

## Three calls for FX markets

Our most striking FX call for next year is that 2024 will be the year that the dollar finally turns lower. In our view, the best-performing currencies will be those which are most undervalued – step forward the Australian dollar and the Norwegian krone. And do not expect European currencies to lead the pack



Both the Australian dollar and Norwegian krone are packing undervaluation in their armoury

### 1 The dollar to turn lower

As we discussed in our [2024 FX Outlook](#), we think the dollar should be due a cyclical downturn next year. Barring huge and unexpected risk premia emerging in the currency space, the dominant trend should be US growth converging on the weak levels seen in Europe and Asia, the Federal Reserve embarking on an easing cycle, and the dollar falling 5-10%. That view really does hinge on the Fed being able to cut rates and a clean bullish steepening trend playing out in the US yield curve. Typically this coming stage of the economic cycle should see commodity currencies outperform – which fortunately is also one of our calls (see next section). The main threats to our dollar view are enduring US economic strength or another identity crisis in the eurozone – recall EUR/USD failed to rally in 2001, despite the Fed cutting nearly 500bp.

### 2 The currencies of Australia and Norway to outperform

Fighting the dollar bull trend has been an exercise in futility for most of this year. Currencies prepared to challenge the dollar are going to need some help. And both the Australian dollar and Norwegian krone are packing undervaluation in their armoury. These are the currencies most

undervalued according to our medium-term fair value model, where divergence from better export prices is the core story. In effect, the higher US rate environment has prevented these currencies from aligning with the commodity price rally seen in the second half of this year.

### 3 European currencies set to lag

Unlike the commodity currencies, neither the euro nor the pound are particularly undervalued against the dollar. We do think the dollar story will be enough to drag EUR/USD higher through 2024 – 1.15 is our year-end target – but the moves should be relatively modest. EUR/USD will be trying to rally while the eurozone is in recession. It will also face the challenge of an increasingly dovish European Central Bank, if our call is correct for the first ECB rate cut in June. And weak eurozone growth typically spells trouble for some of the eurozone's peripheral government bond markets too. As to the pound, a 100bp Bank of England easing cycle will create headwinds for GBP/USD. We do not foresee the UK election demanding a big risk premium of the pound, but we doubt it will provide a tailwind either.

#### Author

##### Chris Turner

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

[chris.turner@ing.com](mailto: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>.