

## G10 FX: Goldilocks or black swan?

The dollar's soft start to the year has been built on easing US price pressures, China reopening, and lower gas prices. There is a narrow path to be charted with lower inflation and the avoidance of a major slowdown. That is our call and should keep the dollar offered and activity currencies bid. A disorderly fall in housing markets would be one of the risks



Source: Shutterstock

### Main ING G10 FX forecasts

	EUR/USD	USD/JPY	GBP/USD
1M	1.08 →	128.00 ↓	1.21 ↑
3M	1.13 ↑	126.00 ↓	1.27 ↑
6M	1.15 ↑	125.00 ↓	1.28 ↑
12M	1.12 ↑	120.00 ↓	1.24 ↑

	EUR/GBP		EUR/CHF		USD/CAD	
1M	0.89	→	1.00	↑	1.32	↓
3M	0.89	→	1.02	↑	1.28	↓
6M	0.90	→	1.00	↑	1.27	↓
12M	0.90	→	1.00	↑	1.26	↓

↑ / → / ↓ indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright

Source (all charts and tables): Refinitiv, ING forecast

### EUR/USD: A change of heart and of forecast

	Spot	One month bias	1M	3M	6M	12M
EUR/USD	1.0785	Neutral	1.08	1.13	1.15	1.12

- We've had to have a good look in the mirror and admit we were wrong. That is what we've done when presenting a new, [much more bullish set of EUR/USD forecasts](#) on 16 January. Most salient to the story has been the continuing softening in US price pressures – prompting Federal Reserve Chair Jerome Powell to declare 'the disinflation process has started'. Our team looks for core US inflation to fall even more sharply in the second quarter. This can send EUR/USD 1.15.
- Lower natural gas and China's reopening have prompted global growth to be revised higher. That's good news for the euro. A hawkish European Central Bank can also see yield differentials lift EUR/USD.
- The main risks stem from sticky US inflation, energy, and China. US debt ceiling negotiations may well prove a challenge in the third quarter too.

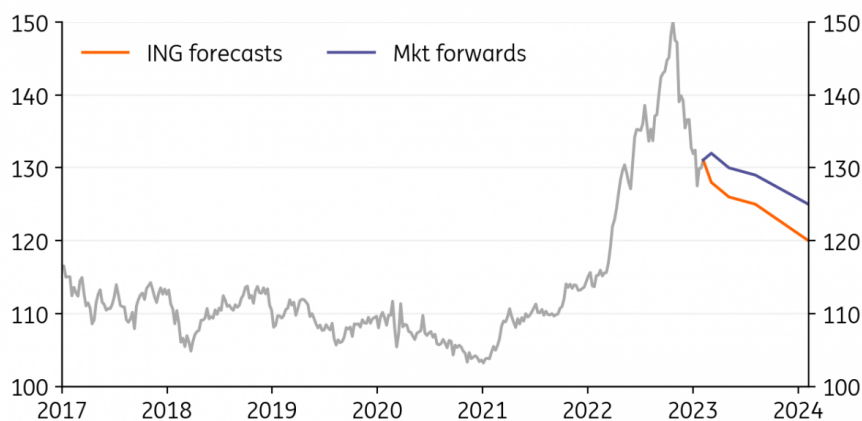


Source: Refinitiv, ING

## USD/JPY: The BoJ is back on the map

	Spot	One month bias	1M	3M	6M	12M
USD/JPY	132.02	Bearish ↘	128.00	126.00	125.00	120.00

- After December's surprise move to widen the Japanese government bond yield target band, the Bank of Japan is now garnering much more focus than it has in years. Most pressing is the [replacement of Governor Haruhiko Kuroda](#), who leaves in April. A successor will be presented to parliament on 10 February. The favourite, Deputy Governor Masayoshi Amamiya, is seen as the dovish continuity candidate.
- Any surprise choice of the more hawkish Hiroshi Nakaso could probably send the yen a lot stronger, with pressure building for 10-year JGB yields to burst above their current 0.50% ceiling.
- USD/JPY has mainly been driven by the weaker dollar story, but 120 looks like the target this year, helped by the BoJ and lower energy prices.

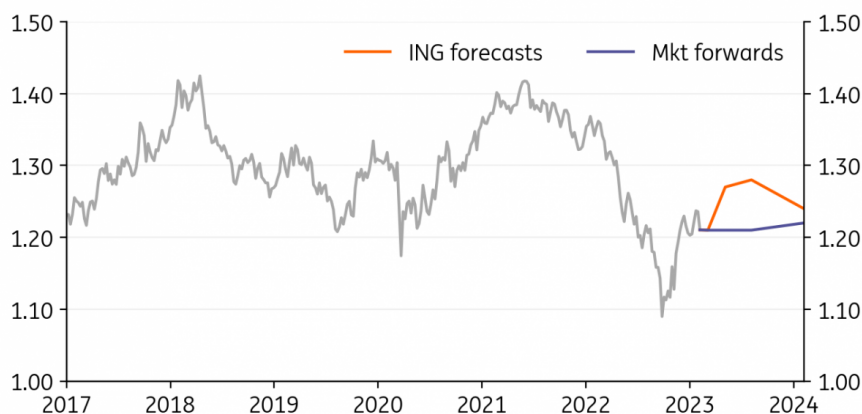


Source: Refinitiv, ING

## GBP/USD: Picking itself off the floor

	Spot	One month bias	1M	3M	6M	12M
GBP/USD	1.2048	Neutral	1.21	1.27	1.28	1.24

- GBP/USD has participated in the weaker dollar environment and should probably trace out a 1.20-1.30 range this year. The UK economy is certainly a laggard, weighed down by low productivity, low investment, no fiscal headroom and sticky earnings, which means that the Bank of England still has a little more tightening to do.
- Yet the UK housing picture is not as bleak as painted out and employment levels are high. The trouble is that the labour force has declined and there seem few immediate plans to address it. Reopening the Brexit debate is not a political option.
- Our team has the Fed starting rate cuts in September, while the BoE may not cut until the second quarter of 2024 – probably keeping cable in a range.

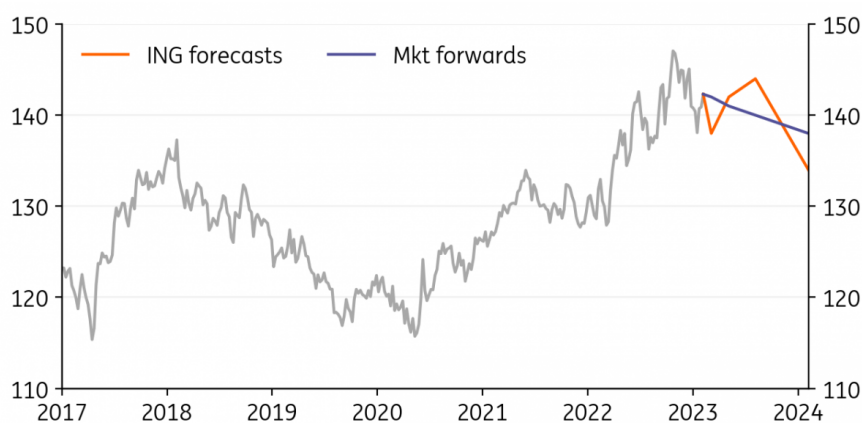


Source: Refinitiv, ING

## EUR/JPY: The hedge should goldilocks scenario fail

	Spot	One month bias	1M	3M	6M	12M
EUR/JPY	142.3600	Mildly Bearish <span style="color:red">↘</span>	138.00	142.00	144.00	134.00

- Listening to Fed Chair Powell's press conference on 1 February it almost sounded like 2023 could be a Goldilocks year for the US economy. Inflation could come down even though unemployment remained low. If that is too good to be true, then EUR/JPY should come lower. The mis-priced asset markets under this scenario would be equities and credit markets.
- There is also the case that the European Central Bank's new-found hawkishness in December – and marketed with mixed success in February – falls by the wayside. That is not our house view, which sees the ECB hiking a further 75bp (deposit rate at 3.25%) and rates then unchanged through the fourth quarter of 2024.
- The Japanese yen also has the advantage of stronger Asian regional growth.

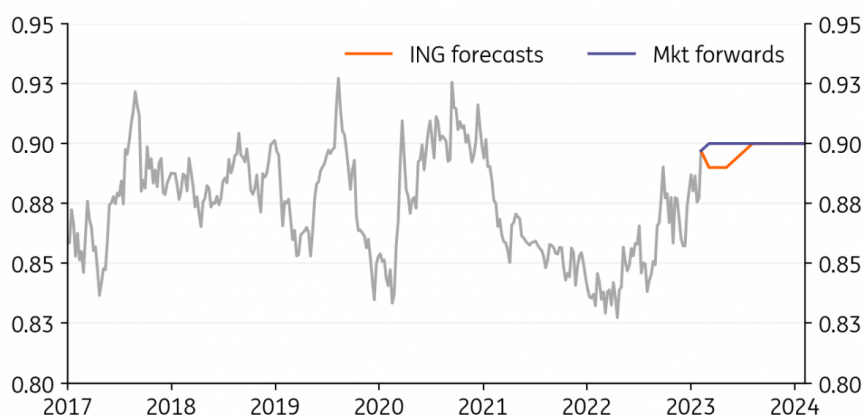


Source: Refinitiv, ING

## EUR/GBP: Mild appreciation is the call

	Spot	One month bias	1M	3M	6M	12M
EUR/GBP	0.8951	Neutral	0.89	0.89	0.90	0.90

- In taking the Bank Rate to 4.00% in February, the Bank of England withdrew guidance on future hikes. Withdrawn was the need to continue hiking forcefully and recent comments from Chief Economist Huw Pill suggest the BoE could be emulating Canadian counterparts and now starting to wait on the effects of prior tightening.
- The macro call is that UK inflation starts to fall through the second quarter, which could see pricing of a late-year 25bp cut from the BoE. Before then we suspect BoE might deliver one last 25bp hike in March.
- Our core view is that the GBP yield advantage over the EUR – particularly in the important two-year part of the curve – will narrow. This will leave EUR/GBP near 0.90/91 at year-end.

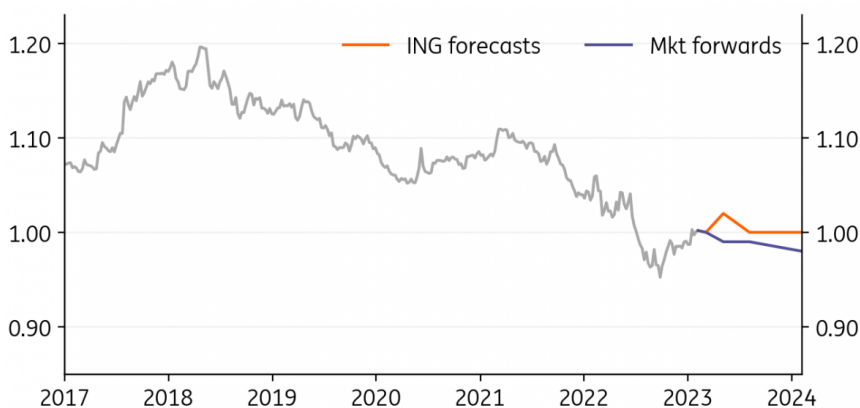


Source: Refinitiv, ING

## EUR/CHF: Case for nominal CHF appreciation softens

	Spot	One month bias	1M	3M	6M	12M
EUR/CHF	0.9982	Neutral	1.00	1.02	1.00	1.00

- When hiking the policy rate 50bp to 1.00% in December, the Swiss National Bank made clear it had recently been selling FX reserves. This was in order to keep the nominal Swiss franc strong and avoid importing inflation. A stable real franc was the objective.
- The case for further nominal CHF appreciation appears to be weakening. Foreign inflation is falling, meaning less nominal CHF appreciation is required to keep the real CHF stable. And CPI in Switzerland is dipping back under 3%.
- Yet January Swiss CPI could spike higher again and we suspect the SNB will hike another 50bp again in March (to match some of the ECB tightening). Rate differentials moving in favour of the euro and the risk rally should help EUR/CHF – but the view is mixed.



Source: Refinitiv, ING

### EUR/NOK: Most negatives for NOK in the price

	Spot	One month bias	1M	3M	6M	12M
EUR/NOK	11.0620	Mildly Bearish <span style="color:red">↘</span>	10.80	10.55	10.20	10.00

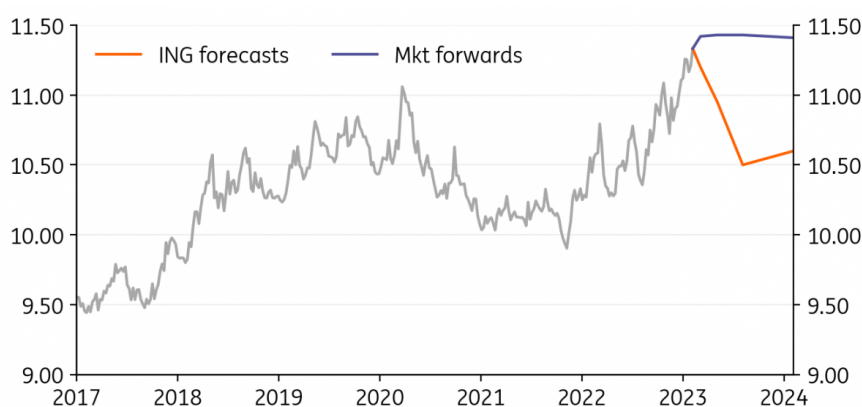
- EUR/NOK has seen a big rally and is now close to 11.00. The move is mostly linked to policy divergence: the 2-year EUR-NOK swap rate differential is around zero for the first time since 2004, as the ECB stayed hawkish and Norges Bank hit the pause button.
- Incidentally, Norges Bank's daily FX purchases have been raised in February (from NOK 1.5bn to 1.9bn). While we expect one last (well-telegraphed) 25bp hike by NB in March, the direction of FX purchases is probably more relevant for the krone. We suspect NB may want to favour a stronger currency.
- Gas prices aren't offering much support to NOK either, but most of the negatives are now in the price, and there is surely room for NOK recovery in the second quarter as risk sentiment stabilises.



## EUR/SEK: Rising black swan risks?

	Spot	One month bias	1M	3M	6M	12M
EUR/SEK	11.4210	Mildly Bearish ↘	11.20	10.95	10.50	10.60

- We recently outlined [four scenarios for EUR/SEK in 2023](#), and while our call was for a gradual SEK outperformance, recent [economic data](#) pushed markets to increasingly price in a black swan scenario for the Swedish economy and the krona.
- High inflation, a contracting economy, a weak currency and falling house prices appear a rather concerning mix. Now, more than ever, patience is a precious commodity for the Riksbank. A 50bp hike in February looks likely, and we think they will still prefer to sound hawkish (if nothing else, to halt SEK's fall).
- The next meeting is in late April, when data may have improved enough to deliver one last 25bp. It's a narrow path, but we think the RB can avert the black swan scenario, and EUR/SEK can return to 10.60 by year-end.



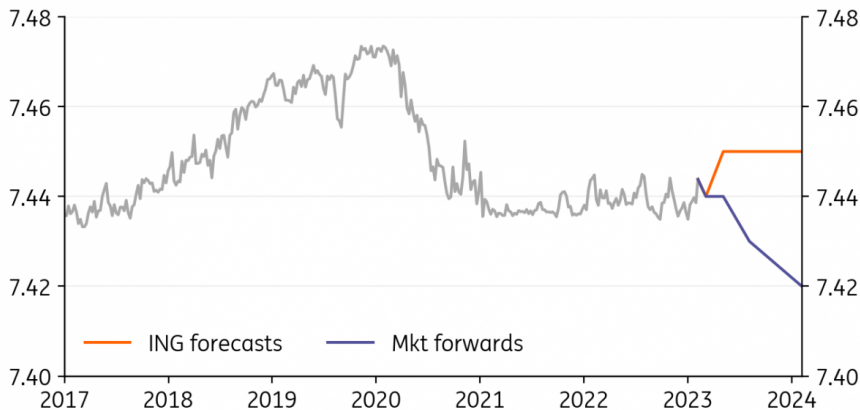
Source: Refinitiv, ING

## EUR/DKK: DN widens rate gap

	Spot	One month bias	1M	3M	6M	12M
EUR/DKK	7.4452	Neutral	7.44	7.45	7.45	7.45

- Danmarks Nationalbank surprised on the dovish side in February as it hiked by 35bp after the 50bp move by the ECB, therefore widening the EUR-DKK policy rate spread.
- This was explicitly a consequence of large-scale FX intervention, which amounted to DKK 13bn in January, significantly higher than the previous two months (4bn and 5bn).
- It is clear that DN is focused on generating a larger cushion for the EUR/DKK peg and has grown increasingly less tolerant towards FX intervention. Another smaller hike compared to the ECB in March is surely possible, although high inflation remains a concern in Denmark too. EUR/DKK looks on track to move to the upper half of the 7.44-7.45 range by the second quarter, as per our forecast.





Source: Refinitiv, ING

### USD/CAD: Some silver linings from CAD after BoC pause

	Spot	One month bias	1M	3M	6M	12M
USD/CAD	1.3415	Mildly Bearish <span style="color:red">↘</span>	1.32	1.28	1.27	1.26

- The Bank of Canada most likely hit the peak of its tightening cycle, as it brought rates to 4.5% and signalled more hikes are not on the cards for now.
- The dovish shift by the BoC was not a sudden move and had been largely priced in, which means that CAD can now potentially benefit from the fact that a lower peak rate means less economic impact and above all less pain for the troubled housing market.
- CAD is not our favourite commodity currency for 2023 given a deteriorating domestic and US economic outlook, but can still count on respectable rate attractiveness and high-beta to risk sentiment. A move below 1.30 in USD/CAD looks likely by the second quarter.

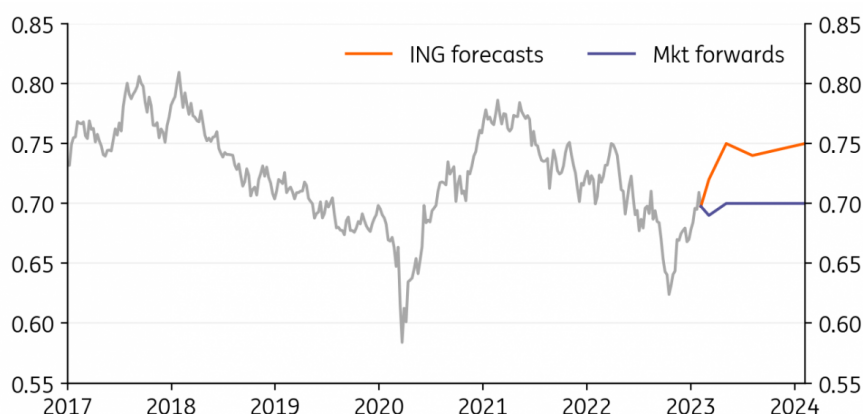


Source: Refinitiv, ING

## AUD/USD: All aboard the Aussie rally

	Spot	One month bias	1M	3M	6M	12M
AUD/USD	0.6925	Bullish ↗	0.72	0.75	0.74	0.75

- There is really a lot to be liked about AUD. First, Australia is very uniquely exposed to a recovering growth outlook in China and the apparent improvement in Beijing’s diplomatic ties (remember the Sino-Australian trade war?).
- Second, the Australian economy appears relatively resilient, and sticky inflation is likely to force the Reserve Bank of Australia to keep hiking, ultimately raising AUD's rate attractiveness. We think markets are actually underestimating RBA tightening: we expect a peak at 4.1% in May versus the 3.6% priced in by the market.
- We see few reasons to go against the AUD rally at the moment, and we expect AUD/USD to touch 0.75 by the end of the second quarter.

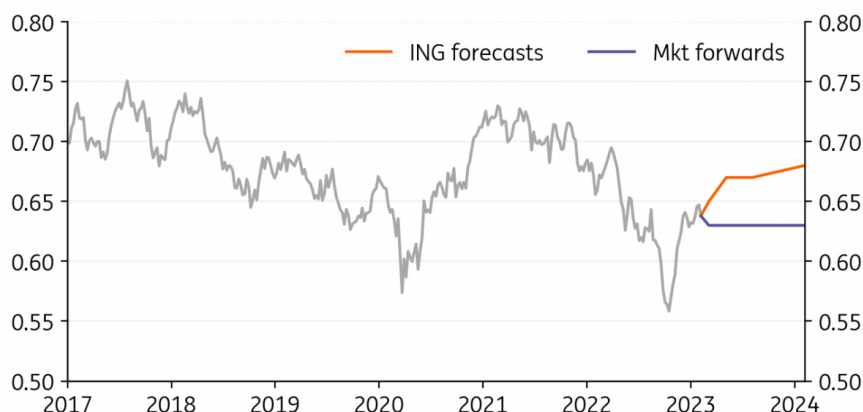


Source: Refinitiv, ING

## NZD/USD: Less attractive than AUD

	Spot	One month bias	1M	3M	6M	12M
NZD/USD	0.6318	Mildly Bullish ↗	0.65	0.67	0.67	0.68

- In lots of ways, the New Zealand dollar can count on the same benefits that we listed for the Aussie dollar. However, we think there are more downside risks to NZD compared to AUD over the course of 2023.
- An ultra-hawkish Reserve Bank of New Zealand is good from a carry perspective, but has already generated a large slump in house prices. This trend may accelerate and pose serious threats to the economic outlook. We think the RBNZ will underdeliver and fall well short of their projected 5.5% peak rate to save the property market.
- The resignation of the NZ prime minister does not have major implications for now, but might add a little uncertainty along the way. AUD/NZD to break through 1.10 soon.



Source: Refinitiv, ING

## Authors

### Chris Turner

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

[chris.turner@ing.com](mailto:chris.turner@ing.com)

### Francesco Pesole

FX Strategist

[francesco.pesole@ing.com](mailto: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 <http://www.ing.com>.