EUR/USD: What’s next?

With global uncertainty rising and EUR/USD volatility increasing, the game has changed for the cross. We look at various scenarios for the likely future EUR/USD path.

The global markets landscape is highly uncertain but here are four potential EUR/USD paths

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Description</th>
<th>EUR/USD outlook</th>
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<tr>
<td>1 US growth plummets</td>
<td>Global shock, US goes into two quarters of recession, US growth converges to that of the EZ</td>
<td>2Q20: 1.25, 4Q20: 1.30, 4Q21: 1.35</td>
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<tr>
<td>2 Fiscal disappoints</td>
<td>Dim US growth prospects prompt Fed to undertake limited QE. Two quarters of recession in the EZ</td>
<td>2Q20: 1.18, 4Q20: 1.20, 4Q21: 1.15</td>
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<td>3 Temporary shock</td>
<td>Temporarily reversal of Fed rate cuts in 2021 would cause USD to rebound</td>
<td>2Q20: 1.15, 4Q20: 1.10, 4Q21: 1.00</td>
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<tr>
<td>4 Europe on its knees</td>
<td>Severe fall-out in West Europe, no engines of growth, deflation fears. Impressive US fiscal response</td>
<td>2Q20: 1.10, 4Q20: 1.05, 4Q21: 1.00</td>
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Source: ING
Scenario analysis based on four macro & political themes

Four factors stand out as key EUR/USD drivers over the next one to two years. These are: (i) Impact of Covid-19 on the real sector; (ii) Central banks response; (iii) Fiscal response; (iv) Politics. Above we outline our baseline and alternative assumptions for these inputs – and the corresponding EUR/USD profiles. As a base case we are now split between scenario 2 and scenario 3.

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
+44 20 7767 1610
chris.turner@ing.com

Francesco Pesole
FX Strategist
+44 207 767 6405
francesco.pesole@ing.com

Petr Krpata, CFA
Chief EMEA FX and IR Strategist
+44 20 7767 6561
petr.krpata@ing.com
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