13 May 2019
FX Strategy

FX Talking

Trading blows

The re-opening of the US-China trade war has come as a surprise. We suspect a deal is concluded in 3Q19, but until then investors look set to play-it-safe. This should see JPY out-performance across the board and the continuation of the dovish re-pricing in open economies. It looks too early to re-buy into EMFX.

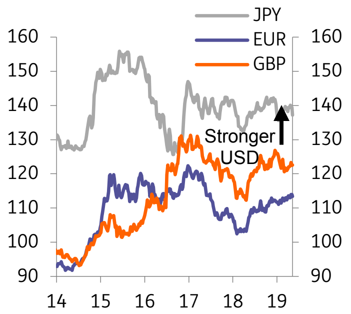
The motives for the Chinese reneging on its part of the trade deal are uncertain at this stage. Are they prompted by a little 'fine-tuning' or a more fundamental re-assessment of Trump's tolerance for a total trade war? Until this becomes clearer we expect investors, who have so far enjoyed a strong year of returns, to turn more cautious.

With its negative correlation to equities and its lack of correlation with the Renminbi, we expect the JPY to perform well over the near term. We favour the JPY over the dollar, where the latter could prove a little vulnerable were US equity markets to correct.

We still think there is a window for EUR/USD to trade 1.10 this summer. The renewed trade conflict risks stamping on the green-shoots of the Eurozone recovery. US tariffs on auto imports and European elections pose two further risks to the Euro in May.

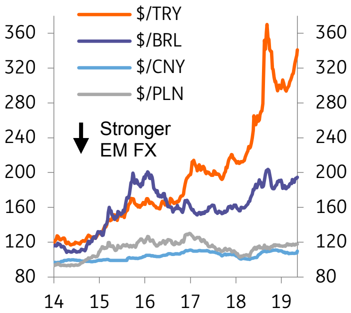
Elsewhere we expect positive trends in CE4 FX to be re-assessed. A poor performance by the ruling PiS in European elections could raise fears of fiscal profligacy in Poland. Hungarian rates look far too low given near 4% CPI. We think the CZK bull trend will reverse now that the hiking cycle is over. And RON looks to be living on borrowed time.

USD/Majors (30 Jan 09=100)



Source: Reuters, ING

USD/EM (30 Jan 09=100)



Source: Reuters, ING

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.11	↓	108	↓	1.28	↓
3M	1.10	↓	110	↑	1.26	↓
6M	1.15	↑	108	→	1.31	↓
12M	1.17	↑	105	↓	1.38	↑
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.87	↑	25.70	↑	4.32	↑
3M	0.87	↑	25.80	↑	4.28	↓
6M	0.88	↑	25.90	↓	4.31	↓
12M	0.85	↓	26.30	↑	4.34	↓
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	6.75	→	19.00	↓	4.00	↑
3M	6.80	→	18.80	↓	3.70	↓
6M	6.75	↓	19.00	↓	3.40	↓
12M	6.60	↓	19.50	↓	3.70	↓

> / = / < indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright
Source: Bloomberg, ING

FX performance

	EUR/USD	USD/JPY	EUR/GBP	EUR/NOK	NZD/USD	USD/CAD
%MoM	-0.1	-1.6	0.4	2.0	-2.4	0.7
%YoY	-5.4	0.2	-1.7	2.5	-5.4	4.5
	USD/UAH	**USD/KZT**	**USD/BRL**	**USD/ARS**	**USD/CNY**	**USD/TRY**
%MoM	-2.7	0.2	2.9	4.7	2.2	7.5
%YoY	-0.5	15.7	11.0	98.5	8.0	42.1

Source: Bloomberg, ING

Chris Turner
Head of Foreign Exchange Strategy
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

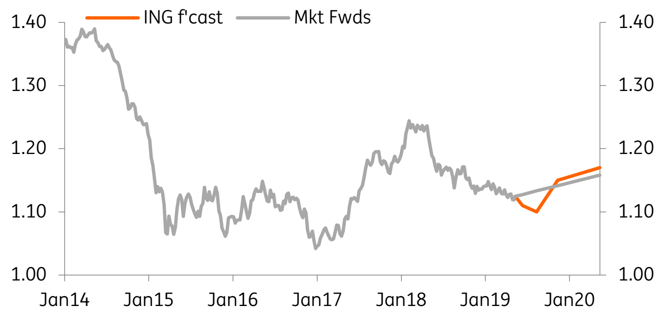
View all our research on Bloomberg at ING5<GO>

Developed markets

EUR/USD

Balance of risks still favour 1.10 in 2Q19

Current spot: 1.12



Source: Bloomberg, ING

- Barring a temporary squeeze of short EUR positions, there seems little reason to change the near term view that EUR/USD stays offered this summer and tests 1.10. As we go to press US-China trade tension is unresolved and there is a still a risk that later this month President Trump opts for tariffs on auto imports.
- Admittedly there are a few green shoots in terms of European growth, but probably not enough to lift Euro area interest rates off the floor. The TLTRO III to be announced by the ECB in June should also cement the view that EUR rates stay lower for longer.
- A good showing from Salvini's League in European elections end month also raises the risk of new Italian elections later this year.

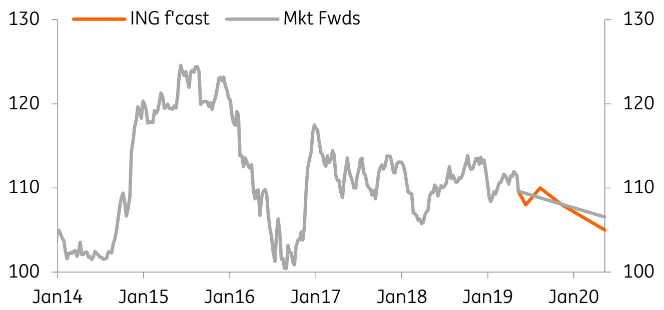
ING forecasts (mkt fwd)	**1M** 1.11 (1.127)	**3M** 1.10 (1.1331.10)	**6M** 1.15 (1.142)	**12M** 1.17 (1.158)

Chris Turner, London +44 20 7767 1610

USD/JPY

Back-drop supportive, but risk environment biggest threat

Current spot: 109.63



Source: Bloomberg, ING

- The Fed's data-dependent approach to monetary policy and the run of data points to some support for US market interest rates over coming months and the high USD hedging costs that have encouraged more Japanese interest in unhedged foreign bonds.
- The BoJ recently felt the need to clarify forward guidance of low rates until spring 2020 and ease eligible collateral requirements. Clearly normalisation won't be an issue for the BoJ, who will closely monitor developments around the planned VAT hike on 1 Oct.
- However, $/JPY is making hard work of the upside and the JPY's lack of correlation to the CNY is a distinct advantage right now. 110/112 may be the best levels until the $ trend turns into 2020.

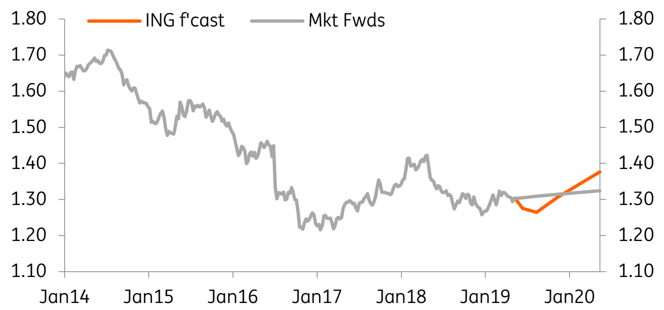
ING forecasts (mkt fwd)	**1M** 108.00 (109.4)	**3M** 110.00 (108.8)	**6M** 108.00 (108.1)	**12M** 105.00 (106.5)

Chris Turner, London +44 20 7767 1610

GBP/USD

Brexit: the gift that keeps on giving

Current spot: 1.30



Source: Bloomberg, ING

- The UK government has recently confirmed that the UK will be taking part in European elections, meaning that the new Brexit deadline is confirmed as 31 October 2019. We see little chance of the Tories and Labour reaching any cross-party deal here and instead see a last-minute extension again being requested in October. Before then there is a (small) chance of PM May falling on her sword following presumably terrible May election results.
- The UK economy isn't doing that badly all things considered – growth expected at 1.5%. And the BoE want to hike in November, but may again delay depending on the Brexit extension.
- It seems too early to be calling a bullish turn in Cable.

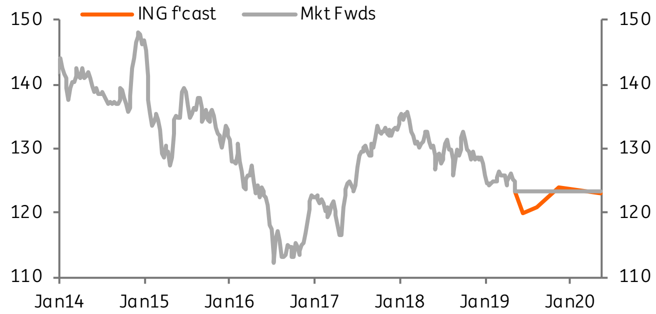
ING forecasts (mkt fwd)	**1M** 1.28 (1.30)	**3M** 1.26 (1.31)	**6M** 1.31 (1.31)	**12M** 1.38 (1.32)

Chris Turner, London +44 20 7767 1610

EUR/JPY

JPY to win out as a defensive play

Current spot: 123.3



Source: Bloomberg, ING

- The slight negative turn in the risk environment has seen the JPY start to outperform the EUR over recent weeks. The nature of the concern, global trade, is bad news for both the European and Japanese economies – although the EUR trades with more pro-growth characteristics. Until there is more clarity on US-China trade relations – and with the threat of Trump going after autos this month – we'd back the JPY over the EUR in the near term.
- That said, Eurozone 1Q19 GDP surprised on the upside and German growth could as well. But we're late in the global cycle and markets will struggle to buy-in to re-rating stories.
- New lows in longer dated EUR swap rates drag EUR lower too.

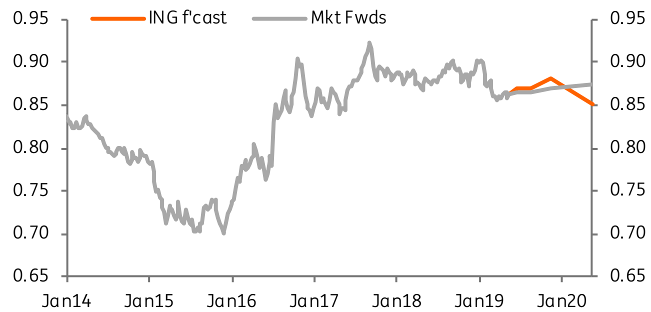
ING forecasts (mkt fwd)	**1M** 120.00 (123)	**3M** 121.00 (123)	**6M** 124.00 (123)	**12M** 123.00 (123)

Chris Turner, London +44 20 7767 1610

EUR/GBP

0.85 looks to be the floor

Current spot: 0.86



Source: Bloomberg, ING

- EUR/GBP has traced out a well-defined 0.85-0.87 trading range. Helping GBP initially has been the delay in Brexit and the continued run of mixed Eurozone activity news. 1Q19 UK GDP was also ok at 0.5% QoQ, but we look for that to sink back to 0.2% QoQ in 2Q19 as pre-Brexit stockpiling effects reverse.
- In terms of UK politics, cross-party discussions are unlikely to deliver a deal anytime soon and more likely is a leadership challenge before Dec. Fears of a more euro-sceptic PM emerging won't help here. We doubt BoE can turn more hawkish either.
- EUR/GBP may be one of the best ways to express a view on an EZ recovery, but i) US auto tariffs ii) European elections pose a risk.

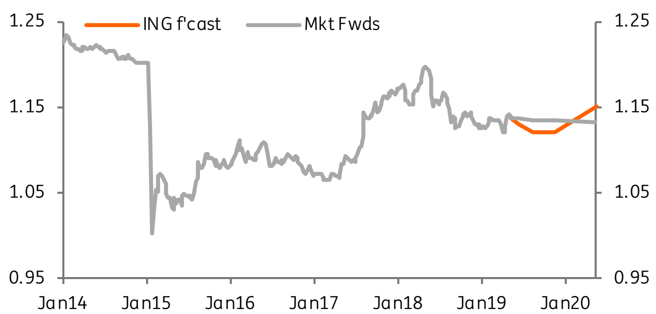
ING forecasts (mkt fwd)	**1M** 0.87 (0.86)	**3M** 0.87 (0.87)	**6M** 0.88 (0.87)	**12M** 0.85 (0.87)

Chris Turner, London +44 20 7767 1610

EUR/CHF

Has the SNB been intervening again?

Current spot: 1.14



Source: Bloomberg, ING

- The SNB remains under heavy pressure domestically from its negative rate position and the still strong CHF. Will its position change anytime soon? Frankly no. Domestic activity trends look vulnerable as judged by KOF/PMI indicators (we see 2019 GDP at 1.1%). And despite higher oil prices, the SNB is very unlikely to signal the all-clear on deflation risks anytime soon (CPI 0.6% 19).
- With Euro rates under pressure and some re-focus on Italy (both on the future of its coalition government and its budget deficit), we'd expect EUR/CHF to be pressing 1.12 again this summer.
- The big jump in April FX reserves suggests SNB may be intervening again, probably in the 1.12-1.13 area.

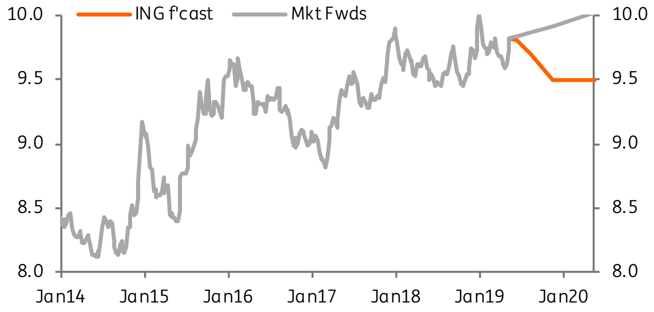
ING forecasts (mkt fwd)	**1M** 1.13 (1.14)	**3M** 1.12 (1.14)	**6M** 1.12 (1.13)	**12M** 1.15 (1.13)

Chris Turner, London +44 20 7767 1610

EUR/NOK

Norges Bank to plough ahead with tightening

Current spot: 9.82



Source: Bloomberg, ING

- Despite its peer group turning decidedly more dovish, the Norges Bank's May meeting saw it stick to the March script that a tightening was required. Indeed it clarified that a hike (to 1.25%) was 'most likely' in June. Unless the regional network report (released 11 June) produces some nasty surprises, we look for the hike in June and possible signalling of a further hike in Dec.
- This all comes at a time when the international environment is NOK –ve. As an activity currency NOK is weighed by renewed trade tension & we also see downside risks to crude over coming months – OPEC+ could announce supply increase end June.
- Norges Bank story see NOK outperform, NOK/SEK to 1.11.

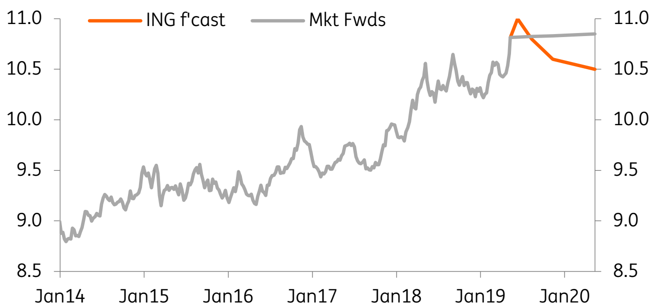
ING forecasts (mkt fwd)	**1M** 9.80 (9.84)	**3M** 9.70 (9.87)	**6M** 9.50 (9.91)	**12M** 9.50 (10.02)

Chris Turner, London +44 20 7767 1610

EUR/SEK

Tough time for the SEK

Current spot: 10.82



Source: Bloomberg, ING

- EUR/SEK continues to push to new cyclical highs and the near-term risks certainly lie to the upside. The SEK is exposed to the global trade war and unless there is a near-term cessation in hostility, the SEK should stay on the back foot. This will be compounded should Trump choose to target auto imports with tariffs later this month – he's due to decide on these shortly.
- The Riksbank is scaling back its tightening cycle and the next big meeting is 2 July. It could again defer the next tightening well into 2020. Additionally, the Riksbank thinks the pass-through of SEK weakness to CPI is fading -> less concern with SEK weakness?
- A trade deal in 3Q19 and a European rebound can help SEK later.

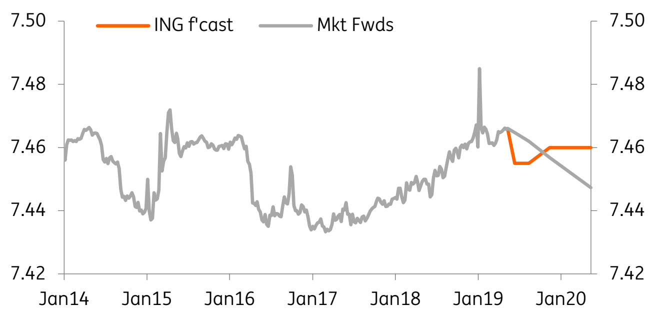
ING forecasts (mkt fwd)	**1M** 11.00 (10.82)	**3M** 10.80 (10.82)	**6M** 10.60 (10.83)	**12M** 10.50 (10.85)

Chris Turner, London +44 20 7767 1610

EUR/DKK

Back on target without need of much help

Current spot: 7.466



Source: Bloomberg, ING

- EUR/DKK looks to be comfortably trading not far from its ERM II central parity at 7.46038. Domestic activity seems to be running ok, if credit growth is anything to go by.
- DKK is trading quite softly given what's happening to Euro area interest rates. These continue to flatten out along the curve (eg, 5 year EUR swap rates pressing new cycle lows). A decisive break lower here will ask questions why EUR/DKK is not trading back to the 7.43/44 levels last seen in 2016.
- Elections on 5 June may be of interest to see how the Centre Left perform given its harsher stance on immigration. Polls suggests the Social Democrats should reclaim government.

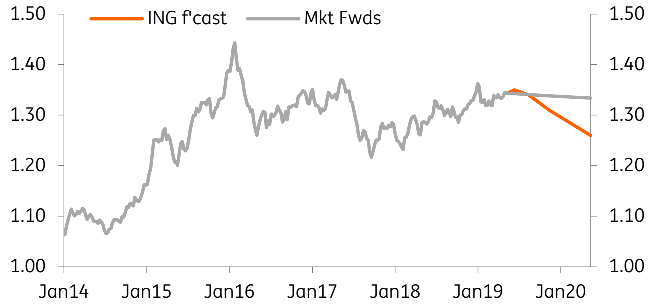
ING forecasts (mkt fwd)	**1M** 7.46 (7.465)	**3M** 7.46 (7.462)	**6M** 7.46 (7.457)	**12M** 7.46 (7.447)

Chris Turner, London +44 20 7767 1610

USD/CAD

Global trade woes have resurfaced

Current spot: 1.343



Source: Bloomberg, ING

- And CAD weakness continues…Trade war escalation fears have resurfaced, putting pressure on crude oil prices, and the scope of any monetary policy divergence gains are very limited now that the Bank of Canada has officially paused its tightening cycle.
- Nevertheless, 3Q19 onwards, we anticipate a US-China trade deal will be struck and better news for economic growth will emerge.
- Services industries played an integral role in driving job and income gains and, as the economy adjusts to: 1) Late-2018 oil price decline; 2) Higher rates and 3) Changes to housing policies and demand, the goods industries should contribute more positively to growth. This should help USD/CAD touch 1.26 in 1 year. The April jobs data is also providing short term CAD support.

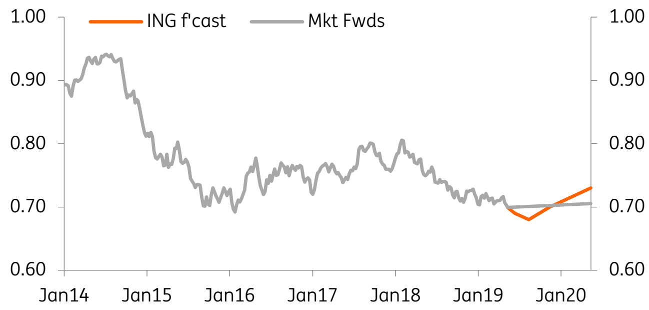
ING forecasts (mkt fwd)	**1M** 1.35 (1.34)	**3M** 1.34 (1.34)	**6M** 1.31 (1.34)	**12M** 1.26 (1.33)

Chris Turner, London +44 20 7767 1610

AUD/USD

New territory

Current spot: 0.70



Source: Bloomberg, ING

- Having turned neutral at their previous meeting, the RBA's latest decision to keep rates unchanged in May probably reflects the proximity of the election, rather than signalling rates on hold as previously indicated. We anticipate rate cuts earlier than many market participants.
- Inflation has fallen and is now well below the 2.5% mid-point of the RBA target range. The RBA now suggests that labour data are critical in assessing if a rate cut is necessary.
- We believe that this means a rate cut as soon as the June RBA meeting is on the cards, which should play through with further forays below 0.70 for the AUD/USD rate.

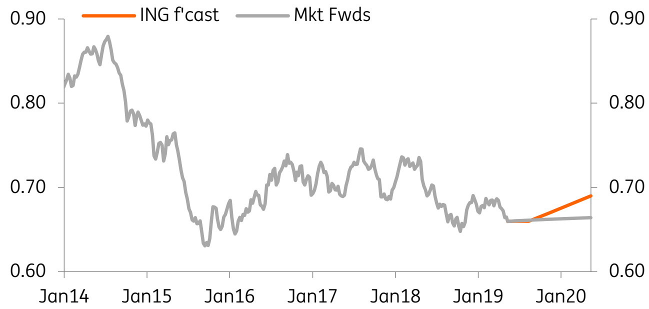
ING forecasts (mkt fwd)	**1M** 0.69 (0.700)	**3M** 0.68 (0.701)	**6M** 0.70 (0.702)	**12M** 0.73 (0.705)

Rob Carnell, Singapore +65 6232 6020

NZD/USD

Where did it all go wrong?

Current spot: 0.66



Source: Bloomberg, ING

- The May 25bp rate cut from the RBNZ was not a massive surprise, and shows how things can change – it wasn't all that long ago that the NZ economy was faring better than Australia, and the AUD/NZD March low of 1.0276 seems hard to credit now.
- While the areas of weakness differ, New Zealand no longer offers a better economic backdrop to Australia.
- Having decided that conditions were bad enough to warrant one rate cut, the reasonable question is whether things are soft enough to merit an additional cut, or more? The answer to us seems to be a resounding yes. Further NZD weakness beckons.

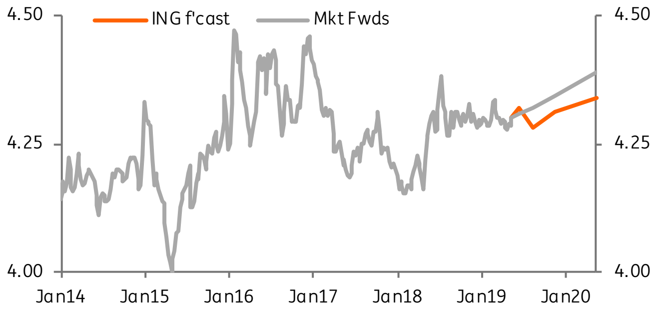
ING forecasts (mkt fwd)	**1M** 0.66 (0.660)	**3M** 0.66 (0.661)	**6M** 0.67 (0.662)	**12M** 0.69 (0.664)

Rob Carnell, Singapore +65 6232 6020

Emerging markets

EUR/PLN

EU election may be s-t PLN negative should the PiS suffer **Current spot: 4.30**



Source: Bloomberg, ING

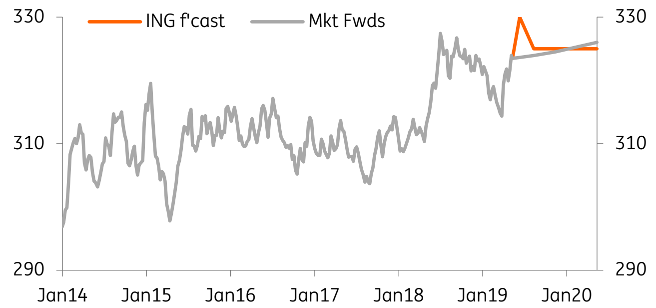
- EUR/PLN remains in a consolidation period lasting since Aug-18. Low volatility reflects the stable domestic economy (supported by fiscal stimulus), as well as the persistently neutral MPC stance.
- European Parliamentary elections (23-26 May) are a key risk for the zloty in the coming months. Investors believe that a potentially weak backing for the ruling PiS (below 35%) may trigger PLN-negative new spending pledges. We see lower risk of new pledges than consensus expects, in such a case €/PLN should rather temporarily test the consolidation ceiling (4.35).
- The zloty should recover in 3Q19, backed by still sound GDP and rising core CPI, spurring discussion on hikes. Still, ahead of the parliamentary elections in 4Q19, scope for PLN gains is limited.

ING forecasts (mkt fwd)	**1M** 4.32 (4.31)	**3M** 4.28 (4.32)	**6M** 4.31 (4.34)	**12M** 4.34 (4.39)

Rafal Benecki, Warsaw +48 22 820 4696

EUR/HUF

HUF to weaken further as NBH falls more behind the curve **Current spot: 323.5**



Source: Bloomberg, ING

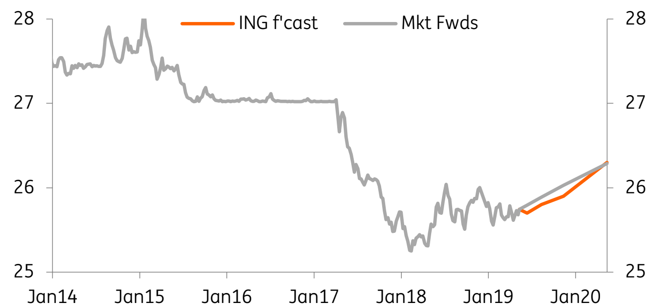
- We remain bearish on HUF and target EUR/HUF 329 this month (see EM FX & Rates Trader). The currency is likely to suffer from rising concerns about the NBH's inflation targeting credibility. This wasn't helped by the NBH inaction in April.
- The core CPI ex-tax at 3.4% YoY might bring a short sigh of relief, but going forward we see underlying inflation eventually strengthen on market services, which will: (a) further escalate the NBH credibility issue; (b) erode the Hungarian real rate.
- Even if the NBH delivers another hike in June (as we see), it is likely to be rather a modest one (15bp) with a lack of pre-commitment to do more. This suggests limited support for HUF.

ING forecasts (mkt fwd)	**1M** 330.00 (323.6)	**3M** 325.00 (323.9)	**6M** 325.00 (324.5)	**12M** 325.00 (326.0)

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

EUR/CZK

CNB tightening and the CZK rally are finished **Current spot: 25.74**



Source: Bloomberg, ING

- While the CNB delivered a unanimous hike in May, the forward guidance pointed to the end of the tightening cycle. Gov. Rusnok clearly signalled no more hikes as a base case, though the CNB staff forecast still shows a partial rate increase in 2H19.
- With the CNB likely reaching the end of the tightening cycle, the main factor holding the overbought CZK together (the hawkish CNB) has now vanished.
- Coupled with the slowing Czech economy and the maturing global cycle, we now see CZK upside as exhausted and look for a permanent trend in EUR/CZK higher, mainly from 2H19 onwards. Look for EUR/CZK to trade persistently above 26.00 next year.

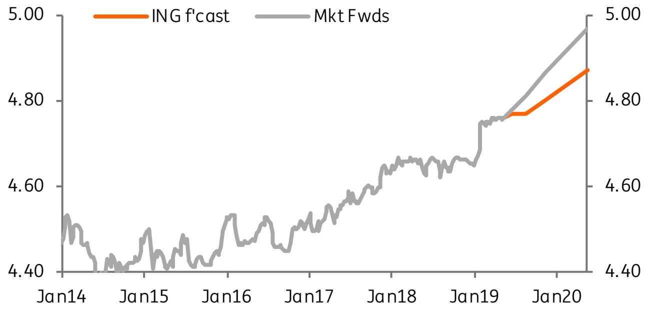
ING forecasts (mkt fwd)	**1M** 25.70 (25.79)	**3M** 25.80 (25.89)	**6M** 25.90 (26.03)	**12M** 26.30 (26.29)

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

EUR/RON

Weaker Leu: a matter of time

Current spot: 4.76



Source: Bloomberg, ING

- The depreciation pressure on the leu is building-up in our view as high frequency data points to accumulating imbalances. The trade deficit widened by 45% after the first two months compared to the same period of 2018; the current account follows not far: 34% widening for the same period.
- At the last National Bank of Romania meeting the Board members have been unusually blunt stating that an increased pressure on the exchange rate is seen as “very likely”, in the context of a deteriorating external position.
- We see the RON living on borrowed time. EUR/RON at 4.85 is our year-end forecast.

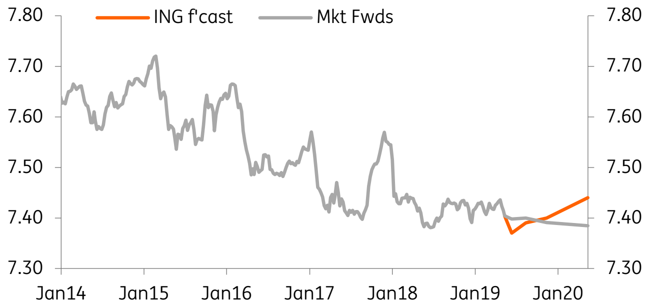
ING forecasts (mkt fwd)	**1M** 4.77 (4.78)	**3M** 4.77 (4.81)	**6M** 4.80 (4.87)	**12M** 4.87 (4.97)

Valentin Tataru, Bucharest +40 31 406 89 91

EUR/HRK

HRK: Kuna less swayed by seasonal inflows

Current spot: 7.40



Source: Bloomberg, ING

- The campaign for euro adoption is in full swing in Croatia, with the central bank (CNB) officials employed in what seems a public education exercise. Governor Vujčić hinted again to stability being the name of the game for the kuna by affirming that “one should not expect a significant deviation in the exchange rate” when it comes to kuna-euro conversion.
- The historical pattern would indicate that the time for a seasonal kuna appreciation is near. Nevertheless, we believe that as the ERM-2 entrance is getting closer (target being 2020), the central bank will step in to diminish the currency volatility.
- Considering the above, we reiterate our relatively conservative forecast of 7.37 kuna per euro for the end of the second quarter.

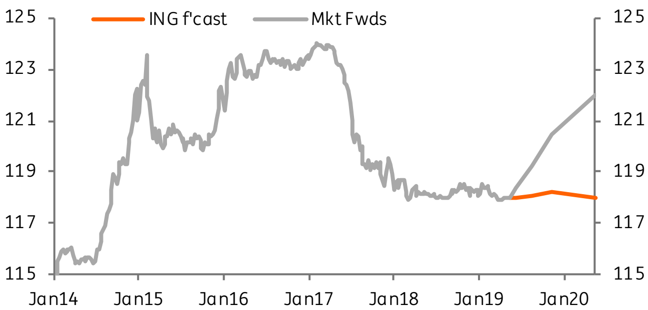
ING forecasts (mkt fwd)	**1M** 7.37 (7.40)	**3M** 7.39 (7.40)	**6M** 7.40 (7.39)	**12M** 7.44 (7.38)

Valentin Tataru, Bucharest +40 31 406 89 91

EUR/RSD

EUR/RSD: Testing lower

Current spot: 118.0



Source: Bloomberg, ING

- April has been a less intensive month for the National Bank of Serbia (NBS), which stepped in to buy EUR75 million, down from EUR135 million bought in March.
- What seemed to be a “hard” line in the sand from the NBS looks now more as a moving target, as the EUR/RSD broke below the long protected 118.0 level. The last time the official fixing printed below 118.0 was in 3Q14. Still, the downside pressures do not seem overly strong and we believe that an eventual emerging market correction would offset the internal fundamentals.
- We maintain our forecast for the EUR/RSD to float in a relatively tight range around 118.0 for the rest of the year. We expect as well the key rate on hold at 3.00% for the rest of the year.

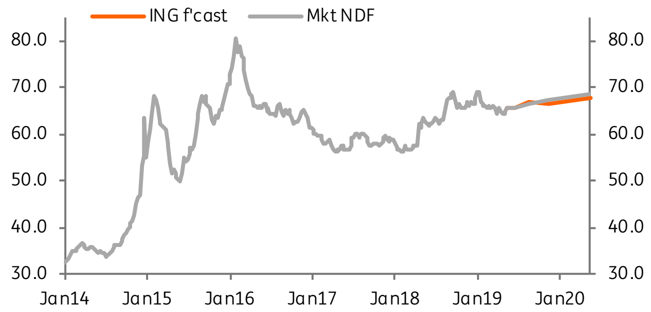
ING forecasts (mkt fwd)	**1M** 118.00 (118.4)	**3M** 118.10 (119.3)	**6M** 118.20 (120.5)	**12M** 118.00 (122.0)

Valentin Tataru, Bucharest +40 31 406 89 91

USD/RUB

Risk of headwinds in 2-3Q is materializing

Current spot: 65.42



Source: Bloomberg, ING

- After an 8% rally in 4M19, rouble is facing headwinds. The US$5-6bn monthly current account surplus in 2-3Q19 is barely covering FX purchases. Meanwhile, the foreign appetite for OFZ after a US$4-5bn shopping spree in 4M19 may now have moderated.
- The good news is that foreign portfolio investors claim to have priced in the risk of sanctions on new state debt, which limits RUB's downside in case of negative foreign policy scenarios.
- The upside risks also seem limited though, as RUB has already cut its discount to EM peers to post-2014 low of 13%, the EM space is facing USD strengthening and the Russian corporates and households not unreasonably keep accumulating foreign assets.

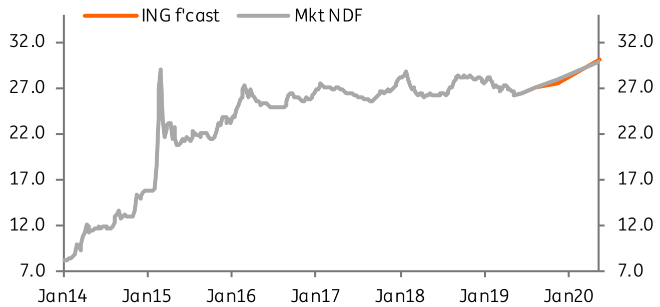
ING forecasts (mkt fwd)	**1M** 65.70 (65.72)	**3M** 67.00 (66.27)	**6M** 66.50 (67.08)	**12M** 67.50 (68.65)

Dmitry Dolgin, Russia +7 495 771 7994

USD/UAH

One election down – another to go

Current spot: 26.19



Source: Bloomberg, ING

- UAH has been strong in April and early May following a March hiccup caused by a US$175m corporate Eurobond redemption. The country is on track to receive US$1.3bn from IMF pending the 15 May review. Although the president has changed, the government will stay until after the Parliamentary elections on 27 October.
- Slowdown in CPI to 8.6% YoY in March, close to the upper target bound of 8.5%, led to a 0.5ppt cut in the key rate to 17.5%, supporting bonds. Corporates and population are selling FX.
- Mid-term UAH appreciation might be limited due to NBU decision to intensify FX purchases from US$15m to US$20m per day. Additional risks factors relate to parliamentary uncertainties.

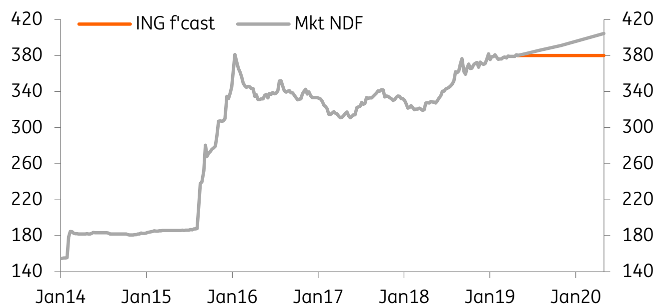
ING forecasts (mkt fwd)	**1M** 26.50 (26.46)	**3M** 27.00 (27.02)	**6M** 27.50 (27.96)	**12M** 30.00 (29.79)

Dmitry Dolgin, Russia +7 495 771 7994

USD/KZT

Cautious view seems justified

Current spot: 379.9



Source: Bloomberg, ING

- Tenge's flat YTD performance to USD this year despite the rally in oil and RUB suggests that our cautious call on KZT has been justified. The US$4bn drop of the BNK reserves in 1Q19 to 3-year low of US$27bn points at strong capital outflows.
- The 2.3% GDP fiscal stimulus pledged to households and the NBK move to cut the key rate by 25bp to 9.0% amid accelerating inflation is an indirect confirmation of increased risks to budget and monetary policy amid political transition.
- The interim president Tokayev is the likely winner at the 9 June snap election. Continuity in policy seems intact, however subtle changes in elites remain a watch factor for corporate flows.

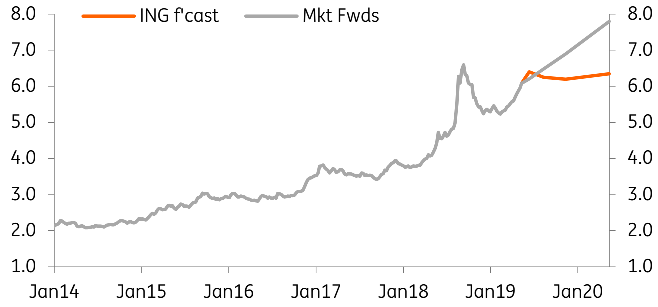
ING forecasts (mkt fwd)	**1M** 380.00 (381.7)	**3M** 380.00 (385.8)	**6M** 380.00 (391.0)	**12M** 380.00 (404.4)

Dmitry Dolgin, Russia +7 495 771 7994

USD/TRY

The near-term TRY upside seems limited

Current spot: 6.08



Source: Bloomberg, ING

- With the removal of the tightening bias in the MPC, the CBT sounded less hawkish in a backdrop of macro uncertainties and currency volatility. However, Governor Cetinkaya has not ruled out the possibility of additional tightening given further risks of inflation. The continuation of tight policy stance was affirmed.
- So, given a fragile currency, continued dependence on external financing and inflationary risks, the CBT will avoid early easing.
- TRY has been underperformer since early March with discussions surrounding CBT reserves, US-Turkey relations and lengthening local election process. In the near term, TRY will likely remain volatile on the back of domestic and geopolitical issues.

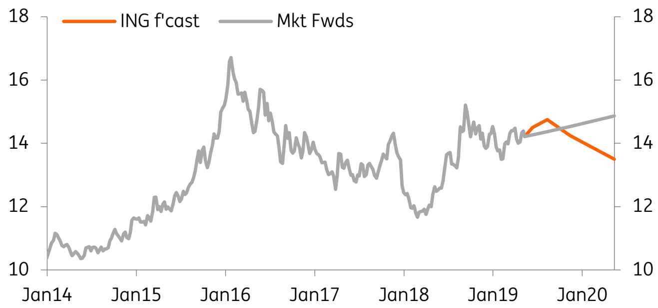
ING forecasts (mkt fwd)	**1M** 6.40 (6.21)	**3M** 6.25 (6.48)	**6M** 6.20 (6.90)	**12M** 6.35 (7.80)

Muhammet Mercan, Istanbul +90 212 329 0751

USD/ZAR

Performing well in its peer group

Current spot: 14.21



Source: Bloomberg, ING

- The ZAR has been performing surprisingly well given the external headwinds. This may be down to investors looking to increase ZAR exposure around election results, where a new mandate for ANC's Ramaphosa is encouraging thoughts of reform. 58% support for the ANC wasn't quite as high as expected, but looks enough.
- However, we tend to think it will be a tough few months for the ZAR. Correlations with the CNY are relatively high and any break-down in US-China trade relations or new auto tariffs would be a worry. 15.00/15.50 would be the risk if things went very wrong.
- Domestically growth is struggling near 1% and the MPC will probably keep rates at 6.75% unless the ZAR collapses.

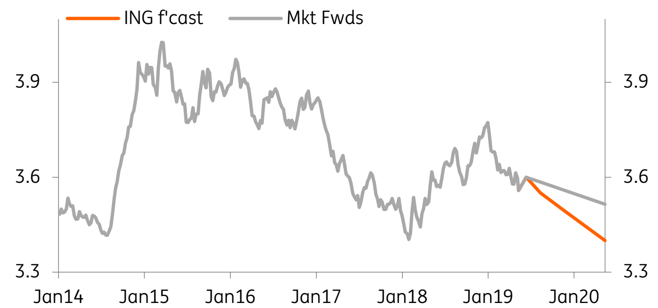
ING forecasts (mkt fwd)	**1M** 14.50 (14.26)	**3M** 14.75 (14.37)	**6M** 14.25 (14.53)	**12M** 13.50 (14.87)

Chris Turner, London +44 20 7767 1610

USD/ILS

Netanyahu wins a fifth term

Current spot: 3.56



Source: Bloomberg, ING

- Benjamin Netanyahu's centre-right coalition won a fifth term in power at the April elections. Netanyahu's promises of tax cuts are good for growth, but less good for fiscal accounts where the Ministry of Finance suggests the budget deficit could be 3.5% of GDP this year. This growth figures, however, (seen near 3.2%) will keep the BoI minded to tighten rates later this year.
- The ILS has held onto gains surprisingly well during the recent period of trade tension. Were $/ILS to surprisingly test the 3.50 area, the BoI may delay its next tightening – even though CPI looks to be returning nicely into the 1-3% target zone.
- A dollar turn into 2020 should see $/ILS sub 3.50.

ING forecasts (mkt fwd)	**1M** 3.60 (3.60)	**3M** 3.55 (3.58)	**6M** 3.50 (3.56)	**12M** 3.40 (3.51)

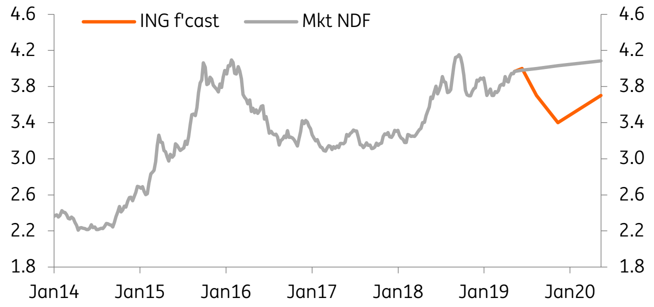
Chris Turner, London +44 20 7767 1610

LATAM

USD/BRL

Social security reform debate advances in Congress

Current spot: 3.97



Source: Bloomberg, ING

- The social security reform debate is advancing in Congress, but the Bolsonaro administration has yet to consolidate the firm support of a solid Congressional majority. As a result, uncertainty regarding the reform's final approval should remain high.
- The opposition is not large enough to block the reform, but the government must negotiate lawmakers' support to offset entrenched resistance by powerful special-interest groups.
- The BRL has underperformed recently and uncertainty about the reform's approval should keep a high-volatility underperforming bias in place. But we still expect the reform to be approved in 3Q, triggering a temporary BRL rally, towards the 3.3-3.4 range.

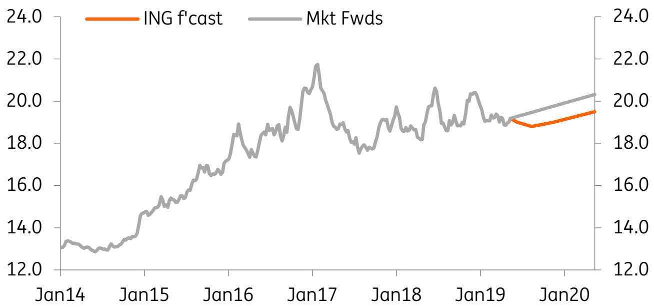
ING forecasts (NDF)	**1M** 4.00 (3.98)	**3M** 3.70 (4.00)	**6M** 3.40 (4.03)	**12M** 3.70 (4.08)

Gustavo Rangel, New York +1 646 424 6464

USD/MXN

Attractive carry to extend the MXN's outperformance

Current spot: 19.17



Source: Bloomberg, ING

- The Mexican peso has been the standout outperformer in the region, and among the best performers across EM this year. Even though we expect Banxico to shift to a dovish monetary policy stance in the coming months, the mix of attractive rates and still-solid macro fundamentals suggests continued outperformance.
- Despite lingering policy uncertainties and growing concerns about Mexico's economic growth outlook, we believe that the risk of a big rupture in market credibility in issues like fiscal prudence, PEMEX and CB independence should take longer to emerge.
- That risk is rising though, as disappointment with economic activity should raise the risk of policy mistakes.

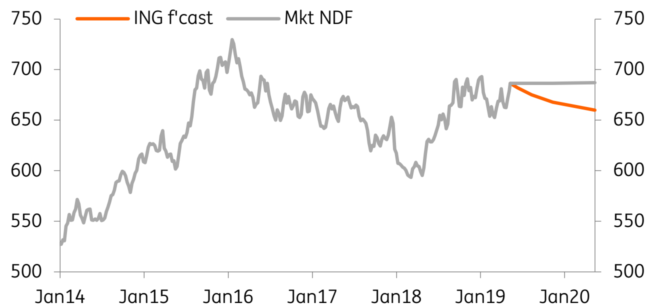
ING forecasts (mkt fwd)	**1M** 19.00 (19.28)	**3M** 18.80 (19.47)	**6M** 19.00 (19.76)	**12M** 19.50 (20.31)

Gustavo Rangel, New York +1 646 424 6464

USD/CLP

Trade war concerns to drive CLP outlook

Current spot: 686.41



Source: Bloomberg, ING

- The CLP traded with a weakening bias in the past month, consistent with the USD rally that affected most EM FX and, especially, the selloff in copper, amid lingering trade-war worries.
- Constructive Chinese data and a favourable resolution to the US-China trade-war impasse could pave the way for significant CLP appreciation.
- Near-term CLP prospects are closely linked to external drivers, while local macro trends have become more FX neutral. Inflation remains subdued while economic activity indicators have softened, dragged by mining, which should, in practice, delay BCCh's next rate hike towards next year.

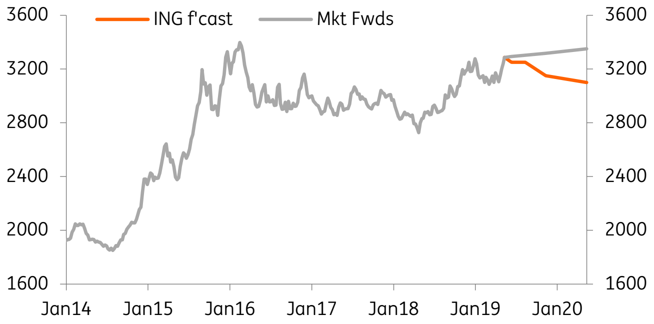
ING forecasts (NDF)	**1M** 682.00 (686)	**3M** 675.00 (686)	**6M** 668.00 (687)	**12M** 660.00 (687)

Gustavo Rangel, New York +1 646 424 6464

USD/COP

COP underperformance amid higher oil prices

Current spot: 3286.90



Source: Bloomberg, ING

- Perhaps exacerbated by portfolio outflows and the less attractive carry, the COP has become especially sensitive to global risk appetite and the USD rally generally.
- The currency's considerable underperformance contrasts with the rally in oil prices seen in recent months, which has sharply reduced the correlation between the two assets and created some scope for a catch-up appreciation in the COP once a more favourable environment for EM currencies emerges.
- Domestic drivers are closer to COP-neutral, if a bit more constructive. GDP growth still appears on track to expand near its potential this year while on-target inflation suggests an extended period of neutral monetary policy guidance.

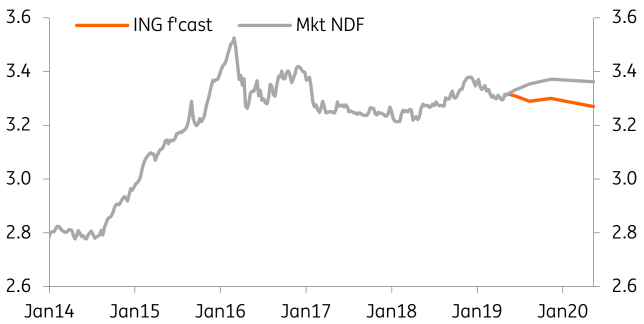
ING forecasts (NDF)	**1M** 3250.00 (3293)	**3M** 3250.00 (3303)	**6M** 3150.00 (3316)	**12M** 3100.00 (3351)

Gustavo Rangel, New York +1 646 424 6464

USD/PEN

Solid macro trends help offset trade-war concerns

Current spot: 3.32



Source: Bloomberg, ING

- As usual, the PEN traded with the lowest volatility in the region, outperforming amid the widespread sell-off. As a result, the PEN was effectively the least affected by the USD move and the risk aversion that affected its peers in the region.
- Eventual positive developments on the US-China trade-war front would add support to the currency, with the USDPEN once again consolidating below 3.30. But the slowdown in economic activity seen in 1Q and the potential for BCRP's FX intervention would likely limit any sustained rally.
- Peru's BCRP should extend the current neutral bias for the policy rate (2.75%) longer than we initially thought amid moderate economic activity and on-target inflation.

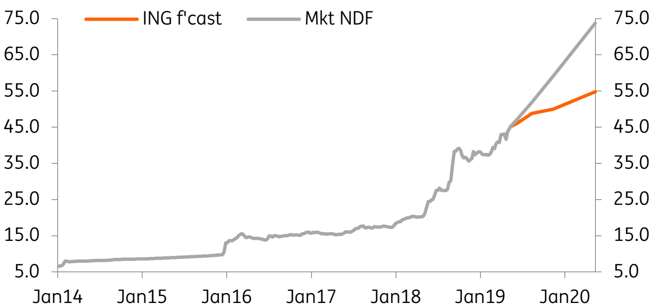
ING forecasts (NDF)	**1M** 3.31 (3.33)	**3M** 3.29 (3.35)	**6M** 3.30 (3.37)	**12M** 3.27 (3.36)

Gustavo Rangel, New York +1 646 424 6464

USD/ARS

All eyes on Cristina

Current spot: 45.08



Source: Bloomberg, ING

- Argentina's macro vulnerabilities, higher than expected inflation and prospects for the return of heterodox policies following the October election should limit the effectiveness of the policy reaction adopted by the Macri administration. The August 11 primaries are the chief near-term catalyst for asset prices.
- A more aggressive FX intervention program coupled with sharp monetary policy tightening should help support local assets but any additional evidence that Cristina Kirchner would win in the October election should trigger further local market turbulence.
- Despite high rates, local assets should remain vulnerable to political risk, which could manifest in the form of a shift away from ARS bank deposits towards hard currency and actual goods.

ING forecasts (NDF)	**1M** 46.20 (47.33)	**3M** 48.80 (51.93)	**6M** 50.00 (59.10)	**12M** 54.80 (73.78)

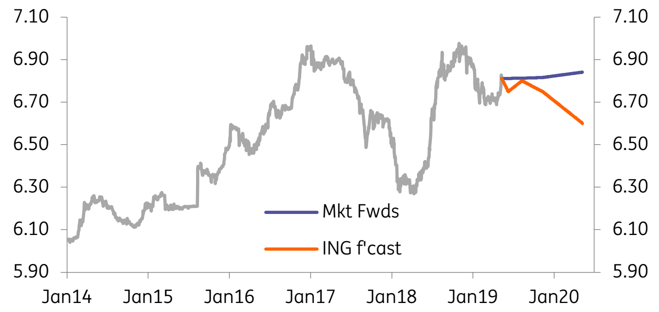
Gustavo Rangel, New York +1 646 424 6464

Asia

USD/CNY

Yuan to return to a narrow range

Current spot: 6.8093



Source: Bloomberg, ING

- After the 'two sessions' in March, the USD/CNY and USD/CNH were trading in narrow ranges as yuan stability is a big focus for the Chinese government. But the surprise re-opening of the trade war has triggered a very recent break-out, $/CNY trading to 6.86.
- But we believe that the central bank will keep asset markets stable. So the daily fixing of USD/CNY is unlikely to exceed 6.82, and the spot is unlike to stay above 6.80 for long.
- A large or prolonged yuan depreciation should the trade war escalate further would send the wrong signal to the market that there are risks of capital flight.We keep our forecast for 6.75 by end of 2019, but have revised 2Q & 3Q forecasts to 6.75 and 6.80.

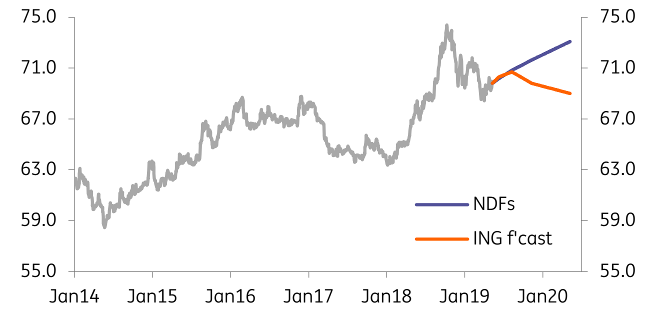
ING forecasts (FWDs)	**1M** 6.7500 (6.8113)	**3M** 6.8000 (6.8123)	**6M** 6.7500 (6.8155)	**12M** 6.6000 (6.8412)

Iris Pang, Hong Kong +852 2848 8071

USD/INR

INR outshines on lower oil but political headwind stays

Current spot: 69.83



Source: Bloomberg, ING

- The second central bank policy rate cut, rising oil prices and the politics soured sentiment toward the INR in April, snapping the rally it enjoyed in the previous two months.
- The RBI cut rates by another 25bp in the April meeting even as higher food and fuel prices started to push up the CPI inflation in recent months. Indeed, GDP growth is slowing, but not to the extent of warranting such back-to-back rate cuts. We expect a slowdown in GDP growth to 6% in 4Q FY19, still a decent rate.
- The INR has gained an edge over other Asian FX as the trade war depressed global oil prices. But we don't expect the INR weakening to fully go away until the political dust settles.

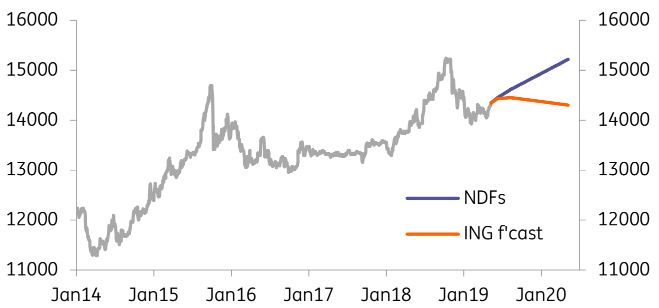
ING forecasts (NDFs)	**1M** 70.30 (70.18)	**3M** 70.70 (70.83)	**6M** 69.80 (71.65)	**12M** 69.00 (73.10)

Prakash Sakpal, Singapore +65 6232 6181

USD/IDR

Wide current deficit drives underperformance

Current spot: 14343



Source: Bloomberg, ING

- The IDR asserted its vulnerability to the latest market turmoil from the US-China trade dispute.
- Lying beneath the currency vulnerability is the widening current account deficit. The annual deficit equivalent to 3% of GDP in 2018 was double the level in 2017. The widening current deficit trend continues in 2019. The $7bn deficit in 1Q19 was yet another upside surprise adding to the weakening pressure.
- With GDP growth steady around 5%, BI's policy focus remains on financial market stability as trade and geopolitical noise sour investor sentiment toward emerging markets. We expect stable BI policy throughout 2019.

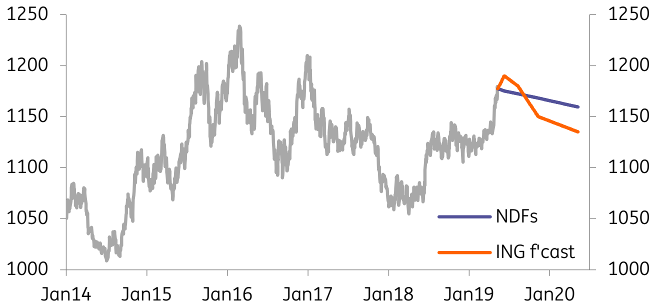
ING forecasts (NDFs)	**1M** 14430 (14441)	**3M** 14450 (14606)	**6M** 14400 (14819)	**12M** 14300 (15220)

Nicholas Mapa, Philippines +63 2479 8855

USD/KRW

From bad to worse

Current spot: 1177



Source: Bloomberg, ING

- The KRW smashed through our 2Q19 target of 1150 and has kept rising. We are struggling to keep up with its decline, though have set a new target of weakness for 1190 later this quarter.
- Despite some abject weakness in the export and production side, and also a big undershoot of the inflation target, the Bank of Korea is resisting a fairly clear case for some monetary easing.
- We think that they will, in the end, throw in the towel and cut rates 25bp later this quarter, but reluctantly. The KRW will likely not wait for them to cut to weaken. What this economy needs is some fiscal support, some economic reform, and the end to the global tech slump. The BoK can't perform miracles.

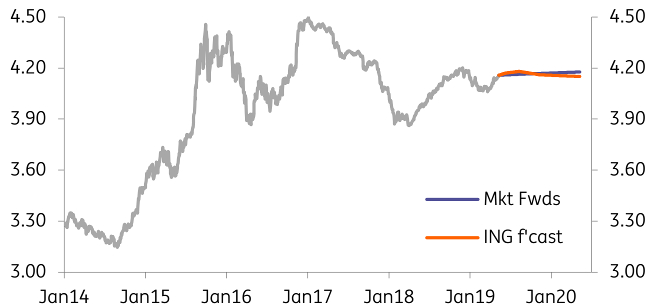
ING forecasts (NDFs)	**1M** 1190 (1176)	**3M** 1180 (1173)	**6M** 1150 (1169)	**12M** 1135 (1160)

Rob Carnell, Singapore +65 6232 6020

USD/MYR

A one-and-done central bank policy easing

Current spot: 4.1563



Source: Bloomberg, ING

- The news of the FTSE Russell dumping Malaysian government bonds from its global index spooked the markets in April, shifting the MYR from an Asian outperformer to an underperformer. We have revised our USD/MYR forecast higher.
- Consistent with our view, the BNM cut the policy rate by 25bp in the latest meeting. The current low CPI inflation allowed for easier policy, while external headwinds to growth have risen. BNM still has sufficient policy buffer if the economy deteriorates further.
- We don't see the need for more BNM easing, as growth and inflation this year is likely to stay within BNM's 4.3-4.8% and 0.7-1.7% forecast ranges. We forecast 4.6% and 1.0% respectively.

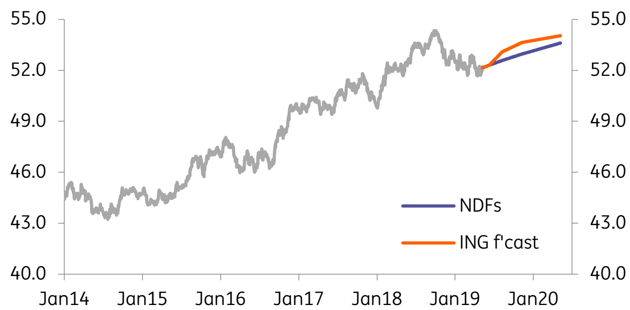
ING forecasts (FWDs)	**1M** 4.1700 (4.1594)	**3M** 4.1800 (4.1631)	**6M** 4.1600 (4.1679)	**12M** 4.1500 (4.1768)

Prakash Sakpal, Singapore +65 6232 6181

USD/PHP

S&P upgrade is positive for the Peso

Current spot: 52.13



Source: Bloomberg, ING

- USD/PHP has been the most whipsawed Asian currency pair this year. However, with a 0.8% year-to-date appreciation against USD, it's among Asian outperformers this year, which is despite worries of twin-deficit and bearish central bank policy.
- GDP growth slipped to a 4-year low of 5.6% YoY in 1Q19 (6.3% in 4Q18) on the increased drag from net trade. The BSP responded with a 25bp policy rate cut, thanks to inflation firmly back in the 2-4% policy target. An aggressive tightening last year allows for ample policy space if growth continues to grind lower.
- S&P upgraded the sovereign by a notch to BBB+, putting it on par with Thailand and Mexico, and ahead of Indonesia.

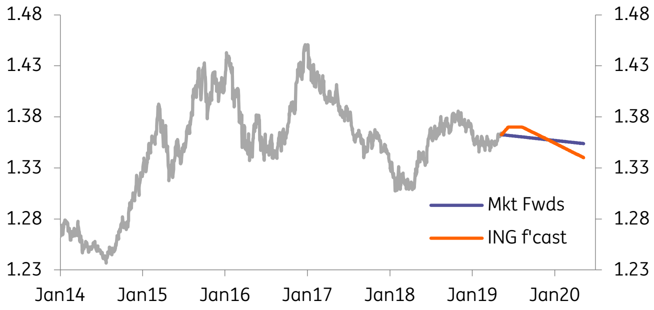
ING forecasts (NDFs)	**1M** 52.30 (52.30)	**3M** 53.09 (52.58)	**6M** 53.64 (52.96)	**12M** 54.04 (53.59)

Nicholas Mapa, Philippines +63 2479 8855

USD/SGD

Taking a more cautious line

Current spot: 1.3628



Source: Bloomberg, ING

- The latest MAS economic summary has downgraded both growth and inflation prospects and sounded much more open to a moderation of their NEER appreciation path than was the case back in October last year.
- We anticipate that the October 18 tightening will be removed at the next October meeting. Having seen the SGD depreciate sharply recently, we expect that the SGD will rise in NEER terms to approximately its March NEER peak by then. At that point this will represent the band mid-point.
- From October, we anticipate the band appreciation path being scaled back, to about a 1% annual rate.

ING forecasts (FWDs)	**1M** 1.3700 (1.3617)	**3M** 1.3700 (1.3603)	**6M** 1.3600 (1.3580)	**12M** 1.3400 (1.3537)

Rob Carnell, Singapore +65 6232 6020

USD/TWD

TWD continued its weakness from corporate earnings

Current spot: 30.95

Source: Bloomberg, ING

- TWD is sensitive to corporate earnings because there is a substantial flow of foreign investments into the stock market. We are concerned that any missing sales targets of smart devices could put weakening pressure on this currency unit against the dollar.
- Apart from this, the re-escalation on the trade war between Mainland China and the US will also put another source of weakening pressure on TWD.
- We maintain our view of USD/TWD rate 30.95 by the end of 2019, last revised from 30.40 in March. We don't rule out a further revision later depending on future development on the trade war.

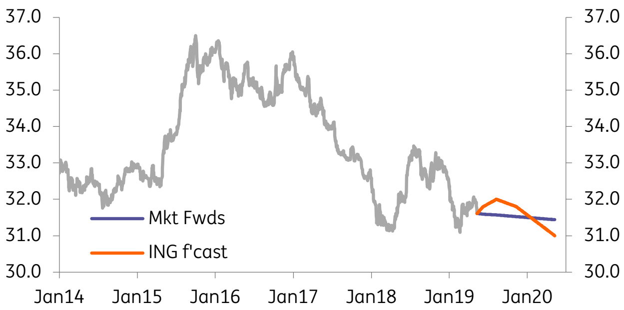
ING forecasts (NDFs)	**1M** 30.80 (30.97)	**3M** 30.85 (30.90)	**6M** 30.90 (30.77)	**12M** 31.00 (30.44)

Iris Pang, Hong Kong +852 2848 8071

USD/THB

The BoT will eventually come to terms with policy easing

Current spot: 31.63



Source: Bloomberg, ING

- The THB re-asserted its outperformer status even in the latest market rout triggered by escalation of the US-China trade tensions, as it continues to be backed by a wide current account surplus and the Bank of Thailand's hawkish policy stance.
- A $14.6bn current account surplus in 1Q19 more than doubled from 4Q18. This points to improved net trade contribution to GDP growth in 1Q19, though growth took a hit from weak manufacturing. We think the BoT will eventually come to terms with policy easing.
- The official result of the 24 March election point to incumbent Prime Minister Prayuth's Party forming a coalition government. This will lift the political overhang on the local markets.

ING forecasts (FWDs)	**1M** 31.80 (31.53)	**3M** 32.00 (31.50)	**6M** 31.80 (31.46)	**12M** 31.00 (31.38)

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	1.12	1.11	1.10	1.15	1.17						
EUR/JPY	123.3	119.88	121.00	124.20	122.85	USD/JPY	109.63	108	110	108	105
EUR/GBP	0.86	0.87	0.87	0.88	0.85	GBP/USD	1.30	1.28	1.26	1.31	1.38
EUR/CHF	1.14	1.13	1.12	1.12	1.15	USD/CHF	1.01	1.02	1.02	0.97	0.98
EUR/NOK	9.82	9.80	9.70	9.50	9.50	USD/NOK	8.74	8.83	8.82	8.26	8.12
EUR/SEK	10.82	11.00	10.80	10.60	10.50	USD/SEK	9.62	9.91	9.82	9.22	8.97
EUR/DKK	7.466	7.455	7.455	7.460	7.460	USD/DKK	6.64	6.72	6.78	6.49	6.38
EUR/CAD	1.51	1.50	1.47	1.51	1.47	USD/CAD	1.343	1.35	1.34	1.31	1.26
EUR/AUD	1.61	1.61	1.62	1.64	1.60	AUD/USD	0.70	0.69	0.68	0.70	0.73
EUR/NZD	1.70	1.68	1.67	1.72	1.70	NZD/USD	0.66	0.66	0.66	0.67	0.69
EMEA											
EUR/PLN	4.30	4.32	4.28	4.31	4.34	USD/PLN	3.82	3.89	3.89	3.75	3.71
EUR/HUF	323.5	330.00	325.00	325.00	325.00	USD/HUF	287.7	297	295	283	278
EUR/CZK	25.74	25.7	25.8	25.9	26.3	USD/CZK	22.89	23.2	23.5	22.5	22.5
EUR/RON	4.76	4.77	4.77	4.80	4.87	USD/RON	4.23	4.30	4.34	4.17	4.16
EUR/HRK	7.40	7.37	7.39	7.40	7.44	USD/HRK	6.58	6.64	6.72	6.43	6.36
EUR/RSD	118.0	118.0	118.1	118.2	118.0	USD/RSD	104.9	106.3	107.4	102.8	100.9
EUR/RUB	73.56	72.9	73.7	76.5	79.0	USD/RUB	65.42	65.7	67.0	66.5	67.5
EUR/UAH	29.44	29.4	29.7	31.6	35.1	USD/UAH	26.19	26.50	27.00	27.50	30.00
EUR/KZT	427.3	421.8	418.0	437.0	444.6	USD/KZT	379.9	380	380	380	380
EUR/TRY	6.84	7.10	6.88	7.13	7.43	USD/TRY	6.08	6.40	6.25	6.20	6.35
EUR/ZAR	15.98	16.1	16.2	16.4	15.8	USD/ZAR	14.21	14.50	14.75	14.25	13.50
EUR/ILS	4.00	4.00	3.91	4.03	3.98	USD/ILS	3.56	3.60	3.55	3.50	3.40
LATAM											
EUR/BRL	4.46	4.44	4.07	3.91	4.33	USD/BRL	3.97	4.00	3.70	3.40	3.70
EUR/MXN	21.56	21.1	20.7	21.9	22.8	USD/MXN	19.17	19.00	18.80	19.00	19.50
EUR/CLP	771.85	757	743	768	772	USD/CLP	686.41	682	675	668	660
EUR/ARS	50.72	51.28	53.68	57.50	64.12	USD/ARS	45.08	46.20	48.80	50.00	54.80
EUR/COP	3696.30	3608	3575	3623	3627	USD/COP	3286.90	3250	3250	3150	3100
EUR/PEN	3.73	3.67	3.62	3.80	3.83	USD/PEN	3.32	3.31	3.29	3.30	3.27
Asia											
EUR/CNY	7.68	7.55	7.48	7.76	7.72	USD/CNY	6.83	6.75	6.80	6.75	6.60
EUR/HKD	8.83	8.70	8.60	8.98	9.13	USD/HKD	7.85	7.84	7.82	7.81	7.80
EUR/IDR	16091	16017	15895	16560	16731	USD/IDR	14327	14430	14450	14400	14300
EUR/INR	78.49	78.0	77.8	80.3	80.7	USD/INR	69.91	70.30	70.70	69.80	69.00
EUR/KRW	1321.13	1321	1298	1323	1328	USD/KRW	1177.38	1190	1180	1150	1135
EUR/MYR	4.67	4.63	4.60	4.78	4.86	USD/MYR	4.16	4.17	4.18	4.16	4.15
EUR/PHP	58.64	58.1	58.4	61.7	63.2	USD/PHP	52.21	52.3	53.09	53.64	54.04
EUR/SGD	1.53	1.52	1.51	1.56	1.57	USD/SGD	1.36	1.37	1.37	1.36	1.34
EUR/TWD	34.75	34.2	33.9	35.5	36.3	USD/TWD	30.95	30.8	30.9	30.9	31.0
EUR/THB	35.51	35.3	35.2	36.6	36.3	USD/THB	31.58	31.8	32.0	31.8	31.0

Source: Bloomberg, ING

Disclaimer