

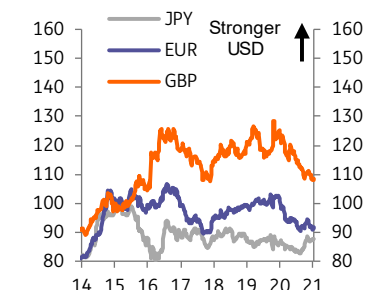
14 June 2021

FX Strategy

# FX Talking

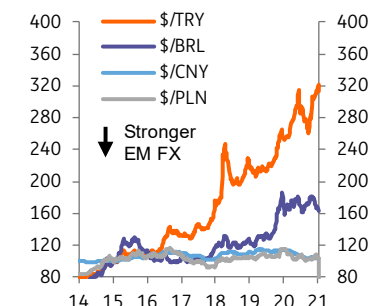
## Chasing carry in a low rate world

USD/Majors (5 Jan 14=100)



Source: Refinitiv, ING forecast

USD/EM (5 Jan 14=100)



Source: Refinitiv, ING forecast

What has quickly become a consensus view over recent weeks is that abundant dollar and Euro liquidity is here to stay. Falling volatility levels mean that searching for yield is the only game in town. Key risks to that view largely come from the Fed mis-managing communication as it exits from loose policy or a resurgence in Covid cases – particularly in Asia. For the time being, however, we favour the benign scenario and a softer dollar.

The June 16<sup>th</sup> FOMC may be the last major event risk before the northern hemisphere firmly settles into summer trading. Constrained supply in the US labour market means that the Fed is probably not in a position to fire the starting pistol on the tapering debate. Consensus seems firmly positioned for three quarters of Fed tapering, starting December 2021, and the first Fed rate hike coming in early 2023.

There are always risks – especially when consensus is so one-way – yet we maintain our mildly bearish dollar view. Expect those currencies backed by large commodity exports or with central banks taking a conventional approach to normalisation (e.g. CAD & NOK) to outperform. Declining volatility levels could see EUR/USD glued to a 1.20-1.22 range yet US investors backing the European re-opening story may well deliver 1.25+ levels.

This should be a constructive environment for emerging markets. And front-loaded policy tightening in Russia, Brazil and shortly Czech Republic, Hungary and Chile should keep local currencies supported. Asia is the weak link currently. Renewed lockdowns and their impact on supply chains and global demand need to be monitored carefully. Yet on balance we expect the Renminbi to stay in demand – after all it is a high yielder.

### ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.22	↑	108	↓	1.44	↑
3M	1.24	↑	108	↓	1.46	↑
6M	1.27	↑	108	↓	1.49	↑
12M	1.28	↑	109	→	1.52	↑

	EUR/GBP		EUR/CZK		EUR/PLN	
1M	0.85	→	25.30	↑	4.43	↓
3M	0.85	→	25.30	↑	4.41	↓
6M	0.85	↓	25.20	↑	4.40	↓
12M	0.84	↓	25.20	↑	4.43	↓

	USD/CNY		USD/MXN		USD/BRL	
1M	6.45	↑	19.75	↓	5.10	→
3M	6.38	↓	19.75	↓	5.25	↑
6M	6.28	↓	19.75	↓	5.50	↑
12M	6.20	↓	20.50	↓	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	0.2	0.6	-0.5	0.7	-1.3	-0.1
%YoY	6.9	2.0	-4.0	-5.3	9.7	-9.8

	USD/UAH	USD/KZT	USD/BRL	USD/MXN	USD/CNY	USD/TRY
%MoM	-2.8	-0.1	-3.3	-0.8	-0.8	0.6
%YoY	1.1	6.6	3.3	-9.7	-9.5	23.1

Source: Refinitiv, ING forecast

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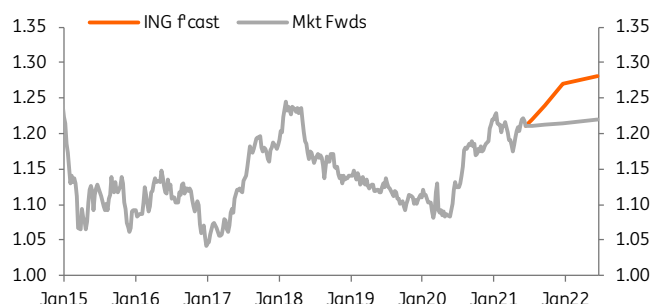
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# Developed markets

## EUR/USD

Low volatility = stable or higher EUR/USD?

Current spot: 1.2108



Source: Refinitiv, ING forecasts

- Summer markets are firmly with us. A sluggish set of US jobs reports has convinced the market that the Fed can be patient on tapering – perhaps not discussing it in more detail until the Jackson Hole event in late August. And despite revising up growth and inflation forecasts, the ECB seems happy to keep its PEPP purchases at the higher EUR80bn per month rate for another qtr.
- Abundant USD & EUR volatility is encouraging the search for yield – including at the long end of the bond markets. This is good for risk assets, good for EM and slightly dollar negative.
- Sinking volatility could make the case for a flat EUR/\$ at 1.22. We think US demand for Eurozone equities instead delivers 1.25/28.

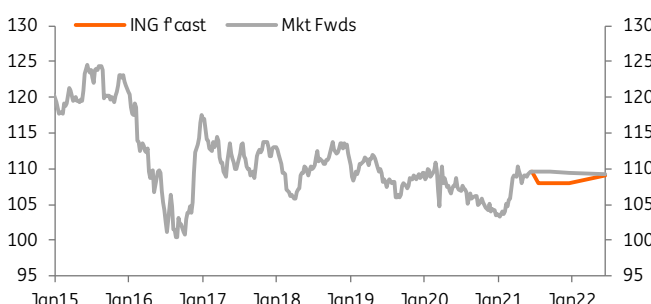
ING forecasts (mkt fwd)	1M 1.22 (1.2115)	3M 1.24 (1.2130)	6M 1.27 (1.2151)	12M 1.28 (1.2199)
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## USD/JPY

Japan – the next big thing

Current spot: 109.67



Source: Refinitiv, ING forecasts

- USD/JPY continues to be dragged around by US yields, but we think a new, positive dynamic could take hold for the JPY later in the year. Japanese equities have underperformed in the bull market, up just 5% YTD versus 10-15% for most other major equity benchmarks. This is not a surprise given 9 prefectures still in lockdown, and the Japanese vaccination programme only now gearing up – but still only 11% have had their first dose.
- Yet Covid case numbers are falling sharply and the reopening story should be with us in late summer.
- With the trade-weighted JPY at cheapest levels since early 2018 and investors underweight Japan – equity flows can help the JPY.

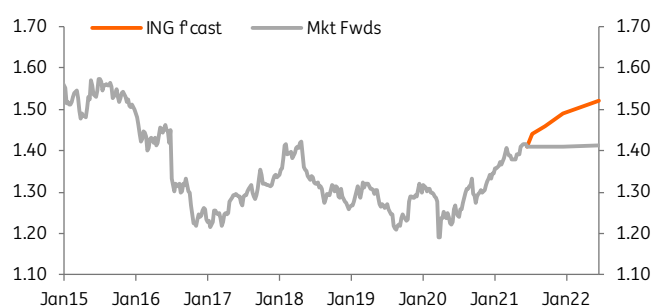
ING forecasts (mkt fwd)	1M 108.00 (109.64)	3M 108.00 (109.59)	6M 108.00 (109.50)	12M 109.00 (109.26)
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## GBP/USD

Gentle rise higher along with EUR/USD

Current spot: 1.4108



Source: Refinitiv, ING forecasts

- With EUR/GBP stuck around the 0.86 level, the GBP/USD price action is all about the direction of EUR/USD. Our view for a gentle rise in EUR/USD should translate into higher GBP/USD.
- On the GBP side, the economic reopening and fast vaccination stories are fully priced in. While the spread in the Indian variant makes it likely that the 21 June restriction easing will be postponed, the impact on the economy should be very limited (with the delay likely being a matter of weeks).
- GBP speculative longs no longer stand out among G10 peers and should make GBP less vulnerable to the positioning squeeze, mainly in terms relative to others (such as EUR, CAD and NZD).

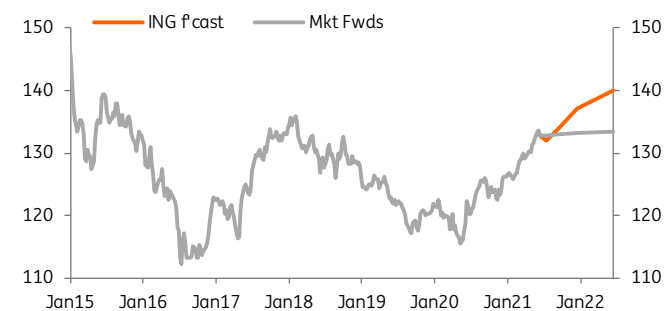
ING forecasts (mkt fwd)	1M 1.44 (1.4108)	3M 1.46 (1.4109)	6M 1.49 (1.4109)	12M 1.52 (1.4111)
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## EUR/JPY

### EUR looks more interesting than JPY

**Current spot: 132.81**



Source: Refinitiv, ING forecasts

- EUR/JPY is edging up largely in line with our forecasts. Typically, both the USD and the JPY under-perform in a carry trade environment – which looks to be the case unless: (a) the Fed needs to turn hawkish early or (b) new virus variants emerge.
- We are therefore minded to keep our bullish EUR/JPY forecast intact, with a 12m 140 call. As we discuss above, the risks to this forecast could be a re-rating of Japan's equity prospects, equity inflows helping the JPY and EUR/JPY staying near 130.
- Even though correlations are very tight, we do not like chasing \$/JPY higher, were say US 10 year yields to return to 1.75%. Very low \$ hedging costs favour high \$ hedge ratios for JPN investors.

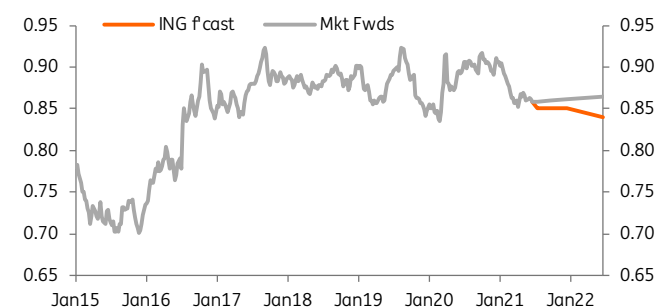
ING forecasts (mkt fwd)	1M 132.00 (132.86)	3M 134.00 (132.95)	6M 137.00 (133.09)	12M 140.00 (133.31)
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## EUR/GBP

### Possible UK-EU trade tensions a near-term risk to GBP

**Current spot: 0.8584**



Source: Refinitiv, ING forecasts

- EUR/GBP remains stuck around the 0.8600 level, which is in line with our estimate of its short-term fair value.
- Near-term, risks are skewed to higher EUR/GBP should UK-EU trade tensions escalate again, with the current focus being on risks around the implementation of the Northern Ireland protocol, its possible breach by the UK and subsequent EU tariffs.
- While recently we have heard some hawkish hints from MPC members, rate hikes this year or next still seem unlikely as CPI is set to moderate in 2022. The very cautious ECB, which is to continue its frontloaded PEPP purchases is 3Q, is a modest negative for EUR/GBP.

ING forecasts (mkt fwd)	1M 0.85 (0.8589)	3M 0.85 (0.8599)	6M 0.85 (0.8614)	12M 0.84 (0.8646)
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## EUR/CHF

### Is EUR liquidity depressing EUR/CHF?

**Current spot: 1.0873**



Source: Refinitiv, ING forecasts

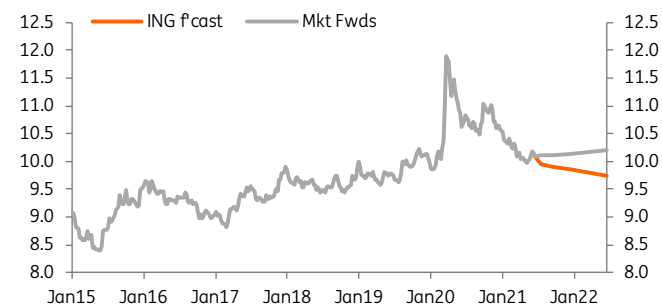
- We've been struggling to explain the move lower in EUR/CHF. We thought European recovery prospects would have driven it stronger. Yet EUR/CHF has sunk back under 1.10 and is now going under 1.09. Scratching around for explanations may offer the inexorable rise in EUR liquidity as the answer. Excess EUR liquidity parked at the ECB is now EUR4.2trn up from EUR3.34trn at the start of 2021. The SNB has not matched that with FX intervention.
- CHF sight deposits have picked up a little since the start of May, suggesting the SNB could be buying a little – but not enough.
- With Swiss CPI still only 0.6% YoY, we doubt SNB will declare the battle against deflation won, thus EUR/CHF downside is limited.

ING forecasts (mkt fwd)	1M 1.10 (1.0871)	3M 1.12 (1.0867)	6M 1.15 (1.0861)	12M 1.15 (1.0848)
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## EUR/NOK

### The NB to offer a helping hand to NOK



Source: Refinitiv, ING forecasts

**Current spot: 10.10**

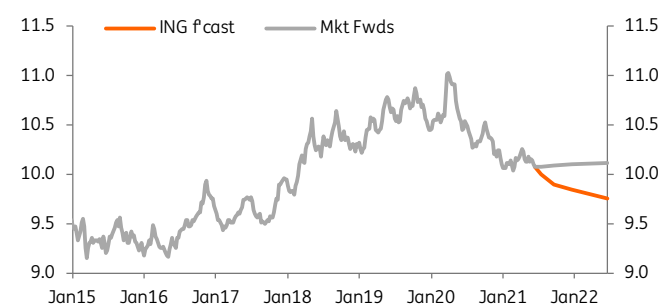
- Despite the lower than expected May CPI, the case for a Sep NB hike remains. Price pressures are in place, the economy is doing well, oil prices are pushing higher and NOK is not overly strong. Two NB hikes in 2H21 (the second hike in Dec) seem likely.
- With NB being the most hawkish central bank in the G10 FX space, this should provide further support to NOK. NOK should offer the highest carry among G10 FX by the year-end.
- The dovish Fed, soft USD and the suppressed volatility environment should further benefit the pro-cyclical NOK, which exerts one of the highest betas in the G10 FX space. EUR/NOK to persistently break below the 10.00 level this summer.

<b>ING forecasts (mkt fwd)</b>	<b>1M 9.95 (10.10)</b>	<b>3M 9.90 (10.11)</b>	<b>6M 9.85 (10.13)</b>	<b>12M 9.75 (10.20)</b>
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## EUR/SEK

### SEK to appreciate, but not because of Riksbank



Source: Refinitiv, ING forecasts

**Current spot: 10.07**

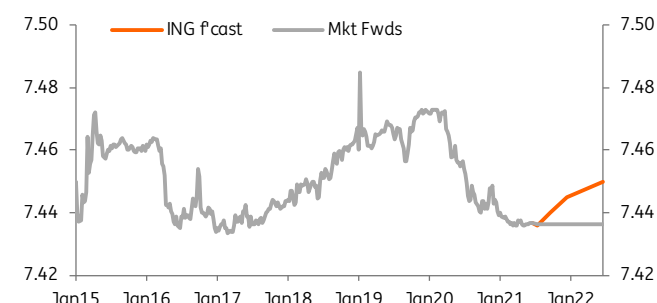
- The May CPI cemented the Riksbank's view that the inflation overshoot should be temporary and the bank won't react to it. We expect Riksbank to remain on hold both this year and next.
- While Riksbank is within the more dovish end of the spectrum in the G10 FX space and won't offer much help to SEK, we nonetheless expect EUR/SEK to continue grinding lower and move below the 10.00 level this summer. SEK should benefit from the soft USD environment and the European economic recovery.
- We target EUR/SEK 9.80 by year-end. EUR/SEK around current levels is still overvalued based on our medium-term BEER model.

<b>ING forecasts (mkt fwd)</b>	<b>1M 10.000 (10.08)</b>	<b>3M 9.900 (10.08)</b>	<b>6M 9.850 (10.09)</b>	<b>12M 9.750 (10.12)</b>
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## EUR/DKK

### Large FX interventions bringing the rate cuts closer



Source: Refinitiv, ING forecasts

**Current spot: 7.437**

- The DN intervened by a sizable DKK 22.2bn in May, bringing the total year-to-day interventions to DKK 41.8bn. With the level of FX reserves growing, the NB may have to act on the rates front.
- While not necessarily imminent, the ongoing need for the DN to intervene in the market makes a 10bp cut in the latter part of 2H21 increasing likely. Either way, the DN is fully committed to keep EUR/DKK within the fluctuation band and we don't expect EUR/DKK to persistently dip below the 7.4350 level
- We see the recent speculation about the DN ending the ERM II regime as premature. With the decision (if any) set to take years, the near-term impact on EUR/DKK should be limited.

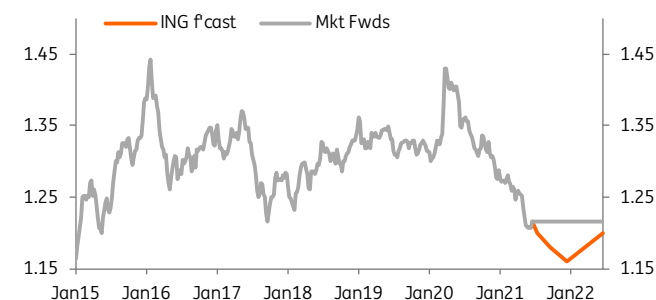
<b>ING forecasts (mkt fwd)</b>	<b>1M 7.436 (7.436)</b>	<b>3M 7.440 (7.436)</b>	<b>6M 7.445 (7.436)</b>	<b>12M 7.450 (7.436)</b>
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## USD/CAD

### Waiting for a new leg lower

Current spot: 1.216



Source: Refinitiv, ING forecasts

- CAD's rally has stalled around the 1.20-1.21 area, possibly held back by some position-squaring after a surge in net-long positions in April-May.
- A setback in the jobs market recovery in Canada is not too concerning considering how fast the country has moved on the vaccination side (with the highest percentage of population to receive at least a first dose among developed countries). Inflation has beaten expectations despite lockdown measures.
- The BoC will, in our view, taper purchases by another C\$1bn in July, leaving markets comfortable with their relatively aggressive pricing for 2022 tightening and helping USD/CAD break below 1.20 this summer. We target 1.16 by year-end.

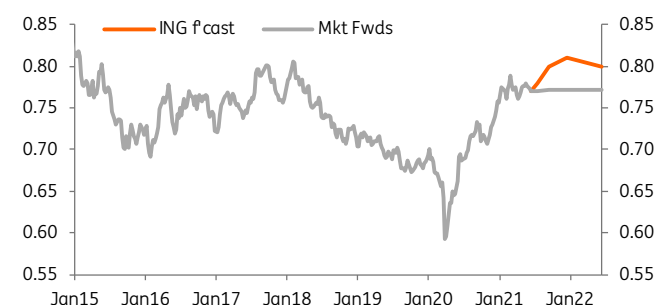
ING forecasts (mkt fwd)	1M 1.20 (1.215)	3M 1.18 (1.216)	6M 1.16 (1.216)	12M 1.20 (1.216)
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## AUD/USD

### Looking beyond the usual risks

Current spot: 0.771



Source: Refinitiv, ING forecasts

- On 6 July, the RBA may announce it will not roll-over its 3-year yield-curve-control scheme beyond the April 2024 bond. The unwinding of stimulus should however be very gradual, and while the shape of QE may be tweaked, the size of it should not be materially scaled back just yet. Any positive impact on AUD may be relatively contained for now. Jobs data is set to hold some importance for monetary policy decisions.
- External downside risks remain plentiful, from a potential correction in iron ore prices (we still think prices are unsustainable) to more Australia-China trade tensions.
- We think a broadly supportive risk environment can continue to put a floor below AUD/USD: we target 0.81 by year-end.

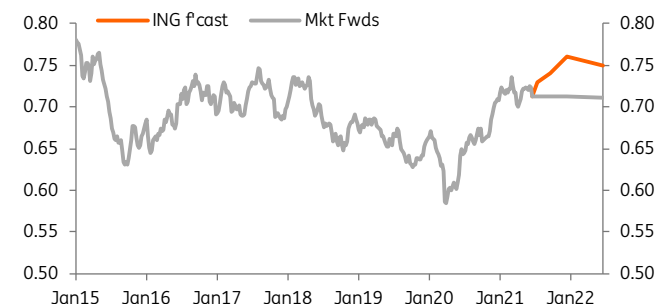
ING forecasts (mkt fwd)	1M 0.78 (0.771)	3M 0.80 (0.771)	6M 0.81 (0.771)	12M 0.80 (0.771)
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## NZD/USD

### RBNZ fully aboard the hawkish wagon

Current spot: 0.713



Source: Refinitiv, ING forecasts

- The RBNZ followed the Bank of Canada and added a clear hawkish bias in its policy message by signalling a rate hike in 2H22. As discussed in [this note](#), we think the next step will be to signal QE tapering, if nothing else due to lower projected bond issuance by the NZ government.
- The domestic housing market has failed to cool down yet, and more evidence that the government's actions to deflate the housing bubble are insufficient will add fuel to the RBNZ's hawkish expectations and provide extra support to NZD. We expect NZD/USD to touch 0.76 in 4Q21.
- Dairy prices are at 10-year highs, although an extension of border controls will remain a drag on growth for longer.

ING forecasts (mkt fwd)	1M 0.730 (0.713)	3M 0.740 (0.712)	6M 0.760 (0.712)	12M 0.750 (0.711)
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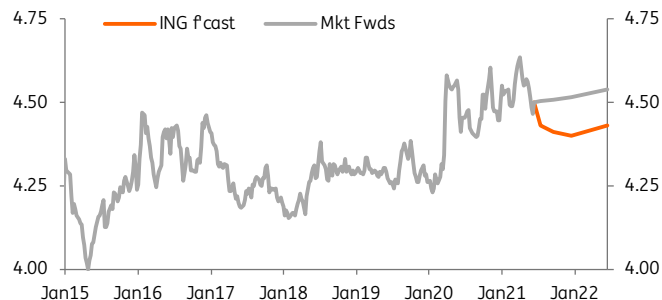


# Emerging markets

## EUR/PLN

Less focus on FX mortgages, more on impending rate hikes

Current spot: 4.50



Source: Refinitiv, ING forecasts

- We expect €/PLN to move close to 4.43, but to remain above that level for the remainder of June. We see further support from core developments, as well as from solid domestic real figures. MPC comments suggest no imminent rate hikes, something many investors had hoped for. There should be very few stop loss positions below 4.43, insufficient to fuel any stronger EUR decline just yet.
- In 2H21 we expect €/PLN to move towards 4.40 on strong local macro and rate hike bets. There is less scope for gains than in 2Q. According to our model, the market has already priced out any risks related to the FX mortgage saga. Also investors may fear NBP intervention against the zloty again.

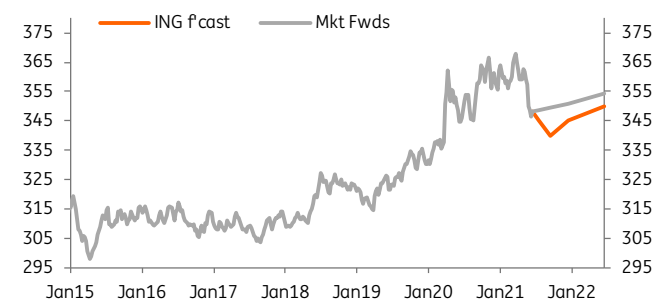
ING forecasts (mkt fwd)	1M 4.43 (4.50)	3M 4.41 (4.51)	6M 4.40 (4.52)	12M 4.43 (4.54)
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## EUR/HUF

Hawkish NBH to offer ongoing support to HUF

Current spot: 348.16



Source: Refinitiv, ING forecasts

- The shift in NBH bias to a more hawkish one has been a tailwind for HUF. We expect the NBH to deliver a big frontloaded 65bp hike in the benchmark rate to 1.25%, scrap the 1-week depo in June and commit to more hikes in 2H21 if the CPI outlook warrants.
- The recently floated large family tax rebate by the government in early 2022 might strengthen the NBH's commitment to a quick, decisive and proactive tightening process.
- With the NBH being clear about the need to tighten, we no longer expect a possibly stronger HUF to ease the pressure on hikes – a big shift in the NBH reaction function. We see EUR/HUF at 340 or even below this summer.

ING forecasts (mkt fwd)	1M 345.0 (348.50)	3M 340.0 (349.34)	6M 345.0 (350.88)	12M 350.0 (354.33)
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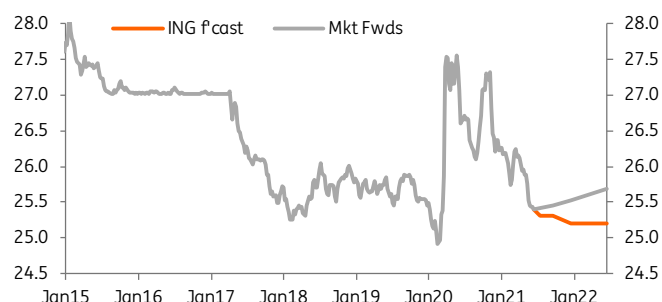
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## EUR/CZK

CNB hikes are coming, but CZK gains to be only gradual

Current spot: 25.40



Source: Refinitiv, ING forecasts

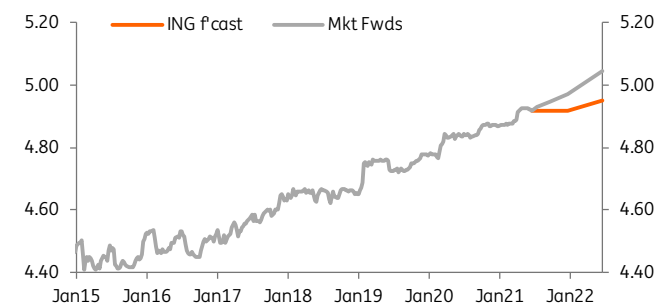
- With inflation above the target (and to stay there throughout the rest of the year) and the domestic economic reopening gaining pace, the start of a protracted CNB tightening cycle looks just a question of time. The CNB rhetoric is very clear and we currently see 50:50 odds of a first CNB rate hike in June.
- Still, with the market already pricing 150bp worth of tightening by the end of 2022 and CZK speculative positioning being one way (on the long side), any further EUR/CZK decline should be limited and gradual. Tactically, we prefer HUF to CZK.
- We expect EUR/CZK to test the 25.20 level in 2H21, with the current account surplus (2% of GDP this year) being a tailwind.

ING forecasts (mkt fwd)	1M 25.30 (25.42)	3M 25.30 (25.46)	6M 25.20 (25.52)	12M 25.20 (25.69)
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## EUR/RON

### Stability remains key



Source: Refinitiv, ING forecasts

Current spot: 4.92

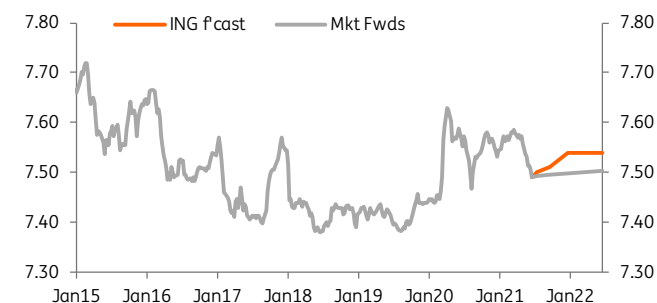
- As usual the Romanian leu is shrugging-off regional developments, trading very stable around 4.92 despite its main peers appreciating by 2-3% over recent weeks.
- The relative stability of the FX rate has been partly attributed by the NBR to the interest rate differential. If that is to be maintained, and given the tightening mood across the region, it could put pressure on local carry rates.
- As we move into 2H21, above target inflation should be a key factor for maintaining a tight grip on the EUR/RON due to the high FX pass-through. We re-affirm our 4.92 year-end forecast.

ING forecasts (mkt fwd)	1M 4.92 (4.93)	3M 4.92 (4.95)	6M 4.92 (4.97)	12M 4.95 (5.05)
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## EUR/HRK

### Croatia National Bank to keep buying FX



Source: Refinitiv, ING forecasts

Current spot: 7.49

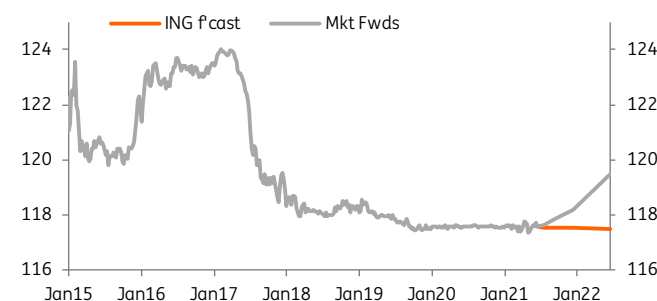
- The 7.50 level seems to act as a flexible support for EUR/HRK as the seasonal appreciation of the kuna has begun. The uncertainties surrounding the tourist season will limit any downside move in our view.
- As of Apr-2021 the central bank's FX reserves were up by over 30% versus Apr-2020 to EUR20.4bn. The trend should continue, given the "very sizeable" FX purchases that the CNB expects over the next two years.
- We maintain our year-end EUR/HRK forecasts at 7.53.

ING forecasts (mkt fwd)	1M 7.50 (7.49)	3M 7.51 (7.50)	6M 7.54 (7.50)	12M 7.54 (7.50)
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## EUR/RSD

### Peg-like floating



Source: Refinitiv, ING forecasts

Current spot: 117.58

- The economy is gaining speed as we approach 2H21 and most forecasts now indicate a GDP advance of around 6.0%. We are on the optimistic side, with a 7.5% estimate.
- The relative stability of the exchange rate continues to be frequently mentioned by the NBS as "one of the key pillars" of Serbia's macroeconomic stability, cementing the strategic view that the Bank has taken on this issue.
- The 117.55 level will likely remain the reference point for an extended period, with the NBS apparently unwilling to tolerate even mild deviations from this.

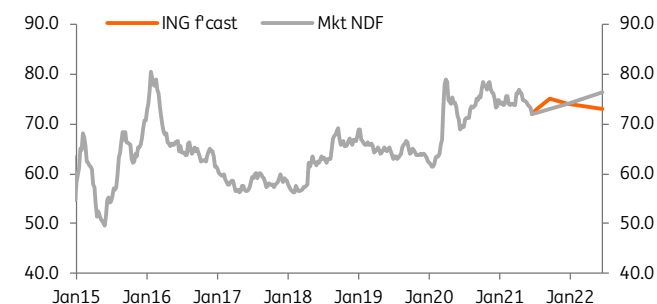
ING forecasts (mkt fwd)	1M 117.55 (117.65)	3M 117.55 (117.84)	6M 117.55 (118.20)	12M 117.50 (119.50)
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## USD/RUB

### Strong current account lowers RUB depreciation risks

Current spot: 71.95



Source: Refinitiv, ING forecasts

- USDRUB entered June on an upbeat note in a 72-73 range, thanks to [strong current account](#), a benign global environment and a pause in foreign policy tensions ahead of the Putin-Biden summit scheduled for June 16.
- Strong exports combined with extended restrictions on outward travel to popular tourist destinations (such as Turkey) should allow for a more even quarterly current account distribution this year, potentially allowing USD/RUB to stabilize in the middle of a 70-75 range in June.
- Our longer-term cautious view remains unchanged though, given the upcoming US\$4 bn demand for FX mid the dividend season, persistent uncertainties regarding foreign policy, acceleration of imports, and continued private capital outflow.

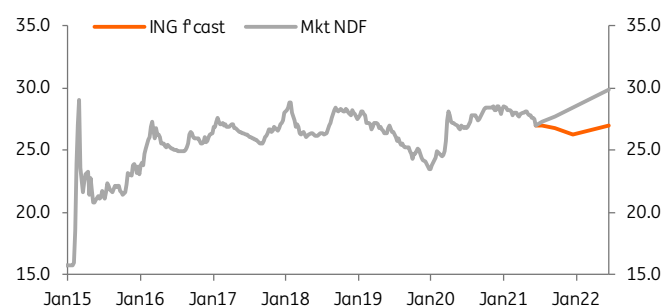
ING forecasts (mkt fwd)	1M 73.00 (72.25)	3M 75.00 (72.93)	6M 74.00 (74.01)	12M 73.00 (76.32)
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Dmitry Dolgin, Russia +7 495 771 7994

## USD/UAH

### Short term gains, another Covid-19 wave a major risk

Current spot: 27.02



Source: Refinitiv, ING forecasts

- High interest rates, a current account surplus, as well as EM-positive market sentiment call for moderate UAH gains in coming months, with upside risk for UAH. Still, the very low pace of vaccinations (only 0.5% of population fully vaccinated) makes Ukraine a prime risk for another Covid-19 wave. Moreover, the central bank has shown concern over excessive UAH gains.
- In 2022, \$/UAH should move back to around 27.0, given less supportive monetary policy and a shrinking CA surplus. We expect the central bank to ease its policy as soon as 1Q22 and continue the cycle throughout the year (by at least 75bp plus another 100bp in 2023), given slowing inflation.

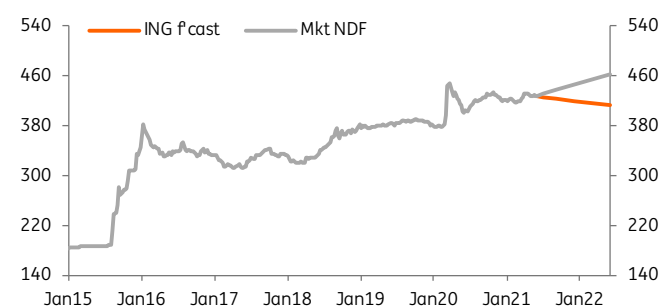
ING forecasts (mkt fwd)	1M 27.00 (27.27)	3M 26.80 (27.74)	6M 26.30 (28.41)	12M 27.00 (29.86)
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Piotr Poplawski, Warsaw +48 22 820 4078

## USD/KZT

### KAZ is balancing global recovery and internal resistance

Current spot: 426.95



Source: Refinitiv, ING forecasts

- The Tenge strengthened from its April levels, partially justifying our expectations, but the scope for appreciation was limited, possibly by the decline in FX sales by NFRKs (down by US\$0.2 bn in April) and an increase in net outward transfers (up 2.5x YoY to US\$0.44 bn in 4M21).
- Global oil demand recovery and further easing in OPEC+ restrictions by 6,000 bbl/d in June-July would uplift monthly oil production by 10% YoY, boosting the trade balance and reinforcing a positive near-term expectation for the Tenge.
- USDKZT has room for appreciation amid a high oil price, RUB rebound and stable EM risk environment, but low vaccination rollout and local FX demand pose risk to our positive target of 415 in 2021, also reflecting our house view of a weaker dollar globally.

ING forecasts (mkt fwd)	1M 425.00 (430.39)	3M 423.00 (436.50)	6M 418.00 (445.98)	12M 413.00 (461.57)
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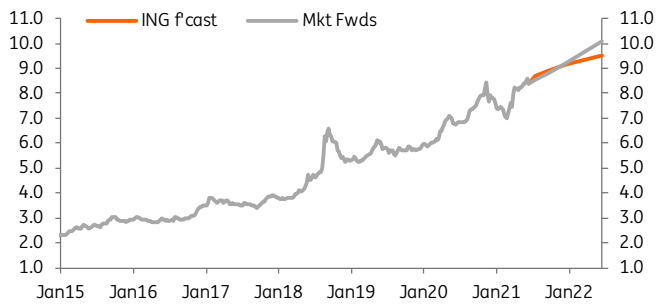
Dmitry Dolgin, Russia +7 495 771 7994



## USD/TRY

The CBT pledges to move with an inflation decline

Current spot: 8.39



Source: Refinitiv, ING forecasts

- Upside risks to the inflation outlook have remained high, with continuing cost pressures and the recent uptrend in commodity prices including global food and metal prices. Adding to those risks have been TRY weakness and a deterioration in inflation expectations, despite the expected moderation in domestic demand amidst sluggish lending in a higher rate environment.
- In the most recent investor meeting in early June, CBT Governor, Sahap Kavcioglu stated that the bank's forecast path in the inflation report had the end of 3Q or beginning of 4Q for "the significant fall" in headline inflation. Given this backdrop, an improvement in inflation should allow CBT to come up with a moderate easing cycle, with a likely first move in October.

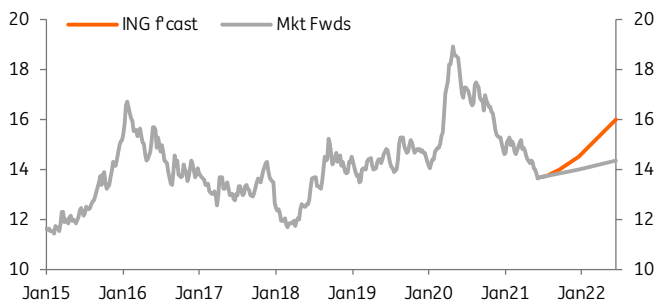
ING forecasts (mkt fwd)	1M 8.70 (8.51)	3M 8.90 (8.78)	6M 9.15 (9.19)	12M 9.50 (10.07)
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Muhammet Mercan, Istanbul +90 212 329 0751

## USD/ZAR

Commodity boom really showing up in the numbers

Current spot: 13.68



Source: Refinitiv, ING forecasts

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

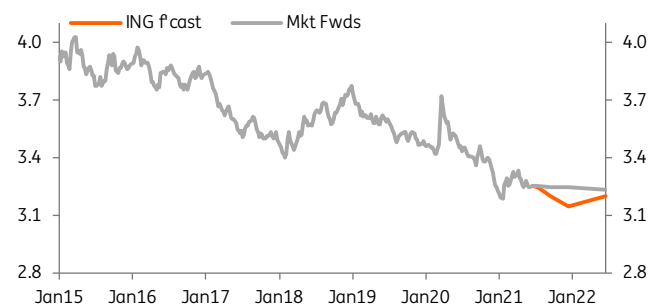
ING forecasts (mkt fwd)	1M 13.75 (13.74)	3M 14.00 (13.84)	6M 14.50 (14.00)	12M 16.00 (14.35)
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Chris Turner, London +44 20 7767 1610

## USD/ILS

A new line in the sand near 3.25?

Current spot: 3.25



Source: Refinitiv, ING forecasts

- May was generally a good month for EM currencies and a softish month for the dollar. Yet \$/ILS held firm around the 3.24/3.25 area. It looks like, once again, that the Bol has drawn a line in the sand near the 3.24/25 area. Indeed, it spent another \$2.9bn on FX intervention in May.
- Lines in the sand have been commonplace in \$/ILS over the years – with the surprise being that the Bol allowed such a sharp fall in \$/ILS last year. We suspect it will allow 3.24/25 to break later in the year, when the domestic and global recovery is more secure.
- The Bol remains very upbeat on growth this year, but will avoid tightening while it is busy intervening against the Shekel.

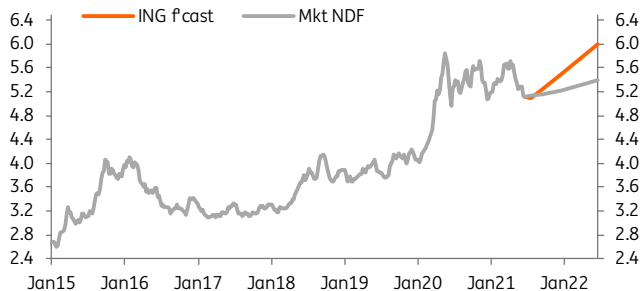
ING forecasts (mkt fwd)	1M 3.25 (3.25)	3M 3.20 (3.25)	6M 3.15 (3.25)	12M 3.20 (3.24)
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# LATAM

## USD/BRL

### BACEN needs to ride out the inflation spike



Source: Refinitiv, ING forecasts

**Current spot: 5.12**

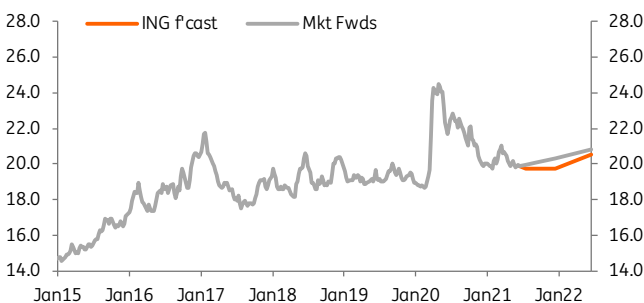
- The benefits of this year's commodity rally are playing out for Brazil. 1Q21 registered a record US\$5.6bn current account surplus as Brazil's core exports (soybeans, corn iron ore & energy) stayed bid. The agriculture sector helped to contribute to an above expected 1.2% QoQ 1Q GDP release. Most forecasters expect Brazil to grow 5% this year.
- BACEN has done a great job of keeping BRL under control, hiking 150bp to 3.50% & promising another 75bp in June. The market expects rates to end the year at 6.50% (seems aggressive), but high inflation will keep BACEN hawkish through the summer.
- We suspect USD/BRL struggles to break 4.80/5.00, however.

ING forecasts (NDF)	1M 5.10 (5.13)	3M 5.25 (5.17)	6M 5.50 (5.23)	12M 6.00 (5.39)
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## USD/MXN

### Summer carry sees MXN in demand



Source: Refinitiv, ING forecasts

**Current spot: 19.89**

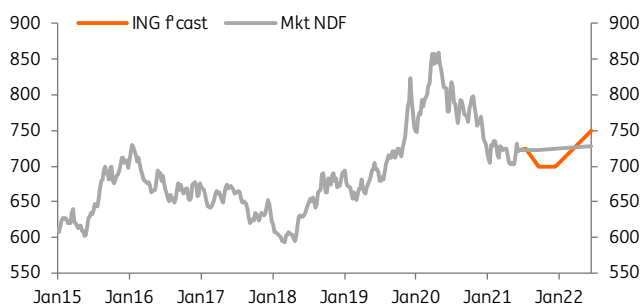
- Even though it is becoming increasingly a consensus view, a summer of carry is expected to see good demand for one of the EM's highest carry currencies – the MXN. Implied yields through the 3m forwards are still 4%+ for MXN – making it attractive when conditions are quiet. ALMO losing his super-majority also helps subdue fears of more aggressive policies.
- Inflation is picking up (close to 6%). Banxico has mostly put paid to hopes of any further easing, but may be reluctant to deliver on the 50bp of hikes expected by year-end. Were former Fin Min Herrera to become next CB governor (Dec), MXN could suffer.
- 2021 growth is expected at 5%, remittances from the US are a healthy \$4bn per month and MXN can stay bid into 3Q/4Q21.

ING forecasts (mkt fwd)	1M 19.75 (19.96)	3M 19.75 (20.10)	6M 19.75 (20.32)	12M 20.50 (20.80)
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## USD/CLP

### Chile central bank turns hawkish



Source: Refinitiv, ING forecasts

**Current spot: 722.03**

- \$/CLP has been bouncing around in a 700 to 740 range so far this year – and may continue to do so. Supportive of the CLP are very firm copper prices and now a local central bank preparing to tighten policy. On the former, Chinese unease with high commodity prices may slow copper's rise. Yet policy tightening story is just emerging – and 125bp of rate hikes are seen in 2021.
- The central bank now expects 2021 growth at a whopping 8.5-9.5% and with inflation expected to head up to 4.4%, the policy rate is just too low. Tightening should help protect the 740 level.
- The leftist swing in Latam politics (constitutional reform in Chile & elections in Peru) maintain Chile's Nov elections as an event risk.

ING forecasts (NDF)	1M 725.0 (722.19)	3M 700.0 (722.58)	6M 700.0 (723.84)	12M 750.0 (727.44)
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# Asia

## USD/CNY

PBoC is in the driving seat



Source: Refinitiv, ING forecasts

Current spot: 6.40

- Exporters are now at a crossroads in deciding whether to convert their dollar receipts now or to hold dollars for longer to see whether there is potential for a USD/CNY bounce.
- There are increasing warnings from the PBoC about yuan volatility that are unlikely to be ignored. Reports of PBoC wanting a strong Renminbi have quickly been dismissed.
- If the yuan continues to appreciate after the PBoC's administrative measures, it is possible that the central bank may manage the yuan's path more vigorously.
- We believe that yuan appreciation will slow from now. The Covid outbreak in Shenzhen is another point of attention – especially what this means for global supply chains.

ING forecasts (mkt fwd)	1M 6.450 (6.41)	3M 6.380 (6.44)	6M 6.280 (6.48)	12M 6.200 (6.56)
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Iris Pang, Hong Kong +852 2848 8071

## USD/INR

Breaking from the tradition of a May sell-off



Source: Refinitiv, ING forecasts

Current spot: 73.25

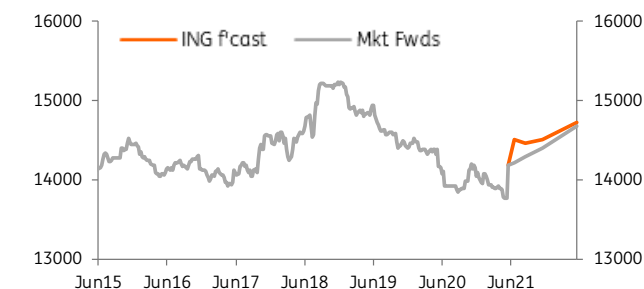
- The INR's 2% gain in May vs USD (month-end basis) was a break from the traditional sell-off due to the wedding season jump in gold imports and despite high global oil prices in the month.
- But the currency is off to a weak start in June, even as a gradual easing of Covid-19 restrictions has begun to revive activity. Base effects have been helping to flatten YoY activity growth just as they have kept the inflation rate within the RBI's 2-6% target.
- Even so, a significant hit to economic confidence in the second wave suggests the recovery is going to be delayed. We think this should cap any significant upside in the INR from here on.

ING forecasts (mkt fwd)	1M 73.00 (73.32)	3M 73.40 (73.85)	6M 73.90 (74.67)	12M 73.50 (76.39)
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Prakash Sakpal, Singapore +65 6232 6181

## USD/IDR

IDR steadies in May on improved sentiment



Source: Refinitiv, ING forecasts

Current spot: 14189.00

- The IDR steadied in May as sentiment improved after the US jobs report missed expectations, reducing expectations of tighter fed policy or a stronger USD.
- Bank Indonesia (BI) kept policy rates unchanged at the 25 May meeting with Governor Warjiyo stressing the need for currency stability. Warjiyo however did finally mention a potential reversal in stance but also clarified that an adjustment may not come until 2022.
- We expect the IDR to move sideways although remain susceptible to swings in sentiment as investors adjust their views on the longevity of US inflation and likely policy responses.

ING forecasts (mkt fwd)	1M 14515 (14223.50)	3M 14472 (14295.50)	6M 14510 (14402.50)	12M 14720 (14674.00)
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Nicholas Mapa, Philippines +63 28479 8855

## USD/KRW

### More range trading

**Current spot: 1116.55**



Source: Refinitiv, ING forecasts

- The KRW is on track to meet our 1,120 end-2Q forecast. That would mark a second quarter at roughly the same rate – reflecting the range it has been trading in (1,105 to 1,146).
- We expect the KRW to push stronger over the course of the second half of the year, but when and how much it will do so will depend on the USD breaking out of its own narrow trading ranges to show a generalised weakening. That's clearly an open risk.
- With the big regional currency, the CNY, also pushing back against one-way appreciation, we see the \$/KRW moving towards the lower end of its current range by the end of next quarter, rather than breaking cleanly out of it.

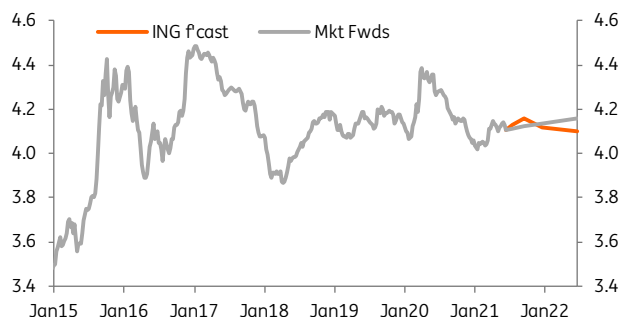
ING forecasts (NDFs)	1M 1120 (1116.45)	3M 1100 (1116.40)	6M 1080 (1116.55)	12M 1060 (1116.95)
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**Rob Carnell, Singapore +65 6232 6020**

## USD/MYR

### Pandemic depresses growth

**Current spot: 4.11**



Source: Refinitiv, ING forecasts

- Export recovery and oil prices were supportive of the MYR but the damage to the economy from the most recent surge in Covid-19 has resulted in the MYR being Asia's weakest currency in May. June is looking better so far.
- The Covid-19 restrictions in place now for over a month evolved into a total nationwide lockdown for the first two weeks of June. We are reviewing our 13.9% YoY 2Q GDP growth view for another downgrade after a recent cut from 16.7% YoY.
- An additional policy stimulus worth MYR40bn (2.8% of GDP), including MYR5bn of direct fiscal support, soft loans and loan moratorium for SMEs may soften the blow.

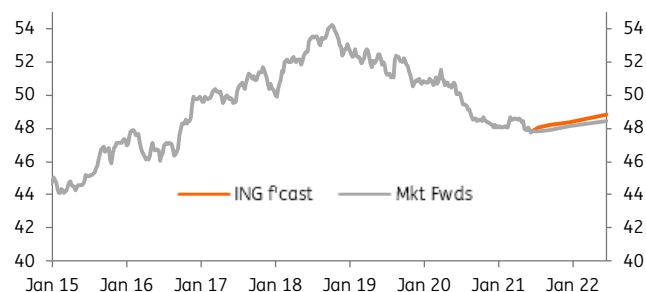
ING forecasts (mkt fwd)	1M 4.130 (4.11)	3M 4.160 (4.12)	6M 4.120 (4.14)	12M 4.100 (4.16)
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**Prakash Sakpal, Singapore +65 6232 6181**

## USD/PHP

### PHP strengthened by foreign inflows to resurgent stocks

**Current spot: 47.78**



Source: Refinitiv, ING forecasts

- The PHP tracked the regional rally on improved sentiment about global monetary policy support. Foreign investors also bolstered local stocks after S&P affirmed the country's sovereign rating.
- Bangko Sentral ng Pilipinas (BSP) kept policy rates unchanged on 13 May citing the need to support the domestic economy and as inflation plateaued at 4.5% after peaking at 4.7% in February.
- The PHP will likely enjoy modest appreciation pressure in the near term but a gradual build-up in import demand may translate into a slight weakening bias by the end of the month.

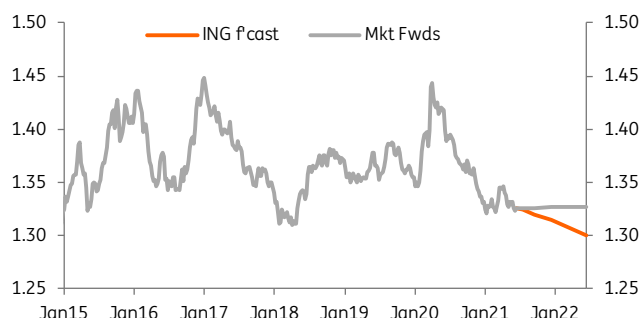
ING forecasts (mkt fwd)	1M 48.08 (47.83)	3M 48.20 (47.93)	6M 48.35 (48.09)	12M 48.81 (48.40)
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**Nicholas Mapa, Philippines +63 2479 8855**

## USD/SGD

### Covid-19 second wave is almost tamed

**Current spot: 1.326**



Source: Refinitiv, ING forecasts

- Spot USD/SGD is in the middle of the Asian performance chart and S\$-NEER close to the mid-point of an estimated MAS policy band, implying no market pricing of any policy change yet.
- The Covid-19 second wave may have halted the economic recovery but not derailed it, in our view. The Phase 2 tightening has almost tamed the community spread, which augurs well for some relaxation of measures ahead.
- The S\$800m additional policy support for businesses should also support growth. We have cut our forecast of 2Q GDP growth to 12.2% from 14.2% but kept the full-year 2021 growth view of 4.9%, which is already bearish compared with the consensus.

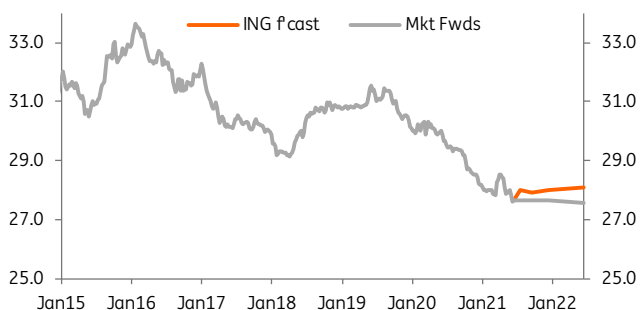
ING forecasts (mkt fwd)	1M 1.325 (1.326)	3M 1.320 (1.326)	6M 1.315 (1.326)	12M 1.300 (1.327)
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**Prakash Sakpal, Singapore +65 6232 6181**

## USD/TWD

### Covid, drought and blackouts

**Current spot: 27.66**



Source: Refinitiv, ING forecasts

- Despite decent prospects for a good trade balance in the second quarter, Taiwan is facing several risks.
- There have been groups of Covid infections in electronics factories. It also seems that there are no new Covid-related tightening measures to prevent further infections. The lack of vaccines is another problem.
- Drought and blackouts can result from weather anomalies (climate change?) and cannot be controlled by the government. The timeline for these problems going away by themselves is highly uncertain. But water and electricity are important for semiconductor production, the main engine for the economy.

ING forecasts (mkt fwd)	1M 28.00 (27.65)	3M 27.90 (27.65)	6M 28.00 (27.63)	12M 28.10 (27.57)
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**Iris Pang, Hong Kong +852 2848 8071**

## USD/THB

### Inflation peak is behind

**Current spot: 31.09**



Source: Refinitiv, ING forecasts

- The USD/THB rate has remained in a 31-31.50 trading range for the second straight month, a hopeful sign of the THB's resilience to its ongoing Covid-19 problems and deteriorating current account balance.
- In May Thailand saw its steepest surge in Covid-19 infection since the pandemic began in early 2021. As this pushes out any tourism recovery further into the future, growth is set to remain under pressure this year and beyond.
- A fall in inflation in May (2.4% vs. 3.4% in Apr) suggests that base effects have run their course. Although the trend of inflation should now be downward, this won't mean much for the BoT.

ING forecasts (mkt fwd)	1M 31.30 (31.08)	3M 31.40 (31.13)	6M 31.50 (31.18)	12M 31.00 (31.24)
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**Prakash Sakpal, Singapore +65 6232 6181**



## ING foreign exchange forecasts

EUR cross rates	Spot	1M	3M	6M	12M	USD cross rates	Spot	1M	3M	6M	12M
<b>Developed FX</b>											
EUR/USD	1.21	1.22	1.24	1.27	1.28						
EUR/JPY	132.8	131.76	133.92	137.16	139.52	USD/JPY	109.67	108	108	108	109
EUR/GBP	0.86	0.85	0.85	0.85	0.84	GBP/USD	1.41	1.44	1.46	1.49	1.52
EUR/CHF	1.09	1.10	1.12	1.15	1.15	USD/CHF	0.90	0.90	0.90	0.91	0.90
EUR/NOK	10.10	9.95	9.90	9.85	9.75	USD/NOK	8.34	8.16	7.98	7.76	7.62
EUR/SEK	10.07	10.00	9.90	9.85	9.75	USD/SEK	8.32	8.20	7.98	7.76	7.62
EUR/DKK	7.437	7.436	7.440	7.445	7.450	USD/DKK	6.14	6.10	6.00	5.86	5.82
EUR/CAD	1.47	1.46	1.46	1.47	1.54	USD/CAD	1.216	1.20	1.18	1.16	1.20
EUR/AUD	1.57	1.56	1.55	1.57	1.60	AUD/USD	0.77	0.78	0.80	0.81	0.80
EUR/NZD	1.70	1.67	1.68	1.67	1.71	NZD/USD	0.71	0.73	0.74	0.76	0.75
<b>EMEA</b>											
EUR/PLN	4.50	4.43	4.41	4.40	4.43	USD/PLN	3.72	3.63	3.56	3.46	3.46
EUR/HUF	348.2	345.00	340.00	345.00	350.00	USD/HUF	287.6	283	274	272	273
EUR/CZK	25.40	25.3	25.3	25.2	25.2	USD/CZK	20.97	20.7	20.4	19.8	19.7
EUR/RON	4.92	4.92	4.92	4.92	4.95	USD/RON	4.06	4.03	3.97	3.87	3.87
EUR/HRK	7.49	7.50	7.51	7.54	7.54	USD/HRK	6.19	6.15	6.06	5.94	5.89
EUR/RSD	117.6	117.6	117.6	117.6	117.5	USD/RSD	97.1	96.4	94.8	92.6	91.8
EUR/RUB	87.12	89.1	93.0	94.0	93.4	USD/RUB	71.95	73.0	75.0	74.0	73.0
EUR/UAH	32.70	32.9	33.2	33.4	34.6	USD/UAH	27.02	27.00	26.80	26.30	27.00
EUR/KZT	516.8	518.5	524.5	530.9	528.6	USD/KZT	426.9	425	423	418	413
EUR/TRY	10.15	10.61	11.04	11.62	12.16	USD/TRY	8.39	8.70	8.90	9.15	9.50
EUR/ZAR	16.61	16.8	17.4	18.4	20.5	USD/ZAR	13.68	13.75	14.00	14.50	16.00
EUR/ILS	3.94	3.97	3.97	4.00	4.10	USD/ILS	3.25	3.25	3.20	3.15	3.20
<b>LATAM</b>											
EUR/BRL	6.20	6.22	6.51	6.99	7.68	USD/BRL	5.12	5.10	5.25	5.50	6.00
EUR/MXN	24.05	24.1	24.5	25.1	26.2	USD/MXN	19.89	19.75	19.75	19.75	20.50
EUR/CLP	874.23	885	868	889	960	USD/CLP	722.03	725	700	700	750
<b>Asia</b>											
EUR/CNY	7.75	7.87	7.91	7.98	7.94	USD/CNY	6.40	6.45	6.38	6.28	6.20
EUR/HKD	9.40	9.47	9.62	9.85	9.95	USD/HKD	7.76	7.77	7.76	7.76	7.77
EUR/IDR	17365	17708	17945	18428	18842	USD/IDR	14189	14515	14472	14510	14720
EUR/INR	88.69	89.1	91.0	93.9	94.1	USD/INR	73.25	73.00	73.40	73.90	73.50
EUR/KRW	1351.92	1366	1364	1372	1357	USD/KRW	1116.55	1120	1100	1080	1060
EUR/MYR	4.97	5.04	5.16	5.23	5.25	USD/MYR	4.11	4.13	4.16	4.12	4.10
EUR/PHP	57.85	58.7	59.8	61.4	62.5	USD/PHP	47.78	48.08	48.2	48.35	48.81
EUR/SGD	1.61	1.62	1.64	1.67	1.66	USD/SGD	1.33	1.33	1.32	1.32	1.30
EUR/TWD	33.49	34.2	34.6	35.6	36.0	USD/TWD	27.66	28.0	27.9	28.0	28.1
EUR/THB	37.63	38.2	38.9	40.0	39.7	USD/THB	31.09	31.3	31.4	31.5	31.0

Source: Refinitiv, ING

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