G10 FX Talking: Dollar appreciation dominates

It's pretty much been one-way traffic for the dollar since it became clear that the Republican party was going to win a landslide victory in the US. Investors and corporate treasurers think they know what Donald Trump will mean for the dollar, having seen this film before in 2018-2019. European FX in particular looks the most vulnerable

View of the US Capitol, Washington DC. We think investors and corporates look set to drive the dollar higher

Main ING G10 FX Forecasts

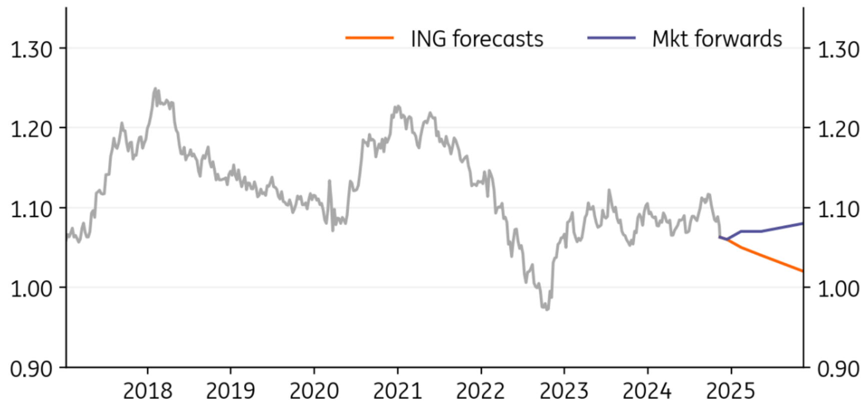
	EUR/USD		USD/JPY		GBP/USD	
1M	1.06	→	153	↓	1.28	→
3M	1.05	↓	155	↑	1.27	→
6M	1.04	↓	157	↑	1.25	↓
12M	1.02	↓	160	↑	1.24	↓

	EUR/GBP		EUR/CHF		USD/CAD	
1M	0.83	→	0.93	↓	1.38	↓
3M	0.83	↓	0.92	↓	1.37	↓
6M	0.83	↓	0.91	↓	1.37	↓
12M	0.82	↓	0.90	↓	1.38	→

EUR/USD: Europe braces for Trump unleashed

	Spot	One month bias	1M	3M	6M	12M
EUR/USD	1.0629	Neutral	1.06	1.05	1.04	1.02

- The US electorate has spoken, and Donald Trump has been given an overwhelming mandate for a reversal of immigration, lower taxes, deregulation and protectionism. All of these are positive for the dollar either through the curtailment of the Federal Reserve's easing cycle or the punishment handed out to trading partners dependent on exports for growth – something Trump plans to change.
- Trump's win comes at a time of stagnant growth and fiscal consolidation across large parts of the eurozone. Unless a new German government does a surprise U-turn on fiscal stimulus, ECB easing will have to do the heavy lifting. We target 1.75%.
- Trump's plans and expectations for sustained US growth into 2025 should overwhelm seasonal dollar weakness into year end.

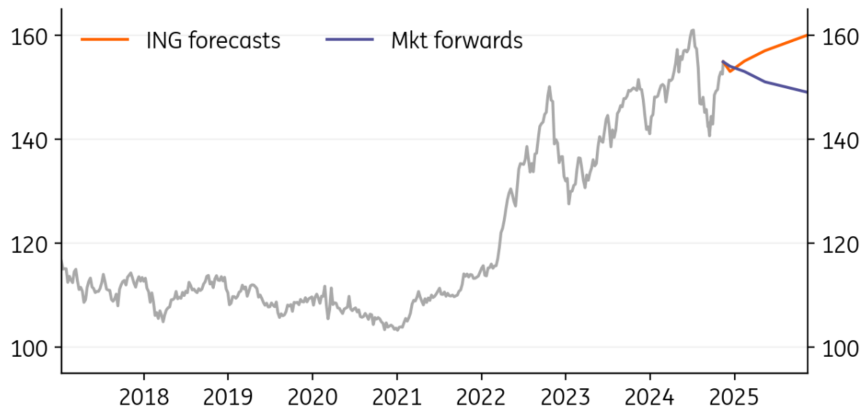


Source: Refinitiv, ING forecasts

USD/JPY: The yen outperformed during Trump 1.0

	Spot	One month bias	1M	3M	6M	12M
USD/JPY	154.84	Neutral	153.00	155.00	157.00	160.00

- Higher US rates, particularly higher US 10-year Treasury yields, briefly pushed USD/JPY back to 155. And based on a call for 10-year Treasuries at 5.50% by the end of 2025, next year could prove trouble for the yen. Yet Trump's plans are not without their risks and overly aggressive trade policy could unsettle equity markets and support the yen. During peak Trump 1.0 (Mar. 18-Sep. 19), the yen was the best-performing G10 currency.
- Providing some support to the yen could be the Bank of Japan, where we look for a 25bp hike in December and two further 25bp hikes next year as the virtuous cycles of wages and prices continue.
- We do not see local politics as a big driver of the yen.

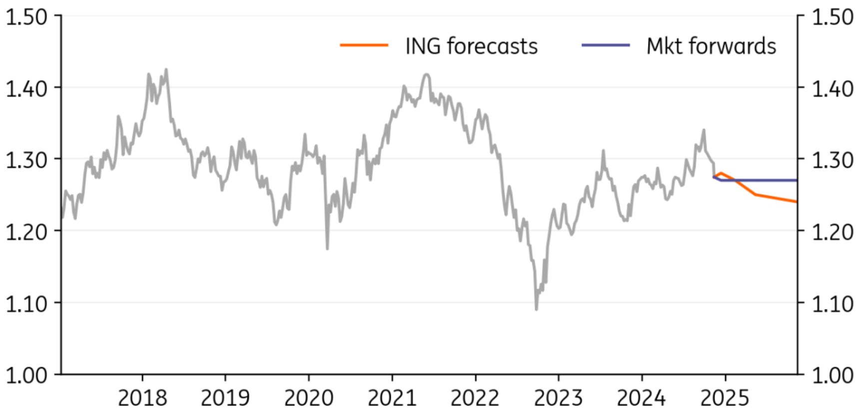


Source: Refinitiv, ING forecasts

GBP/USD: Bank of England go slow helping the pound

	Spot	One month bias	1M	3M	6M	12M
GBP/USD	1.2746	Neutral	1.28	1.27	1.25	1.24

- By nature of its small trade deficit with the US, the UK will not be in Trump's crosshairs on trade. At the same time, the UK's smaller dependence on trade than say the eurozone – and especially compared to Germany – suggests the UK could be a little more immune to global trade wars.
- Also helping the pound a little has been the new Labour government's slightly stimulative budget. The chancellor has pushed the limits on new borrowing – but seems to have gotten away with it. In 2025, we have UK GDP at 1.1% vs. 0.6% for EZ.
- The main risk to GBP remains BoE policy. Our team warns of BoE rate being cut to 3.25% late next year. The market prices 4.00%.

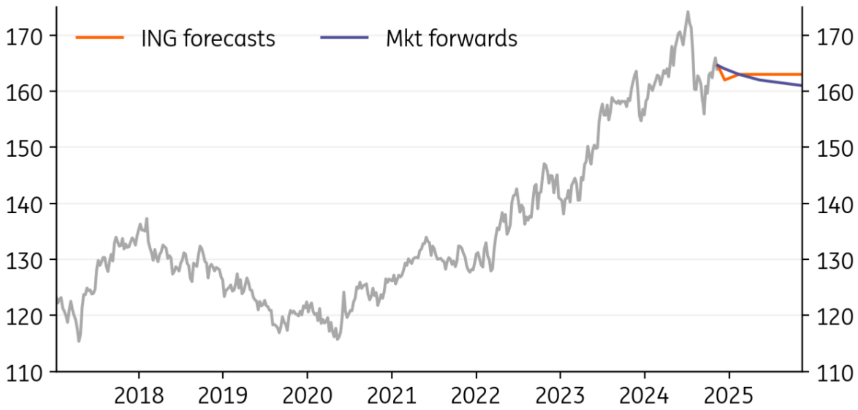


Source: Refinitiv, ING forecasts

EUR/JPY: Tokyo seems more resistant to currency depreciation

	Spot	One month bias	1M	3M	6M	12M
EUR/JPY	164.5900	Mildly Bearish	162.00	163.00	163.00	163.00

- Most now assume, as do we, that the dollar will be stronger under a new Trump administration. If EUR/USD is to fall and USD/JPY is to rise, what will local authorities in Tokyo and Frankfurt have to say? The BoJ has been intervening this year – most recently 11th/12th July – and is already expressing displeasure when USD/JPY approached 155. In short, we think Frankfurt will be more open to currency weakness than Tokyo.
- German politics is in focus too. The outcome of early elections and the shape of the new government might be a bullish surprise for the euro if the German debt brake gets loosened.
- Trade wars may have a bigger impact on Europe than Asia now.

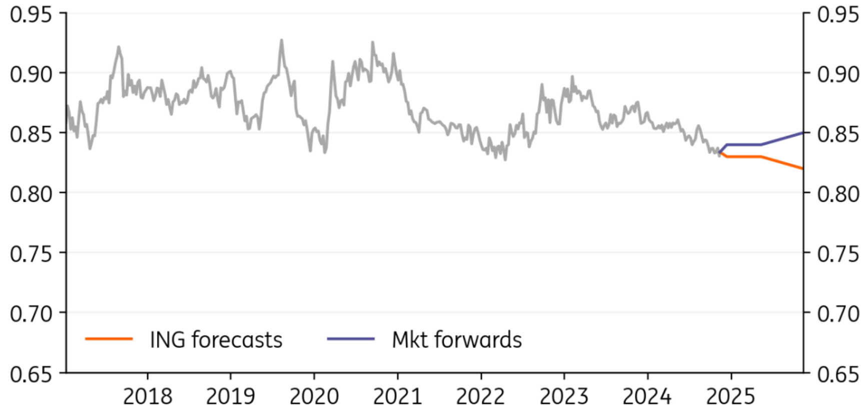


Source: Refinitiv, ING forecasts

EUR/GBP: Aggressive ECB cuts will dominate

	Spot	One month bias	1M	3M	6M	12M
EUR/GBP	0.8339	Mildly Bearish ↘	0.83	0.83	0.83	0.82

- Having been hesitant in cutting rates earlier this year, we now think the ECB will turn more aggressive – especially with Trump heading to the White House in January. We now look for a 50bp cut in December (to 2.75%) with rates cut a further 100bp in the first half of next year. The BoE has so far cut rates twice and we think it will skip cutting in December.
- There's lots of focus on the more stable political backdrop in the UK than in Europe now – which can help UK policymaking. Let's see whether larger government spending in 2025 helps GBP.
- The under-priced BoE easing cycle remains the key upside risk to EUR/GBP. Here, UK services inflation will still be closely watched.

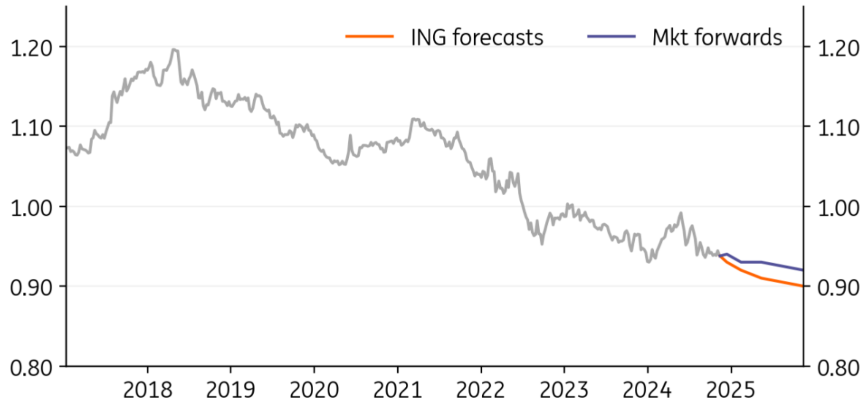


Source: Refinitiv, ING forecasts

EUR/CHF: A limit to SNB rate cuts is our investment thesis

	Spot	One month bias	1M	3M	6M	12M
EUR/CHF	0.9378	Mildly Bearish ↘	0.93	0.92	0.91	0.90

- While the ECB will be cutting rates 150bp by the second quarter next year, we think the SNB easing cycle will stall at just 50bp below current levels – at 0.50%. We doubt the SNB wants to experiment with negative rates again – those negative rates having been loosely blamed for the margin pressure and general travails of Credit Suisse.
- If the above is correct, two year EUR:CHF interest rate differentials will compress further and EUR/CHF will head below 0.93.
- We think the SNB can tolerate EUR/CHF at 0.90 next year because while the CHF may be strong versus Europe, CHF weakness against the dollar will limit the upside of the trade-weighted CHF.

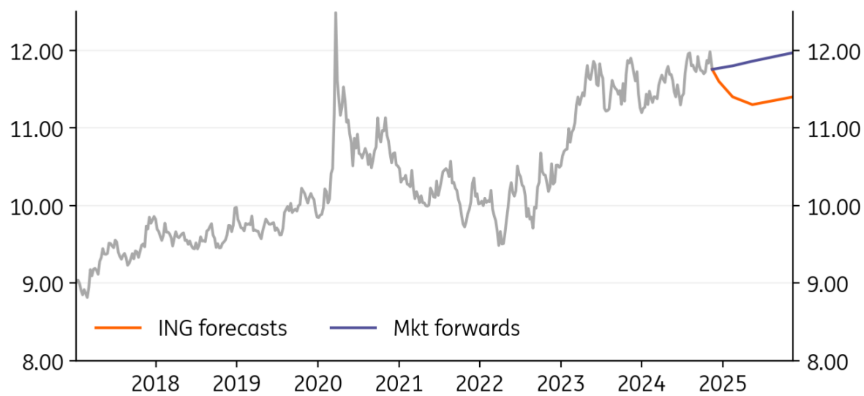


Source: Refinitiv, ING forecasts

EUR/NOK: Krone looks okay in the crosses

	Spot	One month bias	1M	3M	6M	12M
EUR/NOK	11.7500	Mildly Bearish	11.60	11.40	11.30	11.40

- The krone's exposure to European sentiment and inverse correlation with Treasury yields mean that the room for NOK reappreciation is limited after the Republican sweep.
- If USD/NOK may remain bid in the dips, the krone's performance in the crosses should be respectable. Firstly because Norges Bank has remained focused on supporting its currency via a hawkish guidance, and secondly because Norway is less exposed than other regions (e.g., Sweden, EZ) to US protectionism.
- Short-term EUR/NOK spikes in periods of risk aversion are likely, but the medium-term balance of risks remains skewed to the downside based on fundamentals and rate differentials.

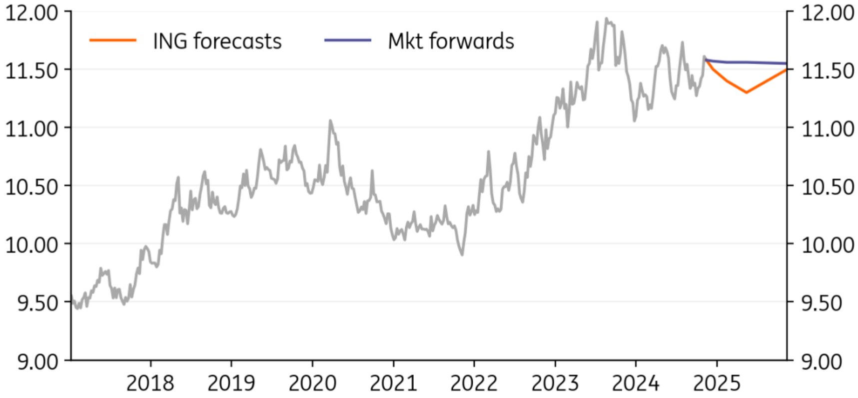


Source: Refinitiv, ING forecasts

EUR/SEK: Krona should remain weak

	Spot	One month bias	1M	3M	6M	12M
EUR/SEK	11.5800	Neutral	11.50	11.40	11.30	11.50

- The krona has depreciated after the US election result, but the underperformance of the euro has prevented a EUR/SEK spike that could have bothered the Riksbank. We expect rate cuts will continue in Sweden until the 2.25% level is reached.
- Even if EUR/SEK could stay capped on EUR weakness, we see SEK as a major underperformer in the G10 space due to Sweden's exposure to global trade tensions and a dovish Riksbank.
- There is also a non-negligible risk that continuous improvement on the inflation side will turn the Riksbank more favourable towards a weak krona to support Swedish exporters amid a sustained economic slowdown.

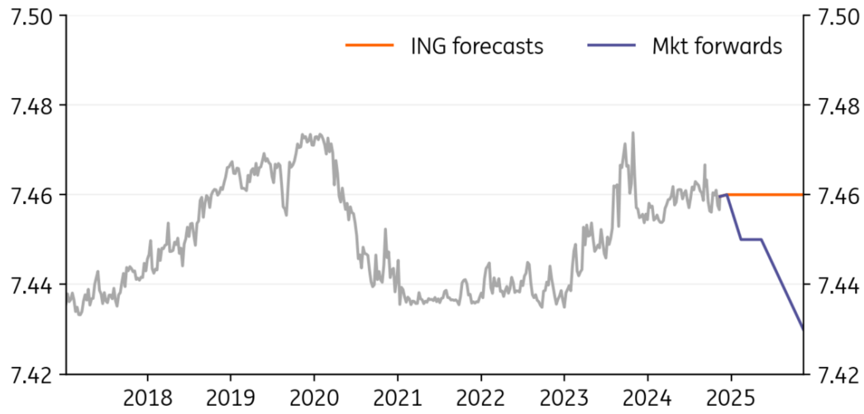


Source: Refinitiv, ING forecasts

EUR/DKK: Big cuts coming in Denmark

	Spot	One month bias	1M	3M	6M	12M
EUR/DKK	7.4597	Neutral	7.46	7.46	7.46	7.46

- Our dovish ECB call may raise some questions on whether Danmarks Nationalbank will follow Frankfurt in each step of a fast easing cycle. For now, we have no reasons to doubt it will.
- EUR/DKK has absorbed post-US election volatility and has made its way back to the 7.46 central peg level. DN should still prefer FX intervention over tweaks to the rate spread in case of unwanted FX moves.
- Mirroring the ECB profile, we expect the DN discount rate to be cut to 1.35% by mid-2025. Our call for EUR/DKK remains unchanged at 7.46 for the forecast period.

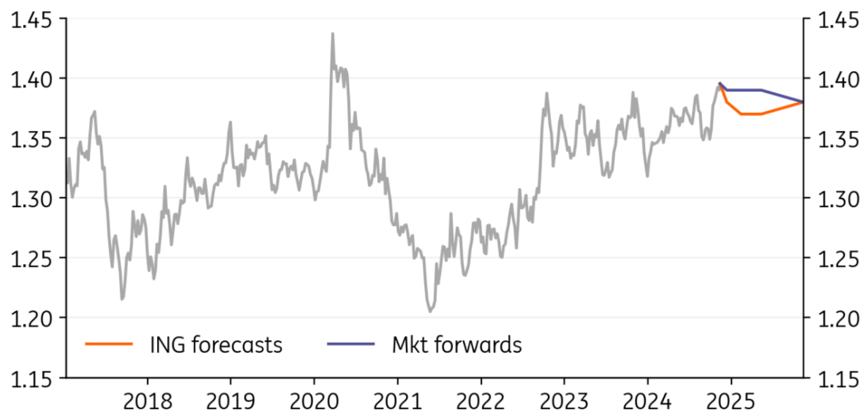


Source: Refinitiv, ING forecasts

USD/CAD: Limited downside on policy divergence

	Spot	One month bias	1M	3M	6M	12M
USD/CAD	1.3954	Mildly Bearish ↘	1.38	1.37	1.37	1.38

- The Canadian dollar has been the second-best performing currency in G10 after USD since the US election. That mirrors the view that if Canada is spared tariffs, it can benefit from a strong US economy while facing limited risks related to geopolitics and US protectionist policies elsewhere.
- We don't see this relative outperformance of CAD being reversed next year unless some of the Trump agenda is scaled back or Canada gets caught up in the protectionism threat.
- Faster easing by the Bank of Canada and some hawkish Fed repricing have favoured a widening of the 2-year swap rate gap beyond 100bp. Even if the BoC doesn't cut by 50bp in December, USD/CAD has limited downside potential given policy divergence.

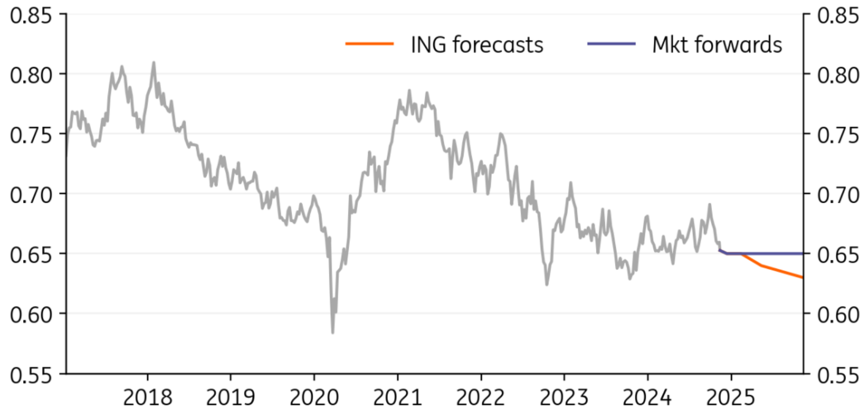


Source: Refinitiv, ING forecasts

AUD/USD: No rush to price in tariffs

	Spot	One month bias	1M	3M	6M	12M
AUD/USD	0.6475	Neutral	0.65	0.65	0.64	0.63

- We are a bit more dovish than markets on the Reserve Bank of Australia, as we expect two cuts by mid-2025 while only one is currently priced in. Monetary policy should, however, be a secondary driver of AUD compared to global risk sentiment and US protectionism.
- Our view is that markets will not feel too restrained from protectionism fears when playing an AUD rebound in the first half of 2025, as Trump may focus on domestic issues and allow some of the tariff trades to be put on hold.
- However, once US tariffs on China kick in, AUD will feel the pressure both externally and domestically as the RBA could coincidentally turn more dovish.

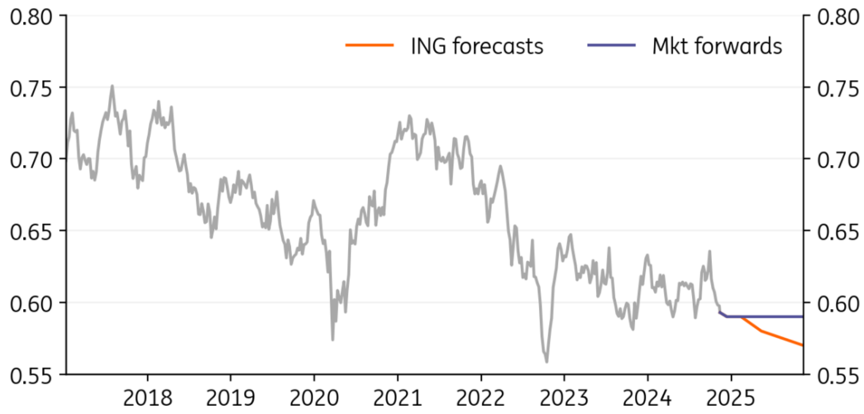


Source: Refinitiv, ING forecasts

NZD/USD: Another 50bp by RBNZ

	Spot	One month bias	1M	3M	6M	12M
NZD/USD	0.5868	Neutral	0.59	0.59	0.58	0.57

- We agree with the consensus and market view that the Reserve Bank of New Zealand will cut rates by another 50bp in November.
- The shift from inflation to growth among major central banks has likely affected the RBNZ, and a 4.75% rate is no longer justified given a loosening jobs market and risk of the economy falling into recession. We think rates will be taken at least to the 3.50% area before the RBNZ can pause easing.
- Ultimately, external drivers will be more relevant for NZD, and like in AUD, there could be pockets of bullish opportunities in the first half before Trump's narrative shifts more aggressively on protectionism.



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