

FOREX NEWS | US-DOLLAR, YEN, SWISS FRANC

FX markets reflect uncertain interest rate outlook

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The EURUSD has been moving in a range since the beginning of 2023. Interest rate expectations have changed constantly during this time, but neither of the two economic areas has been able to gain a lasting advantage. This is likely to have been the reason for the relatively muted reaction on the markets to the recent shift in interest rate expectations in favor of the US. While an initial interest rate cut by the ECB in June has become very likely, expectations for US interest rate cuts have been pushed back significantly. The market's hesitation is appropriate, as the outlook for US inflation and therefore US interest rates is very uncertain and, as in the past, can change again quickly. In our view, expectations for US interest rate cuts should rise again as inflationary pressures ease and the economy slows down. This argues for a slow weakening of the dollar. However, there is a risk that US inflation will remain stubborn for longer and that US interest rate cuts will take longer to materialize, which would mean a strengthening of the dollar from the current level.

JPY – Yen under severe pressure

Despite the recent minor interest rate hike by the Bank of Japan, the yen came under considerable selling pressure at the end of April. The recent sharp drop in expectations for interest rate cuts in the US for 2024 plays a role in this context, as the interest rate level in Japan is significantly lower than those of the US and the Eurozone, despite the small rate hike. According to speculation, the BoJ intervened in the market at the end of April to stop a further sell-off of the yen. The situation remains tense and obviously the outlook for the yen exchange rate remains heavily dependent on the next steps taken by the ECB and the US Fed. In our view, the downward pressure against the euro should at least weaken, in line with the first interest rate cuts by the ECB from June.

CHF - SNB has surprisingly lowered interest rates

The SNB already lowered its key interest rate by 25 basis points to 1.5% in March, causing the Swiss franc to weaken to a level of 0.98 against the euro. This clearly shows the impact that interest rate changes and changes in interest rate expectations in both currency areas have on exchange rate developments. We currently expect interest rate cuts of 100 basis points for the Eurozone by the end of 2024. If interest rate expectations for the Eurozone change significantly over the coming months, this could have an impact on the exchange rate. At present, we expect the exchange rate to remain in a range between 0.97 and 0.98. In the event of an escalation of geopolitical crises, the franc could continue to strengthen strongly against the euro at any time.

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Note: Information on past performance is not a reliable indicator of future performance.

Currency overview

EURUSD – last two years



Source: Market data provider, Erste Group Research

EURUSD – since 2000



Source: Market data provider, Erste Group Research

EURJPY – last two years



Source: Market data provider, Erste Group Research

EURJPY – since 2000



Source: Market data provider, Erste Group Research

EURCHF – last two years



Source: Market data provider, Erste Group Research

EURCHF – since 2000



Source: Market data provider, Erste Group Research

Forecasts¹

Exchange rates

Currency	current	Jun.24	Sep.24	Dec.24	Mar.25
EURUSD	1.07	1.08	1.10	1.12	1.12
EURCHF	0.98	0.97	0.98	0.98	0.99
EURJPY	current	Jun.24	Sep.24	Dec.24	Mar.25
Consesus Forecasts		162.0	159.0	158.0	157.0
Spot/Forward	166.4	165.7	164.2	162.7	161.4

Interest rates

Money market rates	current	Jun.24	Sep.24	Dec.24	Mar.25
3M Euribor	3.83	3.79	3.40	2.92	2.45
3M Libor US	5.59	5.46	5.13	4.71	4.30
SARON	1.44	1.50	1.25	1.25	1.25

Source: Market data provider, Erste Group Research

¹ By regulations we are obliged to issue the following statement: Forecasts are no reliable indicator of future performance.

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