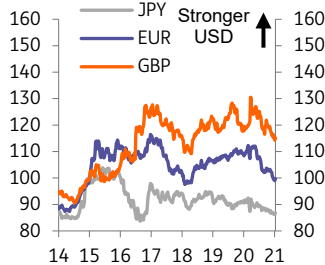
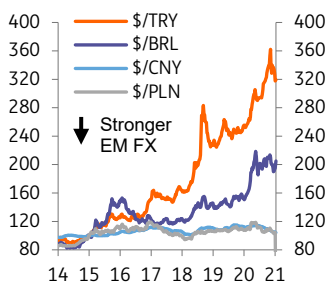


12 January 2021

FX Strategy

USD/Majors (5 Jan 14=100)


Source: Refinitiv, ING forecast

USD/EM (5 Jan 14=100)


Source: Refinitiv, ING forecast

FX Talking

Painting in broad brush strokes

Early FX trading in 2021 has seen the dollar find some support from higher US yields. 2021 should not be the year to pencil in small corrections, but more to paint with broad brush strokes the major trends set to dominate the year. This includes a global recovery which emerges from 2Q onwards, central banks slow to withdraw stimulus and a broadly weaker dollar.

For EUR/USD we could well see consolidation in a 1.20-1.25 range through 1Q21. As more convincing signs of recovery emerge, especially in Europe this summer, we look for EUR/USD to push on towards the 1.30 area by year-end. In effect we are looking at a more modest repeat of the 2003-2006 period, when a global recovery drove commodity prices higher and the dollar weaker – and the ECB had to suffer a stronger EUR/\$.

Elsewhere in Europe we continue to favour those currencies exposed to the global recovery cycle (especially NOK, SEK) as well as though potentially benefiting from some early tightening – Czech koruna. Despite FX intervention to slow its advance, we also see a stronger Polish zloty as well. The RUB and TRY should stay supported this quarter.

Elsewhere, FX reform in China means that market trends will have a greater say in Renminbi pricing. We now see USD/CNY heading down to the 6.20 area by year-end, providing a tail-wind for Asian FX. Buoyed by the commodity rally, many Latin currencies are performing well. We would still prefer to back BRL over MXN, where the latter could be undermined by a more dovish composition at Banxico and a 100bp easing cycle.

ING FX forecasts

	EUR/USD	USD/JPY	GBP/USD
1M	1.22 ↑	102 ↓	1.39 ↑
3M	1.22 ↑	102 ↓	1.39 ↑
6M	1.25 ↑	100 ↓	1.42 ↑
12M	1.30 ↑	100 ↓	1.48 ↑

	EUR/GBP	EUR/CZK	EUR/PLN
1M	0.88 ↓	26.00 →	4.47 ↓
3M	0.88 ↓	25.90 ↓	4.45 ↓
6M	0.88 ↓	25.80 ↓	4.40 ↓
12M	0.88 ↓	25.50 ↓	4.37 ↓

	USD/CNY	USD/MXN	USD/BRL
1M	6.43 ↑	19.80 ↓	5.20 ↓
3M	6.38 ↓	19.80 ↓	5.15 ↓
6M	6.22 ↓	19.70 ↓	5.10 ↓
12M	6.18 ↓	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	0.6	0.0	-0.7	-2.6	1.8	-0.6
%YoY	9.3	-4.4	5.8	5.1	8.2	-2.0

	USD/UAH	USD/KZT	USD/BRL	USD/ARS	USD/CNY	USD/TRY
%MoM	-0.7	-0.6	6.5	4.5	-1.0	-4.6
%YoY	17.4	10.8	34.9	42.7	-6.7	26.0

Source: Refinitiv, ING forecast

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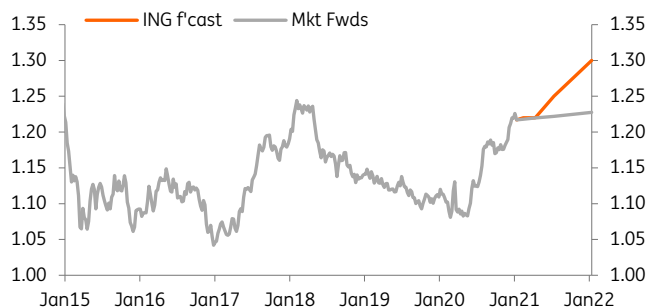


Developed markets

EUR/USD

1.30 is the number

Current spot: 1.215



Source: Refinitiv, ING forecast

- We expect 2021 to see an extension of the broad and powerful dollar bear trend that emerged in late 2020. Driving that is the Fed printing \$120bn per month and, combined with 2H recovery hopes, rising inflation expectations will drive US real policy rates deeper into negative territory.
- Crucially we think the Fed is not going to stop this trend. Given the focus on more inclusive growth, it will be more minded to slow any premature rise in US yields with a more dovish message. Further yield curve steepening need not lift the dollar.
- A synchronised global recovery, albeit on a smaller scale than 2003-2007, is dollar negative, commodity and EUR positive. This will be an uncomfortable year for the ECB as EUR/\$ heads to 1.30, prompting bouts of verbal intervention along the way.

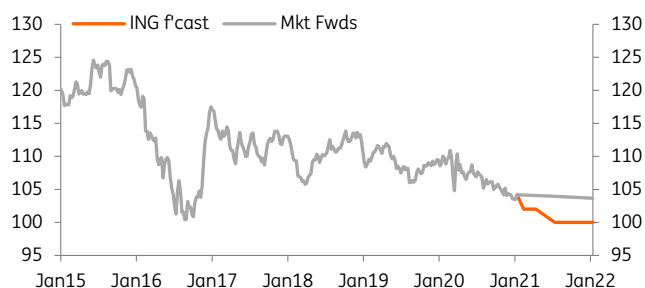
ING forecasts (mkt fwd)	1M 1.22 (1.2168)	3M 1.22 (1.2183)	6M 1.25 (1.208)	12M 1.30 (1.2263)
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USD/JPY

Tokyo gets nervous over strong JPY

Current spot: 104.15



Source: Refinitiv, ING forecast

- The recent dip in USD/JPY to 102.60 has prompted Japanese policy makers (BoJ, MoF and FSA) to get together and discuss FX strategy. They clearly don't want \$/JPY to trade below 100 - wiping out profit margins for the big exporters - but in reality there is little they can do about this.
- The US Treasury's currency manipulator report was designed for a year such as this. i.e. balance of payments trends should be allowed to play out in FX markets, without intervention.
- Thus if \$/JPY gets anywhere near 105 on FX intervention talk, expect investors to hit the bid. Broad dollar trends and the strong adjustment in Asian FX means 100 will be pressured.

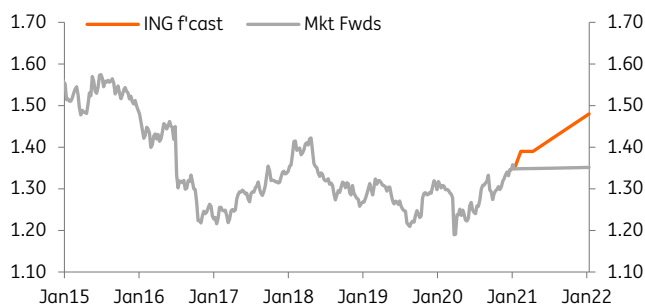
ING forecasts (mkt fwd)	1M 102.00 (104.11)	3M 102.00 (104.04)	6M 100.00 (103.92)	12M 100.00 (103.63)
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GBP/USD

Big rise in GBP/USD ahead

Current spot: 1.3492



Source: Refinitiv, ING forecast

- With idiosyncratic risk of hard Brexit behind us, GBP/USD is set for further gains. We target 1.48 by end-2021. The gains should be primarily driven by a rising EUR/USD (target 1.30) rather than a stronger GBP.
- The speculative GBP/USD positioning remains neutral (as per CFTC data), allowing for further GBP gains. With Brexit risk out of the way, GBP/USD implied volatility should continue declining, mainly relative to AUD and NZD vols.
- The Scottish Parliamentary elections in May 2021 are likely to be accompanied by negative newsflow about another independence referendum, but the negative impact on GBP is to be modest given the referendum is unlikely for several years.

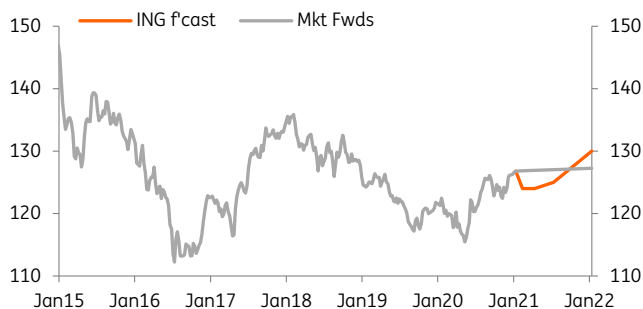
ING forecasts (mkt fwd)	1M 1.39 (1.3494)	3M 1.39 (1.3499)	6M 1.42 (1.3506)	12M 1.48 (1.3527)
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EUR/JPY

Still favouring the EUR in a recovery year

Current spot: 126.63



Source: Refinitiv, ING forecast

- Reflation trading is still slightly favouring EUR/JPY higher – with USD/JPY more sensitive to the steeper US yield curve. A key dynamic helping EUR/JPY should also be the recycled flows into EUR from Asian FX reserve managers. This community is still providing local currency liquidity to the market (buying USD) and will then convert 20-30% into EUR. JPY share in FX reserves <5%.
- European risk is also seen a little more contained this year. The ECB looks set to buy up most of peripheral net supply this year and the recent flare-up in Italian politics should pass.
- Invariably there will be short, sharp corrections lower in EUR/JPY as risks emerge, but the over-riding trend in 2021 will be up.

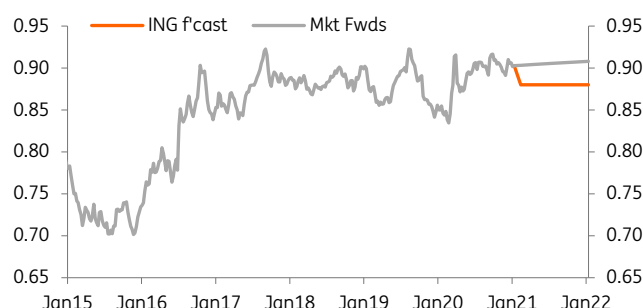
ING forecasts (mkt fwd)	1M 124.00 (126.68)	3M 124.00 (126.76)	6M 125.00 (126.87)	12M 130.00 (127.08)
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EUR/GBP

Looking only for a modest GBP upside vs EUR

Current spot: 0.9012



Source: Refinitiv, ING forecast

- The positive impact from the UK-EU trade deal on GBP was short-lived and offset by the emergence of the new Covid variant, new restrictions and associated rise in expectations of BoE cuts into negative territory.
- We expect the BoE to avoid bringing rates into negative, preferring QE purchases if the need arises. With plenty of bad news priced in and vaccinations under way (with the UK being ahead of the most EU countries), the upside risk to EUR/GBP should be fairly limited near term.
- As EUR/GBP trades modestly expensive vs its short-term value (around 1%), our bias is for lower EUR/GBP. We target 0.88 in 2Q as faster vaccination may benefit GBP vs EUR, but headline risks around the Scottish elections (in May) should tame GBP gains.

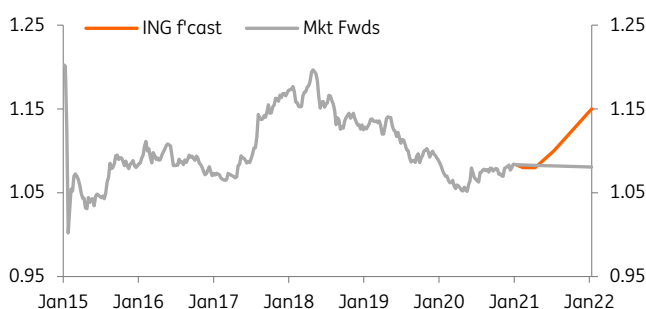
ING forecasts (mkt fwd)	1M 0.88 (0.9016)	3M 0.88 (0.9025)	6M 0.88 (0.9139)	12M 0.88 (0.9064)
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Petr Krpata, London +44 20 7767 6561

EUR/CHF

Will the SNB take any notice of Washington?

Current spot: 1.0826



Source: Refinitiv, ING forecast

- In a slightly surprise move, the US Treasury in December labelled Switzerland a currency manipulator – or a country that is not allowing its currency to adjust in the market to Balance of Payments trends. Ultimately this could lead to US trade sanctions against Switzerland, though negotiations need to happen first. Switzerland rejects the manipulator label.
- The SNB has not been warned off intervention. A CHF13bn profit on FX reserves in 2020 also helps appease a domestic audience.
- The SNB will be hoping, and it's our call too, that a 2H global recovery will see an unwind of precautionary CHF longs and that EUR/CHF corrects to 1.15 on market trends – not intervention. This is based on a reversal of flows seen into the CHF in 2019.

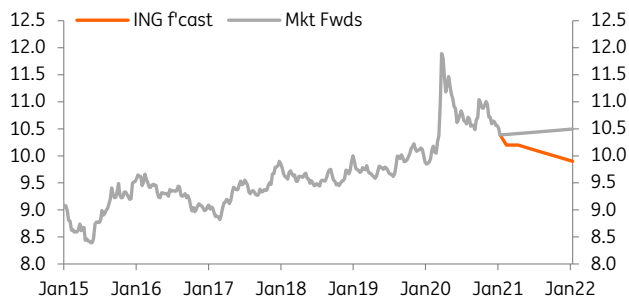
ING forecasts (mkt fwd)	1M 1.08 (1.0824)	3M 1.08 (1.0819)	6M 1.10 (1.0812)	12M 1.15 (1.0800)
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EUR/NOK

After strong January, the pace of NOK strength is to slow

Current spot: 10.35



Source: Refinitiv, ING forecast

- Seasonally, January is the strongest month for NOK and reflects the current krone outperformance. We expect the pace of NOK gains to slow from February onwards, but EUR/NOK should continue to dip lower, helped by the supportive external environment.
- With NOK's high beta to risk and further gradual upside to the oil price this year, EUR/NOK is to move below 10.00 this year.
- Norges Bank should offer an additional helping hand to NOK and start signalling earlier rate hikes from the mid-year onwards. NB is likely to be the first G10 central bank to hike interest rates. Albeit this will be a 2022 story, the expectations of the tightening should benefit NOK later this year.

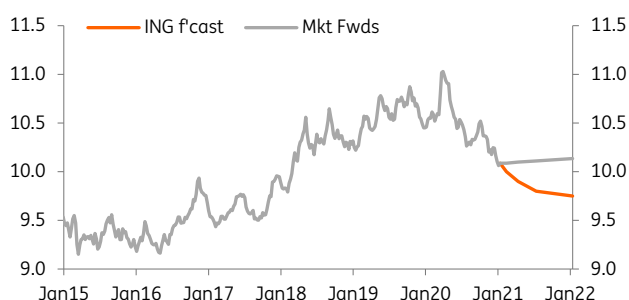
ING forecasts (mkt fwd)	1M 10.20 (10.36)	3M 10.20 (10.38)	6M 10.10 (10.40)	12M 9.90 (10.46)
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EUR/SEK

More gains ahead

Current spot: 10.06



Source: Refinitiv, ING forecast

- The SEK outlook continues to look bright. Despite the rising Covid cases globally, the market is focused on the post winter rebound which should benefit currencies of small open economies levered to global growth such as SEK.
- The Riksbank increased QE in November but this (a) was not large enough to outweigh the positive impact of the external environment (b) was mirrored by the ECB later in December. With the bar for Riksbank negative rates set high, further gains in SEK lie ahead.
- The bulk of the SEK under-valuation gap has closed but EUR/SEK is still modestly above its fair value. A move to 9.75 (downgraded forecast vs prior 9.90) suggests only modest SEK overvaluation

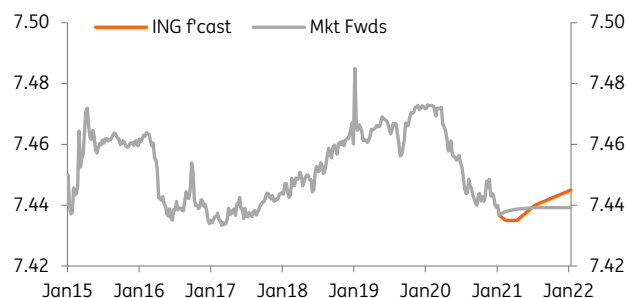
ING forecasts (mkt fwd)	1M 10.00 (10.06)	3M 9.90 (10.07)	6M 9.80 (10.08)	12M 9.75 (10.11)
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EUR/DKK

DKK getting uncomfortably strong

Current spot: 7.437



Source: Refinitiv, ING forecast

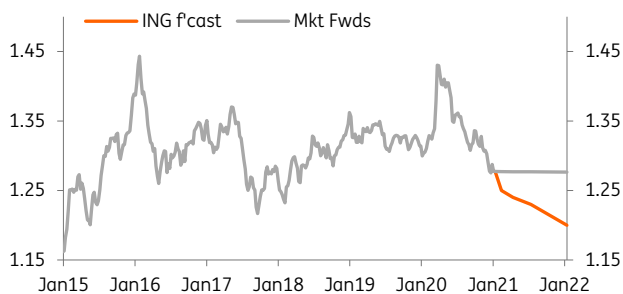
- EUR/DKK continues to grind lower, yet there are no signs of DN FX interventions. With the ECB increasing its asset purchases programme in December, the balance of risks points to lower EUR/DKK. This should soon become uncomfortable for the DN.
- We continue to see FX interventions as the first line of defence to tame DKK upside. But with DKK on the rise, the case for a rate cut is undoubtedly rising – albeit not our base case.
- Like other European countries, the Danish economy is feeling the heat of the new set of restrictions, postponing the recovery. But safe-haven flows into DKK is not the theme, given the market's focus on the vaccination prospects and the US fiscal stimulus.

ING forecasts (mkt fwd)	1M 7.435 (7.438)	3M 7.435 (7.438)	6M 7.440 (7.439)	12M 7.445 (7.439)
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USD/CAD

Gliding path to 1.20



Source: Refinitiv, ING forecast

ING forecasts (mkt fwd)	1M 1.25 (1.277)	3M 1.24 (1.277)	6M 1.23 (1.277)	12M 1.20 (1.277)
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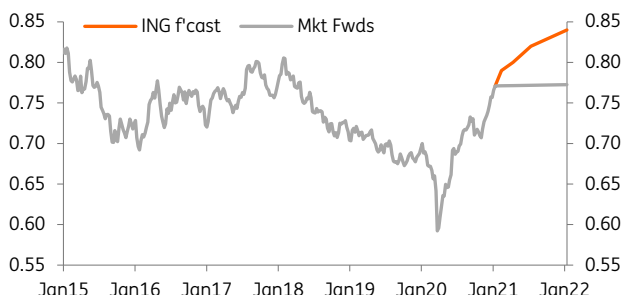
Francesco Pesole, London +44 20 7767 6405

Current spot: 1.277

- We expect USD/CAD to gently trend lower into the 1.20/1.25 region in 2021. While the set of fundamentals may not provide many more idiosyncratic pushes to CAD, the benign risk environment, further recovery in crude prices and the weak-USD environment all bode well for the loonie.
- Fresh restrictions in Canada suggest we may see a slowdown in the exceptional jobs market recovery. Still, the contagion picture is less concerning than most developed countries and the economic recovery should keep a decent pace.
- The BoC's lower for longer should stay in place but is fully in the price. Overall, CAD retains some rate attractiveness in G10.

AUD/USD

All in place for a move above 0.80



Source: Refinitiv, ING forecast

ING forecasts (mkt fwd)	1M 0.790 (0.772)	3M 0.800 (0.772)	6M 0.820 (0.773)	12M 0.840 (0.773)
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Rob Carnell, Singapore +65 6232 6020

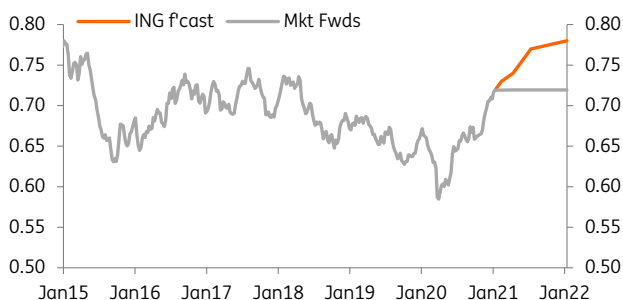
Francesco Pesole +44 207 767 6405

Current spot: 0.772

- We expect further upside for the undervalued (on a medium-term basis) AUD in a generalized reflationary/weak-USD environment and thanks to a highly supportive terms of trade.
- A key risk to our bullish scenario is the possibility of the Reserve Bank of Australia stepping in with more easing to curb the currency appreciation. But there is a strong feeling the RBA has run out of firepower and might therefore have to consider direct FX interventions as negative rates have so far been ruled out.
- Iron ore prices are trading at likely unsustainable levels in the medium term, but resilient Chinese demand and a globally supportive environment for commodities suggest we could see over-inflated prices for longer.

NZD/USD

RBNZ action is no certainty



Source: Refinitiv, ING forecast

ING forecasts (mkt fwd)	1M 0.73 (0.719)	3M 0.74 (0.719)	6M 0.77 (0.719)	12M 0.78 (0.719)
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Rob Carnell, Singapore +65 6232 6020, Francesco Pesole +44 207 767 6405

Current spot: 0.719

- Negative rates from the Reserve Bank of New Zealand are no longer a threat in investors' minds, especially after the housing-related concerns raised by the NZ government.
- The RBNZ can still expand/reshape QE in an attempt to and curb more unwanted NZD appreciation, but that may end up being insufficient against a highly supportive risk environment. Plus, the NZD has not appreciated that much on a trade-weighted basis (due to CNY and AUD outperformance).
- The stark contrast with the rest of developed economies on the Covid situation remains another point in favour of NZD, despite key service exports (tourism and education) are set to struggle for longer on the back of strict border rules.

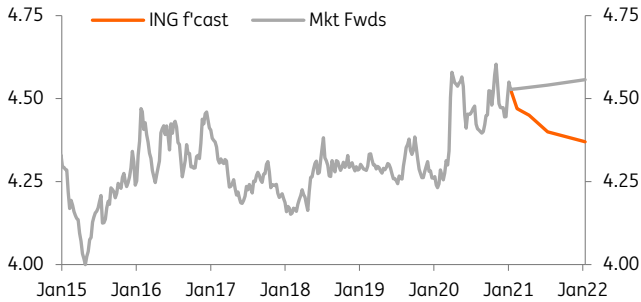


Emerging markets

EUR/PLN

NBP policy should only delay €/PLN decline

Current spot: 4.52



Source: Refinitiv, ING forecast

- PLN should gradually gain throughout 2021, especially in the latter half of the year, in tandem with a rise in €/US\$. Loose National Bank of Poland policy should only slow the progress of the PLN, as other fundamentals, especially a relatively large current account surplus, act in PLN's favour.
- NBP interventions in December were likely aimed at preventing a loss on FX reserves due to weaker US\$. As such, NBP should be less committed to further such operations in 1H21. Still, €/PLN quickly moving to 4.45 may trigger a 10bps rate cut in 1Q.
- According to our short term relative value model, €/PLN level consistent with other market variables is around 4.45. So the zloty still remains on the weaker side and has potential to gain.

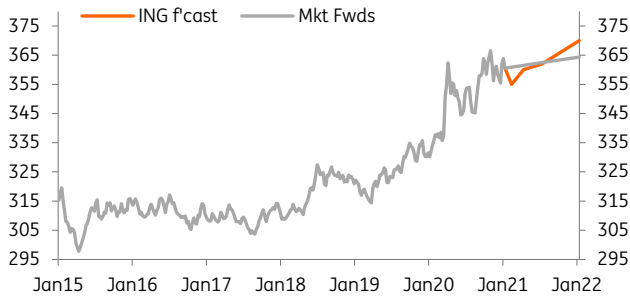
ING forecasts (mkt fwd)	1M 4.47 (4.52)	3M 4.45 (4.53)	6M 4.40 (4.54)	12M 4.37 (4.55)
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Rafal Benecki, Warsaw +48 22 820 4696

EUR/HUF

Near-term bias is for a lower EUR/HUF

Current spot: 360.67



Source: Refinitiv, ING forecast

- We saw the relative hawkishness of the National Bank of Hungary at its December meeting as being positive for the forint. We still stand behind this idea despite the year-end weakening of the forint.
- We think 2021 should be a less difficult year for HUF vs. 2020. No longer an ultra-low real rate vs. its peers, stabilising CPI around the 3% inflation target and improving current account suggest less volatility in EUR/HUF based on domestic factors.
- The near-term bias is for stronger forint, but we see HUF as the least attractive CEE currency in the longer run. EUR/HUF can go down to 355 in the coming month with more upside in 2H21.

ING forecasts (mkt fwd)	1M 355.0 (361.01)	3M 360.0 (361.59)	6M 362.0 (362.56)	12M 370.0 (364.44)
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EUR/CZK

Bright year ahead

Current spot: 26.21



Source: Refinitiv, ING forecast

- With the Czech Rep being one of the worst globally on the Covid front, CZK has underperformed its CEE peers so far this year. We expect this to be short-lived as the bad news is priced in while the post-winter economic recovery and fiscal stimulus (worth CZK100bn) should force the CNB into tightening this year.
- We look for two CNB hikes in 2H21, making it one of the most hawkish central banks globally. This will lead to a material CZK outperformance vs PLN, HUF and RON. In contrast to other CEE central banks, the CNB is less mindful of currency appreciation.
- We target 25.50 by end-2021 with strong downside risks to 25.00. CZK gains vs USD should be even more profound.

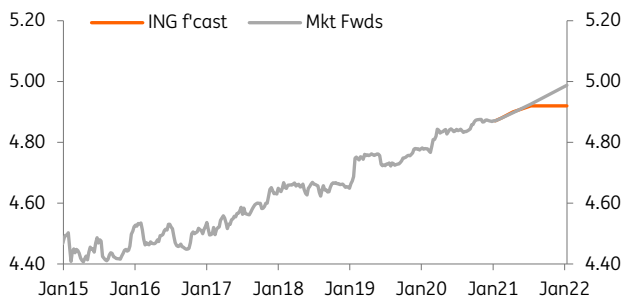
ING forecasts (mkt fwd)	1M 26.00 (26.24)	3M 25.9 (26.27)	6M 25.80 (26.31)	12M 25.50 (26.37)
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EUR/RON

Stability still prevails

Current spot: 4.87



Source: Refinitiv, ING forecast

- With a new government in place, a clearer fiscal agenda is now eagerly awaited by agencies and markets. Unfortunately, the 2021 state budget looks unlikely to be voted before February, hence the NBR could prefer to wait-and-see until then.
- Official guidance points to a budget deficit of 7.0% of GDP in 2021, which is much in line with our 7.3% forecast deficit. Also in line with our view, officials have signalled that a deficit below 3.0% of GDP is not realistic before 2024.
- We re-affirm our 4.92 year-end forecast for the EUR/RON, with the adjustment higher more likely to take place in the first half of 2021, followed by a relative stability.

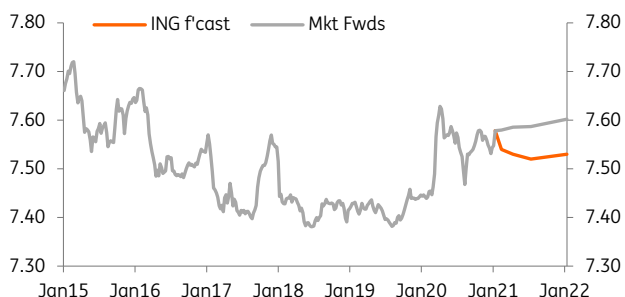
ING forecasts (mkt fwd)	1M 4.88 (4.88)	3M 4.90 (4.90)	6M 4.92 (4.93)	12M 4.92 (4.99)
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Valentin Tataru, Bucharest +40 31 406 89 91

EUR/HRK

Tricky times to navigate through

Current spot: 7.57



Source: Refinitiv, ING forecast

- Except for the ERM-II bright spot, 2020 could be a year to forget for Croatia. The economic contraction (-8.8% ING forecast) will be one of the largest in Europe. In 2021, export of services (mostly tourism) should be the main growth driver. Our 4.1% growth forecast is more conservative than most estimates as personal consumption could stay subdued for longer.
- The 2021 budget plan envisages a budget deficit below 3.0% of GDP, which is overly ambitious in our view. We believe that this will be revised and expect the deficit closer to 4.0% of GDP.
- We have already revised lower the year-end EUR/HRK from 7.55 to 7.53. Risks are mildly skewed towards a stronger kuna.

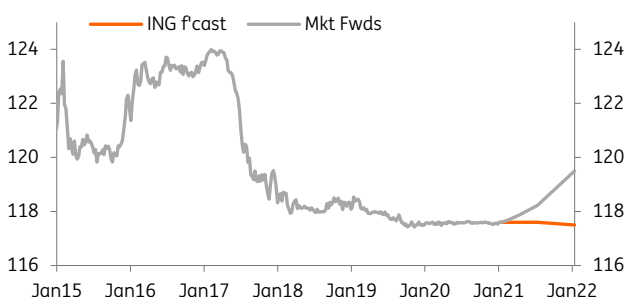
ING forecasts (mkt fwd)	1M 7.54 (7.57)	3M 7.53 (7.58)	6M 7.52 (7.58)	12M 7.53 (7.60)
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EUR/RSD

Not even a blink of weakness

Current spot: 117.62



Source: Refinitiv, ING forecast

- 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.
- For 2020 Serbia will show one of the smallest GDP contractions in Europe (-1.1% ING forecast). In 2021 we expect a 5.5% expansion, but that depends also on the vaccination campaign which doesn't look to progress in-sync with most of the EU countries.
- FX interventions have been largely one-sided in 2020, the NBS selling close to EUR2.0bn to prop the dinar. FX stability seems to remain a central pillar of NBS's monetary policy, and this approach is unlikely to change in 2021. We therefore see the dinar quasi-pegged to the euro around 117.55 for the entire year.

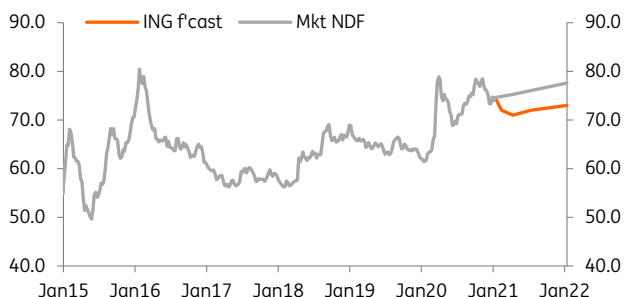
ING forecasts (mkt fwd)	1M 117.60 (117.85)	3M 117.60 (117.88)	6M 117.60 (118.95)	12M 117.50 (119.50)
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USD/RUB

Hoping for RUB recovery by year-end

Current spot: 74.62



Source: Refinitiv, ING forecast

- Despite the improvement in the global sentiment and favourable oil price performance, USD/RUB ended the year at 73.8, weaker than the 72.0 level we had targeted. The weakness was country-specific, as RUB's discount to peers widened to an almost 2-year high of 16%.
- Higher risk of tighter US sanctions and weak local confidence amid weak GDP and income growth trend ahead of September 2021 Parliamentary elections are the risk factors to the capital account throughout the year.
- On the positive side, higher oil prices amid reduced OPEC restrictions should favour a current account surplus in 1Q21, supporting RUB in the coming months all else being equal.

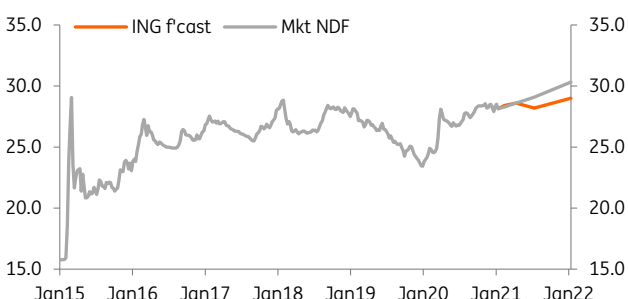
ING forecasts (mkt fwd)	1M 72.00 (74.85)	3M 71.00 (75.31)	6M 72.00 (76.06)	12M 73.00 (77.61)
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Dmitry Dolgin, Russia +7 495 771 7994

USD/UAH

Into the comfort zone

Current spot: 28.18



Source: Refinitiv, ING forecast

- The economy expanded by 8.5% in 3Q20 versus the previous quarter. This was better than most estimates and reflects a strong recovery in the consumer sector.
- Our base case remains for the key rate to reach 5.0% in 2021. We think that the NBU will look-through the anticipated inflation bout and prefer to stay on the growth supportive side, provided that the FX pressures do not intensify – something we do not expect.
- We maintain a somewhat benign and slightly contrarian 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.

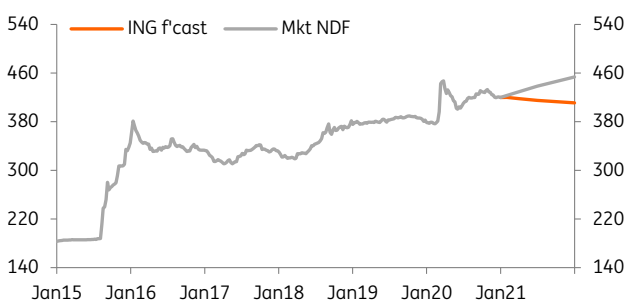
ING forecasts (mkt fwd)	1M 28.40 (28.32)	3M 28.60 (28.64)	6M 28.20 (29.13)	12M 29.00 (30.36)
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Valentin Tataru, Russia +7 495 771 7994

USD/KZT

Appreciation limited by year-end

Current spot: 419.79



Source: Refinitiv, ING forecast

- The new round of global \$ weakness and optimism on the commodity market are playing in favour of KZT in the short run, though uncertainties around the pandemic remain a risk.
- The expected c.US\$2.1bn current account deficit in 4Q20 and quarantine measures are negating the benefits of stable country risk perception, leaving the Tenge without internal support. On the external side, the 4Q20 oil price volatility has played its part in KZT ending the year at the 420/USD level vs. 410 we initially expected.
- For 2021, assuming the recovery of global sentiment and stable oil price we expect USDKZT to trade in the 410-420 corridor, however, the risks of slower recovery in global energy demand recovery, the possible lifting of sanctions in Iran and local capital account pressure factors should limit the appreciation.

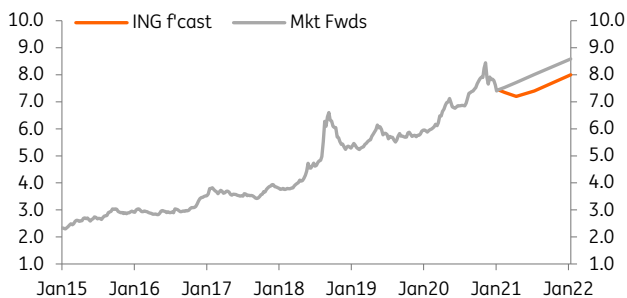
ING forecasts (mkt fwd)	1M 420.00 (423.16)	3M 418.00 (429.13)	6M 415.00 (438.40)	12M 411.00 (453.62)
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Dmitry Dolgin, Russia +7 495 771 7994

USD/TRY

CBT to remain hawkish

Current spot: 7.45



Source: Refinitiv, ING forecast

- The hawkish tone of Governor Agbal's latest remarks and strong policy tightening have set the tone in the markets in recent weeks. This stance contributes to the bank's credibility building efforts and further supports ongoing positive momentum.
- After the latest hike, markets are awaiting the Central Bank of Turkey's next move. Given the still challenging inflation outlook with recent upside surprises, the CBT is likely to maintain its current cautious stance and be ready to move if it sees a further substantial deterioration in price pressures.
- With the policy rate now comfortably above inflation and a shift to policy orthodoxy, TRY is likely to remain supported.

ING forecasts (mkt fwd)	1M 7.35 (7.54)	3M 7.20 (7.72)	6M 7.40 (8.02)	12M 8.00 (8.60)
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Muhammet Mercan, Istanbul +90 212 329 0751

USD/ZAR

Volatility assured

Current spot: 15.48



Source: Refinitiv, ING forecast

- The ZAR has been the worst performer since the start of the year, weighed by Covid second waves and the rise in US yields. We have been pretty bearish on the ZAR but do see the case for it holding its own over coming months and out-performing the forwards – where 3m implied yields are now 5.1%.
- Supporting ZAR remains the rally in metals (SA's terms of trade up 75% YoY) contributing to a sizable trade surplus. In fact, S. Africa's current account surplus was a huge 5.9% of GDP in 3Q20. But as domestic demand recovers, the surplus should shrink.
- SARB is set to keep rates at 3.50% January 2021 (maintaining a small positive real rate), but doubt ZAR makes much headway below 15/\$.

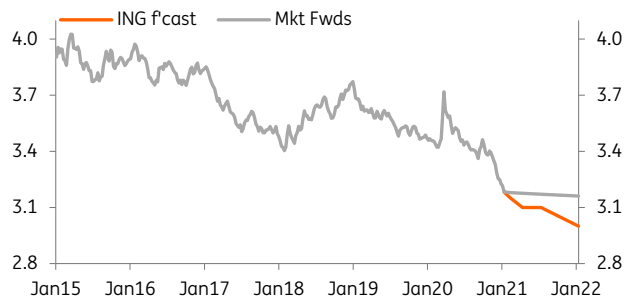
ING forecasts (mkt fwd)	1M 15.50 (15.55)	3M 15.25 (15.66)	6M 15.00 (15.83)	12M 16.00 (16.14)
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Chris Turner, London +44 20 7767 1610

USD/ILS

Massive FX intervention does little to limit strong ILS

Current spot: 3.19



Source: Refinitiv, ING forecast

- This update comes a day after Bank of Israel released its FX reserve figures showing a staggering \$4.4bn of FX intervention in December to slow ILS appreciation. Yet the Bol could not stop \$/ILS dropping to 3.20. The Bol has confirmed that driving these flows are Israel's big current account surplus (led by energy & services exports) plus strong flows into government bonds after Israel's inclusion into the WGBI bond benchmark.
- We cannot really see any of these trends changing this year and revise our year-end USD/ILS forecast down to 3.00.
- After a likely 3.7% decline in 2020, Israel's economy is expected to grow 6.3% or 3.5% in 2021 depending on alternative vaccine roll-out scenarios.

ING forecasts (mkt fwd)	1M 3.15 (3.19)	3M 3.10 (3.18)	6M 3.10 (3.18)	12M 3.00 (3.17)
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Chris Turner, London +44 20 7767 1610

LATAM

USD/BRL

Improved outlook for FX flows adds support to the BRL

Current spot: 5.50



Source: Refinitiv, ING forecast

- Fiscal concerns remain elevated amid political uncertainty related to the February election of Congressional leaders.
- Covid-19 cases have increased but robust domestic activity data along with stronger risk appetite for EM assets, and a weaker USD, bode well for local market assets in the coming months.
- Brazil's fiscal challenges suggest however that fiscal risk is unlikely to vanish, with local markets marked by high volatility exacerbated by the low benchmark rate, which should remain unchanged at 2% for longer than the market expects. Having said that, we now expect a very gradual rate-normalization process to start before mid-year, bringing some support to the BRL.

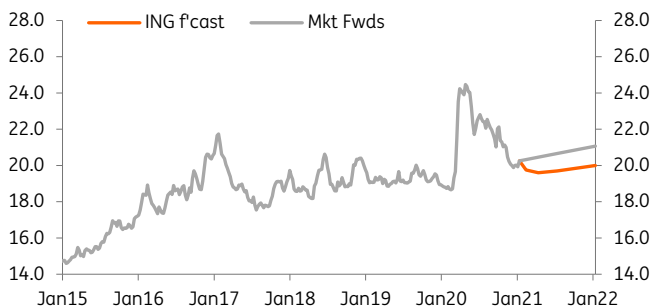
ING forecasts (NDF)	1M 5.30 (5.51)	3M 5.10 (5.52)	6M 4.90 (5.54)	12M 4.90 (5.64)
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Gustavo Rangel, New York +1 646 424 6464

USD/MXN

Yield-advantage continues to help offset policy mistakes

Current spot: 20.25



Source: Refinitiv, ING forecast

- The MXN should continue to benefit from its yield-advantage relative to LATAM majors, and be regarded as a safer choice to boost EM exposure in the context of a weakening USD and low global rates, but the dire outlook for economic activity suggests that an under-performing bias should gradually emerge.
- That bias would intensify if the monetary policy guidance turns markedly dovish, which could happen once monetary policy board composition turns from the 3 vs. 2 hawkish split seen in December into a 3 vs. 2 dovish split as of next month.
- In that case, we suspect Banxico could cut the policy rate by as much as 100bp in the coming months.

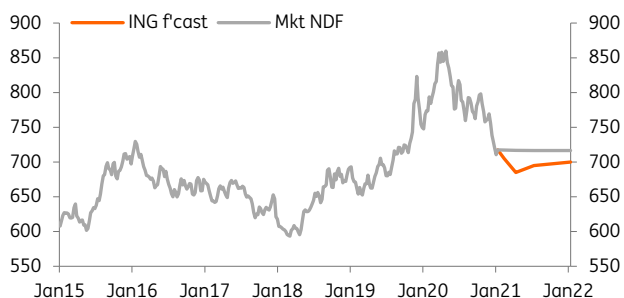
ING forecasts (mkt fwd)	1M 19.75 (20.33)	3M 19.60 (20.45)	6M 19.70 (20.66)	12M 20.00 (21.06)
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Gustavo Rangel, New York +1 646 424 6464

USD/CLP

Copper upside limited by elevated domestic uncertainties

Current spot: 719.64



Source: Refinitiv, ING forecast

- The CLP was the best-performing currency in 2020 in LATAM and, if past correlations hold, the currency could strengthen some more on the back of elevated copper prices in 2021.
- Signs of a faster recovery are also emerging, amid Chile's assertive policy stimulus and pension fund withdrawals. But the heavy electoral calendar and latent social risks call for caution and, in our view, other commodity exporters offer greater upside.
- The election of a constitutional convention to rewrite the country's constitution is set for April and general elections in November, suggesting that a lasting negative reassessment of the country's macro prospects is possible during 2021.

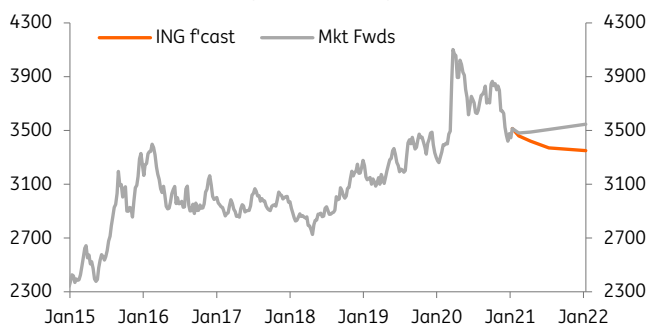
ING forecasts (NDF)	1M 705.00 (719.39)	3M 685.00 (719.06)	6M 695.00 (718.86)	12M 700.00 (718.61)
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Gustavo Rangel, New York +1 646 424 6464

USD/COP

Upside for a commodity-driven rally in the COP stands out

Current spot: 3514.5



Source: Refinitiv, ING forecast

- The COP's near-term outlook looks especially promising on the back of the combination of strong global risk appetite, an attractive valuation and rising oil prices.
- The pair could potentially move towards the 3400-3300 range should oil prices rise some more, but medium term dynamics remain clouded by the lasting post-pandemic fiscal damage Colombia will face, and the need to approve legislation to re-anchor fiscal accounts and its "investment grade" status.
- Relative to its Andean neighbours, the COP offers a higher benchmark rate, reduced political noise and a larger potential for appreciation if oil prices continue to rise.

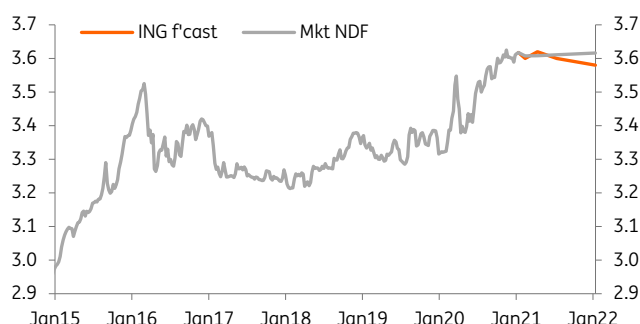
ING forecasts (NDF)	1M 3460.00 (3480.9)	3M 3420.00 (3487.9)	6M 3370.00 (3507.5)	12M 3350.00 (3546.8)
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Gustavo Rangel, New York +1 646 424 6464

USD/PEN

Lingering political crisis requires caution

Current spot: 3.62



Source: Refinitiv, ING forecast

- Peru has arguably suffered the most severe consequences of the Covid-19 outbreak in LATAM. This, together with the tremendous political instability seen in recent months, add important macroeconomic headwinds for local assets.
- The election of a president with a working legislative majority in the April election is essential to end years of political dysfunction that have resulted in very unstable presidential mandates.
- BCRP's large FX reserves suggest that the country 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. But until political risks are mitigated, hopefully through the April election, local market upside should remain limited.

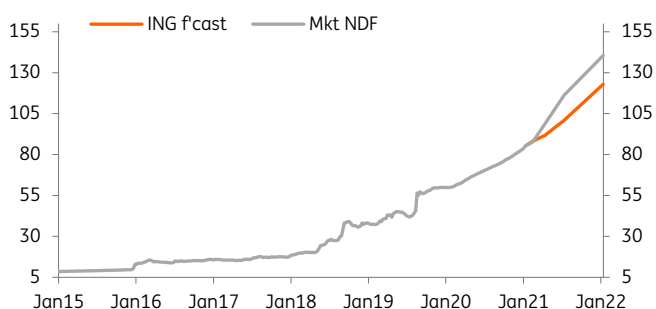
ING forecasts (NDF)	1M 3.60 (3.61)	3M 3.62 (3.61)	6M 3.60 (3.61)	12M 3.58 (3.62)
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Gustavo Rangel, New York +1 646 424 6464

USD/ARS

Muddling through and hoping for an IMF deal

Current spot: 85.39



Source: Refinitiv, ING forecast

- BCRA's chief FX policy goals appear to be avoiding a one-off ARS devaluation, keeping the monthly FX depreciation trend in line with inflation, and lowering the gap between the official and the non-official FX rate. The hope is to muddle through until April, when external trade flows are expected to boost FX inflows.
- Until then, FX restrictions should prevail, to minimize outflows.
- After that, officials hope that an eventual deal with the IMF helps restore market confidence, boosting FX inflows. The timing and the long-term sustainability of IMF negotiations remain uncertain, calling into question the government's strategy and keeping a depreciating bias on the ARS in place.

ING forecasts (NDF)	1M 88.00 (87.51)	3M 91.70 (98.77)	6M 101.00 (116.35)	12M 123.00 (140.58)
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Gustavo Rangel, New York +1 646 424 6464



Asia

USD/CNY

PBoC's exchange rate reform in effect

Current spot: 6.48:



- The yuan's appreciation has been at a similar pace to the dollar's pace of weakening.
- This is not surprising as the People's Bank of China has started a new round of exchange rate reform since October 2020.
- The further opening of the capital account, for example, increasing the upper limit of offshore yuan borrowing, matches the exchange rate reform.
- We expect more market news-driven capital inflows and outflows during the year, which will deliver more CNY volatility but ultimately more appreciation with a year-end rate of 6.20.

Source: Refinitiv, ING forecast

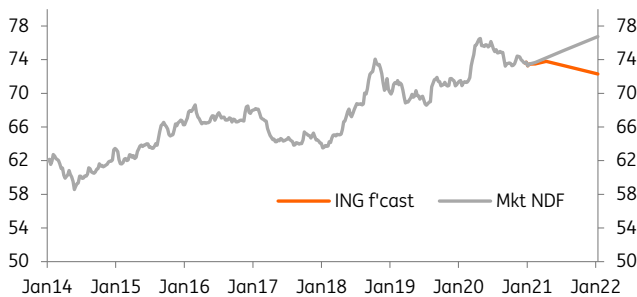
ING forecasts (mkt fwd)	1M 6.430 (6.49)	3M 6.380 (6.51)	6M 6.220 (6.54)	12M 6.180 (6.61)
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Iris Pang, Hong Kong +852 2848 8071

USD/INR

India on US Treasury's currency watchlist

Current spot: 73.45:



- The INR had a good run in December with a 1.3% gain against the USD. The 2.3% annual depreciation in 2020, however, left it as Asia's worst performer for the third year running.
- The accelerated INR appreciation in 2H20 kept the Reserve Bank of India intervening in the FX market. The persistent, one-sided intervention and a significant bilateral goods trade surplus with the US led the Treasury to bring India on to its watchlist of currency manipulators in the latest report released in mid-December.
- No end to the economy's suffering from the pandemic just yet. We see little fiscal or the monetary policy forthcoming.

Source: Refinitiv, ING forecast

ING forecasts (mkt fwd)	1M 73.50 (73.66)	3M 73.80 (74.21)	6M 73.30 (75.07)	12M 72.30 (76.75)
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Prakash Sakpal, Singapore +65 6232 6181

USD/IDR

IDR appreciates sharply but rally stalls

Current spot: 14125.00



- The IDR appreciated sharply to close out the year while breaching the 14,000 level to open the year on expectations for an economic recovery with President Jokowi announcing he would begin vaccinations as early as January 2021.
- Despite the stronger currency, Bank Indonesia (BI) kept policy rates unchanged at its last meeting for 2020 but left the door open for further easing in 2021 given low inflation and the need to provide support for the economy.
- IDR's rally will likely stall in the near term as authorities reinstated partial lockdown measures for two weeks in Java and Bali as Covid-19 cases accelerated sharply in the past week.

Source: Refinitiv, ING forecast

ING forecasts (mkt fwd)	1M 13900 (14168.5)	3M 13995 (14240.5)	6M 13803 (14365)	12M 13680 (14632.5)
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Nicholas Mapa, Philippines +63 28479 8855

USD/KRW

More appreciation to come...

Current spot: 1098.39



- Since December, the KRW has closely tracked the CNY stronger against the USD.
- This is despite much poorer news on Covid in Korea. Having been one of the region's, if not the world's outperformers in terms of this pandemic, Korea's daily case numbers have been creeping higher, though they remain low by international standards and are still under 1000 on a 7-day moving average.
- Nonetheless, Korea's political tolerance for the virus is low, and voluntary restrictions on movement could weigh on the economy near-term. The BoK is not expected to respond, however, and we see the KRW reaching 1030 by end-2021.

Source: Refinitiv, ING forecast

ING forecasts (NDFs)	1M 1080 (1098.29)	3M 1065 (1098.09)	6M 1055 (1098.09)	12M 1025 (1098.07)
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Rob Carnell, Singapore +65 6232 6020

USD/MYR

Nothing much good for the MYR than firmer oil

Current spot: 4.05



- Malaysia also appeared on the US Treasury's watchlist for currency manipulators in December on the grounds of large current account and bilateral trade surpluses with the US.
- However, politics remains a key headwind for the MYR in 2021. The UMNO party, the key ally in the ruling coalition of PM Muhyiddin Yassin once again threatened to pull out. It could make good on its threat and call snap elections soon.
- Rapidly rising Covid-19 cases is another drag on sentiment towards the MYR. Continued weak growth and a negative inflation mix could tip the BNM for rate cuts ahead. This leaves firmer global oil prices as the only bright spot for the MYR.

Source: Refinitiv, ING forecast

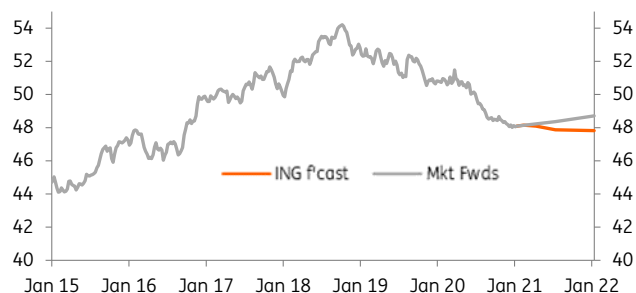
ING forecasts (mkt fwd)	1M 4.030 (4.06)	3M 3.990 (4.06)	6M 3.970 (4.07)	12M 3.930 (4.10)
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Prakash Sakpal, Singapore +65 6232 6181

USD/PHP

PHP moves sideways to close out the year

Current spot: 48.10



- The PHP moved sideways in December with appreciation pressure still derived from softer corporate demand for the dollar due to weak import appetite. Portfolio flows as well as proceeds from a dollar bond issuance also helped support the PHP.
- PHP experienced some depreciation pressure by mid-month on expectations that Bangko Sentral ng Pilipinas (BSP) would cut policy rates further but PHP reversed this trend shortly after the central bank opted to pause at its last meeting for the year.
- The PHP will continue to enjoy an appreciation bias in the near term with import demand likely to remain weak due to the ongoing recession.

Source: Refinitiv, ING forecast

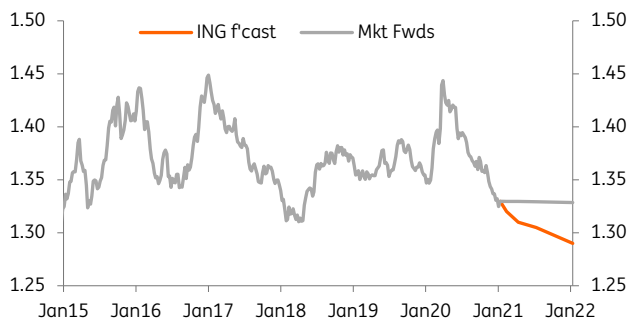
ING forecasts (mkt fwd)	1M 48.15 (48.15)	3M 48.09 (48.24)	6M 47.87 (48.37)	12M 47.82 (48.72)
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Nicholas Mapa, Philippines +63 2479 8855

USD/SGD

Export-led recovery is at risk

Current spot: 1.330



Source: Refinitiv, ING forecast

- The SGD closed 2020 with a modest appreciation of 1.8%, but 2021 has started on a weak footing as the global spread of the coronavirus has clouded the prospects of an export-led recovery.
- Singapore's GDP eked out 2.1% QoQ growth in 4Q20, a sharp slowdown from 9.5% posted in 3Q as manufacturing took a beating from renewed export weakness in 4Q. This brings the annual GDP contraction in 2020 to -5.8%, the worst ever.
- We expect a modest economic recovery to 3.8% growth in 2021. Macro policy should continue to be easy with no change to the MAS's zero appreciation policy path for SGD-NEER in 2021.

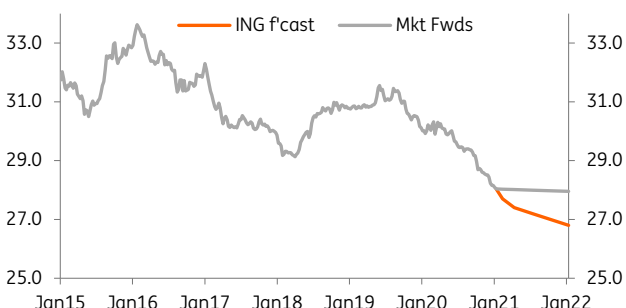
ING forecasts (mkt fwd)	1M 1.320 (1.330)	3M 1.310 (1.330)	6M 1.305 (1.330)	12M 1.290 (1.329)
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Prakash Sakpal, Singapore +65 6232 6181

USD/TWD

Appreciation from capital inflows into the stock market

Current spot: 28.04



Source: Refinitiv, ING forecast

- Last month the central bank forecast USDTWD could reach 27.5 by 2021. But that now seems quite conservative.
- Taiwan exports have recovered well and are the main driver of economic growth.
- There have been more capital inflows into Taiwan's stock market, especially into technology-related sectors. This should be partly due to the technology war that Mainland China has been facing.
- Tension between Mainland China and Taiwan could be a factor deterring TWD appreciation during 2021. This is a risk that we need to consider.

ING forecasts (mkt fwd)	1M 27.70 (28.03)	3M 27.40 (28.05)	6M 27.20 (28.03)	12M 26.80 (27.98)
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Iris Pang, Hong Kong +852 2848 8071

USD/THB

Steady as it goes

Current spot: 30.13



Source: Refinitiv, ING forecast

- Thailand dodged the US Treasury's monitoring list for currency manipulating countries for much of 2020 but it came under the radar in the latest report. As this demands an even stronger THB ahead, the central bank's drive to curb appreciation works in the opposite direction - leaving USD/THB steady around 30.
- In fresh measures to weaken the THB, the BoT allowed non-financial companies with trade and investment in Thailand to manage currency risks and THB liquidity more freely. Just as many other steps recently, we are sceptical of these working.
- The economy continues to reel under the worsening pandemic. We see nothing more in terms of policy support ahead.

ING forecasts (mkt fwd)	1M 30.10 (30.15)	3M 29.90 (30.17)	6M 29.70 (30.18)	12M 29.30 (30.23)
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Prakash Sakpal, Singapore +65 6232 6181

ING foreign exchange forecasts

EUR cross rates						USD cross rates					
	Spot	1M	3M	6M	12M		Spot	1M	3M	6M	12M
Developed FX											
EUR/USD	1.22	1.22	1.22	1.25	1.30						
EUR/JPY	126.8	124.44	124.44	125.00	130.00	USD/JPY	104.18	102	102	100	100
EUR/GBP	0.90	0.88	0.88	0.88	0.88	GBP/USD	1.35	1.39	1.39	1.42	1.48
EUR/CHF	1.08	1.08	1.08	1.10	1.15	USD/CHF	0.89	0.89	0.89	0.88	0.88
EUR/NOK	10.36	10.20	10.20	10.10	9.90	USD/NOK	8.51	8.20	8.11	7.84	7.50
EUR/SEK	10.07	10.000	9.900	9.800	9.750	USD/SEK	8.27	8.36	8.36	8.08	7.62
EUR/DKK	7.437	7.435	7.435	7.440	7.445	USD/DKK	6.11	6.09	6.09	5.95	5.73
EUR/CAD	1.55	1.53	1.51	1.54	1.56	USD/CAD	1.277	1.25	1.24	1.23	1.20
EUR/AUD	1.58	1.54	1.53	1.52	1.55	AUD/USD	0.77	0.79	0.80	0.82	0.84
EUR/NZD	1.69	1.67	1.65	1.62	1.67	NZD/USD	0.72	0.73	0.74	0.77	0.78
EMEA											
EUR/PLN	4.53	4.47	4.45	4.40	4.37	USD/PLN	3.72	3.66	3.65	3.52	3.36
EUR/HUF	360.6	355.00	360.00	362.00	370.00	USD/HUF	296.3	291	295	290	285
EUR/CZK	26.26	26.0	25.9	25.8	25.5	USD/CZK	21.56	21.3	21.2	20.6	19.6
EUR/RON	4.87	4.88	4.90	4.92	4.92	USD/RON	4.00	4.00	4.02	3.94	3.78
EUR/HRK	7.58	7.54	7.53	7.52	7.53	USD/HRK	6.23	6.18	6.17	6.02	5.79
EUR/RSD	117.6	117.6	117.6	117.6	117.5	USD/RSD	96.6	96.4	96.4	94.1	90.4
EUR/RUB	90.80	87.8	86.6	90.0	94.9	USD/RUB	74.61	72.0	71.0	72.0	73.0
EUR/UAH	34.26	34.6	34.9	35.3	37.7	USD/UAH	28.15	28.40	28.60	28.20	29.00
EUR/KZT	510.3	512.4	510.0	518.8	534.3	USD/KZT	419.8	420	418	415	411
EUR/TRY	9.04	8.97	8.78	9.25	10.40	USD/TRY	7.44	7.35	7.20	7.40	8.00
EUR/ZAR	18.81	18.9	18.6	18.8	20.8	USD/ZAR	15.46	15.50	15.25	15.00	16.00
EUR/ILS	3.87	3.84	3.78	3.88	3.90	USD/ILS	3.18	3.15	3.10	3.10	3.00
LATAM											
EUR/BRL	6.67	6.34	6.28	6.38	6.50	USD/BRL	5.48	5.20	5.15	5.10	5.00
EUR/MXN	24.56	24.2	24.2	24.6	26.0	USD/MXN	20.18	19.80	19.80	19.70	20.00
EUR/CLP	872.10	915	915	938	988	USD/CLP	716.63	750	750	750	760
EUR/ARS	103.60	102.48	109.19	123.75	162.50	USD/ARS	85.13	84.00	89.50	99.00	125.00
EUR/COP	4221.50	4270	4209	4250	4355	USD/COP	3468.90	3500	3450	3400	3350
EUR/PEN	4.39	4.39	4.42	4.50	4.65	USD/PEN	3.61	3.60	3.62	3.60	3.58
Asia											
EUR/CNY	7.89	7.84	7.78	7.78	8.03	USD/CNY	6.48	6.43	6.38	6.22	6.18
EUR/HKD	9.44	9.46	9.46	9.69	10.09	USD/HKD	7.76	7.75	7.75	7.75	7.76
EUR/IDR	17100	16958	17074	17254	17784	USD/IDR	14125	13900	13995	13803	13680
EUR/INR	89.42	89.7	90.0	91.6	94.0	USD/INR	73.47	73.50	73.80	73.30	72.30
EUR/KRW	1336.22	1318	1299	1319	1333	USD/KRW	1097.96	1080	1065	1055	1025
EUR/MYR	4.93	4.92	4.87	4.96	5.11	USD/MYR	4.05	4.03	3.99	3.97	3.93
EUR/PHP	58.53	58.7	58.7	59.8	62.2	USD/PHP	48.10	48.15	48.09	47.87	47.82
EUR/SGD	1.62	1.61	1.60	1.63	1.68	USD/SGD	1.33	1.32	1.31	1.31	1.29
EUR/TWD	34.11	33.8	33.4	34.0	34.8	USD/TWD	28.04	27.7	27.4	27.2	26.8
EUR/THB	36.66	36.7	36.5	37.1	38.1	USD/THB	30.13	30.1	29.9	29.7	29.3

Source: Refinitiv, ING

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