

# G10 FX Talking: Dollar softer into the election

The size of the Federal Reserve rate cut on 18 September is top of the market's watch list now. Our team narrowly opts for a 50bp cut. But irrespective of the size of the cut, we look for some modest dollar depreciation into the 5 November US election. Thereafter the path for FX will be determined by the outcome of the US election



## Main ING G10 FX Forecasts

	EUR/USD	USD/JPY	GBP/USD
1M	1.12 ↑	143 →	1.33 ↑
3M	1.10 ↓	140 ↓	1.29 ↓
6M	1.10 ↓	138 ↓	1.28 ↓
12M	1.10 ↓	137 ↓	1.28 ↓

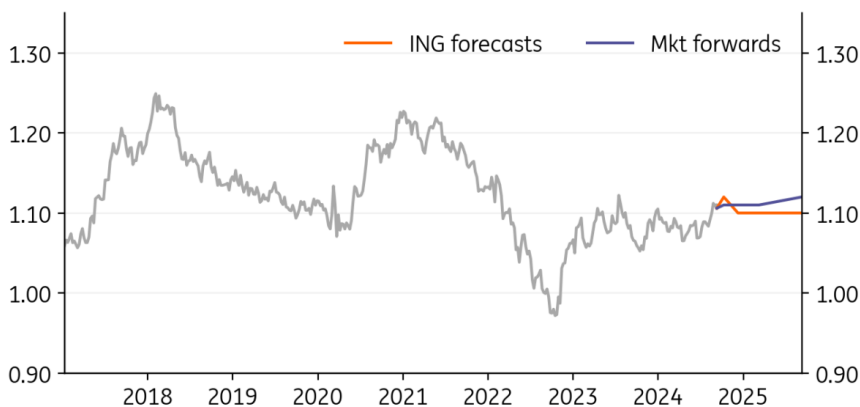
	EUR/GBP	EUR/CHF	USD/CAD
1M	0.84 →	0.93 →	1.36 →

3M	0.85 →	0.93 →	1.34 ↓
6M	0.86 ↑	0.94 ↑	1.33 ↓
12M	0.86 →	0.95 ↑	1.31 ↓

### EUR/USD: To 'front-load' or not?

	Spot	One month bias	1M	3M	6M	12M
EUR/USD	1.1059	Mildly Bullish ↗	1.12	1.10	1.10	1.10

- The Fed has made it clear that it is ready to start easing policy in September. The debate has now shifted to whether the Fed will cut in orderly, 25bp increments in line with a soft-landing scenario or will need to cut faster. Our macro team notes that it is a really close call but slightly favours the first cut as 50bp.
- US data, particularly anything related to employment, will have a big say on how quickly rates are cut and whether the terminal rate is priced sub 3.00% – more at recessionary levels.
- Two European Central Bank cuts in September and December look like a done deal. At this stage in the cycle, we favour a lower dollar. However, US elections in November will have a major say in the next big trend.



Source: Refinitiv, ING forecasts

## USD/JPY: Some sense of order returns

	Spot	One month bias	1M	3M	6M	12M
USD/JPY	143.13	Mildly Bearish <span style="color:red">▼</span>	143.00	140.00	138.00	137.00

- After the wild gyrations of July and early August, a slight sense of calm is returning to the USD/JPY market. That's because speculative positioning is much more balanced than it was at the start of July. And instead of worrying over the carry trade, the debate amongst investors will switch to US soft vs. hard landing.
- With the Fed set to cut rates and the Bank of Japan to continue hiking (we forecast the next hike in December) core sentiment has finally reversed on USD/JPY. Here the one-year FX options risk reversal has a clear bias for dollar puts – suggesting the corporate community is finally set to start to raise dollar hedge ratios.
- 137/138 is our baseline view – but US elections will have a say.

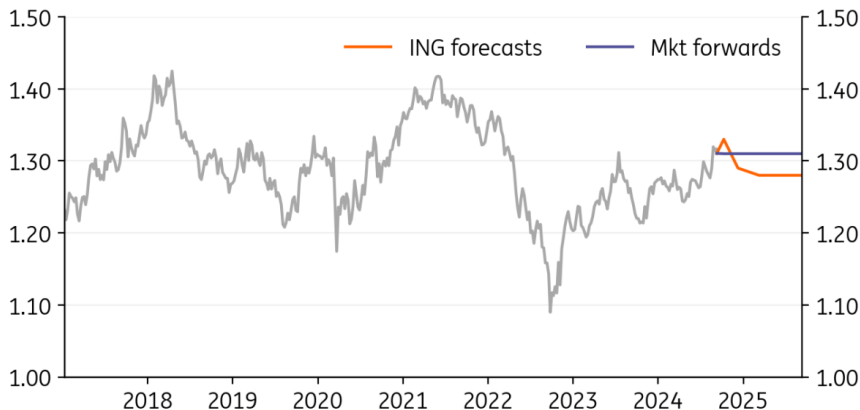


Source: Refinitiv, ING forecasts

## GBP/USD: BoE drags its feet on the easing cycle

	Spot	One month bias	1M	3M	6M	12M
GBP/USD	1.3104	Mildly Bullish <span style="color:green">▲</span>	1.33	1.29	1.28	1.28

- Having cut rates in August, we've heard very little from the Bank of England. Inflation data remains a little sticky and given the lack of forward guidance, the market only prices 45bp of BoE rate cuts by year-end compared to 110bp for the Fed. We doubt that divergence lasts and think the BoE will follow the Fed in concluding that rates are too restrictive. We see the BoE cutting in November and December.
- GBP also faces an event risk with the 30 October budget. While the overall tone may be fiscally neutral, investors may take a dim view of the Labour government raising taxes on the finance sector.
- Keeping sterling more resilient than we expect could be M&A, where the UK is so far a target of \$210bn in acquisitions this year.

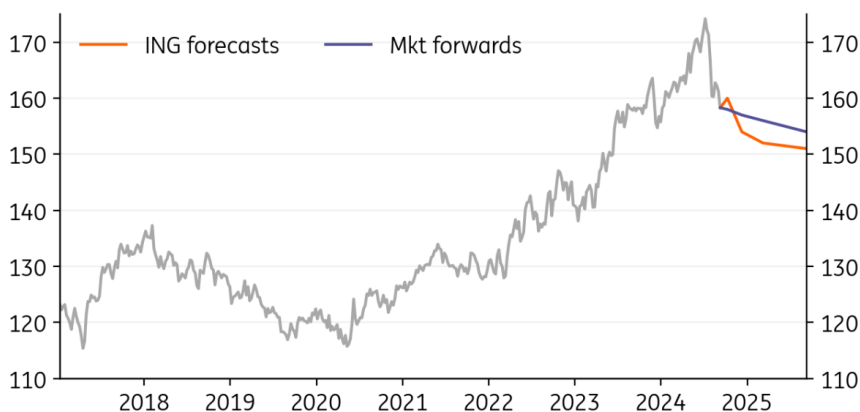


Source: Refinitiv, ING forecasts

### EUR/JPY: Euro faces some political risk into October

	Spot	One month bias	1M	3M	6M	12M
EUR/JPY	158.3000	Neutral	160.00	154.00	152.00	151.00

- Bearish consolidation has been the dominant theme here and our bias remains lower. The eurozone remains mired in weak growth and rate cuts, while Japan is finally enjoying the virtuous cycle of corporate profits, wage growth, spending and sustainably higher inflation. And despite the market dislocation in July/August, the Bank of Japan still seem happy to talk of rate hikes.
- One additional risk for the euro is the issue of budget deficits. France, Belgium and Italy (amongst others) need to present credible fiscal consolidation plans to Brussels by October.
- On our medium-term models, the yen remains far cheaper than the euro and a further adjustment towards fair value looks likely.

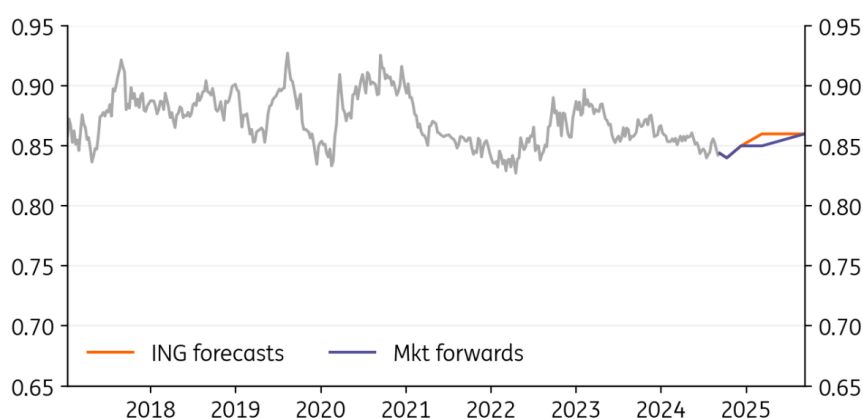


Source: Refinitiv, ING forecasts

## EUR/GBP: No sign of a trend change yet

	Spot	One month bias	1M	3M	6M	12M
EUR/GBP	0.8438	Neutral	0.84	0.85	0.86	0.86

- Sterling continues to hold firm, with the BoE in no hurry to get rates lower. The UK activity data has been quite good too – in contrast to the sluggish performance of the eurozone. Here the UK’s relatively small manufacturing sector is a distinct advantage. Yet, we think the BoE will want to bring rates lower and this can help the support level at 0.8400 firm up.
- However, we have been fighting this EUR/GBP bear trend and there is an outside chance that EUR/GBP makes it all the way back to the 2022 low at 0.8200. The argument here being that the eurozone now has far more political baggage than the UK.
- UK services inflation to still have a big say in BoE and GBP pricing.

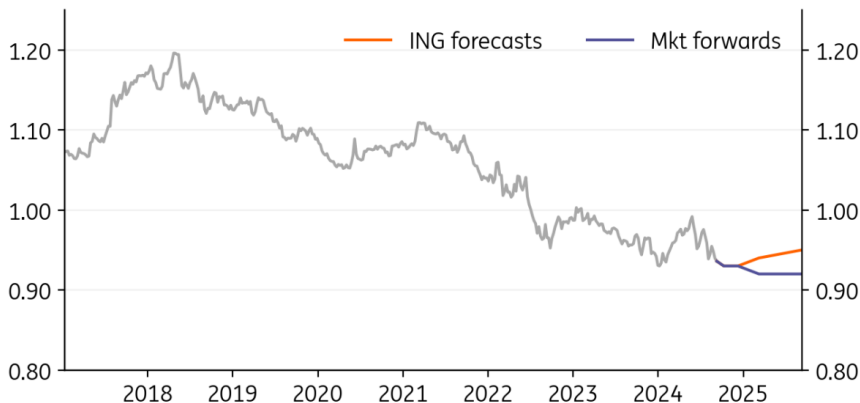


Source: Refinitiv, ING forecasts

## EUR/CHF: Spread compression is weighing

	Spot	One month bias	1M	3M	6M	12M
EUR/CHF	0.9359	Neutral	0.93	0.93	0.94	0.95

- Last month we published an article looking at [many of the factors](#) driving EUR/CHF. Most pressing – and most bearish – is probably the lower global rates environment. Here the market is reluctant to price the Swiss National Bank policy rate under 0.50% again – meaning that the EUR:CHF interest rate spread is narrowing.
- Exporters don’t like EUR/CHF down here at 0.93. But unless the SNB starts talking of the possibility of using negative rates again, EUR/CHF looks likely to stay pressured around 0.92/93.
- Data over coming months should reveal the SNB starting to buy FX again and we suspect it might be intervening to sell CHF, when USD/CHF trades under 0.84.

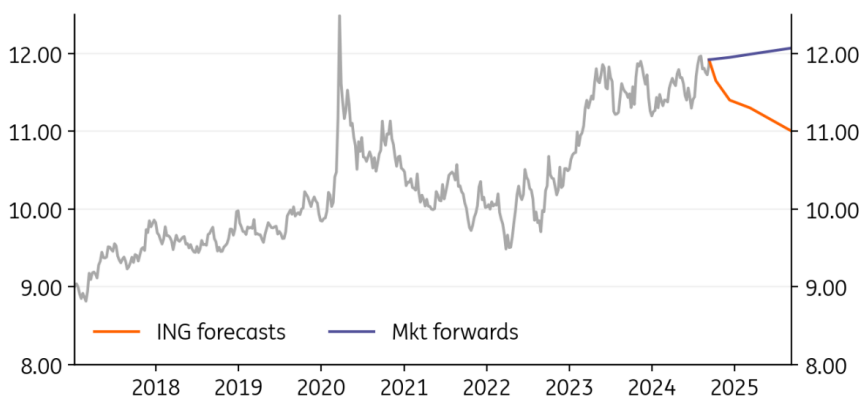


Source: Refinitiv, ING forecasts

### EUR/NOK: Playing the long game on NOK

	Spot	One month bias	1M	3M	6M	12M
EUR/NOK	11.9200	Bearish ↘	11.65	11.40	11.30	11.00

- An increasing number of FX market observers are pointing at the undervaluation of the krone in the short and medium term. But the relatively illiquid NOK is probably still wearing the scars of the July-August sell-off and keeping markets reluctant to chase EUR/NOK below 11.60-11.70 despite the good external environment and a still hawkish Norges Bank communication.
- We have to admit NOK remains a high-risk currency in the near term and vulnerable to a potential repricing higher in Fed rate expectations. But if a Goldilocks scenario plays out for risk assets and high-beta currencies, NOK should rally more than its peers.
- Norges Bank should remain supportive to NOK for a bit longer, but we think it will cut 25bp in December, in line with pricing.

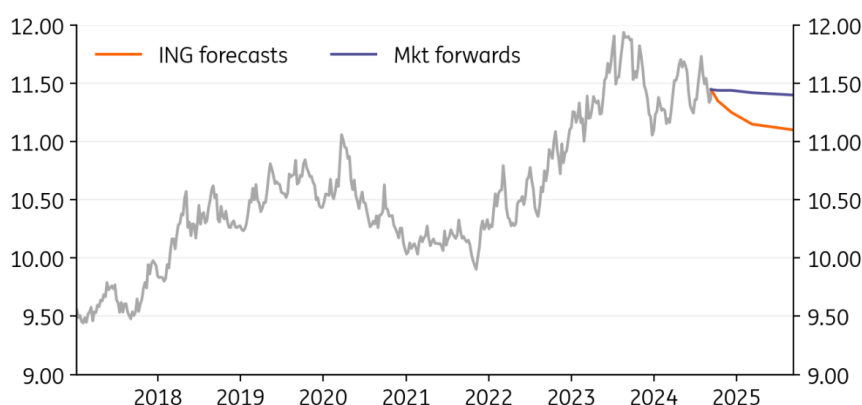


Source: Refinitiv, ING forecasts

## EUR/SEK: Another three Riksbank cuts this year

	Spot	One month bias	1M	3M	6M	12M
EUR/SEK	11.4500	Mildly Bearish ↘	11.35	11.25	11.15	11.10

- The Riksbank’s approach to providing rather detailed forward guidance looks here to stay. Governor Erik Thedeen recently said three cuts look more likely than two, as policymakers have clearly grown more relaxed about inflation (core CPIF is at 2.2%) and more concerned about the economy.
- Markets are flirting with the idea of a 50bp cut, pricing in excess of 75bp of easing by year-end. Our baseline view is 75bp, as the Riksbank may not want to diverge too much from the ECB.
- SEK has looked healthier than NOK despite the dovish Riksbank. Given all cuts are already priced in, we are happy with our 11.30-11.40 EUR/SEK near-term target, and a gentle decline afterwards.

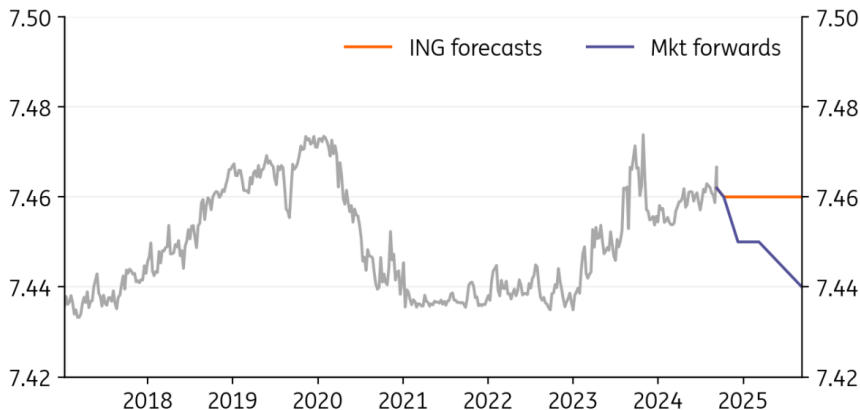


Source: Refinitiv, ING forecasts

## EUR/DKK: Rate cut on the way

	Spot	One month bias	1M	3M	6M	12M
EUR/DKK	7.4619	Neutral	7.46	7.46	7.46	7.46

- EUR/DKK faced a bit of pressure at the end of August, perhaps on the back of some month-end flows, but is now back steadily in the 7.4600-7.4620 area.
- Danmarks Nationalbank should cut in September by 25bp, mirroring the ECB move. There are no strong reasons to diverge at this stage given EUR/DKK is at the central peg level and FX interventions sound like an old memory.
- We retain our view that EUR/DKK will stay close to 7.46 in the foreseeable future.

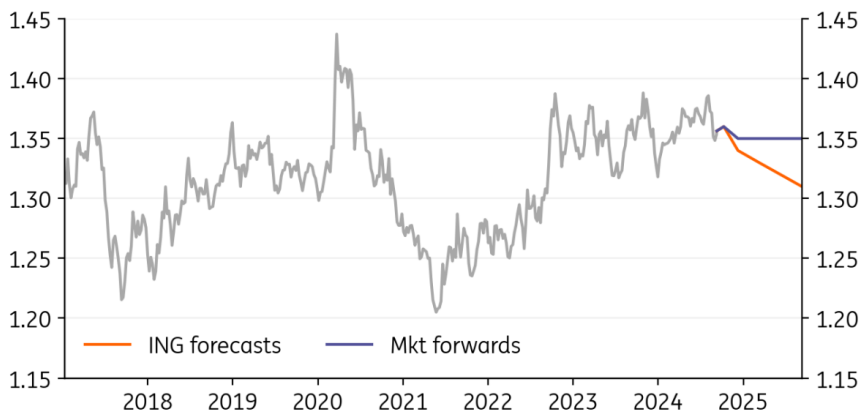


Source: Refinitiv, ING forecasts

### USD/CAD: BoC may stay away from 50bp

	Spot	One month bias	1M	3M	6M	12M
USD/CAD	1.3563	Neutral	1.36	1.34	1.33	1.31

- The Bank of Canada continued to cut rates in September, and we are growing more confident on a 3.0% policy rate by mid-2025.
- Markets are partly pricing in a 50bp move by year-end, likely on the back of yet another rise in unemployment to 6.6% (despite a decent headline payroll print). The Fed may however only move in 25bp steps for now, and the BoC should also prefer the gradual path given all the easing already delivered and risks of excessive divergence with the US. Still, we see the global environment as inconsistent with USD/CAD trading much below 1.35 for now.
- In the coming weeks, US election news (debate, new polls) will become central, and CAD will be a key benchmark of market reaction. The loonie's outperforming AUD and NZD would signal Trump trades being built back.



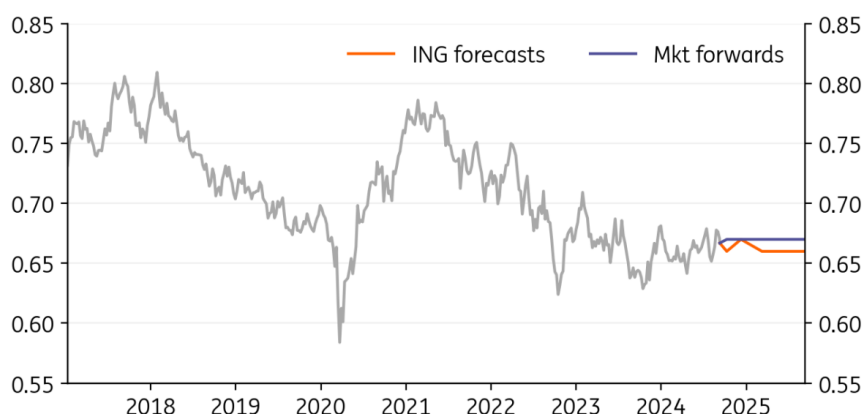
Source: Refinitiv, ING forecasts



## AUD/USD: End of the road?

	Spot	One month bias	1M	3M	6M	12M
AUD/USD	0.6669	Neutral	0.66	0.67	0.66	0.66

- AUD was one of the strongest-performing currencies in the past month, but the rally proved very tired at 0.680, and we cannot exclude a short-term drop below 0.6650.
- We believe that part of the Aussie \$ strength was due to lower perceived chances of a Trump re-election. If this is the case, AUD can be quite volatile to incoming US election headlines.
- That said, we still think the market is too dovish on the RBA by pricing in 22bp of easing by year-end. We still expect no moves until early 2025 on the back of lingering inflation concerns. That is an AUD positive in theory, but the US election in two months is such a binary event that domestic inputs will be overshadowed.

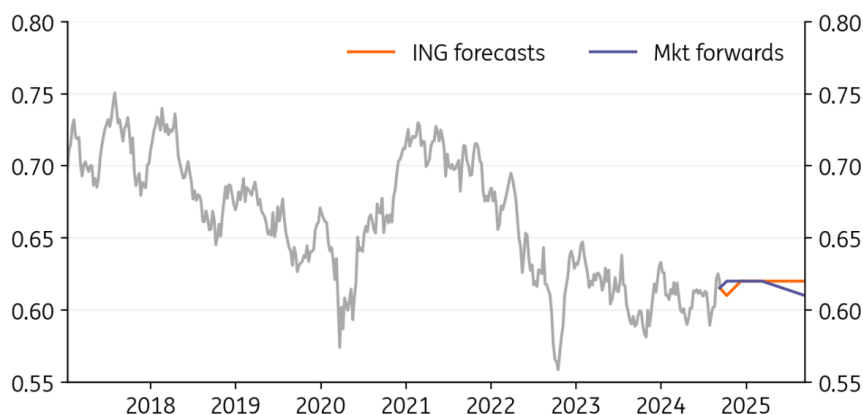


Source: Refinitiv, ING forecasts

## NZD/USD: Stellar performance, despite RBNZ cuts

	Spot	One month bias	1M	3M	6M	12M
NZD/USD	0.6152	Neutral	0.61	0.62	0.62	0.62

- The Kiwi dollar was the single best performer in August among major G10 and EM currencies, despite the Reserve Bank of New Zealand surprisingly cutting rates on 14 August.
- All this is a testament to how much the external environment (Fed dovish repricing, equities rebound, Trump trade unwind) is overwhelmingly more important for NZD over the RBNZ.
- Things may not improve much more on the external side at this stage unless the polls start to show a significant build-up in Harris' lead or the Fed cuts 50bp. While there is some room for a physiological correction in NZD/USD, 80bp of RBNZ easing by year-end appears too dovish.



Source: Refinitiv, ING forecasts

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