G10 FX Talking: November 5th will set the direction

Financial markets look quite comfortable in pricing 150bp of easing for both the Fed and the ECB into next summer. Seemingly EUR/USD does not need to move too far from current levels. Yet the US election of 5 November will have a major say in the dollar's direction, depending on who wins the presidency and what the make-up of Congress looks like

Main ING G10 FX Forecasts

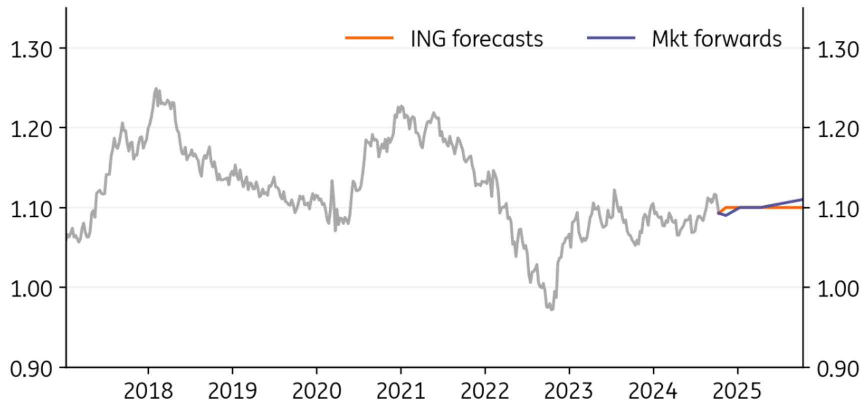
	EUR/USD		USD/JPY		GBP/USD	
1M	1.10	→	145	↓	1.31	→
3M	1.10	→	140	↓	1.29	↓
6M	1.10	→	138	↓	1.28	↓
12M	1.10	↓	137	↓	1.28	↓

	EUR/GBP		EUR/CHF		USD/CAD	
1M	0.84	→	0.93	↓	1.36	↓
3M	0.85	↑	0.93	→	1.34	↓
6M	0.86	↑	0.94	↑	1.33	↓
12M	0.86	↑	0.95	↑	1.31	↓

EUR/USD: Rally stalls

	Spot	One month bias	1M	3M	6M	12M
EUR/USD	1.0929	Neutral	1.10	1.10	1.10	1.10

- As the Federal Reserve notes in its September FOMC minutes, interest rate differentials have been a big driver of the dollar. Two-year EUR:USD swap differentials narrowed from 160bp to 85bp between April and September this year – carrying EUR/USD to 1.12. The spike in oil prices and then the strong September US jobs report have now sent those differentials back to 130bp.
- Where from here? We think they'll probably narrow again and were it not for US elections, EUR/USD would hold 1.0850/1.0900.
- However, the risk of major escalation in the Middle East and higher oil prices – a clear euro negative – plus a very uncertain outcome of the US elections on 5 November warn of volatility in a 1.06-1.11 range.

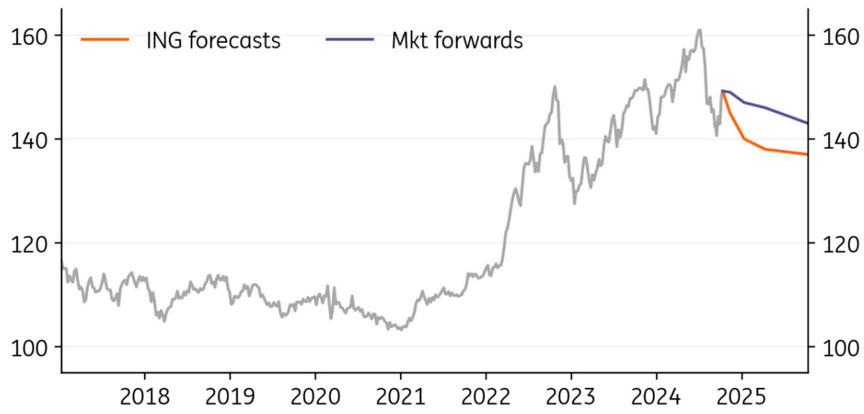


Source: Refinitiv, ING forecasts

USD/JPY: Sensitivity to BoJ policy remains

	Spot	One month bias	1M	3M	6M	12M
USD/JPY	149.21	Bearish	145.00	140.00	138.00	137.00

- Higher oil prices, higher US rates and a new Japanese prime minister saying it's not the right environment for the Bank of Japan to hike rates have all lifted USD/JPY. We suspect short-dated US rates do not have to rise too much further now that expectations for the low point in the Fed easing cycle have already been re-priced 50bp higher. We still look for another 150bp of Fed rate cuts.
- Speculative market positioning remains modestly long yen. And with JPY volatility staying high, we do not look for a return of the yen-funded carry trade.
- Our team is still looking for a BoJ hike in December. We tend to like the yen whatever the outcome of the US election.

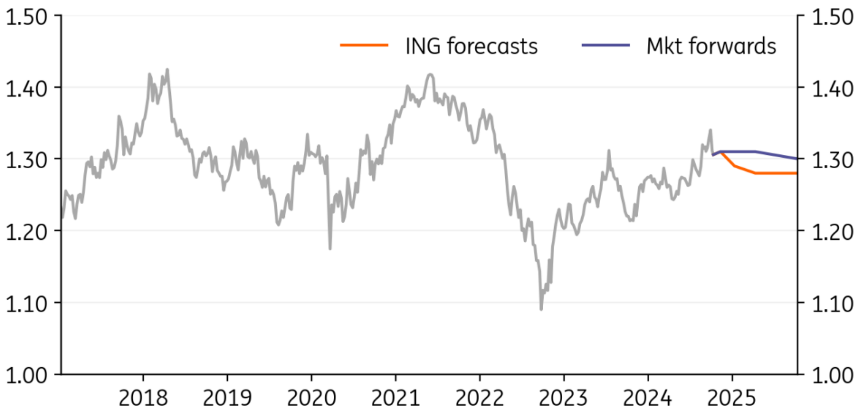


Source: Refinitiv, ING forecasts

GBP/USD: Split BoE keeps sterling relatively bid

	Spot	One month bias	1M	3M	6M	12M
GBP/USD	1.3057	Neutral	1.31	1.29	1.28	1.28

- The lack of commentary from the Bank of England means that the UK rates curve remains dragged around by US developments. This means that UK rates have actually risen since BoE Governor Andrew Bailey said that lower inflation could make the BoE a 'bit more activist'. Yet the BoE's Chief Economist, Huw Pill, warns against early rate cuts.
- Bottom line, however, is the ING house view that the BoE base rate is cut from 5.00% to 3.25% by late next year – a view not priced by the markets. That's why we're mildly negative on GBP. Look for two more BoE cuts this year.
- UK budget day on 30 October is also a big event risk for GBP. We do not see a repeat of the September 2022 Liz Truss sell-off.

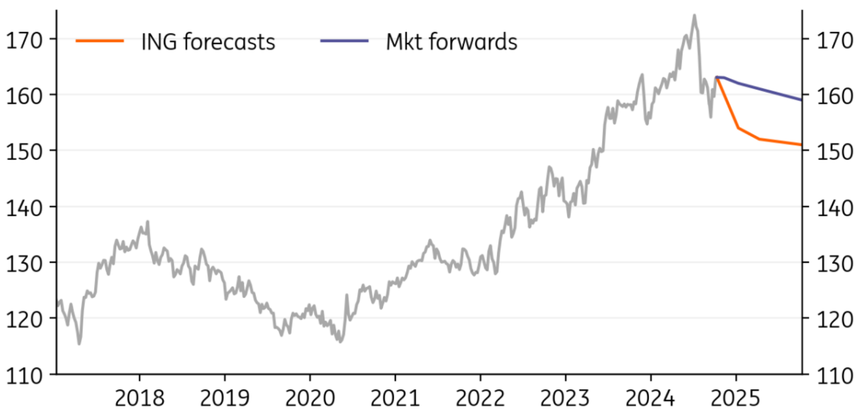


Source: Refinitiv, ING forecasts

EUR/JPY: The equity correction hedge

	Spot	One month bias	1M	3M	6M	12M
EUR/JPY	163.0600	Bearish	160.00	154.00	152.00	151.00

- We are taking quite a bearish view on EUR/JPY over coming months – largely given the growing risk of a sharp equity correction. Here it is a surprise that equities remain so bid despite the sharp back-up in US rates amidst higher oil prices. Equally, 3Q US earnings season could show the divergence between benign equity pricing and the growing economic headwinds.
- EUR/JPY has one of the highest correlations with US equities, while both currencies are exposed to oil shocks. The yen also has the advantage of higher BoJ rates & a potentially stronger China.
- The slight risk here is that the European Central Bank does not quite deliver on the aggressive easing priced. But we do see ECB cuts in October and December.

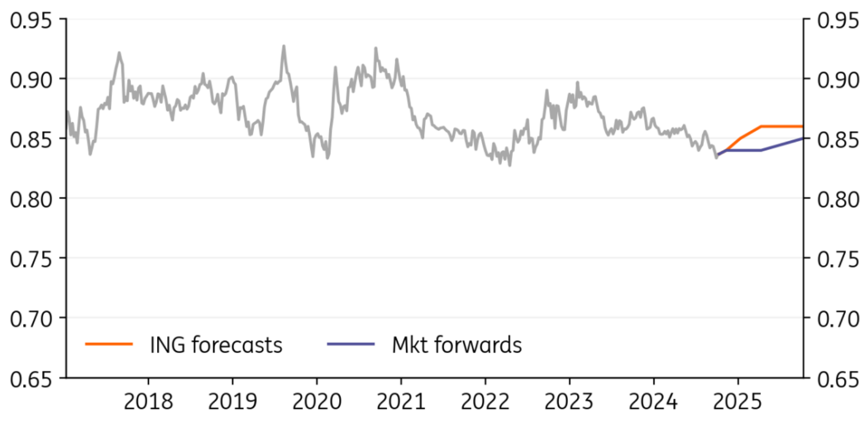


Source: Refinitiv, ING forecasts

EUR/GBP: Tight fiscal, loose monetary policy is a EUR headwind

	Spot	One month bias	1M	3M	6M	12M
EUR/GBP	0.8369	Mildly Bullish	0.84	0.85	0.86	0.86

- We often talk about the combination of fiscal and monetary policy and what it means for a currency. The problem for the euro right now is that large parts of the bloc are undergoing austerity to rein in budget deficits – e.g. France. And this means the ECB has to do the heavy lifting by cutting rates. That's a euro bearish combination.
- There seems less fiscal consolidation in the UK and indeed, Chancellor Rachel Reeves may soften the budget rules to allow more spending for investment.
- We're bullish EUR/GBP on the back of the BoE easing cycle being underpriced. But there are a few reasons why EUR/GBP could stay offered down at these levels.

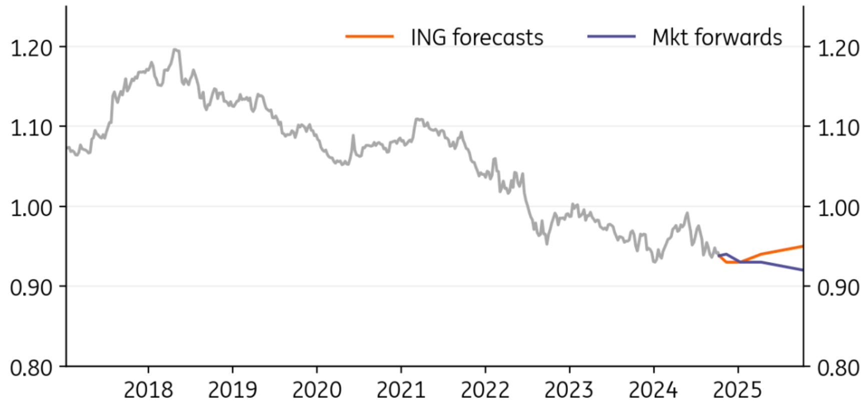


Source: Refinitiv, ING forecasts

EUR/CHF: More SNB 'cuts' are coming

	Spot	One month bias	1M	3M	6M	12M
EUR/CHF	0.9381	Mildly Bearish	0.93	0.93	0.94	0.95

- The Swiss National Bank cut rates 25bp to 1.00% in September as expected. Recently, new SNB VP, Antoine Martin, said that inflation and output trends could make the case for 'multiple cuts'. EUR/CHF has remained relatively offered in a 0.93-0.95 range and the key issue for us is whether the SNB would take rates negative again. If not, lower global interest rates would see FX vs. CHF interest differentials narrow and the Swiss franc staying strong.
- Additionally in the background, the SNB has local export lobbies on its back asking for EUR/CHF to be driven back to 0.98.
- Lower global rates and a deteriorating geopolitical environment suggest EUR/CHF remains offered into year-end.

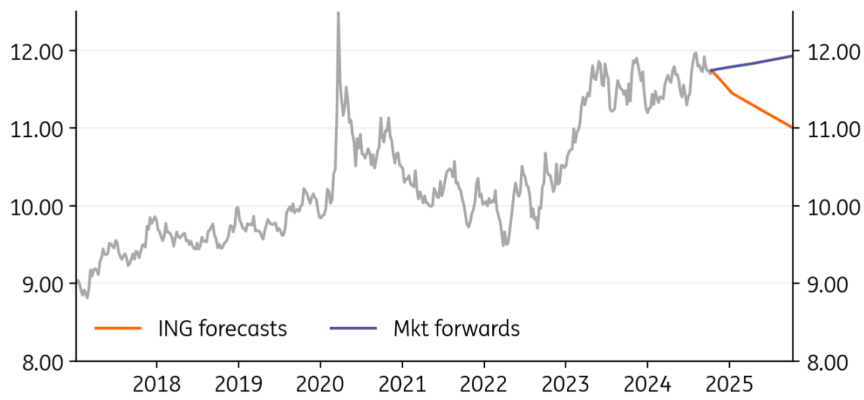


Source: Refinitiv, ING forecasts

EUR/NOK: Structurally higher volatility

	Spot	One month bias	1M	3M	6M	12M
EUR/NOK	11.7400	Mildly Bearish	11.65	11.45	11.30	11.00

- The krone is consolidating at structurally higher volatility levels, but speculative selling has eased since mid-September.
- Still, there is a non-negligible risk of another trip to 11.90-12.00 in EUR/NOK into the US election if markets decide to price in a greater probability of Trump winning. The 5 November cliffhanger is substantial for NOK, and can also make or break a December Norges Bank cut. We have 25bp pencilled in, but if Trump wins, we think a NOK selloff could delay easing further.
- If the US election doesn't generate FX market havoc, then NOK remains on track for a gradual appreciation thanks to strong fundamentals and rate attractiveness.

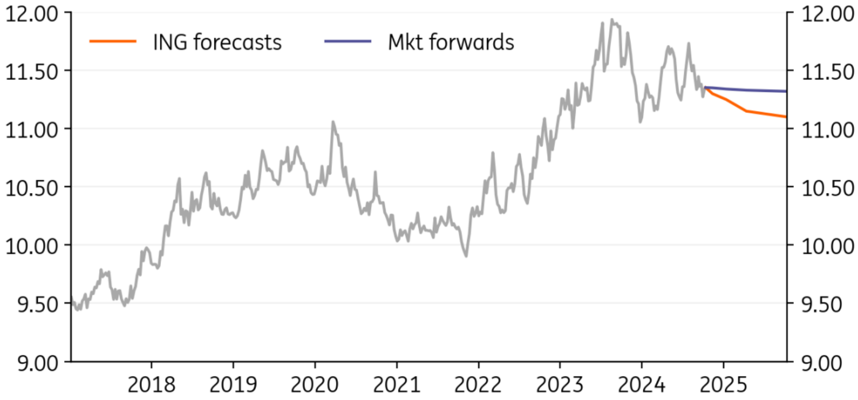


Source: Refinitiv, ING forecasts

EUR/SEK: Dovish Riksbank leaves SEK unfazed

	Spot	One month bias	1M	3M	6M	12M
EUR/SEK	11.3500	Neutral	11.30	11.25	11.15	11.10

- The Riksbank is feeling no restraint with its dovish guidance, having recently opened the way for 50bp cuts. To their advantage, the krona is not suffering from that.
- We expect 25bp reductions ahead, however, as disinflation is not sufficient to justify such an acceleration in easing, rates are already at 3.25%, and the activity outlook is not too concerning.
- SEK has shown decent resilience to some recent swings in sentiment, and faces less downside risk than NOK if Trump were to win. Still, the result of the US election will shape the profile for some quarters ahead, and a Harris win (or Trump not delivering on his hardline policy pledges) will be required for a EUR/SEK move to 11.00 next year.

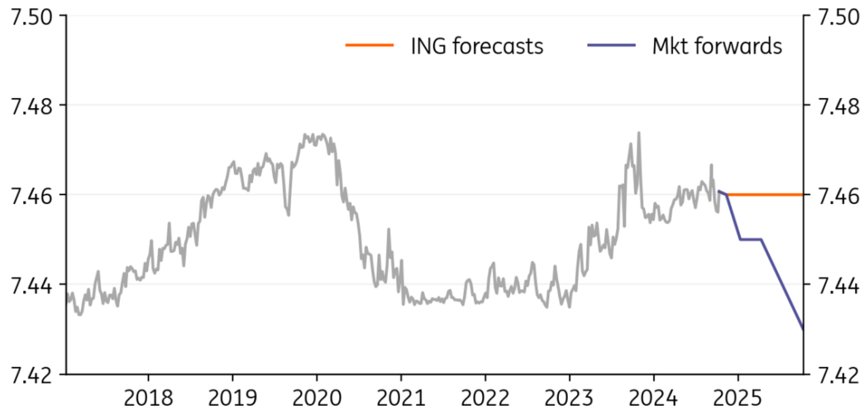


Source: Refinitiv, ING forecasts

EUR/DKK: Cuts in October and December

	Spot	One month bias	1M	3M	6M	12M
EUR/DKK	7.4607	Neutral	7.46	7.46	7.46	7.46

- EUR/DKK had a couple of short-lived drops (possibly due to capital flows) but held above 7.4540 and is now back at the 7.460 peg range mid-point.
- It is still likely that the Danish central bank will not have to diverge from the ECB given the stable exchange rate, and we therefore expect two more 25bp cuts in Denmark this year (October and December).
- Should any pressure intensify, it is more likely that the Nationalbank will respond with FX intervention before considering changes in the rate gap with the eurozone.

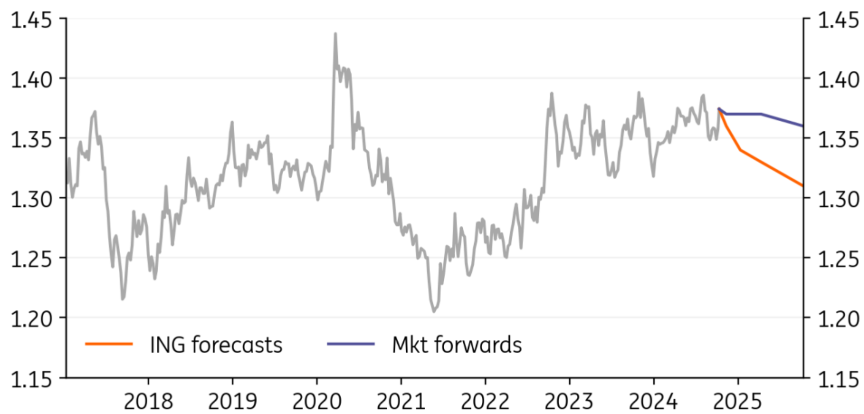


Source: Refinitiv, ING forecasts

USD/CAD: Loonie starting to look cheap

	Spot	One month bias	1M	3M	6M	12M
USD/CAD	1.3742	Mildly Bearish ↘	1.36	1.34	1.33	1.31

- USD/CAD has been on an ascending path since the start of October and we suspect the rally could extend beyond 1.380 on the back of USD strength.
- At the same time, some pre-election defensive positioning should see CAD perform better than the highly exposed AUD and NZD, and we still think expectations for a 50bp rate cut by the Bank of Canada before the end of the year are a bit overblown.
- USD/CAD will start to be quite expensive above 1.37 if oil prices remain bid and bets on a half-point rate cut by the Bank of Canada diminish. The risk premium would then be associated with US election pre-positioning, but that also means that if Harris wins there would be enough inertia for a correction below 1.35.

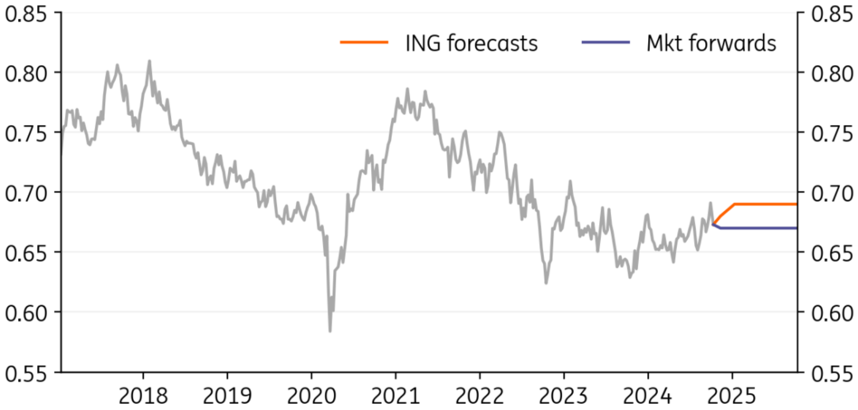


Source: Refinitiv, ING forecasts

AUD/USD: A necessary correction

	Spot	One month bias	1M	3M	6M	12M
AUD/USD	0.6730	Neutral	0.68	0.69	0.69	0.69

- AUD/USD was looking stretched on the upside around 0.69, and we think 0.67 can be the near-term anchor. Risks are skewed to the downside regardless as AUD is quite vulnerable to any Trump re-election hedging.
- What is still offering good support to AUD is the Reserve Bank of Australia's stance. Governor Michele Bullock may only begin to consider a rate cut once the Fed and Reserve Bank of New Zealand rates approach the current cash rate of 4.35%. This is likely to occur in the new year, and we expect the first 25bp cut in February.
- It also appears that the Chinese stimulus story is not a lasting bullish driver for China proxy currencies or iron ore, which our commodities strategy team sees correcting back below $100 a tonne.

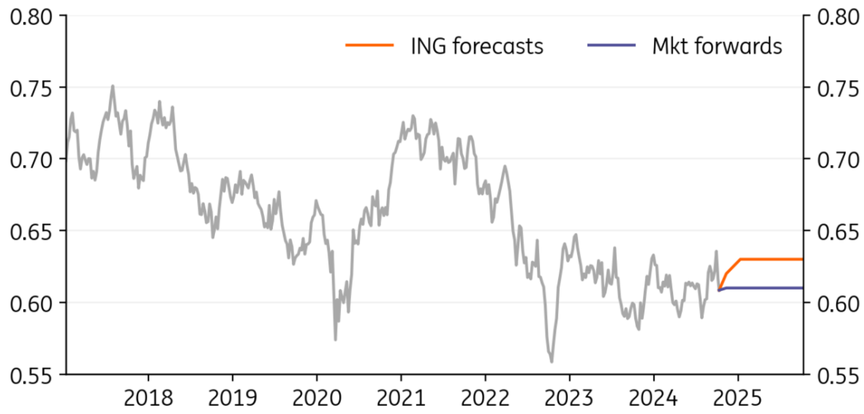


Source: Refinitiv, ING forecasts

NZD/USD: Don't count on another 50bp cut

	Spot	One month bias	1M	3M	6M	12M
NZD/USD	0.6085	Mildly Bullish	0.62	0.63	0.63	0.63

- The RBNZ cut by 50bp in October, in line with our expectations, but markets appear a bit too committed to another half-point move in December.
- The main hurdle is the 3Q CPI report (out on 15 October), where headline CPI is seen falling back close to the 2% target, but we still suspect non-tradable inflation can prove sticky and thwart plans for another 50bp cut.
- Regardless of the RBNZ plans, NZD remains vulnerable to any defensive positioning ahead of the US election. But given recent pressure on NZD and the risks that CPI data might give NZD rates some support, we think AUD/NZD can slip back below 1.10.



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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