USD with asymmetric risks into the elections

FX Monthly | 31 October 2024

Key points

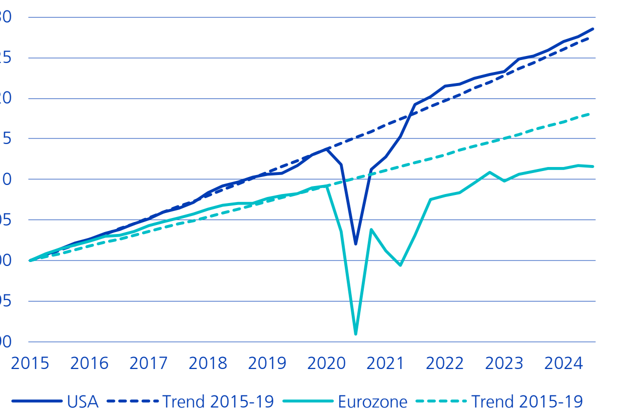
- The recent **USD** appreciation was partly due to renewed positive surprises in US economic data and Donald Trump's increased chances of winning a second term as US president, which is associated with higher US yields. In this scenario, a Republican sweep is likely and the USD will therefore enter the US election with asymmetric upside risks.
- The inflation risks outside the US have continued to recede. In combination with the economic concerns, this has recently been increasingly reflected in monetary policy in Europe. The ECB has changed its assessment within a few weeks. And the BoE could also proceed somewhat more quickly in the future. Faster interest rate cuts would weigh on the **EUR** and **GBP.**
- The **CHF** has recently benefited from its role as a safe haven and negative interest rates are once again becoming a topic of discussion in Switzerland. The SNB is likely to allow a further appreciation of the CHF but will try to slow it with moderately lower interest rates and interventions.
- The outcome of the early parliamentary elections in Japan and higher US yields caused the **JPY** to correct significantly in October. The US elections harbour the risk that this trend will continue in the short-term. After the elections, however, the focus on the currency markets should return to the fundamentals and the JPY will benefit from a declining interest rate disadvantage over time.
- **Gold** continues to show strong upward momentum. The US elections harbour two-sided risks for the gold price.
- **Special topic THB:** After a strong performance over the summer, the Thai currency has recently weakened. A surprising interest rate cut by the BoT had a negative impact. Further interest rate cuts cannot be ruled out. For the time being, the US elections are also the main focus.

FX - macroeconomic underpinnings

Moderate growth of the global economy continues. Although macroeconomic leading and sentiment indicators have often been volatile and contradictory for some time, the global economy is proving to be fairly robust overall. At the same time, inflation in most countries is continuing its return to the central banks' target levels. The major economic upheavals caused by the pandemic and the war in Ukraine are therefore increasingly becoming a thing of the past. The forecasts published for the first time for 2026 underline this. Global growth will remain virtually unchanged at 2.5% because the structurally lower growth in China will be offset by a cyclical recovery in the industrialised countries and the other emerging markets. However, this recovery will be relatively muted because monetary and fiscal policy will not provide any decisive impetus. The tense geopolitical situation, trade conflicts and high levels of government debt also mean that there are some significant uncertainties and downside risks. At the same time, the economic divergence between the US and Europe has increased further. In the US, private consumption continues to grow strongly despite political uncertainty due to the presidential elections. It is even slightly higher than the pre-pandemic trend would suggest *(chart 1)*. The pandemic has therefore left no lasting traces. The situation in the eurozone is quite different: private consumption is almost 6% below the pre-pandemic trend and has hardly grown at all in the past two years. While US households are saving even less than before the pandemic, the savings rate in the eurozone has recently risen to almost 16%. Despite rising household incomes and low unemployment, the mood remains depressed. At company level, too, the USA tends to stand for dynamism and innovation, while companies in Europe are struggling with ever new regulations, increasing bureaucracy and high taxes and electricity prices. An end to this structural divergence is therefore not in sight.

Chart 1: US private consumption is above the long-term trend

Development of private consumption (index, beginning of 2015 = 100)



Source: Zürcher Kantonalbank, Refinitiv

Chart 2: US economic data surprise positively again

Citigroup Economic Surprise Index USA

Source: Polymarket, Zürcher Kantonalbank, as of: 29 October 2024

FX - Trends and assessments

The USD rose significantly in October, making up for most of the losses suffered in recent months. This can partly be attributed to Donald Trump's improved election chances. He has caught up with Kamala Harris in the national polls. There is now even a clear lead for Trump on the betting markets. A Trump victory is currently primarily associated with higher tariffs and lower taxes on the financial markets. This would tend to lead to higher US yields, an improvement in the immediate economic outlook for the US relative to the rest of the world and generally higher global uncertainty. The scenario of a Trump victory therefore goes hand in hand with an initially stronger USD. A US President Kamala Harris, on the other hand, largely stands for the "status quo", which speaks in favour of less uncertainty. In addition, the prospect of higher taxes could weigh on US yields. In this scenario, the USD is likely to react negatively. Due to the unpredictability of a second Donald Trump presidency and in light of the fact that his election victory is likely to be accompanied by a Republican sweep (Republican majority in the Senate and House of Representatives), stronger market movements are to be expected in this scenario. The USD therefore enters the US election with asymmetric upside risks. However, the US currency has also recently benefited from stronger US economic figures *(chart 2)*, which have reduced Fed rate cut expectations on the futures market and caused yields on US Treasuries to rise, which has weighed on interest rate-sensitive currencies such as the JPY in particular. At the same time, inflation risks outside the USA have receded once again. In combination with the fall in inflation rates, economic concerns in Europe are increasingly being reflected in monetary policy. The ECB changed its assessment within a few weeks and lowered its key interest rate again in October. Inflation is already below 2% in three of the four largest economies in the eurozone. We therefore expect a further interest rate cut at all upcoming Governing Council meetings until summer 2025. The Governor of the BoE has also indicated that interest rates could fall somewhat faster in future, while the BoC cut its key interest rate by 50 bp in October. In the emerging markets, the interest rate cuts have now also reached the Asian continent. Global key interest rates are therefore falling across the board. This supports growth in the medium term and emphasizes that the central bank will soon have achieved its goal of price stability. We assume that the focus on the currency markets will return to the fundamentals after the elections, which should bring monetary policy back to centre stage and thus interest rate convergence.

Zürcher Kantonalbank real economic forecasts

	USA		Eurozone		Japan		United Kingdom		Switzerland		Australia	
	2024	2025	2024	2025	2024	2025	2024	2025	2024	2025	2024	2025
GDP	2.7	1.8	0.7	1.0	-0.2	1.3	1.1	1.7	2.0	1.5	1.2	1.8
Inflation*	2.9	2.1	2.4	2.1	2.5	2.1	2.5	2.2	1.2	1.0	3.3	2.7

*Annual average

Source: Zürcher Kantonalbank

Exchange rate forecasts

EUR/USD

	3 mth	12 mth
EUR/USD forecast	1.08	1.12
Fundamental (EUR view)	slightly negative	slightly positive
Technical (EUR view)	neutral	neutral
Key interest rate EUR	2.75	2.00

Source: Zürcher Kantonalbank

Fundamental assessment

- The recent USD appreciation was driven by renewed positive surprises in US economic data and an increased likelihood of a Republican sweep in the US elections, which is associated with higher US inflation and higher US yields.
- Expectations of interest rate cuts by the US Federal Reserve have fallen. Due to the progress made so far in combating inflation, the Fed is likely to continue to cut interest rates in the coming months. However, there is also a risk that inflationary pressure in the US will continue due to higher import tariffs, for example, which would result in fewer Fed rate cuts and more support for the USD.

Technical assessment

- Resistance at 1.12; support at 1.05.

EUR/CHF

	3 mth	12 mth
EUR/CHF forecast	0.93	0.92
Fundamental (CHF view)	slightly positive	slightly positive
Technical (CHF view)	slightly positive	slightly positive
Key interest rate CHF	0.75	0.50

Source: Zürcher Kantonalbank

Fundamental assessment

- With an increasing focus on the economic risks, there has been a change in sentiment among ECB representatives in recent weeks. At the October meeting, key interest rates were lowered once again and some representatives no longer ruled out interest rate cuts of 50 bp for future meetings. The interest rate differential between the eurozone and Switzerland is likely to narrow by next summer, which will continue to exert downward pressure on the EUR/CHF exchange rate.
- The value of the CHF is currently also strongly driven by geopolitics, such as the conflict in the Middle East. In recent weeks, the CHF has shown an (atypically) strong positive correlation with the oil price.

Technical assessment

- After falling below 0.95 support at 0.925.

USD/CHF

	3 mth	12 mth
USD/CHF forecast	0.86	0.82
Fundamental (CHF view)	neutral	positive
Technical (CHF view)	neutral	slightly positive
Key interest rate USD	4.25	3.50

Source: Zürcher Kantonalbank

Fundamental assessment

- Expectations for the SNB to lower its key interest rate have been raised further in recent weeks, in contrast to those for the US Federal Reserve. The futures market is now anticipating an SNB key interest rate of 0.25% by mid-2025, i.e. almost zero interest rates.
- This means that negative interest rates are once again a topic of discussion. For SNB Chairman Martin Schlegel, these continue to be part of the monetary policy instruments. However, negative interest rates have distorting side effects. We expect that the SNB will allow the CHF to appreciate further, but will try to slow it down by moderately lowering interest rates and intervening in the foreign exchange market.

Technical assessment

- Support at 0.84 not breached; neutral for now

GBP/USD

	3 Mth	12 mth
GBP/USD forecast	1.30	1.35
Fundamental (GBP view)	neutral	positive
Technical (GBP view)	neutral	slightly positive
Key interest rate GBP	4.50	3.00

Source: Zürcher Kantonalbank

Fundamental assessment

- As expected, the autumn budget presented did not contain any major surprises due to the limited fiscal policy leeway in the UK. The planned tax increases confirm the Labour Party's strategy of making uncomfortable decisions as early as possible.
- Against the backdrop of declining growth and inflation momentum in combination with persistently high interest rates, BoE Chairman Andrew Bailey recently indicated that the cadence of interest rate cuts could be somewhat higher in future. The GBP is the strongest G10 currency over the last 18 months. Faster interest rate cuts could slow the currency down somewhat.

Technical assessment

- Test of support at around 1.30.

USD/JPY

	3 mth	12 mth
USD/JPY forecast	148.0	140.0
Fundamental (JPY view)	neutral	positive
Technical (JPY view)	slightly negative	neutral
Key interest rate JPY	0.40	0.40

Source: Zürcher Kantonalbank

Fundamental assessment

- Following the early parliamentary elections in October, the Liberal Democratic Party (LDP) no longer has an absolute majority in the Japanese parliament for the first time in 12 years. This has increased political uncertainty, which does not simplify the starting position for the BoJ.
- The election result in Japan and higher US yields caused the USD/JPY exchange rate to rise significantly again in October and the US elections harbour the risk that this trend will continue in the short-term. The first official warnings of intervention have already been heard. However, we assume that the focus on the currency markets will return to the fundamentals after the elections. We therefore continue to expect the JPY to benefit over time from a declining interest rate disadvantage and a slowing US economy.

Technical assessment

- Resistance at 162; support at 140.

Gold USD/oz.

	3 mth	12 mth
Gold (forecast)	2600	2800
Fundamental	slightly negative	slightly positive
Technical	positive	positive

Source: Zürcher Kantonalbank

Fundamental assessment

- The US elections harbour two-sided risks for the gold price. While rising uncertainty, particularly in the event of a Donald Trump victory, and the longer-term inflation and debt problems favour gold, higher US yields and a stronger USD could weigh on gold. In October at least, gold continued its upward trend unimpressed and reached new highs in both USD and CHF. Other precious metals followed in its wake.
- According to the latest figures from the World Gold Council, demand for gold rose again in Q3 2024. With a total demand of 1,313 tonnes of gold, it was the strongest summer quarter in history. One of the main drivers was inflows into gold ETFs, which made a positive contribution for the first time since Q1 2022.

Technical assessment

- Strong upward momentum; all-time high around USD 2,780.

Special topic

USD/THB

	3 mth	12 mth
USD/THB forecast	34.0	33.0
Fundamental (THB view)	slightly negative	slightly positive
Key interest rate THB	2.25	2.00

Source: Zürcher Kantonalbank

Fundamental assessment

- The Thai baht (THB) was one of the strongest currencies in the 3rd quarter. In addition to a generally weaker USD over the summer, the announcement by a state investment fund to invest in the Thai stock market from 1 October and the continued sharp rise in the price of gold may have contributed to the appreciation of the currency. Thailand is one of the largest gold trading centres in the region and traders typically sell on the international market when prices rise to offset inflows from retail customers. A large proportion of the USD realised in this way is converted back into THB.
- The THB has now weakened in October. This is not only due to a stronger USD, but also to a surprising interest rate cut by the Bank of Thailand (BoT) by 25 basis points to 2.25%. This decision was justified in particular by a reduction in the debt burden of borrowers. Further interest rate cuts cannot be ruled out, which could weigh on the currency. Inflation is well below the central bank's target of 2% and economic confidence has recently fallen to its lowest level since autumn 2021. In addition, tourist numbers remain below the pre-pandemic level.
- In the short term, the US elections will also take centre stage for the USD/THB exchange rate. The US is one of Thailand's largest trading partners, accounting for over 15% of goods exports, and higher tariffs would be a burden.

Snapshot of the forecasts of Zürcher Kantonalbank*

USD		EUR		CHF	
	–	EUR/USD	1.08 (1.12)	USD/CHF	0.86 (0.82)
EUR/USD	1.08 (1.12)		–	EUR/CHF	0.93 (0.92)
USD/CHF	0.86 (0.82)	EUR/CHF	0.93 (0.92)		–
USD/JPY	148 (140)	EUR/JPY	160 (157)	JPY/CHF	0.58 (0.59)
GBP/USD	1.30 (1.35)	EUR/GBP	0.83 (0.83)	GBP/CHF	1.12 (1.11)
USD/CAD	1.39 (1.33)	EUR/CAD	1.50 (1.49)	CAD/CHF	0.62 (0.62)
AUD/USD	0.67 (0.70)	EUR/AUD	1.61 (1.60)	AUD/CHF	0.58 (0.58)
USD/SEK	10.6 (9.8)	EUR/SEK	11.4 (11.0)	SEK/CHF	8.16 (8.36)
USD/CNH	7.30 (6.90)	EUR/CNH	7.88 (7.73)	CNH/CHF	0.12 (0.12)
XAU/USD	2600 (2800)	XAU/EUR	2407 (2500)		–
DXY	103.8 (99.6)				

*Fundamental forecast at the end of October: 3 mth (12 mth)

Source: Zürcher Kantonalbank

Contact persons

Sacha Ziegler, FX Sales
Zürcher Kantonalbank, telephone +41 44 293 62 00

Elias Hafner, FX Research
Zürcher Kantonalbank, phone +41 44 292 35 51