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Our View on Currencies

August and September 2026 edition

VP BANK

A sigh of relief on the foreign exchange markets

The USA holds a unique position in many areas. As the world's largest economy, it ranks among the leading nations in technology and boasts the most advanced military. Yet its true treasure is its currency: the dollar is the world's number one reserve currency and enjoys the highest level of confidence in the financial markets.

This trust ensures the US has access to much-needed foreign capital. This is reflected in the current account deficit of over one trillion US dollars. If the currency were to lose trust, this deficit could no longer be financed. The US government would be forced to cut spending, which might come at the expense of innovation or the military supremacy so important to the White House.

Closely linked to confidence in the dollar is the credibility of the US Federal Reserve (Fed). If it were to water down its commitment to price stability, this would have far-reaching consequences for the country's economic and geopolitical standing. Since mid-May, Kevin Warsh has been at the helm of the central bank. The Fed chair picked by President Donald Trump is well aware of how crucial the Fed's credibility is to the country's prosperity.

Many observers had expected Warsh to push for interest rate cuts quickly – very much in line with the president's views. So far, these fears have not materialised. Warsh's public statements suggest a tight rather than a loose monetary policy.

The dollar therefore strengthened across the board, and there was a significant sigh of relief on the foreign exchange markets. Warsh now simply has to prove that he is serious about price stability not only in words but also in deeds.

Thomas Gitzel, **Chief Economist**

Currency outlook at a glance

Currency pairs

- **EUR/USD – Page 4**
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- **EUR/CHF – Page 6**
  Expected range 0.92 to 0.95
- **USD/CHF – Page 8**
  Expected range: 0.78 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 – 1.16
Expected range
over 3 to 6 months

- Geopolitical uncertainty is helping the dollar as a safe-haven currency
- Speculative USD forward sales could trigger an appreciation of the greenback

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

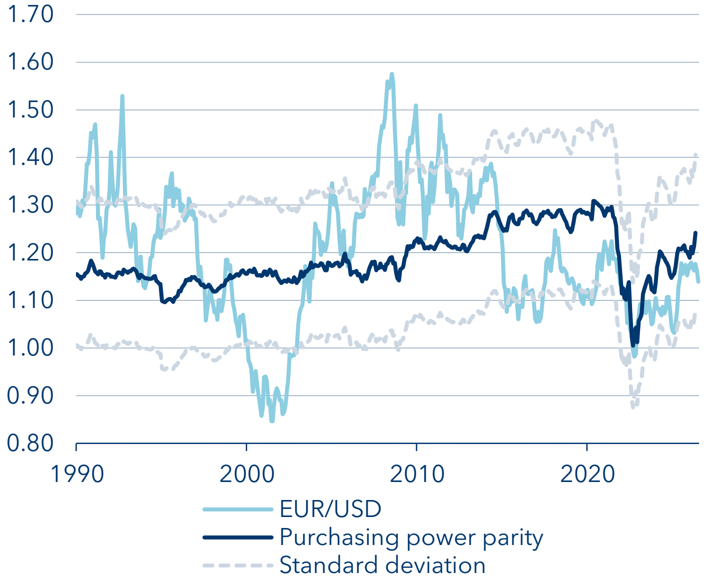
The Kevin Warsh effect and a new escalation

The financial markets breathed a sigh of relief that the new chairman of the US Federal Reserve (Fed), Kevin Warsh, is also pursuing a stability-oriented monetary policy. There had been widespread fears that he would bow to President Donald Trump's wishes and cut interest rates. However, Warsh is committed to price stability.
In light of the choice of words by Warsh, speculative investors unwound their dollar forward sales. To do so, they had to buy dollars, which led to an appreciation.
Finally, there was a renewed escalation in the Iran conflict. In addition to the Strait of Hormuz, shipping traffic in the Red Sea is now also disrupted by the intervention of the Houthi militia. The escalation of the conflict drives increased demand for safe-haven assets, among them the dollar, the world's most used reserve currency. The EUR/USD currency pair briefly broke through key resistance levels but failed to confirm the downtrend.

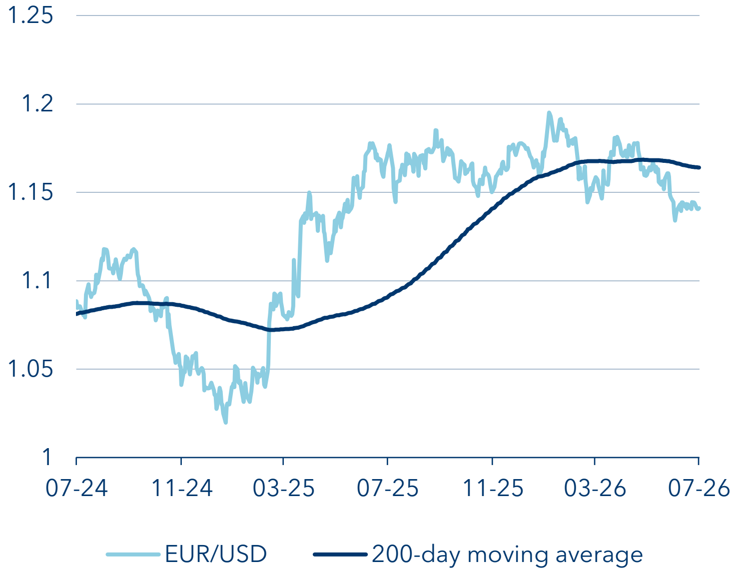
Our view on **EUR/USD**

1.10 – 1.16
Expected range
over 3 to 6 months

Purchasing power parity (producer prices; monthly data)



Technical outlook



Our View on **EUR/CHF**

0.92 - 0.95
Expected range
over 3 to 6 months

- The Swiss franc is in demand as a safe haven during periods of geopolitical tension
- The euro is supported by interest rate increases by the European Central Bank (ECB)

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

Euro showing slight gains

The currency pair trades within a very narrow range. The Swiss National Bank (SNB) repeatedly signalled its will to intervene in the forex market if the franc were to appreciate further. At the same time, there are currently no fundamental factors suggesting a significant weakening of the currency. The Swiss franc continues to benefit from its status as a safe-haven asset. Moreover, purchasing power parity indicates that the franc is broadly fairly valued against the euro (see chart on page 7 on the left).
On the euro side, the ECB raised its key interest rate in June, and a further increase is highly likely in September. The euro's widening interest rate advantage, combined with better-than-expected economic data from the euro area, could provide additional support for the euro. We expect the euro to move towards the upper end of our forecast range. Technical indicators also point in this direction.

Our View on **EUR/CHF**

0.92 - 0.95
Expected range
over 3 to 6 months

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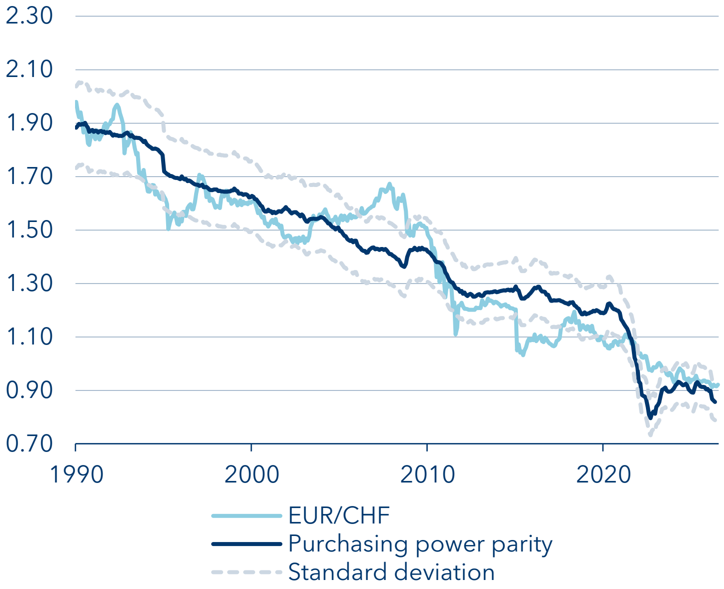
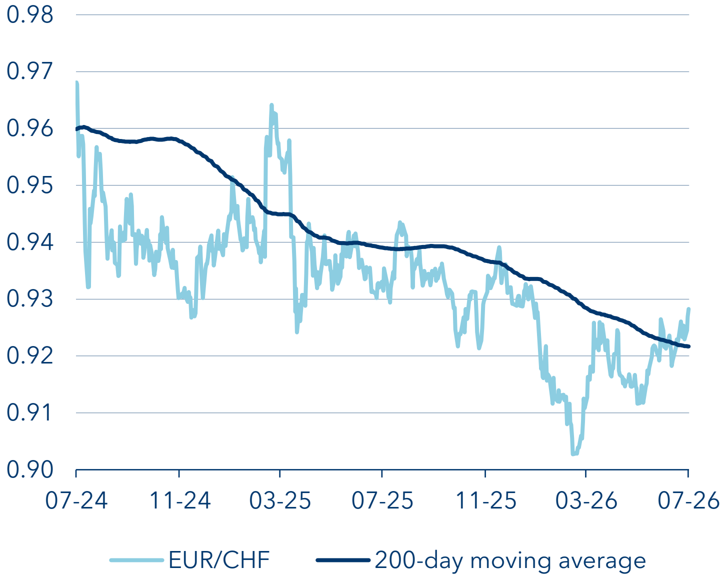


Technical picture



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Our View on **USD/CHF**

0.78 – 0.84
Expected range
over 3 to 6 months

- Dollar benefits in periods of high uncertainty
- The franc is fairly valued at levels of 0.80 and slightly below
- Unwinding of USD forward sales acts as a counter-indicator to short-term strength in the USD

- The politicisation of the Fed is a major risk for the dollar
- The SNB could respond with interventions should the franc continue to strengthen
- The high US trade deficit points to broad USD weakness

What is the Fed doing?

The way Kevin Warsh, the new Fed Chair, communicates, came as something of a surprise. The tone of the central banker's remarks did not fully align with the US President's stance. He emphasised that the Fed remains committed to its 2 % inflation target and noted that second-round effects stemming from higher oil prices also need to be monitored closely. This suggests that Warsh is not ruling out further interest rate increases. The US dollar benefited from these comments and also strengthened against the Swiss franc.

However, the dollar failed to record substantial gains, suggesting that Warsh may still need to establish his credibility with the markets. For the time being, the Swiss franc is likely to continue benefiting from its safe-haven status. At the same time, concerns about potential intervention by the Swiss National Bank are limiting the franc's scope for further appreciation.

Our View on **USD/CHF**

0.78 – 0.84
Expected range
over 3 to 6 months

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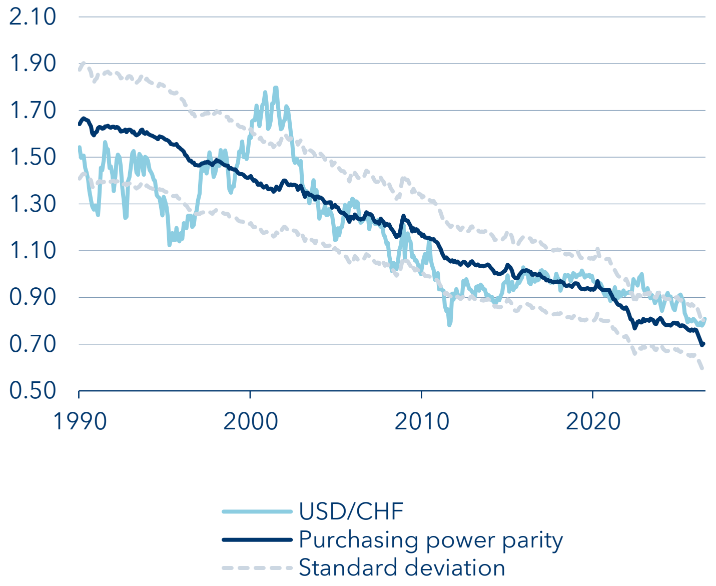

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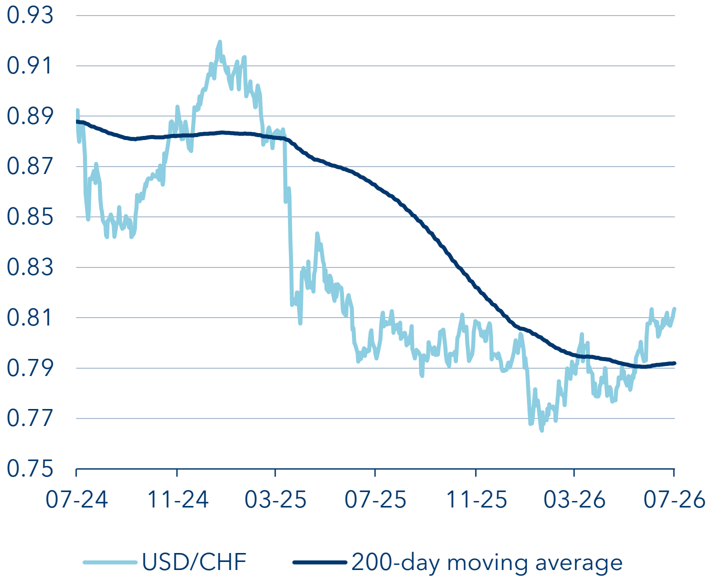


Our View on **GBP/USD**

1.28 – 1.36
Expected range
over 3 to 6 months

- The British economy has recently performed better than expected
- The government in London is seeking to rebuild closer ties with the EU
- Dollar risks due to the possibility of the Fed being used as a political tool by the White House

- Brexit has reduced potential growth, which argues against a strong appreciation of the pound
- Political turmoil is returning
- The pound is under pressure from conflicting signals from the Bank of England

British politics takes centre stage

The swift and relatively smooth change of government in the UK helped the British pound to make short-term gains. The new Prime Minister, Andy Burnham of the Labour Party, received a favourable initial response from the financial markets.

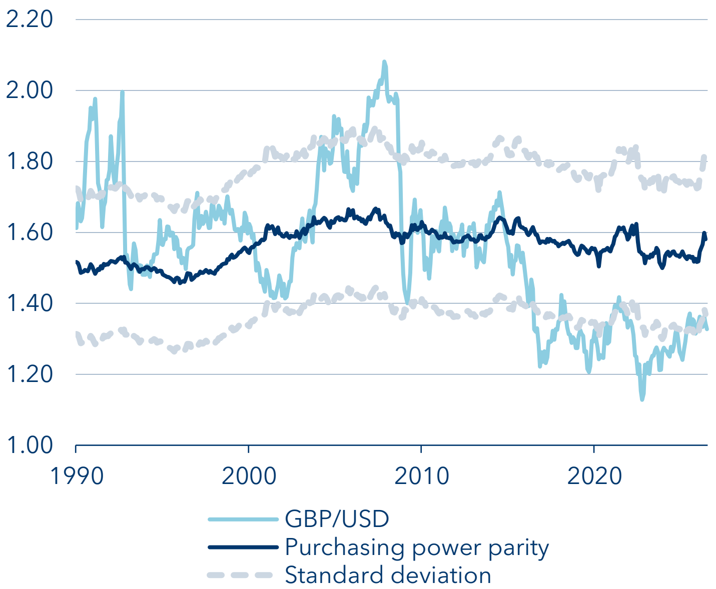
There is hope that the period of political uncertainty has, at least for the time being, come to an end. However, the challenges remain substantial. Public debt exceeds 100 % of gross domestic product, while the economic effects of Brexit continue to weigh on the UK economy.

The new government's reform agenda is being closely watched by foreign exchange markets. Scepticism is likely to persist in the near term, which is why we do not expect the pound to make significant gains. Against the US dollar, we continue to anticipate largely range-bound trading.

Our View on **GBP/USD**

1.28 – 1.36
Expected range over 3 to 6 months

Purchasing power parity (producer prices; monthly data)



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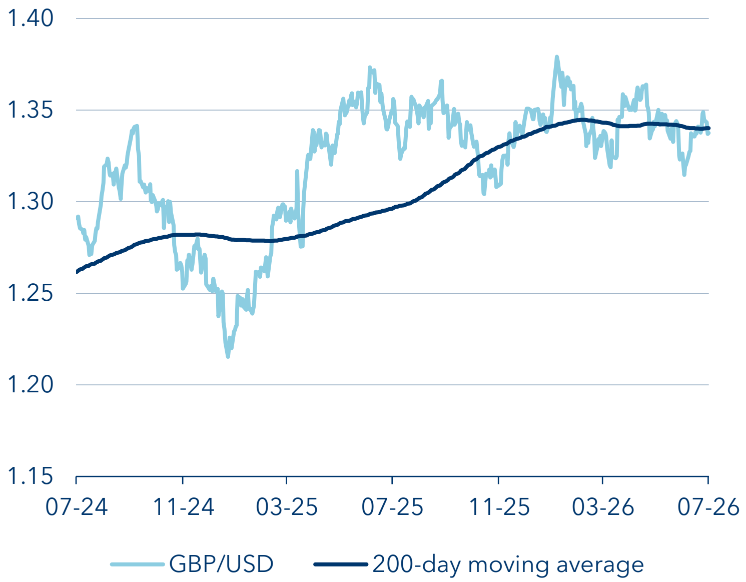

Our View on **EUR/SEK**

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 stands out with strong fundamentals
- The SEK has recently shown broad-based strength and has even appreciated against the CHF

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

The Swedish krona should show some strength

Sweden's Purchasing Managers' Index remains high by European standards, signalling a resilient economy. We continue to expect domestic economic activity to remain robust. In addition, Sweden benefits from sound public finances. Taken together, these factors would normally point to a stronger krona. From a fundamental valuation perspective, the Swedish currency already appears undervalued against the euro.

Based on purchasing power parity, the krona's fair value is around 9.50 per euro. We therefore regard EUR/SEK levels above 11 as elevated. Looking ahead over the next three to six months, we expect the exchange rate to fall back below 11, supported by Sweden's solid economic fundamentals. However, a more pronounced appreciation of the krona is unlikely without an easing of geopolitical tensions.

Our View on **EUR/SEK**

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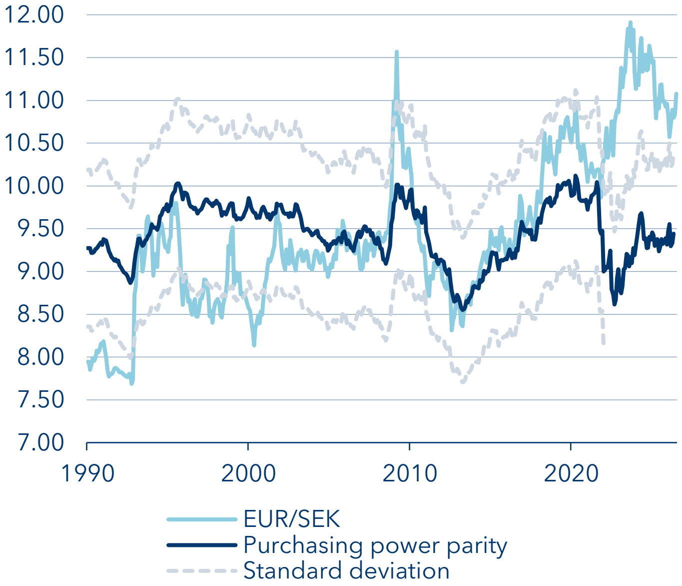

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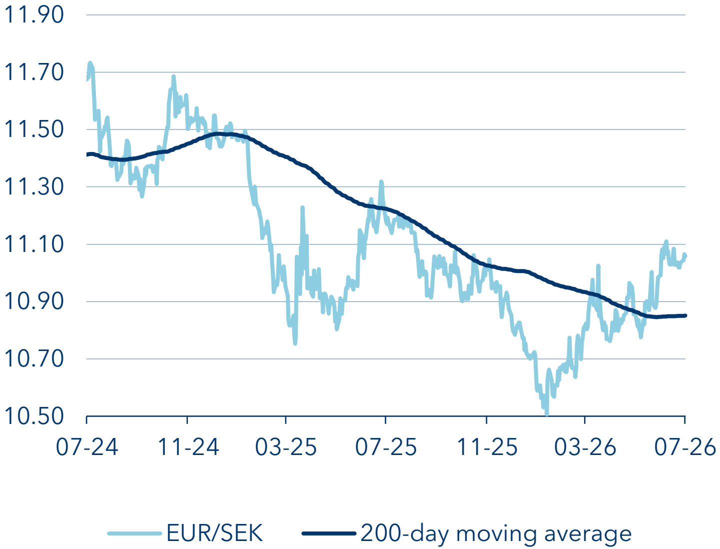

Authors and Disclaimer

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On purchasing power **parity:** Purchasing Power Parity (PPP) describes the principle that a product costs the same in two countries, provided 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 by the same amount when the exchange rate is taken into account, although price levels may differ.

Source: Bloomberg

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