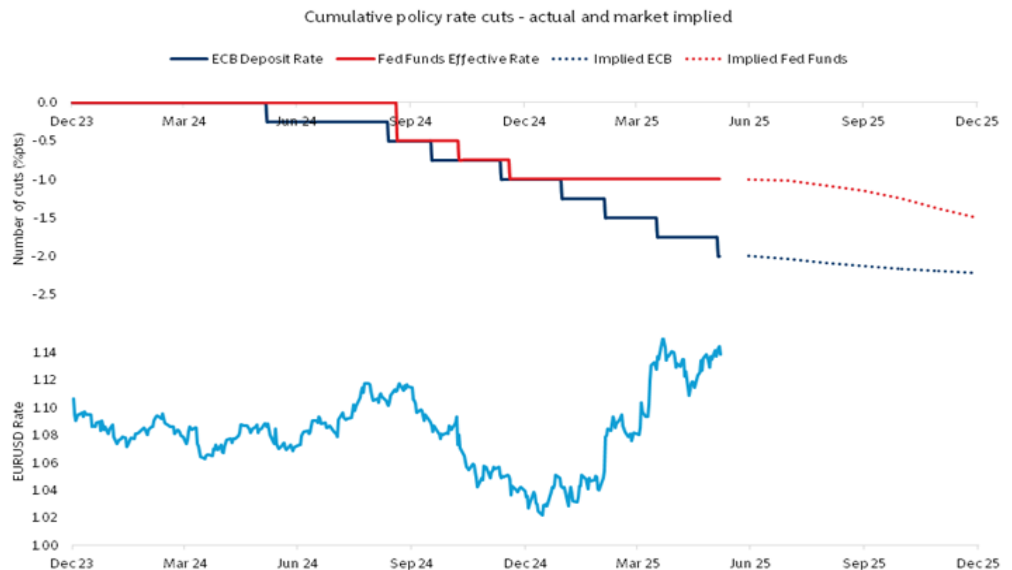
Global Matters Weekly

09 June 2025

How low can you go?

By Alex Harvey, CFA

Chart of the Week



Source: Momentum Global Investment Management, Bloomberg Finance L.P., data to end 6 June 2025.

What this chart shows

The top chart shows the European Central Bank (ECB) and Federal Reserve (Fed) policy rates since January 2024. The ECB was first off the mark, cutting rates in the Eurozone almost exactly a year ago. The Fed didn't follow for another three months, but when they did, they opted for a bigger 50bps cut. They then moved broadly in lockstep until around the time of Trump's inauguration on 20 January this year. As expected, the ECB cut again this week and has now delivered a full two percentage points of cuts whilst the Fed has remained on hold, much to Trump's chagrin, citing lingering inflation concerns and a seemingly robust labour market (which the latest Non-Farm Payroll data – released on Friday 6 June – would support). The two lines projected forward from today to end of Dec 2025 are the market implied cash rates.

The lower chart shows the EURUSD FX rate over the same period. Through end of September 2024 the Euro held fairly steady against the greenback – even after the ECB starts cutting – but it starts to weaken as Trump pulls ahead in the US presidential race. Once elected and inaugurated however, the Euro has been on a tear, up almost 12% from its lows.

Why this is important

Currency forecasting is notoriously difficult with FX rates being driven by many different fundamental and technical factors. Interest rate differentials – and expectations thereof – often explain a meaningful proportion of one currency's move relative to another over the short term, with higher relative rates typically attracting capital flows, often resulting in a stronger currency. What is interesting in the charts above is the apparent breakdown in this explanatory variable. As the Fed Fund rate has implicitly tightened versus the Euro, the US dollar has weakened. This has not been unique to the EURUSD cross; investors have shunned the dollar in the aftermath of Donald Trump's questionable 'Liberation Day' policies. The discount has been exacerbated by worries about the impact of the 'Big, Beautiful Bill' on the US balance sheet and the creditworthiness of US bonds. The Treasury Secretary, Scott Bessent, just last week said, "the United States of America is never going to default, that is never going to happen". That may be so, but international investors have a choice, and they remain unconvinced of the real worth of what those bonds might give back.

Source: Bloomberg Finance L.P.

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For more information, please contact your adviser or alternatively contact:

Belvest Investment Services Limited
研富投資服務有限公司
9th Floor, Centre Mark II
305-313 Queen's Road Central
Sheung Wan, Hong Kong

Tel +852 2827 1199
Fax +852 2827 0270
belvest@bis.hk
www.bis.hk

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