

FX: Some clarity returns

A Trump win is clearly bullish for the dollar – but the challenge will be in timing it



We're revising our EUR/USD profile forecasts lower, and we see the pair approaching parity in late 2025/early 2026

Timing the dollar rally will be key

Ahead of the US election, FX market volatility had been rising in expectation of a very uncertain outcome. In the event, a clear result emerged very quickly and volatility, at least short-term volatility, has fallen. We and the market see the result as dollar bullish – but the timing the forthcoming rally will be the main challenge.

President-elect Trump's overwhelming mandate for looser fiscal policy plus universal protectionism should drag the dollar higher over a multi-year period. Yet the dollar fell in the first year of Trump's last presidency as his administration took time to build a consensus around tax cuts and to build the case for tariffs. This time around, we think aggressive overseas easing cycles, especially in Europe, mean that the dollar can stay strong throughout. And we pencil in peak dollar strength for something like late 2025/early 2026, when Trump's new administration is firing up tariffs at a time of high US bond yields.

One topic not discussed too much in the run-up to the election was Trump's dollar policy. An interview in July had floated the idea that he wanted a weaker dollar. Invariably there will be periods of volatility and temporary dollar weakness over the coming years when the new administration opines about the need for the currencies of trading partners to strengthen. But you

can't always get what you want, and the dominant mix of the new agenda will be a dollar bullish one.

In terms of a EUR/USD profile, we have revised our forecasts lower and see it approaching parity in late 2025/early 2026. Elsewhere, the prospect of a global trade war is a negative one for emerging market currencies, which are also going to struggle with higher US Treasury yields.

A more 'agile' style (shall we say) of US policymaking from 2025 also suggests traded levels of FX volatility should stay higher. This is not the kind of environment in which carry trade strategies prosper, and also supported by Bank of Japan rate hikes, the Japanese yen might offer a little more resistance than usual to a dollar rally.

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