

# EUR/USD: What's next for euro-dollar?

Here are four potential EUR/USD paths as we try to cut through the global markets gloom. [Click here to download our fuller PDF report](#)



## Our scenario analysis: Click on the image to enlarge

The landscape for global markets is pretty murky but here are four potential EUR/USD paths

Four themes for EUR/USD over the next 12 months

					EUR/USD outlook			
					End of period forecast			
					4Q18	2Q19	4Q19	
Progressively more bearish for EUR/USD	<b>1</b> <b>Euro's Elysian Rally</b> Theme importance for EUR/USD outlook → Reduction in external risks invigorates solid Eurozone cyclical economic forces	<b>Trade wars &amp; protectionism</b> Tariff ceasefire White House takes a step back from its protectionist bias	<b>Political climate in Europe</b> 'Merkon' revival Fresh reform drive in Europe & stable Italian government	<b>Relative ECB-Fed policy outlook</b> Hawkish ECB Early summer 2019 ECB hike risks; Fed hiking cycle priced	<b>Relative EZ-US growth outlook</b> Rotation into EZ Overseas investors see value in Europe as growth recovers	1.28	1.35	1.40
	<b>2</b> <b>Steady Euro Rebound</b> ING house view Euro sees right through Trump's tariff bluffs & recouples with solid economy	<b>Dangling threats</b> Risk of auto tariffs & investment curbs but no escalation	<b>Political stability</b> Merkel resolves CSU issues; Italy also given concessions	<b>Slow and steady</b> ECB still ends QE in 2018 and short-end EUR rates rise	<b>Stable outlook</b> Eurozone equity outflows abate as activity stabilises	1.23	1.30	1.35
	<b>3</b> <b>The World's End</b> EZ politics on a knife-edge but all-out trade war and a dovish Fed limits upside	<b>All-out trade war</b> Slowdown in global trade elicits broad market sell-off	<b>Risks flare-up</b> Risk of fresh Italian elections; Merkel struggles to govern	<b>Global easing</b> Fed dovish U-turn; ECB extends QE through to 2019	<b>Flight-to-safety</b> Investors pile into debt; large external surplus supports €	1.15	1.15	1.15
	<b>4</b> <b>Negative EU Shocks</b> Euro dumped as Trump targets EU car sector while EZ politics is in disarray	<b>US protects cars</b> US puts tariffs on car imports but no RoW retaliation	<b>A lost EU cause</b> Merkel leaves, EU left leaderless; Italy issues mini-BoTs	<b>Hawkish Fed</b> Upside risks to USD rates; ECB hike bets pushed out to 2020	<b>'Sell Eurozone'</b> Eurozone equities sold (local risks); US assets outperform	1.05	1.05	1.10

Source: ING estimates

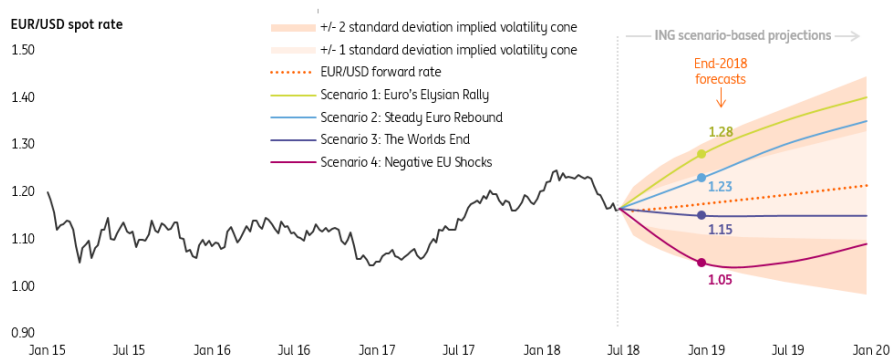
EUR/USD has confounded consensus expectations this year, hit by both intermittent episodes of USD strength and EUR weakness. Of the many factors that will drive EUR/USD over the next

12-18 months, four stand out:

1. Trade wars
2. European politics
3. The relative ECB/Fed policy outlook
4. The relative EZ-US growth (and equity) prospects.

This is taken from our more comprehensive report, which you can [download here](#)

## EUR/USD decline since mid-April has been in large part driven by a rising risk premium



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