

## FX Outlook 2024: Our main calls

2024 should be the year US exceptionalism wanes and currencies outside of the US are allowed to refloat



Waiting for the tide to come in

Source: Shutterstock

### The dollar's long goodbye

This time last year we were forecasting fewer trends in global FX markets and more volatility. In fact, 2023 has proved a year of two halves: the first half more trendless and the second half characterised by a very orderly and powerful dollar bull trend.

This dollar rally has been built on the exceptionalism of the US economy – registering an incredible growth rate of 4.9% quarter-on-quarter annualised in the third quarter. And despite headline inflation dipping, there is really not enough evidence, yet, for the Fed to drop its hawkish guard. Holding dollars has therefore become the ‘no-brainer’ trade as investors price slowing aggregate demand globally – a theme that has weighed on the more open economies and currencies of Europe and Asia.

---

*It feels like a wrestling match and the dollar will not roll over that easily.*

---

Will this theme continue into 2024? It feels like a wrestling match and the dollar will not roll over that easily. Yet our simple thesis is that tighter interest rates finally catch up with the US economy next year, growth registers a paltry 0.5% and the Fed, in line with its dual mandate to focus on inflation and maximum employment, cuts rates back into less restrictive territory. We forecast 150bp of Fed easing next year starting in the second quarter.

The end of US exceptionalism will allow greater diversification amongst the investor community and a lower bar to seek returns outside of the dollar. Portfolio capital can refloat some of those stranded non-dollar currencies.

In advance of the first Fed cut, we would expect the US yield curve to start a bullish steepening trend. This is a particular segment in the business cycle that favours a weaker dollar and is bullish for commodity currencies. It just so happens that some of the commodity currencies are incredibly undervalued based on our medium-term fair value model. This is the area of the FX market in which we see the most value. Or at least the commodity currencies are offered some protection by their extreme undervaluation, whereas the euro and sterling have no such support.

A lower US rate environment should also allow the recovery of what we term 'growth' currencies – similar to growth stocks such as tech and real estate. We consider the Swedish krona one such currency.

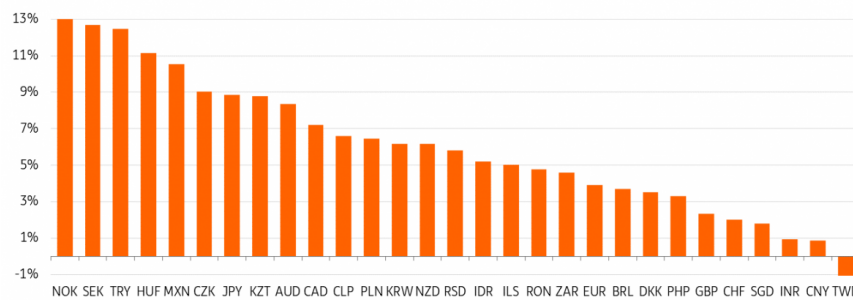
Our baseline view for 2024 therefore sees the dollar bear trend picking up pace through the year. Compared to year-end 2024 forwards, currencies could be as little as 2% (China's renminbi) to as much as 13% (Scandinavian FX) firmer against the dollar.



## FX Outlook 2024: Waiting for the tide to come in

[Watch video](#)

## ING forecasted performance versus year-end 2024 USD forwards



Source: ING, Refinitiv

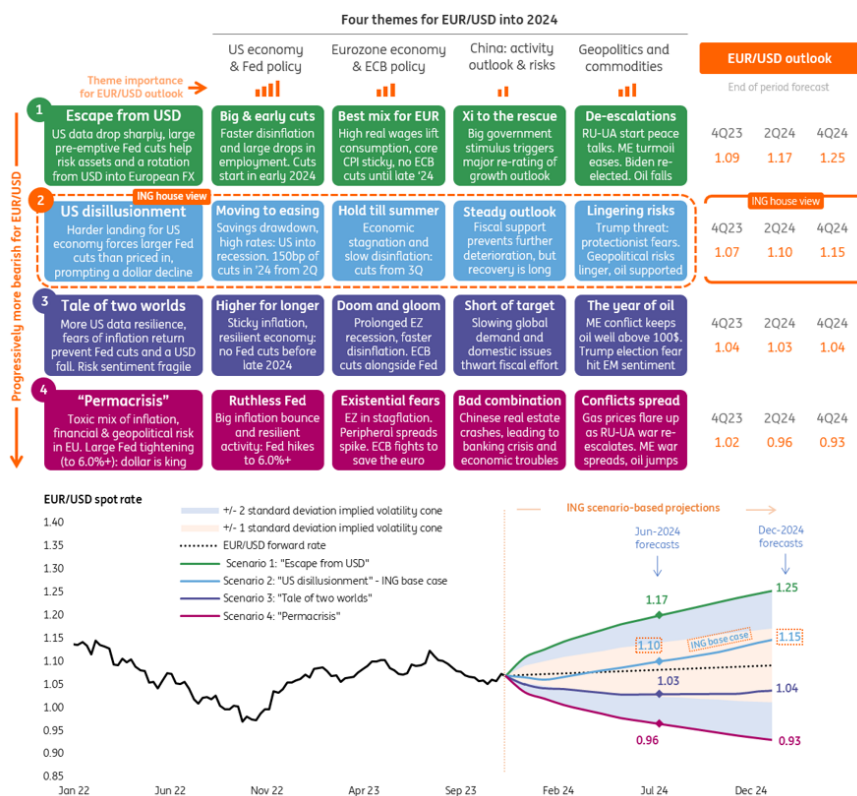
The above forecasts of course are built on many core assumptions. Using the most liquid FX pair, EUR/USD as the benchmark for the FX market in general, we see a range of outcomes in the 0.88 to 1.21 region.

If you think US inflation will not allow the Fed to cut, if you think a local recession and return of the Maastricht criteria sparks a eurozone crisis, if you think President Trump is elected on an even louder anti-China ticket and if you think tensions in the Middle East escalate into a major energy supply shock – then EUR/USD can plumb the depths.

If, however, like us you think that the Fed is allowed to deliver an orderly easing cycle and that soft landings are seen in Europe and China, then EUR/USD could be somewhere near our 1.15 baseline forecast by end-2024.

We now invite you to take a look through our G10, EMEA, ASIA and LATAM sections for insights into key local factors, such as elections, the fiscal-monetary mixes and also the FX preferences of the local authorities – all of which will shape FX trends next year.

# EUR/USD: Four potential paths for the next quarter



Source: ING

## 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>.