

FX: King dollar loses its crown

The dollar's four percent decline in July marked its largest monthly drop since 2010. Driving this decline is both a re-rating of the European project, but also the dollar's loss of its growth and yield advantage. The latter leaves the dollar vulnerable into November's contentious presidential elections



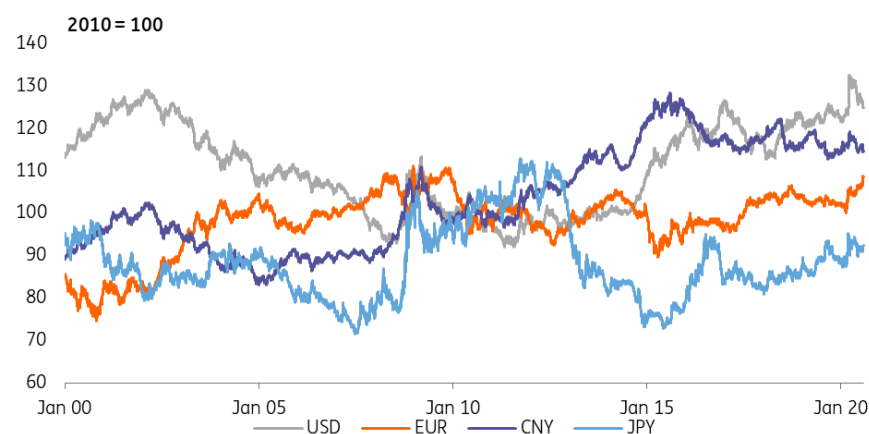
Dollar: We don't need you any more

The myriad of factors which propelled the dollar around eighteen percent higher between March 2018 and March 2020 have faded. The dollar rally in 2018 and 2019 was all about large US fiscal stimulus and then US protectionism. These drove a growth and interest rate wedge between the US and the beleaguered overseas economies.

The dollar rally in March 2020 was all about liquidity needs. The fact that foreign central banks are now only drawing down around US\$100bn from the Fed's dollar swap lines – versus a peak of US\$450bn in May – suggests the need for emergency dollar liquidity or [hoarding](#) has reversed.

In other words, dollar demand from both the investor and commercial community is in decline and the dollar is no longer the only game in town.

Trade weighted exchange rate indices: USD retreats from highs



Source: BIS

Euro: A reluctant alternative

Progress on the EU recovery fund has prompted a re-assessment of the European project and the euro. Investor surveys show the fund management community are still overweight US equities but inclined to move into Europe. Depending on the path and handling of Covid-19 second wave, a re-allocation of funds towards Europe should be the theme for 2H20.

We expect EUR/USD to maintain its bullish momentum into an uncertain US presidential election in November. That means pressing 1.20, with outside risk to 1.25. This environment should also favour the liquid, defensive currencies of JPY and CHF – as the market seeks dollar alternatives.

Author

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by

the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.