Dr Thomas Gitzel · Chief Economist

Our View on Currencies

valid for December 2025 and January 2026

VP BANK

Will the dollar depreciate or appreciate?

Tariffs so far had a smaller negative impact on the US economy than expected. At the same time, the leading tech companies are pushing ahead in the race to build infrastructure for artificial intelligence (AI). In spring 2025, the general market trend was to sell America. Since then, robust growth has shifted sentiment back in favour of US investments. Those questioning the dollar's status as the global reserve currency have become quieter. Against this backdrop, the dollar's depreciation came to a halt.

Looking ahead to 2026, trade conflicts are likely to become less significant. The US has entered into trade agreements with many countries. On the other hand, political influence on the Federal Reserve could become more of a worry. The term of Fed Chairman Jerome Powell ends in May. President Donald Trump is likely to nominate someone who favours loose monetary policy.

This would shift the majority in the Fed's Open Market Committee further towards monetary policy doves.

Doubts about the Fed's independence would weigh heavily on the dollar. However, foreign exchange market participants are already aware of this risk. Speculative dollar selling on the futures markets has reached a level that is considered a contraindicator.

Should there be an unexpectedly abrupt appreciation, bets on a weaker dollar would need to be unwound. This could backfire, leading to a significant appreciation of the US currency. Many market participants could therefore be taken by surprise.

This situation will probably have to beresolved first before a new weakness of the greenback takes hold.

Thomas Gitzel, **Chief Economist**

Currency assessment at a glance

Currency pairs

Our View on **EUR/USD**

1.10 – 1.20
Expected range
over 3 to 6 months

- Dwindling institutional independence weighs on the dollar
- Current account deficit remains a heavy burden for the greenback
- More interest rate cuts than expected by the European Central Bank (ECB) could put the euro under significant pressure

- Dollar remains in demand as a safe haven in uncertain times
- Speculative USD forward selling could trigger an appreciation of the greenback
- The Trump shock has passed – the US's exceptional status is back in focus

High stakes on dollar weakness

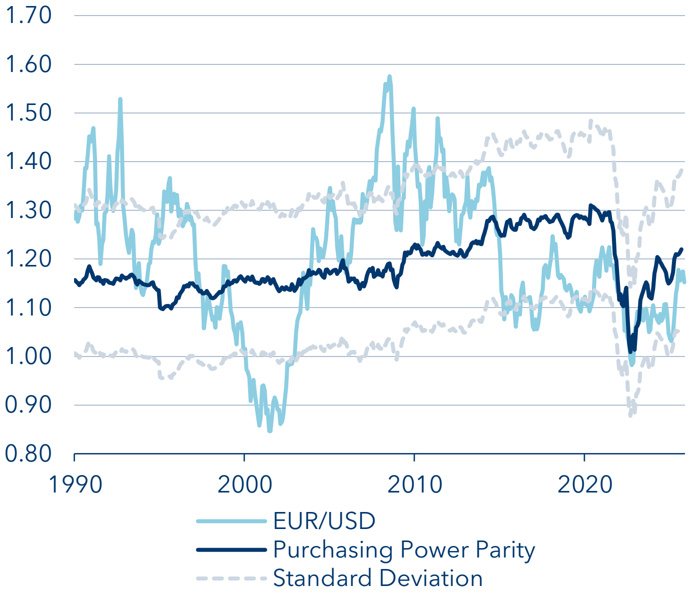
So far, the US economy has coped well with the turmoil caused by tariffs, while US tech companies continue to perform well. The dogma of US exceptionalism has returned to the financial markets. This is supporting the greenback. From a technical market perspective, the high ratio of speculative forward dollar selling is considered a contraindicator.

If there were to be an unexpectedly abrupt appreciation, these bets on further weakness in the US currency would have to be unwound. This could backfire, leading to a significant appreciation of the dollar. We expect the EUR/USD currency pair to move sideways again in the coming weeks. However, the high external economic imbalance and the risk of excessive easing of US monetary policy point to continued dollar weakness for 2026 as a whole.

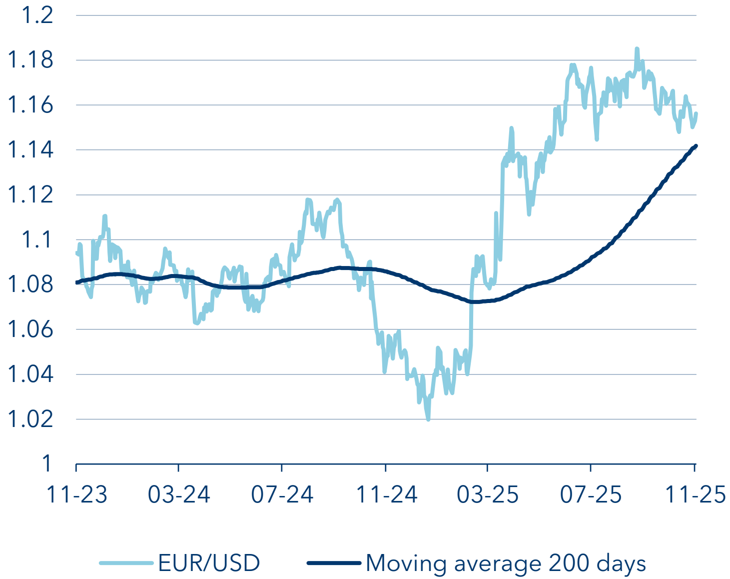
Our View on **EUR/USD**

1.10 – 1.20
Expected range
over 3 to 6 months

Purchasing power parity (producer prices; monthly data)



Technical picture



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Our View on **EUR/CHF**

0.90 – 0.95
Expected range
over 3 to 6 months

- Swiss National Bank (SNB) likely to keep key interest rate at 0% for some time to come
- The ECB (European Central Bank) must act cautiously due to price pressure in the service sector
- Swiss franc stays a safe haven, euro shows strength – pointing to sideways movement

- A larger-than-expected ECB interest rate cut could weaken the euro significantly
- A sudden flight to safety would weigh heavily on the euro against the Swiss franc

Swiss franc continues to appreciate

The Swiss franc has gained significant ground against the euro and continues to rise in small steps. Rising government debt in many eurozone countries, coupled with weak growth, is increasing the attractiveness of the Swiss franc for investors. At the same time, not all inflation risks in the eurozone have been eliminated. Service prices continue to rise by over 3%.

This development shows once again that the Swiss currency remains in demand despite low interest rates. Franc inflows reflect the high demand for safety among many investors. Low interest rates are a sign of low inflation, which, from a purchasing power parity perspective, argues for a structural appreciation of the franc. We are adjusting our forecast range and now expect a trading range between 0.90 and 0.95.

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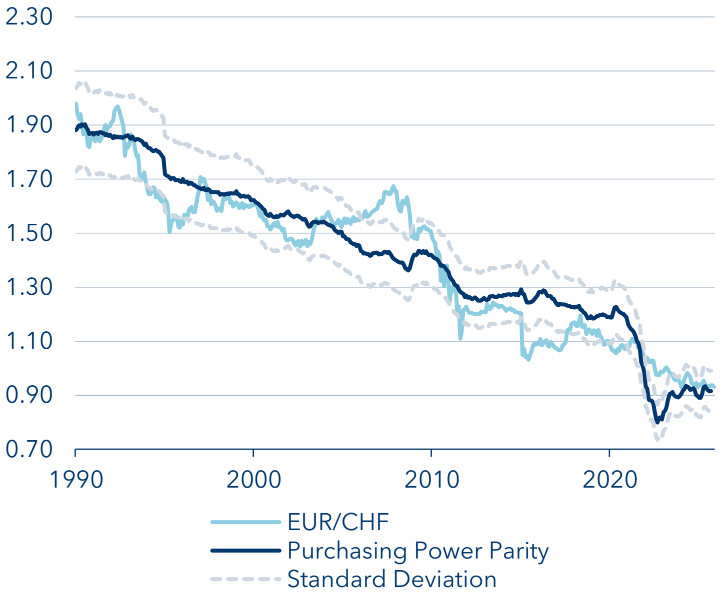

Technical picture

Our View on **USD/CHF**

0.77 - 0.85
Expected range
over 3 to 6 months

- Independence of US institutions questionable
- Political influence on the Fed is a major risk for the dollar
- Technical indicators signals consolidation

- Dollar has the edge in times of elevated uncertainty
- Franc is fairly valued at levels of 0.80 and slightly below

Franc zone remains in demand

The Swiss franc has recently been trading within a narrow range against the dollar. This is surprising given the significant decline in Swiss gross domestic product (GDP) of 0.5% in the third quarter. However, the weak growth did not lead to devaluations. The Swiss franc remains a sought-after safe haven in uncertain times. At the same time, the US economy is proving surprisingly robust: business surveys show little impact from the trade conflicts.

The market situation – such as the significant deviation of the USD/CHF exchange rate from the 200-day line – points to a consolidation in the coming weeks. This suggests that the sideways movement will continue. However, stronger political influence by the US government on the Federal Reserve has the potential to cause further dollar depreciation in the coming year.

Our View on **USD/CHF**

0.77 - 0.85
Expected range
over 3 to 6 months

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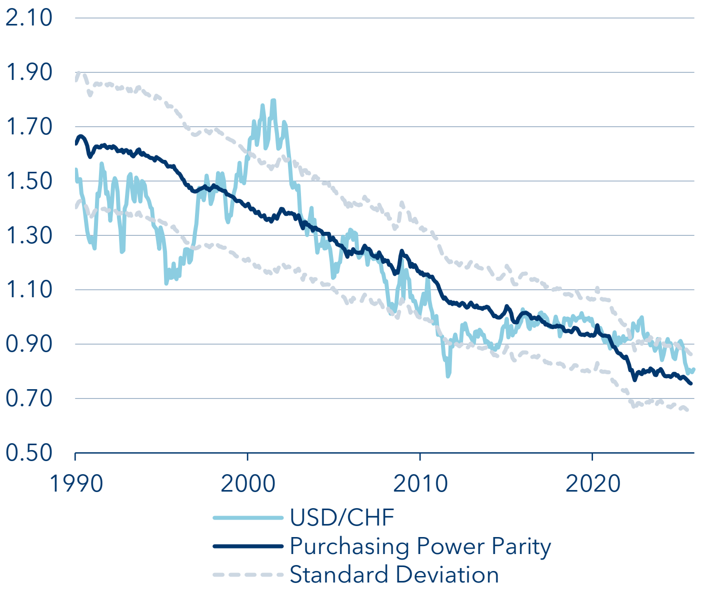

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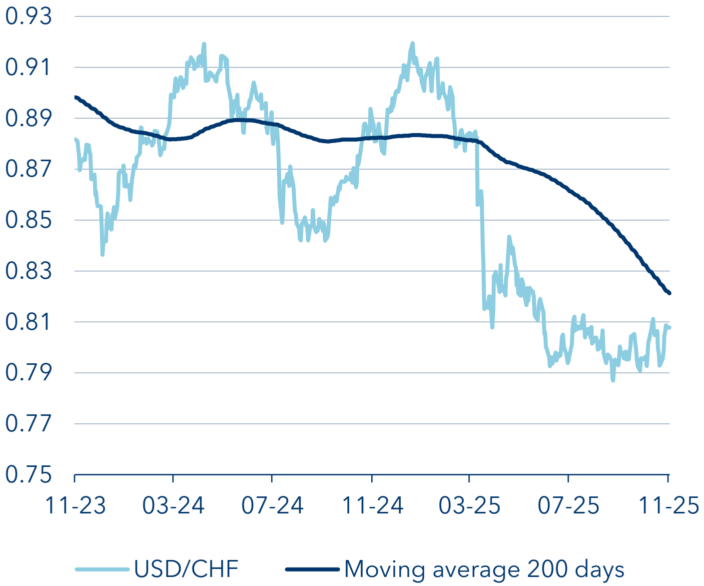

Our View on **GBP/USD**

1.28 – 1.36
Expected range
over 3 to 6 months

- The pound remains significantly undervalued against the dollar
- British government seeks closer ties with the EU again
- Weaker US economic data weighs on the dollar

- Brexit has reduced potential growth – this argues against a strong appreciation of the pound
- High inflation continues to weigh on the pound
- Contradictory signals from the Bank of England weigh on the pound

Mixed data from the UK

The UK economy expanded just 0.1 % in the third quarter compared to Q2. Declining exports weighed on gross domestic product. The weak growth is complicating the government's already difficult budget situation. The Bank of England (BoE) is unable to provide sufficient support to the economy given the relatively high inflation rate of over 3%.

The British pound weakened as the US economy remained robust – official data is unavailable due to the government shutdown. We expect the British currency to depreciate moderately in the coming weeks. If the dollar weakens across the board in 2026, the pound would gain value against the greenback.

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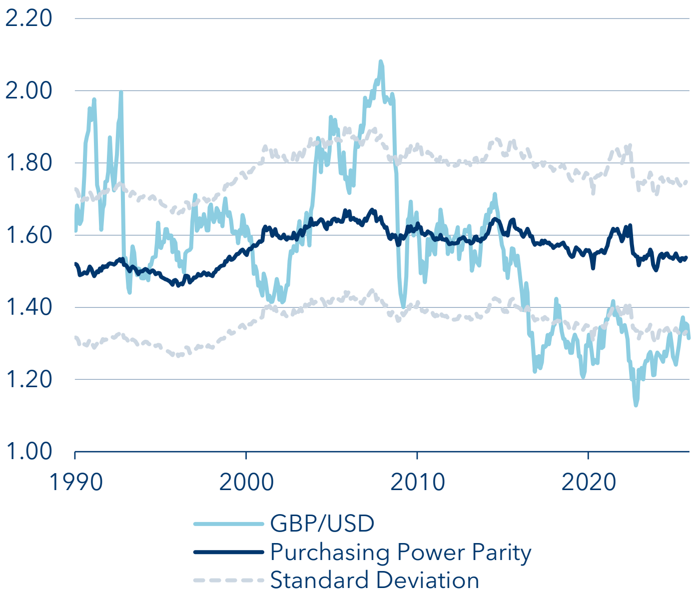

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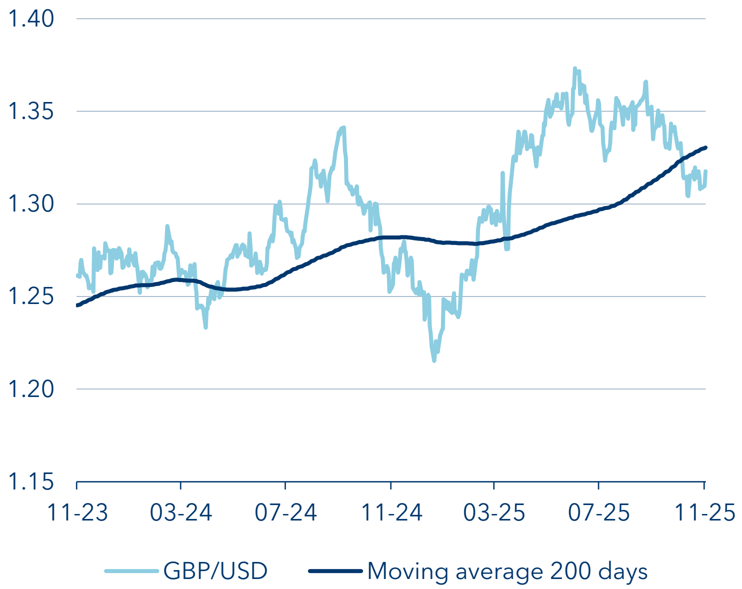

Our View on **EUR/SEK**

10.80 – 11.80
Expected range
over 3 to 6 months

- High current account surplus and solid public finances curb SEK weakness
- Waning ECB commitment to fighting high inflation could significantly weaken the euro

- The environment for high-beta currencies such as the SEK remains unfavourable at present
- The Swedish central bank signals the end of the rate cut cycle

Krona may gain ground

The Swedish krona recently gained briefly against the euro. Positive economic news supported the currency: purchasing managers' indices rose significantly and consumers are showing optimism. The view in the back mirror is also encouraging: gross domestic product rose by 1.1% in the third quarter compared with the previous quarter.

This makes Sweden the fastest-growing country in the European Union. In view of these figures, the central bank will not lower its key interest rate of 1.75% any further. In the medium term, interest rate hikes could even follow. However, we do not expect the krona to appreciate significantly in the current challenging global environment, especially as the currency remains vulnerable to abrupt setbacks amid rising risk aversion.

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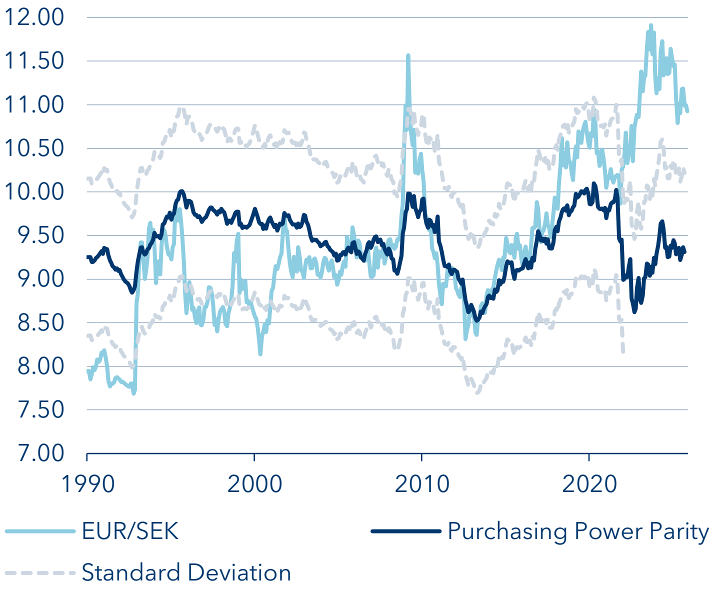

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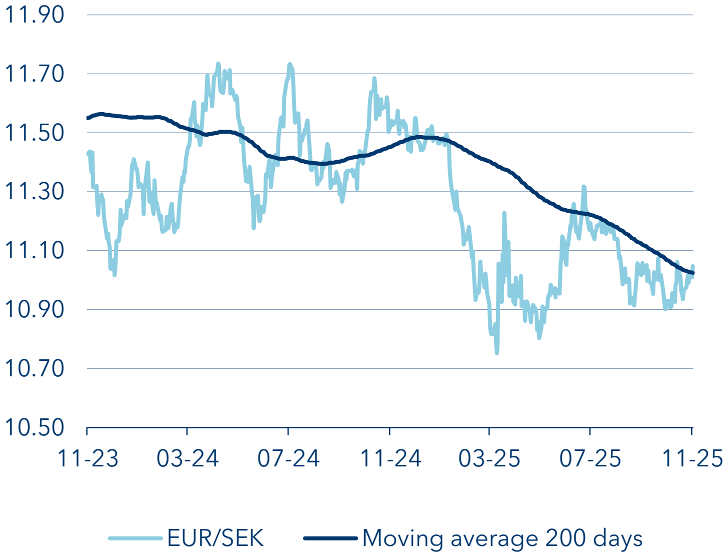

Authors and disclaimer

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Dr Thomas Gitzel, Chief Economist

On purchasing power parity**:** Purchasing power parity (PPP) describes the fact that a product costs the same in two countries as long as it can be traded without restrictions and transaction costs are negligible. The relative PPP used, which is based on producer price indices, assumes that product prices change at the same rate when the exchange rate is taken into account, but that price levels may differ.

Source: Bloomberg

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