G10 FX Talking: Dollar rides out seasonal weakness

December is normally a weak time for the dollar. Yet the dollar is holding up quite well as markets brace for Trump 2.0. Most at risk look the currencies of the open economies in Europe and of the commodity producers. Outperforming alongside the dollar should continue to be sterling, where the Bank of England can continue to drag its feet on rate cuts

Main ING G10 FX Forecasts

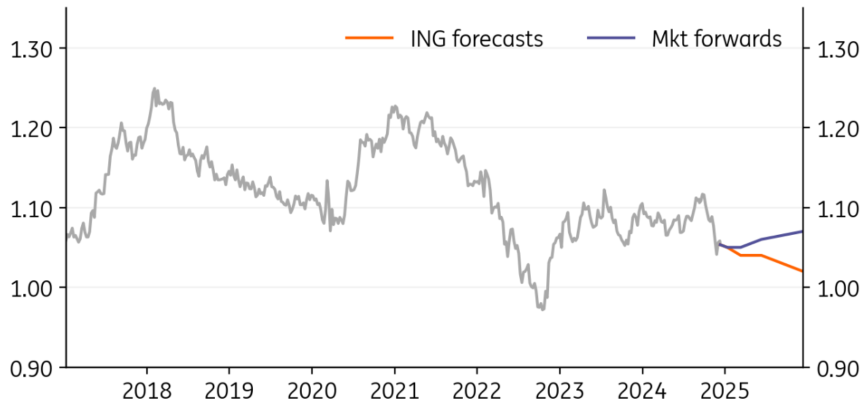
	EUR/USD	USD/JPY	GBP/USD
1M	1.05 →	153 ↑	1.27 →
3M	1.04 ↓	155 ↑	1.25 ↓
6M	1.04 ↓	157 ↑	1.25 ↓
12M	1.02 ↓	160 ↑	1.24 ↓

	EUR/GBP		EUR/CHF		USD/CAD	
1M	0.83	→	0.93	↑	1.42	→
3M	0.83	→	0.92	→	1.42	↑
6M	0.83	→	0.91	↓	1.40	↓
12M	0.82	↓	0.90	↓	1.38	↓

EUR/USD: Downside risks are building

	Spot	One month bias	1M	3M	6M	12M
EUR/USD	1.0503	Mildly Bearish ↘	1.05	1.04	1.04	1.02

- Despite seasonal trends for a weaker dollar, the dollar is actually holding onto gains quite well. This is because the anticipation of Trump's policy agenda is keeping dollar rate spreads wide and the currencies of trading partners under pressure. It is hard to see this state of affairs changing before Trump's January inauguration.
- After an expected 25bp Federal Reserve rate cut on 18 December, the Fed could start to skip some cuts at future meetings. In all, we see the policy rate bottoming at 3.75% next summer.
- In Europe, the lack of functioning governments in Germany or France rules out fiscal support for the region. Instead, the European Central Bank will be cutting rates to 1.75% and EUR/USD will grind towards parity.

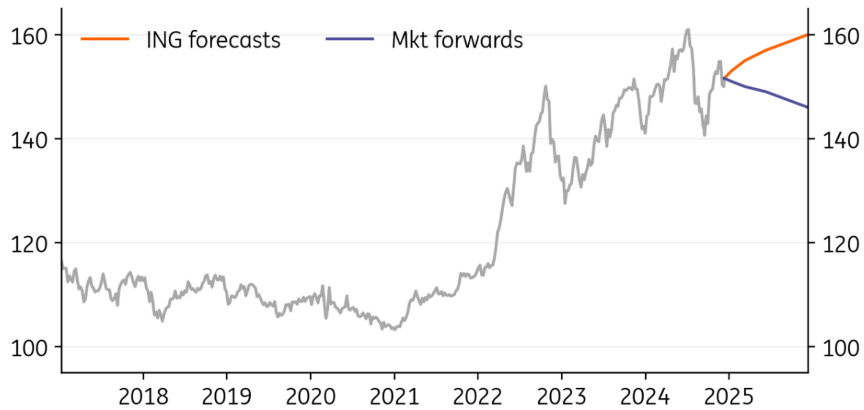


Source: Refinitiv, ING forecasts

USD/JPY: BoJ policy in focus

	Spot	One month bias	1M	3M	6M	12M
USD/JPY	152.01	Mildly Bullish	153.00	155.00	157.00	160.00

- Our economists retain the view that the Bank of Japan will hike by 25bp on 20 December. Recall that it was the hawkish hike in July that prompted the disorderly unwind of the carry trade. This time, however, the market is not as short yen as it was in July and the BoJ has probably learned its communication lesson. We do, however, look for two further 25bp rate hikes next year.
- Our forecast profile of a higher USD/JPY is largely down to the fact that we expect the US 10yr Treasury to end 2025 at 5.50%.
- There is some talk of a 'Mar-a-Lago accord' to weaken the US dollar. We think Trump's policies are dollar positive, but if Washington's dollar policy were to make an impact, especially if US growth disappoints, we suspect USD/JPY would lead $ lower.

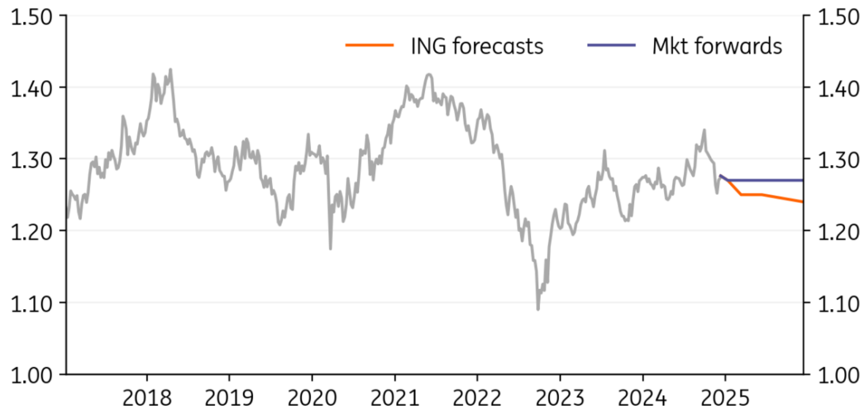


Source: Refinitiv, ING forecasts

GBP/USD: BoE continues to help the pound

	Spot	One month bias	1M	3M	6M	12M
GBP/USD	1.2727	Neutral	1.27	1.25	1.25	1.24

- The Bank of England's policy path continues to be priced closer to the Fed than the ECB, hence GBP/USD is holding up quite well. The BoE has had plenty of opportunities to communicate a faster pace of rate reductions but is currently holding onto its more cautious stance – citing late-cycle inflation.
- We think that softer UK services data will not emerge until February, suggesting GBP/USD may hold onto gains until then. But ING's house view is for quite aggressive BoE rate cuts in 2025 – taking the policy rate 150bp lower to 3.25%. Hence our view for some modest GBP/USD downside later next year.
- High deposit rates (1w at 4.75%) are keeping GBP bid now.

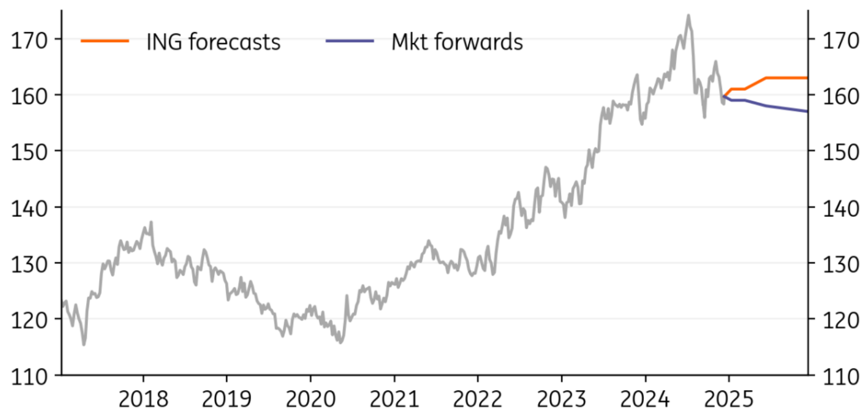


Source: Refinitiv, ING forecasts

EUR/JPY: The hedge – but is it necessary?

	Spot	One month bias	1M	3M	6M	12M
EUR/JPY	159.6200	Mildly Bullish	161.00	161.00	163.00	163.00

- Those who think risk assets require a correction will be selling EUR/JPY. And EUR/JPY recently enjoyed a brief dip to 156 on the stress in French bond markets. But in theory, Donald Trump can keep global equity markets – especially US equity markets – bid as expectations of deregulation and tax cuts dominate. If so, sitting there short EUR/JPY is expensive based on rate differentials.
- We have a slightly positive EUR/JPY profile in 2025 on the view that US rates (especially long-dated rates) go higher and that the JPY is more sensitive than the EUR to rising US rates.
- And global growth disappointment or geopolitical shock – especially in Ukraine – could easily send EUR/JPY lower.

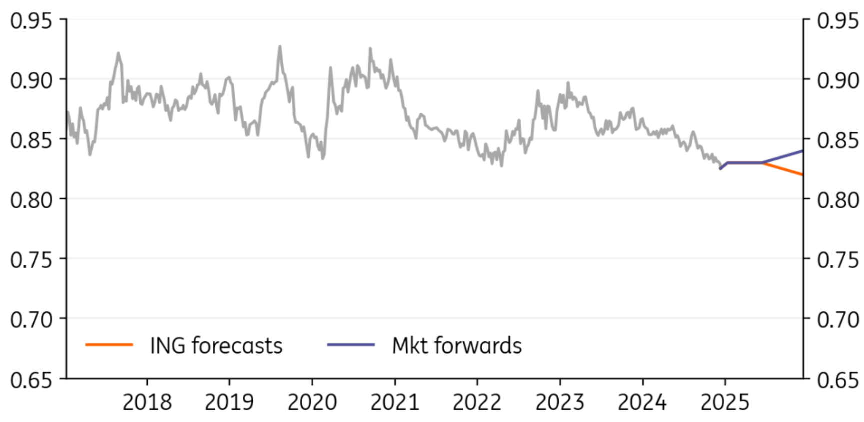


Source: Refinitiv, ING forecasts

EUR/GBP: Are warmer UK relations with Europe helping GBP?

	Spot	One month bias	1M	3M	6M	12M
EUR/GBP	0.8253	Neutral	0.83	0.83	0.83	0.82

- EUR/GBP is closing in on the 0.8200 low seen in 2022. Below there, we will all be discussing this pair returning to levels last seen on the day of the Brexit vote in 2016. We think this trend is primarily being driven by the BoE versus ECB story. But warmer relations between the UK and the EU can't hurt. Equally, the eurozone's fiscal straitjacket should mean the UK economy does outperform in 2025.
- The reason we are not more bearish EUR/GBP in our forecasts is that we think the BoE will crumble around February and open up to a more aggressive easing cycle.
- However, the risks to our forecasts are clearly on the downside.

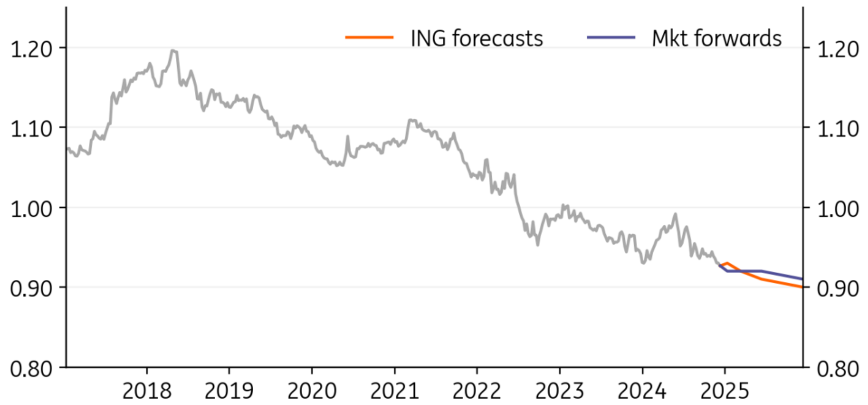


Source: Refinitiv, ING forecasts

EUR/CHF: The market will struggle to price negative SNB rates again

	Spot	One month bias	1M	3M	6M	12M
EUR/CHF	0.9268	Neutral	0.93	0.92	0.91	0.90

- EUR/CHF is grinding lower with no discernible signs of the Swiss National Bank intervening. The advent of another Trump administration does make life trickier for the SNB. Currently, Switzerland ticks two of the three boxes to be declared a currency manipulator by the US Treasury. The third box would be ticked were the SNB to use FX intervention to prevent the franc from strengthening.
- The above is a bearish EUR/CHF factor. But the main driver of our bearish EUR/CHF view is that the SNB will not be able to cut rates as deeply as the ECB – despite the recent 50bp rate cuts.
- The SNB will not want to take rates back to the -0.50/075% area – despite what they say currently. Negative rates were seen to have been a contributing factor to Credit Suisse travails.

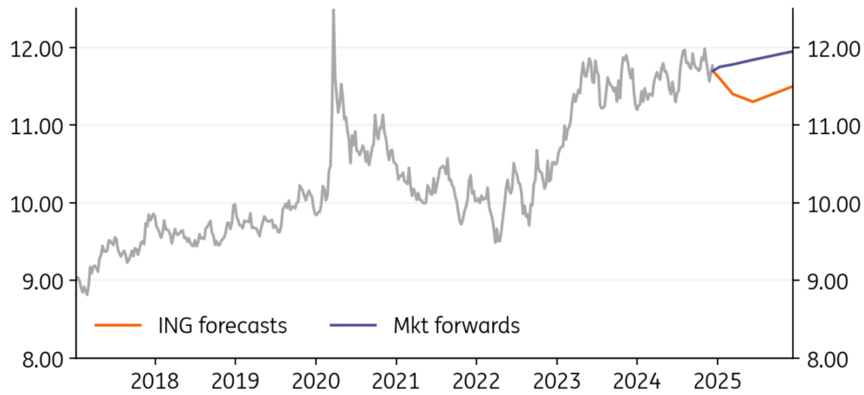


Source: Refinitiv, ING forecasts

EUR/NOK: Norges Bank on track for first cut in 1Q25

	Spot	One month bias	1M	3M	6M	12M
EUR/NOK	11.7300	Mildly Bearish	11.60	11.40	11.30	11.50

- EUR/NOK has been volatile in ranges since the US election result, even though the krone looks less exposed to a looming global trade war. Domestically, unemployment is staying low and credit growth is starting to pick up despite the restrictive 4.5% policy rate. Recent core inflation data has also surprised on the upside.
- However, Norges Bank still sounds like it wants to start its easing cycle at the start of next year, with money markets slightly favouring the first cut at the 23 January meeting. Markets price the policy rates being cut towards 3.50% late next year.
- We're generally a little bearish on EUR/NOK as Norges Bank will be slow to cut. But any volatility shock could hit the krone.

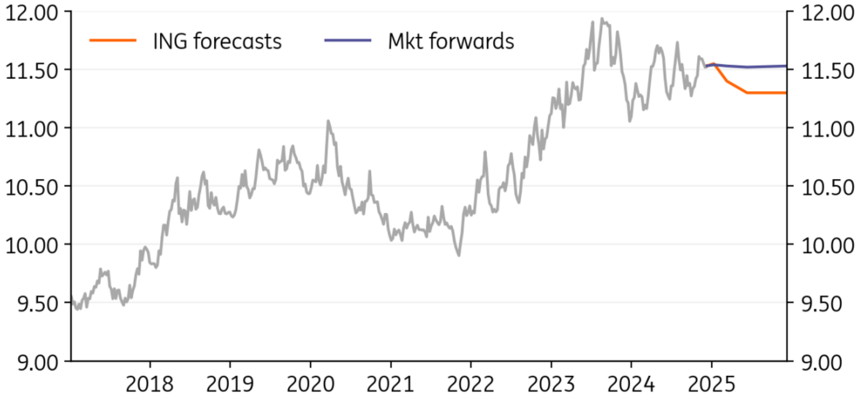


Source: Refinitiv, ING forecasts

EUR/SEK: Some much welcome stability

	Spot	One month bias	1M	3M	6M	12M
EUR/SEK	11.5400	Neutral	11.55	11.40	11.30	11.30

- Despite the threat of a global trade war, EUR/SEK has been showing some remarkable stability. Realised three-month volatility has dropped from 8% to 5%, bringing traded option prices lower. Perhaps helping the krona have been signs that the Riksbank's aggressive easing cycle has been paying dividends – where both consumer and business confidence are rising.
- On paper, 2025 could be a tough year for the SEK given that the Riksbank looks set to cut rates down to the 1.75/2.00% area (next 25bp rate cut on 19 December) and given Sweden's open economy.
- But SEK is the second most undervalued G10 currency in our medium-term model, suggesting 11.70/11.80 could prove the top.

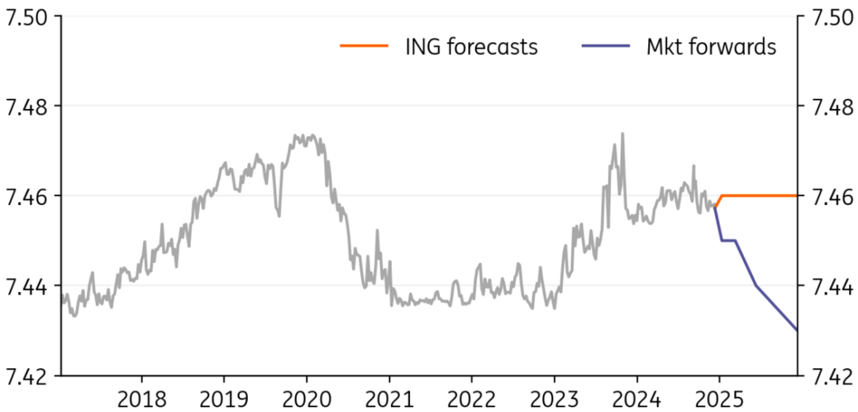


Source: Refinitiv, ING forecasts

EUR/DKK: No stress for the Danish central bank

	Spot	One month bias	1M	3M	6M	12M
EUR/DKK	7.4577	Neutral	7.46	7.46	7.46	7.46

- Sitting happily in its ERM II arrangement, EUR/DKK is causing no stress for the Danish central bank. This year, EUR/DKK has traded pretty close to its 7.4603 central parity rate and allowed the Danmarks Nationalbank to keep its discount rate 40bp under the ECB deposit facility (2.85% versus 3.25%). This has been the case since late 2022/early 2023.
- Presumably, the central bank will not have a problem with the need to cut rates to something like the 1.35% area should the ECB be as aggressive with its easing cycle as we expect.
- Any reluctance on the Danish part to cut as aggressively risks sending EUR/DKK back down to the 7.4350/4400 area.

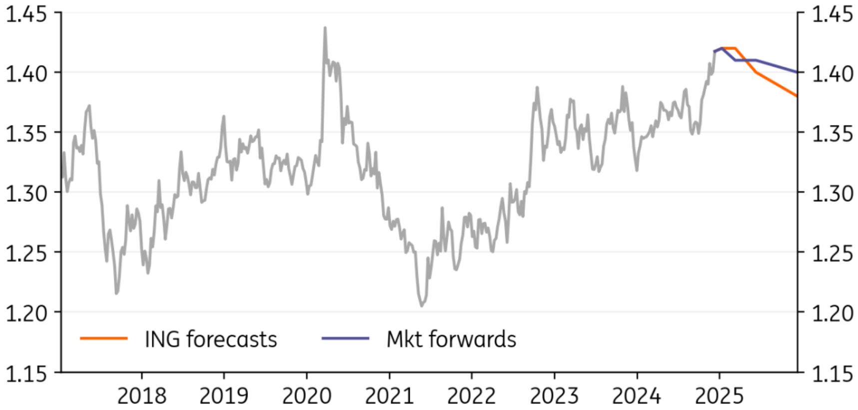


Source: Refinitiv, ING forecasts

USD/CAD: Bearish scenario unfolds

	Spot	One month bias	1M	3M	6M	12M
USD/CAD	1.4189	Mildly Bullish	1.42	1.42	1.40	1.38

- On-target inflation and rising unemployment are prompting the Bank of Canada to cut rates quickly. Back-to-back 50bp rate cuts have brought the policy rate to 3.25% which, assuming the Fed cuts 25bp on the 18th, will keep the BoC-Fed spread very wide at 125bp. If by chance the Fed were not to cut, a 150bp spread could do some serious damage to the Canadian dollar.
- For the BoC, we now look for more modest 25bp rate cuts per quarter taking the policy rate to 2.75% next summer.
- Beyond the issue of wide spreads, the Canadian dollar is being caught up in the tariff story, where 25% US tariffs have been threatened. The fear is that Trump could turn the screw even more in 2025 ahead of a possible 2026 renegotiation of the USMCA. Risks abound!

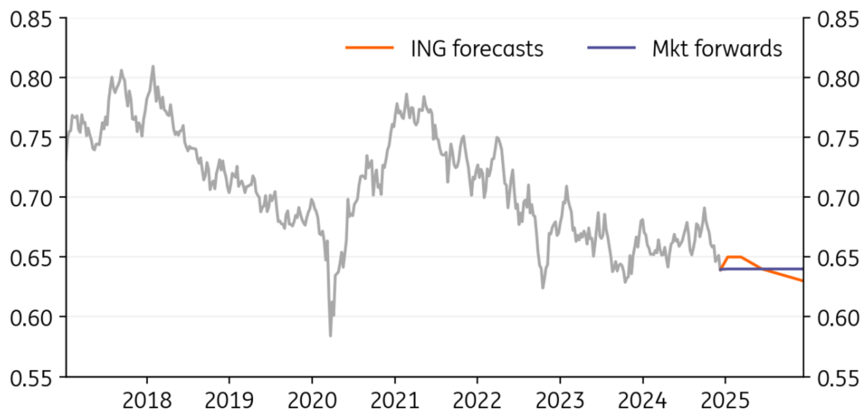


Source: Refinitiv, ING forecasts

AUD/USD: Three driving forces

	Spot	One month bias	1M	3M	6M	12M
AUD/USD	0.6371	Neutral	0.65	0.65	0.64	0.63

- We see three major forces at work on AUD/USD. The first is the dominant global theme of the forthcoming Trump administration and what it means for global trade and for China's macro outlook. In theory, this will be a very difficult environment for AUD/USD with commodity prices under pressure.
- The second is the degree to which China can insulate domestic demand with some local stimulus. The answer is probably not enough to fully offset the impact from global trade.
- The third is Australia's domestic economy and the Reserve Bank of Australia. The December meeting saw the RBA grow in confidence over the disinflation process. This should all mean a weaker AUD/USD in 2025.

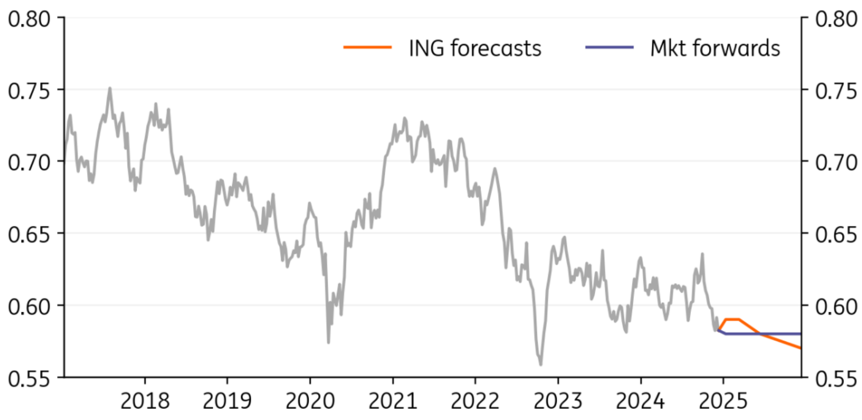


Source: Refinitiv, ING forecasts

NZD/USD: Back-to-back 50bp cuts

	Spot	One month bias	1M	3M	6M	12M
NZD/USD	0.5798	Neutral	0.59	0.59	0.58	0.57

- The Reserve Bank of New Zealand has delivered back-to-back 50bp rate cuts in October and November as it seeks to take rates quickly back to neutral. The market sees neutral somewhere near the 3.00% area and the next, probably 25bp, rate cut should come in February.
- The RBNZ cites the spare capacity in the economy and on-target inflation as reasons to reduce rates so quickly.
- The New Zealand dollar has been the second worst G10 performer (only better than the Aussie dollar) since Trump's re-election. A small, open economy with interest rate sensitive sectors still under pressure (construction, manufacturing, retail) leaves the NZD vulnerable to local and global demand trends.



Source: Refinitiv, ING forecasts

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