

FX Outlook 2026

10 November 2025

Play the ball, not the man



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FX Outlook 2026: Our main calls

The golden rule in football defending is 'play the ball, not the man'. Translated: it's not about where the player leans, it's about where the ball ends up.

For most of 2025, markets 'played the man', reacting to US President Donald Trump's unpredictable trade rhetoric and challenges to Federal Reserve independence. This contributed to an 11% drop in the DXY in the first half of the year – the steepest first-half decline since 1972.

But recent months have marked a shift. With trade deals providing a stabilising anchor, market participants have recalibrated, refocusing on fundamentals: rate differentials, growth trajectories, debt sustainability, and commodity exposure.

We believe this return to disciplined analysis – 'playing the ball' – is a preview of what's to come for FX in 2026. Below are our key calls for next year.

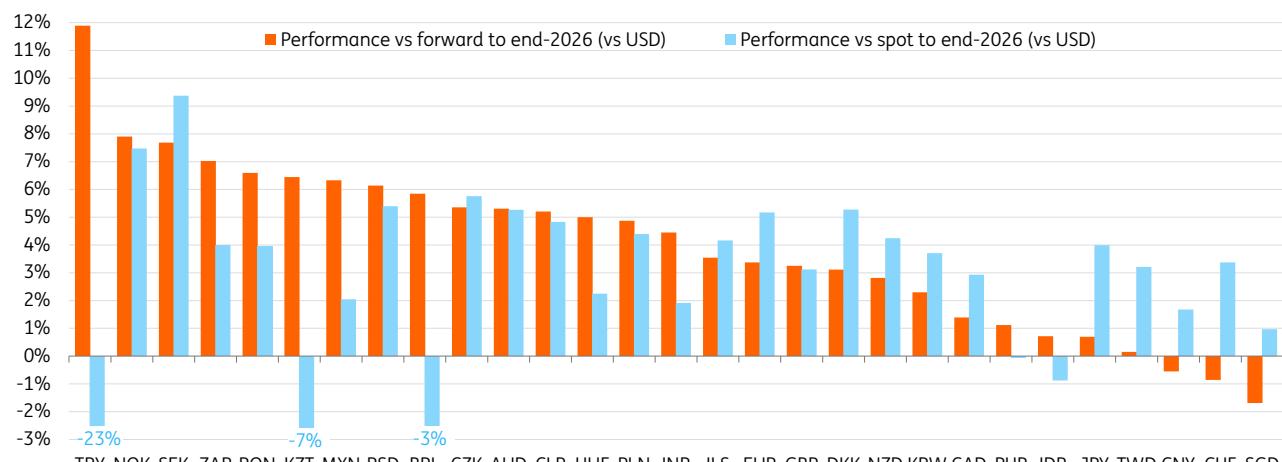
1. Fundamentals will be the name of the game in G10

By March 2026, we expect the Fed to have delivered all its cuts for this easing cycle, reaching a terminal rate of 3.25%. Most other G10 central banks will either be close to finishing or already done with their own cutting cycles. As investors continue to adjust to President Trump's unpredictable policy delivery, we expect markets to increasingly shift focus away from the US.

The absence of a dominant USD trend – so central to FX dynamics in 2024 and 2025 – opens the door for relative value trades across G10. With rates now back at or near neutral, greater certainty on the trade picture, we believe activity data will play a more prominent role in driving currencies. The key questions become: which currencies have the strongest fundamentals, and which can pair those with political stability and sound public finances?

The euro looks well-positioned to at least hold its 2025 gains, supported by our macro team's forecast for eurozone growth in the 1.0–1.5% quarter-on-quarter annualised range in the first half of next year and 1.7–1.8% in the second half. That said, political uncertainty in France remains a key risk. The pound offers attractive carry, but this is unlikely to fully offset a softer growth outlook and the potential re-emergence of fiscal concerns. Sterling will stay vulnerable. Positive standouts could include the Swedish krona and the Australian dollar, while the Canadian dollar appears on unstable ground.

ING's forecasted FX performance vs USD



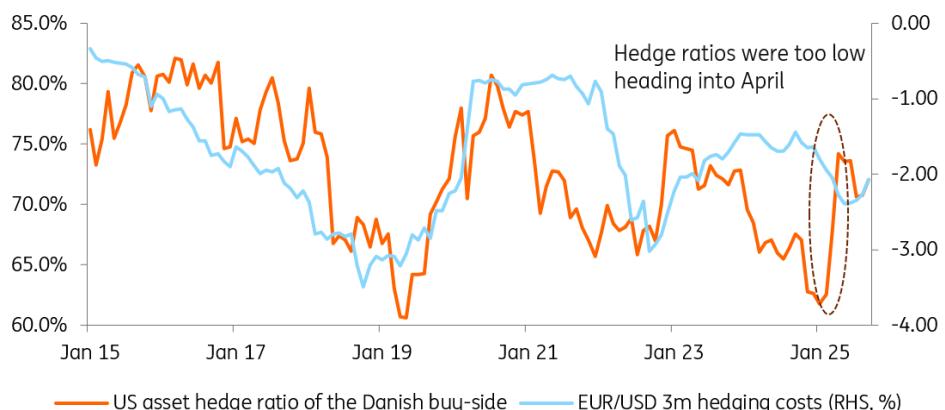
Source: ING, Refinitiv

2. The strong dollar isn't coming back

The periods of USD instability in 2025 were sharp and driven by unforeseen events: the German fiscal spending boom, Trump's 'Liberation Day' tariff announcement, escalating trade tensions with China, and attacks on the Fed. The dollar has now built greater resilience to such episodic risks, but in 2026 we expect a shift in the key drivers – from event-driven volatility to more structural forces. These factors, in our view, should prevent a meaningful USD rebound and potentially lead to further depreciation.

With a terminal Fed policy rate of 3.25% in 2026 already priced in, the downside potential for USD rates could be seen as limited. However, the implications for FX markets may persist, primarily because Fed cuts reduce the cost of hedging USD exposure via increasingly shorter-term forward tenors.

Buy-side hedge ratios of US assets were too low prior to April



Source: Danish Central Bank, ING Calculations

The role of FX hedging flows was pivotal in preventing the dollar from rebounding as US assets recovered from the 'Liberation Day' shock. Danish pension funds data shows USD hedging ratios rose from 62% to 72% in May 2025, yet in 2015-2016 and during Covid, those ratios were steadily around 80%. Despite calmer FX conditions, the perception that most risks to the dollar are domestically driven persists. This continues to incentivise hedging, particularly among debt-focused institutional investors, who tend to favour shorter-dated hedges. As FX hedging costs for US asset exposure decline in the coming quarters, we expect rising hedge ratios to limit dollar upside.

We then need to assess the dollar through the 'fundamentals lens' we discussed in our first call. In our view, positive growth surprises are more likely to emerge in the eurozone than in the US, where tariffs are expected to remain a persistent drag. Additionally, a resurgence of concerns around US debt sustainability and the build-up of political risk premium ahead of the November 2026 midterm elections are both tangible risks.

3. Low volatility continues to favour carry

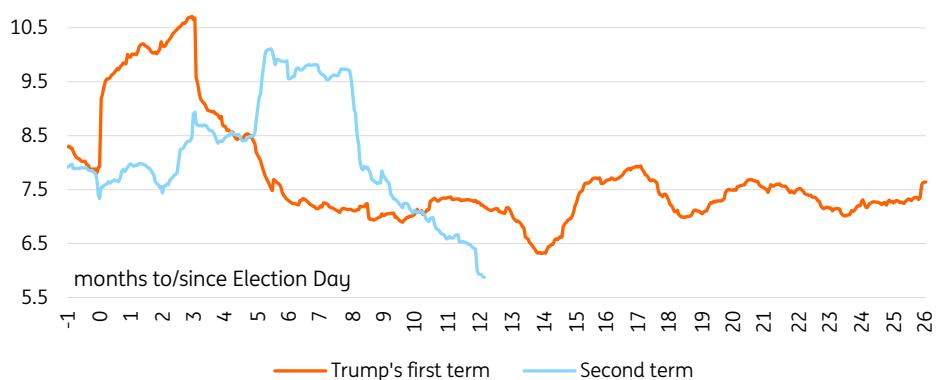
We're going to hear a lot about neutral rates in 2026. The European Central Bank is widely thought to be already there with a deposit rate of 2.00%. The Fed is expected to get the policy rate closer to neutral at 3.00/3.25%, even though a debate is emerging within the Fed that the neutral rate may be closer to 4.00%. And Japan is expected to very slowly take its policy rate towards the lower bound of neutral near 1.00% in late 2026.

A year when core policy rates could arrive and stay at neutral is virtually unheard of. Over the last quarter of a century, the Fed has rarely, if ever, had its policy rate at neutral. The closest it probably came to that was 2.50% policy rate in 2019, before an equity correction and then Covid took rates back to the floor again.

Barring a bond market sell-off, 2026 looks like it could be another low one for both interest rate and FX volatility. Low volatility should trigger even more interest in the carry trade. That can leave the yen vulnerable as investors switch to funding carry trades in yen. And what we have seen in 2025 has been investors moving out along the EM credit curve and into frontier markets. FX positions in Egypt and Nigeria have been some of the best performing carry trades of the year.

Looking ahead, we see authorities keeping the lira stable in Turkey and expect broadening interest in carry into other parts of Africa and also the CIS.

3-month historical volatility of the US dollar index



Note: calculated using weights of the Bloomberg Dollar Index

Source: ING, Macrobond

4. Yuan will remain stable, parts of Asian FX attractive

We're running back our call for a stable and rangebound USD/CNY and have nudged the fluctuation band lower to 6.90-7.30 in 2026. The call looks a lot less controversial this time around compared to last year, after the People's Bank of China proved it had the willingness and capability to keep the yuan stable even in the face of heavy market pressure at the peak of the trade war. Within the context of currency stability, we generally are leaning towards a gradual appreciation of the CNY, as yield spreads should move in favour of CNY strengthening, and buying pressure could ramp up if exporters begin to convert proceeds back to the CNY at a faster rate.

Continued stability in the yuan and a slightly softer dollar should generate broader interest in Asian currencies. 2025 was a year for the low yielders, but in 2026 we're looking for one of the high yielders, the Indian rupee, to make a comeback. We see solid fundamentals for the economy, contained fiscal risks and ongoing direct investment for supply chain diversification. The rupee should deliver an impressive recovery if US-India trade tensions can soften and also should enjoy continued demand on the back of bond inflows.

5. Political battle will decide whether CEE sees another strong year

Our baseline scenario suggests that Central and Eastern Europe will see a soft-landing next year after this year's rapid rally. However, beneath the surface lies a political battle and fiscal dominance that could easily sway FX trends – either delivering another stellar year for CEE currencies or erasing this year's gains entirely.

The general election in the Czech Republic brought a change of government which promised more spending. This threatens to inflame the inflation problem. Given the current economic rebound, the Czech National Bank could be the first central bank in the region to hike interest rates, providing fresh momentum for the CZK.

In Poland, general elections are not due until 2027, but after the opposition's victory in the presidential election, a consolidation of public finances looks unlikely. The National

Bank of Poland may need to act swiftly, relying on a stronger zloty to help contain inflation. Conversely, a potential fiscal cliff could push the currency in the opposite direction.

In Hungary, general elections are scheduled for April next year. Market participants view a possible change in government as a potential catalyst for restarting EU funds, similar to Poland in 2023. However, if the current administration retains power, the market could question current FX long positions, putting downward pressure on the forint.

Political calendar in the EMEA region

Month	Country	Event
Dec 2025	Romania	Bucharest mayoral election
Mar 2026	Israel	Possible early parliamentary elections
Apr 2026	Hungary	General election
Oct 2026	Israel	Scheduled parliamentary elections
Nov 2026 – Jan 2027	South Africa	Local government elections
Oct-Nov 2027	Poland	General election

Source: ING, national government calendars

6. Commodities: metals and energy diverge

Commodity trends have been a big driver of currencies in recent years and should continue to play a significant role in 2026. Gold has surged this year well beyond what fundamentals would suggest. Yet the prospect of lower real interest rates in the US and continued doubts about the stability of both fiat currencies and government bond markets should keep gold in demand. The National Bank of Poland has been the biggest buyer of gold this year and most recently the Bank of Korea has said it plans to buy more, too.

Our commodities team also likes the copper story next year, where grid expansion, electrification and renewable infrastructure should keep copper bid at a time of tighter balances. Currencies in Latam like Chile's peso, Peruvian sol and the South African rand should see continued demand here.

It's a different story for energy, however. A glut of supply for both crude oil and natural gas should keep this sector under pressure. This should add to the woes of the Canadian dollar, already battling on the trade front and at risk from further Bank of Canada easing.

ING's commodities forecasts

	4Q25	1Q26	2Q26	3Q26	4Q26
Brent (\$/bbl)	62	58	56	58	54
Dutch TTF (EUR/MWh)	35	34	28	29	33
Copper (\$/t)	10,300	10,500	10,700	10,500	10,500
Aluminium (\$/t)	2,750	2,750	2,750	2,700	2,750
Gold (\$/oz)	4,000	4,100	4,200	4,200	4,100
Silver (\$/oz)	49	49.5	50	50	49.5
Iron Ore (\$/t)	105	100	95	90	95

Source: ING

G10: Looking beyond the dollar

Core central bank policy rates at or very close to neutral warn that the dollar may not be the main attraction in 2026. Instead, we think markets will refocus on individual currency stories driven by growth, rates, debt sustainability and politics

Chris Turner

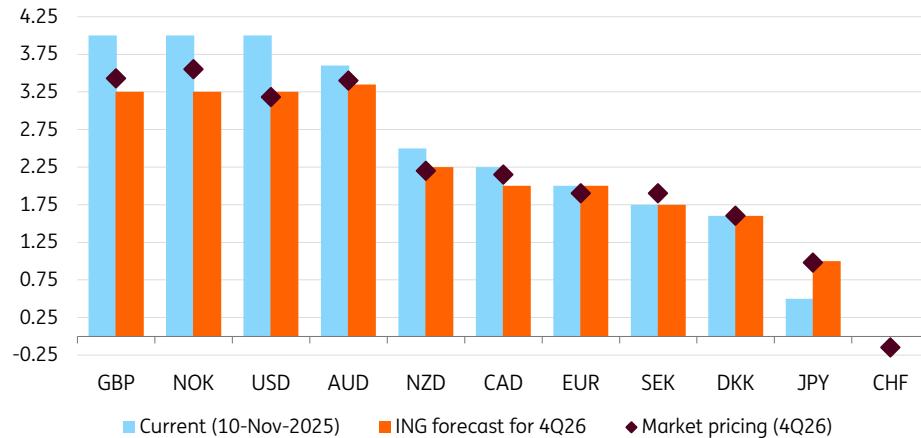
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We all know that the 'big dollar' call sets the tone for global markets. And that call is largely influenced by the Federal Reserve. Ever since the global financial crisis in 2008-2009, the central bank has typically been trying to flood the market with liquidity to reflate the US economy or slam on the brakes to rein in inflation. The idea of the Fed sitting with rates at 'neutral' is quite a foreign one. But that's the call for 2026 - a Fed cutting rates to neutral somewhere in the 3.00-3.50% area and leaving them there until the next shock comes along.

G10 central bank policy rates (%) – all near the end of the cycle



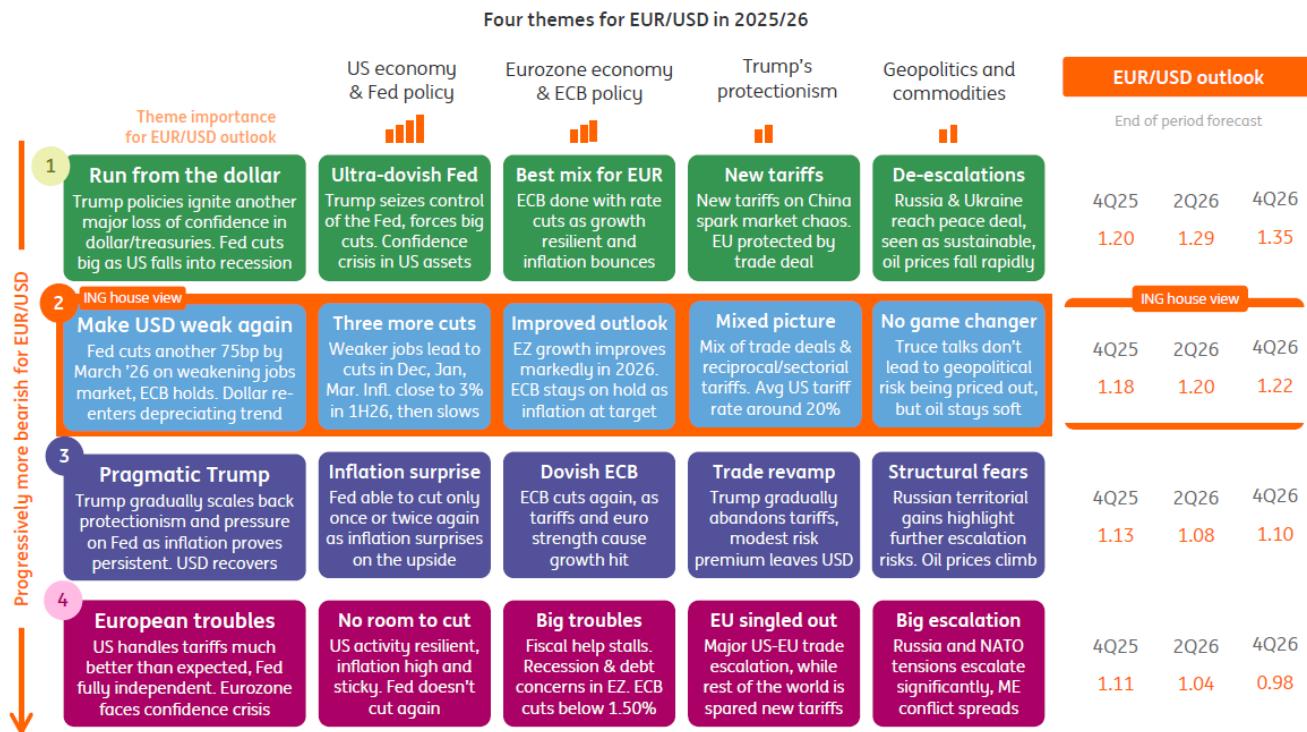
Source: ING, Refinitiv

Some might now be looking for non-consensus dollar appreciation. After all, the US-led AI boom could be seen as maintaining US exceptionalism. And even in this volatile year for geoconomics, the de-dollarisation story did not make much headway. But before we dig out parallels to the US productivity boom and dollar rally in the late 1990s, we need to look at US growth prospects. Our team's call is for US growth in the 1.5-2.0% area through 2026 – not the 4%+ seen through the 1990s.

At the same time, we're looking for a steady recovery in eurozone growth as fiscal stimulus takes hold. Add in our call for lower oil and gas prices and we think EUR/USD fair value can nudge up from the 1.15 area towards 1.20. Add in continued threats of Fed independence in 2026, risks to elevated US equity valuations weighing on consumption, plus the unresolved issue of the US government debt load, and some modest dollar depreciation is favoured. This should be a low volatility environment, however. And we may well see EUR/USD traded volatility levels sinking back to decade lows of 5.00/5.50% for the three-month to one-year tenors.

In terms of scenarios, please look at our grid below for some of the key driving factors in 2026 and the range of outcomes currently embedded in FX options prices.

Our EUR/USD scenario analysis



Source: ING

Based on our call to look beyond EUR/USD in 2026, where will the action be? For the low yielders, we could see some diverging trends. The yen can stay undervalued for another year as local politics, direct investment flow, and the carry trade can all weigh. On the other hand, we expect the Swiss franc to stay strong as it benefits alongside gold in the diversification away from both fiat currencies and government bond markets.

In Europe, some modest sterling depreciation is preferred as the Bank of England cuts rates to the 3.25% area. UK politics is a bearish wildcard too. While both the Swedish and Norwegian currencies are undervalued on our models, we prefer the Swedish krona. Fiscal stimulus ahead of Swedish elections next September, a Riksbank finished with easing, and an economy already responding to prior rate cuts should help here.

Turning to the commodity currencies, the Australian dollar should outperform in our view. The US-China trade truce should be welcomed, as should some steady Chinese growth near 4.6%. The pick-up in Australian growth in 2026 should limit the Reserve Bank of Australia to just one more cut and see the Aussie dollar avoid the monetary pitfalls which have weighed on the New Zealand dollar this year. The worst-performing currency here should be the Canadian dollar. Uncertainty about the future of the USMCA deal in 2026, plus softer activity, should see the local currency lag.

EUR/USD: Banking on a eurozone recovery

Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26	
EUR/USD	1.16	Bullish	1.18	1.19	1.20	1.21	1.22

Fed story is crucial: At the heart of our call for a mildly weaker dollar is the Federal Reserve story. Our team is confident that abating wage and housing pressure means that the Fed will not be preoccupied with inflation next year. A further 75bp of Fed rate cuts, bringing the policy rate to a neutral 3.00-3.25%, is our call. If we're right with that,

dollar hedging costs will drop further and the buy-side will be raising their hedge ratios on positions in US bond markets. Looking back at April's price action, the dollar sell-off was largely driven by the buy-side quickly adjusting under-hedged positions in US asset markets in the face of Liberation Day tariffs. In addition, there remains sufficient uncertainty around Fed policy to demand a risk premium in the dollar. Changes on the Fed board early next year and potential political pressure on the central bank ahead of the November midterms warn that US dollar real rates drift towards neutral and weigh on the dollar.

Accelerating eurozone growth: It may not feel like it today, but we're looking for the eurozone economy to accelerate through 2026. The region has the savings to be put to work, and we are looking for German fiscal stimulus to register in 2026. Industry is lagging, but business confidence is picking up, and a little more certainty in the global trading environment should see eurozone momentum build throughout the year. Our call is that the European Central Bank has finished cutting rates at 2.00% and the next move is up. Indeed, longer-dated eurozone interest rates should start moving higher later in 2026 as they consider a 2027 ECB hike. The region should also benefit from lower energy prices in 2026 as the glut of crude and LNG weighs and pushes the eurozone's terms of trade higher. A move through 1.20 may well spark outcry from ECB doves, but the pace of EUR/USD gains should be slow and manageable.

Stablecoins and global euros: There has been scant evidence of de-dollarisation in 2025. The foreign private sector has remained a keen buyer of US asset markets, and even the central banks have not made any noticeable changes in the dollar share of their FX reserves. And over recent months, the siren call of the 'stablecoin' has strengthened. Here, the value of USD-backed stablecoins is now around \$300bn with predictions of growth to \$2tr by 2028. As corporates explore stablecoins for B2B payments and investors look at it as an alternative asset, the growth of stablecoins could delay the multi-decade de-dollarisation trend. At the same time, European politicians are trying to accelerate the status of the global euro. Though glacial, there is some progress on the EU's Savings and Investment union. And while the prospect of more joint euro debt issuance – beyond the €150bn for defence spending – looks remote, more German issuance will mean that Bunds increasingly challenge Treasuries as the world's safe asset.

USD/JPY: Reconnection with fundamentals delayed

	Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
USD/JPY	154.00	Mildly Bearish ↘	152.00	152.00	150.00	150.00	148.00

Yen undervaluation continues: By our calculations, the yen remains over 20% undervalued against the dollar on a medium-term (two to three-year) view. The problem is that the catalysts for it to reconnect with its fair value simply are not strong enough. Firstly, Japanese Prime Minister Sanae Takaichi's victory in October's Liberal Democratic Party (LDP) leadership election questions the future path of policy. Investors presume her new premiership will pursue Abe-like policies of ultra-loose fiscal and monetary policy. Those fears might be a little overblown in that the LDP now has to work more closely with a coalition partner, yet the realpolitik means that the Bank of Japan will not be in a rush to normalise policy. Here, ING expects one BoJ hike this December and perhaps another one in late 2026. That would put the policy rate at 1.00% – hardly restrictive or yen supportive. That said, if we're right with our Fed call, USD/JPY hedging costs could be falling 100-125bp for Japanese investors and should prove a mild USD/JPY negative.

US-Japan trade commitments: As part of the deal to see its US tariff rate drop to 15%, Japan had to make a commitment to invest up to \$550bn into the US. Somewhat surprisingly, there is quite a lot of detail on the nature of these investments, which are concentrated in the critical energy, AI and mineral space. An important focus is small nuclear reactors, presumably to support AI energy demands. Japan has said that this commitment will not impact FX markets, in that the deal is composed of equity, loans and guarantees. Remember, Japan already has some \$1.2tr of FX reserves – largely in USD. Washington would no doubt be pleased were some of these to be used in funding these investments, since it believes those reserves were acquired in the process of keeping the yen undervalued for trade gain.

160 probably remains the line in the sand: Neither Japan nor the US want a sharply weaker yen. The LDP has been doing poorly in elections largely because of the cost-of-living crisis. Estimates suggest that a 10% fall in the yen could add 0.3-0.5% to headline CPI over a 12-month period. Equally, Washington wants to attract higher-paid manufacturing jobs back to the US with a weaker dollar. We expect verbal intervention from Japanese policymakers to become louder should USD/JPY make it above 155. And we would expect Japan to again intervene and sell USD/JPY should it ever make it to 160 – effectively a repeat of 2024. The problem is that what should be a low volatility environment in 2026 will only add to interest in yen-funded carry, and until the investment environment turns around, USD/JPY is going to stay relatively well supported.

GBP/USD: Tight fiscal, loose monetary policy incoming

Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
GBP/USD	1.32	Mildly Bullish 	1.34	1.35	1.35	1.36

0.5-1.0% of GDP fiscal tightening on the way: UK Chancellor Rachel Reeves will present the annual budget on 26 November. Combined with structural adjustments next year and the amount of fiscal headroom she wants to create, the fiscal tightening could be worth 0.5-1.0% of GDP. While a larger fiscal hike could take a little more of the risk premium out of the UK Gilt market, it could well see the market pricing the BoE policy rate under the 3.25% neutral rate next year and weighing on sterling. In all, we see the event risk of the UK budget as a neutral to negative one for sterling on the view that: a) the Chancellor will protect the Gilt market and b) will avoid any inflationary tax hikes, such as last year's National Insurance increase for employers. We find it highly unlikely that Chancellor Reeves would misread the mood of the bond market and deliver a budget which prompts a 'Sell UK' mentality.

Governor Bailey to pull the trigger on easing: The BoE looks nearly ready to cut. November saw a 5-4 vote in favour of an unchanged Bank Rate at 4.00%, but Governor Andrew Bailey sounds like he will vote for a cut in December after he has seen a couple more CPI prints and the Autumn Budget. Our team expects further BoE cuts in the first and second quarters next year to set the policy rate near neutral at 3.25% next summer. At the same time, the BoE is slowing its quantitative tightening programme and, judging from some tightness in money markets – e.g., Sonia occasionally trading over the Bank Rate – might look at ways to further soften liquidity conditions. Even though the market already prices the BoE's terminal rate at 3.25%, we expect the easing to weigh on sterling as hedging costs dip and deposit rates drop into the middle of the G10 pack.

Politics as a low probability, high impact event risk: The first 15 months in office have been tough for this error-prone Labour government. While it does sit on a large majority, it is finding itself exposed to attacks from both the right (Reform riding high in the polls) and the left (left-wingers wanting higher social spending and higher taxation). Local elections next May could prove a lightning rod for these frustrations, with a poor result forcing the exit of Prime Minister Keir Starmer – plus Chancellor Reeves, were Starmer to be ousted. The threat of Labour moving more to the left and the departure of Reeves in particular would not be welcomed by the Gilt market. Clearly, the government has a lot riding on the November budget and will be praying for some slightly stronger growth in 2026. We forecast growth to nudge up to 1.1-1.2% quarter-on-quarter annualised growth next year as layoffs slow down and consumption remains supportive.

EUR/JPY: Hard to fight the trend

Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26	
EUR/JPY	178.00	Neutral	179.00	181.00	180.00	182.00	181.00

180 here we come: Recent political developments in Japan have seen EUR/JPY push to its highest levels since the 1990s. While Japanese authorities will be wary of what the weak yen means for inflation, they'll no doubt welcome these levels for their export community. This is especially the case as Japanese exporters fight for market share in countries outside of the US. Given what could well be a year of low/lower market volatility in 2026, we expect the yen to become increasingly attractive as the preferred funding currency. With direct Japanese investment into the US already picking up even before the trade deal, we suspect that USD/JPY will at some stage explore the 155-160 area – even if for a brief period. That could see EUR/JPY press the 180 area and will probably make Japanese intervention more likely.

The 2026 risks to the euro: We're a little bullish on the euro in 2026 as eurozone activity picks up. Risks remain, of course. On the macro side, those stem from German fiscal stimulus never fully being delivered and savings ratios for both businesses and consumers staying high. There is also the issue of the unresolved French budget. Our take assumes another muddle-through here, while recent upgrades for sovereign ratings in southern Europe serve as a reminder that France is something of an outlier. On geopolitics, clearly a substantial change in the Ukraine-Russian war will have a say on the euro. But barring a major change in Washington's position, it's hard to see substantial changes in this grinding conflict in 2026. And another risk for the euro is further ECB easing. The market eagerly awaits the ECB's next forecast round in December. Any 2028 CPI forecast below, say, 1.8%, could open the door to potentially 50bp of rate cuts. That's not our house call.

Let's talk about equities: The AI boom has taken the Shiller Cyclically Adjusted Price Earnings ratio to above 40. That's extreme and is not far from the peak Dot Com level (43) reached in early 2000. Most CEOs are now warning of a 10% correction sometime over the next year or two. How and when that correction materialises is far from clear, but it would weigh heavily on AUD/JPY (probably the most correlated pair) and EUR/JPY. There is much focus on the extremely narrow breadth of the current rally and how it is just the revised earnings estimates for the magnificent seven which are powering the gains. Analyst earnings estimates for the remaining 493 stocks in the S&P 500 have been revised down this year. A short, sharp equity correction is probably the most likely route to a lower EUR/JPY in 2026.

EUR/GBP: Not as expensive as it looks

Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
EUR/GBP	0.88 Mildly Bullish 	0.88	0.88	0.89	0.89	0.90

Back to early 2023 highs: In trading back above 0.88, EUR/GBP has headed back to levels last seen in early 2023. The move is largely driven by this year's macro adjustment, where fiscal policy is being loosened in the eurozone (ex France) and the ECB has finished easing. Fiscal policy is being tightened in the UK, and the BoE looks like it has another 75bp of easing to deliver. Sterling also has a risk premium associated with its government bond market, where swap spreads trade at 50bp compared to near-flat swap spreads in Germany. Despite these high EUR/GBP levels, sterling is not particularly cheap. As recently as June, the inflation-adjusted UK exchange rate was trading back at levels last seen in early 2016. Stubbornly high UK inflation has contributed to this real sterling appreciation.

Grind higher is the view: Our baseline forecast assumes EUR/GBP edges higher through the year. The first half should be driven by the BoE easing cycle, but the second half may be more euro-driven. Here, we expect German fiscal stimulus to play an increasingly important role for growth throughout the year as interest rate markets start to consider a 2027 ECB hike. 0.90 looks a conservative upside target, which could be bettered should the UK domestic or external environment deteriorate. Remember, sterling normally underperforms in a crisis by nature of its twin deficits. Recall that EUR/GBP jumped 5% in early April when Liberation Day tariffs sank global equity markets.

Risks skewed to the upside: Most of the alternative views seem to favour higher outcomes for EUR/GBP next year – be they tighter fiscal/looser monetary policy or politics in the UK. On the downside, European politics is a risk. It's not our baseline call, but early French elections could once again upset the French bond market and force the ECB to take action should broader eurozone stability come into question. Currently, there seems to be no path to fiscal consolidation in France, and the stability of the French government remains one of the key risks. Another risk is that German politicians cannot agree on the implementation of fiscal stimulus. Concerns emerged this summer that infrastructure spending was going to be financed out of existing budgets. Failure to deliver new spending could unwind the optimism and the boost the euro received earlier this year.

EUR/CHF: Plus ça change

Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
EUR/CHF	0.93 Neutral	0.92	0.92	0.93	0.94	0.95

SNB can do little about CHF strength: EUR/CHF remains propped up at the lows of the year. Having been a seller of FX reserves in 2022 and 2023 to drive the Swiss franc higher to fight inflation, the Swiss National Bank has turned FX buyer again – to the tune of CHF5bn in the second quarter. With the policy rate now at 0.00%, the Swiss National Bank views monetary policy as expansionary, but at the same time is showing very little concern over deflation. CPI is expected to creep higher from its current 0.2% year-on-year level to 0.8% by 2028. Further Swiss franc strength is undoubtedly unwelcome. Some locals think the SNB would intervene more aggressively were it to make it to the 0.91 area. However, the central bank looks very reluctant to take the policy rate negative again. Swiss pension funds are already being charged 25bp on their CHF

deposits, and most think the SNB would only go negative again if there was a major shock and QE were reintroduced by the ECB.

The real CHF is at 25-year highs: Actively managing the exchange rate as part of its monetary policy tool kit, the SNB now faces a real, inflation-adjusted Swiss franc at the highest levels seen this century. As above, however, the bar is very high for the SNB to take rates negative again. The political environment is also difficult for FX intervention, where sustained activity could see Switzerland labelled as a currency manipulator by the US Treasury. It already falls foul of two of the three criteria, and sustained FX intervention at 5% of GDP (around CHF40bn) over a 12-month period would seal the unwelcome deal. In turn, there's local resignation that the Swiss franc will continue to stay strong until we see recoveries in key trading partners – such as the eurozone. We are expecting a modest pick-up in eurozone activity next year as German fiscal stimulus starts to come through, which should be enough to lift EUR/CHF back to 0.95 through 2026.

The gold connection: One of the standout developments in financial markets this year has been the rally in gold. This cannot wholly be blamed on lower US real interest rates. Indeed, central bank reserve managers seem to be open about their concerns for both government debt and fiat currencies, creating a view that gold is one of the few safe assets. This theme has proved a tailwind for the Swiss franc this year. Presumably, any loss of confidence in the dollar – if, for instance, intense political pressure were to emerge on the Fed to cut rates – would only add to CHF gains. To repeat, however, Swiss franc gains remain unwelcome given high US tariffs (currently 39%) and 2026 growth forecasts of under 1.00%. The problem remains that options to counter Swiss franc strength remain sorely limited.

EUR/SEK: Still cheap, still promising

	Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
EUR/SEK	10.99	Mildly Bearish ↘	10.90	10.80	10.70	10.60	10.50

SEK is still cheap: A repeat of the Swedish krona's stellar 2025 performance looks unlikely next year, but we remain constructive. Our medium-term BEER model shows SEK is still 10–13% undervalued in real terms versus EUR and USD. That misvaluation persisted due to post-pandemic domestic concerns and excess savings flowing to the US. Now, conditions for further convergence to fair value look better. Higher USD hedging ratios, looser global financial conditions favouring rotation to high-beta currencies, and finally a more upbeat domestic backdrop all point to a more supportive environment for SEK in 2026. We see more upside for the krona against the dollar, but EUR/SEK should also stay on a multi-quarter downward trend.

Good growth outlook: One of our key calls for 2026 is that the end of global easing cycles and greater market tolerance for Trump's policy delivery will shift focus back to currency fundamentals. As discussed above, our BEER model tells us that those fundamentals are good and underpriced in SEK. And while SEK carry remains unattractive, a modest 25bp gap with euro rates doesn't justify sustained upward pressure on EUR/SEK. We forecast 1.2% Swedish growth next year, with room for upside surprises. Rate cuts tend to have a faster and stronger impact on Swedish households than elsewhere in the EU, and forward-looking indicators – PMIs, the Economic Tendency Survey, and consumer confidence – are all at or above pre-tariff levels. The fiscal stimulus package for 2026 (SEK 80bn) includes tax cuts that can support lagging consumption, and there is potential for more fiscal expansion promises ahead of the September 2026 election. Finally, our call for solid eurozone growth in 2026 is also

supportive for SEK, which often shows a higher beta to eurozone performance than the euro itself.

The risks mostly come from abroad: We don't expect the Riksbank to amend its 1.75% policy rate throughout 2026. As the Bank itself has noted, any trigger for further easing is more likely to come from abroad – potentially via a sharp US equity market correction. That same risk lens should be applied to SEK. The krona tends to correlate with US tech sector selloffs, and in our view, elevated AI stock valuations pose the biggest threat to our bullish view on the currency, alongside geopolitical risks, particularly Russia-NATO tensions in Europe.

EUR/NOK: A bumpy downward path ahead

	Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
EUR/NOK	11.68	Mildly Bearish ↘	11.60	11.50	11.50	11.50	11.40

Three cuts in 2026: Norges Bank's latest projections point to just one rate cut over the next three years, reaching a terminal rate of 3.25% by 2028. While we agree with the terminal rate level, we expect all three cuts to come in 2026. The bar for dovish surprises from Norges Bank hasn't been high in 2025, and if underlying CPI sustainably dips below 3.0% – as we expect – there will be a stronger case for easing in the first half of the year. This would align with our Fed view, which includes two additional cuts next year following one in December. While we expect a slightly more front-loaded path, our call for 75bp of cuts is not far from the 50bp priced in over the next 12 months.

Calmer conditions are welcome: The Norwegian krone is the least liquid currency in G10 and will remain the most vulnerable to sharp selloffs in risk-off events. 2025 BIS data shows daily turnover of just \$125bn for NOK, around 20% lower than SEK and even below some EM currencies like the Korean won and Mexican peso. As with SEK, key risks for NOK stem from equity market corrections and geopolitical tensions. That said, looser global financial conditions – as well as a low risk of a new increase in Norges Bank FX purchases given our bearish oil view – should help support a continued downward trend in EUR/NOK, albeit with short-term bumps along the way.

Valuation and carry versus oil risks: Our BEER model suggests EUR/NOK remains around 7% overvalued in real terms over the medium term. This supports our view of further NOK appreciation, with attractive carry helping smooth the recovery. As noted earlier, we expect rate cuts to be gradual, and the EUR-NOK policy rate gap should remain in the 150–200bp range through the first half of the year, keeping pressure on the pair. However, the outlook for oil partly tempers the upside potential for NOK. Our commodities team sees Brent prices falling steadily below \$60/bbl from the first quarter of 2026, with a year-end target of \$54.

EUR/DKK: Upside risks to linger

	Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
EUR/DKK	7.47	Neutral	7.47	7.46	7.46	7.46	7.46

Interventions can return: The Danish central bank (DN) hasn't stepped into the FX market since January 2023, but we see rising odds that EUR/DKK strength will force action. Reserves have grown to a comfortable c.20% of GDP, giving the Bank ample room to respond. Denmark's current account is at risk of narrowing after the post-pandemic boom, and the EUR/DKK 30bp effective rate gap is now looking wide

considering the pair's levels. While a frontier risk, territorial tensions with the US over Greenland could fuel intense bearish speculation on the krone.

If ECB cuts again, DN might hold: We still expect FX intervention to be the first line of defence for the central bank, as narrowing the DKK-EUR rate gap would require a hike now that the ECB easing cycle appears to be over. Should the ECB cut again, DN could deliver a smaller cut or even stay on hold.

Risks of devaluation or EUR-isation remain low: The large FX reserves buffer means EUR/DKK should not sustainably deviate from its 7.460 central rate. Volatility risks are, however, tilted to the upside, and we could see moves above 7.470. Denmark's central bank governor recently discussed the potential benefits of adopting the euro, but there is little to suggest a new referendum is being considered, and opinion polls still show a preference for keeping the krone.

USD/CAD: More trade headwinds ahead

Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26	
USD/CAD	1.40	Mildly Bearish ↘	1.40	1.40	1.39	1.38	1.36

USMCA anxiety to grow: Even if Canada manages to fend off further US tariff hikes in the coming months, the looming USMCA renegotiations – scheduled for formal review in July 2026 – pose a significant risk. During his first term, Trump employed considerable brinkmanship in USMCA talks. This time, the narrative is even more aggressive, and US markets have become less reactive to his tactics, which arguably plays to his advantage. A complete scrapping of the agreement could become a recurring threat, and while the Canadian dollar has also shown reduced sensitivity to tariff risks, the broader implications of trade uncertainty – particularly for Canadian economic activity and unemployment – remain substantial. We expect most of these risks to be concentrated in the first half of the year. Our base case is that a USMCA extension will ultimately be agreed upon (albeit under less favourable terms for Canada), and less uncertainty could help a recovery in Canadian activity sentiment in the second half of 2026.

BoC can cut again: The Bank of Canada has signalled that it's close to neutral, though the risks remain tilted to the dovish side. Fiscal support is set to increase under the new budget, but highly indebted Canadian households tend to benefit more from rate cuts. Notably, monetary policy is not particularly accommodative by historical standards. Previous periods of relatively elevated unemployment were associated with policy rates in deeper negative territory. Assuming inflation does not trend significantly higher from here, further easing would not be out of line – especially given the substantial risk of further deterioration in the labour market. We expect one additional 25bp cut in the first quarter of next year, bringing the terminal rate to 2.0%. Currently, markets are pricing in 15bp of easing by June 2026. Should USMCA negotiations collapse, further rate cuts would be a very tangible possibility.

Hard to love the loonie: While our forecast for broad-based USD weakness suggests some downside potential for USD/CAD, the loonie faces more pronounced risks than most other currencies. The domestic headwinds outlined above are likely to continue weighing on the currency into the first half of the year, with USMCA-related uncertainty playing a particularly prominent role. Compounding this is CAD's higher sensitivity – more than any other non-USD G10 currency – to a deteriorating US labour market narrative and our call for oil price weakness in 2026. As a result, CAD stands out as our least preferred commodity currency in the G10 space for the year ahead. The second half of 2026 may offer a more supportive environment for CAD, as trade tensions may ease and domestic sentiment improves.

AUD/USD: A very solid outlook

Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
AUD/USD	0.65	Bullish 	0.66	0.67	0.68	0.68

China risk to abate further: The Aussie dollar has been a laggard in the big USD decline of 2025, discounting its role as a proxy for China-related sentiment amid trade tensions. US tariffs on China aren't going away in 2026 for Australia's highly China-dependent export sector. Looking at the new year, China's economic outlook continues to face risks of slowdown in consumption, exports and investments linked to the property market downturn. But fiscal and monetary policy should offer continued support across all areas of the economy, and our economists forecast a respectable 4.6% growth for China in 2026.

Little room to cut: The Reserve Bank of Australia has gone through a series of hawkish adjustments in guidance during the second half of 2025. Inflation projections have been revised higher, with headline CPI expected to remain above the 2-3% target band until mid-2027, and trimmed mean inflation only dipping below 3% in the second half of 2026. If those projections hold, delivering any easing in 2026 will be difficult. Our assessment is slightly more dovish – also factoring in some deterioration in the labour market – and we still expect one final 25bp cut in the first quarter of 2026, bringing the terminal rate to 3.35%, broadly in line with market pricing. In our estimate, that would be the highest central bank rate in G10 by mid-2026.

Strong fundamental mix: Based on our key view that markets will increasingly scrutinise a broader range of currency fundamentals in the new year, we think AUD is well-positioned. Our assessment of Chinese resilience supports our call for solid 2.2% GDP growth in Australia in 2026, up from 1.8% in 2025. Our commodities team expects iron ore prices to moderate but bottom out at USD 90/t in the third quarter of 2026. We also expect the AUD/USD two-year swap rate gap to remain close to 40–50bp next year, a range that coincided with AUD/USD trading at 0.68–0.69 back in September–October 2024. As the China trade tension premium continues to fade, a convergence towards that area appears very plausible in 2026. AUD will remain highly sensitive to any renewed deterioration in US-China relations or equity market corrections, but at the same time can benefit from insulation against geopolitical risk flare-ups in Europe or the Middle East.

NZD/USD: Easing into stability

Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
NZD/USD	0.57	Mildly Bullish 	0.57	0.58	0.58	0.58

RBNZ close to neutral: The Reserve Bank of New Zealand is, in our view, likely to deliver one final 25bp cut to 2.25% in November. Admittedly, the threshold for a follow-up reduction in early 2026 is not particularly high, given policymakers' clear inclination to err on the dovish side. Incoming Governor Anna Breman – who assumes office on 1 December – has historically leaned dovish during her tenure on the Riksbank board, reinforcing this bias. Markets continue to price in some probability of a 2.0% terminal rate. Our expectation for only one additional cut is primarily driven by the fact that both headline and non-tradable CPI remain well above target, and the disinflation process may face setbacks next year now that lending conditions have become more accommodative.

Stabilising growth: Also supporting our RBNZ call is the expectation that growth will stabilise in 2026. The 15% US tariff rate has had some impact, although total exports to the US are down a moderate 3% year-on-year. This decline has been driven primarily by a sharp contraction in wine exports, while dairy and meat exports appear to be holding up well. Crucially, exports to non-US markets are growing at an annual rate of 11%, more than offsetting the losses from the US. China remains a solid export destination, and the US-China trade deal should help reduce uncertainty in New Zealand by extension.

Moderately optimistic on NZD: The environment in 2026 should, in our view, be broadly supportive of high-beta commodity currencies. New Zealand's terms of trade remain strong, and dairy price forecasts are broadly optimistic for the coming year. This backdrop should contribute to a gradual increase in the NZD/USD medium-term fair value. However, the main headwind will continue to be the relatively unattractive interest rate, particularly when compared to Australia. This argues for a more cautious upward profile for NZD/USD and against any sustained reversal in AUD/NZD strength.



CEEMEA: Anchoring stability amid inflation and geopolitical headwinds

Central banks across Central and Eastern Europe and emerging markets are aiming for currency stability amid inflation, fiscal risks, and geopolitical tensions. EU funds, carry trades, and resilient growth all support FX strength, while elections, rating downgrades, and war pose headwinds. The approach to policy easing remains cautious and data-driven

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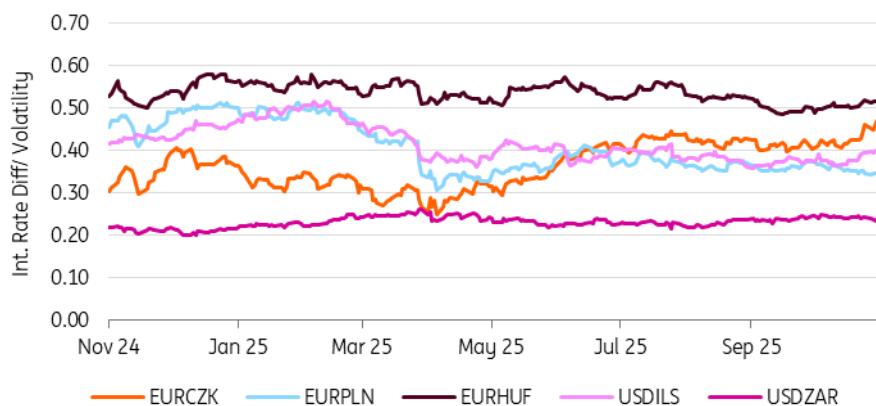
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EMEA carry-to-vol has stabilised or improved



Source: Refinitiv

Slower but still good performance

The CEE3 region – comprised of the Czech Republic, Hungary and Poland – has seen a decent rally this year. The Hungarian forint and Czech koruna in particular are enjoying great market favour. This was mainly due to the hawkish approach from central banks, which often lagged behind financial market expectations and waited to ease. However, this year we saw the first Czech National Bank complete its cutting cycle, and the National Bank of Poland has also accelerated its pace in recent months. This has led to some narrowing of rate differentials, which supported the rally in previous months. The Hungarian forint therefore remains the main carry star within CEE3 for the coming months – although the outlook is clouded by the elections in April next year and the risk of earlier rate cuts by the National Bank of Hungary due to a weak economy and stagnant inflation momentum.

In the managed currency segment in EMEA, we saw the Romanian leu seeking new, weaker levels after election volatility, but it still remains significantly overvalued. The central bank cannot afford any additional inflationary pressures at this point, but the second half of next year (or sooner) could open the door if the fiscal or political situation escalates again. Meanwhile, the Central Bank of Turkey has demonstrated its ability to keep the lira in check, and the market has become resistant to political headlines. At the same time, the central bank has slowed down the pace of rate cuts, indicating a prolongation of the current FX regime and providing sufficient carry to compensate for currency depreciation. In our view, the Turkish lira will remain the best carry trade in the EM space next year.

On the periphery of the EMEA region, Israel's shekel may benefit from a ceasefire-driven rebound and resilient domestic demand. Tight monetary policy supports the currency, with real rates remaining positive. The shekel is also supported by strong capital flows into the tech sector, indicating the best performance within EMEA in our forecast. South Africa's rand has rallied on strong policy credibility and favourable external conditions. The South African Reserve Bank's move to a 3% inflation target has anchored expectations, while real interest rates remain attractive. Assuming geopolitical stability and a US-China trade truce, the rand could outperform market expectations.

EUR/PLN: Rock-solid Zloty

Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
EUR/PLN	4.24	Neutral	4.25	4.25	4.25	4.26

A neutral outlook for the zloty: Solid macroeconomic fundamentals should shield the currency from significant depreciation, while the external environment remains supportive for EM FX given expected weakening of the USD. The rationale behind the currency strength, despite the existing risks, includes: 1) outperformance of Poland's GDP vs. the CEE region and the eurozone, 2) positive carry trade as the Monetary Policy Council's space for lower rates is limited 3) significant inflows of European funds from the Recovery and Resilience Facility (RRF) and Security Action for Europe (SAFE) programmes, with the former expected in 2026 and the latter in 2027, 4) BGK activity in the FX market, 5) a more favourable outlook for the eurozone economy thanks to the German fiscal stimulus. However, many of these factors are already priced in and are unlikely to generate new positive impulses for the Polish currency.

Risks to the zloty primarily domestic and geopolitical: These include a tough cohabitation between the president and government, which may hinder economic reforms at a time when two rating agencies have downgraded Poland's credit outlook to negative due to the lack of meaningful fiscal adjustment. The 2027 parliamentary elections may also pose a risk to Polish currency, due to possible fiscal stimulus, a dovish shift in National Bank of Poland policy or a change of ruling camp. On the geopolitical front, the ongoing trade war threatens the expected recovery of the German economy, while an escalation of conflict in Ukraine, together with possible further Russian military provocation, could act as headwinds for the zloty.

EUR/PLN exchange rate to remain between 4.20 – 4.30 in the coming months: In the near-term, the zloty may strengthen towards the lower bound of the horizontal trend, then lose some ground in 2026, mainly due to a less favourable carry relative to the rates level in the eurozone and other EMs and rising fiscal risk ahead of 2027 elections. This trend may be reinforced if the revival of the European economy is once again delayed or only short-lived.

EUR/HUF: We see the forint weathering the storms

Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
EUR/HUF	383.00	Mildly Bullish 	385.00	389.50	385.00	390.00

A new mindset: Based on the Hungarian forint's strong performance in the region throughout 2025, it seems that we have entered a new era. In this era, a strong HUF does not trigger dovish market pricing as much as we used to see; it seems old habits die hard, after all. We believe that policymakers would also welcome a stable or even stronger Hungarian forint. A strong currency helps to tame underlying inflation and can slowly but surely reduce both perceived inflation and inflation expectations.

Furthermore, given that the FX debt ratio within the public debt is above 30%, the fiscal side will also be pleased to see the strong forint preventing further increases in the debt-to-GDP ratio. While there will certainly be storms ahead, a hawkish central bank can help the forint withstand them.

Keep calm and carry (trade) on: What helped the forint in 2025 could still help in 2026. We expect the National Bank of Hungary to maintain its current position until the second half of 2026, when it will begin to ease in a modest manner. We anticipate a total of 50bp rate cuts next year in a backloaded fashion. The central bank will overlook the temporary dips in inflation caused by base effects and price shield measures in early 2026, as the year after will be challenging in terms of price pressure. We forecast inflation to accelerate from an average of 3.6% next year to 4.3% in 2027. Such an outlook requires an ex-ante positive real interest rate, so the high interest rate will likely keep the carry trade popular.

Not for the faint-hearted: Market players will face some major risk events in Hungary next year, ranging from a possible rate cut by the central bank through the sovereign credit rating cycle to politics. When/if the central bank is ready to act, clear communication will be crucial in order to prepare markets without causing any sudden repositioning, which will be challenging. Investors are closely monitoring the fiscal situation, as are rating agencies. There is a decent chance of some downgrades by Moody's (to 'Baa3') or Fitch Ratings (to a negative outlook) before the end of 2025. However, even if Hungary avoids the worst, we are entering the final phase of the political campaign with a competition not seen in over a decade. The uncertainty surrounding the election outcome could generate significant volatility. We predict a EUR/HUF range of 385-395 in 2026, with peaks around the spring general election and in autumn, when the possibility of an easing cycle emerges.

EUR/CZK: Economy and koruna both performing well

	Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
EUR/CZK	24.29	Neutral	24.34	24.29	24.24	24.18	24.14

Sweet spot in terms of real growth: The Czech economic rebound entered solid ground with a 2.7% real GDP increase over the year in the third quarter, and is expected to maintain robust growth in the upcoming year. This time, fixed investment should lift economic activity and contribute to overall growth comparably to household consumption. Czech industry has recently stabilised, although it still awaits a proper lift-off. That said, Czech large and medium-sized firms, in relatively strong financial shape, have begun a shopping spree in the struggling German economy, acquiring stakes in what is often considered Germany's industrial family silver. We expect the Czech economy to outperform the eurozone decisively over the next year in terms of real growth, providing stable ground for the domestic currency. Indeed, Germany's ominous zero growth in the third quarter of this year underscores the challenges for the euro.

Energy prices are about to fall in early 2026, bringing headline inflation close to target: Looking ahead, energy prices are set to be in focus as large energy distributors plan for end-price reductions of around 10% in January 2026. Such a move would shed approximately 0.2ppt from headline inflation, bringing it down to around 2.2% in the same month. The new government is also discussing a reduction in the regulated share of energy prices and may implement this early next year. We estimate that such an adjustment would shave some 0.3-0.4ppt from the headline inflation rate, which could bring it just below the target. And thirdly, the implementation of ETS2 will most likely be postponed to 2028, which leaves 2027 without the assumed 0.4-1.2ppt upward impact

on the CPI dynamic. Does it imply a more relaxed monetary policy stance that could harm the koruna? Not necessarily in our view, though the mood will shift.

Core inflation to remain potent, providing solid ground for a hawkish CNB: Public wages will pick up in 2026, with variants ranging from a low-case option of 5% to an upper bound of around 10%. That said, public wages tend to send a clear signal to the private sector, so we reiterate our view that wage growth will prove the best candidate for upward surprises in 2026. Add a bit more fiscal spending to the mix, and you end up with a recipe for a booming economy with a re-tightened labour market. Robust nominal and real wage growth is set to pass through predominantly to core inflation at this phase of the economic cycle, as we anticipate the output gap to turn positive in the first half of 2026, making the broader environment more pro-inflationary. Lower energy prices will leave more resources available for discretionary spending, lending support to core inflation. Policymakers will not be keen to slash rates when the economy is humming, so the rate differential with the ECB will keep the koruna strong.

EUR/RON: Inflationary pressures are limiting the leu's flexibility

	Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
EUR/RON	5.08	Neutral	5.09	5.09	5.10	5.15	5.15

The year of inflation: Romania's prolonged electoral cycle delayed fiscal consolidation, forcing abrupt measures in 2025 to regain credibility. These included VAT and excise hikes, which helped calm markets and reopen dialogue with the European Commission, leading to a renegotiated NRRP and a new wave of tight-deadline investments. However, the budget deficit target was revised to 8.4% of GDP, ensuring investment continuity at the cost of another weak fiscal year. Inflation surged near 10% and is expected to hover in the 9-10% range until July 2026, when base effects kick in, pushing it sharply lower. Risks remain from gas market liberalisation and the removal of food price caps in spring 2026, which could delay disinflation further.

The year of EU funds: The NRRP renegotiation reduced Romania's allocation by over €7bn, essentially due to implementation delays. Still, more than €10bn in remaining funds will likely be disbursed in 2026. Adding to this a normal year of absorption for the cohesion funds (say at least €3bn), it all points to a record year of EU funds inflows in 2026, supporting infrastructure and energy projects and partially offsetting fiscal tightening. Execution risks remain high, but the expected surge in EU-financed investment should provide a strong external anchor for the economy.

The year of stability: High inflation and twin deficits would normally pressure the leu, but strong EU inflows and the National Bank of Romania's FX management (significantly influenced by the very high FX passthrough into inflation in Romania) should keep EUR/RON stable. We forecast a mild depreciation to 5.15 by end-2026, just over 1% weaker than current levels. While inflation remains above target, growth dynamics suggest that rate cuts are likely to be discussed even before inflation actually starts to print lower. We expect the NBR to start easing in May 2026, delivering 100bp of cuts during the year – but only as long as currency stability is preserved.

EUR/RSD: Stability remains the cornerstone

Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
EUR/RSD	117.22	Neutral	117.10	117.10	117.00	116.95

The year of controlled dynamics: Serbia's monetary policy framework continues to prioritise stability over volatility, with exchange rate stability apparently being the de facto policy objective. Inflation has moderated from double-digit peaks to low single digits, but risks persist from energy price adjustments and wage pressures. Relatively high FX pass-through into inflation makes exchange rate management a critical policy tool. We expect EUR/RSD to end 2025 at 117.10, virtually unchanged from current levels, and to edge only slightly lower to 116.95 by end-2026, a move too small to shift the narrative. This stability is underpinned by proactive FX interventions and a macro framework that prioritises predictability.

The year of investment continuity: EU accession-related projects and infrastructure spending remain key growth drivers. While Serbia's EU funds inflows are modest compared to member states, bilateral financing and FDI in manufacturing and energy continue to provide external support. Execution risks exist, but the investment pipeline suggests steady capital inflows, cushioning the impact of fiscal prudence and supporting medium-term growth. While an end to the situation generated by the student protests remains uncertain, the economy has so far proved relatively resilient, especially in day-to-day spending and the planned investments ahead of the EXPO 2027 event.

Policy easing should be on its way: With disinflation gaining traction and growth holding steady, the National Bank of Serbia is set to begin a gradual easing cycle: 25bp cuts in November and December 2025, followed by another 75bp in 2026, taking the key rate to 4.5% by year-end 2026. This forward-looking stance aims to support domestic demand without jeopardising currency stability – a cornerstone of Serbia's macro strategy. The country continues to have strong policy flexibility, if needed, with FX reserves worth almost seven months of imports.

USD/UAH: Hryvnia remains under pressure as war continues

Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
USD/UAH	41.89	Neutral	41.50	41.50	41.90	41.90

The hryvnia remains broadly stable against the dollar: However, Ukraine's currency remains under pressure due to ongoing war-related disruptions, high fiscal needs and a persistent trade deficit. The National Bank of Ukraine (NBU) has adopted a strategy of "managed flexibility" and is likely to allow for a slight weakening of the hryvnia, especially against the euro, while using the exchange rate as an inflation anchor. The IMF has encouraged further devaluation to boost budget revenues and export competitiveness, but the NBU resists rapid weakening to preserve public confidence and price stability.

Hryvnia stability is largely supported by record international aid mainly in the form of bilateral and multilateral loans, which help cover the budget deficit and maintain international FX reserves at historically high levels. Moreover, the NBU has kept its restrictive monetary policy stance (key policy rate at 15.5% since March) to anchor inflation expectations and support the hryvnia. Despite inflation easing, the central bank remains cautious. This helps sustain demand for hryvnia-denominated assets and limits

speculative pressure on the currency. The NBU's interventions on the FX market, combined with external financing, have so far prevented major volatility.

A clouded economic outlook due to the structural economic challenges or severe damage to energy infrastructure poses a significant risk to the hryvnia. Labour shortages due to mobilisation of the army, reduced exports, supply-side disruptions and rising production costs continue to weigh on competitiveness. We expect GDP growth to reach 1.8% on average in 2025 and accelerate in the coming years, but real GDP will still be almost 20% lower than it was before the war. However, if Ukraine secures additional external financing and implements reforms, the currency could stabilise within a manageable range. Much will depend on the possible ceasefire with Russia.

USD/KZT: Tenge finds its footing, but pressures loom ahead

Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26	
USD/KZT	523.00	Bullish 	535.00	530.00	545.00	555.00	560.00

The tenge has endured a rollercoaster ride in 2025, reflecting its thinner cushion against volatile capital flows. USD/KZT trades near 520-530, roughly where it began the year, but this follows sharp intra-year swings of around 10% in both directions. These moves have diverged from oil prices, peer currencies, and global USD trends, underscoring domestic drivers. A widening current account deficit – which reached a 2.5-year high of \$9.9bn (the fourth-quarter sum) in mid-2025 – is a key pressure point. Imports have resumed growth after last year's contraction, while exports remain sluggish, weakening the trade balance. This heightened vulnerability to private capital flows, which have proven erratic, leaves the tenge exposed to the turbulence.

Fair value restored, oil can offer support in the near term: After a 17% depreciation over the past 18 months, the tenge now trades near fair value relative to reserves and monetary aggregates, according to our metrics, limiting the scope for further depreciation for the longer-term. Positive momentum in the oil sector may add further support; extraction has grown at double-digit rates since March, with exports following in May, while recent oil price gains bolster the outlook for the fourth quarter of 2025. Additionally, the central bank's surprise 150bp hike in October, lifting the base rate to 18.00%, should encourage portfolio inflows. These factors collectively provide a stabilising backdrop for the FX market, even as structural vulnerabilities persist. For now, the balance of risks favours near-term resilience, though sustained improvement hinges on external conditions.

Fiscal tightening could renew pressure in 2026: State FX sales – driven by sovereign fund drawdowns and central bank interventions to mirror its domestic gold purchases – have somewhat cushioned the tenge against private flow volatility, rising from \$742m per month in 2024 to \$1.1bn in September 2025a. However, fiscal consolidation planned for 2026 implies reduced FX support ahead if it leads to smaller FX drawdowns from the sovereign funds. Without compensating factors – such as a stronger current account, higher private inflows, or greater foreign participation in local debt markets – the tenge could face renewed downside pressure. Our base case anticipates a gradual weakening over the longer term, with sensitivity to oil prices and global risk sentiment remaining high. Policymakers' ability to accompany fiscal discipline with measures to boost foreign investor interest will be critical in shaping the currency's trajectory through 2026.

USD/TRY: Lira to remain under control

Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
USD/TRY	42.23	Bullish 	43.50	46.15	48.40	50.35

Slower than expected disinflation: Inflation at 32.9% in October has remained elevated this year, against the Central Bank of Turkey's interim target of 24%. While it has returned to its downward trajectory after a temporary setback, slower-than-expected disinflation this year has reflected continued pricing pressures in food amid adverse weather conditions. This has reaffirmed the ongoing difficulties in achieving services disinflation, which will require a more marked improvement in price-setting behaviour and in inflation expectations. Provided that no unforeseen shocks arise in the remainder of the year, we anticipate that the annual inflation rate could be around 32% by the end of 2025. For next year, we expect inflation to decelerate to around 22% (vs the CBT's interim target at 16%) with the balance of risks tilted to the upside.

Gradual fiscal consolidation in support of disinflation: The Medium-Term Plan (MTP) forecasts the central government budget deficit to narrow to 3.6% of GDP this year and 3.5% next year. While the government signals fiscal discipline by keeping the deficit (excluding earthquake-related spending) near the Maastricht threshold of 3.0%, a notable increase in primary spending and interest payments is expected in 2026. This rise, however, is projected to be offset by stronger revenue generation. Policymakers have emphasised that fiscal policy will support disinflation, suggesting reduced reliance on inflationary measures such as administered price hikes and tax increases, as we have already seen a notable fiscal adjustment from the second quarter of this year.

Uncertain rate trajectory: The CBT has responded to the deterioration in the inflation outlook by slowing rate cuts and further downsizing the pace to 100bp in October from 250bp in September and 300bp in July. With another 100bp cut in December, we expect the policy rate to be at 38.5% by the end of this year. The Bank pledges to maintain a tight monetary stance to support disinflation and has signalled that it won't change the macroprudential framework in the near term. We expect the policy rate to reach 27% next year. The size of future cuts will depend not only on the inflation outlook, but also on considerations regarding dollarisation and reserves, as well as growth expectations and labour market conditions. The CBT is likely to maintain elevated real interest rates for an extended period, especially as inflation has begun to surprise on the upside, which will continue to support the lira.

USD/ZAR: Investors love the 3% inflation target

Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
USD/ZAR	17.19	Mildly Bearish 	17.00	17.00	16.75	16.50

Banner year for SA asset markets: It's been an amazing year for South African asset markets. Local equity markets are up some 35% year-to-date, 10-year local government bond yields have fallen over 200bp since their peak in April and the rand is nearly 9% up on the dollar this year. The external environment has helped, but so has domestic policy. The standout here is the South African Reserve Bank's (SARB) push ahead with a 3.00% inflation target from 4.50% prior. Inflation expectations through the 10-year inflation-linker have dropped from 6% to 4% in what is seen as a credible move by the SARB. Looking at the interest rate curve, investors struggle to price the 7.00% policy rate below 6.50% over the next two years – generating a very rand-friendly 3.00%+ real interest rate. Foreign holdings of local government bonds are now around

25% of those outstanding, and the share could well rise. For reference, the 2019 peak here was 42%.

Commodities are helping external accounts: From the more common 4-6% of GDP current account deficits that South Africa used to run before the pandemic, deficits closer to 1.00% are now the norm and are expected over the coming years. This is being driven by weak domestic demand (growth still seen just near 1% over the coming years) and strong prices for the country's key exports. Gold is the standout here, where strategic purchases from both the international public and the private sector look set to continue. South Africa's terms of trade have surged this year and should stay supportive for the rand next year – especially given our call for subdued energy prices.

The rand is still quite cheap: While USD/ZAR has dropped 13% from its April high already, we do not think the rand looks expensive. In particular, South Africa has enjoyed low inflation for some time, which means the real – or inflation-adjusted – rand is still at the lower end of its 25-year range. And presumably, with the SARB now focused on delivering its 3.00% inflation target (and with forecasts for inflation at 3.5% in 2026 and 2027), real interest rates will stay relatively tight, and some further rand strength may be welcomed. Assuming South Africa's role in BRICS does not prompt any more punishment from Washington, a year of US-China trade truce should prove supportive for the rand. We see scope for USD/ZAR to trade under the 2026/27 market consensus of 17.00 and to outperform the one-year forward of around 17.80.

USD/ILS: New horizons

	Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
USD/ILS	3.23	Mildly Bearish ↘	3.25	3.25	3.20	3.15	3.10

Ceasefire will help the economy: If the ceasefire can hold, it should prove welcome news for the Israeli economy, beset with labour supply constraints. Back in September, the Israeli central bank forecast that growth would be a meagre (by Israel's standards) 2.5% in 2025 and 4.7% in 2026 on the assumption that the war lasted into the first quarter. Presumably, this earlier ceasefire could prompt some GDP upgrades should it hold. Underlying data on Israeli activity actually shows some resilient domestic demand (e.g., credit card borrowing) and modestly upbeat business sentiment. Notable is the view from Israeli exporters, who in local surveys do not seem particularly worried by compressed profit margins. This suggests that the US 15% tariff rate is not (yet) proving a major impediment. The US is Israel's largest export destination and helps support Israel's 3%+ of GDP current account surplus.

Bank of Israel to keep rates tight: With a policy rate at 4.50% and an inflation target at 2.00%, real rates look quite tight and shekel supportive. The problem is that CPI is hovering near the top of the BoI's 1-3% CPI target and could move higher. Here, again, labour constraints have been adding to inflationary forces. However, investors do think that CPI will turn lower into 2026 and that the BoI will be able to take the policy rate down to 3.50% towards the end of next year. The central bank's position should be a reasonably positive one for the shekel. It's also worth saying that, historically, USD/ILS has had a high beta on the broad dollar trend – and if Fed easing does prompt a softer dollar in 2026, USD/ILS should be pressing the 3.10 2022 lows. An interesting question for markets will be what the BoI does about FX intervention. Washington oversight here may mean that the BoI has to stay on the sidelines even if USD/ILS looks like breaching 3.00.

Shekel the high-tech play: Featuring prominently in BoI communication is the Israeli high-tech industry. Capital raised by this community stood at \$6bn in the second quarter and \$4.6bn in the third quarter this year. This is a sharp pick-up from 2023 and 2024, but off the \$10bn per quarter levels seen in 2021. This means that, typically, the shekel has a decent correlation with the US Nasdaq. Continuing shekel gains are therefore partly a call on the continuing strength of the AI-driven US megatech rally. And a sharp correction here would presumably curtail views of large capital-raising rounds from the Israeli tech sector and remove an important source of shekel demand. 2026 could be the year when investors use the shekel – e.g., deeply out of the money shekel puts – to buy protection for the US technology correction.



Asia: Opportunities in the renminbi, won and Singapore dollar

Chinese authorities have done well to keep USD/CNY under control in 2025. We expect the same again for 2026. Asian high-yielders have had a bad year, but if one of them is to recover, we would expect it to be the Indian rupee

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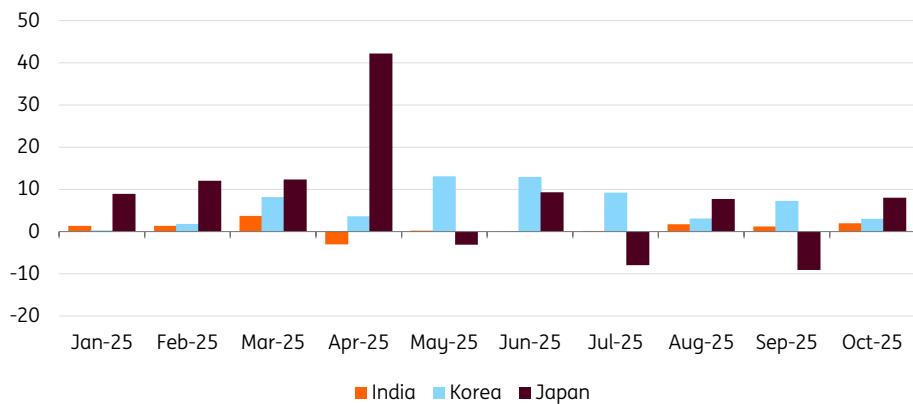
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Asian currencies have had a mixed run in 2025, with low-yielders far outperforming the high-yielders like the Indian rupee, the Indonesian rupiah, and Philippine peso, where domestic growth and tariff concerns dominated sentiment. Among the top beneficiaries were: 1) the Taiwanese dollar, supported by strong export performance despite the tariffs, equity market inflows and increased hedging activity by Taiwanese investors amidst USD weakness, 2) the Thai baht, benefitting from higher gold prices, and bond market inflows even as domestic growth remained subdued, 3) the Singapore dollar, which avoided the worst of the US tariffs to receive the lowest retaliatory rate of 10%.

Looking ahead, while the softer dollar outlook could provide a tailwind for Asia FX, tariff risks and growth concerns persist, and local differentiation will likely shape FX performance in 2026. The key areas we'll be keeping an eye on include:

- **Tariff impact on export growth** - while recent trade agreements signal a de-escalation in tensions, they offer limited assurance that export growth will remain robust. The reduced tariff gap between China and its regional peers stands out as a clear strategic win for Beijing. However, most of ASEAN, except Singapore, now faces 19-20% tariffs. The full impact of this is yet to be seen on export growth, which has remained rather resilient in 2025. Softer exports and weaker growth are likely to remain headwinds for several regional currencies.
- **Valuation dynamics** – Inflation differentials have become a more prominent driver of real effective exchange rates in the post-pandemic era, particularly for currencies like the Chinese yuan, where inflation has dropped sharply. Over the year to September 2025, CNY's REER declined by 4.6%, while India and Indonesia saw even steeper declines of over 6.5%. Latest REER estimates (as of September 2025) suggest that the Chinese yuan, Korean won, Indian rupee, Japanese yen and Indonesian rupiah have the most room to appreciate, while the Singapore dollar, Malaysian ringgit, Taiwan dollar and Thai baht appear to have limited upside, with REERs closer to fair value.
- **Foreign inflows into Asian economies** – Most countries benefited from a rate-cutting cycle and foreign inflows in the bond market as a result. Foreign institutional investor flows recently point towards renewed foreign investor interest in Asia, particularly in Indian and Korean debt, supporting local currency appreciation. In 2026, inflation is unlikely to rise above the central bank targets in any of the Asian economies under our coverage, and we still expect rate cuts in Korea, India, Indonesia, the Philippines, and China, implying that the foreign demand for bonds will likely continue, especially in India and Korea, with strong bond market fundamentals.

Foreign inflows into Asian regional bond markets (\$bn)



Source: Ministry of Finance, Japan; Financial supervisory service, Korea; and CDS, India

Based on these factors, CNY and KRW appear well positioned among low-yielders to benefit from an anticipated USD depreciation. The yuan remains undervalued, supported by favourable rate differentials and a strong current account surplus. While growth concerns linger, China's strategic tariff advantage and resilient trade flows provide additional support. Similarly, the Korean won has room to appreciate on healthy external balances, with REER adjustments creating scope for appreciation as external balances remain healthy. However, we believe KRW's performance will remain closely tied to net foreign asset trends. The surge in overseas investments by Korean institutions—particularly into US assets—could act as a counterweight to gains from valuation and rate differentials. This structural outflow dynamic limits the upside for KRW, even in a weaker USD environment.

Within high-yielders, the INR offers the most compelling upside potential if trade dynamics improve. The rupee was a notable underperformer in 2025, failing to capitalise on its widening rate differential versus the USD. Despite macro stability and a robust external balance sheet, selling pressure has persisted amid uncertainty over trade negotiations. Structurally, however, India remains the standout among high-yielders: fundamentals are solid, fiscal risks are contained, and supply chain diversification continues to attract investment. Should trade talks turn favourable, INR could stage a meaningful reversal, making it one of the few high-yielders with upside potential in 2026.

Conversely, IDR and PHP may remain vulnerable. For Indonesia, narrowing real rate spreads and expectations of further BI easing point to continued pressure on the rupiah. Fiscal concerns and sensitivity to rate differentials amplify downside risks. The Philippine peso faces similar challenges, with sluggish growth and tariff headwinds weighing on sentiment. Both currencies are likely to diverge from broader USD trends, reflecting local structural weaknesses.

The bottom line is that, while tariff risks and growth uncertainty persist, valuation and structural fundamentals will drive performance. We favour CNY and KRW among the low-yielders and see selective upside for INR among high-yielders, while maintaining a cautious stance on IDR and PHP.

USD/CNY: Under control

Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
USD/CNY	7.12	Neutral	7.10	7.10	7.05	7.05

PBoC stance remains the key for CNY: In 2025, the People's Bank of China demonstrated not only the willingness but also the capability to maintain currency stability amid heavy market pressure. There is little to suggest that a change in position is imminent, as currency stability plays into several main objectives. The first is to provide a favourable backdrop to support China's "going out" objective of expanding outward investment of Chinese firms. The second is the consideration of maintaining domestic confidence, avoiding capital outflow pressure from households and maintaining purchasing power. The third is the broader renminbi internationalisation angle, where China is taking an intermediate step by encouraging increased usage of the RMB for settlement purposes. Barring a major change in priorities, the PBoC will continue to keep USD/CNY relatively stable, and the CNY will remain a low volatility currency versus the USD. We expect that USD/CNY may trade in a range of 6.90-7.30 next year.

Narrowing yield spreads could continue to support CNY: US-China yield spreads have narrowed in 2025, helping support the CNY this year. With the Fed rate cut cycle underway and our house view for another 75bp of cuts ahead, and only 20bp of cuts expected in China next year, this trend could continue into the next year. The key implication of this will be reduced incentive to hold foreign currencies versus the CNY.

Exporters remain a wildcard for CNY strength: Historically, China's current account has a clear correlation with the CNY, with the logic being that as Chinese exporters make sales in foreign currencies, they ultimately convert this money back into CNY in order to pay expenses and make new investments. However, this correlation has weakened in recent years, starting in 2022 and derailing entirely in 2024. We see three main reasons for this – first, the US rate hike cycle led to US-China yield spreads moving considerably in favour of the US for the first time in well over a decade. Second, we saw less demand for exporters to bring money back to China, as economic pessimism has started to cut the demand for new investment in China, and as deflationary pressures reduced expenses. Third, a strong CNY weakening consensus expectation had set in. The big questions for next year will be: are exports going to stay resilient, and will exporters start to bring money back to China? If so, CNY appreciation risks could be bigger than expected.

USD/IDR: Fiscal and monetary concerns locally

Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
USD/IDR	16654.00	Neutral	16600.00	16700.00	16700.00	16800.00

Rate differentials turning against IDR: The Indonesian rupiah was among the few regional currencies that failed to track DXY's decline in the first half of 2025, diverging sharply from the broader trend. This disconnect largely reflects narrowing yield spreads, which have tilted in favour of the USD. Real rate differentials between Indonesia and the US remain a key driver of the currency pair, but these have compressed as Indonesia's 10-year real rates corrected. Rupiah weakness could persist given its high sensitivity to rate gaps and our expectation of another 50bp Bank Indonesia rate cut this cycle. Meanwhile, robust FII debt inflows that supported IDR earlier have reversed following Finance Ministry changes and a large fiscal stimulus rollout, triggering significant outflows in Sep-Oct 2025 that may continue.

Fiscal easing concerns alive: The government has rolled out additional growth-oriented initiatives, including a third stimulus package and transferring surplus funds to state-owned banks to accelerate priority programmes. While these steps signal a clear shift toward a more accommodative fiscal stance under Finance Minister Purbaya Yudhi Sadewa, their immediate impact on growth appears limited. Meanwhile, sluggish revenue growth keeps fiscal risks in focus. Adding to market unease were consecutive rate cuts and a draft bill on Bank Indonesia proposing granting parliament the authority to remove the central bank governor or board members, raising concerns over the erosion of monetary policy independence.

One of the weakest current account balances in the region: Indonesia's current account shifted to a \$3bn deficit in the second quarter of 2025 from near balance in the first quarter, and pressures are likely to intensify. Export growth to the US, which surged over 30% YoY previously, slowed sharply to just 3% in August. At the same time, foreign bond investors remain cautious about Indonesia's fiscal outlook. This mix of weaker trade performance, worsening rate differentials and fiscal concerns could drive IDR lower vs the USD. We think risks to our weak IDR profile are tilted to the downside, given the investor concerns around the independence of governing institutions – which is likely to keep FII inflows at bay.

USD/INR: Fundamentals good if trade pressure abates

Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
USD/INR	88.70	Mildly Bearish ↘	88.25	88.00	87.50	87.00

Securing a trade agreement remains critical: The Indian rupee has been an underperformer in the region, as it stands out as one of the few major Asian economies yet to strike a trade deal or truce with the US – while also facing a very punitive tariff rate of 50% on its exports to the country. Consequently, Indian exports to the US plunged by 30% in September from July after the tariffs were implemented. While both sides maintain that they are making progress in negotiations, an agreement has not come through. Key sticking points include India's continued purchases of Russian oil and its reluctance to open the agriculture sector to the US. We estimate that full tariff pass-through without a trade deal could cost India 0.6–0.7% of GDP, posing a significant downside risk to growth unless an agreement is reached. However, this is not our base case, and we expect some sort of trade deal between the two countries over the next few months.

Rate cuts likely to address growth slowdown: Looking ahead, GDP growth is expected to moderate over the coming quarters but remain the strongest in the region. While recent goods and services tax reductions may offer partial relief to consumption growth, focus on export diversification should make the descent gradual. Moreover, CPI inflation remains well-contained, with the Reserve Bank of India revising its full-year 2026 forecast lower once again from 3.1% to 2.6%. Rate cuts in 2026 are a distinct possibility, especially if India can't improve tariff terms with the US. However, the timing of additional cuts may be complicated by the central bank's focus on improving monetary policy transmission. Despite previous easing measures, transmission to lending rates has lagged, limiting the impact on domestic demand. Until this gap narrows, the RBI may proceed cautiously, balancing the need to support growth against the effectiveness of its policy tools. Overall, the rate differentials should continue to remain in favour of INR.

Short-term pain, long-term gain: Net FII inflows into India's equity market rebounded to \$2.5bn in October after a sharp cumulative withdrawal of \$6.5bn over August and September. Debt markets continued to attract foreign inflows, supported by sustainably lower CPI inflation, favourable bond dynamics, strong fiscal discipline, and expectations

of potential rate cuts. Supply chain diversification should further bolster INR through steady FDI inflows. While we expect India to eventually secure a lower tariff rate – providing upside for INR in 2026 – the prevailing uncertainty around tariffs may weigh on investor sentiment in the near term. A key risk to our 2026 view is fewer-than-expected Fed rate cuts, which could compress rate differentials and exert pressure on INR.

USD/KRW: Persistent strong dollar demand to hold KRW near 1,400

Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
USD/KRW	1454.00	Mildly Bearish ↘	1425.00	1400.00	1375.00	1375.00

Better macro conditions, less volatility: We expect macro conditions to improve in 2026, driven by 1) GDP returning to 2.0%, 2) a strong chip cycle supporting exports, 3) the Fed cutting rates (75bp) faster than the Bank of Korea (25bp), and 4) domestic political stability supporting growth policies. We believe that this should help reduce KRW volatility compared to this year – but may not necessarily result in a strong appreciation of the won. While external factors related to the US economy may cause some fluctuations, domestic conditions are likely to keep the KRW relatively stable next year. Authorities are also aiming to stabilise the currency as they pursue DM equity status in the coming years, likely limiting any one-way excessive rise above 1,450.

Net foreign assets are now a key factor: Over the past couple of years, we've observed that a weak performance for the Korean won and the conventional correlation between the current account surplus and KRW appreciation – as well as the relationship between equity market performance and currency strength – has weakened. Despite improvements in exports, dollar inflows have not increased as exporters hold onto USD for their FX risk mitigation and overseas cash payments. Also, overseas investments, particularly in US equities and direct investments, have surged, increasing demand for the dollar. Net foreign assets now largely determine FX movements; while increased NFA boosts external financial stability, it also maintains pressure on the KRW. In addition, the recently agreed annual investment of \$20bn in the US is expected to increase existing USD demands.

1,400 to be the new normal for the KRW: The latest positive development for the KRW was the completion of negotiations with the US, which included securing 15% tariffs on autos and parts, along with a phased approach to the US investment commitment. KRW gained almost 1% on that day. However, it didn't last long. With the main Korea-specific risk factor fading, the global dollar trend prevails when it comes to the KRW's movements. If we are right about a December Fed cut, then USD/KRW should calm down to 1,425. In 2026, additional Fed rate cuts and WGBI inclusion from April are projected to result in a moderate gain in KRW during the first half of the year. Nevertheless, following the completion of easing cycles by two central banks in the first half of 2026, the persistent inversion of US-Korea interest rates may give upward pressure on USD/KRW once again. Should the environment of structurally low growth and interest rates persist, it is likely that the KRW will establish a new equilibrium near the 1,400 level.

USD/PHP: Peso negatives stacking up

Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
USD/PHP	58.96	Neutral	58.50	58.50	58.75	58.75

Downside risks to growth have increased: GDP growth held firm at 5.5% in the first half of 2025, but sharp cuts in government spending during August and September (following recent corruption scandals) signal that growth in the Philippines is likely to

disappoint for the year. Government expenditure fell 7.5% year-on-year in September, pulling cumulative growth for the first to third quarter down to a modest 5.2%, compared to 11.6% during the same period in 2024. The economy likely suffered significant losses over the past two years due to corruption-linked schemes, and historical precedent suggests that heightened scrutiny after such scandals often triggers prolonged fiscal tightening. Risks to our 2026 GDP growth forecast of 5.8% are clearly skewed to the downside, compounded by uncertainty over public infrastructure spending, which suggests that the rate-cutting cycle is likely not over yet.

Weaker external balances suggest weaker PHP: The Philippines' balance of payments deteriorated sharply in 2025, posting a \$5bn deficit versus a small surplus in 2024. Goods exports remained resilient, up 13% YoY YTD, but services exports contracted 1% YoY in the first half of the year, resulting in a wider current deficit, while FDI inflows fell by 30% YoY. Recent tariff adjustments – lower duties on China and an increase in the Philippines' own tariff rate to 19% from 10% – could erode previous tariff differential advantages. We see downside risks to the Philippines' external balances from potential US legislation – the "Keep Call Centres in America Act of 2025" – proposed by President Trump. The bill would require businesses to notify the Department of Labor before relocating call centres overseas, which could weigh heavily on the country's Business Process Outsourcing (BPO) sector. The industry contributes 8-10% of GDP, with North America accounting for roughly 70% of its market. If enacted, the impact on growth and foreign exchange inflows could be significant.

Improved foreign debt inflows could give temporary support: On a positive note, Finance Secretary Ralph G. Recto confirmed that J.P. Morgan has placed the Philippines on its Index Watch-Positive list, signalling progress toward GBI-EM inclusion. This could unlock significant foreign demand for peso-denominated government bonds, in turn improving liquidity. Foreign holdings are currently estimated at 5.5-6%, and with further Bangko Sentral ng Pilipinas rate cuts and index inclusion prospects, we expect sustained inflows into the local bond market. On balance, we expect external balances to weaken and the BSP to maintain a less defensive stance, which should keep PHP biased to the downside over the medium term. That said, the anticipated Fed easing could offer some near-term support for the currency in this year's fourth quarter.

USD/SGD: Low tariffs and less dovish MAS help SGD

	Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
USD/SGD	1.30	Neutral	1.30	1.29	1.29	1.29	1.29

Better than expected GDP growth performance: The local economy outperformed in the first half of the year, driven by robust manufacturing and export activity. The latest third-quarter GDP data released today reinforces this momentum, with growth accelerating to 2.9% year-on-year – well above the consensus forecast of 2%. Moreover, the initially feared impact of US pharmaceutical tariffs on Singapore's exports has eased significantly. Singapore's pharmaceutical exports to the US are largely composed of generic drugs, which are less affected by the proposed 100% tariffs targeting branded pharmaceuticals. Additionally, direct investments by Singapore-based pharma companies in the US are expected to further cushion the impact, helping maintain market access and mitigate potential disruptions.

Less dovish MAS: We've observed that the Monetary Authority of Singapore has become less dovish and appears more confident that the impact of tariffs and the extent of the economic downturn will be contained. There's still room to ease, especially with CPI inflation remaining modest within the 0.5-1.5% target range for 2026 amid slowing

accommodation and transport inflation – yet any further policy adjustment will likely require clearer signs of economic weakness. Specifically, we think the MAS would need to see growth slow enough to push the output gap back into negative territory – versus its current projection of a zero in 2026 – before considering further easing.

Outperformance likely on strong fundamentals: While SGD NEER has fallen from the top of the band, it could get further support in the fourth quarter as the Fed is expected to cut rates. Singapore is best placed in the region with the lowest tariff rate of 10%, while the implementation of pharma tariffs has been postponed. Both factors should continue to benefit export growth. With the MAS striking a less dovish tone and strong FDI inflows supporting the external balance, the Singapore dollar could stay firm – unless we see a meaningful rebound in the US Dollar Index (DXY) or a quick deterioration in external balances.

USD/TWD: Exporter influence

Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
USD/TWD	31.00	Mildly Bearish ↘	30.60	30.40	30.20	30.10

Export heavy growth could keep downside for USD/TWD limited: The Taiwan dollar provided one of the bigger stories for Asia this year in May, when we saw the biggest surge of the TWD since 1988. This sparked heavy backlash, as both exporters and under-hedged life insurers highlighted the risks from the sudden appreciation. Since then, TWD volatility has narrowed sharply, and the TWD has unwound almost half of the appreciation from earlier in the year. Domestic factors in general point to odds for TWD strengthening, but pressure from exporters and insurers could limit the extent to which TWD appreciation is tolerated.

Lasting power of the AI theme could be a big factor to watch: The TAIEX continued to climb to new highs in 2025 and continued to attract net capital inflows for the year. This has been one of the supporting factors for TWD strength, including its surge in May. Further breakthroughs could keep the good times going in Taiwan, while stagnation or a cooling of the AI mania could result in a painful reversal. With Taiwan's positioning at the cutting edge of semiconductors and its equity market flows largely driven by the semiconductor outlook, the TWD stands to be impacted on how the AI narrative plays out.

Yield spreads look to favour TWD strengthening next year: The CBC has remained unmoving for 2025. While inflation has fallen below the 2% target and no longer holds back a potential rate cut, at the same time, growth has far and away blown out all expectations. Even though this growth is rather imbalanced, the case to push for easing looks difficult. We have pencilled in a single 12.5bp cut for 2026, and if the AI-driven export demand continues to hold up, the odds of this cut being further pushed back will increase. Combined with the ING Fed call, US-Taiwan yield spreads should narrow next year and support TWD strength.

Latam: Full metal jacket

It's been a good year for Latam FX on the back of carry demand for the region's high yielders and the boom in metals. Political risk from elections in Brazil and Chile will be present, and US-Mexico trading relations are far from settled. Still, we see the region's currencies staying supported

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Latam overview: politics and commodities to dominate

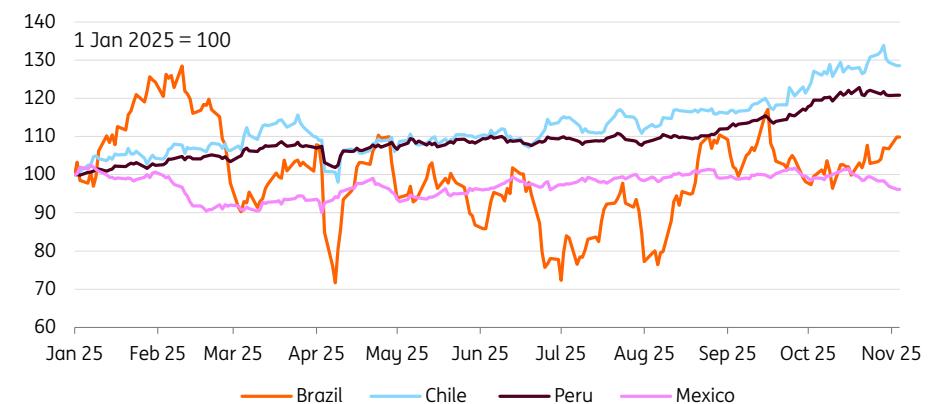
The region's currencies have seen double-digit gains against the dollar this year, and local currencies have certainly benefited from the return to emerging markets from the global investor community.

The legacy of high inflation and a very hawkish Brazilian central bank have made the real the top YTD performer with spot gains of 15% against the dollar and a total return of a whopping 28%. So far, the central bank is showing no signs of easing policy soon. Banxico, on the other hand, remains confident that inflation can hit its 3% target next year and has cut rates by 400bp. Chile's central bank turned dovish far earlier than its local peers, and Chile's peso is certainly not a carry story.

The year ahead also has some big elections. Chile has an election this month, and Brazil will be preoccupied ahead of major elections next October.

Instead, one of the big drivers for the region is the metals story. Copper and gold are flying – which is a major tailwind for countries like Chile and Peru. Substantial terms of trade gains are a dominant theme and continue to favour the metal-backed currencies.

Latam's terms of trade in 2025



Source: ING

Focus on Latam commodities

Copper (Chile, Peru, Brazil)

The outlook for copper is now starting to look brighter, the balance tightening for 2026 amid supply challenges and rising trade optimism. The broader bullish narrative remains supported by structural demand from grid expansion, electrification, and renewable infrastructure, and, increasingly, from data centres and AI infrastructure.

Looking ahead to next year, copper is set to benefit from a supportive macro backdrop, falling US dollar, rate cuts and low inventories.

However, the risk of demand destruction shouldn't be overlooked. Chinese buyers are showing signs of price sensitivity, while US imports have slowed, which could put a ceiling on copper's upside.

In the near term, supply disruptions should keep a floor under prices around the \$10,000/t level. However, for the rally to extend, stronger demand – particularly from China, the largest consumer, will be crucial. We see prices averaging \$10,550/t in 2026.

Iron ore (Brazil, Peru, Chile)

We are more cautious on our iron ore outlook as demand momentum in China softens and new supply comes online. The startup of Rio Tinto's giant Simandou project in Guinea, which holds the world's biggest untapped iron ore reserves, will add significant new supply to the global market, with initial shipments scheduled to start this month.

Slower steel production growth in China – the world's largest iron ore importer – with more steel cuts likely, as well as a shift toward scrap-based output, will further limit upside potential.

China demand remains the driving factor for the iron ore outlook. Further metals-intensive stimulus could lift prices; however, concerns about oversupply and sluggish steel demand will likely limit any significant upside.

Overall prices are likely to trend lower as new supply enters the market and demand plateaus. We expect prices to average \$95/t in 2026.

Gold (Peru, Chile)

We remain positive on our gold outlook, despite the recent pullback in prices, with key supports, including central bank and haven demand, still in place.

We view the correction as healthy rather than a trend reversal, with any further weakness likely to attract renewed interest from both retail and institutional buyers.

We expect ETF buying to continue as interest rates fall, with the pace of buying accelerating following the Fed's dovish pivot in August. We also expect central banks to continue adding gold to their reserves, with South Korea's central bank recently stating that it is considering adding gold to its reserves for the first time since 2013.

Downside risks include a major market sell-off, which could force investors to dump gold to raise cash. Other downside risks include easing safe-haven demand amid easing geopolitical tensions.

We expect gold's downside to be limited and see prices averaging \$4,150/oz in 2026.

Soybeans (Brazil)

Global soybean stocks are expected to finish the 2025/26 season largely unchanged, which has provided support to prices. And the outlook is looking even more supportive following China's suspension of retaliatory tariffs on US farm products, amid a thawing in trade tensions between the US and China. This has seen and should continue to see Chinese buying of US soybeans picking up, offering relief to US farmers. In addition, US biofuel policy should prove constructive, with the EPA proposing larger volumes under the Renewable Fuel Standard when it comes to bio-based diesel, supporting domestic soybean demand. Furthermore, despite soybean prices strengthening this year (while corn prices have come under pressure), the soybean/corn ratio for the next marketing year (2026/27) suggests that US farmers should still favour planting corn over soybeans, which could tighten up the soybean market in the 2026/27 season. However, this ratio can move around quite a lot between now and the planting season in the spring.

The key beneficiary when it comes to trade tensions between China and the US has been Brazil, with China importing larger volumes of Brazilian soybeans – Chinese imports

from Brazil between April and September 2025 were up 13% YoY. Obviously, with a suspension in retaliatory tariffs on US soybeans, this will mean some downside to demand for Brazilian soybeans, pressuring Brazilian soybean cash values. And with Brazil expected to produce yet another record soybean harvest in 2025/26, this should only put further pressure on Brazilian cash values. In addition, the view of broader USD weakness going into 2026 will eat into the competitiveness of Brazilian soybeans, relative to those from the US.

We are currently forecasting CBOT soybeans to average around \$11.50/bu in 2026, although clearly much will depend on both trade and biofuel policy.

USD/BRL: Real staying supported into the election year

Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
USD/BRL	5.33	Mildly Bullish 	5.40	5.50	5.50	5.50

Loose fiscal and tight monetary policy keeps real bid: Investors in the Brazilian real have enjoyed a really good year. The central bank's response in late 2024 to the government's loose fiscal policy now means that the policy rate is at 15%. This compares to 2026 inflation expectations at 4.3% and generates a double-digit real policy rate. Listening to the central bank, it seems in no hurry to cut rates and instead publicly wonders whether a prolonged period of policy rates at 15% is enough to bring CPI back to its 3% target (+/- 1.5%). Running into an election year as well, it looks unlikely the government will be interested in tighter fiscal policy either. The 15% policy rate should mean, however, that GDP slows from the 3% area to the low 2% area through 2026 and 2027. Given our views of a carry-friendly 2026, we favour the real continuing to outperform the end-2026 forward (5.90) and consensus (5.70).

US trade threats prove weak: The summer increase of US import tariffs on Brazil to a rate of 50% has had little impact on Brazil. That's partly because quite a few products are exempt from the tariffs, including civil aircraft and industrial metals/ore. But it is also because the US is a relatively small trade partner for Brazil these days. 85% of Brazil's largest export, soybeans, goes to China. Most expect that China buying a few US soybean cargoes will not mean much for Brazil. And Brazil's current account deficit at around 2% of GDP looks manageable. Additionally, Brazil's FX reserve holdings at over \$300bn look ample to deal with any real weakness. Recent IMF calculations suggest a 10% decline in the real could add 1.2% to inflation for lower incomes. Neither the central bank nor the government would welcome a weaker real in 2026.

Lula rides again: President Luiz Inácio Lula da Silva has once again nominated himself as the Workers' Party (PT) candidate for next October's presidential election. The right-wing candidate remains to be seen. Former president Jair Bolsonaro is currently under house arrest and appealing a 27-year prison sentence for an attempted coup d'état. It's unclear whether his wife or son will run in his stead, or whether some of the other right-wing or centrist parties can muster a candidate. Polls currently suggest Lula would beat any of those potential candidates in the first round and in a run-off. The downside risk for the real in 2026 is that growth somehow disappoints and President Lula overreaches into government giveaways to improve sentiment. For example, his team are currently backpedalling from an idea to offer free public transport to all. The fiscal side has always proved to be the real's Achilles heel and should be monitored carefully.

USD/MXN: Praying that Trump leaves USMCA alone

Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
USD/MXN	18.38	Mildly Bearish ↘	18.25	18.25	18.25	18.00

Major focus on the auto sector: Mexico's economy has understandably been sluggish this year, given all the uncertainty north of the border. Though still benefiting from the tariff-free USMCA trade deal, which covers 50% of its exports to the US, Mexico's auto industry is still exposed. Here, 40% of its auto content is thought to be non-US, leaving Mexico with an average tariff rate of around 15% on its exports. And having seen GDP grow in the 3-4.5% area in 2021-2023, 0.5% growth this year is seen as a poor outcome. One extra source of uncertainty comes from whether remittances from the US to Mexico stand to be taxed. This flow still creates some \$5bn+ of peso demand each month. But the US Congress is now debating whether these flows should be taxed at 3.5%. And Mexican politicians will be praying that Washington does not want to open up the USMCA trade deal for discussion again ahead of its review in July 2026.

Banxico thinking of cutting rates to 6.50%: Unlike its counterpart in Brazil, Banxico has no qualms about cutting rates further. Headline CPI is estimated to hit its 3% target around the third quarter of 2026, and Banxico looks like it will track the Fed with rate cuts. Our house call is for three more 25bp Fed cuts. If matched, Banxico would bring its policy rate down to 6.75% – slightly below what's priced in money markets at the moment. Some estimates put the Mexican real neutral policy rate in the 2.00-3.50% area. Working off a 3% inflation target, a neutral policy rate for Banxico could be near 6.50%. Further rate cuts from Mexico would lessen its carry appeal (especially relative to Brazil), and this is one of the reasons we see USD/MXN struggling to break below 18.00 next year.

Local politics in focus: President Claudia Sheinbaum is seen to have had a successful first year in office. Her approval ratings remain above 70% – largely since she is seen as having deftly handled negotiations with President Trump. Global markets have largely moved on from the story of judicial reform, which rocked the peso in summer 2024. Looking ahead into 2026, her plans will be to progress 'Plan Mexico', aiming to shift Mexico from the 12th to the 10th largest global economy – largely through investment and reducing dependency on Asian imports. The ability to progress on any of this will be welcomed by markets, particularly if it can raise anaemic growth levels. Any shift away from this and fiscal responsibility towards social spending ahead of the 2027 mid-term elections would alternatively weigh on the peso.

USD/CLP: Time for peso to play catch-up

Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
USD/CLP	946.00	Mildly Bearish ↘	925.00	925.00	900.00	900.00

Time to reconnect with copper: Supply factors have sent copper sharply higher this year, and Chile's terms of trade have surged a huge 35% from April's low point. Ongoing demand for Chile's copper – used in many parts of the energy transition story – should remain a big plus for the local peso. Remember as well that 99% of Chile's copper exports to the US are refined cathodes, which enter the US tariff-free. In theory, then, 2026 should be a good one for Chile. Real interest rates are down to around the 1.5% area now, and solid growth near 2.5% is expected in 2026 and 2027. The central bank is still holding off on one final rate cut from its current 4.75% level, but the market expects the policy rate to end next year at 4.50%. Chile's current account deficit is wide-ish at 2%+ of GDP and bears watching.

Treasury buys peso, central bank sells: USD/CLP historical volatility is now down to levels last seen in 2019. The 900-1000 range seems well-worn. On one side, Chile's Finance Ministry sells \$300m each week as it converts proceeds from FX bond auctions and other incoming FX. On the other side, Chile's central bank is buying \$25m per day to achieve \$18bn of growth in FX reserves over the next three years. This is seen as a way for Chile to ease itself off a two-year IMF Flexible Credit Line without impacting its sovereign ratings. We also note that Chile's FX reserve adequacy is low relative to its peers – i.e., with an IMF ARA metric near 80% compared to the recommended 100-150%. Recall that Chile lost about one-third of its FX reserves in 2022 when pandemic pension reforms blew out the current account deficit and prompted a defence of the peso. We think central bank FX intervention would step up should USD/CLP look to trade sub-900.

16 November election could surprise: Chile goes to the polls on 16 November to vote for a new president. Polls this year have widely favoured the market-friendly, centre-right candidate of Antonio Kast. He would be replacing the current socialist President Gabriel Boric. The communist party candidate, Jeannette Jara, is seen well behind in the polls. However, running up fast on the rails is libertarian candidate Johannes Kaiser. Amongst many of his eye-catching plans to shrink the state, one is to nationalise the state copper miner, Codelco. It's safe to say there would be no shortage of international buyers for such a prized asset, and presumably the peso would get a strong lift were it to look like Kaiser were ever to take office. We would also want to see what would happen with pension reform. The decision to give citizens access to pensions early in 2022/23 triggered a consumption boom and weighed heavily on Chile's sovereign risk and the peso.

Carry in 2026: Crossing into the frontier

Emerging markets are on a roll. Benchmark local currency bond indices are up 16% year-to-date, and some frontier indices even more so. In what should be a good year for FX carry, we explore where investors may go next as they explore deeper into EM

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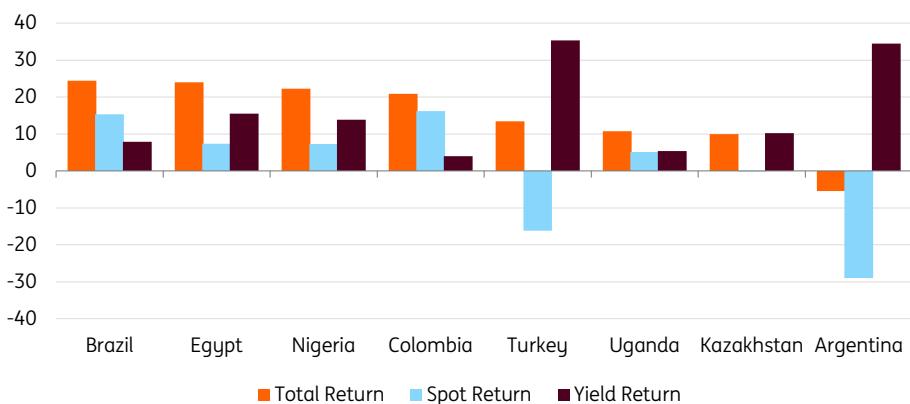
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A good year for EM

2025 is proving to be a surprisingly good year for emerging markets. Neither the dollar nor benchmark US Treasury yields have surged, nor has global trade collapsed as much as first feared at the start of the year. Low interest rate volatility has favoured the carry trade in many asset classes, including in FX, developed credit and emerging markets. Popular local currency EM bond indices, such as the JPM GBI-E, are up around 16% year-to-date – matching the AI-powered S&P 500 rally.

And in FX markets, investors have pushed even further out the credit curve and into high-yield EM. Turkey has been a familiar carry trade story for quite a few years, but now the hot markets are the Egyptian pound and the Nigerian naira. These two countries, along with Brazil, have delivered 20% total returns year-to-date when funded out of the dollar. The two also represent the ‘frontier’ basket of currencies, those higher-yielding/low-rated EM currencies which do not make it into indices like the JPM GBI-EM. Indeed, we are seeing the creation of more frontier indices now based on investor demand.

YTD carry trade performance in 2025, funded out of USD



Source: ING

But as we know with carry trading investing, it can be like picking up pennies in front of a steamroller. And the risk and reward increase the further one moves along the EM credit curve. Speaking to customers recently, we’re hearing more interest in the currencies of Kazakhstan, Uzbekistan, Uganda and even recovery plays in the widow-making Argentine peso.

To help customers navigate through some of the 2026 risks associated with these existing and new carry trade stories, below we provide a high-level overview and also some indication of trading volumes in this year’s sell off in the Turkish lira.

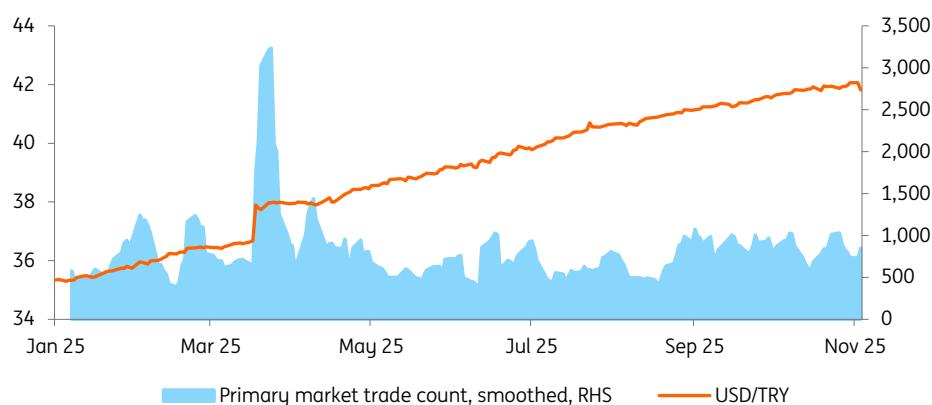
High reward, high risk

Some plays in the markets are purely aimed at beating the forwards. In Turkey, for instance, international investors typically trade spot and roll it daily on the belief that local authorities won’t allow the lira to fall more than what is priced into the forwards.

Any play in the Argentine peso would be similar, too, by expecting the managed ARS depreciation to be less than priced into the forward curve. Egypt and Nigeria are proving different propositions – these offer high yields and have delivered nominal appreciation too. So has the Brazilian real.

Before looking at the individual currencies, their regimes and their risks, first some transaction data. Data on daily USD/TRY trading volumes shows how crowded positions were unwound in March this year. The arrest of the Istanbul mayor prompted a rush to the exits from long lira positions, with state banks briefly losing control of the currency. That saw an intra-day 12% drawdown in spot lira positions and much more for those positioned further out the forward curve. The ability to understand the size of positioning and the local central bank's commitment to defending the target currency's downside are therefore two important variables here.

USD/TRY versus trade count data



Source: Reuters, ING

The outlook for key carry trade targets

Turkey (TRY)

When adjusted for carry-to-volatility, the Turkish lira remains one of the more appealing carry trade opportunities among emerging market currencies, despite a decline in its return over time with the Central Bank of Turkey's rate cuts.

Looking ahead to next year, this favourable positioning is likely to persist. The CBT is likely to maintain elevated real interest rates for an extended period; the prevailing story is slower-than-expected disinflation, as we have seen this year so far. In fact, investor positioning in the carry trade has recently stood at around \$47bn after a drop in the third week of October. This was the largest weekly move since the political developments in March – though still approximately \$10bn higher than levels seen before the March volatility.

The challenge is that there may be limited room left for further appreciation of the lira. For disinflation efforts to succeed, improvements in pricing behaviour and inflation inertia will be necessary; relying solely on exchange rate stability will not be sufficient. Also, while political developments have had a relatively muted impact on Turkish assets since early September, it would be premature to dismiss the possibility of more significant political news affecting markets in the future. Still, the CBT is considerably better equipped in terms of reserves, rates and macroprudential instruments to support FX stability in the event of outflows. We also do not anticipate a significant rise in dollarisation as the bank continues to manage the exchange rate with a prudent approach.

Hungary (HUF)

All good things must come to an end, and we see a decent chance that the Hungarian forint's rally will end in 2026. While our base case scenario sees the National Bank of Hungary sitting tight until next autumn, weak economic activity and temporarily low inflation (due to government measures) may prove too tempting to resist, prompting a change in the recent hawkish monetary policy setup. An unexpected interest rate cut would swiftly have a negative impact on the forint.

Besides monetary policy, politics could also come into play, altering market sentiment. The possibility of one of the factors behind the strength of the HUF being pre-election positioning cannot be ruled out. For the first time in a long time, there might be a change of government. The market views a potential victory for the opposition party in spring 2026 as favourable for the forint due to its pro-EU stance and the prospect of a Polish-style overhaul of EU funding. Against this backdrop, if national-conservative Fidesz wins the election, or if there is a strong indication before the election that it will win, market players will likely start to question the feasibility of accessing the full EU fund envelope. This could limit the possibility of a continued, sentiment-driven HUF rally in 2026.

Another risk stems from the sovereign credit rating. We cannot rule out a sovereign credit downgrade. Moody's is set to review Hungary's rating on 28 November, followed by Fitch on 5 December. Due to weaker-than-expected short- and mid-term economic activity and a weaker fiscal situation than projected earlier, Moody's may downgrade Hungary to 'Baa3'. This would see Moody's join S&P in keeping Hungary just above the non-investment grade line. Such a move could prompt a rules-based sell-off by investors with conservative policies.

While all of these risks skew towards a weaker forint, it is still possible that none of them will materialise. It is still possible that market players will keep calm and carry (trade) on. Nevertheless, we predict a EUR/HUF range of 390-395 in the second half of 2026, acknowledging that some combination of these risks, or even their mere existence, will influence investors' thinking and positioning in the coming quarters.

Egypt (EGP)

Egypt has returned as an investor darling over the past year, with reforms improving the outlook following the huge disbursement of Gulf money seen in early 2024. Since then, the currency has been allowed to float relatively freely, a key condition for IMF support. After some further weakness following last year's sharp devaluation of the pound, the currency has gradually strengthened since April this year.

Alongside the exchange rate flexibility, the central bank has maintained a fairly tight policy stance, gradually reducing its policy rate from 27.75% to 21.5%, while inflation has fallen sharply to below 12% from 24% at the start of the year. This policy setup has made Egypt an obvious choice for the carry trade, and sentiment is likely to remain positive, with the current account deficit narrowing, FX reserves rising, and growth momentum improving. The sovereign risk premium has also narrowed markedly, with sovereign credit spreads now at near 360bp on average, from over 1500bp in mid-2023.

Against this backdrop, a key risk here is the heavy positioning and consensus nature of the bullish view of Egyptian local debt. Egyptian T-bills are an investor favourite, with foreign holdings of almost \$40bn equivalent on a fairly lagged basis (latest data May 2025), representing some 40% of the total stock. At the same time, progress on fiscal consolidation has remained fairly slow, with high government debt levels above 80% of GDP and a fiscal deficit of 7.1%, driven by enormous interest costs. Geopolitical risk also remains a topic that could flare up again, with the Suez Canal disruption weighing on

export receipts in recent years – although some optimism has at least come from the US-brokered peace deal in Gaza.

Nigeria (NGN)

Despite recent headline noise and threats from the US about military action over religiously motivated violence from militant groups, Nigeria has also firmly reestablished itself among investor favourites, given decent reform progress. Similar to Egypt, exchange rate flexibility has formed the cornerstone of market liberalisation. The central bank has recently started easing monetary policy, although inflation has proved somewhat stickier.

Nigeria has also seen a credit rating improvement, and the naira has consistently strengthened since April. This has seen the nation's Real Effective Exchange Rate (REER) strengthen by 35% YoY, but shouldn't signal currency overvaluation given the size of devaluation seen across late 2023 – especially when coupled with a solid current account surplus. Other strengths include robust FX reserve coverage that stands out versus frontier market peers, along with strong headline fiscal metrics (primary surplus, government debt below 40% of GDP).

Along with the renewed political risk from President Trump's comments, Nigeria does suffer from poor revenue generation, in particular outside of hydrocarbon receipts. In terms of headline risk, elections are also scheduled for early 2027, which are also driving some expectations of fiscal loosening next year.

EM sovereign fundamental heatmap

Country	Rating (Composite)	3-month implied yield (%)	Real policy rate (%)	REER change (YoY%)	Reserve coverage (Months of CAP)	Reserve change (YoY%)	Current account balance (% of GDP)	Fiscal balance (% of GDP)	GDP growth (YoY%)
Core									
Brazil	BB	13.5%	9.8%	3.6%	8.4	-4%	-2.5%	-8.4%	2.4%
Chile	A	3.8%	0.3%	-3.8%	4.1	4%	-2.5%	-2.1%	2.5%
China	A+	1.6%	3.5%	-4.1%	12.0	3%	3.3%	-8.6%	4.8%
Colombia	BB+	9.0%	4.1%	7.6%	7.5	4%	-2.3%	-6.9%	2.5%
Czech Republic	AA-	3.1%	1.0%	3.9%	7.5	10%	0.6%	-2.2%	2.3%
Hungary	BBB	6.3%	2.2%	4.1%	3.7	9%	1.2%	-4.7%	0.6%
India	BBB-	6.0%	4.0%	-7.9%	8.0	-1%	-1.0%	-7.1%	6.6%
Indonesia	BBB	5.1%	1.9%	-7.7%	5.1	-1%	-1.1%	-2.8%	4.9%
Malaysia	A-	2.9%	1.2%	-0.8%	4.4	3%	1.5%	-3.6%	4.5%
Mexico	BBB	7.6%	3.7%	6.6%	4.0	12%	-0.2%	-4.3%	1.0%
Peru	BBB	5.1%	3.0%	4.4%	10.5	6%	1.8%	-2.4%	2.9%
Poland	A-	4.3%	1.5%	1.5%	5.9	20%	-0.7%	-7.0%	3.2%
Romania	BBB-	5.8%	-3.4%	5.7%	5.5	16%	-8.0%	-8.2%	1.0%
South Africa	BB-	6.5%	3.6%	-0.7%	5.4	10%	-0.9%	-6.0%	1.1%
Thailand	BBB+	1.9%	2.3%	0.3%	8.0	12%	1.7%	-2.6%	2.0%
Turkey	BB-	34.2%	6.6%	3.0%	5.2	18%	-1.4%	-3.7%	3.5%
Uruguay	BBB+	7.7%	3.9%	1.9%	8.2	-2%	-1.4%	-3.3%	2.5%
Frontier									
Argentina	CCC+	32.0%	1.2%	-13.6%	4.2	49%	-1.2%	0.4%	4.5%
Costa Rica	BB	3.3%	4.5%	-1.5%	4.6	13%	-1.9%	-3.2%	3.6%
Egypt	B-	18.0%	9.8%	4.0%	4.4	6%	-5.1%	-12.4%	4.3%
Kazakhstan	BBB	15.6%	5.4%	-9.6%	6.5	29%	-3.8%	-2.5%	5.9%
Kenya	B-	6.5%	4.7%	-0.3%	4.7	42%	-2.8%	-6.0%	4.8%
Morocco	BB+	2.2%	1.8%	2.3%	6.4	23%	-2.3%	-3.8%	4.4%
Nigeria	B-	15.6%	9.0%	34.1%	7.4	9%	5.7%	-2.9%	3.9%
Pakistan	B-	8.4%	4.8%	-2.4%	3.5	35%	0.5%	-5.3%	2.7%
Serbia	BB+	4.3%	2.8%	1.5%	6.9	7%	-5.3%	-2.7%	2.4%
Uganda	B-	9.0%	6.3%	5.7%	3.1	53%	-5.0%	-6.7%	6.4%
Ukraine	SD	14.3%	3.6%	5.8%	5.0	20%	-16.5%	-21.3%	2.0%
Uzbekistan	BB-	14.3%	6.2%	4.8%	12.7	34%	-2.4%	-2.4%	6.8%
Vietnam	BB+	6.7%	1.3%	-6.7%	2.2	-2%	4.0%	-3.3%	6.5%

CA, fiscal, growth data is IMF WEO forecast for 2025; reserve data is latest available; real policy rate uses current realised inflation

Source: Macrobond, Refinitiv, IMF, Bruegel, National sources, ING calculations

Uganda (UGX)

A less high-profile name, but Uganda has recently generated decent investor interest, in particular given expectations for growth momentum to increase in the coming years on the back of oil sector development. At the same time, local markets are fairly well developed compared to many peers in Africa, with credible central bank inflation targeting offering elevated real rates that have been relatively stable in recent years.

The exchange rate has been relatively flexible in recent years, strengthening by some 13% since early 2024. Meanwhile, the nation's current account deficit is expected to narrow and has largely been covered by FDI inflows. The domestic market offers a well-developed yield curve out to 20-year maturities, while the majority of external debt is on concessional terms to official creditors.

However, FX reserves are relatively low, which presents a risk alongside persistent twin deficits. The nation has restarted talks with the IMF over a potential new deal, after the last funding package ended in 2024 without all funds being disbursed. The composition of government debt is worsening, with less concessional financing available, while debt servicing costs have also been rising. In terms of event risk, elections in January 2026 could also see the potential for opposition-led protests and political instability.

Kazakhstan (KZT)

Kazakhstan's exchange rate regime is officially free-floating, though domestic FX dynamics are influenced by government and central bank operations. The sovereign wealth fund (NFRK) sells some of the FX it collects as oil tax to finance part of the fiscal deficit, while the National Bank of Kazakhstan (NBK) conducts net FX operations linked to the state pension fund management and domestic gold purchases. Currently, combined state net FX sales amount to about \$1.0-1.5bn per month, providing structural support to the tenge.

Looking ahead, if fiscal consolidation materialises in 2026, these FX sales will decline, leaving the tenge more reliant on private trade and capital flows. Without simultaneous improvement in the current account (currently in deficit) and liberalisation of foreign access to domestic securities, liquidity in the local FX market could tighten, amplifying volatility risks.

Uzbekistan (UZS)

Uzbekistan's exchange rate regime operates as a crawl-like system, with the central bank actively smoothing short-term volatility and acting as the priority buyer of domestically produced gold. Despite these interventions, structural pressures have driven a long-term depreciation: the Uzbekistani som lost 81% of its value against the USD between 2014 and 2024, making it the weakest performer in the CIS space. In 2025, however, a surge in global gold prices, fiscal consolidation, and moderating inflation enabled the UZS to appreciate 7% in January through to October 2025, attracting speculative interest. If gold prices remain near \$4,000/oz, gold exports could double by 2026 versus 2024, improving investor sentiment. Still, Uzbekistan remains a twin-deficit economy with elevated CPI, warranting caution on the durability of this appreciation trend.

Azerbaijan (AZN)

Azerbaijan maintains a stabilised arrangement, according to the IMF, with the manat pegged at 1.70 per USD since 2017. External buffers are substantial: combined assets of the central bank and SOFAZ oil fund total about \$80bn (c.100% of GDP) as of mid-2025, providing a strong defence against short-term shocks, as seen during the 2020 oil price collapse. However, the current account surplus is narrowing amid stagnant exports and rising imports, pushing the breakeven oil price from \$40/bbl in 2021 to around \$60/bbl today. Prolonged weakness in global oil prices could revive questions about the sustainability of the peg, though near-term risks remain contained given Azerbaijan's sizeable reserves.

Argentina (ARS)

As a consistent headline generator, Argentina has seen its roller coaster ride continue for much of President Javier Milei's term so far. The economic programme had seen plenty of successes in the run-up to midterm elections, with ratings upgrades, IMF

disbursements, rapid fiscal adjustment and a more flexible exchange rate regime. The peso has been allowed to float within a moving band since earlier this year, leading to general currency weakness amid a modest current account deficit and persistent USD demand from locals.

The most recent bout of volatility saw sovereign credit spreads spike to over 1500bp from below 600bp at the start of the year, with the peso touching the weak end of its band vs the USD. Investor concern was driven by a poor showing for Milei in provincial elections in Buenos Aires in September, before a strong showing of US support (including \$20bn swap line) and a big win for Milei in the midterm elections drove a rapid turnaround. Now, the question remains as to whether the Argentine authorities will be willing – or able – to shift to a more traditional managed floating exchange rate, which could see more short-term pain (if current pressure on the peso continues) but help to correct external imbalances on a medium-term basis.

On the positive side for investors, inflation has fallen significantly from almost 300% YoY to 32% and the fiscal balance has moved into surplus, while the strong performance for Milei in the midterm elections appears to have solidified the US resolve for support, and the country's IMF programme appears to be on track. That being said, risks remain high given that FX reserve coverage is still limited by most measures, while external debt levels and financing needs are elevated. Investors will need to be ready for continued volatility if trying to earn the carry on offer from Argentina's local markets.

Forecasts

	Spot	4Q25	1Q26	2Q26	3Q26	4Q26	Year Ahead Bias
G10							
EUR/USD	1.16	1.18	1.19	1.20	1.21	1.22	Bullish
USD/JPY	154	152	152	150	150	148	Mildly Bearish
GBP/USD	1.32	1.34	1.35	1.35	1.36	1.36	Mildly Bullish
EUR/JPY	178	179	181	180	182	181	Neutral
EUR/GBP	0.88	0.88	0.88	0.89	0.89	0.90	Mildly Bullish
EUR/CHF	0.93	0.92	0.92	0.93	0.94	0.95	Neutral
EUR/SEK	10.99	10.90	10.80	10.70	10.60	10.50	Mildly Bearish
EUR/NOK	11.68	11.60	11.50	11.50	11.50	11.40	Mildly Bearish
EUR/DKK	7.47	7.47	7.46	7.46	7.46	7.46	Neutral
USD/CAD	1.40	1.40	1.40	1.39	1.38	1.36	Mildly Bearish
AUD/USD	0.65	0.66	0.67	0.68	0.68	0.69	Bullish
NZD/USD	0.57	0.57	0.58	0.58	0.58	0.59	Mildly Bullish
CEEMEA							
EUR/PLN	4.24	4.25	4.25	4.25	4.26	4.27	Neutral
EUR/HUF	383	385	389.5	385	390	395	Mildly Bullish
EUR/CZK	24.29	24.34	24.29	24.24	24.18	24.14	Neutral
EUR/RON	5.08	5.09	5.09	5.10	5.15	5.15	Neutral
EUR/RSD	117.22	117.10	117.10	117.00	116.95	116.95	Neutral
USD/UAH	41.89	41.50	41.50	41.90	41.90	42.00	Neutral
USD/KZT	523	535	530	545	555	560	Bullish
USD/TRY	42.23	43.50	46.15	48.40	50.35	52.00	Bullish
USD/ZAR	17.19	17.00	17.00	16.75	16.50	16.50	Mildly Bearish
USD/ILS	3.23	3.25	3.25	3.20	3.15	3.10	Mildly Bearish
Asia							
USD/CNY	7.12	7.10	7.10	7.05	7.05	7.00	Neutral
USD/INR	88.70	88.25	88.00	87.50	87.00	87.00	Mildly Bearish
USD/KRW	1454	1425	1400	1375	1375	1400	Mildly Bearish
USD/IDR	16654	16600	16700	16700	16800	16800	Neutral
USD/PHP	58.96	58.50	58.50	58.75	58.75	59.00	Neutral
USD/SGD	1.30	1.30	1.29	1.29	1.29	1.29	Neutral
USD/TWD	31.00	30.60	30.40	30.20	30.10	30.00	Mildly Bearish
Latam							
USD/BRL	5.33	5.40	5.50	5.50	5.50	5.50	Mildly Bullish
USD/MXN	18.38	18.25	18.25	18.25	18.00	18.00	Mildly Bearish
USD/CLP	946	925	925	900	900	900	Mildly Bearish

Source: ING

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