

Article | 1 March 2024

FX

## FX: A dollar decline is delayed, not deterred

The dollar is an expensive sell, especially after the recent rise in US treasury yields. In the near term, we could see it hold on to February's gains, but our call for larger Fed rate cuts than market pricing means we still favour a bearish USD profile for the remainder of the year. We target 1.14 in EUR/USD and remain positive on commodity currencies



We think that sticky inflation on both sides of the Atlantic is likely to keep upward pressure on market yields over the coming month

The FX market continues to be an extension of market expectations on Fed policy. The latest data on US jobs and inflation led investors to price out cuts before June and to reduce the anticipated easing package to 75-80bp. The month of February has seen a 50bp bump in the 2-year USD swap rate, which is trading around 4.55%, the highest since November.

So, the dollar has become even more expensive to sell, and dollar bears are now on the hunt for more conclusive evidence on US disinflation/hard landing. That evidence is currently pointing in the opposite direction, at least when it comes to hard data, and this looks unlikely to change abruptly in the near term. This means the dollar can hang around these strong levels for a bit longer, leaving the broader FX market without a clear sense of direction.

Our medium-term FX views remain, however, broadly unchanged, and centred around a dollar

depreciation. We think markets are now underestimating the size of 2024 Fed cuts by around 50bp (our economists forecast 125bp). The pace of the US dollar decline may be only gradual in the next couple of months but should accelerate into the first Fed cut in June and beyond.

We expect to see EUR/USD move to 1.14 by year-end, as a moderately-sized European Central Bank easing package (75bp versus 100bp priced in) should also favour a largely Fed-led EUR:USD front-end rate convergence. In the G10 space, we continue to see good upside potential for commodity currencies, in particular, the undervalued Norwegian krone, Aussie dollar and New Zealand dollar.

In emerging markets, the Chinese yuan should continue to be driven by China-specific factors until US rates move decisively lower and allow USD/CNY to decline sustainably. The upcoming Two Sessions is a key risk event for the yuan and China-sensitive currencies. In Latam, the Mexican peso and Brazilian real may well prove resilient despite ongoing rate-cutting cycles; while in the CEE region, we expect the paths of the Polish zloty (strong) and Hungarian forint (weak) to keep diverging.

The key risks to our bearish dollar view are a potential USD positive/EM negative re-election of Donald Trump, or – from a purely macro perspective – prolonged resilience in US inflation and consequent further delay in Fed easing.

### Author

**Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@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

## **THINK economic and financial analysis**

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).