4 September 2020
FX Strategy

FX Talking

FAIT seals the dollar bear trend

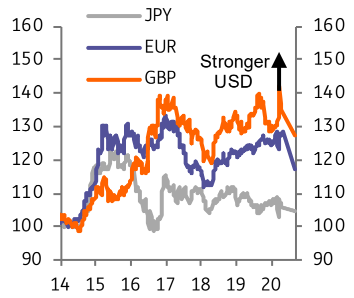
The Fed's shift to Flexible Average Inflation Targeting (FAIT) has been – and will continue to be – a significant bearish factor for the dollar. This reflationary policy embeds an assumption that a weaker dollar will play a role in stimulating US growth and allow the Fed to reach its goal of full and inclusive employment

The question is whether this is just the latest round in the global currency war and major trading partners (eg, Europe) will quickly act to neutralise their domestic currency strength by adopting similar policies? What may be more important, however, is that a weaker dollar will export looser monetary policy around the world – a positive move for cyclical currencies including the EUR, commodity and EM currencies in general.

Febrile conditions ahead of US November Presidential elections may well keep risk assets in check – hence our 1.20 EUR/USD forecast for year-end. But we now feel comfortable with most scenarios dragging EUR/$ to 1.25+ through 2021. This should be good for most European currencies, out of which we'd pick the CZK as a top performer. Events in Russia will certainly have to be monitored, however.

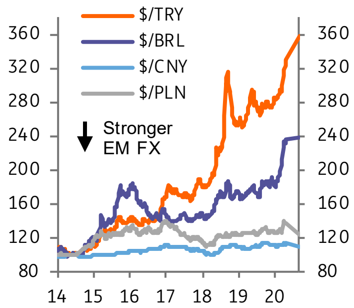
In theory, reflationary policy should be good for the equity-driven Asian currencies. We now look for USD/CNY to head to 6.70 into next year and expect the KRW to play catch-up to 1140 as 2021 progresses. EM policies which sail close to the wind, such as those on Indonesia, may take a further toll on local FX. And in Latam, we still prefer BRL over MXN, despite some doubts emerging about the strength of Brazil's fiscal responsibility.

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	1.19	>	105.00	<	1.31	<
3M	1.20	>	102.00	<	1.33	=
6M	1.20	>	102.00	<	1.36	>
12M	1.23	>	102.00	<	1.40	>
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.91	>	26.00	<	4.38	<
3M	0.90	>	25.90	<	4.36	<
6M	0.88	<	25.80	>	4.37	<
12M	0.88	<	25.60	<	4.35	<
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	6.780	<	21.50	<	5.25	<
3M	6.700	<	21.70	>	5.20	<
6M	6.650	<	22.00	>	5.05	<
12M	6.700	<	22.40	>	4.80	<

↑ / → / ↓ 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	8.9	-1.8	2.0	-6.1	11.5	-6.6
%YoY	7.7	-0.2	-1.1	6.1	5.6	-1.3
	USD/UAH	**USD/KZT**	**USD/BRL**	**USD/ARS**	**USD/CNY**	**USD/TRY**
%MoM	1.6	-2.2	1.9	14.0	-3.0	9.5
%YoY	9.5	8.4	28.6	31.5	-4.3	30.0

Source: Bloomberg, ING

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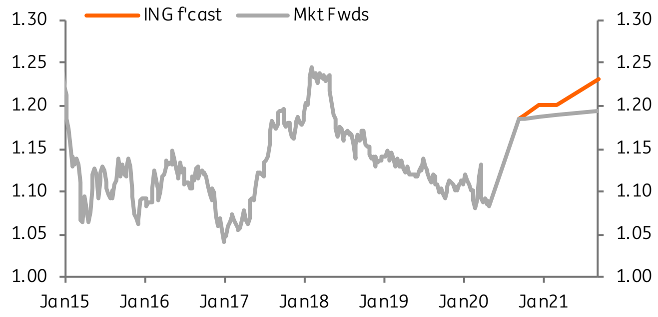
Developed markets

EUR/USD

Currency wars 4.0

Current spot: 1.18



Source: Bloomberg, ING

- It's easy to lose track of chapters in the global currency war, but the Fed's switch to average inflation targeting certainly looks one of them. It has already contributed to the summer 7% rally in EUR/USD and in our opinion should be enough to drive EUR/USD to 1.25 next year – possibly even 1.30.
- Before then we have November's Presidential election to contend with. The real prospect of a contested outcome as in 2000, where the result could be delayed for a month, could hit the V shape hopes built into cyclical assets and weigh on the EUR.
- Elections and heavy positioning to keep EUR/USD bid in a 1.17-1.20 range – but dollar downside risks should dominate.

ING forecasts (mkt fwd)	**1M** 1.19 (1.185)	**3M** 1.20 (1.1871.20)	**6M** 1.20 (1.190)	**12M** 1.23 (1.194)

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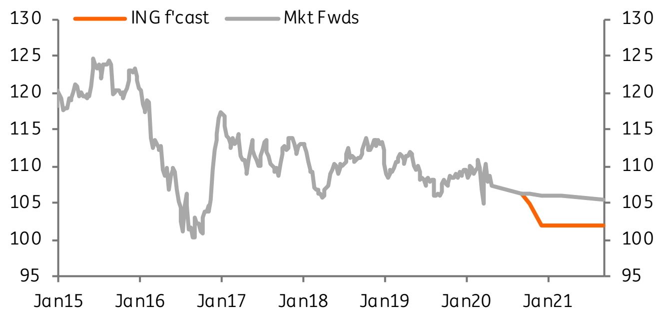
USD/JPY

Abenomics continued

Current spot: 106.22



Source: Bloomberg, ING

- Japanese authorities will be pleased that the JPY nominal trade weighted exchange rate remains soft – while currencies like the EUR and CNY advance against the dollar. JPY strength is never welcome in Tokyo. 105 will remain an important psychological level in USD/JPY and we suspect Japanese pension funds will be lined up to buy below there.
- 14 September sees the LDP leadership election. It now seems that clear Yoshihide Suga, a key Abe ally, will win the vote and deliver an extension of Abenomics – meaning very loose BoJ policy.
- The Fed's policy shift, very negative US real yields and a messy US Presidential election should keep $/JPY biased to 102, however.

ING forecasts (mkt fwd)	**1M** **105.00** (106)	**3M** **102.00** (106)	**6M** **102.00** (106)	**12M** **102.00** (106)

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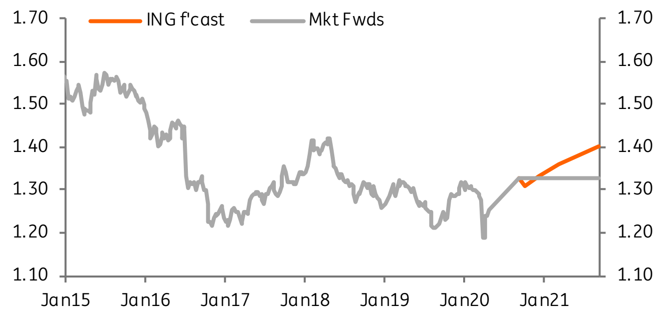
GBP/USD

GBP/USD rise to stall

Current spot: 1.33



Source: Bloomberg, ING

- Cable's rally was largely caused by strong EUR/USD, explaining almost 100% of the move in the past 3 months. As EUR/USD is pausing for a breath and the risk of negative UK-EU trade negotiations headline news is ahead, GBP/USD rise should stall.
- With the UK growth outlook remaining challenging, we expect the BoE to top up QE in the Nov meeting. Negative interest rates cannot be ruled out but would likely be only a response to a more material downturn or the failure to agree the UK-EU trade deal.
- Whether there's a deal or not, the change in UK-EU trade terms leaves the UK at risk of a slower recovery vs its peers, taming the potential medium-term upside to both GBP spot and its fair value.

ING forecasts (mkt fwd)	**1M** 1.31 (1.33)	**3M** 1.33 (1.33)	**6M** 1.36 (1.33)	**12M** 1.40 (1.33)

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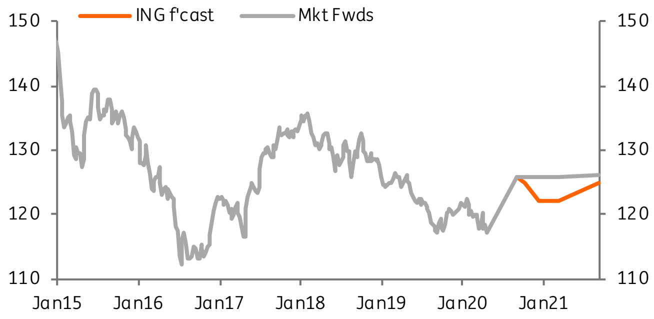
EUR/JPY

ECB and EU Recovery Fund could hit EUR this autumn

Current spot: 125.8



Source: Bloomberg, ING

- EUR/USD's test of 1.20 certainly touched a raw nerve with some of the doves on the ECB, who felt the need to go to the FT. Let's see at the 10 September ECB meeting how much 2022 Eurozone CPI forecasts are cut on the back of the stronger EUR. This could prompt more easing later in the year and keep some of the EUR strength in check. Consensus expects a €350bn top-up in PEPP.
- Another risk to the EUR is that some of the EU Recovery Fund optimism could evaporate later this year, should northern Europe reject some of the 2021 spending plans put forward.
- Growing risks to the V over coming months suggest EUR/JPY is biased lower into Nov/Dec, before recovering next Spring.

ING forecasts (mkt fwd)	**1M** 125.00 (126)	**3M** 122.00 (126)	**6M** 122.00 (126)	**12M** 125.00 (126)

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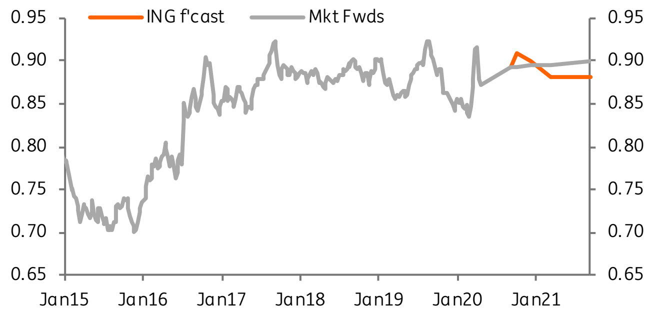
EUR/GBP

No risk premium priced into sterling

Current spot: 0.89



Source: Bloomberg, ING

- We estimate no Brexit-related risk premium is priced into GBP. Given the UK-EU trade deal is far from certain (though being above 50% probability in our view) and if done, it is likely to be only of a soft nature. Thus, market pricing of GBP is complacent.
- Near-term, we expect a limited progress in UK-EU negotiations, with a likely rise in the negative headline news (the main area of disagreement remains state aid). EUR/GBP to move above 0.9000 this month as uncertainty about the deal kicks in.
- The theme of another Scottish independence referendum over the next 6-9 months should be more noise rather than credible risk.

ING forecasts (mkt fwd)	**1M** 0.91 (0.89)	**3M** 0.90 (0.89)	**6M** 0.88 (0.90)	**12M** 0.88 (0.90)

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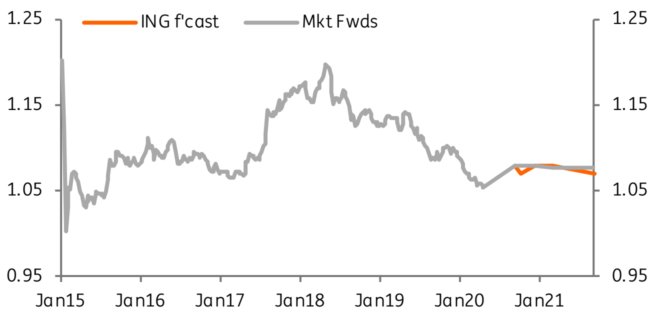
EUR/CHF

0.90 in USD/CHF continues to dominate

Current spot: 1.08



Source: Bloomberg, ING

- Swiss GDP contracted slightly less than expected at 8.2% QoQ in 2Q. We have also seen some surging consumer and business confidence – eg, the KOF Leading Indicator at 110.2 is the highest since 2009. So, the V shape seems very much alive in Switzerland. However, faced with inflation running at -0.9% YoY, the SNB remains in full intervention mode.
- We suspect that the SNB may be active in defending the 0.90 level in USD/CHF. Whenever USD/CHF approaches that level both USD/CHF and EUR/CHF get a big lift.
- We suspect, however, that 0.90 will have to yield at some point in the face of the broad $ bear trend – and EUR/CHF stays soft too.

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

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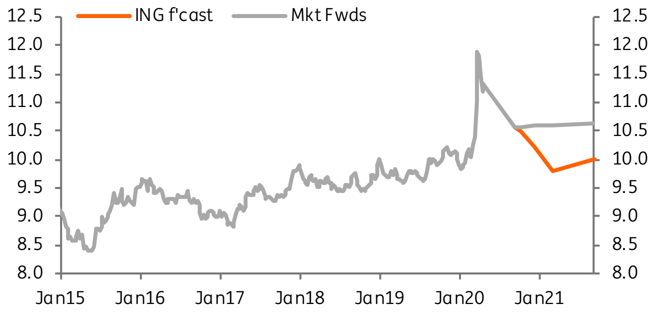
EUR/NOK

The high beta of the G10 FX space

Current spot: 10.57



Source: Bloomberg, ING

- The risk supportive soft USD environment benefited NOK to a great extent as the krone remains the most sensitive G10 currency to risk appetite.
- The recovering Norwegian economy, which did better than expected, and supported oil prices (we expect Brent to reach US$50/bbl this year) do bode well for pro-cyclical NOK, but it is the global factor that is the key determinant of NOK direction.
- Norges Bank is to stay on hold for a prolonged period of time, with the stronger NOK delivering a tightening of monetary conditions. As EUR/USD is to stabilise near-term (following the ECB comments), EUR/NOK downside should be modest, to 10.20 this year.

ING forecasts (mkt fwd)	**1M** 10.50 (10.57)	**3M** 10.20 (10.58)	**6M** 9.80 (10.61)	**12M** 10.00 (10.65)

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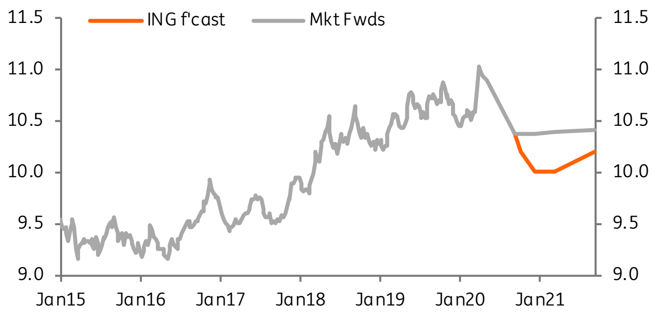
EUR/SEK

This time SEK to benefit from global trade recovery

Current spot: 10.37



Source: Bloomberg, ING

- SEK remains a steady force in the G10 space, benefiting from the mix of soft USD and improving outlook for global growth. The latter particularly benefits the small open economy of Sweden.
- With Swedish nominal and real rates no longer being a negative outlier in the G10 space and Riksbank not standing out on the dovish side, the improving global economic prospects can now benefit SEK (vs prior years, when global trade failed to spill over into stronger SEK as Riksbank leaned against the wind).
- SEK is still undervalued and we see EUR/SEK at 10.00 by end-2020. Riksbank to remain firmly on hold, neither cutting, nor hiking.

ING forecasts (mkt fwd)	**1M** 10.200 (10.37)	**3M** 10.000 (10.38)	**6M** 10.000 (10.39)	**12M** 10.200 (10.41)

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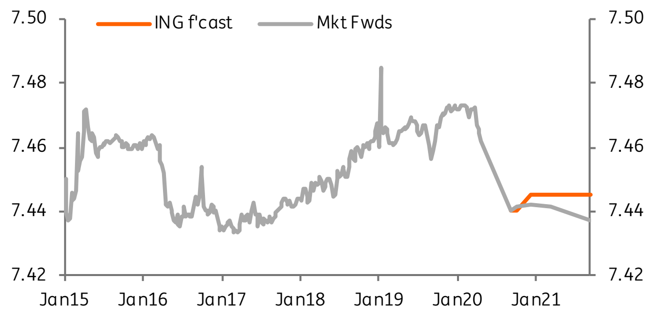
EUR/DKK

The case for a DN rate cut is gradually rising

Current spot: 7.441



Source: Bloomberg, ING

- The DN only enjoyed a short-lived respite from the appreciating DKK trend. EUR/DKK broke below the 7.4400 as the mix of low EZ CPI and ECB officials' comments against EUR strength suggest looser ECB monetary policy for longer.
- This means that the main driver of EUR/DKK, the relative excess liquidity between EZ and Denmark, should continue putting downward pressure on EUR/DKK. We continue to see FX interventions as the primarily DN tool to lean against the DKK strength, but the case for a rate cut is rising
- It is less than 6 months since DN hiked rates by 15bp in order to stem the DKK decline. Now, it may have to reverse it.

ING forecasts (mkt fwd)	**1M** 7.440 (7.44)	**3M** 7.445 (7.44)	**6M** 7.445 (7.44)	**12M** 7.445 (7.44)

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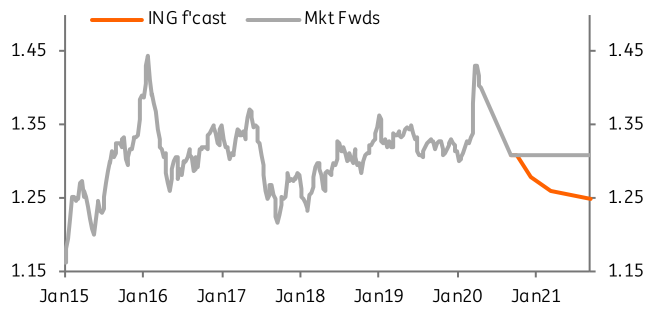
USD/CAD

The end of the road for CAD looks far

Current spot: 1.309



Source: Bloomberg, ING

- CAD's recent good performance has largely relied on oil resilience, a better US virus situation and a risk on/USD off environment. We do not see these factors fading in the coming months, so USD/CAD can still experience limited upside risk.
- The BoC may leave its policy stance unchanged, and the fiscal stimulus measures should continue to endorse the economic recovery in Canada and keep the data flow supportive for CAD.
- Heading into the US election, CAD's reaction may mostly rely on the trade implications: a Biden win could therefore be a CAD positive. USD/CAD bearish trend may start to lose some steam but we now expect it to trade steadily below 1.30 in 4Q.

ING forecasts (mkt fwd)	**1M** 1.31 (1.31)	**3M** 1.28 (1.31)	**6M** 1.26 (1.31)	**12M** 1.25 (1.31)

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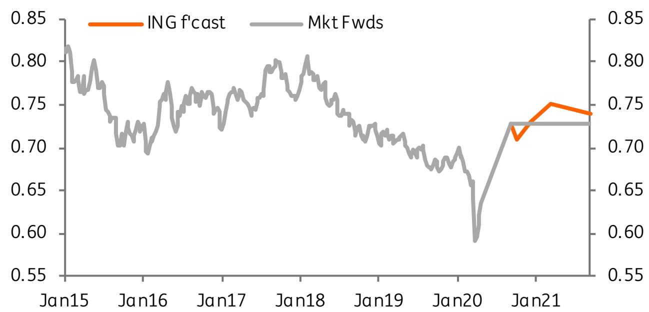
AUD/USD

Strongest currency in Asia pacific

Current spot: 0.73



Source: Bloomberg, ING

- The RBA has been buying government bonds again after its recent hiatus, but the AUD continues to strengthen, and over the month, has appreciated more against the USD than any other Asia-Pacific currency (2.93% from 31 July).
- 2Q GDP has been hit by the Victoria lockdown, coming in at -7% QoQ. The lockdown is not due to end until later in September and has required us to revise down our GDP forecast for the full year from -0.8% to -4.2%.
- The RBA considers that the lockdown has cost the economy at least 2ppt compared to a counterfactual of no lockdown having happened. But it does not yet seem to have hurt the currency.

ING forecasts (mkt fwd)	**1M** 0.710 (0.728)	**3M** 0.730 (0.728)	**6M** 0.750 (0.728)	**12M** 0.740 (0.728)

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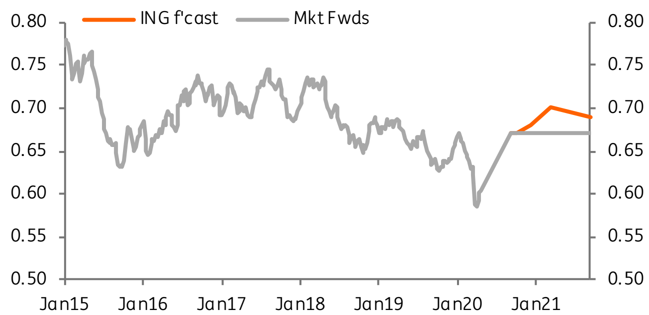
NZD/USD

Terms of trade to weigh on kiwi?

Current spot: 0.67



Source: Bloomberg, ING

- New Zealand has also not escaped a second outbreak of Covid-19, which has also encouraged us to revise down our GDP forecast for 2020 to -4.2% for the full year.
- Auckland has now exited its lockdown, which allows for a bounce in 3Q20, though there will remain much stricter social distancing than prior to the lockdown.
- The NZD has also had a reasonable month, though has not been as strong as the AUD, possibly due to the open prospect for negative rates expressed by Governor Orr, and possibly by some terms of trade shifts, including the important milk powder prices.

ING forecasts (mkt fwd)	**1M** 0.670 (0.672)	**3M** 0.680 (0.672)	**6M** 0.700 (0.672)	**12M** 0.690 (0.672)

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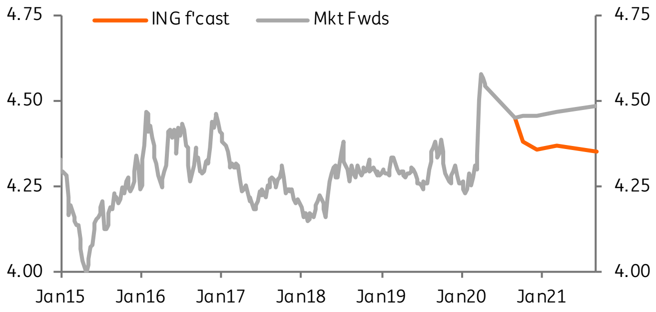
Emerging markets

EUR/PLN

Positive surprise with 2020 C/A to offset loose monetary

Current spot: 4.45



Source: Bloomberg, ING

- Depreciation of the US dollar is likely to continue to support the CEE FX, likely to send €/PLN back to or below 4.40 later in 2020. MPC policy is extremely loose (interest rates lowest in the CEE space plus quantitative easing). However, this is largely offset by a possible positive surprise with Poland's current account surplus. Technically the support at 4.32 should be very hard to breach.
- The Polish government is aiming at a public investment boom financed from the Recovery Fund starting in mid-2021, so a high trade surplus should dwindle on rising imports. At the same time the MPC is unlikely to raise rates before 2022, possibly extending QE into 2021. This should prevent much further appreciation of the zloty next year despite a rising €/US$.

ING forecasts (mkt fwd)	**1M** 4.38 (4.45)	**3M** 4.36 (4.46)	**6M** 4.37 (4.47)	**12M** 4.35 (4.49)

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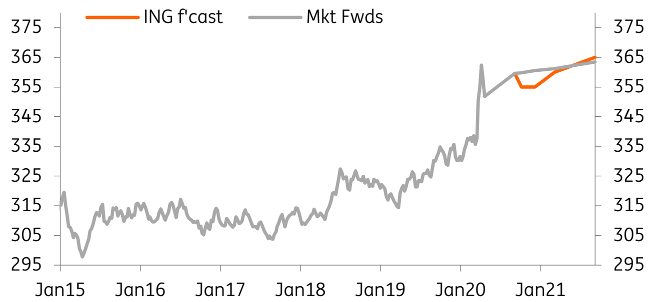
EUR/HUF

NBH feels the pressure, HUF is in focus

Current spot: 359.6



Source: Bloomberg, ING

- The NBH has been caught in the crossfire of higher inflation and weaker economic activity lately. With EUR/HUF back in the 355-360 range and presumably the pass-through of FX to inflation is stronger, the situation is quite fragile.
- With CPI expected to correct lower in the remainder of the year, we don't see a case for EUR/HUF moving materially outside the recent 355-360 range.
- Any unconventional easing should remain sterilised while rate cuts remain out of the question. In case of a HUF emergency, the NBH will use verbal intervention before adjusting short-end rates via FX swaps and we see a rate hike only as a last resort.

ING forecasts (mkt fwd)	**1M** 355.0 (359.8)	**3M** 355.0 (360.5)	**6M** 360.0 (361.2)	**12M** 365.0 (363.4)

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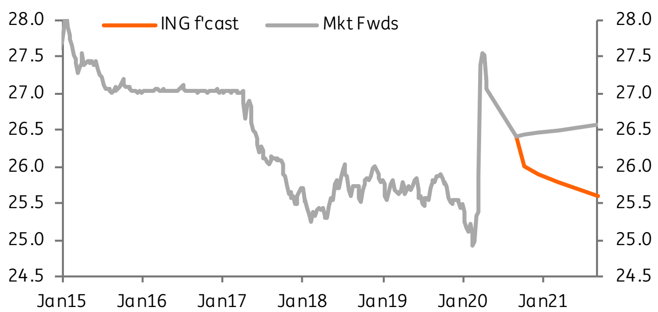
EUR/CZK

Fiscally solid currency

Current spot: 26.42



Source: Bloomberg, ING

- Czech CPI remains highly above the target (most in CEE space), yet the Covid-related economic uncertainty means no response from the CNB. Possible hikes are a late 2021 story, at the earliest.
- CZK, and other CEE FX, benefited from a sharp rise in EUR/USD since May, but with EUR/USD now pausing for a breather (due in part to the ECB officials' comments on EUR strength), this means CZK upside should be more limited from here.
- The share of foreign ownership of CZGB has been falling, but this is more a function of high demand from local banks for increased CZGBs issuance. CZK assets remain attractive for foreign investors given the still solid fiscal CZ position. CZK is our regional top-pick.

ING forecasts (mkt fwd)	**1M** 26.00 (26.44)	**3M** 25.90 (26.46)	**6M** 25.80 (26.49)	**12M** 25.60 (26.56)

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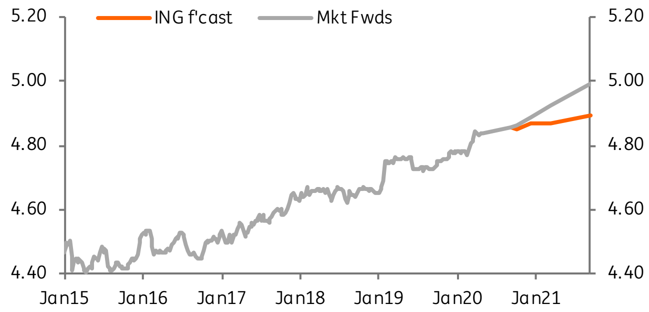
EUR/RON

Political tensions taking their toll

Current spot: 4.85



Source: Bloomberg, ING

- The no-confidence motion filed by the opposition was a narrow-miss, as the Parliament couldn't get the needed quorum to pass it. Nevertheless, the pre-motion uncertainty did take its toll as the EUR/RON climbed back to 4.8450, a strong previous resistance level.
- As local elections are getting closer (27 Sep) the political tensions increase. We expect more and more populist initiatives to be pushed through Parliament, which will corner the government.
- We think the NBR will be there to prevent RON weakness under any outcome. We maintain our 4.87 year-end forecast with some asymmetrical risks building up.

ING forecasts (mkt fwd)	1M 4.85 (4.86)	3M 4.87 (4.89)	6M 4.87 (4.92)	12M 4.89 (4.99)

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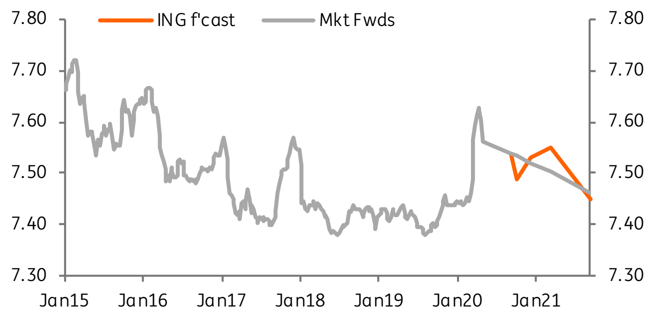
EUR/HRK

Tourism holds strong

Current spot: 7.54



Source: Bloomberg, ING

- The central rate for the ERM-II was set at 7.53 with a fluctuation band ranging from 6.40 to 8.66. Meeting the ERM-II requirements will probably be one of the least worries for the Croatia National Bank.
- The tourism season is close to an end, but numbers are surprisingly good given the context. July and August arrivals were at 60-70% of last year numbers which is well above initial estimations.
- We have revised marginally lower our year-end forecast from 7.55 to 7.53 on the back of the improved market sentiment and comfortable CNB FX reserves position. The relative resilience of the tourism sector enforces our view.

ING forecasts (mkt fwd)	1M 7.49 (7.53)	3M 7.53 (7.52)	6M 7.55 (7.50)	12M 7.45 (7.46)

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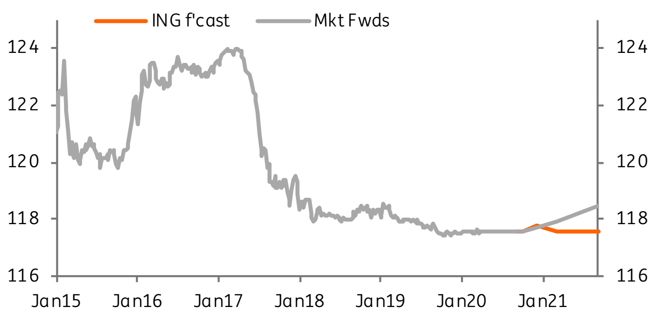
EUR/RSD

Quasi-pegged

Current spot: 117.6



Source: Bloomberg, ING

- The dinar remains one of the most stable currency in the region but support via NBS interventions is decisive. Recently, NBS Governor Jorgovanka Tabakovic highlighted that pursuing a policy of relative FX stability is the main monetary tool in its inflation targeting regime.
- We still expect the NBS to allow a minor depreciation this year towards 117.8 but we admit that chances are higher now for a peg-type stability around the 117.60 level.
- IMF's fourth review under the Policy-Coordination Instrument strikes a cautiously optimistic tone as it highlights the resilience of the economy and the adequacy of the anti-crisis measures.

ING forecasts (mkt fwd)	1M 117.60 (117.6)	3M 117.80 (117.7)	6M 117.60 (117.9)	12M 117.60 (118.5)

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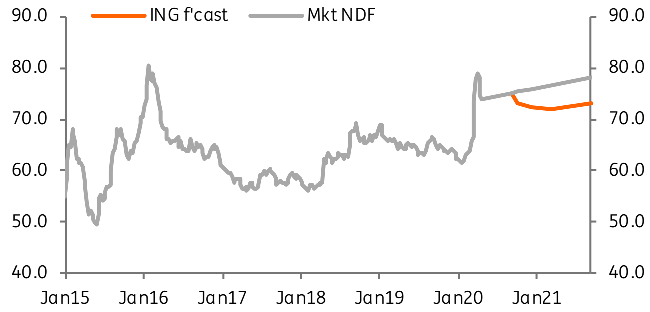
USD/RUB

Hoping for RUB recovery by year-end

Current spot: 75.12



Source: Bloomberg, ING

- RUB's discount to peers has widened from under 8% in June to 13% currently, due to local capital outflow, smaller CBR FX sales, dividend outflow and the recently intensified political concerns around Belarus and Russian opposition leaders.
- Global USD weakness, which is now more likely to continue is suggesting a favourable external backdrop to RUB and its peers for the rest of 2020 and 2021, supporting our expectations of RUB recovery from the 3Q20 lows, however September will be volatile.
- We are reluctant to improve our 72-73 USDRUB expectations for the next 12 months unless the capital account shows improvement and foreign policy risks subside.

ING forecasts (mkt fwd)	1M 73.00 (75.35)	3M 72.50 (75.82)	6M 72.00 (76.53)	12M 73.00 (78.09)

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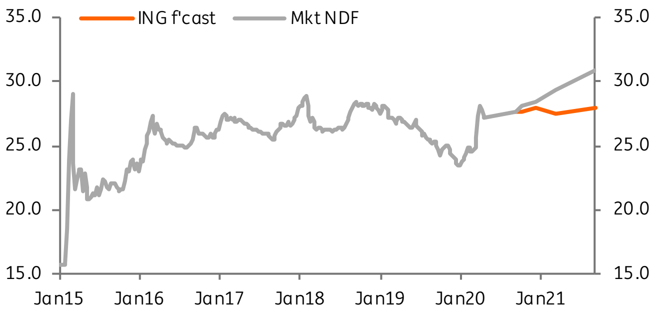
USD/UAH

Appreciation pressures reversed

***Current spot:* 27.66**



Source: Bloomberg, ING

- The NBU performed one-sided interventions in August, buying around USD0.45bn. This will likely boost its FX reserves close to USD30bn, which looks comfortable even absent the IMF tranche(s).
- While we could still some seasonal strengthening pressures for the hryvnia, overall, we still expect depreciation pressures to prevail as the IMF agreement looks a touch shakier while the NBU's push for lower financing costs continues.
- We are comfortable with our year-end FX forecast of 28 at this moment, though we see chances for an even weaker hryvnia given that at its 3 September meeting, the NBU dropped its commitment for an unchanged key rate for the rest of the year.

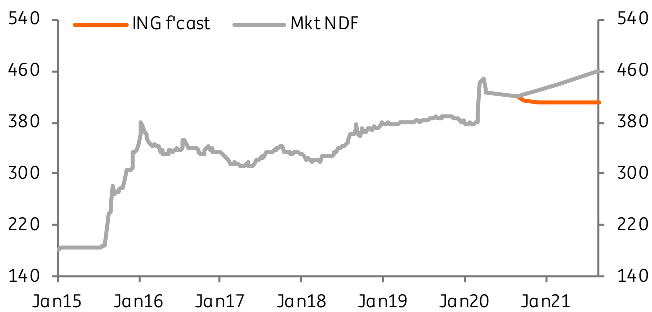
ING forecasts (mkt fwd)	1M 27.60 (28.02)	3M 28.00 (28.47)	6M 27.50 (29.27)	12M 28.00 (30.85)

Valentin Tataru, Russia +40 31 406 89 91

USD/KZT

Appreciation limited by year-end

Current spot: 420.7



Source: Bloomberg, ING

- USDKZT remained under pressure around 420 despite global USD weakness, as a result of stricter OPEC+ production cut obligations and high local demand for FX.
- The recent improvement in the global risk sentiment and expected recovery in oil production in 4Q20 should provide support to KZT amid stable country risk perception. Fitch and Moody's reaffirmed Kazakhstan's rating at 'BBB' and 'Baa3'.
- The appreciation should be limited due to the shift from the US$2.1bn current account surplus in 1H20 (on lower dividend outflow) into deficit in 2H20. The $410/KZT is the strongest possible FX level that would prevent the budget deficit from widening beyond -2.3% GDP next year and sovereign fund from dropping below the critical 30% GDP in the long term.

ING forecasts (mkt fwd)	1M 414.00 (423.7)	3M 410.00 (430.8)	6M 410.00 (440.2)	12M 410.00 (461.3)

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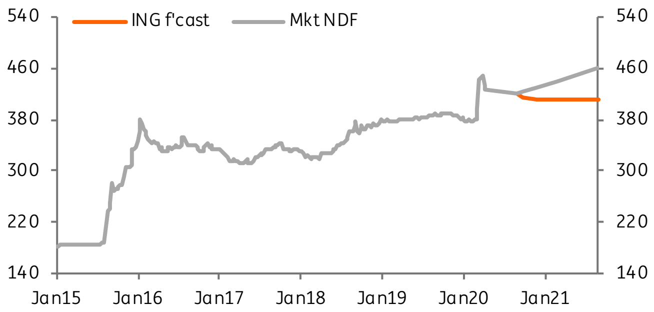
USD/TRY

Effective cost of funding in double digits

Current spot: 7.45



Source: Bloomberg, ING

- Recent CBT moves and the pace of tightening show that it will continue to make use of a step-by-step approach rather than an abrupt change in the policy stance.
- After a pronounced weakness in late July and early August, TRY has stabilised lately with an improving global backdrop for EM currencies, the CBT's ongoing tightening and subsiding FX demand among households. Exchange rate developments will likely determine the extent and pace of CBT action, though recent stability in the TRY may be a factor for the CBT keeping the effective cost of funding at current levels in the 10.0-10.5% range.
- Policymakers will likely maintain their priority on currency stability in the near term.

ING forecasts (mkt fwd)	1M 7.40 (7.52)	3M 7.30 (7.71)	6M 7.30 (8.03)	12M 7.60 (8.71)

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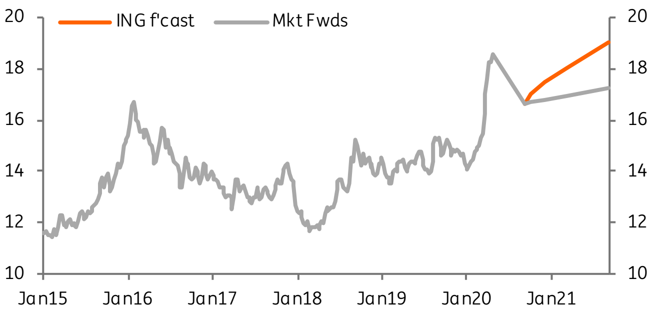
USD/ZAR

Is South Africa too far along the credit curve?

Current spot: 16.61



Source: Bloomberg, ING

- The ZAR has been taking advantage of the soft dollar environment and rallied over 2% over the last four weeks. It typically has a good correlation with the Renminbi – thus a positive take on the China industrial recovery seems to be helping. And South Africa's manufacturing PMI is surging.
- The Fed is encouraging investors to move out along the credit curve – but is South Africa a bridge too far? It has good yields (SAGBs at 9% and low foreign participation), but we worry that October's medium-term budget may again raise concerns over debt sustainability. And the IMF may ask for austerity.
- 16.30/50 may well be the ZAR's best levels this year.

ING forecasts (mkt fwd)	1M 17.00 (16.66)	3M 17.50 (16.77)	6M 18.00 (16.92)	12M 19.00 (17.22)

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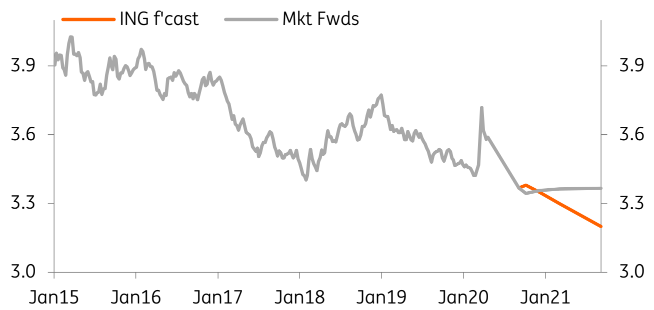
USD/ILS

Interventions has its limits

Current spot: 3.37



Source: Bloomberg, ING

- USD/ILS broke decisively below the 3.40 barrier in late August as the BoI failed to stem the broad tide of dollar weakness. BoI's dollar buying intervention had been US$810m in July and will probably be sizable when the August data is released on 7 September.
- The BoI responded to media queries by saying its FX intervention policy had not changed – this after the sharp fall below 3.40. We would agree. Typically, the BoI defends a level for a time and then allows $/ILS into a new range. A new floor at 3.35 would not be a surprise given the interventionist BoI.
- Into 2021, however, we do not see this dollar bear trend changing and see the BoI reluctantly accepting a $/ILS drop to 3.20.

ING forecasts (mkt fwd)	1M 3.38 (3.34)	3M 3.35 (3.36)	6M 3.30 (3.36)	12M 3.20 (3.37)

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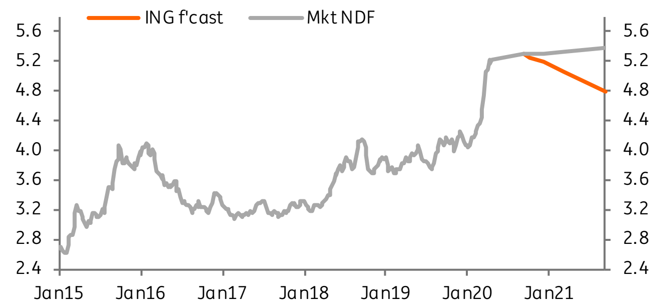
LATAM

USD/BRL

Fiscal uncertainties and low local rates intensify volatility

Current spot: 5.30



Source: Bloomberg, ING

- The BRL continues to stand out for its outsized volatility, perhaps the largest in EM. The currency has also been weighed down by lingering post-pandemic fiscal uncertainties and the central bank's aggressive rate-cutting stance.
- The CB confirmed that there's now minimal scope for more rate cuts (from 2.0%), and an additional rate cut appears less likely now, but the bank appears more willing than others to test that lower bound, even at the cost of greater FX volatility.
- The tide would turn in favour of the BRL amid continued evidence of a faster economic recovery and legislative action that confirms a long-term commitment to a sustainable fiscal trajectory.

ING forecasts (NDF)	1M 5.25 (5.30)	3M 5.20 (5.31)	6M 5.05 (5.32)	12M 4.80 (5.37)

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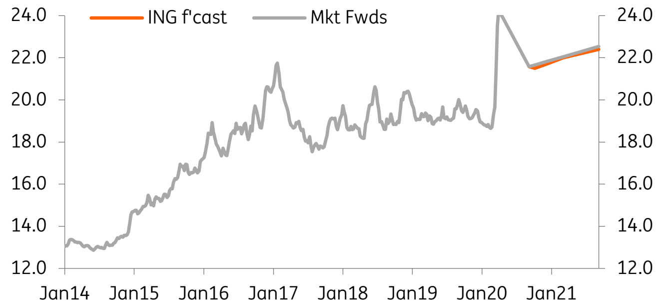
USD/MXN

Yield-advantage helps offset policy mistakes

Current spot: 21.59



Source: Bloomberg, ING

- The MXN performed relatively well in recent weeks, catching-up with the weaker USD and benefiting from the supportive carry.
- But Mexico's post-pandemic macro outlook is especially worrying. Its GDP is likely to face one of the deepest slumps in LATAM this year, likely above 10%, but the country has opted for modest countercyclical initiatives, exacerbating the risk of greater permanent damage to the economy and a delayed recovery.
- The administration's frequent disputes with the private sector also continues to undermine investor confidence and call into question whether the MXN's persistent yield advantage would suffice to ensure a supportive MXN environment for too long.

ING forecasts (mkt fwd)	1M 21.50 (21.66)	3M 21.70 (21.82)	6M 22.00 (22.04)	12M 22.40 (22.53)

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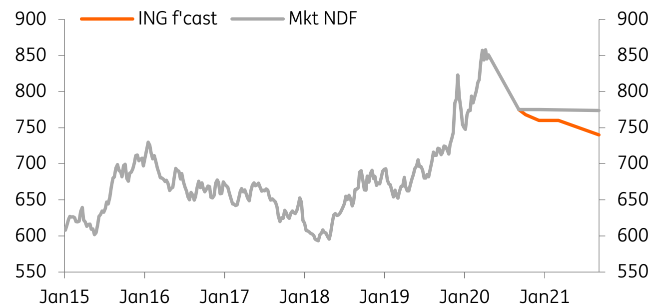
USD/CLP

Copper upside limited by the severe domestic crisis

Current spot: 775.08



Source: Bloomberg, ING

- The CLP has been among the best-performing currencies in LATAM in recent months, largely thanks to the sustained rally in copper prices. In fact, if past correlations hold, current price levels for the metal suggests that the currency should strengthen further.
- High copper prices are partly offset by unsupportive domestic drivers, however. The severe Covid-19 crisis and latent political and social risks suggest that the likelihood of a more lasting negative reassessment of the country's macro prospects is likely.
- Chile's assertive policy stimulus bodes well for a faster recovery, as seen in recent data, but the CB's appetite for material stimulus through QE could also add downside for the currency.

ING forecasts (NDF)	1M 768 (775)	3M 760 (775)	6M 760 (774)	12M 740 (774)

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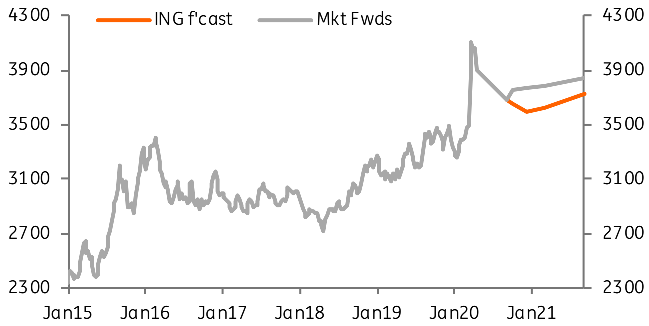
USD/COP

Risk of credit rating downgrades calls for caution

Current spot: 3685.61



Source: Bloomberg, ING

- The COP performed relatively well in recent weeks, but we remain worried about the lasting post-pandemic fiscal damage, and Colombia's precarious "investment grade" status amid continued elevated risk of rating downgrades. Overall, risk of FX outflows should persist until long-term fiscal dynamics are re-anchored.
- The possibility of additional rate cuts, from 2.0% now, is also unsupportive for the COP, but current monetary policy guidance is closer to neutral, suggesting a higher bar for additional cuts.
- The recovery in crude prices, a crucial near-term FX driver, helps reduce fiscal risks but, considering lingering risks to the macro outlook, we see little scope for lasting COP outperformance.

ING forecasts (NDF)	1M 3650 (3751.26)	3M 3600 (3768.01)	6M 3620 (3790.40)	12M 3720 (3838.75)

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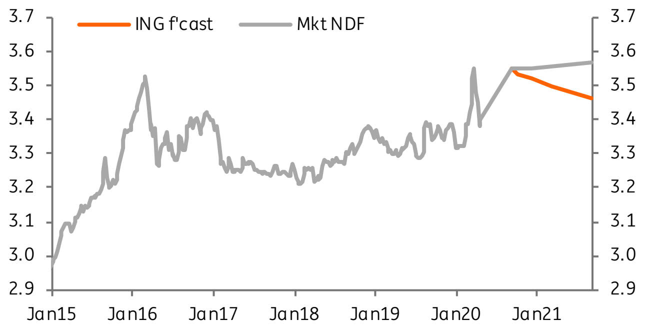
USD/PEN

Aggressive stimulus is unable to prevent a deep recession

Current spot: 3.55



Source: Bloomberg, ING

- Like Chile, Peru is suffering one of the most severe consequences of the Covid-19 outbreak in LATAM. This, together with controversial initiatives advancing in Congress and lingering political instability, add important macroeconomic headwinds for local assets.
- Peru's superior ability to deploy economic policy stimulus, including large fiscal outlays and the lowest policy rate in LATAM, should help alleviate the impact of the crisis, but having had the worst contraction in the region so far, it's hard to be optimistic.
- Large FX reserves suggest, however, that Peru should be able to continue to heavily manage its FX dynamics, and shield the PEN from the wider fluctuations that typically affect its EM peers.

ING forecasts (NDF)	1M 3.53 (3.55)	3M 3.52 (3.55)	6M 3.50 (3.56)	12M 3.46 (3.57)

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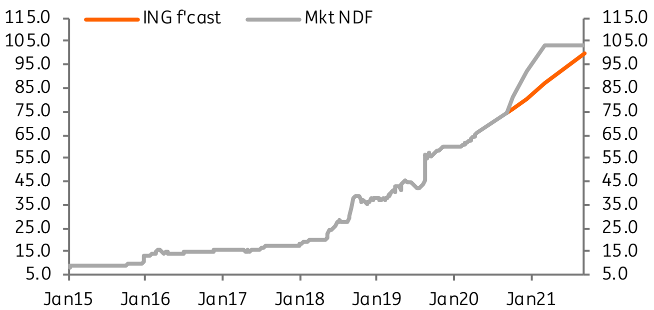
USD/ARS

Optimism as debt-renegotiation concludes successfully

Current spot: 74.38



Source: Bloomberg, ING

- The successful conclusion of the negotiations with external bondholders has allowed Argentina to avoid a hard default and start re-negotiating with the IMF.
- Having said that, restoring Argentina's macroeconomic outlook towards a sustainable trajectory will be a difficult undertaking, requiring the adoption of a credible policy plan, with the IMF's imprimatur, to revive investor sentiment towards the country.
- The rising fiscal toll and the monetisation of fiscal accounts amplified inflation risks and helped widen the premium between the official and the non-official FX rate, which remains a crucial barometer for domestic policy credibility, to more than 70% now.

ING forecasts (NDF)	1M 76.00 (81.35)	3M 80.00 (92.20)	6M 87.00 (103.50)	12M 100.00 (103.21)

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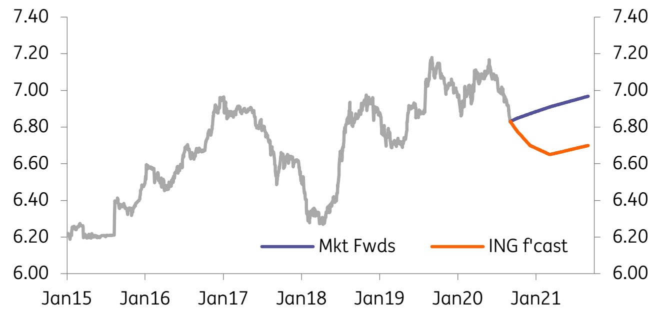
Asia

USD/CNY

Revising yuan forecasts stronger



Source: Bloomberg, ING forecasts

Current spot: 6.830

- The yuan has strengthened faster over the last month, despite escalating tensions in the US-China technology war.
- The economy has begun to recover from Covid-19 damage. Some indicators even show that some parts of the economy have grown faster than at the same point last year.
- As the weak dollar trend continues, we see the yuan keeping its strength towards the end of the year. The main risk remains that the US continues to increase pressure on Chinese technology companies.
- We revise our forecast for end-2Q20 USD/CNY, to 6.70 from 6.97.

ING forecasts (mkt fwd)	**1M** 6.780 (6.847)	**3M** 6.700 (6.873)	6M 6.650 (6.910)	**12M** 6.700 (6.969)

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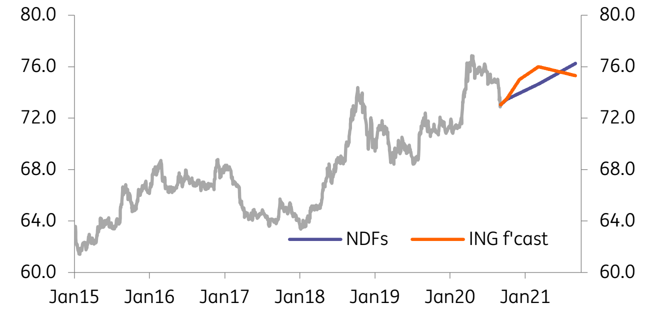
USD/INR

Asia's key exception to the sell-USD theme



Source: Bloomberg, ING forecasts

Current spot: 73.03

- Against all the odds, the INR eked out a 1.6% MoM appreciation in August vs. USD, its best month since March 2019. We don't think this is a sustainable path for the currency as the economy's exposure to Covid-19 effects continues to worsen.
- Total Covd-19 cases are poised to hit the 4 million mark in a matter of days. This dampens hopes of recovery from a dreadful 23.9% YoY 2Q GDP fall, the worst in Asia. A further double-digit GDP fall in FY20-21 looks more likely than not.
- There is nothing more that can be expected on the policy front to ease the pain - a record budget deficit constrains fiscal policy and high inflation puts the floor under the RBI policy rates.

ING forecasts (mkt fwd)	**1M** 73.50 (73.49)	**3M** 75.00 (73.96)	**6M** 76.00 (74.68)	**12M** 75.30 (76.28)

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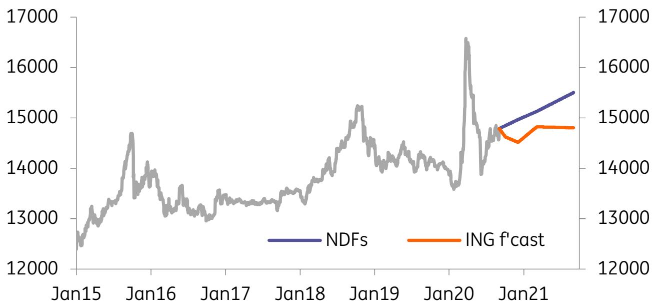
USD/IDR

IDR pressured on concerns over BI's independence



Source: Bloomberg, ING forecasts

Current spot:14785

- The IDR faced renewed depreciation pressure as investors turned anxious over potential additional rounds of debt monetization in 2021 after the authorities had pledged that the 2020 "burden sharing arrangement" was a one-off.
- Bank Indonesia (BI) was forced to keep policy rates unchanged at the 19 August meeting despite a contraction in 2Q GDP and below-target inflation with IDR under depreciation pressure on debt monetisation concerns.
- The IDR has steadied somewhat recently on bond inflows but remains susceptible to renewed bouts of weakness on reports of possible changes to the structure of the BI leadership.

ING forecasts (mkt fwd)	**1M** 14620 (14838)	**3M** 14514 (14959)	**6M** 14822 (15127)	**12M** 14801 (15495)

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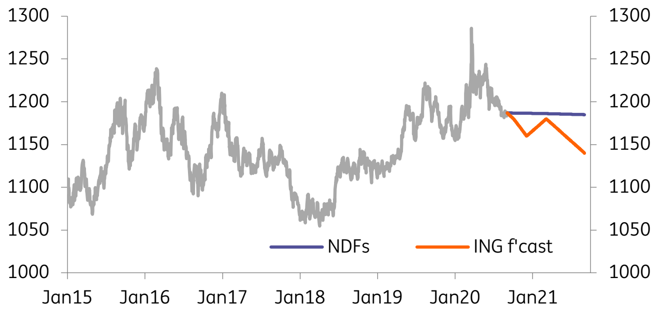
USD/KRW

Summer lull **Current spot: 1187**



Source: Bloomberg, ING forecasts

- The Korean Won has not done very much in the last month. Compared to other Asian currencies, the KRW has appreciated just over 0.5% against the USD. It is a mid-table performance at best.
- 2Q20 GDP came in at -2.9%, revised later to -2.7%. This was a considerably better GDP figure than most of the ASEAN countries, and leaves GDP less than 5ppt lower, when compared to 4Q19.
- The latest Bank of Korea meeting downgraded its outlook for the year to a decline of 1.3% this year (INGF 1.6%) with Governor Lee noting that it had both rate and non-rate tools left at its disposal but has given no indication of imminent action. We expect none.

ING forecasts (NDFs)	1M 1180 (1188)	3M 1160 (1187)	6M 1180 (1187)	12M 1140 (1185)

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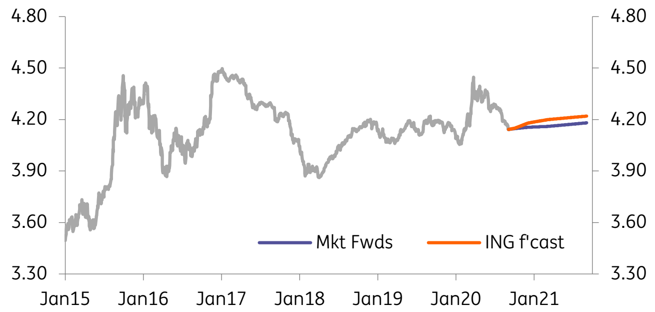
USD/MYR

Benefiting from firmer oil and record trade surplus **Current spot: 4.143**



Source: Bloomberg, ING forecasts

- Going with the EM flow, the MYR also had a good run in August with a 1.9% MoM appreciation against the USD, the second-best in Asia after the CNY. The firming of oil prices and record trade surplus underpin some of the outperformance.
- Even as Covid-19 was well-contained, GDP was hit hard with a 17% YoY plunge in 2Q. Things are looking better coming into 3Q. A second straight monthly export bounce in July sent the trade surplus soaring to MYR25 billion, an all-time high.
- That said, a couple more quarters of negative GDP growth look inevitable. We see the central bank (BNM) cutting the policy rate by another 25bp at the next meeting on 10 September.

ING forecasts (mkt fwd)	1M 4.150 (4.149)	3M 4.180 (4.157)	6M 4.200 (4.162)	12M 4.220 (4.183)

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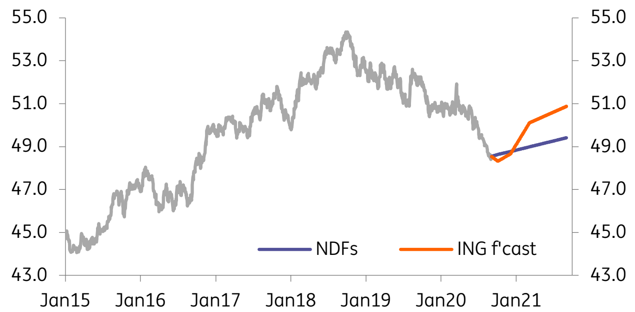
USD/PHP

PHP strengthens as corporate demand evaporates **Current spot: 48.51**



Source: Bloomberg, ING forecasts

- The PHP sustained the appreciation trend in August as corporate demand remained lacklustre with economic momentum slowing considerably due to partial lockdowns still in effect in the capital region.
- Bangko Sentral ng Pilipinas (BSP) Governor Diokno kept rates unchanged despite benign inflation and the need to support the economy as real policy rates edged deeper into negative territory.
- The PHP may appreciate further as the authorities announce an additional US$2.5 bn worth of borrowing is slated for 4Q20.

ING forecasts (mkt fwd)	1M 48.32 (48.63)	3M 48.66 (48.78)	6M 50.11 (48.99)	12M 50.88 (49.42)

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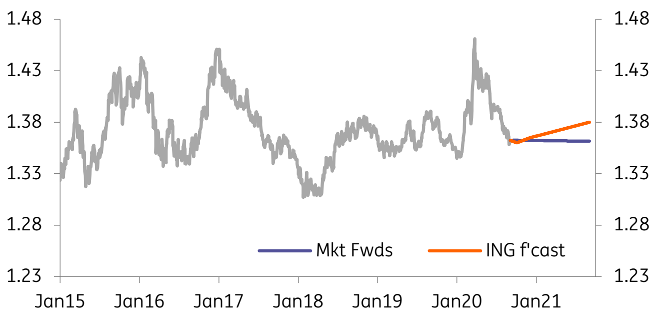
USD/SGD

The MAS to keep the policy on hold in October

Current spot: 1.363



Source: Bloomberg, ING forecasts

- A 1% appreciation in August kept the SGD firmly on course to recover the remaining losses incurred at the height of the Covid-19 outbreak earlier in the year.
- The economy might have seen its Covid-19 low in 2Q with a 13% YoY GDP fall. But we see nothing on the horizon to turn the negative GDP trend around just yet. The mildly positive exports and manufacturing trends are likely to be countered by weak domestic demand and a contracting services sector.
- The economy is awash with liquidity with a >12% YoY M2 surge in July, but there are no takers as lending continues to fall. We see the MAS keeping its current policy stance in October.

ING forecasts (mkt fwd)	**1M** 1.360 (1.363)	**3M** 1.365 (1.363)	**6M** 1.370 (1.362)	**12M** 1.380 (1.362)

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USD/TWD

Some stabilisation

Current spot: 29.34

Source: Bloomberg, ING forecasts

- Mixed data for the Taiwan economy - exports seemed to have recovered but there is risk in the coming data.
- The US restrictions on Chinese technology companies have hurt those Taiwan semiconductor chip manufacturers that had supplied advanced semiconductor chips to Mainland China over the past year.
- Inflows into the Taiwan equity market slowed, and the TWD stopped strengthening and stabilised in August.
- The increasing political tensions with the Mainland China government is another risk for Taiwan and could make the TWD more volatile in 4Q20.

ING forecasts (mkt fwd)	**1M** 29.30 (29.28)	**3M** 29.10 (29.10)	**6M** 28.90 (28.82)	**12M** 28.70 (28.40)

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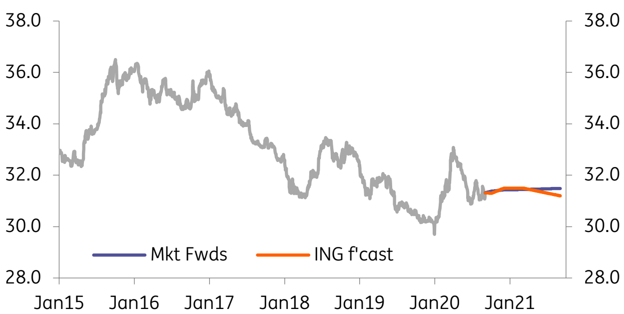
USD/THB

Political risk is starting to take toll on the THB

Current spot: 31.32



Source: Bloomberg, ING forecasts

- The THB's 0.2% MoM gain in August was the least among Asian currencies. And, it continued to be an Asian underperformer with a 3.7% fall in the first eight months, the position it's likely to retain over the rest of the year due to rising political risk.
- Recent anti-government protests by students demanding political reforms have lifted political risk. And, the resignation of new Finance Minister, Predee Daochai, less than a month after taking office, has just thrown the economy into further disarray.
- A 12% YoY GDP fall in 2Q wasn't as bad as some other Asian economies. But recovery will be difficult without exports and tourists, while the policy easing has also run its course.

ING forecasts (mkt fwd)	**1M** 31.30 (31.39)	**3M** 31.50 (31.45)	**6M** 31.50 (31.47)	**12M** 31.20 (31.50)

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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	1.18	1.19	1.20	1.20	1.23						
EUR/JPY	125.8	124.95	122.40	122.40	125.46	USD/JPY	106.22	105	102	102	102
EUR/GBP	0.89	0.91	0.90	0.88	0.88	GBP/USD	1.33	1.31	1.33	1.36	1.40
EUR/CHF	1.08	1.07	1.08	1.08	1.07	USD/CHF	0.91	0.90	0.90	0.90	0.87
EUR/NOK	10.57	10.50	10.20	9.80	10.00	USD/NOK	8.92	8.82	8.50	8.17	8.13
EUR/SEK	10.37	10.20	10.00	10.00	10.20	USD/SEK	8.75	8.57	8.33	8.33	8.29
EUR/DKK	7.441	7.440	7.445	7.445	7.445	USD/DKK	6.28	6.25	6.20	6.20	6.05
EUR/CAD	1.55	1.56	1.54	1.51	1.54	USD/CAD	1.309	1.31	1.28	1.26	1.25
EUR/AUD	1.63	1.68	1.64	1.60	1.66	AUD/USD	0.73	0.71	0.73	0.75	0.74
EUR/NZD	1.76	1.78	1.76	1.71	1.78	NZD/USD	0.67	0.67	0.68	0.70	0.69
EMEA											
EUR/PLN	4.45	4.38	4.36	4.37	4.35	USD/PLN	3.76	3.68	3.63	3.64	3.54
EUR/HUF	359.6	355.00	355.00	360.00	365.00	USD/HUF	303.6	298	296	300	297
EUR/CZK	26.42	26.0	25.9	25.8	25.6	USD/CZK	22.31	21.8	21.6	21.5	20.8
EUR/RON	4.85	4.85	4.87	4.87	4.89	USD/RON	4.10	4.08	4.06	4.06	3.98
EUR/HRK	7.54	7.49	7.53	7.55	7.45	USD/HRK	6.37	6.29	6.28	6.29	6.06
EUR/RSD	117.6	117.6	117.8	117.6	117.6	USD/RSD	99.3	98.8	98.2	98.0	95.6
EUR/RUB	88.97	86.9	87.0	86.4	89.8	USD/RUB	75.12	73.0	72.5	72.0	73.0
EUR/UAH	32.80	32.8	33.6	33.0	34.4	USD/UAH	27.66	27.60	28.00	27.50	28.00
EUR/KZT	498.3	492.7	492.0	492.0	504.3	USD/KZT	420.7	414	410	410	410
EUR/TRY	8.82	8.81	8.76	8.76	9.35	USD/TRY	7.45	7.40	7.30	7.30	7.60
EUR/ZAR	19.67	20.2	21.0	21.6	23.4	USD/ZAR	16.61	17.00	17.50	18.00	19.00
EUR/ILS	3.99	4.02	4.02	3.96	3.94	USD/ILS	3.37	3.38	3.35	3.30	3.20
LATAM											
EUR/BRL	6.28	6.25	6.24	6.06	5.90	USD/BRL	5.30	5.25	5.20	5.05	4.80
EUR/MXN	25.57	25.6	26.0	26.4	27.6	USD/MXN	21.59	21.50	21.70	22.00	22.40
EUR/CLP	917.97	914	912	912	910	USD/CLP	775.08	768	760	760	740
EUR/ARS	88.12	90.44	96.00	104.40	123.00	USD/ARS	74.38	76.00	80.00	87.00	100.00
EUR/COP	4,347.00	4,344	4,320	4,344	4,576	USD/COP	3,685.61	3,650	3,600	3,620	3,720
EUR/PEN	4.21	4.20	4.22	4.20	4.26	USD/PEN	3.55	3.53	3.52	3.50	3.46
Asia											
EUR/CNY	8.10	8.07	8.04	7.98	8.24	USD/CNY	6.84	6.78	6.70	6.65	6.70
EUR/HKD	9.18	9.22	9.31	9.31	9.55	USD/HKD	7.75	7.75	7.76	7.76	7.77
EUR/IDR	17,488	17,398	17,417	17,786	18,205	USD/IDR	14,750	14,620	14,514	14,822	14,801
EUR/INR	86.63	87.5	90.0	91.2	92.6	USD/INR	73.14	73.50	75.00	76.00	75.30
EUR/KRW	1,409.42	1,404	1,392	1,416	1,402	USD/KRW	1,189.74	1,180	1,160	1,180	1,140
EUR/MYR	4.92	4.94	5.02	5.04	5.19	USD/MYR	4.15	4.15	4.18	4.20	4.22
EUR/PHP	57.61	57.5	58.4	60.1	62.6	USD/PHP	48.62	48.32	48.66	50.11	50.88
EUR/SGD	1.62	1.62	1.64	1.64	1.70	USD/SGD	1.36	1.36	1.37	1.37	1.38
EUR/TWD	34.84	34.9	34.9	34.7	35.3	USD/TWD	29.39	29.3	29.1	28.9	28.7
EUR/THB	37.19	37.2	37.8	37.8	38.4	USD/THB	31.40	31.3	31.5	31.5	31.2

Source: Bloomberg, ING

Disclaimer