

7 January 2019
Article

US Fed chair unleashes relief rally

Comments from Federal Reserve Chairman Jerome Powell last week continue to support risk assets

Contents

- USD: Weaker dollar but mainly against higher beta currencies
- EUR: Limited upside potential
- GBP: The positive one-off effect from sentiment on GBP to fade
- NOK: Benefiting from higher oil prices



USD: Weaker dollar but mainly against higher beta currencies

Risk assets continue to rally following Fed Chair Jay Powell's comments on Friday which pointed to a pause in the current Fed tightening cycle and downplayed market fears that the pre-set course of tightening will contribute to the global slowdown and dent risk assets even further. With equity markets moving broadly higher, we expect risk-sensitive currencies to be the prime beneficiaries vs the US dollar while the low yielders such as the euro or Japanese yen should lag in terms of gains vs USD. This is because stabilising risk appetite should eventually translate into some modest further Fed tightening (as per [our Monthly Outlook](#), our economists expect the Fed to pause this quarter and deliver two hikes later in the year vs the partial cut still priced in by the markets by end 2019) and be USD supportive. Here, the euro ticks the box. We don't expect today's US Non-Manufacturing ISM to be as dismal as the Manufacturing ISM release last week (as the latter is more negatively affected by trade wars). Coupled with the on-hold Fed, this should help to keep the current risk-friendly environment in place.



EUR: Limited upside potential

The expected deceleration in eurozone November retail sales should limit the EUR/USD upside in the current soft USD environment. While comments From Powell on Friday meant that the euro recovered all of its post non-farm payroll losses vs the USD, the common currency has been generally lagging the rest of G10 FX. With the scope for higher US Treasury yields (vs the limited upside potential to eurozone yields, at least in relative terms as the ECB has few reasons to change its cautious stance) we continue to see upside to EUR/USD as fairly limited and expect the EUR/USD to stay below the 1.1500 level.



GBP: The positive one-off effect from sentiment on GBP to fade

After having been dramatically postponed in December, the Parliamentary debate on the Brexit deal resumes this Wednesday ahead of a critical vote on 15 January. The most likely scenario remains that Prime Minister Theresa May's deal will be rejected, potentially by a heavy margin. With Brexit uncertainty firmly in place, we expect GBP upside to be limited and the effect of the general market sentiment on sterling (from which GBP benefited heavily on Friday) to be short-lived as it is the Brexit woes that matter most for GBP. Look for EUR/GBP to converge back towards the 0.90 level.



NOK: Benefiting from higher oil prices

The Norwegian krone is currently one of the key beneficiaries of the risk asset recovery (both equity markets and oil). We see EUR/NOK at 9.80 as strong and expect the pair to trend lower, particularly as when oil prices seem to be stabilising.

Petr Krpata, CFA

Chief EMEA FX and IR Strategist

+44 20 7767 6561

petr.krpata@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 NV 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. The producing legal entity 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 subject to limited regulation by the Financial Conduct Authority (FCA). 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.