

Article | 4 April 2025

FX

FX Daily: When the dollar is no longer a safe haven

Global equity markets - especially US equity markets - have been hit hard by President Trump's aggressive reciprocal tariffs. Corporate America is suffering as Trump starts to rewire the global trading system. Investors are searching for safe havens outside of the dollar. Expect the liquid alternatives of the euro and especially the yen to stay bid



President Trump's announced 30% tariffs on the EU and Mexico starting on 1 August

📉 USD: Dollar sees biggest one-day drop since 2022

The DXY dollar index (heavily weighted to Europe and Japan) yesterday saw its largest one-day drop since November 2022. In the end, US equity benchmarks (S&P 500 -4.9%) sold off more than those in Europe (Eurostoxx -3.6%). In the US, the dismantling of global supply chains saw the big retailers hit hard (circa 15%) as their operations in the likes of Vietnam, Cambodia and Sri Lanka become more costly. Equally, the tech hardware suppliers were hit hard for the same reason.

In FX markets, the biggest gainers over the last 36 hours have been the Swiss franc, the Japanese yen and the euro. The first two currencies are best known as alternative safe havens to the dollar, whereas we believe the liquidity of the euro FX market is a major boon to that

currency at the moment. Remember that if investors don't like the dollar - and the US is the epicentre of the story - then the next most liquid G10 currency is the euro. BIS 2022 survey data shows the euro's daily FX liquidity is about a third of the dollar's, followed by the yen at about one-fifth of dollar liquidity. Notably, the Australian and New Zealand dollars are the only G10 currencies to be weaker against the US dollar - as global growth forecasts are cut and China is at the forefront of the trade war. The World Trade Organization now sees the risk of world trade volumes falling 1% this year - that's a big negative for emerging market currencies, too.

Where to from here? Escalation in the trade war may well bring more of the same. Remember that President Trump presented these tariffs as 'discounted' off a widely questioned initial calculation. We also suspect there is some medium-term hedging underway of US exposure. After all, tariffs, in theory, were meant to help the dollar this year, and US interest rate costs made hedging expensive. We suspect there is a scramble amongst both the corporate and investor communities to raise dollar hedge ratios. That is evident in the one-year EUR/USD risk reversal in the FX options market switching to a bias for euro calls - the first time we've seen this since 2021.

With US equities leading the global losses, only some good news can start to provide some support for equities, US yields and the dollar. Some will be hoping that today's US March jobs data can provide that by surprising on the upside as it bounces back from the weather-related hit over previous months. Consensus is around +140k and a 4.1/4.2% unemployment rate. Any big surprises will impact the dollar - though this comes in the context of a market minded to sell dollars. Indeed, investors could take the opportunity of any intra-day bounce in the dollar to offload more, such is the prevailing dollar pessimism. We are also on the lookout for any signs that the FX reserve community (\$13trn Assets Under Management) will start to reduce the dollar share in their portfolios. There is no hard evidence of that yet.

Also, look out for a speech by Federal Reserve Chair Jerome Powell at 1725CET today. Fed officials have tried to play it cool recently. Given that the market is now fully pricing a 25bp June cut from the Fed - and now pricing 8bp at the May meeting too - any suggestion that the central bank will not be rushed into rate cuts could hit equities and subsequently weigh on the dollar too.

DXY looks biased to multi-week support at 99.50/100.00 near term, and we'd expect the 102.20/102.40 area to cap any intraday rallies.

Chris Turner

EUR: The surprise beneficiary

The euro is proving the surprise beneficiary of the trade-driven sell-off in risk assets. Normally, EUR/JPY has a strong positive correlation with risk assets, whereas this week, the euro has

been holding its own. That has nothing to do with a positive re-assessment of eurozone growth prospects. No, the news there is terrible and could get worse should EU trade officials - meeting on Monday in Luxembourg - decide to retaliate. Recall that it's really only the trade blocs of the EU and China which have the economic muscle to retaliate. Instead, we believe it is the alternative liquidity offered by the euro. No doubt this is something European policymakers are keen to explore - and we'll be writing on the subject over coming weeks on what needs to happen to make the euro a more attractive asset for FX reserve managers.

For EUR/USD, there is some massive trend resistance in the 1.11-1.12 area - marking its bear trend off its 1.60 high in 2008. We'll probably need to see another big move lower in US equities to take out that area near term. However, we suspect buyers will emerge in the 1.1020 as doubts continue to grow about a sea-change in the dollar's pre-eminent position as a store of value.

Chris Turner

➔ **GBP: Liquidity issues & BoE repricing at play**

Over recent months, EUR/GBP has tended to sell off on tariff-related headlines, given that the eurozone is far more exposed to US trade than the UK. Yet EUR/GBP surprised yesterday and spiked higher. Two factors are at play, we think. The first is that the euro has better liquidity than sterling and will benefit more as investors leave the dollar. The second is that the looming global trade war is proving the greater leveller for rate spreads. The 'exceptionalism' of high UK interest rates is being unwound, where UK two-year swap rates fell 12bp more than their eurozone counterpart yesterday. This may be a dominant theme in the near term.

0.8475 is decent resistance for EUR/GBP, above which 0.8550 will be the target. Sterling is also a liquid reserve currency so can benefit from the shift away from the dollar. However, GBP/USD has come a long way in a short period of time and may be due some consolidation in the 1.30-32 area.

Chris Turner

↓ **CEE: Focus moves to the Czech Republic after busy week**

Today, the focus shifts to the Czech Republic. March inflation will be published this morning. We expect it to remain unchanged at 2.7% year-on-year, while the market sees 2.6% with a wide range of estimates of 2.4-2.8%. The Czech National Bank's February forecast has 2.6% for March inflation, however, the previous number was already 0.1ppt higher. For core inflation, we and the central bank expect a drop from 2.5% to 2.4%. Today, we will also see the minutes from last week's CNB meeting, where the central bank left rates unchanged. We will likely see a discussion of hawkish arguments and global uncertainty. Speaking of uncertainty, the Czech finance ministry said it expects a negative impact of 0.6-0.7ppt in GDP growth this year due to

the tariffs announced by the US administration.

Yesterday's CEE region reaction to the US move triggered a strong dovish repricing in rates across the board, and FX came under pressure as expected. Our preference worked well and Poland's zloty underperformed CEE peers, supported by a [dovish turn](#) by the National Bank of Poland's governor indicating possible rate cuts possibly as early as the next meeting in May, which is now our baseline. We believe the divergence between the hawkish CNB and dovish NBP will continue and see PLN/CZK heading further down. Overall, however, we believe some pressure on CEE FX will remain in the days ahead but should generally be dampened by higher EUR/USD and a rally in EUR rates, leading to little change in the CEE region's interest rate differential.

Frantisek Taborsky

Author

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Francesco Pesole

FX Strategist
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

THINK economic and financial analysis

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.