

G10 FX Talking: The damaged dollar

May has been a good month for the dollar as US and Chinese policymakers have chosen to de-escalate – although we doubt the dollar rally has legs. US growth and interest rates should continue to converge lower than in many other major economies. And there's still a sizeable risk that fiscal credibility issues take their toll on US assets this summer



The dollar may struggle to recover too much further as slower growth, lower US rates and fiscal risk all apply pressure

Main ING G10 FX Forecasts

	EUR/USD	USD/JPY	GBP/USD
1M	1.12 ↑	147 →	1.33 ↑
3M	1.13 ↑	142 ↓	1.33 ↑
6M	1.13 ↑	142 ↓	1.31 ↓
12M	1.13 ↓	138 ↓	1.30 ↓

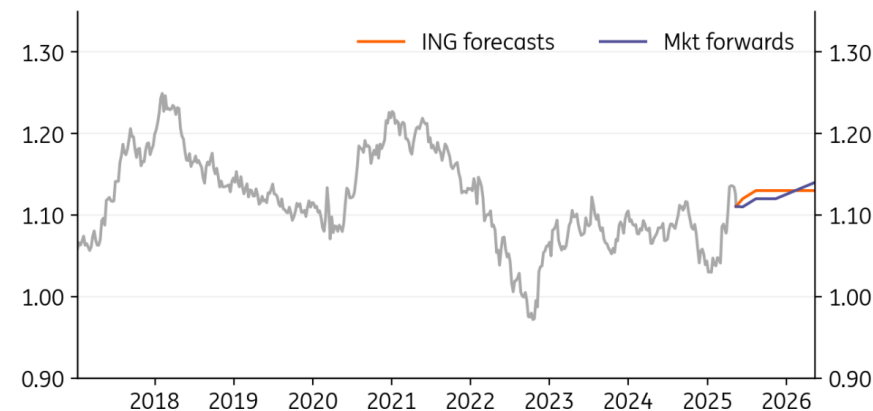
EUR/GBP	EUR/CHF	USD/CAD
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1M	0.84	→	0.92	↓	1.40	→
3M	0.85	→	0.92	↓	1.39	→
6M	0.86	↑	0.94	↑	1.38	↓
12M	0.87	↑	0.95	↑	1.37	→

EUR/USD: Cyclical versus structural challenges

	Spot	One month bias	1M	3M	6M	12M
EUR/USD	1.1105	Mildly Bullish ↗	1.12	1.13	1.13	1.13

- The dollar is doing its best to unwind April's sharp losses. The temporary reductions in tariffs – pointing at room for negotiation – have helped a 5% risk premium come out of the dollar. But this year's rally in EUR/USD was not entirely driven by trade. EU fiscal stimulus drove a good part of the Feb/March rally and should be reason enough for support to be found at 1.09/1.10 now.
- The market's pricing of just 55bp of Fed rate cuts this year seems quite modest now. We think the Fed could start with a 25bp rate cut in September and bring the policy rate down towards the 3.50% area next year. The European Central Bank will likely cut by 25bp on two occasions – probably in June and September.
- Evidence on the structural de-dollarisation theme will be hard to come by, but the theme will undoubtedly weigh on the dollar.

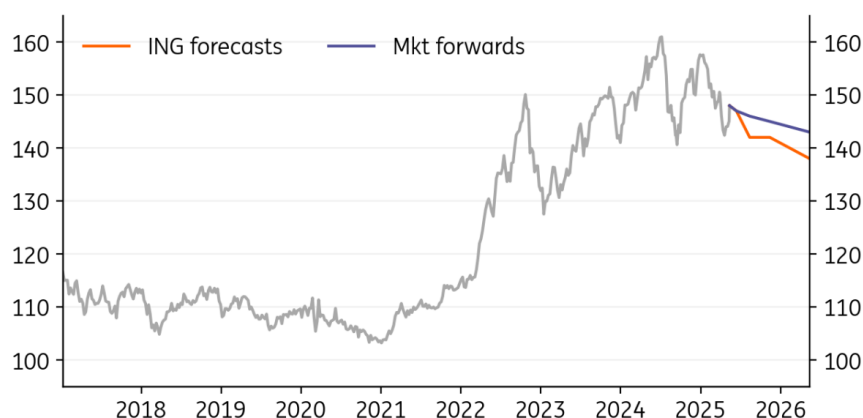


Source: Refinitiv, ING forecasts

USD/JPY: Quite the round trip!

	Spot	One month bias	1M	3M	6M	12M
USD/JPY	147.98	Neutral	147.00	142.00	142.00	138.00

- The yen was one of the prime beneficiaries of the ‘sell America’ theme that we briefly saw in April. The failure of US Treasuries to play the role of ‘safe asset’ was central here. Our rates strategy team does not rule out that happening again this summer should Washington push ahead with unfunded tax cuts. Recall that around \$5tr is required to pay for an extension of the TCJA 2017 tax-cutting legislation.
- For the short term, heavy one-way positioning long yen could see the 150 level retested – but we doubt it stays there long.
- A 25bp rate hike from the Bank of Japan in the third quarter, when the Fed restarts its easing cycle, points to 140 for USD/JPY.



Source: Refinitiv, ING forecasts

GBP/USD: Some emerging optimism for the pound

	Spot	One month bias	1M	3M	6M	12M
GBP/USD	1.3208	Mildly Bullish ↗	1.33	1.33	1.31	1.30

- Sterling is holding up quite well as UK Prime Minister Keir Starmer delivers some wins on trade and geopolitics. The big story this summer, however, could be warmer relations with Europe. The focal point here is the EU-UK summit on 19 May, where a defence pact should be signed and positive commentary should emerge on closer alignment. The desire here is to have the UK’s growth potential revised higher by the Office for Budget Responsibility, providing more fiscal headroom to the government.
- Elsewhere, we look for the Bank of England to cut rates twice more this year (to 3.75%), but GBP rates to stay relatively high within the G10.
- Its liquidity should be a boon for GBP during de-dollarisation.

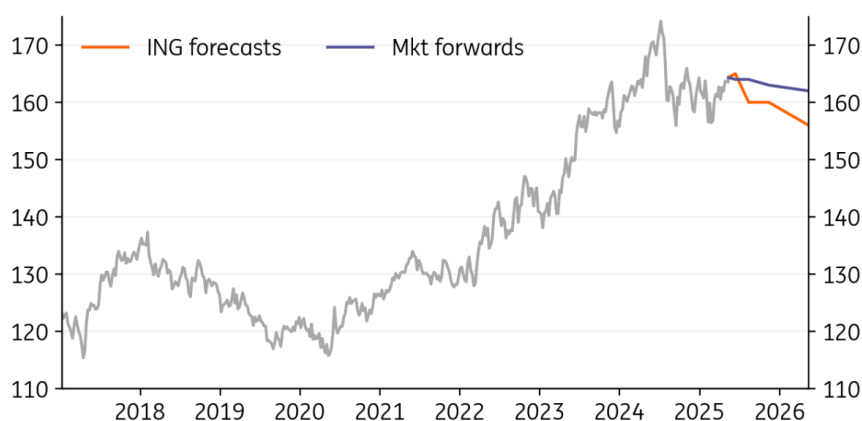


Source: Refinitiv, ING forecasts

EUR/JPY: Temporary rally

	Spot	One month bias	1M	3M	6M	12M
EUR/JPY	164.3400	Neutral	165.00	160.00	160.00	156.00

- We see EUR/JPY risks skewed to the downside from current levels. Not only is this an ECB cutting/BoJ hiking story, but also a view on precarious rally in risk assets.
- When it comes to the ECB, stagnant or contracting growth in the second and third quarters should see another 50bp of rate cuts coming through – to 1.75%. Lower oil prices and a stronger euro should also calm the ECB hawks.
- When it comes to medium-term valuations, lower energy prices are good news for both the euro and the yen. But we have the yen as significantly more undervalued. There is also the wild card of Japan somehow including FX in a trade deal with US President Donald Trump.

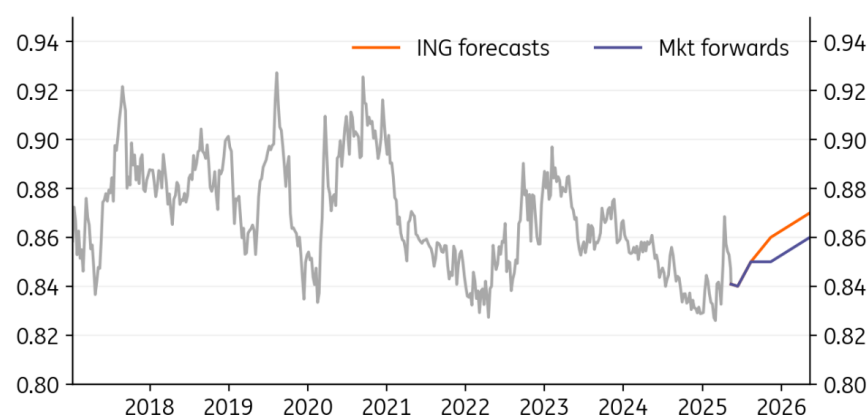


Source: Refinitiv, ING forecasts

EUR/GBP: Adjusting to the European reset

	Spot	One month bias	1M	3M	6M	12M
EUR/GBP	0.8408	Mildly Bearish ↘	0.84	0.85	0.86	0.87

- Washington’s performance in February – especially the US Defence Secretary’s words at the Munich security conference – has pushed the UK and Europe closer together. Both sides want to run with this theme, although PM Starmer is wary of the strong gains in the pro-Brexit reform party in recent local elections. Yet closer ties with Europe look likely this summer, helping GBP.
- This will come in the form of a Security and Defence Pact, plus warm words on youth mobility and other alignment. We’re not quite ready to call for it, but this could all mean we see 0.82.
- Holding us back from being more bullish on GBP is the fact that UK inflation data can decelerate, and the BoE can turn more dovish.

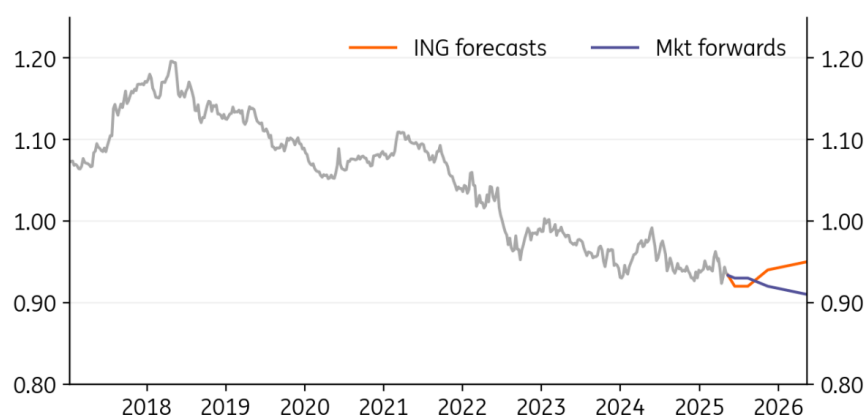


Source: Refinitiv, ING forecasts

EUR/CHF: Downside risks on ECB vs SNB easing story

	Spot	One month bias	1M	3M	6M	12M
EUR/CHF	0.9334	Mildly Bearish ▼	0.92	0.92	0.94	0.95

- The EUR/CHF bounce on the pause in US-China tariffs has been weak. That probably reflects the ongoing uncertainty and also the challenge for the Swiss National Bank in terms of how low it can cut rates. A 25bp rate cut in June should take SNB rates to zero, but ideally it does not want to take rates negative again. This could send EUR/CHF lower if the ECB does cut rates to the 1.50/75% area.
- With both EUR/CHF and USD/CHF under pressure, the SNB will be worried by the Swiss franc's strength – but its ability to intervene may be constrained by politics. Washington will be closely watching any trading partner intervening against local currency strength. After all, Switzerland was named a currency manipulator in 2020.
- We continue to see downside risks to EUR/CHF this summer.

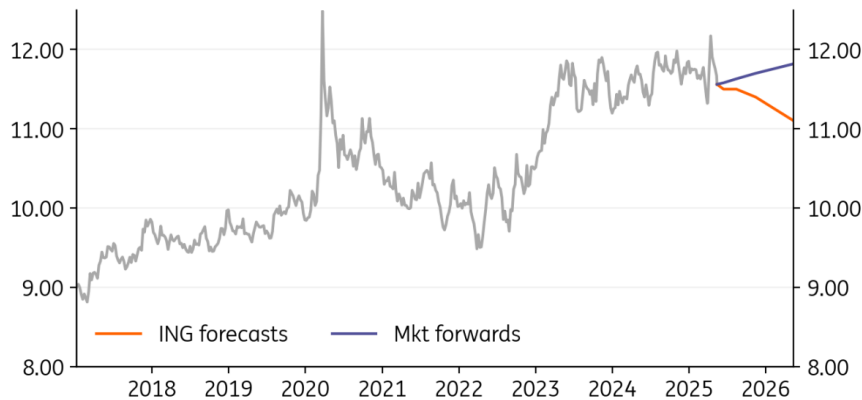


Source: Refinitiv, ING forecasts

EUR/NOK: Krone's recovery can continue

	Spot	One month bias	1M	3M	6M	12M
EUR/NOK	11.5600	Mildly Bearish ▼	11.50	11.50	11.40	11.10

- The Norwegian krone has been in recovery mode since mid-April, outperforming other G10 currencies after taking a big hit after Liberation Day.
- If market sentiment continues to improve, there are no real impediments to a further NOK recovery. So, again, much depends on Trump's policies and the implications for risk sentiment. We think there may be more bumps for risk assets ahead, meaning that a EUR/NOK downtrend will hardly prove smooth.
- Norges Bank kept rates on hold again in May, and is still not signalling an imminent move. We think markets are underestimating a June cut (now 30% priced in), although the US-China de-escalation means August is slightly more likely.

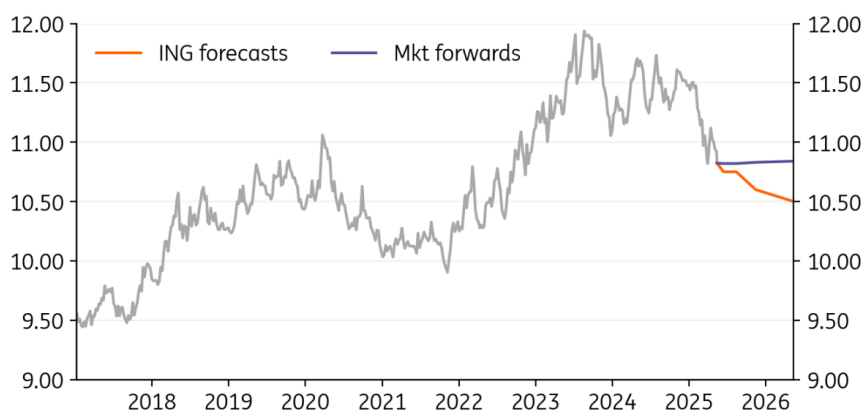


Source: Refinitiv, ING forecasts

EUR/SEK: Equity inflows offer krona a decent floor

	Spot	One month bias	1M	3M	6M	12M
EUR/SEK	10.8200	Mildly Bearish ↘	10.75	10.75	10.60	10.50

- The rotation from US to Swedish equity funds continued in March, although at a less elevated pace than in February. April data should confirm a continuation of the trend after the first quarter saw a record 30bn SEK inflows into Sweden-focused funds and 30bn SEK outflows from US-focused funds in Sweden.
- Capital flows are likely continuing to support the krona. And an increasingly possible rate cut by Riksbank this summer (potentially in June) should have limited negative effects on SEK.
- The near-term bias remains for testing the downside in EUR/SEK. The next few weeks can see 11.70-11.80 being explored. However, this may not translate into a clear-cut SEK appreciation trend just yet.

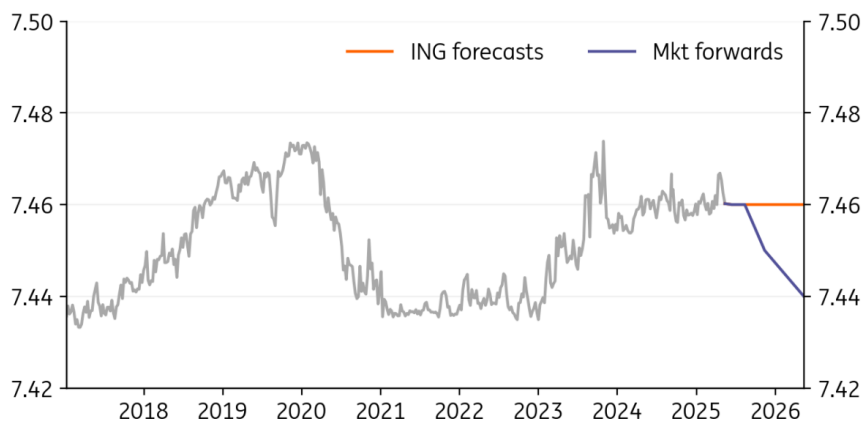


Source: Refinitiv, ING forecasts

EUR/DKK: Back to stability

	Spot	One month bias	1M	3M	6M	12M
EUR/DKK	7.4602	Neutral	7.46	7.46	7.46	7.46

- EUR/DKK has dropped back to 7.460 after touching a 7.4690 high amid post-Liberation Day turmoil. Denmark's central bank decided to wait for the selloff to unwind autonomously; it didn't intervene in the FX market and cut rates by another 25bp in line with the ECB.
- DKK's low liquidity means it faces some risks from new risk shake-ups, but we don't expect enough pressure on the EUR/DKK peg to justify FX intervention or a tweak in the rate spread with the ECB.
- We have kept the EUR/DKK profile flat at 7.46 for the whole forecast horizon.



Source: Refinitiv, ING forecasts

USD/CAD: Case for 1.40+ is stronger now

	Spot	One month bias	1M	3M	6M	12M
USD/CAD	1.3987	Neutral	1.40	1.39	1.38	1.37

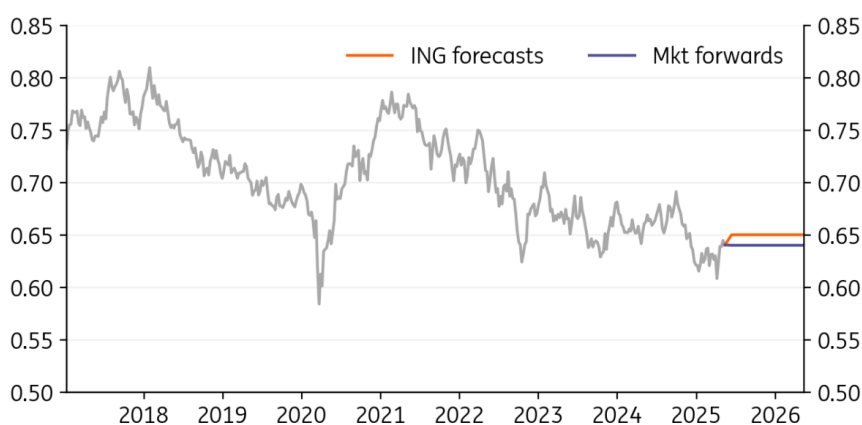
- USD/CAD observed volatility has eased back significantly, as the loonie seems to be trading again as an extension of US-growth sentiment – and is therefore more correlated with USD.
- May has started on a soft tone for CAD as Prime Minister Mark Carney's first trip to meet Trump didn't suggest that US-Canada tensions will abate soon. Renegotiations of the USMCA won't be as quick as transcontinental trade deals, either for the US or Canada.
- The short-term risks are moderately on the upside for USD/CAD, as the pair's short-term fair value still sits close to 1.42. Some risk premium on USD should remain, but the case for a return above 1.40 is now quite compelling, also as domestic data deterioration may prompt the Bank of Canada to cut rates again in June.



AUD/USD: Cheering the US-China de-escalation

	Spot	One month bias	1M	3M	6M	12M
AUD/USD	0.6403	Mildly Bullish ↗	0.65	0.65	0.65	0.65

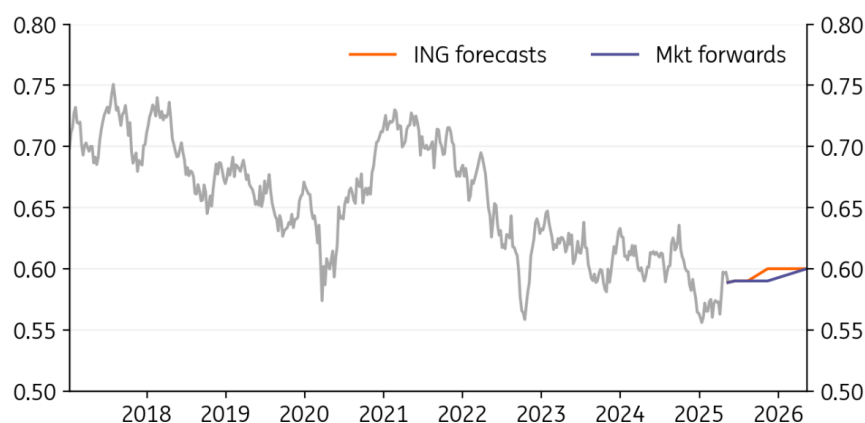
- USD and the Australian dollar are the biggest beneficiaries in G10 from a de-escalation in US-China trade tensions. With the USD having to face the reality of the economic damage already dealt, AUD/USD may find some support in the coming weeks.
- Domestically, the deceleration in first-quarter core inflation means the Reserve Bank of Australia can deliver a widely expected 25bp rate cut on 20 May.
- The news on the US-China deal should not derail easing plans for now, but probably argues that market pricing for four cuts by year-end is a bit too aggressive.



NZD/USD: RBNZ to keep cutting in May

	Spot	One month bias	1M	3M	6M	12M
NZD/USD	0.5887	Neutral	0.59	0.59	0.60	0.60

- Another 25bp rate cut by the Reserve Bank of New Zealand on 28 May seems likely. Markets are fully pricing it in, following the RBNZ's previous indications that growth remains a major concern.
- However, market pricing for two additional cuts after May looks a little too dovish given non-tradable inflation remained elevated at 4% and the unemployment rate flattened at 5.1% in the first quarter.
- The Kiwi dollar should keep acting as a lower-beta version of AUD to trade news. Further de-escalation in US-China trade tensions can drive AUD/NZD back to the 1.10-1.11 area where it traded at the start of this year.



Source: Refinitiv, ING forecasts

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