# G10 FX Talking: Fed to ease, dollar to settle lower

At the heart of the FX story is whether the US economy is slowing sharply and what the Fed is prepared to do about it. Given our team's longstanding view of a US soft landing and, now, the Fed's easing cycle starting with a 50bp cut in September, we look for a near-term orderly decline in the dollar. In other words, macro trends should reassert themselves


## Main ING G10 FX Forecasts

| | EUR/USD | | USD/JPY | | GBP/USD | |
|---|---|---|---|---|---|---|
| 1M | 1.12 | ↑ | 143 | ↓ | 1.30 | ↑ |
| 3M | 1.10 | → | 140 | ↓ | 1.26 | ↓ |
| 6M | 1.10 | → | 138 | ↓ | 1.25 | ↓ |
| 12M | 1.10 | ↓ | 137 | ↓ | 1.25 | ↓ |

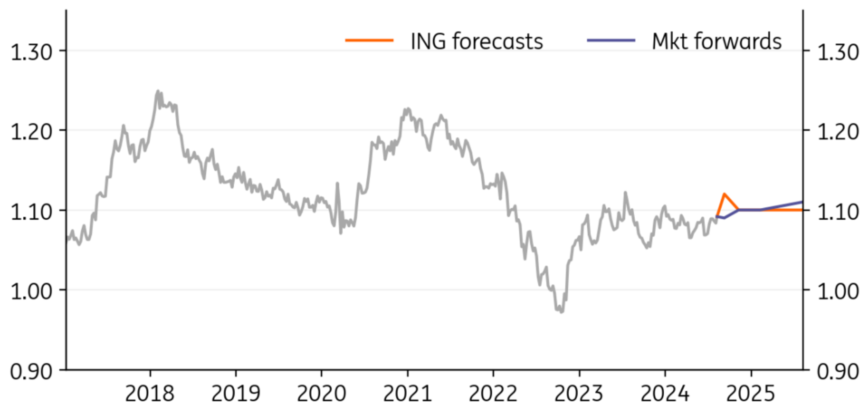
| | EUR/GBP | EUR/CHF | USD/CAD |
|---|---|---|---|

| | | | | | | |
|---|---|---|---|---|---|---|
| 1M | 0.86 | → | 0.93 | ↓ | 1.36 | ↓ |
| 3M | 0.87 | ↑ | 0.93 | ↓ | 1.35 | ↓ |
| 6M | 0.88 | ↑ | 0.94 | ↑ | 0.94 | ↓ |
| 12M | 0.88 | ↑ | 0.95 | ↑ | 1.31 | ↓ |

### EUR/USD: A weaker dollar into US November elections

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---|---|---|---|---|---|---|
| EUR/USD | 1.0917 | Bullish | 1.12 | 1.10 | 1.10 | 1.10 |

- Financial markets have taken the view that the Federal Reserve has left it too late to cut rates and that a US recession is likely. We are not as bearish as some but expect the Fed to start easing restrictive conditions with a 50bp rate cut on 18 September, followed by 25bp cuts in November and December. We see the policy rate dropping to 3.50% next summer. This should be broadly bearish for the dollar – though November US elections will be pivotal.
- Our near-term call is that equity markets and volatility settle, allowing EUR/USD to trade over 1.10 as it reconnects with rate spreads. In effect, we are looking for an orderly dollar decline.
- The eurozone economy does not look great, but we are now in a convergence story. 'US exceptionalism' is finally waning.

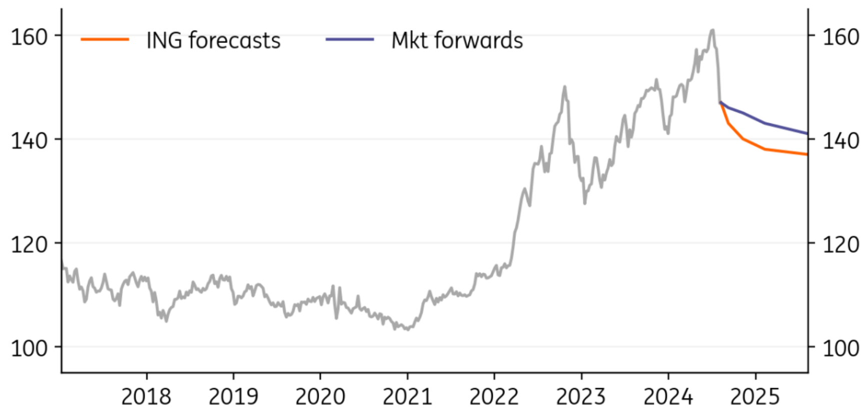



Source: Refinitiv, ING forecasts

## USD/JPY: From a disorderly to orderly decline

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---|---|---|---|---|---|---|
| USD/JPY | 146.99 | Bearish | 143.00 | 140.00 | 138.00 | 137.00 |

- Japanese efforts to turn the USD/JPY bull turn around have been a little too successful. They exposed a 'fast money' community that at the start of July had been exceptionally short yen. And as is the case with carry trade strategies, a trend that was years in the making was reversed in a heartbeat. We think positioning is better balanced now and that a further drop will be orderly.
- Our call is that USD/JPY will revert to being driven by macro factors rather than by position adjustment. Lower growth and US rates, plus the Bank of Japan on a path to higher rates (next hike in October) should drag USD/JPY back to the 137/138 area.
- More Trump comments on the need for a weak dollar are also a risk.

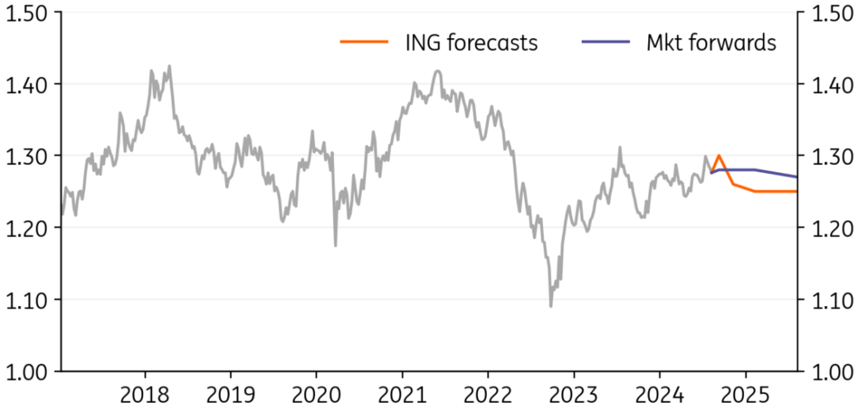



Source: Refinitiv, ING forecasts

## GBP/USD: BoE finally pulls the trigger

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---|---|---|---|---|---|---|
| GBP/USD | 1.2760 | Mildly Bullish | 1.30 | 1.26 | 1.25 | 1.25 |

- It took the Bank of England a while, but in August it finally started its easing cycle. No forward guidance was given – probably owing to the fact that it was only a 5-4 vote in favour of a cut. And the fact that the Chief Economist Huw Pill voted against the dovish Governor Andrew Bailey was notable.
- Yet subsequent speeches suggest that if services inflation can continue to trend lower, more cuts will be forthcoming. We look for 25bp cuts in November and December. This should keep GBP/USD relatively contained and largely sub-1.30.
- Speculators had also been running quite long sterling positions. We think BoE rate cuts can prompt some downsizing here.

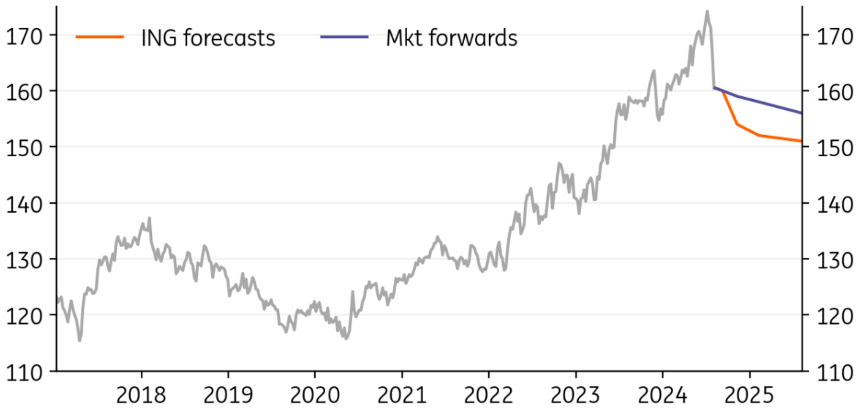



Source: Refinitiv, ING forecasts

### EUR/JPY: More downside ahead

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---|---|---|---|---|---|---|
| EUR/JPY | 160.4700 | Neutral | 160.00 | 154.00 | 152.00 | 151.00 |

- In addition to the BoJ swinging behind the need for a stronger yen, there has been a lot of political pressure as well. The ruling Japanese LDP party hold a leadership election in September and many candidates back a stronger yen to help fight against cost-of-living pressures. Expect to hear more on this subject shortly.
- In the eurozone, growth remains subdued – especially for those economies with larger manufacturing sectors such as Germany. No signs of a turnaround in China look set to keep eurozone growth risks biased towards the downside. We look for two further European Central Bank rate cuts in September and December.
- 165 may now prove the best level for the rest of this year.

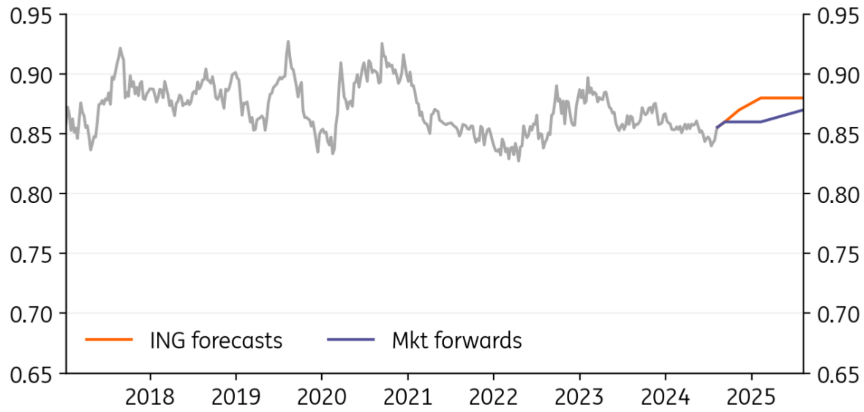



Source: Refinitiv, ING forecasts

### EUR/GBP: BoE versus ECB policy rate spread to halve

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---|---|---|---|---|---|---|
| EUR/GBP | 0.8556 | Mildly Bullish | 0.86 | 0.87 | 0.88 | 0.88 |

- The 1 August BoE rate cut and then some sharp position adjustment finally managed to turn the trend in EUR/GBP. Currently, the policy rate spread between the BoE and the ECB is 150bp. We expect this to halve into 2025 and should mean a gently higher EUR/GBP.
- In the UK, the 30 October budget from the new Labour government will be important. This could be restrictive and hit sterling with a tighter fiscal/looser monetary policy mix.
- The euro could have a rocky October too. Many governments across the region need to get budget consolidation plans into Brussels. Failure to do so could lead to bond market stress.

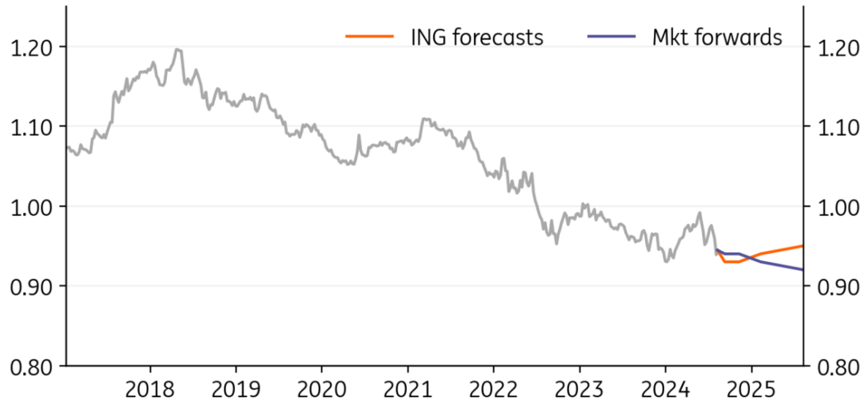



Source: Refinitiv, ING forecasts

### EUR/CHF: Spread compression to weigh

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---|---|---|---|---|---|---|
| EUR/CHF | 0.9446 | Mildly Bearish | 0.93 | 0.93 | 0.94 | 0.95 |

- It looks like G10 policy rates (ex-Japan) are going lower. We are looking for at least another 125bp of ECB easing into next summer, if not 175bp. Switzerland is closer to the zero-bound constraint, however, and markets are reluctant to price the Swiss National Bank policy rate below 0.50% - just 75bp lower from current levels. Spread compression could therefore weigh on EUR/CHF into 2025.
- We also think the SNB pays close attention to the real CHF. At the end of July, it was still some 4% off the highest levels seen in January 2024 and suggests the SNB may not emerge with strong verbal intervention until EUR/CHF is closer to the 0.91 area.
- Geopolitics also means EUR/CHF will struggle to stay above 0.95.

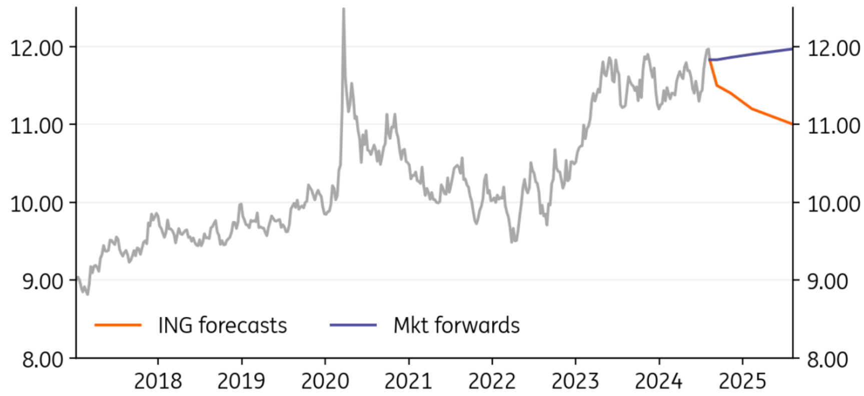



Source: Refinitiv, ING forecasts

## EUR/NOK: Don't lose hope on the krone

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---|---|---|---|---|---|---|
| EUR/NOK | 11.8300 | Bearish | 11.50 | 11.40 | 11.20 | 11.00 |

- The demise of the Norwegian krone over the past month is a symptom of its low liquidity and very elevated beta to risk sentiment. But rate spreads and fundamentals incontestably indicate the path forward is towards 11.0 and not towards 12.0.
- Even if we stay positive on a medium-term NOK recovery, the risk of new selloffs remains elevated. US data, Fed hawkish surprises, and the US election are all potential triggers.
- Norges Bank will, in our view, delay a dovish turn and, ultimately, policy easing as long as possible to support NOK. If we are right with our Fed and risk sentiment calls, the krone can enjoy a nice rally before the US election.

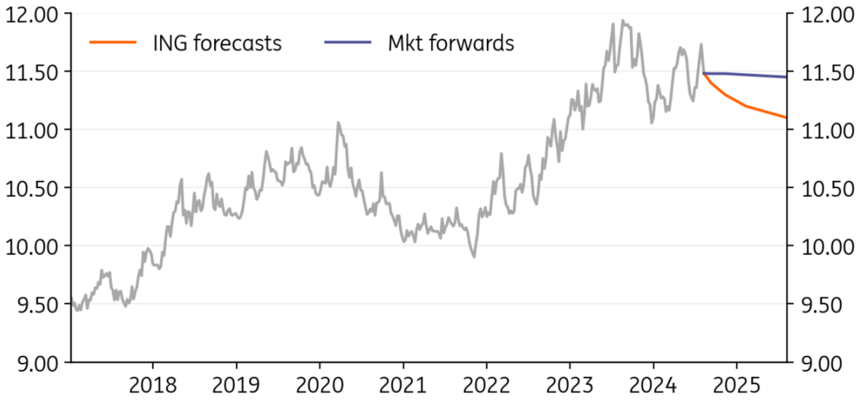



Source: Refinitiv, ING forecasts

## EUR/SEK: Riksbank cuts are all priced in

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---|---|---|---|---|---|---|
| EUR/SEK | 11.4800 | Mildly Bearish | 11.40 | 11.30 | 11.20 | 11.10 |

- The recovery of the krona after July's selloff should allow the Riksbank to carry on with one cut per policy meeting this year. Markets are pricing in exactly that (100bp by year-end) meaning SEK's short-term swap rates should not fall much further.
- If anything, there is a risk that inflation disappointments in the eurozone prolong the ECB pause and lead the RB to deliver only 75bp this year. Also, Swedish inflation can be quite volatile and may cause a slowdown in the easing cycle.
- We expect a weaker EUR/SEK on the back of improved risk sentiment, but the pair should find more support compared to EUR/NOK on the back of SEK's deteriorated rate profile.

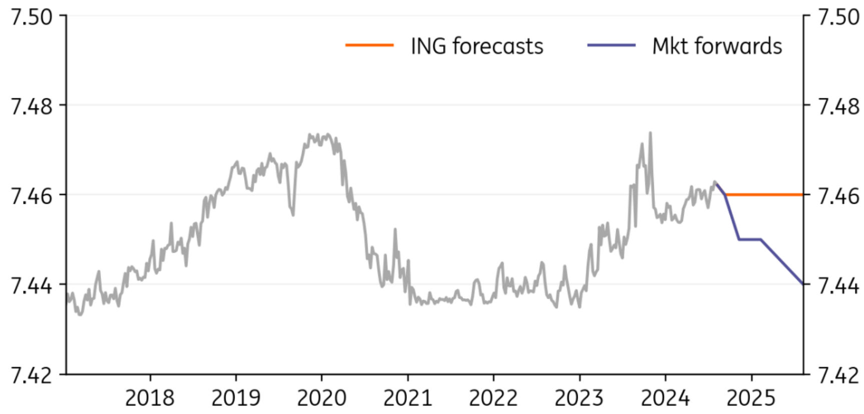



Source: Refinitiv, ING forecasts

## EUR/DKK: Trading at the highs

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---|---|---|---|---|---|---|
| EUR/DKK | 7.4621 | Neutral | 7.46 | 7.46 | 7.46 | 7.46 |

- EUR/DKK is trading around nine-month highs (7.462), but remains comfortably close to the 7.460 central peg level.
- Danmarks Nationalbank hasn't intervened in the FX market since January 2023 and the stability in EUR/DKK suggests no action will be needed in the near term.
- DN will most likely follow the ECB in its forthcoming moves, which include two 25bp cuts by year-end, in our view. We remain confident with our projection for a stable EUR/DKK around 7.46.

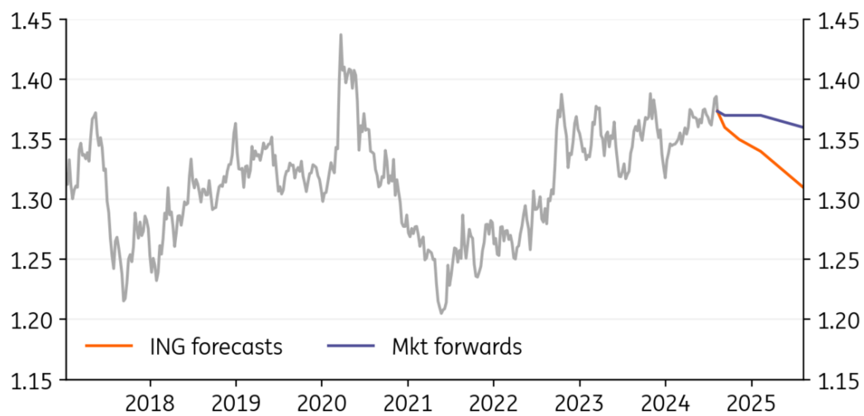



Source: Refinitiv, ING forecasts

## USD/CAD: BoC easing should not stop

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---|---|---|---|---|---|---|
| USD/CAD | 1.3735 | Mildly Bearish ↘ | 1.36 | 1.35 | 1.34 | 1.31 |

- The loonie is the "safe-haven" among high-beta currencies, meaning it suffers less during risk-off periods but tends to underperform in broad-based USD declines, especially if driven by worsening US macro news.
- Incidentally, the Bank of Canada has continued to cut rates in line with our call. With the Fed now expected to cut 100bp by year-end, the BoC may cut 25bp at each of the last three meetings of 2024. After all, the CPI picture has improved dramatically in Canada while the jobs market has loosened.
- We retain a gradual downward-sloping profile for USD/CAD in line with the broader USD call and as BoC cuts are fully priced in. Also, CAD is in a fundamentally safer position compared to almost any other pro-cyclical currency in a Trump 2.0 scenario.

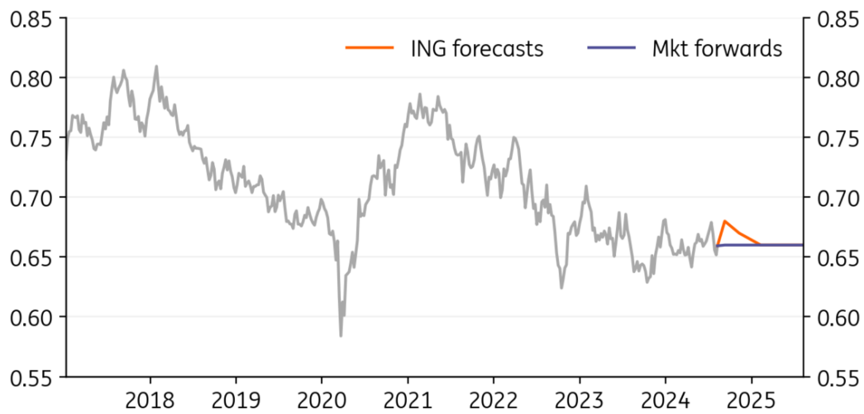



Source: Refinitiv, ING forecasts

## AUD/USD: A rally is still on the cards

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---|---|---|---|---|---|---|
| AUD/USD | 0.6593 | Bullish | 0.68 | 0.67 | 0.66 | 0.66 |

- The AUD OIS curve still includes one rate cut by year-end. That is surely possible if Australian inflation eases and the Fed cuts big, but for now, the Reserve Bank of Australia is maintaining the threat of raising rates. It is one of the reasons why the Aussie dollar can perform well in the near term.
- The RBA should have tightened policy more, and we still cannot exclude that there will be another hike if we see more acceleration in monthly CPI prints.
- All of that means AUD may remain one of the market's favourite currencies to play risk-on waves this summer, and 0.68 still looks within reach. However, the risks associated with a potential Trump re-election mean a less optimistic outlook over the medium term.

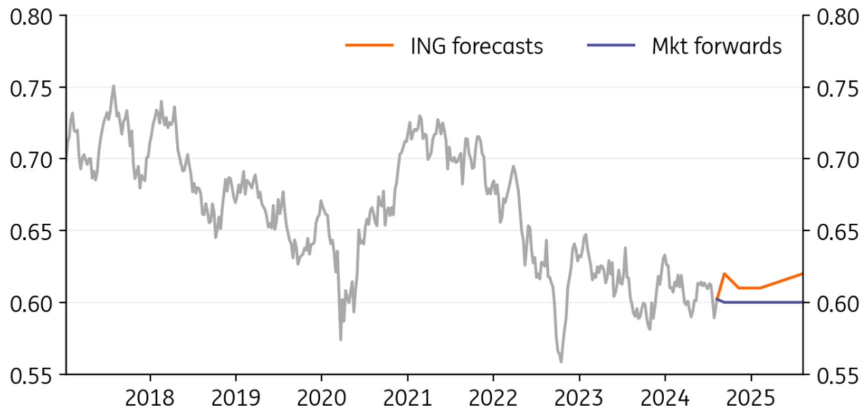



Source: Refinitiv, ING forecasts

## NZD/USD: RBNZ may not jump the gun

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---|---|---|---|---|---|---|
| NZD/USD | 0.6022 | Bullish | 0.62 | 0.61 | 0.61 | 0.62 |

- An August Reserve Bank of New Zealand rate cut looks like a 50-50 event. The RBNZ turned dovish in July, but non-tradable CPI, employment growth and wage inflation were all above the May projections for 2Q.
- We narrowly favour a hold in August but see a greater chance that the RBNZ will cut 50bp in October, after the Fed has moved first. Ultimately, with over 90bp of easing priced in by year-end, the difference between a hawkish cut and a dovish hold may not be huge: we still think easing bets can be trimmed by year-end.
- We remain bullish on NZD/USD in the near term. A move above 0.61 is a tangible possibility ahead of a 50bp rate cut by the Fed in September and thanks to risk sentiment stabilisation.




Source: Refinitiv, ING forecasts

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