

# G10 FX Talking: Delayed Fed rate cuts to help the dollar

Financial markets continue in their glass half full view of the world as tariff deadlines get pushed back again. The dominant theme for this quarter we believe will be resurgent US inflation and a Fed resisting heavy political pressure to cut rates. This can deliver some brief respite to the dollar

## Main ING G10 FX Forecasts

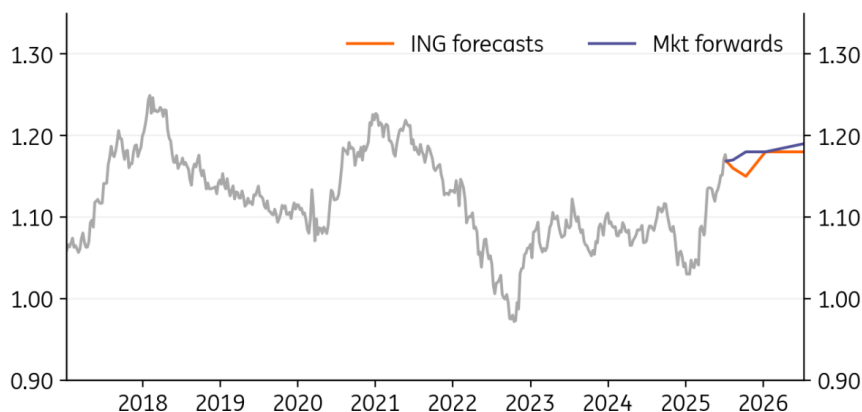
	EUR/USD	USD/JPY	GBP/USD
1M	1.16 ↓	147 →	1.36 ↑
3M	1.15 ↓	145 ↓	1.34 ↓
6M	1.18 →	140 ↓	1.36 ↑
12M	1.18 ↓	137 ↓	1.34 ↓

	EUR/GBP	EUR/CHF	USD/CAD
1M	0.86 ↓	0.93 →	1.39 ↑
3M	0.86 ↓	0.92 ↓	1.39 ↑
6M	0.87 ↓	0.93 ↑	1.37 ↑
12M	0.88 →	0.95 ↑	1.35 →

## EUR/USD: Bull market correction

	Spot	One month bias	1M	3M	6M	12M
EUR/USD	1.1686	Mildly Bearish ↘	1.16	1.15	1.18	1.18

- Having rallied 15% this year, EUR/USD is going through some well-deserved consolidation. Helping the dollar has been solid US labour market data suggesting the Fed won't be hurried into an early rate cut. Our call for the coming quarter is that US price pressures re-appear and assuming US unemployment does not rise, the Fed waits until December to cut. That's a \$ positive.
- European activity data is not particularly impressive and our house view for a September ECB rate cut (only 40% priced) can help with this EUR/USD retracement to the 1.14/15 area.
- But expect a lot of interest to buy the dip before EUR/USD rallies again into year-end on a 50bp Fed cut and Powell speculation.



Source: Refinitiv, ING forecasts

## USD/JPY: Domestic challenges emerge

	Spot	One month bias	1M	3M	6M	12M
USD/JPY	146.94	Neutral	147.00	145.00	140.00	137.00

- Having previously been one of the preferred safe-haven currencies, the yen actually lagged in the second quarter. Clearly, it's never going to outperform in a carry trade environment, but domestic factors may be playing a role. Here progress on a US-Japan trade agreement has been slow. PM Ishiba may be constrained by the 20 July Upper House election and not want to concede too much – e.g. on rice imports.
- The election has also started to trigger some JGB weakness on the view of looser fiscal policy post-election.
- Ultimately, however, the yen remains a safe-haven and will participate in this broad multi-year \$ adjustment. We suspect the buy-side will use any rally to 150 to lock in \$ hedges.

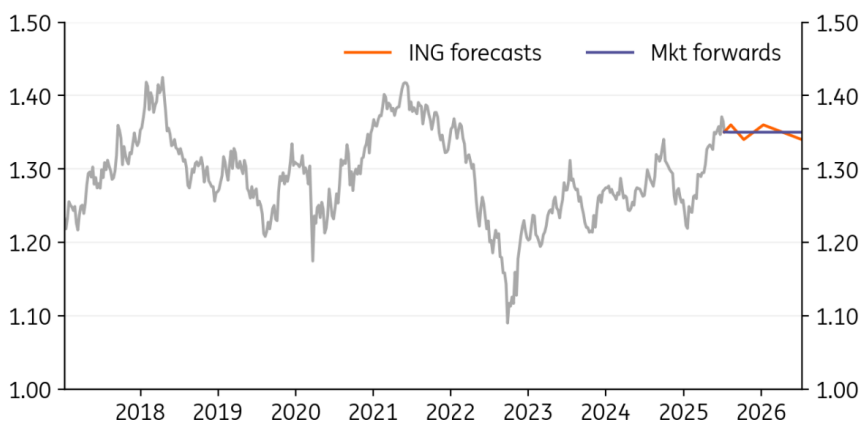


Source: Refinitiv, ING forecasts

### GBP/USD: Risks building

	Spot	One month bias	1M	3M	6M	12M
GBP/USD	1.3502	Neutral	1.36	1.34	1.36	1.34

- Sterling is starting to underperform a little. Fiscal policy is back in the headlines after the government failed to deliver spending cuts in welfare. Other spending cut options look limited, leaving the alternatives of tax hikes or a softening of the fiscal rules – neither of which look good for sterling.
- This comes at a time when the UK labour market and wage growth is starting to soften. Labour market data is poor quality but is threatening to show a pick-up in layoffs.
- We still look for the Bank of England to cut rates on a quarterly cycle. But a quicker deterioration in the labour market could see the BoE terminal rate priced some 25-50bp lower to the 3.00/3.25% area. This could see GBP/USD lag in an otherwise soft multi-quarter dollar environment.

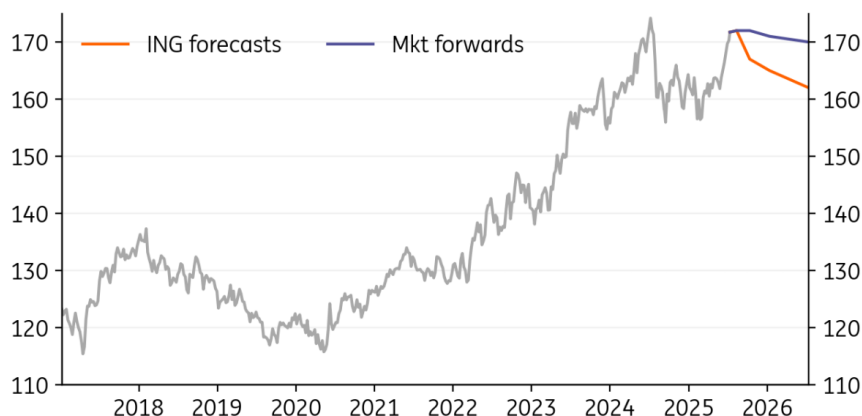


Source: Refinitiv, ING forecasts

## EUR/JPY: Risks proving more balanced

	Spot	One month bias	1M	3M	6M	12M
EUR/JPY	171.7200	Neutral	172.00	167.00	165.00	162.00

- EUR/JPY is trading above 170 again on the back of a resilient euro and a few more risks emerging for the yen. On the latter, the focus has been on the 20 July Upper House election and whether the LDP-New Komeito coalition loses control. If so, JGBs could get hit on the back of looser fiscal policy and the yen would join both the dollar and sterling as 2025 victims of fiscal concerns.
- What has been notable as well has been the breakdown in the EUR/JPY correlation with an equity sell-off. The euro is now the preferred liquid hedge in a risk-off environment.
- Also watch out for the yen and trade. High US tariffs are a yen negative, but Washington ultimately wants a weaker USD/JPY.

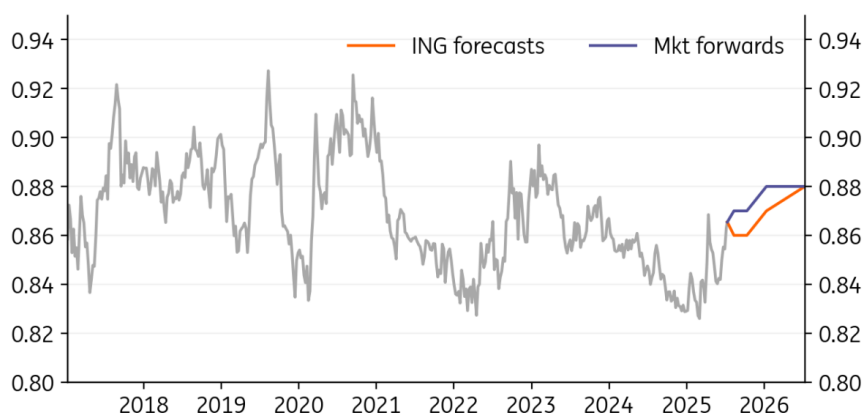


Source: Refinitiv, ING forecasts

## EUR/GBP: Fiscal challenges and easier BoE policy weigh

	Spot	One month bias	1M	3M	6M	12M
EUR/GBP	0.8655	Neutral	0.86	0.86	0.87	0.88

- EUR/GBP has been creeping higher, helped both by a softening inflation/lower rate environment and more recently some fiscal concerns. Here the Labour government’s failure to cut spending on welfare hit Gilts on the view that the fiscally responsible Chancellor may be forced to resign. The fall-out means that taxes look likely to rise in November. Tighter fiscal and looser monetary policy look a mild sterling negative.
- The higher EUR/GBP profile looks even more compelling next year, when fiscal expansion in the eurozone justifies a continued euro rally. This at a time when BoE rates are likely cut to 3.25%.
- One outside bearish risk for the euro this summer is French politics, where the government could fall on budget woes.

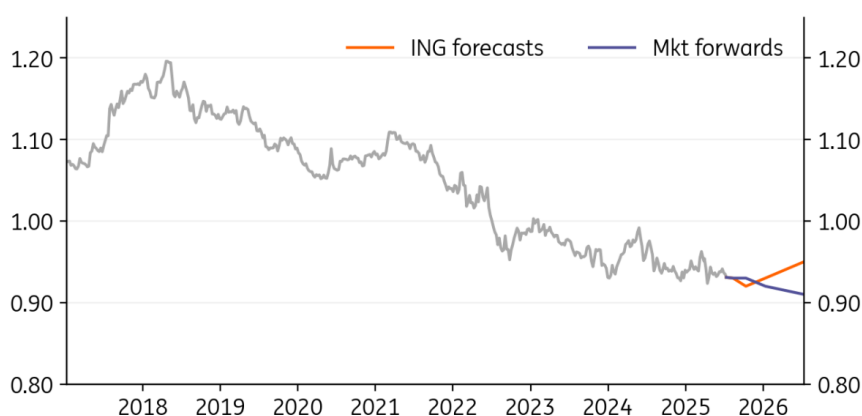


Source: Refinitiv, ING forecasts

## EUR/CHF: SNB will have to grin and bear CHF strength

	Spot	One month bias	1M	3M	6M	12M
EUR/CHF	0.9308	Neutral	0.93	0.92	0.93	0.95

- [Here](#) we argue that the Swiss National Bank faces a dilemma in how to limit CHF strength – which is undoubtedly a problem. FX intervention is challenging in that Switzerland is currently trying to negotiate its way out of a looming 31% US tariff. Here the US wants to see stronger currencies against the dollar. And the SNB may be reluctant to cut below negative because of the property market.
- Our baseline assumes that the SNB will probably intervene around the 0.9200/9250 level and does cut rates to -0.25% in mid-September. That is not a recipe for a higher EUR/CHF, however.
- EUR/CHF may not rally until 2026, when the eurozone growth story on the back of fiscal stimulus really starts to develop.



Source: Refinitiv, ING forecasts

## EUR/NOK: NOK has room to recover

	Spot	One month bias	1M	3M	6M	12M
EUR/NOK	11.8200	Bearish ↘	11.60	11.40	11.20	11.00

- Norway inflation came in hot in June, with underlying CPI returning above 3.0% and taking an August cut off the table. September remains an open question with markets pricing in 20bp. That is also our base case for the next cut.
- EUR/NOK is expensive at current levels. In our calculations, overvaluation is roughly 3%, and we think the euro may face some idiosyncratic pressure from dovish European Central Bank repricing.
- Most upside risks for the pair stem from potential hit to global sentiment from tariffs. Barring that, the rate gap still argues for a return to 11.50.

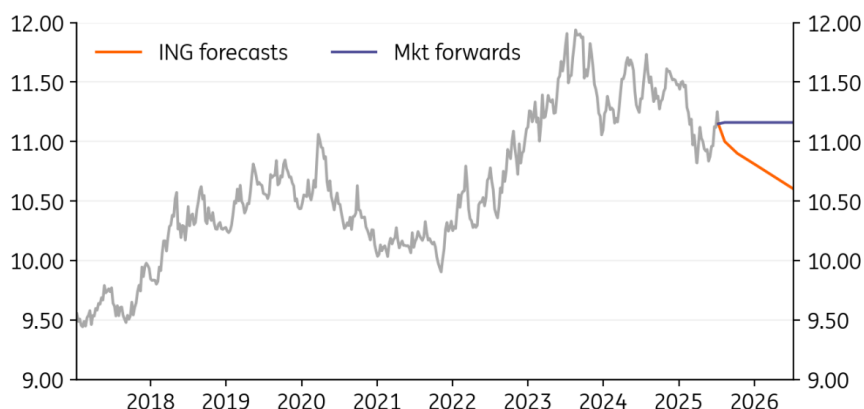


Source: Refinitiv, ING forecasts

### EUR/SEK: Riksbank done with cuts

	Spot	One month bias	1M	3M	6M	12M
EUR/SEK	11.1500	Bearish ▼	11.00	10.90	10.80	10.60

- Higher-than-expected inflation in June endorses our call that the Riksbank cycle is over at the 2.0% handle. Markets are however reticent to price out another cut, probably on the view that inflation is transitory and growth will be weaker.
- As we see another 25bp of cuts being priced out the SEK curve in the coming months, we remain confident on a sustainable return below 11.00 in EUR/SEK.
- A return to 10.70-10.80 by year-end is our base case given our hawkish Riksbank call. Should the central bank cut once again, the decline should be slower, but we don't doubt the medium-term direction.

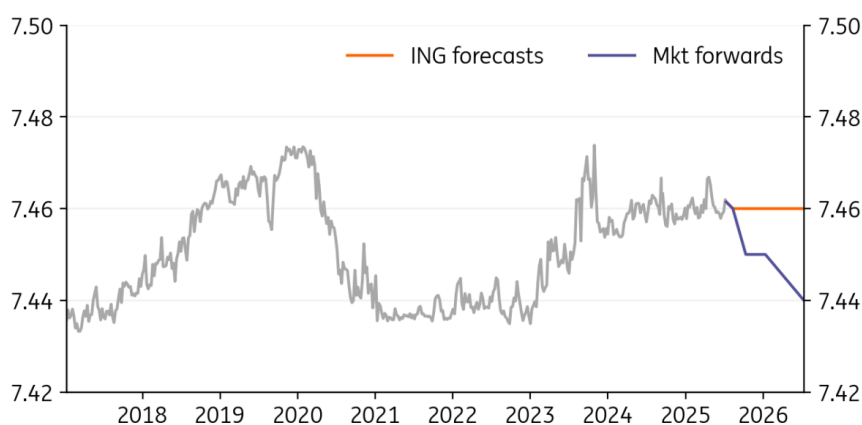


Source: Refinitiv, ING forecasts

## EUR/DKK: Volatility plummeting

	Spot	One month bias	1M	3M	6M	12M
EUR/DKK	7.4615	Neutral	7.46	7.46	7.46	7.46

- One-month EUR/DKK realised volatility has plummeted to the lowest levels since 2023 after April's spike. With EUR/DKK still very close to the 7.460 central rate peg, Denmark's central bank has remained clear of FX intervention.
- We expect the next cut in Denmark in September, in line with our ECB call. Barring a major escalation in US-Greenland tensions, there are no reasons to expect material deviations from the 7.460 anchor.

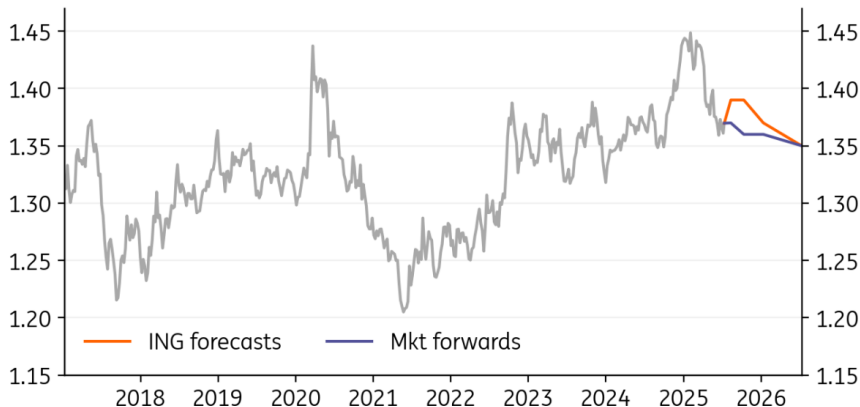


Source: Refinitiv, ING forecasts

## USD/CAD: Loonie's resilience to be tested

	Spot	One month bias	1M	3M	6M	12M
USD/CAD	1.3698	Bullish ↗	1.39	1.39	1.37	1.35

- The general consensus is that the US and Canada will agree on a trade deal in the coming weeks. But relations between the two countries remain tense, and Trump has threatened 35% tariffs.
- We see upside risks for USD/CAD as Canada is already asymmetrically impacted by existing US steel tariffs, and we could also see some hawkish Fed repricing helping USD.
- Spending cuts by the Canadian government are increasing the downside risk for the jobs market, and we think the Bank of Canada will need to move in September regardless of the Fed and potentially cut twice this year. We therefore see only limited upside potential for CAD in the second half of the year.

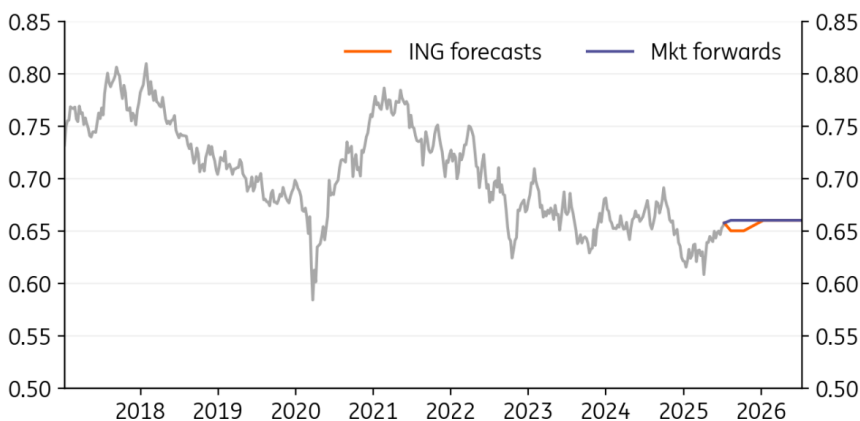


Source: Refinitiv, ING forecasts

### AUD/USD: RBA-led support to wane

	Spot	One month bias	1M	3M	6M	12M
AUD/USD	0.6574	Mildly Bearish <span style="color:red">▼</span>	0.65	0.65	0.66	0.66

- The Reserve Bank of Australia surprised with a hold in July, but [we think](#) the next cut has simply been postponed to August as we see trimmed CPI moderate.
- Outside of the impact from pharmaceutical tariffs – Australia does not seem a main target of this round of US protectionism. That opens the door to AUD outperformance against high-beta peers, considering also that an August RBA cut is fully priced in.
- However, AUD/USD looks set to remain strictly linked to Fed and US data dynamics; we expect that can add some pressure on the pair over the summer.

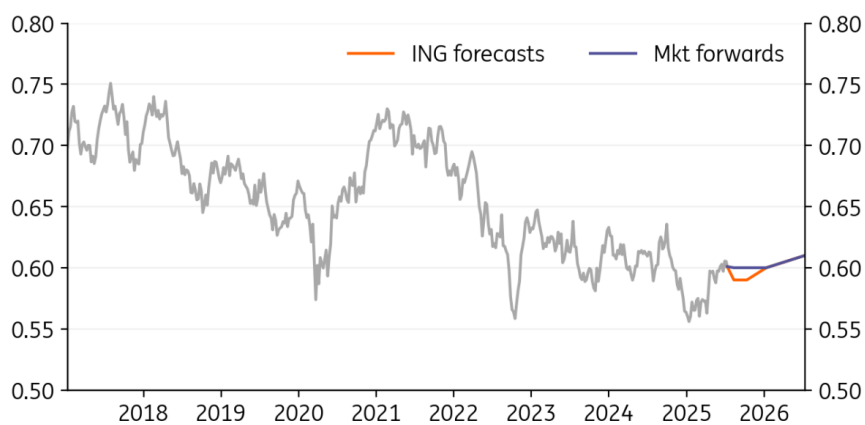


Source: Refinitiv, ING forecasts

## NZD/USD: August cut on the table

	Spot	One month bias	1M	3M	6M	12M
NZD/USD	0.6009	Bearish ↘	0.59	0.59	0.60	0.61

- Unlike in Australia, New Zealand's Reserve Bank hold in July was widely expected. The balance of communication looked tilted on the dovish side though, as policymakers signalled openness to cut rates later this year.
- 2Q data for inflation (20 July) and unemployment (5 August) will determine whether an August cut is warranted. Markets are pricing in 18bp for August, and 35bp in total for year-end.
- We think the risks are tilted to the downside for NZD in the near term as a USD rebound may be met with soft NZ data prompting some domestic dovish repricing.



Source: Refinitiv, ING forecasts

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