

FX Viewpoint

Currencies
Global

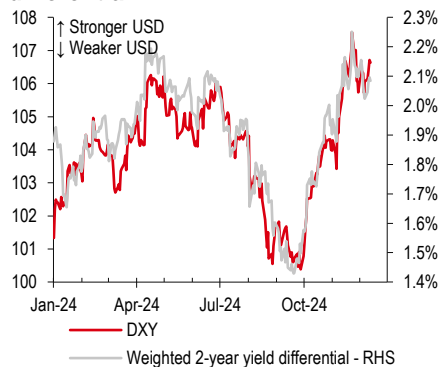
Preparing for 2025

- ◆ Rate differentials remain key to the broad USD; the Fed's new dot plot likely in focus
- ◆ The SNB surprises with a 50bp cut; the CHF weakened
- ◆ The ECB delivers a dovish 25bp cut; EUR to weaken in 2025

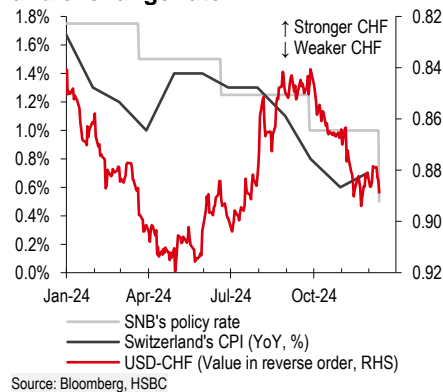
Rate differentials remain key to the broad USD (Chart 1). With US CPI data for November coming in line with consensus expectations (rising 0.3% from a month ago) and **the Federal Reserve (Fed) in its blackout period ahead of its policy meeting on 17-18 December**, the USD is likely to take its cue from developments outside of the US. This includes a surprise 50bp cut by the Swiss National Bank (SNB), and a widely expected 25bp cut by the European Central Bank (ECB).

On 12 December, the SNB delivered a bigger-than-expected rate cut of 50bp, lowering its key rate to 0.5%. The CHF weakened by as much as c0.8% against the USD and c0.7% against the EUR after the announcement before recovering some of the loss as **SNB chief Martin Schlegel downplayed the likelihood of negative rates** (*Bloomberg*, 12 December 2024). However, the SNB's reluctance to cut rates below zero means the policy floor may be closer than previously thought. In turn, this means that, should economic conditions warrant further easing at that rate policy floor, **FX intervention to weaken the CHF could be deployed**. The SNB also repeated its willingness to do so. In the end, **the SNB's dovish stance and fundamentals may point to further CHF weakness**.

1. US Dollar Index (DXY) and its yield differential



2. Switzerland: Policy rate, inflation, and exchange rate



On the same day, the ECB delivered its fourth 25bp cut this year, bringing its key deposit rate to 3%. **In a dovish move, the ECB removed the reference to policy needing to be “sufficiently restrictive for as long as necessary”**, and it also **lowered its GDP growth and inflation forecasts slightly** (*Bloomberg*, 12 December 2024). While ECB President Christine Lagarde said the past analysis suggested the neutral rate could be in a range of 1.75-2.50%, our economists think if growth continues to disappoint and inflation is at target, the ECB might feel comfortable taking rates lower without necessarily having to agree on where the neutral rate is. That is why **we think EUR-USD could face downside risks in 2025**.

The key for markets now is what will happen in 2025. If the Fed delivers a 25bp cut at its December meeting, as widely expected, market reaction is likely to be driven by its policy guidance, notably a new round of the Fed's dot plot. **Geopolitics could lend spikes of support to the “safe haven” currencies, like the USD, JPY, and CHF**.

For now, the USD is more focused on news outside of the US

The CHF weakened after a bigger-than-expected 50bp cut by the SNB

The ECB cut its key rates by 25bp again, as widely expected

Markets will probably eye the Fed's policy guidance at its December meeting

Disclosure appendix

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