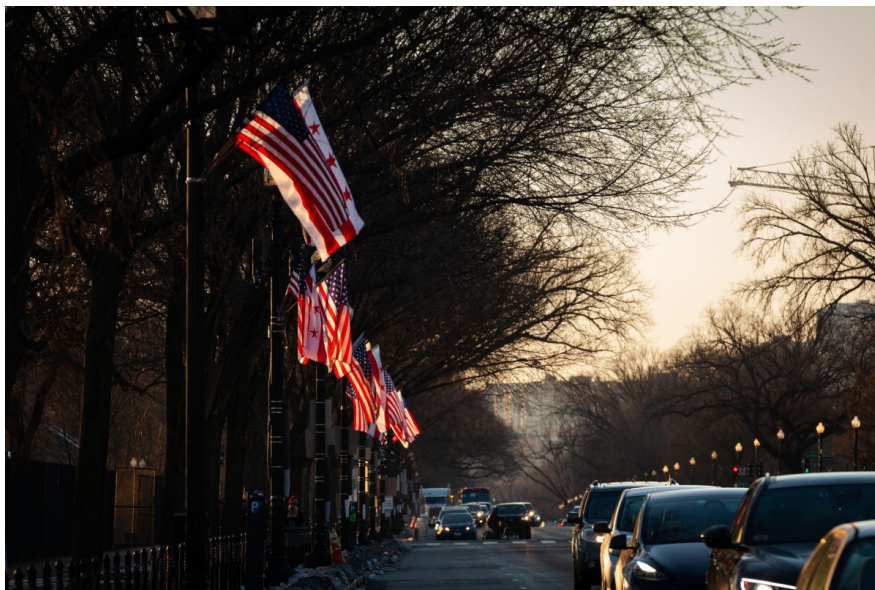


G10 FX Talking: Peak dollar strength in the second quarter

We see the second quarter of this year as the time of peak US tariffs, with new layers to be added after the Commerce Department publishes a report as to why the US has been running structural deficits. This should come at a time when the European Central Bank is considering cutting rates sub 2% and may well send EUR/USD close to parity



Downtown Washington DC, US

Main ING G10 FX Forecasts

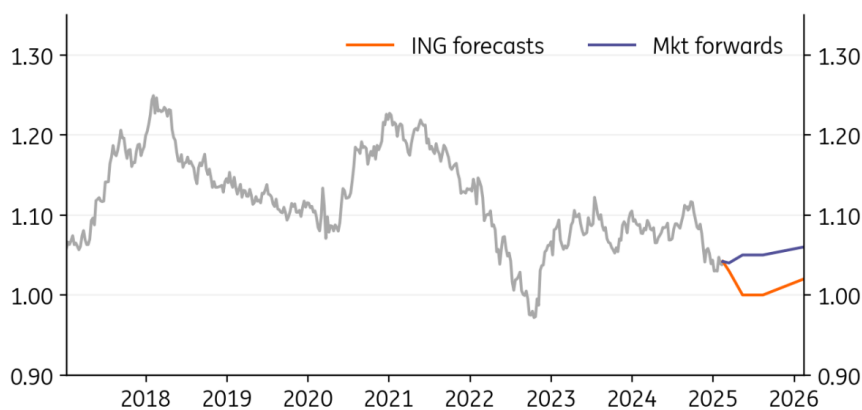
	EUR/USD	USD/JPY	GBP/USD
1M	1.03 ↓	154 ↑	1.24 ↓
3M	1.00 ↓	154 ↑	1.20 ↓
6M	1.00 ↓	157 ↑	1.20 ↓
12M	1.02 ↓	158 ↑	1.21 ↓

	EUR/GBP	EUR/CHF	USD/CAD
1M	0.83 ↓	0.94 →	1.42 ↓
3M	0.83 ↓	0.92 ↓	1.44 ↑
6M	0.83 ↓	0.91 ↓	1.45 ↑
12M	0.84 ↓	0.90 ↓	1.42 ↑

EUR/USD: Timing the tariffs

	Spot	One month bias	1M	3M	6M	12M
EUR/USD	1.0420	Mildly Bearish ↘	1.03	1.00	1.00	1.02

- The tariff threat continues to cast a long shadow over FX markets, but timing the impact remains a tough call. Our best guess is that the second quarter could now be the time for peak pressure once the US Commerce Department delivers its findings on why the US runs structural trade deficits. High savings rates or tight fiscal policy in Europe could well be blamed here.
- Tariffs on the EU as a whole or on specific sectors could push EUR/USD close to parity in 2Q - when the ECB is cutting rates below 2.00%. The 'Atlantic' two-year rate spread will stay wide.
- The outside risk is that Trump's tariffs are not as aggressive as feared and softer employment leads to three Fed cuts this year.



Source: Refinitiv, ING forecasts

USD/JPY: The best hedge against the strong dollar trend

	Spot	One month bias	1M	3M	6M	12M
USD/JPY	153.78	Neutral	154.00	154.00	157.00	158.00

- USD/JPY has turned lower – helped in large part by the Bank of Japan leaning into its tightening cycle. The policy rate now stands at 0.50% and we expect two further 25bp hikes (potentially in May and October) this year. Another round of strong wage hikes is giving the BoJ confidence that the virtuous cycle of wages > consumption > inflation has been achieved.
- Japan is hoping to repeat its 2018-19 performance of avoiding the worst of Trump’s tariffs. However, its large trade surplus is noted, and Japan will likely commit to large US LNG purchases.
- Behind the scenes, we suspect Washington wants a weaker dollar. Were such a view ever to come to light, USD/JPY would lead lower.

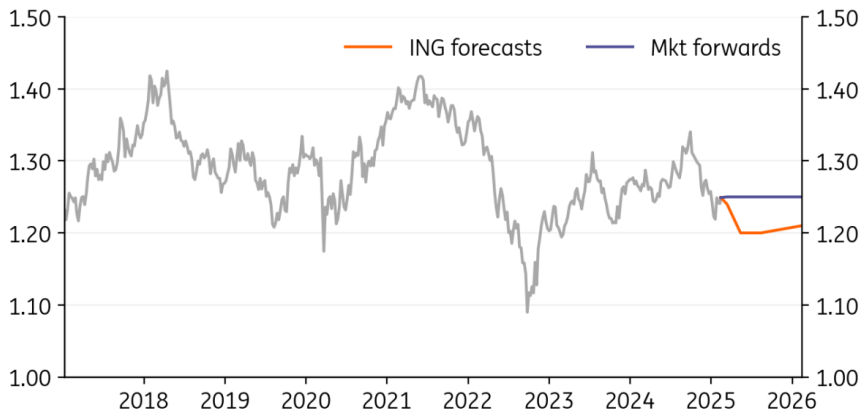


Source: Refinitiv, ING forecasts

GBP/USD: Shaping up for an important couple of months

	Spot	One month bias	1M	3M	6M	12M
GBP/USD	1.2489	Mildly Bearish ▼	1.24	1.20	1.20	1.21

- 1.25/26 should be the top of the range this year and we are looking for a move to 1.19/20. The next couple of months could be key for this story if, as we expect, the UK shifts to a tighter fiscal/looser monetary policy setting. Weaker growth and higher debt servicing costs mean that the UK government will probably have to announce real terms spending cuts in March.
- The Bank of England currently is sticking to its gradual approach to easing. We look for three further cuts in the Bank Rate to 3.75% this year. Employment trends are looking key now.
- The UK is not on the frontline of the tariff wars, but a strong dollar and soft UK macro/rate environment will be the story here.



Source: Refinitiv, ING forecasts

EUR/JPY: Still vulnerable

	Spot	One month bias	1M	3M	6M	12M
EUR/JPY	160.2500	Mildly Bearish ↘	159.00	154.00	157.00	161.00

- EUR/JPY has dropped to test the lower boundary of its nine-month trading range as the BoJ has tightened and the ECB has cut interest rates. This policy divergence will only widen this year and probably Q2 – when broader European tariffs could be seen – maybe the timing for a further break lower.
- EUR/JPY would also be vulnerable were the risk environment to take a turn lower, which has not been the case so far.
- One of the positive risks in this cross is developments in Ukraine. The US is currently busy developing its ideas on a ceasefire deal. This will take time, and it is not clear what leverage the US has over Russia. A ceasefire in 2H25 could give the euro a boost.

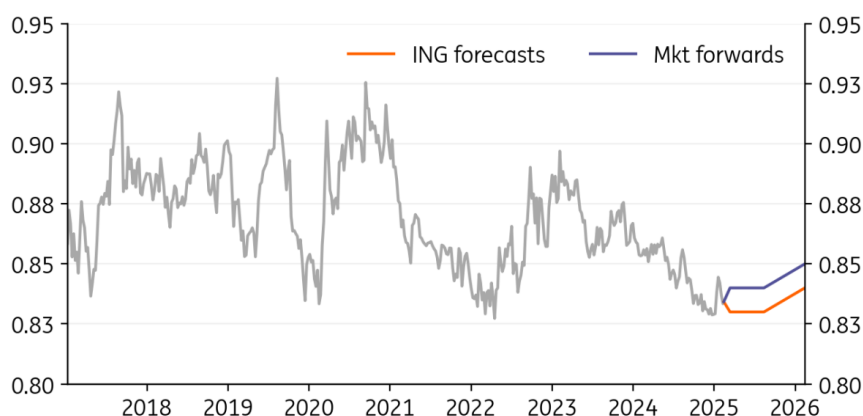


Source: Refinitiv, ING forecasts

EUR/GBP: Domestic versus international considerations

	Spot	One month bias	1M	3M	6M	12M
EUR/GBP	0.8345	Neutral	0.83	0.83	0.83	0.84

- EUR/GBP looks likely to get caught between two themes over coming months. Internationally it's all about trade and the EU is seen as far more exposed than the UK when it comes to Trump's trade war. The UK's goods exports are reasonably small and it's helpful that the UK actually runs a trade deficit with the US.
- However, the domestic story looks sterling negative. The chancellor is threatened with breaching the government's fiscal rule if growth forecasts are cut. Thus tighter fiscal policy in March could be a catalyst for more BoE easing to be priced.
- The government's move closer to the EU is being watched. A return to the customs union looks unlikely, but the government is happy to talk of closer integration if it helps the growth forecast.

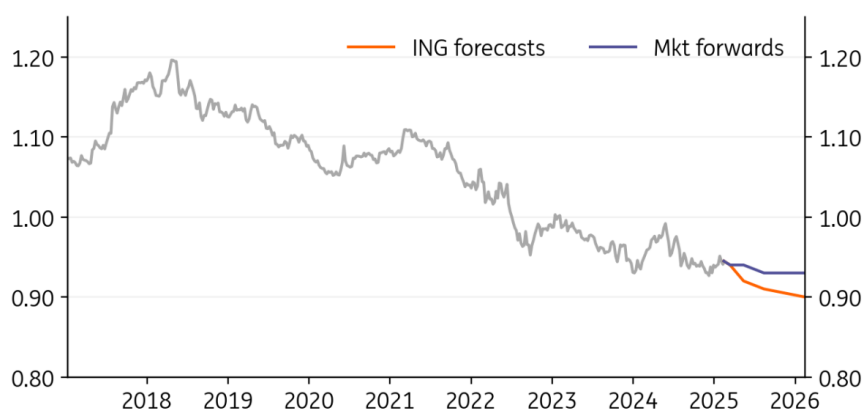


Source: Refinitiv, ING forecasts

EUR/CHF: Will Ukraine optimism start to hurt the franc?

	Spot	One month bias	1M	3M	6M	12M
EUR/CHF	0.9450	Mildly Bearish ↘	0.94	0.92	0.91	0.90

- We've seen Scandi and CEE currencies rallying - seemingly on some optimism emerging over a ceasefire in Ukraine. Should there be any progress here, questions may be asked whether EUR/CHF needs to be trading this low - given it was trading around 1.05 when Russia invaded Ukraine in 2022.
- The Ukraine story is a clear risk to our preferred bearish view on EUR/CHF this year - where the SNB does not match the 100bp of ECB rate cuts. We think the SNB will only cut rates 50bp to 0.00%.
- We have been bearish on EUR/CHF for a while and remain so now. But the low inflation story in Switzerland (SNB sees CPI as low as 0.2% YoY) in 2Q25 will keep SNB quite dovish and could weigh on CHF.



Source: Refinitiv, ING forecasts

EUR/NOK: Weak growth supports easing

	Spot	One month bias	1M	3M	6M	12M
EUR/NOK	11.7300	Mildly Bearish ↘	11.55	11.60	11.40	11.40

- Norway's economy surprisingly contracted in 4Q24 (-0.4% QoQ mainland GDP). Norges Bank has already indicated it will cut by 25bp in March, and the negative growth surprise reinforces our view of three additional cuts (one per quarter) in 2025.
- Inflation also slowed more than expected in December and while markets are pricing in most of the cutting cycle, there is some additional room for a dovish repricing.
- We think pockets of risk adversity will cause EUR/NOK spikes, but NOK's liquidity has improved, and its fundamentals are stronger than the euro's. We still think that EUR/NOK can retest the June 2024 11.30 lows at one point this year.

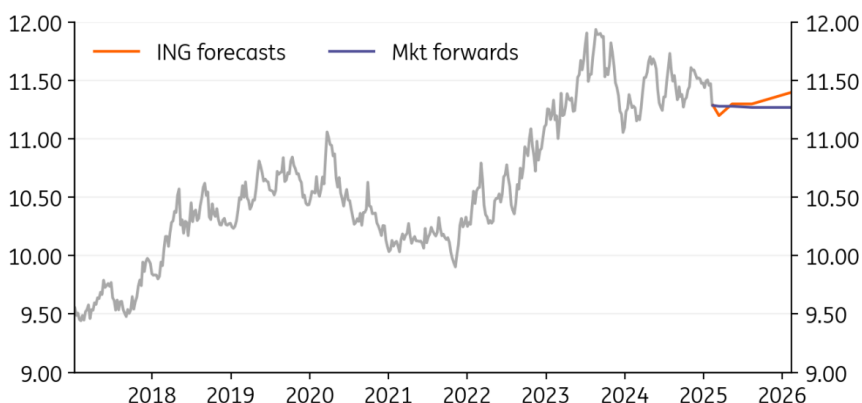


Source: Refinitiv, ING forecasts

EUR/SEK: A rare break from the ranges

	Spot	One month bias	1M	3M	6M	12M
EUR/SEK	11.2900	Mildly Bearish ↘	11.20	11.30	11.30	11.40

- The Swedish krona has been the best-performing G10 currency since the start of February, likely benefitting from hopes of a Russia-Ukraine ceasefire and a rotation away from the highly tariff-exposed and economically stagnant eurozone.
- The early and aggressive Riksbank easing is starting to pay dividends and Sweden is approaching a potential slowdown in global trade with some rebounding activity momentum.
- We expect only one last cut to 2.0% by the Riksbank, although there is a chance that it could follow the ECB to take rates to 1.75%. We acknowledge downside risks to our 11.30 forecast for the coming quarters, but SEK's elevated beta to market sentiment places it at risk of corrections in the coming months.

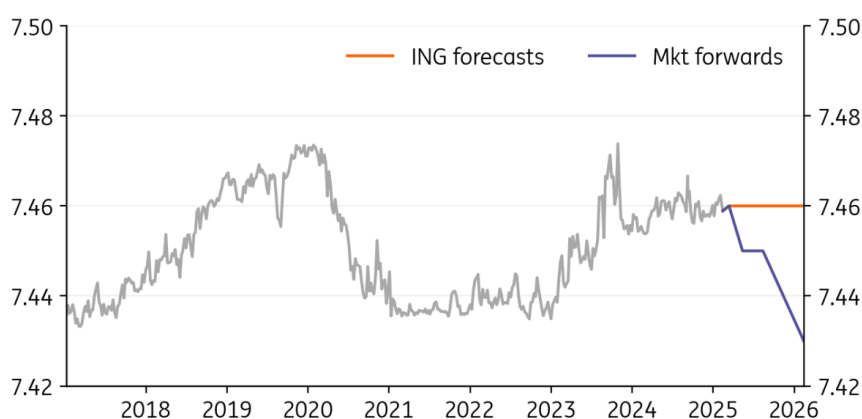


Source: Refinitiv, ING forecasts

EUR/DKK: No sign of Greenland risk

	Spot	One month bias	1M	3M	6M	12M
EUR/DKK	7.4588	Neutral	7.46	7.46	7.46	7.46

- EUR/DKK continues to trade broadly in the ranges. The Danish central bank followed the ECB with a 25bp cut in January and there are no indications it will diverge in future policy decisions given the pair remains close to the 7.4600 central peg level.
- The ongoing US-Denmark dispute over Greenland has not had any noticeable impact on DKK. Should that escalate further, there is some risk of bullish speculation on EUR/DKK.
- The central bank should use FX intervention as a first line of defence. It has not used that instrument in over two years. Only in a more extreme scenario should we see a widening of the EUR-DKK rate differential via smaller cuts in Denmark.



Source: Refinitiv, ING forecasts

USD/CAD: Respite for loonie may not last long

	Spot	One month bias	1M	3M	6M	12M
USD/CAD	1.4288	Neutral	1.42	1.44	1.45	1.42

- USD/CAD has come off the highs after the US tariff scare. We think it should, however, be supported at 1.42 as the US has levied steel and aluminium duties (exports worth around 1% of Canadian GDP) and the risk of new US universal tariffs at a later stage remains substantial.
- The Bank of Canada’s baseline assessment in the latest monetary policy report is that US tariffs will cause a clearer negative growth impact compared to the inflationary effect in the first year. That on the margin suggests some additional risks on the dovish side for the CAD curve, which is now discounting two more cuts in 2025, in line with our forecast.
- Our call is for a rebound to 1.45 by the summer months on revamped tariff risk.

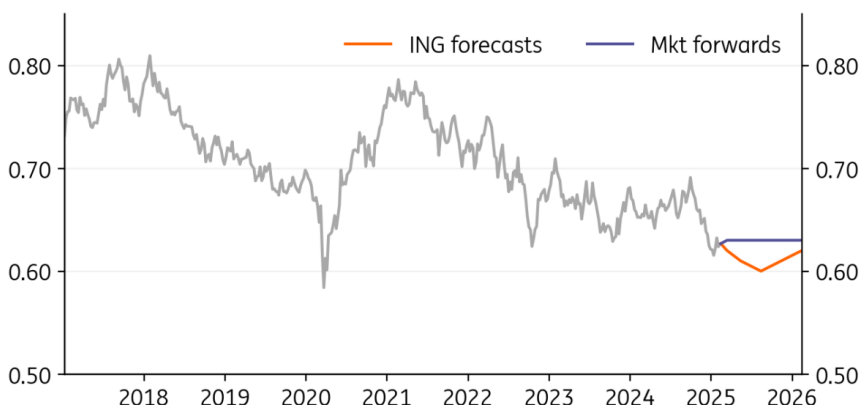


Source: Refinitiv, ING forecasts

AUD/USD: 0.60 is the level for peak protectionism

	Spot	One month bias	1M	3M	6M	12M
AUD/USD	0.6269	Neutral	0.62	0.61	0.60	0.62

- The Australian dollar has rebounded along with most G10 currencies as the USD lost some ground, but the US-China trade war should prevent much more re-appreciation.
- We expect the RBA to kickstart its easing cycle this month with a 25bp cut, in line with consensus and pricing. There may not be much commitment in terms of future cuts, but if our baseline scenario on US protectionism materialises, the RBA will need to support the economy, and will in our view cut to 3.35% by 4Q.
- We expect relative stability in the coming weeks in AUD/USD, but the bias remains bearish, and we think that the peak of the protectionism risk will be consistent with 0.60 in 2Q-3Q.

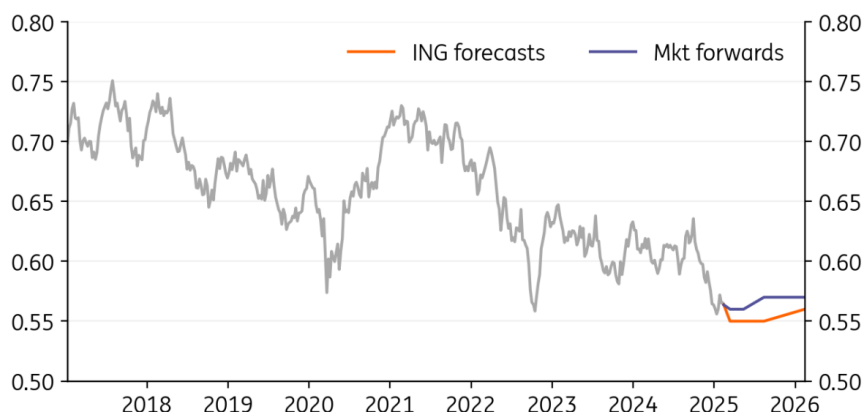


Source: Refinitiv, ING forecasts

NZD/USD: Another 50bp cut in February

	Spot	One month bias	1M	3M	6M	12M
NZD/USD	0.5637	Mildly Bearish ↘	0.55	0.55	0.55	0.56

- We expect the RBNZ to cut by another 50bp at the February meeting before reverting to 25bp reductions. Markets are currently pricing in 40bp for this month’s meeting, and we see some room for NZD underperforming AUD in the near term.
- We expect NZD/USD to depreciate back to the 0.55 mark by the summer and potentially explore even lower levels on the back of intensifying US protectionism and declining rate advantage.
- New Zealand is less reliant on Chinese imports than Australia and NZD is therefore less structurally exposed to a potential China slowdown than AUD in the medium run. We see downside risks to AUD/NZD in the coming quarters.



Source: Refinitiv, ING forecasts

Author

Chris Turner

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

chris.turner@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@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.