

G10 FX Talking: US 'exceptionalism' can't last

The dollar has had a strong summer on the back of relentless US activity data and deteriorating business trends in Europe. Rather than throwing in the towel on our bearish dollar call, we expect that US 'exceptionalism' will wane in the fourth quarter as US consumers burn through their pandemic savings. A clean dollar bear trend should emerge by year-end



A relentless run of strong US data has proved a key driving force behind a tough couple of months for EUR/USD

Main ING G10 FX forecasts

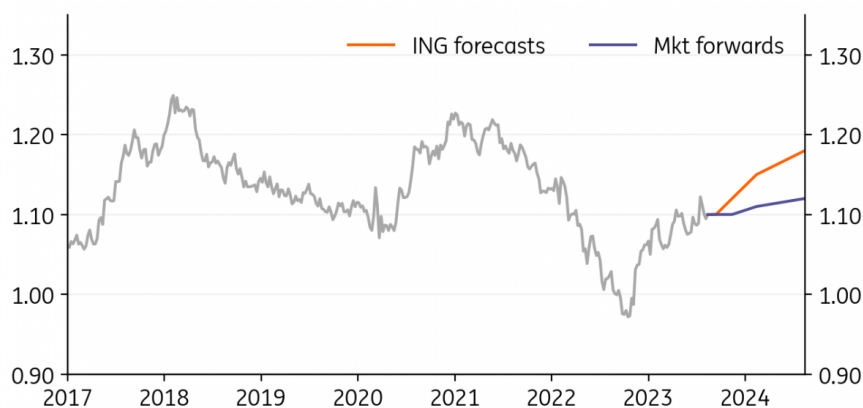
	EUR/USD	USD/JPY	GBP/USD
1M	1.08 ↑	145 ↓	1.26 ↑
3M	1.12 ↑	135 ↓	1.27 ↑
6M	1.15 ↑	130 ↓	1.29 ↑
12M	1.18 ↑	120 ↓	1.34 ↑

	EUR/GBP		EUR/CHF		USD/CAD	
1M	0.86	→	0.95	→	1.35	↓
3M	0.88	↑	0.96	↑	1.32	↓
6M	0.89	↑	0.97	↑	0.97	↓
12M	0.88	↑	1.00	↑	1.25	↓

EUR/USD: Perfect storm blowing through

	Spot	One month bias	1M	3M	6M	12M
EUR/USD	1.0714	Mildly Bullish ↗	1.08	1.12	1.15	1.18

- It has been a tough couple of months for EUR/USD – falling around 5% from its peak in July. Driving that has been the relentless run of strong US data, plus cratering eurozone business surveys pointing to recession. Add in higher energy prices and you can see why EUR/USD is down here.
- But we're not throwing in the towel on our bullish view. We think the US consumer will blow through their pandemic savings over the next few months and that softer US activity will emerge.
- And we look for one final ECB hike in September as the ECB remains more preoccupied with inflation than soft growth. Moving into 4Q23, the softer dollar trend should be in control.



USD/JPY: Expecting intervention soon

	Spot	One month bias	1M	3M	6M	12M
USD/JPY	147.67	Mildly Bearish ▼	145.00	135.00	130.00	125.00

- Officials in Tokyo are giving the signals that FX intervention will be imminent. Recall the Bank of Japan sold \$70bn in the 145-150 region in September and October last year. While Japanese officials cannot cite disorderly markets now (volatility is lower) they will still want to break a one-way streak in USD/JPY.
- Intervention will not be enough to turn the current trend, however, given strong interest in the yen-funded carry trade. The BoJ will need to back FX intervention up a with a Yield Curve Control tweak – most likely at the late October meeting.
- The big reversal lower in USD/JPY only comes when the dollar trend is ready to turn – something we expect as 4Q progresses.



GBP/USD: Sticky wages keep the Bank of England in a hawkish mode

	Spot	One month bias	1M	3M	6M	12M
GBP/USD	1.2476	Mildly Bullish ▲	1.26	1.27	1.29	1.34

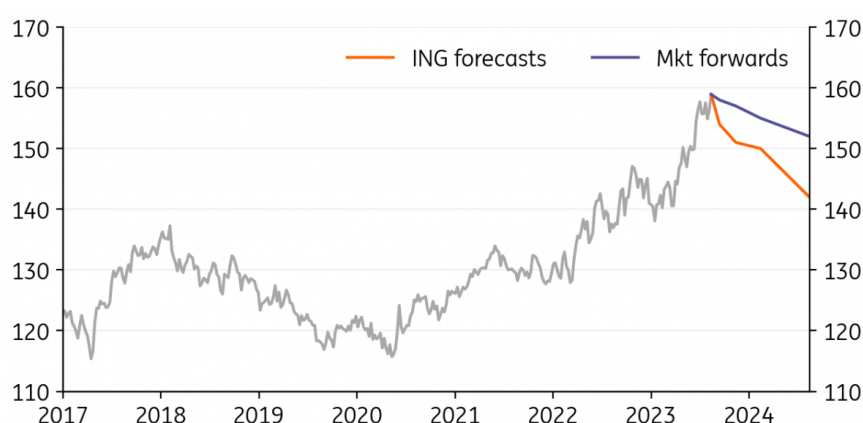
- The stronger dollar has taken its toll on GBP/USD as has the re-pricing of the Bank of England cycle. Some softer price expectation data has seen the BoE terminal rate repriced from 6.50% to 5.60% in just a couple of months. We look for a final 25bp hike to 5.50% on 21 September – which still leaves some room for sterling market rates to come a little lower.
- Key inputs into the BoE story will be the wage data (12th) and the CPI on the 20th. However, one last BoE hike looks likely.
- The better news for sterling is that 2021 GDP has been revised substantially higher. We wonder whether the Tory government will loosen its fiscal position at the November 2022 budget.



EUR/JPY: Positioning favours the downside

	Spot	One month bias	1M	3M	6M	12M
EUR/JPY	158.2100	Mildly Bearish	157.00	151.00	150.00	148.00

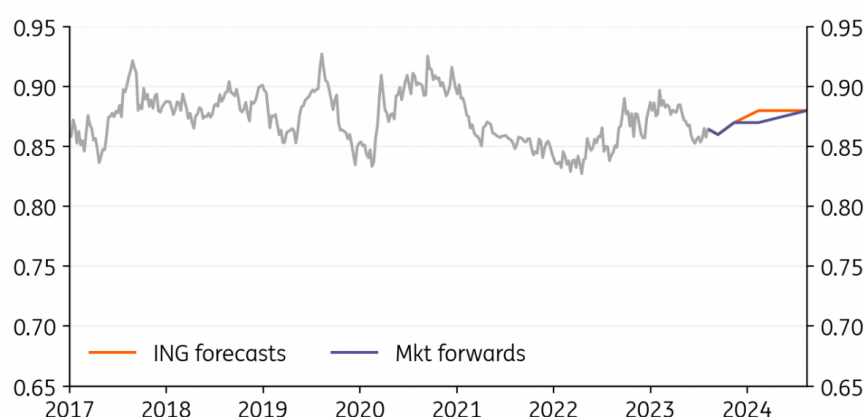
- Positioning data points to speculators being substantially short yen, while still trying to hang onto long euro positions. Were the dollar to push any higher this month, we suspect there would be more room against the euro than yen and EUR/JPY would drop. We could easily see sub-155 levels.
- In terms of the bigger picture, we forecast EUR/JPY to trend lower as US Treasury yields drop into year-end. We have a 3.75% forecast for the US ten year.
- A EUR/JPY move above 160 looks difficult and would probably require some even more benign conditions (hard to see with volatility so low already) and some failed BoJ FX intervention.



EUR/GBP: Becalmed

	Spot	One month bias	1M	3M	6M	12M
EUR/GBP	0.8588	Neutral	0.86	0.88	0.89	0.88

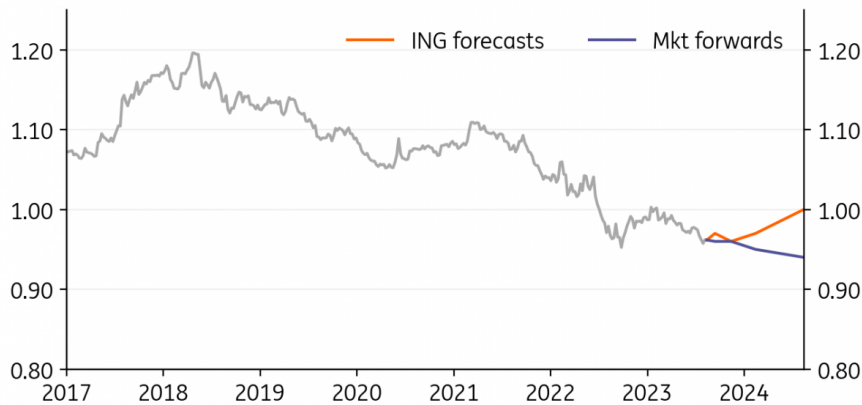
- Sterling has performed poorly considering all the dire data emerging from the eurozone. One area of weakness for the UK going forward will be the housing market. Here, the average rate on the UK mortgage stock is now 3% and expected to rise to 4% into 2024 as more refinancing works through the system. This will deliver a hit to consumption and to house prices.
- We also think that sterling is a little vulnerable to a re-pricing of the BoE curve and that is behind our call for EUR/GBP to be trading up to 0.88 by year-end.
- There will not be a lot to choose between UK and eurozone growth next year – both expected at 0.6%.



EUR/CHF: Nominal CHF trade-weight appreciation at 7% YoY

	Spot	One month bias	1M	3M	6M	12M
EUR/CHF	0.9559	Mildly Bearish 📉	0.95	0.96	0.97	1.00

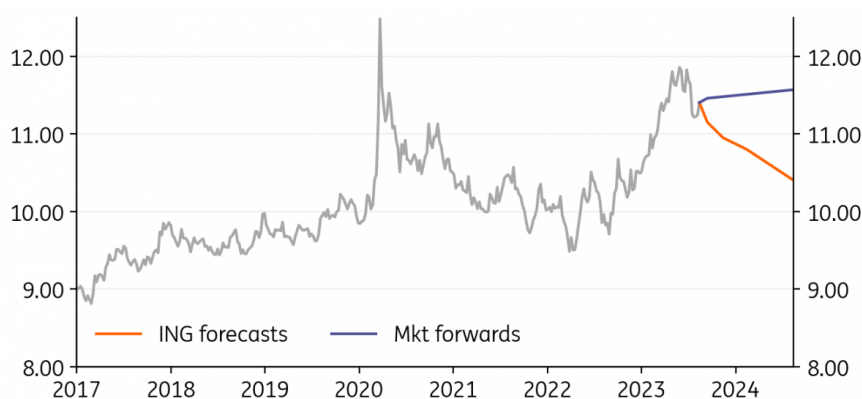
- On a trade-weighted basis the CHF is now 7% stronger than a year ago. In real terms, it is 3.5% stronger suggesting the Swiss National Bank is actually being a little bit more aggressive with CHF strength than we thought. We had assumed it wanted a stable real CHF. Given that inflation is running around 1.5-2.0% in Switzerland, it will still probably need around 3-5% nominal CHF appreciation to keep the real exchange rate stable.
- Given USD/CHF is strong, SNB is therefore pursuing a stronger CHF through selling FX reserves to drive EUR/CHF lower. The longer the dollar stay strong, the more likely EUR/CHF trades sub-0.95.
- Expect a final SNB 25bp hike to 2.00% on 21 September.



EUR/NOK: One last hike by Norges Bank

	Spot	One month bias	1M	3M	6M	12M
EUR/NOK	11.4200	Neutral	11.40	11.00	10.80	10.40

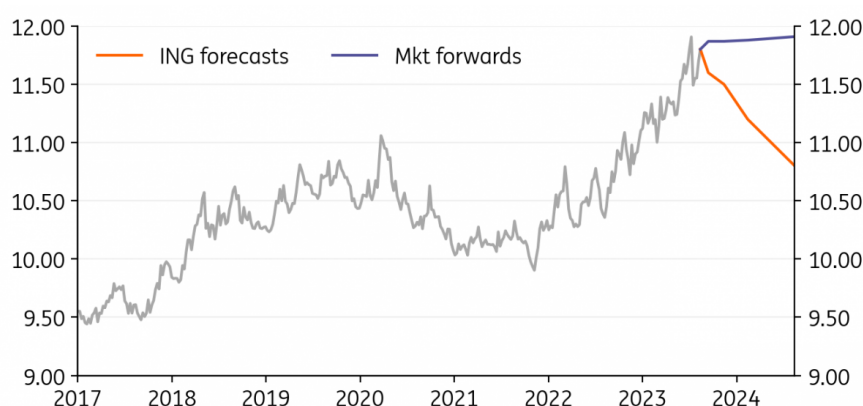
- NOK has followed the correction in pro-cyclical currencies since early August, meaning it is now trading with a wider undervaluation compared to its strong fundamentals.
- Norges Bank has one last hike in the barrel according to its own projections and has pre-announced it should deliver it in September (also our base case). The new rate projections may show openness to another hike to support NOK, although the weakness in the currency is not alarming at the moment.
- High oil prices means that the daily FX purchases are even less likely to be scaled back before year-end, so a turn in NOK is fully reliant on worse US activity data and better global risk sentiment.



EUR/SEK: 12.00 risk before a SEK recovery

	Spot	One month bias	1M	3M	6M	12M
EUR/SEK	11.8800	Mildly Bearish ↘	11.80	11.55	11.30	10.90

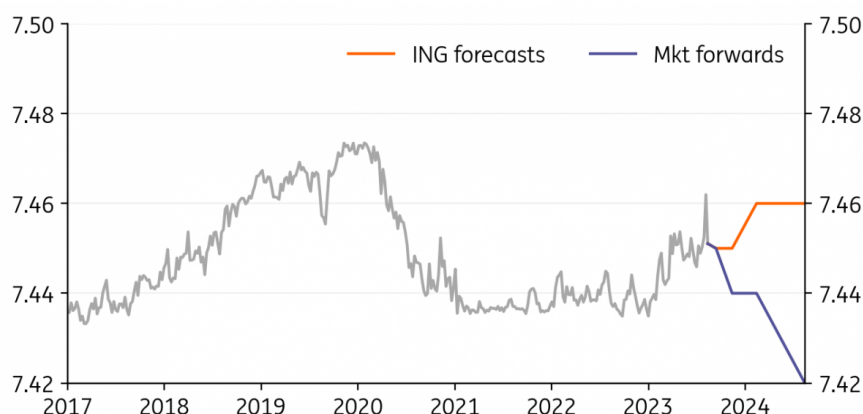
- We have recently published an update on the [Swedish economic and FX outlook](#). While the domestic activity picture remains challenging, investors may have overestimated the downside risks to economy (including the real estate sector), and we still expect the Riksbank to hike by another 25bp in September.
- We think the RB may include another hike in its rate projections, which can help halt the krona's weakness. Ultimately, however, a sustainable rebound in SEK can only happen once global conditions for high-beta currencies improve (we expect from 4Q).
- The timing of a downtrend in EUR/SEK is uncertain, and before external conditions/the Riksbank allow it, 12.00 can be tested.



EUR/DKK: Unusual volatility in DKK

	Spot	One month bias	1M	3M	6M	12M
EUR/DKK	7.4593	Neutral	7.46	7.46	7.46	7.46

- Danmarks Nationalbank did not buy or sell DKK in FX interventions for the seventh straight month in August.
- EUR/DKK has faced unusual upward volatility recently. This may be due to speculative flows as the krone approached central parity with the euro (7.4604). EUR/DKK very briefly traded above that level for the first time since May 2020 before declining.
- If indeed speculative flows were behind the move in DKK, DN will hardly be cheering the fact that EUR/DKK is now at the centre of the peg band. Still, DN takes countermeasures when speculative attacks aim at breaking the peg, so for now expect the zero-intervention policy to continue and DN to follow the ECB moves.



USD/CAD: Stretched mis-valuation

	Spot	One month bias	1M	3M	6M	12M
USD/CAD	1.3625	Mildly Bearish	1.35	1.32	1.28	1.25

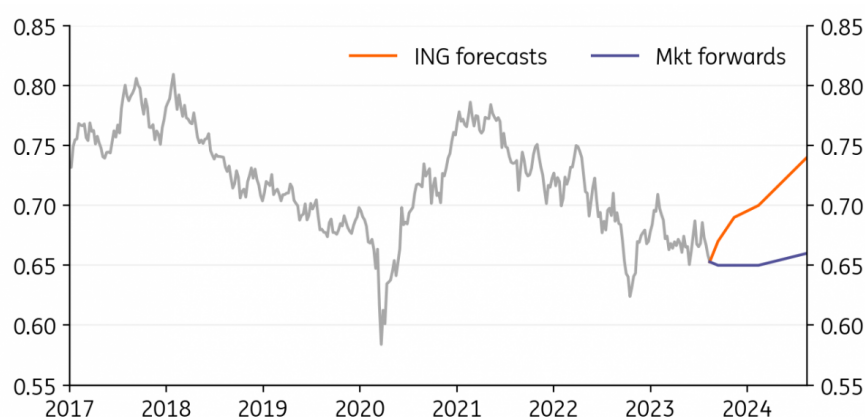
- USD/CAD is trading around 2.3% above its short-term fair value at the time of writing, more than 2.5 times the standard deviation of its mis-valuation over the past year. This is due to CAD not having benefitted from the oil rally and the fact that the USD:CAD near-term rate differential only rose modestly recently.
- Softer US data and some repricing of rate cuts back into the USD curve look necessary to allow that valuation gap to be covered: once this happen, the drop in USD/CAD can be quite sizable.
- The Bank of Canada should offer little help to CAD from now on, as we expect no more hikes after dismal growth figures. Still, CAD retains the best volatility-adjusted carry in G10.



AUD/USD: Still looking for a bottom

	Spot	One month bias	1M	3M	6M	12M
AUD/USD	0.6387	Mildly Bearish ↘	0.63	0.65	0.68	0.72

- The cross-fire that had hit the Australian dollar throughout August (combination of high US rates and plummeting Chinese sentiment) has not ceased since the start of September.
- Moving ahead we expect the US growth/Fed easing, and in turn the global USD story, to be the key driver of AUD/USD. This is not to say that China will be put on the backburner, but a lot of the deterioration in Chinese growth is already priced into AUD, and things may gradually improve from here with monetary and fiscal stimulus being deployed in Beijing.
- AUD/USD may still be searching for its bottom, but we still like a strong recovery into the new year, in line with USD decline story.



NZD/USD: All about external drivers

	Spot	One month bias	1M	3M	6M	12M
NZD/USD	0.5897	Mildly Bearish ↘	0.58	0.60	0.63	0.66

- The Kiwi dollar has been only driven by external factors since the RBNZ meeting on 16 August, due to a lack of market-moving data releases in New Zealand. GDP numbers are the main highlight in the September calendar, but the Reserve Bank of New Zealand looks unlikely to change its tone at the 4 October policy meeting.
- On 13-14 October, general elections will be held in New Zealand. Opinion polls suggest a centre-right coalition are on track to win the vote, but the impact on the currency should be quite limited.
- We expect an extended period where NZD/USD will almost entirely be driven by the dollar leg. We see downside risks in the near term and a rebound in the longer run.



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

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