

## FX: European re-rating?

Investors were very pessimistic on Europe at the start of the year (and underweight European assets) but there's a case to be made for a modest re-rating of European FX if trade trends calm, China stabilises and clarity emerges on Brexit



Source: Shutterstock

### ➔ USD: A rebound in January industrial production will be welcome

We are starting to see activity currencies in the G10 space perform a little better and there's a case to be made that this trend continues. China and Europe had been the two key areas of concern at the start of 2019 and even though there is still much uncertainty, targeted fiscal stimulus in China (VAT cut 1 April) and some potential clarity emerging on Brexit over coming weeks could improve sentiment - particularly in the traded goods space. This is occurring against a backdrop of exceptionally low cross asset market volatility, where low interest rate volatility in particular (both the Bank of Japan and the European Central Bank are operating off long forward guidance on low rates) is weighing heavily on FX volatility. Today's release of US industrial production for January may support this slightly more optimistic view of the world. We continue to favour: (i) the US dollar staying bid against the Japanese yen, (ii) high yield in general, but (iii) are wary of a modest positive re-rating in European FX. Expect DXY to remain trapped in a 96-97 range.

## ⬆️ EUR: The coming clarity on Brexit may help

EUR/USD has been supported by GBP and we see that trend continuing in the near term. As above, investors were very pessimistic on Europe at the start of the year (and underweight European assets) and there's a case to be made for a modest re-rating of European FX if trade trends calm, China can support its domestic economy and clarity emerges on Brexit. In a week's time we'll see the March PMI releases for the eurozone, which could show some more stability – e.g. will the manufacturing PMI follow services higher? Negative rates in the eurozone don't make EUR/USD an attractive proposition for the time being, but it can probably still limp towards the 1.1370/1400 area. Elsewhere, finally a sensible move in FX markets! EUR/NOK has broken below 9.70, buoyed by high oil prices and the prospect of a Norges Bank rate hike next Wednesday. We favour 9.65 in the short term and 9.50 this summer. The same can be said of the Hungarian forint, where it seems all systems are go for the National Bank of Hungary to start its normalisation process on 26 March. EUR/HUF could see 312.80/313.00.

## ⬆️ GBP: Clarity to emerge next week

Dare we say there are two key paths for Brexit next week? 1) Brexiteers panic and choose to back May's withdrawal agreement, 2) her deal is rejected again and indicative votes start to build a coalition around a softer Brexit. Both paths look supportive for sterling, thus we expect GBP/USD to meet buyers below 1.32.

## ➡️ JPY: BoJ to keep USD/JPY supported

No real changes were seen at the latest Bank of Japan rate meeting. And they will have to deal with a consumption tax hike in October. 112.20 is our short term USD/JPY target.

### Author

#### Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE  
[chris.turner@ing.com](mailto:chris.turner@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the

Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).