

FX Talking: Trading blows

The re-opening of the US-China trade war has come as a surprise. We suspect a deal will be concluded in 3Q19, but until then, investors look set to play it safe



Source: Shutterstock

Yen in favour

The uncertain risk backdrop should see the Japanese yen outperform across the board and we expect a continuation of the dovish re-pricing in open economies. It looks too early to re-buy into emerging markets FX. The motives for the Chinese renegeing on its part of the trade deal are uncertain at this stage. Are they prompted by a little 'fine-tuning' or a more fundamental re-assessment of Trump's tolerance for a total trade war? Until this becomes clearer we expect investors, who have so far enjoyed a strong year of returns, to turn more cautious. With its negative correlation to equities and its lack of correlation with the renminbi, we expect the Japanese yen to perform well over the near term. We favour the JPY over the dollar, as the latter could prove a little vulnerable if US equity markets were to correct.

Risks to the euro

We still think there is a window for EUR/USD to trade to 1.10 this summer. The renewed trade conflict risks stamping on the green shoots of the eurozone recovery. US tariffs on auto imports and European elections pose two further risks to the euro in May.

Central and eastern Europe re-assessed

Elsewhere, we expect positive trends in CE4 FX to be re-assessed. A poor performance by the ruling PiS in European elections could raise fears of fiscal profligacy in Poland. Hungarian rates look far too low given near 4% CPI. We think the bull trend in the Czech koruna will reverse now that the hiking cycle is over. And the Romanian leu looks to be living on borrowed time.

You can read the [full report here](#).

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.11	↓	108	↓	1.28	↓
3M	1.10	↓	110	↑	1.26	↓
6M	1.15	↑	108	→	1.31	↓
12M	1.17	↑	105	↓	1.38	↑
	EUR/GBP		EUR/CZK		EUR/PLN	
1M	0.87	↑	25.70	↑	4.32	↑
3M	0.87	↑	25.80	↑	4.28	↓
6M	0.88	↑	25.90	↓	4.31	↓
12M	0.85	↓	26.30	↑	4.34	↓
	USD/CNY		USD/MXN		USD/BRL	
1M	6.75	→	19.00	↓	4.00	↑
3M	6.80	→	18.80	↓	3.70	↓
6M	6.75	↓	19.00	↓	3.40	↓
12M	6.60	↓	19.50	↓	3.70	↓

> / = / < indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright

Source: Bloomberg, ING

FX performance

	EUR/USD	USD/JPY	EUR/GBP	EUR/NOK	NZD/USD	USD/CAD
%MoM	-0.1	-1.6	0.4	2.0	-2.4	0.7
%YoY	-5.4	0.2	-1.7	2.5	-5.4	4.5
	USD/UAH	USD/KZT	USD/BRL	USD/ARS	USD/CNY	USD/TRY
%MoM	-2.7	0.2	2.9	4.7	2.2	7.5
%YoY	-0.5	15.7	11.0	98.5	8.0	42.1

Source: Bloomberg, ING

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