Dr Thomas Gitzel · Chief Economist

Our view on currencies

August and September 2025 edition

Like Damocles' sword: the replacement of the Fed chair

US President Donald Trump makes no secret of it. He does not agree with Fed Chairman Jerome Powell's interest rate policy. He would like to see further interest rate cuts. In view of the inflation risks, the Federal Reserve has switched to a wait-and-see approach for the current year. And in typical fashion, Trump is not holding back with his verbal attacks on the Fed.

Trump has even threatened to replace the Fed chair ahead of time. Powell's term as chair ends in May 2026, while his term on the Federal Reserve Board of Governors lasts until January 2028.

Legally, it is difficult to sack the Fed chair before the end of the term. But even if Trump were not to dismiss Powell, he could present a successor in the coming weeks, effectively making the current chair a lame duck.

However this plays out in the short term, it is also a question of who Trump will nominate. If it were a candidate who does not take inflation risks too seriously and instead focuses on interest rate cuts, this could put the dollar under significant pressure. It would also raise doubts about the independence of the US central bank. Presumably, not only the dollar would suffer, but the entire US financial system.

However, a weak greenback would be entirely in line with the White House's agenda. Trump wants to improve his country's competitiveness and bring lost jobs back to the US. A weak currency should help him achieve this.

This shows once again that the dollar is subject to further devaluation risks. The verbal attacks from the White House will not stop. Therefore, dollar hedges remain part of our asset management mandates.

Thomas Gitzel, **Chief Economist**

Currency assessment at a glance

Currency pairs

Our view on **EUR/USD**

1.10 – 1.20
Expected range
for 3 to 6 months

- The dollar's interest rate advantage has recently ceased to play a role
- Tariff talks weigh heavily on the dollar
- Current account deficit is a major burden for the greenback

- More ECB interest rate cuts than expected by the market could weigh heavily on the euro
- The dollar remains in demand as a safe haven in uncertain times

Dollar remains under pressure

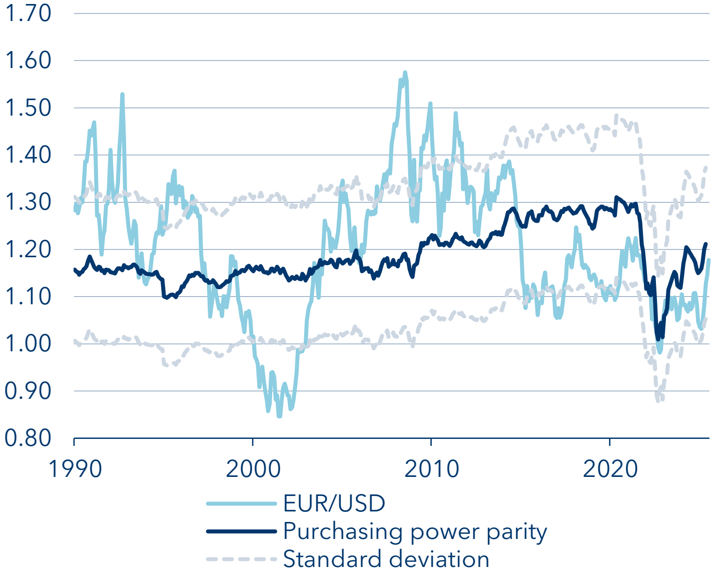
The dollar continued its weak phase in recent weeks, followed by a consolidation with some signs of appreciation. Nevertheless, we consider further losses possible. This is supported by a high US current account deficit and rapidly rising US government debt, while the Trump administration also prefers a weaker greenback.

The past few months show how strong the downward pressure is or could be: the US still has a considerable interest rate advantage over most currency areas. This makes hedging the dollar expensive. But even this yield advantage has not helped, which is a sign of the underlying weakness. Consolidation phases in which the dollar can gain ground are likely to remain part of the downward trend.

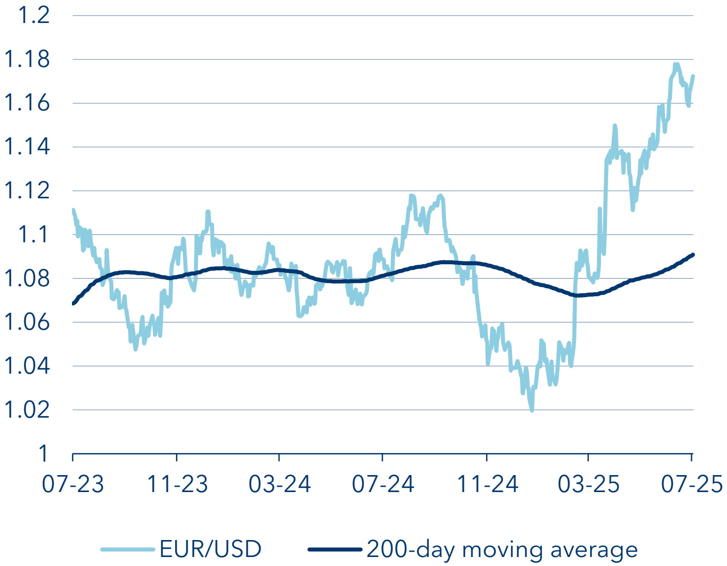
Our view on **EUR/USD**

1.10 – 1.20
Expected range
for 3 to 6 months

Purchasing power parity (producer prices; monthly data)



Technical picture



Our view on **EUR/CHF**

0.92 - 0.98
Expected range
for 3 to 6 months

- SNB cuts key interest rate to 0%
- ECB must act cautiously due to price pressure in the services sector
- The Swiss franc is in demand as a safe haven, and the euro is also gaining strength, which suggests a sideways movement

- A larger-than-expected interest rate cut by the ECB could weaken the euro
- Weakening of the euro against the Swiss franc due to sudden flight to safety

Franc remains strong despite zero interest rates

The Swiss National Bank (SNB) has lowered its key interest rate to 0%. The interbank rate (Saron), which is important for banks, is now slightly negative. This does not harm the Swiss franc: zero interest rates are a reflection of low inflation. Low inflation, in turn, strengthens the Swiss currency because purchasing power declines less in the long term than in the neighbouring eurozone. This development also helps the franc to appreciate in the longer term.

Meanwhile, the Swiss franc seems to have reached a kind of comfort zone. Since the spring months, there have been hardly any significant fluctuations in the EUR/CHF exchange rate. This is likely to remain the case for some time. The eurozone is currently attracting attention with positive economic signals, which is helping the European single currency to moderate strength.

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0.92 – 0.98
Expected range
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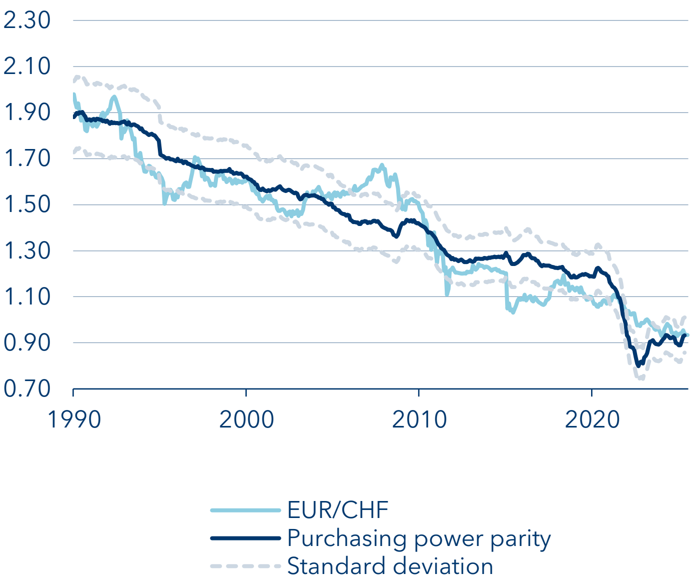

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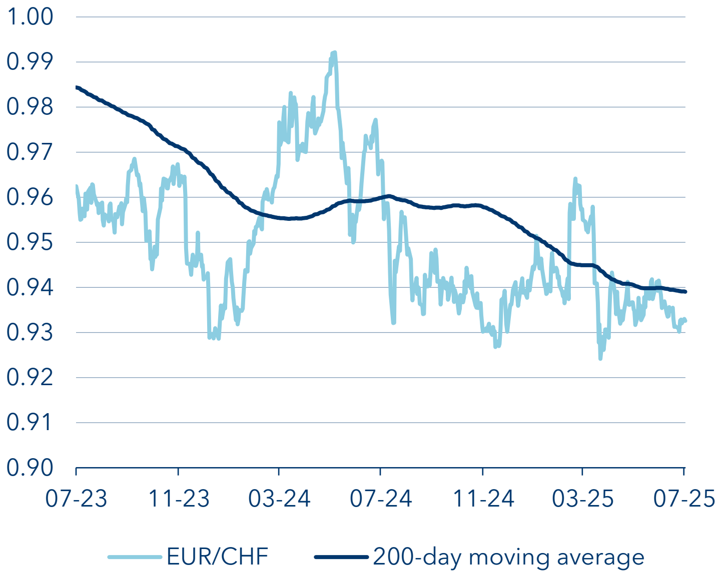


Our view on **USD/CHF**

0.75 - 0.85
Expected range
for 3 to 6 months

- US economy could come under pressure due to punitive tariffs
- Greenback's interest rate advantage recedes into the background
- Market fundamentals signal consolidation

- The dollar has the edge in times of high uncertainty
- The Swiss franc is fairly valued at levels of 0.80 and slightly below

Further appreciation of the Swiss franc cannot be ruled out

The dollar lost significant ground against the Swiss franc once again, briefly dipping below 0.80. From a technical perspective, this clears the way for a fall to 0.75.

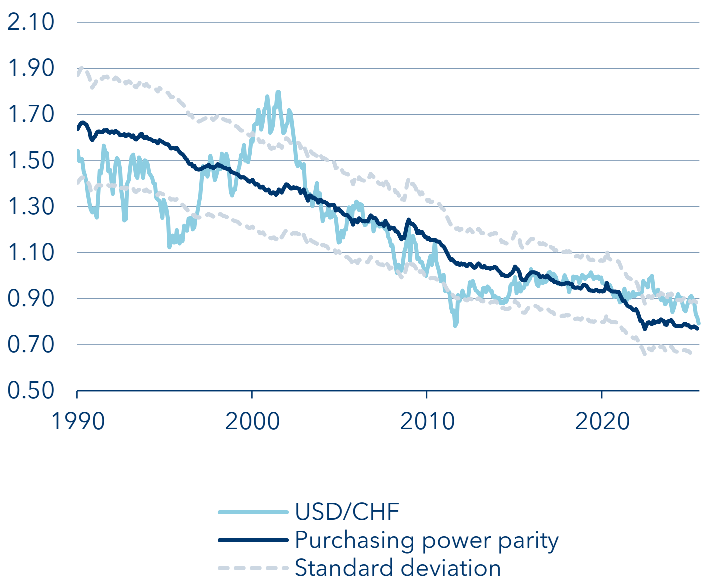
Although the Swiss franc has reached its fair value against the dollar at 0.80 in terms of purchasing power parity, this is irrelevant in the short term. The dollar is losing ground against a number of currencies. If this weakness continues, it will probably also persist against the Swiss franc.

Looking ahead to the coming months, we would not rule out USD/CHF reaching the next important technical mark of 0.75. However, there could be repeated consolidation phases in which the greenback gains strength. Yet, the overall weakness should remain intact for some time.

Our view on **USD/CHF**

0.75 – 0.85
Expected range
for 3 to 6 months

Purchasing power parity (producer prices; monthly data)



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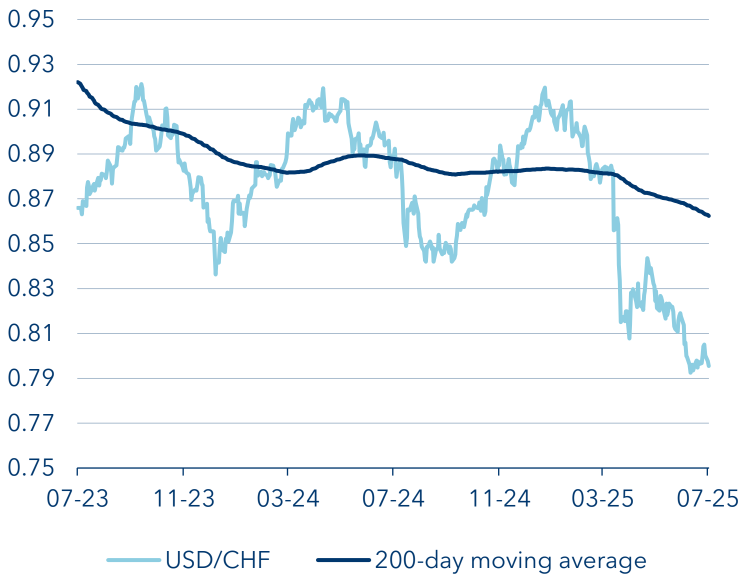


Our view on **GBP/USD**

1.32 – 1.42
Expected range
over 3 to 6 months

- The pound is significantly undervalued against the dollar
- British government moves closer to the EU again
- The dollar is weighed down by weaker US economic data

- Brexit is reducing potential growth, which argues against a significant appreciation of the pound
- The pound remains under pressure due to relatively high inflation

There is still more potential for the pound

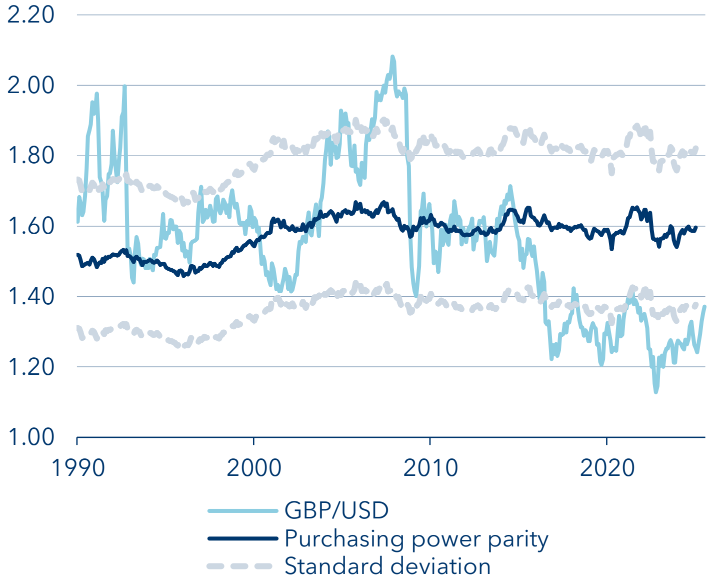
The dollar's weakness against the pound continues. The British currency has now reached a more than three-year high against the dollar. The greenback has recently regained some strength. However, the pound has lost ground against the euro in recent months. This shows that the upward movement in the GBP/USD currency pair is mainly due to dollar weakness rather than intrinsic strength in the pound.

If our assumption a of continued dollar weakness is correct, this should be noticeable in relation to the pound. Quotes above 1.40 would be possible. To reach fair exchange rate levels (based on purchasing power parities) of around 1.60, more would be needed than just a weak dollar. To achieve such a strong appreciation of the pound, the British economy would have to present itself in a much better light.

Our view on **GBP/USD**

1.32 - 1.42
Expected range
for 3 to 6 months

Purchasing power parity (producer prices; monthly data)



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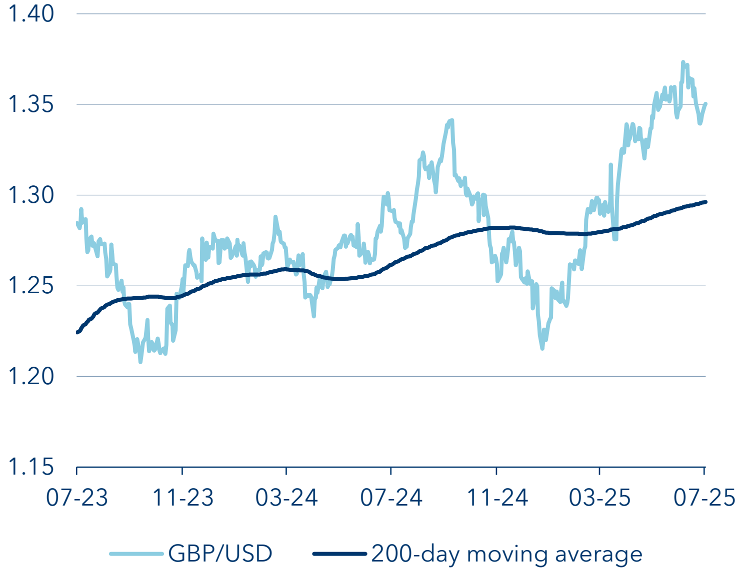

Our view on **EUR/SEK**

11.00 – 12.00
Expected range
for 3 to 6 months

- High current account surplus and healthy public finances counteract the weakness of the SEK
- Waning commitment by the ECB to fight persistently high inflation would weaken the euro

- Currently still unfavourable environment for high-beta currencies such as the SEK
- Technical counter-reaction expected after recent SEK appreciation

No sustained strength for the SEK

Although it briefly appeared that the krona was gaining momentum after a long period and appreciating against the euro, this once again proved to be nothing more than a flash in the pan. Instead, the Nordic currency swung back to its traditional level since autumn 2022 of between 11 and 12 against the euro. The Swedish central bank played a not insignificant role in the renewed weakness. In June, the Riksbank lowered its key interest rate by 25 basis points to 2% and announced a further cut this year. At the same time, the European Central Bank (ECB) signalled a pause.

It remains to be seen whether the European monetary policymakers will lower interest rates further in the current year. We do not expect this to happen. If the Riksbank cuts more and the ECB keeps its interest rate steady, the interest rate differential on the money markets will also shift in favour of the eurozone. Against this backdrop, the euro is likely to remain above the 11 mark against the krona for the time being.

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11:00 – 12:00
Expected range
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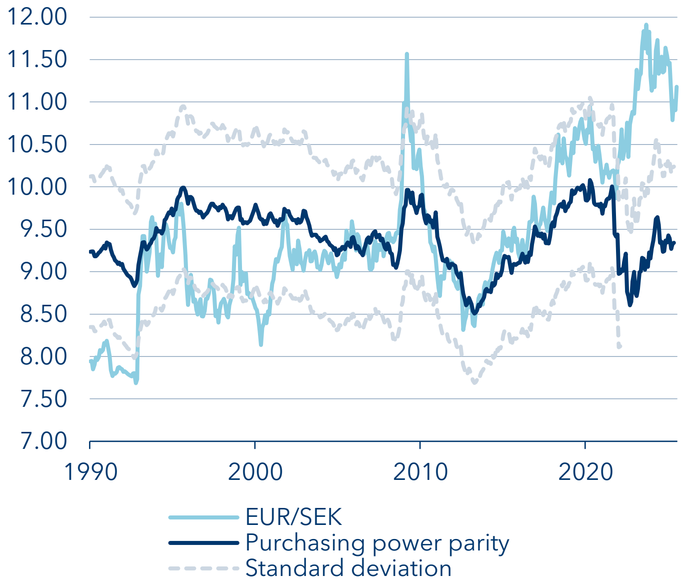

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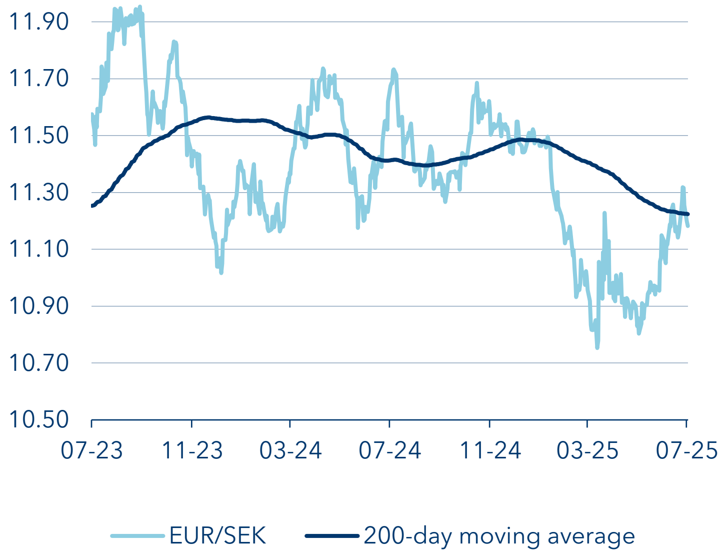

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Authors and disclaimer

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On purchasing power parity: Purchasing power parity (PPP) describes the situation where 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 here, 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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