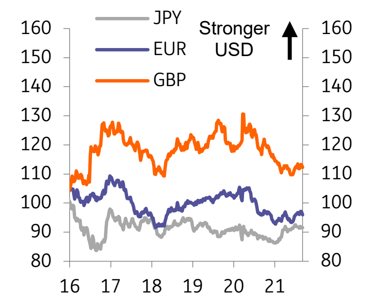
6 September 2021

FX Strategy

FX Talking

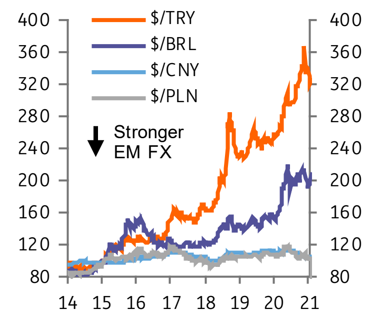
Dovish Fed, calm seas – what could go wrong?

USD/Majors (5 Jan 14=100)



Source: Refinitiv, ING forecasts

USD/EM (5 Jan 14=100)



Source: Refinitiv, ING forecasts

A soft August NFP report and a dovish Jackson Hole speech from Fed Chair Powell has taken some of the sting out of the dollar's upside. Heading into the autumn, expected FX volatility is falling and FX players are backing those currencies where local central bankers feel confident enough to tighten policy. We expect this theme to run further.

Even the unloved EUR has found a few friends over recent weeks as hawks on the ECB demand a re-assessment of pandemic support levels. We doubt this independent EUR strength has a lot further to run. But equally a Fed happy to go slow with the taper – and break the link between tapering and tightening – means the dollar can tread water. This will allow EUR/USD to trade out a 1.17-1.20 into year-end and focus to remain elsewhere

What could go wrong? Asia has been the weak link in financial markets this year and with the PBOC looking set to ease policy further, a USD/CNY move through 6.50 could upset some bullish bets in EM currencies. Equally, the credit market is intrigued about the default chances of Chinese real estate developer, Evergrande, and any contagion.

But for the time being, however, low volatility and still abundant liquidity mean that high yielding FX is still in favour. And given that it does not take a lot to be a high yielder in Europe, further tightening should keep the Hungarian Forint and Czech Koruna in demand. Sterling has enjoyed a slightly more hawkish BoE, yet the (small) hiking cycle looks fully priced and tension with Brussels end September should limit Sterling strength.

In all, we could continue to favour a pro-risk stance in FX even though September is normally a sticky month for US equity markets.

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.19	↑	111	↑	1.38	→
3M	1.20	↑	112	↑	1.41	↑
6M	1.18	↓	113	↑	1.39	↑
12M	1.15	↓	115	↑	1.39	↑
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.86	↑	25.30	↑	4.54	↑
3M	0.85	→	25.20	↑	4.43	↓
6M	0.85	↓	25.30	↑	4.45	↓
12M	0.83	↓	25.40	↑	4.43	↓
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	6.58	↑	19.75	↓	5.10	↓
3M	6.70	↑	19.75	↓	5.25	↑
6M	6.78	↑	20.00	↓	5.50	↑
12M	6.60	→	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 forecasts

FX performance

	EUR/USD	USD/JPY	EUR/GBP	EUR/NOK	NZD/USD	USD/CAD
%MoM	0.5	-0.1	0.1	-1.9	2.5	-0.4
%YoY	-0.2	3.5	-3.9	-2.0	5.9	-4.1
	USD/UAH	**USD/KZT**	**USD/BRL**	**USD/MXN**	**USD/CNY**	**USD/TRY**
%MoM	-0.7	-0.2	0.5	1.4	-0.3	-3.1
%YoY	-3.3	1.3	-2.9	-8.4	-5.6	11.9

Source: Refinitiv, ING forecasts

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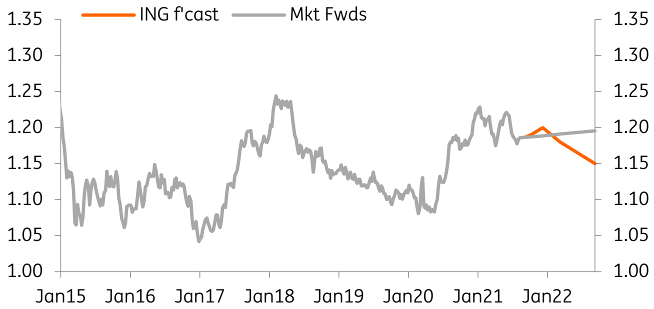
Developed markets

EUR/USD

Declining volatility points to further range-trading

Current spot: 1.1865



Source: Refinitiv, ING forecasts

- One of the noticeable FX developments from the soft US August jobs release was the sharp drop in EUR/USD traded volatility. One year has dropped to 5.55% and looks on its way to the 5% levels seen pre-pandemic. The soft release pointed to slow Fed tapering and abundant liquidity conditions – favouring a pro-risk market.
- Orderly Fed tapering – only announced in November – should still set the stage for a stronger dollar in 2022 ahead of first Fed tightening later that year. But for this year, we favour a 1.17-1.20 EUR/USD range – the $ seasonally weakening into year end.
- EUR/USD risks a correction lower if ECB does not taper Sep 9th, but higher inflation and encouraging growth should keep € supported.

ING forecasts (mkt fwd)	1M 1.19 (1.1871)	3M 1.20 (1.1885)	6M 1.18 (1.1910)	12M 1.15 (1.1955)

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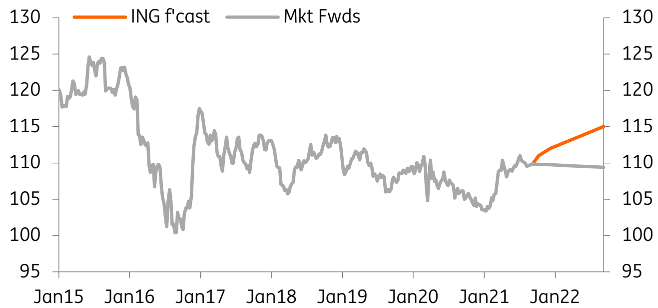
USD/JPY

The JPY is cheap

Current spot: 109.85



Source: Refinitiv, ING forecasts

- The JPY remains one of the preferred shorts amongst speculators – firmly seen as one of the best funding currencies in a benign risk environment. Our debt strategy team expect US yields to start rising this month (supply picks up markedly), which in theory should drive USD/JPY back to the highs. This because USD/JPY has by far the highest +ve correlation with US yields.
- The stronger $ and stronger CNY mean that JPY is already very weak on a trade-weighted basis, however. The real JPY index is 8% weaker than Dec 2019 levels. Long JPY may be a good hedge.
- Sep 29th will see a LDP leadership election and a new PM. Possible delays in fresh fiscal stimulus will not be JPY positive.

ING forecasts (mkt fwd)	1M 111.00 (109.81)	3M 112.00 (109.76)	6M 113.00 (109.63)	12M 115.00 (109.42)

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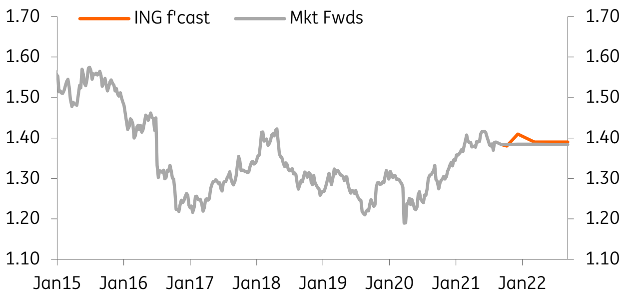
GBP/USD

BoE sounds more confident

Current spot: 1.3842



Source: Refinitiv, ING forecasts

- GBP continues to perform well but further upside may prove increasingly difficult. The first challenge is the pricing of BoE tightening. GBP money markets look like they have 15bp of tightening priced summer 22 and another 25bp by end 23. That would take the Bank Rate to 0.50% and a level where the BoE may shift to 'Quantitative Tightening' – active reduction of the balance sheet. Market pricing of the Bank Rate is sticky at 0.50%
- The second challenge is politics. End September see the exclusion of N.Irish trade expire and could trigger fresh rancour between London and Brussels – leading to the threat of EU tariffs.
- Tighter UK fiscal policy may also start to limit GBP topside.

ING forecasts (mkt fwd)	1M 1.38 (1.3843)	3M 1.41 (1.3843)	6M 1.39 (1.3847)	12M 1.39 (1.3839)

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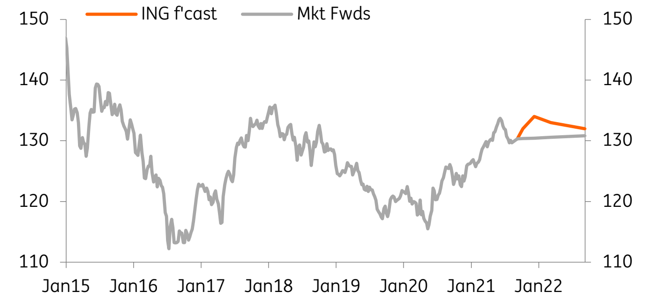
EUR/JPY

Staying supported

Current spot: 130.31



Source: Refinitiv, ING forecasts

- Speculation over possible ECB tapering has seen EUR/JPY more than recoup the early August sell-off. As above, it may be too early for the ECB to taper and thus EUR/JPY risks a move sub 130. But overall, we are mildly pro-risk and bullish EUR/JPY into 2022
- The FX options market provides some insights into how markets price event risks. ECB meetings normally see 50% more volatility than normal priced in. German elections Sep 26th see 30-40% more volatility than normal. The big deal is French elections next year where 4X normal volatility is priced for late April 2022.
- Probably there will be some short, sharp equity correction in 4Q21 (Chinese default?), but we suspect EUR/JPY dip is bought.

ING forecasts (mkt fwd)	1M 132.00 (130.35)	3M 134.00 (130.45)	6M 133.00 (130.56)	12M 132.00 (130.80)

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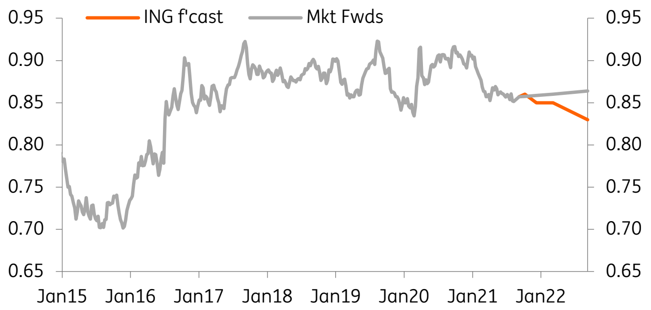
EUR/GBP

BoE makes the difference

Current spot: 0.8571



Source: Refinitiv, ING forecasts

- EUR/GBP did not trade below 0.85 for very long at all in August. Even though we think EUR/GBP will head closer to medium term fair value near 0.82 in 2022, the coming months could see EUR/GBP a little more vulnerable to the upside.
- The ECB may struggle to find a message to keep EUR bond yields from rising and as above GBP rates could be capped by views that the BoE terminal rate is not much above 0.5%. Late September & late October event risks could also see EUR/GBP briefly spike to the 0.8670 area.
- Hard to predict is an equity correction. Sep. is typically a difficult month for equities. GBP under-performs should a sell-off be seen.

ING forecasts (mkt fwd)	1M 0.86 (0.8575)	3M 0.85 (0.8584)	6M 0.85 (0.8600)	12M 0.83 (0.8638)

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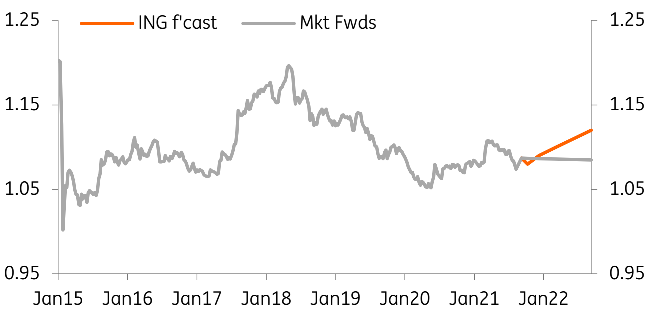
EUR/CHF

ECB speculation gives SNB a helping hand

Current spot: 1.0871



Source: Refinitiv, ING forecasts

- EUR/CHF has turned around smartly from lows near 1.07 seen in August. Yes, it looks like the SNB has been intervening again (perhaps by CHF3bn in August and CHF15bn since May), but the bigger support has probably come from speculation that the ECB might reduce emergency PEPP on September 9th.
- Tapering from the ECB is far from guaranteed and the risk is that EUR/CHF could dip again in September, typically a rocky month for equities. Expect the SNB meeting of Sep 23rd to see policy unchanged – i.e. -0.75% policy rate and ongoing FX intervention.
- The SNB does note that CHF is not as highly valued as 2011 or 2015. SNB might not throw the kitchen sink at EUR/CHF until 1.03.

ING forecasts (mkt fwd)	1M 1.08 (1.0868)	3M 1.09 (1.0864)	6M 1.10 (1.0859)	12M 1.12 (1.0848)

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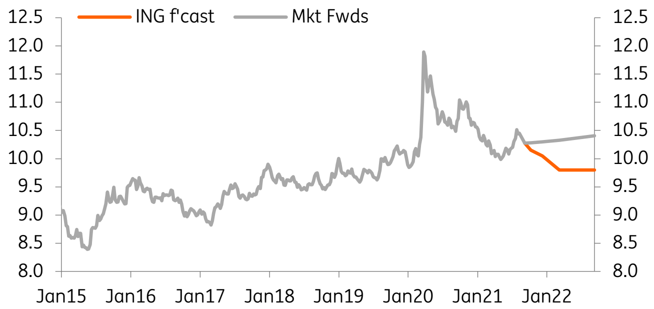
EUR/NOK

Krone's good momentum may continue



Source: Refinitiv, ING forecasts

Current spot: 10.27

- NOK has been a major outperformer in the past two weeks, as the first hints of stabilisation in risk sentiment allowed the krone to finally see some benefits from its solid fundamentals.
- The Norges Bank announced they will most likely start hiking at the 23 September meeting, and we expect them to hike once again in December, in line with their latest rate-path projections.
- Developments on the epidemic side globally hold the keys for another sustained rally in NOK. But should the Delta-variant's drag be mostly felt in Asia, and should European countries refrain from imposing new restrictions, the krone may be less vulnerable than other pro-cyclicals, especially if – as we expect – oil prices remain resilient. We still target 10.00 in EUR/NOK by year-end.

ING forecasts (mkt fwd)	**1M** 10.15 (10.28)	**3M** 10.05 (10.30)	**6M** 9.80 (10.33)	**12M** 9.80 (10.40)

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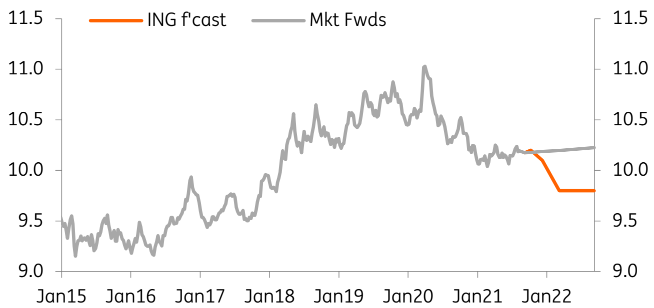
EUR/SEK

Riksbank still unlikely to turn into a SEK positive



Source: Refinitiv, ING forecasts

Current spot: 10.17

- EUR/SEK has retracted to the 10.20 region after peaking in mid-August, largely thanks to the general recovery in risk sentiment.
- Still, SEK is struggling to emerge as an outperformer among other activity currencies, mostly due to its unattractive carry. This is unlikely to change soon as the Riksbank is still facing a very subdued inflation profile and should therefore stick to its very dovish tone for the foreseeable future.
- Given SEK's exposure to the broad European sentiment, the ability of the region to weather the recent Covid wave without hampering the recovery will be an important factor for the krona to stay bid. A move to 10.05 by year-end is still possible.

ING forecasts (mkt fwd)	**1M** 10.200 (10.18)	**3M** 10.100 (10.19)	**6M** 9.800 (10.20)	**12M** 9.800 (10.22)

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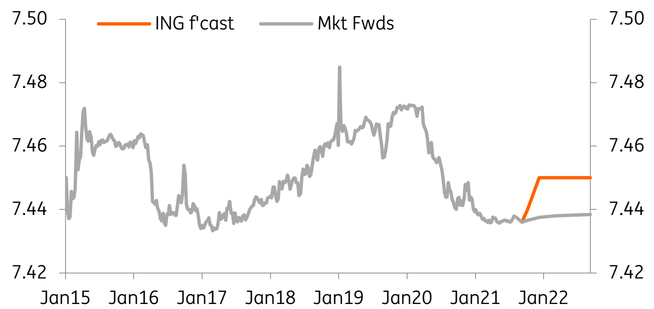
EUR/DKK

DN rate cut looking less likely



Source: Refinitiv, ING forecasts

Current spot: 7.436

- After having intervened in the FX market for a net total of DKK 50bn in the previous six months to defend the EUR/DKK floor, the Danish central bank made no FX interventions in August.
- Many had started to speculate that the DN would have eventually stepped in with a rate cut – likely of 10bp – in fall as the FX intervention tool may have proven unsustainable.
- The lack of interventions in August is likely reducing the risk of rate cut in the coming months, but any fresh selling pressure on EUR/DKK (albeit not our base case) would likely revamp rate-cut expectations as the DN will likely act swiftly if there is a material risk of the pair slipping below the 7.4350 floor.

ING forecasts (mkt fwd)	**1M** 7.440 (7.437)	**3M** 7.450 (7.438)	**6M** 7.450 (7.438)	**12M** 7.450 (7.438)

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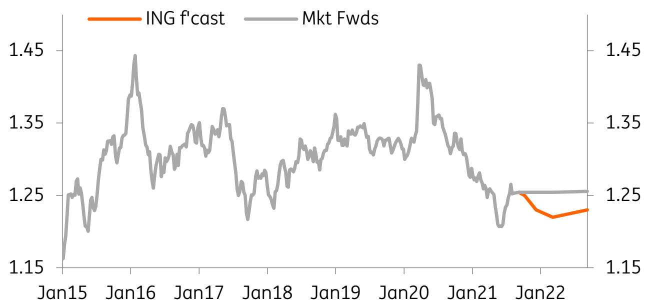
USD/CAD

Domestic drivers now less supportive for the loonie **Current spot: 1.254**



Source: Refinitiv, ING forecasts

- The Canadian economy surprisingly contracted in 2Q, showing a deeper impact of the Covid wave. Meanwhile, the snap elections set for 20 Sept. are adding some uncertainty as PM Trudeau's Liberal Party may not secure a full parliament majority.
- Markets are starting to speculate that the BoC will turn more cautious on policy normalisation. We think much will depend on incoming jobs data: should we see a consolidation in employment gains, and adding a 3.7% inflation, we think the BoC will stay on track to end QE by year-end and start hiking in 2H22.
- Despite less supportive domestic drivers at the moment, we still favour USD/CAD below 1.25 in fall, as CAD retains some rate attractiveness and can benefit from fresh search for carry.

ING forecasts (mkt fwd)	1M 1.25 (1.254)	3M 1.23 (1.254)	6M 1.22 (1.254)	12M 1.23 (1.256)

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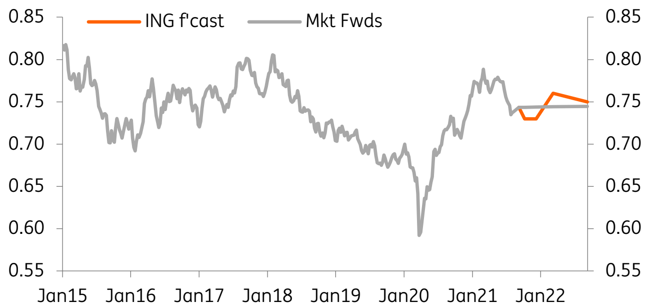
AUD/USD

Downside risks remain meaningful **Current spot: 0.744**



Source: Refinitiv, ING forecasts

- AUD has been on a recovery path lately, cashing in on a rebound in sentiment along with some good employment and GDP data.
- We are, however, reluctant to forecast a stronger AUD heading into year-end, as a number of significant downside risks persist. First, AUD isn't fully pricing in a China slowdown in our view, second, iron ore prices may see another sharp correction given they are still well above the 2020 averages, third, the Australian economy is likely going to feel the drag of recent lockdowns.
- All this ultimately points at an even more cautious RBA and a rate profile that is unlikely to offer any support to AUD should sentiment stabilisation prompt a revamp in carry trades.

ING forecasts (mkt fwd)	1M 0.73 (0.744)	3M 0.73 (0.744)	6M 0.76 (0.744)	12M 0.75 (0.744)

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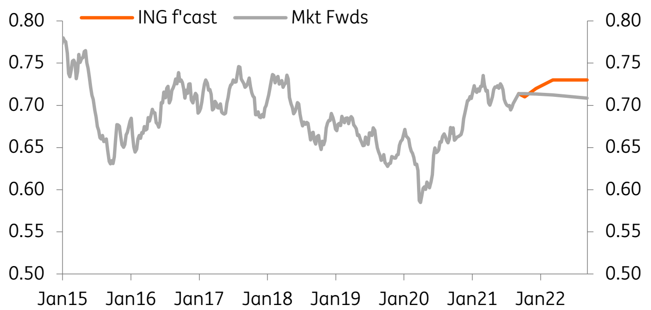
NZD/USD

RBNZ delayed tightening is yet to show all its benefits **Current spot: 0.714**



Source: Refinitiv, ING forecasts

- Unlike AUD, NZD can count on a hawkish central bank to partly shield the downside risks stemming from a slowdown in the Asian – and in particular Chinese – economy. The first rate hike was simply delayed because of the lockdown announcement in NZ: we expect back-to-back 25bp hikes in Oct. and Nov.
- New Zealand is attempting to exit its worst Covid crisis through new strict measures. This time the economic impact may be more tangible than earlier in the pandemic, but we doubt that's enough to derail the RBNZ tightening plans, given a strong employment and inflation backdrop, as well as housing concerns.
- We still think NZD hasn't fully benefitted from the prospect of RBNZ tightening, and the divergence with the RBA may keep driving AUD/NZD closer to parity.

ING forecasts (mkt fwd)	1M 0.71 (0.714)	3M 0.72 (0.713)	6M 0.73 (0.712)	12M 0.73 (0.708)

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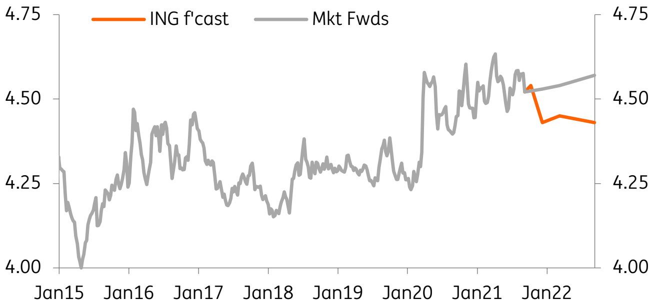
Emerging markets

EUR/PLN

PLN at risk in September, less space for gains in 4Q21

Current spot: 4.52



Source: Refinitiv, ING forecasts

- We see some scope for short-term PLN gains ahead of the September Monetary Policy Council meeting, as CPI surprises support National Bank of Poland rate hikes. The rate meeting may come as a disappointment though, as Chairman Glapiński (the only speaker at the press conference) may reaffirm his dovish bias. Also, with NBP rate hikes already far delayed compared to other CEEs, the zloty seems at risk as soon as €/US$ ceases to rise.
- We scale back the expected €/PLN decline in 4Q21 to 4.42-4.45. MPC comments indicate that the hike cycle is unlikely to exceed market expectations, despite elevated CPI. Moreover, current account data shows a seemingly lasting shrinkage in net trade.

ING forecasts (mkt fwd)	1M 4.54 (4.52)	3M 4.43 (4.53)	6M 4.45 (4.54)	12M 4.43 (4.57)

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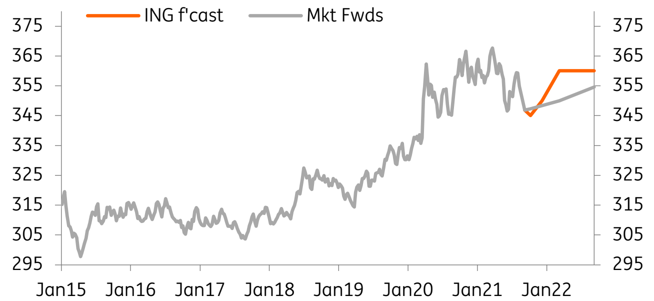
EUR/HUF

HUF to keep gains as central bank maintains hawkishness

Current spot: 346.92



Source: Refinitiv, ING forecasts

- A mild improvement in global risk taking paired with the hawkish National Bank of Hungary translated into a strong month for the forint. After a close to 4% appreciation, EUR/HUF might try to break through 345.
- However, to see that barrier fall, the NBH needs to create some more hawkish surprises, but the bar is quite high as market has already price in a quite strong hiking cycle.
- We might see the base rate at 2.25% by year-end and as the NBH is unlikely to continue its cycle so close to the general election, it might be the terminal rate too. Such an outcome vs market expectations could push the cross back to 355-360.

ING forecasts (mkt fwd)	1M 345.0 (347.30)	3M 350.0 (348.34)	6M 360.0 (349.99)	12M 360.0 (354.55)

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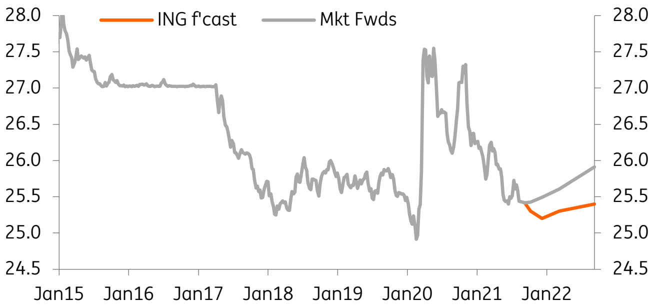
EUR/CZK

CNB hikes supportive but won't lead to CZK rally

Current spot: 25.42



Source: Refinitiv, ING forecasts

- As inflation pressures aren't easing (July CPI at 3.4% and Dec may see 4%), the CNB tightening cycle should continue. We see 3 more 25bp hikes this year, with CNB refraining from a 50bp hike.
- But with market already pricing 84bp of hikes this year, the CNB tightening is unlikely to prompt material CZK strength. We continue to see EUR/CZK at 25.20 in Q4 but not below 25.00
- The Oct parliamentary elections (ANO has regained the lead in the polls) should have a limited impact on CZK, with koruna being historically decoupled with domestic politics. Limits on local commercial banks dividend payments remain in place, meaning that the current account surplus will stay in place this year.

ING forecasts (mkt fwd)	1M 25.30 (25.43)	3M 25.20 (25.49)	6M 25.30 (25.61)	12M 25.40 (25.91)

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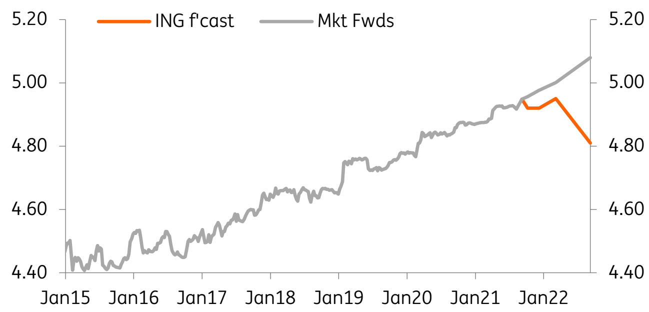
EUR/RON

Testing the upper bound

Current spot: 4.95



Source: Refinitiv, ING forecasts

- After forcing the lower bound during most of August and finding a strong support around 4.91, the EUR/RON is now testing to the upside, where it finds a strong resistance around 4.9350. The increased turnover around this level is indicative of official offers.
- The central bank has resumed its deposit taking operations and carry rates are trading predominantly above the key rate. Should the current depreciation pressure for the leu continue, firmer carry rates can be expected.
- We re-affirm our 4.92 year-end forecast, with the central bank likely to intervene on both sides of the 4.91-4.9350 trading range.

ING forecasts (mkt fwd)	1M 4.92 (4.96)	3M 4.92 (4.98)	6M 4.95 (5.00)	12M 4.81 (5.08)

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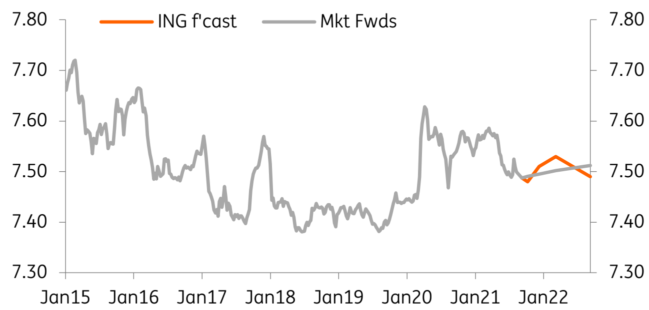
EUR/HRK

Still downside pressure for EUR/HRK

Current spot: 7.49



Source: Refinitiv, ING forecasts

- With the economy recovering faster than expected and the tourism arrivals almost back to 2019 levels, the pressure for the seasonal kuna appreciation is still on.
- The central bank's "highly expansionary" monetary policy is expected to be followed through in the upcoming period as well, translating into a relatively stable exchange rate and interbank liquidity increasing to new records. FX interventions to buy hard currency remain rather likely in the upcoming period, to prevent the pair departing materially from 7.50
- We maintain our year-end EUR/HRK forecasts at 7.53.

ING forecasts (mkt fwd)	1M 7.48 (7.49)	3M 7.51 (7.49)	6M 7.53 (7.50)	12M 7.49 (7.51)

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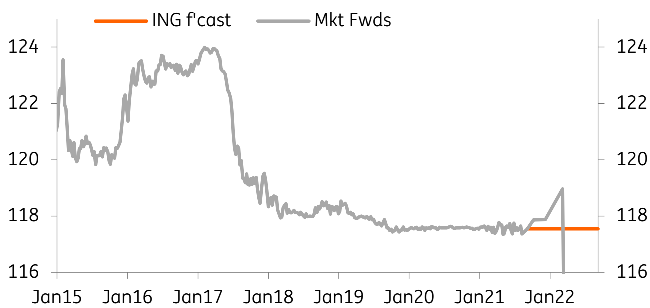
EUR/RSD

NBS accommodating inflows

Current spot: 117.55



Source: Refinitiv, ING forecasts

- The economy continues to outperform most expectations, the 2Q21 growth being revised upward to 13.7%. In parallel, the inflation has been swiftly climbing above NBS's 3.0% target midpoint and should even go above 4.0% in the next couple of quarters. We do not anticipate a policy reaction to the higher inflation before the spring 2022 elections.
- On the FX front the NBS continued to accommodate inflows by buying hard currency (EUR380m have been purchased in July alone - more than in the first six months cumulated) and hence maintaining the dinar stability against the euro.
- We do not envisage the EUR/HRK deviating from the current levels over the 2-year forecast horizon.

ING forecasts (mkt fwd)	1M 117.55 (117.86)	3M 117.55 (117.87)	6M 117.55 (118.96)	12M 117.55 ()

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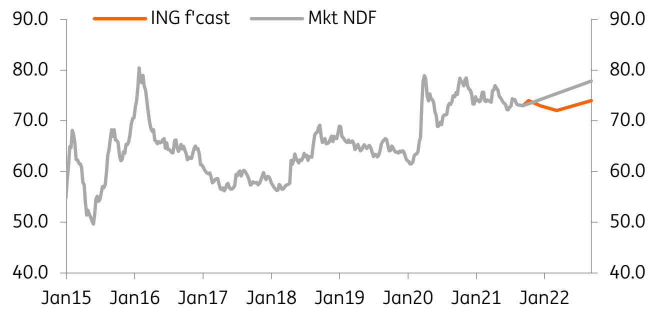
USD/RUB

Constructive view holds ground for now **Current spot: 72.98**



Source: Refinitiv, ING forecasts

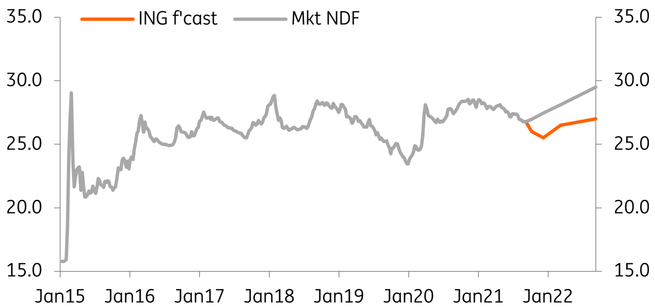
- In August, USDRUB traded in a relatively narrow 73-74 range, in line with our constructive view, as current account in 3Q21 is looking to exceed expectations on both fuel and non-fuel items, while portfolio inflows into OFZ picked up to US$2.5 bn in August from US2.3 bn in July.
- Strong balance of payments allowed ruble to defy its seasonality and avoid weakening in August. At the same time, RUB's performance was slightly weaker than peers', as the country discount slid from 13 to 14% over the month, reflecting elevated local corporate demand for FX amid the dividend period.
- Local factors remain supportive of ruble in the foreseeable future, especially given the expected US$20 bn local investments out of the sovereign fund in 2022-25, but the potential USD strengthening globally is putting a cap on RUB appreciation.

ING forecasts (mkt fwd)	1M 74.00 (73.36)	3M 73.00 (74.15)	6M 72.00 (75.35)	12M 74.00 (77.84)

Dmitry Dolgin, Russia +7 495 771 7994

USD/UAH

Further UAH gains seen in 4Q21; mixed prospects for 2022 **Current spot: 26.78**



Source: Refinitiv, ING forecasts

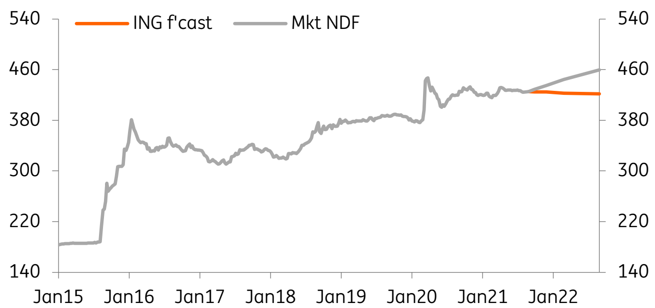
- We see prospects for the hryvnia as mildly positive for the rest of 2021. The National Bank of Ukraine suggests further monetary tightening, given still elevated inflation. Moreover, despite the low inoculation level (8.7% fully vaccinated) the ongoing Covid-19 wave in Ukraine is very tame so far (7-day average of verified cases is below 2,000 compared with over 10,000 in April).
- We expect the central bank to conclude its tightening cycle in 2021 or early 2022. Growth prospects for 2022-23 are poor, as the pandemic remains a major risk and base effects should push CPI down next year. In tandem with renewed US$ gains, this should prevent further UAH gains in 2022.

ING forecasts (mkt fwd)	1M 26.00 (26.99)	3M 25.50 (27.45)	6M 26.50 (28.10)	12M 27.00 (29.50)

Piotr Poplawski, Warsaw +48 22 820 4078

USD/KZT

Tenge pressured by global view, but supported locally **Current spot: 425.40**



Source: Refinitiv, ING forecasts

- Deteriorating EM risk dragged down the USDKZT to our target of 425, while stronger house view on US dollar leads us to worsen the target KZT trajectory for the longer term. However, locally focused factors require some positive adjustments.
- On trade, tenge should remain supported by strong oil price and higher export volumes. Kazakhstan's oil output quota will be up by 16 ths bbl/d per month till the end of 2021. 3Q21 trade surplus should widen to $6.8 bn vs. $3.0 bn in 3Q19.
- On capital flow, tenge should benefit from extra FX sales by the government financing counter-Covid measures (US$1 bn in August). The investors' interest could be supported by the improvement in the ST sovereign rating by Moody's to Baa2 and tight monetary policy stance, suggesting at least 25 bps upside to the key rate from the current 9.0% level.

ING forecasts (mkt fwd)	1M 425.00 (428.83)	3M 425.00 (434.89)	6M 423.00 (444.31)	12M 422.00 (459.80)

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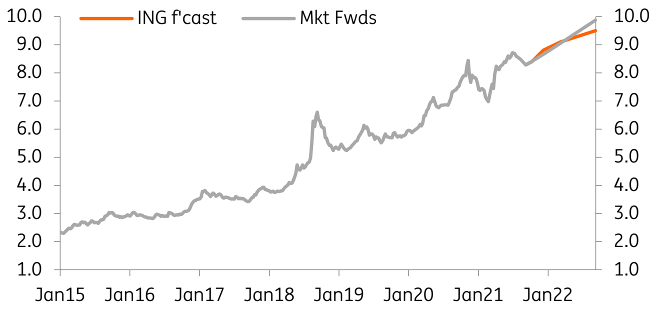
USD/TRY

Headline inflation almost aligned to the policy rate

Current spot: 8.28



Source: Refinitiv, ING forecasts

- TRY has outperformed other EM market peers against USD in the last two months by close to 5% appreciation. This is likely attributable to i) recovery in reserves ii) better capital flow outlook iii) improvement in external balances iv) no rush from the CBT to cut the policy rate v) cheap valuation measured by the REER at the lowest since 1980s.
- For the TRY outlook in the near term, some key risks are: i) inflation overshoot in exceeding the key rate and testing the CBT's resolve to adher its guidance that it will keep policy rate above of both expected and actual inflation rates ii) shifts in global sentiment depending on changing rhetoric of global central banks though latest signals lead to a relatively benign conditions for EM assets.

ING forecasts (mkt fwd)	1M 8.40 (8.40)	3M 8.80 (8.66)	6M 9.10 (9.05)	12M 9.50 (9.87)

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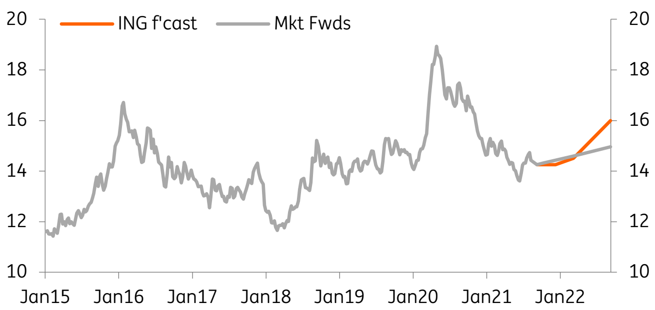
USD/ZAR

ZAR survives cabinet re-shuffle

Current spot: 14.26



Source: Refinitiv, ING forecasts

- Early August proved a rocky period for the Rand, hit by both a cabinet reshuffle and a mini-crash in commodities on China slow-down fears. The Rand's recovery has been spectacular though – the new Finance Minister greeted well and commodities bouncing back. With the external environment slightly positive, USD/ZAR could make a run to the 14.00/14.25 area over coming months.
- Yet domestic growth is weak and the SARB is certainly in no hurry to hike rates. A 3.50% policy rate is quite low relative to South Africa's credit bucket and looks unlikely to be raised soon.
- We would expect the ZAR to struggle a lot more in 2022, when the broad dollar trend turns and rising US yields pressure test EM.

ING forecasts (mkt fwd)	1M 14.25 (14.31)	3M 14.25 (14.43)	6M 14.50 (14.60)	12M 16.00 (14.96)

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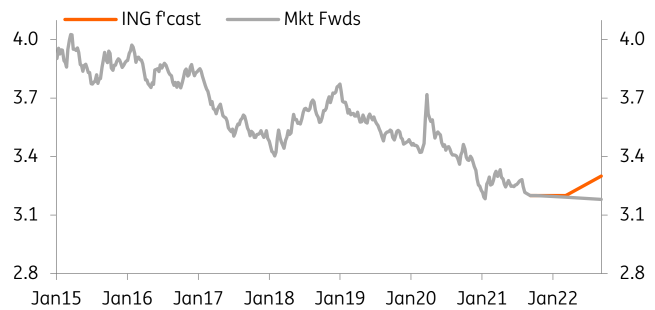
USD/ILS

ILS stays bid through thick and thin

Current spot: 3.20



Source: Refinitiv, ING forecasts

- USD/ILS continues to press the 3.20 area and we will know over coming days how much the BoI spent in August to hold these levels. Overall, the economy is doing well, headline inflation is heading up towards 2% but local policy makers remain wary of the Delta variant and are rolling out third shots.
- We'll also get current account figures for 2Q21 on Sep 14th. 1Q21 saw a $5.4bn surplus, where strong FDI trends provided the boost. The BoI notes that the high-tech sector has raised $15bn already this year versus $10bn in the whole of 2020.
- Israel is a highly rated sovereign with a 5 yr CDS trading inside of 50bp. This should ensure any short-term ILS weakness is limited.

ING forecasts (mkt fwd)	1M 3.20 (3.20)	3M 3.20 (3.20)	6M 3.20 (3.19)	12M 3.30 (3.18)

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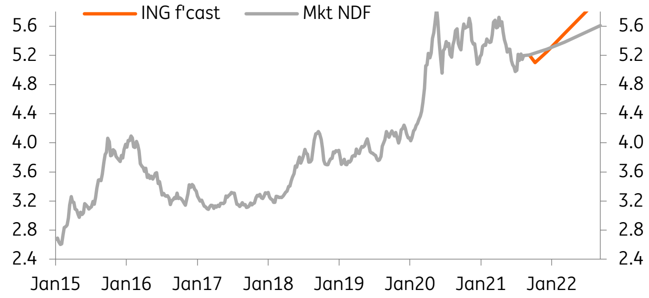
LATAM

USD/BRL

A high risk, high return carry trade

Current spot: 5.21



Source: Refinitiv, ING forecasts

- BRL has had a volatile summer, but is just about surviving. An aggressive central bank is certainly helping, where the policy rate looks set to be raised by 100bp to 6.25% later this month – and the market is pricing rates above 8% in 3 months. Here, BACEN is trying to contain inflation expectations at a time when inflation is running at 9% YoY and faces further pressure from the drought.
- Brazil's terms of trade are coming off the boil a little, but $7bn+ monthly trade surpluses are certainly helping short term too.
- But Brazil faces many headwinds as investors continue to demand fiscal reforms. These may not emerge ahead of elections in late 22. Now should be a good time to hedge BRL risk.

ING forecasts (NDF)	1M 5.10 (5.23)	3M 5.25 (5.28)	6M 5.50 (5.38)	12M 6.00 (5.61)

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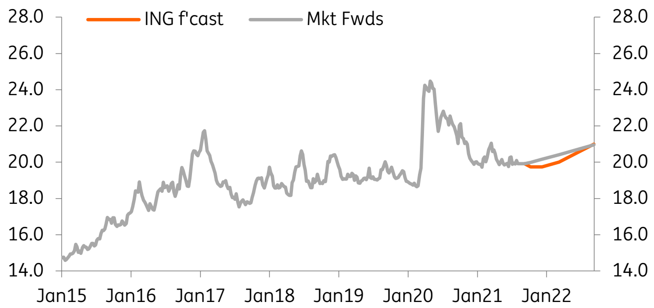
USD/MXN

2 positives: Remittances and sovereign debt pay-down

Current spot: 19.92



Source: Refinitiv, ING forecasts

- After a difficult August when an explosion at an offshore platform shut-down a quarter of Mexico's oil output, the MXN has recovered well. It is still seen as a relatively high-yielder (3m implied yields at 5%+) and expectations are still there that Banxico's tightening cycle is not over. Some dissent may mean that Banxico pauses at 4.50% in September, but two subsequent hikes are priced in for year-end.
- Mexico's sovereign risk is also seen being lifted by plans to reduce debt by $12bn, using the IMF's emergency SDR release.
- Being so dependent on the auto sector, US car production/chip shortages is a point of attention/concern for Mexico.

ING forecasts (mkt fwd)	1M 19.75 (20.00)	3M 19.75 (20.17)	6M 20.00 (20.41)	12M 21.00 (20.97)

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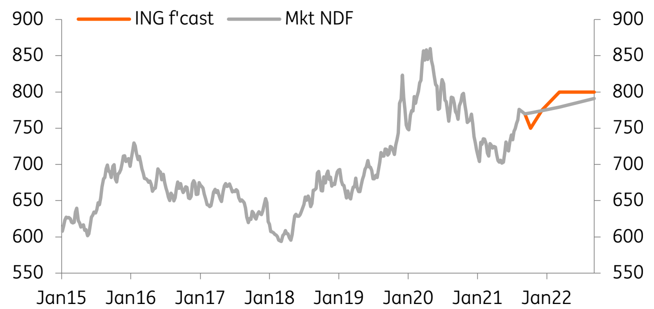
USD/CLP

Over-heating risks prompt large CB response

Current spot: 769.70



Source: Refinitiv, ING forecasts

- Dominating the headlines has been an aggressive 75bp rate hike by Chile's central bank, taking the policy rate to 1.50%. The bank has promised to take the policy rate to neutral (2.50%?) early next year – although the market prices in a more aggressive cycle. Driving the hike is an upward revision in 2021 growth to 11% from 9% - partly driven by the private sector withdrawing $49bn of funds from private pension pots!
- Copper strikes being resolved, strong local growth and further hikes suggest USD/CLP can drift to 750 near term.
- But a contentious Presidential election in November and a tougher external environment in 2022 suggests a return to 800.

ING forecasts (NDF)	1M 750 (771.05)	3M 775 (774.00)	6M 800 (779.00)	12M 800 (791.20)

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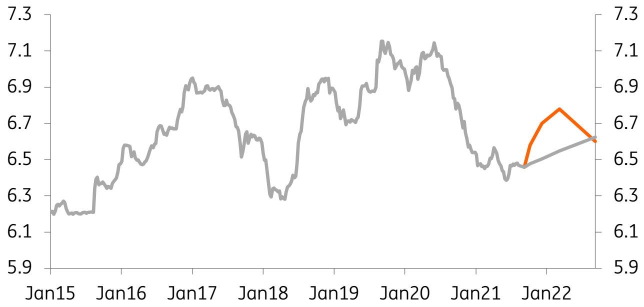
Asia

USD/CNY

Expect depreciation ahead **Current spot: 6.46**



Source: Refinitiv, ING forecasts

- We have revised USDCNY to 6.55 and 6.70 by end of 3Q21 and 4Q21, respectively. The main reason is the divergence of monetary policies between the PBoC and the Fed. The PBoC has started RRR cuts, which successfully supressed market interest rates. We expect that further RRR cuts are likely because of the weakening of the Chinese economy. This contrasts with the Fed's objective of tapering and ultimately interest rate hikes.
- The non-manufacturing PMI in August fell below 50 at 47.5. This unexpected contraction in non-manufacturing activity should trigger supportive measures from the central government, e.g. speed up infrastructure projects.

ING forecasts (mkt fwd)	1M 6.580 (6.48)	3M 6.700 (6.50)	6M 6.780 (6.55)	12M 6.600 (6.62)

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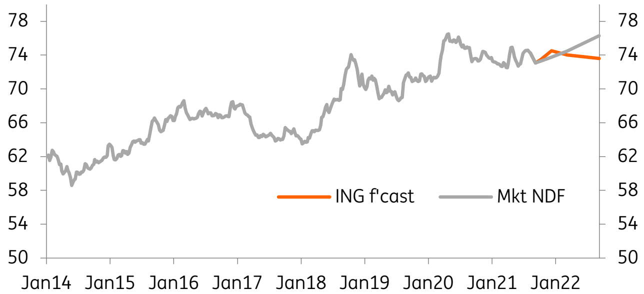
USD/INR

Back to where it began the year, but... **Current spot: 73.08**



Source: Refinitiv, ING forecasts

- With its 1.9% appreciation against the USD, the INR emerged as an Asian outperformer in August. While this leaves the pair where it began the year at around 73.00, we don't rule out renewed depreciation pressure ahead on the back of a weak economy.
- The INR drew its strength from India's record IPO inflows, close to $9 billion YTD, and a sharp fall in global oil prices. The easing by the central bank of norms for banks' investment in foreign sovereign bonds was also positive for greater two-way risk.
- 20.1% YoY GDP growth was the fastest among Asian economies but a -12.7% QoQ fall was the worst. But, still high inflation near the RBI's 6% policy target keeps RBI policy locked for now.

ING forecasts (mkt fwd)	1M 74.00 (73.31)	3M 75.00 (73.75)	6M 74.00 (74.49)	12M 74.00 (76.30)

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USD/IDR

IDR manages to steady to close out August after initial dip **Current spot: 14222.50**

Source: Refinitiv, ING forecasts

- The IDR tracked regional weakness early in August as Indonesian authorities extended partial mobility curbs in Java and Bali to slow the spread of Covid-19 infections.
- Bank Indonesia (BI) kept policy rates unchanged at the 19 August meeting. Governor Warjiyo maintained his "pro-growth" stance citing subdued inflation due to soft demand. We expect BI to be on hold for the balance of the year.
- We expect the IDR to face depreciation pressure in the coming months in the event that the Fed's eventual tapering shifts risk sentiment and also as concerns about the government's "burden sharing" arrangement may come under more scrutiny.

ING forecasts (mkt fwd)	1M 14450 (14260.00)	3M 14693 (14337.50)	6M 14932 (14452.50)	12M 14967 (14715.00)

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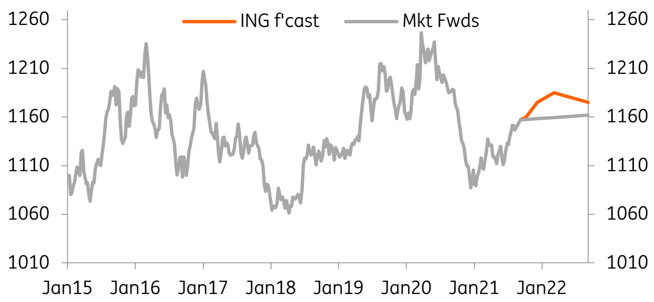
USD/KRW

More hikes ahead?

Current spot: 1156.95



Source: Refinitiv, ING forecasts

- The BoK was the first central bank in APAC to raise policy rates this year. But this has not helped the KRW. Following robust growth and inflation reports, a further hike this year is probable in October, but rate differentials don't seem to be helping.
- The general trend for Asian FX is softer and may be driven more by CNY moves as the PBoC looks to provide more liquidity. Apart from short term divergence, it is unlikely that the KRW will be able to buck the regional trend for long.
- Korea's better track record on Covid could be viewed as a positive factor, but it is also helping domestic demand suck in imports and shrinking the trade surplus, which does not help.

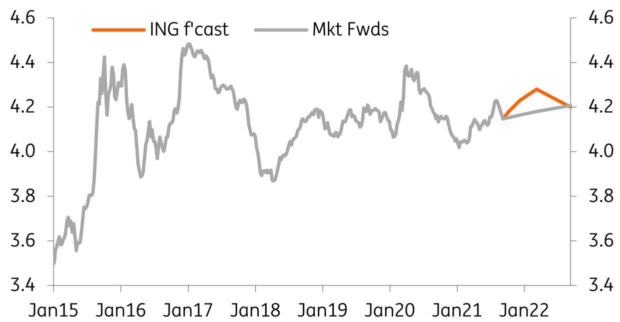
ING forecasts (NDFs)	1M 1160 (1157.49)	3M 1175 (1158.44)	6M 1185 (1159.44)	12M 1175 (1162.04)

Rob Carnell, Singapore +65 6232 6020

USD/MYR

Enjoying relief from political uncertainty

Current spot: 4.15



Source: Refinitiv, ING forecasts

- The MYR joined the ranks of Asian outperformers in August, and a key driver was politics. Just as political risk spiked with the fall of yet another coalition government, it ebbed quickly with the formation of a new one led by PM Ismail Sabri Yaakob.
- But the economy has had no relief from the pandemic. Daily new Covid-19 cases continue around 20,000. 16% YoY 2Q GDP growth was the second-fastest in Asia, but beneath it was a -2% QoQ fall. The easing of restrictions should help avert a technical recession.
- Political stability may pave the way for more fiscal stimulus, but Bank Negara Malaysia's policy will likely remain in the holding pattern that it's been in for more than a year now.

ING forecasts (mkt fwd)	1M 4.180 (4.15)	3M 4.230 (4.17)	6M 4.280 (4.18)	12M 4.200 (4.21)

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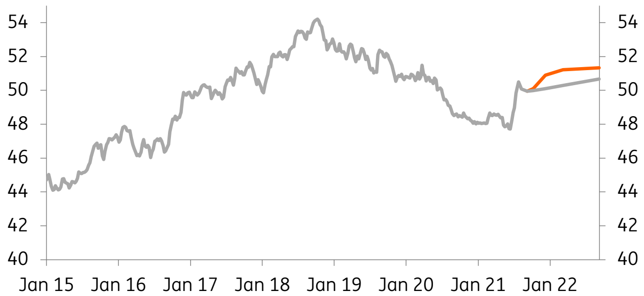
USD/PHP

Volatile trading for PHP on Delta variant impact

Current spot: 49.95



Source: Refinitiv, ING forecasts

- The PHP retreated sharply to open the month on concerns over the spread of the Delta variant with the authorities forced to tighten mobility curbs in the capital region.
- Bangko Sentral ng Pilipinas (BSP) kept policy rates unchanged on 12 August as Governor Diokno reiterated his accommodative stance despite accelerating price pressures emanating from higher oil prices.
- The PHP will likely be on the backfoot in the near-term as the trade deficit has widened, pushing the current account back into deficit while growth concerns linger due to the ongoing partial lockdown.

ING forecasts (mkt fwd)	1M 50.10 (50.00)	3M 50.89 (50.11)	6M 51.21 (50.30)	12M 51.34 (50.68)

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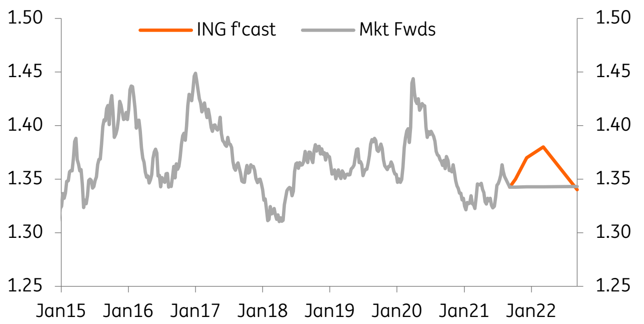
USD/SGD

Brightening outlook yet stable MAS policy

Current spot: 1.342



Source: Refinitiv, ING forecasts

- The SGD's August performance mirrored that in July; bouts of sharp weakness against the USD earlier in the month subsequently pared. Yet, this didn't cause any drift of the S$-NEER away from the mid-point of an estimated MAS policy band.
- The reopening of the economy after nearly two months of Covid-19 restrictions, faster vaccination, and firmer exports point to a GDP bounce back in 3Q from the -1.8% QoQ contraction in 2Q. We have revised our full-year growth forecast to 6.2% from 4.9%.
- As the threat from the Delta variant persists, any macro policy unwinding at the moment could prove premature. We don't think the MAS will be rushing into any change in October.

ING forecasts (mkt fwd)	1M 1.350 (1.342)	3M 1.370 (1.343)	6M 1.380 (1.343)	12M 1.340 (1.343)

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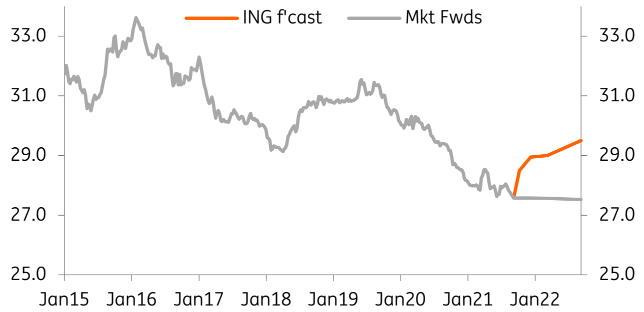
USD/TWD

Social distancing measures still in charge

Current spot: 27.58



Source: Refinitiv, ING forecasts

- The number of Covid cases is coming down and the government has slightly relaxed its social distancing measures, although not eliminated them altogether. This has kept pressure on retail sales. Employment in this sector is still shrinking.
- Taiwanese industrial production growth has continued to fall. Growth was only about 14%YoY in July after nearly 18.4%YoY in June. This is partly because Covid deterred some people from going to work, and also because of the bottlenecks in electronics production. Monthly growth is scant, yearly growth is better, but the help from low base effect is fading, which means upcoming industrial production growth should slow.

ING forecasts (mkt fwd)	1M 28.50 (27.58)	3M 28.95 (27.58)	6M 29.00 (27.57)	12M 29.50 (27.52)

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USD/THB

Back to the top of Asian performance table, but...

Current spot: 32.47

Source: Refinitiv, ING forecasts

- The THB beat all Asian peers in August with a 2% appreciation based on reports of the authorities preparing to live with the pandemic raised hopes of reopening of borders for foreign tourists.
- But, the persistently weak economy may make recent THB strength unsustainable. Of note is the large swing in the current account to a $9.3 deficit in the first seven months from a $12.9 billion surplus in the same period last year.
- The increasing drag from net trade will hold back GDP growth in low single digits. The Bank of Thailand recently cut its 2021 growth view to 0.7% from 1.8%.

ING forecasts (mkt fwd)	1M 33.10 (32.48)	3M 33.80 (32.51)	6M 34.00 (32.56)	12M 33.00 (32.61)

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ING foreign exchange forecasts

EUR cross rates	Spot	1M	3M	6M	12M	USD cross rates	Spot	1M	3M	6M	12M
Developed FX											
EUR/USD	1.19	1.19	1.20	1.18	1.15						
EUR/JPY	130.3	132.09	134.40	133.34	132.25	USD/JPY	109.85	111	112	113	115
EUR/GBP	0.86	0.86	0.85	0.85	0.83	GBP/USD	1.38	1.38	1.41	1.39	1.39
EUR/CHF	1.09	1.08	1.09	1.10	1.12	USD/CHF	0.92	0.91	0.91	0.93	0.97
EUR/NOK	10.27	10.15	10.05	9.80	9.80	USD/NOK	8.66	8.53	8.38	8.31	8.52
EUR/SEK	10.17	10.20	10.10	9.80	9.80	USD/SEK	8.58	8.57	8.42	8.31	8.52
EUR/DKK	7.436	7.440	7.450	7.450	7.450	USD/DKK	6.27	6.25	6.21	6.31	6.48
EUR/CAD	1.49	1.49	1.48	1.44	1.41	USD/CAD	1.254	1.25	1.23	1.22	1.23
EUR/AUD	1.60	1.63	1.64	1.55	1.53	AUD/USD	0.74	0.73	0.73	0.76	0.75
EUR/NZD	1.66	1.68	1.67	1.62	1.58	NZD/USD	0.71	0.71	0.72	0.73	0.73
EMEA											
EUR/PLN	4.52	4.54	4.43	4.45	4.43	USD/PLN	USD/PLN	3.81	3.82	3.69	3.77
EUR/HUF	346.9	345.00	350.00	360.00	360.00	USD/HUF	USD/HUF	292.4	290	292	305
EUR/CZK	25.42	25.3	25.2	25.3	25.4	USD/CZK	USD/CZK	21.41	21.3	21.0	21.4
EUR/RON	4.95	4.92	4.92	4.95	4.81	USD/RON	USD/RON	4.17	4.13	4.10	4.19
EUR/HRK	7.49	7.48	7.51	7.53	7.49	USD/HRK	USD/HRK	6.31	6.29	6.26	6.38
EUR/RSD	117.6	117.6	117.6	117.6	117.6	USD/RSD	USD/RSD	99.1	98.8	98.0	99.6
EUR/RUB	86.58	88.1	87.6	85.0	85.1	USD/RUB	USD/RUB	72.98	74.0	73.0	72.0
EUR/UAH	31.76	30.9	30.6	31.3	31.1	USD/UAH	USD/UAH	26.78	26.00	25.50	26.50
EUR/KZT	504.5	505.8	510.0	499.1	485.3	USD/KZT	USD/KZT	425.4	425	425	423
EUR/TRY	9.82	10.00	10.56	10.74	10.93	USD/TRY	USD/TRY	8.28	8.40	8.80	9.10
EUR/ZAR	16.91	17.0	17.1	17.1	18.4	USD/ZAR	USD/ZAR	14.26	14.25	14.25	14.50
EUR/ILS	3.80	3.81	3.84	3.78	3.80	USD/ILS	USD/ILS	3.20	3.20	3.20	3.20
LATAM											
EUR/BRL	6.18	6.07	6.30	6.49	6.90	USD/BRL	5.21	5.10	5.25	5.50	6.00
EUR/MXN	23.63	23.5	23.7	23.6	24.2	USD/MXN	19.92	19.75	19.75	20.00	21.00
EUR/CLP	913.14	893	930	944	920	USD/CLP	769.70	750	775	800	800
Asia											
EUR/CNY	7.66	7.83	8.04	8.00	7.59	USD/CNY	6.46	6.58	6.70	6.78	6.60
EUR/IDR	16907	17196	17632	17620	17212	USD/IDR	14223	14450	14693	14932	14967
EUR/INR	86.70	87.5	89.4	87.3	84.6	USD/INR	73.08	73.50	74.50	74.00	73.60
EUR/KRW	1372.65	1380	1410	1398	1351	USD/KRW	1156.95	1160	1175	1185	1175
EUR/MYR	4.92	4.97	5.08	5.05	4.83	USD/MYR	4.15	4.18	4.23	4.28	4.20
EUR/PHP	59.27	59.6	61.1	60.4	59.0	USD/PHP	49.95	50.1	50.89	51.21	51.34
EUR/SGD	1.59	1.61	1.64	1.63	1.54	USD/SGD	1.34	1.35	1.37	1.38	1.34
EUR/TWD	32.72	33.9	34.7	34.2	33.9	USD/TWD	27.58	28.5	29.0	29.0	29.5
EUR/THB	38.52	39.4	40.6	40.1	38.0	USD/THB	30.13	30.1	29.9	29.7	29.3

Source: Refinitiv, ING

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