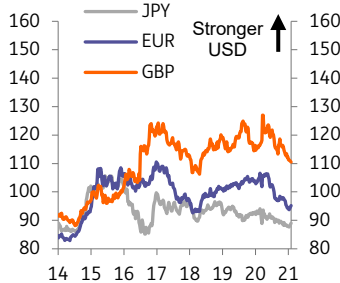


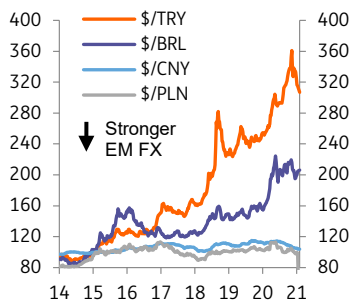
2 February 2021  
 FX Strategy

# FX Talking

## Dollar bear trend: Shaken not stirred

**USD/Majors (5 Jan 14=100)**


Source: Refinitiv, ING forecast

**USD/EM (5 Jan 14=100)**


Source: Refinitiv, ING forecast

The early year consensus of a broad dollar decline looks like it will be further challenged this quarter. Virus mutations, uneven vaccine roll-outs and frothy asset markets all point to a period of volatility rather than benign rally in risk assets. Yet, as long as the re-opening of economies remains on track from 2Q – which we still believe to be the case – volatility should give way to a resumption of the dollar bear trend later this year.

Having fallen 14% from its highs in March last year, broader trade-weighted measures of the dollar registered a 2% recovery in January. Driving this so far modest correction has been a mixture of rising US Treasury yields and more recently stalling/correcting commodity and equity markets – as confidence in the 2H synchronised recovery wanes.

While lockdowns will mean that Europe lags, we still expect this region to nonetheless participate in recoveries from 2Q onwards – likely led by strong growth by the US and China. As long as those recovery expectations hold up – and crucially the Fed sticks to its new policy strategy of allowing the economy to run hot – the \$ should weaken.

Despite ECB threats to cut rates, we still expect EUR/\$ to be pressing 1.25 this summer and possibly break above it amidst broad global growth into year-end. The PBOC is allowing a more market-determined path for the CNY and we retain a 6.20 \$/CNY target.

Regionally European currencies may lag, though we have upgraded our GBP forecasts on the vaccine roll-out and retain bullish CZK forecasts on prospective CNB tightening. And elsewhere we look for the commodity FX bloc to shine after 1Q wobbles.

### ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.20	→	103	↓	1.36	→
3M	1.22	↑	100	↓	1.40	↑
6M	1.27	↑	100	↓	1.48	↑
12M	1.30	↑	102	↓	1.53	↑

	EUR/GBP		EUR/CZK		EUR/PLN	
1M	0.88	→	25.90	↑	4.50	→
3M	0.87	↓	25.80	↑	4.49	↓
6M	0.86	↓	25.70	↓	4.47	↓
12M	0.85	↓	25.50	↓	4.40	↓

	USD/CNY		USD/MXN		USD/BRL	
1M	6.43	↑	20.00	↓	5.40	→
3M	6.38	↓	19.60	↓	5.10	↓
6M	6.29	↓	19.70	↓	4.90	↓
12M	6.18	↓	20.00	↓	4.90	↓

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

Source: Refinitiv, ING forecast

### FX performance

	EUR/USD	USD/JPY	EUR/GBP	EUR/NOK	NZD/USD	USD/CAD
%MoM	-1.6	1.5	-2.4	-1.5	0.3	0.0
%YoY	9.1	-3.5	4.5	2.5	9.8	-2.9

	USD/UAH	USD/KZT	USD/BRL	USD/MXN	USD/CNY	USD/TRY
%MoM	-1.4	0.6	3.2	1.1	-1.2	-4.3
%YoY	12.6	11.7	26.5	7.2	-6.9	20.5

Source: Refinitiv, ING forecast

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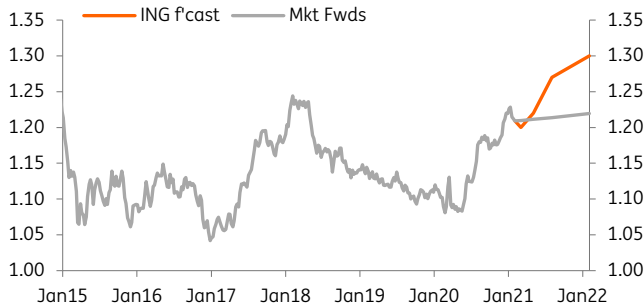


# Developed markets

## EUR/USD

Surprisingly resilient

Current spot: 1.2091



Source: Refinitiv, ING forecast

- European pessimists (we'd include the ECB here) must be wondering what EUR/USD has been doing above 1.20 given broadening lockdowns across Europe, a chaotic vaccine roll-out and now the threat of ECB rate cuts against EUR strength? Indeed the ECB is launching a study into why EUR/USD is so strong.
- Keeping EUR/\$ bid is the dovish set of Fed policies which have driven the US real rates to -2%. As long as global recovery hopes remain alive and the Fed doesn't tighten, EUR/USD downside should prove short-lived below 1.20.
- The ECB won't like EUR/USD strength, but if we are right in that 2Q21 remains the break-out growth quarter, and EZ inflation is creeping higher, ECB will have a tough time talking down the EUR.

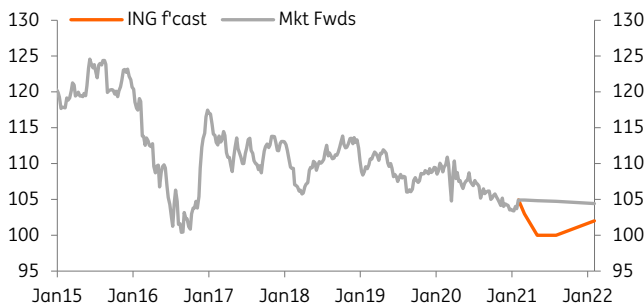
ING forecasts (mkt fwd)	1M 1.20 (1.2098)	3M 1.22 (1.2115)	6M 1.27 (1.2139)	12M 1.30 (1.2193)
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## USD/JPY

Why the dollar doesn't need to trade higher in 2021

Current spot: 104.94



Source: Refinitiv, ING forecast

- Having gone through a lite lockdown this winter, expectations are that the US economy will bounce back strongly from 2Q onwards. The prospect of several rounds of stimulus (a \$1.0-1.5trn support package should be due in late February) raises questions about the Fed and the dollar.
- As long as the Fed doesn't touch the short end of the curve – such that the long end takes the strain of the inflation pick-up, we think the dollar stays \$ pressured. This because a steep yield curve allows holders of US bonds to run high FX hedge ratios.
- Watch out for the 18/19 March BoJ meeting. Expectations are rising that it may allow more flexibility in its 10-year JGB yield target and soften ETF buying. The JPY might take this positively.

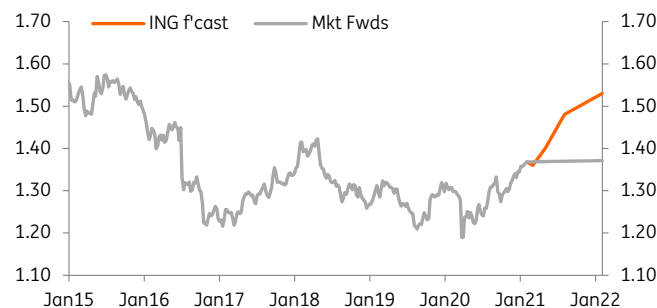
ING forecasts (mkt fwd)	1M 103.00 (104.91)	3M 100.00 (104.84)	6M 100.00 (104.73)	12M 102.00 (104.43)
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## GBP/USD

Meaningful gains ahead

Current spot: 1.3682



Source: Refinitiv, ING forecast

- Improved GBP prospects (risk of hard Brexit has faded, fast vaccination, GBP undervaluation) and soft USD outlook for 2021 points to a stronger GBP/USD. We target 1.53 by the year end.
- With the vaccine roll out being fast and pointing to a strong Q2 recovery, it is unlikely that BoE opts for negative rates. Let's see if it can ride out the 4 February BoE event risk. Also GBP/USD speculative longs have steadily been increasing to 9% of open interest, yet this still meaningfully lags the majors (EUR, JPY).
- The Scottish Parliamentary elections in May 2021 are likely to be accompanied by negative newsflow about another possible independence referendum, but the negative impact on GBP is to be limited given the referendum is unlikely for several years.

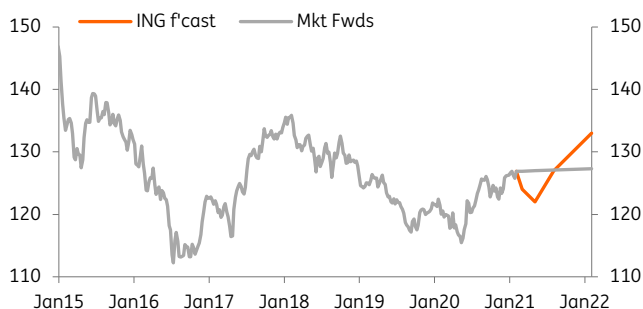
ING forecasts (mkt fwd)	1M 1.36 (1.3684)	3M 1.40 (1.3688)	6M 1.48 (1.3694)	12M 1.53 (1.3712)
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## EUR/JPY

Still favouring the EUR in a recovery year

Current spot: 126.89



Source: Refinitiv, ING forecast

- Correlations since last November show that USD/JPY has the strongest correlation (positive) of any G10 pair with the US 2-10 year yield curve. With US inflation set to spike to 3% in 2Q, further US yield curve steepening looks assured – strongly pointing to JPY under-performance on the cross rates.
- As discussed before, we also think EUR/JPY will be supported by the increasing numbers of FX reserve managers feeling the need to intervene. Most of that intervention is in dollars, around 25% of which will find its way into the EUR to maintain their benchmark composition of FX reserves.
- A lower EUR/JPY requires a loss of confidence in the recovery, or a financial bubble busting – both possible, but not base cases.

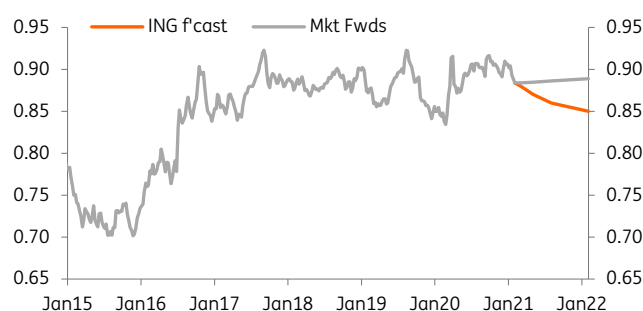
ING forecasts (mkt fwd)	1M 124.00 (126.92)	3M 122.00 (127.02)	6M 127.00 (127.13)	12M 133.00 (127.35)
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## EUR/GBP

GBP free to converge towards its fair value

Current spot: 0.8838



Source: Refinitiv, ING forecast

- We upgrade our sterling end-21 forecast to EUR/GBP 0.85. Faster pace of vaccination in the UK (with all priority groups over 50s expected to receive one vaccine dose by end-1Q) vs EZ suggest earlier restriction easing & a stronger 2Q UK rebound.
- With EUR/GBP trading 7% rich versus its medium-term BEER fair value and the idiosyncratic risk of hard Brexit out of the way, GBP should start the process of gradual convergence to its fair value around the 0.82 area.
- Still, a full convergence is unlikely this year given the uncertainty stemming from: (a) the negative headline news around the Scottish independence referendum; (b) the ongoing risk of EU tariffs should the UK government choose to deviate from EU labour laws.

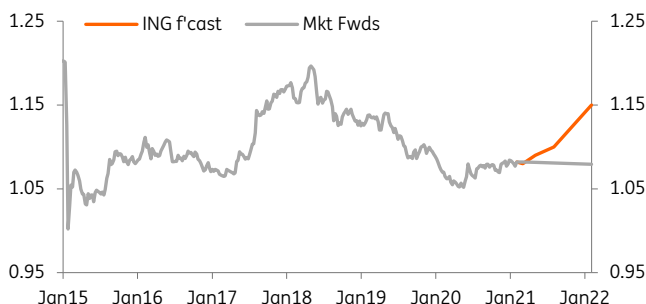
ING forecasts (mkt fwd)	1M 0.88 (0.8842)	3M 0.87 (0.8851)	6M 0.86 (0.8865)	12M 0.85 (0.8892)
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## EUR/CHF

SNB balance sheet closes in on CHF1tr

Current spot: 1.0822



Source: Refinitiv, ING forecast

- European lockdowns and the Italian political crisis have weighed on EUR/CHF through the start of the year, although the SNB may be buying again near the 1.0750 area. The Italian crisis is as yet unresolved, although it does seem that the architect of the crisis, Matteo Renzi, wants a new government, not early elections.
- EUR/CHF could stay vulnerable in 1Q. There is outside risk that the BTP:Bund spread could widen to 150bp (now 116bp) were early elections announced, amidst concerns that the ECB is reluctant to use the entirety of its EUR1.85trn.
- However, the SNB seems happy to continue intervening and has recently signed a deal to deliver more of its profits (up to CHF6bn per year) to the government and cantons - all going well.

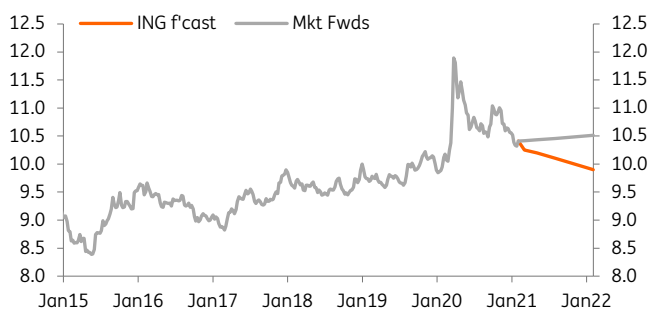
ING forecasts (mkt fwd)	1M 1.08 (1.0820)	3M 1.09 (1.0815)	6M 1.10 (1.0808)	12M 1.15 (1.0795)
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## EUR/NOK

Positive outlook despite short-term volatility

Current spot: 10.41



Source: Refinitiv, ING forecast

- After the very strong first week of Jan, the NOK lately turned into the G10 underperformer as the dollar consolidation and swings in equity markets made the high beta, low liquidity NOK vulnerable.
- Beyond the short-term volatility, we look for NOK gains this year and EUR/NOK to dip below 10.00 as the krone should benefit from the most hawkish central bank in G10 FX space. This was evident in the Jan NB meeting, where the bank reinforced the forecast for the first hike in 1H22. Should the economy rebound strongly in 2Q, the timing of the first NB rate hike might be brought forward
- The modest upside to the oil price (our commodity team targets Brent at US\$60/bbl by 4Q21) should also help NOK in 2H21.

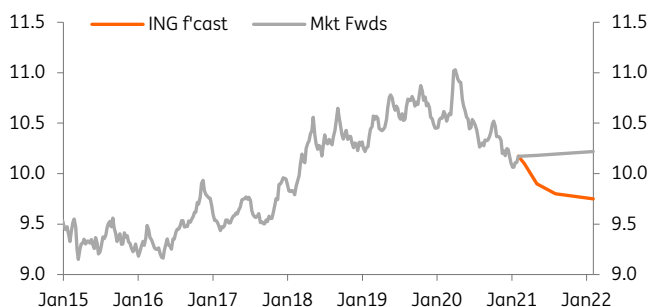
ING forecasts (mkt fwd)	1M 10.25 (10.42)	3M 10.20 (10.43)	6M 10.10 (10.46)	12M 9.90 (10.51)
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## EUR/SEK

Sticking to the EUR/SEK 10.10 gravity line for now

Current spot: 10.17



Source: Refinitiv, ING forecast

- EUR/SEK has weathered the recent market volatility fairly well and the cross continues to hover around its 10.10 gravity line. Near term, not much should change as Covid-related restrictions continue weighing on Swedish and the EZ economies.
- SEK should restart its appreciation trend from 2Q onwards once the EZ economy starts recovering. But with CPI low and set to remain below the target, any Riksbank interest rate increases are out of question (in contrast to Norway).
- The Riksbank decision to change the way it builds FX reserves should have a limited impact on SEK as the monthly purchases (worth c.SEK5bn) are well below the average daily SEK turnover.

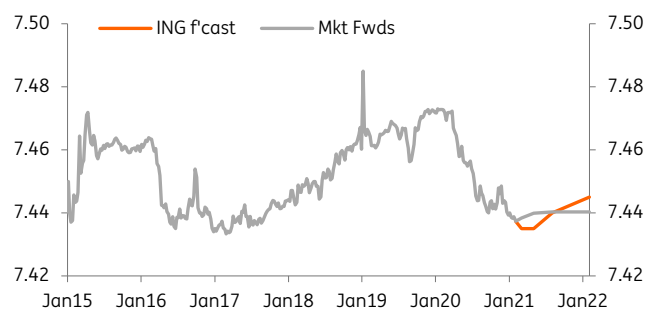
ING forecasts (mkt fwd)	1M 10.100 (10.18)	3M 9.900 (10.18)	6M 9.800 (10.20)	12M 9.750 (10.22)
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## EUR/DKK

DN FX interventions seem as a matter of time

Current spot: 7.437



Source: Refinitiv, ING forecast

- With the ECB vocally putting rate cuts on the table and 10bp cut in the depo rate within one year being priced in with 70% probability, downward pressure on EUR/DKK is building yet again. This is further reinforced by the tight liquidity in the Danish market.
- We continue to expect the FX interventions to be the preferred DN measure rather than interest rate cuts to tame the DKK strength, at least initially.
- With EUR/DKK getting very close the 7.4350 level, the FX purchases seem only a matter of time. The DN FX interventions are to put a soft floor under EUR/DKK but are unlikely to cause a material spike in the cross higher.

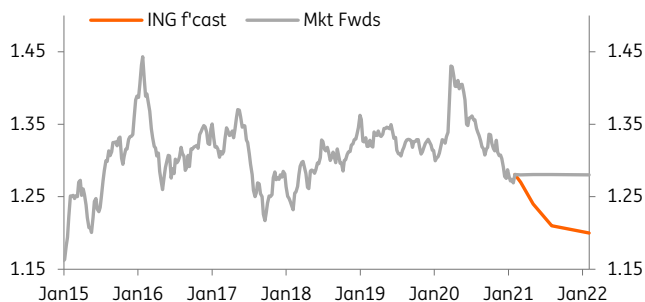
ING forecasts (mkt fwd)	1M 7.435 (7.439)	3M 7.435 (7.439)	6M 7.440 (7.440)	12M 7.445 (7.442)
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## USD/CAD

### CAD to retain solid fundamentals

**Current spot: 1.281**



Source: Refinitiv, ING forecast

- The correction in CAD over the past month has been largely a function of a generalized USD recovery: we expect USD/CAD to re-join a downtrend in the next months and touch 1.20 in 4Q.
- What is likely to provide some solid basis to the loonie is the surprising resilience of the Canadian economy in the last months of 2020. Jobs data may underpin once again a faster recovery compared to the US.
- This is undermining any argument in favour of more BoC easing and may instead fuel more speculation about tapering. This leaves the rate attractiveness of CAD well in place, which should unlock further USD/CAD downside once the USD decline gears up again (we expect this to happen in 2Q).

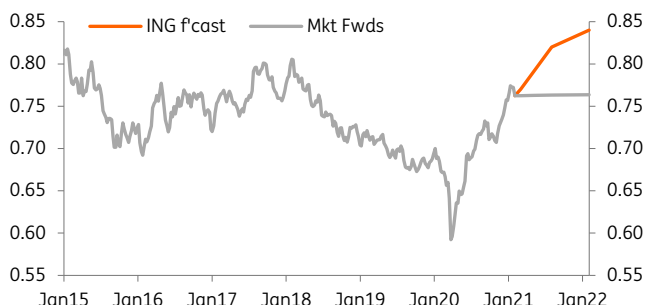
<b>ING forecasts (mkt fwd)</b>	<b>1M 1.27 (1.281)</b>	<b>3M 1.24 (1.281)</b>	<b>6M 1.21 (1.281)</b>	<b>12M 1.20 (1.280)</b>
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## AUD/USD

### Still an attractive bet in the longer run

**Current spot: 0.762**



Source: Refinitiv, ING forecast

- The RBA's recent dovish tilt (extended bond purchases and forward guidance to 2024) may keep AUD less attractive than other pro-cyclicals, but better inflation and employment outlook suggests the easing cycle has peaked now.
- Iron ore prices have corrected lower lately but remain at very high levels. While looking unsustainable in the long term, resilient Chinese demand may put a floor for a little longer.
- A new lockdown in Perth raised fears of new restrictions in the country, with an economy now more reliant on domestic spending as borders remain close. Despite some potential short-term headwinds, we see AUD trade above 0.80 in 2H20.

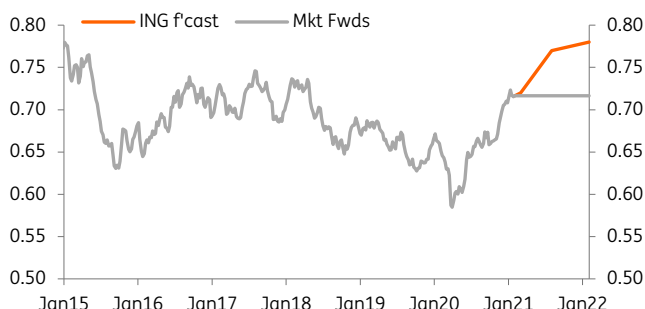
<b>ING forecasts (mkt fwd)</b>	<b>1M 0.77 (0.763)</b>	<b>3M 0.79 (0.763)</b>	<b>6M 0.82 (0.763)</b>	<b>12M 0.84 (0.764)</b>
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## NZD/USD

### RBNZ dovishness keeps fading

**Current spot: 0.717**



Source: Refinitiv, ING forecast

- The RBNZ just tapered its bond purchases for the second time in one month and with an economy that has moved back above its pre-pandemic levels, it is hard to see the RBNZ adding stimulus or avoid additional tapering for much longer.
- If the government did play a role in averting a rate cut, it is not to exclude some pressure about a rate hike starting later in the year, considering house prices continue to surge.
- An overstretched net-long positioning puts NZD at risks of position-squaring-linked corrections. But very low infection rates in NZ should leave more room for positive data-flow. We expect most NZD/USD gains in 2H, and target 0.78 in 4Q21.

<b>ING forecasts (mkt fwd)</b>	<b>1M 0.720 (0.717)</b>	<b>3M 0.740 (0.717)</b>	<b>6M 0.770 (0.717)</b>	<b>12M 0.780 (0.716)</b>
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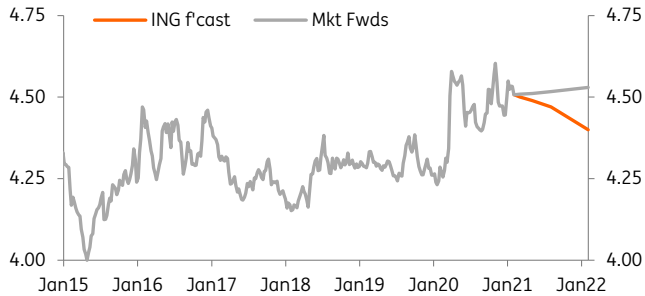


# Emerging markets

## EUR/PLN

EUR/PLN anchored above NBP intervention levels

Current spot: 4.51



Source: Refinitiv, ING forecast

- NBP FX interventions in December to sell PLN were rather aimed at preventing a loss on FX reserves. We warned that MPC comments on further cuts were more verbal intervention than presenting a high commitment to ease. Recent MPC comments support our view.
- Only a sharp GDP contraction would trigger cuts, but that seems unlikely. 4Q20 GDP should show rising resilience to the pandemic shock. That should continue in 1Q21, given that Poland managed to contain autumn wave of pandemic despite slow vaccination.
- EUR/PLN is so far anchored above the 4.45-4.48 NBP intervention levels. But through 2021, PLN should gradually gain, in tandem with a rise in €/US\$. Loose NBP policy should only slow the PLN strength, given poor investment should shrink C/A surplus slowly.

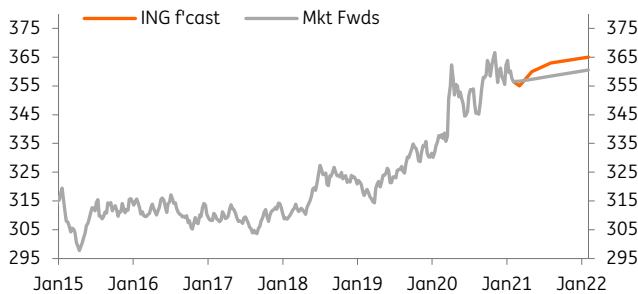
ING forecasts (mkt fwd)	1M 4.50 (4.51)	3M 4.49 (4.51)	6M 4.47 (4.52)	12M 4.40 (4.53)
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## EUR/HUF

HUF outperformance won't last long

Current spot: 356.48



Source: Refinitiv, ING forecast

- Forint has started the year with a pretty strong footing, showing almost 2% strengthening for a while. As the risk off mode crept back, EUR/HUF was immediately pushed to around 359. This means HUF remains fragile and volatile.
- We expect the pair to stay in the 355-360 range for weeks to come. As we move to 2Q and CPI starts rising, this should mean that the best for HUF will be behind us, meaning (a) EUR/HUF should move above 360; (b) HUF turns into CEE underperformer.
- In contrast, CZK and PLN should see more gains in 2H 2021. CZK benefiting from hawkish CNB, while it will be tough task for the NBP to lean against currency strength as the economy rebounds.

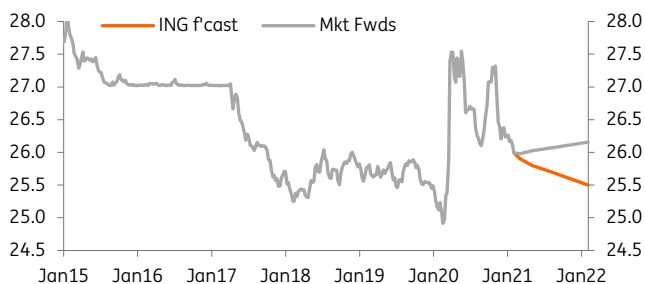
ING forecasts (mkt fwd)	1M 355.0 (356.78)	3M 360.0 (357.42)	6M 363.0 (358.50)	12M 365.0 (360.57)
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## EUR/CZK

Benefiting from the hawkish CNB

Current spot: 25.99



Source: Refinitiv, ING forecast

- We are bullish on CZK and forecast EUR/CZK 25.50 this year, with strong downside risks to 25.00. The koruna should benefit from the hawkish central bank as the post-winter economic recovery and fiscal stimulus (worth CZK100bn) should force the CNB into tightening this year.
- We look for 50bp worth of CNB hikes in 2H21. This will lead to material CZK outperformance. In contrast to other CEE central banks, the CNB is less mindful of currency appreciation.
- With the CNB set to keep banks' dividend pay-outs partly limited in 2021, this should keep the current account in surplus (as was the case in 2020) and benefit the CZK.

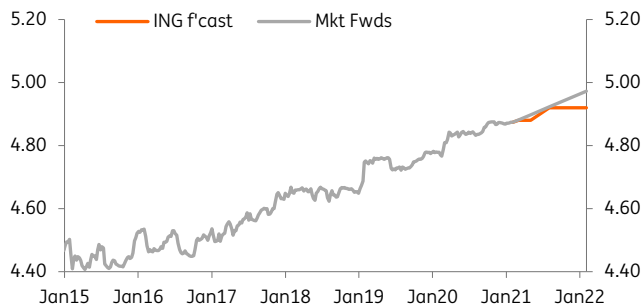
ING forecasts (mkt fwd)	1M 25.90 (26.00)	3M 25.80 (26.01)	6M 25.70 (26.08)	12M 25.50 (26.15)
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## EUR/RON

Lower rates and stable FX – works like magic

Current spot: 4.87



Source: Refinitiv, ING forecast

- In Jan-21 the NBR decided to go ahead with policy easing and delivered another 25bp cut to 1.25%. While this was not a huge surprise, it did amplify the depreciation pressures for the leu.
- On the fiscal side the picture looks rather complicated. The state budget for 2021 is still missing as sticking to the announced 7.0% of GDP budget deficit target is proving quite a challenge.
- We re-affirm our 4.92 year-end forecast for the EUR/RON, but the adjustment higher from current levels could be pushed towards mid-2021 rather than in the first months of the year.

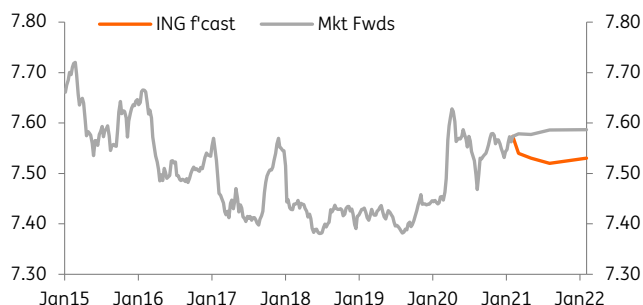
ING forecasts (mkt fwd)	1M 4.88 (4.88)	3M 4.88 (4.90)	6M 4.92 (4.92)	12M 4.92 (4.97)
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## EUR/HRK

Calmer waters once again

Current spot: 7.57



Source: Refinitiv, ING forecast

- The FX rate looks set for some range trading around 7.55 with few events on the calendar to change the mood.
- Central bank governor Boris Vujcic estimated that in 2021 tourism could reach 75% of its 2019 levels, from 50% in 2020. We believe that this is looking realistic, provided no hiccups appear in the vaccination campaign started in late December 2020.
- We maintain our year-end EUR/HRK forecasts at 7.53. Risks are mildly skewed towards a stronger kuna as the vaccine rollout could boost the tourism season beyond current expectations.

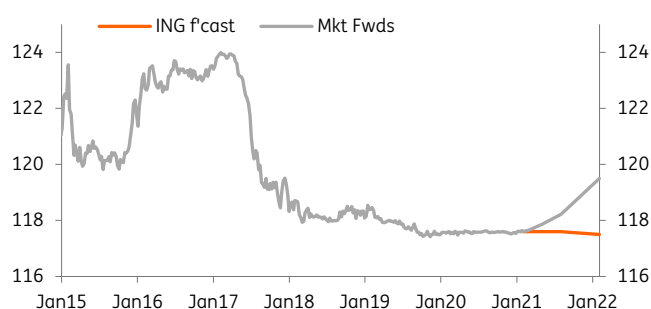
ING forecasts (mkt fwd)	1M 7.54 (7.57)	3M 7.53 (7.58)	6M 7.52 (7.58)	12M 7.53 (7.60)
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## EUR/RSD

Rock stable as usual

Current spot: 117.60



Source: Refinitiv, ING forecast

- The NBS closed the year on the bid in EUR/RSD, buying around EUR170m in December. The total for the year was however a net sell of almost EUR1.7bn, showing unwavering commitment for its FX-centred monetary policy.
- After cutting the key rate to 1.00% in 2020, the room for additional easing by NBS is very limited in our view. We see the key rate at flat through 2021 and most of 2022.
- The government successfully concluded a non-financing IMF programme and might consider a follow-up programme (possibly another Policy Coordination Instrument). Given this background and the strong macro outlook, at least one sovereign rating upgrade in 2021 looks possible too.

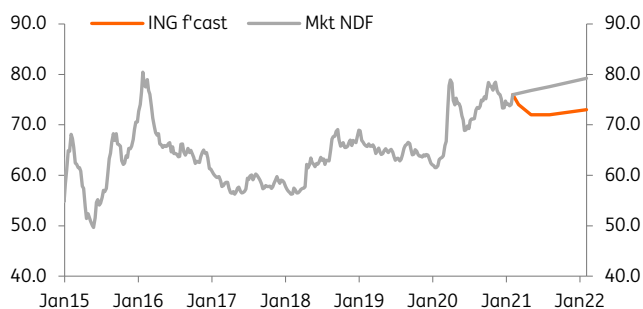
ING forecasts (mkt fwd)	1M 117.60 (117.67)	3M 117.60 (117.86)	6M 117.60 (118.22)	12M 117.50 (119.50)
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## USD/RUB

Near-term optimism challenged; LT view unchanged

Current spot: 76.01



Source: Refinitiv, ING forecast

- The ruble continued to underperform our expectations in January, almost entirely due to the correction on the global markets. Despite the negative political newsflow and [resurgence of FX purchases](#) by CBR, USD/RUB's discount to peers remained 15-16%.
- In the near term, the persistent risk of foreign policy tensions and activation of local protest activity amid downbeat household income trends could prevent RUB from catching up with peers.
- The balance of payments appear [supportive of ruble for 1H21](#) thanks to the resilient current account, which is ample enough to withstand FX purchases and corporate [foreign debt redemption](#), allowing us to maintain a constructive long-term view for now.

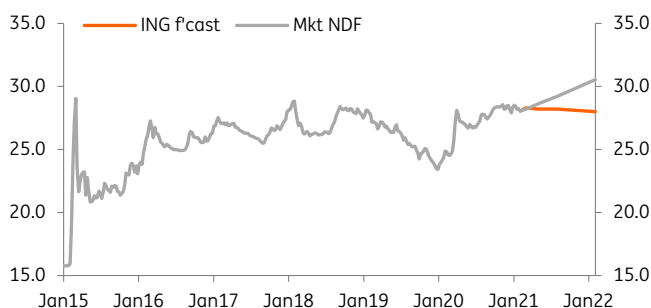
ING forecasts (mkt fwd)	1M 74.00 (76.25)	3M 72.00 (76.79)	6M 72.00 (77.57)	12M 73.00 (79.21)
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Dmitry Dolgin, Russia +7 495 771 7994

## USD/UAH

Range trading just above 28.0

Current spot: 28.06



Source: Refinitiv, ING forecast

- The economy contracted by 4.4% in 2020 according to central bank's estimates. This is not far from our 4.8% forecast and it marks a relatively important improvement from NBU's previous 6.0% estimation for 2020 contraction.
- At its meeting in January, the NBU Board decided to keep the key rate unchanged at 6.00% but the tone turned rather hawkish, suggesting that the path for interest rates is either stable or increasing, mainly due to the upcoming inflation spike.
- We maintain our somewhat benign view on the UAH as we believe that the 28.00 level will remain a reference point in 2021/2022 and do not foresee significant departures from it.

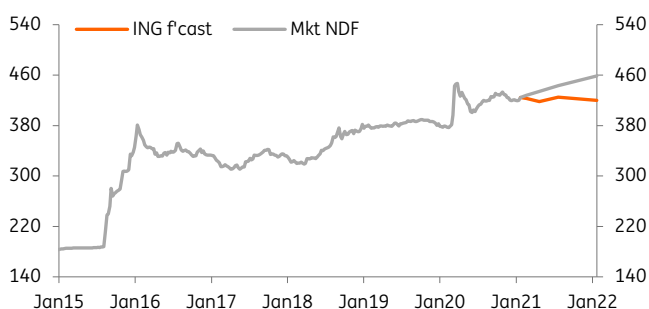
ING forecasts (mkt fwd)	1M 28.30 (28.22)	3M 28.20 (28.63)	6M 28.20 (29.21)	12M 28.00 (30.54)
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Valentin Tataru, Bucharest +40 31 406 89 90

## USD/KZT

KZT fails to benefit from better oil market conditions

Current spot: 424.44



Source: Refinitiv, ING forecast

- Despite higher oil prices and reduced OPEC+ restrictions KZT is under pressure in January, responding more to the volatility of the general EM risk appetite and confirming the vulnerability of tenge to the weaknesses of the balance of payments, with current account deficit expected for 4Q20 and capital account prospects uncertain.
- Higher-than-expected inflationary pressure (CPI up to 7.5% YoY by the year-end) lowers the likelihood of a cut in the key rate in the near term.
- Given the lower certainty on the continued global risk-on and higher-than-expected pressure on neighbouring Russia, we now expect USD/KZT to trade in 420-430 range this year, rather than 410-420 expected previously.

ING forecasts (mkt fwd)	1M 423.00 (427.85)	3M 418.00 (433.89)	6M 425.00 (443.27)	12M 420.00 (458.67)
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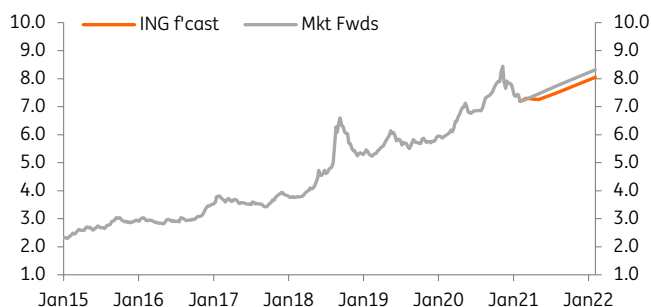
Dmitry Dolgin, Russia +7 495 771 7994



## USD/TRY

CBT continues to give the right signals

Current spot: 7.19



Source: Refinitiv, ING forecast

- Elevated cost-push pressures, deteriorating expectations and a relatively high trend are the factors increasing upside risks on the inflation outlook. There is a shift in Central Bank of Turkey's focus to the medium term and accordingly the CBT is more decisive in keeping its tight stance for longer, also leaving an open door for more hikes. The one week policy rate is 17.00%.
- Thus, the bank will likely remain cautious in the near term given inflationary pressures, concerns about the level and composition of its reserves, high dollarization and need to maintain capital inflows.
- With the policy rate now comfortably above inflation and more policy orthodoxy in place (and a bias for further tightening if needed), TRY will likely remain supported.

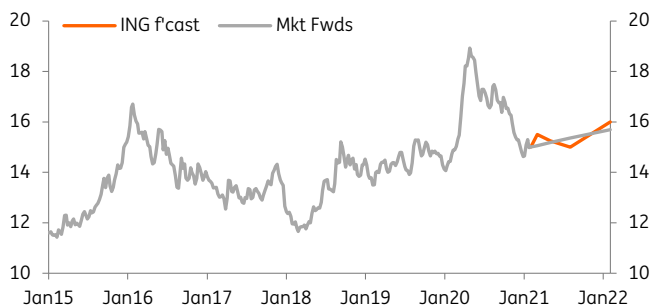
ING forecasts (mkt fwd)	1M 7.30 (7.27)	3M 7.25 (7.46)	6M 7.50 (7.76)	12M 8.05 (8.32)
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Muhammet Mercan, Istanbul +90 212 329 0751

## USD/ZAR

Volatility assured

Current spot: 15.01



Source: Refinitiv, ING forecast

- ZAR has suffered from the mix of the external (consolidation of USD) and the domestic (Covid wave) negatives so far this year. We expect the rand to continue lagging its peers.
- IMF cut South Africa GDP projections for 2021 and 2022 to 2.8% to 1.4% respectively, underlying the tricky outlook for ZAR. The focus this month will be on the FY21/22 budget (scheduled for 24 February), which should underscore the challenging fiscal situation.
- While SARB's model shows more than 50bp of hikes this year, we see it as unlikely. Rather, the odds are skewed to rate cuts (already partially priced in by the market).

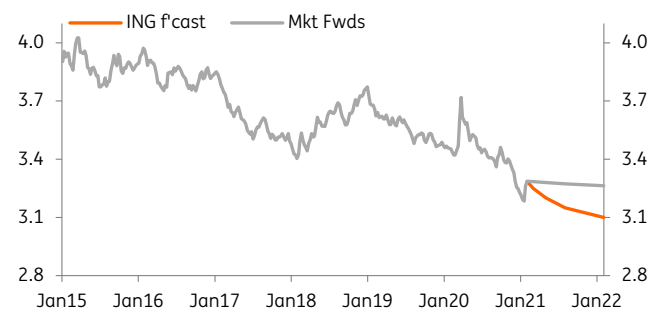
ING forecasts (mkt fwd)	1M 15.50 (15.07)	3M 15.25 (15.20)	6M 15.00 (15.37)	12M 16.00 (15.70)
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Chris Turner, London +44 20 7767 1610

## USD/ILS

Bol throws kitchen sink at the Shekel

Current spot: 3.29



Source: Refinitiv, ING forecast

- 14 January saw the Bol lose its patience with the strong Shekel and pre-announce a \$30bn FX intervention plan to resist Shekel appreciation. The Bol was not shy in saying the move was to support policy objectives, but also to protect the export sector.
- Will it be enough? The Bol spent \$21bn in 2020 to resist the \$/ILS drop (including \$4.4bn in December alone), but \$/ILS still dropped from 3.45 in September to a low of 3.11 in January. We think strong BoP trends (C/A surplus plus both direct and portfolio investment inflows) plus a \$ bear trend will send \$/IL back to 3.10
- Look out for FX reserve data on 7 February. How much of the planned \$30bn programme did the Bol use up in January?

ING forecasts (mkt fwd)	1M 3.25 (3.28)	3M 3.20 (3.28)	6M 3.15 (3.27)	12M 3.10 (3.26)
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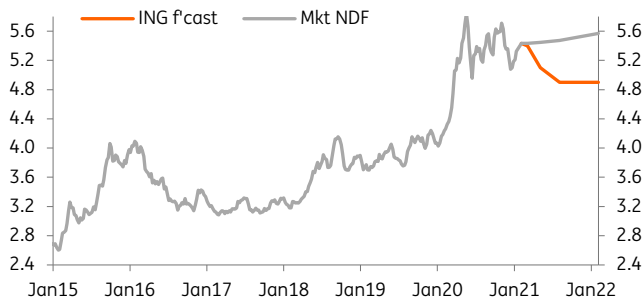
Chris Turner, London +44 20 7767 1610

# LATAM

## USD/BRL

Spending cap and tightening cycle to support BRL

Current spot: 5.43



Source: Refinitiv, ING forecast

ING forecasts (NDF)	1M 5.40 (5.44)	3M 5.10 (5.45)	6M 4.90 (5.47)	12M 4.90 (5.57)
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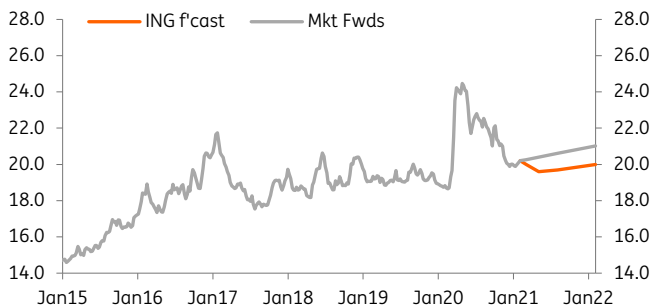
Chris Turner, London +44 20 7767 1610

- BRL has been the worst performing EM currency this year, undermined by both fiscal concerns – would the spending cap be softened? – and a sense that monetary policy had become too loose in light of rising inflation.
- Arguably both those challenges are in the process of being addressed. Elections in early February saw Bolsonaro allies win in both the Senate and the lower house – so far paying lip-service to the spending cap. And Bacen in January tilted to a hawkish setting, preparing the groundwork for tightening probably in May.
- What we think will be a benign EM environment this year, plus orderly fiscal and monetary policies should send \$/BRL under 5.

## USD/MXN

High real rates keep MXN insulated

Current spot: 20.20



Source: Refinitiv, ING forecast

ING forecasts (mkt fwd)	1M 20.00 (20.27)	3M 19.60 (20.40)	6M 19.70 (20.61)	12M 20.00 (21.02)
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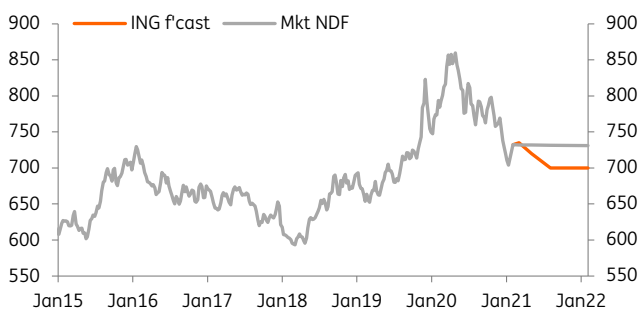
Chris Turner, London +44 20 7767 1610

- Like many of the \$ crosses, we see this as a bear market bounce in USD/MXN and look for sub 20.00 levels this summer. Keeping MXN supported are real rates in excess of +1% and no imminent sign yet that Banxico is ready to embark on continued easing. Here it seems the market struggles to price in more than one 25bp cut over the next twelve months.
- Despite a large contraction of 8% last year, presumably Mexico is looking to ride the 2021 US recovery. The current account surplus was surprisingly strong in 3Q and retaining large trade surpluses through 1H21 should provide MXN with some useful support.
- Progress on vaccine roll-out (Jan target missed by 40%) is key

## USD/CLP

Central bank announces FX intervention scheme

Current spot: 732.25



Source: Refinitiv, ING forecast

ING forecasts (NDF)	1M 735.0 (732.03)	3M 720.0 (731.98)	6M 700.0 (731.58)	12M 700.0 (731.28)
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- As mentioned in our [review of January FX intervention measures](#), Chile's announcement of a 15 month, \$12bn FX buying operating looks more a move to improve sovereign credit metrics than one, like Israel, designed to protect exporters. News of the intervention programme and a slightly stronger dollar suggests it will take a little longer now for USD/CLP to return to the 700 area – but we still expect that later this year.
- There will however be challenges. Not from commodity prices where our team see copper staying firmly bid near \$8000/MT.
- The main risks stem from politics including elections for seats in the constitutional convention (11 April) and Nov general election.

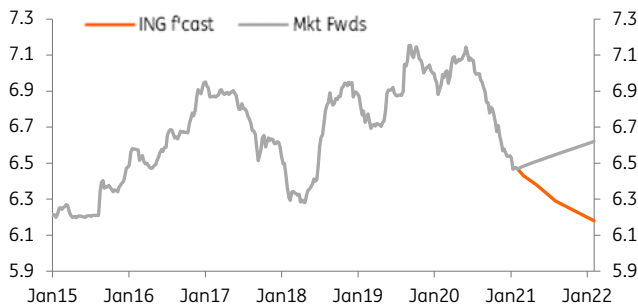


# Asia

## USD/CNY

Increasing volatility

**Current spot: 6.47**



- As of 26 January, the high-low range of USD/CNY close was around 1% since 31 December, more volatile than the 0.8% range in the full month of December. The volatility came from the movements of the dollar index, and the result of the exchange rate liberalisation reform by removing the counter-cyclical factor in the USD/CNY daily fixing formula.
- Recovery of the economy is robust, GDP growth in 4Q20 was 6.5% YoY. And we expect a 12%YoY jump in GDP growth in 1Q21 from a technical negative base effect as well as a structural recovery of economic activities from Covid in terms of investments and manufacturing activities.

Source: Refinitiv, ING forecast

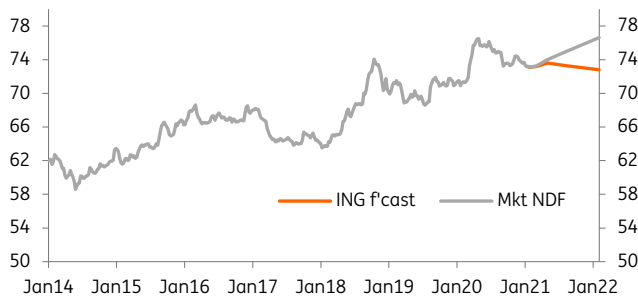
<b>ING forecasts (mkt fwd)</b>	<b>1M</b> 6.430 (6.48)	<b>3M</b> 6.380 (6.51)	<b>6M</b> 6.290 (6.55)	<b>12M</b> 6.180 (6.62)
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**Iris Pang, Hong Kong +852 2848 8071**

## USD/INR

Not the right time for policy reversal just yet

**Current spot: 73.12**



- India's FY21-22 Budget due on 1 February will be making headlines as this report gets out to our readers. A surge in the budget deficit to over 7% of GDP in the FY2020-21 (ends on 31 March) calls for some fiscal consolidation next year. We don't think it's time for that just yet amid a fragile economic recovery.
- Just days after the Budget is out, the Reserve Bank of India will review monetary policy. The dip in inflation back in the 2-6% policy target in December may call for a rate cut. But it could be a premature move as the inflation risk isn't yet fully eliminated.
- We see little policy support for the economy this year. The INR should remain an Asian underperformer for yet another year.

Source: Refinitiv, ING forecast

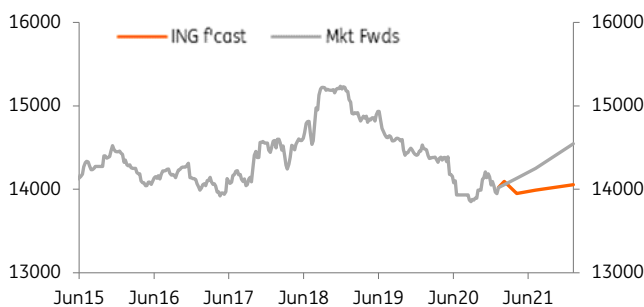
<b>ING forecasts (mkt fwd)</b>	<b>1M</b> 73.20 (73.27)	<b>3M</b> 73.60 (74.02)	<b>6M</b> 73.30 (74.91)	<b>12M</b> 72.80 (76.62)
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**Prakash Sakpal, Singapore +65 6232 6181**

## USD/IDR

IDR depreciates on growth concerns

**Current spot: 14020.00**



- The IDR faced some depreciation pressure to open the year with investors turning anxious over recovery prospects with a string of natural calamities and a surge in Covid-19 cases forcing Java and Bali into partial lockdown.
- Bank Indonesia (BI) kept policy rates unchanged at its first meeting for 2021 highlighting currency stability as the guidepost for any future decisions to cut rates further.
- IDR will likely face depreciation pressure in the near term with investors concerned about recovery prospects after Finance Minister Indrawati flagged the need to bump up fiscal spending to support sagging growth.

Source: Refinitiv, ING forecast

<b>ING forecasts (mkt fwd)</b>	<b>1M</b> 14095 (14054.75)	<b>3M</b> 13950 (14133.50)	<b>6M</b> 13989 (14252.50)	<b>12M</b> 14054 (14547.50)
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**Nicholas Mapa, Philippines +63 28479 8855**

## USD/KRW

Battered and bruised

Current spot: 1118.59



Source: Refinitiv, ING forecast

- The KRW stands out as the worst performing currency in the Asian complex over the last month, depreciating just over 2% against the USD, whilst the rest mostly made small gains.
- There's nothing particularly wrong with Korea's economy – which recorded a decent 1.1% QoQ in the last quarter of 2020. KRW weakness mainly reflects a change in investors' views on the global backdrop, with the synchronous global recovery view looking under threat from a patchy vaccine rollout.
- As the region's high beta currency, any adjustment will always hit the KRW hard. The market has not yet reached a conclusion on the global backdrop, so this is not necessarily over yet.

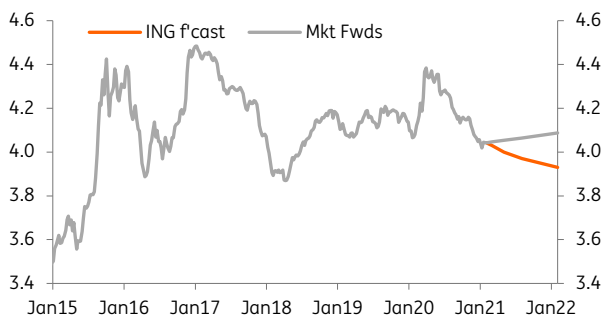
ING forecasts (NDFs)	1M 1120 (1118.59)	3M 1115 (1118.34)	6M 1090 (1118.14)	12M 1065 (1117.69)
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Rob Carnell, Singapore +65 6232 6020

## USD/MYR

Stable rates, firmer oil support MYR

Current spot: 4.04



Source: Refinitiv, ING forecast

- The USD/MYR was well-supported around 4.05 for much of January, with firmer global oil prices and stable rate policy at home capping upside and surging local Covid-19 cases and broad USD strength limiting downside.
- The government re-imposed Covid-19 Movement Control Orders almost across the whole country in January. It also declared a nationwide state of emergency lasting until 1 August. As this is going to stifle the economy, it announced fresh support measures worth MYR 15 billion (1% of GDP).
- However, the BNM continued to defy easing pressure at the January meeting. We retain our 25bp rate cut view for 1Q21.

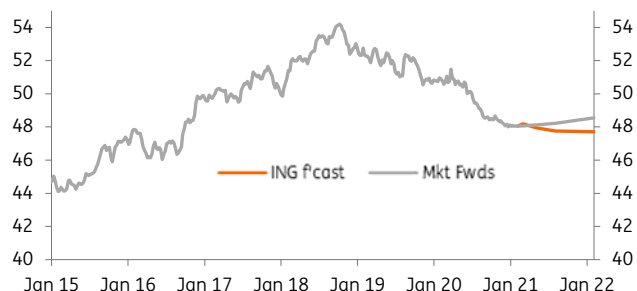
ING forecasts (mkt fwd)	1M 4.030 (4.05)	3M 4.000 (4.05)	6M 3.970 (4.06)	12M 3.930 (4.09)
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Prakash Sakpal, Singapore +65 6232 6181

## USD/PHP

PHP caught in tight ranges on light trading volume

Current spot: 48.05



Source: Refinitiv, ING forecast

- The PHP moved within a very tight range in the past few weeks with trading volume still quite thin to open 2021. PHP tracked regional weakness by the second week induced by concerns about the movement in US Treasuries but quickly reverted to slight appreciation as authorities may have converted dollar proceeds from a recent bond issuance.
- PHP weakened to close out the month as foreign players dumped local stocks on growth concerns with 2020 GDP sliding to -9.5%.
- The PHP will likely remain in tight ranges with corporate demand staying soft given the ongoing recession while central bank officials downplay the possibility of rate action in the near term.

ING forecasts (mkt fwd)	1M 48.19 (48.06)	3M 47.95 (48.12)	6M 47.76 (48.23)	12M 47.71 (48.54)
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Nicholas Mapa, Philippines +63 2479 8855

## USD/SGD

The worst year is behind

Current spot: 1.332



Source: Refinitiv, ING forecast

ING forecasts (mkt fwd)	1M 1.330 (1.332)	3M 1.320 (1.332)	6M 1.310 (1.332)	12M 1.300 (1.332)
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Prakash Sakpal, Singapore +65 6232 6181

- USD/SGD was held in a narrow trading range, 1.32-1.33 in January. We see no drift away from this range through end-1Q.
- Non-oil domestic exports, the economy's engine of growth, ended 2020 on a strong note. And so did manufacturing. Further exhibiting the strength of the recovery, the jobless rate fell to 3.2% in 4Q from 3.6% in 3Q. There may not be room for significant improvement ahead given the unabating global Covid-19 pandemic, but at least the worst may have passed.
- We don't expect a significant policy boost from the FY21-22 Budget due on 16 February. Nor is the MAS likely to deviate from the zero appreciation policy path for SGD-NEER in 2021.

## USD/TWD

Appreciation slowed

Current spot: 28.01



Source: Refinitiv, ING forecast

ING forecasts (mkt fwd)	1M 27.70 (28.01)	3M 27.40 (27.99)	6M 27.20 (27.97)	12M 26.80 (27.92)
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Iris Pang, Hong Kong +852 2848 8071

- There is a noticeable slowdown in TWD's appreciation. Taiwan exporters have complained about the fast appreciation of the currency for a few months.
- There is still uncertainty whether this slowness in currency appreciation would last. It depends not only on the performance of the Taiwan stock market, which should continue to attract inflows given that semiconductor chip shortage should push up prices of chips, which Taiwan exports a lot, but also the relative economic strength of US.
- Another factor that could increase volatility of TWD is the relationship with Mainland China, which seems to be deteriorating.

## USD/THB

Still going good at 30

Current spot: 29.98



Source: Refinitiv, ING forecast

ING forecasts (mkt fwd)	1M 30.00 (30.00)	3M 30.00 (30.02)	6M 29.80 (30.05)	12M 29.50 (30.08)
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Prakash Sakpal, Singapore +65 6232 6181

- As expected, the markets didn't pay much heed to fresh steps the central bank announced in early January to curb THB appreciation. The USD/THB traded firmly around 30.0 in January. We see it staying around there through end-1Q.
- The economy continues to suffer from Covid-19 pandemic. The four-fold jump in cases in January called for tighter containment efforts. Some relaxation is expected from February, though the adverse impact will last for a long-time.
- The negative GDP growth and inflation dynamic is here to stay for a while, at least until the low base effect kicks in for both in 2Q. We don't see more policy support ahead, however.

**ING foreign exchange forecasts**

EUR cross rates	Spot	1M	3M	6M	12M	USD cross rates	Spot	1M	3M	6M	12M
<b>Developed FX</b>											
EUR/USD	1.21	1.20	1.22	1.27	1.30						
EUR/JPY	126.9	123.60	122.00	127.00	132.60	USD/JPY	104.99	103	100	100	102
EUR/GBP	0.88	0.88	0.87	0.86	0.85	GBP/USD	1.37	1.36	1.40	1.48	1.53
EUR/CHF	1.08	1.08	1.09	1.10	1.15	USD/CHF	0.90	0.90	0.89	0.87	0.88
EUR/NOK	10.40	10.25	10.20	10.10	9.90	USD/NOK	8.60	8.54	8.36	7.95	7.62
EUR/SEK	10.18	10.10	9.90	9.80	9.75	USD/SEK	8.42	8.42	8.11	7.72	7.50
EUR/DKK	7.437	7.435	7.435	7.440	7.445	USD/DKK	6.15	6.20	6.09	5.86	5.73
EUR/CAD	1.55	1.52	1.51	1.54	1.56	USD/CAD	1.281	1.27	1.24	1.21	1.20
EUR/AUD	1.59	1.56	1.54	1.55	1.55	AUD/USD	0.76	0.77	0.79	0.82	0.84
EUR/NZD	1.69	1.67	1.65	1.65	1.67	NZD/USD	0.72	0.72	0.74	0.77	0.78
<b>EMEA</b>											
EUR/PLN	4.51	4.50	4.49	4.47	4.40	USD/PLN	3.73	3.75	3.68	3.52	3.38
EUR/HUF	356.5	355.00	360.00	363.00	365.00	USD/HUF	294.8	296	295	286	281
EUR/CZK	25.98	25.9	25.8	25.7	25.5	USD/CZK	21.49	21.6	21.1	20.2	19.6
EUR/RON	4.88	4.88	4.88	4.92	4.92	USD/RON	4.03	4.07	4.00	3.87	3.78
EUR/HRK	7.57	7.54	7.53	7.52	7.53	USD/HRK	6.27	6.28	6.17	5.92	5.79
EUR/RSD	117.6	117.6	117.6	117.6	117.5	USD/RSD	97.3	98.0	96.4	92.6	90.4
EUR/RUB	91.93	88.8	87.8	91.4	94.9	USD/RUB	76.05	74.0	72.0	72.0	73.0
EUR/UAH	33.91	34.0	34.4	35.8	36.4	USD/UAH	28.06	28.30	28.20	28.20	28.00
EUR/KZT	513.0	507.6	510.0	539.8	546.0	USD/KZT	424.4	423	418	425	420
EUR/TRY	8.66	8.76	8.85	9.53	10.47	USD/TRY	7.18	7.30	7.25	7.50	8.05
EUR/ZAR	18.20	18.6	18.6	19.1	20.8	USD/ZAR	15.06	15.50	15.25	15.00	16.00
EUR/ILS	3.98	3.90	3.90	4.00	4.03	USD/ILS	3.29	3.25	3.20	3.15	3.10
<b>Latam</b>											
EUR/BRL	6.46	6.48	6.22	6.22	6.37	USD/BRL	5.37	5.40	5.10	4.90	4.90
EUR/MXN	24.29	24.0	23.9	25.0	26.0	USD/MXN	20.16	20.00	19.60	19.70	20.00
EUR/CLP	881.06	882	878	889	910	USD/CLP	732.51	735	720	700	700
<b>Asia</b>											
EUR/CNY	7.82	7.72	7.78	7.99	8.03	USD/CNY	6.47	6.43	6.38	6.29	6.18
EUR/HKD	9.37	9.30	9.46	9.85	10.08	USD/HKD	7.75	7.75	7.75	7.75	7.76
EUR/IDR	17023	16914	17019	17766	18270	USD/IDR	14020	14095	13950	13989	14054
EUR/INR	88.43	87.8	89.8	93.1	94.6	USD/INR	73.14	73.20	73.60	73.30	72.80
EUR/KRW	1352.47	1344	1360	1384	1385	USD/KRW	1118.68	1120	1115	1090	1065
EUR/MYR	4.89	4.84	4.88	5.04	5.11	USD/MYR	4.04	4.03	4.00	3.97	3.93
EUR/PHP	58.10	57.8	58.5	60.7	62.0	USD/PHP	48.06	48.19	47.95	47.76	47.71
EUR/SGD	1.61	1.60	1.61	1.66	1.69	USD/SGD	1.33	1.33	1.32	1.31	1.30
EUR/TWD	33.87	33.2	33.4	34.5	34.8	USD/TWD	28.01	27.7	27.4	27.2	26.8
EUR/THB	36.26	36.0	36.6	37.8	38.4	USD/THB	29.99	30.0	30.0	29.8	29.5

Source: Refinitiv, ING

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