Our View on Currencies

Edition December 2024 and November 2025

Dollar strength is not a one-way street

The dollar has staged an impressive rally in recent weeks. This has also to do with Donald Trump winning the US presidential election. The prospect of an expansionary fiscal policy, higher tariffs and a potentially prolonged period of tight monetary policy by the Fed boosted the greenback.

This is similar to Trumps winning the highest office in the US for the first time in November 2015 when the dollar initially appreciated sharply by around 7%. Then, the US currency depreciated sharply, only to appreciate again. So, it is by no means the case that a Trump presidency only means dollar appreciation. Currency markets rarely make it easy. After the dollar's strong gains, we also see a need for an initial correction.

And even in the medium term, the dollar's current strength is unlikely to be sustained. The measures announced by the president-elect also pose risks for the US economy. For example, higher tariffs could weigh on private consumption. And a prolonged period of monetary tightening by the Fed would cause even greater economic damage at a later stage, leading to significant interest rate cuts by the Fed.

So, the dollar's current strength is by no means a one-way street. On the contrary, the strength could be followed by weakness.

Dr. Thomas Gitzel, **Chief Economist**

Our View on Currencies - Overview

Currency pairs

Our View on **EUR/USD**

1.04 – 1.10
Expected range
for 3 to 6 months

- The dollar benefits from Donald Trump's election victory
- Residual inflation risks exist on both sides of the Atlantic
- Dollar remains in demand as a safe haven in uncertain times

- Larger-than-expected ECB rate cuts could significantly weaken the euro
- Financial markets expect a soft landing for the US economy; a hard landing could send the dollar into a tailspin

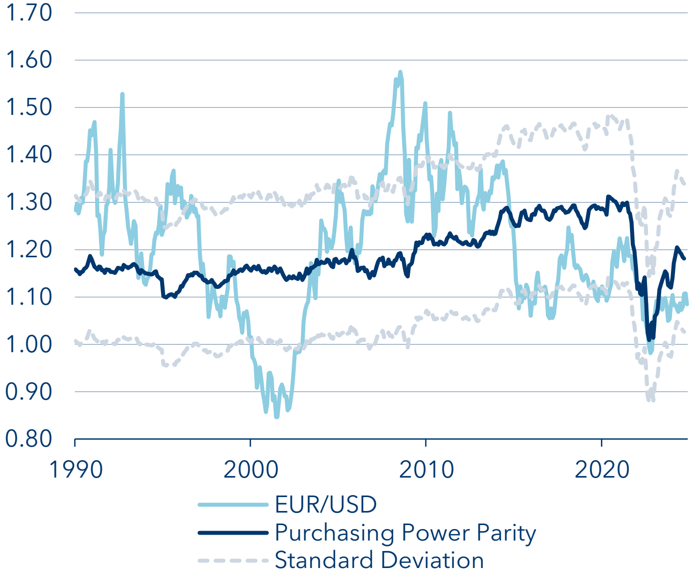
Correction in the air

The prospect of an expansionary fiscal policy and the associated longer-term restrictive monetary policy have strengthened the dollar. On both technical and fundamental grounds, the dollar is now overbought or overvalued. The interest rate differential remains supportive of a firm dollar in the medium term. The European Central Bank (ECB) is likely to cut its key interest rate, the deposit rate, to 2% in the coming months. The Fed, on the other hand, will have to be cautious about cutting rates in the face of robust growth. However, Donald Trump's first term in office between 2016 and 2020 calls for caution: significant dollar devaluations could be on the agenda. We do not think this scenario is far-fetched in the medium term, and we do not rule out further appreciation in the short term as a result of the escalating conflict in Ukraine.

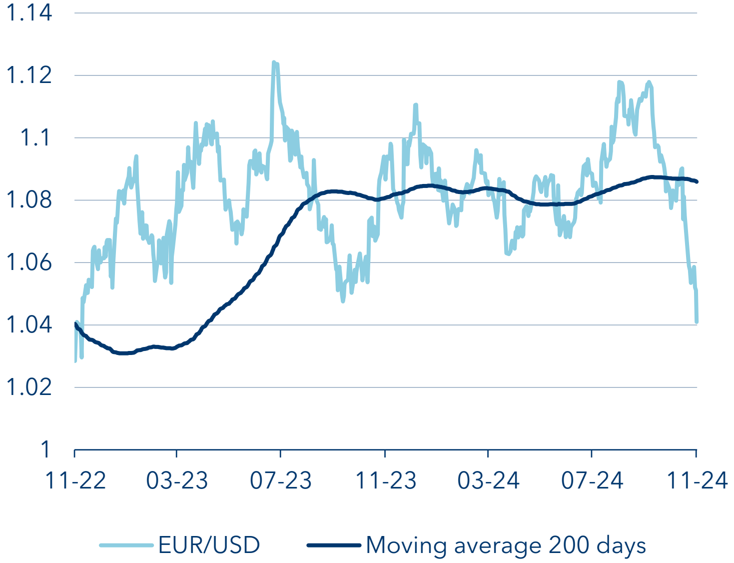
Our View on **EUR/USD**

1.04 – 1.10
Expected range
for 3 to 6 months

Purchasing power parity (producer prices; monthly data)



Technical view



Our View on **EUR/CHF**

0.92 - 0.98
Expected range
for 3 to 6 months

- SNB likely to cut interest rates even below 1%
- ECB must act cautiously now, price pressures in services sector are high
- Market technicals point to franc weakness

- If the ECB were to cut rates more than expected, this could significantly weaken the euro
- A sudden flight to safety would weaken the euro against the franc

When will the correction come?

The escalation of the armed conflict in Ukraine, the ailing eurozone economy and the government crisis in Germany continue to make the franc a sought-after currency. This could remain the case in the short term, especially if the situation in Ukraine deteriorates. From a technical point of view, however, the range looks stretched (see next page). The distance to the 200-day moving average is large, suggesting that the EUR/CHF could go higher. However, it is unlikely that the correction we expect will lead to sustained weakness of the franc. Even further interest rate cuts by the Swiss National Bank (SNB) will not change this. On the contrary, Switzerland's currency remains in demand in times of high uncertainty. Purchasing power parity also speaks a clear language: the franc is undervalued. In the medium to long term, the stage is set for an appreciation.

Our View on **EUR/CHF**

0.92 – 0.98
Expected range
for 3 to 6 months

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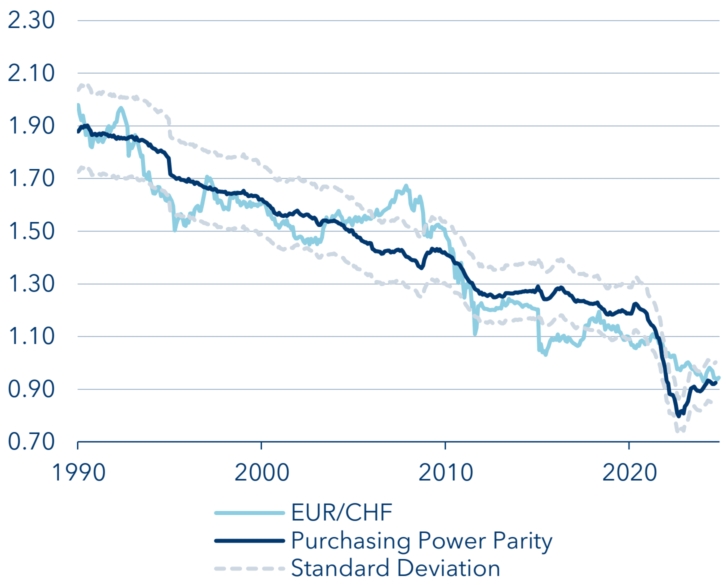
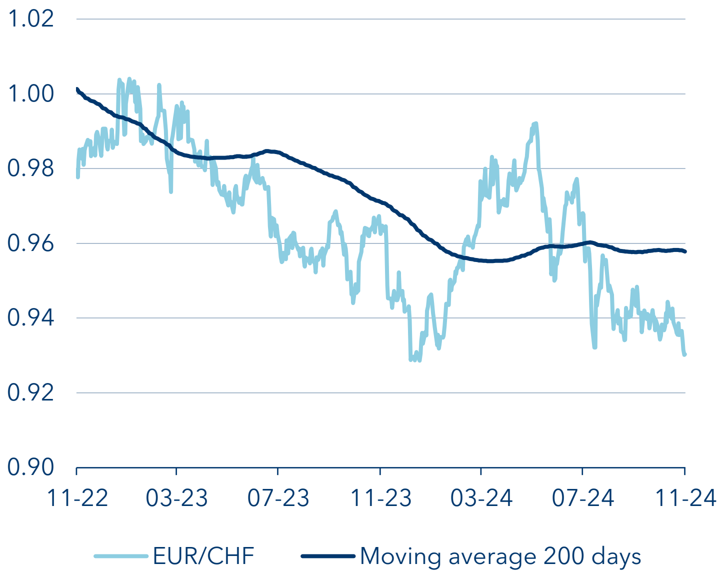


Technical view



Our View on **USD/CHF**

0.83 - 0.92
Expected range
for 3 to 6 months

- The USD benefits from the victory of Donald Trump
- Both currencies are in demand in times of high uncertainty

- If the US economy were to experience a recession after all, the Fed could cut interest rates more sharply than previously expected and the dollar would come under pressure
- Purchasing power parity speaks in favour of a significantly stronger franc

The Trump dollar

The dollar has been flexing its muscles of late. Donald Trump's winnig the US presidential election helped the greenback make significant gains not only against the Swiss franc but also against all the major currencies. The prospect of expansionary fiscal policy and higher interest rates has helped the dollar. However, it is still unclear which and to what extent Trump will implement of his aired policies such as higher tariffs. It is also worth remembering that a prolonged period of higher interest rates could lead to an even deeper recession later on. Higher debt levels could also weigh on the dollar in the longer term. Although the dollar could strengthen further in the short term, a significant correction could be imminent, especially against the Swiss franc. In terms of purchasing power parity, the fair value of the Swiss franc against the dollar is 0.78.

Our View on **USD/CHF**

0.83 - 0.92
Expected range
for 3 to 6 months

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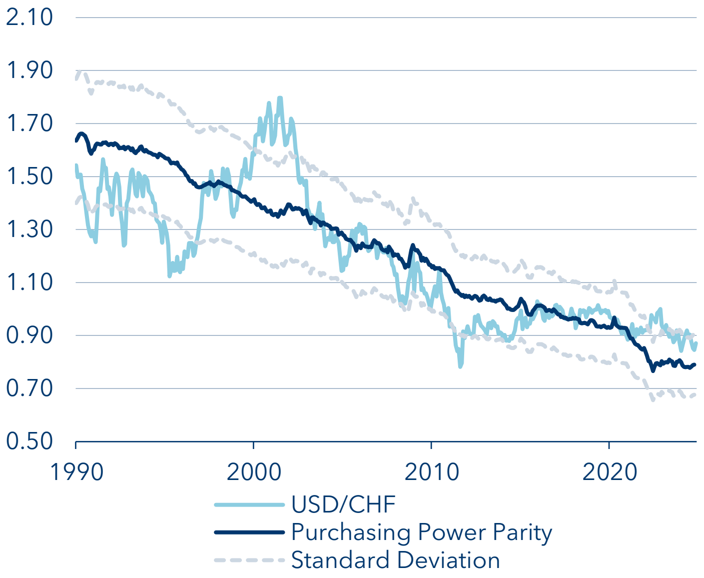
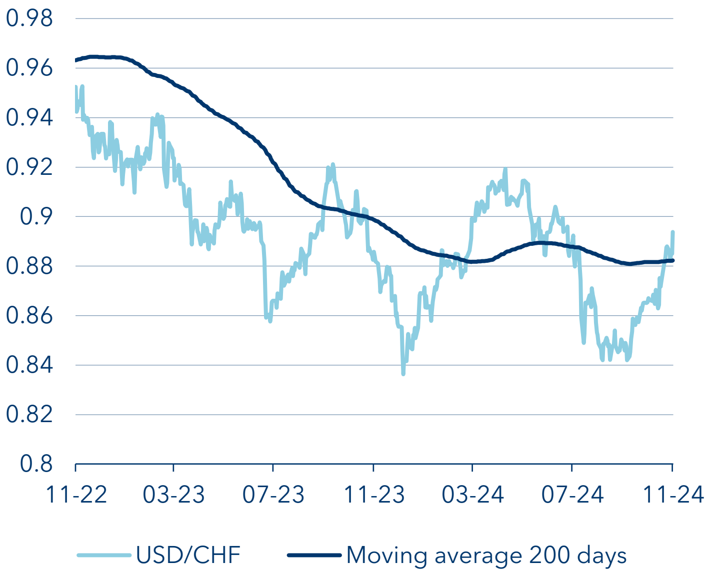


Technical view



Our View on **GBP/USD**

1.25 – 1.34
Expected range
for 3 to 6 months

- The pound is clearly undervalued against the dollar
- The dollar is weakened by rate cut expectations

- Brexit reduces potential growth, arguing against significant Pound appreciation
- Sterling remains under pressure from still relatively high inflation

Pound strength expected in the short term

The picture for the GBP/USD is similar to the other major currency pairs: When the dollar is in play, the other currency loses. The election of Donald Trump as US president is boosting the greenback. The ongoing budget and debt debate may continue to weigh on the British currency in the short term, but from a technical point of view, there is potential for a correction, i.e. an appreciation of the pound could be the cards. This is shown by the range, which is stretched, and the distance from the 200-day line (see charts next page). That is why we are sticking to our forecast corridor and see the pound trading above 1.26 against the dollar. On a purchasing power parity basis, the pound is clearly undervalued, leaving room for appreciation. However, in view of Brexit and the associated lower growth potential, we do not expect the pound to appreciate significantly.

Our View on **GBP/USD**

1.25 – 1.34
Expected range
for 3 to 6 months

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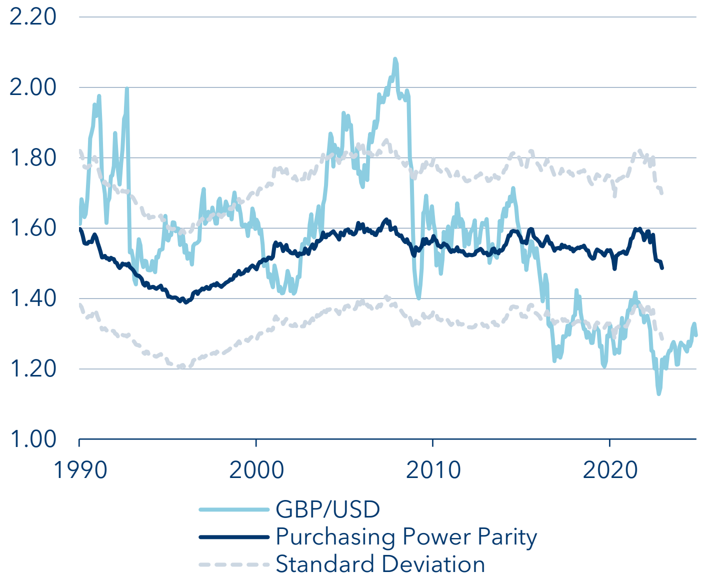

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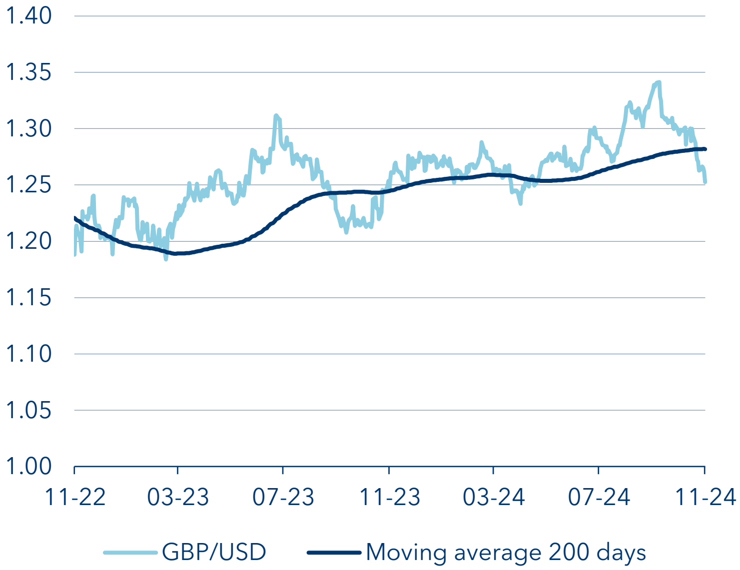

Our View on **EUR/SEK**

10.80 – 11.80
Expected range
for 3 to 6 months

- A high current account surplus and healthy public finances counteract the weakness of the SEK
- A weakening of the ECB's resolve to fight the still high inflation would weaken the euro

- Currently still unfavorable environment for high-beta currencies such as the SEK
- Swedish central bank sees more room for rate cuts

No changes expected

The Swedish krona remained within its multi-year trading range against the euro of between 11.20 and 11.80. Both the ECB and the Riksbank have lowered their key interest rates, the Riksbank most recently by 50 basis points. This means that the key interest rate in Sweden is now 2.75 %. In our view, however, the interest rate differential plays only a minor role for the EUR/SEK currency pair anyway. The decisive factor is that the krona is a high-beta currency and is therefore subject to global influences. High-beta currencies require a sustained global economic upswing in order to develop strength. This is currently not the case. Therefore, we do not see any significant changes in the short to medium term - despite the blatant undervaluation of the Swedish currency. The fair exchange rate levels against the euro are in the region of 9.20. However, this level is currently theoretical.

Our View on **EUR/SEK**

10.80 – 11.80
Expected range
for 3 to 6 months

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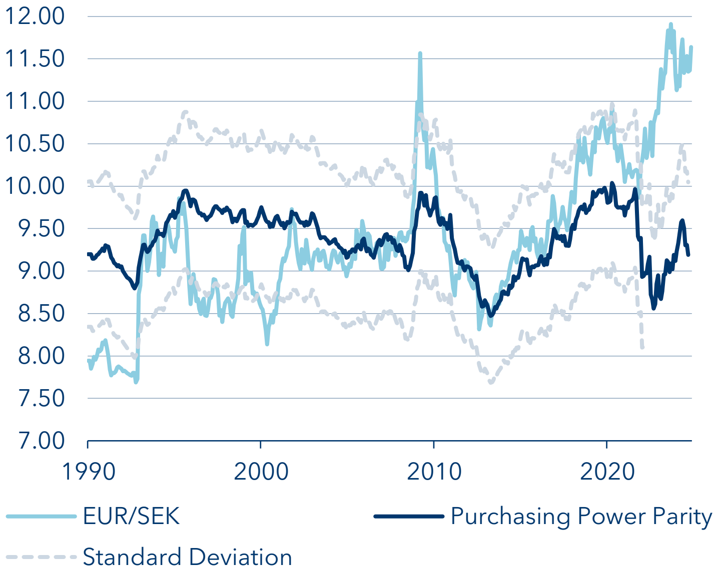

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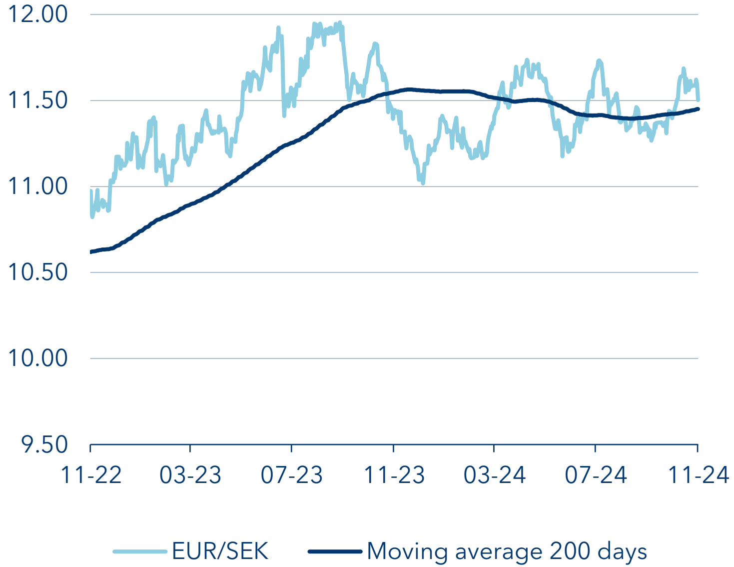

Authors and Disclaimer

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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