

FX: November will be a game-changer

US elections in November will be a game-changer for FX markets. We continue to flat-line our EUR/USD forecasts after November until the US political situation is much clearer. In the meantime, we take a slightly bearish view of the dollar before the Fed's first cut in September



Donald Trump will face Kamala Harris in the US elections on 5 November

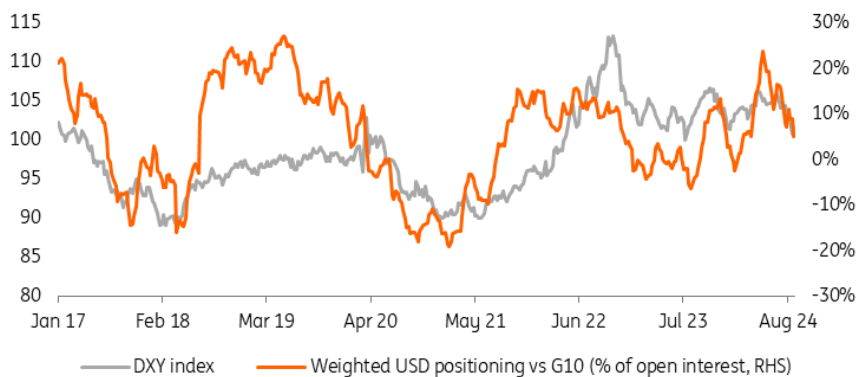
It's been both a yen and a dollar story

Those lucky enough to have had a long summer holiday will be coming back to find the dollar just over 4% off its highs seen in early July. That move can be attributed to developments coming out of both Japan and the US. On the former, the disorderly unwind of the [yen carry trade](#) - and its fall-out on global risk assets - briefly had the market pricing an emergency Fed rate cut in early August. And the speed of that USD/JPY adjustment owed a lot to extreme short yen positioning, a more hawkish Bank of Japan, and a more aggressive BoJ FX intervention policy.

Since then, asset markets have settled, and we have started to see a more orderly, broad-based dollar decline. Perhaps that has been most evident in the recovery in Asian currencies, which have enjoyed their first meaningful rally since last November. As James Knightley discusses, the Fed's confidence in the disinflation process and concern over the jobs market have been a big driver in this dollar decline.

These forces have seen speculators pare back their net long dollar positions, as you can see in the chart below. This community now awaits the ‘next big thing’.

Speculators have cut long dollar positions back to flat



Source: ING, CFTC

The next big thing

That next big thing is undoubtedly the US presidential election in November. Given the power invested in the executive branch and what it can mean for trade and foreign policy, the outcome will determine whether global trade has to suffer a repeat of the 2018/19 experience. Equally, were the Republicans to win both branches of Congress, the dollar would be buoyed by loose fiscal/relatively tighter monetary settings.

If the Democrats win out, market expectations of status quo politics would see investors focus on the Fed easing cycle, and the dollar would probably weaken. We discuss all this in our [US Presidential Election: Three Scenarios for Markets](#) article published last month. We'll await the election results before taking a medium-term view on the dollar.

Before then, we have a slight bias that the dollar stays soft. The start of Fed easing cycles and bullish steepening of the US yield curve is normally a bearish time for the greenback. Assuming US activity, especially employment data, continues to soften, we would expect the dollar to be heading into the November elections on the weak side.

Author

Chris Turner

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

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.