

## G10 FX Talking: Dollar powers ahead

Heading into Donald Trump's inauguration on 20 January, the dollar's inflation-adjusted exchange rate is at the highest level since 1985. Given Trump's policy set of tariffs, immigration controls, fiscal stimulus and regulatory relaxation - plus a strong US economy - no investor wants to stand in the way of the strong dollar juggernaut. Look for continued dollar strength and probably more central banks being forced to intervene to support their currencies



### Main ING G10 FX Forecasts

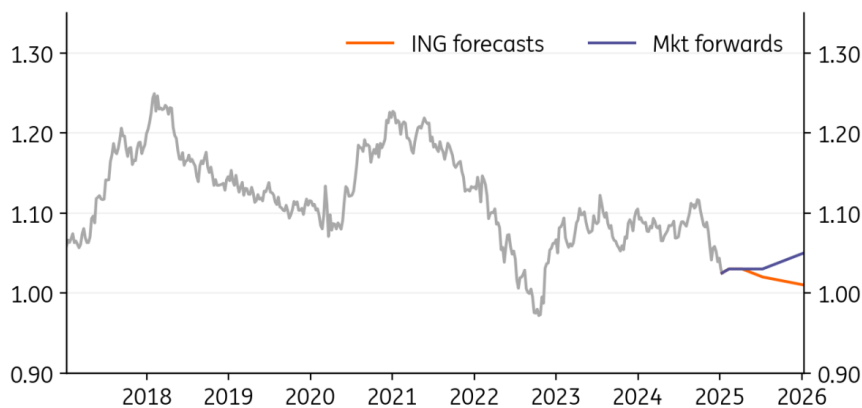
	EUR/USD	USD/JPY	GBP/USD
1M	1.03 →	156 ↓	1.23 ↑
3M	1.03 →	156 ↓	1.21 ↓
6M	1.02 ↓	157 ↑	1.20 ↓
12M	1.01 ↓	160 ↑	1.19 ↓

	EUR/GBP	EUR/CHF	USD/CAD
1M	0.84 →	0.93 ↓	1.45 ↑
3M	0.85 ↑	0.92 ↓	1.44 →
6M	0.85 →	0.91 ↓	1.44 ↑
12M	0.85 ↓	0.90 ↓	1.42 →

### EUR/USD: Bracing for storm Trump

	Spot	One month bias	1M	3M	6M	12M
EUR/USD	1.0250	Neutral	1.03	1.03	1.02	1.01

- There is a strong consensus that EUR/USD trades in a 1.00-1.05 range this year with a downside bias. Consensus is occasionally correct, and we expect the ratcheting up of US tariffs to again deliver the stronger dollar that we saw in 2018-19. US growth should remain stronger than major trading partners and yield spreads will remain dollar supportive on a [less dovish Federal Reserve](#).
- The biggest risks to the EUR/USD bear trend come from: i) the new US administration trying to talk down the dollar, ii) a ceasefire in Ukraine or iii) US tariffs being much more selective.
- Europe remains mired in weak growth and weak leadership. Some fiscal support may emerge in the second half of the year with a new German government, but the EUR/USD bear trend should still dominate.

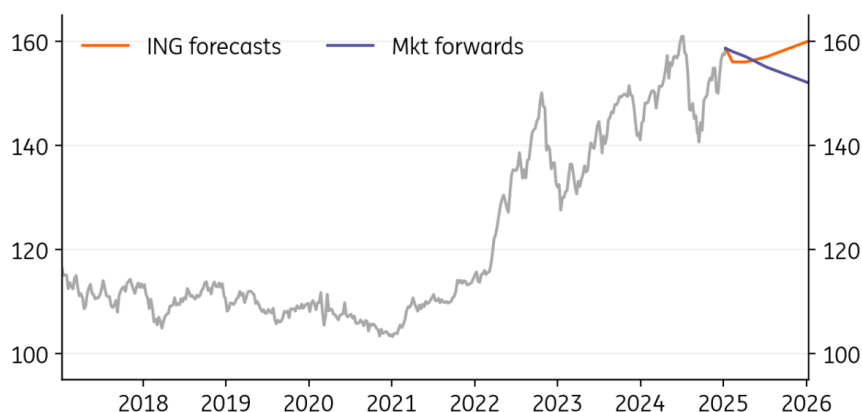


Source: Refinitiv, ING forecasts

## USD/JPY: Three hikes from the BoJ this year

	Spot	One month bias	1M	3M	6M	12M
USD/JPY	158.60	Mildly Bearish <span style="color: red;">▼</span>	156.00	156.00	157.00	160.00

- USD/JPY is now firmly in the FX intervention zone of the 158-160 region. The Bank of Japan sold \$35bn in that region last July and the mood music from Tokyo is that authorities are again ready to intervene. Driving that strength in USD/JPY has been the sharp rise in US Treasury yields as the term premium returns to the bond market. Our team expects US yields to stay firm all year – hence our 160 end-year call for USD/JPY.
- Within this supported environment we will see corrections, however. These will be related to intervention and BoJ rate hikes. We look for three 25bp hikes this year – the first potentially on 24 January.
- JPY is the most undervalued currency in our G10 fair value model.

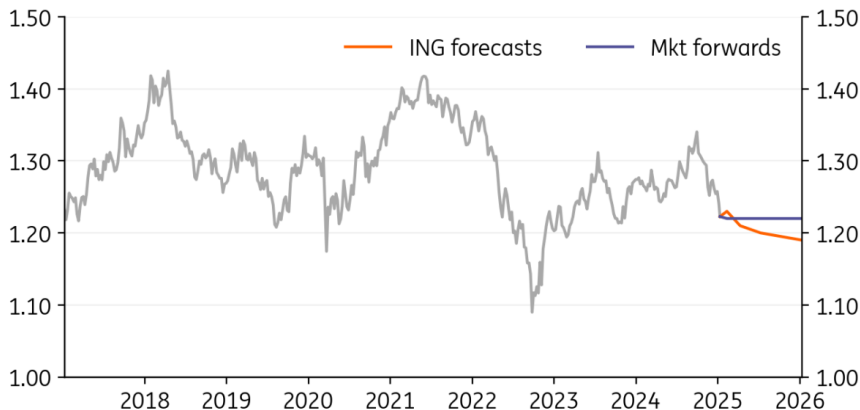


Source: Refinitiv, ING forecasts

## GBP/USD: The pound's outlook deteriorates

	Spot	One month bias	1M	3M	6M	12M
GBP/USD	1.2227	Neutral	1.23	1.21	1.20	1.19

- We're cutting our GBP forecasts this month. While we do not think there is a sovereign crisis underway in the UK, we do think the rise in gilt yields will force a round of spending cuts from the government when it announces a spending review on 26 March. This is because the rise in gilt yields is challenging the fiscal rule of balancing the budget over a five-year horizon.
- Spending cuts in March could coincide with the turn lower in UK service price inflation and finally allow the Bank of England to cut rates more aggressively. The market prices 50bp of BoE rate cuts this year. We look for 100bp+ in cuts.
- Slightly overweight positioning also doesn't help the pound.



Source: Refinitiv, ING forecasts

### EUR/JPY: A slight downside bias here

	Spot	One month bias	1M	3M	6M	12M
EUR/JPY	162.5400	Mildly Bearish ↘	161.00	161.00	160.00	162.00

- EUR/JPY has largely been rangebound since last July’s yen carry trade unwind. 157-167 is the rough range. Looking purely at the reaction function of the BoJ or European Central Bank against a weaker currency, one can argue that the BoJ is more resistant to a weaker yen than the ECB is to a weaker euro - and that EUR/JPY should decline. That is our slight preference even though our forecasts are quite flat here.
- In Europe, let’s also look out for European elections – where Germany goes to the polls on 23 February. The return of a CDU government could help the euro with a little more fiscal stimulus.
- Should the rise in US yields finally hit equities, EUR/JPY will drop.

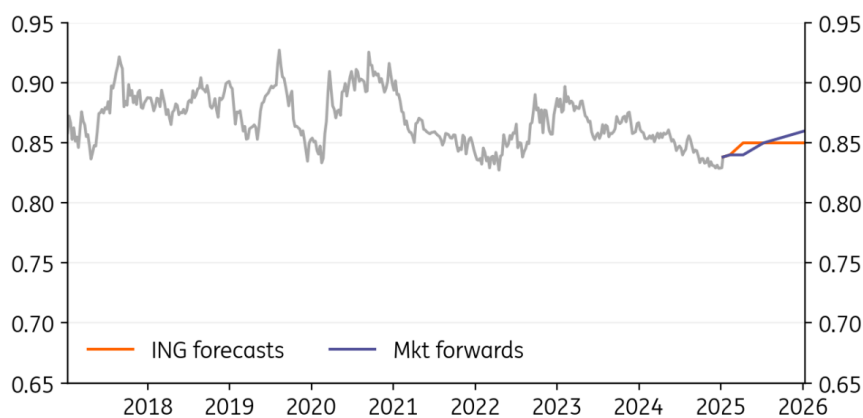


Source: Refinitiv, ING forecasts

## EUR/GBP: Market turns against the pound

	Spot	One month bias	1M	3M	6M	12M
EUR/GBP	0.8383	Neutral	0.84	0.85	0.85	0.85

- We did not get carried away with downside forecasts for EUR/GBP last year, nor will we with upside forecasts this year. Yes, the recent gilt sell-off means UK fiscal consolidation is more likely now. But that probably makes EUR/GBP a 0.85 story rather than levels nearer 0.87/88.
- When it comes to BoE versus ECB market pricing of the 2025 easing cycles, the risks here are clearly to the upside for EUR/GBP. We think the BoE easing cycle will be far deeper than what is currently priced. Again, UK services inflation is key here.
- Though we do not think UK comparisons to Liz Truss/Sep 2022 are fully justified, the FX option market is far more alarmed.

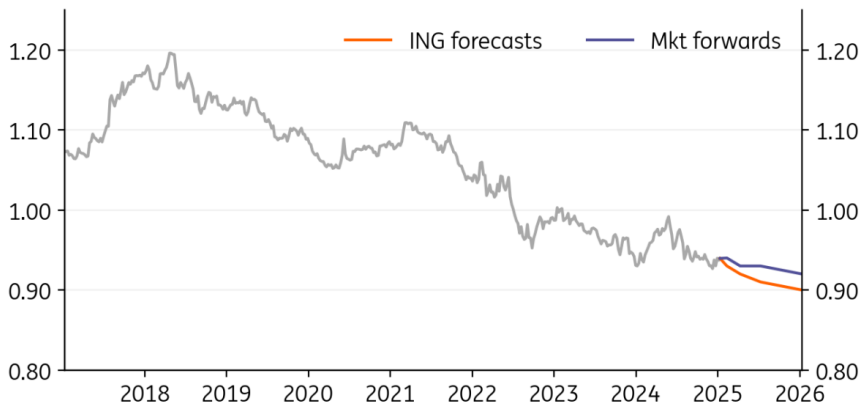


Source: Refinitiv, ING forecasts

## EUR/CHF: Switzerland could be toying with deflation in 2Q

	Spot	One month bias	1M	3M	6M	12M
EUR/CHF	0.9395	Mildly Bearish ↘	0.93	0.92	0.91	0.90

- EUR/CHF has stabilised above the 0.93 area helped by the modest bounce in EUR swap rates since early December. The latest Swiss National Bank FX intervention data – this time for 3Q24 – showed the SNB buying CHF728mn in FX. That’s not a lot but is the highest since early 2022 and reflects the SNB’s shift from being an FX seller in 2022-2024 as it used a stronger CHF to fight inflation, to an FX buyer.
- Suffice to say that the SNB is now fighting rather than welcoming CHF strength. However, we doubt the SNB can match the 125bp of cuts from the ECB this year and EUR/CHF should soften.
- The big wildcard here could be peace in Europe. Any lasting Ukraine ceasefire could be worth a 2-3% rally in EUR/CHF.

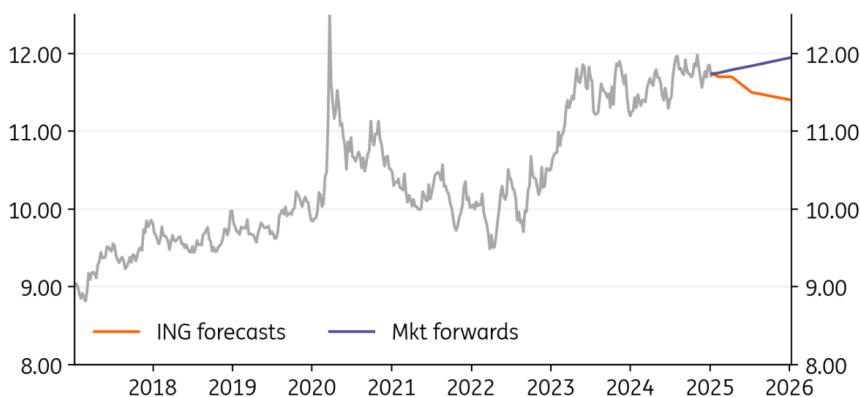


Source: Refinitiv, ING forecasts

### EUR/NOK: Norway's economic risks are limited

	Spot	One month bias	1M	3M	6M	12M
EUR/NOK	11.7400	Neutral	11.70	11.70	11.50	11.40

- EUR/NOK realised volatility is easing back towards the pre-July levels. Norges Bank increased daily FX purchases to NOK 250m in January, but liquidity conditions in the NOK market have improved, as shown by the krone’s small reaction to the bond selloff.
- Norway’s exports to the US are a mere 3% of total exports, so the direct protectionism impact would be limited. The picture is more nuanced for geopolitics. A colder winter and Ukraine’s gas pipeline halt bode well for Norway’s exports, but any military threat to Europe would have an outsized negative effect on NOK.
- Norges Bank signalled a March cut. We expect one cut per quarter in 2025, but risks are tilted to a slightly more hawkish scenario. We retain a cautious, moderately bearish EUR/NOK view.

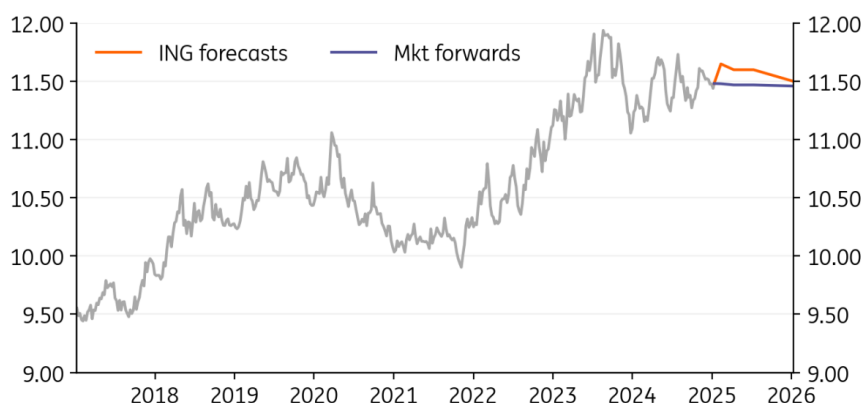


Source: Refinitiv, ING forecasts

## EUR/SEK: Krona should remain weak

	Spot	One month bias	1M	3M	6M	12M
EUR/SEK	11.4800	Mildly Bullish ↗	11.65	11.60	11.60	11.50

- We expect the Riksbank to cut by 25bp in January and another 25bp in March, reaching a terminal rate of 2.0%. Still, US aggressive protectionism could force some extra easing.
- Beyond short-term swings, the risks are more on the downside for the krona compared to the krone in 2025. This is not only due to the lower implied rates, but crucially because of SEK's higher sensitivity to a slowdown in global trade. Also, now that inflation appears in check in Sweden, the Riksbank could prove more tolerant to a weak krona – which also helps to absorb the trade shock.
- EUR/SEK vols are very cheap, and there is a case for wider swings once Trump takes office. However, we still target 11.50 in 2H.

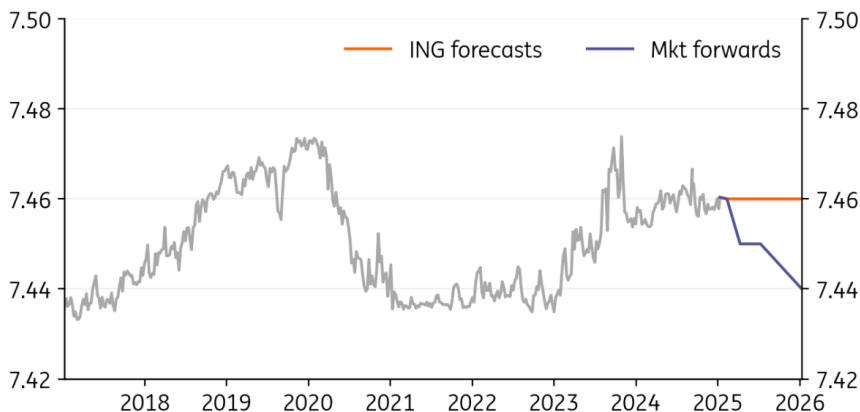


Source: Refinitiv, ING forecasts

## EUR/DKK: Black swan emerging

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

- EUR/DKK has faced some modest upward pressure of late, while staying close to the 7.46 peg centre line. That small Danish krone depreciation was probably a function of the Novo Nordisk stock sell-off before Christmas and Trump's military and economic threats to Denmark over Greenland.
- The Greenland dispute is emerging as a black swan risk for DKK, as an escalation could lead to pockets of disorderly DKK selling.
- The central bank should still use FX intervention as the first line of defence for DKK. Should that prove insufficient, it would face the tough decision to either soften the DKK or cut less than the ECB. The latter being a hard sell in the event of US tariff-led economic woes.



Source: Refinitiv, ING forecasts

### USD/CAD: Loonie’s downturn may have only just started

	Spot	One month bias	1M	3M	6M	12M
USD/CAD	1.4412	Mildly Bullish ↗	1.45	1.44	1.44	1.42

- The loonie remains in a full-blown storm. Whoever replaces Justin Trudeau as prime minister would likely face a no confidence vote quickly, and the chances of new elections before October are high. Conservatives are projected to win by a landslide.
- The political shake-up is unlikely to matter much for CAD as long as Trump’s 25% tariff threat on Canada remains. Canada is reportedly preparing for retaliation with a list of selected US products that would asymmetrically damage US counterparts compared to Canadian consumers.
- We expect USD/CAD to move rapidly towards 1.50 if a North America trade war starts, as the Bank of Canada would need to cut more. Trump would probably complain about CAD weakness, but a CAD rebound will only happen if trade tensions abate.



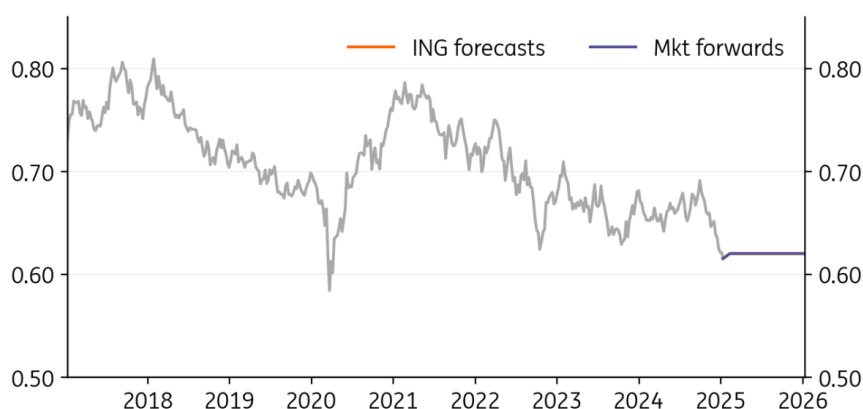
Source: Refinitiv, ING forecasts



## AUD/USD: Some respite possible

	Spot	One month bias	1M	3M	6M	12M
AUD/USD	0.6150	Mildly Bullish ↗	0.62	0.62	0.62	0.62

- The Australian dollar has been among the worst performers since Trump's re-election. The People's Bank of China's defence of the yuan has likely favoured a build-up of proxy shorts for China's sentiment in light of protectionism risk. Iron ore is another gauge of the potential impact on Chinese activity, and Australia's top export. We don't expect a sustainable rebound above 100\$/MT this year.
- There is still a plausible scenario where Trump focuses on domestic themes at the start of his term and at least delays China tariffs. That would offer some respite to the battered AUD.
- We agree with markets that the chances of a February Reserve Bank of Australia rate cut are above 50%. Still, trimmed-mean CPI is above target, and if the tariff threat abates somewhat, easing can be pushed out further.

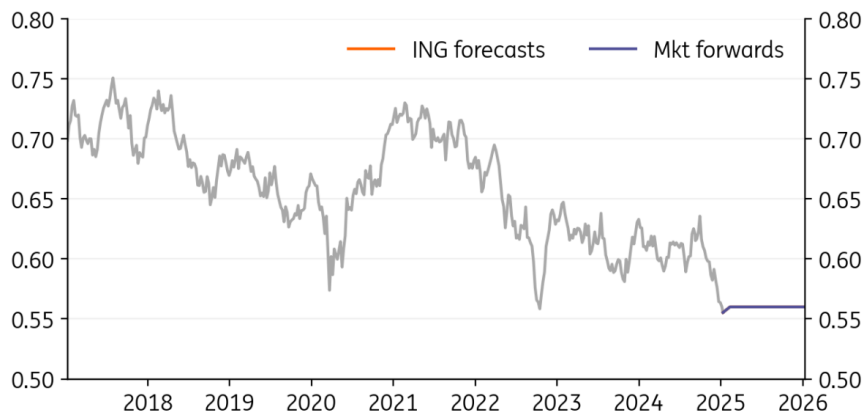


Source: Refinitiv, ING forecasts

## NZD/USD: Dovish RBNZ caps the upside

	Spot	One month bias	1M	3M	6M	12M
NZD/USD	0.5554	Mildly Bullish ↗	0.56	0.56	0.56	0.56

- The November Reserve Bank of New Zealand rate projections embed another 50bp cut in February, taking rates to 3.75%. Markets remain more dovish on easing after that, pricing in a terminal rate around 3.0% versus the RBNZ's 3.25-3.50%.
- We are a bit more concerned than markets on non-tradeable inflation (still at 4.9%), but pricing will still largely depend on Trump's protectionism.
- Like AUD, NZD could benefit from some delay in China tariffs, at least in the near term. However, the radically more dovish RBNZ relative to the RBA makes it harder for NZD to stage a sustained recovery.



Source: Refinitiv, ING forecasts

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