G10 FX Talking: The dollar's divergent path

An increasing number of central banks within the G10 bloc are looking at cutting rates this year. The Fed would like to join them, but strong US activity and especially inflation data means that plans for a summer cut will have to be shelved. That policy divergence is sending the dollar broadly higher and has forced us to raise our dollar forecast profile

Main ING G10 FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.07	↑	152.00	↓	1.26	↑
3M	1.08	↑	150.00	↓	1.26	↑
6M	1.10	↑	143.00	↓	1.26	↑
12M	1.10	↑	140.00	↓	1.25	→

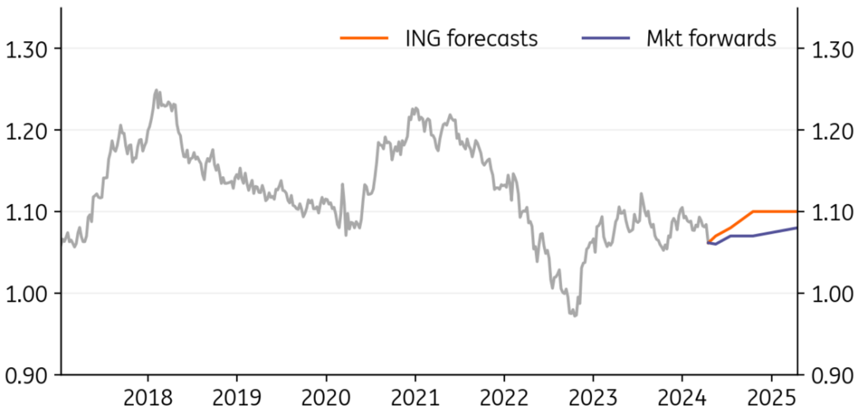
	EUR/GBP	EUR/CHF	USD/CAD

1M	0.85	→	0.97	→	1.38	→
3M	0.86	→	0.98	↑	1.34	↓
6M	0.87	↑	0.99	↑	0.99	↓
12M	0.88	↓	1.00	↑	1.32	↓

EUR/USD: Don't mess with the dollar

	Spot	One month bias	1M	3M	6M	12M
EUR/USD	1.0616	Neutral	1.07	1.08	1.10	1.10

- This month we are dropping our call that EUR/USD can trade above 1.10 later this year and early next. Three months of US core CPI at 0.4% month-on-month has put paid to our more aggressive call for Federal Reserve easing. Equally, the strong US labour market suggests there is no pressing need for the Fed to cut. Our team now looks for the first Fed cut in September – meaning USD can hold gains in the second quarter.
- The European Central Bank is expressing its independence from the Fed. It should deliver its first cut in June. This policy divergence has seen rate spreads widen to late 2022 levels – when EUR/USD was trading at 1.05.
- Middle East tension only adds to the dollar's appeal – given it has the advantages of liquidity, high deposit rates and US energy independence. And clarity post the November elections is poor.

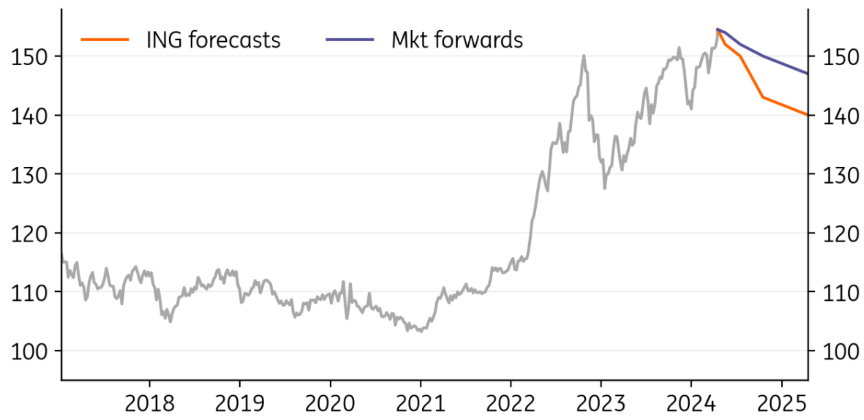


Source: Refinitiv, ING

USD/JPY: Moving into intervention territory

	Spot	One month bias	1M	3M	6M	12M
USD/JPY	154.50	Mildly Bearish ↘	152.00	150.00	143.00	140.00

- Broad strength in the dollar has seen USD/JPY push through 152 and move closer to the 155 area, where most think the chances of FX intervention are high. This has pushed 1m traded volatility back to 9%+ levels. Recall that the last intervention took place around 150 on September/October 2022 and Tokyo sold $70bn of FX.
- Regarding Bank of Japan policy, we now think the BoJ may hike twice more this year – probably in July and October. Yet a policy rate at 0.50% by year-end looks unlikely to turn the JPY trend around. For that, we do need a broadly lower dollar - something for the second half of the year.
- Geopolitical risk poses mixed challenges for the JPY. Heavy short positioning squeezes the JPY higher in any broad deleveraging. Yet higher energy prices are typically a yen negative.

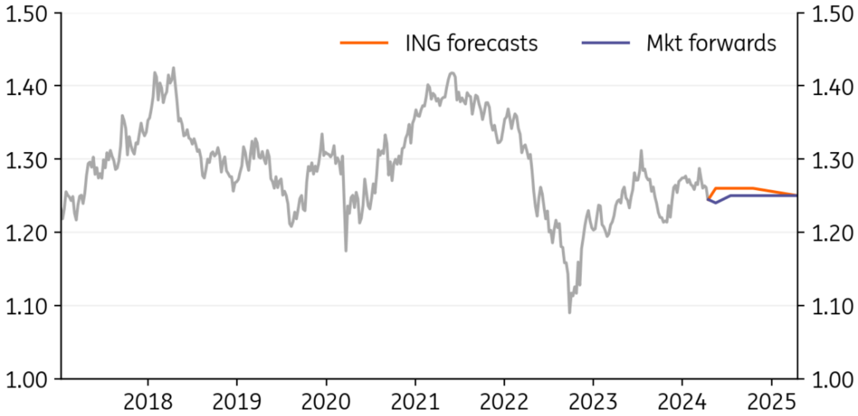


Source: Refinitiv, ING

GBP/USD: We're still looking for four BoE rate cuts this year

	Spot	One month bias	1M	3M	6M	12M
GBP/USD	1.2446	Mildly Bullish	1.26	1.26	1.26	1.25

- A rewrite of the US/Fed scenario means that we have had to cut our GBP/USD profile. A marginally more difficult investment environment on the back of higher US rates for longer will also be generating some headwinds for GBP/USD. When it comes to the Bank of England, we are still looking for four cuts this year starting in August. Some are looking for June – but that seems too early.
- As usual, independent sterling moves will be driven by key UK data releases – e.g. wages and services inflation. These could still prove a little sticky but should be falling sharply by the summer.
- We do not see a UK election (probably Oct. or Nov.) having a big say on sterling – given Labour's large and consistent 20% poll lead.

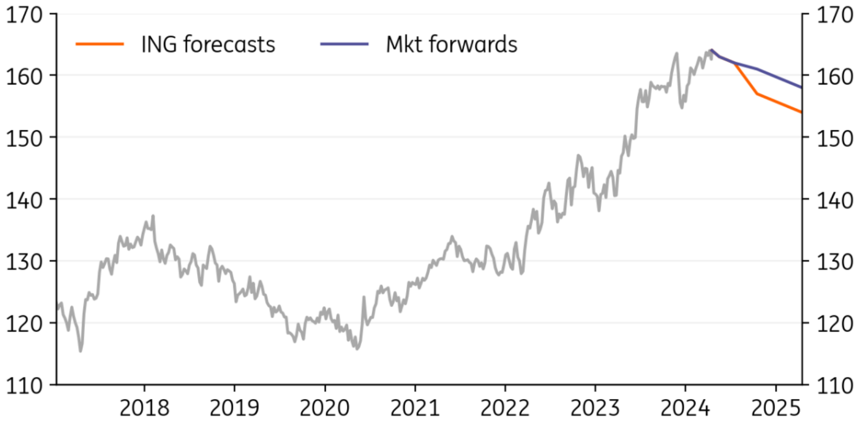


Source: Refinitiv, ING

EUR/JPY: Dovish ECB helps slow upside momentum

	Spot	One month bias	1M	3M	6M	12M
EUR/JPY	164.0100	Neutral	163.00	162.00	157.00	154.00

- Unlike the Fed, the ECB is happy to market the story that inflation has been purely a supply-constraint story – which has now been resolved. Even though the ECB does not want to outline a pre-ordained easing path, it very much looks like June will be the first cut – with follow up moves in September and December.
- Given we think the BoJ will be hiking through the year – this rare divergence in policy moves may finally apply the brakes to this powerful EUR/JPY bull trend – dominant since 2020.
- Add in the fact that we identify the yen as far more undervalued than the euro on a medium-term basis – and the high likelihood of Japanese FX intervention – EUR/JPY may well be topping.

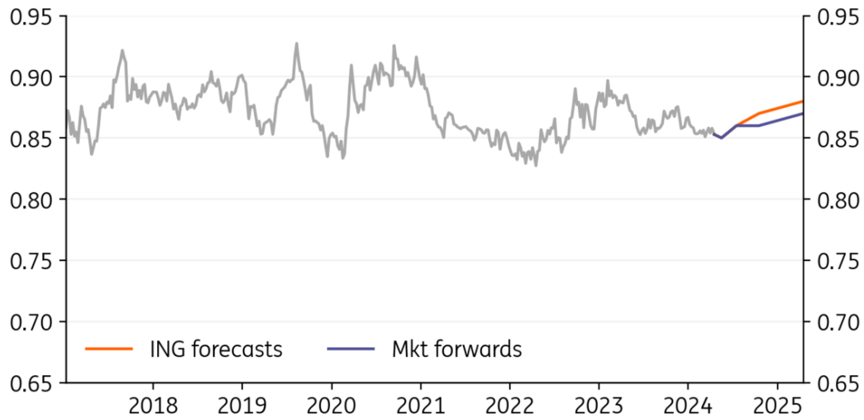


Source: Refinitiv, ING

EUR/GBP: 0.85 base still holding

	Spot	One month bias	1M	3M	6M	12M
EUR/GBP	0.8529	Neutral	0.85	0.86	0.87	0.88

- The ECB's clarity surrounding its first rate cut is keeping EUR swap rates subdued and has seen two-year EUR:GBP swap differentials widen towards the 150bp area in sterling's favour. These are the widest levels of the year. We see a risk that greater BoE easing expectations and lower GBP swap rates only emerge towards mid-May/June – meaning that EUR/GBP could press 0.85 now.
- However, the BoE cycle is conservatively priced at just 50bp – we look for 100bp. And we forecast that EUR/GBP starts to make a decisive move higher this summer as key UK data better confirms the UK disinflation story.
- The options market remains relaxed about EUR/GBP prospects.

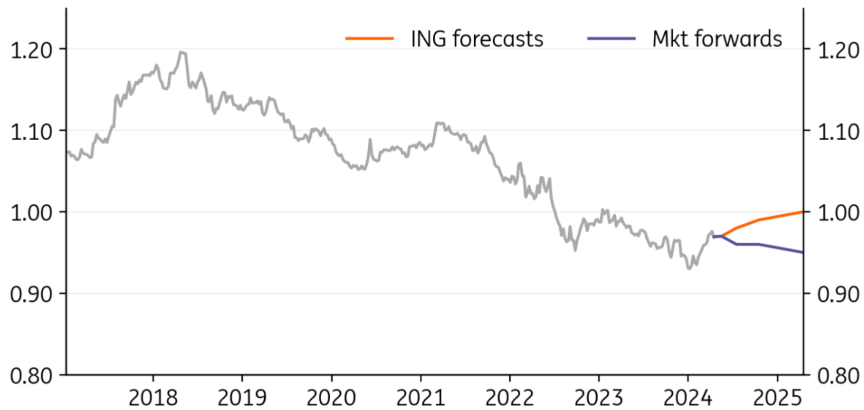


Source: Refinitiv, ING

EUR/CHF: Further EUR/CHF upside may be hard work

	Spot	One month bias	1M	3M	6M	12M
EUR/CHF	0.9694	Neutral	0.97	0.98	0.99	1.00

- The EUR/CHF rally has stalled around 0.98. Two factors are at work. One is that ECB policy rate expectations are now falling faster than those for the Swiss National Bank. Two-year EUR:CHF swap differentials are now moving against EUR/CHF. And arguably there is a lot more downside for ECB policy rates. Secondly, geopolitical risks are understandably on the rise.
- However, we doubt that the SNB is prepared to accept a much stronger CHF now and will be prepared to buy FX if need be.
- FX intervention for 1Q24 will be released at the end of June. Last year the SNB sold CHF100bn of FX to drive CHF stronger and fight inflation. This year, the SNB will probably revert to buying FX again.

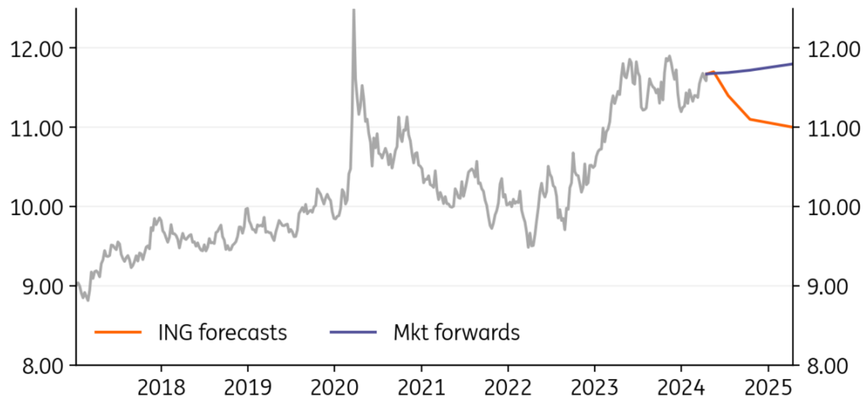


Source: Refinitiv, ING

EUR/NOK: Risks and good fundamentals both hard to ignore

	Spot	One month bias	1M	3M	6M	12M
EUR/NOK	11.6700	Mildly Bullish	11.70	11.40	11.10	11.00

- We were expecting Norway's krone to be trading at stronger levels by now. But after an Easter FX liquidity drought, Fed repricing and geopolitical tensions, EUR/NOK at 11.60 actually looks cheap.
- March CPI and February GDP were both below consensus in Norway, but with oil prices at six-month highs and the trade-weighted NOK around year-to-date lows, Norges Bank still has little incentive to turn to a more dovish stance.
- If NB sticks to its projections of only cutting in autumn, the undervalued NOK remains in the best position in the G10 to benefit from a US rates/risk-on rally. Whether and when this rally can materialise is increasingly uncertain, and NOK's illiquid reputation keeps it a high-risk currency in the short term.

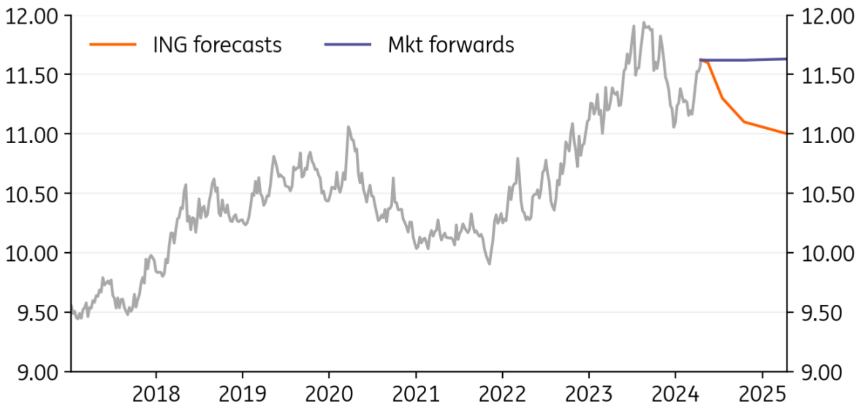


Source: Refinitiv, ING

EUR/SEK: Riksbank May cut hinges on SEK

	Spot	One month bias	1M	3M	6M	12M
EUR/SEK	11.6200	Neutral	11.60	11.30	11.10	11.00

- Sub-consensus headline and core CPIF in March would, in theory, make a rate cut in May a no-brainer for the Riksbank. However, the weakening of the krona remains a key concern.
- Recent verbal intervention by the Riksbank has further convinced us that a May cut remains at least partly a function of the krona's performance. Markets are currently pricing in -19bp for May, but expect easing bets to be scaled back if SEK sells off again.
- The recent EUR/SEK rally has probably a bit more to run given the volatile geopolitical scene and higher USD rates point to material risks of a break higher. Our new Fed call (only 75bp of cuts in 2024) also means a more contained EUR/SEK projected fall this year.

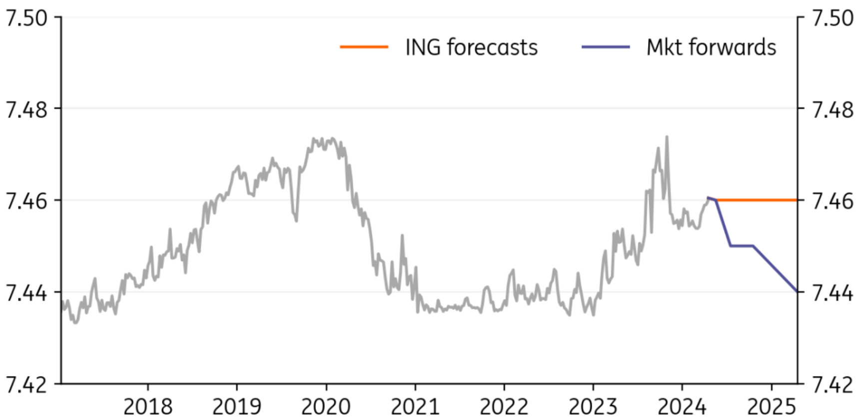


Source: Refinitiv, ING

EUR/DKK: No major developments

	Spot	One month bias	1M	3M	6M	12M
EUR/DKK	7.4604	Neutral	7.46	7.46	7.46	7.46

- Danmarks Nationalbank hasn't intervened in the FX market since January 2023, and we doubt that will change this year. EUR/DKK is consolidating around the central peg level established by the central bank and has not faced concerning volatility events of late.
- Denmark's central bank should cut rates in June, in our view, or when the ECB moves. For the moment, we see no reason to doubt DN will follow each ECB step in the easing cycle this year.
- We maintain our view that EUR/DKK will stabilise around 7.46.

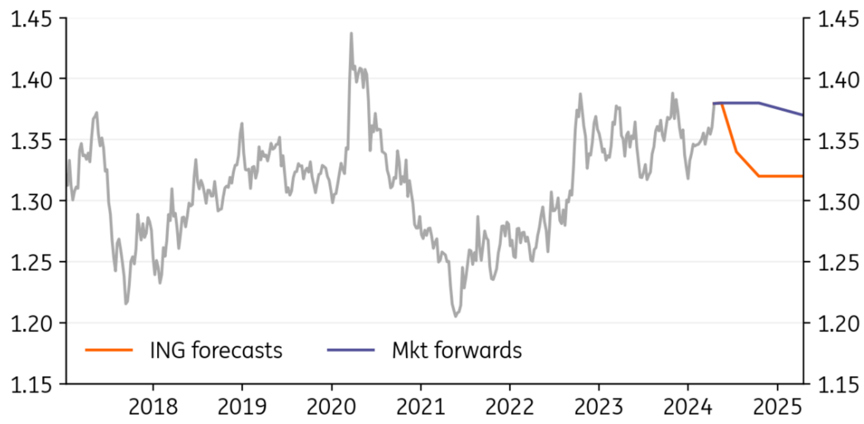


Source: Refinitiv, ING

USD/CAD: Bank of Canada to cut in June

	Spot	One month bias	1M	3M	6M	12M
USD/CAD	1.3796	Neutral	1.38	1.34	1.32	1.32

- A 25bp cut by the Bank of Canada in June is looking increasingly likely as inflation printed again below expectations and unemployment rose above 6.0% for the first time since 2022.
- At the April meeting, Governor Tiff Macklem said a move in June is possible, and we think markets are underpricing it (14bp) only because of the strong correlation with higher USD rates.
- The loonie still looks less attractive than other G10 commodity currencies in the medium run due to monetary policy divergence. However, the prevailing drivers for all G10 remain US data and geopolitics; if these two factors both move against risk sentiment, CAD should be more resilient than other high-beta FX even if USD/CAD continues to face upside risks in the near term.

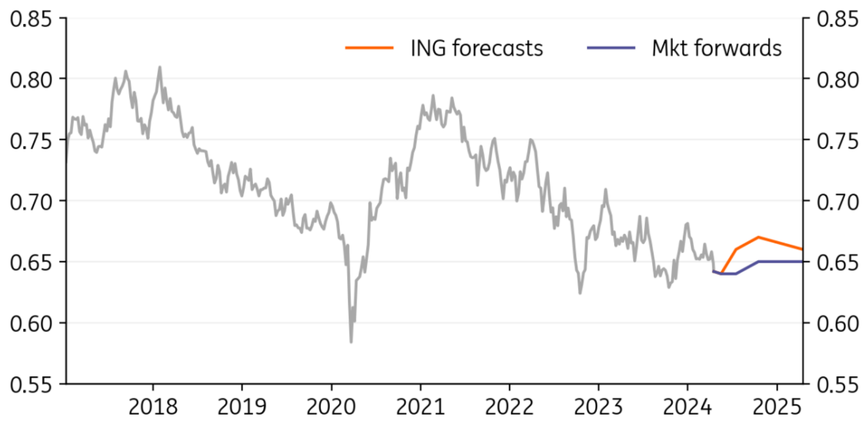


Source: Refinitiv, ING

AUD/USD: Downside pressure can continue

	Spot	One month bias	1M	3M	6M	12M
AUD/USD	0.6419	Neutral	0.64	0.66	0.67	0.66

- The Reserve Bank of Australia will be looking very carefully at incoming data on inflation and jobs. The latest monthly CPI prints were encouraging, but the labour market remains very tight.
- Our concern is that CPI may print higher than expected for a couple of months and that might prompt another rate hike in Australia. Anyway, cuts before 4Q look unlikely as of now.
- China's growth story has marginally improved of late, which is another positive factor for the highly-exposed AUD. However, risk sentiment and higher USD rates are overshadowing AUD fundamentals now and that continues to put the Aussie dollar more at risk of a further decline in the short term than a material rebound.



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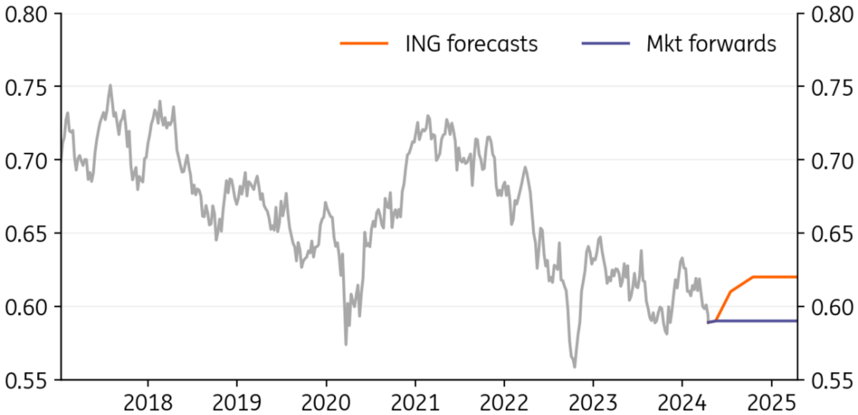
NZD/USD: Very exposed to risk sentiment woes

	Spot	One month bias	1M	3M	6M	12M
NZD/USD	0.5890	Neutral	0.59	0.61	0.62	0.62

- The Reserve Bank of New Zealand remained firmly hawkish at the April meeting, implicitly pushing back against market bets for easing this summer.
- We still think the RBNZ will be slow to transition to monetary easing due to the sharp rise in net immigration, which we expect to be net-inflationary. However, the advantages from higher carry can only be reaped by the New Zealand dollar in a calm risk sentiment environment, quite the opposite of what we are seeing now.
- NZD is less oversold than AUD and other pro-cyclical currencies due to its high rates, and should therefore be more vulnerable to risk-off selloffs. Incidentally, New Zealand's trade composition does not offer advantages from a rise in energy prices.



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