11 October 2021

FX Strategy

FX Talking

New for Autumn/Winter 21: Strong currencies

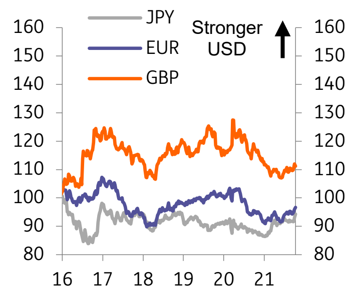
Strong currencies are the hot new season trend in FX markets. No longer are nations battling to devalue their currencies to secure a slice of shrinking export markets. Instead, the inflationary impact and direct cost of higher energy prices have caused policy makers to have a rethink on FX policy. The stand-out here is China and the Renminbi, but arguably the UK and the US are moving in this direction as monetary policy normalises.

Having largely attained energy sufficiency over the last decade, the US is better positioned than many to weather the energy price scare. Yet the Fed does seem to be taking the inflation threat more seriously and in September presented a set of Dot Plot projections for the Fed Funds target which were way above market expectations. The adjustment of the market towards the Fed should be a core support for the dollar over coming months. And we are now raising our dollar forecasts for end year 2022 too.

In Europe, the ECB has yet to shift beyond its ‘transitory’ take on inflation and we see EUR/$ as vulnerable to 1.13 over coming months. A more hawkish BoE sees GBP better placed to withstand dollar pressure. Yet our team is uncertain whether the BoE will act as early as the market expects. 0.8450/70 may remain the range low for EUR/GBP.

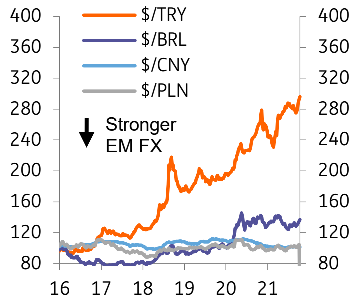
But central to FX markets will remain where a country sits on the energy export/import matrix and how central banks plan to respond to inflation. The two are related through income shocks and output gaps. Well-positioned are Norway, Canada and Russia. Poorly positioned are Japan and Turkey. We expect these core trends to continue to play out.

USD/Majors (5 Jan 14=100)



Source: Refinitiv, ING forecast

USD/EM (5 Jan 14=100)



Source: Refinitiv, ING forecast

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.15	→	112	→	1.34	↓
3M	1.17	↑	112	→	1.38	↑
6M	1.15	↓	113	↑	1.35	↓
12M	1.11	↓	118	↑	1.34	↓
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.86	↑	25.50	↑	4.62	↑
3M	0.85	→	25.40	↑	4.58	↓
6M	0.85	→	25.30	↑	4.49	↓
12M	0.83	↓	25.20	↓	4.52	↓
	USD/CNY				**USD/MXN**	
1M	6.55	↑	20.25	↓	5.50	→
3M	6.70	↑	20.00	↓	5.25	↓
6M	6.70	↑	20.50	↓	5.50	↓
12M	6.40	↓	21.00	↓	6.00	↑

↑ / → / ↓ 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	-2.3	2.7	-1.0	-3.7	-2.3	-1.0
%YoY	-1.8	6.7	-6.7	-9.2	4.7	-5.9
	USD/UAH	**USD/KZT**	**USD/BRL**	**USD/MXN**	**USD/CNY**	**USD/TRY**
%MoM	-2.2	-0.3	6.3	1.0	-0.1	7.4
%YoY	-7.1	-1.0	-1.2	28.3	-4.8	14.1

Source: Refinitiv, ING forecast

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

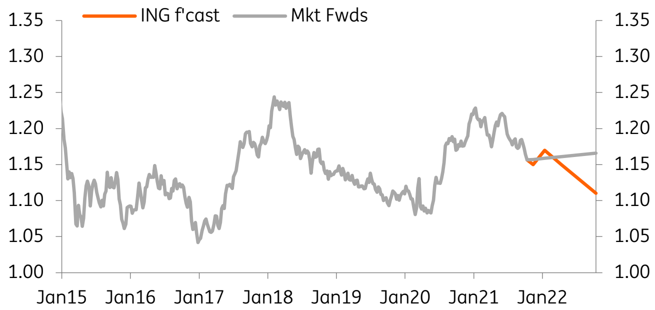
Francesco Pesole
Foreign Exchange Strategy
francesco.pesole@ing.com

View all our research on Bloomberg at RESP INGX<GO>

Developed markets

EUR/USD

Expect the dollar rally sooner **Current spot: 1.1564**



Source: Refinitiv, ING forecasts

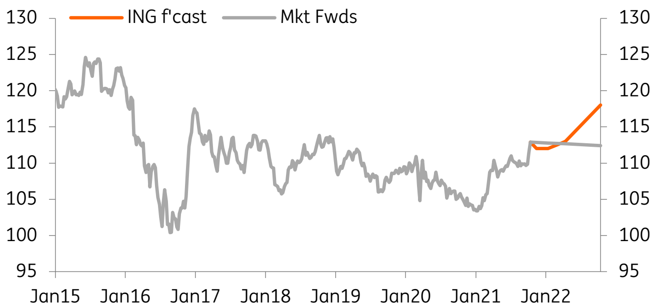
- The dollar is currently on its highs of the year and we expect it to go higher over coming months. Driving this strength is the bullish cocktail of inflation fears and a very hawkish set of Fed dot plots presented in late September. Far from keeping rates unchanged into 2024 on the back of its new Average Inflation strategy, the median Fed expectation is for the policy rate to be at 1.8% in 24!
- Clearly many things have to fall into place for a tightening take-off, but our team see a strong quarter for US growth and the Fed to announce and start tapering in Nov and Dec respectively.
- A 2-3% dollar rally over the next 2 months is possible, (EUR/$ to 1.13), but seasonal December $ weakness means 1.17 for yr-end.

ING forecasts (mkt fwd)	1M 1.15 (1.1571)	3M 1.17 (1.1590)	6M 1.15 (1.1611)	12M 1.11 (1.1658)

Chris Turner, London +44 20 7767 1610

USD/JPY

A new type of capitalism to hit the JPY? **Current spot: 112.91**



Source: Refinitiv, ING forecasts

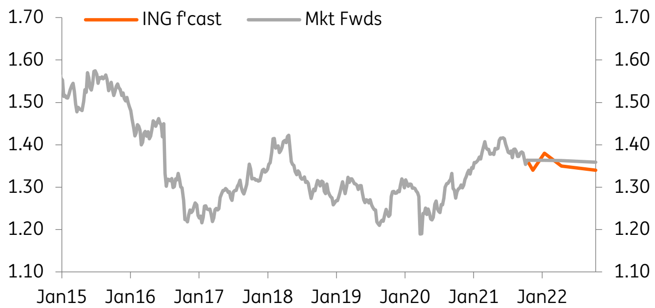
- Pressure is building for a topside break out in USD/JPY. We think the US macro/Fed story will be a positive one for the dollar over the next 15 months (USD/JPY to trade to 120), while home-grown developments look slightly JPY bearish. New PM Kishida is floating the idea of a 'new type of capitalism', where a capital gains tax could help in income redistribution. Japanese equities are worried
- As a large energy importer, Japan's terms of trade are falling sharply on the energy spike – a large negative income shock. With Japan's still in deflation, the BoJ will be the last CB to hike.
- USD/JPY still shows by far the highest daily correlation with 10-year US yields. Expect upside pressure on both into year-end.

ING forecasts (mkt fwd)	1M 112.00 (112.88)	3M 112.00 (112.78)	6M 113.00 (112.69)	12M 118.00 (112.44)

Chris Turner, London +44 20 7767 1610

GBP/USD

Market is convinced the BoE moves early **Current spot: 1.3632**



Source: Refinitiv, ING forecasts

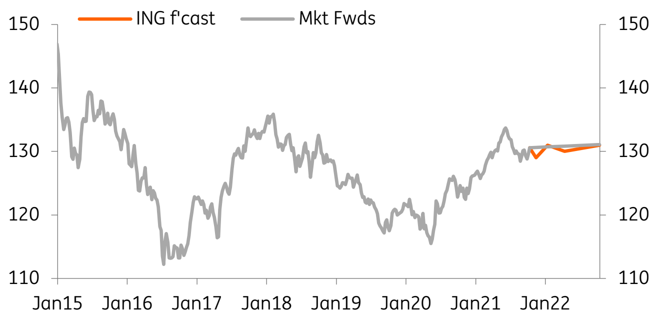
- Despite much discussion of stagflation and the UK returning to the candle-powered 1970s, GBP is actually performing quite well. Driving that performance is the market's conviction that the BoE is open to early tightening. 8bp of tightening is priced for the Nov 4th meeting and a full 39bp by next February. Tightening expectations are being dragged around by gas prices.
- Our team feel that the BoE will hike later than market pricing – warning of some downside risk to GBP. Look out for key speeches from BoE hawks – and whether they seek to correct expectations.
- Cable could briefly see 1.32 in next two months if the BoE indeed rejects calls for early tightening. And $ should outperform.

ING forecasts (mkt fwd)	1M 1.34 (1.3632)	3M 1.38 (1.3635)	6M 1.35 (1.3625)	12M 1.34 (1.3590)

Chris Turner, London +44 20 7767 1610

EUR/JPY

ECB looks to December **Current spot: 130.56**



Source: Refinitiv, ING forecasts

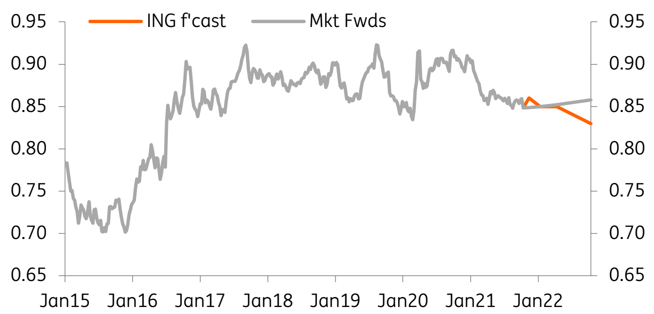
- EUR/JPY is trapped in a 128-131 range and is going nowhere fast. Any break-out move will either be determined by: (a) ECB mishandling the wind-down of the PEPP scheme in December (EUR rates and FX rise) or (b) risk assets finally suffering a much sharper correction (Evergrande or bond tantrum?) and sending EUR/JPY lower. Neither scenario looks imminent.
- What we would say, however, is that the ECB is slightly closer to withdrawing monetary accommodation than the BoJ and that is why we are bullish EUR/JPY through 2022.
- The ECB's December 16th meeting will be a pivotal one. New inflation forecasts will be revealed – with implications for policy.

ING forecasts (mkt fwd)	1M 129.00 (130.61)	3M 131.00 (130.70)	6M 130.00 (130.84)	12M 131.00 (131.08)

Chris Turner, London +44 20 7767 1610

EUR/GBP

Bubbling Brexit issues **Current spot: 0.8484**



Source: Refinitiv, ING forecasts

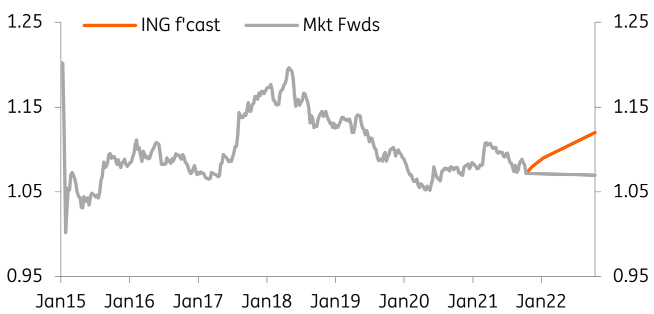
- Brexit-related headlines are starting to re-appear, but so far have had little impact on GBP. These are not just the employment shortages in haulage and agriculture, but threats from France of retaliation over fishing rights. Currently the BoE rate story is dominating market pricing and should continue to be the case into November.
- 0.8450 to 0.8700 is the well-defined trading range. As above look out for BoE speakers. Any signs that wage growth is picking up – risking second round effects – make a BoE hike more credible.
- GBP is more correlated with the financial sector than EUR, thus any surprise Evergrande spill-over is an outside risk to GBP.

ING forecasts (mkt fwd)	1M 0.86 (0.8489)	3M 0.85 (0.8500)	6M 0.85 (0.8522)	12M 0.83 (0.8579)

Chris Turner, London +44 20 7767 1610

EUR/CHF

Inflation problem... what inflation problem? **Current spot: 1.0715**



Source: Refinitiv, ING forecasts

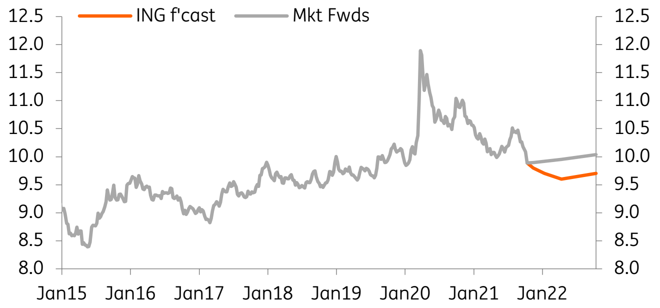
- EUR/CHF continues to languish and may well have encouraged the SNB to start buying FX again near 1.07. 2Q intervention data showed the SNB bought CHF5.4bn in 2Q. We would expect double that in 3Q, though we don't get data on that until end year.
- Unlike many central banks around the world, the SNB does not have an inflation problem. Local CPI is only running at 0.9% YoY! As such the SNB is under no pressure to re-assess its reflationary policy of very negative rates and FX intervention.
- We think heavy QE activity from the ECB has been depressing EUR/CHF. A modest re-assessment of ECB QE policy in December should mean that EUR/CHF receives a modest lift into 2022.

ING forecasts (mkt fwd)	1M 1.08 (1.0714)	3M 1.09 (1.0711)	6M 1.10 (1.0707)	12M 1.12 (1.0697)

Chris Turner, London +44 20 7767 1610

EUR/NOK

The most attractive G10 commodity currency right now



Source: Refinitiv, ING forecasts

Current spot: 9.89

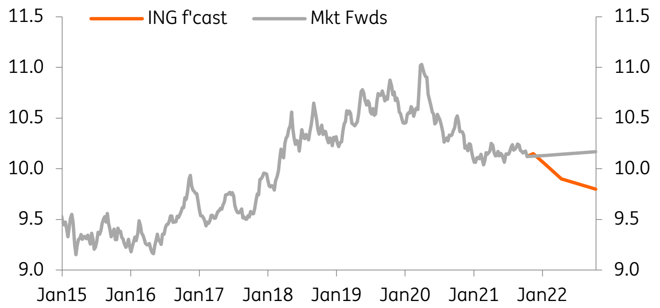
- A turbulent month for global risk sentiment saw NOK surprisingly emerge as a winner. That was thanks to: (a) a hawkish hike by the Norges Bank; (b) rising energy prices; and (c) NOK's lower exposure than other high-beta currencies to China sentiment.
- We expect one hike in December and two more in 2022, although the case for more aggressive tightening is getting stronger. That's in line with NB's latest rate projections as well as market pricing, so NOK will be able to benefit from a better carry (that, however, requires calmer markets) rather than rising rate expectations.
- How energy prices behave in the cold season will be key, but NOK now looks like the safest bet in the G10 commodity space and EUR/NOK should stay moderately pressured into year-end.

ING forecasts (mkt fwd)	1M 9.80 (9.90)	3M 9.70 (9.92)	6M 9.60 (9.95)	12M 9.70 (10.04)

Francesco Pesole, London +44 20 7767 6405

EUR/SEK

Stuck in the middle of the energy story



Source: Refinitiv, ING forecasts

Current spot: 10.12

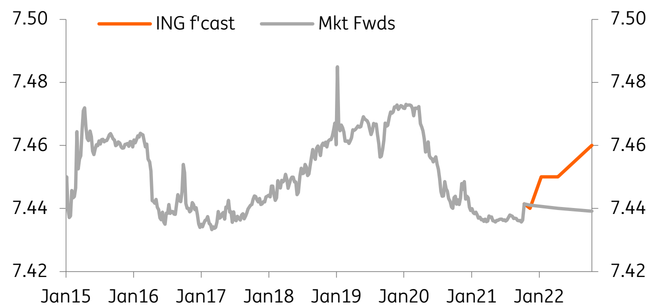
- While suffering from the unsupportive risk environment, the krona can neither count (unlike NOK) on any domestic tightening cycle nor on any clear benefit from surging energy prices.
- Sweden does not rely much on natural gas or coal to generate energy and is energy self-sufficient, but its main market for exports, the rest of Europe, is. Any adverse effect of higher energy costs on Europe's activity will negatively impact SEK.
- Higher inflation may ultimately convince the Riksbank to pencil in a rate hike in 2024. SEK should benefit from it as markets may move to price in earlier tightening, but we doubt in the longer run there will be reasons to expect more tightening than the 50bp already priced in for 2023. We expect EUR/SEK to oscillate in the 10.10/10.20 range into year-end, before trending lower in 2022.

ING forecasts (mkt fwd)	1M 10.15 (10.12)	3M 10.05 (10.13)	6M 9.90 (10.14)	12M 9.80 (10.17)

Francesco Pesole, London +44 20 7767 6405

EUR/DKK

DN rate cut unlikely to be followed by another one soon



Source: Refinitiv, ING forecasts

Current spot: 7.441

- The Danmarks Nationalbank lowered the policy rate from -0.5% to -0.6% on 30 September to defend the increasingly pressured EUR/DKK peg. FX intervention data published after the rate cut showed the DN sold DKK 23.4bn in September, the highest monthly intervention since June 2016.
- The extra liquidity offered through the rate cut should help build a more solid floor under EUR/DKK, and we think the DN will be able to keep control of the peg with FX interventions, without having to cut rates again.
- We expect EUR/DKK to gradually converge to the centre of its peg band (7.46) by 2023.

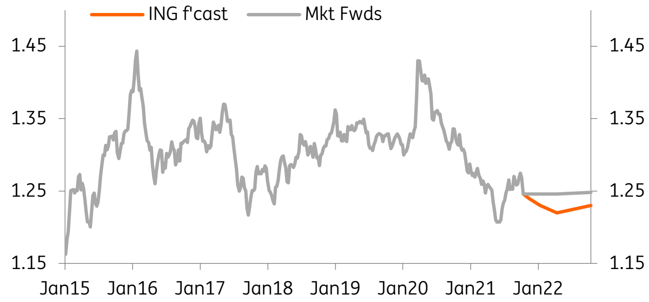
ING forecasts (mkt fwd)	1M 7.44 (7.441)	3M 7.45 (7.441)	6M 7.45 (7.440)	12M 7.46 (7.439)

Francesco Pesole, London +44 20 7767 6405

USD/CAD

Hawkish BoC bets will hardly abate

Current spot: 1.246



Source: Refinitiv, ING forecasts

- The loonie finally got rid of some political risk premium after the Federal elections in Canada saw yet another Liberal minority win. Strong labour data and rising energy prices then further contributed to CAD's resilience against the appreciating USD.
- The Bank of Canada will, in our view, end QE by the end of 2021 through two rounds of tapering, in October and December. We still expect the first hike in 3Q22, but the aggressive tapering should allow markets to keep betting on earlier tightening.
- Tightening prospects, higher commodity prices and a robust recovery in Canada suggest CAD should remain relatively resilient to risk-off waves. Sub-1.25 levels this quarter look appropriate.

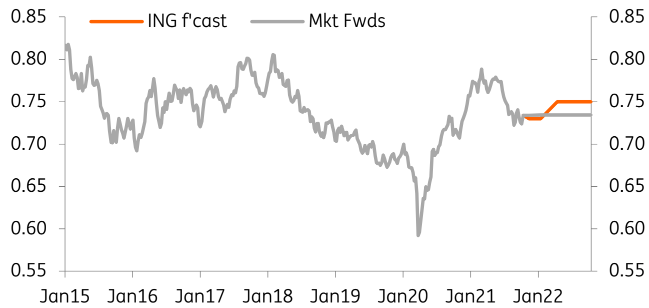
ING forecasts (mkt fwd)	1M 1.24 (1.246)	3M 1.23 (1.246)	6M 1.22 (1.246)	12M 1.23 (1.248)

Francesco Pesole, London +44 20 7767 6405

AUD/USD

Slightly less vulnerable to external woes than before

Current spot: 0.734



Source: Refinitiv, ING forecasts

- The drag to AUD caused by the Evergrande case and subsequent market turmoil was only partly mitigated by rising energy prices (Australia is a big exporter of coal and natural gas) and a tentative recovery in battered iron ore prices.
- The market might have turned somewhat complacent to the wider implications of China's real estate woes. More concerning developments in this sense are set to hit AUD harder than other pro-cyclicals, given its high exposure to Chinese sentiment.
- At the same time, AUD can count on some protection from rising energy prices and looks already significantly oversold. The firmly dovish RBA should not be of any help in the short-term, but we think AUD/USD can close the year around its current levels: 0.73.

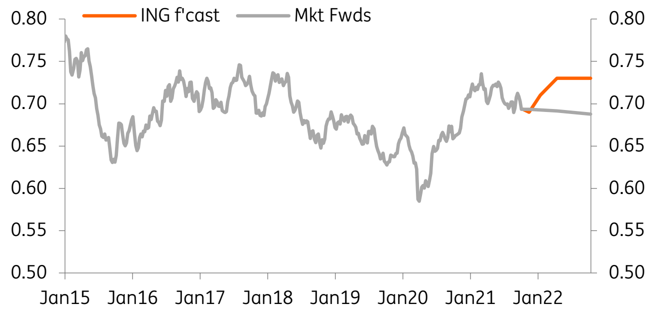
ING forecasts (mkt fwd)	1M 0.73 (0.734)	3M 0.73 (0.734)	6M 0.75 (0.734)	12M 0.75 (0.734)

Francesco Pesole +44 207 767 6405

NZD/USD

Limited short-term benefits from RBNZ tightening

Current spot: 0.694



Source: Refinitiv, ING forecasts

- The RBNZ hiked rates by 25bp as expected in October, and we think that the overall upbeat tone on the economic/inflation outlook suggests we'll see another hike in November.
- Markets are already pricing in 90bp of tightening in the next year - in line with the RBNZ rate projections – and we do not see much room for NZD to benefit from a further rise in rate expectations.
- This means that any NZD outperformance against other pro-cyclical peers will have to wait for a broad stabilisation in risk sentiment and a revamp in carry trades. Even more so considering NZD is highly exposed to Chinese sentiment and, unlike AUD, cannot benefit from higher energy prices.

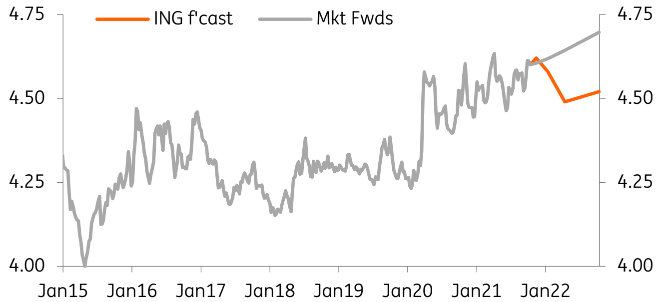
ING forecasts (mkt fwd)	1M 0.69 (0.693)	3M 0.71 (0.693)	6M 0.73 (0.691)	12M 0.73 (0.688)

Francesco Pesole +44 207 767 6405

Emerging markets

EUR/PLN

October rate hikes improves 4Q21 PLN prospects. **Current spot: 4.60**



Source: Refinitiv, ING forecasts

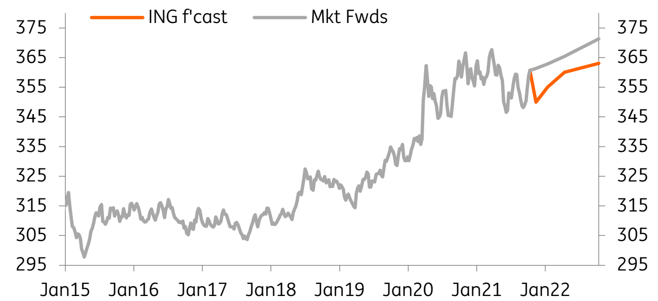
- Prospects for the zloty in the reminder of 2021 are mixed. Ambiguous MPC communication makes it hard to assess prospective rate hikes. If anything, we expect a disappointment in November, looking for a 25bp hike, rather than the 50bp priced in. Negative sentiment towards EM currencies and fears over increasing tensions with EU should keep €/PLN close to 4.60 into the year-end, with upside risk.
- In 1H22 we expect gradual PLN recovery. NBP rate hikes are far from over and we target a terminal rate of 2% next year. The scale of gains is largely contingent on overall EM sentiment - markets are already pricing a similar rate path to what we expect.

ING forecasts (mkt fwd)	1M	3M	6M	12M
	4.62 (4.60)	4.58 (4.62)	4.49 (4.64)	4.52 (4.70)

Rafal Benecki, Warsaw +48 22 820 4696

EUR/HUF

Forint suffers from downbeat global risk sentiment **Current spot: 360.68**



Source: Refinitiv, ING forecasts

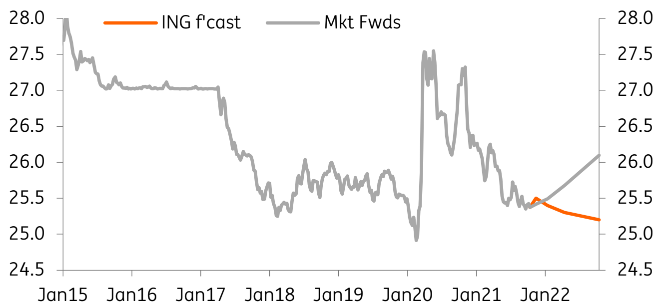
- September brought an almost total reversal of the forint gains during August. EUR/HUF has been weakening from the 348 level since early September.
- The global risk-off sentiment has favoured safe-haven assets lately, so despite the continued rate hikes and the hawkish commitment from the central bank, HUF has had struggled to keep its footing, with EUR/HUF now hovering around 358.
- Monetary policy tightening, regained control of money markets and possible further steps to shrink liquidity should be positive for HUF and help EUR/HUF to move closer to the 350 level. Yet this move may have to wait until global risk sentiment stabilizes.

ING forecasts (mkt fwd)	1M	3M	6M	12M
	350.0 (361.38)	355.0 (362.85)	360.0 (365.39)	363.0 (371.27)

Péter Virovácz, Budapest +36 1 235 8757

EUR/CZK

Supply chain woes to rein in super-hawkish CNB? **Current spot: 25.37**



Source: Refinitiv, ING forecasts

- As is customary, the CNB out-did even the most hawkish expectations in the markets and hiked rates 75bp to 1.50% in September. The move sparked the ire of local politicians. Driving the 75bp hike was the need to send a strong message and keep inflation expectations anchored. The market now expects another 50bp hike in November and another 25bp hike in Dec.
- Skoda has just announced it may be shutting down production for the rest of the tear due to supply chain issues. The risk is that the CNB slows to a 25bp hike in November.
- Seasonally the CZK weakens in December as banks eschew CZK liquidity for the Resolution Fund. So CZK gains may start to stall.

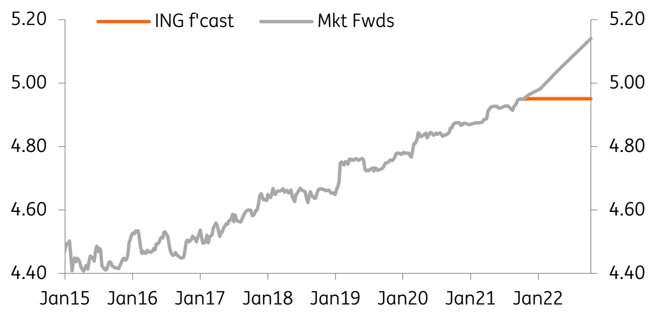
ING forecasts (mkt fwd)	1M	3M	6M	12M
	25.50 (25.42)	25.40 (25.49)	25.30 (25.68)	25.20 (26.10)

Chris Turner, London +44 20 7767 1610

EUR/RON

Troubled by politics

Current spot: 4.95



Source: Refinitiv, ING forecasts

- We have updated our year-end EUR/RON forecast from 4.92 to 4.95. The reasoning for this lies exclusively in the political context, as uncertainty seems set to last for several more weeks.
- We believe that the NBR will be hands-on to defend the currency at 4.95 for an extended period, except for unforeseen events such as early elections and/or a rating downgrade. We assign a very low probability that any of these will occur.
- On 5 October the NBR began its hiking cycle with a 25bp increase to 1.50%. We expect four more consecutive 25bp key rate hikes, leading to a terminal key rate of 2.50% in early 2Q22.

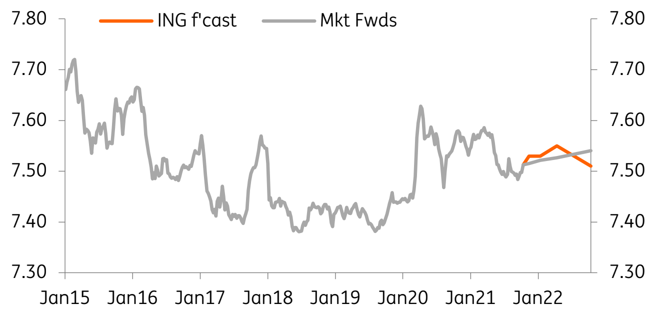
ING forecasts (mkt fwd)	1M 4.95 (4.96)	3M 4.95 (4.98)	6M 4.95 (5.04)	12M 4.95 (5.14)

Valentin Tataru, Bucharest +40 31 406 8991

EUR/HRK

Back to business as usual

Current spot: 7.51



Source: Refinitiv, ING forecasts

- The 2021 tourist season exceeded most expectations, with tourism revenues estimated at 90% of the 2019 level. This has helped the economy to perform robustly this year, reinforcing our already above consensus 8.0% estimate for GDP growth.
- At EUR6.3bn, Croatia's Recovery and Resilience plan makes the country the largest recipient of EU funds compared to GDP (11.6% of country's 2019 GDP, all grants). EUR818m has already been disbursed by the European Commission as pre-financing. A good chunk of these inflows will likely end-up in central bank FX reserves which in August were 33.5% higher than Aug-2020.
- We maintain our year-end EUR/HRK forecasts at 7.53.

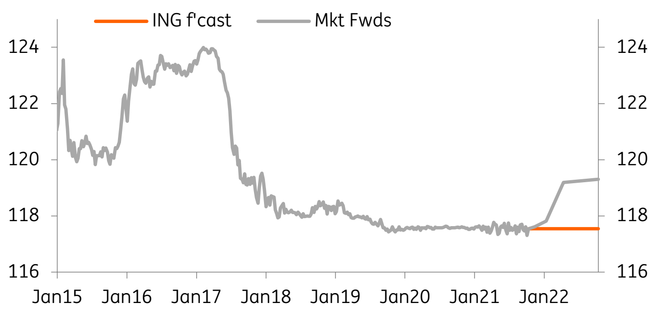
ING forecasts (mkt fwd)	1M 7.53 (7.52)	3M 7.53 (7.52)	6M 7.55 (7.53)	12M 7.51 (7.54)

Valentin Tataru, Bucharest +40 31 406 8991

EUR/RSD

NBS accommodating inflows

Current spot: 117.55



Source: Refinitiv, ING forecasts

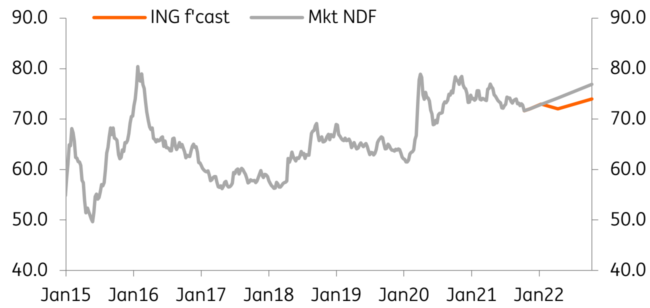
- Inflation has continued to increase sharply and is set to exceed the 4.5% upper limit of the central bank's target corridor by the end of this year.
- The NBS stepped in and - as initial tightening steps - decided to cease the provision of three-month dinar liquidity via repo operations. It raised the average repo rate to 0.24% from 0.11%. We read this as a preliminary step towards straightforward key rate hikes which we now expect to start in November.
- We do not envisage EUR/RSD deviating from current levels (i.e. 117.55) over the 2-year forecast horizon.

ING forecasts (mkt fwd)	1M 117.55 (117.62)	3M 117.55 (117.81)	6M 117.55 (119.19)	12M 117.55 ()

Valentin Tataru, Bucharest +40 31 406 8991

USD/RUB

Near-term signals are ruble-positive **Current spot: 71.63**



Source: Refinitiv, ING forecasts

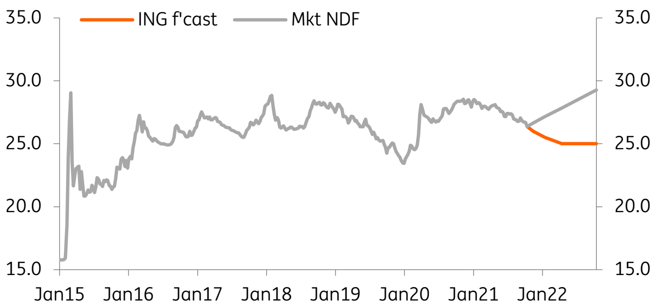
- In September, RUB continued to strengthen, slightly outperforming our target and narrowing the country discount to peers by 2 ppt to 12%. Intra-month volatility was high as the positive effects of commodity prices were somewhat neutralised by increased pressure on the global debt market.
- A decline of FX intervention in October, the strong current account, possible local investments out of the sovereign fund, tight budget signals and conservative monetary policy should help the rouble outperform its emerging market/commodity peers.
- Sustainable appreciation vs. the US dollar is less certain given the expected tightening in the Federal Reserve's policy, volatility in Russia-specific portfolio flows, and continued private capital outflow. For now, we continue to expect USD/RUB at 73.0 by year-end.

ING forecasts (mkt fwd)	1M 71.00 (72.03)	3M 73.00 (72.88)	6M 72.00 (74.19)	12M 74.00 (76.89)

Dmitry Dolgin, Russia +7 495 771 7994

USD/UAH

Further UAH gains in 4Q21 and 2022 **Current spot: 26.36**



Source: Refinitiv, ING forecasts

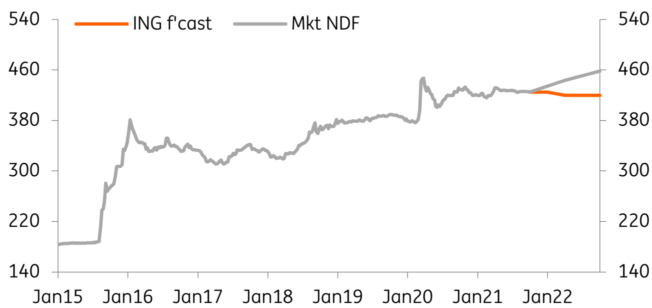
- The hryvnia remains unfazed be ongoing EM tensions. Despite the low inoculation rate, new Covid-19 cases are under control, suggesting further recovery ahead. We somewhat more optimistic than the central bank on Ukraine's economic prospects, with space for further UAH gains into year-end. Still, there is no evident hryvnia under-valuation, so we see the scope for USD/UAH gains in the coming months as limited.
- We have upgraded our GDP path for 2022-23 as well. This offers some additional scope for monetary tightening. Thus, in early 2022, USD/UAH should approach pre-Covid levels.

ING forecasts (mkt fwd)	1M 26.00 (26.65)	3M 25.50 (27.14)	6M 25.00 (27.83)	12M 25.00 (29.28)

Piotr Poplawski, Warsaw +48 22 820 4078

USD/KZT

Global pressure prevents USDKZT appreciation beyond 420 **Current spot: 424.75**



Source: Refinitiv, ING forecasts

- The tenge narrowly underperformed our 425 target in September due to deteriorating risk appetite, but the strong oil price environment and the gradual increase in Kazakhstan's monthly production quota by 16,000 bbl/d supported higher oil exports and the generally robust trade balance.
- In the coming months KZT should benefit from the expansion of OPEC+ total supply by 400m bbl/d in October, as well as from the positive effect of US$0.9bn of FX sales by the government and quasi-state companies. But this is diluted by the private capital outflow of around US$1bn per quarter.
- KZT's local fundamentals appear relatively solid given the commodity rally, but the scope for appreciation is limited by the risk of global strengthening on USD in response to the Fed tightening. We now see 420-425 as the target range for the next 6-12 months.

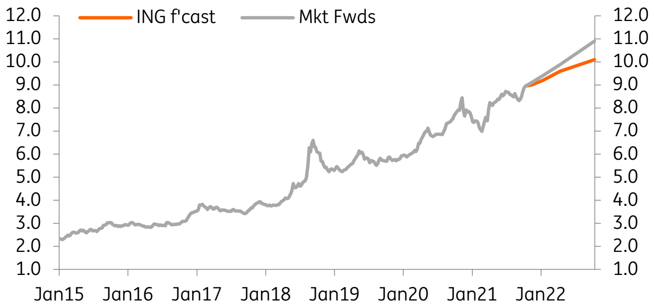
ING forecasts (mkt fwd)	1M 425.00 (428.17)	3M 425.00 (434.23)	6M 420.00 (443.64)	12M 420.00 (458.10)

Dmitry Dolgin, Russia +7 495 771 7994

USD/TRY

CBT open to more easing

Current spot: 8.96



Source: Refinitiv, ING forecasts

- CPI inflation maintained its uptrend to its highest level since March 2019 on higher services inflation, while the underlying trend for both the headline and core moderated somewhat, though remaining high. Given the earlier-than-expected start of the easing cycle and the CBT's signals of a less restrictive policy stance, pricing pressures through a weaker exchange rate and higher inflation expectations will further weigh on the already challenging inflation dynamics in the period ahead.
- For the TRY outlook, the CBT's surprise cut and dovish guidance, rising oil prices as well as vulnerability to a stronger USD and rising US real yields do not bode well for the currency outlook in the near term. Lower positioning by foreign investors and a still high carry should be limiting factors on the downside.

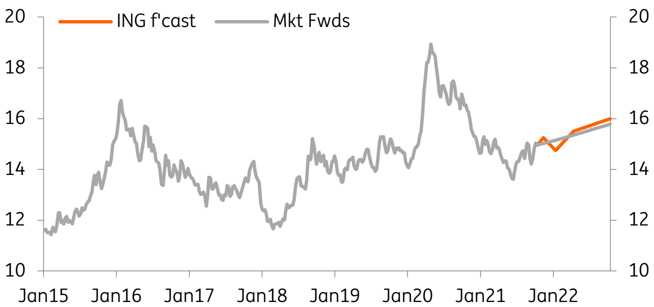
ING forecasts (mkt fwd)	1M 9.00 (9.11)	3M 9.20 (9.41)	6M 9.60 (9.88)	12M 10.10 (10.90)

Muhammet Mercan, Istanbul +90 212 329 0751

USD/ZAR

ZAR catches up with external environment

Current spot: 14.96



Source: Refinitiv, ING forecasts

- The ZAR has had a bad month, hit by both a stronger dollar and a widening in its sovereign risk premium (5yr sovereign CDS +40bp). Fighting against the negative pressure on the ZAR are still strong export prices (precious metals etc) which have helped contribute to ZAR40bn monthly trade surpluses.
- Yet the SARB admits that the near 6% of GDP current account surplus will dissolve within a year and growth will slow sharply – from 5.3% expected this year to just 1.7% next year.
- With higher US rates and a stronger dollar, $/ZAR could be trading at 16 or even 17 next year. Invariably swap points will widen further. Now looks a good time to hedge ZAR receivables.

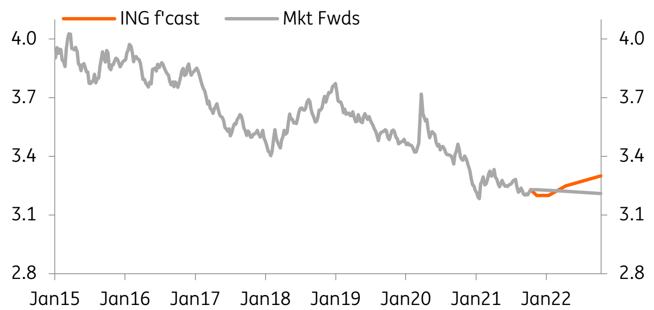
ING forecasts (mkt fwd)	1M 15.25 (15.02)	3M 14.75 (15.15)	6M 15.50 (15.35)	12M 16.00 (15.77)

Chris Turner, London +44 20 7767 1610

USD/ILS

BoI welcoming some support from a stronger dollar

Current spot: 3.23



Source: Refinitiv, ING forecasts

- USD/ILS remains quite offered and the latest line in the sand seems to be 3.20. August data showed the BoI buying $1.6bn in FX intervention to resist ILS appreciation. The strong story for the ILS is: (a) a current account surplus in the 3.5% of GDP area, (b) good growth, 7% in 21, 5.5% in 22 and (c) Israel being a quality sovereign credit.
- Despite CPI pushing up to 2.2% YoY, there seems little chance of the BoI turning hawkish – or at least embracing a stronger ILS. Even if it starts hiking in 2022, it may still be intervening.
- BoI will hope that a broadly stronger dollar lifts USD/ILS off the lows, but ILS should still out-perform many EM & DM currencies.

ING forecasts (mkt fwd)	1M 3.20 (3.23)	3M 3.20 (3.23)	6M 3.25 (3.22)	12M 3.30 (3.21)

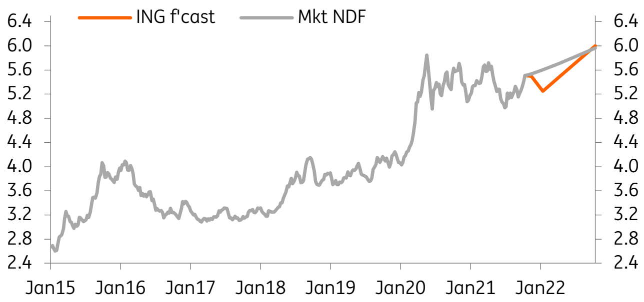
Chris Turner, London +44 20 7767 1610

LATAM

USD/BRL

BACEN battles inflation and sovereign risk

Current spot: 5.51



Source: Refinitiv, ING forecasts

- BRL has been one of the worst EMFX performers over the last month. Yes, a stronger dollar has not helped, but Brazil's sovereign CDS has also widened the most over the last month, suggesting sovereign risk is a problem. Here the fears are that President Bolsonaro may delay/abandon fiscal reforms as we head into a contentious election in November 2022.
- The selic policy rate is now 6.25%. 7.25% is expected at the Oct 27th meeting. BACEN expects to take rates to the 8.25/8.50% area, while the market sees rates closer 10%.
- Aggressive selic hikes to keep USD/BRL near 5.50 area into year-end. Yet political risks & a stronger $ favour $/BRL near 6 late 22.

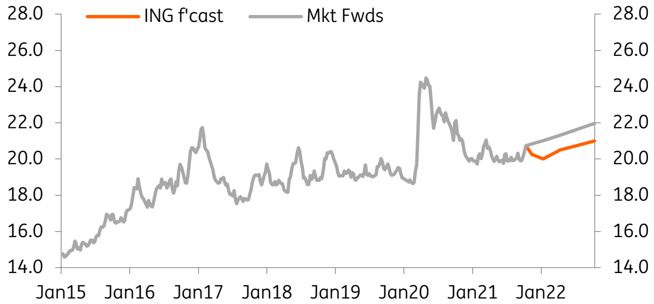
ING forecasts (NDF)	1M 5.50 (5.54)	3M 5.25 (5.60)	6M 5.50 (5.71)	12M 6.00 (5.96)

Chris Turner, London +44 20 7767 1610

USD/MXN

High beta problems

Current spot: 20.73



Source: Refinitiv, ING forecasts

- MXN has sold off quite sharply – a disappointing performance given that remittances pushed to a new high of $4.7bn in August. Driving the sell-off was probably MXN's high beta on global equities (Sep was customarily a bad month for stocks) and perhaps supply disruptions that have driven energy imports.
- Banxico continues to try to get ahead of inflation (CPI now 6% YoY) and has hiked to 4.75%. The market expects two further 25bp hikes in November and December.
- With US activity expected to pick up over coming months, we think MXN might withstand higher US rates better than some others (correlation with UST low) favouring a return to 20.25.

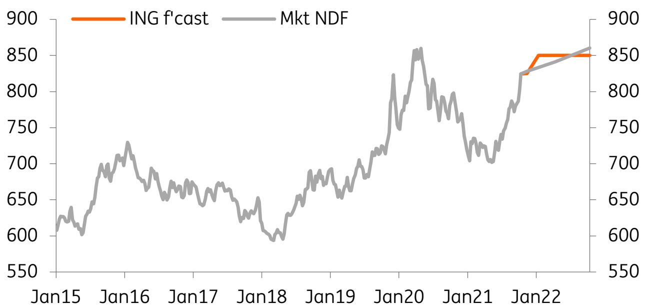
ING forecasts (mkt fwd)	1M 20.25 (20.84)	3M 20.00 (21.02)	6M 20.50 (21.32)	12M 21.00 (21.97)

Chris Turner, London +44 20 7767 1610

USD/CLP

Peso tumbles despite hawkish central bank

Current spot: 824.45



Source: Refinitiv, ING forecasts

- Recent dollar strength has come at a bad time for the beleaguered Chilean Peso. Despite August's 75bp rate hike and expectations of another 100bp by year-end, $/CLP has pushed through 800. Another larger than expected hike (e.g. 75bp) on Oct 13th could slow the move and encourage expectations of a more front-loaded cycle – getting quicker to 4.50%
- Looming Presidential elections in November aren't helping. The left-wing candidate, Boric, still leads in the polls, although though that lead is shrinking. Revelations against President Pinera in the Pandora Papers have not helped either.
- Having bought FX at CLP700/$ this year, will the CB sell FX at 850?

ING forecasts (NDF)	1M 825 (827.90)	3M 850 (833.50)	6M 850 (841.35)	12M 850 (860.50)

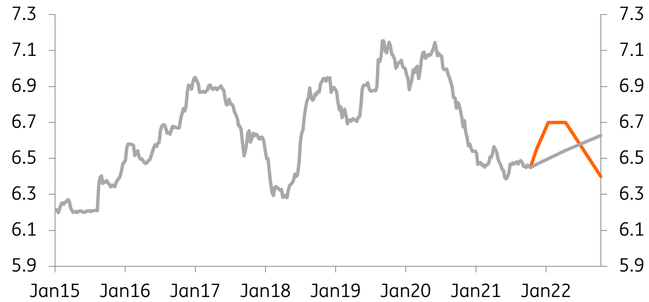
Chris Turner, London +44 20 7767 1610

Asia

USD/CNY

Steady CNY helping energy imports

Current spot: 6.45



Source: Refinitiv, ING forecasts

- The CNY stands out amongst Asian currencies this month , (1) because it is the strongest currency in the region and (2) because it has managed to slightly appreciate
- Against the backdrop of a generally stronger dollar, we consider this a deliberate policy decision by the authorities, which will serve to dampen the inflationary impact of rising energy and commodity prices, and enable China to more easily gain access to the energy and commodity sources it needs at favourable domestic prices
- Any easing of commodity price pressures could provide a window for subsequent CNY weakening.

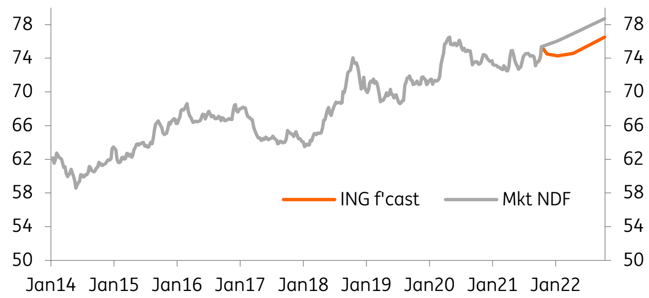
ING forecasts (mkt fwd)	1M 6.550 (6.47)	3M 6.700 (6.50)	6M 6.700 (6.54)	12M 6.400 (6.63)

Iris Pang, Hong Kong +852 2848 8071

USD/INR

Reverting to weakness after August strength

Current spot: 75.39



Source: Refinitiv, ING forecasts

- In August, the INR was one of the region's strongest performing currencies, boosted by substantial capital inflows against the backdrop of a strong IPO calendar.
- September and early October have seen that previous resilience wane, and the INR has sunk towards the bottom of the pack and caught up some of the losses of its peers.
- Higher energy prices are a traditional Achilles heel for the INR, and this episode seems no different. A stronger USD and rising bond yields is also not a friendly backdrop for a current account deficit economy – and we anticipate further INR weakness ahead.

ING forecasts (mkt fwd)	1M 74.50 (75.60)	3M 74.30 (76.08)	6M 74.60 (76.94)	12M 76.50 (78.71)

Rob Carnell, Singapore +65 6232 6020

USD/IDR

IDR steady for most of September despite bonds outflows

Current spot: 14207.50

Source: Refinitiv, ING forecasts

- The IDR managed to move sideways through most of September to outperform its regional peers. Exports surprised on the upside, resulting in a much wider trade surplus that may have offset foreign outflows from the bond market.
- Bank Indonesia (BI) kept policy rates unchanged at the 21 September meeting. Governor Warjiyo signalled that BI would likely maintain its accommodative stance until 2H 2022 to support growth momentum.
- We expect the IDR to move sideways in the near term with BI likely to be present in the market to maintain FX stability via BI's "triple intervention".

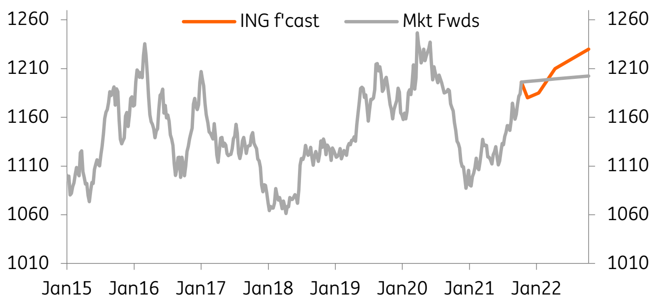
ING forecasts (mkt fwd)	1M 14485 (14250.75)	3M 14789 (14333.00)	6M 14902 (14460.00)	12M 14620 (14731.50)

Nicholas Mapa, Philippines +63 28479 8855

USD/KRW

High beta means more losses ahead

Current spot: 1195.93



Source: Refinitiv, ING forecasts

- As the region's "proxy currency", the KRW does worst when regional FX is weak, and outperforms the pack when it is strong. Right now, it is weak, and there aren't many currencies that have done worse than the KRW over the last month, or even over the year to date.
- There isn't much intrinsically wrong with the Korean economy, and we also expect to see some further BoK tightening in the near future.
- But that is no guarantee that the KRW will strengthen. And while the USD remains strong, and risk appetite challenged, further weakness seems more probable.

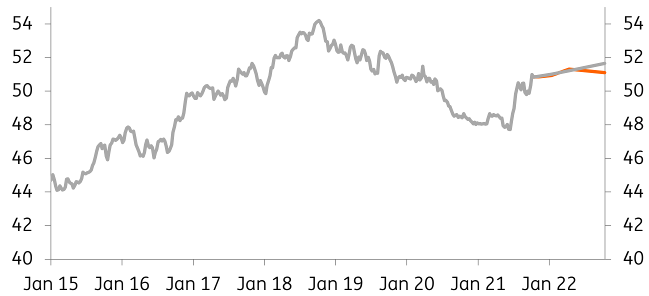
ING forecasts (NDFs)	1M 1180 (1196.78)	3M 1185 (1197.63)	6M 1210 (1199.23)	12M 1230 (1202.23)

Rob Carnell, Singapore +65 6232 6020

USD/PHP

PHP weakens as current account widens further

Current spot: 50.84



Source: Refinitiv, ING forecasts

- The PHP retreated in September, given the widening of the current account deficit due to rising imports. Resurgent imports sparked increased dollar demand as the authorities lowered mobility restrictions.
- Bangko Sentral ng Pilipinas (BSP) kept policy rates unchanged on 23 September despite inflation surging past the central bank's target range. BSP Governor, Diokno, opted to look through the recent price spike to support the economic recovery.
- The PHP will likely be on the back foot to close out the year as the current account deficit widens.

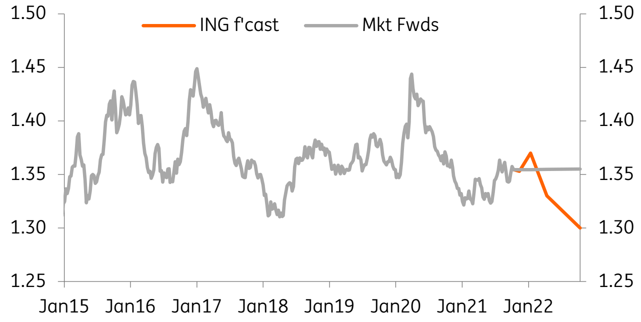
ING forecasts (mkt fwd)	1M 50.85 (50.90)	3M 50.94 (51.01)	6M 51.32 (51.22)	12M 51.10 (51.65)

Nicholas Mapa, Philippines +63 2479 8855

USD/SGD

SGD pulls back on general risk off tone

Current spot: 1.354



Source: Refinitiv, ING forecasts

- The SGD was initially stronger in September, driven by optimism over further economic reopening. But by end-September, the authorities had re-tightened restrictions due to rising Covid cases, dampening sentiment to close out the month.
- Also weighing on sentiment were concerns regarding China's property sector and rising global bond yields on expectations for the eventual Fed taper.
- Supported by the slide back into movement restrictions, we forecast the MAS to maintain its accommodative stance in October, accompanied by a signal for an eventual tightening next year.

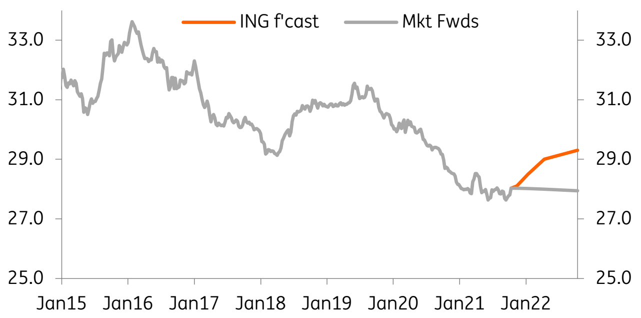
ING forecasts (mkt fwd)	1M 1.353 (1.354)	3M 1.370 (1.355)	6M 1.330 (1.355)	12M 1.300 (1.355)

Nicholas Mapa, Philippines +63 2479 8855

USD/TWD

In a better position to deal with supply chain problems

Current spot: 28.03



Source: Refinitiv, ING forecasts

- We hear a lot about supply chain problems in the Asia -Pacific region. Semiconductor supply is of huge importance. As one of the world's pre-eminent semiconductor manufacturers, Taiwan is in a better position to cope than many of its peers. The relative strength of the TWD may reflect that.
- The TWD, along with the CNY is the only other currency to have gained this month, though it is looking softer more recently - the outperformance may be about to give way.
- Strong trade links with China and a carefully managed float are also likely contributing factors – but as we also expect the CNY to weaken later on, with the TWD likely to follow suit.

ING forecasts (mkt fwd)	1M 28.10 (28.03)	3M 28.50 (28.02)	6M 29.00 (28.00)	12M 29.30 (27.94)

Iris Pang, Hong Kong +852 2848 8071

ING foreign exchange forecasts

EUR cross rates	Spot	1M	3M	6M	12M	USD cross rates	Spot	1M	3M	6M	12M
Developed FX											
EUR/USD	1.16	1.15	1.17	1.15	1.11						
EUR/JPY	130.6	128.80	131.04	129.95	130.98	USD/JPY	112.91	112	112	113	118
EUR/GBP	0.85	0.86	0.85	0.85	0.83	GBP/USD	1.36	1.34	1.38	1.35	1.34
EUR/CHF	1.07	1.08	1.09	1.10	1.12	USD/CHF	0.93	0.94	0.93	0.96	1.01
EUR/NOK	9.89	9.80	9.70	9.60	9.70	USD/NOK	8.55	8.52	8.29	8.35	8.74
EUR/SEK	10.12	10.15	10.05	9.90	9.80	USD/SEK	8.75	8.83	8.59	8.61	8.83
EUR/DKK	7.441	7.440	7.450	7.450	7.460	USD/DKK	6.43	6.47	6.37	6.48	6.72
EUR/CAD	1.44	1.43	1.44	1.40	1.37	USD/CAD	1.246	1.24	1.23	1.22	1.23
EUR/AUD	1.58	1.58	1.60	1.53	1.48	AUD/USD	0.73	0.73	0.73	0.75	0.75
EUR/NZD	1.67	1.67	1.65	1.58	1.52	NZD/USD	0.69	0.69	0.71	0.73	0.73
EMEA											
EUR/PLN	4.60	4.62	4.58	4.49	4.52	USD/PLN	3.98	4.02	3.91	3.90	4.07
EUR/HUF	360.7	350.00	355.00	360.00	363.00	USD/HUF	311.9	304	303	313	327
EUR/CZK	25.37	25.5	25.4	25.3	25.2	USD/CZK	21.95	22.2	21.7	22.0	22.7
EUR/RON	4.95	4.95	4.95	4.95	4.95	USD/RON	4.28	4.30	4.23	4.30	4.46
EUR/HRK	7.51	7.53	7.53	7.55	7.51	USD/HRK	6.50	6.55	6.44	6.57	6.77
EUR/RSD	117.6	117.6	117.6	117.6	117.6	USD/RSD	101.7	102.2	100.5	102.2	105.9
EUR/RUB	82.84	82.8	85.4	82.8	82.1	USD/RUB	71.63	72.0	73.0	72.0	74.0
EUR/UAH	30.49	29.9	29.8	28.8	27.8	USD/UAH	26.36	26.00	25.50	25.00	25.00
EUR/KZT	491.2	488.8	497.3	483.0	466.2	USD/KZT	424.8	425	425	420	420
EUR/TRY	10.37	10.35	10.76	11.04	11.21	USD/TRY	8.96	9.00	9.20	9.60	10.10
EUR/ZAR	17.30	17.5	17.3	17.8	17.8	USD/ZAR	14.96	15.25	14.75	15.50	16.00
EUR/ILS	3.74	3.68	3.74	3.74	3.66	USD/ILS	3.23	3.20	3.20	3.25	3.30
LATAM											
EUR/BRL	6.37	6.33	6.14	6.33	6.66	USD/BRL	5.51	5.50	5.25	5.50	6.00
EUR/MXN	23.98	23.3	23.4	23.6	23.3	USD/MXN	20.73	20.25	20.00	20.50	21.00
EUR/CLP	953.40	949	995	978	944	USD/CLP	824.45	825	850	850	850
Asia											
EUR/CNY	7.46	7.53	7.84	7.71	7.10	USD/CNY	6.45	6.55	6.70	6.70	6.40
EUR/HKD	9.00	0.00	0.00	0.00	0.00	USD/HKD	7.78	0.00	0.00	0.00	0.00
EUR/IDR	16435	16658	17303	17137	16228	USD/IDR	14208	14485	14789	14902	14620
EUR/INR	87.18	85.7	86.9	85.8	84.9	USD/INR	75.39	74.50	74.30	74.60	76.50
EUR/KRW	1382.98	1357	1386	1392	1365	USD/KRW	1195.93	1180	1185	1210	1230
EUR/PHP	58.79	58.5	59.6	59.0	56.7	USD/PHP	50.84	50.85	50.94	51.32	51.1
EUR/SGD	1.57	1.56	1.60	1.53	1.44	USD/SGD	1.35	1.35	1.37	1.33	1.30
EUR/TWD	32.41	32.3	33.3	33.4	32.5	USD/TWD	28.03	28.1	28.5	29.0	29.3

Source: Refinitiv, ING

Disclaimer