7 October 2019

FX Strategy

FX Talking

The Teflon Dollar

On a trade-weighted basis the dollar remains nears the highs of the year – this despite the likely prospect of three Fed rate cuts this year and Congress at war. The reason for the dollar's resilience is the lack of attractive alternatives. And in a world of secular stagnation, no one wants a stronger currency right now.

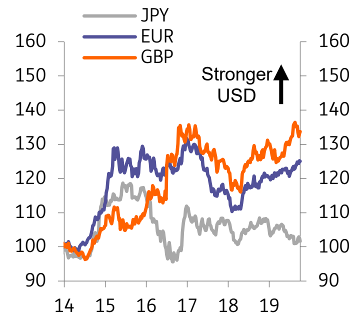
Deep challenges faced in Europe and Asia now mean that it will be Washington's job to get the dollar weaker - either through trade conciliation or the Fed shifting to a full-on easing cycle. Neither of those outcomes look immediate, meaning that the risk environment could well deteriorate into year-end. We continue to favour the JPY.

All this means that EUR/USD should languish in the 1.05-1.10 range into year-end as the European slowdown broadens from the manufacturing to the service sector and the ECB resumes Quantitative Easing. The likelihood that the Brexit deadline is extended into next March means no resolution here and that GBP could well fall another 5%.

Elsewhere in Europe, the Polish FX mortgage story could have been worse but the region is slowly showing signs of slowdown and CE4 FX is not immune. In the EMEA space, RUB may be the best performer on seasonal current account trends through 4Q19.

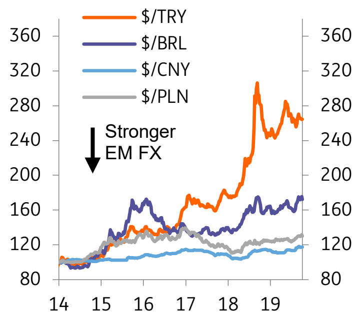
In Asia, we're fearful that the PBOC allows more CNY weakness to show through as trade relations deteriorate further. Asian FX is following and it looks like the MAS will have to join with easier policy in October. In Latam, the medium/long term prospects for the BRL are improving, just as those for the MXN are deteriorating. But timing is everything!

USD/Majors (5 Jan 14=100)



Source: Macrobond, ING

USD/EM (5 Jan 14=100)



Source: Macrobond, ING

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.08	↓	105	↓	1.20	↓
3M	1.07	↓	103	↓	1.16	↓
6M	1.10	↓	102	↓	1.22	↓
12M	1.13	↑	100	↓	1.28	↑
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.90	↑	25.90	↑	4.35	↑
3M	0.92	↑	26.00	↑	4.40	↑
6M	0.90	↑	26.10	↑	4.39	↑
12M	0.88	↓	26.30	↑	4.37	↓
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	7.18	↑	19.60	→	4.10	↑
3M	7.20	↑	19.70	↓	4.10	↑
6M	7.23	↑	19.60	↓	4.00	→
12M	7.30	↑	20.00	↓	3.90	↓

↑ / → / ↓ 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	-0.5	0.4	-1.6	0.0	-0.3	0.3
%YoY	-4.8	-6.3	0.5	5.6	-3.2	3.6
	USD/UAH	**USD/KZT**	**USD/BRL**	**USD/ARS**	**USD/CNY**	**USD/TRY**
%MoM	-2.4	0.3	-1.3	1.5	-0.5	-1.4
%YoY	-12.9	6.2	4.0	50.0	3.7	-5.9

Source: Bloomberg, ING

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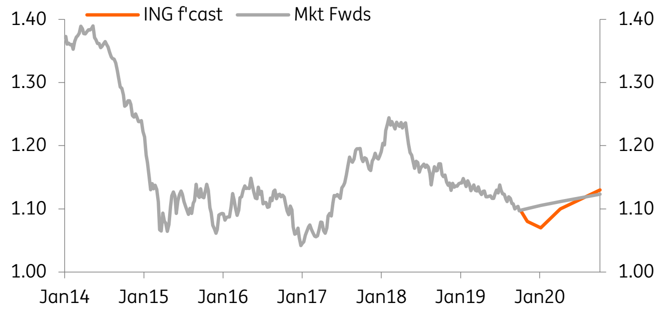
Developed markets

EUR/USD

The US is going to have to learn to live with a strong dollar **Current spot: 1.10**



Source: Bloomberg, ING

- On a trade-weighted basis the dollar remains near its 2002 highs. President Trump may not like it, but his tools to get it lower are: a) call off the trade war, b) pressure the Fed into aggressive cuts or c) unilateral FX intervention. c) won't work, we're not looking for a) until 1Q20, so his best option is b) – the Fed. Here: i) the Fed would prefer not to cut three meetings in a row and ii) even if the Fed did cut, USD hedging costs for Europe would still be 2.5%!
- Euro area activity remains concerning as the slowdown in manufacturing spreads to services. Brexit doesn't help, either.
- A broadening of the US trade war from China to Europe (autos) should keep the EUR as an underperformer this quarter.

ING forecasts (mkt fwd)	**1M** 1.08 (1.100)	**3M** 1.07 (1.0700)	**6M** 1.10 (1.112)	**12M** 1.13 (1.123)

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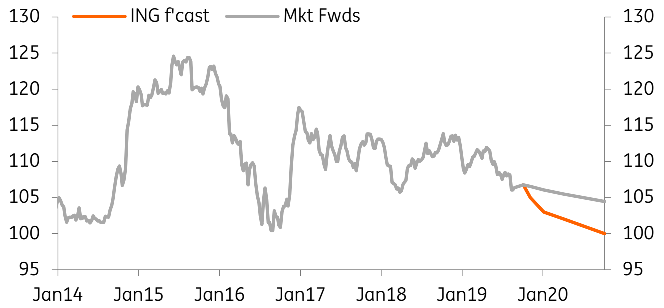
USD/JPY

Looking for a test of 105 **Current spot: 106.77**



Source: Bloomberg, ING

- The broadening of the US slowdown and probably little progress in the 10/11 October US-China trade talks in Washington warn of a tough risk environment in Oct. We would expect US rates to soften further this month as the market guesses whether the US data is bad enough to prompt an early Fed rate cut on 30 Oct.
- USD/JPY's correlation with the S&P 500 has been increasing over recent months and JPY will probably attract further safe-haven flow.
- Recent news that the GPIF will re-classify FX hedged foreign debt as domestic debt opens up potentially US$150bn of unhedged foreign bond buying. Let's see whether those flows help to maintain a possible line in the sand emerging at 105 for USD/JPY.

ING forecasts (mkt fwd)	**1M** 105.00 (106.6)	**3M** 103.00 (106.0)	**6M** 102.00 (105.5)	**12M** 100.00 (104.5)

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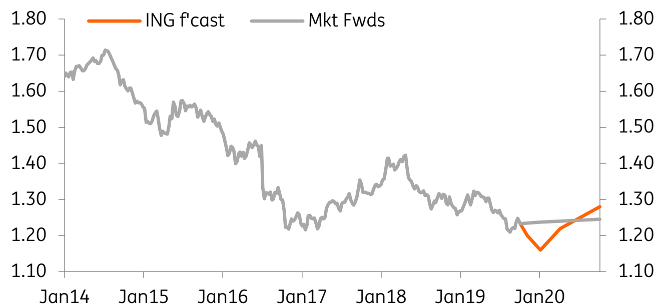
GBP/USD

Fading the UK-EU deal optimism **Current spot: 1.23**



Source: Bloomberg, ING

- We continue to see a high bar for the current UK withdrawal agreement proposal (ie, the regulatory border in the Irish Sea) to being accepted by Ireland/the EU and for it being passed in Westminster by 19 October. Our base case remains the extension of Article 50 and early election by late Nov/early Dec. The extension may well be to something like 31 March 2020.
- Early elections are GBP negative given the non-negligible likelihood of the Tories gaining a majority and the subsequent increased odds of a hard Brexit. This would translate into a build-up of sterling risk premia, which are surprisingly narrow now.
- GBP/USD to move back below 1.20, also helped by the lower EUR/USD. Brexit uncertainty is weighing on all of Europe right now.

ING forecasts (mkt fwd)	**1M** 1.20 (1.24)	**3M** 1.16 (1.24)	**6M** 1.22 (1.24)	**12M** 1.28 (1.25)

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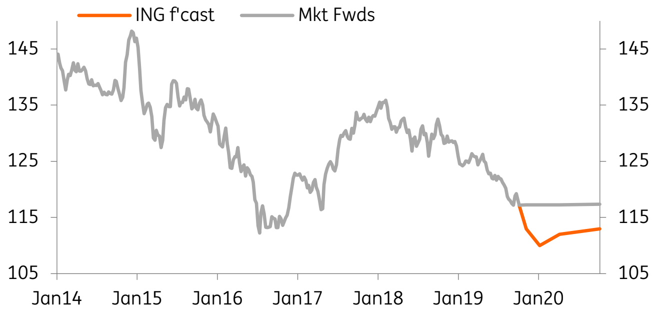
EUR/JPY

Profit-taking in equities to lead EUR/JPY lower — **Current spot: 117.2**



Source: Bloomberg, ING

- Worrying developments in European, Chinese and perhaps even US demand paint a difficult picture for risk assets into 4Q19. Equities have enjoyed a surprisingly strong year (MSCI World +17% YTD) despite the trade war, but are subject to profit-taking. Noise from the Trump impeachment process plus a possible trend for lower corporate earnings guidance will prove a threat. Thus we think equities can drag EUR/JPY lower into year-end.
- There has been some fiscal stimulus in Europe, but probably not enough to support growth near term and we only see a Eurozone re-bound in 2H20. Both ECB and BoJ thus want weak currencies.
- One risk: a broad, Asian-wide FX sell-off, dragging JPY with it.

ING forecasts (mkt fwd)	**1M** 113.00 (117)	**3M** 110.00 (117)	**6M** 112.00 (117)	**12M** 113.00 (117)

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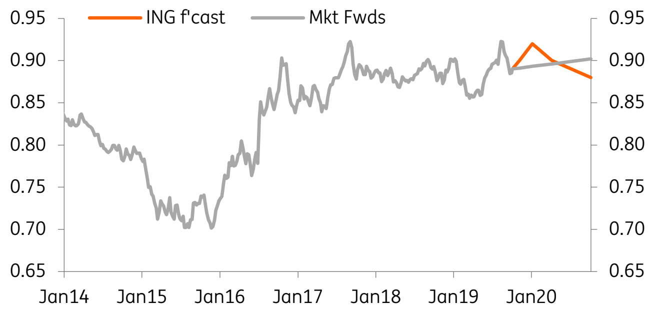
EUR/GBP

Virtually no risk premium priced into sterling — **Current spot: 0.89**



Source: Bloomberg, ING

- We estimate that virtually no risk premium is currently priced into GBP vs EUR (based on our EUR/GBP financial fair value model), leaving plenty of downside GBP potential in place should there be no withdrawal agreement between the UK and EU and the UK heads for early elections this quarter. EUR/GBP to move back above 0.90.
- GBP implied volatility curve exerts a double kink, peaking in 3-week and 2-month tenors. The former reflects the 31 October deadline and the recently increased hopes for a deal while the latter covers the possible early Parliamentary elections.
- The speculative community remains short GBP, net short positions risen over the past month and should increase further.

ING forecasts (mkt fwd)	**1M** 0.90 (0.89)	**3M** 0.92 (0.89)	**6M** 0.9 (0.90)	**12M** 0.88 (0.90)

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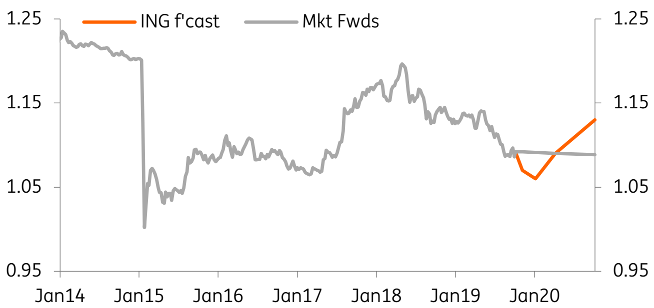
EUR/CHF

Strong CHF, weak Switzerland — **Current spot: 1.09**



Source: Bloomberg, ING

- It looks as though as much as CHF9-10bn in portfolio flow capital might have entered the CHF over recent months, judging from the rise in the Swiss National Bank's FX reserves and CHF sight deposits. Somewhat surprisingly, the SNB didn't have to cut rates in September to match the programme announced by the ECB. Having briefly priced 38bp of SNB rate cuts by end-2020, the market now prices 17bp.
- The battle between market forces and SNB looks set to continue. ECB money printing and a negative risk environment through 4Q19 will keep CHF bid. But low inflation (now just 0.1% YoY) and escalating growth concerns will keep SNB fighting CHF gains.
- SNB won't like it, but balance of risks still favour EUR/CHF to 1.05.

ING forecasts (mkt fwd)	**1M** 1.07 (1.09)	**3M** 1.06 (1.09)	**6M** 1.09 (1.09)	**12M** 1.13 (1.09)

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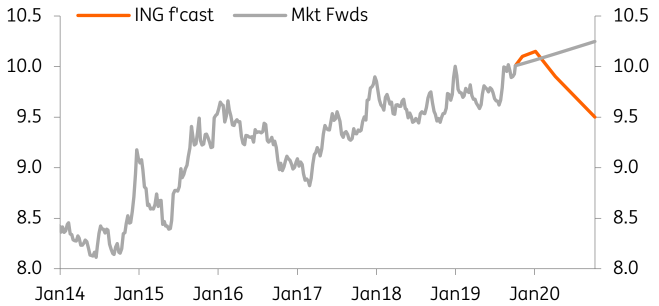
EUR/NOK

Domestic strength outweighed by global factors **Current spot: 10.01**



Source: Bloomberg, ING

- Despite the solid domestic growth (mainly due to oil investment and government consumption) and the hawkish Norges Bank (three hikes this year), NOK continues weakening versus EUR as the global risk factor remains the key and over-riding driver of the NOK.
- With our non-optimistic outlook for risk assets (global slowdown, trade war uncertainty), NOK is set to continue struggling and EUR/NOK is to head to the 10.10/20 area this quarter.
- The downside NOK bias should also be helped by the pause in the NB tightening cycle. After delivering a frontloaded hike in Sep, we expect NB to pause this quarter and next. In our view, further NB hikes would only come if the US-China trade dispute were resolved (which we don't expect until late 1Q20, early 2Q20).

ING forecasts (mkt fwd)	**1M** 10.10 (10.03)	**3M** 10.15 (10.07)	**6M** 9.90 (10.13)	**12M** 9.50 (10.25)

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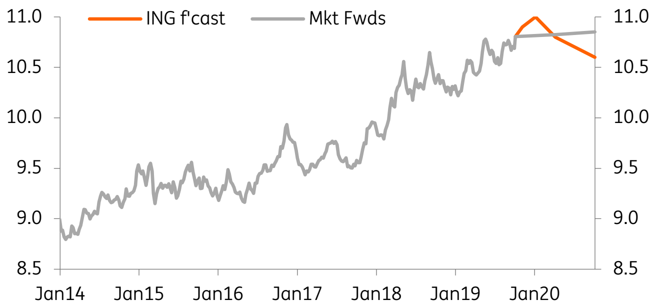
EUR/SEK

Heading towards EUR/SEK 11.00 **Current spot: 10.81**



Source: Bloomberg, ING

- Both Sep Manuf. and Services PMIs were dismal, indicating how the global slowdown spills into the small, open Swedish economy. With inflation undershooting target, the Riksbank's guidance on rate hikes around the turn of the year will be sternly questioned.
- We target EUR/SEK 11.00 this quarter as the global and domestic slowdown and trade war uncertainty weigh on the currency. With SEK likely to reach new all-time lows, we expect the Riksbank will refrain from rate cuts for now.
- A high beta, yet negative carry makes SEK an ideal funding currency. The most negative real rate in G10 FX space also keeps the SEK outlook bleak. SEK is undervalued on a medium-term basis, but no catalyst for SEK to close this misvaluation is in sight.

ING forecasts (mkt fwd)	**1M** 10.90 (10.81)	**3M** 11.00 (10.81)	**6M** 10.80 (10.83)	**12M** 10.60 (10.85)

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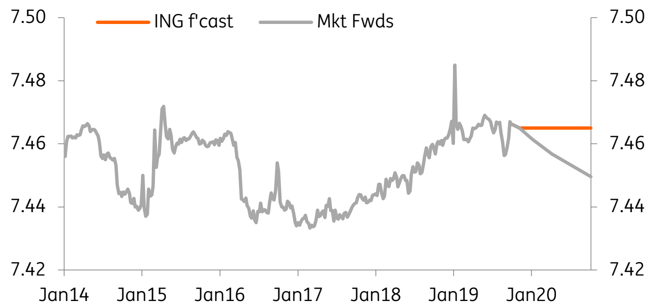
EUR/DKK

DKK already reacting to the upcoming ECB easing **Current spot: 7.466**



Source: Bloomberg, ING

- Dansmark Nationalbank mirrored the ECB and delivered a 10bp cut in response to the ECB easing. Yet, as the DN cut was not accompanied by the tiering system (as opposed to the ECB) EUR/DKK staged a sharp rebound as the DN cut was in effect larger. DKK weakness occurred even though the DN did not engage in QE.
- With EUR/DKK now trading on the strong side of the intervention band, the next DN move (if necessary) would be FX interventions rather than a reverse cut to lean against DKK weakness.
- Short-term, our trade team view that US-China trade negotiations won't deliver a near-term resolution. This suggests demand for safe-haven FX, including DKK. This should prevent EUR/DKK from appreciating above 7.4680 level for now.

ING forecasts (mkt fwd)	**1M** 7.465 (7.465)	**3M** 7.465 (7.461)	**6M** 7.465 (7.457)	**12M** 7.465 (7.450)

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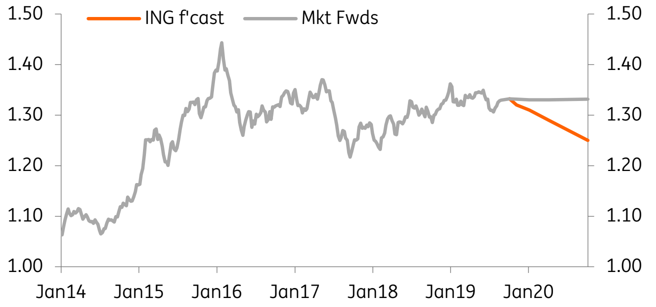
USD/CAD

Caught between conflicting forces

Current spot: 1.333



Source: Bloomberg, ING

- We expect downside risks for activity currencies to remain in place given the threat of a re-escalation in global trade tensions.
- External woes may prompt the Bank of Canada to follow the Fed in delivering an "insurance" rate cut in December. This should however be a one-off move, unlikely to have a sustained dampening effect on rates.
- On the flipside, demand-related pressure on oil prices should keep being offset by tight supply conditions, and the long-waited USMCA ratification may support CAD. On balance, we expect USD/CAD to stabilize around 1.31-1.32 in 4Q, before entering a downward spiral in 2020 on the back of rebounding risk appetite.

ING forecasts (mkt fwd)	**1M** 1.32 (1.33)	**3M** 1.31 (1.33)	**6M** 1.29 (1.33)	**12M** 1.25 (1.33)

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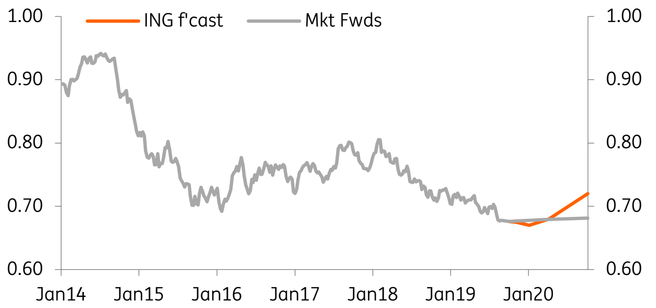
AUD/USD

RBA may be done for 2019

Current spot: 0.68



Source: Bloomberg, ING

- Despite what we felt were weak reasons for doing so, the RBA cut rates again in September. With the move largely priced in, and evidence of a gentle economic upturn slowly mounting, we think the arguments for any further easing are losing ground.
- Some scaling back of rate cut expectations (markets are pricing in a 60% chance of another cut in 2019), aided by extensively short market positioning may support AUD in the coming months.
- However, another escalation in trade tensions along with its negative implications for commodity prices may well come back to haunt the AUD, more than offsetting the positive impact of a rebound in rates. In turn, we see AUD/USD around 0.67 in 4Q.

ING forecasts (mkt fwd)	**1M** 0.675 (0.676)	**3M** 0.670 (0.677)	**6M** 0.680 (0.679)	**12M** 0.720 (0.681)

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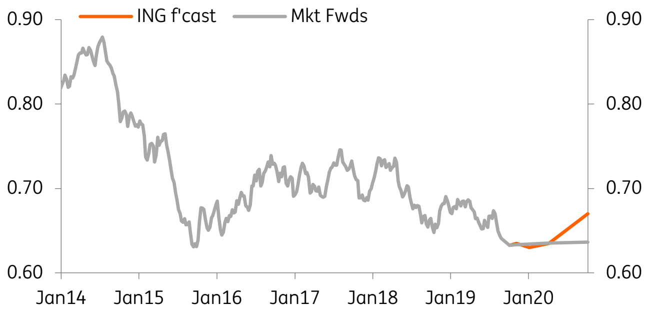
NZD/USD

A lot of easing already priced in

Current spot: 0.63



Source: Bloomberg, ING

- The recent RBA rate cut has led to the AUD/NZD cross returning below 1.0750 after suffering a big swing from a low of 1.0265 in August to a recent high of 1.0841.
- The RBNZ will be more receptive to movements in this cross than its bigger neighbour, and may be incentivised to match the RBA's recent cut with one of their own.
- Their next rate meeting is not until 13 November, but a cut is already 100% priced in, and a further cut to 0.5% is 50% priced in by March 2020. With so much easing in the price, the NZD may find some support at current levels, although the risk of re-escalating trade tensions keep gains broadly limited.

ING forecasts (mkt fwd)	**1M** 0.64 (0.633)	**3M** 0.63 (0.634)	**6M** 0.64 (0.635)	**12M** 0.67 (0.637)

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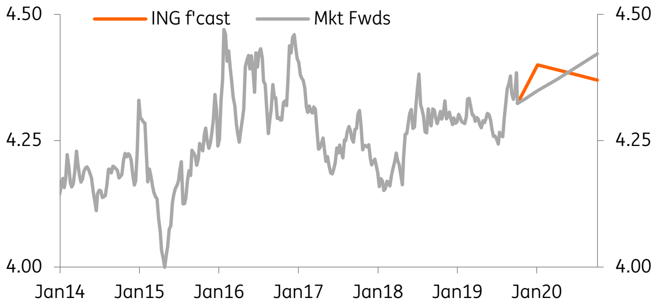
Emerging markets

EUR/PLN

ECJ ruling not the worst outcome for banks and the zloty

Current spot: 4.32



Source: Bloomberg, ING

- ECJ ruling on FX mortgages was less PLN-negative than feared – credits to be either terminated or stay unchanged, but the third option (with PLN capital and CHF rates) was rejected. Still, the guidance effectively means a forced conversion of credits disputed in courts to Polish zloty. Yet a flurry of new law-suits against banks is less likely. Banks will be forced to gradually hedge future CHF shorts as new court cases arise.
- Macroeconomic fundamentals behind the zloty are likely to soften. Seemingly worsening internal demand in the eurozone heralds weaker industrial activity in Poland. MPC remains in a neutral mode, but would welcome weaker PLN to boost growth.

ING forecasts (mkt fwd)	**1M** 4.35 (4.33)	**3M** 4.40 (4.35)	**6M** 4.39 (4.37)	**12M** 4.37 (4.42)

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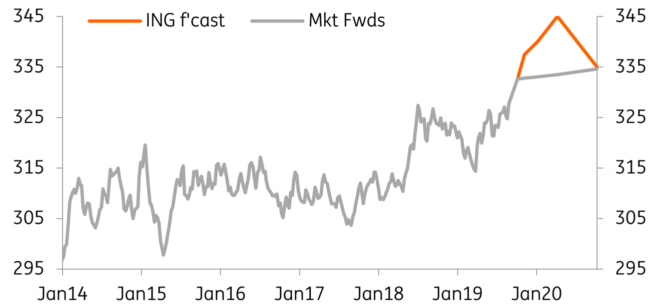
EUR/HUF

Weaker HUF to stay with us, and it is not bad

Current spot: 332.4



Source: Bloomberg, ING

- HUF underperformed its peers in September as the mix of the challenging global environment and the currency reaching a series of new all-time lows made investors nervous about the forint.
- With HUF being seen as a part of monetary conditions set up and a weaker currency offsetting the possible disinflationary impact of imported prices from abroad, we expect the NBH to be comfortable with further HUF weakness.
- Coupled with low HUF funding costs, an inverted FX implied yield curve and a non-existent current account surplus, we expect EUR/HUF to test and breach the 340 level in 4Q19.

ING forecasts (mkt fwd)	**1M** 337.50 (332.6)	**3M** 340.00 (332.8)	**6M** 345.00 (333.3)	**12M** 335.00 (334.4)

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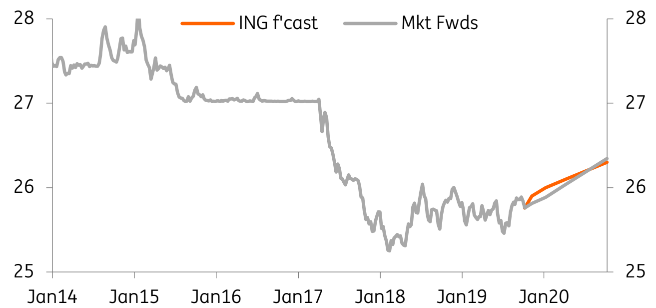
EUR/CZK

Clearly broken transmission mechanism

Current spot: 25.757



Source: Bloomberg, ING

- The surprisingly hawkish September Czech National Bank meeting doesn't make us bullish on CZK. For some time the transmission mechanism from the interest rate channel into the exchange rate has been broken and CZK has not benefited from higher interest rates.
- Rather, the external environment remains a more important driver of the cross. With the global / German economy slowing and trade war uncertainty in place, CZK should re-start the weakening trend. We also don't expect CNB to hike in November.
- We continue to view CZK as overbought (as per the very elevated foreign holdings of CZGBs) and see a large tail risk of a meaningful koruna sell-off should a large risk event materialise.

ING forecasts (mkt fwd)	**1M** 25.9 (25.81)	**3M** 26.0 (25.88)	**6M** 26.1 (26.04)	**12M** 26.3 (26.35)

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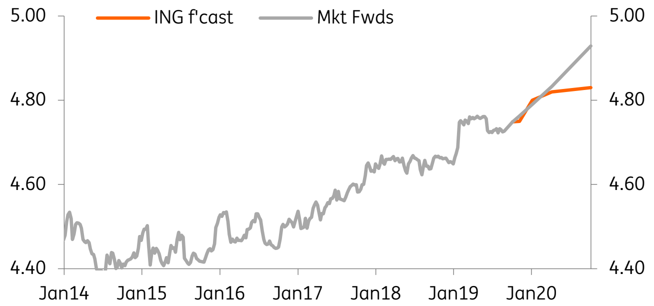
EUR/RON

NBR on top in EUR/RON in 4.7500 area **Current spot: 4.75**



Source: Bloomberg, ING

- The weak fundamentals outweighed the relatively wide interest rate differential and EUR/RON has inched higher, running into NBR offers around 4.7500 - aimed at smoothing the depreciation.
- We see the NBR comfort range of 4.7200-4.7700 holding till after the presidential elections due 10/24 November, with a 1-2ppt correction higher in EUR/RON afterwards. Incumbent Iohannis has 45.3% of voting intentions, according to the latest polls.
- The opposition claims it has enough votes to topple the government at the no-confidence vote. Regardless of the outcome, it is likely that until the general elections the government will have weak parliamentary support.

ING forecasts (mkt fwd)	**1M** 4.75 (4.76)	**3M** 4.80 (4.79)	**6M** 4.82 (4.83)	**12M** 4.83 (4.92)

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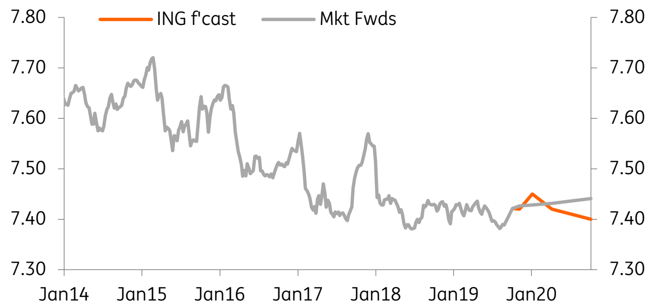
EUR/HRK

CNB on bid below 4.7400 in EUR/HRK **Current spot: 7.42**



Source: Bloomberg, ING

- During the summer, as expected, the central bank stepped-in to curb HRK gains. It most recently bought EUR332m at an average rate of 7.3967 on 22 August.
- With the Croatia National Bank on the bid below 7.40 and seasonal inflows drying out, we expect EUR/HRK to inch higher towards 7.45 by year-end, only to revisit 7.40 next summer with CNB likely there to mop up the hard currency inflows from tourists.
- Euro-area finance chiefs and the ECB endorsed Croatia's plans to join the euro after the country sent a letter of intent to join the ERM-II. ERM-II is likely to bring rating upgrades across the board.

ING forecasts (mkt fwd)	**1M** 7.42 (7.42)	**3M** 7.45 (7.43)	**6M** 7.42 (7.43)	**12M** 7.40 (7.44)

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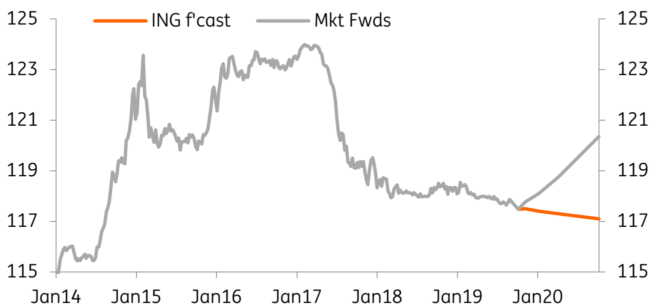
EUR/RSD

NBS mostly on bid in EUR/RSD **Current spot: 117.5**



Source: Bloomberg, ING

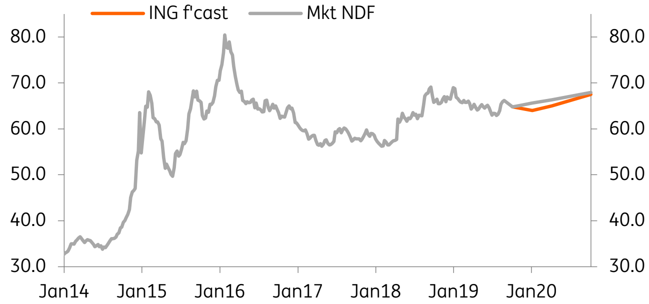
- Capital inflows into SERBGBs continued prompting frequent and unusually large FX intervention by the NBS and two consecutive key rate cuts by 25bp each – all to curb gains in the RSD.
- Given the benign inflation outlook and currency overvaluation worries, we do not rule out more easing from NBS, though a lot depends on external developments.
- Fitch upgraded Serbia to BB+ from BB, one notch below investment grade. Further upgrades are linked to structural reforms, faster GDP per capita convergence to higher rated peers, lower government debt-to-GDP ratio and a marked reduction of the net external debt to GDP ratio.

ING forecasts (mkt fwd)	**1M** 117.50 (117.7)	**3M** 117.40 (118.1)	**6M** 117.30 (118.7)	**12M** 117.10 (120.3)

Ciprian Dascalu, Bucharest +40 31 406 89 90

USD/RUB

Constructive on 4Q19, bearish for 2020 **Current spot: 64.96**



Source: Bloomberg, ING

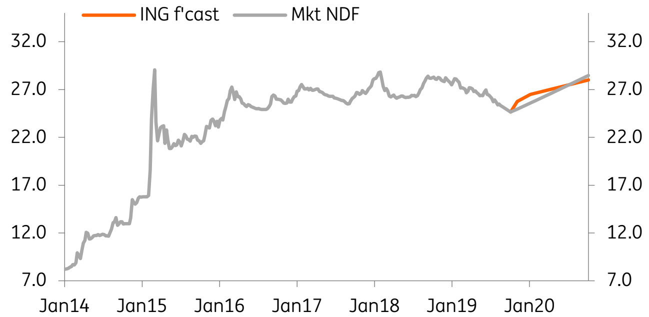
- 4Q19 looks safer for RUB than 3Q19, as the current account surplus is set to at least double to US$25-30bn and will be sterilized (planned FX Intervention) only by 40-50% vs 100%+ in 2-3Q.
- The longer-term view is pressured by the weakness in non-oil exports due to the slowdown in global trade, and accumulation of foreign assets by the private sector in a challenging business climate.
- The 2020 RUB outlook is bearish relative to ING's current global EM outlook and could be improved if the latter is not downgraded further. Other potential positive catalysts outside the base case include local investments of National Wealth Fund and improvement in the investment demand by the private sector.

ING forecasts (mkt fwd)	**1M** 64.50 (65.23)	**3M** 64.00 (65.75)	**6M** 65.00 (66.52)	**12M** 67.50 (68.10)

Dmitry Dolgin, Russia +7 495 771 7994

USD/UAH

IMF deal close to signing, but risks to UAH remain ***Current spot:* 24.59**



Source: Bloomberg, ING

- Later this month IMF is expected to sign the new ~US$6-8bn EFF programme in 4Q19, vital for its balance of payments and budget. Earlier it praised the land reform proposed by the government. This, combined with the rating upgrade by Fitch and S&P from B- to B and progress on the East Ukraine peace process contributed to the UAH strength for most of 3Q19.
- Yet the release of the Trump-Zelensky call transcript highlights the persisting political risks, which combined with global EM risk-off contributed to a sharp UAH drop toward 25.0/US$.
- Going forward, UAH will be tested by a weakening trade balance due to adverse weather conditions for agriculture, softening global demand for metals and acceleration of imports on strong local consumer demand.

ING forecasts (mkt fwd)	**1M** 25.75 (24.98)	**3M** 26.50 (25.58)	**6M** 27.00 (26.55)	**12M** 28.00 (28.39)

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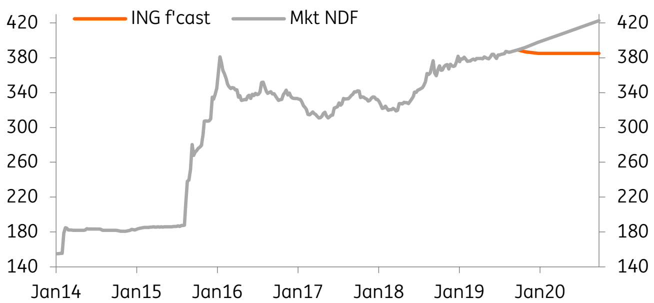
USD/KZT

Recovery in oil production should help stabilize Tenge **Current spot: 388.9**



Source: Bloomberg, ING

- Following a stabilization prompted by the surprise rate hike, an oil price spike, a sovereign rating upgrade by Moody's to Baa3 ahead and EUR1.15bn Eurobond placement, KZT is back to depreciation amid global risk off and normalisation of the oil price.
- Going forward, Tenge may still benefit from rising exports amid the recovery of Kazakhstan oil production, which improved from a -2.0% YoY drop in 1H19 to 3-6% growth in Jul-Aug 2019 after maintenance on the signature Kashagan oilfield was completed.
- In the long-term the uncertainties in external markets and continued local pressure on the FX remain the key risks to our view on stabilisation of Tenge close to current levels.

ING forecasts (mkt fwd)	**1M** 387.00 (391.8)	**3M** 385.00 (397.7)	**6M** 385.00 (405.8)	**12M** 385.00 (422.5)

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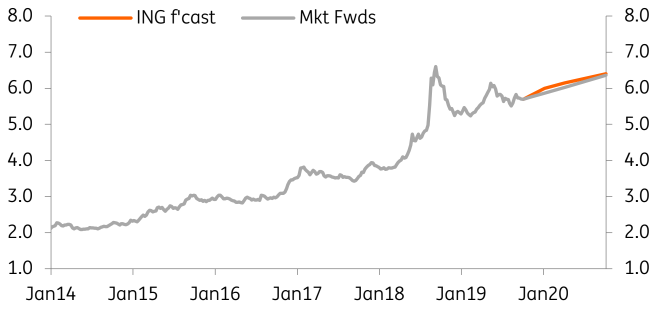
USD/TRY

Pace of monetary easing to be more measured

Current spot: 5.70



Source: Bloomberg, ING

- Annual inflation slowed sharply from 15% in August to 9.3% in September (thanks mainly to base effects), though is likely to rise again to near 13% by Dec-19, in our view. Inflation inertia (especially on services) and modestly stronger growth will keep annual inflation at double-digit levels next year, especially if administrative price increases continue into 2020.
- We have seen improving performance for TRY assets since end-August on the back of a supportive global backdrop and signals from the Central Bank of Turkey that the pace of easing is to be more measured in the remainder of 2019. Available high-frequency data for non-resident portfolio flows show that inflows have remained broadly subdued through September, clouding the FX outlook.

ING forecasts (mkt fwd)	**1M** 5.80 (5.76)	**3M** 6.00 (5.87)	**6M** 6.15 (6.03)	**12M** 6.40 (6.37)

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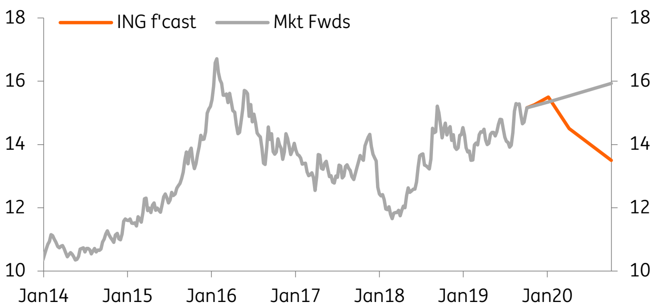
USD/ZAR

Foreigners slowly reducing exposure in the bond market

Current spot: 15.16



Source: Bloomberg, ING

- The ZAR (like much of EMFX) remains beholden to developments in China. Failure of progress at the 10/11 Oct trade talks warns that CNH (and the ZAR) again comes under pressure. It's hard to see a turnaround in the global industrial slowdown this year.
- Locally the focus once again is on Eskom, where a major announcement is expected at or before the 30 October budget statement. The room for manoeuvre is limited here, but Moody's does not seem to have its finger close to the downgrade trigger.
- That said, data shows foreigners quietly leaving the S.A. bond market (now holding 37% of debt vs 43% in March 2018) and the 4% of GDP current account deficit does leave the ZAR exposed.

ING forecasts (mkt fwd)	**1M** 15.25 (15.22)	**3M** 15.50 (15.35)	**6M** 14.50 (15.53)	**12M** 13.50 (15.93)

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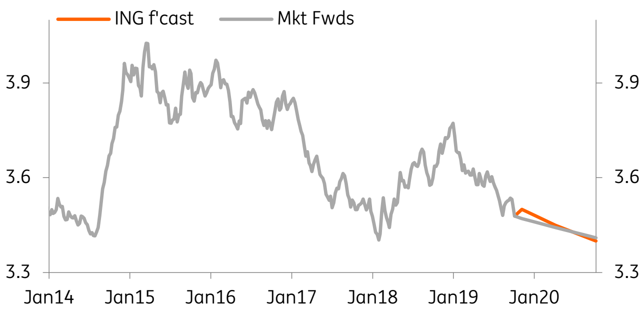
USD/ILS

Lots of ILS positives

Current spot: 3.49



Source: Bloomberg, ING

- The ILS continues to perform well, ignoring the election stalemate and enjoying a few local stories. The primary one here is the announcement that Israeli sovereign debt will be included in the FTSE WGBI index next April. Some estimates suggest that could be worth US$3-4bn flowing into the ILS as tracker funds make the switch. Equally, news of large gas export deals to Egypt could also swell Israel's large current account surplus by US$1-2bn per year.
- Of course the BoI won't appreciate the ILS strength – yet there are no signs yet of FX intervention according to FX reserves.
- As Fed rate cuts slowly turn the dollar trend into 2020, expect US$/ILS to work its way back to the 3.40 area.

ING forecasts (mkt fwd)	**1M** 3.50 (3.47)	**3M** 3.48 (3.46)	**6M** 3.45 (3.44)	**12M** 3.40 (3.41)

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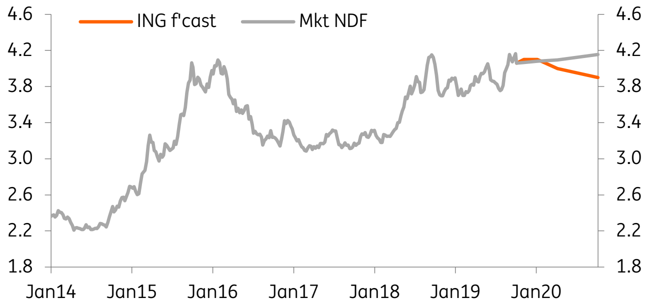
LATAM

USD/BRL

FX outflows amid rate cuts continue to prevail

Current spot: 4.06



Source: Bloomberg, ING

- Favourable prospects for continued policy rate cuts should contribute to extend the underperforming bias for the Real, amid persistent FX outflows triggered by the replacement of external debt with (cheap) local-currency alternatives.
- These debt-management operations are long-term BRL-positive, but outflows should prevent a rally below 4.0 in the nearer term.
- Large outflows pushed the central bank to change its FX intervention scheme, to improve the liquidity of the spot FX market, but the new scheme is not meant to alter the FX level. Outflows may also prompt the CB to pause the easing cycle, after the next 50bp rate cut (to 5.0%), to assess the full FX impact of the decision.

ING forecasts (NDF)	**1M** 4.10 (4.07)	**3M** 4.10 (4.08)	**6M** 4.00 (4.10)	**12M** 3.90 (4.16)

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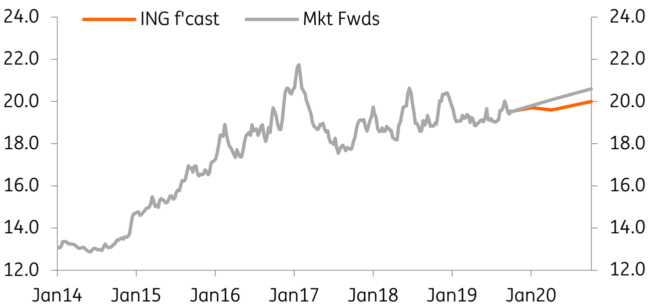
USD/MXN

Near-term resilience contrasts with long-term uncertainty

Current spot: 19.53



Source: Bloomberg, ING

- The MXN has proven to be more resilient than its regional peers and that resilience should continue in the nearer term.
- The relative outperformance reflects primarily the very attractive carry, with high rates acting as an effective FX anchor, and the fact that Banxico remains especially vigilant about FX stability, when compared to the other central banks in the region.
- Faster-than-expected rate cuts would be a catalyst for a weaker FX but CB policy caution indicates that high rates should persist. Still, faltering fundamentals, as seen in poor GDP growth and the high likelihood of credit rating downgrades (especially for PEMEX) should continue to hamper the MXN's longer-term outlook.

ING forecasts (mkt fwd)	**1M** 19.60 (19.62)	**3M** 19.70 (19.80)	**6M** 19.60 (20.08)	**12M** 20.00 (20.59)

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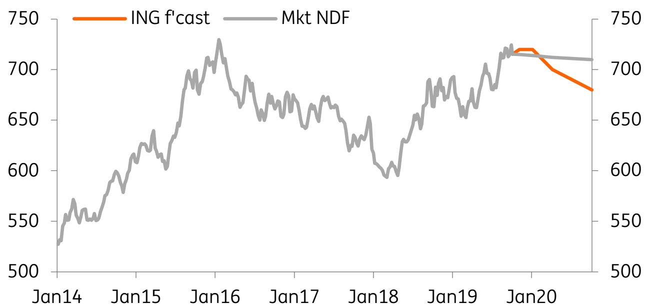
USD/CLP

Copper price trends continue to drive the CLP outlook

Current spot: 715.29



Source: Bloomberg, ING

- As a small open economy, with an export basket heavily skewed towards copper, the CLP has weakened in recent months, following a trajectory that closely matches copper price trends.
- As a result, the currency's near-term outlook remains closely tied to trade-war concerns, and global/China growth dynamics more generally, and their resulting impact on copper prices.
- While external drivers dominate, local macro trends have also become less supportive for the CLP. Low inflation and broad-based moderation in economic activity indicators paved the way for BCCh to implement two large 50bp rate cuts, to 2.0%, and policy guidance signals an additional 50bp in cuts, to a low 1.5%.

ING forecasts (NDF)	**1M** 720.00 (715)	**3M** 720.00 (714)	**6M** 700.00 (712)	**12M** 680.00 (710)

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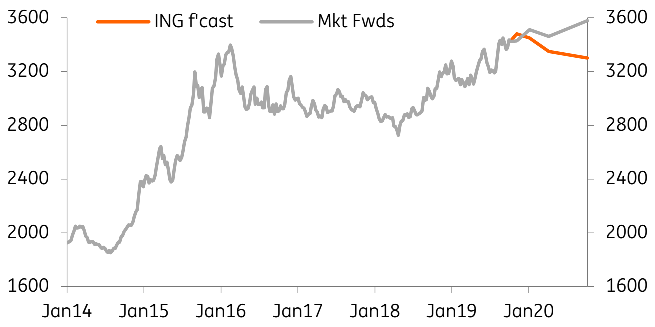
USD/COP

Heightened sensitivity to risk appetite keeps volatility high

Current spot: 3423.13



Source: Bloomberg, ING

- The COP continued to underperform over the past month, as the currency continues to be highly sensitive to external shocks and USD fluctuations generally, while the Peso's correlation with oil prices has become considerably less stable.
- That sensitivity possibly reflects concerns over the widening of the current account deficit. The large deficit typically places the COP among the most vulnerable EM FX to risk aversion episodes.
- Robust near-potential GDP growth prints together with muted inflation help justify a neutral monetary policy guidance. However, weak labour market data and the dovish FOMC suggest a small risk of rate cuts in the coming quarters.

ING forecasts (NDF)	**1M** 3480.00 (3428)	**3M** 3450.00 (3512)	**6M** 3350.00 (3462)	**12M** 3300.00 (3578)

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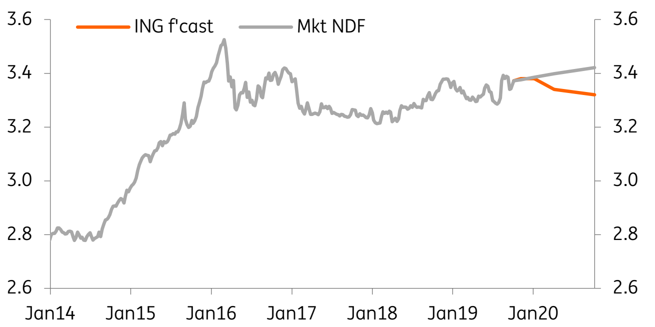
USD/PEN

Solid macro trends help offset political turmoil

Current spot: 3.37



Source: Bloomberg, ING

- As usual, the PEN traded with the lowest volatility in the region, appreciating slightly over the past month. Even though Peru is a small open economy heavily reliant on commodity exports, the currency remains less affected by gyrations in the USD and the trade-war concerns that affected its EM peers. Political turmoil, amid the Presidential call for early elections and the dissolution of Congress, has also had reduced impact over local assets so far.
- Eventual positive developments on the US-China trade-war front would add support to the currency, but the potential for BCRP's FX intervention would likely limit any major rally in the PEN.
- Peru's BCRP cut the policy rate (2.5%) amid slowing economic activity data and an additional cut seems likely.

ING forecasts (NDF)	**1M** 3.38 (3.38)	**3M** 3.38 (3.39)	**6M** 3.34 (3.40)	**12M** 3.32 (3.42)

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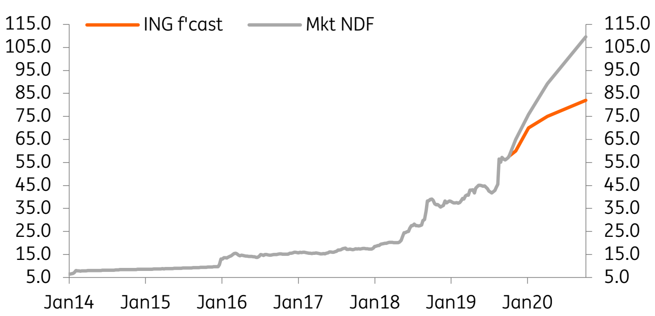
USD/ARS

Assertive policies help offset political uncertainties

Current spot: 57.68



Source: Bloomberg, ING

- The Macri administration has managed to limit FX volatility following the surprise electoral result with a mix of higher interest rates and heavy use of the central bank's FX reserves.
- FX stability is likely to be temporary however, as Alberto Fernandez is likely to become Argentina's next president in the October presidential election. This complicates the government's ability to roll over maturing debt amortizations, and increases the risk of a credit event at some point in the coming quarters.
- IMF negotiations have stalled, without the disbursement of the program's last tranche. This remains an important near-term catalyst, but news on this front should be delayed until after the election results are known.

ING forecasts (NDF)	**1M** 60.00 (65.05)	**3M** 70.00 (75.91)	**6M** 75.00 (89.16)	**12M** 82.00 (109.58)

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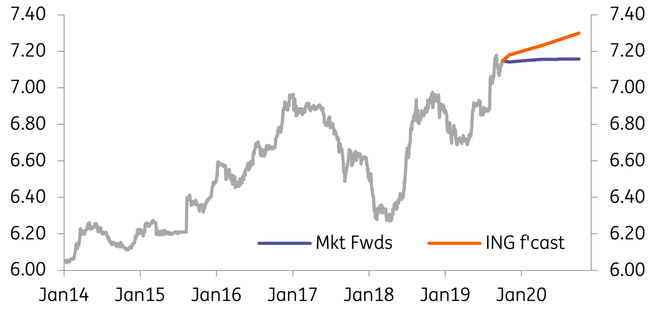
Asia

USD/CNY

October trade talks could disappoint

Current spot: 7.148



Source: Bloomberg, ING

- Since the CNY became an active policy lever in the trade war, it has behaved more like a market exchange rate than we have been used to, ebbing with pessimism, and gaining on renewed optimism of a deal. How it trades after the holidays will be key.
- USDCNY sits just below 7.15 currently, and a resumption of trade talks is imminent on 10/11 October.
- But we remain sceptical that both sides can pull together for a win-win deal while they remain so far apart on issues of substance, such as Huawei and the US entity list, intellectual property and state-owned enterprise support. Our near-term forecast is for some further weakness around trade disappointment.

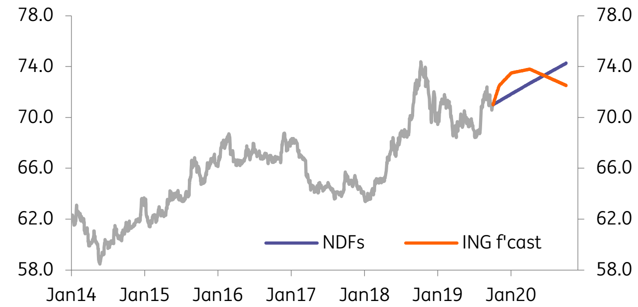
ING forecasts (FWDs)	**1M** 7.180 (7.141)	**3M** 7.200 (7.148)	**6M** 7.230 (7.156)	**12M** 7.300 (7.158)

Rob Carnell, Singapore +65 6232 6020

USD/INR

Unusual INR strength in September a transitory blip

Current spot: 71.02



Source: Bloomberg, ING

- After all the volatility caused by global and domestic factors September turned out to be a better month for the INR as big-bang fiscal stimulus including US$20 billion of corporate tax cuts buoyed portfolio inflows in local equities.
- However, two single-day spikes in the USD/INR rate – first, 1.4% following the release of 2Q19 GDP report showing a six-year low 5% growth, and second, 0.9% after the attack on the Saudi oil facility causing a steep surge in oil – reinforced INR's vulnerability.
- With the RBI on an easing binge, worries about a blow-out fiscal deficit hurting investor confidence, and the government's plan of borrowing overseas getting shelved, sustained INR weakness ahead remains the safest option for now.

ING forecasts (NDFs)	**1M** 72.50 (71.22)	**3M** 73.50 (71.79)	**6M** 73.80 (72.64)	**12M** 72.50 (74.23)

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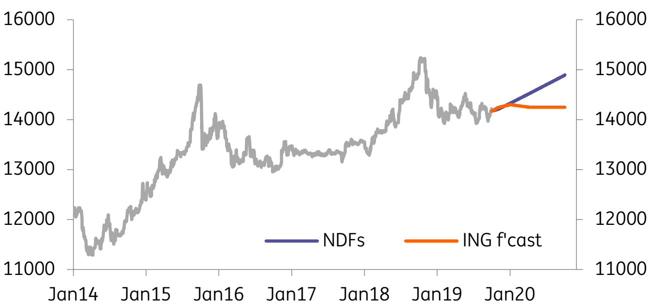
USD/IDR

Growth replaced IDR stability as driver of BI policy

Current spot: 14172



Source: Bloomberg, ING

- IDR clawed back most of the August sell-off by mid-September as investors cheered President Jokowi's reform pledges of bolstering foreign investment. But recovery was short-lived with geopolitics (Saudi attacks) and domestic protests against legislation on the anti-corruption agency pushed back IDR to its current range.
- As expected, Bank Indonesia cut the policy rates by another 25bp in September. The cut was despite elevated market volatility, which reinforced growth overtaking currency stability as the main driver of monetary policy.
- With inflation anchored in the middle of the BI's 2.5-4.5% medium-term policy target, we have added one more 25bp rate cut to our policy forecast for this year.

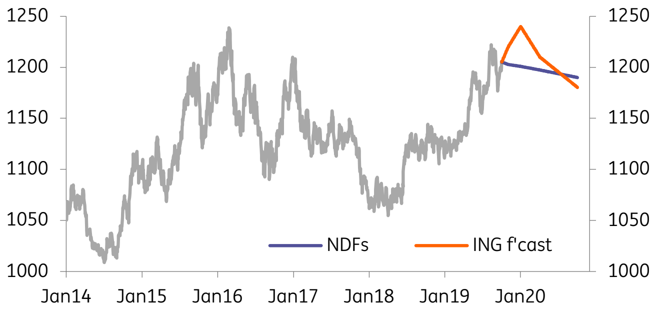
ING forecasts (NDFs)	**1M** 14244 (14191)	**3M** 14300 (14311)	**6M** 14250 (14496)	**12M** 14250 (14872)

Nicholas Mapa, Philippines +63 2479 8855

USD/KRW

BoK getting ready to ease again

Current spot: 1205



Source: Bloomberg, ING

- Early September saw the KRW claw back all the losses of August and USD/KRW touch a low of 1176. Catalysts for the improvement included greater trade talk optimism and some evidence of stabilisation in the electronics sphere.
- This strength has given way to weakness as hard data have thrown doubt on the electronics story, and limited grounds for additional trade optimism.
- The Bank of Korea is also striking a more dovish tone, noting that it will be difficult for it to hit its growth targets, and raising the prospect of further easing at the 16 October meeting. We anticipate some further KRW weakness near term.

ING forecasts (NDFs)	**1M** 1220 (1202)	**3M** 1240 (1200)	**6M** 1210 (1197)	**12M** 1180 (1189)

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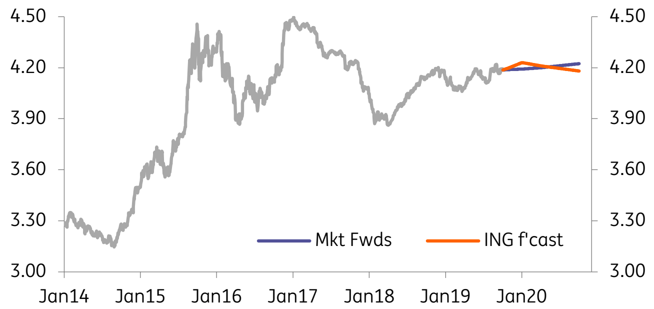
USD/MYR

Gulf tensions pressuring oil works to MYR's advantage

Current spot: 4.187



Source: Bloomberg, ING

- The MYR remained a fairly resilient Asian currency. A 0.4% gain against the USD in September puts it among Asia's outperformers. Ongoing tensions in the Gulf region keeping oil prices supported work to the advantage of Asia's net oil exporter.
- Exports continue to perform relatively well, supporting our view of GDP growth staying near the top end of BNM's 4.3-4.8% forecast for 2019. However, it will be increasingly difficult for the economy to buck the global slowdown ahead.
- We retain our call for one more 25bp BNM rate cut before the year-end. And, despite currently tight public finances, the 2020 Budget due on 11 October should be growth-friendly.

ING forecasts (FWDs)	**1M** 4.200 (4.189)	**3M** 4.230 (4.192)	**6M** 4.210 (4.200)	**12M** 4.180 (4.224)

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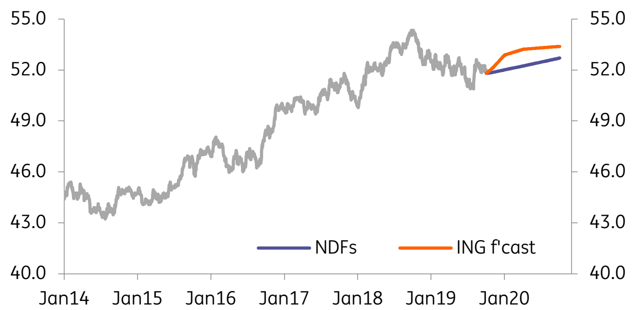
USD/PHP

Heavy import season is likely to cap PHP gains here on

Current spot: 51.80



Source: Bloomberg, ING

- Just as the IDR, the PHP wasn't spared from intensified market volatility due to the trade war and geopolitics before the Fed rate cut brought back some risk appetite.
- Data showing a wider trade deficit also added to weakening pressure. On the positive side was a surprise 7.5% jump in remittances from overseas Filipinos in July, though it's still a back-dated data to influence prevailing market sentiment.
- The BSP cut policy rates again in September in a bid to revive sagging growth momentum. Yet, the currency markets viewed the move as positive. With inflation remain benign the door remains open for further rate cuts. That said, ensuing heavy import season is likely to cap gains in the Peso here on.

ING forecasts (NDFs)	**1M** 52.11 (51.84)	**3M** 52.88 (51.99)	**6M** 53.22 (52.21)	**12M** 53.39 (52.68)

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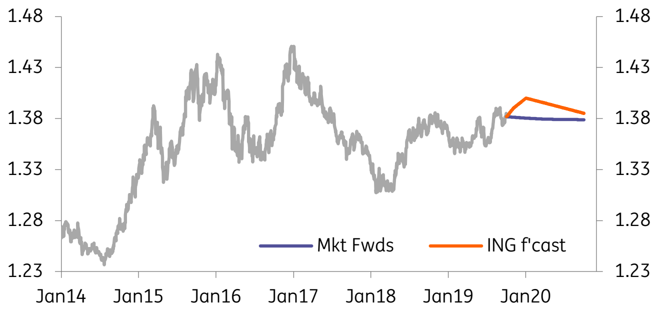
USD/SGD

MAS – finger on the trigger

Current spot: 1.382



Source: Bloomberg, ING

- This month, the MAS will meet and reduce the pace of appreciation of the nominal effective exchange rate – their main policy instrument.
- Weaker-than-expected production figures for August suggest that Singapore is effectively in recession right now, and we have revised down our full year growth figures to 0.3%, while core and headline inflation hovers well below 1.0%.
- Consensus is centred on a modest reduction in the NEER path. We believe that as this change has been so late in coming, and as the evidence of an upturn is so limited with a long time until the next meeting, that a more aggressive flattening is warranted.

ING forecasts (FWDs)	**1M** 1.390 (1.381)	**3M** 1.400 (1.381)	**6M** 1.395 (1.380)	**12M** 1.385 (1.379)

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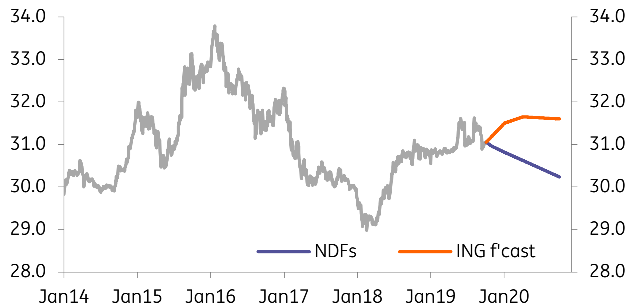
USD/TWD

Current "strength" may prove short-lived

Current spot: 31.05



Source: Bloomberg, ING

- Like most Asian currencies, the TWD has been whipped around by the tide of sentiment on trade and the electronics cycle. Right now, it sits at an optimistic juncture. But recent swings show us the possible amplitude for this currency, and with some disappointment likely from looming trade talks, we should brace for further weakness.
- A return to the August peak of USDTWD 31.70 could reflect a negative turn in trade and electronics sentiment, though further out, we would anticipate some sort of deal being struck.
- That should see the TWD move first back to 31.50 though further progress from there may rest on a global 5-G rollout.

ING forecasts (NDFs)	**1M** 31.20 (30.92)	**3M** 31.50 (30.77)	**6M** 31.65 (30.57)	**12M** 31.60 (30.19)

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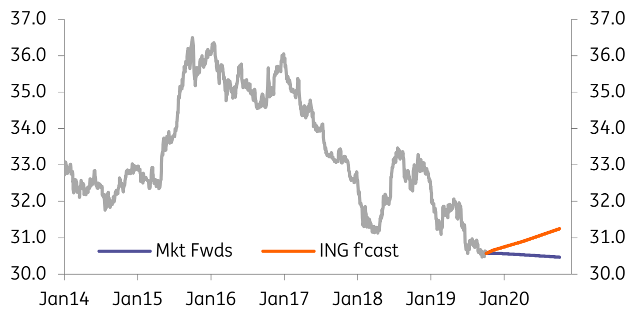
USD/THB

Why BoT is resisting rate cuts?

Current spot: 30.57



Source: Bloomberg, ING

- For a change, the THB was an underperformer in September, which was a relief for the authorities, who are worried about excessive currency appreciation further hurting exports and tourism.
- This relief could be transitory with the BoT resisting rate cut pressure, while the current account surplus is on course to widen again this year. Weak activity forced another cut to our 2019 GDP growth forecast to 2.5% from 2.8%. And at only 0.3% in September inflation has been drifting away from the BoT's 1-4% target.
- We see no merit in the BoT delaying what looks to us to be an inevitable and much-needed rate cut. We maintain our forecast of a 25bp policy rate cut before the year-end.

ING forecasts (FWDs)	**1M** 30.65 (30.57)	**3M** 30.75 (30.55)	**6M** 30.90 (30.52)	**12M** 31.25 (30.47)

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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	1.10	1.08	1.07	1.10	1.13						
EUR/JPY	117.4	113.40	110.21	112.20	113.00	USD/JPY	107.03	105	103	102	100
EUR/GBP	0.89	0.90	0.92	0.90	0.88	GBP/USD	1.23	1.20	1.16	1.22	1.28
EUR/CHF	1.09	1.07	1.06	1.09	1.13	USD/CHF	1.00	0.99	0.99	0.99	1.00
EUR/NOK	9.99	10.10	10.15	9.90	9.50	USD/NOK	9.11	9.35	9.49	9.00	8.41
EUR/SEK	10.81	10.90	11.00	10.80	10.60	USD/SEK	9.86	10.09	10.28	9.82	9.38
EUR/DKK	7.467	7.465	7.465	7.465	7.465	USD/DKK	6.81	6.91	6.98	6.79	6.61
EUR/CAD	1.46	1.43	1.40	1.42	1.41	USD/CAD	1.330	1.32	1.31	1.29	1.25
EUR/AUD	1.62	1.60	1.60	1.62	1.57	AUD/USD	0.68	0.68	0.67	0.68	0.72
EUR/NZD	1.74	1.70	1.70	1.73	1.69	NZD/USD	0.63	0.64	0.63	0.64	0.67
EMEA											
EUR/PLN	4.32	4.35	4.40	4.39	4.37	USD/PLN	3.94	4.03	4.11	3.99	3.87
EUR/HUF	332.8	337.50	340.00	345.00	335.00	USD/HUF	303.5	313	318	314	296
EUR/CZK	25.73	25.9	26.0	26.1	26.3	USD/CZK	23.47	24.0	24.3	23.7	23.3
EUR/RON	4.75	4.75	4.80	4.82	4.83	USD/RON	4.33	4.40	4.49	4.38	4.27
EUR/HRK	7.42	7.42	7.45	7.42	7.40	USD/HRK	6.77	6.87	6.96	6.75	6.55
EUR/RSD	117.5	117.5	117.4	117.3	117.1	USD/RSD	107.2	108.8	109.7	106.6	103.6
EUR/RUB	70.85	69.7	68.5	71.5	76.3	USD/RUB	64.61	64.5	64.0	65.0	67.5
EUR/UAH	27.19	27.8	28.4	29.7	31.6	USD/UAH	24.77	25.75	26.50	27.00	28.00
EUR/KZT	426.6	418.0	412.0	423.5	435.1	USD/KZT	389.0	387	385	385	385
EUR/TRY	6.24	6.26	6.42	6.77	7.23	USD/TRY	5.69	5.80	6.00	6.15	6.40
EUR/ZAR	16.54	16.5	16.6	16.0	15.3	USD/ZAR	15.08	15.25	15.50	14.50	13.50
EUR/ILS	3.82	3.78	3.72	3.80	3.84	USD/ILS	3.49	3.50	3.48	3.45	3.40
LATAM											
EUR/BRL	4.46	4.43	4.39	4.40	4.41	USD/BRL	4.06	4.10	4.10	4.00	3.90
EUR/MXN	21.44	21.2	21.1	21.6	22.6	USD/MXN	19.53	19.60	19.70	19.60	20.00
EUR/CLP	785.32	778	770	770	768	USD/CLP	715.29	720	720	700	680
EUR/ARS	63.33	64.80	74.90	82.50	92.66	USD/ARS	57.68	60.00	70.00	75.00	82.00
EUR/COP	3759.00	3758	3692	3685	3729	USD/COP	3423.13	3480	3450	3350	3300
EUR/PEN	3.70	3.65	3.62	3.67	3.75	USD/PEN	3.37	3.38	3.38	3.34	3.32
Asia											
EUR/CNY	7.80	7.75	7.70	7.95	8.25	USD/CNY	7.15	7.18	7.20	7.23	7.30
EUR/HKD	8.60	8.47	8.39	8.62	8.86	USD/HKD	7.84	7.84	7.84	7.84	7.84
EUR/IDR	15514	15384	15301	15675	16103	USD/IDR	14138	14244	14300	14250	14250
EUR/INR	77.88	78.3	78.6	81.2	81.9	USD/INR	70.88	72.50	73.50	73.80	72.50
EUR/KRW	1310.50	1318	1327	1331	1333	USD/KRW	1196.60	1220	1240	1210	1180
EUR/MYR	4.59	4.54	4.53	4.63	4.72	USD/MYR	4.19	4.20	4.23	4.21	4.18
EUR/PHP	56.84	56.3	56.6	58.5	60.3	USD/PHP	51.74	52.11	52.88	53.22	53.39
EUR/SGD	1.51	1.50	1.50	1.53	1.57	USD/SGD	1.38	1.39	1.40	1.40	1.39
EUR/TWD	33.97	33.7	33.7	34.8	35.7	USD/TWD	30.96	31.2	31.5	31.7	31.6
EUR/THB	33.42	33.1	32.9	34.0	35.3	USD/THB	30.44	30.7	30.8	30.9	31.3

Source: Bloomberg, ING

Disclaimer