

Dr Thomas Gitzel · Chief Economist

Our View on Currencies

June and July 2026 edition



The calm before the storm?

With the outbreak of the Iran war and the virtual closure of the Strait of Hormuz, the economic outlook for 2026 has changed fundamentally.

Previously, a recovery of the global economy – at least a moderate one – was expected. However, the sharp rise in oil prices quickly overturned this assumption. Even before the end of the spring months, economists have been forced to revise their growth forecasts downwards.

Despite the real-economy consequences of the conflict, the foreign exchange markets have so far reacted with surprising calm. In the dollar, there were no significant fluctuations recently. Against most currencies, the greenback showed little or no change.

Yet, as is well known, there is often a deceptive calm before a storm. The air stands still; there is not a breath of wind.

It remains to be seen whether the foreign exchange markets will follow a similar pattern. An abrupt move is conceivable if investors were to seek safety.

There is no sign as yet of an end to the Iran conflict. The Strait of Hormuz remains largely impassable, which is weighing on global oil supplies. The dollar could benefit from this situation. As the most important reserve currency and a safe haven, the USD typically gains the upper hand during crises.

For some time now, many market participants have been betting on a weak dollar. These positions are increasingly acting as a counter-indicator for at least a short-term strength in the greenback.

Thomas Gitzel, **Chief Economist**

Currency Outlook at a Glance

Currency pairs

- **EUR/USD - Page 4**
Expected range 1.10 to 1.20
- **EUR/CHF - Page 6**
Expected range 0.90 to 0.95
- **USD/CHF - Page 8**
Expected range 0.74 to 0.84
- **GBP/USD - Page 10**
Expected range 1.28 to 1.36
- **EUR/SEK - Page 12**
Expected range 10.00 to 11.00

Our view on EUR/USD



1.10 - 1.20
Expected range
over 3 to 6 months



- Due to geopolitical uncertainty, the dollar is in demand as a safe haven
- Speculative USD forward sales could trigger an appreciation of the greenback



- The dollar is overvalued
- Current account deficit remains a drag on the greenback
- Economic weakness in the eurozone could put the euro under pressure

No clear direction - at least not yet

The currency markets have recently been characterised by a sense of restraint. Market participants have been reluctant to commit to a clear direction. Given the precarious situation in the Persian Gulf, the calm in the markets is remarkable. With each passing day, the economic consequences of the shutdown are likely to become more severe.

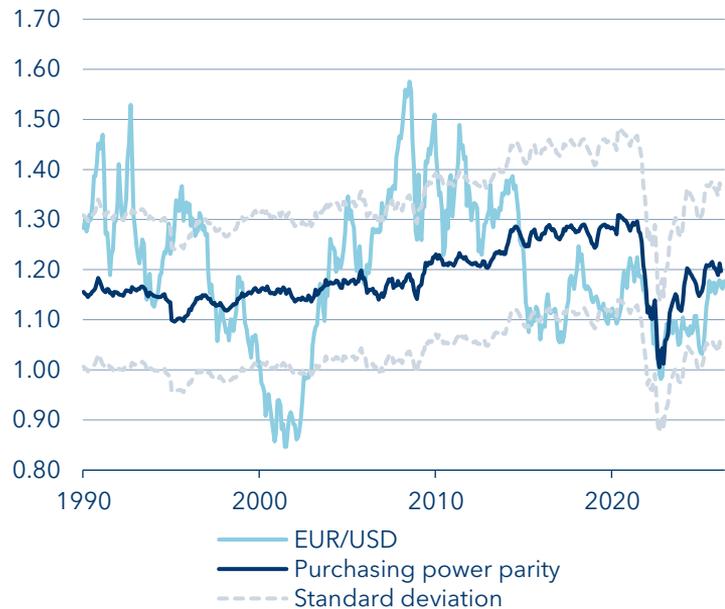
The eurozone is more exposed to an oil supply shock than the US. This generally points to a strengthening of the dollar. The greenback is benefiting from its status as a safe haven. In this environment, a strong dollar would seem the obvious outcome. This makes the recent trend in implied volatilities all the more surprising, as they have actually fallen recently. However, this calm is a warning sign. Nervousness could rise significantly again in the coming weeks. In our view, this points to renewed strength of the dollar in the short term.

Our view on EUR/USD

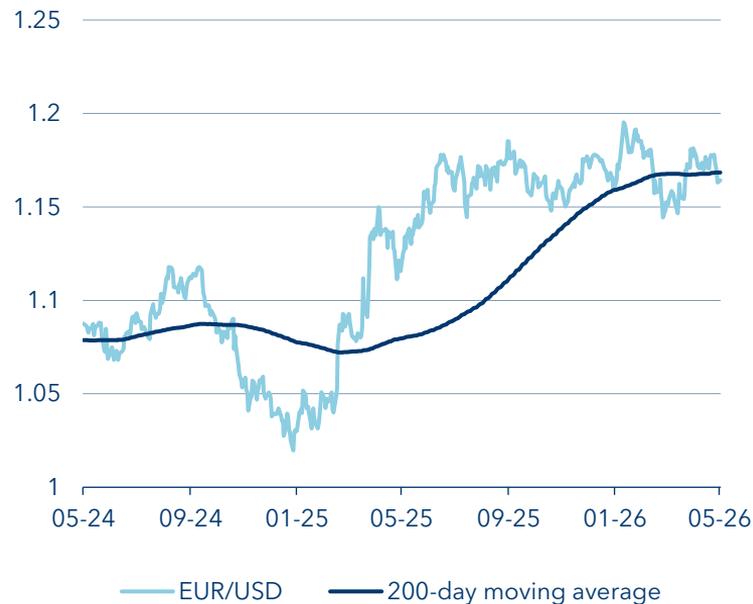


1.10 - 1.20
Expected range
over 3 to 6 months

Purchasing power parity (producer prices; monthly data)



Technical outlook



Our view on EUR/CHF



0.90 - 0.95
Expected range
over 3 to 6 months



- Swiss franc sought after as a safe haven during geopolitical tensions
- The SNB could raise interest rates in the second half of the year



- Structurally weak growth weighs on the euro
- A flight to safety would significantly weaken the euro against the franc

Narrow trading range

The franc is trading within a narrow range against the euro. There have been no recent appreciations, which is also attributable to the SNB's verbal interventions. At the same time, the European Central Bank (ECB) is set to raise interest rates cautiously in the second half of the year. Given slightly higher inflation rates, the SNB could also opt for monetary tightening. The negative money market rate is currently not really in line with the inflationary environment. So the SNB, too, might have to take action on the interest rate front.

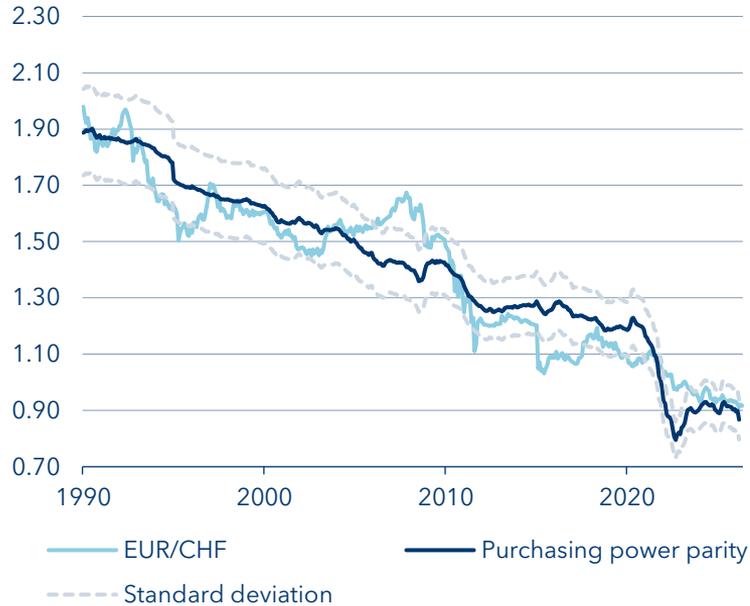
We expect that, over the next three to six months, little is to change in the already familiar narrow trading range for the EUR/CHF currency pair. Even in the event of a renewed escalation of the Iran conflict, verbal interventions are likely to remain effective, and, if necessary, the SNB will also take action. Euro purchases by the Swiss National Bank are likely if rates fall below 0.90.

Our view on EUR/CHF



0.90 - 0.95
Expected range
over 3 to 6 months

Purchasing power parity (producer prices; monthly data)



Technical picture



Our view on USD/CHF



0.74 - 0.84
Expected range
over 3 to 6 months



- The dollar has an edge in periods of high uncertainty
- The franc is fairly valued at levels of 0.80 and slightly below
- Volumes of USD forward sales act as a counter-indicator to the USD's short-term strength



- Politicisation of the Fed is a major risk for the dollar
- The SNB could respond with interventions if the franc continues to go higher
- Large US trade deficit points to broad USD weakness

What is the Fed doing?

On the foreign exchange markets, the focus is shifting from the Iran conflict to the future monetary policy stance of the US Federal Reserve. In the US, the inflation rate has risen sharply again due to higher energy prices. The new Federal Reserve Chairman, Kevin Warsh, is generally in favour of a loose monetary policy. However, given the inflation trend, he is unlikely to actually set such a course. Added to this is the solid growth of the economy. As such, the greenback will remain well supported on the interest rate front.

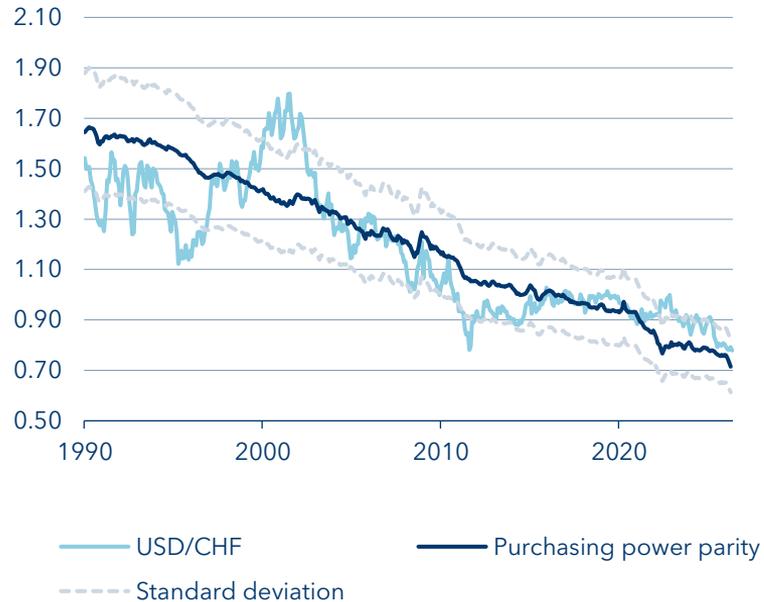
At the same time, the USD/CHF currency pair pits two safe havens against each other in times of crisis. However, dollar trading boasts higher liquidity, which is a key argument in favour of the US currency in times of high uncertainty. Both interest rates and the dollar's status as the world's number one reserve currency point to slightly higher levels for the USD/CHF pair in the coming weeks.

Our view on USD/CHF



0.74 - 0.84
Expected range
over 3 to 6 months

Purchasing power parity (producer prices; monthly data)



Technical picture



Our view on GBP/USD



1.28 - 1.36
Expected range
over 3 to 6 months



- The UK economy has recently performed better than expected
- British government seeking closer ties with the EU again
- Dollar risks due to possible manipulation of the Fed by the White House



- Brexit has reduced potential growth, which argues against a strong appreciation of the pound
- Political turbulence is coming back
- Pound weighed down by mixed signals from the Bank of England

British politics takes centre stage

Political concerns are mounting in the UK. Prime Minister Keir Starmer is fighting for his political survival. On the foreign exchange markets, the focus is therefore shifting from the question of 'if' to 'when' he will resign. For the pound, the issue of financial stability is thus regaining importance. In recent years, the UK government bond markets have come under pressure on several occasions. Each time, the pound has followed suit with losses.

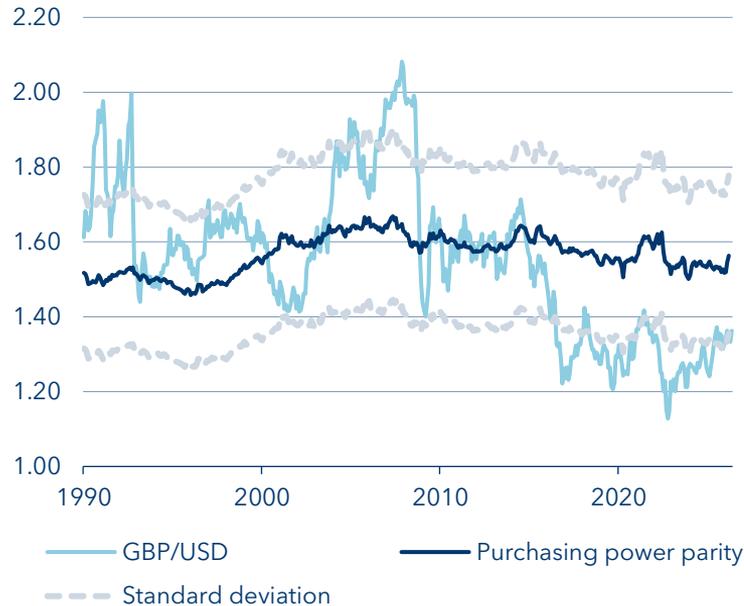
Against this backdrop, it is possible that GBP/USD will trade at the lower end of our forecast range in the coming months. The decisive factor is likely to be who positions themselves as a potential successor to Starmer and what fiscal stance this entails. If the goal of a balanced budget loses importance, this would increase the risk of further losses for the pound.

Our view on GBP/USD

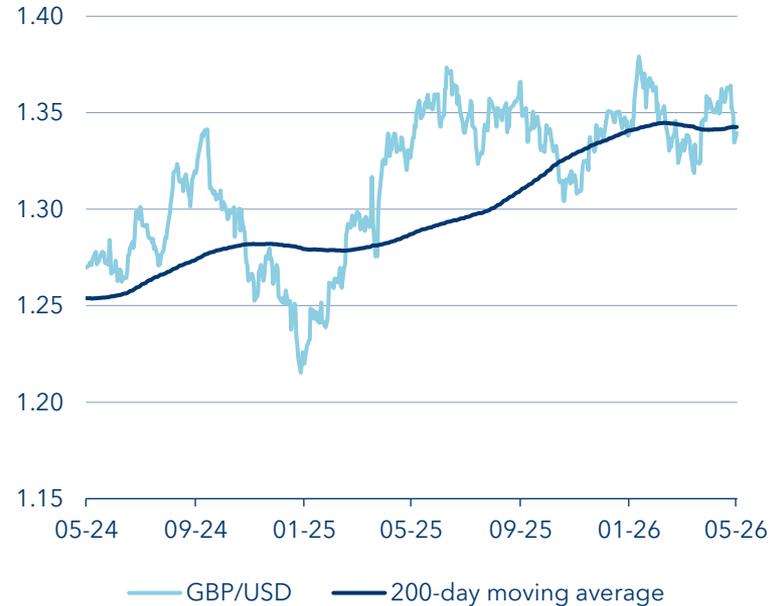


1.28 - 1.36
Expected range
over 3 to 6 months

Purchasing power parity (producer prices; monthly data)



Technical picture



Our view on EUR/SEK



10.00 - 11.00
Expected range
over 3 to 6 months



- A current account surplus and sound public finances bode well for the krona
- Sweden shines with strong fundamentals
- The SEK has recently shown broad strength and has even appreciated against the Swiss franc



- Rising uncertainties could weigh on the SEK
- The interest rate advantage lies with the euro

Only a brief surge in the krona

The krona's recovery proved to be a brief interlude. By contrast, signals of monetary tightening by the ECB have recently helped the euro to gain ground. Against the krona, the interest rate differential remains a key driver. The Swedish central bank currently sees risks as balanced, which argues against a short-term adjustment to monetary policy. Inflation trends also provide no pressure for a rate hike.

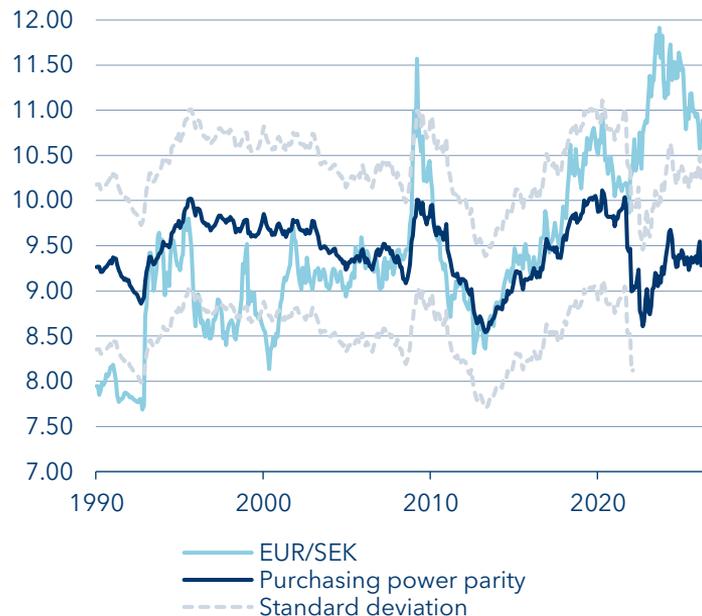
The inflation rate recently surprised on the downside. With inflation up 0.8% and a key interest rate of 1.75%, there is currently no need for monetary policy action. Against this backdrop, the krona is likely to trade within the familiar range of 10 to 11 per euro in the coming months. The simmering Iran conflict further bolsters the euro in its role as a safe haven.

Our view on EUR/SEK



10.00 - 11.00
Expected range
over 3 to 6 months

Purchasing power parity (producer prices; monthly data)



Technical picture



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Author:

Dr. Thomas Gitzel, Chief Economist

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

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