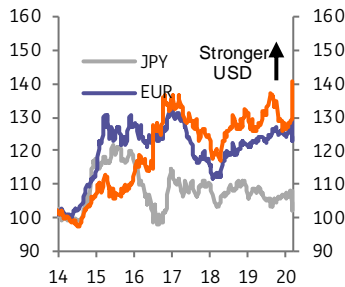


20 March 2020  
FX Strategy

# FX Talking

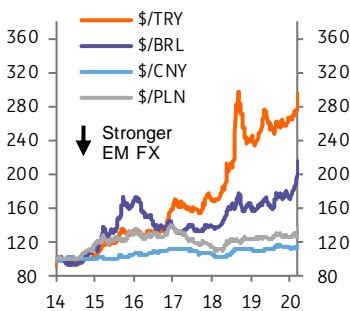
## I need a dollar

USD/Majors (5 Jan 14=100)



Source: Macrobond, ING

USD/EM (5 Jan 14=100)



Source: Macrobond, ING

The sharp acceleration in Covid-19 cases worldwide has prompted investors to re-price asset markets with astonishing – and at times disorderly – speed. The question now is how deep and how long-lasting the global recession will be?

The unique nature of this crisis and collapse in risk assets has exposed fragilities in the system – think leverage, think liquidity. And surprisingly USD funding stresses have re-emerged despite the lessons supposedly learned in 2008.

Policymakers are now in fire-fighting mode. We think the Fed and the US Treasury have the tools to address the strains in the USD funding markets and conditions will probably start to improve over coming weeks. However, there is no getting away from the fact that prolonged lock-downs mean deep recessions.

In the FX market, the dollar has so far been the only winner in this crisis. We think we're not too far away from Washington having a more formal problem with dollar strength as yet another round in the currency war unfolds. There is much uncertainty, but we see the dollar handing back recent gains into the summer.

With policy rates now near zero in many countries and unconventional monetary policies widely deployed, the FX recovery against the dollar is likely to be tentative at first. Commodity currencies look certain to lag, but those countries employing pro-active fiscal policy (Asia and Europe) may be the first to bounce.

### ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.10	>	107	<	1.18	=
3M	1.12	>	105	<	1.24	>
6M	1.15	>	100	<	1.31	>
12M	1.12	>	110	>	1.31	>

	EUR/GBP		EUR/CZK		EUR/PLN	
1M	0.93	>	28.00	>	4.60	>
3M	0.90	=	27.80	>	4.50	<
6M	0.88	<	26.90	<	4.31	<
12M	0.85	<	26.30	<	4.0	<

	USD/CNY		USD/MXN		USD/BRL	
1M	7.20	>	25.00	>	5.30	>
3M	7.25	>	23.50	<	5.00	=
6M	7.00	<	23.00	<	4.50	<
12M	6.80	<	21.50	<	4.10	<

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

Source: Bloomberg, ING

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### FX performance

	EUR/USD	USD/JPY	EUR/GBP	EUR/NOK	NZD/USD	USD/CAD
%MoM	-1.2	0.2	8.4	19.9	-9.9	7.6
%YoY	-5.5	-0.3	5.5	24.7	-16.0	6.9

	USD/UAH	USD/KZT	USD/BRL	USD/ARS	USD/CNY	USD/TRY
%MoM	12.1	18.4	16.1	3.7	1.9	8.1
%YoY	1.2	18.3	32.1	56.3	6.2	18.5

Source: Bloomberg, ING

# Developed markets

## EUR/USD

De-leveraging, margin calls, funding squeeze – temporary?

Current spot: 1.07



Source: Bloomberg, ING

- The fast-evolving economic shock of Covid-19 has quickly become a financial market shock. 30% falls in equity markets and eye-watering levels of volatility have prompted massive de-leveraging across all asset classes, including commodities and debt markets. There has been a dash for dollar cash.
- Strains in the USD funding market have been a key driver of this dollar strength. The Fed and the US Treasury are doing their best to address these (targeting the CP market). It may take several weeks to restore confidence in this sector.
- We think the \$ will hand back some of its recent gains once the dust settles and the flood of \$ liquidity goes through the system.

ING forecasts (mkt fwd)	1M 1.10 (1.070)	3M 1.12 (1.073)	6M 1.15 (1.076)	12M 1.12 (1.082)
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## USD/JPY

Unusual service resumed

Current spot: 110.78



Source: Bloomberg, ING

- USD/JPY is bucking its usual trend of selling off hard on sharp equity corrections. What turned USD/JPY around from a low of 101.19 on 9 March was probably: i) more Japanese buying of foreign bonds at good FX levels and more importantly ii) the squeeze in USD funding markets starting around 11 March. The 3m JPY cross currency basis swap remains stressed (now -150bp) & suggests Japanese banks are struggling for USD funding.
- Like other central banks, the BoJ has stepped up liquidity adds with JGB purchases and also supporting the corporate sector through loans and CP, ETF & J-REIT buying.
- Washington potentially intervening against \$ strength is a risk.

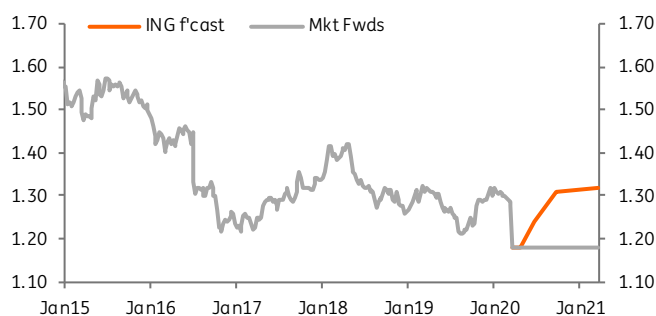
ING forecasts (mkt fwd)	1M 107.00 (110)	3M 105.00 (110)	6M 100.00 (110)	12M 110.00 (109)
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## GBP/USD

Exposed on the external funding side

Current spot: 1.18



Source: Bloomberg, ING

- GBP/USD reached the lowest level since 1985 as the market rout and the dollar funding squeeze exposed GBP – a currency vulnerable because of its external financing needs.
- The UK current account deficit (the largest in the G10 FX space) has been a long-standing negative for GBP. Additionally, GBP was the only G10 currency where the speculative community has been net long vs USD, with positioning likely exaggerating the GBP fall.
- Once the dollar funding squeeze fades away and markets return to a more ordinary mode, GBP/USD should recover. But for now, and given the Covid-19 related uncertainty and the demand for USD, risks to GBP/USD are on the downside.

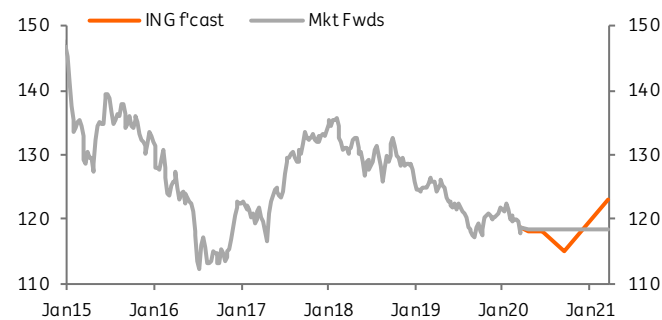
ING forecasts (mkt fwd)	1M 1.18 (1.18)	3M 1.24 (1.18)	6M 1.31 (1.18)	12M 1.32 (1.18)
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## EUR/JPY

ECB – a late, but powerful addition to the liquidity team

Current spot: 118.7



Source: Bloomberg, ING

- Prompted by the pressure on Eurozone peripheral debt markets (e.g. Italy and Greece) the ECB has announced a €750bn rescue package. We hadn't factored in that size of new QE in our FX forecasts, but these are emergency times. QE would typically be a EUR negative – but the new dimension is fiscal stimulus in Europe, where even Germany stands ready to open her wallet.
- EUR/JPY has proved relatively stable through this – normally one would have expected it to be a lot lower on the back of the melt-down in risk assets. The outlier here is the strong USD/JPY – which may reverse once USD funding issues get resolved.
- The sell-off in European debt bears watching as well.

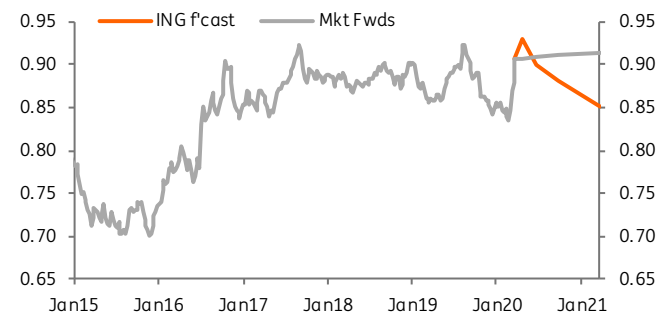
ING forecasts (mkt fwd)	1M 118.00 (119)	3M 118.00 (119)	6M 115.00 (118)	12M 123.00 (119)
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## EUR/GBP

BoE QE impact on EUR/GBP mitigated by the ECB QE

Current spot: 0.91



Source: Bloomberg, ING

- EUR/GBP moved above the post Brexit referendum highs. While GBP is vulnerable, its downside vs EUR should be more limited than vs USD due to the funding-related demand for USD.
- As both the BoE and ECB engaged in meaningful QE (BoE is set to eventually own 38% of the Gilt market), the impact on EUR/GBP should be limited and offsetting. With EUR/GBP not being in meaningfully overvalued territory just yet, the upside risk to the cross remains in place as risk assets continue to fall.
- Given the Covid-19 global shock and governments' sole focus on fighting it, UK-EU trade negotiations are unlikely to be concluded this year. An extension beyond 2020 looks very likely.

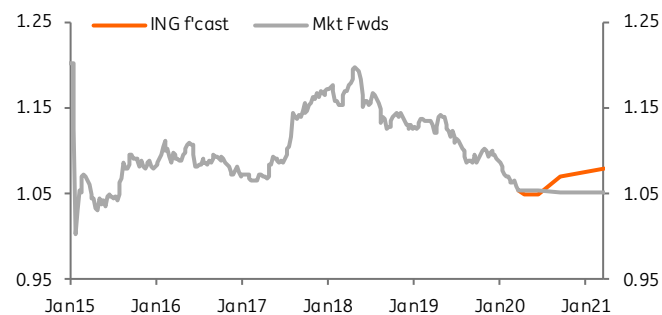
ING forecasts (mkt fwd)	1M 0.93 (0.91)	3M 0.90 (0.91)	6M 0.88 (0.91)	12M 0.85 (0.91)
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## EUR/CHF

SNB is intervening more strongly

Current spot: 1.05



Source: Bloomberg, ING

- In leaving the policy rate at -0.75% at its latest meeting, the SNB admitted it was 'intervening more strongly' against the even more highly valued CHF. The SNB will argue it has no limits to FX intervention. The US may argue that if its big enough to run a US\$20bn trade surplus with the US, Switzerland is big enough to play by the rules and avoid currency manipulation.
- Clearly there are big downside risks to EUR/CHF this year. The Eurozone will once again try to hold itself together with ECB and now some stimulus, but peripheral Europe will still be a worry.
- We're also worried by the Polish CHF mortgage story, where Polish banks could run to cover short CHF positions.

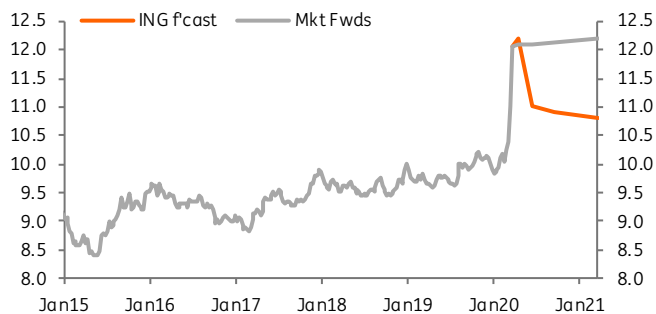
ING forecasts (mkt fwd)	1M 1.05 (1.05)	3M 1.05 (1.05)	6M 1.07 (1.05)	12M 1.08 (1.05)
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## EUR/NOK

### The big meltdown

**Current spot: 12.06**



Source: Bloomberg, ING

- In a USD funding needs-driven market, characterised by the squeeze in low liquidity currencies, the low liquidity, oil exposed NOK experienced a meltdown, collapsing 13% vs USD so far in March.
- The issue of the (lack of) dollar liquidity and its eventual resolution will be the key driver of NOK. Although the NB slashed rates close to zero (the latest 75bp emergency cut), the NB policy is currently irrelevant for NOK with cuts not being negative for krone. We don't expect NB cut rates into negative or start QE.
- NOK is deeply undervalued (30% vs USD based on our BEER model), but it may only sustainably rebound from the current extreme levels once market functioning returns to normal.

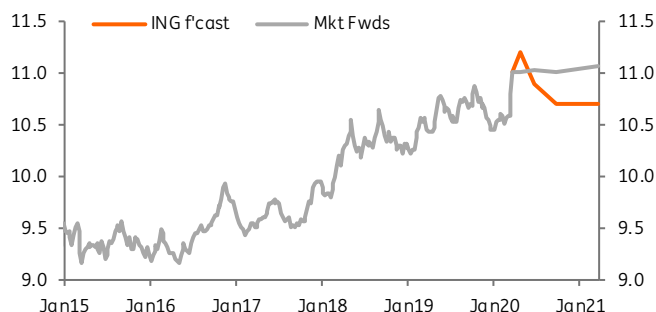
<b>ING forecasts (mkt fwd)</b>	<b>1M 12.20 (12.08)</b>	<b>3M 11.00 (12.11)</b>	<b>6M 10.90 (12.14)</b>	<b>12M 10.80 (12.20)</b>
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## EUR/SEK

### Doing better than its G10 cyclical peers

**Current spot: 11.01**



Source: Bloomberg, ING

- Although EUR/SEK broke above the psychological 11.00 level in the March market rout, it outperformed its G10 cyclical peers, in part due to its insulation to the fall in commodity prices.
- Unlike its G10 cyclical peers, the Riskbank firepower to ease monetary policy was limited. Rates are already at zero (with low appetite to bring them back into negative territory) while the bank continues reinvesting its prior QE. This makes it stand out versus the likes of NB or RBA and is marginally beneficial for SEK during falling markets.
- The EUR/SEK path will be determined by global risk sentiment, with domestic data being irrelevant. We see upside to EUR/SEK to 11.20 next month before a reversal lower from mid 2Q onwards.

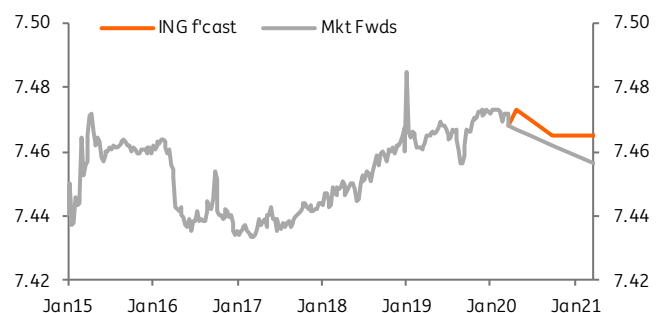
<b>ING forecasts (mkt fwd)</b>	<b>1M 11.20 (11.02)</b>	<b>3M 10.90 (11.03)</b>	<b>6M 10.70 (11.01)</b>	<b>12M 10.70 (11.07)</b>
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## EUR/DKK

### Liquidity beats safe-haven characteristics

**Current spot: 7.468**



Source: Bloomberg, ING

- While most global central banks are engaging in easing, the DN hiked rates by 15bp. This was a response to the liquidity crisis in FX markets & the weakening pressure on the low liquidity DKK.
- EUR/DKK has been under constant upside pressure since September 2019. Back then, the DN mimicked the ECB 10bp rate cut, but the fact the ECB introduced the tiering, and the DN didn't, meant that the DN effectively cut more than the ECB in September 2019, putting upside pressure on EUR/DKK.
- The DN hike should help to stabilize EUR/DKK and once the dollar liquidity squeeze eases and the market returns to more efficient functioning, EUR/DKK should trend closer to its central rate.

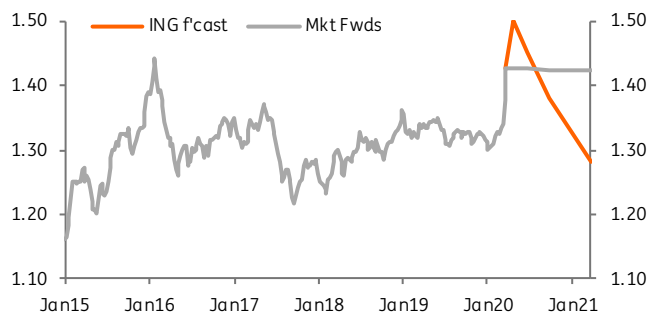
<b>ING forecasts (mkt fwd)</b>	<b>1M 7.473 (7.467)</b>	<b>3M 7.470 (7.465)</b>	<b>6M 7.465 (7.462)</b>	<b>12M 7.465 (7.456)</b>
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## USD/CAD

### Inexorable march to 1.50

**Current spot: 1.426**



Source: Bloomberg, ING

- We expect USD/CAD to extend the bull move to 1.50 on lingering oil weakness, risk aversion and a dovish BoC.
- The slump in oil prices will likely have a pronounced effect on the Canadian economy (the energy sector accounts for 11% of GDP). Fiscal stimulus worth 3% of GDP has already been deployed, but more will likely be needed, and the BoC has shown eagerness to do their part.
- As expected by the markets, we look at an additional 50bp cut, but we also see the BoC launching an APP, likely in tandem with some forward guidance, which could be an RBNZ-style commitment to keep rates at 0.25% for the next 12 months.

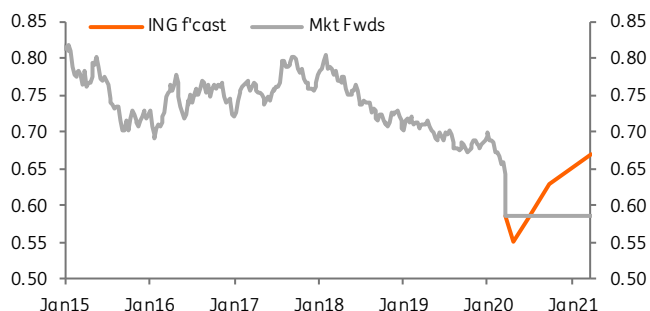
<b>ING forecasts (mkt fwd)</b>	<b>1M 1.50 (1.43)</b>	<b>3M 1.45 (1.43)</b>	<b>6M 1.38 (1.42)</b>	<b>12M 1.28 (1.42)</b>
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## AUD/USD

### AUD plummets on RBA's QE

**Current spot: 0.59**



Source: Bloomberg, ING

- The adoption of QE by the RBA and slashing of the cash rate to 0.25%, along with bond yield targeting (3Y at 0.25%) has led to the AUD slumping to 0.5570.
- The comprehensive package of measures adopted by the RBA, which included Term lending facilities, and enhanced repo operations is a good start in tackling the financial market strains that recent global concerns have opened up.
- With QE confirmed as being the RBA's policy for at least 12 months, and only then dependent on the outlook for unemployment and inflation, the AUD weakness will only likely dissipate if similar measures are adopted elsewhere.

<b>ING forecasts (mkt fwd)</b>	<b>1M 0.550 (0.587)</b>	<b>3M 0.580 (0.587)</b>	<b>6M 0.630 (0.587)</b>	<b>12M 0.670 (0.586)</b>
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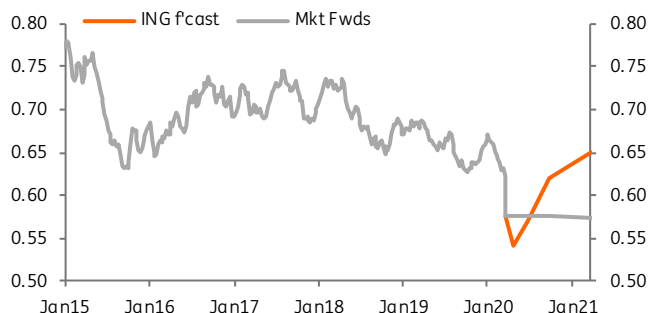
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## NZD/USD

### Kiwi QE only a matter of time

**Current spot: 0.58**



Source: Bloomberg, ING

- The Reserve Bank of New Zealand is probably only a few weeks behind the RBA in adopting an asset purchase programme, so its relative strength versus the AUD may be short-lived.
- Of the two currencies, the AUD may be the more oversold of the two, and the scope for recovery in demand for Australia's industrial commodities is stronger in the event that China shows some more signs of life.
- So the NZD will probably take a further hit as Governor Orr bites the bullet and starts Kiwi QE, which could persist in the short to medium term and assist a move in AUD/NZD away from parity in the next months (back to the 1.02-1.03 area).

<b>ING forecasts (mkt fwd)</b>	<b>1M 0.54 (0.576)</b>	<b>3M 0.57 (0.576)</b>	<b>6M 0.62 (0.575)</b>	<b>12M 0.65 (0.574)</b>
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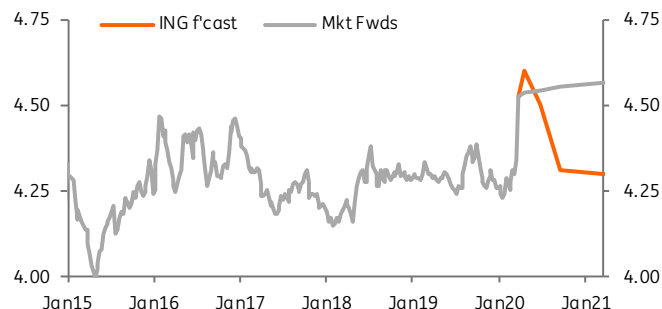
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# Emerging markets

## EUR/PLN

Strong pre-Covid fundamentals, QE launch PLN negative

Current spot: 4.53



Source: Bloomberg, ING

- PLN will remain under pressure alongside other EM currencies. NBP / BGK will provide some relief via interventions, but will only calm volatility, not defend particular levels. An argument for interventions is to defend CHF loans portfolio, local banks are key part of government anti-crisis measures. Poland's FX reserves are over 20% of GDP. MoF should convert EU funds on market (€7bn).
- Poland entered the crisis in good shape, as net trade showed remarkable resilience (unlike other CEEs). Investors were deeply underweight POLGBs. The current jump of borrowing needs finds bids from banks and NBP interventions, effectively QE.
- We expect €/PLN to remain elevated in months to come. Actions taken by the central bank (which include bond purchases) are slightly PLN negative.

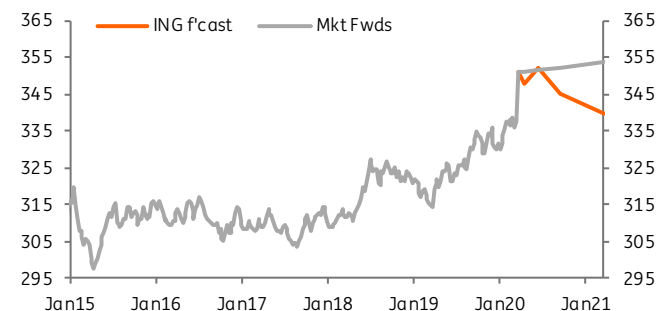
ING forecasts (mkt fwd)	1M 4.60 (4.54)	3M 4.50 (4.54)	6M 4.31 (4.55)	12M 4.30 (4.57)
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## EUR/HUF

Suffering in the global market rout

Current spot: 350.8



Source: Bloomberg, ING

- The negative global environment and reversal in the previously increased HUF implied yields have started to weigh on the HUF. While HUF was the outperformer among free floating CEE currencies up until recently, we think this will change.
- As the CNB has a large FX intervention fire power and the appetite to step in (vs in our view limited NBH appetite to intervene) this suggests HUF should start lagging CZK in falling markets. Still, PLN and HUF downside should be fairly similar.
- We look for higher EUR/HUF towards 360 in coming weeks given the challenging market environment, but a reversal later on once market stabilizes.

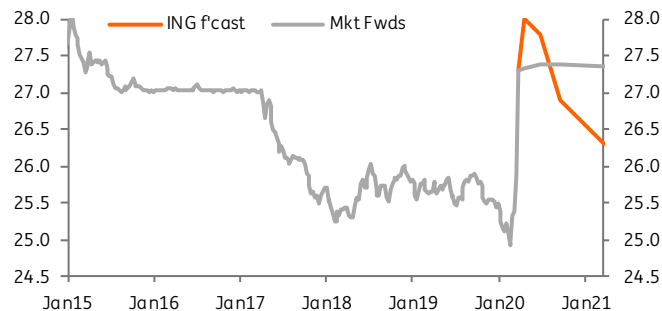
ING forecasts (mkt fwd)	1M 348.00 (351.1)	3M 352.00 (351.5)	6M 345.00 (352.3)	12M 340.00 (353.5)
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## EUR/CZK

CNB FX interventions at sight

Current spot: 27.30



Source: Bloomberg, ING

- After the CZK positioning-related meltdown, we see high risk of CNB FX interventions to calm CZK volatility. We expect CNB to step in around EUR/CZK 28.00. Interventions should have a smoothing rather than a firming function, with the CNB not defending a EUR/CZK level per se.
- With CNB FX intervention fire power immense (FX reserves around 60% of GDP vs. around 20% for other CEE central banks), the size and its credibility suggest the CZK should stop underperforming HUF and PLN in falling markets (as was the case until recently).
- Given uncertainty in markets, we retain a near-term upward bias for EUR/CZK, with the koruna recovering from mid 2Q onwards

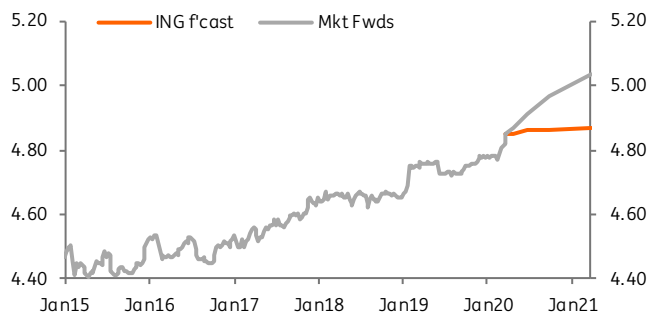
ING forecasts (mkt fwd)	1M 28.00 (27.33)	3M 27.80 (27.38)	6M 26.90 (27.39)	12M 26.30 (27.35)
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## EUR/RON

### NBR on top at 4.8500

**Current spot: 4.85**



Source: Bloomberg, ING

- The dramatic risk-off mood is pushing the RON to test historical lows. Heavy volumes traded around 4.85 suggests NBR is there to curb depreciation. We still see 4.85 a reference level for this year, with possible increases towards 4.86 during 2Q20.
- As is the case most of the time, the NBR interventions are correlated with a spike in FX swap yields, which are trading above the 3.50% Lombard rate for tenors beyond funding. This makes shorting the RON quite costly.
- We believe that NBR will not do "whatever it takes" to keep the pair close to 4.85. Should the current risk-off mood persist well into 2Q20, a shift in range towards 4.90 will probably occur.

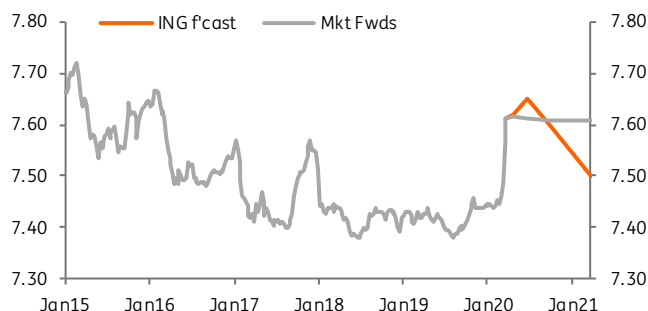
<b>ING forecasts (mkt fwd)</b>	<b>1M 4.85 (4.87)</b>	<b>3M 4.86 (4.91)</b>	<b>6M 4.86 (4.96)</b>	<b>12M 4.87 (5.04)</b>
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## EUR/HRK

### Massive intervention underway

**Current spot: 7.61**



Source: Bloomberg, ING

- The depreciation pressures on kuna seem to be among the highest in the Balkan region, which forced the central bank to sell a staggering €1.6bn within a week to limit kuna weakness.
- Our 7.55 year-end forecast looks relatively optimistic judging strictly from a supply/demand perspective (Croatia has a structural trade deficit and starting 2020, a C/A deficit due to the fall in the export of services). However, the ample FX reserves of the central bank (€19 billion as of Jan-2020) makes the case for a depreciation spiral to occur a very weak one right now.
- Although there is no clear link, the recent developments could put on hold the ERM-entry negotiations.

<b>ING forecasts (mkt fwd)</b>	<b>1M 7.62 (7.61)</b>	<b>3M 7.65 (7.61)</b>	<b>6M 7.60 (7.61)</b>	<b>12M 7.50 (7.61)</b>
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## EUR/RSD

### The new Balkan tiger

**Current spot: 117.5**



Source: Bloomberg, ING

- In a surprise move, on 11 March the NBS cut the key rate by 50bp to 1.75%. The move came explicitly as a response "to heightened uncertainty in the international environment triggered by the spread of the coronavirus (Covid-19)".
- The FX intervention has kept the currency virtually stable so far, with the RSD outperforming by far its Balkan peers (except the pegged BGN).
- The government has some fiscal room to boost spending and offset some of the socio-economic impact of Covid-19. However, the C/A deficit close to -7.0% of GDP in 2019 needs careful consideration in order not to raise a twin-deficit issue.

<b>ING forecasts (mkt fwd)</b>	<b>1M 117.60 (118.2)</b>	<b>3M 117.80 (118.5)</b>	<b>6M 117.80 (118.8)</b>	<b>12M 117.50 (119.6)</b>
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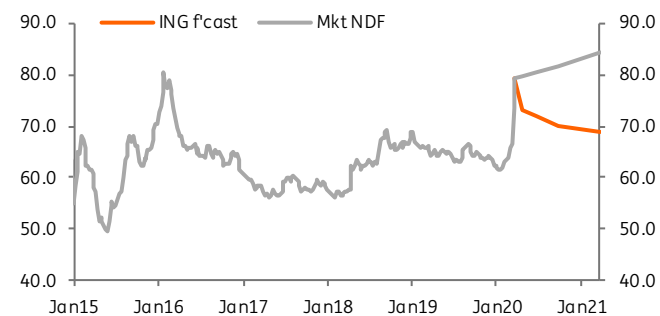
**Valentin Tataru, Bucharest +40 31 406 8991**



## USD/RUB

Pressured by oil, but no local panic

Current spot: 79.47



Source: Bloomberg, ING

- Global risk-off combined with the breakup of OPEC+ created a perfect storm for RUB, which lost 22% YTD, followed closely by commodity peers with a 19-22% result. RUB's slight overreaction vs peers does not appear justified given macro fundamentals.
- In order to address the global USD squeeze and realign RUB with peers, the CBR will be conducting [FX interventions](#), possibly of up to US\$500m per day. This should lower RUB's near-term sensitivity vs the current USD/RUB1 for each US\$2/bbl oil price change.
- Assuming an oil price [recovery](#) and no local capital outflow, we expect USD/RUB to return to the [70-75](#) range, however, sensitivity to oil price and the overall global mood will remain high.

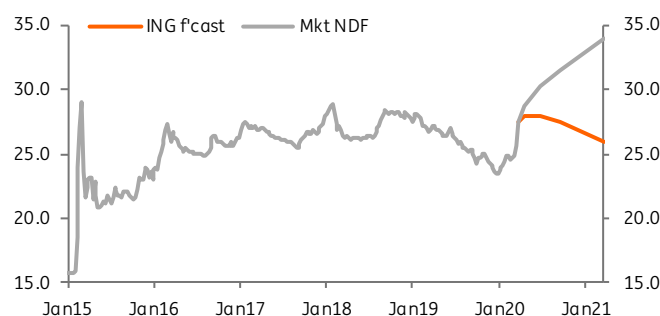
ING forecasts (mkt fwd)	1M 73.00 (79.84)	3M 72.00 (80.63)	6M 70.00 (81.80)	12M 69.00 (84.19)
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Dmitry Dolgin, Russia +7 495 771 7994

## USD/UAH

Stabilising an unstable currency

Current spot: 27.51



Source: Bloomberg, ING

- The rapidly deteriorating external environment has led to the re-emergence of worries regarding Ukraine's ability to fund itself from the markets. Overlapping this, the long-awaited IMF agreement is still not there, while internally a somewhat typical behaviour of people increasing dollar-cash demand is resurfacing.
- The NBU has acted quite aggressively to contain hryvnia losses, selling more than USD2bn in March-to-date while in parallel allowing for FX swap yields to spike above 20%.
- We targeted 27 as a line in the sand for UAH, but given the unusual strong outflows seen everywhere in EM we think that spikes above 28 could be temporarily allowed by NBU.

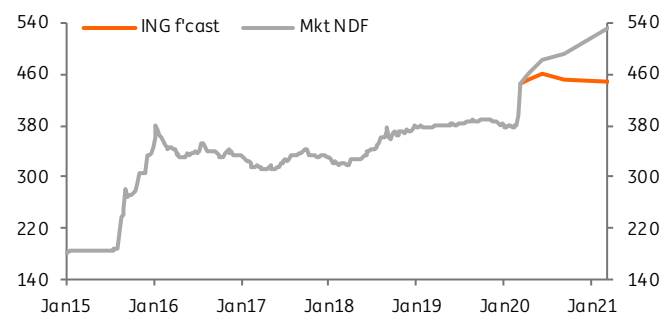
ING forecasts (mkt fwd)	1M 28.00 (28.70)	3M 28.00 (30.21)	6M 27.50 (31.52)	12M 26.00 (34.02)
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Valentin Tataru, Bucharest +40 31 406 8991

## USD/KZT

Pressured by oil, lost support from NBK

Current spot: 446.3



Source: Bloomberg, ING

- The tenge's recent sensitivity to oil exceeds the usual USD/KZT0.5 per US\$1/bbl as the price drop is amplified by the decline in export volumes. Unwilling to put pressure on FX reserves, the NBK allowed a relatively free KZT adjustment, pre-emptively raising the key rate by 2.75bp to 12.0%.
- In the short term, we expect tenge to be subject to high volatility due to pressure from current and capital accounts (demand for FX by local population and businesses), while the market is adjusting to a looser FX management regime.
- At this point, USD/KZT weaker than 450 appears unjustified, and we expect some stabilisation within a month. However, the oil price and capital flow uncertainties remain a risk factor for KZT.

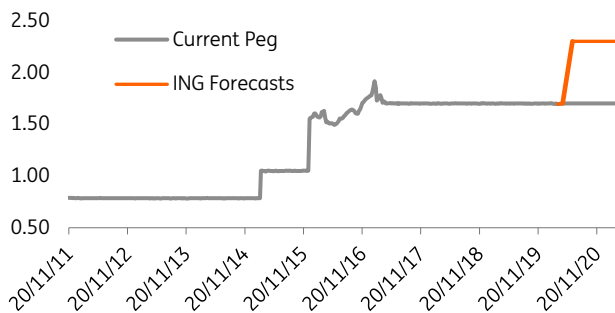
ING forecasts (mkt fwd)	1M 450.00 (461.3)	3M 460.00 (481.0)	6M 450.00 (490.9)	12M 447.00 (532.5)
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Dmitry Dolgin, Russia +7 495 771 7994



## USD/AZN

### To D or not to D? (devalue)



Source: Bloomberg, ING

**Current spot: 1.70**

- The US\$45/bbl drop in the oil price increases the possibility of a shift in the manat's peg to USD from the current 1.70 level.
- Oil wealth fund's (SOFAZ) reserves were at US\$43.3bn, while the CBAZ's accumulated US\$6.4bn (in total, 100% GDP) which may support the economy. Yet, given the historical experience, a prolonged period of low oil prices and restrained FX inflows from tourism may result in manat depreciation – by 26%, in 2Q20, after the oil price has stabilised, according to our house view.
- Oil accounts for around 50% of the country's budget revenue, and the recent price drop suggests US\$2.2bn annual under-collection. A tightening in the budget policy seems politically tricky, and so does a significant increase in oil production/exports

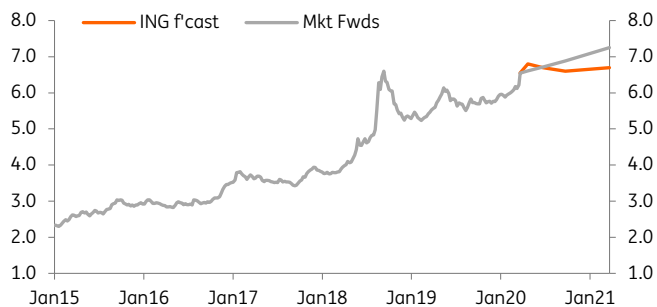
<b>ING forecasts (currency peg)</b>	<b>1M</b> 1.70 (1.70)	<b>3M</b> 2.30 (1.70)	<b>6M</b> 2.30 (1.70)	<b>12M</b> 2.30 (1.70)
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**Dmitry Dolgin, Russia +7 495 771 7994**

## USD/TRY

### CBT in emergency mode

**Current spot: 6.55**



Source: Bloomberg, ING

- The CBT has stepped in and cut the policy rate to single digits at 9.75% for the first time since mid-2018, given the spread of coronavirus and its negative impact on the global and the Turkish economy. The bank justified the decision by the growing downside risks to the inflation outlook with: 1) plunge in commodity prices, especially oil as we have already seen a significant downward adjustment in local fuel prices in recent days despite ongoing currency weakness and 2) weakening demand conditions given the hit from the coronavirus outbreak.
- The bank also announced a number of actions to maintain proper functioning of financial markets, the credit channel and the corporate sector. This shows that the CBT's priority shifts to economic and financial stability from price stability, despite the likely FX pass-through with a weakening currency.

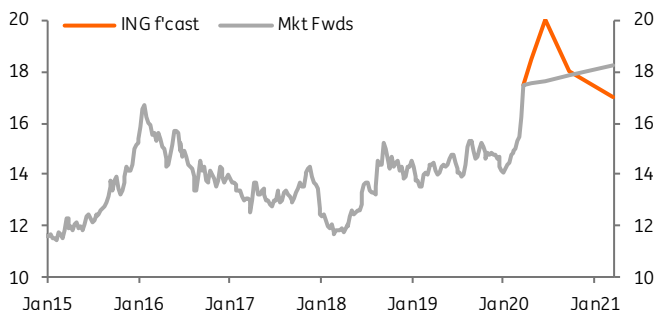
<b>ING forecasts (mkt fwd)</b>	<b>1M 6.80 (6.60)</b>	<b>3M 6.70 (6.71)</b>	<b>6M 6.60 (6.89)</b>	<b>12M 6.70 (7.25)</b>
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**Muhammet Mercan, Istanbul +90 212 329 0751**

## USD/ZAR

### Playing with ZAR fire, get burnt

**Current spot: 17.45**



Source: Bloomberg, ING

- The synchronised sell-off across all asset classes and the surge in volatility has left ZAR investors high and dry. ZAR has sold off around 25% this year, left exposed by its 4% of GDP current account deficit and exposure to the global commodity cycle. There are added concerns over electricity shortages as Eskom struggles for viability. The SARB now expects growth to contract 0.2% this year, which maybe optimistic.
- The ZAR also suffers from poor liquidity and could be one of the biggest victims from the trading community WFH and at Disaster Recovery sites. For reference, ZAR fell 60% in the 2008/09 crisis.
- Potential Moody's downgrade of SAGBs to junk on 27 March won't help.

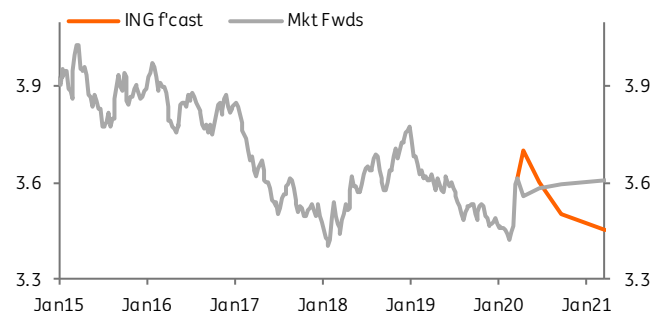
<b>ING forecasts (mkt fwd)</b>	<b>1M 18.50 (17.52)</b>	<b>3M 20.00 (17.65)</b>	<b>6M 18.00 (17.86)</b>	<b>12M 17.00 (18.21)</b>
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**Chris Turner, London +44 20 7767 1610**

## USD/ILS

### Shekel assets take a pounding, but Bol is on the case

**Current spot: 3.61**



Source: Bloomberg, ING

- One knows it is a serious case of indiscriminate deleveraging when the ILS and Israeli bonds sell off hard. Recall unhedged positions in Israeli bonds had been a popular trade ahead of Israel's inclusion into the WGBI index - said to trigger anywhere between \$4bn and \$8bn of inflows. Clearly investors have to reverse positions here as Covid-19 triggers margin calls.
- However, the Bol have acted quickly. They've started buying government bonds and also set up a new repo facility, backed by bonds. They've also set up a one week \$/ILS swap scheme, using dollars from the Bol's considerable FX reserves.
- Bol have a good track record in FX. 3.89 was probably the top.

<b>ING forecasts (mkt fwd)</b>	<b>1M 3.70 (3.56)</b>	<b>3M 3.60 (3.58)</b>	<b>6M 3.50 (3.60)</b>	<b>12M 3.45 (3.61)</b>
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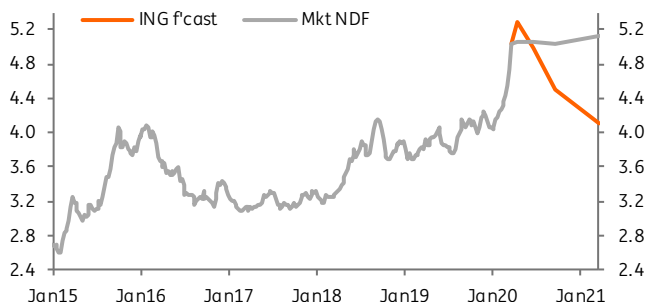
**Chris Turner, London +44 20 7767 1610**

# LATAM

## USD/BRL

**BACEN has many tools to ease liquidity constraints**

**Current spot: 5.04**



Source: Bloomberg, ING

- The Brazilian CB is prepared to deploy all its tools to ease FX liquidity constraints, including FX swaps, spot and FX-repo lines, and views its discretion to announce intervention as an asset.
- This heavy battery of intervention has been effective to improve the overall performance of the BRL, relative to its EM peers, but extremely wide trading ranges should prevail in the nearer term.
- Liquidity constraints should continue to exacerbate volatility but Brazil's superior ability to provide liquidity through intervention and idiosyncratic factors such as reduced demand for FX hedge to offset long positions local portfolios (after their sharp loss in value) suggest a relatively improved BRL environment.

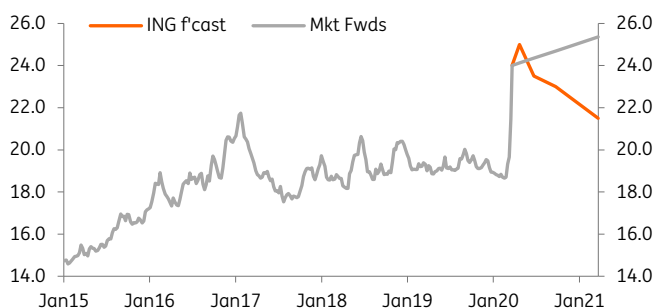
<b>ING forecasts (NDF)</b>	<b>1M 5.30 (5.05)</b>	<b>3M 5.00 (5.06)</b>	<b>6M 4.50 (5.04)</b>	<b>12M 4.10 (5.13)</b>
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**Gustavo Rangel, New York +1 646 424 6464**

## USD/MXN

**A "perfect storm" scenario becomes reality**

**Current spot: 24.01**



Source: Bloomberg, ING

- The MXN's reign as the "best-performing" currency across EM came into a hard crash in recent weeks as the peso's previous carry-induced popularity helped exacerbate the sell-off amid the sharp flight-to-quality that took hold of global financial markets.
- The shift was also aggravated by Mexico's own vulnerability to oil prices, the reduced capacity (relative to its size) to intervene to ease liquidity problems, and the fact that Mexico's economy may be among the most affected in LATAM, from the ongoing crisis.
- The risk of more permanent damage to Mexico's long-term outlook (and its credit rating) also rose sharply and suggest a more difficult recovery and extended market volatility.

<b>ING forecasts (mkt fwd)</b>	<b>1M 25.00 (24.13)</b>	<b>3M 23.50 (24.35)</b>	<b>6M 23.00 (24.68)</b>	<b>12M 21.50 (25.36)</b>
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**Gustavo Rangel, New York +1 646 424 6464**

## USD/CLP

**The most aggressive stimulus program in the region**

**Current spot: 849.53**



Source: Bloomberg, ING

- The Chilean government has stood out as the most aggressive in the region in announcing both monetary and, especially, fiscal stimuli to mitigate the economic impact of the crisis.
- The CB set the policy rate at 1%, after a 75bp emergency-meeting rate cut, announced credit-enhancing initiatives to support local banks, and extended its FX intervention program while the government announced a 5%-of-GDP fiscal package.
- The CLP's performance has improved, in relative terms, but this reflects in earlier underperformance. As it stands, judging by current copper price levels and risk appetite, the currency looks fairly-priced and should perform largely in line with its EM peers.

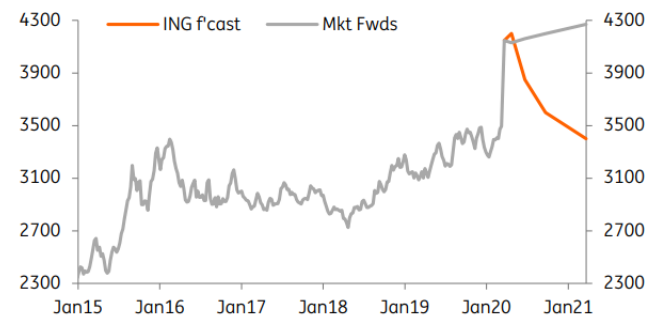
<b>ING forecasts (NDF)</b>	<b>1M 880.00 (849)</b>	<b>3M 850.00 (847)</b>	<b>6M 800.00 (847)</b>	<b>12M 770.00 (846)</b>
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**Gustavo Rangel, New York +1 646 424 6464**

## USD/COP

Facing twin-shocks from a stronger starting point

Current spot: 4070.90



Source: Bloomberg, ING

- The sharp COP sell-off is justified by the twin shocks represented by the economic crisis and the collapse oil prices. For now, the CB has intervened in FX markets but refrained from cutting rates.
- The good GDP growth seen until recently and lingering worries about Colombia's wide current account deficit, reduces the urgency to stimulate the economy, allowing the bank to focus on financial market stability, but there's scope for rate cuts later.
- The declaration of economic emergency allows for temporary fiscal relief without permanent fiscal damage, but Colombia's oil-sensitive fiscal outlook has weakened, and future action may be needed to avoid a downgrade in its credit rating.

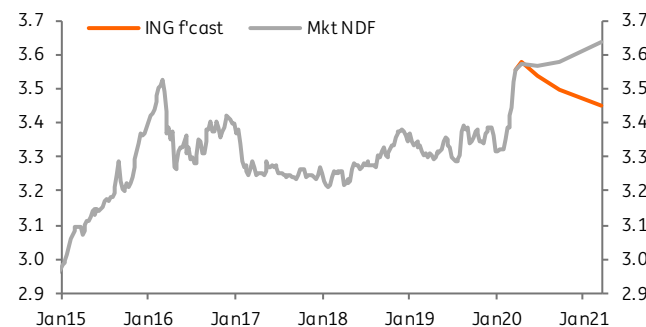
<b>ING forecasts (NDF)</b>	<b>1M 4200.00 (4071)</b>	<b>3M 3850.00 (3612)</b>	<b>6M 3600.00 (4134)</b>	<b>12M 3400.00 (4283)</b>
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## USD/PEN

Solid macro trends help offset global risk worries

Current spot: 3.56



Source: Bloomberg, ING

- The PEN also reached fresh all-time lows recently, but it continues to trade with less volatility, as usual, and to outperform its commodity exporter peers.
- 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.
- In an emergency meeting, Peru's BCRP cut the policy rate by 100bp to 1.25% and signalled that it could do more to help offset economic impact of the lockdown. Solid fiscal accounts also imply some room for fiscal stimulus, without long-term damage.

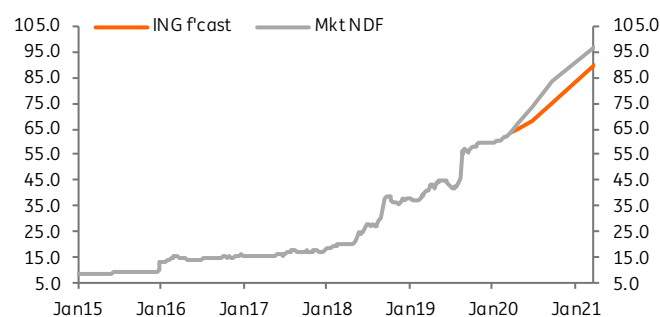
<b>ING forecasts (NDF)</b>	<b>1M 3.58 (3.57)</b>	<b>3M 3.54 (3.57)</b>	<b>6M 3.50 (3.58)</b>	<b>12M 3.45 (3.64)</b>
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## USD/ARS

Debt negotiations on hold, risk of default rises

Current spot: 63.75



Source: Bloomberg, ING

- The administration continues to struggle to finance itself, while poor initial macro conditions suggest that the risk of an even deeper recession than the one seen in the past couple of years.
- Local bonds should continue to be swapped/reprofiled while the delay caused by the virus outbreak suggests that a solution to the external debt-renegotiation process is unlikely before May, when higher maturity levels could heighten noise and uncertainties, weighing further on local market stability.
- FX will continue to be managed with a mix of stringent controls and intervention, ensuring some stability for the official FX rate, and a significant real appreciation relative to its regional peers, even as its premium relative to the non-official rate rises.

<b>ING forecasts (NDF)</b>	<b>1M 65.00 (67.42)</b>	<b>3M 68.00 (73.85)</b>	<b>6M 75.00 (83.32)</b>	<b>12M 90.00 (96.49)</b>
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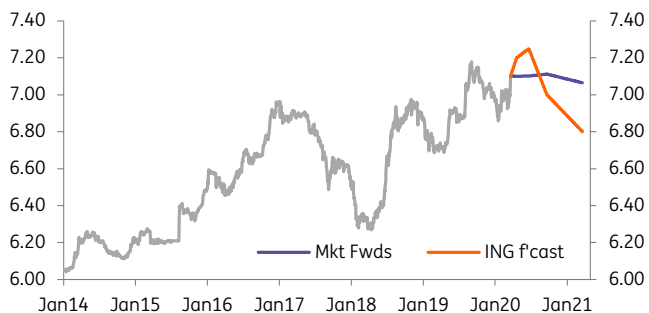
Gustavo Rangel, New York +1 646 424 6464

# Asia

## USD/CNY

Double hit from coronavirus, domestically and globally

Current spot: 7.099



Source: Bloomberg, ING forecasts

- Though the impact of coronavirus was very damaging to China in the first two months of 2020, the economy has recovered gradually. Most factories have resumed work. Consumers cannot resume normality as malls regulate the flow of people.
- But global demand has just started to be hit by the coronavirus. This will put additional pressure on China's manufacturing and export demand.
- The global demand story has hit asset markets worldwide and pushed the dollar stronger as there are flight-to-safety assets, including US Treasuries. We expect the yuan to weaken further against the strong dollar.

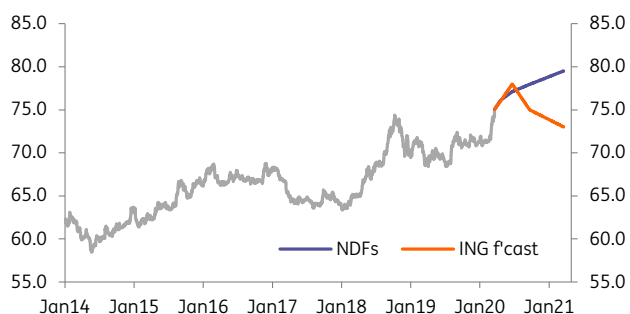
ING forecasts (mkt fwd)	1M 7.200 (7.100)	3M 7.250 (7.102)	6M 7.000 (7.112)	12M 6.800 (7.065)
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Iris Pang, Hong Kong +852 2848 8071

## USD/INR

Even oil fails to buoy the rupee

Current spot: 75.07



Source: Bloomberg, ING forecasts

- The outbreak of oil price war in early March failed to support the INR, leaving it 4% weaker against the USD so far this month. The weak sentiment from increased banking stress outweighs lower oil prices in driving the INR weakness as the currency traded through 75, an all-time low against the USD.
- Falling oil prices bode well for inflation though that hasn't been the case lately, while growth continues on a weaker trend with the added whammy from the Covid-19 outbreak.
- The currency depreciation pressure should persist as calls for further RBI rate cuts are rising with the global central bank easing wave. We expect a 25-50 basis point RBI rate cut in April.

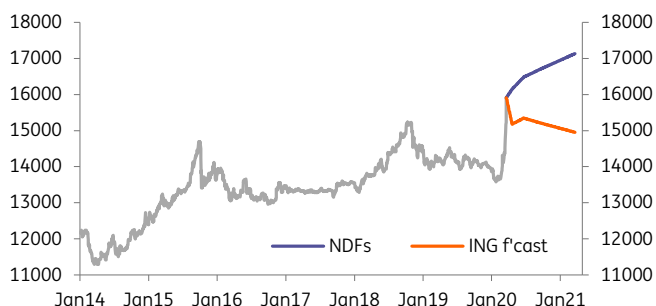
ING forecasts (mkt fwd)	1M 76.00 (76.11)	3M 78.00 (77.12)	6M 75.00 (77.96)	12M 73.00 (79.53)
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Prakash Sakpal, Singapore +65 6232 618

## USD/IDR

IDR weakens sharply as cases spike in Indonesia

Current spot: 15913



Source: Bloomberg, ING forecasts

- The IDR was stable in early February with investors still upbeat with President Widodo rushing the passage of the "omnibus bill" designed to help attract foreign investors.
- IDR began to weaken steadily as the Covid-19 virus hit China, heightening concerns about the impact of weaker export demand from Indonesia's main export destination.
- Bank Indonesia (BI) cut policy rates by 25bp to help cushion the economic impact from Covid-19 and reduced reserve requirements but will be hard pressed to cut further.
- We expect the IDR to weaken as cases in Indonesia rise and foreign investors dump risk assets given the stark risk-off tone.

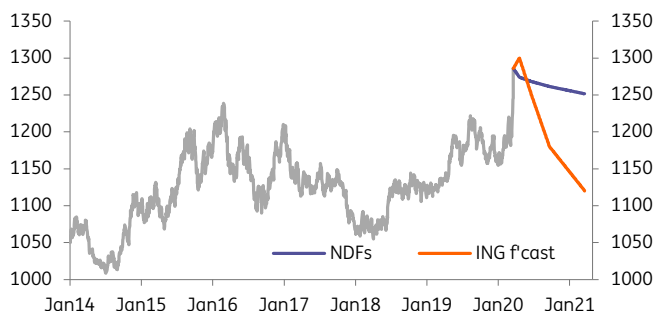
ING forecasts (mkt fwd)	1M 15177 (16150)	3M 15347 (16483)	6M 15206 (16712)	12M 14953 (17134)
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Nicholas Mapa, Philippines +63 2479 8855

## USD/KRW

Canary in the coalmine

Current spot: 1286



- The KRW remains the litmus currency for regional risk aversion, and at the moment, it is in a firestorm of financial fear, and being propelled ever higher. 1300 seems a realistic near-term target.
- That said, authorities around the world are finally ramping up both their fiscal and monetary responses. The likely further 50bp easing in 2Q20 by the BoK will be small in comparison to these other policy changes.
- The more moderate progression of the Covid-19 virus in Korea may help with the KRW's appreciation once the current market angst has passed. Though calling the turn in this is subject to substantial risk, 1300 may be too low a peak.

Source: Bloomberg, ING forecasts

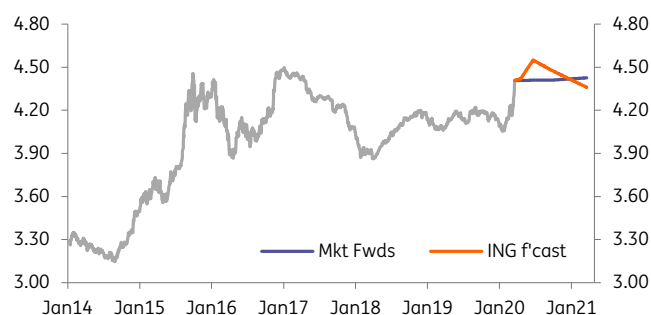
ING forecasts (NDFs)	1M 1300 (1274)	3M 1250 (1268)	6M 1180 (1261)	12M 1120 (1252)
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Rob Carnell, Singapore +65 6232 6020

## USD/MYR

An Asian underperformer

Current spot: 4.408



- The MYR depreciation pressure intensified with a surge in Covid-19 spread that forced the country into a complete lockdown for two weeks starting 18 March. The currency lost 4% against the USD so far in March, an Asian underperformer.
- A recession is lurking with the plunge in oil prices coming as an added whammy for the commodity-dependent economy, besides the hit to trade and tourism. Political risk evident from an unexpected change of government is also hurting growth.
- We see the crisis shaving over 2% off GDP growth this year. While the new government is reading more fiscal stimulus, at least a 50bp BNM rate cut looks imminent well before the May meeting

Source: Bloomberg, ING forecasts

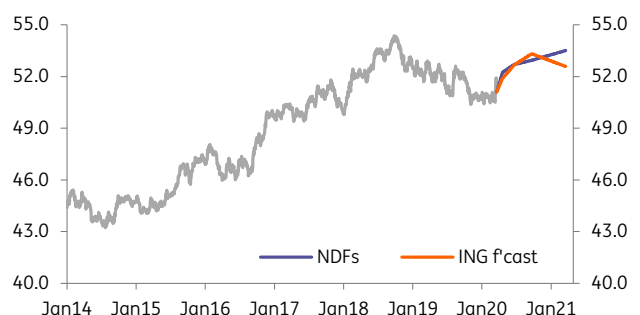
ING forecasts (mkt fwd)	1M 4.420 (4.408)	3M 4.550 (4.410)	6M 4.480 (4.410)	12M 4.360 (4.426)
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Prakash Sakpal, Singapore +65 6232 6181

## USD/PHP

PHP depreciates in line with region on Covid-19 contagion

Current spot: 51.10



- The PHP appreciated in early February as foreign inflows related to a retail treasury bond and the outlook upgrade from Fitch.
- The Peso weakened steadily towards the end of the month as foreign investors sold local stocks on Covid-19. The Philippines was tagged as least affected by the virus relative to the region.
- The Bangko Sentral ng Pilipinas (BSP) Governor pledged additional easing given falling inflation and to support the economy against Covid-19.
- We expect PHP to weaken further as the Philippine President declared a state of emergency and locked down the capital to help arrest the spread of Covid-19.

Source: Bloomberg, ING forecasts

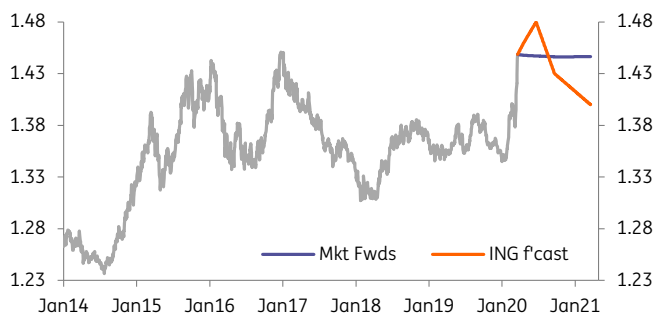
ING forecasts (mkt fwd)	1M 51.89 (52.24)	3M 52.67 (52.70)	6M 53.32 (52.94)	12M 52.58 (53.51)
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Nicholas Mapa, Philippines +63 2479 8855

## USD/SGD

Recession is inevitable

Current spot: 1.447



Source: Bloomberg, ING forecasts

- The Monetary Authority of Singapore may be behind the curve in the global central bank easing binge. But accelerated SGD-NEER depreciation probably reflects some stealth easing, which is further evident from a near-halving of interbank rates this month.
- We think the MAS will pronounce the easing stance by re-centring the SGD-NEER policy band at a lower level (currently about 1.5% below the mid-point of the band) with a zero rate of appreciation in the April policy review, or even before that.
- A recession is inevitable in the first half of 2020. A bold fiscal thrust should help some recovery in the second half but that's unlikely to be enough to keep the full-year growth in positive territory.

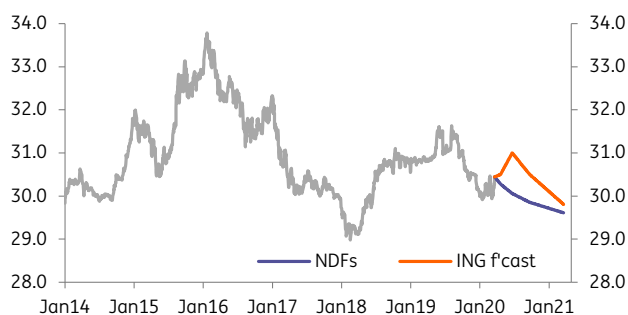
ING forecasts (mkt fwd)	1M 1.460 (1.448)	3M 1.480 (1.447)	6M 1.430 (1.446)	12M 1.400 (1.446)
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## USD/TWD

Can't defy the gravity of capital outflows

Current spot: 30.45



Source: Bloomberg, ING forecasts

- Shocks from the speedy spread of the coronavirus have hit stock markets globally, including Taiwan, which houses some electronic companies.
- The coronavirus has induced questions on the upcoming sales of smartphones as businesses in US and Europe face shorter operating hours or even cannot operate. The unemployment rate could rise, and therefore global consumers may have less appetite for smartphones and other electronic products.
- The TWD should weaken against the dollar. Not only does flight to safety support the dollar, but also Taiwan's manufacturers face the headwind of low demand for their electronics.

ING forecasts (mkt fwd)	1M 30.50 (30.28)	3M 31.00 (30.06)	6M 30.5 (29.85)	12M 29.80 (29.61)
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Iris Pang, Hong Kong +852 2848 8071

## USD/THB

2020 is shaping to be a year of negative growth

Current spot: 32.55



Source: Bloomberg, ING forecasts

- An 8.3% year-to-date depreciation wipes out almost all the gain the THB had against the USD in 2019. A breach of the top end of what we thought as new, a higher trading range of 31-33 this year, doesn't seem to be far off.
- As for some of its ASEAN peers, the Thai economy is bracing for recession as the increased global spread of Covid-19 dents tourism. In yet another downgrade, we have cut our forecast of GDP growth in 2020 to -0.5% from +1%.
- The government has announced THB 400 billion (2.4% of GDP) worth of stimulus. The Bank of Thailand is likely to complement this with an additional 50bp rate cut at its next meeting on 25 March.

ING forecasts (mkt fwd)	1M 32.90 (32.58)	3M 33.30 (32.58)	6M 32.80 (32.56)	12M 32.00 (32.55)
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## ING foreign exchange forecasts

EUR cross rates	Spot	1M	3M	6M	12M	USD cross rates	Spot	1M	3M	6M	12M
<b>Developed FX</b>											
EUR/USD	1.07	1.10	1.12	1.15	1.12						
EUR/JPY	118.7	117.70	117.60	115.00	123.20	USD/JPY	110.64	107	105	100	110
EUR/GBP	0.91	0.93	0.90	0.88	0.85	GBP/USD	1.18	1.18	1.24	1.31	1.32
EUR/CHF	1.05	1.05	1.05	1.07	1.08	USD/CHF	0.98	0.95	0.94	0.93	0.96
EUR/NOK	12.06	12.20	11.00	10.90	10.80	USD/NOK	11.25	11.09	9.82	9.48	9.64
EUR/SEK	11.01	11.20	10.90	10.70	10.70	USD/SEK	10.27	10.18	9.73	9.30	9.55
EUR/DKK	7.468	7.473	7.470	7.465	7.465	USD/DKK	6.96	6.79	6.67	6.49	6.67
EUR/CAD	1.53	1.65	1.62	1.59	1.43	USD/CAD	1.426	1.50	1.45	1.38	1.28
EUR/AUD	1.83	2.00	1.93	1.83	1.67	AUD/USD	0.59	0.55	0.58	0.63	0.67
EUR/NZD	1.86	2.04	1.96	1.85	1.72	NZD/USD	0.58	0.54	0.57	0.62	0.65
<b>EMEA</b>											
EUR/PLN	4.53	4.60	4.50	4.31	4.30	USD/PLN	4.22	4.18	4.02	3.75	3.84
EUR/HUF	350.8	348.00	352.00	345.00	340.00	USD/HUF	327.1	316	314	300	304
EUR/CZK	27.30	28.0	27.8	26.9	26.3	USD/CZK	25.46	25.5	24.8	23.4	23.5
EUR/RON	4.85	4.85	4.86	4.86	4.87	USD/RON	4.52	4.41	4.34	4.23	4.35
EUR/HRK	7.61	7.62	7.65	7.60	7.50	USD/HRK	7.10	6.93	6.83	6.61	6.70
EUR/RSD	117.5	117.6	117.8	117.8	117.5	USD/RSD	109.6	106.9	105.2	102.4	104.9
EUR/RUB	85.24	80.3	80.6	80.5	77.3	USD/RUB	79.47	73.0	72.0	70.0	69.0
EUR/UAH	29.48	30.8	31.4	31.6	29.1	USD/UAH	27.51	28.00	28.00	27.50	26.00
EUR/KZT	479.7	495.0	515.2	517.5	500.6	USD/KZT	446.3	450	460	450	447
EUR/TRY	7.02	7.48	7.50	7.59	7.50	USD/TRY	6.55	6.80	6.70	6.60	6.70
EUR/ZAR	18.71	20.4	22.4	20.7	19.0	USD/ZAR	17.45	18.50	20.00	18.00	17.00
EUR/ILS	3.87	4.07	4.03	4.03	3.86	USD/ILS	3.61	3.70	3.60	3.50	3.45
<b>LATAM</b>											
EUR/BRL	5.41	5.83	5.60	5.18	4.59	USD/BRL	5.04	5.30	5.00	4.50	4.10
EUR/MXN	25.75	27.5	26.3	26.5	24.1	USD/MXN	24.01	25.00	23.50	23.00	21.50
EUR/CLP	911.04	968	952	920	862	USD/CLP	849.53	880	850	800	770
EUR/ARS	68.37	71.50	76.16	86.25	100.80	USD/ARS	63.75	65.00	68.00	75.00	90.00
EUR/COP	4365.00	4620	4312	4140	3808	USD/COP	4070.90	4200	3850	3600	3400
EUR/PEN	3.79	3.94	3.96	4.03	3.86	USD/PEN	3.56	3.58	3.54	3.50	3.45
<b>Asia</b>											
EUR/CNY	7.61	7.92	8.12	8.05	7.62	USD/CNY	7.10	7.20	7.25	7.00	6.80
EUR/HKD	8.32	8.54	8.69	8.92	8.70	USD/HKD	7.76	7.76	7.76	7.76	7.77
EUR/IDR	17213	16695	17189	17487	16747	USD/IDR	15960	15177	15347	15206	14953
EUR/INR	80.53	83.6	87.4	86.3	81.8	USD/INR	75.20	76.00	78.00	75.00	73.00
EUR/KRW	1341.99	1430	1400	1357	1254	USD/KRW	1245.63	1300	1250	1180	1120
EUR/MYR	4.72	4.86	5.10	5.15	4.88	USD/MYR	4.39	4.42	4.55	4.48	4.36
EUR/PHP	54.70	57.1	59.0	61.3	58.9	USD/PHP	50.88	51.89	52.67	53.32	52.58
EUR/SGD	1.55	1.61	1.66	1.64	1.57	USD/SGD	1.45	1.46	1.48	1.43	1.40
EUR/TWD	32.73	33.6	34.7	35.1	33.4	USD/TWD	30.24	30.5	31.0	30.5	29.8
EUR/THB	34.93	36.2	37.3	37.7	35.8	USD/THB	32.57	32.9	33.3	32.8	32.0

Source: Bloomberg, ING

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