G10 FX Talking: Another month of a strong dollar

Strong US jobs data and a high January CPI reading have put paid to any ideas of early Fed rate cuts. However, we are backing the disinflation trends this year and continue to believe that central banks on both sides of the Atlantic will be in a position to start cutting rates this summer. We maintain our call for a benign dollar decline starting next quarter

Main ING G10 FX forecasts

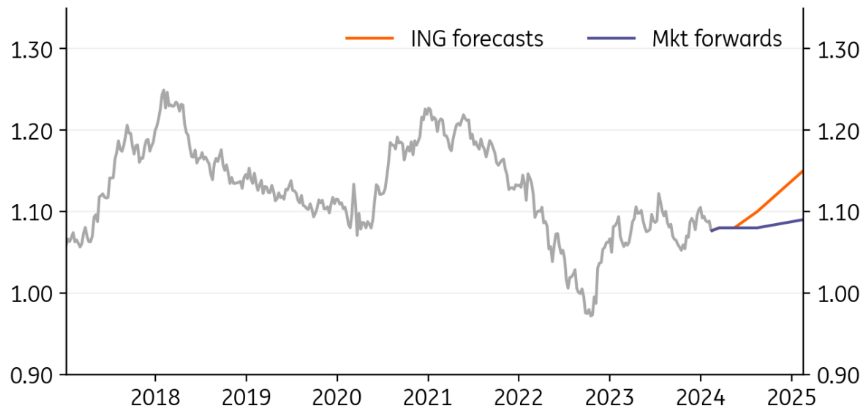
	EUR/USD		USD/JPY		GBP/USD	
1M	1.08	→	148.00	↓	1.26	→
3M	1.08	→	145.00	↓	1.24	↓
6M	1.10	↑	140.00	↓	1.25	→
12M	1.15	↑	130.00	↓	1.31	↑

	EUR/GBP		EUR/CHF		USD/CAD	
1M	0.86	→	0.95	↑	1.35	→
3M	0.87	↑	0.96	↑	1.33	↓
6M	0.88	↑	0.96	↑	1.29	↓
12M	0.88	↑	0.96	↑	1.28	↓

EUR/USD: The bumpy road to 2% inflation

	Spot	One month bias	1M	3M	6M	12M
EUR/USD	1.0766	Neutral	1.08	1.08	1.10	1.15

- Nobody said the disinflation path to 2% was going to be an easy one. That is certainly the case in the US, where stronger jobs data and now higher January CPI figures have created a large speed bump. The January PCE data on 29 February is now the next big focus. Expect to hear more from the Federal Reserve about the 'bumpy' path to 2% inflation – but we still think this the true direction of travel.
- The back up in US rates has naturally lifted the dollar. This may not have too much further to run in that it will be hard to see the market pricing less than 75bp of Fed cuts this year.
- EUR/USD downside should be relatively limited from here if the above is true. And we think the ECB only starts cutting in June.



Source: Refinitiv, ING

USD/JPY: Unstable in this 150/152 area

	Spot	One month bias	1M	3M	6M	12M
USD/JPY	149.84	Mildly Bearish	148.00	145.00	140.00	130.00

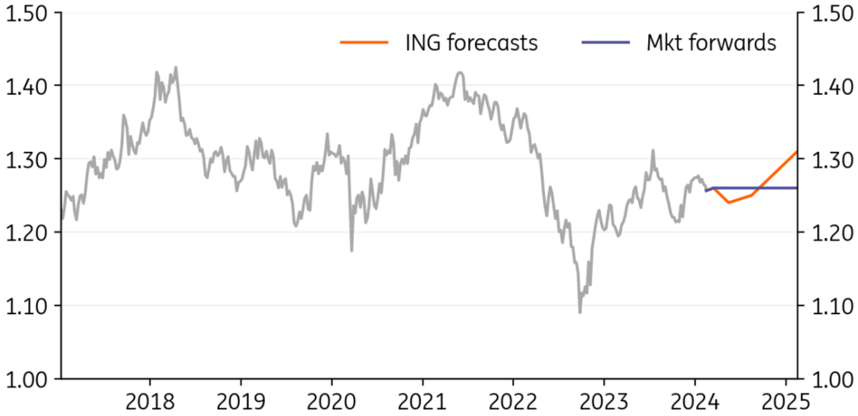
- Strong US growth, high US inflation and higher 10-year Treasury yields have conspired to push USD/JPY above 150. The customary verbal warnings from Tokyo have emerged at these levels, but the recent fourth quarter Japanese GDP data suggest local policy makers may not be quite as concerned about yen weakness as usual. Exports were one of the few sources of Japanese growth last quarter.
- It seems now that April will be too early to expect a significant change in the Bank of Japan's policy. We still look for a rate hike in June.
- Our call for a lower USD/JPY increasingly hinges on the US slowdown story. If that does not materialise after all and USD/JPY starts trading above 152, the risk is that we see 160.

Source: Refinitiv, ING

GBP/USD: Moving into event risk season

	Spot	One month bias	1M	3M	6M	12M
GBP/USD	1.2564	Neutral	1.26	1.24	1.25	1.31

- The sterling advance from last October appears to be stalling. It is perhaps a function of a slight softening in the UK price data which does allow the BoE to start discussing rate cuts. We continue to look for the first cut in August. Expectations should move in this direction as inflation slows over coming months.
- On the immediate horizon is the March budget. Our current thought is that this may be sterling positive – in that large, credible tax cuts are welcomed. If Chancellor Jeremy Hunt misreads the market, however – e.g., offers more than £20bn in tax cuts – sterling and the gilt market could come under pressure again.
- A modestly GBP/USD forecast is driven by the US slowdown.

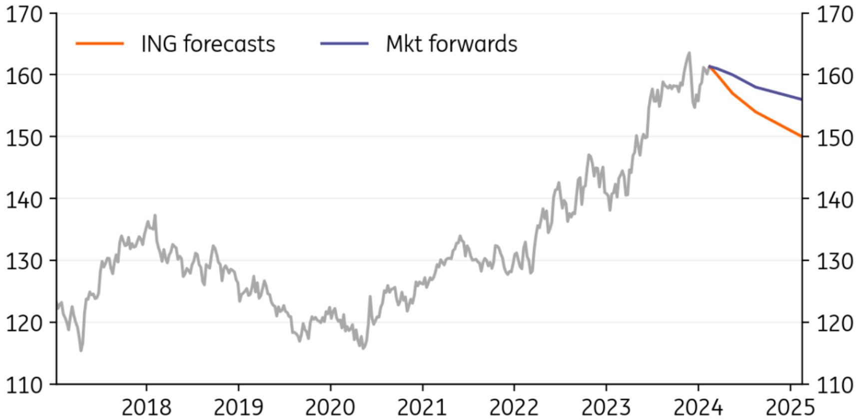


Source: Refinitiv, ING

EUR/JPY: A change of trend is a hard call

	Spot	One month bias	1M	3M	6M	12M
EUR/JPY	161.3200	Mildly Bearish	160.00	157.00	154.00	150.00

- EUR/JPY remains buoyant. The low volatility, benign risk environment is certainly helping as yen-funded carry trades continue to perform well. On the subject of volatility, research shows that the S&P 500 typically underperforms in the second quarter of a US presidential election year. It is not clear what will drive that, but if true, EUR/JPY would probably come lower.
- In the eurozone, growth forecasts are being revised marginally higher – although activity is still described as 'stagnant'. Inflation trends look solidly lower, and the ECB should start cutting in June.
- ECB cuts set against BoJ hikes should finally turn around this powerful EUR/JPY rally in the second half of this year.

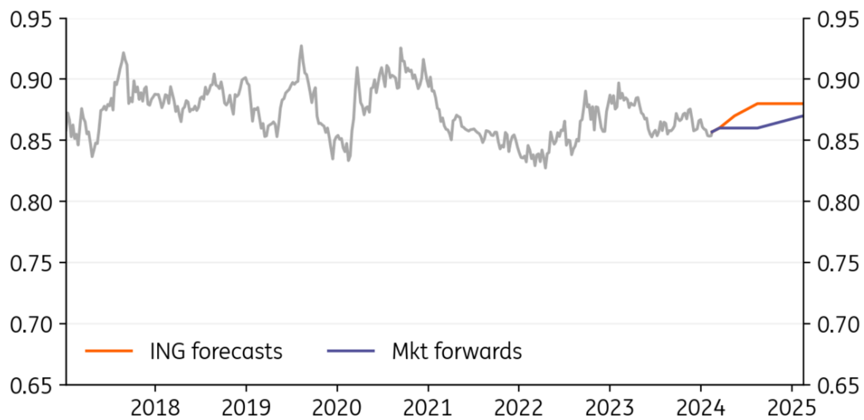


Source: Refinitiv, ING

EUR/GBP: 0.85 may well be the base

	Spot	One month bias	1M	3M	6M	12M
EUR/GBP	0.8569	Mildly Bullish	0.86	0.87	0.88	0.88

- EUR/GBP has tested strong support at 0.8500 but has so far failed to break through it. We suspect that this support level may hold and that clearer signs of UK disinflation through the second quarter – and greater conviction over the BoE easing cycle – can see EUR/GBP drift a little higher. We first need to see the two MPC hawks drop their votes for higher rates.
- The March UK budget is going to be a key input into the sterling story. For the euro, there is much focus on euro area wage data released in late April and whether that allows the ECB to cut.
- Currently the expectation is that the next UK election is held in the Autumn. There is outside risk of an earlier election in May.

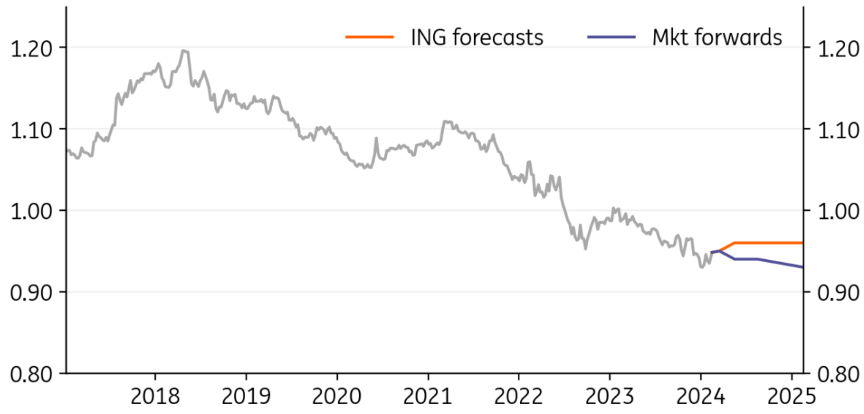


Source: Refinitiv, ING

EUR/CHF: Higher rates, higher EUR/CHF

	Spot	One month bias	1M	3M	6M	12M
EUR/CHF	0.9483	Neutral	0.95	0.96	0.96	0.96

- EUR/CHF has corrected higher in line with our views from last month. This looks entirely down to the higher short term rates moves, where a reversal of last year's narrowing in EUR:CHF swap rate differentials has provided the support.
- It is unclear how much further widening in spreads is to be seen – thus the EUR/CHF move to 0.96 could be a struggle.
- But we know that the Swiss National Bank does not like the current strength in the real Swiss franc. 21 March may be far too early for the first SNB rate cut (even though inflation is now on target) but we are interested in whether the SNB has started buying FX again. 2023 fourth quarter intervention data is released on 29 March.

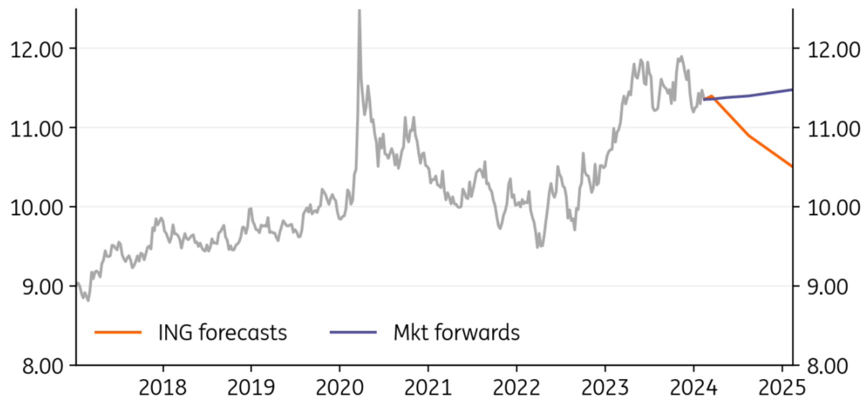


Source: Refinitiv, ING

EUR/NOK: Strong fundamentals despite the noise

	Spot	One month bias	1M	3M	6M	12M
EUR/NOK	11.3600	Neutral	11.40	11.20	10.90	10.50

- The Norwegian krone should remain vulnerable in the near term due to its exposure to risk sentiment and global rates dynamics.
- Domestically, though, the fundamentals for NOK have strengthened. Growth was more resilient than expected by Norges Bank in the fourth quarter, and inflation remained sticky in January. In an environment in which global rate expectations are being unwound, oil prices are finding some support and NOK remains weak, it is hard to imagine NB turning dovish in March.
- We still think EUR/NOK can trade higher in the short term due to continued underperformance in USD bonds, but we have not changed our bullish view for NOK from the second quarter onwards.

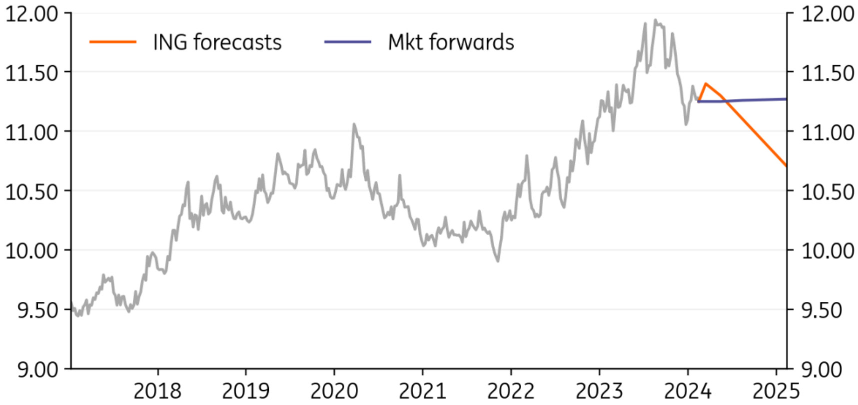


Source: Refinitiv, ING

EUR/SEK: A new phase for the krona

	Spot	One month bias	1M	3M	6M	12M
EUR/SEK	11.2500	Mildly Bullish	11.40	11.30	11.10	10.70

- As per our estimates, the Riksbank has now ended its FX sales, therefore removing a backstop to the krona at a time of instability for high-beta currencies.
- Incidentally, the Riksbank has signalled cuts may start already in the first half of this year. Last year, the krona suffered significantly from RB's dovish surprises, and SEK still looks quite fragile in the short term.
- Our medium-term view is, however, unchanged. The krona remains well positioned to benefit from the eventual capitulation of USD rates, and the RB should not allow much more depreciation in SEK. A new round of FX sales via the reserve hedging programme is not too remote of a possibility.

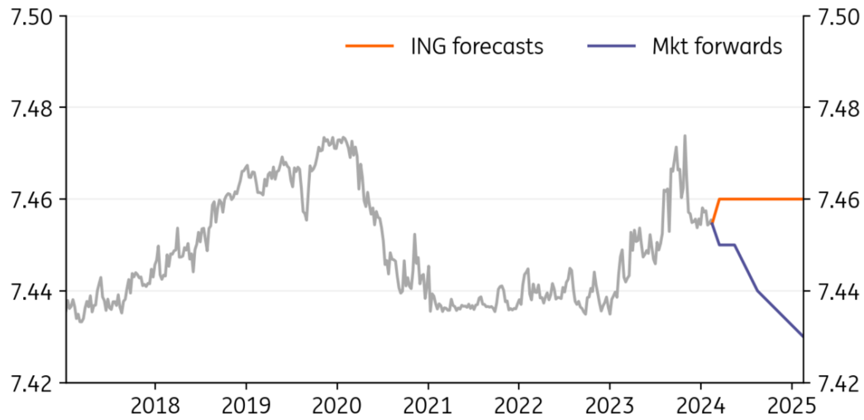


Source: Refinitiv, ING

EUR/DKK: Flattening after some volatility

	Spot	One month bias	1M	3M	6M	12M
EUR/DKK	7.4546	Neutral	7.46	7.46	7.46	7.46

- Danmarks Nationalbank did not intervene in the FX market in January, making it a full year without interventions.
- There was some selling pressure on DKK at the start of February, as markets anticipated FX flows related to an acquisition deal by Novo Holdings. The jump in EUR/DKK was, however, short-lived.
- We could see more M&A-related impacts on DKK throughout the year, but with the pair very close to its parity, those should not influence DN's monetary policy. We continue to forecast a modestly higher EUR/DKK in 2024, centred at the 7.4600 peg parity mark.

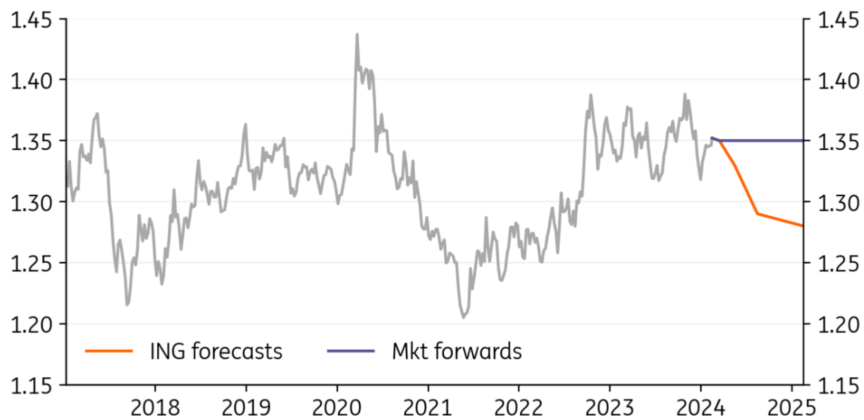


Source: Refinitiv, ING

USD/CAD: Tight jobs market delays cut prospects

	Spot	One month bias	1M	3M	6M	12M
USD/CAD	1.3520	Neutral	1.35	1.33	1.29	1.28

- Despite the dovish turn by the Bank of Canada at the January meeting, the Loonie has not depreciated much of late. The Canadian jobs market tightened further in January with the unemployment rate surprisingly declining, and CPI inflation is expected to remain sticky.
- Markets are pricing in around 25bp less easing in Canada (75bp in total) compared to the US in 2024, with a first cut in July.
- We still expect a relatively fast disinflation in Canada to allow the cutting cycle to start earlier than priced in by markets and be worth 100-125bp in total this year. This is one of the reasons why we still prefer NOK and AUD to CAD in the commodity FX space.

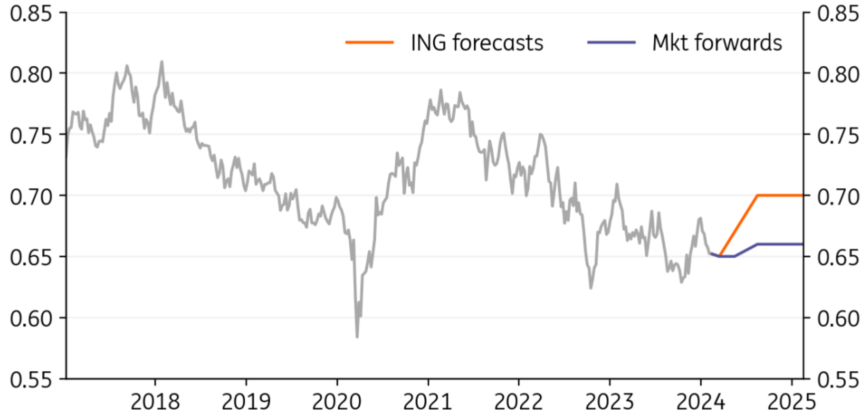


Source: Refinitiv, ING

AUD/USD: Softer data does not mean big RBA cuts

	Spot	One month bias	1M	3M	6M	12M
AUD/USD	0.6520	Neutral	0.65	0.67	0.70	0.70

- Australian inflation declined more than expected in the fourth quarter, and the RBA's pushback against rate cut bets was also challenged by soft employment figures for January.
- That said, we do not doubt the determination of the RBA to keep rates higher for some time. Our expectations remain that monetary easing in Australia will only be a story for the second half of the year and be worth a total of 50bp – significantly less than the Fed and RBNZ.
- AUD is in a good position to rally once US data allows rate cut bets to rebound in the US, even though potential defensive positioning ahead of US elections in the third quarter (a Trump re-election would hit China-related sentiment) means AUD/USD could struggle to trade consistently above 0.70.

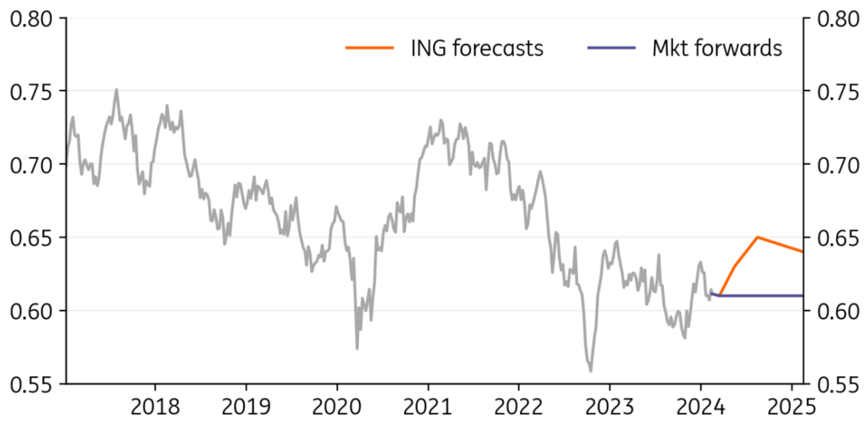


Source: Refinitiv, ING

NZD/USD: RBNZ to soften hawkish stance

	Spot	One month bias	1M	3M	6M	12M
NZD/USD	0.6113	Neutral	0.61	0.63	0.65	0.64

- The inflation story in New Zealand is turning, but remains quite mixed. CPI dropped to 4.7% in the fourth quarter, well below RBNZ projections, and first quarter inflation expectations came in at the lowest since the third quarter of 2021.
- At the same time, non-tradeable inflation was a bit higher than consensus in the fourth quarter, and the jobs market proved more resilient than expected, with wage growth staying sticky.
- The RBNZ's tightening bias looks less and less credible considering the global central bank backdrop, and the February meeting should see some softening of the hawkish narrative. NZD may underperform AUD as markets price in RBNZ cuts, but NZD/USD still looks bound higher from the second quarter, in our view.



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