



J. Safra Sarasin

FX Atlas

July 8, 2025 | Page 1 of 24 | claudio.wewel@jsafrasarasin.com

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The next issue of the FX Atlas will be published in September

Stablecoins to reinforce dollar dominance

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Over the past decade, the market capitalisation of the stablecoin space has risen to well above US\$200 billion. Initially, stablecoins were developed to act as a 'bridge' between crypto assets and fiat currencies. Yet the variety of use cases has grown markedly since their inception and considerable uncertainty remains as to whether the stablecoins in circulation are backed to the extent their issuers claim. Furthermore, a fragmented regulatory landscape calls for more international coordination. As the STABLE and GENIUS acts progress through US Congress, the issuance of dollar-denominated stablecoins is set to rise in coming years, which should create additional demand for dollar reserves. While this may push the short end of the US Treasury yield curve lower, it is rather unlikely to address the issue of US debt sustainability. We argue that EM local currencies will be particularly vulnerable to the proliferation of stablecoins. The latter could also hamper the ECB's aspiration to strengthen the euro's importance as a global reserve currency and means that the ECB will need to make the rapid introduction of its own CBDC a top priority.

Stablecoins represent a growing portion of crypto market cap

Initially designed to serve as an 'intersection' between traditional financial assets and crypto assets, stablecoins are increasingly in focus. Stablecoins still represent a small but growing portion of the crypto universe, which has risen to well above US\$200 billion in terms of market capitalisation. At a 20% year-to-date growth, the stable coin market cap has outpaced the remainder of the crypto space, warranting a closer look at this segment (Exhibits 1 and 2).

Exhibit 1: Stablecoins are on the rise...

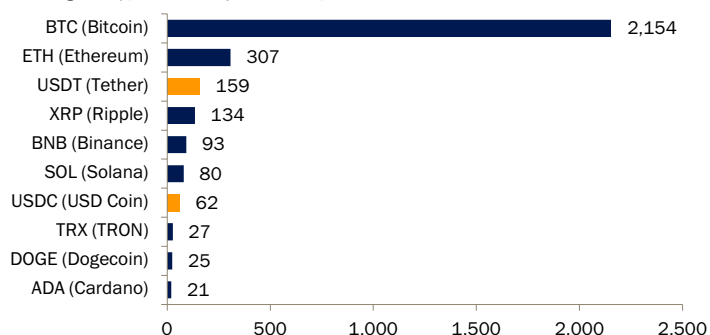
Stablecoins as a share of total crypto market cap, %



Source: CoinMarketCap, Macrobond, Bank J. Safra Sarasin, 08.07.2025

Exhibit 2: ...but still constitute a small share of the crypto space

Ten largest crypto assets by market cap in USD bn



Source: CoinMarketCap, Macrobond, Bank J. Safra Sarasin, 08.07.2025



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As a fundamental use case, stablecoins were developed to act as a 'bridge' between crypto assets and fiat currencies

The desire to introduce scalability while reducing volatility in crypto asset prices led to the release of 'Tether' as the first stablecoin in 2014. Back then, the conversion and exchange from traditional financial assets and fiat currencies into and out of crypto assets represented Tether's fundamental use case. In other words, stablecoins were developed to act as a 'bridge' between crypto assets and fiat currencies. But aside from this, stablecoins earned increasing popularity as an instrument to facilitate trading, lending and borrowing in the wider crypto space and in decentralised financing (DeFi) – see here for [an overview of use cases](#).

Stablecoins have begun to play an increasingly important role as a means of payment

The entirety of stablecoin use cases has expanded substantially since their first inception as they have gained broader public awareness and popularity in recent years. Given easy access via smartphone and the absence of strict regulatory requirements, stablecoins have also begun to play an increasingly important role as a means of payment. While the use case for domestic settlements may not be particularly strong, it becomes much stronger for cross-border payments (Exhibit 3). In particular low-income residents in emerging and developing countries have increased their reliance on stablecoins for payment transactions. In the face of a less developed financial infrastructure, stablecoins allow to circumvent a costly bank account. They also allow to hold 'tokenised' currencies or assets that can easily be used for cross-border remittance payments at a very low cost, while avoiding local-currency debasement. Taken together, these use cases underscore that stablecoins can often be used like fiat currencies and may even come with efficiency benefits for their users. This is likely to foster the growth of the stablecoin market capitalisation in coming years.

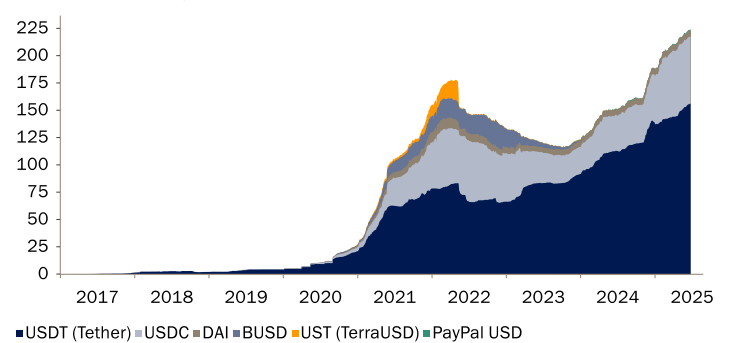
Exhibit 3: Stablecoins allow for inexpensive cross-border remittances

	Traditional payments	Stablecoins
Cross-border cost for a US\$200 remittance	6-10% or fixed fees + FX spread	<US\$0.01 transaction fee + ramp fees
Settlement	Hours to days	Approx 400ms finality
Accessibility	Bank account, physical infrastructure, documentation	Internet connection, digital wallet
Interoperability	Siloed systems, complex integration, reliance on intermediaries	Open, permissionless (on Solana), highly composable via smart contracts

Source: [Helius](#), Bank J. Safra Sarasin, 08.07.2025

Exhibit 4: A stellar rise in stablecoin market capitalisation

Stablecoin market cap in USD bn



Source: CoinMarketCap, Macrobond, Bank J. Safra Sarasin, 08.07.2025

'Tether' and 'USD Coin' are the two largest stablecoins by market capitalisation. Both are backed by US Treasury bills

Stablecoins vary substantially with respect to the mechanism used to stabilise their value. In principle, they can be divided into two categories: asset-backed and algorithm-based. Fiat currency-backed stable coins represent the most widely used and trusted type. With a combined market capitalisation of well above US\$200 billion, Tether (USDT) and USD Coin (USDC) represent the biggest chunk within the group of fiat-collateralised stablecoins (Exhibit 4). Both claim to be backed by equivalent cash or cash-equivalent assets. According to the [Tether Reserves Report April 2025](#), USDT is backed by roughly 66% in US Treasury bills and 16% in reverse repos as well as other cash equivalents (Exhibit 5). The remaining 18% are backed by holdings of precious metals, bitcoin, secured loans and other miscellaneous assets. Other than USDT, USDC appears to be [backed predominantly by US dollar assets](#), most of which are held as US Treasury bills and money market funds by the [Circle Reserve Fund](#). Indeed, the vast majority of fiat-collateralised stablecoins is dollar-based. For example, the market capitalisation of Circle's US dollar coin [USDC](#) currently amounts to around US\$61 billion, while the market capitalisation of its euro coin [EURC](#) only amounts to €178 million.



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'DAI' is the largest crypto asset-backed stablecoin by market capitalisation

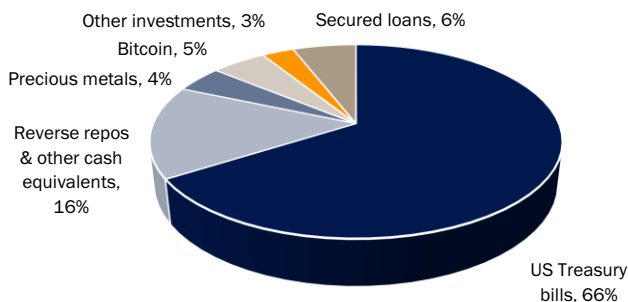
The space of asset-backed stablecoins also includes stablecoins backed by other financial assets and commodities and even includes variants backed by crypto assets. With its current market capitalisation at around US\$5 billion, 'DAI' represents the most significant representative in this segment. To mitigate volatility, crypto-backed stablecoins are often over-collateralised and typically operate through smart contracts on decentralised platforms. Yet they remain exposed to the volatile price dynamics specific to crypto markets.

Algorithm-based stablecoins represent a third group; the failed TerraUSD represents its most prominent example

In contrast to the previously discussed space of asset-backed stablecoins, algorithm-based stablecoins maintain their pegs through protocols that increase or decrease their supply in response to changes in demand. Yet algorithmic stablecoins have proven to be fragile in practice. The failure of TerraUSD (UST), which collapsed due to a loss of market confidence and design flaws, represents the most prominent case in this regard. Within a matter of days, TerraUSD lost more than 99% of its value following the breakdown of its synthetic dollar peg in early May 2022 (Exhibit 6). The turmoil in the crypto space even caused Tether to lose its dollar peg temporarily, raising general concerns over the stability of algorithm-based pegs.

Exhibit 5: Tether is largely backed by dollar-denominated assets

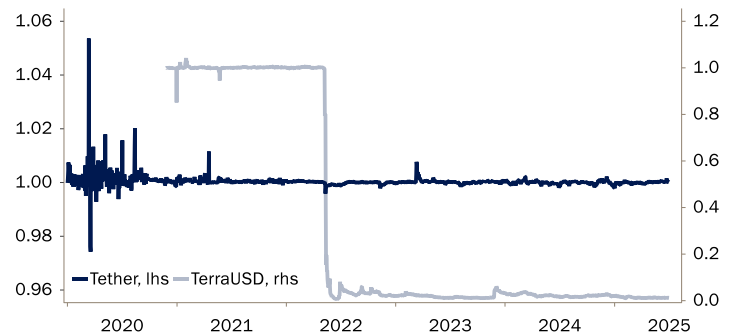
Allocation of Tether reserve assets, according to their reports



Source: [Tether](#), Bank J. Safra Sarasin, 08.07.2025

Exhibit 6: Stablecoins are not necessarily 'stable'

Stablecoins in USD



Source: CoinMarketCap, Macrobond, Bank J. Safra Sarasin, 08.07.2025

There is significant uncertainty as to whether stablecoins are indeed backed to the extent issuers claim

In light of their growing popularity, central banks stress that stablecoins are not considered money and that there remains significant uncertainty as to whether stablecoins are indeed backed by the financial assets their issuers claim. Stablecoin holdings are unlikely to be easily recoverable if the issuer fails, which means that there is no guarantee that stablecoin holders are protected. Given these issues, there is a growing consensus that a stable and low-risk stablecoin should have the following attributes:

- 1:1 peg to a sovereign fiat currency (or a basket of currencies)
- Reserve funds must be held in liquid instruments with a highly trustworthy custodian
- Stablecoins must be backed by reserves at least on a 1:1 basis *at all times*
- Reserves are independently verified and audited on a regular and ongoing basis

The fragmentation of stablecoin regulation underscores the need for an internationally coordinated framework

Yet the big bulk of issued stablecoins is unlikely to fulfil these requirements to this date. Hence the stablecoin space still requires an internationally coordinated regulatory framework that defines transparency requirements for reserve assets and liquidity risk management. So far, stablecoin regulation varies significantly across jurisdictions. The US have long neglected to regulate stablecoins more tightly at the federal level, while they are regulated under MiCA (Markets in Crypto-Assets) in the EU. China bans all private stable coins and Japan permits only stablecoins issued by banks or licensed entities.



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The US is moving ahead with the STABLE and GENIUS acts, which are yet to be signed into law

Since President Trump resumed office in January, the stablecoin space has enjoyed a flurry of tailwinds. In January 2025, President Trump signed [Executive Order 14178](#), which bans federal agencies from undertaking any action to establish, issue, or promote a USD CBDC within the US or abroad. While the move signalled strong federal support for private innovation, it also eliminated the immediate threat of CBDC competition for stablecoin issuers. At the same time, the federal regulation of stablecoins has progressed at a fast pace. With the STABLE Act, the Trump administration seeks to improve transparency on stablecoin reserves and consumer protection. A second bill, the GENIUS Act, aims to set a national framework, which would allow banks, fintechs and retailers to issue regulated stablecoins. Algorithmic stablecoins will likely be banned. So far, both bills have not been signed into law. Yet they are likely to foster the growth of dollar-pegged stablecoins in particular, which is set to create additional demand for the US dollar.

Additional dollar demand relating to stablecoin reserves should primarily push the short end of the US Treasury yield curve lower, which is rather unlikely to address the issue of US debt sustainability

But could the growth of dollar-denominated stablecoin issuance (and the growing need for US dollar reserves) truly address the issue of US debt sustainability? As is often the case, it depends. Certainly, stablecoin issuance would have to rise far beyond current levels. Yet we believe that the additional dollar demand will impact the longer-dated end of the US Treasury curve only to a lesser extent. Since stablecoins are predominantly backed by US Treasury bills due to liquidity needs, we believe that, if anything, the growth of stablecoin reserves should primarily push the short end of the US bond yield curve lower.

The proliferation of dollar-denominated stablecoins hampers the ECB's aspiration and efforts to strengthen the euro's importance as a global reserve currency and means that it will need to make the rapid development of its own CBDC a top priority

What's more, the proliferation of dollar-denominated stablecoins is no good news for other currencies. While it strengthens the role of the US dollar as a global reserve currency, it diminishes the demand for local currencies. This could be mostly felt in emerging markets, where the benefits of using stablecoins are greater than elsewhere, explaining their popularity in these markets. Yet a shift from local currency into dollar stablecoins suggests that EM local currencies will likely become more volatile as their FX trading volume diminishes. This could trigger even higher outflows in times of financial distress. Moreover, it bears the risk that local monetary policy transmission could become less effective in these countries, augmenting their exposure to US monetary policy. While it is less likely that dollar-denominated stablecoins will be broadly adopted within the EU, the development could hamper the [ECB's aspiration](#) to strengthen the euro's importance as a global reserve currency. This means that the ECB will need to make the rapid introduction of its own CBDC a top priority.



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Overview

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Overview

Our view & major differences to the Bloomberg consensus

- **Bullish on the Swiss franc:** We expect the currency to be well supported amid high political uncertainty. Upside pressure to rise from here as the SNB has likely delivered its last rate cut and the Swiss franc's rate disadvantage is set to narrow again.
- **Bullish on gold:** We expect gold to perform well in 2025 amid high political uncertainty and strong structural demand as central banks diversify reserves away from dollar assets. Given weak activity in China, we expect Chinese demand to remain high.

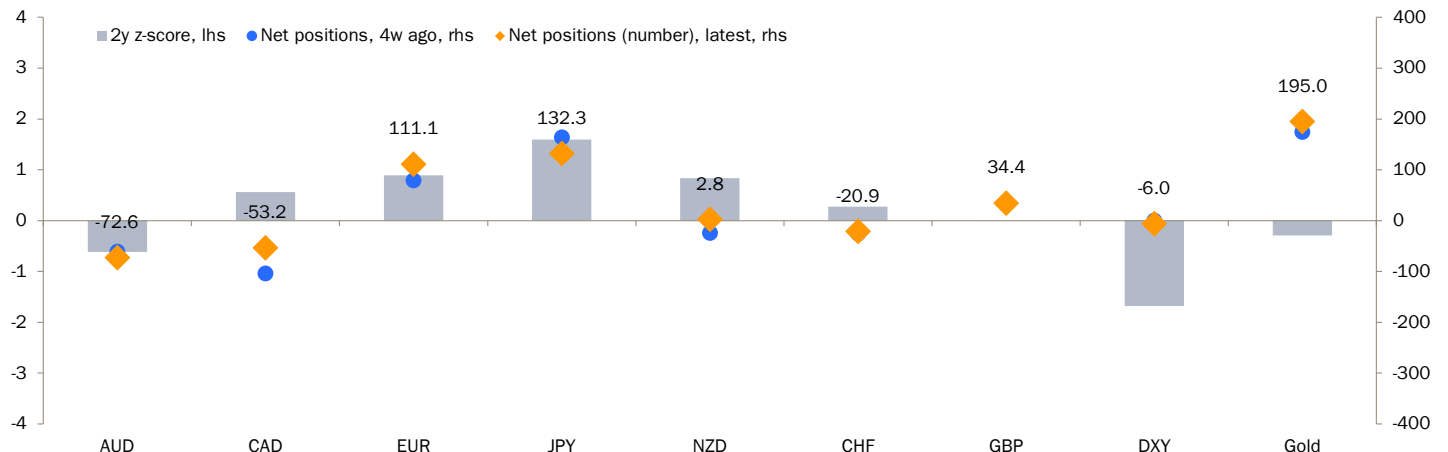
Forecasts

CHF	8-Jul	BJSS forecasts				Consensus	FX forwards
		3Q25	4Q25	2Q26	4Q26	4Q25	4Q25
USDCHF	0.80	0.78	0.77	0.75	0.73	0.81	0.78
EURCHF	0.94	0.93	0.92	0.92	0.91	0.95	0.93
GBPCHF	1.08	1.10	1.08	1.06	1.03	1.10	1.06
CHFJPY	184	176	176	177	177	172	184
USD	8-Jul	3Q25	4Q25	2Q26	4Q26	4Q25	4Q25
EURUSD	1.17	1.18	1.20	1.22	1.24	1.17	1.18
GBPUSD	1.36	1.40	1.41	1.41	1.40	1.36	1.36
USDJPY	147	138	135	133	130	140	144
USDCNY	7.18	7.10	7.00	6.90	6.80	7.15	7.10
EUR	8-Jul	3Q25	4Q25	2Q26	4Q26	4Q25	4Q25
EURGBP	0.86	0.84	0.85	0.87	0.88	0.86	0.87
EURJPY	172	163	162	162	161	164	171
Gold	8-Jul	3Q25	4Q25	2Q26	4Q26	4Q25	4Q25
XAUUSD	3,328	3,500	3,600	3,700	3,800	3,250	

Source: Bloomberg, Bank J. Safra Sarasin

Positioning

CFTC COT net speculative positions, 2y z-score



Source: Macrobond, Bank J. Safra Sarasin



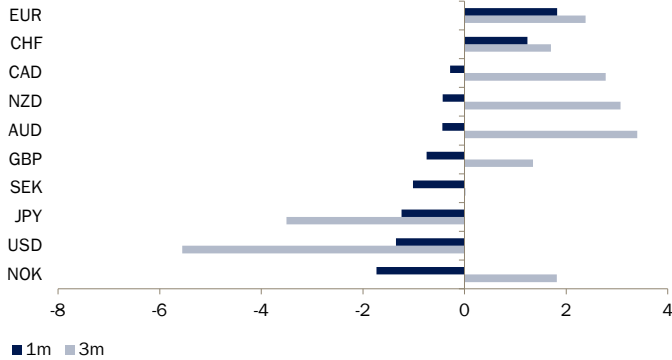
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Overview

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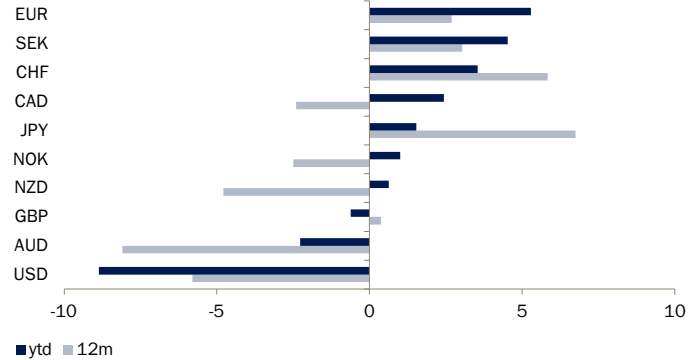
Performance

1m and 3m performance nominal trade weighted FX indices, %



Source: Macrobond, Bank J. Safra Sarasin

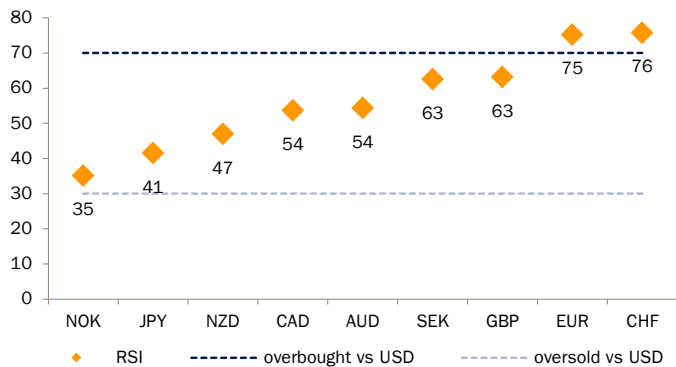
1y and ytd performance nominal trade weighted FX indices, %



Source: Macrobond, Bank J. Safra Sarasin

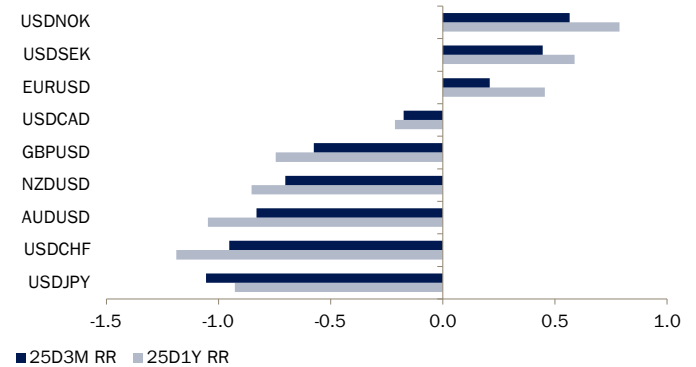
Sentiment

Relative Strength Index (RSI) vs USD*



Source: Bloomberg, Bank J. Safra Sarasin

3- and 12-month risk reversals (RR)**

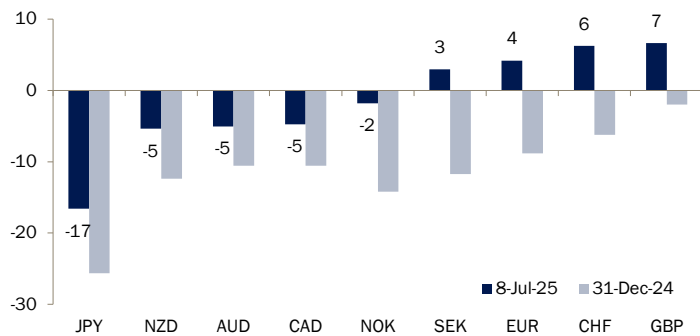


Source: Bloomberg, Bank J. Safra Sarasin

Valuation

Relative PPP-implied valuation vs USD, %

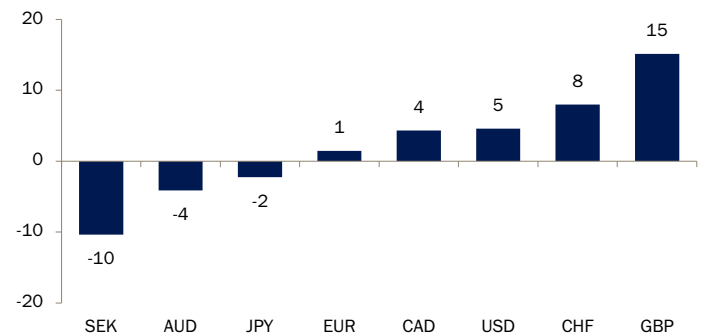
FX spot vs PPP-implied USD exchange rates



Source: Macrobond, Bank J. Safra Sarasin

IMF assessed fair value gap, based on current account sustainability

Deviation of real effective exchange rate from IMF long-term «fair value», %



Source: Macrobond, IMF, Bank J. Safra Sarasin



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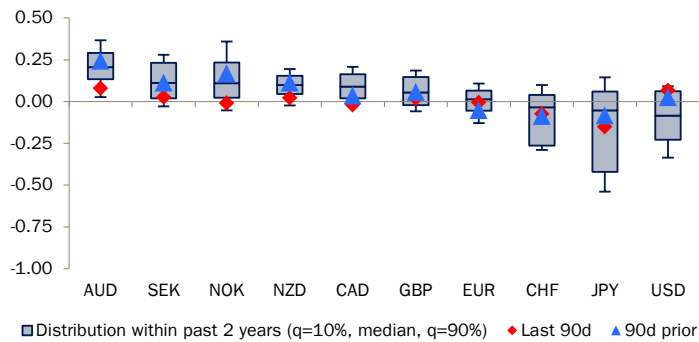
Overview

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Sensitivities

Equity (S&P 500)

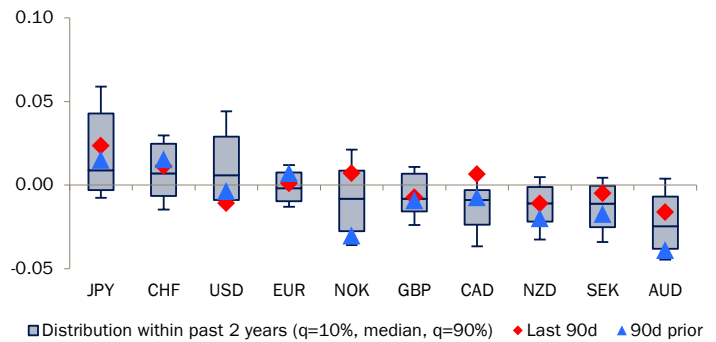
Sensitivity of NEER vs S&P 500



Source: Macrobond, Bank J. Safra Sarasin

Equity volatility (VIX)

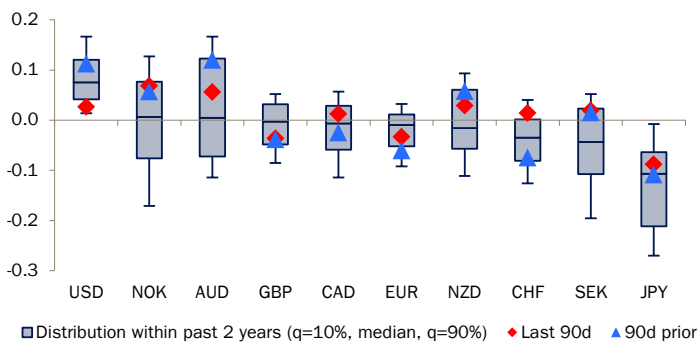
Sensitivity of NEER vs VIX index



Source: Macrobond, Bank J. Safra Sarasin

US Treasury 2y yield

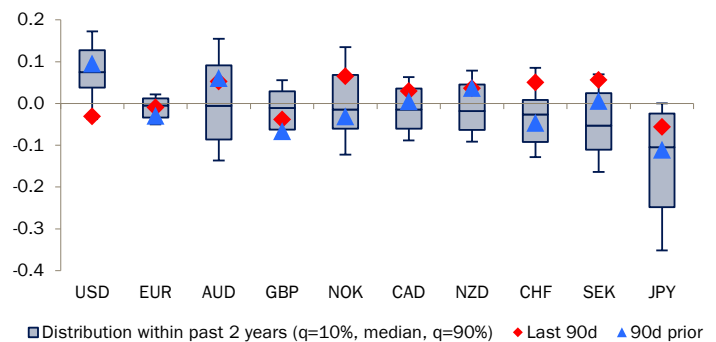
Sensitivity of NEER vs UST 2y yield



Source: Macrobond, Bank J. Safra Sarasin

US Treasury 10y yield

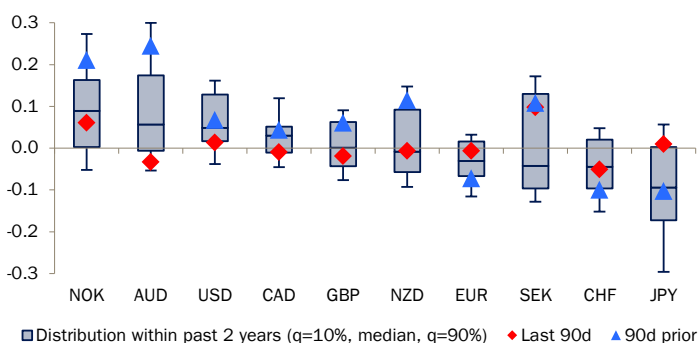
Sensitivity of NEER vs UST 10y yield



Source: Macrobond, Bank J. Safra Sarasin

Break-even inflation

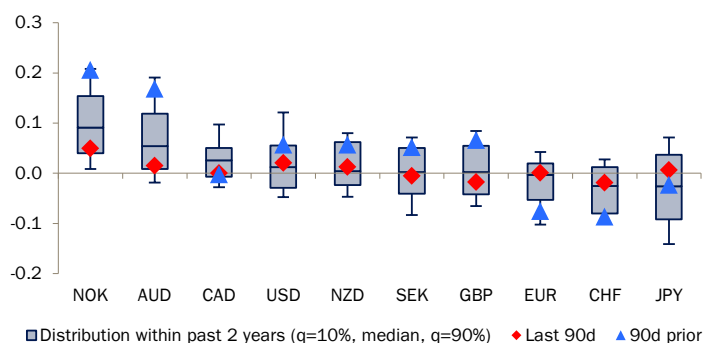
Sensitivity of NEER vs US 10y break-even inflation



Source: Bloomberg, Bank J. Safra Sarasin

Crude oil

Sensitivity of NEER vs Brent crude oil



Source: Macrobond, Bank J. Safra Sarasin

Betas are calculated on 2d log returns with a rolling window of 90d length. The boxplots indicate the minimum and maximum betas as well as the 10%, 50% and 90% quantiles reached over the past 2 years.



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Swiss franc | CHF

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Key view: Upward pressure on Swiss franc to rise from here, given that the SNB has likely reached the end of its rate cutting cycle

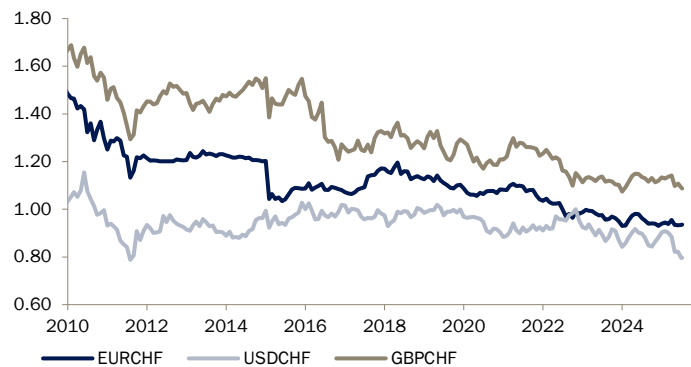
- **Short term:** The Swiss franc has risen sharply since the announcement of 'reciprocal tariffs' in April, experiencing the strongest appreciation against the US dollar within G10 FX. While negative rates remain a possibility, the SNB stressed at its June meeting that the hurdles for such a step are relatively high, suggesting that the SNB has likely reached the end of its rate cutting cycle. Hence, we expect the upward pressure to rise from here.
- **Medium term:** On balance, the Swiss franc should also benefit as most central banks maintain an easing bias. The SNB will follow the Swiss franc's broader dynamics closely and FX intervention will become more likely if the currency strengthens at a rapid pace. Yet the Swiss franc's strength against the US dollar will be of lesser concern to the SNB than currency appreciation against the euro. Elevated US policy uncertainty and/or a widening of government bond yield spreads in the euro area periphery are additional upside risks.
- **Long term:** We expect Swiss franc appreciation to continue given its relative structural advantages, along with high current account surpluses and a strong net international investment position.

Forecast BJSS	8-Jul	3Q25	4Q25	2Q26	4Q26
EURCHF	0.94	0.93	0.92	0.92	0.91
USDCHF	0.80	0.78	0.77	0.75	0.73
GBPCHF	1.08	1.10	1.08	1.06	1.03
CHF NEER	100.0	101.0	101.9	103.0	104.0

Performance (%)	1w	1m	3m	6m	12m	ytd
EURCHF	0.1	-0.3	-0.5	-0.7	-3.8	-0.5
USDCHF	0.1	-3.2	-7.4	-12.2	-11.3	-11.8
GBPCHF	-0.4	-2.4	-1.2	-4.2	-5.5	-4.1
CHF NEER	0.0	1.2	1.7	3.7	5.8	3.5

FX development

Key crosses



Source: Macrobond, Bank J. Safra Sarasin

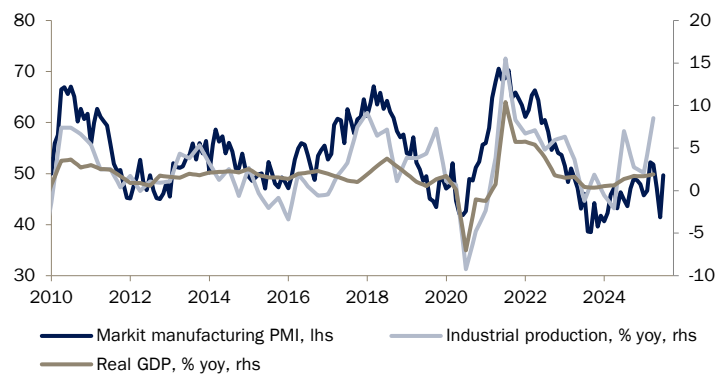
Nominal and real effective exchange rates



Source: Macrobond, Bank J. Safra Sarasin

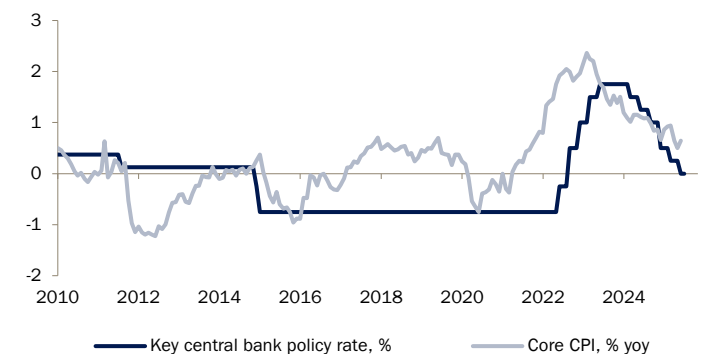
Cyclical position of Switzerland

GDP growth & outlook



Source: Macrobond, Bank J. Safra Sarasin

Inflation & monetary policy



Source: Macrobond, Bank J. Safra Sarasin



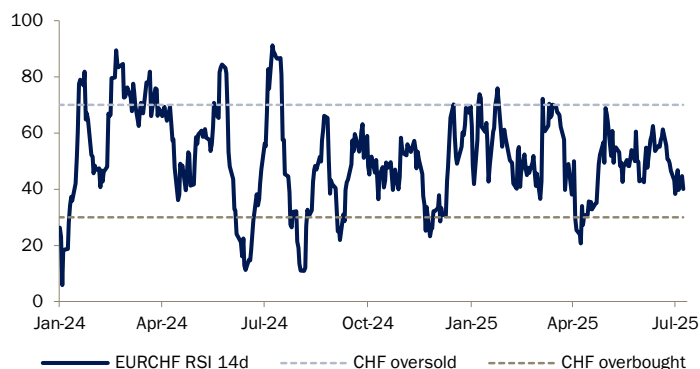
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Swiss franc | CHF

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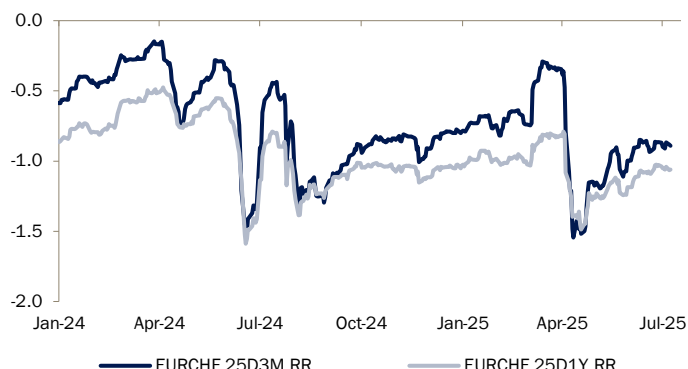
Short term factors & sentiment

Relative strength index*



Source: Bloomberg, Bank J. Safra Sarasin

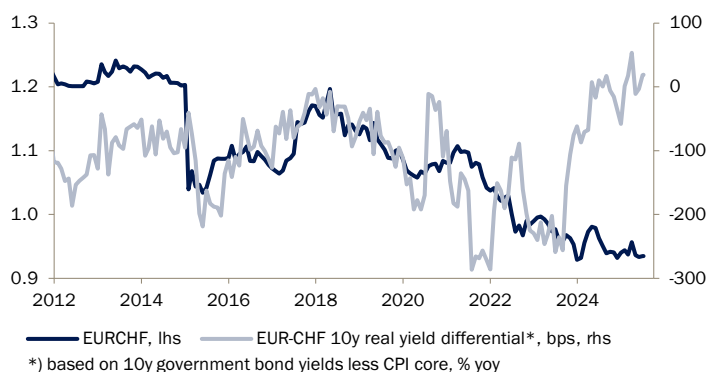
3- and 12-month risk reversals**



Source: Bloomberg, Bank J. Safra Sarasin

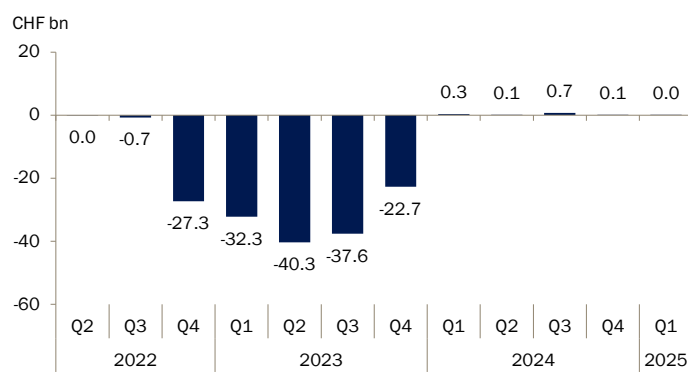
Medium term factors

Real yields



Source: Macrobond, Bank J. Safra Sarasin

SNB quarterly FX intervention



Source: Macrobond, Bank J. Safra Sarasin

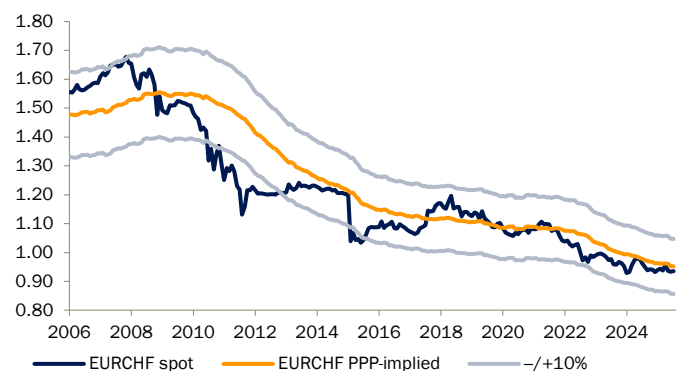
Long term factors

Imbalances: Switzerland

External imbalances	2021	2022	2023	2024
Current account balance, % GDP	7.0	8.7	5.2	5.1
Net international position, % GDP	107.3	93.2	99.5	125.7
Internal imbalances	2021	2022	2023	2024
Real house prices, % yoy	3.7	1.0	-1.5	0.2
Private sector debt, % GDP	279.6	271.3	263.5	261.7
Government debt, % GDP	41.0	37.2	38.7	37.6

Source: Macrobond, Bank J. Safra Sarasin

Valuation: Purchasing power parity



Source: Macrobond, Bank J. Safra Sarasin



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Euro | EUR

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Key view: Limited near-term upside, but structural forces and fiscal spending should provide a further boost in late 2025 and 2026

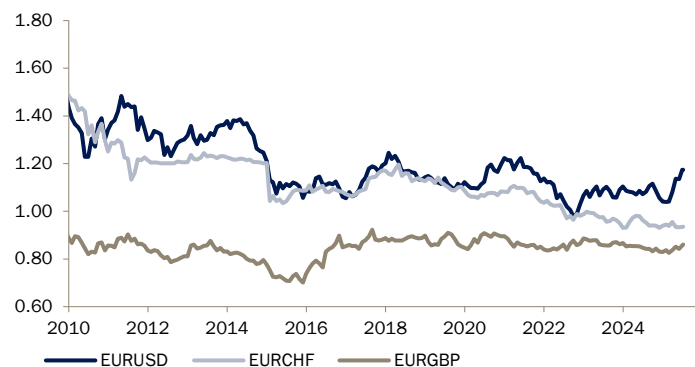
- **Short term:** The euro has benefitted from the 'sell America' trade following the announcement of 'reciprocal tariffs' on 2 April. Economic sentiment indicators have improved in the euro area on the back of the German fiscal infrastructure and defence spending packages, narrowing the gap between US and euro area data. Yet the euro will need a significant improvement of economic activity in the euro area to move meaningfully higher from here.
- **Medium term:** The historic debt-financed German infrastructure package worth €500bn, which is set to be spent over the next twelve years, along with a considerable increase in defence spending significantly improve the medium-term growth outlook for Germany and the euro area. We expect the positive effect on activity to become visible in late 2025 and 2026, which should allow the euro to embark on another leg higher. The euro should also benefit from a reversal of financial flows back from the US to the euro area, as US exceptionalism is fading and we expect structural dollar selling to remain a euro-positive factor. A renewed widening of peripheral spreads in the euro area on the back of French debt sustainability concerns remains a downside risk.
- **Long term:** The euro should trend higher once the global cycle reaccelerates meaningfully.

Forecast BJSS	8-Jul	3Q25	4Q25	2Q26	4Q26
EURUSD	1.17	1.18	1.20	1.22	1.24
EURCHF	0.94	0.93	0.92	0.92	0.91
EURGBP	0.86	0.84	0.85	0.87	0.88
EUR NEER	100.0	98.8	99.7	100.9	102.0

Performance (%)	1w	1m	3m	6m	12m	ytd
EURUSD	0.0	3.1	7.4	13.1	8.4	12.8
EURCHF	0.1	-0.3	-0.5	-0.7	-3.8	-0.5
EURGBP	0.5	2.2	0.7	3.7	1.8	3.8
EUR NEER	0.0	1.8	2.4	5.4	2.7	5.3

FX development

Key crosses

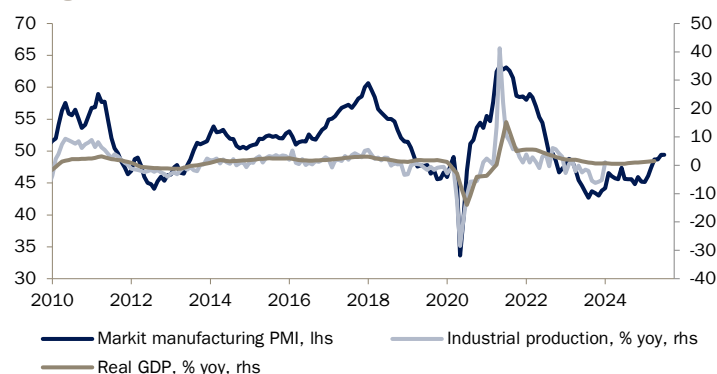


Nominal and real effective exchange rates

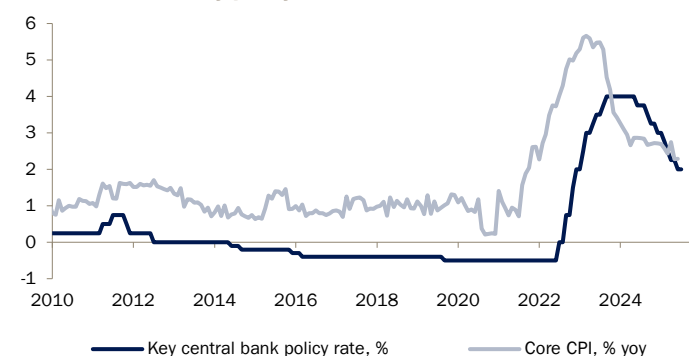


Cyclical position of the euro area

GDP growth & outlook



Inflation & monetary policy





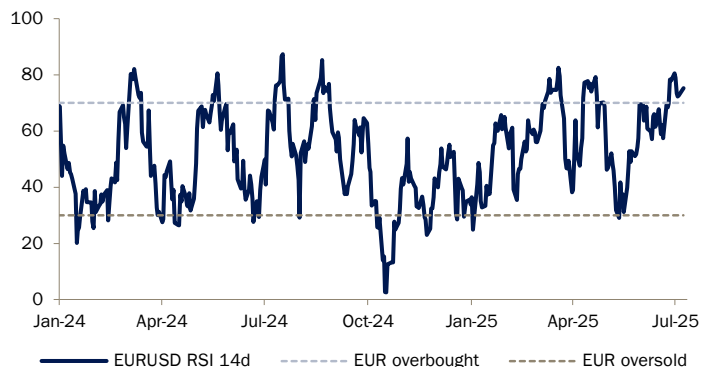
J. Safra Sarasin

Euro | EUR

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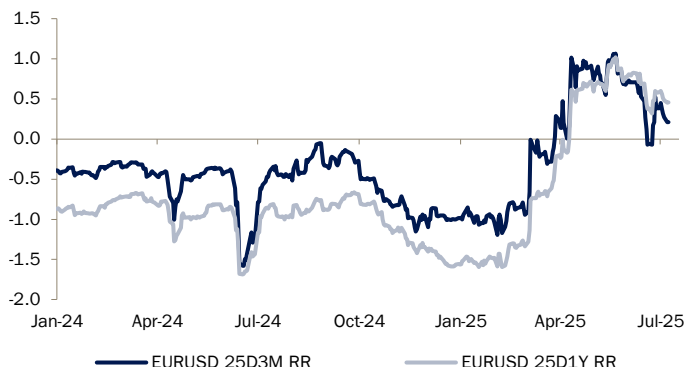
Short term factors & sentiment

Relative strength index*



Source: Bloomberg, Bank J. Safra Sarasin

3- and 12-month risk reversals**



Source: Bloomberg, Bank J. Safra Sarasin

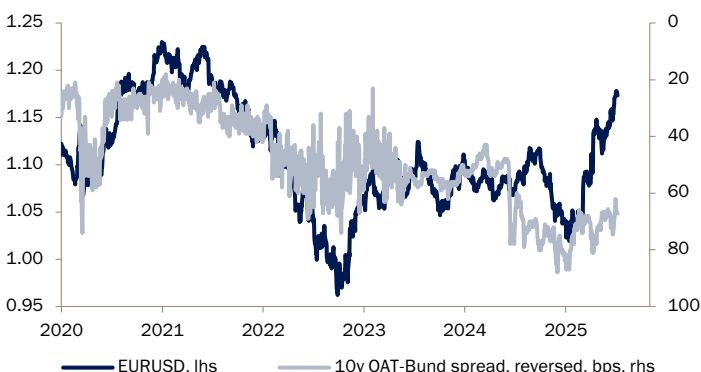
Medium term factors

Real yields



Source: Bloomberg, Bank J. Safra Sarasin

Euro area fragmentation risk



Source: Macrobond, Bank J. Safra Sarasin

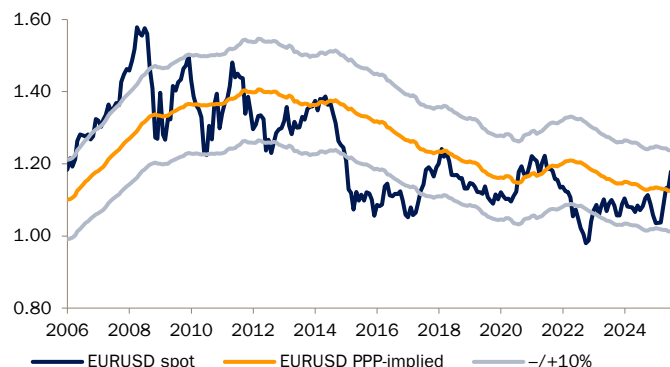
Long term factors

Imbalances: Euro area

External imbalances	2021	2022	2023	2024
Current account balance, % GDP	2.7	-0.1	1.7	2.8
Net international position, % GDP	-0.5	2.1	3.0	10.9
Internal imbalances	2021	2022	2023	2024
Real house prices, % yoy	4.7	-6.2	-4.0	1.8
Private sector debt, % GDP	175.8	168.9	160.1	157.0
Government debt, % GDP	93.9	89.5	87.4	87.7

Source: Macrobond, Bank J. Safra Sarasin

Valuation: Purchasing power parity



Source: Macrobond, Bank J. Safra Sarasin



J. Safra Sarasin

US dollar | USD

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Key view: US dollar to face headwinds on the back of unsustainable US policies and a moderating domestic cycle

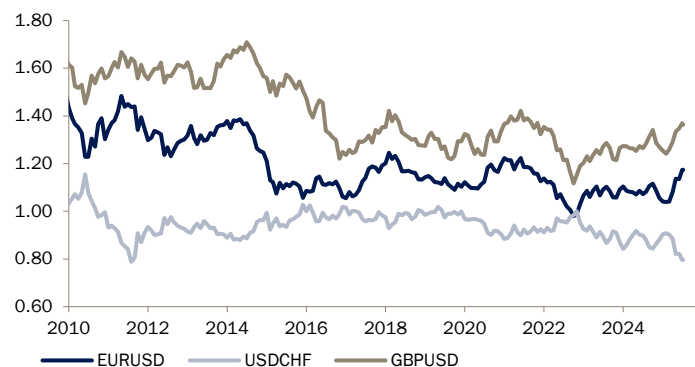
- **Short term:** The dollar has trended lower in recent weeks as markets re-evaluate the Trump administration's policies and the deterioration of the US fiscal outlook. While economic data have remained robust with a resilient US labour market and soft data on activity, we remain cautious on the dollar. In our view, the effective tariff rate on US imports should rise from here, which – in combination with the weaker dollar – should drive prices higher and weigh on domestic consumption.
- **Medium term:** So far, Trump's policy agenda implies that the Fed's rate cut trajectory will be shallow, but increasing growth risks could force the Fed to deliver more cuts than markets currently price, which should add to the near-term dollar headwinds. Unsustainable policies and high policy uncertainty may initiate further financial outflows from the US. Against this backdrop, we are less inclined to see the dollar gaining on the back of a global recession this time around. The Trump administration's plans to render US dollar reserve assets less attractive for foreign holders constitutes another downside risk. Yet a major US policy reversal fostering trust in US assets constitutes an upside risk.
- **Long term:** The combination of high policy uncertainty and continued large external US financing needs constitute a structural headwind for the dollar, in the course of which the bigger bulk of G10 and commodity EM FX should continue to recover versus the highly-valued dollar.

Forecast BJSS	8-Jul	3Q25	4Q25	2Q26	4Q26
EURUSD	1.17	1.18	1.20	1.22	1.24
USDCHF	0.80	0.78	0.77	0.75	0.73
GBPUSD	1.36	1.40	1.41	1.41	1.40
USD NEER	100.0	98.5	97.3	96.1	94.9

Performance (%)	1w	1m	3m	6m	12m	ytd
EURUSD	0.0	3.1	7.4	13.1	8.4	12.8
USDCHF	0.1	-3.2	-7.4	-12.2	-11.3	-11.8
GBPUSD	-0.5	0.8	6.7	9.1	6.5	8.6
USD NEER	0.0	-1.4	-5.6	-8.7	-5.8	-8.9

FX development

Key crosses



Source: Macrobond, Bank J. Safra Sarasin

Nominal and real effective exchange rates



Source: Macrobond, Bank J. Safra Sarasin

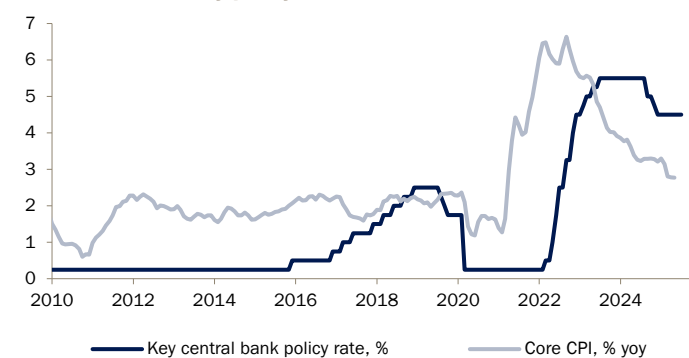
Cyclical position of the United States

GDP growth & outlook



Source: Macrobond, Bank J. Safra Sarasin

Inflation & monetary policy



Source: Macrobond, Bank J. Safra Sarasin



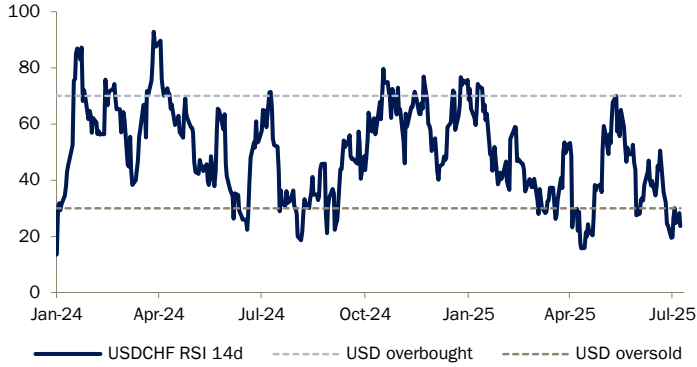
J. Safra Sarasin

US dollar | USD

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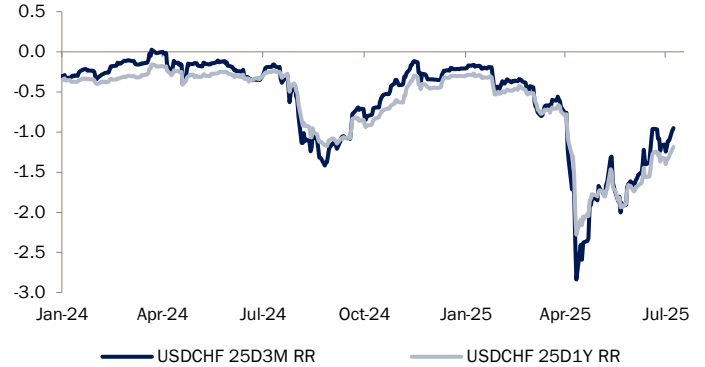
Short term factors & sentiment

Relative strength index*



Source: Bloomberg, Bank J. Safra Sarasin

3- and 12-month risk reversals**



Source: Bloomberg, Bank J. Safra Sarasin

Medium term factors

Real yields



Source: Bloomberg, Bank J. Safra Sarasin

Fed vs ECB balance sheet growth



Source: Macrobond, Bank J. Safra Sarasin

Long term factors

Imbalances: United States

External imbalances	2021	2022	2023	2024
Current account balance, % GDP	-3.7	-3.9	-3.3	-3.9
Net international position, % GDP	-79.5	-62.5	-71.6	-89.9

Internal imbalances	2021	2022	2023	2024
Real house prices, % yoy	10.8	-1.4	3.0	1.6
Private sector debt, % GDP	159.6	153.7	147.6	143.0
Government debt, % GDP	124.7	118.8	119.0	120.8

Source: Macrobond, Bank J. Safra Sarasin

Valuation: Purchasing power parity



Source: Macrobond, Bank J. Safra Sarasin



J. Safra Sarasin

Pound sterling | GBP

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Key view: Sticky inflation supports the British pound for now, yet a clouded UK growth outlook argues for weakness further out

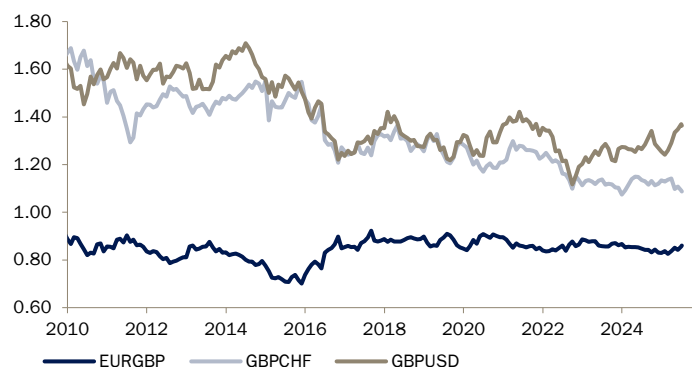
- **Short term:** The pound has weakened amid speculation over UK Chancellor Reeves' position, fuelling uncertainty about UK fiscal policy and the government's willingness to stick to its fiscal consolidation plans. Recent policy U-turns have pushed longer-term gilt yields higher. The latter have shown a negative correlation with the pound since the Prime Minister Liz Truss' 'mini budget crisis' in late 2022.
- **Medium term:** The rise in longer-term interest rates is set to constrain the UK's fiscal space, raising the prospect of tax increases in the autumn budget. This should additionally weigh on beleaguered UK growth, which has slowed meaningfully in Q2. Yet the sharp rise in April inflation and another strong print in May limit the BoE's room for policy rate cuts. On a more positive note, Governor Bailey indicated that the BoE may slow down its pace of quantitative tightening, reducing its outright sales of gilts, which should ease pressures to some extent. Overall, we expect the pound to soften moderately against the euro, while it should continue to grind higher against the dollar. Pound sterling continues to look expensive in real terms, suggesting that downside pressure should rise further out.
- **Long term:** The UK's external and internal imbalances are set to remain a challenge.

Forecast BJSS	8-Jul	3Q25	4Q25	2Q26	4Q26
EURGBP	0.86	0.84	0.85	0.87	0.88
GBPCHF	1.08	1.10	1.08	1.06	1.03
GBPUSD	1.36	1.40	1.41	1.41	1.40
GBP NEER	100.0	102.6	101.7	100.1	98.5

Performance (%)	1w	1m	3m	6m	12m	ytd
EURGBP	0.5	2.2	0.7	3.7	1.8	3.8
GBPCHF	-0.4	-2.4	-1.2	-4.2	-5.5	-4.1
GBPUSD	-0.5	0.8	6.7	9.1	6.5	8.6
GBP NEER	0.0	-0.7	1.3	-0.6	0.4	-0.6

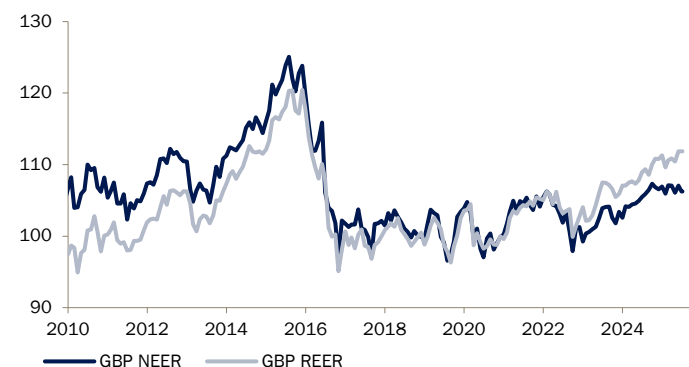
FX development

Key crosses



Source: Macrobond, Bank J. Safra Sarasin

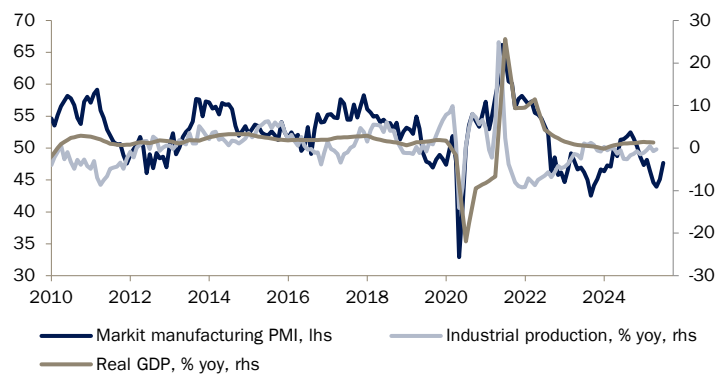
Nominal and real effective exchange rates



Source: Macrobond, Bank J. Safra Sarasin

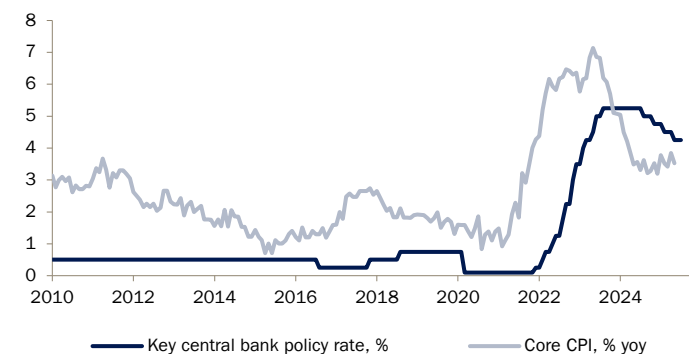
Cyclical position of the United Kingdom

GDP growth & outlook



Source: Macrobond, Bank J. Safra Sarasin

Inflation & monetary policy



Source: Macrobond, Bank J. Safra Sarasin



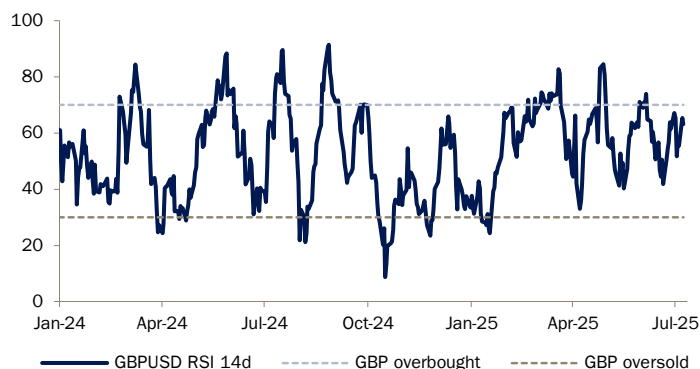
J. Safra Sarasin

Pound sterling | GBP

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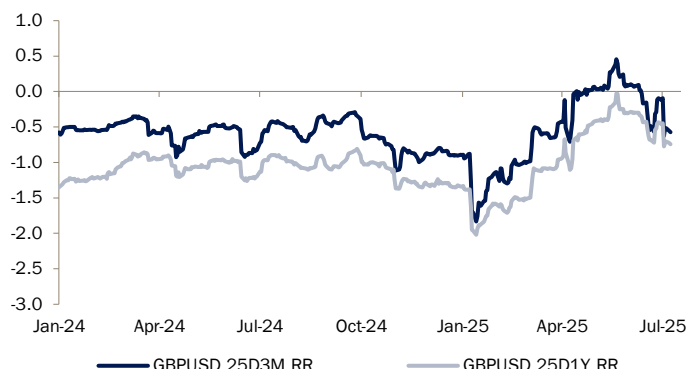
Short term factors & sentiment

Relative strength index*



Source: Bloomberg, Bank J. Safra Sarasin

3- and 12-month risk reversals**



Source: Bloomberg, Bank J. Safra Sarasin

Medium term factors

Real yields



Source: Bloomberg, Bank J. Safra Sarasin

UK policy uncertainty



Source: Macrobond, Bank J. Safra Sarasin

Long term factors

Imbalances: United Kingdom

External imbalances	2021	2022	2023	2024
Current account balance, % GDP	-0.4	-2.1	-3.5	-3.4
Net international position, % GDP	-12.4	-11.8	-13.7	-9.8
Internal imbalances	2021	2022	2023	2024
Real house prices, % yoy	4.7	-7.0	-5.5	2.0
Private sector debt, % GDP	163.9	148.6	142.4	137.5
Government debt, % GDP	105.1	99.6	100.4	101.2

Source: Macrobond, Bank J. Safra Sarasin

Valuation: Purchasing power parity



Source: Macrobond, Bank J. Safra Sarasin



J. Safra Sarasin

Japanese yen | JPY

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Key view: Yen to remain supported as BoJ maintains its hawkish bias, currency could also benefit from repatriation of foreign assets

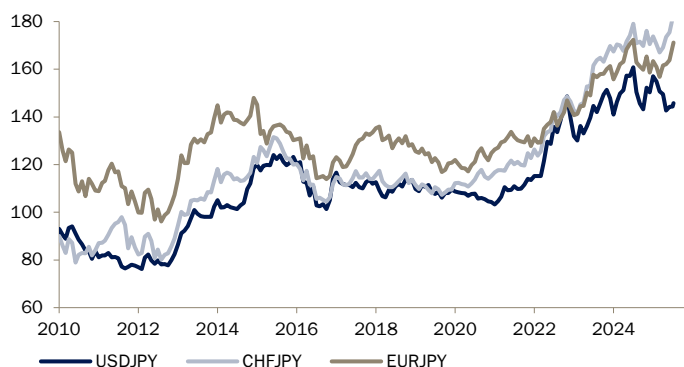
- **Short term:** The Japanese yen has appreciated meaningfully since the start of the year, yet the currency's appreciation has stalled in recent weeks, likely reflecting domestic growth headwinds and a lack of progress in Japan's trade negotiations with the US. A US-Japan trade deal is unlikely to be agreed upon before the Japanese elections in the end of July. Japan's current administration won't be able to make easy concessions as tariff negotiations have become a major point of contention in domestic politics. Yet a stronger yen could be part of an eventual trade deal between Japan and the US, implying a near-term upside risk for the currency.
- **Medium term:** The BoJ will likely need to raise policy rates further until the end of this year as Japanese inflation proves to be sticky, given the strong wage gains negotiated in the Spring wage negotiations (shunto). Yet we expect the BoJ to wait with its next rate hike until Japan has negotiated a trade deal with the US. Moreover, attractive long-term JGB yields could prompt Japanese investors to repatriate foreign assets, which would be a further tailwind for the yen.
- **Long term:** We expect the yen to strengthen as it screens relatively cheap both in purchasing power parity terms and from a current account sustainability perspective. Yet the currency may struggle to recover to pre-pandemic levels, given various structural challenges.

Forecast BJSS	8-Jul	3Q25	4Q25	2Q26	4Q26
USDJPY	147	138	135	133	130
CHFJPY	184	176	176	177	177
EURJPY	172	163	162	162	161
JPY NEER	100.0	105.4	106.9	108.2	109.5

Performance (%)	1w	1m	3m	6m	12m	ytd
USDJPY	1.0	0.6	-1.3	-7.7	-9.4	-7.1
CHFJPY	0.9	4.0	6.7	5.2	2.1	5.3
EURJPY	1.0	3.7	6.1	4.5	-1.8	4.7
JPY NEER	0.0	-1.2	-3.5	2.3	6.8	1.5

FX development

Key crosses



Source: Macrobond, Bank J. Safra Sarasin

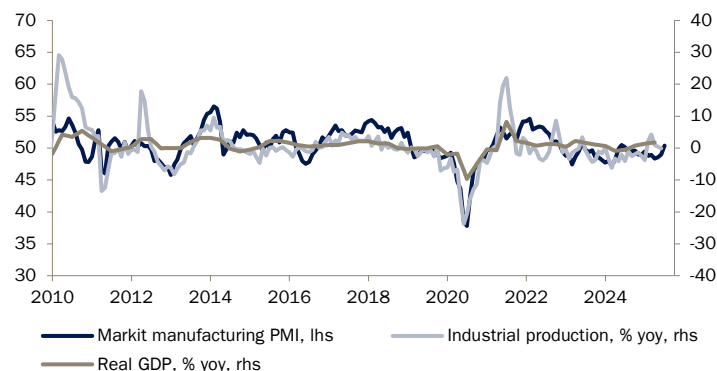
Nominal and real effective exchange rates



Source: Macrobond, Bank J. Safra Sarasin

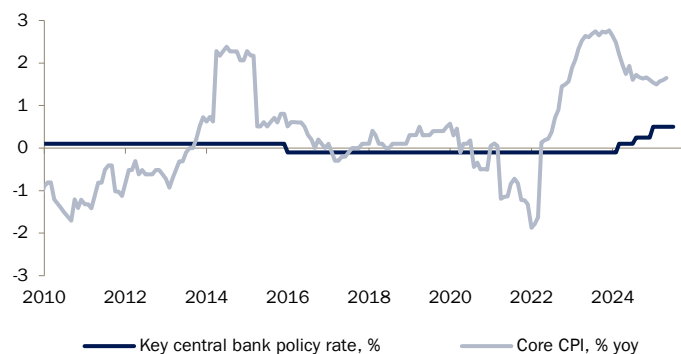
Cyclical position of Japan

GDP growth & outlook



Source: Macrobond, Bank J. Safra Sarasin

Inflation & monetary policy



Source: Macrobond, Bank J. Safra Sarasin



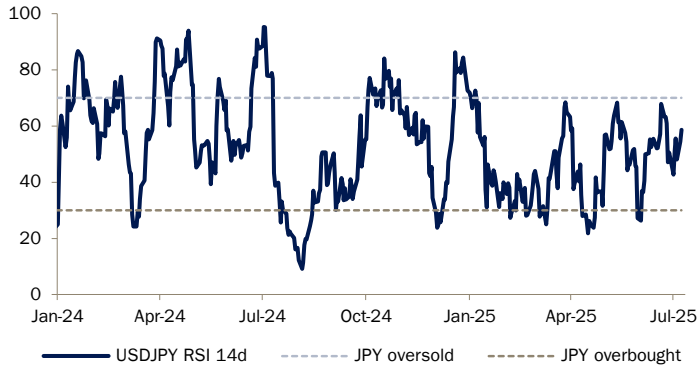
J. Safra Sarasin

Japanese yen | JPY

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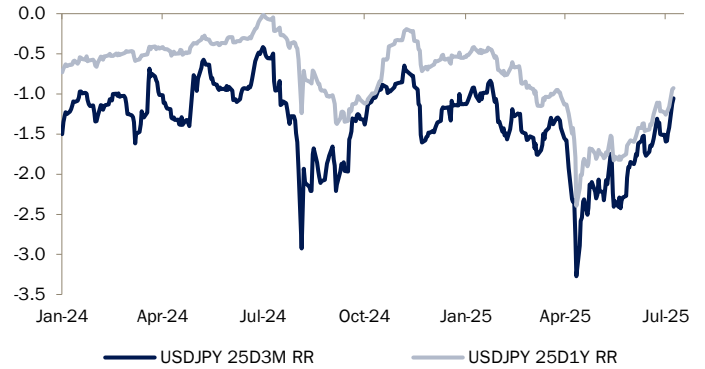
Short term factors & sentiment

Relative strength index*



Source: Bloomberg, Bank J. Safra Sarasin

3- and 12-month risk reversals**



Source: Bloomberg, Bank J. Safra Sarasin

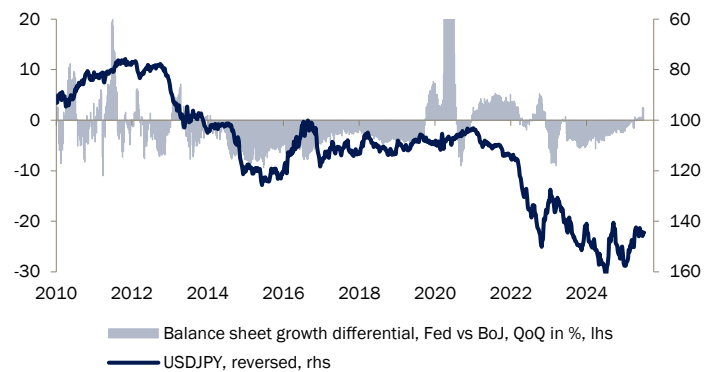
Medium term factors

Real yields



Source: Bloomberg, Bank J. Safra Sarasin

BoJ vs Fed balance sheet growth



Source: Macrobond, Bank J. Safra Sarasin

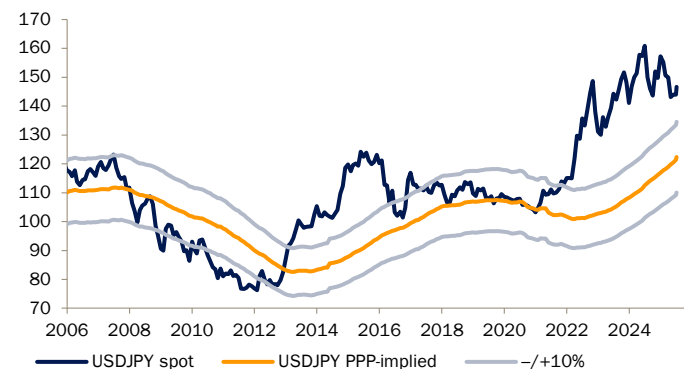
Long term factors

Imbalances: Japan

External imbalances	2021	2022	2023	2024
Current account balance, % GDP	3.9	2.1	3.8	4.8
Net international position, % GDP	75.8	74.4	79.4	88.1
Internal imbalances	2021	2022	2023	2024
Real house prices, % yoy	5.5	3.0	-0.8	-0.2
Private sector debt, % GDP	185.3	187.3	182.8	181.4
Government debt, % GDP	253.7	248.3	240.0	236.7

Source: Macrobond, Bank J. Safra Sarasin

Valuation: Purchasing power parity



Source: Macrobond, Bank J. Safra Sarasin



J. Safra Sarasin

Gold | XAU

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Key view: Gold to grind higher on the back of high structural demand and US policy uncertainty

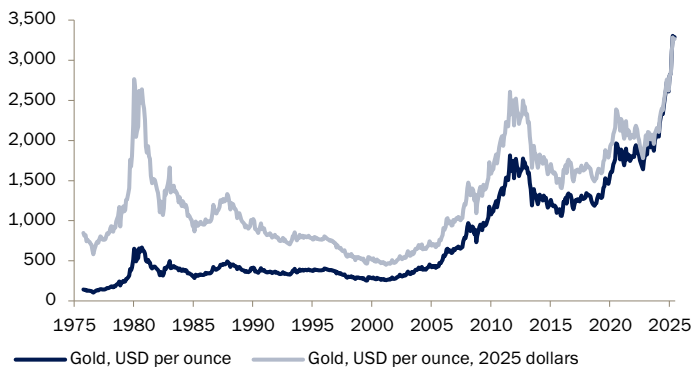
- **Short term:** Buying of gold ETFs was unusually strong in the first half of this year, with February through April experiencing the highest inflows into gold ETFs since March 2022 (following Russia's invasion of Ukraine). We highlight that global ETF holdings are not yet back at their 2022 highs and with Asian ETF holdings amounting to around 7% of global ETF holdings, the Asian share is still relatively small. As of late, concerns about the fiscal sustainability of President Trumps 'One Big Beautiful Bill Act' and the re-imposition of import tariffs on US trading partners are providing renewed support for gold.
- **Medium term:** Elevated geopolitical risk, increasing US policy uncertainty and a softer dollar should support gold. Given a quick turnaround of China's economic weakness appears unlikely, we expect local demand for jewellery, bars and coins to remain elevated. Continued strong institutional purchases should remain another key factor, as central banks seek to diversify their reserves away from dollar assets.
- **Long term:** More generally, geopolitical fragmentation is favourable for gold, while a weaker dollar should be a further tailwind. We expect EM demand for gold to be structurally higher than in the past. Given a lack of domestic investment alternatives, this is in particular the case for China. EM central bank buying has increased since 2022 and we expect this structural trend to carry on.

Gold, USD per troy ounce	8-Jul	3Q25	4Q25	2Q26	4Q26
Forecast BJSS	3,328	3,500	3,600	3,700	3,800
Bloomberg Consensus	3,328	3,200	3,250	3,250	3,318

Performance (%)	1w	1m	3m	6m	12m	ytd
Gold, USD per troy ounce	0.8	-0.7	10.0	25.1	39.4	27.1
Gold, CHF per troy ounce	1.0	-3.9	1.8	9.8	23.7	12.1

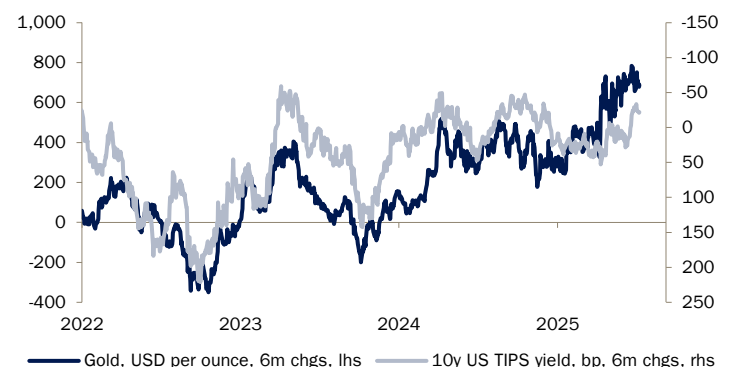
Price development

Nominal and real price



Source: Macrobond, Bank J. Safra Sarasin

Gold price vs US 10y TIPS yields



Source: Bloomberg, Bank J. Safra Sarasin

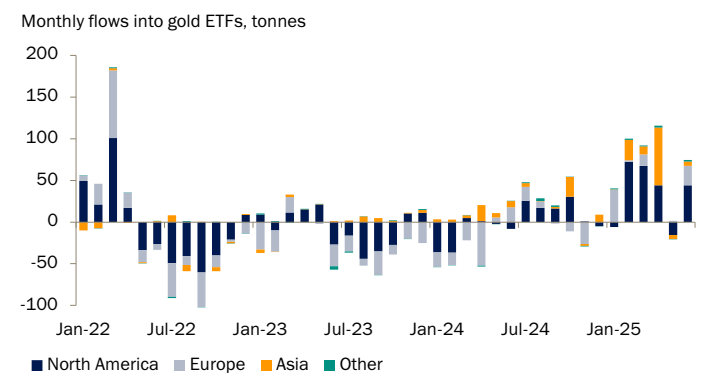
Short term factors & sentiment

CFTC positioning



Source: Macrobond, Bank J. Safra Sarasin

ETF flows by region



Source: World Gold Council, Bank J. Safra Sarasin



J. Safra Sarasin

Gold | XAU

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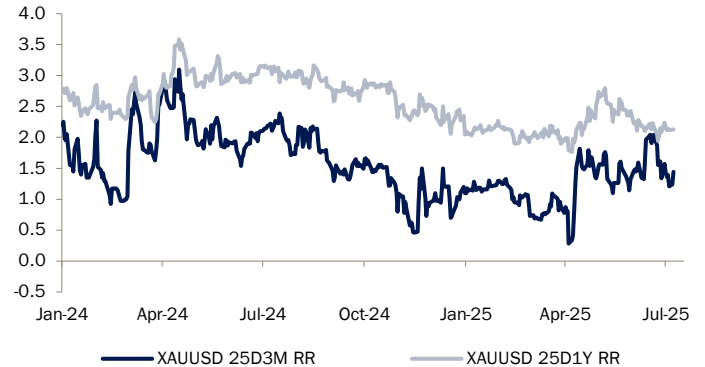
Short term factors & sentiment

Relative strength index*



Source: Bloomberg, Bank J. Safra Sarasin

3- and 12-month risk reversals**

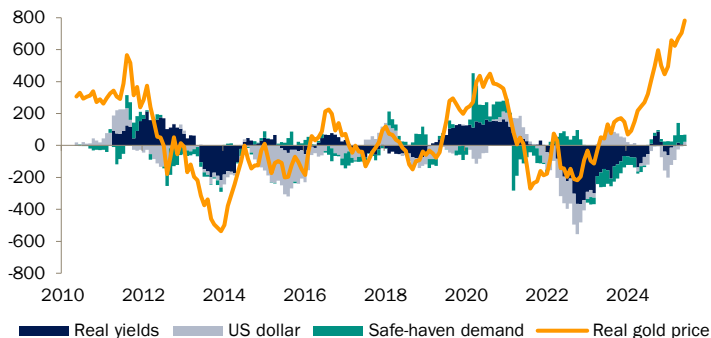


Source: Bloomberg, Bank J. Safra Sarasin

Medium term factors

Attribution analysis

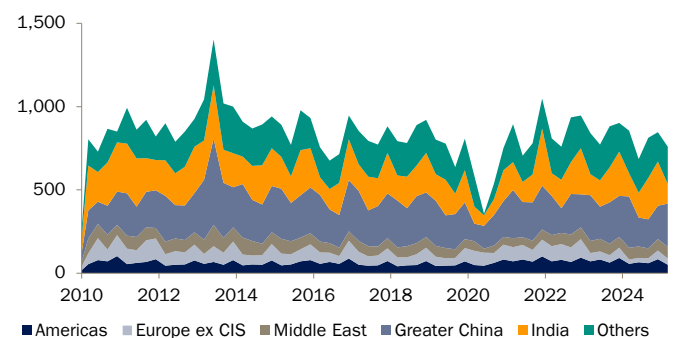
Real gold price in 2020 dollars, yoy – dollar contributions from drivers



Source: Bloomberg, Macrobond, Bank J. Safra Sarasin

Private consumer demand

Gold, world-wide private consumption (jewellery, bars, coins), metric tonnes

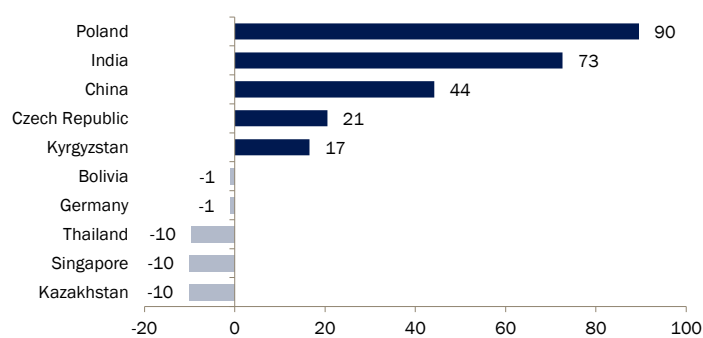


Source: World Gold Council, Bank J. Safra Sarasin

Long term factors

Top 5 central bank buyers / sellers in 2024

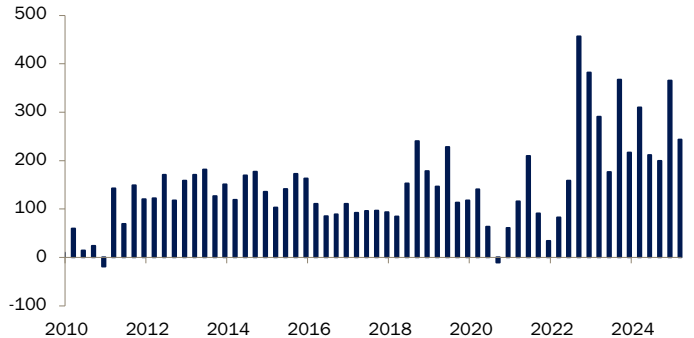
Largest changes in official gold reserves in 2024, tonnes



Source: World Gold Council, Bank J. Safra Sarasin

Worldwide central bank purchases since 2000

Worldwide central bank gold purchases per quarter, tonnes



Source: World Gold Council, Bank J. Safra Sarasin



J. Safra Sarasin

Glossary

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Abbreviation	Expression in full / Explanation
adv	advance
avg	average
bbl	barrel
bn	billion
BoC	Bank of Canada
BoE	Bank of England
BoJ	Bank of Japan
bp, bps	basis point(s)
CFTC COT	Commodity Futures Trading Commission, commitments of traders
COVID-19	Coronavirus Disease 2019
CPI	Consumer Price Index
d	day
diff	difference
DM	developed markets
ECB	European Central Bank
EA	Euro area
EM	Emerging markets
EMEA	Europe, Middle East & Africa
EMU	European Monetary Union
EPS	earnings per share
ETF	exchange traded fund
Fed	Federal Reserve System
FOMC	Federal Open Market Committee
GDP	gross domestic product
Ifo	German Institute for Economic Research
IMF	International Monetary Fund
ISM	Institute of Supply Management
JGB	Japanese government bond
k	thousand
lhs	left hand scale
lb, lbs	pound(s)
log	logarithm
m	month
ma	moving average; <i>average which is calculated on a rolling basis, e.g. the 3mma indicates the moving or rolling average over a period of 3 months</i>
mn	million
mom	month on month
MSCI	Morgan Stanley Capital Investment
NEER	nominal effective exchange rate; <i>calculated as the weighted average (nominal) rate at which one country's currency exchanges for a basket of multiple foreign currencies, NEER indicates the average amount of domestic currency needed to purchase foreign currency.</i>
OECD	Organisation for Economic Cooperation and Development
oz	ounce
PBoC	People's Bank of China
PCE	personal consumption expenditure; <i>US-wide indicator of the average increase in prices for all domestic personal consumption that the Fed employs for its monetary policy decisions</i>
PMI	purchasing managers' index
PE	price/earnings ratio
pp, pps	percentage point(s)
PPP	purchasing power parity
q	quarter



J. Safra Sarasin

Glossary

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Abbreviation	Expression in full / Explanation
QE	quantitative easing
qoq	quarter on quarter
QQE	quantitative and qualitative easing
RBA	Reserve Bank of Australia
RBNZ	Reserve Bank of New Zealand
REER	real effective exchange rate; <i>calculated as the weighted average (real) rate at which one country's currency exchanges for a basket of multiple foreign currencies, REER indicates the average amount of domestic currency needed to purchase foreign currency. Contrary to NEER, REER is adjusted to compensate for the inflation rate of the home country relative to the inflation rate of its trading partners.</i>
rhs	right hand scale
RR	risk reversal
RSI	relative strength index
SNB	Swiss National Bank
TCB	The Conference Board
TIPS	(US) Treasury inflation protected securities
tn, tns	tonne(s)
tr	trillion
UST	US Treasury, <i>US government bond</i>
VAT	value-added tax
w	week
WGC	World Gold Council
wow	week on week
XAU-USD	<i>Gold price in USD per troy ounce</i>
y	year
yoy	year on year
ytd	year-to-date
z-score	<i>A measure indicating the deviation of a data point from its historical mean in the number of standard deviations. E.g. the 2y z-score indicates the most recent data point's distance from its 2-year-average, measured by the number of standard deviations</i>

*

The **Relative Strength Index (RSI)** indicates whether a currency is overbought or oversold and is calculated according to the following formula: $RSI = \text{avg_up} / (\text{avg_up} + \text{avg_down})$, where avg_up denotes the average return on days with a positive day-return and avg_down denotes the average return on days with a negative day-return. RSIs below 30/above 70 indicate oversold/overbought situations.

**

The **price of a risk reversal (RR)** indicates whether the market is bullish or bearish on a currency pair and is calculated according to the following formula: $RR_{25} = \text{Vol_Call}_{25} - \text{Vol_Put}_{25}$. Vol_Call,25 denotes the implied volatility of a call option with a delta of 25% and Vol_Put,25 denotes the implied volatility of a put option with a delta of -25%. Positive values indicate that the market expects a higher future spot rate and vice versa.



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