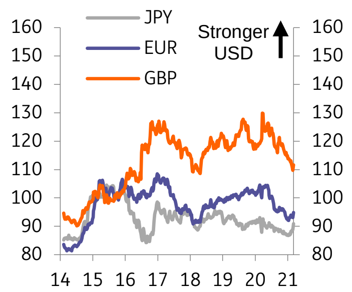
8 March 2021

FX Strategy

FX Talking

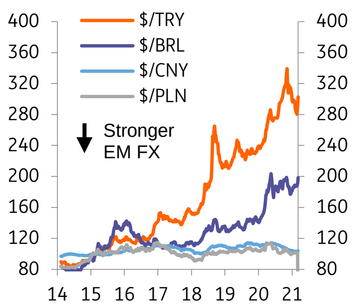
Too much of a good thing

USD/Majors (5 Jan 14=100)



Source: Refinitiv, ING forecast

USD/EM (5 Jan 14=100)



Source: Refinitiv, ING forecast

Supreme confidence in the global recovery and central banks in no hurry to tap the breaks have combined to deliver a sizable bond market sell-off. The adjustment has erred to the disorderly and prompted some adjustment in positioning – especially in FX markets. The currencies most susceptible to this correction have been the low-yielding JPY and CHF – both currencies the least positively correlated with a global recovery.

While March could prove a rocky month for risk assets as US Treasury yields try to find their 'right level', our macro team do not buy into the permanence of the much discussed inflation threat. This means that at some point a sufficient inflation premium will be priced into bond yields and pro-cyclical currencies allowed to advance again.

In short this means we regard the current dollar rally as a bear market bounce and remain fully invested in a 2Q story of a broadening global recovery, which should lift all currencies – including the EUR. A corrective dip in EUR/USD to 1.17/18 should still be followed by a recovery to 1.25 this summer. In Europe, we very much like GBP and CZK.

In the EM space, the high yield world looks better placed to withstand a bond tantrum than it did in 2013. Here, the IDR and the MXN are perhaps the most exposed to a further US yield rise in March. Yet our call is that the current correction is going to provide some attractive entry levels for rejoining core bull trends against the dollar – given that the reflation story, including equity and commodity gains, has much further to run.

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.22	↑	105	↓	1.44	↑
3M	1.25	↑	105	↓	1.47	↑
6M	1.28	↑	105	↓	1.51	↑
12M	1.30	↑	105	↓	1.53	↑
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.85	↓	26.10	↑	4.50	↓
3M	0.85	↓	25.70	↓	4.47	↓
6M	0.85	↓	25.60	↓	4.43	↓
12M	0.85	↓	25.50	↓	4.40	↓
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	6.43	↓	21.70	↑	5.60	→
3M	6.35	↓	21.00	↓	5.50	↓
6M	6.28	↓	20.50	↓	5.20	↓
12M	6.19	↓	20.00	↓	5.00	↓

↑ / → / ↓ 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	-1.3	3.5	-2.4	-1.8	-0.3	-1.0
%YoY	6.6	1.3	-1.0	-1.8	13.6	-5.5
	USD/UAH	**USD/KZT**	**USD/BRL**	**USD/MXN**	**USD/CNY**	**USD/TRY**
%MoM	-1.4	-0.6	5.2	5.3	0.5	4.0
%YoY	11.6	10.2	25.0	8.4	-6.4	23.3

Source: Refinitiv, ING forecast

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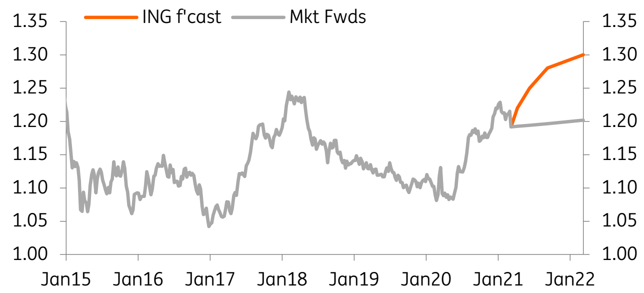
Developed markets

EUR/USD

A choppy few weeks as Treasuries find the 'right' level **Current spot: 1.1941**



Source: Refinitiv, ING forecast

- Dominating financial markets and triggering a broader bout of $ short covering is the sell-off in US Treasuries. With confidence in a global recovery growing and the Fed showing no signs of withdrawing support anytime soon, bonds remain unloved. What is the 'right level' for 10-year Treasuries? Our bond team targets 1.75% in 2Q and 2.00% in 3Q. Rising yields reflect economic confidence, but it is the pace of adjustment that hurts
- With the Fed yet to express concern over the bond sell-off, US Treasuries could stay under pressure into the March 17th Fed meeting. EUR/USD could briefly correct to 1.17 mid-month.
- The broader recovery should still mean EUR/$ 1.25 this summer.

ING forecasts (mkt fwd)	1M	3M	6M	12M
	1.22 (1.1953)	1.25 (1.1968)	1.28 (1.1992)	1.30 (1.2042)

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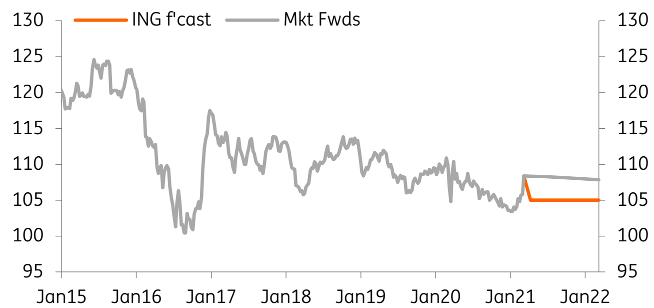
USD/JPY

Wrong-footed **Current spot: 108.23**



Source: Refinitiv, ING forecast

- We have been caught wrong-footed on USD/JPY this year. We had felt that negative real yields would keep the dollar weak across the board. Instead the sharp sell-off in Treasuries has helped bring forward expectations of the first Fed tightening – now 1Q23 – and lifted the $ against the low yielding JPY (& CHF).
- Tokyo will not mind the move in USD/JPY at all. The BoJ's effective JPY exchange rate has now dropped to levels last seen in early 2019 and well-timed to take advantage of US consumption boom this Spring.
- The shake out of speculative long JPY positions is exacerbating the move and could have further to go. Do we rule out 110? No, but unless one really thinks the Fed has to hike, we prefer 105.

ING forecasts (mkt fwd)	1M	3M	6M	12M
	105.00 (108.20)	105.00 (108.13)	105.00 (108.02)	105.00 (107.68)

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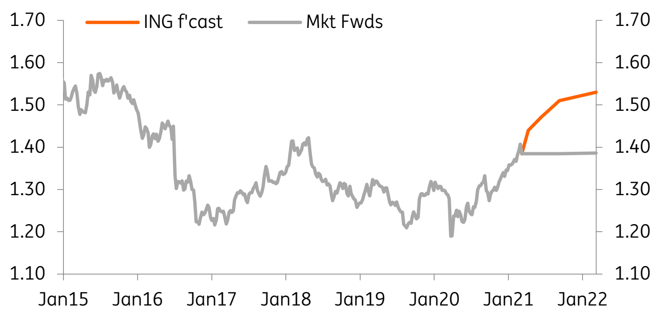
GBP/USD

Bullish case remains intact **Current spot: 1.3866**



Source: Refinitiv, ING forecast

- We see GBP as the best placed among major G10 currencies and expect GBP/USD to breach 1.50 this year, helped by an anticipated return of the USD bear trend (once the UST sell-off eases), fast UK vaccinations and a still undervalued pound.
- The fast vaccination and improving UK growth outlook has led to the full repricing of the odds of BoE cuts (in stark contrast to the ECB) - in turn benefiting GBP. The new UK budget is a marginal GBP positive as it extends the furlough support scheme until September.
- While speculative long GBP/USD positioning has been rising meaningfully in recent weeks, in contrast to many other G10 FX , the absolute level is not higher. This suggests further upside potential for the pound.

ING forecasts (mkt fwd)	1M	3M	6M	12M
	1.44 (1.3869)	1.47 (1.3872)	1.51 (1.3875)	1.53 (1.3886)

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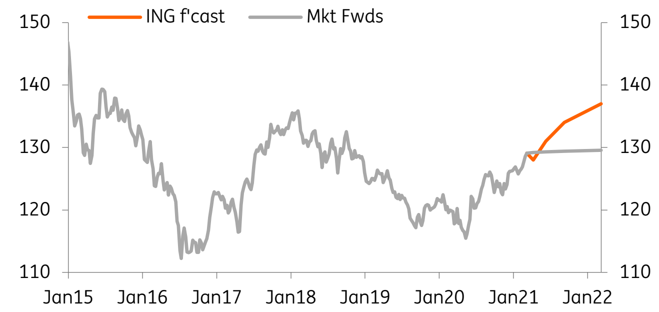
EUR/JPY

What does the ECB make of all this?

Current spot: 129.23



Source: Refinitiv, ING forecast

- Having complained about the EUR rally in early January, the ECB's attention has more recently turned to the bond market. Threats were made against the unwelcome tightening of financial conditions, which could draw a response in heavier and earlier PEPP bond buying or even a rate cut (a cut is unlikely).
- Like the Fed, the ECB will watch inflation head higher into 2Q, making threats of looser policy ever more difficult. Our call is that the ECB will have to a tolerate a higher EUR this summer as Europe's belated vaccination programme gets into gear and all cyclical currencies (including the EUR) rebound.
- Look out for BoJ meeting March 19th and possibly new targets.

ING forecasts (mkt fwd)	1M 128.00 (129.30)	3M 131.00 (129.39)	6M 134.00 (129.51)	12M 137.00 (129.67)

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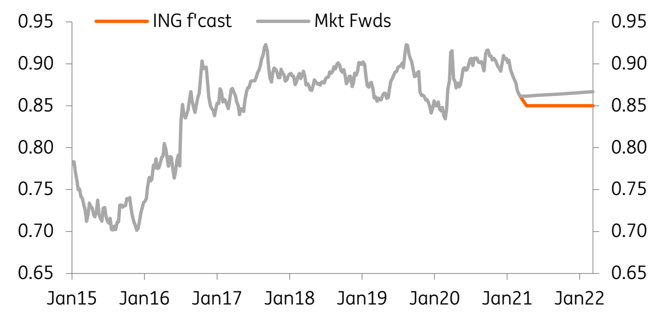
EUR/GBP

GBP: The European outperformer

Current spot: 0.8613



Source: Refinitiv, ING forecast

- GBP is set to continue reaping the dividend of the fast vaccination process. All adults should be offered the first jab by late July and the government has already rolled out a roadmap for easing restrictions, with full easing planned by 21 June.
- This contrasts markedly with continental Europe and suggests earlier and faster UK economic recovery in Q2. This favours GBP vs. other European FX. EUR/GBP to reach 0.85 this month
- We expect the GBP trading pattern to change. Compared to prior years we now look for a periods of frequent valuation overshoots (vs. prior periods of undershoots) as previous negative Brexit uncertainty is replaced by the positive vaccine rollout effect.

ING forecasts (mkt fwd)	1M 0.85 (0.8617)	3M 0.85 (0.8627)	6M 0.85 (0.8642)	12M 0.85 (0.8673)

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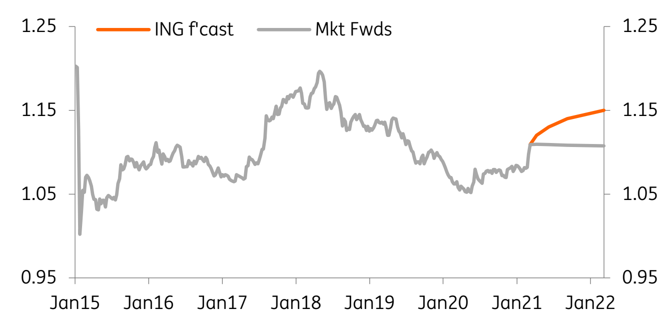
EUR/CHF

Speculators crash out of CHF longs

Current spot: 1.1067



Source: Refinitiv, ING forecast

- As we wrote recently, we think the decisive rally in EUR/CHF above 1.10 represents a big vote of confidence in the global recovery – including a view that Europe will find a way out of lockdown & participate in the global expansion from 2Q onwards.
- The sell-off in CHF is likely exacerbated by positioning. Recent reports have seen speculators shuffling to the exits with their long CHF positions – this may have turned into a stampede.
- The SNB will very much welcome this adjustment, removing the pressure from it to intervene and incur the further wrath of the White House. Assuming the global economy re-opens from 2Q onwards, we're happy with a 1.15 target - & don't rule out 1.20.

ING forecasts (mkt fwd)	1M 1.12 (1.1065)	3M 1.13 (1.1061)	6M 1.14 (1.1055)	12M 1.15 (1.1044)

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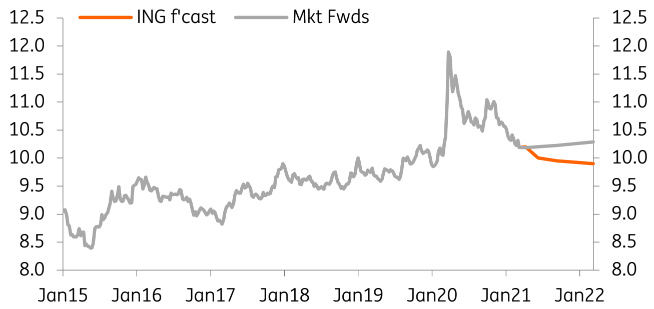
EUR/NOK

Stars are aligning for NOK **Current spot: 10.18**



Source: Refinitiv, ING forecast

- The high beta, low liquid NOK weathered the recent UST sell off relatively well (being flat vs. EUR MoM) with the dent to risk sentiment being offset by the sharp rise in the oil price.
- Our commodity team has upgraded its oil forecast, targeting Brent at US$70/bbl by Q3. This should benefit NOK, make it less vulnerable to bouts of risk aversion and keep the case for NB hikes intact.
- The non-appreciating NOK, higher oil price, the expected growth rebound from late Q2 onwards and high inflation means that the bias is skewed towards a more hawkish NB in coming months and earlier rate hikes. EUR/NOK to move below 10.00 later this year.

ING forecasts (mkt fwd)	**1M** 10.20 (10.19)	**3M** 10.00 (10.20)	**6M** 9.95 (10.23)	**12M** 9.90 (10.29)

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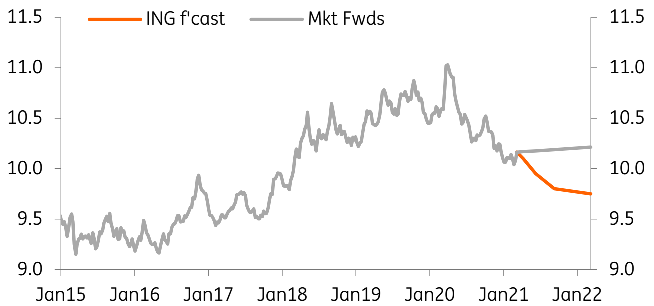
EUR/SEK

Waiting for the Q2 European recovery **Current spot: 10.17**



Source: Refinitiv, ING forecast

- EUR/SEK stayed relatively offered despite the UST sell off and remains in the 10.00-10.20 range. The lack of commodity exposure made it an underperformer vs. NOK.
- Domestic catalysts for pronounced SEK strength are absent (i.e. the cautious Riksbank signals no hikes over the forecast horizon), with the prime driver behind the expected SEK rebound being the European economic recovery in Q2 (as the vaccination process gains pace). EUR/SEK to test the 10.00 level in Q2
- There is a clear divergence between SEK and NOK prospects, with the latter benefiting from (a) a commodity exposure; and (b)a more hawkish central bank. NOK/SEK to break above parity in March.

ING forecasts (mkt fwd)	**1M** 10.100 (10.17)	**3M** 9.950 (10.18)	**6M** 9.800 (10.19)	**12M** 9.750 (10.22)

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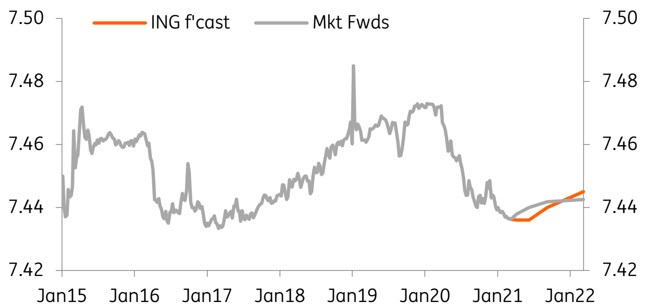
EUR/DKK

DN back in the FX intervention game **Current spot: 7.436**



Source: Refinitiv, ING forecast

- The pain threshold has been reached and the DN stepped back into the FX market, intervening by DKK 0.4bn in February. Interventions are set to stay in place and put a soft floor under EUR/DKK around 7.4360.
- There is little impetus for EUR/DKK to move higher away from its current soft floor. On the DKK side, the spread between DN and EU money market rates remains high and DN interventions will be of a defensive nature to prevent DKK strength, rather than to pro-actively generate DKK weakness. On the EUR side, the dovish hints from ECB suggest ongoing downward pressure on EUR/DKK
- We are still some time away from a DN rate cut, but the larger the interventions will be, the more likely it is the DN may cut by 10bp.

ING forecasts (mkt fwd)	**1M** 7.436 (7.438)	**3M** 7.436 (7.440)	**6M** 7.440 (7.442)	**12M** 7.445 (7.442)

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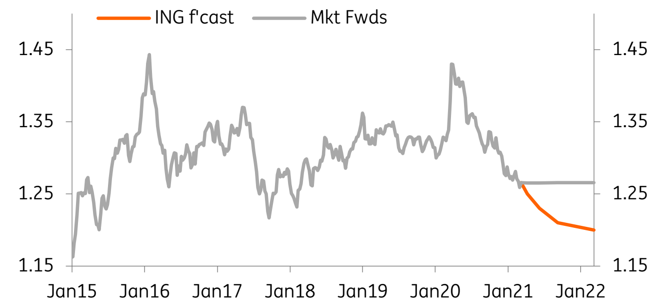
USD/CAD

Oil, reflation and tapering to keep supporting the loonie



Source: Refinitiv, ING forecast

Current spot: 1.266

- CAD has been the G10 commodity currency most resilient to USD appreciation lately. We think this has been due to a combination of rising oil prices and improving economic outlook in the US (where 75% of Canadian exports go).
- Canada's V-shaped recovery hardly advocates for more BoC stimulus, and we instead think the next move by the Bank will be some tapering.
- Unwinding BoC stimulus should pair with supportive economic fundamentals and rebounding demand from the US to keep a floor below CAD. The oil rally may gather more pace later in the year when we expect USD/CAD to approach 1.2000.

ING forecasts (mkt fwd)	**1M** 1.25 (1.266)	**3M** 1.23 (1.266)	**6M** 1.21 (1.266)	**12M** 1.20 (1.266)

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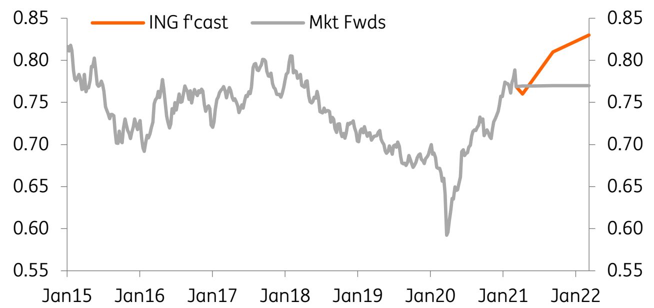
AUD/USD

RBA interventions to keep rates relatively unattractive



Source: Refinitiv, ING forecast

Current spot: 0.771

- The RBA has been very active in its bond purchasing operations to defend its 3-year yield target (0.10%) and we suspect it will have to step in again with larger purchases than normal as the bond environment may remain fragile.
- In FX terms, this should keep a cap on the AUD carry attractiveness, which is already the lowest in the G10 commodity space.
- Other factors continue to pose downside risks to AUD. Above all: a correction in iron ore prices from currently unsustainable levels and further escalation in trade tensions with China. So, AUD isn't the most attractive pro-cyclical currency in the short-term, although we still expect levels above 0.80 in 2H21.

ING forecasts (mkt fwd)	**1M** 0.76 (0.770)	**3M** 0.78 (0.771)	**6M** 0.81 (0.771)	**12M** 0.83 (0.771)

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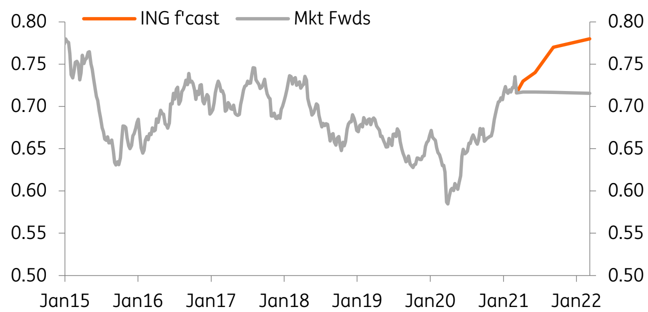
NZD/USD

Looking more appealing than AUD



Source: Refinitiv, ING forecast

Current spot: 0.717

- The new RBNZ remit that includes housing stability considerations has limited the ability of the Bank to add stimulus.
- Still, an inflation (1.4%) not far from target (2%), rebounding activity and any contagion spikes managed locally with snap lockdowns leave little need for extra monetary stimulus.
- Concerns around rising yields and fresh NZD strength should keep the RBNZ's tone on the dovish side, although: (a) this will hardly match the RBA's dovishness, and (b) the RBNZ may be one of the first central banks in G10 to unwind stimulus due to soaring housing prices and economic resilience. Monetary differential can drive AUD/NZD into the 1.04 area in the coming weeks. We expect NZD/USD above 0.75 only in 2H21.

ING forecasts (mkt fwd)	**1M** 0.730 (0.717)	**3M** 0.740 (0.717)	**6M** 0.770 (0.716)	**12M** 0.780 (0.715)

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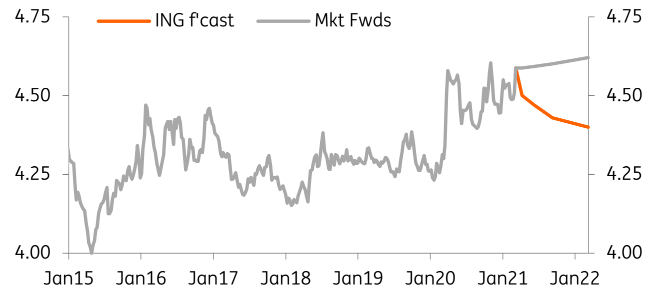
Emerging markets

EUR/PLN

€/PLN so far anchored above NBP intervention levels



Source: Refinitiv, ING forecast

Current spot: 4.59

- €/PLN moved above December NBP intervention levels and looks overvalued – our fundamental €/PLN medium term level is at 4.45 and long term at 4.40. The rate most likely would be lower were it not for NBP FX interventions in late 2020.
- €/PLN and CEE FX are exposed to any risk-off wave, USD short term upside affecting CEE/EM assets. PLN undervaluation might make it more resilient than other CEE FX to market tensions.
- Assuming limited €/US$ downside, €/PLN should trade back at 4.47-50 in March. We anticipate a more pronounced drop, even below 4.40, in 2H21, due to expected rises in €/US$, the strong Polish GDP rebound and the sustainability of the Polish current account surplus (c.2% of GDP) this year.

ING forecasts (mkt fwd)	**1M** 4.50 (4.59)	**3M** 4.47 (4.60)	**6M** 4.43 (4.60)	**12M** 4.40 (4.62)

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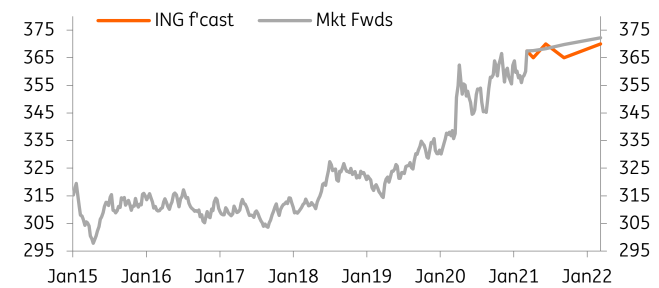
EUR/HUF

HUF can find itself under selling pressure again



Source: Refinitiv, ING forecast

Current spot: 366.83

- EUR/HUF already moved above our target at 363 in late February. As EUR/HUF has broken above a significant resistance level, we see clear upside risks in coming months.
- While the NBH ex ante approach is less hawkish than those of the CNB and the NBR (unlike these two central banks, the NBH still engages in QE), ex post there is a high probability that it will be the first central bank to tighten in the region.
- The expected sharp acceleration in Hungarian CPI in April-May (above 4%YoY) may reinstate the selling pressure on HUF and in turn lead to emergency hikes. At least one 15bp hike in 1-week depo rate in Q2 is now our base case.

ING forecasts (mkt fwd)	**1M** 365.0 (367.22)	**3M** 370.0 (368.00)	**6M** 365.0 (369.32)	**12M** 370.0 (371.83)

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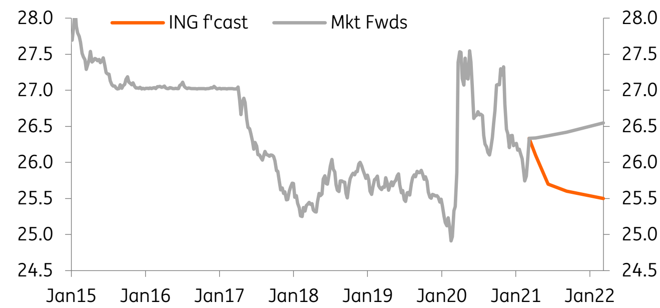
EUR/CZK

Suffering from its pre-UST sell-off popularity



Source: Refinitiv, ING forecast

Current spot: 26.31

- The UST sell- off affected CZK negatively via the positioning channel, with koruna being a favourite long in the region. The Covid situation in Czech is one of the worst in the world, but the impact on CZK should be limited as the restrictions are focused on mobility, but the industrial sector remains open.
- The case for two 25bp CNB hikes later in the year is intact due to the anticipated post winter recovery and higher than expected CPI. The CNB is still the most hawkish central bank in CEE (though NBH may be in fact be the first to hike due to FX stability concerns)
- Prospects of CNB hikes and an eventual post UST sell-off stabilization in sentiment should bring EUR/CZK promptly back below 26.00 by end Q2.

ING forecasts (mkt fwd)	**1M** 26.10 (26.33)	**3M** 25.70 (26.36)	**6M** 25.60 (26.41)	**12M** 25.50 (26.54)

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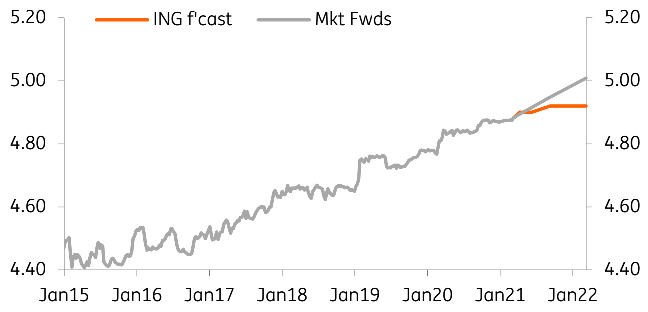
EUR/RON

Signs of an upward adjustment



Source: Refinitiv, ING forecast

Current spot: 4.88

- After a somewhat overly dovish stance in the first months of the year, sentiment might have changed at the central bank level. In February the NBR decided to mop up the surplus liquidity via a deposit taking auction. Following that, carry rates stayed closer to the 1.75% credit facility rather than the 0.75% deposit facility.
- Recently, official fixings started to print above 4.8750, a level which withstood ever since Sep-2020.
- We re-affirm our 4.92 year-end forecast. There are signs that the long-anticipated upward adjustment is in the making. 4.90 will likely be the first resistance before reaching our year-end target.

ING forecasts (mkt fwd)	1M 4.90 (4.89)	3M 4.90 (4.91)	6M 4.92 (4.95)	12M 4.92 (4.99)

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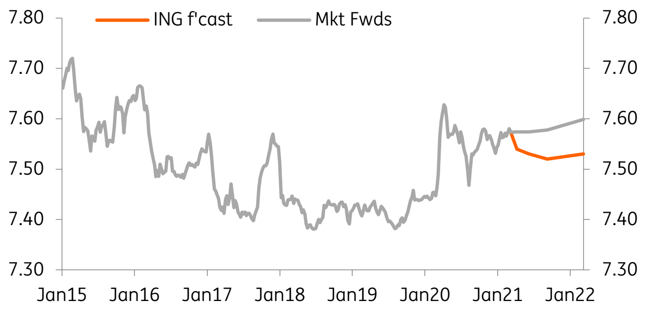
EUR/HRK

Calmer waters



Source: Refinitiv, ING forecast

Current spot: 7.57

- Without neither major events to change the mood nor above average turnover, the FX rate has been inching higher towards the 7.58 area. We believe that this is just normal seasonal volatility, and that appreciation pressures will be at work from early in 2Q21.
- 4Q20 GDP came in quite strong, at +2.7% versus the previous quarter, taking the full 2020 GDP contraction to -8.4%. Still, this puts Croatia in the weaker half of the EU countries. However, the strong fourth quarter outcome sets the scene for growth to approach 5.0% in 2021, something unseen since 2000s.
- We maintain our year-end EUR/HRK forecasts at 7.53. Should the vaccine rollout accelerate, risks are for a stronger kuna.

ING forecasts (mkt fwd)	1M 7.54 (7.57)	3M 7.53 (7.58)	6M 7.52 (7.58)	12M 7.53 (7.59)

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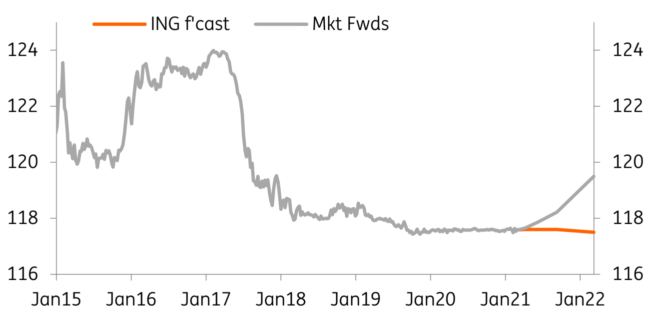
EUR/RSD

Managed floating



Source: Refinitiv, ING forecast

Current spot: 117.60

- As usual lately, the GDP advance came in above market expectations, closing 2020 at -0.9%, which could well turn out to be the best performance in Europe.
- The merits of a "relatively stable" exchange rate have been repeatedly mentioned in NBS's latest Inflation Report. While not being a novelty, this reinforces our view for the quasi-pegged dinar rate to be maintained around current levels.
- Given the strong macro outlook, an impressive vaccination pace and the possibility of a new IMF agreement, we believe that at least one rating upgrade in 2021 is possible.

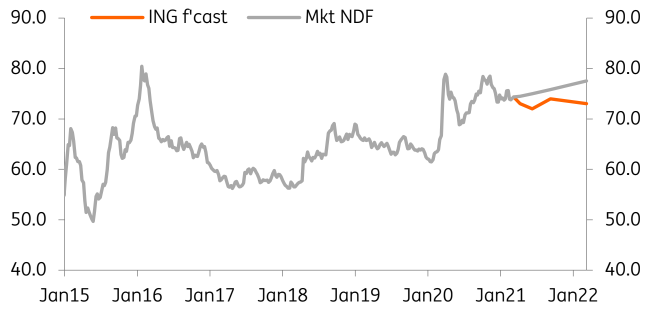
ING forecasts (mkt fwd)	1M 117.60 (117.64)	3M 117.60 (117.83)	6M 117.60 (118.19)	12M 117.50 (119.50)

Valentin Tataru, Bucharest +40 31 406 89 90

USD/RUB

Higher oil does not mean better outlook for ruble

Current spot: 74.22



Source: Refinitiv, ING forecast

- The ruble performed in line with our cautious expectations in February despite robust commodity markets, as the persistent foreign policy tensions did not allow the ruble to fully catch up with peers. Foreign investments in OFZ dropped US$1bn in February.
- The $9/bbl upgrade in ING's 2021 oil price forecast boosts Russia's annual exports by $25bn. This will be sterilised by an additional $15bn of FX purchases and elevated capital outflows on local and foreign challenges.
- The high oil price reinforces Russia's macro stability, limiting the negative impact of USD sell-off. We maintain our cautiously constructive expectations of USDRUB 72.0-73.0 for 1H21, acknowledging Russia-specific risks to the capital account.

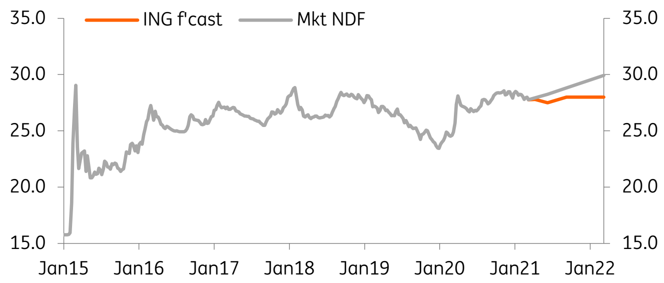
ING forecasts (mkt fwd)	1M 73.00 (74.47)	3M 72.00 (74.98)	6M 74.00 (75.80)	12M 73.00 (77.54)

Dmitry Dolgin, Russia +7 495 771 7994

USD/UAH

Range trading just below 28.0

Current spot: 27.78



Source: Refinitiv, ING forecast

- Somewhat against consensus, on 4 March the NBU decided to raise the key rate by 50bp to 6.50%, citing out-of-target inflation as the main reason.
- While inflation pressures are certainly real, we don't foresee an increased likelihood for prices to stay above the NBU's target beyond 1H21.
- We maintain our benign view on the UAH as appreciation and depreciation factors seem to offset each other quite well. If anything, a seasonal dip towards the 27.5 zone could be envisaged.

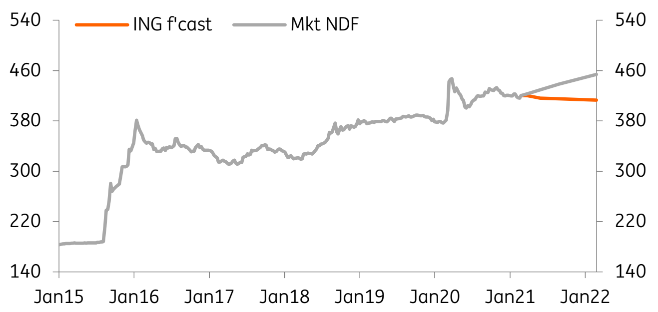
ING forecasts (mkt fwd)	1M 27.80 (27.93)	3M 27.50 (28.27)	6M 28.00 (28.81)	12M 28.00 (29.93)

Valentin Tataru, Russia +7 495 771 7994

USD/KZT

KZT lifted by oil rally

Current spot: 419.99



Source: Refinitiv, ING forecast

- Rallying oil prices propelled foreign investor interest to KAZ assets, ensuring US$0.5 bln portfolio inflow into state debt in February. As a result, KZT outperformed our expectations, touching 415 in February before returning to 420 after the end of tax period.
- The upgrade of ING's 2021 oil price forecast by US$9/bbl offsets the negative effect of the 3% cut in production outlook, allowing us to boost our current account expectations by US$4.6 bn to 0.7% of GDP and returning our USD/KZT forecast range to 410-420.
- In terms of KZT, the oil price is at a historical high of KZT26.9/bbl, making our USD/KZT forecast comfortable from a budget perspective. However, the budget breakeven of US$70/bbl and a potential increase fiscal spending limits the scope for KZT to rally.

ING forecasts (mkt fwd)	1M 420.00 (423.33)	3M 416.00 (429.25)	6M 415.00 (438.45)	12M 413.00 (453.87)

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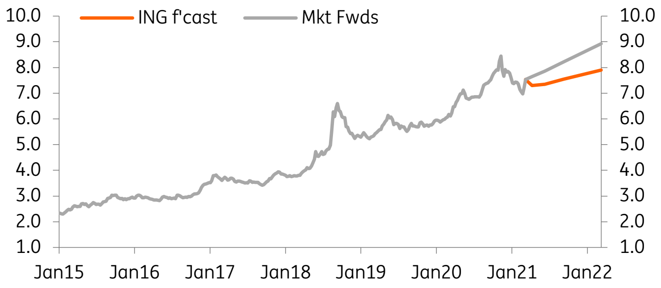
USD/TRY

Inflationary pressures have remained elevated

Current spot: 7.50



Source: Refinitiv, ING forecast

- The higher than expected inflation print in February with continuing price pressures reflects still strong cost-push factors, sticky services inflation and elevated inflation expectations.
- Inflation will likely peak in April - though upside risks will continue given the likely recovery in weak demand conditions in certain sectors such as clothing, the impact of rising international commodity prices, the possibility of tax adjustments and still high inflation expectations.
- Given the continuing uptrend in headline inflation and recent TRY weakness (impacted by the external environment), the CBT will likely remain alert and ready to deliver possible further tightening measures. Next rate meeting is March 18th.

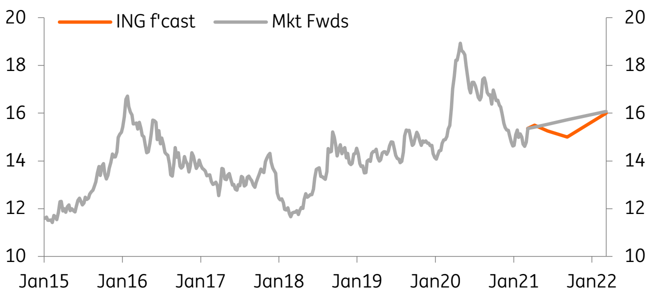
ING forecasts (mkt fwd)	**1M** 7.30 (7.61)	**3M** 7.35 (7.83)	**6M** 7.55 (8.18)	**12M** 7.90 (8.88)

Muhammet Mercan, Istanbul +90 212 329 0751

USD/ZAR

Clinging on

Current spot: 15.26



Source: Refinitiv, ING forecast

- At just 2.4% lower year-to-date against the dollar, the ZAR has performed pretty well despite the 50bp rise in US Treasury yields this year. The Treasury sell-off has dampened enthusiasm in the local ZAR government bond market, despite a reasonably constructive budget in late February.
- As we noted in that article, South Africa's large trade surplus and the big commodity rally, especially in metals, has helped the ZAR. Yet the uncertainty from the US Treasury market and how it undermines carry plays, including the ZAR, is a problem.
- Windows of stability will see investors return to the ZAR's near 5% implied yields, but by year-end we still favour $/ZAR near 16.

ING forecasts (mkt fwd)	**1M** 15.50 (15.31)	**3M** 15.25 (15.43)	**6M** 15.00 (15.61)	**12M** 16.00 (15.96)

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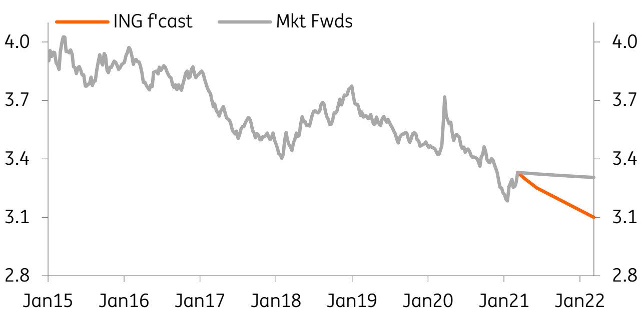
USD/ILS

Market joins forces with BoI to soften Shekel

Current spot: 3.32



Source: Refinitiv, ING forecast

- As we discussed last month, the BoI announced a $30bn FX intervention programme to resist ILS strength. FX reserve data showed that it used $6.8bn of that programme in January alone. February may well be a different story, however, where the jump in US yields, dragging Israeli govt bond yields 30bp higher as well, will have dented non-resident buying of ILS.
- Yet ILS is typically at the forefront of a dollar bear trend and given that we expect the dollar bear trend to resume in 2Q, would expect $/ILS to start grinding its way back to the 3.20 area soon.
- Israel's impressive vaccine roll-out – 96% of the population vaccinated – should help re-opening plans & the growth story.

ING forecasts (mkt fwd)	**1M** 3.30 (3.32)	**3M** 3.25 (3.31)	**6M** 3.20 (3.31)	**12M** 3.10 (3.30)

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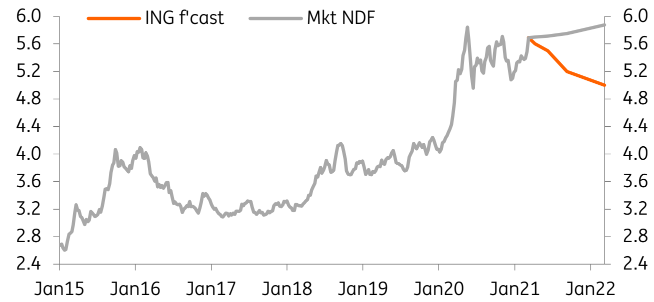
LATAM

USD/BRL

BACEN gets dragged back into FX intervention **Current spot: 5.66**



Source: Refinitiv, ING forecast

- BRL remains the hardest hit EMFX of the year, dragged lower by the ongoing pandemic and its pressure on the fiscal accounts. In response BACEN has been dragged back into a FX intervention campaign, selling $8bn in early March when $/BRL was above 5.70. BACEN has plenty of FX reserves, but typically uses them sparingly. But clearly it feels BRL has fallen too quickly.
- The pressure on the BRL, rippling through the local debt market may now well force BACEN's hand with earlier tightening. A policy rate of just 2% seems too low and the market now prices 150bp of tightening over the next 3 months. Next rate meeting Mar 17th
- Could be a rocky few weeks for BRL, but favour summer recovery.

ING forecasts (NDF)	**1M** 5.60 (5.67)	**3M** 5.50 (5.69)	**6M** 5.20 (5.73)	**12M** 5.00 (5.85)

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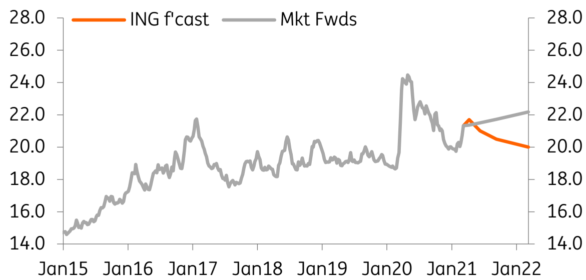
USD/MXN

Window closes on further Banxico rate cuts **Current spot: 21.20**



Source: Refinitiv, ING forecast

- MXN had been a popular EM currency to hold over recent months, buoyed by global recovery expectations, high MXN yields, oil and exposure to the US recovery. However, instability in US Treasuries is taking its toll on local MXN debt holdings, where foreign ownership has dropped under 45% of outstanding debt.
- A further sell-off in Treasuries cannot be ruled out in March, with a further exodus from Mbono debt markets meaning $/MXN could briefly see 22.00. A soft MXN probably shuts the door on any further Banxico easing, after the 25bp rate cut to 4.00% in Feb.
- Yet a resumption of the dollar bear trend in 2Q, should mean that the pro-cyclical MXN recovers – perhaps close to 20 this summer.

ING forecasts (mkt fwd)	**1M** 21.70 (21.27)	**3M** 21.00 (21.41)	**6M** 20.50 (21.62)	**12M** 20.00 (22.08)

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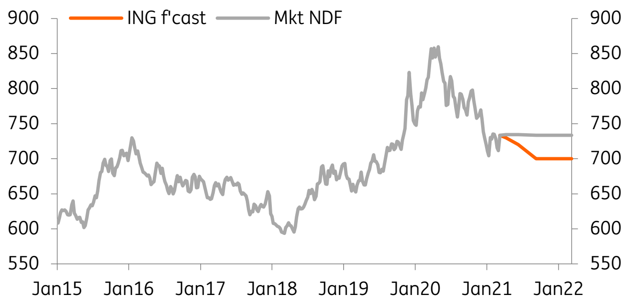
USD/CLP

Copper, vaccines and politics **Current spot: 729.54**



Source: Refinitiv, ING forecast

- Copper, vaccines and politics… all three topics look positive for the CLP. Convictions are growing in the 2H global recovery, where commodity prices stand to be main beneficiary. Copper is at the forefront of the industrial metals rally, especially with its vital role in the roll-out of renewables. Positive for Chile's Terms of Trade.
- Chile's vaccine roll-out is impressive, At time of writing its vaccinations per 100 people rate is 23, not far off the US. Better vaccinations mean earlier re-opening and higher growth.
- It also seems like political risk from the constitutional convention (April 11) is fading. Success of the moderates would support Chile's position as one of the more stable Latam economies.

ING forecasts (NDF)	**1M** 730.0 (729.14)	**3M** 720.0 (728.79)	**6M** 700.0 (727.96)	**12M** 700.0 (727.90)

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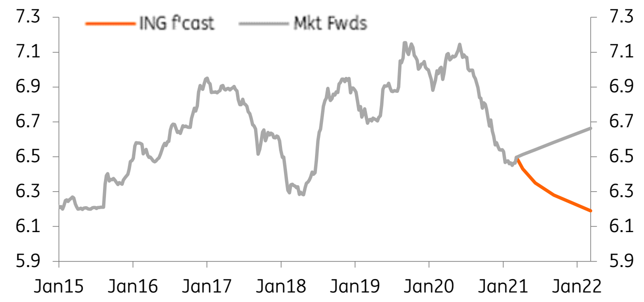
Asia

USD/CNY

Stable until Two Sessions



Source: Refinitiv, ING forecast

Current spot: 6.49

- The yuan is usually stable before and during the Two Sessions every year. This year should be no exception.
- But there is one more factor for a stable yuan in the first two months - the not-so-weak dollar index.
- In terms of the Two Sessions' policy agenda on the exchange rate, we expect the tone will continue to be on exchange rate liberalisation reform. The fading out of the counter-cyclical factor since October 2020 matches the PBoC's forex position, which implies the central bank did not trade the yuan as much as before in the fx market. Liberalisation reform will continue in 2021, by letting the market be the main driver of the yuan.

ING forecasts (mkt fwd)	**1M** 6.430 (6.51)	**3M** 6.350 (6.54)	6M 6.280 (6.58)	**12M** 6.190 (6.66)

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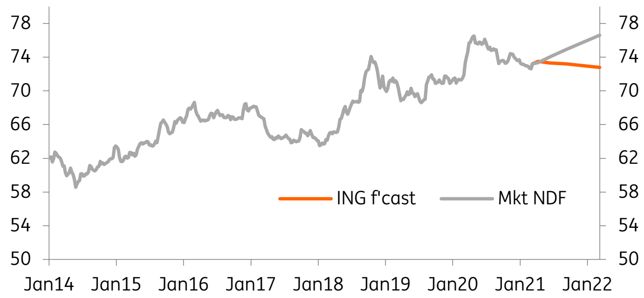
USD/INR

RBI leads monetary policy normalisation in Asia



Source: Refinitiv, ING forecast

Current spot: 73.09

- The INR's sharp sell-off on the last trading day of February erased gains over two months. That said, the INR is still doing relatively well among Asian peers, thanks to the economy's return to growth and the central bank starting its policy normalisation.
- GDP ended a negative growth streak earlier than most other Asian economies. A 0.4% YoY rise in 3Q FY20-21 was helped by firmer domestic demand. We expect about a -7% fall in this fiscal year ending in March and an over 9% bounce in the next year.
- Inflation is down to the RBI's 2-6% target but reports of rising food and fuel prices hint at higher inflation. The RBI is the first Asian central bank to tighten via a 50bp CRR hike in February.

ING forecasts (mkt fwd)	**1M** 73.50 (73.34)	**3M** 73.30 (74.01)	**6M** 73.20 (74.90)	**12M** 72.80 (76.61)

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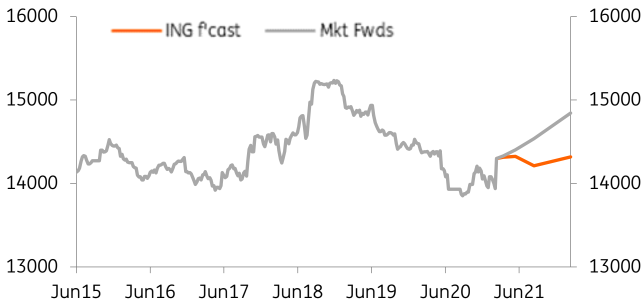
USD/IDR

IDR depreciates with regional peers on bond market rout



Source: Refinitiv, ING forecast

Current spot: 14300.00

- The IDR moved sideways for the first half of February with the currency generally stable ahead of the central bank policy meeting.
- Bank Indonesia (BI) cut policy rates to support stalling growth momentum but hinted that space for further rate cuts was now "limited". The IDR, however, depreciated sharply towards the end of February, tracking regional weakness with global bond markets selling off.
- We expect the IDR to remain pressured in the near term given rising global bond yields with the central bank present in the market to stem the depreciation momentum.

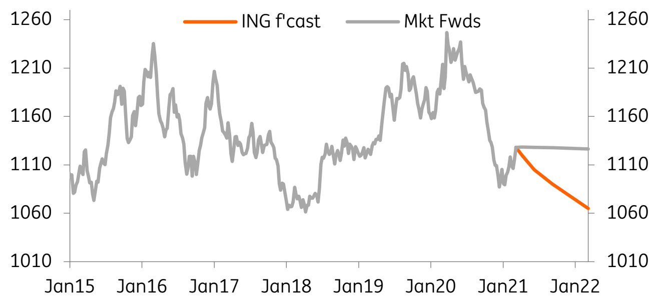
ING forecasts (mkt fwd)	**1M** 14313 (14331.75)	**3M** 14325 (14403.00)	**6M** 14212 (14537.50)	**12M** 14319 (14845.00)

Nicholas Mapa, Philippines +63 28479 8855

USD/KRW

Whipped around

Current spot: 1127.35



Source: Refinitiv, ING forecast

- From as weak as 1,127 to as strong as 1,097, the KRW has been on quite a ride this month as the USD competes with the pull and push of the reflation trade and higher bond yields.
- At the moment, the KRW sits at the weaker end of the trend, but with the USD slated to show further weakness this year, we anticipate it moving lower – not perhaps as much as our EUR/USD forecast implies, but the direction still seems reasonable.
- Like a few other economies in the region, the buoyancy of the housing market is creating a potential headache for the Bank of Korea. And while this is unlikely to lead to any policy tightening this year, we may not have to wait too long in 2022 to see this.

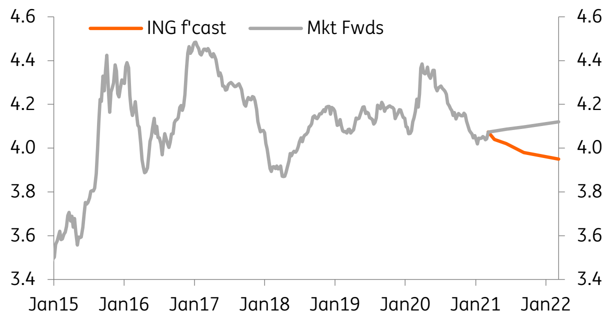
ING forecasts (NDFs)	**1M** 1120 (1127.60)	**3M** 1105 (1127.25)	**6M** 1090 (1126.75)	**12M** 1065 (1125.75)

Rob Carnell, Singapore +65 6232 6020

USD/MYR

Steady as it goes

Current spot: 4.07



Source: Refinitiv, ING forecast

- The USD/MYR was an Asian outperformer in February amid a broader emerging currency sell-off. The pair has hovered around 4.05 with the renewed Covid-19 threat to the domestic economy limiting the downside and rising oil prices capping the upside.
- GDP contracted by another -3.4% YoY in 4Q20, bringing the full-year contraction of -5.6%. The tighter Covid-19 movement restriction will mean a deeper GDP fall in the current quarter and a much slower recovery over the rest of the year.
- Bank Negara Malaysia has been defying the easing pressure. It has more reasons to do so now that high utility and transport costs have been stoking inflation upward.

ING forecasts (mkt fwd)	**1M** 4.040 (4.08)	**3M** 4.020 (4.09)	**6M** 3.980 (4.10)	**12M** 3.950 (4.12)

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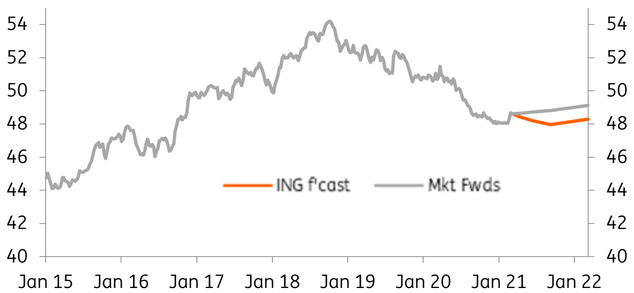
USD/PHP

PHP weakens sharply, tracking regional pullback

Current spot: 48.54



Source: Refinitiv, ING forecast

- The PHP moved sideways for the first half of February with trading volumes relatively thin as import demand stayed soft due to the ongoing recession.
- Bangko Sentral ng Pilipinas (BSP) kept policy rates unchanged at its meeting although rising inflation caused some anxiety onshore with BSP forecasting February inflation to rise to 4.7%.
- After initially rising sharply to 48.695 due to foreign selling in the bond and equity markets, PHP stabilized at around 48.600 after the central bank established its presence in the spot market. We expect PHP to remain stable at these levels unless BSP signals a possible change in stance in the near term.

ING forecasts (mkt fwd)	**1M** 48.44 (48.57)	**3M** 48.21 (48.64)	**6M** 47.96 (48.74)	**12M** 48.29 (49.04)

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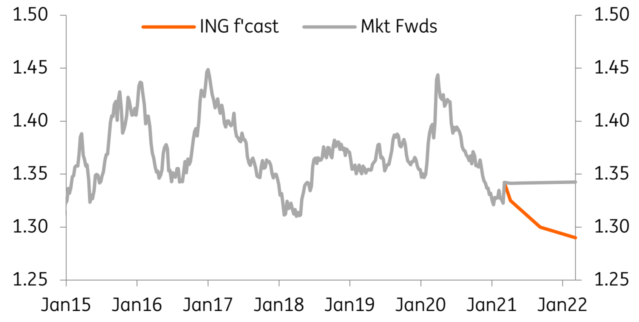
USD/SGD

Export-led recovery in full swing **Current spot: 1.340**



Source: Refinitiv, ING forecast

- The USD/SGD has been firm in the 1.32-1.33 trading range during the recent rout. The currency's resilience can be attributed to an export-driven economic recovery, which gained further traction in January with a 12.8% YoY surge.
- This validates the Monetary Authority of Singapore's shift a year ago to a neutral monetary policy, targeting zero appreciation of the S$-NEER. This has served the economy well. There are no strong grounds for them to change this policy in 2021. Fiscal policy remains focused on boosting domestic demand.
- We see GDP growth swinging to a positive reading in 1Q21 (-2.4% in 4Q20) and full-year 2021 growth coming in around 5%.

ING forecasts (mkt fwd)	**1M** 1.325 (1.340)	**3M** 1.315 (1.340)	**6M** 1.300 (1.340)	**12M** 1.290 (1.341)

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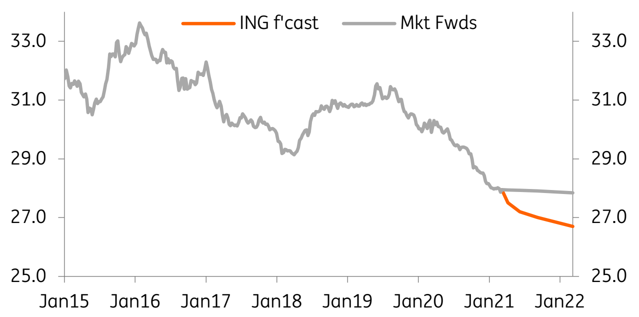
USD/TWD

Appreciation continues **Current spot: 27.93**



Source: Refinitiv, ING forecast

- Shortages in semiconductors are positive news for Taiwan production and its exports, and its currency. USD/TWD has continued to break the lower bound in intraday sessions. We therefore have maintained our forecast of 27.5 by the end of 1Q21.
- However, as semiconductor production capacity is limited, Taiwan may not benefit from this shortage for a long period of time. Producers in other economies will catch up by increasing their capacity. The chip shortage is not really in the most advanced ones, in which Taiwan has a niche.
- TWD could experience volatility when this chip shortage is over.

ING forecasts (mkt fwd)	**1M** 27.50 (27.92)	**3M** 27.20 (27.91)	**6M** 27.00 (27.89)	**12M** 26.70 (27.83)

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USD/THB

Covid-19 second wave is tamed **Current spot: 30.47**

Source: Refinitiv, ING forecast

- The THB has not escaped the global risk-off sentiment, while sluggish domestic economic recovery continues to weigh on the currency, keeping it an Asian underperformer this year.
- A nearly five-fold surge in total Covid-19 cases since end-2020 to over 26k currently and tighter movement restrictions likely intensified the economic downturn this quarter, subjecting our -3.5% YoY GDP growth forecast to downside risk (-4.2% in 4Q20).
- The good news is that the 2nd wave of Covid-19 appears to have run its course. With this, the planning for re-opening of the tourism sector from mid-2021 is gaining momentum, though the sector is not expected to see its pre-Covid vibrancy returning anytime soon.

ING forecasts (mkt fwd)	**1M** 30.30 (30.50)	**3M** 30.10 (30.53)	**6M** 29.80 (30.56)	**12M** 29.60 (30.61)

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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	1.19	1.22	1.25	1.28	1.30						
EUR/JPY	129.2	128.10	131.25	134.40	136.50	USD/JPY	108.23	105	105	105	105
EUR/GBP	0.86	0.85	0.85	0.85	0.85	GBP/USD	1.39	1.44	1.47	1.51	1.53
EUR/CHF	1.11	1.12	1.13	1.14	1.15	USD/CHF	0.93	0.92	0.90	0.89	0.88
EUR/NOK	10.18	10.20	10.00	9.95	9.90	USD/NOK	8.53	8.36	8.00	7.77	7.62
EUR/SEK	10.17	10.10	9.95	9.80	9.75	USD/SEK	8.52	8.28	7.96	7.66	7.50
EUR/DKK	7.436	7.436	7.436	7.440	7.445	USD/DKK	6.23	6.10	5.95	5.81	5.73
EUR/CAD	1.51	1.55	1.55	1.55	1.56	USD/CAD	1.266	1.27	1.24	1.21	1.20
EUR/AUD	1.55	1.58	1.58	1.56	1.55	AUD/USD	0.77	0.77	0.79	0.82	0.84
EUR/NZD	1.67	1.69	1.69	1.66	1.67	NZD/USD	0.72	0.72	0.74	0.77	0.78
EMEA											
EUR/PLN	4.59	4.50	4.47	4.43	4.40	USD/PLN	3.84	3.69	3.58	3.46	3.38
EUR/HUF	366.8	365.00	370.00	365.00	370.00	USD/HUF	307.2	299	296	285	285
EUR/CZK	26.31	26.1	25.7	25.6	25.5	USD/CZK	22.04	21.4	20.6	20.0	19.6
EUR/RON	4.88	4.90	4.90	4.92	4.92	USD/RON	4.09	4.02	3.92	3.84	3.78
EUR/HRK	7.57	7.54	7.53	7.52	7.53	USD/HRK	6.34	6.18	6.02	5.88	5.79
EUR/RSD	117.6	117.6	117.6	117.6	117.5	USD/RSD	98.4	96.4	94.1	91.9	90.4
EUR/RUB	88.62	89.1	90.0	94.7	94.9	USD/RUB	74.22	73.0	72.0	74.0	73.0
EUR/UAH	33.17	33.9	34.4	35.8	36.4	USD/UAH	27.78	27.80	27.50	28.00	28.00
EUR/KZT	501.2	512.4	520.0	531.2	536.9	USD/KZT	420.0	420	416	415	413
EUR/TRY	8.95	8.91	9.19	9.66	10.27	USD/TRY	7.50	7.30	7.35	7.55	7.90
EUR/ZAR	18.21	18.9	19.1	19.2	20.8	USD/ZAR	15.26	15.50	15.25	15.00	16.00
EUR/ILS	3.96	4.03	4.06	4.10	4.03	USD/ILS	3.32	3.30	3.25	3.20	3.10
Latam											
EUR/BRL	6.77	6.83	6.88	6.66	6.50	USD/BRL	5.66	5.60	5.50	5.20	5.00
EUR/MXN	25.31	26.5	26.3	26.2	26.0	USD/MXN	21.20	21.70	21.00	20.50	20.00
EUR/CLP	871.18	891	900	896	910	USD/CLP	729.54	730	720	700	700
Asia											
EUR/CNY	7.75	7.84	7.94	8.04	8.05	USD/CNY	6.49	6.43	6.35	6.28	6.19
EUR/HKD	9.27	9.49	9.70	9.93	10.09	USD/HKD	7.76	7.78	7.76	7.76	7.76
EUR/IDR	17078	17462	17906	18191	18615	USD/IDR	14300	14313	14325	14212	14319
EUR/INR	87.31	89.7	91.6	93.7	94.6	USD/INR	73.09	73.50	73.30	73.20	72.80
EUR/KRW	1346.58	1366	1381	1395	1385	USD/KRW	1127.35	1120	1105	1090	1065
EUR/MYR	4.87	4.93	5.03	5.09	5.14	USD/MYR	4.07	4.04	4.02	3.98	3.95
EUR/PHP	57.97	59.1	60.3	61.4	62.8	USD/PHP	48.54	48.44	48.21	47.96	48.29
EUR/SGD	1.60	1.62	1.64	1.66	1.68	USD/SGD	1.34	1.33	1.32	1.30	1.29
EUR/TWD	33.35	33.6	34.0	34.6	34.7	USD/TWD	27.93	27.5	27.2	27.0	26.7
EUR/THB	36.38	37.0	37.6	38.1	38.5	USD/THB	30.47	30.3	30.1	29.8	29.6

Source: Refinitiv, ING

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