Our View on Currencies

Edition February and March 2025

Donald Trump and the dollar

Donald Trump is in office and the dollar's first reaction has been to weaken slightly. The US president has postponed broad punitive measures against major trading partners, with only Mexico and Canada potentially facing 25% tariffs in the near future. Even the measures against these two neighbouring countries are far from set in stone.

This led to a calming of currency markets. Attention also turned back to other currencies. The euro was able to gain a little against the greenback.

The development of the currency will be crucial for the new US administration. If it imposes import tariffs and the dollar appreciates in anticipation of higher inflation and a prolonged period of Fed tightening, the measures would be in vain.

For example, a 10% tariff on imports and a 10% appreciation of the dollar would cancel each other out.

If the White House in Washington wants to reduce the trade deficit with tariffs, it must at least be accompanied by an unchanged dollar, or even better, a depreciation.

This is precisely why a Trump presidency should not simply be equated with a strong US currency. In any case, we are sceptical about the current dollar euphoria. The history of financial markets teaches us that things often turn out differently than the majority expects.

Dr. Thomas Gitzel, **Chief Economist**

Our View on Currencies - Overview

Currency pairs

- **EUR/USD – Page 4**
  Expected range 1.04 to 1.10
- **EUR/CHF – Page 6**
  Expected range 0.92 to 0.98
- **USD/CHF – Page 8**
  Expected range 0.83 to 0.92
- **GBP/USD – Page 10**
  Expected range 1.25 to 1.34
- **EUR/SEK – Page 12**
  Expected range 10.80 to 11.80

Our View on **EUR/USD**

1.04 – 1.10
Expected range
for 3 to 6 months

- Fed signals fewer rate cuts than expected
- Financial markets bet on a strong Trump dollar
- 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

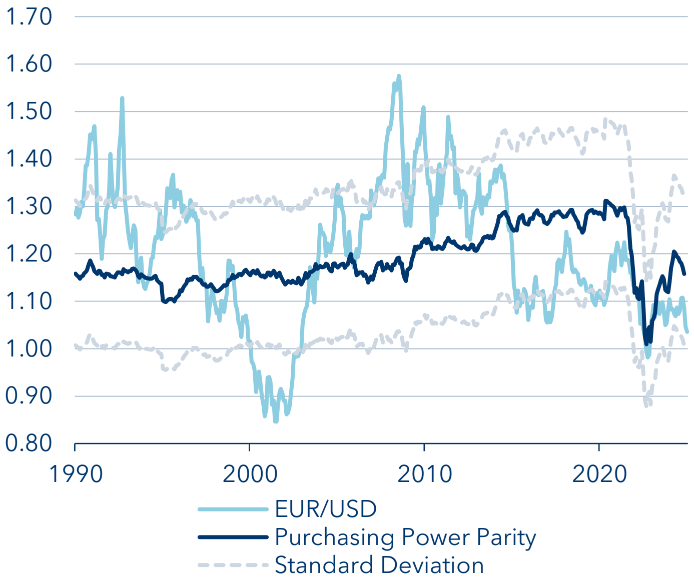
Dollar – too much euphoria?

The dollar gained another notch and appreciated further. The Fed readjusted its future monetary policy course. As part of its quarterly projections, it is now looking ahead to fewer interest rate cuts. For the current year, the Fed now officially expects only two interest rate cuts. The change of course is primarily due to the robust economic development. The good economic situation jeopardises the Fed's medium to long-term inflation targets. The dollar reacted to the readjustment of US monetary policy with further appreciation against the euro. However, a countermovement is still in the air. This is indicated above all by the technical market situation. The dollar is overbought and, adjusted for purchasing power, it is overvalued. We are therefore sticking to our assessment and expect a correction in the coming months.

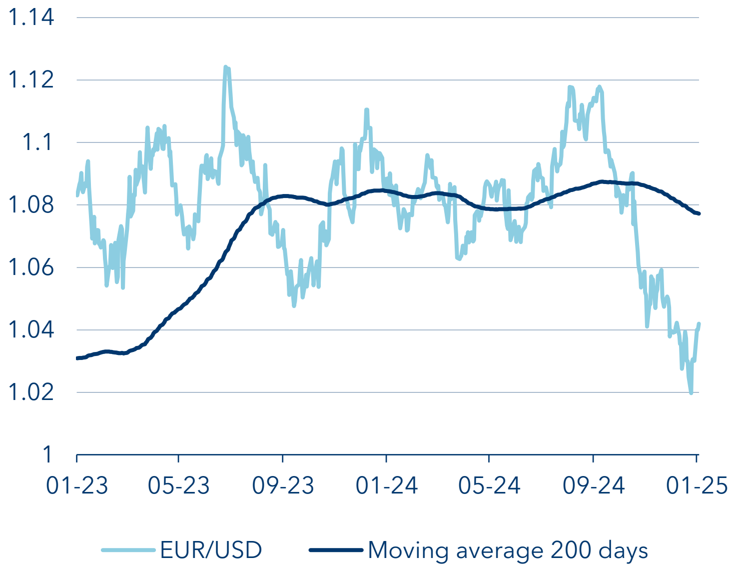
Our View on **EUR/USD**

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 key rate to 0%
- ECB must be cautious, price pressures in services sector are high
- Market technicals point to franc weakness

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

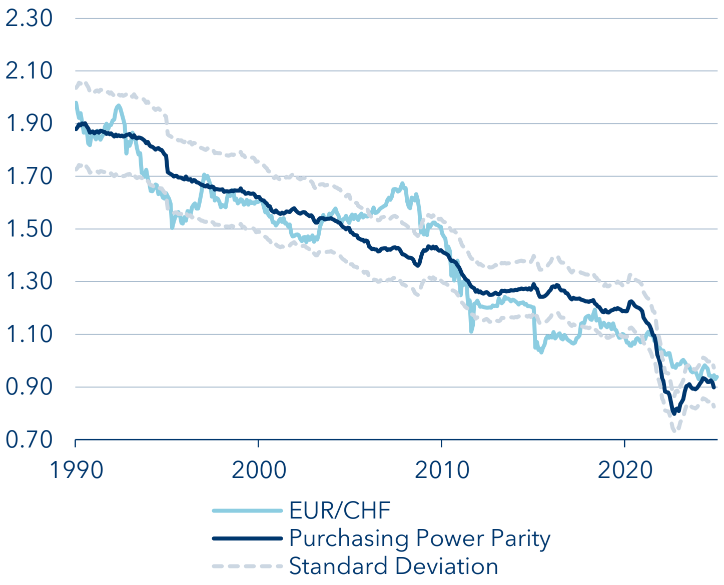
Slightly higher prices for the EUR/CHF currency pair

The Swiss franc weakened slightly, at least against the euro. In December of the previous year, the Swiss franc made advances towards 0.92 against the euro. The prospect of zero interest rates by the Swiss National Bank (SNB) is likely to have weakened the franc moderately, without significant exchange rate losses being on the agenda. The technical picture suggests a further correction of the franc. This includes the significant deviation of the EUR/CHF currency pair from the 200-day line. The forthcoming change of government in Germany and the associated hope of more stable political conditions in the eurozone's largest economy could help the euro to make moderate gains. In the coming months, we expect the Swiss franc to trade at around 0.95 against the euro. Adjusted for purchasing power, the franc is therefore fairly valued.

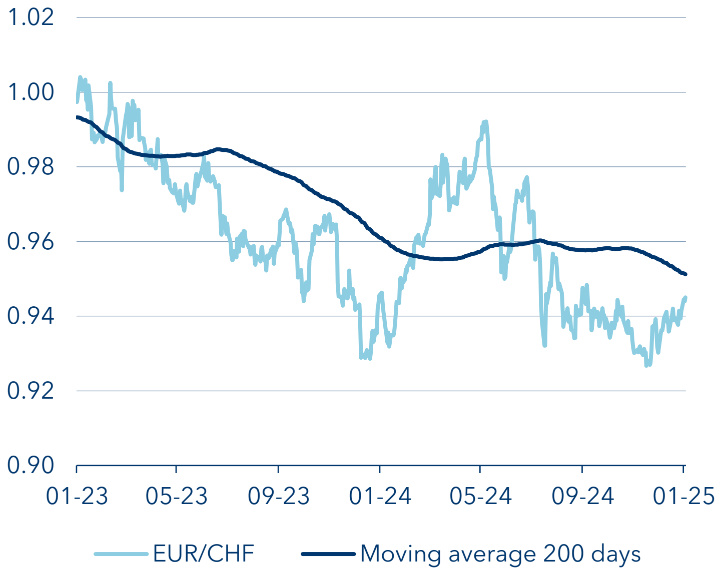
Our View on **EUR/CHF**

0.92 – 0.98
Expected range
for 3 to 6 months

Purchasing power parity (producer prices; monthly data)



Technical view



Our View on **USD/CHF**

0.83 - 0.92
Expected range
for 3 to 6 months

- If the US economy slips into recession, the Fed may cut interest rates more than previously expected, putting pressure on the dollar
- Purchasing power parity argues for a much stronger franc

- Fed signals fewer rate cuts than expected
- Financial markets bet on a strong Trump dollar
- Both currencies in demand in times of high uncertainty

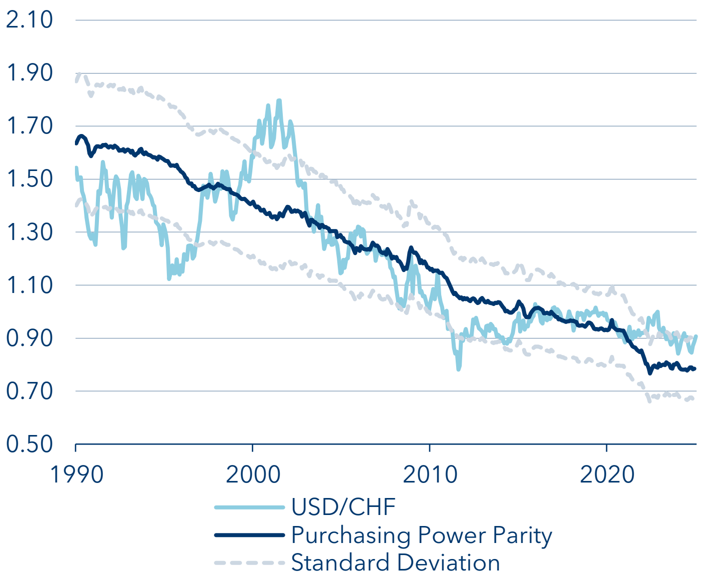
Dollar expected to weaken

The dollar has continued to strengthen, breaking through the 0.90 level against the Swiss franc. In our view, the air is getting thinner for the greenback at these levels. The markets are now pricing in a rate cut by the Fed only in the autumn months of this year. Given the high level of real interest rates, further rate cuts by the US monetary authorities are quite possible. It cannot be ruled out that the Fed will make use of the room for manoeuvre available to it. A further rate cut in the first half of the year cannot therefore be ruled out. An easing in the first half of the year would catch the markets off guard. This could lead to a weaker dollar. Given this scenario, we maintain our view that the dollar will depreciate in the coming months.

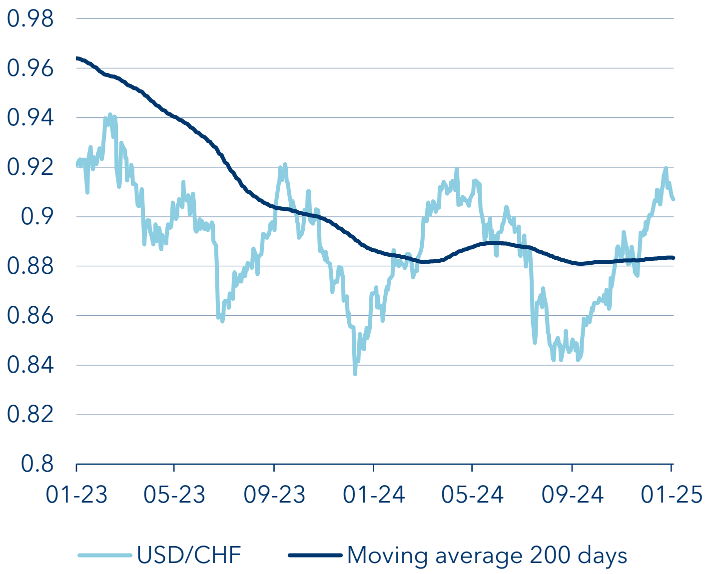
Our View on **USD/CHF**

0.83 - 0.92
Expected range
for 3 to 6 months

Purchasing power parity (producer prices; monthly data)



Technical view



Our View on **GBP/USD**

1.25 – 1.34
Expected range
for 3 to 6 months

- The pound is significantly undervalued against the dollar
- The dollar euphoria may have gone too far

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

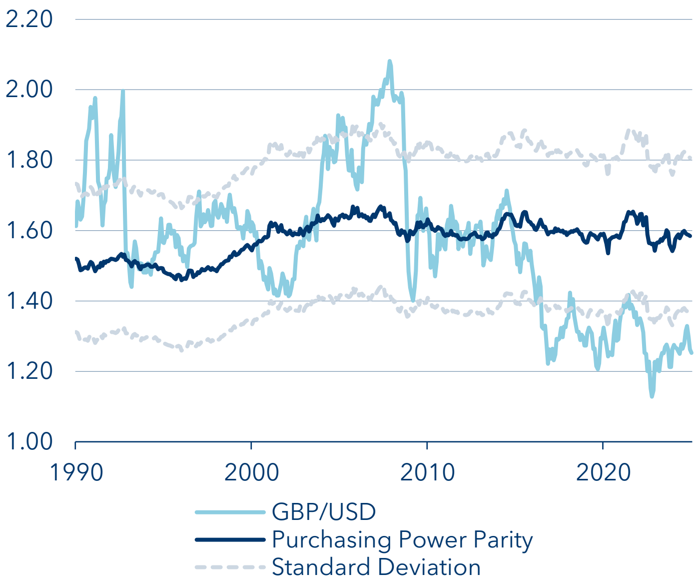
Sterling has depreciated too much

Yields on 10-year UK government bonds have recently risen to their highest level since 2008, while sterling has depreciated sharply. Approval ratings for the new Labour government are at record lows just a few months after the election, and business and consumer sentiment has taken a severe hit. The new budget shows that the government has little room for manoeuvre. This increases the risk of further tax increases or budget cuts. Despite this background, the reaction in the currency markets is exaggerated. The UK is less affected by US tariff plans than the eurozone, for example. Consumer sentiment deteriorated in the autumn, but has recently recovered.

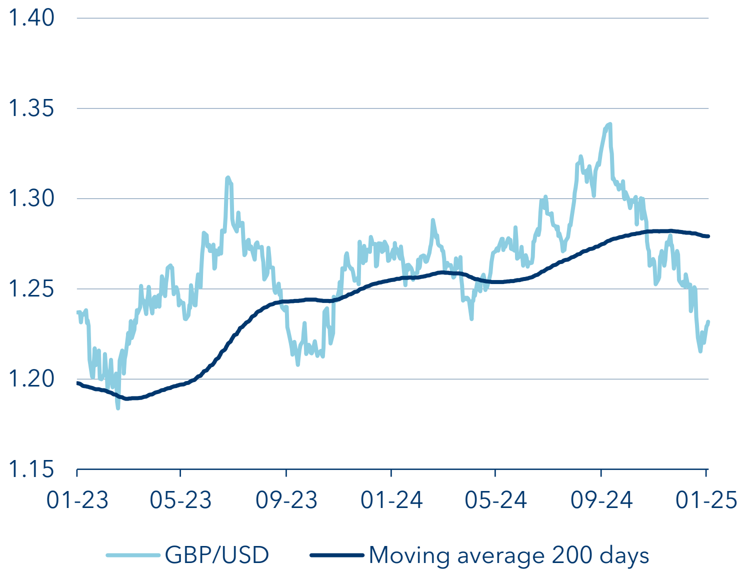
Our View on **GBP/USD**

1.25 – 1.34
Expected range
for 3 to 6 months

Purchasing power parity (producer prices; monthly data)



Technical view



Our View on **EUR/SEK**

10.80 – 11.80
Expected range
for 3 to 6 months

- High current account surplus and healthy public finances counter the weakness of the SEK
- Declining commitment of the ECB in the fight against persistently high inflation would weaken the euro

- Currently still unfavourable environment for high-beta currencies such as SEK
- Swedish central bank sees further scope for interest rate cuts

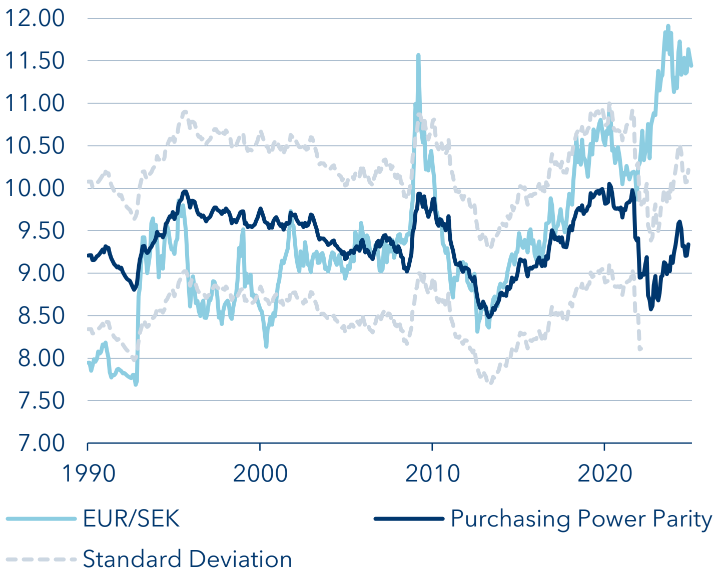
Familiar trading range continues

Once again, there has been no significant change in the EUR/SEK currency pair. The familiar trading range between 11.20 and 11.80 has remained unchanged over the past few months. The Swedish central bank's policy has not changed this. At the same time, the currency guardians have signalled that only a further 25 basis point cut is on the agenda for the first quarter. According to the Riksbank's forecasts, inflation will remain within the central bank's target range of 2% for the time being. In our view, even further interest rate cuts by the ECB and a standstill by the Riksbank will not lead to a significant appreciation of the krona. As a high-beta currency, the Nordic currency remains dominated by other factors. To put the Swedish krona on a sustainable uptrend, global growth must pick up.

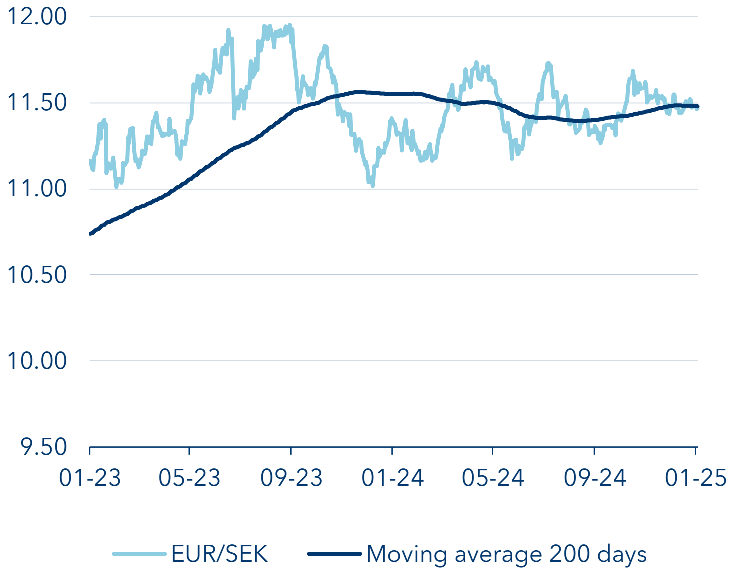
Our View on **EUR/SEK**

10.80 – 11.80
Expected range
for 3 to 6 months

Purchasing power parity (producer prices; monthly data)



Technical view



Authors and Disclaimer

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

Important legal advice