

## Fed and USD: Sell the rumour, sell the fact

It's a big day for financial markets today and our team expect a 75bp adjustment lower in the median Fed Funds projection - from one hike to two cuts, which we think will be bearish for the dollar particularly against activity currencies



### ⬇ USD: One way or another, we suspect the dollar will drop

Today's Federal Reserve meeting takes place amidst much speculation over the need for easier policy, where the market now prices just over 90bp of Fed rate cuts by the end of 2020 and attaches an 84% chance to the 31 July FOMC meeting being the start date for the easing cycle.

Somewhat surprisingly we find that when it comes to easier monetary policy, a downward adjustment in the Fed dot plots has [delivered a weaker dollar on seven of the eight instances](#) since projection materials were first released in 2012. Our team expect a 75bp adjustment lower in the

end 2020 median Fed Funds projection (from one hike to two cuts), which we think will be bearish for the dollar particularly against the activity currencies, which are also now supported by news that Presidents Trump and Xi will meet next week) We doubt the political environment will allow the Fed to resist market pressure for easier policy, but even if it did US equities would fall sharply and instead favour a decline in USD/JPY. This is all coming at a time when fund managers believe the dollar is the most over-valued since 2002 and the White House sounds like it's about to embark on a campaign to talk the dollar lower.

We favour DXY stalling at 97.70 and reversing under 97.00 on the FOMC.

(The Fed will release its policy statement and quarterly projections at 2000CET, followed by a press conference from Fed Chair Powell at 2030 CET)

## ➔ EUR: Markets are convinced the ECB will cut

Following a dovish set of comments from Draghi at Sintra yesterday, the market now prices a 10bp ECB cut at the 12 Sep meeting. Lower rates and the prospect of renewed QE will keep the EUR as an under-performer (either versus high yield or versus JPY and CHF, depending on the risk environment). Today, however, the Fed story should keep EUR/\$ afloat in a 1.1180-1.1250 range.

## ➔ GBP: EUR/GBP held in check by ECB easing

EUR/GBP to consolidate 0.8870-0.8930 as market digests ECB easing prospects.

## ➔ BRL: Too early to look for major dovish shift from central bank

Brazil's central bank meets today to set interest rates amidst much speculation over a continuation of the easing cycle – suspended since March 18. Our Chief Latam economist, Gustavo Rangel, believes it's too early to expect a major dovish shift, who will prefer instead to wait for some progress on social security reform and a soft June inflation print before turning more dovish at the July 31st meeting.

We doubt the central bank failing to give bond investors what they want will hurt the BRL too much today, however, a dovish Fed and stronger commodity prices on the back of a glimmer of hope over easing trade tensions should limit USD/BRL top-side well before the 3.90/94 area. Investors will instead be looking to sell any USD rallies for a sizable move to 3.30/40 in 3Q19.

## 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).