

## FX: We're paring back our dollar pessimism

We have been mildly bearish on the dollar for some time. Our forecast dollar decline was premised on a US soft landing and a more dovish Fed outlook than the consensus. However, our new house view of a later/shallower Fed easing cycle means we have to pare back our dollar pessimism. The case for EUR/USD being materially over 1.10 by year-end has faded



Our dollar house-view has changed

### The case for a higher EUR/USD fades

Given the more substantial changes being made to our Fed profile this month, we feel that now is the right time to cut back our end 2024 EUR/USD forecast to 1.10, which is consensus. This has been a difficult call for us in that, in theory, an environment of lower US rates and marginally improving global growth prospects should be a promising one for EUR/USD. Yet the reality is that real interest rate spreads have been steadily widening in favour of the dollar over recent months, and it has only been the low volatility rally in global equity markets (a mild dollar negative) which has prevented EUR/USD from trading closer to the 1.05/1.06 area.

In our [2024 FX Outlook published last November](#), we made the case for EUR/USD to stay pretty range-bound through the first quarter of this year and then embark on a modest rally from the second quarter onwards as the Fed prepared to pull the trigger on a June rate hike. Over recent months, we have been salami-slicing our year-end EUR/USD forecast lower as US hard data has failed to slow.

We are also flat-lining our 2025 EUR/USD forecast at 1.10 for the time being, acknowledging that, at current levels, EUR/USD is not far from its medium-term fair value and that the US monetary/fiscal/trade mix for 2025 remains very uncertain.

For USD/JPY, we are particularly revising up our 2025 profile given the view of our US rate strategy team that a term premium will probably have returned to US Treasury markets by this time. Despite a slightly more hawkish Bank of Japan, we therefore suspect USD/JPY will not spend too much time sub 140 over the next eighteen months.

## Some early thoughts on the US election and FX

Though the Presidential candidates have yet to put much flesh on the bones of their policy platforms, most FX participants are thinking that former President Donald Trump's agenda is going to be more positive for the dollar, largely through the trade side. Presumably opinion polls coming in after the summer break will start to weigh on FX markets.

However, the makeup of Congress and what the next Administration plans to do on the fiscal side will be key. A looser fiscal/tighter monetary policy mix under Donald Trump would likely be seen as more dollar-positive, although investors will be wary of debt sustainability. Additionally, US protectionism during a US slowdown has not always ended well for the dollar; just think back to the early 1990s!

### Author

#### Chris Turner

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

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