Economic & Financial Analysis

FX

24 April 2020

FX Strategy

FX Talking

Finding currency strength amid the crisis

As Covid-19 curves start to flatten, financial markets move on to examine which economies may recover first and which may be saddled with legacy issues. Two such legacy issues are: i) a renewed Eurozone sovereign debt crisis and ii) the economic fallout of collapsing oil prices on commodity exporters.

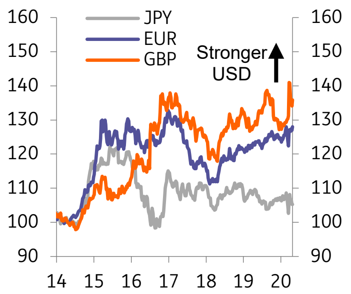
On the former our team expect European policymakers to do enough to contain debt sustainability fears this year. We are therefore not expecting an EMU break-up premium to be built into the EUR in 2020. Combined with massive dollar liquidity provision from the Fed, EUR/USD should slowly move towards 1.15.

As a 'Risk on, Dollar Off' paradigm emerges, investors will slowly start to look for value amongst good quality/rated names. Something like the SEK may start to perform a little better – potentially even the GBP as well, when London chooses to extend the EU transition deal by the end of June.

Amongst the commodity exporters, we prefer AUD and NZD over NOK and CAD given that June should be another difficult month for energy prices. We are also concerned about the commodity-centric bloc in Latam, especially Mexico, where the contraction may be the largest and Banxico is removing MXN's yield armour.

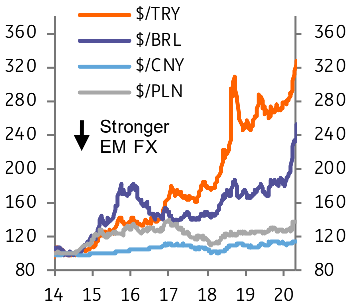
As confidence slowly returns to markets, investors may start to return to foreign equities – a move that would favour Asian FX. Here we would prefer north Asian FX and the high beta KRW, where Korea might actually avoid a 2020 GDP contraction.

USD/Majors (30 Jan 14=100)



Source: Bloomberg, ING

USD/EM (30 Jan 14=100)



Source: Bloomberg, ING

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.10	↑	106	↓	1.25	↑
3M	1.12	↑	105	↓	1.27	↑
6M	1.15	↑	100	↓	1.35	↑
12M	1.15	↑	105	↓	1.35	↑
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.88	↑	27.30	↑	4.55	↑
3M	0.88	↑	27.00	→	4.50	↓
6M	0.85	↓	26.90	↓	4.47	↓
12M	0.85	↓	26.30	↓	4.42	↓
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	7.10	↑	26.00	↑	5.80	↑
3M	7.08	↓	26.50	↑	5.50	↓
6M	6.98	↓	24.50	↓	4.90	↓
12M	6.75	↓	23.00	↓	4.50	↓

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

Source: Bloomberg, ING

FX performance

	EUR/USD	USD/JPY	EUR/GBP	EUR/NOK	NZD/USD	USD/CAD
%MoM	-0.8	-1.8	-4.3	-3.0	2.5	-1.5
%YoY	-3.4	-3.8	1.2	19.5	-9.6	4.8
	USD/UAH	**USD/KZT**	**USD/BRL**	**USD/ARS**	**USD/CNY**	**USD/TRY**
%MoM	-2.2	-2.9	11.2	4.3	0.3	7.7
%YoY	1.7	13.9	42.6	51.5	5.4	18.4

Source: Bloomberg, ING

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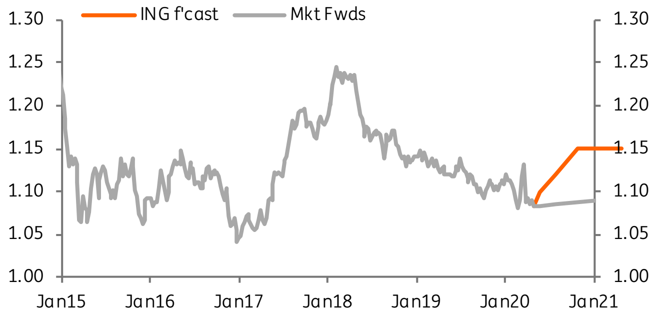
Developed markets

EUR/USD

Out of the frying pan… **Current spot: 1.08**



Source: Bloomberg, ING

- As Covid-19 curves start to flatten, attention turns to lockdown exit strategies and the size of the economic damage. Most major economies are looking at 5-10% contractions this year. The Fed has been one of the most aggressive in providing liquidity (its balance sheet rising to US$6.6tr from US$4.2tr). When there is more transparency, a 'Risk On, Dollar Off' environment will arise.
- The question is whether Europe's 'muddle-through' approach can: i) create stability in risk appetite and ii) allow EUR/$ to rally.
- Key here is Italy. Look out for ratings decisions (Moody's 4 May, Fitch 10 July) and ECB BTP buying figures. Downgrades and less than €30bn/week from the ECB will see a EUR risk premium re-emerge.

ING forecasts (mkt fwd)	**1M** 1.10 (1.08)	**3M** 1.12 (1.08)	**6M** 1.15 (1.08)	**12M** 1.15 (1.09)

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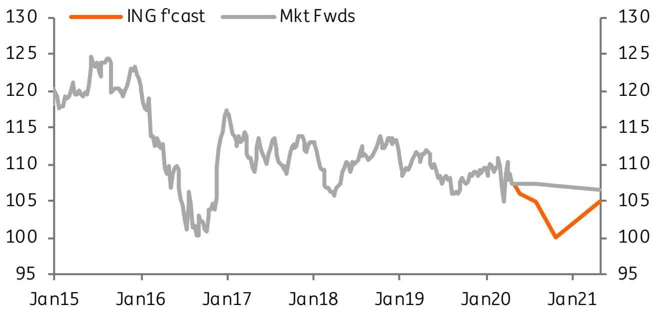
USD/JPY

Holding pattern to resolve to the downside **Current spot: 107.47**



Source: Bloomberg, ING

- Some calm is returning to FX markets, where USD/JPY one-month volatility prices have dropped to 7.7% from a peak above 20% in mid-March. Like many other countries, Japan has embarked on large fiscal stimulus, (including JPY100,000 hand-outs for citizens) and aggressive liquidity provision. The IMF looks for a 5% GDP contraction in 2020, similar to our team's views.
- True to form, the JPY has outperformed since the S&P 500 topped out in late February. Its defensive properties will be favoured during 2Q as the size of the recession becomes clearer.
- Our call is that the Fed's soaring balance sheet will drag the dollar lower across the board into 2H20, leaving JPY100 tested.

ING forecasts (mkt fwd)	**1M** 106.00 (107)	**3M** 105.00 (107)	**6M** 100.00 (107)	**12M** 105.00 (107)

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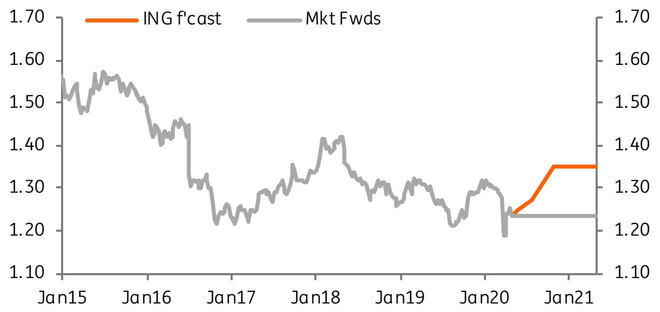
GBP/USD

BoE monetary financing having no effect on GBP **Current spot: 1.23**



Source: Bloomberg, ING

- With the USD funding squeeze easing, GBP (vulnerable to external financing) breathes easier now & the fall in GBP speculative longs has come to a halt. GBP/USD spec. positioning is now neutral.
- We don't see the BoE decision to provide temporary monetary financing as a negative for GBP as the BoE enjoys a high degree of credibility, while in current uncertain times aggressive measures that help to stabilise domestic markets are forgiven.
- As the ultra-loose Fed policy is eventually to weigh on USD, we target higher GBP/USD in 2H, to / above 1.30. The main downside risk is the EU fiscal crisis which would be negative for all European FX vs USD, but GBP/USD would still likely outperform EUR/USD.

ING forecasts (mkt fwd)	**1M** 1.25 (1.23)	**3M** 1.27 (1.24)	**6M** 1.35 (1.24)	**12M** 1.35 (1.24)

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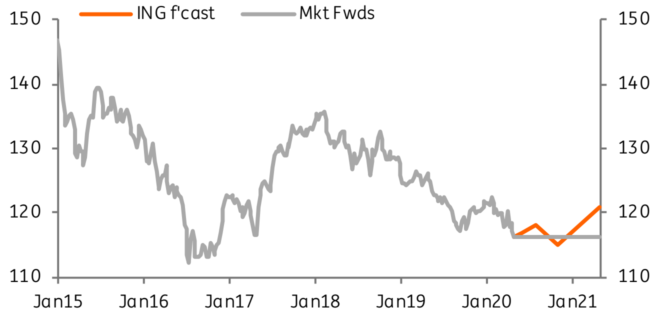
EUR/JPY

Will Europe drop the ball? **Current spot: 116.3**



Source: Bloomberg, ING

- EUR/JPY is under pressure again – which is typically the case in a recessionary environment. Two paths exist: i) Europe comes together to ensure that EMU fragmentation is not the fallout from Covid-19, the risk tone improves, yield curves steepen and EUR/JPY rallies. The second path is that Europe drops the ball and that break-up fears add another layer to the global doom. Maybe we're being too optimistic, but we favour the former story.
- So far we have yet to see the EUR factor in the type of break-up premium as was the case in 2012. EUR/JPY would be a 100/105 story were this the case.
- Progress on EU recovery fund would certainly be welcome here.

ING forecasts (mkt fwd)	**1M** 117.00 (116)	**3M** 118.00 (116)	**6M** 115.00 (116)	**12M** 121.00 (116)

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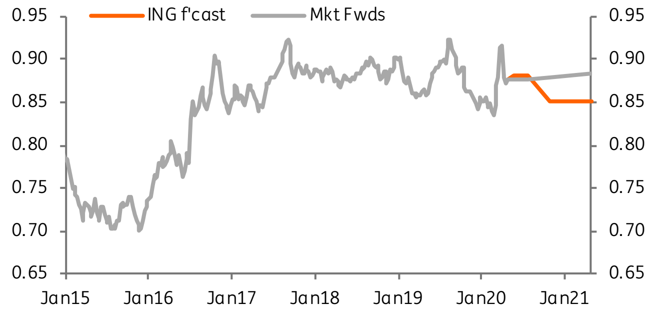
EUR/GBP

GBP marginally benefiting from the EU fiscal uncertainty **Current spot: 0.88**



Source: Bloomberg, ING

- EUR/GBP has stabilised around the 0.8700 gravity line, with the main positive for GBP vs EUR being the long-term EU fiscal sustainability uncertainty (as evident in wider BTP-Bund spreads). This should keep EUR/GBP in the 0.87-0.88 area for coming weeks.
- UK officials are adamant not to extend the EU transition period beyond 2020, but Covid-19 hurdles mean an extension is very likely. With the extension deadline being end-June, GBP can come under modest pressure in early June, before recovering.
- UK data have been extraordinarily poor (as per April PMIs) but this does not buck the trend of global and European data, meaning that the negative effect on GBP is fairly limited.

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

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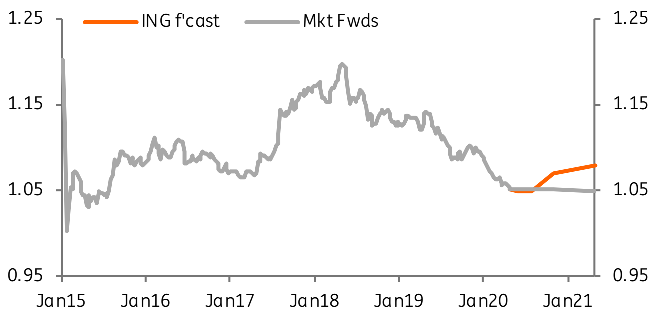
EUR/CHF

SNB's balance sheet takes a big hit in 1Q20 **Current spot: 1.05**



Source: Bloomberg, ING

- A looming Eurozone debt crisis has seen renewed downside pressure on EUR/CHF. The huge money printing operation from the ECB – perhaps €1tr this year – will recall events of 2015, when the Swiss National Bank abandoned the 1.20 floor shortly in advance of the launch of the ECB's first QE programme. Clearly the risks are stacked on the downside for EUR/CHF over coming months.
- Our team believe that Europe muddles through, such that the BTP-Bund spread ends 2020 inside of 200bp. EUR/CHF holds 1.05.
- Over recent months, SNB has spent around CHF30bn defending 1.05. But big reserves could mean big losses (SNB lost CHF38bn in 1Q20) and stepping away from intervention would mean parity.

ING forecasts (mkt fwd)	**1M** 1.05 (1.05)	**3M** 1.05 (1.05)	**6M** 1.07 (1.05)	**12M** 1.08 (1.05)

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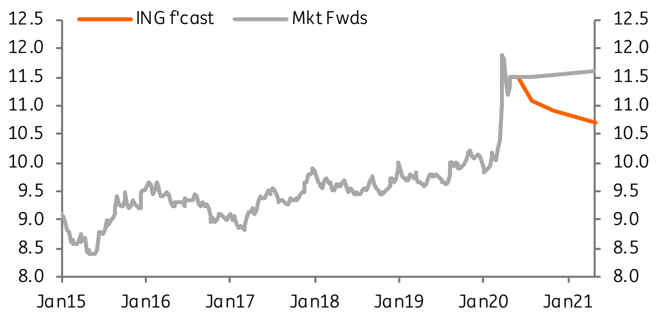
EUR/NOK

Limited NOK upside due to the bleak near-term oil outlook **Current spot: 11.49**



Source: Bloomberg, ING

- The post USD funding squeeze recovery in NOK came to a halt following the May WTI oil price meltdown. While Brent remained more resilient, our commodity team's view that June WTI contract may turn negative again (dragging Brent down) means NOK may come under pressure again ahead of the 18 May contract expiration. EUR/NOK is unlikely to move above 12.00.
- With Brent expected to stay around/below US$25/bbl in 2Q20, the upside for NOK should be limited and bound by EUR/NOK 11.00. We look for a wide EUR/NOK range trade of 11.00-12.00.
- NB cut rates aggressively and is 25bp from the zero-lower bound. One more cut is possible, but negative rates or QE are unlikely.

ING forecasts (mkt fwd)	**1M** 11.50 (11.50)	**3M** 11.10 (11.51)	**6M** 10.90 (11.54)	**12M** 10.70 (11.59)

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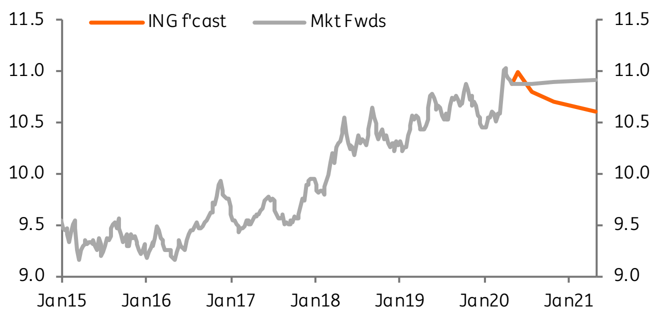
EUR/SEK

No longer standing out on the negative side **Current spot: 10.87**



Source: Bloomberg, ING

- EUR/SEK to stay around/below the 11.00 level as SEK is the least vulnerable G10 cyclical currency to changes in risk appetite.
- This is because: (a) it doesn't exert any exposure to commodity prices, and (b) although still having the lowest implied yield in its G10 FX peer group, the difference has narrowed significantly following the large cuts from NB, BoC, RBA or RBNZ.
- We don't expect the Riksbank to cut rates this year (given its low appetite for negative rates). The bank already extended its QE programme (by SEK300bn for 2020), but given the easing bias by global central banks, SEK doesn't stand out on the negative side. This should keep pressure on the undervalued SEK fairly limited.

ING forecasts (mkt fwd)	**1M** 11.00 (10.87)	**3M** 10.80 (10.88)	**6M** 10.70 (10.89)	**12M** 10.60 (10.92)

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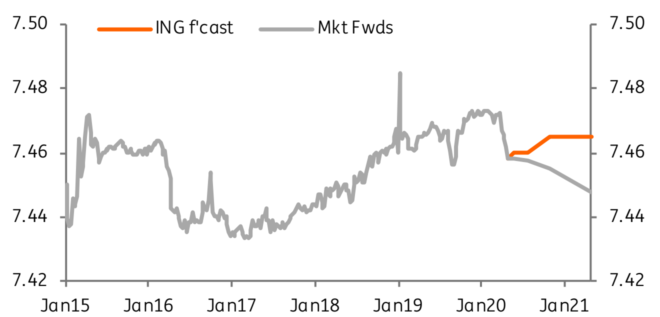
EUR/DKK

The depreciation pressure averted **Current spot: 7.458**



Source: Bloomberg, ING

- The March Danmarks Nationalbank 15bp rate hike worked and, along with the reduction in excess liquidity, helped to drive EUR/DKK lower, far away from the upper bound of the central parity tolerance band.
- Unlike other central banks, the bar for DN to embark on QE is set rather high as too weak a currency has been an issue up until very recently. Potential central bank asset purchases would likely warrant another hike to ease renewed pressure on the krone.
- The decision to partly fund the increased budget deficit via FX debt has also reduced the need for QE (from the perspective of a stabilizing tool for the local debt market) as the DKK denominated issuance won't be as large as initially feared.

ING forecasts (mkt fwd)	**1M** 7.460 (7.46)	**3M** 7.460 (7.46)	**6M** 7.465 (7.45)	**12M** 7.465 (7.45)

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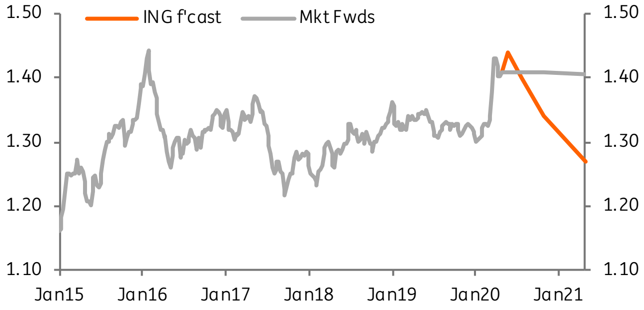
USD/CAD

High risk of a delayed oil impact

Current spot: 1.408



Source: Bloomberg, ING

- The Canadian dollar has navigated the recent turmoil in the oil market without facing any major sell-off. We suspect this won't be the case for much longer: 1.45 may still be on the cards.
- The storage constraints and extended lockdowns may still keep oil weak across the futures curve. WCS (the Canadian crude) has been trading around zero (also below zero) for the past weeks: the implications for the Canadian economy are set to be significant and can definitely hinder the ability to recover in 2H.
- So, watch out for a delayed impact on CAD, which may depreciate faster if risk appetite takes another hit or trail other procyclical currencies if good Covid-related news helps sentiment.

ING forecasts (mkt fwd)	**1M** 1.44 (1.41)	**3M** 1.40 (1.41)	**6M** 1.34 (1.41)	**12M** 1.27 (1.41)

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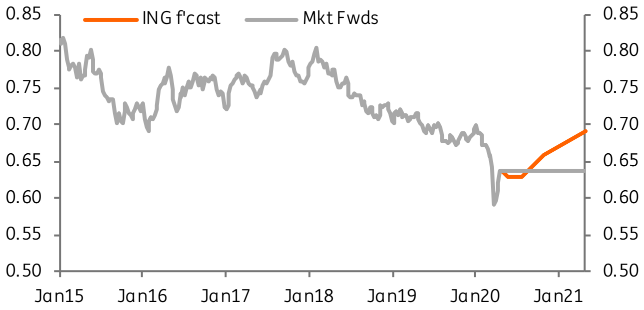
AUD/USD

Best commodity currency for a recovery

Current spot: 0.64



Source: Bloomberg, ING

- Despite the adoption of QE last month, the AUD has staged a strong recovery.
- A very strong response to the Covid-19 pandemic, has led new cases to flatten off impressively. The economic response to the pandemic has been very strong, with one of the biggest on-budget responses anywhere. Contrary to the outlook downgrade by S&P, Australia's post-Covid-19 outlook is probably one of the strongest anywhere and this can allow AUD to lead the recovery in G10 procyclical currencies.
- Iron ore is showing some resilience (positive signs of Chinese demand) that is sheltering the AUD from the swings in crude oil.

ING forecasts (mkt fwd)	**1M** 0.630 (0.64)	**3M** 0.630 (0.64)	**6M** 0.660 (0.64)	**12M** 0.690 (0.64)

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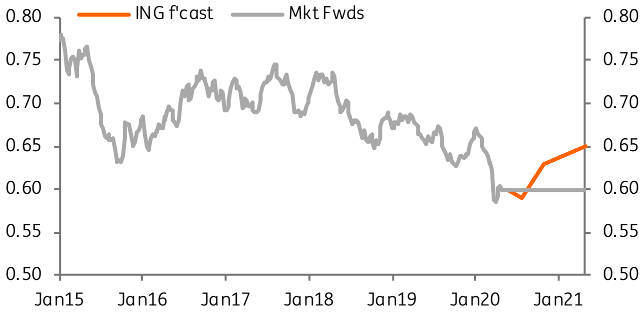
NZD/USD

Likely to keep lagging AUD

Current spot: 0.60



Source: Bloomberg, ING

- New Zealand has not been quite so aggressive on the fiscal front, but has still delivered a decent fiscal boost, and the RBNZ may well expand its asset purchase programme in May.
- Like Australia, the NZ lockdown has been implemented early, and wholeheartedly, and has delivered a clear peak in cases, making the prospect of a return to normality more likely than some Asian peers. The prospects for a second half recovery for New Zealand are looking very good and should support NZD.
- In the nearer term, however, speculation of RBNZ exploring negative rate and diary prices suffering from their correlation with crude oil, mean NZD is set to keep lagging AUD.

ING forecasts (mkt fwd)	**1M** 0.60 (0.60)	**3M** 0.59 (0.60)	**6M** 0.63 (0.60)	**12M** 0.65 (0.60)

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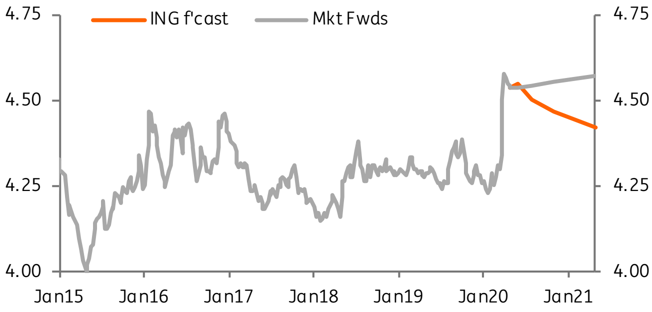
Emerging markets

EUR/PLN

Biggest fiscal programme in Europe forces large QE

Current spot: 4.53



Source: Bloomberg, ING

- Poland entered the crisis in good shape, as net trade showed remarkable resilience (unlike other CEEs). Also, investors were deeply underweight Polish government bonds. The current jump in borrowing needs finds bids from banks and NBP interventions, effectively QE.
- Poland launched the biggest anti-crisis programme in Europe (direct fiscal support at 6.5% of GDP). Together with the cyclical drop in taxes net borrowing needs have jumped to 8.5% of GDP. NBP was forced to launch a QE programme (8.0% of GDP), which is comparable to the US Fed's QE1. So far PLN has not reacted. PLN is difficult to borrow and FX swaps are elevated. But the poor transparency and big size of the programme may at least prevent PLN from strengthening in 2H20.

ING forecasts (mkt fwd)	**1M** 4.55 (4.54)	**3M** 4.50 (4.55)	**6M** 4.47 (4.55)	**12M** 4.42 (4.57)

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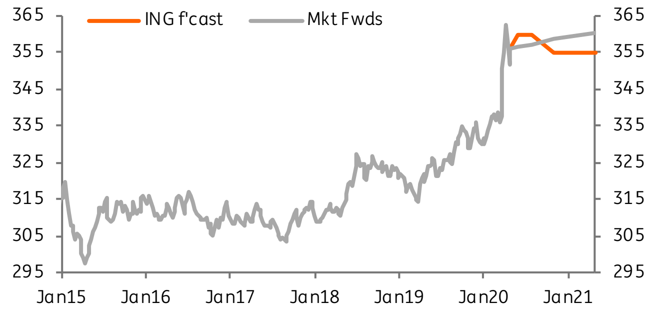
EUR/HUF

HUF volatility is closely monitored by the central bank

Current spot: 356.2



Source: Bloomberg, ING

- EUR/HUF almost reached 370, triggering action by the National Bank of Hungary. The moves helped stabilise the HUF, but now the central bank is facing a new challenge – starting QE.
- We don't expect the NBH QE to have a detrimental effect on HUF as the QE was already signalled and it's unlikely to surprise on the dovish side (we see a rather quasi-sterilized financial stability focused programme). Adding to that, front-end rates / implied yields should remain elevated, thus anchoring HUF.
- A further HUF fall (that would be out of sync with CEE FX) would likely trigger another hike in the 1-week depo. EUR/HUF to stay around the 360 level.

ING forecasts (mkt fwd)	**1M** 360.00 (356.6)	**3M** 360.00 (357.3)	**6M** 355.00 (358.4)	**12M** 355.00 (360.5)

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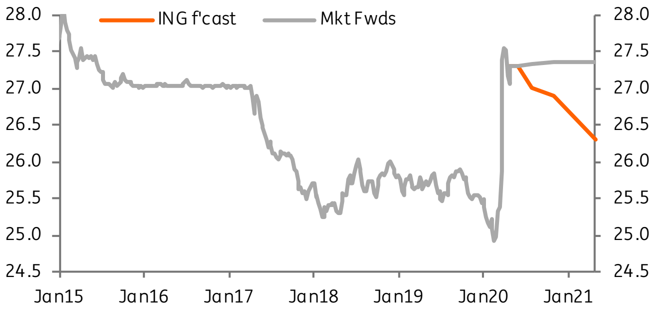
EUR/CZK

Converge towards 27 level in months ahead

Current spot: 27.30



Source: Bloomberg, ING

- The May Czech National Bank meeting will very likely deliver another 50bp cut, pushing the main rate to 0.5%. But as this is fully priced in, it should have a limited effect on CZK. While the CZK has lost its carry advantage, the koruna benefits from the CNB's lack of QE (which would only be done for financial stability reasons), compared to the NBP, NBR or NBH.
- With the CNB having large FX reserves and its unwillingness to tolerate further elevated CZK volatility and unwarranted weakness, the downside to CZK should be limited. EUR/CZK at/above the 28.00 level should be a pain threshold for the CNB, in our view. EUR/CZK to converge towards / modestly below the 27.00 level in coming months.

ING forecasts (mkt fwd)	**1M** 27.30 (27.32)	**3M** 27.00 (27.34)	**6M** 26.90 (27.35)	**12M** 26.30 (27.37)

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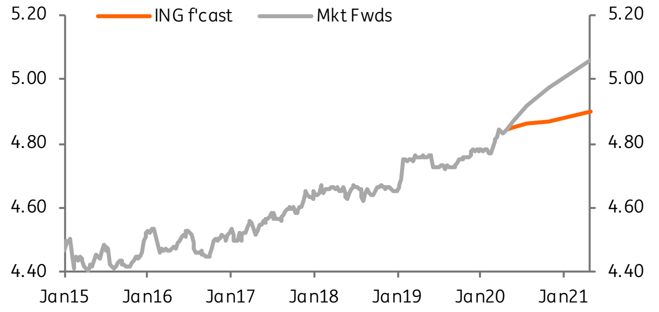
EUR/RON

Tightly managed, as usual

Current spot: 4.84



Source: Bloomberg, ING

- The Romanian leu again outperformed most of its peers, but nothing comes freely. We estimate the NBR intervened to the tune of €2bn in March to keep the EUR/RON below 4.85.
- The strict liquidity management remains a complementary tool which the NBR is using to fend-off RON weakness. FX swap implied yields touched as high as 20% in shorter tenors before stabilising somewhere around 6.00-7.00% - which is still abnormally high compared to the 2.00% key rate level.
- We have revised our year-end forecast slightly higher to 4.88 from 4.85 - which is still a minuscule depreciation by regional standards.

ING forecasts (mkt fwd)	**1M** 4.85 (4.87)	**3M** 4.86 (4.92)	**6M** 4.87 (4.97)	**12M** 4.90 (5.06)

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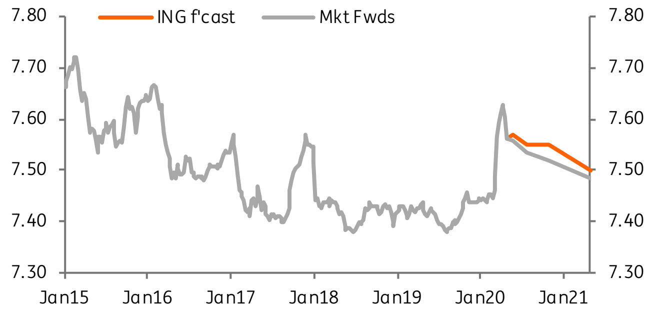
EUR/HRK

It's all under control

Current spot: 7.56



Source: Bloomberg, ING

- Croatia's tourism dependency is a fundamental weakness for the kuna this year at least. Under the official forecast scenario, overnight stays will drop by 75% in 2020 which starts to look optimistic given the 95% drop in Croatia Airline's April bookings.
- The HNB actively intervened in the FX market selling €2.25bn in March alone. A EUR2bn swap line with the ECB has been established as a cushion. HRK3.8bn have been injected in a 5Y structural repo auction and weekly auctions continue to be held.
- The mix of measures have been courageous but adequate in our view. We see the kuna on a very mild appreciation path in the upcoming period and maintain our 7.55 year-end forecast.

ING forecasts (mkt fwd)	**1M** 7.57 (7.56)	**3M** 7.55 (7.54)	**6M** 7.55 (7.52)	**12M** 7.50 (7.48)

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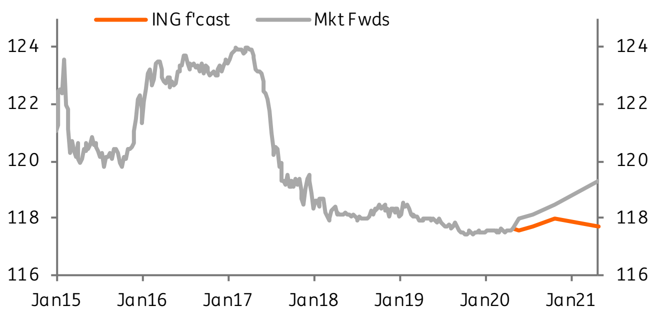
EUR/RSD

Time for an upward adjustment is getting closer

Current spot: 117.7



Source: Bloomberg, ING

- The bold actions of the NBS continued as the bank again decided to cut its key rate to 1.50% while preserving the stability of the currency via regular FX interventions. 117.50 remains a reference level for the NBS.
- We believe that as the situation normalises, the dinar will actually depreciate slightly towards our 118.00 year-end forecast. One of the reasons for keeping such a tight grip on the currency has been – in our view – to prevent an eventual retail rush into euro. As the likelihood of this event subsides, the dinar might be allowed to depreciate slightly.
- The budget revision targets a 7.0% deficit. This is above expectations and will add depreciation pressure on the dinar.

ING forecasts (mkt fwd)	**1M** 117.60 (118.0)	**3M** 117.70 (118.1)	**6M** 118.00 (118.5)	**12M** 117.70 (119.3)

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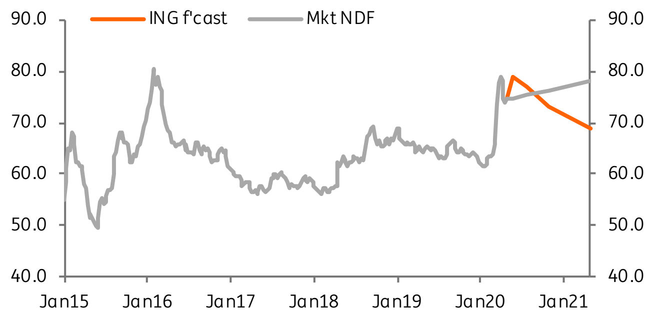
USD/RUB

Rollercoaster 2Q20 inbound, 2H20 recovery possible **Current spot: 74.49**



Source: Bloomberg, ING

- The ruble avoided a sharper depreciation in April thanks to the fiscal rule, which allowed the CBR to boost FX sales from US$50m per day to US$200-300m per day. Portfolio inflows to RUB state bonds (OFZ) re-emerged, allowing RUB to outperform its EM/commodity peers.
- Given high volatility of global risk appetite and commodity markets, also due to uncertainties with OPEC+ compliance and efficiency, near-term risks remain, with USDRUB staying in the 75-80 range at best.
- After mid-year we see RUB stabilising thanks to non-oil items, such as a drop in imports (by US$50bn in 2020 vs 2019), lack of Russian international tourism (US$30bn), smaller dividend outflow (US$30bn), as well as a solid capital account thanks to an already high foreign assets position and low foreign debt.

ING forecasts (mkt fwd)	**1M** 79.00 (74.83)	**3M** 77.00 (75.48)	**6M** 73.00 (76.37)	**12M** 69.00 (77.98)

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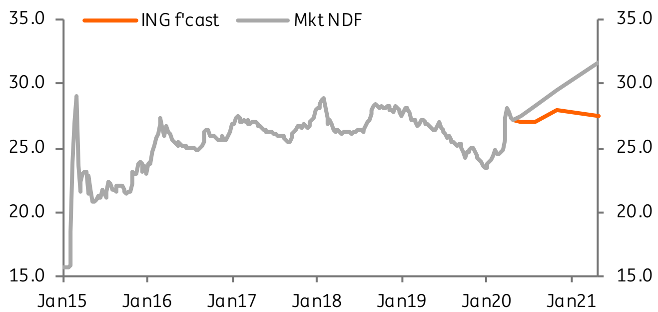
USD/UAH

The worst seems to have passed **Current spot: 27.12**



Source: Bloomberg, ING

- As expected, the lower inflation profile has not changed much in NBU's FX-centred monetary policy. The 27-28 area was the battleground to prevent further hryvnia losses.
- Eventually the depreciation pressures subsided and the seasonal appreciation pattern kicked-in as agricultural exports picked up. Nevertheless, we believe that the NBU will be active on the bid side as well, most likely in the 26.5-27 range.
- The NBU continued to lower its policy rate, entering the single-digit territory for the first time since mid-2014. To the extent the FX developments allow, we believe that the NBU will continue its rate cutting cycle towards 8.00% by year-end.

ING forecasts (mkt fwd)	**1M** 27.00 (27.52)	**3M** 27.00 (28.23)	**6M** 28.00 (29.42)	**12M** 27.50 (31.71)

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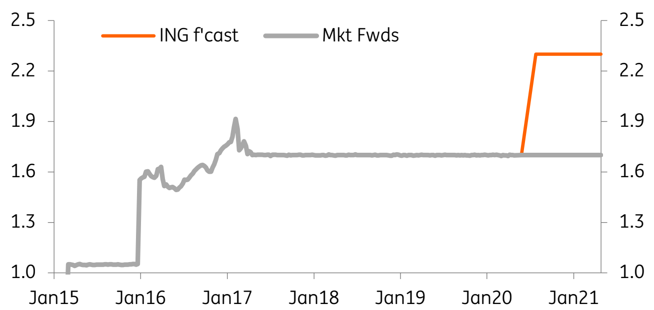
USD/AZN

Case for manat devaluation is building **Current spot: 1.70**



Source:

- The oil price slump to US$22/bbl further increases the possibility of a manat devaluation to USD from the current 1.70 level. To keep AZN pegged, state oil fund SOFAZ spent US$2.8bn in 1Q20.
- Fitch affirmed Azerbaijan at BB+ but revised the outlook from stable to negative, referring to the country's macro-management of defending AZN and spending reserves in vain.
- Reserves are still ample, CB's and SOFAZ's - 100% GDP altogether, but SOFAZ may come under pressure in case of: i) increasing fiscal stimulus and ii) the need to support quasi-sovereign banks, which have not yet recovered from the 2015 crisis (NPLs in the banking sector are high at 11% at Oct-19).

ING forecasts (mkt fwd)	**1M** 1.70 (1.70)	**3M** 2.30 (1.70)	**6M** 2.30 (1.70)	**12M** 2.30 (1.70)

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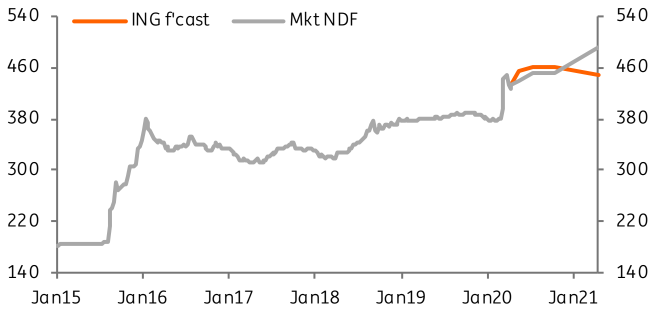
USD/KZT

Risk of further depreciation remains high

Current spot: 431.4



Source: Bloomberg, ING

- The tenge's temporary appreciation in the first two weeks in April was due to apparent FX selling by quasi-state enterprises, however this support faded in the face of the second wave of the oil price drop. NBK managed to limit depreciation by spending reserves (in March only they were reduced from 50.3% to 48.9%).
- Current USD/KZT is stronger than our estimates, but the risk of a new wave of depreciation is high, especially if the oil price remains at current low levels. To continue supporting the tenge, the NBK might have to tighten administrative measures.
- In the mid-term tenge is likely to stay pressured given declining exports (in 2M20 oil suppliers abroad fell by 2.8% YoY) and a weak institutional environment. Meanwhile, banking sector's tolerance to tenge depreciation is low with FX liabilities exceeding FX assets.

ING forecasts (mkt fwd)	**1M** 454.00 (438.6)	**3M** 462.00 (450.4)	**6M** 460.00 (450.9)	**12M** 448.00 (491.0)

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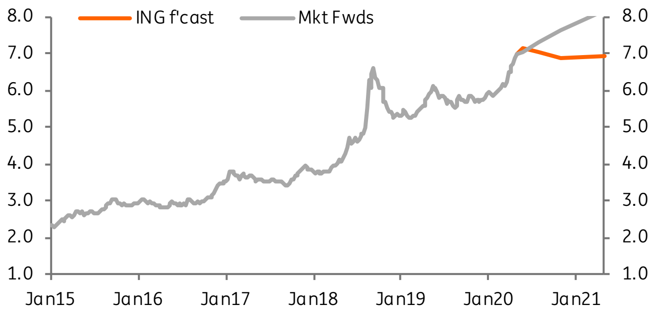
USD/TRY

CBT keeps easing bias

Current spot: 6.97



Source: Bloomberg, ING

- The Central Bank of Turkey extended the rate cutting cycle given demand weakness, falling price pressures and a supportive backdrop given the accommodative policy stance of global central banks.
- The bank also reiterated growing downside risks to inflation thanks to: 1) the continued plunge in commodity prices, leading to a downward adjustment in local fuel prices despite currency depreciation and 2) weakening demand conditions, though the adverse impact of declining production and sales on variable costs needs to be closely monitored.
- Going forward, the CBT's actions, the global backdrop and locals' portfolio preferences will determine the TRY performance.

ING forecasts (mkt fwd)	**1M** 7.15 (7.07)	**3M** 7.05 (7.31)	**6M** 6.90 (7.62)	**12M** 6.95 (8.17)

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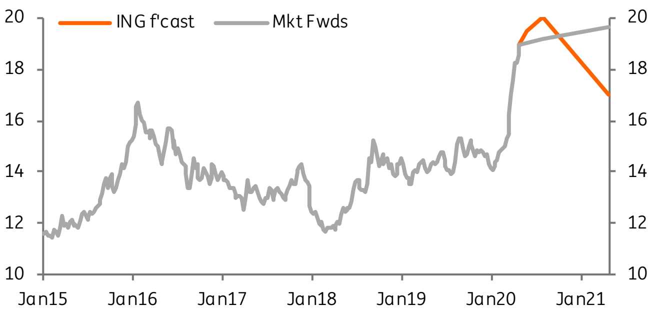
USD/ZAR

Unwelcome peer group

Current spot: 18.97



Source: Bloomberg, ING

- The ZAR is part of the unwelcome commodity peer group (along with MXN and BRL), which has fallen 20% versus USD over the last couple of months. Exposure to the commodity cycle and a weak fiscal position (losing its final investment grade rating from Moody's on 27 March) leave the ZAR vulnerable. Both the SARB and the IMF forecast GDP to contract 6% this year despite the relatively large 10% of GDP fiscal stimulus announced by the government.
- The SARB has already cut rates 200bp to 4.25% and may well do another 50-100bp. Its announcement to buy SAGBs more looks like liquidity support to the bond market, rather than QE per se.
- Fiscal challenges to keep ZAR as a high beta, fragile EM currency.

ING forecasts (mkt fwd)	**1M** 19.50 (19.03)	**3M** 20.00 (19.14)	**6M** 19.00 (19.30)	**12M** 17.00 (19.63)

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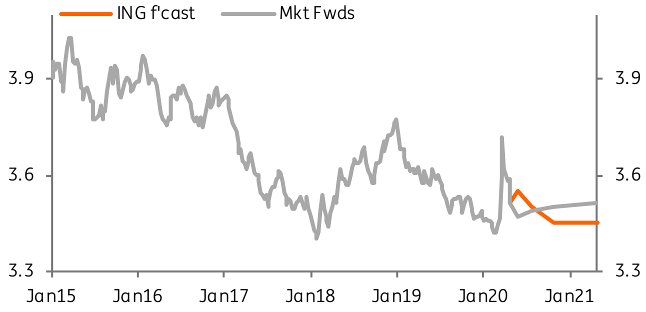
USD/ILS

BoI actually ended up buying FX in March

Current spot: 3.51



Source: Bloomberg, ING

- As is customary the ILS has proved relatively resilient and bounced back strongly from the March low of 3.89/USD. The BoI's FX reserve figures always make a good read. The March figures decreased by US$5bn, largely because of the US$7.5bn one week USD swap line provided to the local banking system from FX reserves. But the same report actually shows the BoI actually bought FX/sold ILS in March – might we see a new floor above 3.50?
- The Israeli economy is expected to contract 5% this year after a strong performance last year, but Israel's strong sovereign rating (AA- at S&P) and 3% C/A surplus mark ILS as an outperformer.
- Let's see how the new Netanyahu-Gantz government works out.

ING forecasts (mkt fwd)	**1M** 3.55 (3.47)	**3M** 3.50 (3.49)	**6M** 3.45 (3.50)	**12M** 3.45 (3.51)

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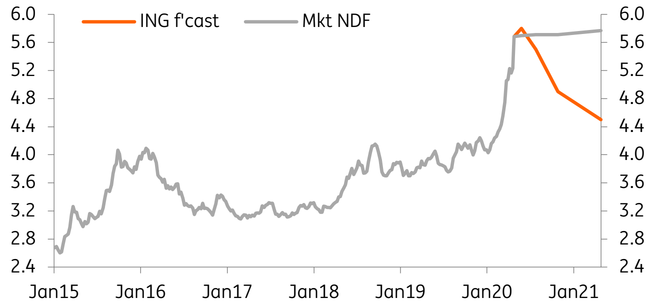
LATAM

USD/BRL

BRL weakens on lower rates, and rising fiscal concerns

Current spot: 5.63



Source: Bloomberg, ING

- FX intervention should continue to provide FX liquidity, but the BRL could reach new lows as the central bank embarks on a deeper rate-cutting cycle, even as fiscal risks remain elevated.
- CB officials have confirmed that the outlook for economic activity deteriorated sharply in recent weeks, while the inflation outlook has improved, which should lead to a deeper easing cycle than previously expected. As a result, local markets now price a 100bp drop in the SELIC rate, from 3.75%, over the next two months.
- Monetary authorities still worry about a persistent damage to Brazil's fiscal outlook. Initiatives to support states and to boost public infrastructure investment are two key sources of concern.

ING forecasts (NDF)	**1M** 5.80 (5.64)	**3M** 5.50 (5.66)	**6M** 4.90 (5.65)	**12M** 4.50 (5.71)

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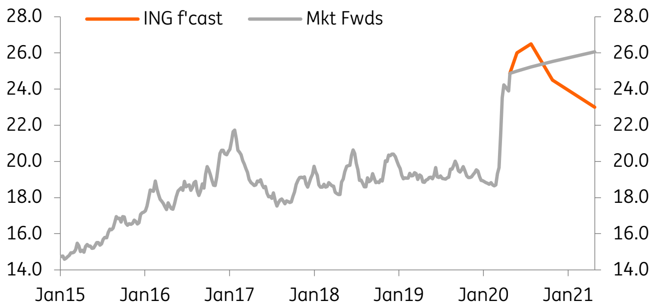
USD/MXN

MXN outlook hampered by recession and deeper rate cuts

Current spot: 24.85



Source: Bloomberg, ING

- The MXN may also see new lows as the CB signals greater willingness to support economic activity through rate cuts. This contrasts the CB's previous emphasis on financial stability, and a concern over FX outflows, that typically resulted in a relatively more hawkish guidance for the policy rate.
- This new emphasis should weaken the MXN's key anchor, its yield advantage, resulting in more outflows and lasting MXN weakness.
- Credit rating agencies have downgraded Mexico over the past month, with the collapse in oil prices likely acting as a chief catalyst. Further downgrades are possible, but a sub-investment grade rating is unlikely in the nearer-term.

ING forecasts (mkt fwd)	**1M** 26.00 (24.98)	**3M** 26.50 (25.21)	**6M** 24.50 (25.50)	**12M** 23.00 (26.04)

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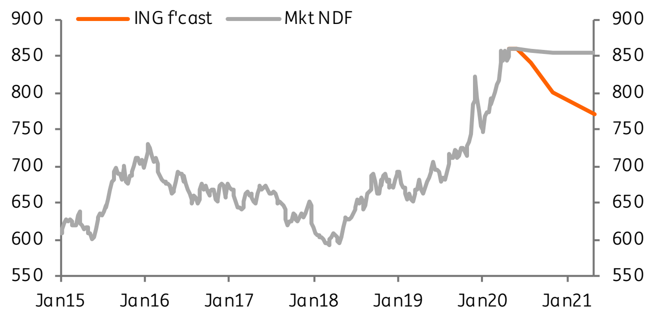
USD/CLP

Aggressive stimulus program could facilitate recovery

Current spot: 860.41



Source: Bloomberg, ING

- Chile's aggressive policy reaction to the economic crisis should help pave the way for a faster post-crisis recovery.
- The government announced a 6%-of-GDP fiscal package and the CB lowered the policy rate by 125bp to its "technical minimum" of 0.5%. An evolving battery of liquidity provisions to normalize and facilitate bank lending and ensure monetary policy transmission should also help ease financial conditions.
- As usual, copper prices should remain a key FX driver and with the metal price now off its recent lows, an outperforming bias for the CLP could emerge amid more solid prospects for the eventual normalisation of global demand.

ING forecasts (NDF)	**1M** 860.00 (860)	**3M** 840.00 (858)	**6M** 800.00 (855)	**12M** 770.00 (854)

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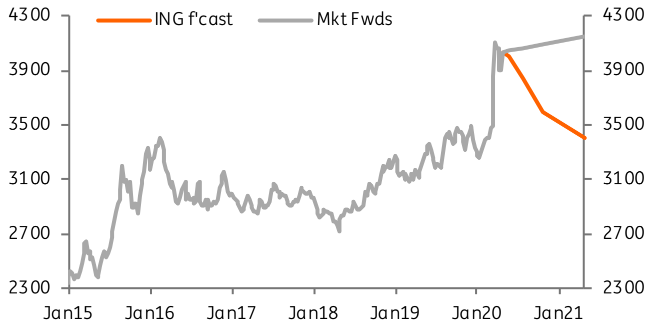
USD/COP

Facing twin-shocks from a stronger starting point

Current spot: 4037.18



Source: Bloomberg, ING

- The Colombian administration has also eased its economic policy stance over the past month, but that response is considerably tamer than the one seen in Chile and Peru.
- This reflects Colombia's mix of relatively stronger economic momentum and concern over lasting damage to fiscal accounts, especially given the recent negative action by credit-rating agencies, which was probably triggered by the fall in oil prices.
- The COP looks fairly priced, but the evolution of oil prices should remain a key FX driver. In addition, the CB's focus on liquidity provisions, rather than rate cuts, suggests that the relatively high policy rate (3.75%) could act as an FX stabiliser.

ING forecasts (NDF)	**1M** 4000.00 (4047)	**3M** 3850.00 (4064)	**6M** 3600.00 (4092.00)	**12M** 3400.00 (4143.00)

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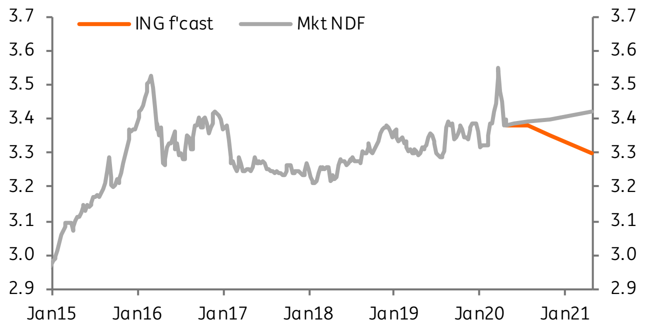
USD/PEN

Aggressive stimulus to limit the economic downside

Current spot: 3.38



Source: Bloomberg, ING

- The PEN stands out for its fast recovery from the fresh all-time lows reached one month ago.
- Even though Peru is a small open economy that is heavily reliant on commodity exports, the currency remains less affected by the fluctuations in risk appetite that affected its EM peers, which reflects Peru's more heavily-managed FX regime.
- Peru's superior ability to deploy economic policy stimulus to help offset economic impact of the crisis may also help explain the PEN's outperformance. So far, the government has announced the largest fiscal stimulus package in LATAM, estimated at 12% of GDP, along with the deepest rate cuts, with the policy rate now at its lower bound, at 0.25%.

ING forecasts (NDF)	**1M** 3.38 (3.38)	**3M** 3.38 (3.39)	**6M** 3.35 (3.40)	**12M** 3.30 (3.42)

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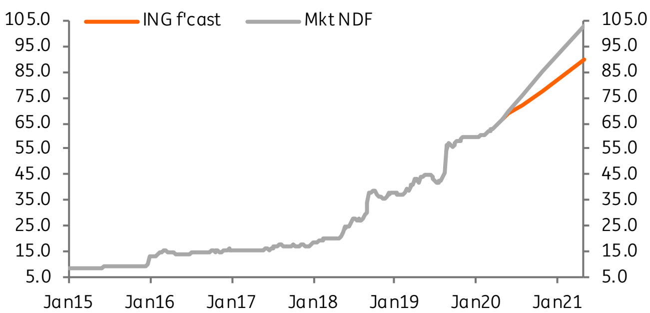
USD/ARS

External debt negotiations show limited progress

Current spot: 66.44



Source: Bloomberg, ING

- The Fernandez administration has finally presented its external debt exchange offer. The initial offer incorporates deep 60-70% NPV discounts and has been rejected by bondholders.
- Argentina also has opted to enter the grace period to delay servicing external bonds. The confrontation is generally expected to result in counter-offers and more intense negotiations but the ongoing economic crisis appears to have both added urgency and complicated the negotiating process.
- A compromise solution is still possible, but the clock is ticking and, if an understanding is not reached soon, Argentina could default. This would exacerbate local market instability and widen the large premium between the official and the non-official FX rates.

ING forecasts (NDF)	**1M** 68.50 (69.75)	**3M** 72.00 (75.65)	**6M** 77.00 (85.05)	**12M** 90.00 (102.92)

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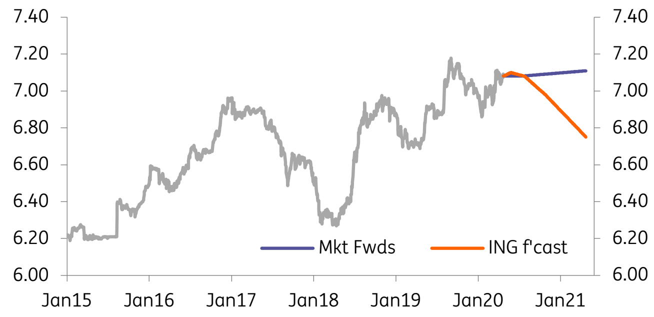
Asia

USD/CNY

Terrible growth in 1Q means more easing and stimulus

Current spot: 7.081



Source: Bloomberg, ING forecasts

- The -6.8% YoY GDP growth in 1Q20 shocked the market. With such a contraction the Chinese central bank is expected to continue to cut interest rates and RRR to stabilise the sentiment in the money and bond market. The easing should also support liquidity needs from corporates with cash flow issues from weak external demand.
- The recovery will depend more on domestic demand, mainly from the "new infra" stimulus plan.
- The yuan has been quite stable against the dollar and has appreciated against a basket of currencies YTD. A stable yuan with a liquid bond market should help avoid massive outflows.

ING forecasts (mkt fwd)	**1M** 7.100 (7.081)	**3M** 7.080 (7.082)	6M 6.980 (7.091)	**12M** 6.750 (7.110)

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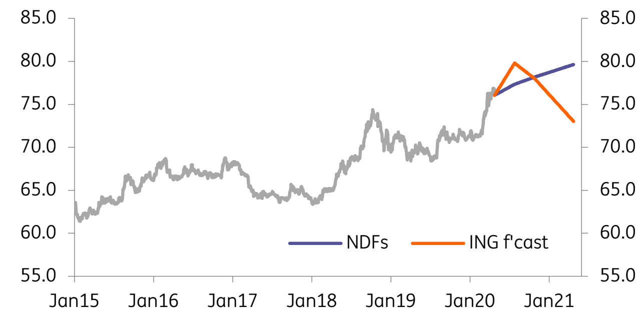
USD/INR

Marching towards 80

Current spot: 76.07



Source: Bloomberg, ING forecasts

- With over 7% year-to-date depreciation the INR remains among the Asian underperformers. We continue to see USD/INR trading towards 80 in the coming months.
- The Covid-19 infections have surged past 20,000, which with a chaotic implementation of containment measures risks a prolonged spell ahead. Indeed, the economic fallout would be dire with as much as 5% YoY GDP fall in the current quarter.
- About 1.3% of GDP fiscal stimulus is far too small by regional comparison. The RBI is left to do all the heavy-lifting. Liquidity boosting efforts worth US$63 billion may not serve its purpose until the outbreak ends, whenever that happens.

ING forecasts (mkt fwd)	**1M** 77.30 (76.49)	**3M** 79.80 (77.34)	**6M** 78.00 (78.17)	**12M** 73.00 (79.64)

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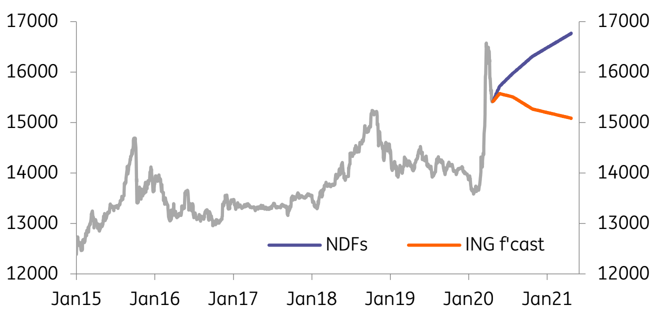
USD/IDR

IDR drops on Covid-19 concerns but steadies on Fed deal

Current spot: 15415



Source: Bloomberg, ING forecasts

- The IDR entered a tailspin in March with heavy foreign selling noted on fears of an economic downturn induced by the virus. It remained on the backfoot with the central bank busy limiting depreciation via participation in the spot, bond and NDF markets, burning through roughly $10 bn for the month of March alone.
- Bank Indonesia (BI) was forced to cut policy rates by 25bp to join in the fight against the Covid-19 downturn but probably won't cut rates any further until IDR stabilises.
- BI announced a US$60bn repo line with the Fed, boosting IDR but we expect IDR to remain pressured as Covid-19 infections rise in Indonesia.

ING forecasts (mkt fwd)	**1M** 15574 (15720)	**3M** 15509 (15975)	**6M** 15267 (16315)	**12M** 15085 (16770)

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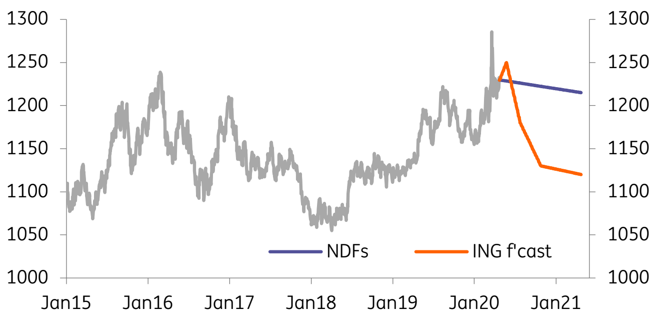
USD/KRW

Poised to perform **Current spot: 1230**



Source: Bloomberg, ING forecasts

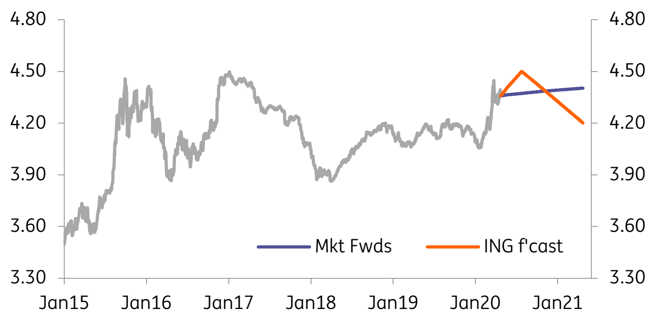
- Korea never implemented a mandatory lockdown, even in the Southern City of Daegu, the stay home recommendation was voluntary – but it was still largely obeyed.
- Instead, massive testing, contact tracing and isolation of potentially infected persons has delivered a clear fall in infections without the damaging effects of a lockdown.
- Korea's economy will still be very sluggish this year, but it is in a better position to recover than some of its neighbouring countries where lockdown is leading to bankruptcy and job losses. The main risk to KRW recovery is if North Korea's leadership stability is undermined, which is a source of recent speculation.

ING forecasts (NDFs)	**1M** 1250 (1229)	**3M** 1180 (1226)	**6M** 1130 (1222)	**12M** 1120 (1215)

Rob Carnell, Singapore +65 6232 6020

USD/MYR

Plunge in oil not good for Asia's net oil exporter **Current spot: 4.359**



Source: Bloomberg, ING forecasts

- After over 5% depreciation in 1Q20, the MYR appears to be stable in the 4.30-4.40 range so far in April. Yet, it continues to be an Asian underperformer with now an added hit from falling global oil prices as it is Asia's net oil exporter economy.
- Despite surprisingly strong trade and manufacturing growth, although flatter by the low base year effect, the Covid-19 lockdown which started in mid-March probably pushed GDP towards contraction in 1Q. We expect negative growth in the next two quarters too.
- Of the 17% of GDP headline stimulus, real spending is only 4% of GDP. Still, it's better given the backdrop of weak public finances.

ING forecasts (mkt fwd)	**1M** 4.410 (4.365)	**3M** 4.500 (4.372)	**6M** 4.400 (4.385)	**12M** 4.200 (4.403)

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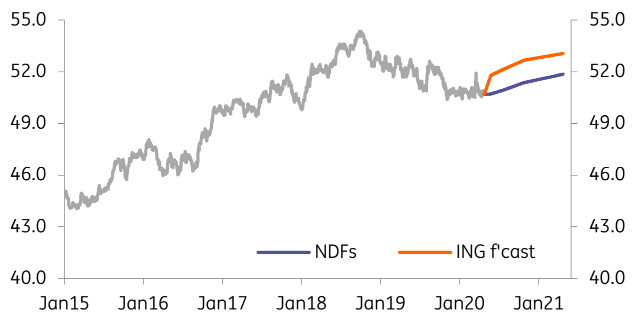
USD/PHP

PHP depreciates as government implements a lockdown **Current spot: 50.68**



Source: Bloomberg, ING forecasts

- The PHP depreciated as the government implemented a form of lockdown on the northern island of Luzon on 14 March, which accounts for 73% of GDP. Trading hours were shortened but all non-essential services were forced to close.
- The Bangko Sentral ng Pilipinas Governor cut policy rates by 75bp, reduced reserve requirements by 200bp and set up a PHP300bn short term repo arrangement with the national government.
- We expect PHP to move sideways during the lockdown phase Dollar demand remains light as economic activity is on hold but expect depreciation to return once the lockdown is lifted.

ING forecasts (mkt fwd)	**1M** 51.79 (50.71)	**3M** 52.16 (50.96)	**6M** 52.67 (51.37)	**12M** 53.06 (51.86)

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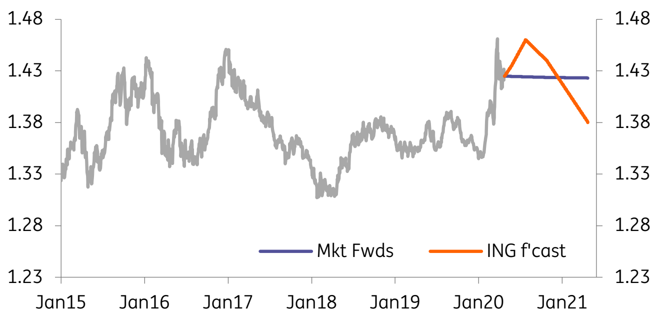
USD/SGD

Strong Covid-19 stimulus

Current spot: 1.425



Source: Bloomberg, ING forecasts

- Consistent with their previous response to crisis, the Monetary Authority of Singapore moved to a neutral stance implied by zero appreciation of the S$-NEER policy band, albeit shifting the midpoint to the prevailing lower level.
- GDP fell by more than 10% QoQ annually. in 1Q20. With two-third of the current quarter gone in the circuit-breaker to curb the Covid-19 spread, there will be a deeper GDP contraction in 2Q. We have cut our 2020 GDP forecast to -3.7% from -2.6%.
- Three stimulus packages with a total fiscal and monetary thrust equivalent to over 12% of GDP should position the economy for a quick bounce back once the pandemic ends.

ING forecasts (mkt fwd)	**1M** 1.435 (1.425)	**3M** 1.460 (1.424)	**6M** 1.440 (1.424)	**12M** 1.380 (1.423)

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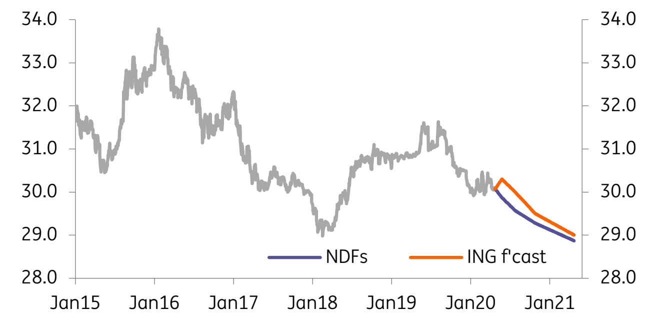
USD/TWD

Hope on telecommunication production boost inflows

Current spot: 30.07



Source: Bloomberg, ING forecasts

- A few indicators have been very positive on Taiwan. The first one is export orders, which rose 4.3%YoY in March compared to a slight contraction in February. Another is industrial production which grew by 20.34%YoY in February.
- Though exports did not perform as well. The reason behind the strong growth in production and export orders could be the rise of 5G products.
- There were obvious inflows into Taiwan's stock market technology sector. But we are cautious that global demand could be too weak for telecommunication products to set a high price for the products.

ING forecasts (mkt fwd)	**1M** 30.30 (29.87)	**3M** 30.00 (29.57)	**6M** 29.50 (29.28)	**12M** 29.00 (28.87)

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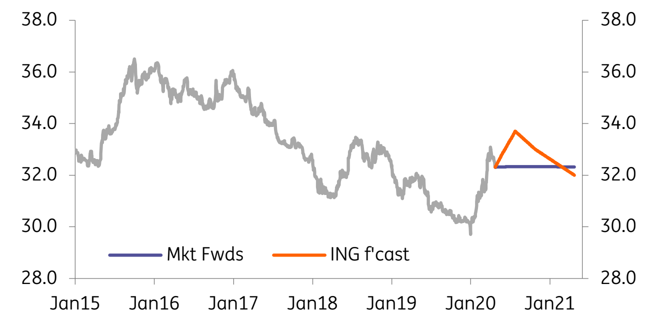
USD/THB

It's going to be the worst since the Asian crisis

Current spot: 32.31



Source: Bloomberg, ING forecasts

- A virtually stalled tourism sector explains the THB's plight with over 7% year-to-date depreciation. We don't think we have reached the bottom yet.
- Trade dodged the Covid-19 pain in 1Q20, and large trade surplus contributed positively to GDP growth, but probably only to be outweighed by the increasing drag from domestic demand and weak tourism. Our view of a -4.3% GDP fall in 2020 makes it the worst performance since the Asian crisis in 1998.
- As everywhere, the policy response is unprecedented, amounting to over 14% of GDP fiscal stimulus. But it may not to bear fruit until confidence returns and tourists start to flock back.

ING forecasts (mkt fwd)	**1M** 32.80 (32.32)	**3M** 33.70 (32.34)	**6M** 33.00 (32.33)	**12M** 32.00 (32.32)

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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	1.08	1.10	1.12	1.15	1.15						
EUR/JPY	116.2	116.60	117.60	115.00	120.75	USD/JPY	107.48	106	105	100	105
EUR/GBP	0.88	0.88	0.88	0.85	0.85	GBP/USD	1.23	1.25	1.27	1.35	1.35
EUR/CHF	1.05	1.05	1.05	1.07	1.08	USD/CHF	0.97	0.95	0.94	0.93	0.94
EUR/NOK	11.50	11.50	11.10	10.90	10.70	USD/NOK	10.64	10.45	9.91	9.48	9.30
EUR/SEK	10.87	11.00	10.80	10.70	10.60	USD/SEK	10.05	10.00	9.64	9.30	9.22
EUR/DKK	7.458	7.460	7.460	7.465	7.465	USD/DKK	6.90	6.78	6.66	6.49	6.49
EUR/CAD	1.52	1.58	1.57	1.54	1.46	USD/CAD	1.409	1.44	1.40	1.34	1.27
EUR/AUD	1.69	1.75	1.78	1.74	1.67	AUD/USD	0.64	0.63	0.63	0.66	0.69
EUR/NZD	1.80	1.83	1.90	1.83	1.77	NZD/USD	0.60	0.60	0.59	0.63	0.65
EMEA											
EUR/PLN	4.53	4.55	4.50	4.47	4.42	USD/PLN	4.20	4.14	4.02	3.89	3.84
EUR/HUF	356.2	360.00	360.00	355.00	355.00	USD/HUF	329.6	327	321	309	309
EUR/CZK	27.30	27.3	27.0	26.9	26.3	USD/CZK	25.26	24.8	24.1	23.4	22.9
EUR/RON	4.84	4.85	4.86	4.87	4.90	USD/RON	4.48	4.41	4.34	4.23	4.26
EUR/HRK	7.56	7.57	7.55	7.55	7.50	USD/HRK	6.99	6.88	6.74	6.57	6.52
EUR/RSD	117.7	117.6	117.7	118.0	117.7	USD/RSD	108.9	106.9	105.1	102.6	102.3
EUR/RUB	80.50	86.9	86.2	84.0	79.4	USD/RUB	74.49	79.0	77.0	73.0	69.0
EUR/UAH	29.31	29.7	30.2	32.2	31.6	USD/UAH	27.12	27.00	27.00	28.00	27.50
EUR/KZT	466.5	499.4	517.4	529.0	515.2	USD/KZT	431.4	454	462	460	448
EUR/TRY	7.54	7.87	7.90	7.94	7.99	USD/TRY	6.97	7.15	7.05	6.90	6.95
EUR/ZAR	20.50	21.5	22.4	21.9	19.6	USD/ZAR	18.97	19.50	20.00	19.00	17.00
EUR/ILS	3.80	3.91	3.92	3.97	3.97	USD/ILS	3.51	3.55	3.50	3.45	3.45
LATAM											
EUR/BRL	6.08	6.38	6.16	5.64	5.18	USD/BRL	5.63	5.80	5.50	4.90	4.50
EUR/MXN	26.85	28.6	29.7	28.2	26.5	USD/MXN	24.85	26.00	26.50	24.50	23.00
EUR/CLP	930.06	946	941	920	886	USD/CLP	860.41	860	840	800	770
EUR/ARS	71.79	75.35	80.64	88.55	103.50	USD/ARS	66.44	68.50	72.00	77.00	90.00
EUR/COP	4363.00	4400	4312	4140	3910	USD/COP	4037.18	4000	3850	3600	3400
EUR/PEN	3.65	3.72	3.79	3.85	3.80	USD/PEN	3.38	3.38	3.38	3.35	3.30
Asia											
EUR/CNY	7.65	7.81	7.93	8.03	7.76	USD/CNY	7.08	7.10	7.08	6.98	6.75
EUR/HKD	8.38	8.53	8.69	8.93	8.97	USD/HKD	7.75	7.75	7.76	7.77	7.80
EUR/IDR	16566	17131	17370	17557	17348	USD/IDR	15400	15574	15509	15267	15085
EUR/INR	82.19	85.0	89.4	89.7	84.0	USD/INR	76.45	77.30	79.80	78.00	73.00
EUR/KRW	1331.15	1375	1322	1300	1288	USD/KRW	1235.65	1250	1180	1130	1120
EUR/MYR	4.69	4.85	5.04	5.06	4.83	USD/MYR	4.36	4.41	4.50	4.40	4.20
EUR/PHP	54.70	57.0	58.4	60.6	61.0	USD/PHP	50.84	51.79	52.16	52.67	53.06
EUR/SGD	1.54	1.58	1.64	1.66	1.59	USD/SGD	1.42	1.44	1.46	1.44	1.38
EUR/TWD	32.30	33.3	33.6	33.9	33.4	USD/TWD	30.07	30.3	30.0	29.5	29.0
EUR/THB	35.07	36.1	37.7	38.0	36.8	USD/THB	32.45	32.8	33.7	33.0	32.0

Source: Bloomberg, ING

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