

Dr Thomas Gitzel · Chief Economist

Our View on Currencies

October and November 2026 edition



Foreign-exchange markets: US midterm elections take centre stage

On 3 November, US citizens will use the midterm elections to express their satisfaction with the work of the federal government. All 435 members of the House of Representatives will be re-elected, and 35 of the 100 Senate seats are also up for grabs. Voters often use their midterm vote to send a message to the incumbent president.

According to polls, Americans are currently particularly dissatisfied with the US President's economic policy. Donald Trump promised lower prices, but the opposite has happened: the cost of living is higher now than two years ago, most recently due to higher energy costs.

Polls suggest that the Republicans, under Trump's leadership, are set to lose their majority in the House of Representatives to the Democrats. The Senate elections, on the other hand, remain wide open.

Both parties are roughly neck and neck. However, even a loss of the Senate majority by the Republicans cannot be ruled out.

In the run-up to US midterm elections, the dollar has, on average, depreciated since the 1970s. However, this is merely an average observation. No clear trend can be deduced from this when looking at individual election years.

The reaction of the foreign-exchange markets to this year's election is likely to depend not only on the result, but also on Trump's reaction. If the President were to cast doubt on the legitimacy of the vote, as he did following the 2020 presidential election, this could lead to uncertainty. In that case, the dollar would probably follow the average trend and depreciate.

Thomas Gitzel, **Chief Economist**

Currency outlook at a glance

Currency pairs

- **EUR/USD - Page 4**
Expected range: 1.12 to 1.18
- **EUR/CHF - Page 6**
Expected range: 0.93 to 0.96
- **USD/CHF - Page 8**
Expected range: 0.79 to 0.86
- **GBP/USD - Page 10**
Expected range: 1.28 to 1.36
- **EUR/SEK - Page 12**
Expected range: 10.80 to 11.50

Our View on EUR/USD



1.12 - 1.18
Expected range
over 3 to 6 months



- Geopolitical uncertainty bolsters the dollar as a safe haven
- Fed interest rate rises are supporting the dollar
- A robust US economy gives the greenback a boost



- The dollar is overvalued
- Current account deficit remains a drag on the US currency
- Emerging concerns over French public finances could weaken the euro

The sideways trend continues

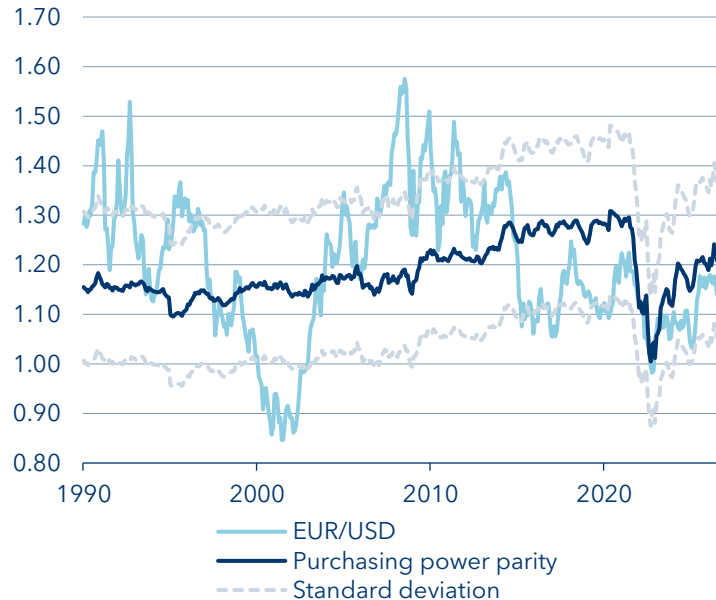
The dollar has recently shown signs of strength, but this does not alter the overall sideways trend. Even the Fed's interest rate increase in September was not enough to trigger a significant strengthening of the dollar. A shift in direction, whether upwards or downwards, will likely require more than just a few interest rate rises by the Fed or even the ECB. The midterm elections in the US are a major political event on the horizon that could have an impact on the foreign exchange markets. Polls suggest that the Republicans are highly likely to lose their majority in the House of Representatives. Even a Senate majority is no longer guaranteed. Such an outcome is likely to affect the dollar. However, in the absence of a surprise effect, it is unlikely to be enough to move the currency pair out of its sideways trend. The situation is different in the event of political turmoil: if Donald Trump once again casts doubt on the election result, this could weigh on the market.

Our view on EUR/USD

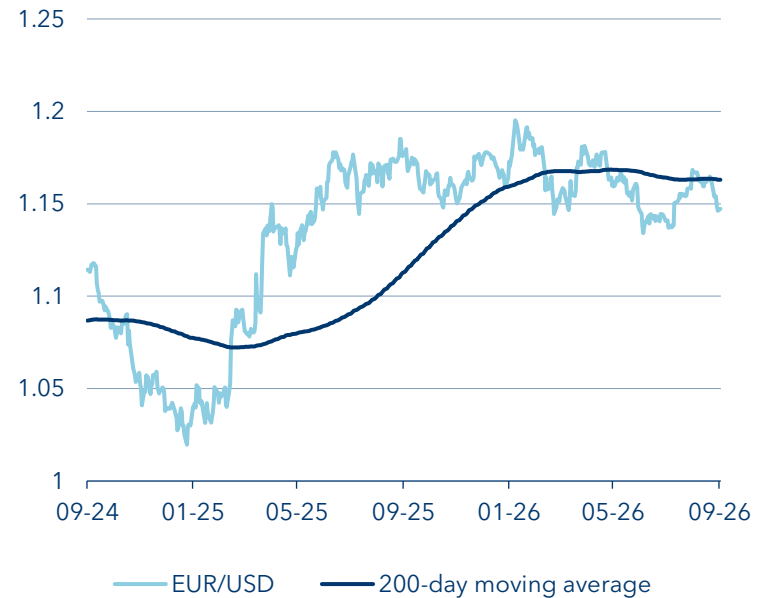


1.12 - 1.18
Expected range
over 3 to 6 months

Purchasing power parity (producer prices; monthly data)



Technical picture



Our View on EUR/CHF



0.93 - 0.96
Expected range
over 3 to 6 months



- The European economy is performing better than expected, which favours the euro
- Interest rate increases by the European Central Bank are bolstering the euro



- Structurally weak growth is weighing on the euro
- A flight to safety would significantly weaken the euro against the Swiss franc
- The Swiss National Bank is keeping interest rates low

Euro on a slight upswing

Most recently, the euro has been slightly stronger. On the one hand, economic data from the eurozone came in better than expected; on the other hand, the ECB raised its key interest rates. The SNB kept its key interest rate unchanged at its September meeting. However, banks must continue to pay negative interest rates on deposits exceeding a certain threshold. Consequently, the short-term money market rate (Saron) also remains below zero. This is likely to weigh slightly on the franc at present.

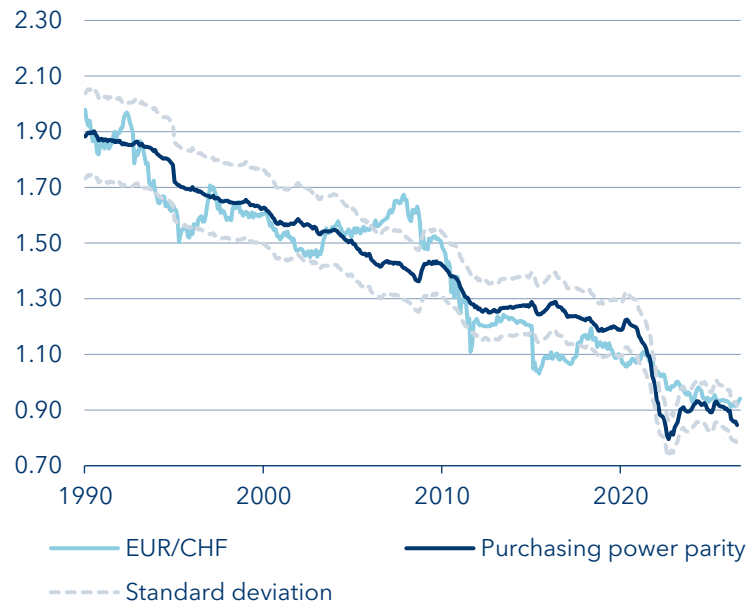
Furthermore, demand for the franc as a safe-haven currency was less pronounced. From a technical perspective, the EUR/CHF currency pair broke through key resistance levels and could now also breach 0.95. As the positive economic trend in Germany - the eurozone's largest economy - is likely to continue for the time being, further moderate gains for the euro are possible.

Our view on EUR/CHF

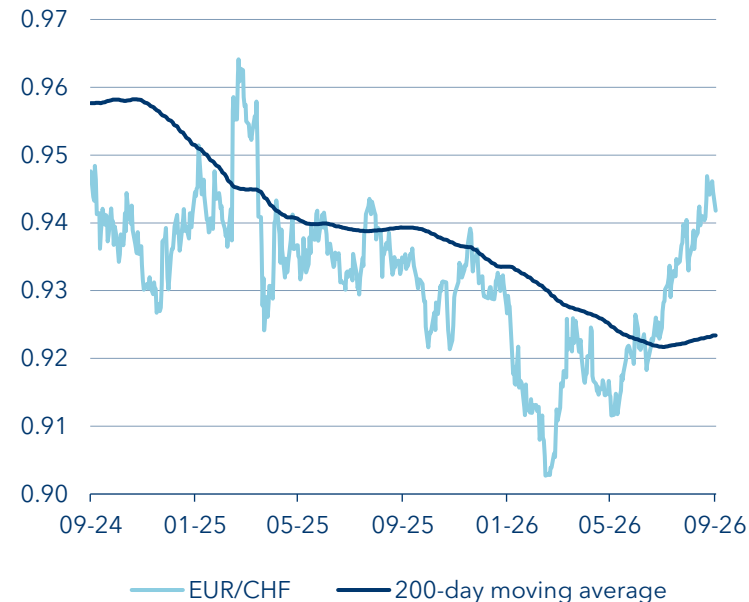


0.92 - 0.96
Expected range
over 3 to 6 months

Purchasing power parity (producer prices; monthly data)



Technical picture



Our View on USD/CHF



0.79 - 0.86
Expected range
over 3 to 6 months



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



- The SNB could respond with interventions should the franc continue to strengthen
- The high US trade deficit points to broad USD weakness

Fed rate increase sends a signal

The Fed's interest rate rise was far more than a routine monetary policy move. Above all, it underlined the central bank's credibility. There had been doubts in the financial markets as to whether Fed Chair Kevin Warsh would be able to withstand pressure from the President. Trump had nominated Warsh for the post and had hoped for falling interest rates rather than a tightening of monetary policy.

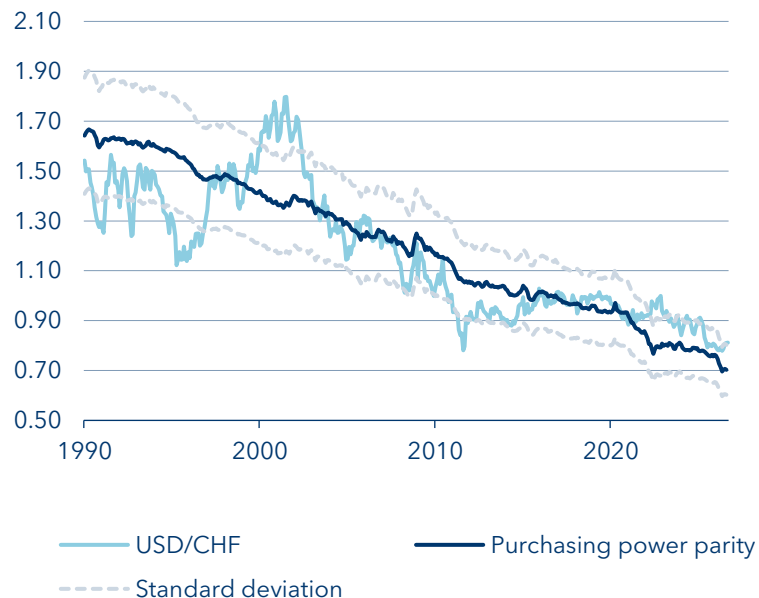
With its latest decision, however, the Fed emphasised its independence. The dollar benefited from this, at least to some extent. Against the Swiss franc, it rose above 0.82. This confirmed our assessment, held since June, of a stronger greenback, and the upward trend could continue. The Swiss National Bank, the SNB, has so far held back on interest rate increases, most recently maintaining slightly negative short-term money market rates.

Our view on USD/CHF

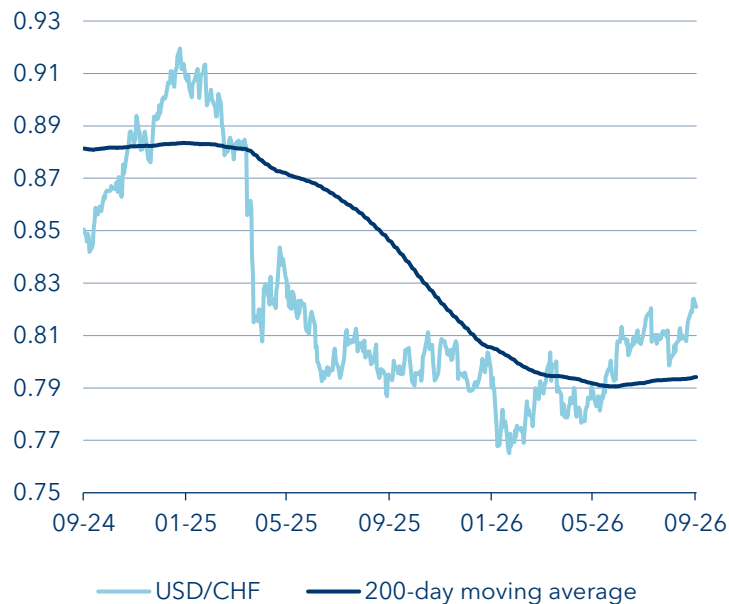


0.79 - 0.86
Expected range
over 3 to 6 months

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



- Government in London seeks to rebuild ties with the EU
- A smooth change of government in the UK is helping the pound
- Possible dollar weakness in the wake of the mid-term elections



- Brexit has reduced potential growth, which argues against a sharp appreciation of the pound
- High UK budget deficit
- Pound weighed down by mixed signals from the Bank of England

Major challenges in the UK

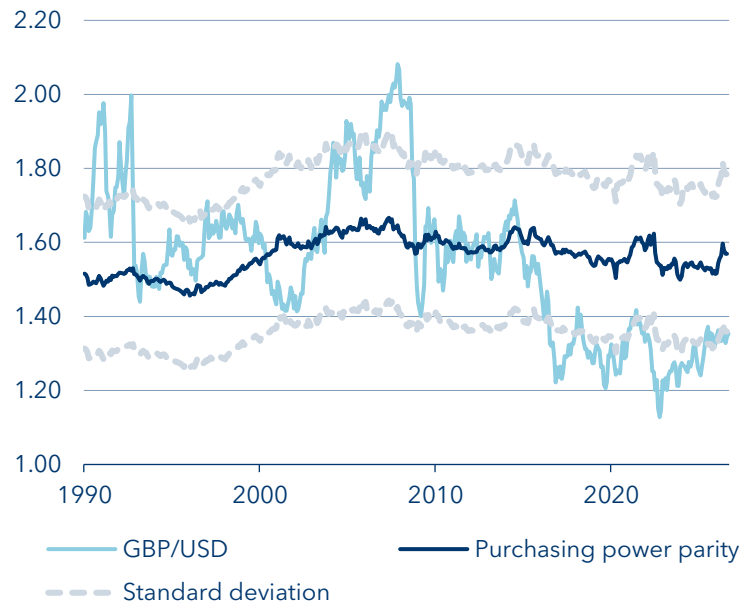
The smooth handover of power by the British Prime Minister has recently given the British pound a boost. Andy Burnham is now at the helm of the UK. However, the challenges remain considerable: last year, the budget deficit stood at just under 5% of GDP. At the same time, the triple-lock for pensions in force in the UK is making it difficult to consolidate public finances. According to this, pensions rise in line with either inflation, wage growth or by at least 2.5%. Reforming this costly mechanism is considered extremely unpopular. At 3%, inflation remains high and consequently necessitates significant adjustments to pensions. The Bank of England wishes to avoid further interest rate rises so as not to put further brakes on economic growth, which is already weak. This situation hardly bodes well for sustained gains in the pound. It is more likely that the British currency will remain in a sideways trend.

Our view on GBP/USD

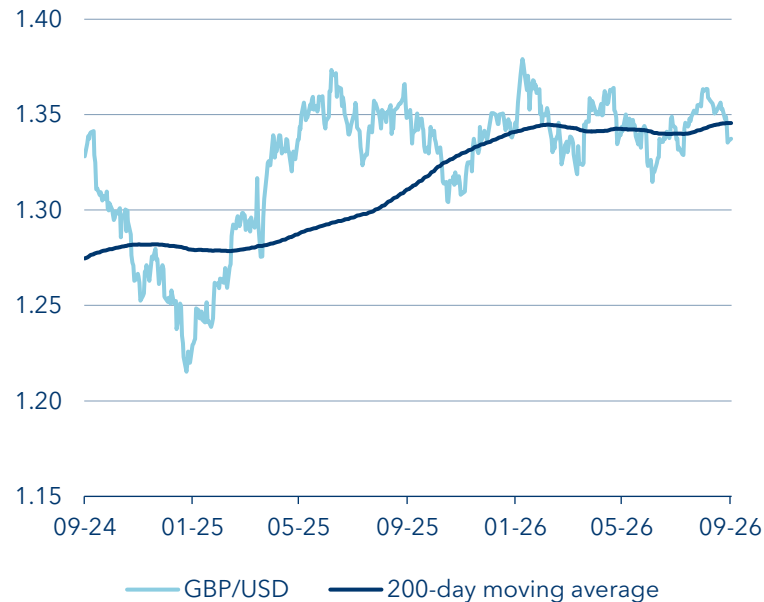


1.28 - 1.36
Expected range
over 3 to 6 months

Purchasing power parity (producer prices; monthly data)



Technical outlook



Our View on EUR/SEK



10.80 - 11.50
Expected range
over 3 to 6 months



- A current account surplus and sound public finances support the krona
- Sweden stands out with strong fundamentals
- The SEK has recently shown broad-based strength and has even appreciated against the CHF



- Geopolitical uncertainties are weighing on the krona
- The interest rate advantage lies with the eurozone

The Swedish krona should show some strength

Contrary to our expectations, the Swedish krona did not appreciate but depreciated. The ECB's tightening of monetary policy is likely to have contributed to this. The interest rate advantage in favour of the euro weighed on the Swedish currency. However, this only partly explains the weakness. Since the start of the Iran conflict, the krona has suffered the sharpest decline of any G10 currency. This is in line with its typical behaviour pattern. The currency is particularly sensitive to changes in the global environment. Fundamental factors have recently taken a back seat. From an economic perspective, there are hardly any discernible negative consequences of the Iran conflict in Sweden. The country has a favourable energy mix and a robust domestic economy. Furthermore, the krona is significantly undervalued against the euro. There are therefore still strong arguments in favour of an appreciation. So we stand by our assessment and expect further gains in the krona's exchange rate.

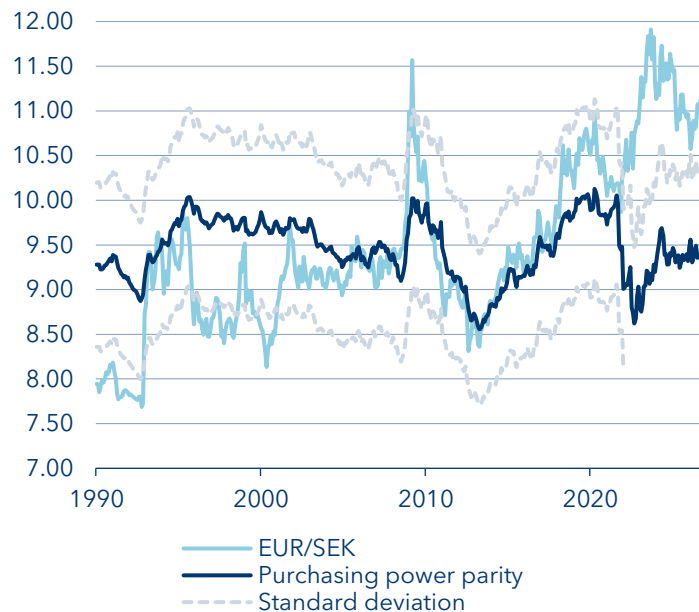
Our view on EUR/SEK



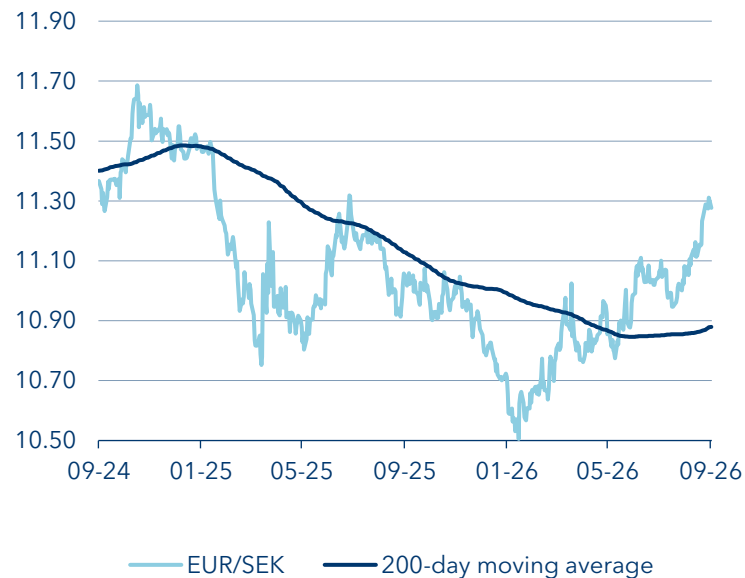
10.80 - 11.50

Expected range
over 3 to 6 months

Purchasing power parity (producer prices; monthly data)



Technical outlook



Authors and Disclaimer

Author:

Dr Thomas Gitzel, Chief Economist

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

Important legal notices

This documentation has been prepared by VP Bank AG (hereinafter the 'Bank') and distributed by the companies of the VP Bank Group. This documentation does not constitute an offer or a solicitation to buy or sell financial instruments. The recommendations, estimates and statements contained herein reflect the personal views of the relevant analyst at VP Bank AG as at the date stated in the documentation and are subject to change at any time without prior notice. The documentation is based on information deemed to be reliable. This documentation and the assessments or evaluations contained therein have been prepared with the utmost care; however, their correctness, completeness and accuracy cannot be assured or guaranteed. In particular, the information in this documentation may not include all material details regarding the financial instruments discussed therein or their issuers.

Further important information on the risks associated with the financial instruments in this documentation, on the proprietary trading activities of the VP Bank Group and the handling of conflicts of interest in relation to these financial instruments, as well as regarding the distribution of this documentation, can be found at http://www.vpbank.com/rechtliche_hinweise