise in inflation expectations. What central banks plan to do about all this is playing out in FX markets globally. Those using traditional playbooks of responding to capacity constraints (as in Canada and Norway) or those in EM undertaking front-loaded, precautionary tightening are being rewarded with stronger currencies. Those, like the Fed, experimenting with deeply negative real rates are seeing their currencies come under pressure.

We expect this theme of monetary responsibility to continue to drive FX markets this summer and through the remainder of the year. An unhurried Fed, at a time of greater confidence in the global recovery, suggests the dollar could fall another 5% across the board. That could carry EUR/USD towards 1.28 – a move supported by the release of EU fiscal stimulus as early as July and progress of the Greens in German opinion polls.

Elsewhere in Europe, the Czech central bank is at the front of the policy tightening queue and up to three hikes this year should see further gains for the CZK. As a bloc, European FX in general should do quite well apart from the Hungarian Forint (negative real rates) and the CHF (safe haven outflows). Equally we like the EMEA high yielders, where the Rouble should enjoy continuing gains this month.

Further afield, Asian FX remains dogged by chip shortages and Covid outbreaks – yet the trend for north Asian FX is stronger. And in Latam, some aggressive tightening in Brazil, proximity to US demand in Mexico and copper exposure in Chile are all helping local FX.

### ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.22	↑	108	→	1.44	↑
3M	1.24	↑	108	→	1.46	↑
6M	1.25	↑	108	→	1.47	↑
12M	1.28	↑	108	→	1.52	↑

	EUR/GBP		EUR/CZK		EUR/PLN	
1M	0.85	↓	25.60	↑	4.53	↓
3M	0.85	↓	25.50	↑	4.49	↓
6M	0.85	↓	25.40	↑	4.44	↓
12M	0.84	↓	25.20	↑	4.45	↓

	USD/CNY		USD/MXN		USD/BRL	
1M	6.49	↑	20.00	↑	5.20	→
3M	6.45	↑	19.80	↓	5.40	↑
6M	6.37	↓	19.50	↓	5.50	↑
12M	6.23	↓	20.50	↓	5.60	↑

↑ / → / ↓ 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	3.1	-1.1	0.8	-0.8	3.8	-3.7
%YoY	12.1	2.1	-1.3	-10.4	20.3	-13.8

	USD/UAH	USD/KZT	USD/BRL	USD/MXN	USD/CNY	USD/TRY
%MoM	-0.9	-0.5	-7.6	-2.1	-2.2	0.7
%YoY	2.9	0.8	-8.0	-17.4	-9.4	15.9

Source: Refinitiv, ING forecast

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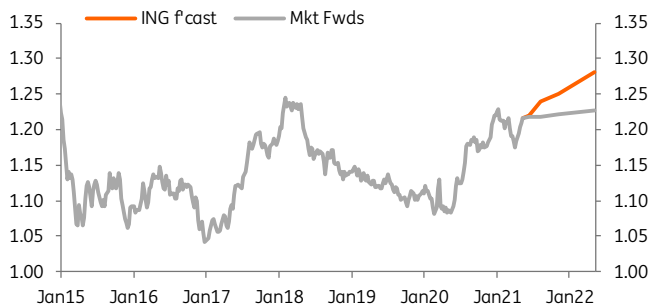


# Developed markets

## EUR/USD

EUR/USD has a window to rally

Current spot: 1.2164



Source: Refinitiv, ING forecasts

- Europe finally seems to be making progress with the pandemic. Case numbers are down sharply, and vaccination rates have picked up. There is now greater confidence in the recovery. Our EZ team have revised up their 2021 EZ growth forecast to 4%.
- US activity is booming, yet the soft April US jobs report does lend support to the Fed's patient approach and a core position of 'now is not the time to be talking tapering'.
- Confidence in the global recovery is generating a commodities boom and cementing inflation expectations at higher levels. Not until the Fed is ready to do something about it – perhaps talking tapering at Jackson Hole in August – will the dollar find support.

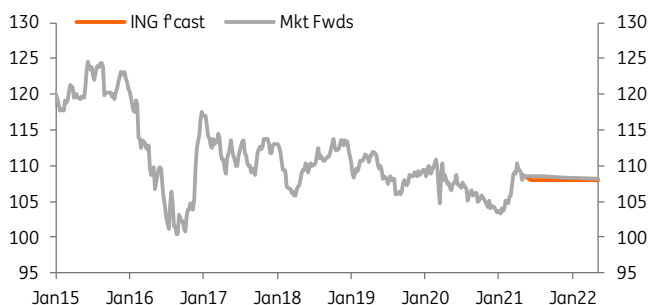
ING forecasts (mkt fwd)	1M 1.22 (1.2171)	3M 1.24 (1.2186)	6M 1.25 (1.2209)	12M 1.28 (1.2261)
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## USD/JPY

JPY scores poorly on the monetary normalization front

Current spot: 108.62



Source: Refinitiv, ING forecasts

- As we discuss in the [FX section](#) of our global monthly, the prospects of monetary normalization seem to be playing a big role in FX markets this year. At the back of that queue is Japan. Money markets actually price a cut in the BoJ policy rate over the next two years. Thus, the JPY remains vulnerable to \$ strength.
- The conviction amongst most rate strategists is that US rates must rise. That seems bullish for \$/JPY. Yet the longer that the Fed can keep real rates negative (10 year US real rates have fallen 15bp in May already), the more scope \$/JPY has to fall.
- The cheapest \$ hedging costs for Japanese investors since 2014 also serve as a reminder that \$/JPY is not a one-way bet higher.

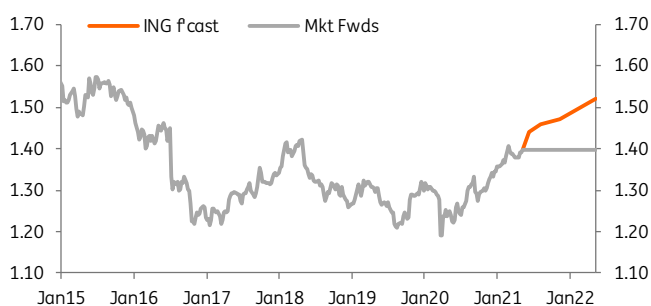
ING forecasts (mkt fwd)	1M 108.00 (108.59)	3M 108.00 (108.54)	6M 108.00 (108.45)	12M 108.00 (108.16)
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## GBP/USD

Bracing for a sustainable break above 1.40

Current spot: 1.3974



Source: Refinitiv, ING forecasts

- With EUR/USD on the rise, this should spill over into GBP/USD and help to bring the cross persistently back above 1.40 this summer
- The UK is now to offer alternative Covid vaccines to AstraZeneca to under 40s (the next age group to be vaccinated), but it doesn't much change the goal of all adults being offered the first dose by July. Importantly, with the Covid situation in the UK improving dramatically, the economic rebound this quarter remains intact.
- GBP remains the largest speculative long among G10 currencies measured by CFTC, but given the solid domestic economic story and the expected recovery in Europe, the positioning should remain decisively long.

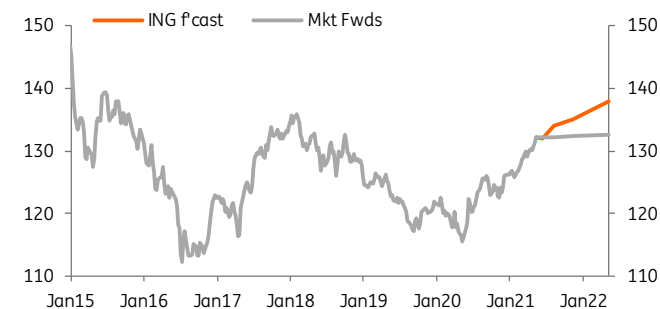
ING forecasts (mkt fwd)	1M 1.44 (1.3975)	3M 1.46 (1.3977)	6M 1.47 (1.3980)	12M 1.52 (1.3988)
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## EUR/JPY

EUR looks more interesting than JPY

Current spot: 132.07



Source: Refinitiv, ING forecasts

- The soft April US jobs report slightly reduces the risk of a tantrum in the bond market. That should allow risk assets to continue to run higher and be supportive for EUR/JPY. Yet the EUR also looks more interesting in a number of other areas. (1) Chip shortages aside, the global manufacturing cycle looks strong – benefiting the Eurozone, and (2) The ECB could get dragged into a tapering debate at the June meeting – also delivering some EUR outperformance.
- A reversal in EUR/JPY requires some global growth shock or perhaps some significant re-rating of Japanese growth prospects, triggering JPY-positive equity inflows. That has happened before.
- It is too early for the ECB to be worried by EUR strength again.

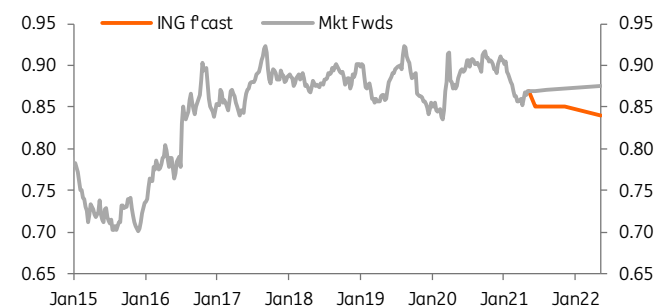
ING forecasts (mkt fwd)	1M 132.00 (132.12)	3M 134.00 (132.22)	6M 135.00 (132.36)	12M 138.00 (132.56)
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## EUR/GBP

Some modest GBP upside vs. EUR still ahead

Current spot: 0.8694



Source: Refinitiv, ING forecasts

- The BoE made the step to QE tapering at the May meeting, reducing the weekly purchases from £4.4bn to £3.4bn. But as the reduction wasn't overly aggressive, impact on GBP was muted.
- We don't think a more meaningful decline in asset purchases (i.e. stopping/reducing reinvestments of proceeds from maturing bonds) is on cards this year or next, and neither is a rate hike, due to benign 2022 CPI outlook. This means only modest GBP upside vs EUR. EUR/GBP not to persistently dip below 0.85 this year.
- Scottish elections shouldn't have a big impact on GBP (despite the support for pro-independence parties), as another independence referendum is unlikely any time soon, being years away at best.

ING forecasts (mkt fwd)	1M 0.85 (0.8699)	3M 0.85 (0.8708)	6M 0.85 (0.8723)	12M 0.84 (0.8754)
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## EUR/CHF

Why is EUR/CHF under 1.10?

Current spot: 1.0957



Source: Refinitiv, ING forecasts

- We're very surprised that EUR/CHF is trading under 1.10. The European news over the last month has been encouraging, be it on the vaccine/cases front or sentiment/activity data. The Karlsruhe ruling is also positive for the European project, as is the progress of the Greens in German election opinion polls.
- This begs the question whether issues like: (i) the Polish CHF mortgage story (Polish courts rule mid-May) or (ii) bank deleveraging on the back of the Archegos scandal are to blame?
- If either of the above are playing a role, both should prove temporary. Stronger European growth and the SNB determined to be the last to tighten policy should send EUR/CHF higher.

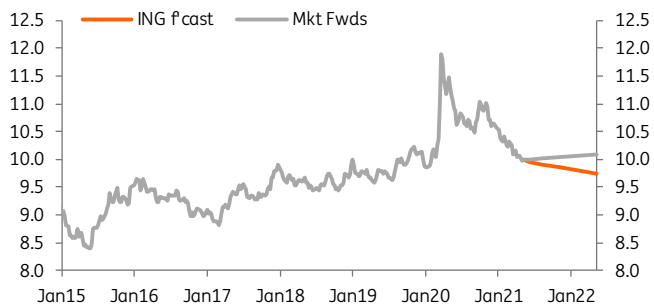
ING forecasts (mkt fwd)	1M 1.11 (1.0954)	3M 1.13 (1.0950)	6M 1.14 (1.0944)	12M 1.15 (1.0932)
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## EUR/NOK

### Krone set to benefit from the hawkish NB

**Current spot: 10.01**



Source: Refinitiv, ING forecasts

- The May NB meeting was a non-event for NOK, with the central bank reiterating its guidance for the first rate hike in the latter half of 2021. We don't rule out an earlier hike (in September) if the domestic economy experiences a stronger rebound this summer.
- We remain upbeat on NOK and expect EUR/NOK to persistently settle below 10.00 from the summer onwards as the rebound in EZ and Norwegian economies, the more synchronized global recovery in 2H21 and the NB being closer to the start of the tightening cycle all benefit the pro-cyclical NOK.
- The supportive environment for commodity prices is also good news for oil-exposed NOK. We target EUR/NOK 9.80 by year-end.

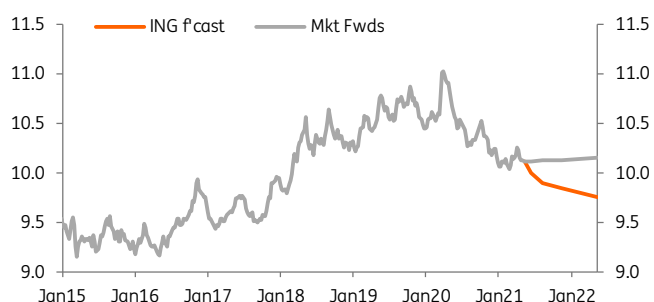
<b>ING forecasts (mkt fwd)</b>	<b>1M 9.95 (10.01)</b>	<b>3M 9.90 (10.02)</b>	<b>6M 9.85 (10.04)</b>	<b>12M 9.75 (10.09)</b>
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## EUR/SEK

### Waiting for more synchronized global recovery

**Current spot: 10.11**



Source: Refinitiv, ING forecasts

- The SEK uptrend fully faded vs EUR and EUR/SEK remains stuck around the multi-month 10.10 gravity line. Unlike NOK, the krona is missing the tailwinds of hawkish central bank and the exposure to rising commodity prices
- The Riksbank should remain cautious this year and rate hikes remain a distant possibility (not before 2022). Yet, this should not derail SEK upside and EUR/SEK moving below 10.00 later this year as the krona, being levered to global trade, is set to benefit from the more synchronized global recovery.
- We target EUR/SEK 9.80 by year-end. EUR/SEK around current levels is still overvalued based on our medium-term BEER model.

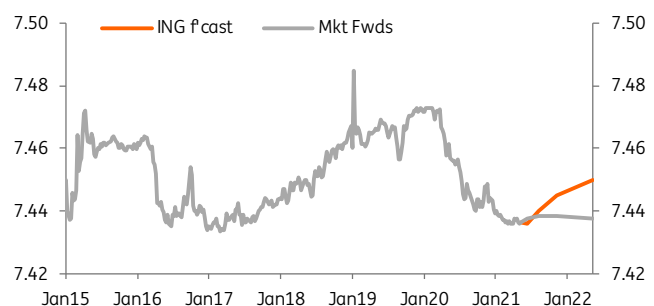
<b>ING forecasts (mkt fwd)</b>	<b>1M 10.000 (10.11)</b>	<b>3M 9.900 (10.12)</b>	<b>6M 9.850 (10.13)</b>	<b>12M 9.750 (10.16)</b>
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## EUR/DKK

### Pressure on DKK still in place, but easing

**Current spot: 7.436**



Source: Refinitiv, ING forecasts

- Following the highest monthly DN FX intervention since 2016 in March (DN selling DKK 17bn), the April interventions were more muted (DKK 2.2bn). With the pressure on EUR/DKK clearly easing, the case for an imminent rate cut has eased too.
- This is encouraging for the DN as April and May have been seasonally the two strongest months for DKK in the past 10 years. The lower pace of interventions in April suggests that the DN may eventually get away with no rate cut.
- Still, the pressure on EUR/DKK should remain in place this quarter as the spread between DN and EU money market rates remains high. But talk of possible ECB QE tapering may help DKK in H2.

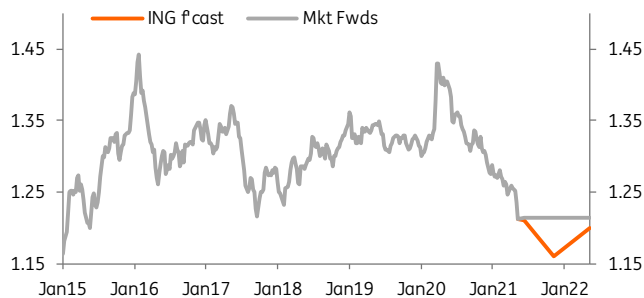
<b>ING forecasts (mkt fwd)</b>	<b>1M 7.436 (7.437)</b>	<b>3M 7.440 (7.438)</b>	<b>6M 7.445 (7.438)</b>	<b>12M 7.450 (7.438)</b>
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## USD/CAD

The stars have aligned for CAD

Current spot: 1.213



Source: Refinitiv, ING forecasts

- The Bank of Canada surprised markets by moving its forward guidance for the next hike to 2022, while further reducing asset purchases. We expect more tapering by the end of 2021.
- Markets are already pricing in three 25bp hikes in the next two years, and the hawkish re-ricing of rate expectations may well slow down now. Still, the wide monetary policy divergence with the US continues to point south for USD/CAD.
- Additionally, faster vaccinations in Canada bode well for an exit from recent restrictions and may prompt investors to overlook some not-so-good data as the recovery outlook remains strong. We see USD/CAD sustainably below 1.20 in the second half of the year and target 1.16 by year-end.

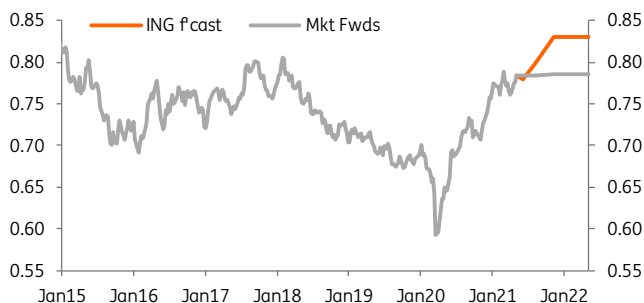
ING forecasts (mkt fwd)	1M 1.21 (1.214)	3M 1.19 (1.214)	6M 1.16 (1.214)	12M 1.20 (1.214)
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## AUD/USD

China remains a key variable

Current spot: 0.784



Source: Refinitiv, ING forecasts

- The RBA reiterated its strong dovish commitment at the May meeting, and AUD is set to remain the lower yielding currency among G10 high-yielders for longer, especially given that inflation is still subdued and the RBA is not sounding concerned about rising house prices.
- Australia-China tensions have continued to escalate, and more potential trade retaliations from China represent a key downside risk for AUD. But barring a fully-fledged trade war, high iron ore prices continue to support the Aussie terms of trade and China's solid economic performance bodes well for the Australian recovery.
- We maintain a bullish view on AUD/USD in 2021 and continue to expect a move above 0.80 in the second half of the year.

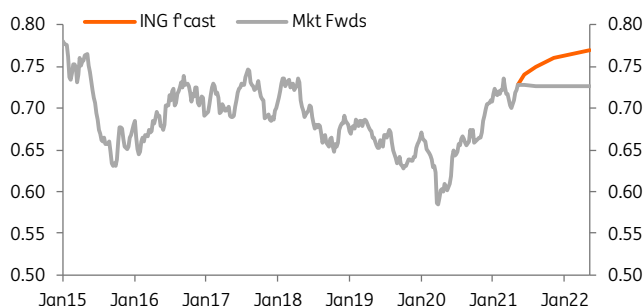
ING forecasts (mkt fwd)	1M 0.78 (0.784)	3M 0.80 (0.785)	6M 0.83 (0.785)	12M 0.83 (0.785)
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## NZD/USD

RBNZ tightening expectations may soon re-emerge

Current spot: 0.728



Source: Refinitiv, ING forecasts

- The spill-over from Australia-China tensions may be quite relevant for New Zealand as well, but for now the local economy continues to be on track for a decently-paced recovery, with the potential re-opening of international travel in the second half of the year possibly providing an extra boost.
- House prices rose 18% YoY in April, with government measures to curb the housing bubble still to show their effects. More signs of resilience in housing inflation may prompt a re-pricing of RBNZ tightening – which could already be warranted by supported CPI and low unemployment rate.
- NZD faces less short-term downside risks than AUD: AUD/NZD may soon touch 1.06. We target 0.77 by year-end in NZD/USD.

ING forecasts (mkt fwd)	1M 0.740 (0.727)	3M 0.750 (0.727)	6M 0.760 (0.727)	12M 0.770 (0.726)
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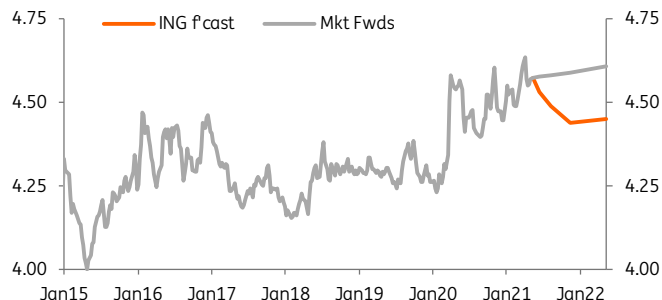


# Emerging markets

## EUR/PLN

Less focus on FX mortgages, more on impending rate hikes

Current spot: 4.57



Source: Refinitiv, ING forecasts

- Recent rulings indicate that banks should be in no hurry to settle the conversion of FX mortgages. Hence this factor should no longer be a market driver.
- This suggests scope for PLN gains in the coming months and weeks. Markets should price relatively quick NBP rate hikes, given high CPI and a [recent shift in the MPC rhetoric](#). Moreover, Poland should retain a relatively high current account surplus this year. An expected further rise in €/US\$ should benefit PLN as well.
- Based on our estimates, €/PLN is relatively close to equilibrium (4.50). Hence given fading risks from FX mortgages, volatility should remain lower than in March.

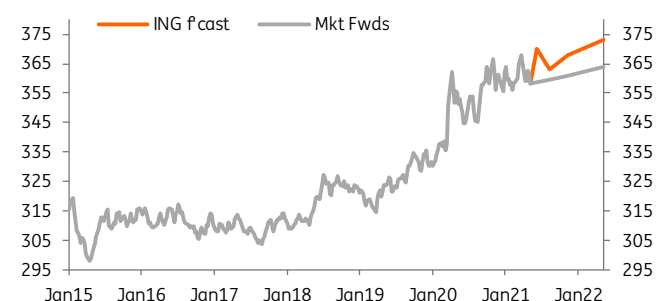
ING forecasts (mkt fwd)	1M 4.53 (4.58)	3M 4.49 (4.58)	6M 4.44 (4.59)	12M 4.45 (4.61)
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## EUR/HUF

Deepening negative real rates to weigh on HUF

Current spot: 358.46



Source: Refinitiv, ING forecasts

- Thanks to the better global risk appetite, EUR/HUF remained more or less stable in April, fluctuating in the 355-365 range.
- The upcoming spike in headline inflation to/above 5% expected in April and May, and the lack of initial reaction from the central bank will meaningfully depress the HUF real rate and weigh on the currency, in our view.
- While this is likely to eventually lead to emergency rate hikes, the hikes will need to be preceded by currency weakness. HUF already started underperforming its CEE peers in April and we think there is more to come, despite the recent calmness. We target the EUR/HUF 370 level this quarter.

ING forecasts (mkt fwd)	1M 370.0 (358.84)	3M 363.0 (359.65)	6M 368.0 (360.97)	12M 373.0 (363.81)
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## EUR/CZK

The hawkish CNB facilitating koruna strength

Current spot: 25.63



Source: Refinitiv, ING forecasts

- The hawkish CNB is a clear positive for CZK. Governor Rusnok strongly pointed to rate hikes this year in the May meeting. We now expect 3 hikes this year, with the first one coming in Aug.
- CZK remains an outlier in the CEE space, benefiting from a central bank which wants to be positioned ahead of the curve (vs the behind-the-curve NBH and NBP). The solid current account surplus of 2% of GDP this year is another positive for CZK
- But as seen in the CZK reaction after the May CNB meeting (which was relatively muted - likely due to positioning - despite the scale of the hawkishness) the grind in EUR/CZK lower will likely be slow and gradual. We target 25.50 this summer

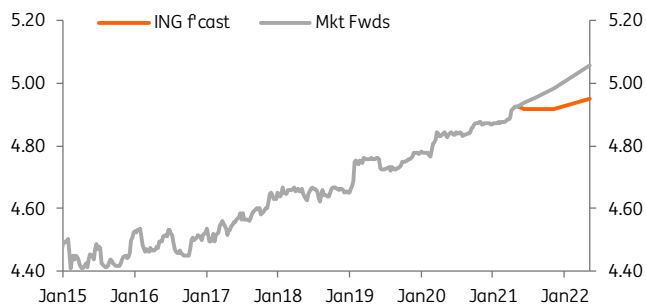
ING forecasts (mkt fwd)	1M 25.60 (25.65)	3M 25.50 (25.68)	6M 25.40 (25.74)	12M 25.20 (25.90)
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## EUR/RON

One-off adjustment followed by stability

Current spot: 4.93



Source: Refinitiv, ING forecasts

- After the already traditional annual upward adjustment, EUR/RON has returned to its peg-style behaviour, trading narrowly around 4.9250.
- A somewhat unexpected twist in language from National Bank of Romania Governor Mugur Isarescu puzzled the markets a bit, as he pointed concomitantly to “no reason for further reduction in interest rates”, “flexibility of the inflation targets” and “more flexibility” with respect to the exchange rate.
- The above should suggest a gradual shift in focus from FX stability to interest rate stability, but we believe this will occur very slowly. For now, we re-affirm our 4.92 year-end forecast.

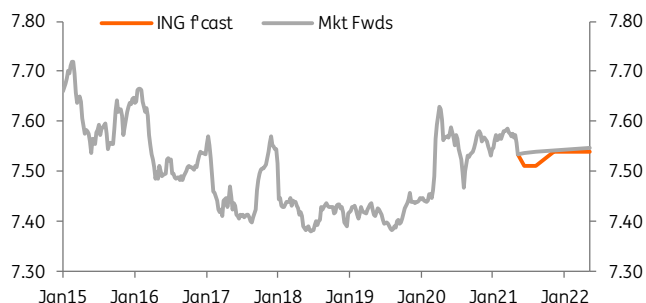
ING forecasts (mkt fwd)	1M 4.92 (4.94)	3M 4.92 (4.95)	6M 4.92 (4.98)	12M 4.95 (5.06)
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## EUR/HRK

HNB to keep buying FX

Current spot: 7.53



Source: Refinitiv, ING forecasts

- The seasonal appreciation of the kuna seems to have kicked-off with a slight delay and less impressive amplitude, which is not surprising given the uncertainties surrounding the tourist season.
- While downward pressures should continue throughout 2Q21, we do not expect to see EUR/HRK below 7.50, given the “very sizeable” FX purchases that the Croatian National Bank expects over the next two years. The recently adopted Recovery and Resilience Plan could open the way for up to EUR600m of inflows in 2H21 already.
- We maintain our year-end EUR/HRK forecasts at 7.53.

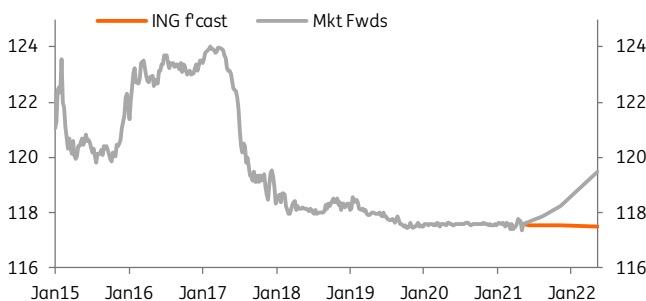
ING forecasts (mkt fwd)	1M 7.51 (7.54)	3M 7.51 (7.54)	6M 7.54 (7.54)	12M 7.54 (7.55)
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## EUR/RSD

Tight managed float

Current spot: 117.60



Source: Refinitiv, ING forecasts

- Economic momentum is gaining traction, following impressive 1.2% YoY growth in 1Q21. Given the sizeable new fiscal support measures expected in 2021, with the budget deficit target increased from 3.0% to 7.0% of GDP, we have revised our 2021 GDP growth forecast from 5.5% to 6.5%.
- We are increasingly wary about demand-side inflationary pressures, especially in light of the new fiscal measures. We believe that this could strengthen the central bank’s FX centered policy even further.
- Given the above, the 117.5 level is likely to remain the reference point for an extended period, with the National Bank of Serbia apparently unwilling to tolerate even mild deviations from it.

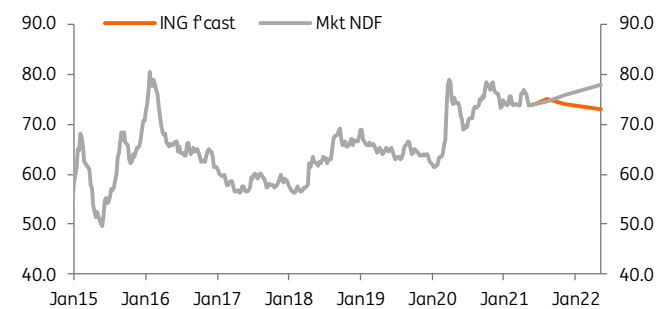
ING forecasts (mkt fwd)	1M 117.55 (117.67)	3M 117.55 (117.86)	6M 117.55 (118.22)	12M 117.50 (119.50)
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## USD/RUB

A pause to breathe, before a new round of pressure

Current spot: 73.76



Source: Refinitiv, ING forecasts

- Following a tumultuous start, April brought some relief to the local FX market, as foreign policy tensions subsided. RUB recovered from its low of 77/USD and close to our monthly target of 75, with the discount to EM peers narrowing from 16% to 15%.
- The return of portfolio inflows into OFZ, combined with extended foreign travel ban, upcoming RUB accumulation ahead of the dividend season, and [cut in CBR FX purchases in May](#) amid strong oil prices favour further rouble strengthening in the near term.
- In the longer run, persistent risk of sanctions (next CBW act-related announcement has a 2 June deadline), pick up of imports, resumed foreign travel, private capital outflow, and potential tightening in US Fed rhetoric suggest a more challenging 2H21.

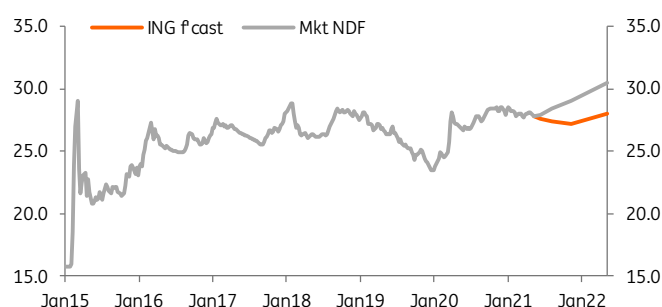
<b>ING forecasts (mkt fwd)</b>	<b>1M</b> 74.00 (74.01)	<b>3M</b> 75.00 (74.64)	<b>6M</b> 74.00 (75.69)	<b>12M</b> 73.00 (77.88)
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Dmitry Dolgin, Russia +7 495 771 7994

## USD/UAH

NBH policy supports further UAH gains.

Current spot: 27.75



Source: Refinitiv, ING forecasts

- The short to medium term UAH outlook remains moderately positive. The central bank should be willing to conduct further tightening, given the inflation profile ahead. We assume +25bp in 3Q21, but the risk is definitely on the upside. The very low vaccination rate is a problem though, putting Ukraine at risk of another pandemic wave.
- Looking ahead, rising commodity prices should take a toll on the current account in the remainder of 2021 and 2022. This may affect the currency as soon as the central bank starts easing interest rates, likely next year.

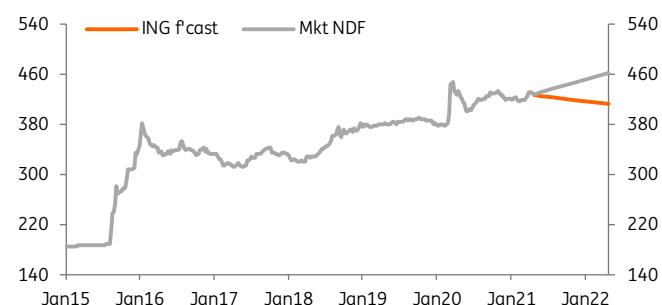
<b>ING forecasts (mkt fwd)</b>	<b>1M</b> 27.60 (27.94)	<b>3M</b> 27.40 (28.36)	<b>6M</b> 27.20 (29.02)	<b>12M</b> 28.00 (30.48)
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Piotr Poplawski, Warsaw +48 22 820 4078

## USD/KZT

Global recovery reinforces KZT but risk factors remain

Current spot: 426.61



Source: Refinitiv, ING forecasts

- The tenge has somewhat bounced back from 433 to 427 to USD, as oil prices recovered and the Ruble stabilised. But Covid tensions and low vaccination rollout prevent tenge from fully meeting our expectations.
- Further softening OPEC+ quota restrictions by 6,000 bbl/d in May combined with post-maintenance oilfield operations should gradually uplift oil output, positively affecting the current account.
- We continue to expect KZT appreciation in 2-4Q based on oil prices of US\$64.5/bbl, limiting the annual current account deficit to US\$3.4bn. A 1Q21 deficit of US\$1.2bn amid a shrinking trade balance and seasonally weak 3Q21F may pose a risk to this view.

<b>ING forecasts (mkt fwd)</b>	<b>1M</b> 425.00 (430.04)	<b>3M</b> 423.00 (436.13)	<b>6M</b> 418.00 (445.58)	<b>12M</b> 413.00 (461.12)
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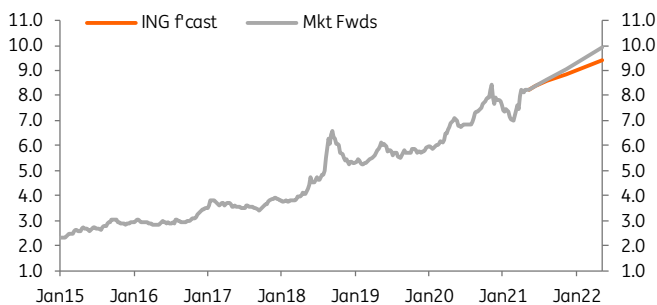
Dmitry Dolgin, Russia +7 495 771 7994



## USD/TRY

The timing of the CBT's rate cut is in focus

Current spot: 8.24



Source: Refinitiv, ING forecasts

- The new CBT Governor indicated that the tight monetary stance will be maintained with “great determination and patience” until there is a sustainable improvement in the inflation outlook.
- Changes to the CBT guidance including elimination of additional tightening bias and removal of tighter for longer commitment signal a dovish shift, though the Governor’s latest remarks underlined the need for tight policies. Challenging inflation dynamics, fragile capital flows and the exchange rate outlook are likely to keep the CBT cautious ahead in its policy actions.
- A visible improvement in inflation and recovery in capital inflows would help support the TRY performance, while CBT policy signals and the global backdrop should be watched closely.

ING forecasts (mkt fwd)	1M 8.40 (8.36)	3M 8.60 (8.62)	6M 8.85 (9.04)	12M 9.40 (9.93)
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Muhammet Mercan, Istanbul +90 212 329 0751

## USD/ZAR

Commodity boom really showing up in the numbers

Current spot: 14.06



- The ZAR holds onto its spot as this year’s best performing EM currency. Driving that performance is undoubtedly the commodities boom, where March recorded a record ZAR52bn trade surplus – driven by exports of precious metals and minerals. There are no signs that these commodity trends are ready to reverse anytime soon.
- Domestic growth remains weak and private sector credit is still contracting at 2% YoY. Currently SARB projections have hikes in 2Q and 4Q this year and the market prices 75bp of tightening.
- The ZAR staying bid could see SARB backing away from hikes. Renewed inflows into SAGBs, offering 9%, could help the ZAR.

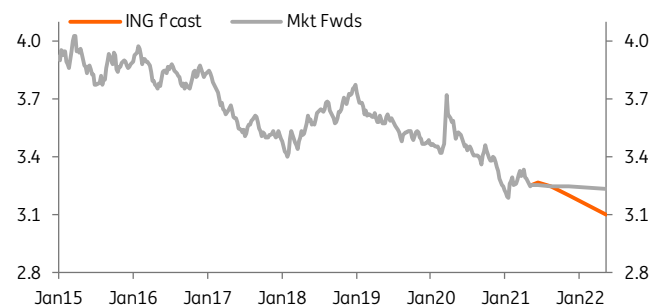
ING forecasts (mkt fwd)	1M 14.25 (14.12)	3M 14.50 (14.23)	6M 15.00 (14.40)	12M 16.00 (14.73)
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Chris Turner, London +44 20 7767 1610

## USD/ILS

Like it never happened

Current spot: 3.25



Source: Refinitiv, ING forecasts

- Israel's bounce back after the third lock down is even more rapid than the bullish ‘rapid-vaccination’ scenario the Bol presented earlier in the year. The Bol now forecasts growth at 6.3% in 2021 and 5% in 2022. Importantly, by the end of 2022, the Israeli economy is predicted to be about the same size as if the pandemic had never happened.
- Q: Will this optimism prompt the Bol to change policy? A: No. The Bol has so far spent \$19bn of its \$30bn FX intervention war-chest and says that \$30bn war-chest can be increased (think SNB).
- We don't see the Bol defending a line in the sand in \$/ILS – but more occasionally slowing the path towards 3.20 and then 3.10.

ING forecasts (mkt fwd)	1M 3.27 (3.25)	3M 3.25 (3.25)	6M 3.20 (3.24)	12M 3.10 (3.23)
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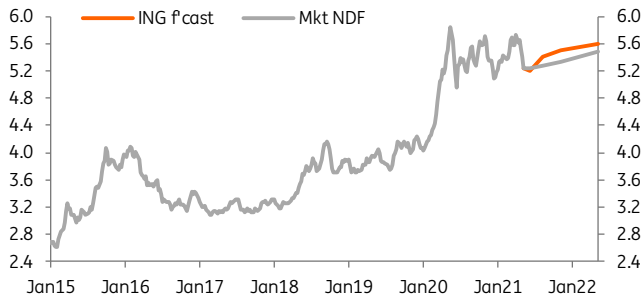
Chris Turner, London +44 20 7767 1610

# LATAM

## USD/BRL

### BACEN gets serious with rates

**Current spot: 5.24**



Source: Refinitiv, ING forecasts

- BRL has come surging back, triggered by aggressive tightening from BACEN. May saw another 75bp hike with the promise of another 75bp in June. That will take the policy rate to 4.25%. This is still well below where inflation should peak this summer – perhaps in the 7-8% range – and probably means BACEN needs to sound hawkish, keeping alive expectations of 6% rates end 21.
- The passage of the 2021 budget has been greeted well by the markets, although fiscal challenges remain given the pandemic.
- \$/BRL could briefly see 5.00 should the external environment stay benign. Privatizations of Electrobras and the post office, by Jan 22, pose an intriguing bullish BRL wild card later this year.

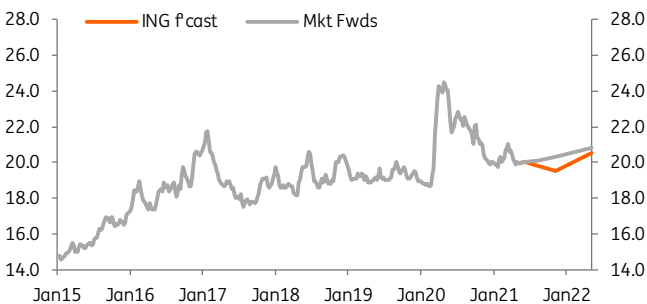
<b>ING forecasts (NDF)</b>	<b>1M 5.20 (5.23)</b>	<b>3M 5.40 (5.28)</b>	<b>6M 5.50 (5.34)</b>	<b>12M 5.60 (5.48)</b>
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## USD/MXN

### Peso remains one of our preferred high yielders

**Current spot: 19.92**



Source: Refinitiv, ING forecasts

- MXN has gone into consolidation mode. The March trade data did not help. Markets had been expecting a \$3bn surplus, not the \$3bn deficit that materialised. Let's see if that trend is not repeated in April. What was more encouraging, however, was the \$4.2bn remittance sent home in March – and US largesse with stimulus checks should help here.
- 1Q growth was slightly stronger than expected and Mexico should be well paced for the 2Q US domestic demand boom.
- High CPI, pushing up to 6-7% over coming months, will keep Banxico firmly on hold at 4% (probably by unanimous vote). 4.2% implied yields through the forwards to keep MXN in demand.

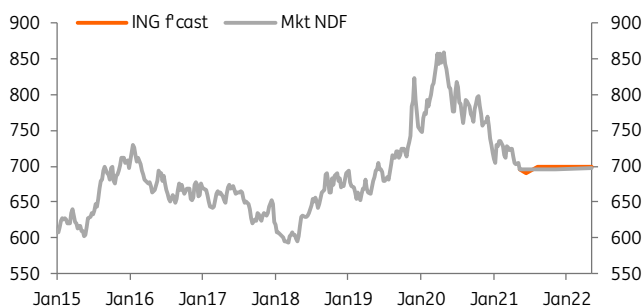
<b>ING forecasts (mkt fwd)</b>	<b>1M 20.00 (19.99)</b>	<b>3M 19.80 (20.13)</b>	<b>6M 19.50 (20.35)</b>	<b>12M 20.50 (20.81)</b>
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## USD/CLP

### Caught between copper and constitutional elections

**Current spot: 695.41**



Source: Refinitiv, ING forecasts

- The global boom in industrial metal prices – especially copper – is clearly a boon for Chile. That generates about \$4bn in monthly exports for Chile. This trend looks unlikely to change anytime soon and has been a key factor keeping \$/CLP pressured near 700. This looks likely to give way this summer despite the intervention efforts from the central bank.
- One big event risk on the horizon is the May 15-16<sup>th</sup> election of a Constitutional Assembly – the 155 members of which will draft a new constitution. Any big shift towards populist parties could unnerve international investors in Chile.
- Yet so far Chile's sovereign risk (5 year \$ CDS) seems quite calm.

<b>ING forecasts (NDF)</b>	<b>1M 690.0 (695.53)</b>	<b>3M 700.0 (695.68)</b>	<b>6M 700.0 (695.88)</b>	<b>12M 700.0 (696.98)</b>
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# Asia

## USD/CNY

Stronger yuan but be aware of risks

Current spot: 6.43



Source: Refinitiv, ING forecasts

- First quarter GDP growth was 18.3% YoY, the mixed result of a low base effect and a stable recovery from Covid.
- International travel has still not re-opened. This will continue to hinder further economic recovery in international businesses and in tourism activities.
- Its determination to implement deleveraging reform and the start of reforms on fintech indicates that the government is confident on economic growth prospects in 2021.
- Applying these growth prospects to currency performance, the yuan could be stronger in 2021, but with risks ranging from Covid to international politics.

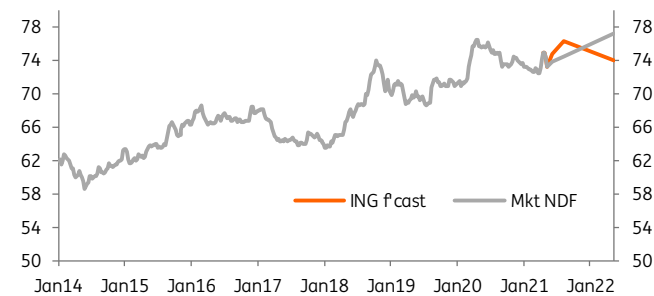
ING forecasts (mkt fwd)	1M 6.490 (6.45)	3M 6.450 (6.47)	6M 6.370 (6.51)	12M 6.230 (6.59)
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Iris Pang, Hong Kong +852 2848 8071

## USD/INR

The economy battered by Covid-19 second wave

Current spot: 73.25



Source: Refinitiv, ING forecasts

- The INR ended April as Asia's worst performer with a 1.3% loss against the USD – the only Asian currency to depreciate on a month-end basis. We see no respite from this weakness until the Covid-19 situation stabilises, which could take months.
- The economy is poised for a big hit in the current quarter from Covid-19, followed by a very weak recovery over the rest of the year. We recently cut our FY21-22 GDP growth forecast from 9.2% to 7.8%. We don't rule out further downgrades.
- As high inflation chokes off the stimulus from low policy interest rates, the RBI stepped up liquidity support for the worst-affected sectors with its unscheduled announcement on 5 May.

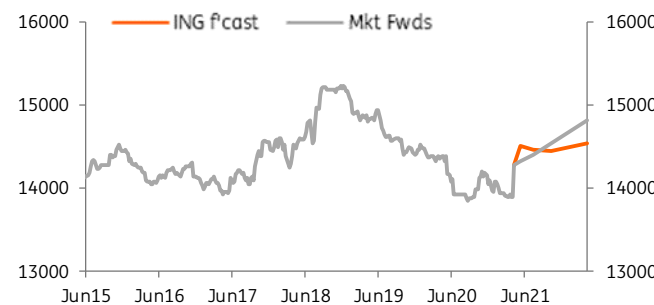
ING forecasts (mkt fwd)	1M 74.80 (73.84)	3M 76.40 (74.49)	6M 75.50 (75.42)	12M 74.00 (77.20)
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Prakash Sakpal, Singapore +65 6232 6181

## USD/IDR

IDR stumbles anew in April

Current spot: 14285.00



Source: Refinitiv, ING forecasts

- The IDR was on the back foot again in April as anxiety over rising global yields weighed on the currency. IDR reached the year's weakest level of 14,615 by mid-month before gradually recovering as US Treasury yields edged lower from March levels.
- Bank Indonesia (BI) kept policy rates unchanged at the 20 April meeting despite a slight bounce for the IDR as Governor Warjiyo opted to maintain support for the currency. Warjiyo previously noted limited space for further rate cuts in the near term.
- We expect the IDR to remain pressured in the coming month as the threat of rising US Treasury yields remains, although pressure has abated somewhat in the past two weeks.

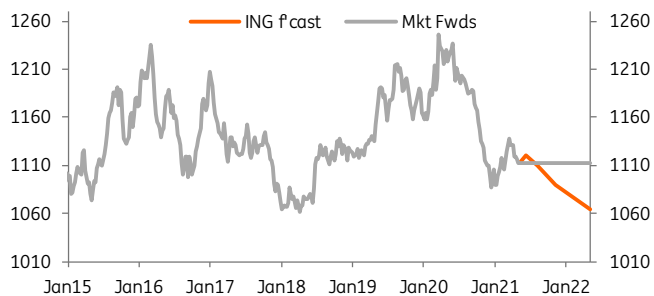
ING forecasts (mkt fwd)	1M 14504 (14329.00)	3M 14472 (14407.50)	6M 14456 (14545.00)	12M 14542 (14825.00)
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Nicholas Mapa, Philippines +63 28479 8855

## USD/KRW

Making up lost ground

Current spot: 1113.01



Source: Refinitiv, ING forecasts

- The KRW continues to whip around, and on a daily basis is often either Asia's best or worst performing currency, though for April, it managed to finish near the top of the Asia pack which favoured structurally sound economies with controlled Covid-19 at the expense of higher yielders and Covid-19 victims.
- This could rapidly change, though we think there could be a period of directionless volatility before the next leg starts.
- When this happens, we anticipate further KRW strengthening. The recent GDP growth figures were very solid, and inflation is also creeping up faster than had been expected. The BoK could begin slowly hiking by late 2022.

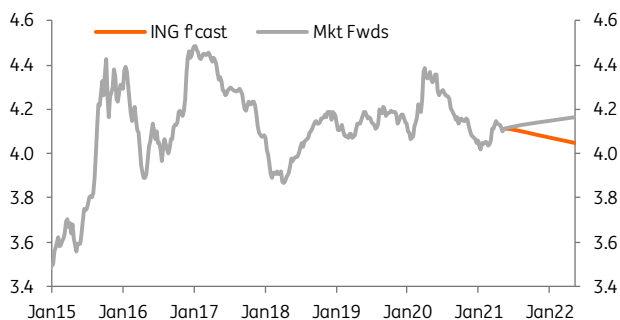
ING forecasts (NDFs)	1M 1120 (1112.47)	3M 1110 (1112.47)	6M 1090 (1112.27)	12M 1065 (1111.97)
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Rob Carnell, Singapore +65 6232 6020

## USD/MYR

Firmer oil price and exports supports MYR for now

Current spot: 4.11



Source: Refinitiv, ING forecasts

- Firmer global oil prices and strong exports played out in favour of the MYR in April, keeping the currency among Asia's outperforming FX in April.
- A 31% YoY surge in March boosted monthly exports to an all-time high of MYR105bn. The MYR22bn YoY jump in the trade surplus in 1Q21 points to net trade remaining the key driver of GDP growth for the third straight quarter (INGF: -2.5%).
- As the ongoing third wave of Covid-19 clouds recovery prospects, accommodative policies are here to stay for the foreseeable future. This is despite the inflation spike - induced by a sharp plunge in prices a year ago rather than any rise this year.

ING forecasts (mkt fwd)	1M 4.110 (4.12)	3M 4.100 (4.13)	6M 4.080 (4.14)	12M 4.050 (4.17)
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## USD/PHP

PHP appreciates after bond issuance and soft imports

Current spot: 47.78



Source: Refinitiv, ING forecasts

- PHP moved sideways before enjoying modest appreciation throughout the month as the currency got a boost from recent foreign currency bond issuance. Soft import demand tied to weak domestic output also helped lift PHP.
- Bangko Sentral ng Pilipinas (BSP) signalled it would keep policy rates untouched for as long as the economy was in recovery mode with no threat of a rate cut or rate hike imminent.
- PHP will likely enjoy modest appreciation pressure should import demand remain soft while remittance flows continue to surprise on the upside.

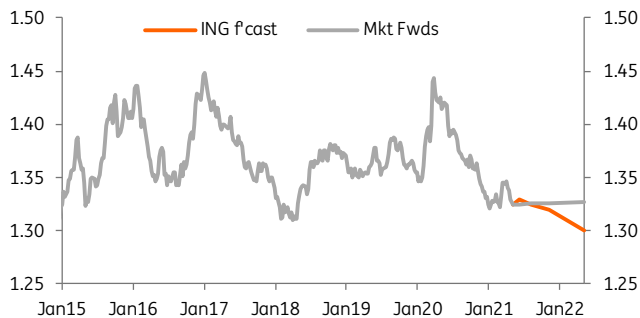
ING forecasts (mkt fwd)	1M 48.15 (47.81)	3M 48.32 (47.89)	6M 48.29 (48.05)	12M 48.72 (48.28)
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## USD/SGD

### Back to tighter Covid-19 movement restrictions

**Current spot: 1.325**



Source: Refinitiv, ING forecasts

- The SGD's 1.1% gain against the USD in April was a reversal of the entire sell-off in March. This came as the Monetary Authority of Singapore retained the zero S\$-NEER appreciation policy.
- GDP eked out 0.2% YoY growth in 1Q21 after three quarters of declines. Our full-year 2021 growth view of 4.9% sits in the middle of the 4-6% official forecast range. While the strong export recovery imparts upside risk to our view, the tighter Covid-19 restrictions in May will weigh on domestic spending.
- Inflation is nearing the top end of the MAS's 0.5% to 1.5% forecast range for 2021 and is likely to stay there for the rest of the year. We don't think this calls for tighter policy in October.

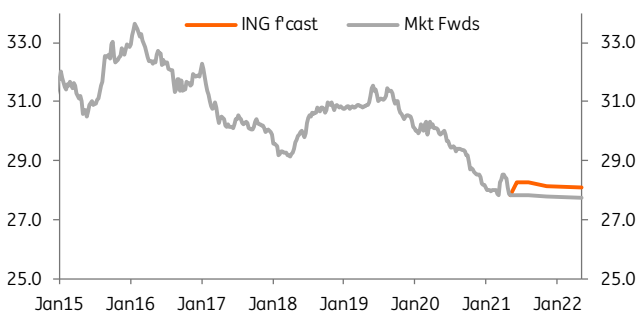
<b>ING forecasts (mkt fwd)</b>	<b>1M 1.330 (1.325)</b>	<b>3M 1.325 (1.325)</b>	<b>6M 1.320 (1.326)</b>	<b>12M 1.300 (1.326)</b>
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**Prakash Sakpal, Singapore +65 6232 6181**

## USD/TWD

### Chip shortage and Covid-19 pose risks to TWD

**Current spot: 27.82**



Source: Refinitiv, ING forecasts

- There are two main issues faced by Taiwan currently. The first is the slowdown in semiconductor chip production due to water shortages. This is a climate issue not under the control of businesses or the government. This will clearly affect Taiwan's production activity and export volumes.
- There has also been a small outbreak of Covid-19 in Taiwan, heightening market nerves.
- If both issues last for more than a month then the outlook of the Taiwan economy as well as the currency will clearly be undermined. We are following developments closely.

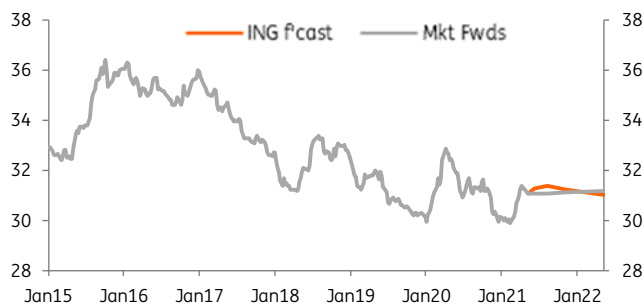
<b>ING forecasts (mkt fwd)</b>	<b>1M 28.25 (27.82)</b>	<b>3M 28.25 (27.81)</b>	<b>6M 28.15 (27.80)</b>	<b>12M 28.10 (27.74)</b>
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**Iris Pang, Hong Kong +852 2848 8071**

## USD/THB

### Third wave of Covid-19 dampens recovery hopes

**Current spot: 31.05**



Source: Refinitiv, ING forecasts

- April brought some respite from selling pressure on the THB, though its 0.4% appreciation kept it near the bottom of the Asian performance chart. Weakness is likely to return in May as the third wave of Covid-19 further dampens hopes of tourism and overall economic recovery this year.
- We have cut our 2021 GDP growth forecast from 2.8% to 2.1%, which will go down to be the most sluggish economic recovery in the region following the record slump last year.
- Even as inflation is getting a boost from base effects, stable central bank policy remains our baseline for 2021, leaving all the heavy lifting for supporting growth to fiscal policy.

<b>ING forecasts (mkt fwd)</b>	<b>1M 31.25 (31.05)</b>	<b>3M 31.40 (31.08)</b>	<b>6M 31.20 (31.12)</b>	<b>12M 31.00 (31.17)</b>
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**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
<b>Developed FX</b>											
EUR/USD	1.22	1.22	1.24	1.25	1.28						
EUR/JPY	132.3	131.76	133.92	135.00	138.24	USD/JPY	108.75	108	108	108	108
EUR/GBP	0.86	0.85	0.85	0.85	0.84	GBP/USD	1.41	1.44	1.46	1.47	1.52
EUR/CHF	1.09	1.11	1.13	1.14	1.15	USD/CHF	0.90	0.91	0.91	0.91	0.90
EUR/NOK	9.99	9.95	9.90	9.85	9.75	USD/NOK	8.21	8.16	7.98	7.88	7.62
EUR/SEK	10.12	10.00	9.90	9.85	9.75	USD/SEK	8.32	8.20	7.98	7.88	7.62
EUR/DKK	7.436	7.436	7.440	7.445	7.450	USD/DKK	6.11	6.10	6.00	5.96	5.82
EUR/CAD	1.47	1.48	1.48	1.45	1.54	USD/CAD	1.211	1.21	1.19	1.16	1.20
EUR/AUD	1.54	1.56	1.55	1.51	1.54	AUD/USD	0.79	0.78	0.80	0.83	0.83
EUR/NZD	1.67	1.65	1.65	1.64	1.66	NZD/USD	0.73	0.74	0.75	0.76	0.77
<b>EMEA</b>											
EUR/PLN	4.57	4.53	4.49	4.44	4.45	USD/PLN	3.76	3.71	3.62	3.55	3.48
EUR/HUF	357.5	370.00	363.00	368.00	373.00	USD/HUF	293.9	303	293	294	291
EUR/CZK	25.62	25.6	25.5	25.4	25.2	USD/CZK	21.07	21.0	20.6	20.3	19.7
EUR/RON	4.93	4.92	4.92	4.92	4.95	USD/RON	4.05	4.03	3.97	3.94	3.87
EUR/HRK	7.53	7.51	7.51	7.54	7.54	USD/HRK	6.19	6.16	6.06	6.03	5.89
EUR/RSD	117.6	117.6	117.6	117.6	117.5	USD/RSD	96.7	96.4	94.8	94.0	91.8
EUR/RUB	89.94	90.3	93.0	92.5	93.4	USD/RUB	73.93	74.0	75.0	74.0	73.0
EUR/UAH	33.70	33.7	34.0	34.0	35.8	USD/UAH	27.75	27.60	27.40	27.20	28.00
EUR/KZT	519.7	518.5	524.5	522.5	528.6	USD/KZT	426.6	425	423	418	413
EUR/TRY	10.02	10.25	10.66	11.06	12.03	USD/TRY	8.25	8.40	8.60	8.85	9.40
EUR/ZAR	17.08	17.4	18.0	18.8	20.5	USD/ZAR	14.04	14.25	14.50	15.00	16.00
EUR/ILS	3.96	3.99	4.03	4.00	3.97	USD/ILS	3.25	3.27	3.25	3.20	3.10
<b>LATAM</b>											
EUR/BRL	6.37	6.34	6.70	6.88	7.17	USD/BRL	5.23	5.20	5.40	5.50	5.60
EUR/MXN	24.20	24.4	24.6	24.4	26.2	USD/MXN	19.89	20.00	19.80	19.50	20.50
EUR/CLP	846.00	842	868	875	896	USD/CLP	695.41	690	700	700	700
<b>Asia</b>											
EUR/CNY	7.80	7.92	8.00	7.96	7.97	USD/CNY	6.41	6.49	6.45	6.37	6.23
EUR/HKD	9.45	9.49	9.62	9.69	9.95	USD/HKD	7.77	7.78	7.76	7.76	7.77
EUR/IDR	17370	17695	17945	18070	18614	USD/IDR	14198	14504	14472	14456	14542
EUR/INR	89.20	91.3	94.7	94.4	94.7	USD/INR	73.32	74.80	76.40	75.50	74.00
EUR/KRW	1353.54	1366	1376	1363	1363	USD/KRW	1112.59	1120	1110	1090	1065
EUR/MYR	5.00	5.01	5.08	5.10	5.18	USD/MYR	4.11	4.11	4.10	4.08	4.05
EUR/PHP	58.19	58.7	59.9	60.4	62.4	USD/PHP	47.84	48.15	48.32	48.29	48.72
EUR/SGD	1.61	1.62	1.64	1.65	1.66	USD/SGD	1.32	1.33	1.33	1.32	1.30
EUR/TWD	33.70	34.5	35.0	35.2	36.0	USD/TWD	27.70	28.3	28.3	28.2	28.1
EUR/THB	37.80	38.1	38.9	39.0	39.7	USD/THB	31.07	31.3	31.4	31.2	31.0

Source: Refinitiv, ING

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