

FX Daily: Emerging FX in demand

The dollar remains gently offered in quiet conditions. In the absence of important US data this week, investors are continuing to speculate over whether US trade deals with Asia will involve a currency element. And with conviction growing that the dollar has put in an important top, emerging market currencies around the world are catching a bid



Latin America seems to have avoided the worst of the US tariffs, and the relatively high implied yields available are proving attractive

📉 USD: Gently offered

FX markets have started the week in quiet fashion. US President Donald Trump's two-hour call with Russian President Vladimir Putin appears to have yielded few results and left European leaders with the view that they're on their own in support of Ukraine. Let's see whether oil and gas prices spike again – they have not so far.

One new trend over the last week is that most emerging currencies around the world are rallying against the dollar. In Asia, it is speculated that a currency agreement could be included in any US trade deal that is helping. In Latam, the region seems to have avoided the worst of the US tariffs and the relatively high implied yields available (Brazil 14% 1m implied yield through the non-deliverable forward, Mexico 9.3% through the deliverable forward) are proving attractive. The same can be said of the high return, high risk Turkish lira (43%) and the South African rand (7%). In Europe, the CEE region has had its political challenges, especially in Romania, but the currencies are performing quite well as EUR/USD rises. If the Federal Reserve does ever start cutting rates and

– more importantly – volatility settles some more, we will start to hear more about dollar-funded carry trades. This could be a story for this summer.

In the absence of US data this week, there's some focus on the meetings of G7 central bank governors and finance ministers in Canada starting today. We published quite a speculative article yesterday on any possible [language change in the communique](#). The meetings do, however, provide opportunities for FX policy to be discussed, and USD/JPY is slightly offered today on news that the US and Japan's finance ministers will discuss FX policy this week.

In the absence of data today, the US calendar only offers Fed speakers. Fed hawks are talking about the need for just one Fed 25bp cut this year, versus the 55bp priced in by money markets. We doubt the dollar needs to rally too much on those remarks and instead it will be driven by tariff news, the performance of US Treasuries (watch out for the 20-year auction tomorrow) and hard US data.

DXY has drifted close to 100, and we have a slight bias to the 99.20 area this week. Please see our [May edition of FX Talking](#) for all our latest views.

Chris Turner

EUR: Balance of Payments in focus today

EUR/USD edged up in quiet markets yesterday. We think the euro is continuing to derive some support from the ongoing risk premium in the dollar. Here, the US Treasury 10-year swap spread – a measure of US sovereign credit risk – remains quite wide at 54bp.

What interests us today is the release of the eurozone's current account data for March. Did foreigners continue to pour money into eurozone equity markets? In February, foreigners bought a lot of eurozone equities, eurozone residents repatriated funds from foreign equity markets, and the result was the single largest monthly inflow on the equity account since October 2022. In other words, today's data will shed more light on the 'rotation' thesis – flows out of the US and into eurozone equities.

In terms of data today, we'll get an update on eurozone consumer confidence. And we'll hear from a couple of European Central Bank hawks this morning: Pierre Wunsch and Klaas Knot.

We slightly favour EUR/USD exploring the upside in quiet markets. A move through the 1.1265/1300 area can open up 1.1380.

Chris Turner

GBP: BoE's Pill speaks at 10:00am CET

Yesterday's UK-EU [did not prove a game-changer](#) for sterling after all, but it still should prove mildly supportive for sterling this summer. More important this week will be tomorrow's release of the UK May CPI data and whether the services component is finally starting to fall.

Before that, Bank of England Chief Economist Huw Pill speaks at 10:00am CET today. As a chief economist, it was rare to see that he dissented from last week's BoE decision to cut rates. Unless he's turned substantially more dovish over the last week (unlikely), sterling faces some upside risk from his comments today. GBP/USD could be knocking on the door at the year's highs of

1.3400/3440.

Chris Turner

➔ AUD: RBA seen as a little more dovish

AUD/USD briefly sold off around 0.3% on the Reserve Bank of Australia's decision to cut rates 25bp today to 3.85%. It looks like it might have considered cutting 50bp. The market prices 37bp of cuts by the 12 August meeting and has a landing zone of about 3.00% for the policy rate next year. With the jury still out on global demand as the tariff war rumbles on, we think AUD/USD can remain pretty steady near 0.65 over the coming quarters.

Chris Turner

Author

Chris Turner

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

chris.turner@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@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.