Our View on Currencies

Edition June and July 2023

Our View on Currencies - Overview

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Our View on **EUR/USD**

1.07 – 1.15
Expected range
for 3 to 6 months

- ECB to stick to its rate hike cycle for a longer period
- Speculative forward sales of the euro are unwound
- Even if interest rate fantasies strengthen the dollar at times, monetary policy support is weakening

- Emerging financial market stress helps the US dollar in its safe-haven function
- A weakening of the ECB's will in the fight against high inflation rates could stand in the way of a further euro recovery
- If the Fed were to continue raising interest rates for a longer period, the dollar could gain again

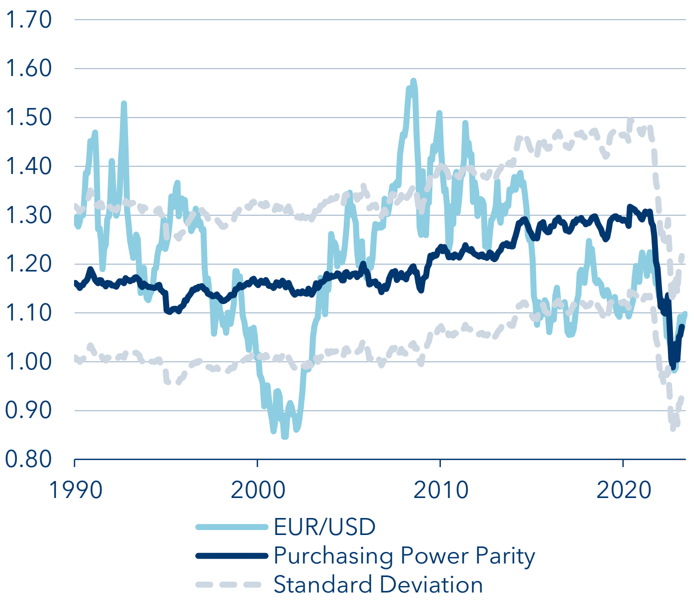
Ups and downs

The dollar recently regained ground against the euro. It seems that the currency markets are not yet sure whether the Fed is really at the end of its interest rate hikes. As a precautionary measure, the greenback was given renewed strength. However, we maintain that the US monetary authorities have probably ended their tightening cycle. In the US, rents and imputed rents are currently the main drivers of inflation. If this component were factored out, the Fed would already be very close to its inflation target of 2%. For this reason, there is no motive to act further in our view. Meanwhile, the ECB still has some way to go and is likely to continue to turn the interest rate screw for the time being. This argues for a stronger euro. We therefore maintain our price target and expect the euro to rise above the 1.10 mark.

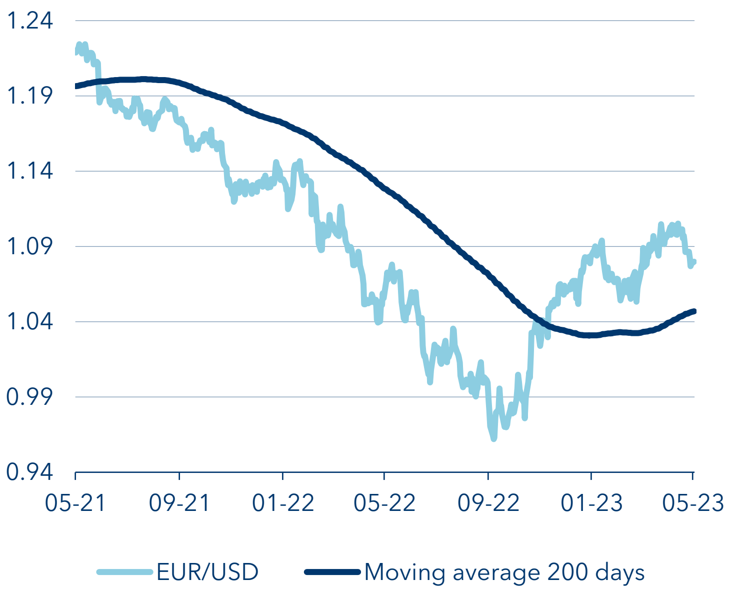
Our View on **EUR/USD**

1.07 – 1.15
Expected range
for 3 to 6 months

Purchasing power parity (producer prices; monthly data)



Technical view



Our View on **EUR/CHF**

0.96 – 1.02
Expected range
for 3 to 6 months

- Euro benefits from ECB's continued monetary policy tightening
- The SNB could exercise restraint with regard to further interest rate hikes and thus weigh somewhat on the franc

- If the ECB falls short of market expectations, this could weigh on the euro in the coming months
- If there is a more pronounced slump in growth in the euro zone, this would have negative consequences for the euro

Swiss franc: Support from the SNB

The franc remained firm – even though the euro has tended to gain against the dollar over the past few quarters. Until now, we assumed that the franc would lose at least some of its value against the euro. But the franc is now receiving support from the SNB. The SNB intervenes in the currency markets and thus reduces its foreign currency holdings. A look at the corresponding statistics shows this. Both the foreign exchange reserves and the sight deposits of the commercial banks at the SNB have reduced significantly. We thus must acknowledge that this will probably prevent the franc from weakening for the time being – simply because the SNB is preventing it from doing so. We are therefore adjusting our price target and expect the franc to move sideways against the euro within this range.

Our View on **EUR/CHF**

0.96 – 1.02
Expected range
for 3 to 6 months

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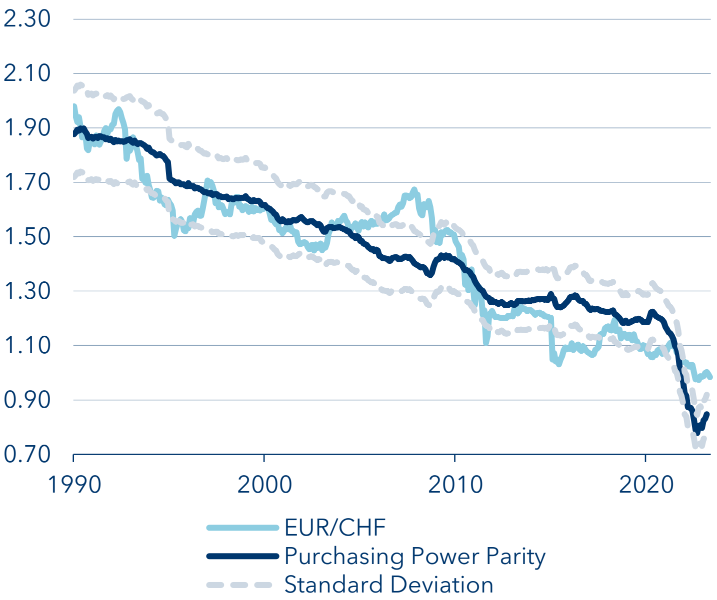

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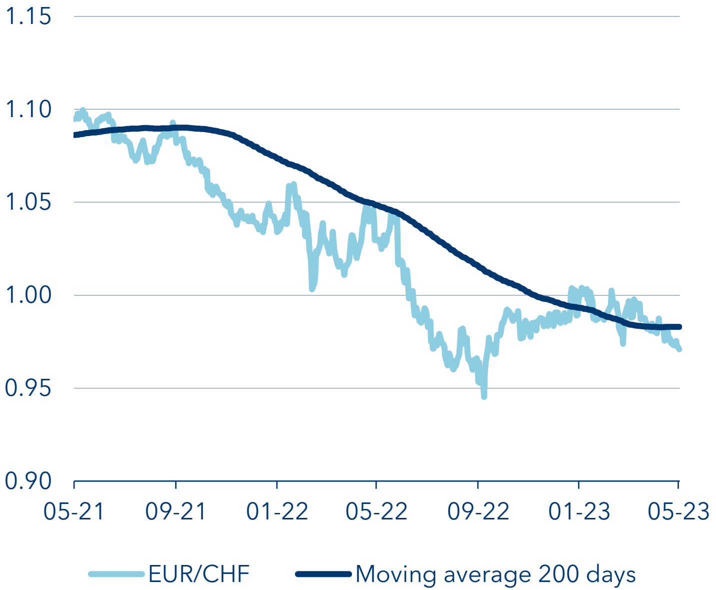

Our View on **USD/CHF**

0.86 – 0.94
Expected range
for 3 to 6 months

- Both currencies are in demand in times of high uncertainty
- Dollar loses monetary tailwind as Fed reaches its rate hike cycle in our view

- The Fed could be forced to hike interest rates further
- This would lead to renewed USD strength
- If the SNB were to prematurely declare its rate hikes over, this could weaken the CHF

Franc could still gain a little against the dollar

In our view, the Fed has ended its cycle of interest rate hikes. The dangers of recession in the USA are currently even more obvious than on the European continent. The interest rate hikes will leave clear economic traces in the coming months. The turbulence in the US banking sector shows that higher interest rates are not without consequence. From a purchasing power parity perspective, the franc is favourably valued and would still have potential for further gains against the US dollar. The further US inflation rates fall in the coming months and the more clearly economic weakness becomes apparent, the more the dollar should weaken. We therefore believe that the Swiss franc has the potential for further gains against the US dollar.

Our View on **USD/CHF**

0.86 – 0.94
Expected range
for 3 to 6 months

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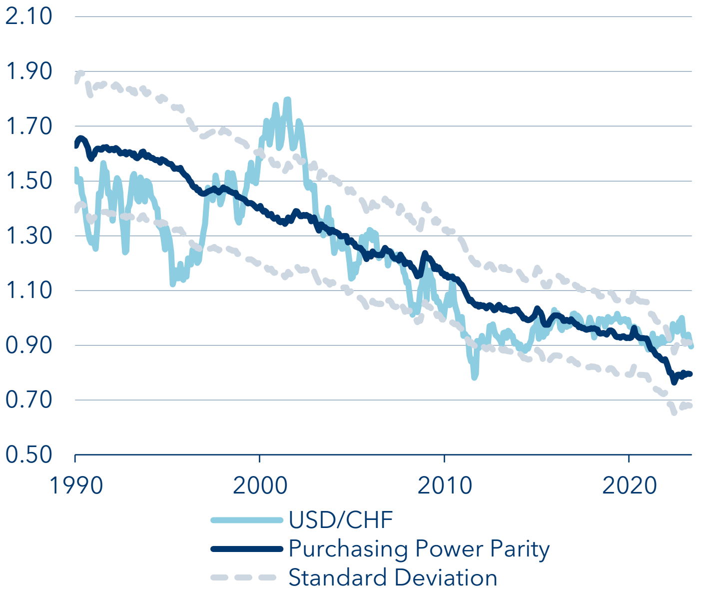
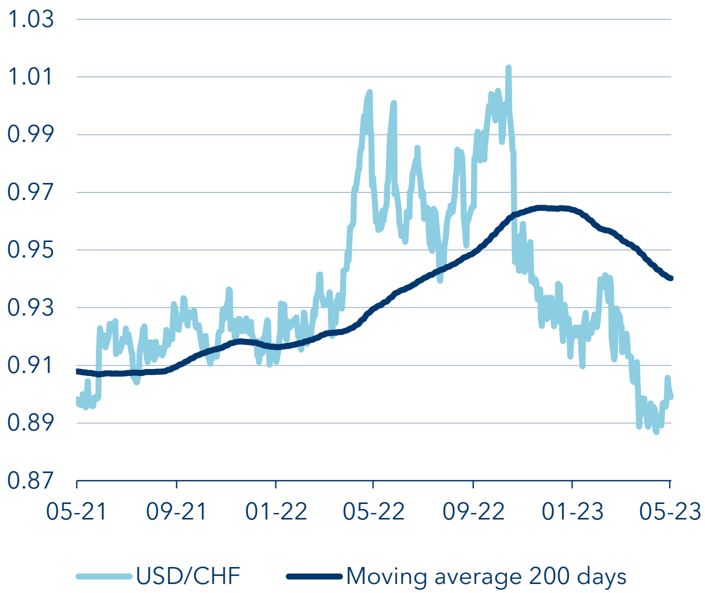


Technical view



Our View on **GBP/USD**

1.20 – 1.30
Expected range
for 3 to 6 months

- The pound is blatantly undervalued against the dollar
- On the dollar side, the Fed's rate hike path is largely priced in

- Brexit reduces UK's potential growth, which argues against significant pound appreciation
- The pound remains fundamentally depressed due to a possible weaker economic development in the UK

Pound benefits from higher interest rates

The pound was able to gain some ground against the dollar. The British central bank raised the key interest rate again in May by 25 basis points to 4.50%. From now on, the Bank of England will act in a data-dependent manner. There is no clear commitment to further interest rate hikes. But in view of high inflation rates of still over 10%, further interest rate hikes seem likely. This closes the nominal interest rate gap vis-à-vis the US, which helped the pound. As we believe the Fed is at the end of its rate hikes and the Bank of England may be forced to raise rates further, there is some upside potential for the British currency. Although the Bank of England does not sound too hawkish, we still see the potential for two more rate hikes of 25 basis points each. We are therefore raising our price target and now expect the pound to appreciate to the 1.30 mark.

Our View on **GBP/USD**

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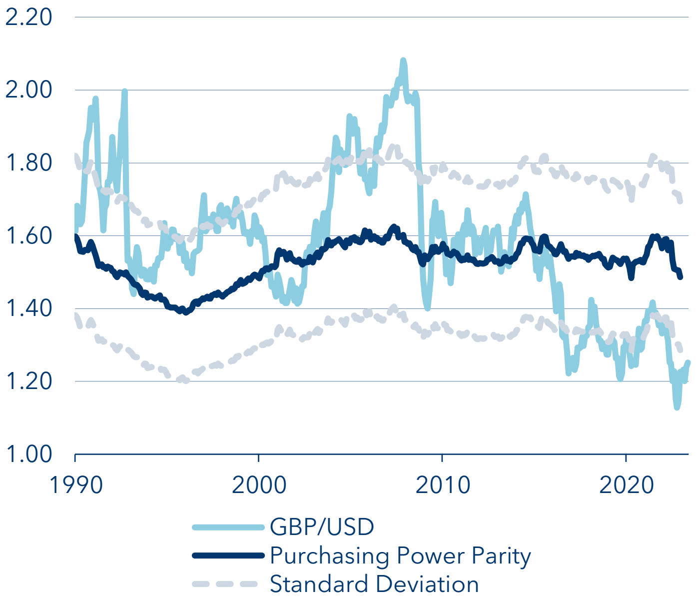

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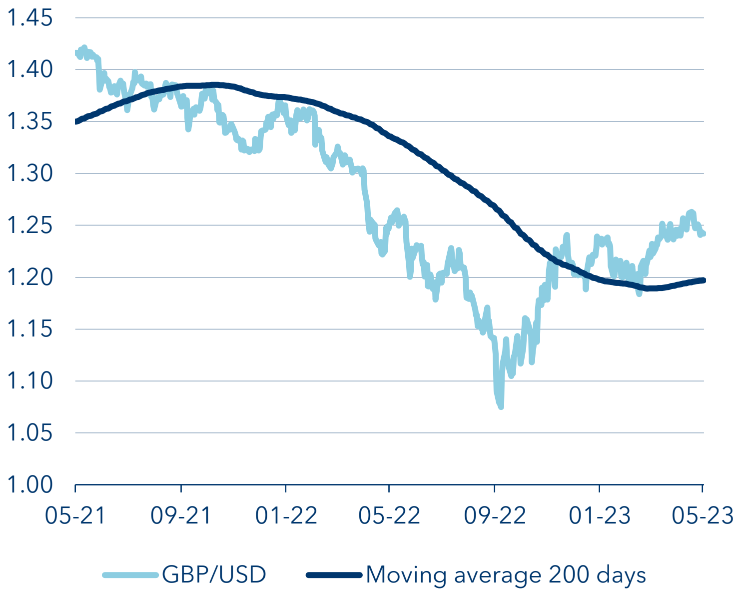

Our View on **EUR/SEK**

10.80 – 11.50
Expected range
for 3 to 6 months

- High current account surplus and healthy public finances counter SEK weakness
- A weakening will of the ECB in the fight against still high inflation would weaken the euro

- If the ECB raises the key interest rate above the level expected by the money markets, the euro would appreciate even more significantly
- Currently still unfavourable environment for high-beta currencies like the SEK
- The Swedish central bank sounds increasingly cautious about further interest rate hikes in view of still high inflation

Swedish krona: No environment for price gains

It is currently not the right environment for price gains for the Swedish krona. By its nature, the SEK is a high-beta currency that benefits from a benign stock market environment, low risk aversion and, above all, an environment of global economic upswing. The Corona pandemic, the high geopolitical uncertainties associated with the Ukraine war, together with a global economic environment tending towards recession, have been weighing on the SEK for some time. We do not expect a change of direction in the currency's development in the short term. A quick end to the war in Ukraine cannot be expected at present, and the global economic environment will remain difficult this year. The krona is therefore likely to remain at its historically weak level against the euro for some time.

Our View on **EUR/SEK**

10.80 – 11.50
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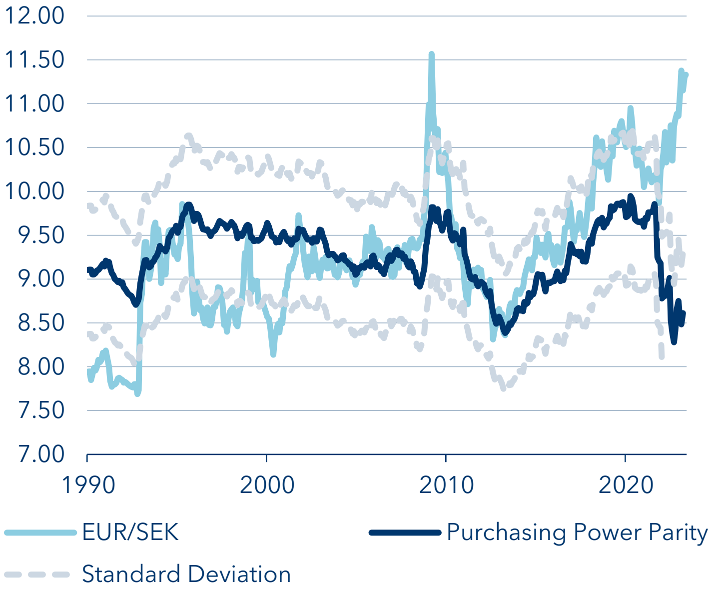

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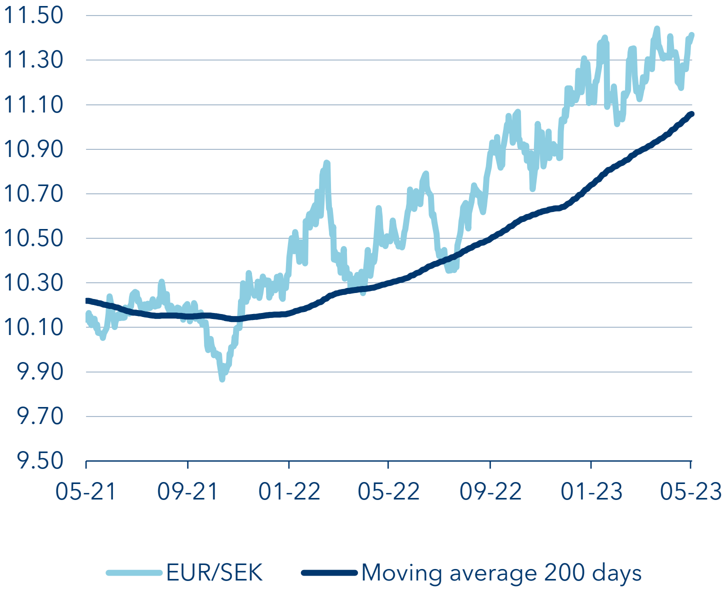

Authors and Disclaimer

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On Purchasing Power Parity: The Purchasing Power Parity (PPP) describes that a product costs the same in two countries as long as it can be traded without restrictions and the transaction costs are negligible. The relative PPP used here is based on producer price indices and assumes that the prices of the products change by the same amount, taking into account the exchange rate, but that the price levels may differ.

Source: Bloomberg

Important legal advice