

## FX Daily: Dollar decline gets a little more serious

The prospect of Democrats taking control of the US Senate has sent US Treasury yields higher and the dollar lower, as investors bet that larger fiscal stimulus could fuel inflation



### 📌 USD: Georgia Senate result adds to reflationary narrative

With 99% of the votes counted in the very tight Georgia Senate run-off it looks as though the Democrats might be able to secure the two seats they require to gain control of the Senate. Vote counting has ceased for the night and a full result may not emerge until noon Eastern Time or late Europe. [ING's James Knightley sees](#) a Democrat win unlocking more of Biden's policies, where, given the fragile state of the economy, the early focus would be on fiscal stimulus rather than regulation or tax hikes. That probably explains the market reaction so far, where the notable move has been US yield curve steepening (US 10-year Treasury yields hitting 1%) and US equity futures slightly bid. While the prospect of more fiscal stimulus may seem a dollar positive, a different narrative looks to be at work. With the Federal Reserve promising to keep the policy rate on the floor (December FOMC minutes released tonight), the market is taking the threat of inflation a little more seriously. 10-year inflation expectations from inflation-indexed US Treasuries have jumped 25bp to 2.03% over the last month, driving the real US policy rate deeper into negative territory and weakening the dollar. There is a risk that the narrative slightly switches from a benign dollar

decline amidst a global recovery to a more negative dollar devaluation story (US yields up, dollar down) and a defensive pair like USD/JPY starting to make a move towards 100. Let's watch this space.

## ⬆️ EUR: Swamped by global trends

While EUR/USD is now trading cleanly through 1.23, it is notable that the European Central Bank's euro trade weighted index (TWI) is only up 0.7% since December and 1.7% from the lows in mid-November. Clearly a broad dollar decline is the dominant force here, but the EUR will also be staying supported from re-cycled flows into Asian equities. Here, Asian FX reserve managers still seem to be active in the market (Korea reported another \$7bn rise in FX reserves in December). Re-balancing growing FX reserves into EUR will be a supportive trend for EUR/USD this year. For today, look out for German inflation in December. EUR/USD has come a long way already, but we cannot rule out a move closer to 1.25 before a correction.

## ➡️ GBP: Holding up quite well

GBP is holding up quite well despite the national lockdown looking set to extend until late February. Look out for the final release of UK December services PMI today. Cable could see some strong gains if it can break 1.3700 resistance.

## ⬇️ ZAR: Weighed by vaccine strategy

A sad reminder that the vaccine rollout will disadvantage some emerging markets was the sell off in the South African rand yesterday. It looks as though tighter lockdown restrictions may be announced tomorrow at a time when a vaccine procurement strategy is still unclear – and vaccines may not be available until April. ZAR to underperform.

### Authors

#### Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

#### 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 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 <http://www.ing.com>.