G10 FX Talking: This is not 2022

The duration of the energy shock remains critical to the world economy, the central bank response and exchange rates. Our working assumption is that energy flows will start to resume in the second quarter, the ECB will consider a rate hike and that by year-end, the Fed will be considering two to three rate cuts. If we're right, EUR/USD should find support

An extended energy shock will see the ECB more likely to hike than the Fed and EUR/USD starting to find some support

Main ING G10 FX Forecasts

	EUR/USD	USD/JPY	GBP/USD
1M	1.15 →	158 ↓	1.32 →
3M	1.16 ↑	158 →	1.32 →
6M	1.18 ↑	155 ↓	1.33 ↑
12M	1.20 ↑	153 ↓	1.33 ↑

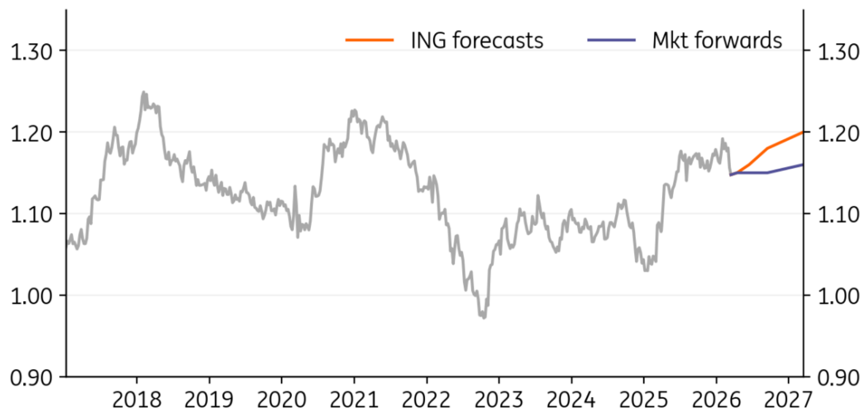
	EUR/GBP	EUR/CHF	USD/CAD

1M	0.87	→	0.90	→	1.36	↓
3M	0.88	↑	0.90	→	1.35	↓
6M	0.89	↑	0.91	↑	1.34	↓
12M	0.90	↑	0.92	↑	1.33	↓

EUR/USD: The energised dollar

	Spot	One month bias	1M	3M	6M	12M
EUR/USD	1.1448	Neutral	1.15	1.16	1.18	1.20

- The energy supply shock is dominating financial markets and having an outsized and positive impact on the dollar. Comparisons to the 15% EUR/USD drop in 2022 look wide of the mark, however. The Fed is not about to launch a 500bp+ tightening cycle, nor should the natural gas shock be as large to Europe as it was in 2022. Indeed, the ECB looks far more likely than the Fed to hike should energy prices stay high.
- Even with higher energy prices, we suspect EUR/USD can find support ahead of 1.10/12 and tentatively forecast a pick-up to 1.18/20 by year-end as the Fed resumes its easing cycle.
- But Gulf oil flows need to restart to cement a EUR/USD floor.

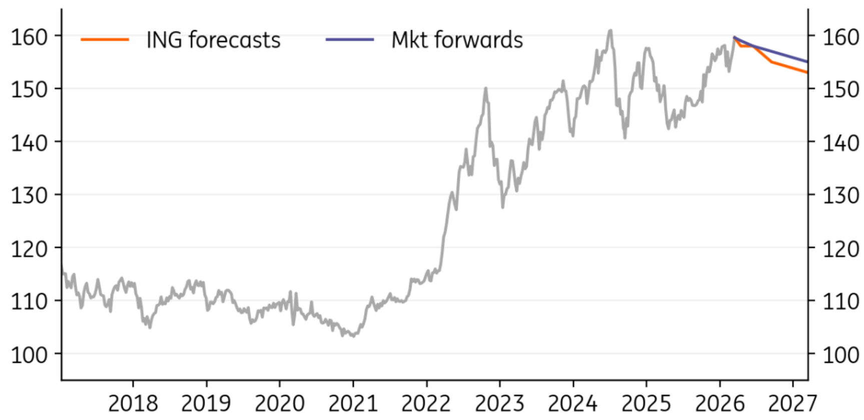


Source: Refinitiv, ING forecasts

USD/JPY: Co-ordinated intervention?

	Spot	One month bias	1M	3M	6M	12M
USD/JPY	159.32	Mildly Bearish	158.00	158.00	155.00	153.00

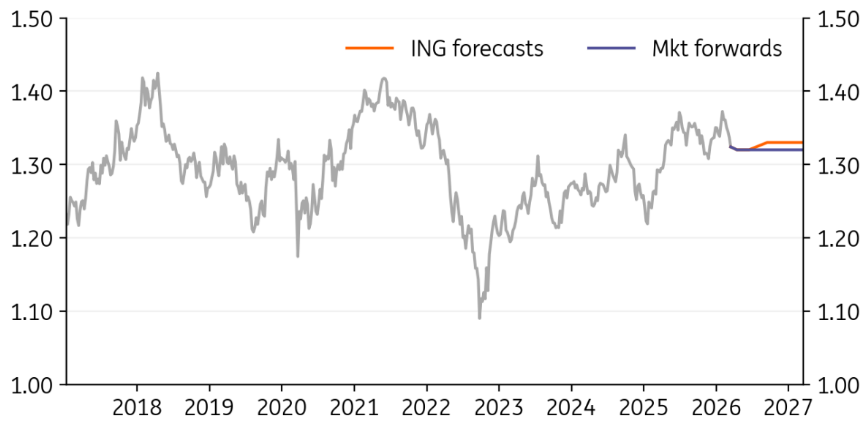
- The energy shock has hit the yen as much as the euro as evidenced by EUR/JPY staying flat. Higher energy prices and a weaker yen could undermine Prime Minister Sanae Takaichi's plans to limit the cost of living crisis with energy price caps. Verbal support against yen weakness is loud, and near 160 we are firmly in FX intervention territory. Roughly $100bn was sold around these levels in 2024.
- The question is whether Washington formally joins Japan in coordinated intervention – probably not. Unilateral intervention could see USD/JPY correct to 155/157 but bounce back quickly.
- Expect to see USD/JPY staying stronger for longer and a reversal requires lower energy prices, Fed cuts and Bank of Japan hikes.



GBP/USD: BoE looks highly unlikely to hike rates

	Spot	One month bias	1M	3M	6M	12M
GBP/USD	1.3250	Neutral	1.32	1.32	1.33	1.33

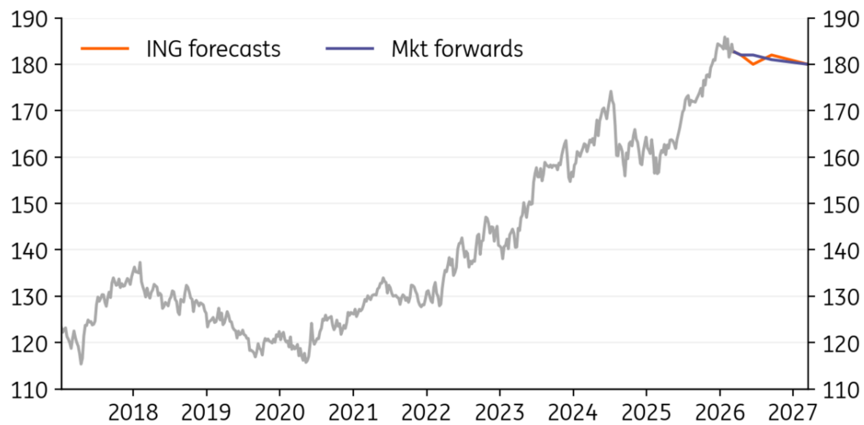
- European FX has been hit hard by the energy shock – although sterling is slightly outperforming. That looks largely down to the complete re-assessment of the Bank of England cycle. Here, 50bp of expected rate cuts this year have changed into 20bp of hikes as the market sees the BoE as one of the most reactive to higher prices. BoE hawks feel that inflation was never under control.
- However, the UK labour market is much looser now than it was in 2022, meaning that the risk of second round inflation is much lower. Fiscal policy is now tighter than it was in 2022 as well.
- Assuming this energy shock does not last for a full three months or longer, we expect GBP/USD to find support in the low 1.30s.



EUR/JPY: Key levels in USD/JPY playing a role here

	Spot	One month bias	1M	3M	6M	12M
EUR/JPY	182.3800	Neutral	182.00	180.00	182.00	180.00

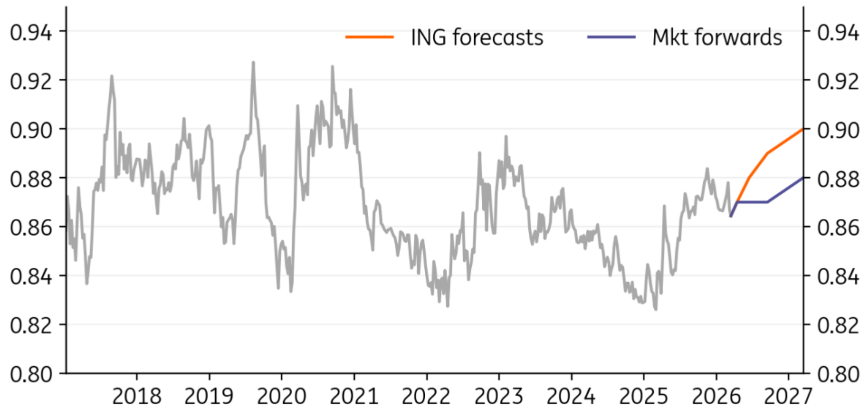
- With global equity markets lower across the board, perhaps it is a surprise that EUR/JPY is not lower. The euro is being seen as the pro-growth currency, while the yen is seen as the defensive hedge. The fact that EUR/JPY is largely flat reflects that both currencies have been hit equally as hard by the energy shock.
- Should energy prices stay high/go higher, pressure will build for EUR/JPY to break lower. EUR/USD can drop more easily than USD/JPY can rally, given official interest to keep a lid on USD/JPY near 160. Higher energy will also deliver a larger growth impact.
- Both eurozone and Japanese money market curves are expecting around 40bp of rate hikes this year. The BoJ is more likely to deliver here – another reason why EUR/JPY topside is limited.



EUR/GBP: Looking for a snap back higher

	Spot	One month bias	1M	3M	6M	12M
EUR/GBP	0.8640	Mildly Bullish	0.87	0.88	0.89	0.90

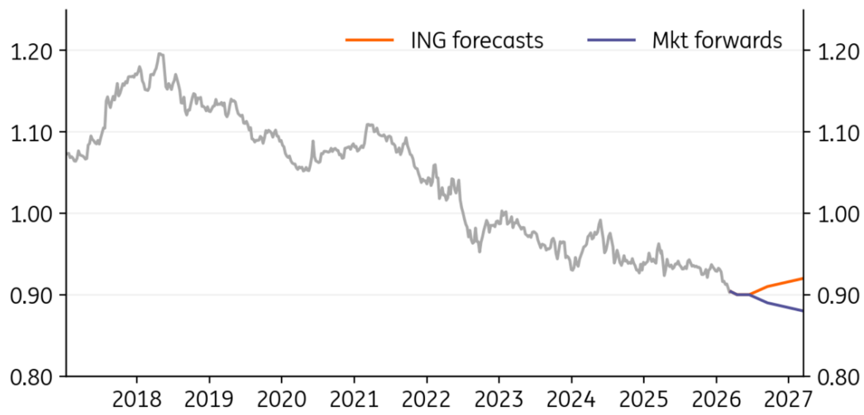
- The aggressive re-pricing of the BoE cycle has been the main driver of this correction lower in EUR/GBP. Large short positioning in sterling has also played a role. We doubt this re-pricing of the BoE cycle has much further to run and expect EUR/GBP to find support near 0.8600. And two BoE rate cuts, perhaps in the second half of the year, should be enough to send EUR/GBP to 0.88+.
- Sterling also faces challenges from the Gilt market and politics. 10-year Gilt yields are not far from the 4.90% levels that started to hit sterling in January.
- UK Prime Minister Keir Starmer faces a variety of political threats over the coming months. A potential departure alongside Chancellor Rachel Reeves would hit GBP.



EUR/CHF: Increasingly prepared to intervene

	Spot	One month bias	1M	3M	6M	12M
EUR/CHF	0.9034	Neutral	0.90	0.90	0.91	0.92

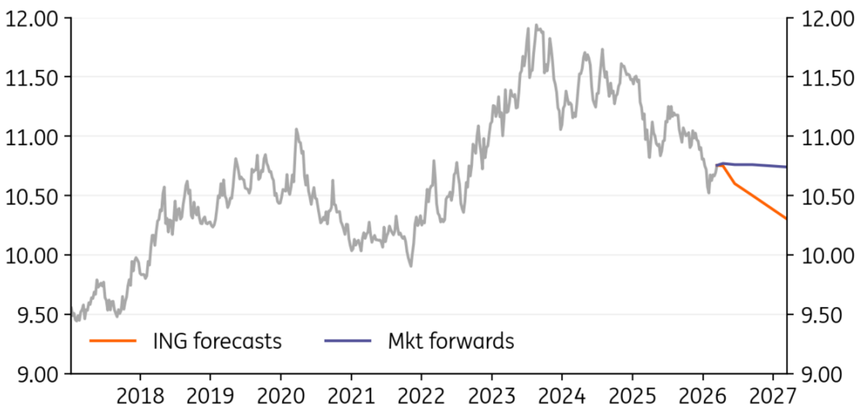
- Managing the monetary policy of a small, open economy, the Swiss National Bank is very sensitive to the exchange range. We would point to the real, trade-weighted CHF index now being above 120 – a level not seen since 2011. This is too strong for the SNB and has prompted an unsolicited press release that the SNB is 'increasingly prepared to intervene in FX markets'.
- The last two periods of FX buying intervention, 2Q25 and 1Q22, saw the SNB buy CHF5bn worth of FX. That is not much by international standards and did not really put a floor under EUR/CHF. But SNB may now well be buying sub-0.90.
- A correction higher really requires clear signs of eurozone growth



EUR/SEK: Unchanged outlook despite turmoil

	Spot	One month bias	1M	3M	6M	12M
EUR/SEK	10.7700	Neutral	10.75	10.60	10.50	10.30

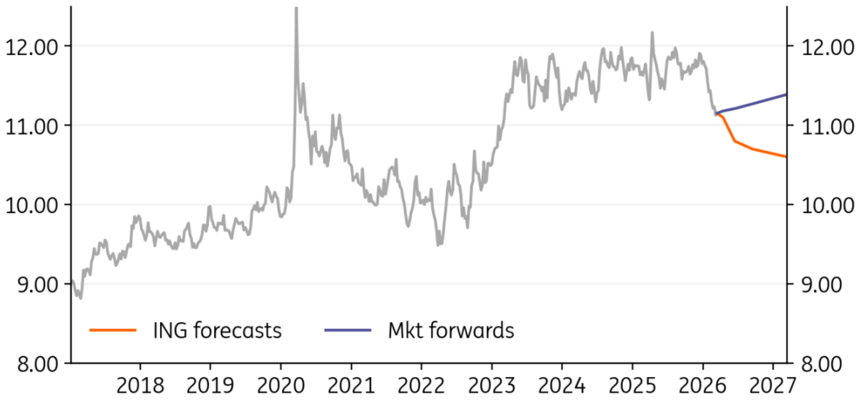
- The krona has underperformed the rest of G10 since the start of the Iran conflict. Part of it reflects long positioning and some short-term overvaluation of SEK present at the end of February.
- EUR/SEK hasn't moved too much though, reflecting some lingering appetite for SEK among European currencies despite risk sentiment instability. Continued capital repatriation from the US to Sweden keeps playing a role in our view.
- Markets are betting on a hike by the ECB and Riksbank by year-end, but our call for flat rates remains unchanged for both. We see no reasons to revise our latest EUR/SEK quarterly profile.

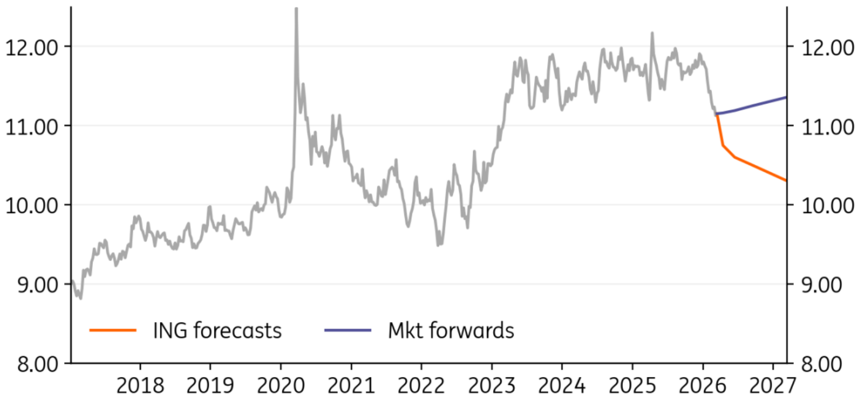


EUR/NOK: Revising the profile lower

	Spot	One month bias	1M	3M	6M	12M
EUR/NOK	11.1400	Mildly Bearish	11.10	10.80	10.70	10.60

- In our latest EUR/NOK forecasts we were still incorporating a muted oil price outlook. Our new baseline is for average Brent prices of 91$/b in 2Q and 85$/b in 3Q, which automatically raises the outlook for NOK relative our previous assessment.
- A de-escalation in the short term should trigger upward adjustments in EUR/NOK, but we now see 11.30 as a ceiling.
- There are around 15bp of tightening in the NOK curve by year-end, but we still see a good chance of easing in 2H26, especially after the latest inflation numbers came back down to 3.0% in February. But that should only matter for the krone at a later stage.

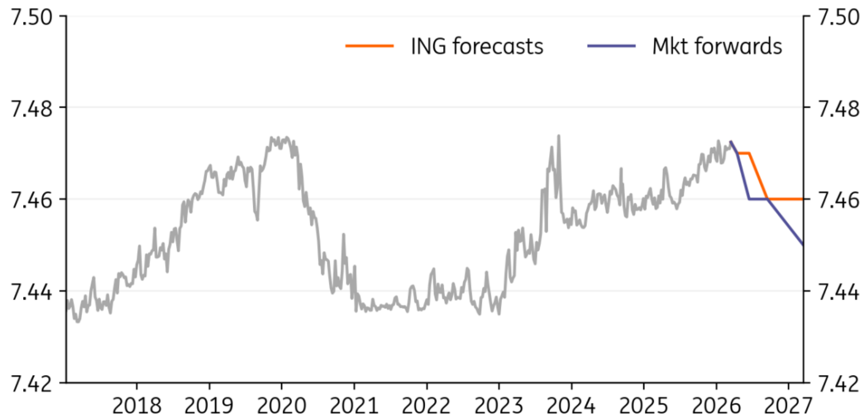




EUR/DKK: Rate hike might be considered

	Spot	One month bias	1M	3M	6M	12M
EUR/DKK	7.4720	Neutral	7.47	7.47	7.46	7.46

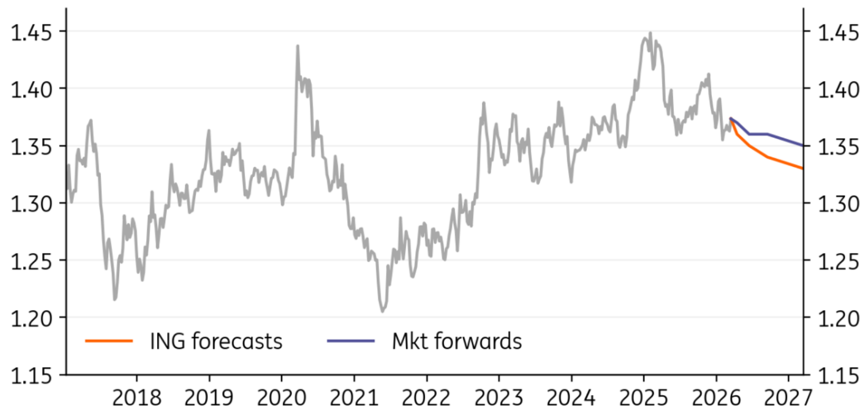
- EUR/DKK continues facing some upward pressure due to poor FX liquidity conditions on top of the supportive rate differential.
- The central bank of Denmark didn't intervene in the FX market in February, but these levels are consistent with pre-pandemic interventions to buy the Danish krone.
- While we still think FX intervention is generally the first line of defence, the recent energy price shock might make a rate hike in Denmark more digestible – and able to offer a more sustainable solution to EUR/DKK's tendency to trade on the strong side.



USD/CAD: CAD in a desirable spot

	Spot	One month bias	1M	3M	6M	12M
USD/CAD	1.3701	Mildly Bearish	1.36	1.35	1.34	1.33

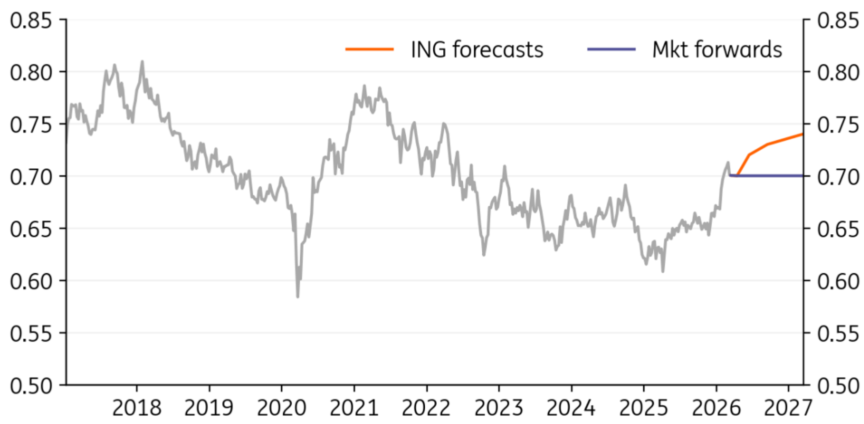
- CAD retains a strong position in the current environment: positive exposure to energy prices and geopolitical distance to the conflict. The weak spot remains the equity market, which may face bigger turmoil as the war continues.
- Like elsewhere in the developed space, the CAD swap curve faced intense hawkish repricing (around 35bp in the 2-year tenor). However, we don't agree with pricing for a rate hike by year-end, as uncertainty around upcoming USMCA renegotiations may well offset the benefits of higher oil prices for the Canadian economy.
- We still only see a sustainable break below 1.35 in USD/CAD as a story for the second half of the year due to rate differentials and USMCA risks.



AUD/USD: Close call in March for the RBA

	Spot	One month bias	1M	3M	6M	12M
AUD/USD	0.7023	Mildly Bearish	0.70	0.72	0.73	0.74

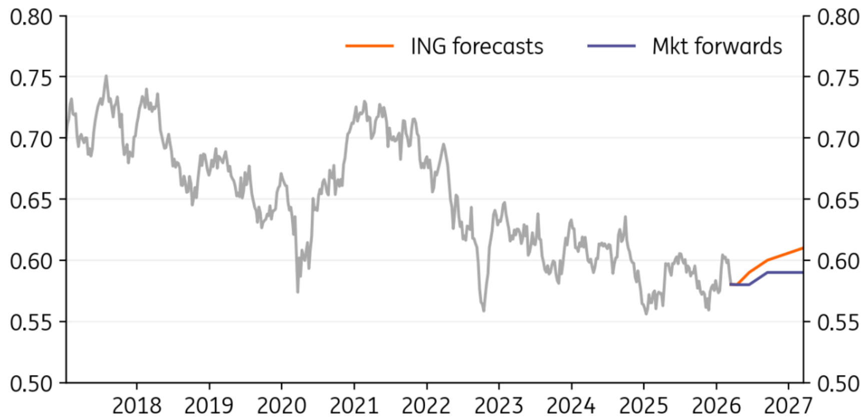
- Markets are pricing in roughly a 65% probability of a hike on 17 March by the Reserve Bank of Australia, which has now become a consensus view. We aren't convinced, as elevated uncertainty in our view probably argues more for inaction. It will be a close call.
- Anyway, we remain firm on our call for a May hike, meaning any dovish surprise in March may cause only short-term downward adjustments in AUD, which has performed well relative to the rest of the G10 since the war started.
- Positioning is looking stretched and growing equity instability can take some enthusiasm off AUD. But the outlook beyond the short-term remains strong.



NZD/USD: Energy shock can shake the RBNZ hawks

	Spot	One month bias	1M	3M	6M	12M
NZD/USD	0.5821	Mildly Bearish	0.58	0.59	0.60	0.61

- The NZD-AUD divergence is a reflection of New Zealand being a net energy importer and Australia a net exporter. This means the New Zealand dollar takes on the negatives of risk instability with no commodity upside.
- Monetary policy is also playing a role, as the Reserve Bank of New Zealand's dovish hold in February is keeping markets a bit more cautious than elsewhere in pricing rate hikes.
- The 8 April RBNZ meeting will be crucial, and we see some upside risks for NZD as energy prices may well linger at high levels for the whole of March, prompting a more hawkish stance.



{/exp:ce_str:ing}

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