

## USD bear trend: cocked and loaded

In light of the dollar breaking below the 200-day moving average on some key pairs, the path of least resistance remains lower for the US currency



Source: Shutterstock

### 📉 USD: Non-dollar, safe haven assets in demand

Since US-China trade relations broke down in early May and the Federal Reserve started to acknowledge the effects of the trade war on the US economy, the dollar is close to 5% weaker against the Swiss franc, 4% weaker against the Japanese yen and down against most G10 currencies except the pound. We therefore think the move is best characterised as a defensive decline in the dollar, which makes sense given uncertainties regarding trade tensions and now the Middle East as well. Recent moves are starting to resemble more the traditional flight-to-quality trends, such as moving to the liquid short-end of the US Treasury market and hedging the dollar exposure. Gold is also performing as it should – especially in an environment of super low rates. The major asset class outlier here is equities and were they to turn lower, the move should cement the trend for dollar shorts against the defensive JPY and CHF. Also it's not clear what can shake the market out of its view that the Fed will cut 25-50 basis points on 31 July (37bp currently priced). In light of the dollar having broken below the 200-day moving average on some key pairs, the path of least resistance remains lower for the dollar. Look out for US consumer confidence figures today and then a speech on monetary policy from Fed Chair Jay Powell at 19CET today. With the

President breathing down his neck, we doubt Powell is in a position to reject aggressive pricing of Fed easing.

## 📈 EUR: EUR/USD holds above the 200 day m.a. near 1.1350

EUR/USD is holding the break of the 200-day m.a. near 1.1350 and will be creating a buy-on-dips mindset for investors. It's not clear from where the next geopolitical input will derive (does China ban rare earth exports at some point?), but Washington is certainly the epicentre right now. EUR/USD can make slow progress to 1.1450 & USD/CHF below 0.9700 could trigger fresh dollar sales.

## ➡️ GBP: Look out for CBI sales data later

GBP is trading weaker than we thought. EUR/GBP to trade in a 0.8875-09.8975 range.

## ➡️ HUF: NBH to err on the dovish side

CE4 currencies have generally been enjoying the world of lower rates and the positive turn in EUR/USD, although the Hungarian forint has recently been following its own path. This follows a big squeeze on short HUF positions which took EUR/HUF to 320 earlier this month. For today, the highlight will be the National Bank of Hungary decision. Our team thinks the NBH will err on the dovish side, adopting the view that inflation is peaking, fiscal policy is tight, the 3m BUBOR rate is already higher than they'd like and a difficult external environment. We think the NBH meeting remains more a rate story now (and see rates in the three-year segment of the curve falling further as NBH tightening is priced out). And the more difficult external environment means the NBH credibility issues of exceptionally negative real interest rates fade and EUR/HUF should settle around the 325 area.

## 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>.