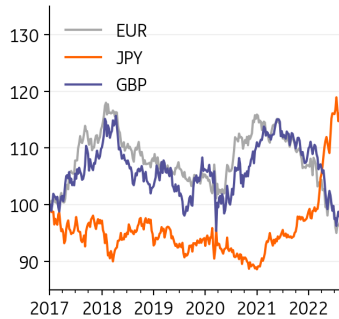


15 August 2022  
FX Strategy

# FX Talking

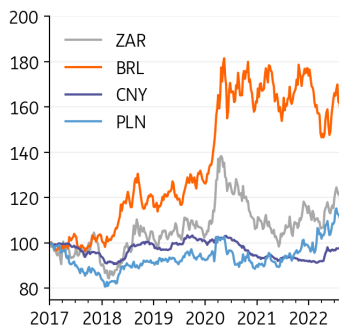
## Curb your peak dollar enthusiasm

USD/Majors (4 Jan 15=100)



Source: Refinitiv, ING forecast

USD/EM (4 Jan 15=100)



The dollar has corrected around 3% from its highs seen last month. This has prompted a few questions about whether the dollar has peaked? Many trading partners would hope that to be the case, but the reality is that the Fed is likely to stay on track with its tightening. We think the dollar is more likely to retest its highs than correct much lower.

Driving this view has been consistent rhetoric from the Fed that it will not be blown off target by some softer activity or price data. In fact, it now looks like US activity is accelerating again as lower gasoline prices leave more dollars in the pockets of US consumers. The 2023 US recession narrative looks a tough one to sell near term.

And rising energy prices should continue to drive a wedge between the exporters of North America and the importers of Europe, meaning a much greater conviction of a recession in Europe. The ECB's second 50bp rate hike on 8 September may well conclude its tightening cycle. Rate spreads and the energy income shock make it a very tough environment for the euro. EUR/USD should therefore drift near parity for much of 2H22.

Elsewhere in Europe, the Swiss franc continues to be guided higher by the Swiss National Bank. Sterling remains vulnerable on recession fears. Beyond some substantial fiscal stimulus, sterling's best hope is that the Bank of England delivers on most of the aggressive tightening currently priced into markets. Surging gas prices also spell trouble for the CEE4 currencies. The Polish zloty in particular looks unlikely to hold recent gains.

Emerging market currencies have enjoyed a mini-renaissance over the last month. But a difficult external environment makes it hard to sustain those rallies until the dollar turns.

### ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.02	→	134	↑	1.20	↓
3M	1.02	↓	132	→	1.19	↓
6M	1.02	↓	128	↓	1.19	↓
12M	1.07	↑	126	↓	1.23	↑

	EUR/GBP		EUR/CZK		EUR/PLN	
1M	0.85	↑	24.60	↑	4.80	↑
3M	0.86	↑	24.80	↑	4.75	→
6M	0.86	↑	24.80	↓	4.67	↓
12M	0.87	↑	24.60	↓	4.65	↓

	USD/CNY		USD/MXN		USD/BRL	
1M	6.68	↓	19.75	↓	5.50	↑
3M	6.70	→	20.50	↑	5.70	↑
6M	6.73	↑	20.50	→	5.75	↑
12M	6.75	↑	20.25	↓	5.90	↑

↑ / → / ↓ indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright

Source: Refinitiv, ING forecast

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RESP ING<GO>

### FX performance

	EUR/USD	USD/JPY	EUR/GBP	EUR/NOK	NZD/USD	USD/CAD
%MoM	-2.5	-1.6	-1.8	-5.3	1.8	-0.6
%YoY	-12.8	20.9	-0.3	-5.6	-8.9	2.5

	USD/UAH	USD/KZT	USD/BRL	USD/MXN	USD/CNY	USD/TRY
%MoM	24.5	3.2	-2.6	8.2	1.0	5.6
%YoY	37.3	11.8	-3.3	38.7	4.4	108.4

Source: Refinitiv, ING forecast

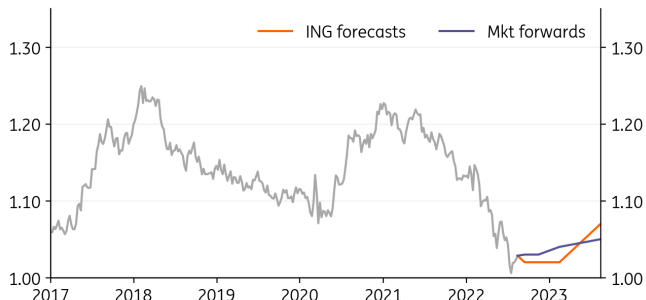


# Developed markets

## EUR/USD

Late cycle economies will keep the dollar bid

Current spot: 1.0241



Source: Refinitiv, ING forecasts

- Defining business cycles has been a hazardous job over recent years, but it looks pretty clear that the US is a late-cycle economy with high inflation and low growth. This stage of the cycle is synonymous with inverted yield curves - which we have today. The dollar typically stays bid in this part of the cycle until convictions grow that the Fed will ease, and US 2-year yields start dropping. That is probably a story for 1Q23 and not today.
- We look for another 125bp of Fed hikes this year and just 50bp from the ECB (in Sep.). Risks look skewed to even higher US rates.
- With Europe entering recession on the back of a looming energy crisis this winter, EUR/USD can stay near the lows for 2H22.

ING forecasts (mkt fwd)	1M 1.02 (1.0258)	3M 1.02 (1.0304)	6M 1.02 (1.0387)	12M 1.07 (1.0523)
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## USD/JPY

Staying supported

Current spot: 133.44



Source: Refinitiv, ING forecasts

- USD/JPY has found some good support under 132 and should stay reasonably supported for 2H22. Expect surveys of the Japanese buy-side in September to show greater allocations towards unhedged foreign bond purchases. US Treasury yields pay 250bp+ over JGBs and it is too expensive to hedge those US bond investments - now 3% p.a. through the 3m JPY forwards.
- The Fed Jackson Hole of Aug 25-27th looks a dollar positive event risk. It is far too early for the Fed to signal the all-clear on inflation. The bigger risk is that 2023 Fed easing is priced out.
- Like the euro, the yen is suffering from the negative terms of trade shock. These indices are at the worst levels of the year.

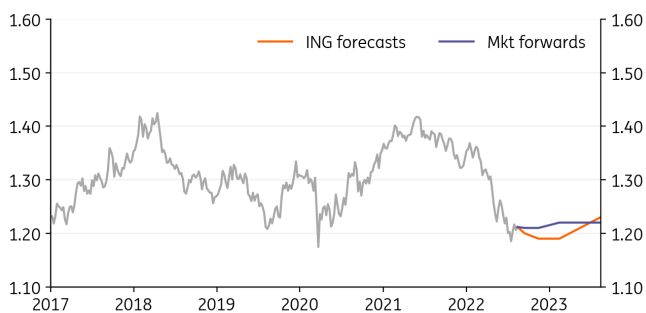
ING forecasts (mkt fwd)	1M 134 (133.08)	3M 132 (132.36)	6M 128 (130.90)	12M 126 (128.20)
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## GBP/USD

Slip-sliding away

Current spot: 1.2098



Source: Refinitiv, ING forecasts

- GBP/USD remains vulnerable on the back of continuing dollar strength and the UK economy trapped by slowing growth and a hawkish Bank of England. The only good news we have seen for sterling recently is that the Bank of Israel plans to double the pound's weighting in its FX reserve portfolio!
- A tricky environment for risk assets in 2H22 - slowing growth, tighter monetary conditions - suggests the growth sensitive pound will struggle.
- The only thing helping it should be the BoE remaining hawkish all year - lifting rates 50bp to 2.25% in September - and at least making sterling an expensive sell. No reprieve for Cable this year.

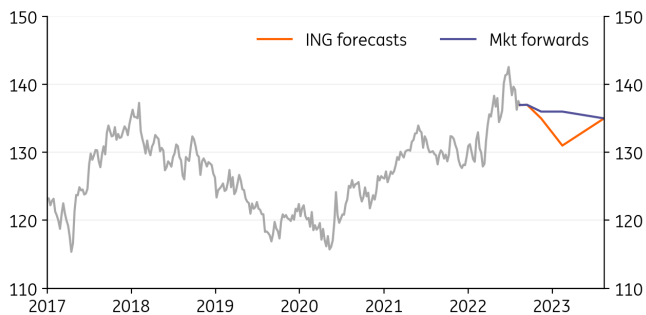
ING forecasts (mkt fwd)	1M 1.20 (1.2102)	3M 1.19 (1.2120)	6M 1.19 (1.2153)	12M 1.23 (1.2189)
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## EUR/JPY

### Downside risks into year-end

**Current spot: 136.66**



Source: Refinitiv, ING forecasts

- EUR/JPY is a low beta story on global growth – which will remain challenged for 2H22. Policymakers will struggle to offset the negative income shock from higher energy prices and on this subject both the euro and yen are in harm's way. The euro probably faces the bigger challenges given Europe's proximity to the war and the euro proving more of growth-sensitive currency.
- Weak growth suggests the ECB's tightening cycle should conclude with its second 50bp hike on 8 September. The trade-weighted euro is on its lows of the year and probably requires a much more hawkish ECB to give it a significant lift.
- The BoJ remains on the sidelines throughout all this.

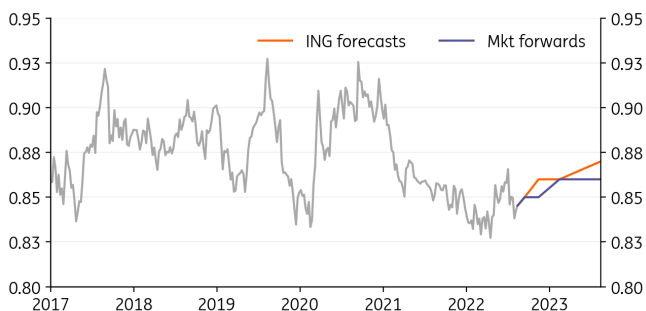
<b>ING forecasts (mkt fwd)</b>	<b>1M 137 (136.60)</b>	<b>3M 135 (136.46)</b>	<b>6M 131 (136.04)</b>	<b>12M 135 (134.98)</b>
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## EUR/GBP

### Problems are not unique to the UK

**Current spot: 0.8466**



Source: Refinitiv, ING forecasts

- The cost-of-living crisis continues to grip the UK at a time of a rudderless government. The Conservative Party should elect their leader in September and one of the first things on the agenda should be fiscal stimulus. More is likely with a Truss than a Sunak government. We suspect that sterling would perform better on the former, leaving concerns about the UK's sovereign debt trajectory to another day.
- The BoE predicts inflation is going to be 13% YoY by year-end and that in 4Q22 the UK could enter five quarters of contraction – if rates are raised to 3%. That seems unlikely.
- EUR/GBP to edge higher, but these problems are not unique to the UK.

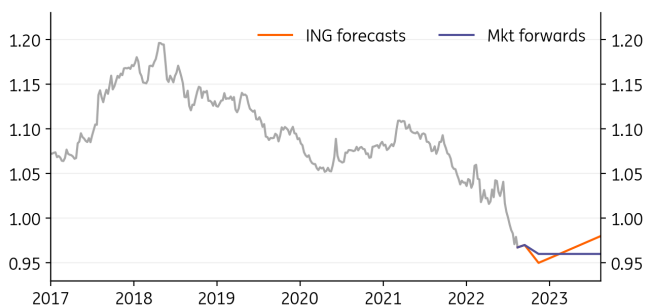
<b>ING forecasts (mkt fwd)</b>	<b>1M 0.85 (0.8481)</b>	<b>3M 0.86 (0.8506)</b>	<b>6M 0.86 (0.8552)</b>	<b>12M 0.87 (0.8638)</b>
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## EUR/CHF

### Brave New World

**Current spot: 0.9660**



Source: Refinitiv, ING forecasts

- After the SNB's 50bp hike in June, EUR/CHF has seen an orderly decline – currently running at around 2/2.5% per month. The modest rise in CHF sight deposits suggests that the SNB may be modestly trying to slow – but not stop the move. Remember this is a brave new world, where the SNB wants Swiss franc appreciation to keep the real exchange rate stable.
- Look for EUR/CHF to grind towards 0.95, with expectations that the SNB match the expected 50bp hike from the ECB in Sep.
- Italian elections on September 25th should also contribute to the EUR/CHF decline. Italian BTP-German Bund spreads could easily widen to 240bp again and keep the CHF in demand.

<b>ING forecasts (mkt fwd)</b>	<b>1M 0.97 (0.9656)</b>	<b>3M 0.95 (0.9650)</b>	<b>6M 0.96 (0.9639)</b>	<b>12M 0.98 (0.9615)</b>
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## EUR/NOK

### A pause for NOK?

**Current spot: 9.85**



Source: Refinitiv, ING forecasts

- The recovery in risk sentiment has fuelled a substantial rebound in the Norwegian krone over the past month and was likely exacerbated by a material unwinding of short positions.
- We are currently calling for 25bp hikes at each of the remaining four meetings of the year by Norges Bank, but the August meeting will be a tight one with risk of 50bp. Despite the worsening outlook in Europe, high energy prices are set to keep shielding the Norwegian economy.
- Despite this, more risk sentiment instability over the short term may keep EUR/NOK above 10.00 into the end of September, before a more stable downward trend starting from 4Q.

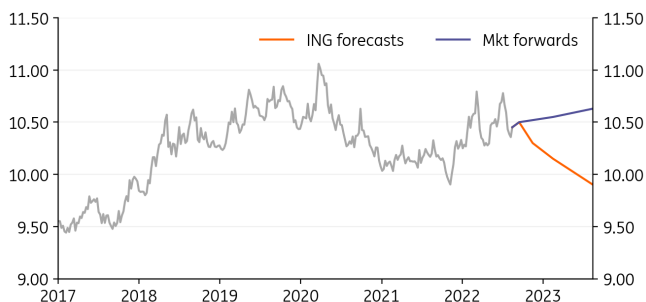
<b>ING forecasts (mkt fwd)</b>	<b>1M 10.00 (9.86)</b>	<b>3M 9.90 (9.89)</b>	<b>6M 9.70 (9.95)</b>	<b>12M 9.40 (10.06)</b>
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## EUR/SEK

### SEK rally may have gone a bit too far

**Current spot: 10.49**



Source: Refinitiv, ING forecasts

- The big rebound in the Swedish krona may have come too early, as its exposure to a worsening economic outlook in the eurozone and high beta to risk sentiment suggest some room for a correction now.
- A 50bp hike by the Riksbank in September appears to be largely priced in for now, and monetary policy may still play a secondary role for EUR/SEK until global risk sentiment stabilises further.
- We see scope for some rebound in EUR/SEK to the 10.50 area (driven by a SEK correction) over the coming weeks. Later on, the Riksbank-ECB rate differential still points at some weakness in the pair, but a return to sub-10.00 levels may need to wait for some improvement in EU sentiment in 2023.

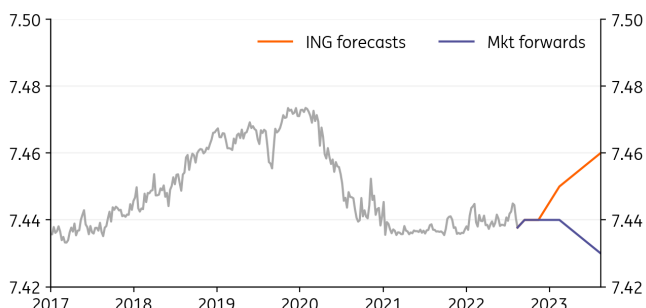
<b>ING forecasts (mkt fwd)</b>	<b>1M 10.50 (10.50)</b>	<b>3M 10.30 (10.52)</b>	<b>6M 10.15 (10.55)</b>	<b>12M 9.90 (10.63)</b>
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## EUR/DKK

### DN set to keep following the ECB

**Current spot: 7.4385**



Source: Refinitiv, ING forecasts

- Denmark's National bank refrained from doing FX interventions also in July but is probably watching the drop in EUR/DKK of the past few days with some concern.
- Should we see a re-test of the lows in the peg's tolerance band, expect FX interventions to remain the first and preferred line of action over monetary policy moves. For now, we see no reasons to doubt that the DN will continue to hike perfectly in line with the ECB.
- We forecast EUR/DKK to stay at 7.44 into the new year (in line with our revised EUR/USD forecast), but a return to 7.45-7.46 looks more than possible next year.

<b>ING forecasts (mkt fwd)</b>	<b>1M 7.44 (7.4383)</b>	<b>3M 7.44 (7.4373)</b>	<b>6M 7.45 (7.4359)</b>	<b>12M 7.46 (7.4307)</b>
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## USD/CAD

Waiting for some carry effect

Current spot: 1.2832



Source: Refinitiv, ING forecasts

- The Bank of Canada hiked by 100bp at the last meeting, but we expect a more moderate pace of tightening from now on. Our base-case is a 50bp hike in September (markets currently pricing in 58bp).
- Indeed, the BoC frontloaded tightening should leave the loonie with some decent carry advantage, but we still expect such advantage to fully materialise beyond the short term once market sentiment has stabilised.
- At the same time, CAD continues to look less vulnerable than other commodity currencies due to lower exposure to Russia and China risks. Barring another big correction in oil prices, a move below 1.25 by year-end in USD/CAD still looks on the cards.

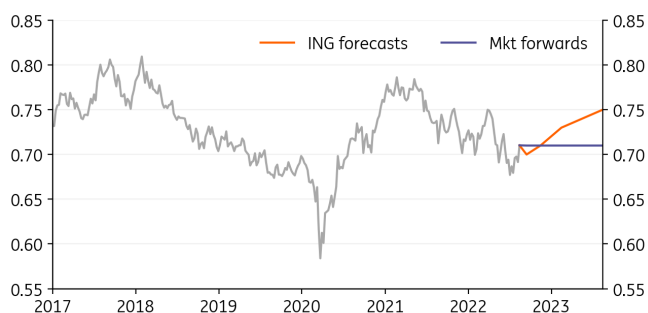
ING forecasts (mkt fwd)	1M 1.28 (1.2835)	3M 1.25 (1.2836)	6M 1.22 (1.2828)	12M 1.21 (1.2815)
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## AUD/USD

Still not breaking free

Current spot: 0.7073



Source: Refinitiv, ING forecasts

- The larger-than-expected (50bp) rate hike by the Reserve Bank of Australia failed to lift AUD further as markets seemed to over-interpret the message that inflation could be close to its peak. On Friday, the Bank released its projections, and signalled a 3.0% cash rate in December, which is what markets are currently pricing in. However, data dependency is the name of the game now.
- While the RBA may prove a relatively neutral factor for AUD for the time being, there are lingering downside risks stemming from potential fresh instability in the global risk environment and more grim data coming from China.
- We suspect that any sustained recovery to the 0.72-0.73 region in AUD/USD would need to wait until 4Q.

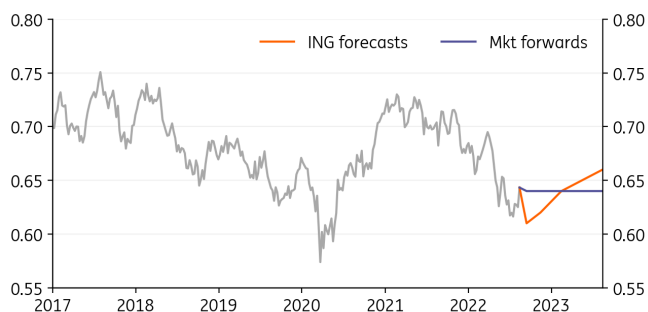
ING forecasts (mkt fwd)	1M 0.70 (0.7075)	3M 0.71 (0.7081)	6M 0.73 (0.7087)	12M 0.75 (0.7083)
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## NZD/USD

Watch for a dovish tilt by the RBNZ

Current spot: 0.6396



Source: Refinitiv, ING forecasts

- We see some non-negligible risk that the Reserve Bank of New Zealand will have to revise its rate path projections lower at the August 17th meeting. Even if the RBNZ hikes by 50bp (as per our base case scenario and market expectations) the downside risks from a dovish repricing are quite material for the Kiwi dollar.
- When combining it with a not very supportive external environment (mostly related to the re-rating of China's growth expectations) we suspect NZD/USD will struggle to hold onto recent gains over 0.64 over coming weeks.
- Our base case is a return to 0.64 by year-end in NZD/USD, largely due to some potential USD weakness much later in the year.

ING forecasts (mkt fwd)	1M 0.61 (0.6395)	3M 0.62 (0.6394)	6M 0.64 (0.6393)	12M 0.66 (0.6388)
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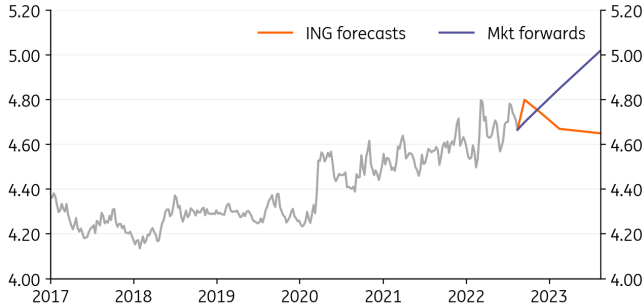


# Emerging markets

## EUR/PLN

Another PLN sell-off may come after the summer

Current spot: 4.6665



Source: Refinitiv, ING forecasts

- A rise in costs of financing positions against the zloty (FX swaps) and lower volatility during the summer have forced investors to largely trim positions against the PLN. The fundamentals are unchanged though, ie, a high risk of a recession in Europe and significantly softened NBP rhetoric. This may trigger another wave of PLN selling in late August / early September.
- Longer term prospects of the zloty largely hinge on general CEE sentiment and the dollar (negative correlation of CEE FX and USD has been particularly strong this year). We expect the NBP to reluctantly continue its hiking cycle, offering some support for the zloty, particularly when key central banks end their cycles.

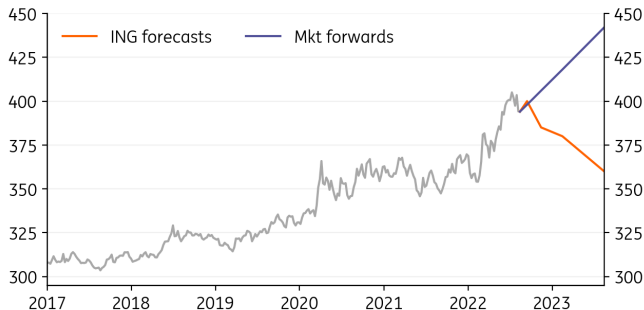
ING forecasts (mkt fwd)	1M 4.80 (4.6992)	3M 4.75 (4.7597)	6M 4.67 (4.8538)	12M 4.65 (5.0160)
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## EUR/HUF

A deal with the EU will free up the potential in HUF

Current spot: 394.69



Source: Refinitiv, ING forecasts

- In slow summer trading, EUR/HUF was able to move back to 392 due to the hawkish NBH, the rising rate differential and improving risk sentiment. However, the calm didn't last long.
- The latest stop in oil supply proved that HUF is still vulnerable to energy and geopolitics. As we see this as a temporary issue, EUR/HUF might be able to move back to the August lows soon.
- We continue to watch headlines (probably late September, early October) signalling a turnaround in the EU funds disputes that should unlock the hidden potential of the forint. The second round of the forint recovery will be fuelled by the CEE's highest positive real interest rate in 1H23.

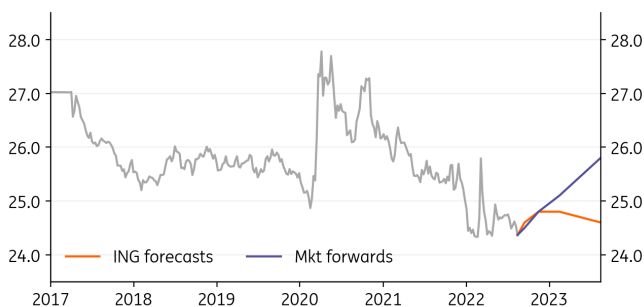
ING forecasts (mkt fwd)	1M 400 (398.38)	3M 385 (405.74)	6M 380 (417.53)	12M 360 (441.79)
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## EUR/CZK

The end of FX interventions is not on the table

Current spot: 24.39



Source: Refinitiv, ING forecasts

- The CNB left rates unchanged at [last meeting](#). Although we have not heard from the new board on its approach to FX intervention, it is clear that the end of intervention is not on the table.
- According to [our estimates](#), the CNB has spent around EUR23.6bn (15% of FX reserves) in defending the koruna since mid-May, which we believe is still far from the new board's pain threshold. Moreover, the latest [lower-than-expected](#) inflation has added to the credibility of monetary policy, which should provide calm in the FX market at least until the next CPI in the first half of Sep.
- Overall, we believe that FX intervention will continue around the 24.60-24.70 EUR/CZK levels, and we expect the koruna to return closer to these levels.

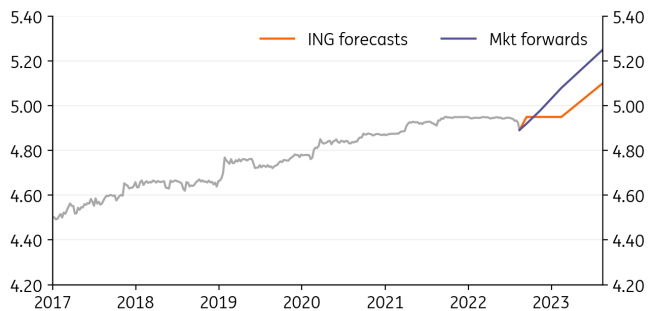
ING forecasts (mkt fwd)	1M 24.6 (24.53)	3M 24.8 (24.80)	6M 24.8 (25.13)	12M 24.6 (25.75)
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## EUR/RON

### Seasonal inflows and increased ROMGBs interest

**Current spot: 4.8770**



Source: Refinitiv, ING forecasts

- In its August Inflation Report presentation, NBR Governor Isarescu stated that the current FX stability path will be maintained for “as long as needed”, adding that costs for this stability have been “existent but bearable”.
- Seasonal inflows have propped the leu recently, a pattern boosted also by an increased interest in Romania government bonds, with some buying flows possibly being financed through selling EUR/RON.
- The liquidity shortage remained large in July, close to RON10bn. This continues to keep market rates very much decoupled from the NBR’s key rate and even from the credit facility.

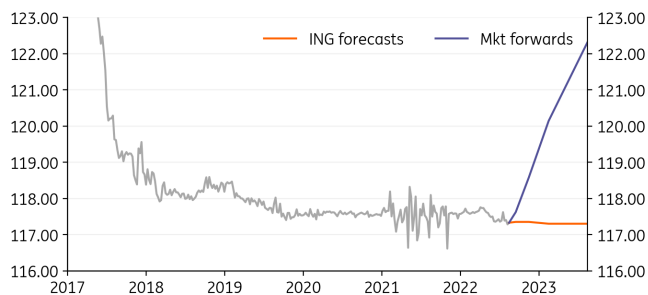
<b>ING forecasts (mkt fwd)</b>	<b>1M 4.95 (4.9192)</b>	<b>3M 4.95 (4.9816)</b>	<b>6M 4.95 (5.0779)</b>	<b>12M 5.10 (5.2487)</b>
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**Valentin Tataru, valentin.tataru@ing.com**

## EUR/RSD

### Increased – but still limited – flexibility

**Current spot: 117.36**



Source: Refinitiv, ING forecasts

- Somewhat surprisingly, the National Bank of Serbia decided to reduce the tightening pace in July, increasing the key rate by only 25bp to 2.75%. This came despite inflation reaching 11.9% in June – which is likely not yet the peak of this inflation cycle.
- The NBS bought EUR405m in June, as monthly inflows are getting close to the good old days in 2019. While we expect most of the inflows to be absorbed by the NBS, consolidating the recent gains of the dinar could be also an objective.
- We maintain our estimate for the key rate to reach 3.50% by the end of 2022, though risks are mildly skewed for a lower rate. A long pause should follow, likely throughout most of 2023.

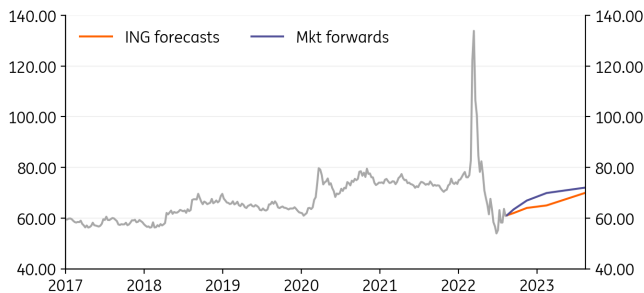
<b>ING forecasts (mkt fwd)</b>	<b>1M 117.35 (117.62)</b>	<b>3M 117.35 (118.58)</b>	<b>6M 117.30 (120.14)</b>	<b>12M 117.30 (122.32)</b>
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**Valentin Tataru, valentin.tataru@ing.com**

## USD/RUB

### Weaker trade balance needed to assure RUB depreciation

**Current spot: 61.12**



Source: Refinitiv, ING forecasts

- USD/RUB ended July in the 64.5-65.0 range, in line with our expectations, before dropping to 60.0-60.5 in August ahead of the new tax period, also highlighting intra-month volatility.
- Current account surplus remained at a colossal US\$28bn in July despite some recovery of imports from China, as the effect of lower Urals prices in July has yet to show itself in August trade figures.
- The balance of payments continues to favour rouble appreciation in the medium term, forcing us to expect RUB60/USD at the end of 3Q22. However, the EU embargo, which kicks in later this year, should bring the rouble back on a depreciation track in 4Q22.

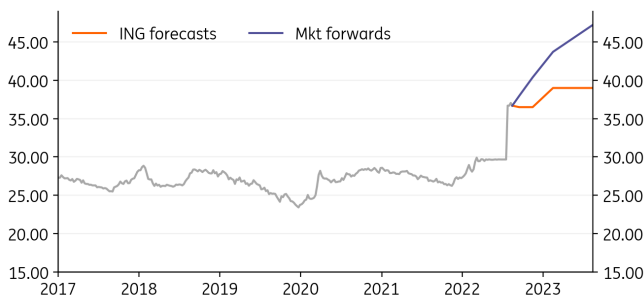
<b>ING forecasts (mkt fwd)</b>	<b>1M 62.00 (63.44)</b>	<b>3M 64.00 (66.92)</b>	<b>6M 65.00 (69.90)</b>	<b>12M 70.00 (72.05)</b>
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## USD/UAH

### NBU allows hryvnia to adjust lower

**Current spot: 36.93**



Source: Refinitiv, ING forecasts

- A significant drop in FX reserves forced the National Bank of Ukraine to allow for a significant depreciation of the hryvnia. As the war of attrition rages on, Ukraine will be increasingly reliant on foreign aid and borrowing from abroad to keep its economy running and defend the currency. While this should be enough to stabilize USD/UAH in short / medium term, risks for 4Q22 and 2023 remain significant.
- While we still expect the hryvnia to gain after the conflict ends (eg, benefiting from further inflow of foreign aid), the resolution of the war seems nowhere near. Moreover, the ongoing devastation of Ukraine's civilian infrastructure will greatly undermine long-term economic prospects.

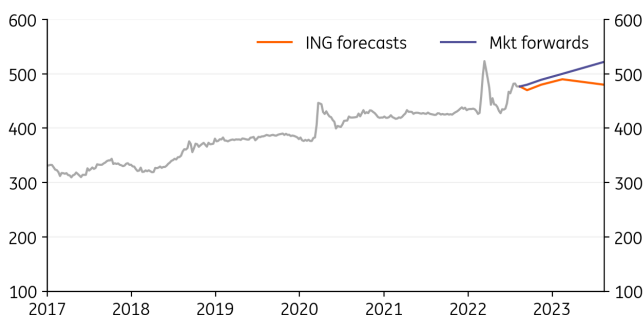
<b>ING forecasts (mkt fwd)</b>	<b>1M 36.50 (37.96)</b>	<b>3M 36.50 (40.39)</b>	<b>6M 39.00 (43.72)</b>	<b>12M 39.00 (47.26)</b>
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## USD/KZT

### 450-500 range remains on balance of two-way risks

**Current spot: 475.86**



Source: Refinitiv, ING forecasts

- USD/KZT weakened to 475-480 (-1.5% since the end of June), in line our expectations. In addition to geopolitical pressure and lower oil prices, the tenge was pressured by local demand for FX related to dividends (c.US\$0.5-1bn, or up to 20% of daily USD turnover) and holiday season.
- The risk of suspension of oil transit through Russia did not materialize, meaning oil exports will reach US\$4.3-4.5 bn/month (at US\$90-100 Brent) in 3Q22 vs. US\$4.0bn/month in 2Q22, despite maintenance on two oil fields in August-September.
- Tenge's fair value is around USD/KZT530-550, also due to strong USD environment, but the actual forecast range is 450-500 in the medium term based on Kazakhstan's strong current account and efforts to expand traffic on "Middle corridor" between China and EU - and to attract more foreign investments.

<b>ING forecasts (mkt fwd)</b>	<b>1M 470 (480.47)</b>	<b>3M 480 (488.80)</b>	<b>6M 490 (500.06)</b>	<b>12M 480 (521.82)</b>
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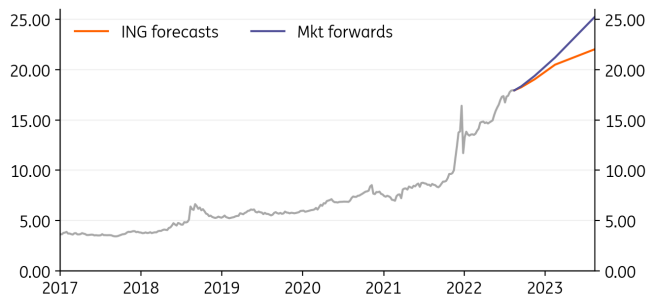
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## USD/TRY

### Stabilization in reserves lately

**Current spot: 17.96**



Source: Refinitiv, ING forecasts

- We see a stabilization in net reserves (excl. swaps) recently thanks to a wave of measures from late April onwards. However, ongoing widening pressures on the current account and subdued capital flows imply the possibility of further drawdown in reserves and hence more regulatory steps to support flows to reserves.
- July inflation showed a continuation of challenges with still high pricing pressures. We expect inflation to peak in the 85-90% range in October, before a decline to around 70% at year-end, while risks are on the upside given deterioration in pricing behaviour, impact of exchange rate developments and higher trend inflation. Currency moves will remain key for the inflation outlook.
- The global risk mode and inflation expectations locally in an environment of negative real rates will determine TRY moves.

<b>ING forecasts</b> (mkt fwd)	<b>1M 18.25</b> (18.34)	<b>3M 19.05</b> (19.39)	<b>6M 20.50</b> (21.21)	<b>12M 22.05</b> (25.29)
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## USD/ZAR

### Relief rally

**Current spot: 16.29**



Source: Refinitiv, ING forecasts

- As for the EMFX complex as a whole, the rand has done a lot better over the last month than we thought. That looks largely a function of the external environment. The scope for a stronger dollar into year-end and further growth challenges in Europe (and maybe China too) makes up sceptical of chasing ZAR higher.
- Last month the SARB sped up the pace of hikes to 75bp – taking the policy rate to 5.50%. That is still below headline inflation above 7% and does not offer too much protection to the ZAR. The projected 2% of GDP current account surplus is not large.
- ZAR remains a very high beta currency and unless one expects current benign conditions to stay all year, ZAR should turn lower.

<b>ING forecasts</b> (mkt fwd)	<b>1M 16.75</b> (16.34)	<b>3M 18.00</b> (16.43)	<b>6M 17.75</b> (16.56)	<b>12M 17.25</b> (16.83)
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## USD/ILS

### Impressive shekel strength

**Current spot: 3.2363**



Source: Refinitiv, ING forecasts

- We like the shekel on a long-term basis and have this year been forecasting \$/ILS trading below 3.00 next year. But the \$/ILS drop over the last six weeks has been much faster and earlier than we were thinking. Driving that is probably the bounce in equities (particularly tech) and the broad turn in the dollar.
- We had thought the Bol might choose to sell some FX reserves at 3.50 earlier this year – but according to the July FX reserve data there were no signs of that at all. Instead, expect strong BoP data to keep ILS supported, with \$/ILS now probably trading 3.20-3.30.
- Recently the Bol announced a FX reserve shake-up or more like catch-up. It plans to add AUD, CAD, JPY & CNY to its reserve mix.

<b>ING forecasts</b> (mkt fwd)	<b>1M 3.25</b> (3.2329)	<b>3M 3.25</b> (3.2193)	<b>6M 3.25</b> (3.1950)	<b>12M 3.10</b> (3.1579)
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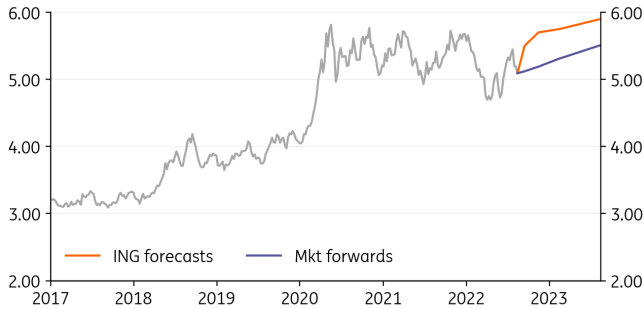


# LATAM

## USD/BRL

### Inflation and policy rates top out

**Current spot: 5.0720**



Source: Refinitiv, ING forecasts

- Benign global conditions over the last month have seen investors return to EM. On the bond side, most in demand will be debt markets offering high yields and amidst signs that tightening cycles are over. Investors now think BACEN has probably concluded its tightening cycle at 13.75% (risk of one final move to 14%) helped by inflation topping at 12% YoY. July saw inflation drop to 10% YoY on government tax measures.
- Fiscal intervention has not hit Brazil's sovereign risk yet, where the 5-year CDS has dropped to 253bp from a high of 331bp.
- Contentious elections, (first round Oct 2nd, second round Oct 30th) could upset the real later in 4Q22. Real to remain fragile.

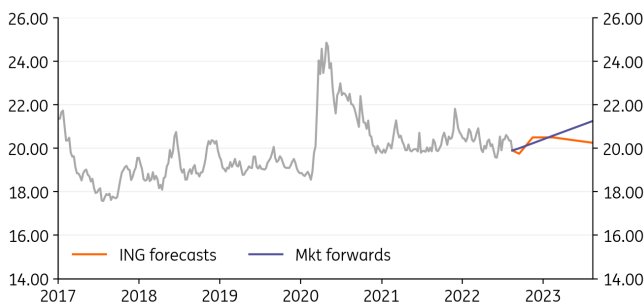
<b>ING forecasts (mkt fwd)</b>	<b>1M 5.50 (5.1178)</b>	<b>3M 5.70 (5.1932)</b>	<b>6M 5.75 (5.3107)</b>	<b>12M 5.90 (5.5106)</b>
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## USD/MXN

### Peso remains a good candidate for the carry trade

**Current spot: 19.88**



Source: Refinitiv, ING forecasts

- Quieter conditions in August and declines in the expected levels of volatility are encouraging some demand for high yield currencies. Here MXN implied yields through the 3m forwards are near 10% and with Banxico targeting a stable currency - by keeping a 625bp rate spread over the Fed - the peso should see good demand now. USD/MXN could briefly see 19.50.
- Inflation in Mexico is on its cycle highs above 8% YoY and at risk of going higher. So far measures to ease the cost-of-living crisis have not managed to put a lid on inflation (unlike Brazil).
- Expect Banxico to match the next Fed increase (50bp or 75bp) in September. Access to US gas prices is an advantage for Mexico.

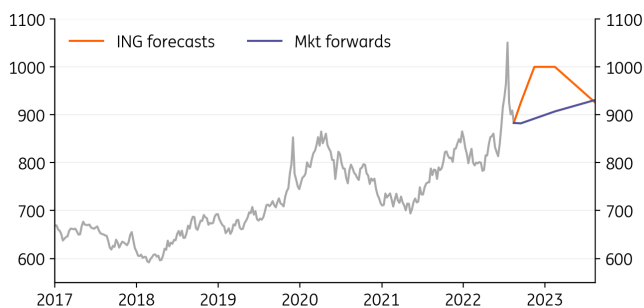
<b>ING forecasts (mkt fwd)</b>	<b>1M 19.75 (20.00)</b>	<b>3M 20.50 (20.23)</b>	<b>6M 20.50 (20.58)</b>	<b>12M 20.25 (21.26)</b>
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## USD/CLP

### \$25bn intervention campaign provides temporary help

**Current spot: 875.75**



Source: Refinitiv, ING forecasts

- What a difference a month makes in FX markets. Shortly after we released our last FX Talking, \$/CLP traded up to 1050, prompting the local central bank, BCCH, to announce a \$25bn intervention programme to support the peso. The plan lasts July 18-Sep 30th and involves BCCH selling \$10bn in the spot market, \$10bn in the forwards market and offering \$5bn of dollar liquidity.
- The move was well-timed in that US rates softened and copper had a 15% rally - all combining to send \$/CLP sub 900.
- But \$25bn is around half of Chile's FX reserves. Given that we see the dollar staying strong for the rest of the year, FX reserve adequacy is an issue that could come back & bite the peso in 4Q.

<b>ING forecasts (mkt fwd)</b>	<b>1M 925 (881.76)</b>	<b>3M 1000 (892.25)</b>	<b>6M 1000 (907.50)</b>	<b>12M 925 (931.36)</b>
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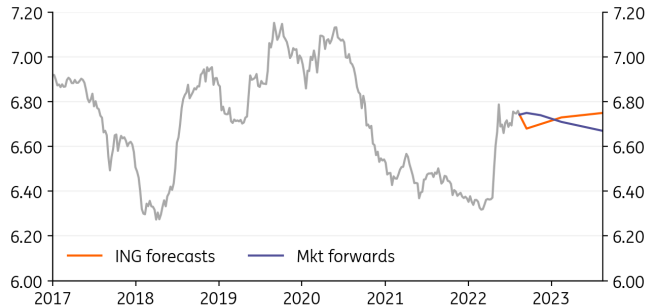
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# Asia

## USD/CNY

### Uncertainty arises from geopolitics



Source: Refinitiv, ING forecasts

<b>ING forecasts</b> (mkt fwd)	<b>1M</b> 6.68 (6.7549)	<b>3M</b> 6.70 (6.7366)	<b>6M</b> 6.73 (6.7081)	<b>12M</b> 6.75 (6.6681)
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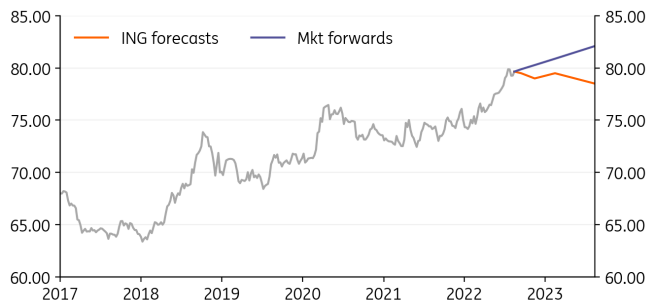
**Current spot: 6.7625**

- Though the military drill from Mainland China around and over Taiwan has deescalated, activity has in fact continued in the form of vessels patrolling around Taiwan and crossing the median line. The uncertainty in the direction of the CNY continues.
- Domestic and external demand for manufacturing were weak. Another month of official manufacturing PMIs under 50 is likely.
- On the domestic demand side, though services have recovered, real estate construction activities are still weak. Home buyers have adopted a wait-and-see approach, as have home builders.

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## USD/INR

### Past peak inflation



Source: Refinitiv, ING forecasts

<b>ING forecasts</b> (mkt fwd)	<b>1M</b> 79.50 (79.88)	<b>3M</b> 79.00 (80.28)	<b>6M</b> 79.50 (80.89)	<b>12M</b> 78.50 (82.11)
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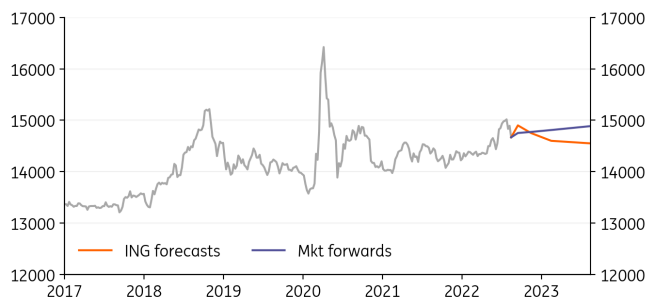
**Current spot: 79.60**

- Thanks to some cuts in excise duties and also to some decline in international agricultural commodity prices, Indian inflation has been static at about 7.0% for the past two months. It could even see some decrease over the next few months.
- There is still quite a gap for the Reserve Bank of India to close before policy rates approach zero in real terms, but that process can now be achieved with smaller incremental rate hikes.
- India's current account deficit is also not being hit as hard as it might have been as it is taking advantage of the discount available on Russian energy. But the deficit is still worsening on a month-on-month basis. Over time, we would expect the INR to weaken against the USD due to higher trend inflation. Though it may recoup some losses over the next 12 months as risk appetite returns on the prospect of Fed rate cuts in 2023.

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## USD/IDR

### IDR pressured early but steadied by end July



Source: Refinitiv, ING forecasts

<b>ING forecasts</b> (mkt fwd)	<b>1M</b> 14900 (14752)	<b>3M</b> 14750 (14773)	<b>6M</b> 14600 (14810)	<b>12M</b> 14550 (14886)
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**Current spot: 14742**

- The IDR was on the defensive again in July, tracking regional peers. Depreciation pressure was capped as Indonesia still managed to post a hefty trade surplus for the month.
- IDR weakness was tied to the relative dovish stance of Bank Indonesia (BI). Despite accelerating inflation and regional central banks tightening, BI opted to keep rates untouched at 3.5%.
- The IDR will likely move sideways as depreciation pressure is offset to some extent by their substantial trade surplus. IDR can enjoy a rally once BI finally decides to hike policy rates at the end of 3Q.

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## USD/KRW

**KRW to settle down below 1300**

**Current spot: 1309.03**



Source: Refinitiv, ING forecasts

- The KRW showed a typical move for a high beta currency along with concerns about the US recession. After touching the recent high of 1325, it stayed in the range of 1300-1315. From now on, market expectations on the Fed policy next year will be a key driver for the KRW direction.
- We expect the Bank of Korea to raise the policy rate by 25bp at its August meeting after it delivered a 50bp hike in July. Although the US-Korea policy rate inversion will begin in August, we believe this has already been largely reflected in the price, and the market's reaction is likely to be limited.
- The positioning of foreigners in the equity market changed recently. Net inflows supported the KOSPI while foreigners net purchase in the bond market rebounded as well. The trade deficit is expected to last for several months, suggesting downward rigidity for the KRW move.

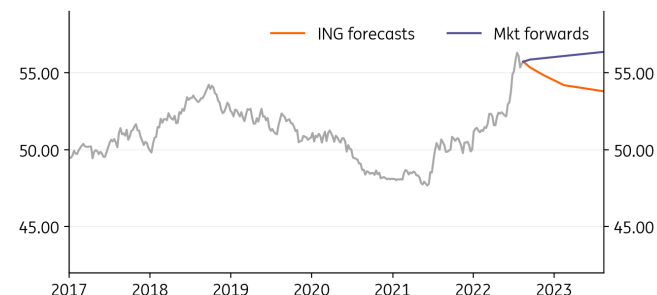
<b>ING forecasts</b> (mkt fwd)	<b>1M 1300</b> (1308.21)	<b>3M 1280</b> (1306.77)	<b>6M 1260</b> (1302.92)	<b>12M 1240</b> (1295.92)
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## USD/PHP

**PHP corrects sharply after off-cycle BSP rate hike**

**Current spot: 55.82**



Source: Refinitiv, ING forecasts

- PHP continued to face sharp depreciation pressure for most of the month, touching an all-time low after Bangko Sentral ng Pilipinas (BSP) stayed dovish despite expectations for aggressive Fed tightening.
- With the currency at its all-time low, BSP carried out an off-cycle policy decision, hiking rates by 75bp on July 14. The sizable adjustment in rates helped steady PHP and the currency appreciated sharply after.
- PHP will likely appreciate further in the near term as BSP demonstrated a firm commitment to tighten policy after Governor Medalla took over in July.

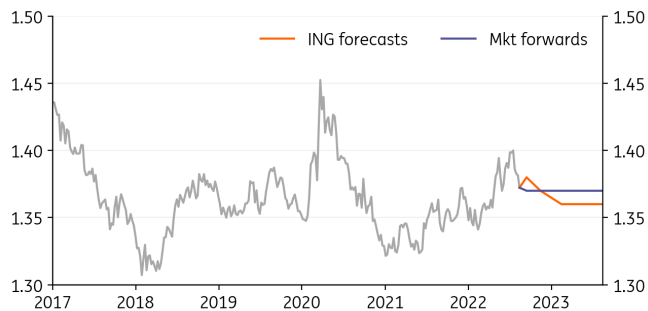
<b>ING forecasts</b> (mkt fwd)	<b>1M 55.35</b> (55.87)	<b>3M 54.85</b> (55.96)	<b>6M 54.20</b> (56.10)	<b>12M 53.80</b> (56.37)
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## USD/SGD

### MAS carries out off-cycle tightening

**Current spot: 1.3742**



Source: Refinitiv, ING forecasts

- The SGD was on the backfoot in early July, tracking regional peers and after both headline and core inflation edged higher.
- Accelerating inflation prompted the Monetary Authority of Singapore to carry out an off-cycle tightening move, re-centring the mid-point of the policy band to prevailing levels.
- The SGD steadied after the unscheduled tightening by the MAS and could appreciate further in the coming months as the string of tightening pulls SGD stronger.

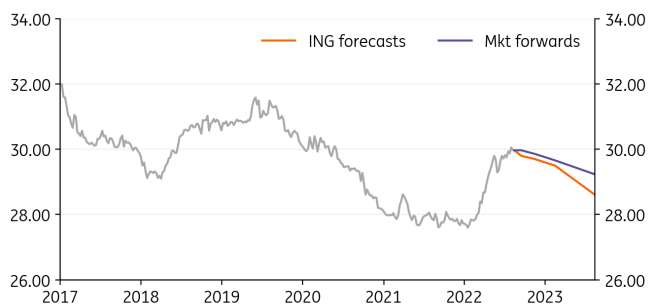
<b>ING forecasts</b> (mkt fwd)	<b>1M 1.38</b> (1.3739)	<b>3M 1.37</b> (1.3731)	<b>6M 1.36</b> (1.3712)	<b>12M 1.36</b> (1.3657)
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## USD/TWD

### Weak GDP report

**Current spot: 30.00**



Source: Refinitiv, ING forecasts

- Increased tension with Mainland China will hurt not only Taiwan's agricultural sector but it also could change the landscape of the political environment within Taiwan.
- GDP grew 3.08% YoY in 2Q22 from 3.14% YoY in 1Q22. The slower yearly growth does not fully reflect the difficulties faced by Taiwan over the period. GDP contracted on a quarterly basis by 0.74% after seasonal adjustments.
- The contraction was due to a slowdown in Taiwan's semiconductor sector – certainly a headwind here.

<b>ING forecasts</b> (mkt fwd)	<b>1M 29.80</b> (29.97)	<b>3M 29.70</b> (29.86)	<b>6M 29.50</b> (29.66)	<b>12M 28.60</b> (29.23)
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**ING foreign exchange forecasts**

EUR cross rates	Spot	1M	3M	6M	12M	USD cross rates	Spot	1M	3M	6M	12M
<b>Developed FX</b>											
EUR/USD	1.02	1.02	1.02	1.02	1.07	USD/JPY	133.41	134	132	128	126
EUR/JPY	136.5	136.68	134.64	130.56	134.82	GBP/USD	1.21	1.20	1.19	1.19	1.23
EUR/GBP	0.85	0.85	0.86	0.86	0.87	USD/CHF	0.94	0.95	0.93	0.94	0.92
EUR/CHF	0.97	0.97	0.95	0.96	0.98	USD/NOK	9.62	9.80	9.71	9.51	8.79
EUR/NOK	9.84	10.00	9.90	9.70	9.40	USD/SEK	10.24	10.29	10.10	9.95	9.25
EUR/SEK	10.48	10.50	10.30	10.15	9.90	USD/DKK	7.27	7.29	7.29	7.30	6.97
EUR/DKK	7.438	7.440	7.440	7.450	7.460	USD/CAD	1.285	1.28	1.25	1.22	1.21
EUR/CAD	1.31	1.31	1.28	1.24	1.29	AUD/USD	0.71	0.70	0.71	0.73	0.75
EUR/AUD	1.45	1.46	1.44	1.40	1.43	NZD/USD	0.64	0.61	0.62	0.64	0.66
EUR/NZD	1.60	1.67	1.65	1.59	1.62						
<b>EMEA</b>											
EUR/PLN	4.66	4.80	4.75	4.67	4.65	USD/PLN	4.55	4.71	4.66	4.58	4.35
EUR/HUF	395.6	400.00	385.00	380.00	360.00	USD/HUF	386.5	392	377	373	336
EUR/CZK	24.39	24.6	24.8	24.8	24.6	USD/CZK	23.83	24.1	24.3	24.3	23.0
EUR/RON	4.88	4.95	4.95	4.95	5.10	USD/RON	4.76	4.85	4.85	4.85	4.77
EUR/RSD	117.4	117.4	117.4	117.3	117.3	USD/RSD	114.6	115.0	115.0	115.0	109.6
EUR/RUB	63.31	63.2	65.3	66.3	74.9	USD/RUB	61.28	62.0	64.0	65.0	70.0
EUR/UAH	37.73	37.2	37.2	39.8	41.7	USD/UAH	36.93	36.50	36.50	39.00	39.00
EUR/KZT	486.8	479.4	489.6	499.8	513.6	USD/KZT	475.8	470	480	490	480
EUR/TRY	18.37	18.62	19.43	20.91	23.59	USD/TRY	17.96	18.25	19.05	20.50	22.05
EUR/ZAR	16.69	17.1	18.4	18.1	18.5	USD/ZAR	16.32	16.75	18.00	17.75	17.25
EUR/ILS	3.32	3.32	3.32	3.32	3.32	USD/ILS	3.24	3.25	3.25	3.25	3.10
<b>LATAM</b>											
EUR/BRL	5.19	5.61	5.81	5.87	6.31	USD/BRL	5.07	5.50	5.70	5.75	5.90
EUR/MXN	20.35	20.1	20.9	20.9	21.7	USD/MXN	19.91	19.75	20.50	20.50	20.25
EUR/CLP	896.29	944	1020	1020	990	USD/CLP	875.76	925	1000	1000	925
<b>Asia</b>											
EUR/CNY	6.92	6.81	6.83	6.86	7.22	USD/CNY	6.77	6.68	6.70	6.73	6.75
EUR/IDR	15247	15198	15045	14892	15569	USD/IDR	14743	14900	14750	14600	14550
EUR/INR	81.45	81.1	80.6	81.1	84.0	USD/INR	79.59	79.50	79.00	79.50	78.50
EUR/KRW	1340.33	1326	1306	1285	1327	USD/KRW	1309.76	1300	1280	1260	1240
EUR/PHP	57.14	56.5	55.9	55.3	57.6	USD/PHP	55.83	55.35	54.85	54.2	53.8
EUR/SGD	1.41	1.41	1.40	1.39	1.46	USD/SGD	1.37	1.38	1.37	1.36	1.36
EUR/TWD	30.71	30.4	30.3	30.1	30.6	USD/TWD	30.01	29.8	29.7	29.5	28.6

Source: Refinitiv, ING

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