



“The exceptional,
the second best and
the Scandies”

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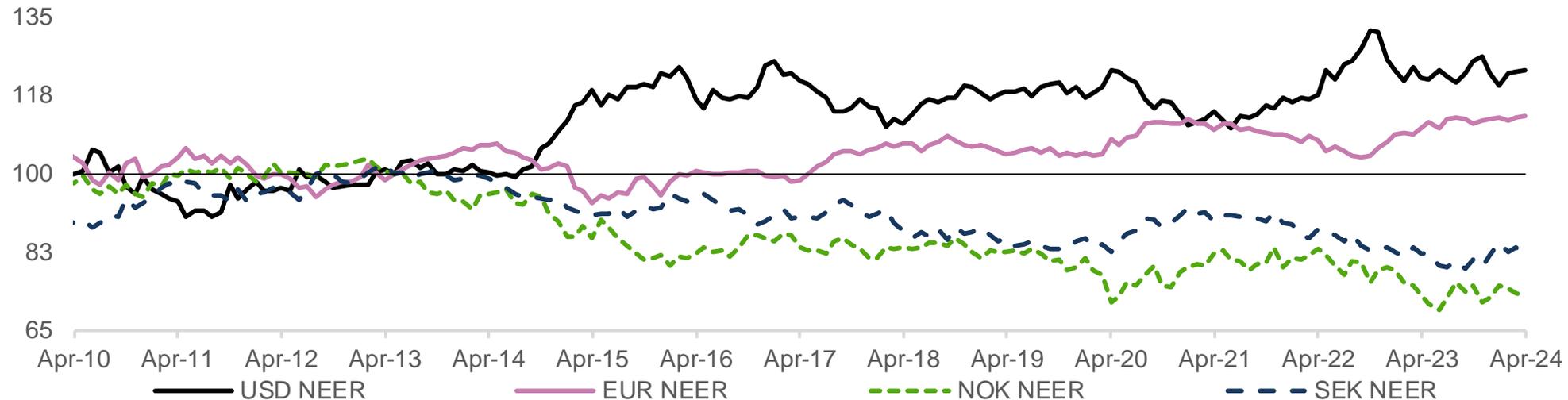
Contents

1. The big picture: the exceptional, the second best and the Scandies
2. NOK: FX drivers, FX valuation and FX carry trades
3. FX outlook: All about the Fed and Trump
4. Summary and FX forecasts

The big picture: the exceptional, the second best and the Scandies

The fortunes of the USD and EUR on the one hand and the Scandie currencies on the other have diverged since 2014

The great divergence: USD, EUR, NOK and SEK (Apr-13=100)



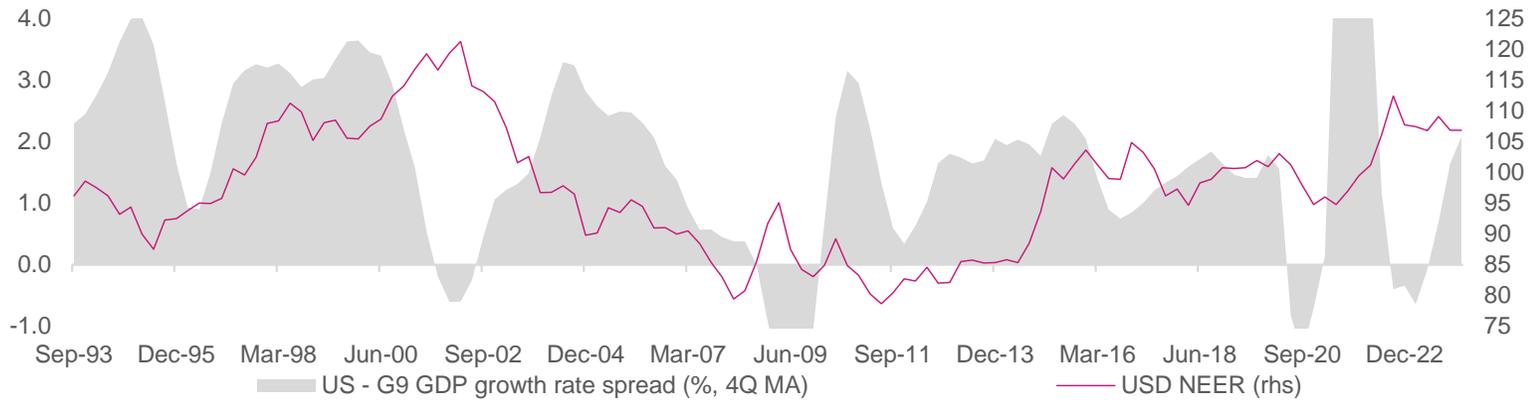
Source all charts: Crédit Agricole CIB, Bloomberg

- **USD:** US growth premium + relatively hawkish Fed => (unhedged) inflows in the USD assets;
- **USD:** Reserve currency + safe haven => inflows into USD during bouts of risk aversion;
- **EUR:** Export champion + investment inflows since Brexit + liquidity appeal => EUR-demand on the crosses;
- **NOK and SEK:** recycling of excess savings abroad + lack of domestic liquidity => a perfect storm for Scandies.

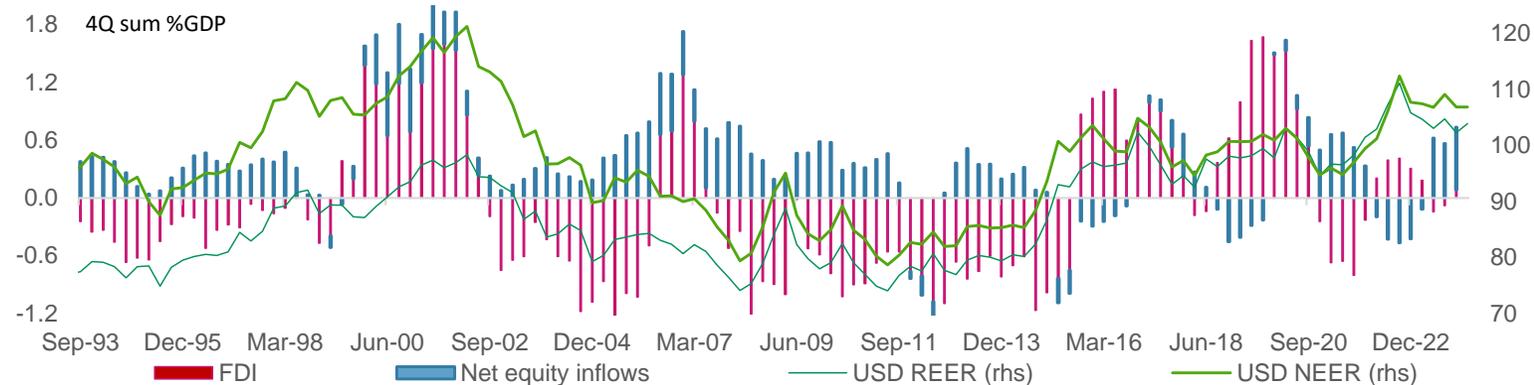
USD: the exceptional (1)

US growth premium fuelling unhedged equity portfolio inflows and inbound FDI. USD bid on the back of risk aversion during recessions

The US growth premium vs the USD NEER



Net equity portfolio flows and FDI vs USD NEER

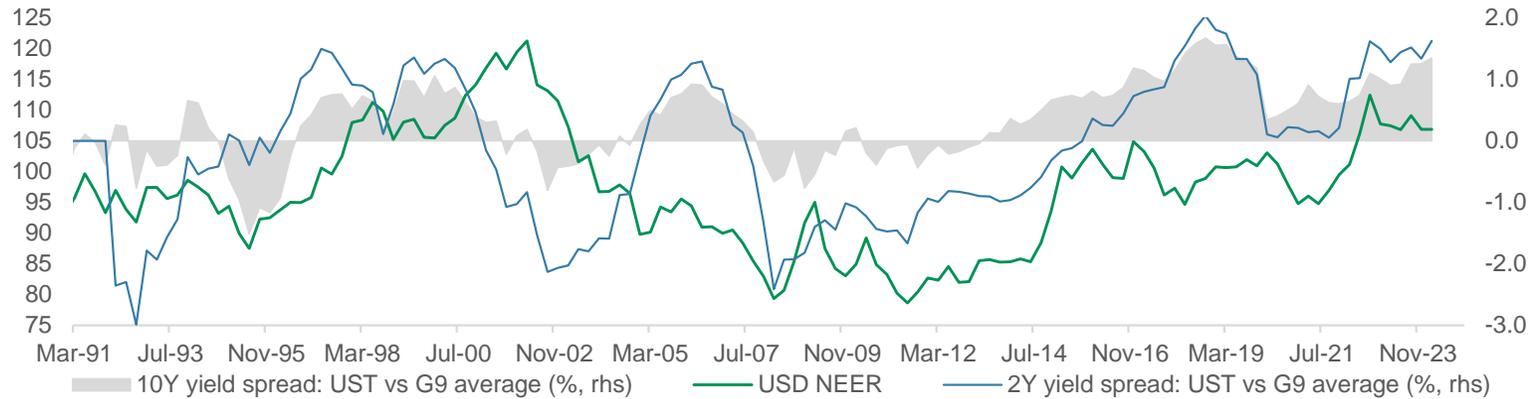


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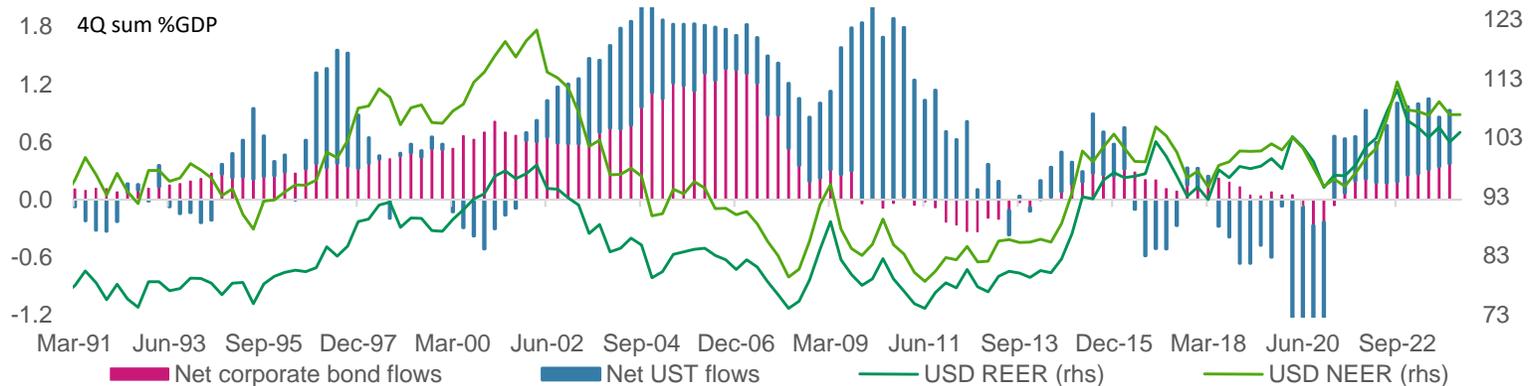
USD: the exceptional (2)

Relatively more hawkish Fed fuelled the USD rate advantage that has recently attracted unhedged portfolio inflows into the US FI markets

USD NEER vs its yield and rate appeal vs G10. 2Y rate trading above 10Y yield => hedging too expensive for foreign investors



USD NEER vs net portfolio flows into US fixed income markets – unhedged inflows have boosted the USD since 2021

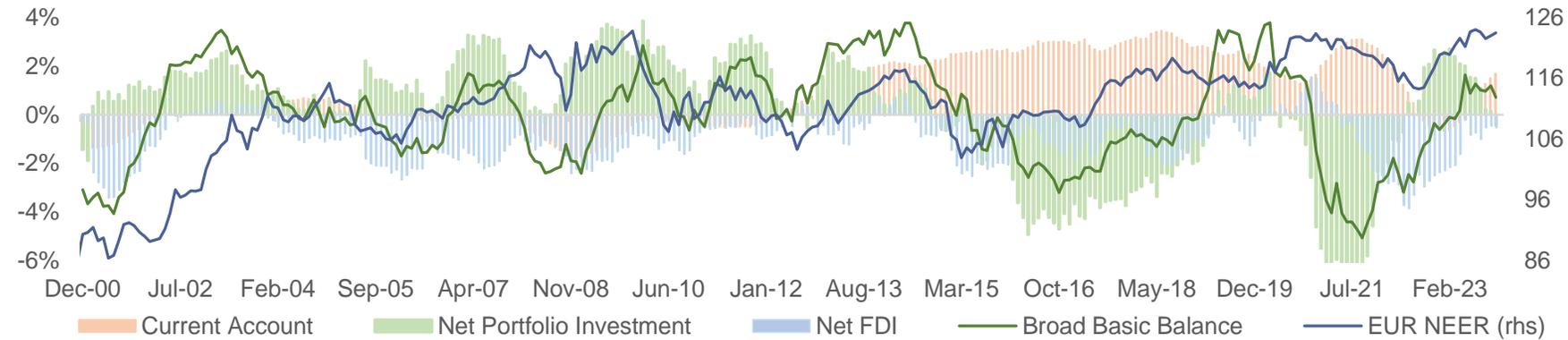


Source all charts: Crédit Agricole CIB, Bloomberg

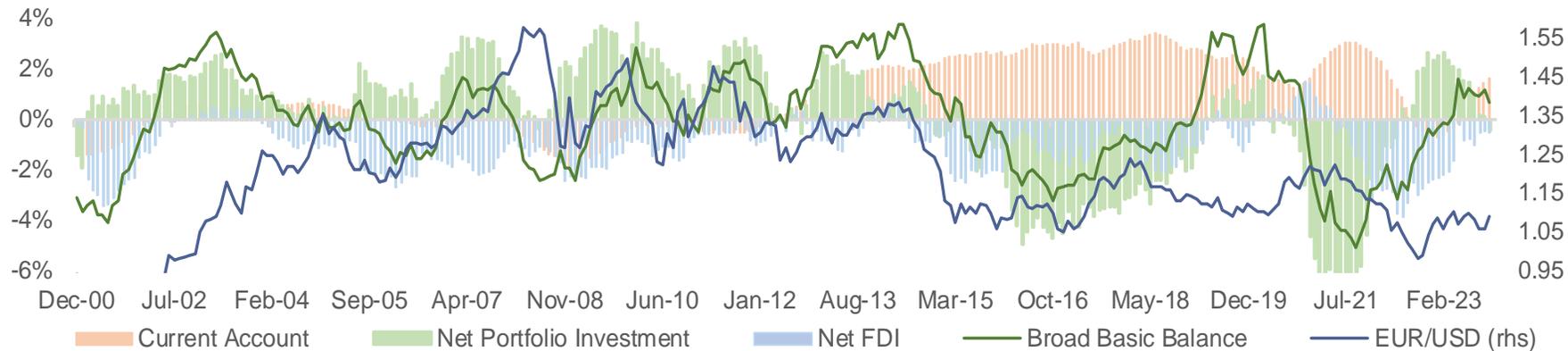
EUR: the second best

EUR-demand on the crosses: Eurozone export champion + investment inflows since Brexit + liquidity appeal

EUR NEER: The emergence of the Eurozone as export champion from the sovereign debt crisis fuelled demand for EUR-crosses



EUR/USD: the negative impact from the recycling of Eurozone excess savings into the US is the dominant driver

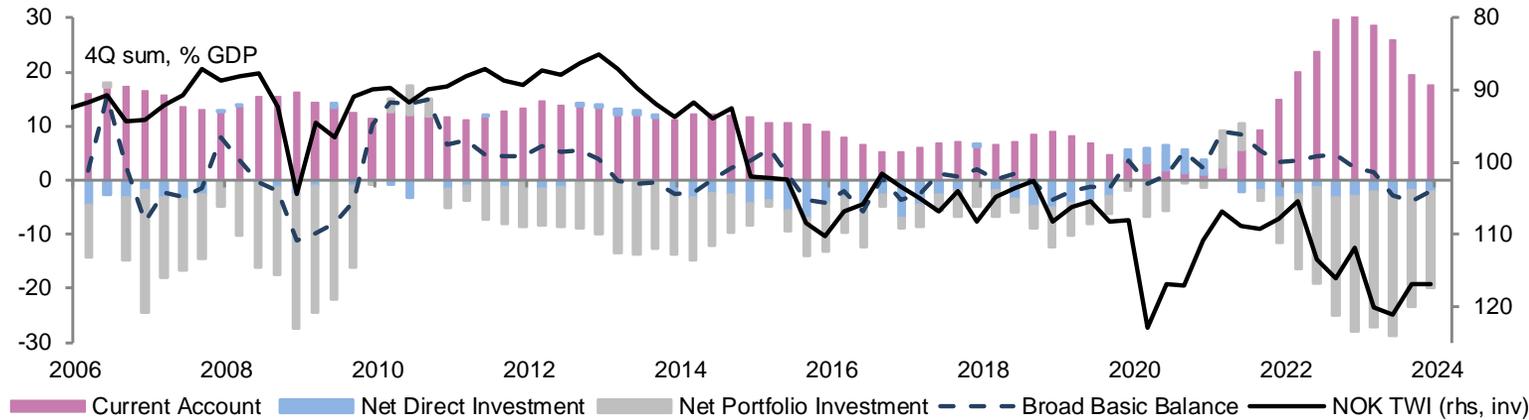


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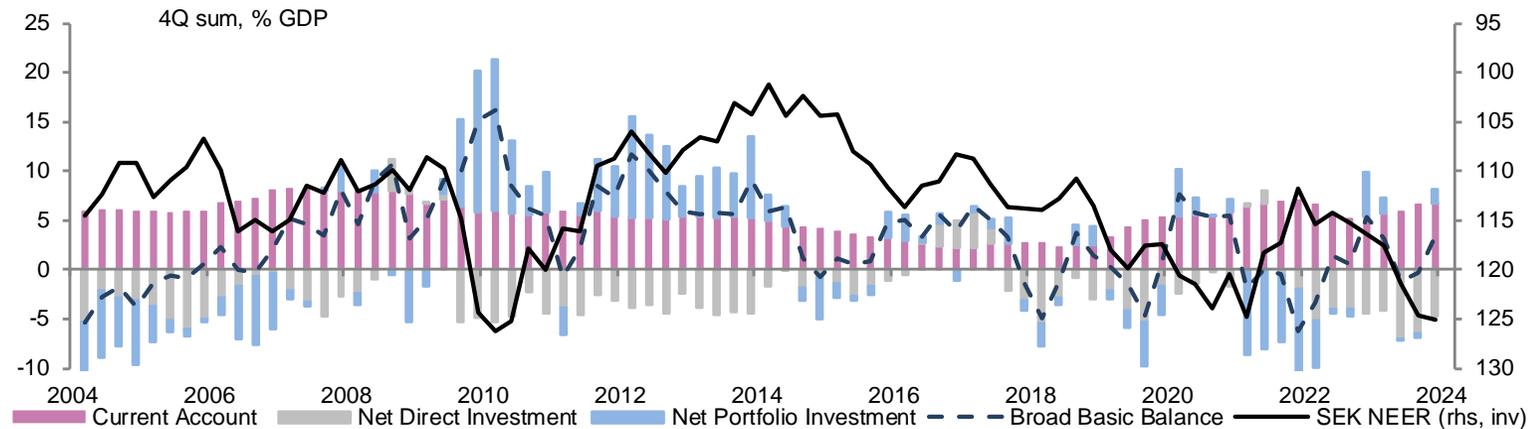
Scandis: the reluctant funders

Recycling of excess savings abroad due to lack of investment opportunities at home + lack of domestic liquidity

NOK NEER vs Norwegian Balance of Payment – negative broad basic balance added to the headwinds for NOK



SEK NEER vs Swedish Balance of Payment – negative broad basic balance added to the headwinds for SEK



Source all charts: Crédit Agricole CIB, Bloomberg

NOK drivers

The NOK correlation with many of its 'traditional' drivers have been weakening

EUR/NOK vs EUR-NOK rate spread



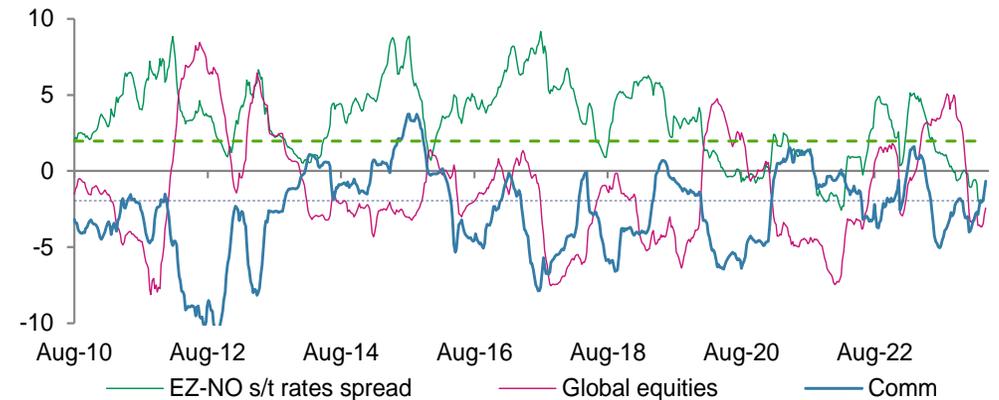
NOK TWI has decoupled from oil



NOK TWI still seems to correlate well with risk sentiment



EUR/NOK Fair value model t-stats for the three EUR/NOK drivers



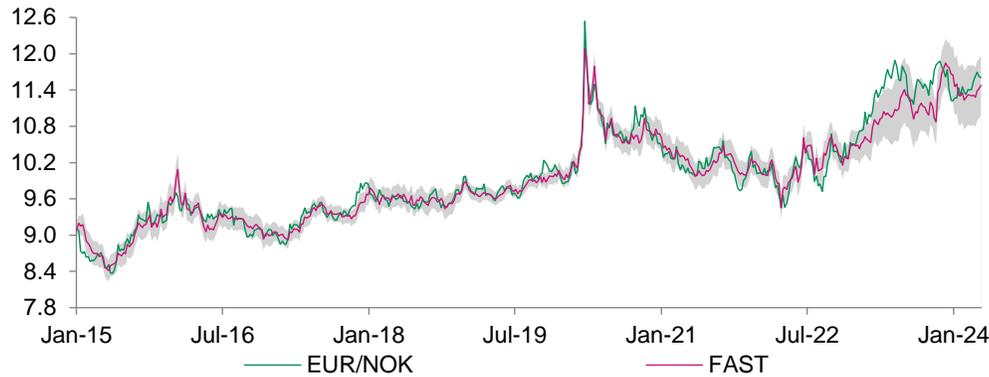
Source all charts: Crédit Agricole CIB, Bloomberg

FX valuation and positioning (2)



NOK looking cheap but not oversold

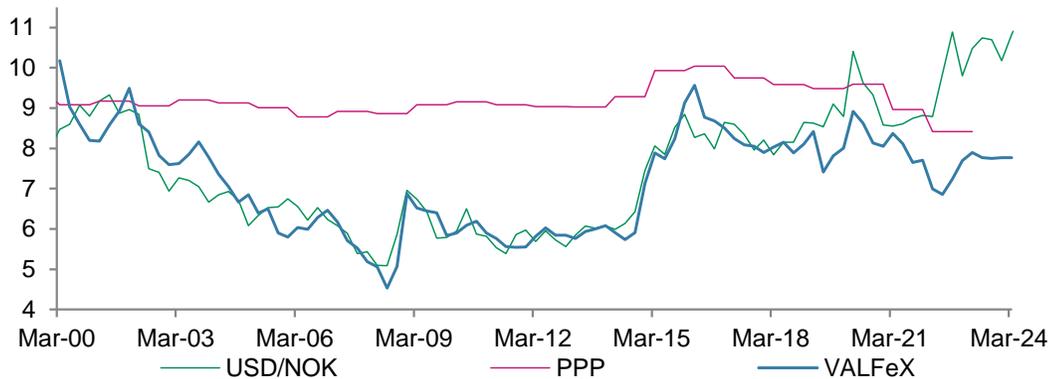
EUR/NOK vs short-term fair value model – excessive NOK weakness of late



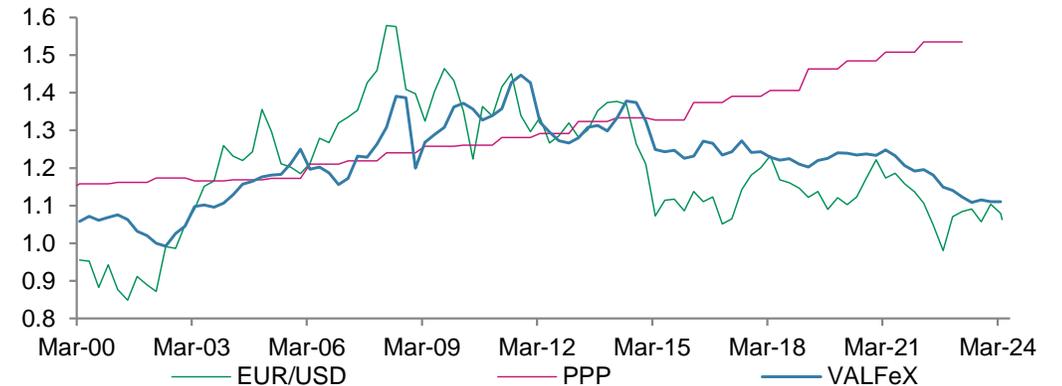
NOK/SEK vs short-term fair value model



EUR/NOK vs G10 FX VALFeX and PPP long-term fair value



EUR/USD vs G10 FX VALFeX and PPP long-term fair value

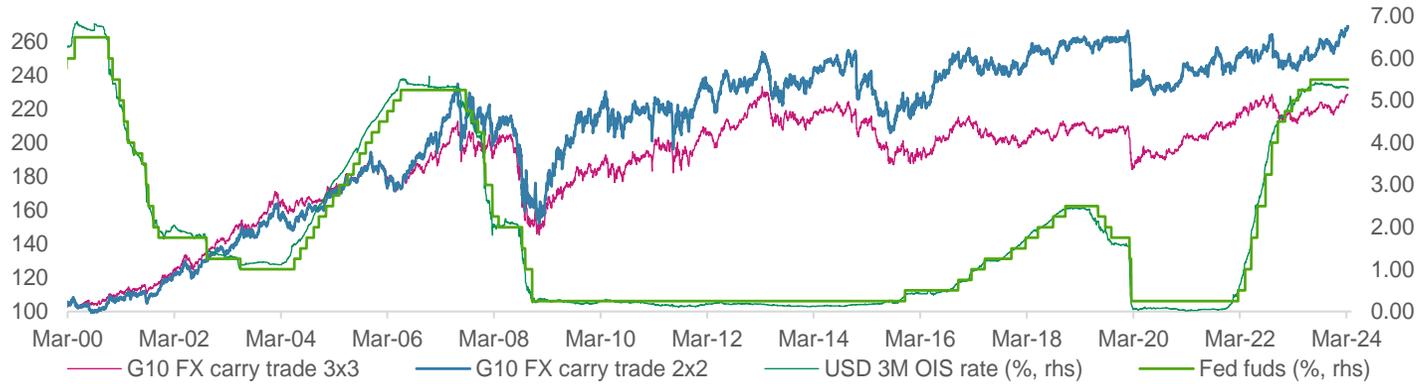


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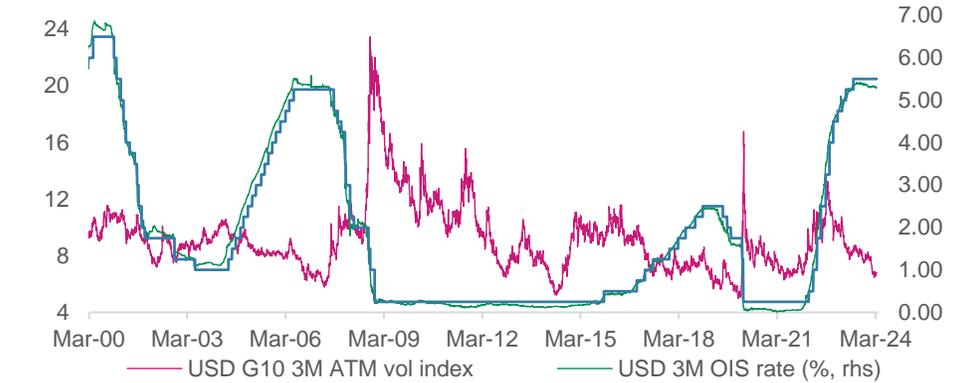
FX carry trades and NOK

FX carry trades tend to do well during Fed pauses as FX vol eases. NOK has slipped in the G10 carry ranks in recent years, however

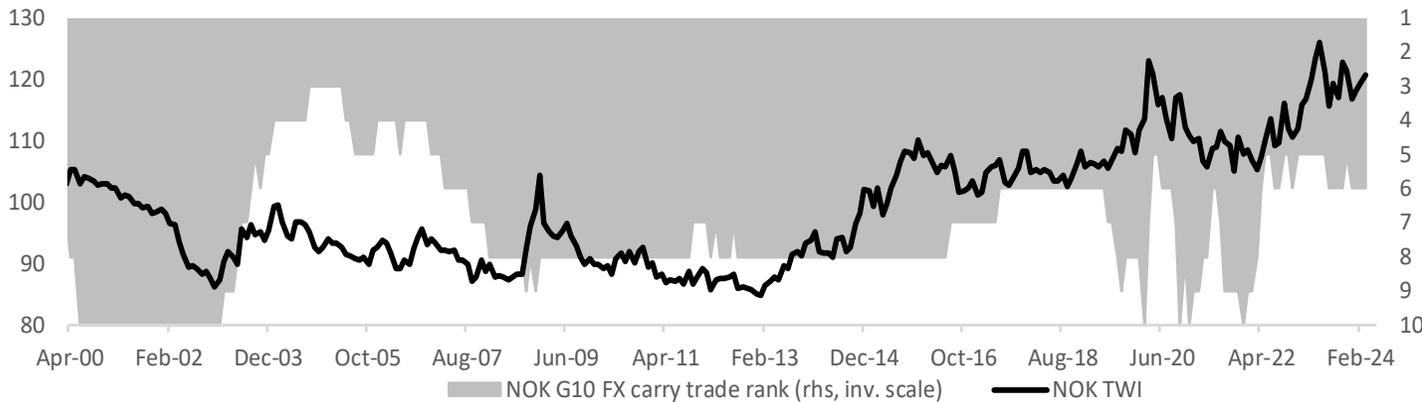
FX carry trade performance and the Fed policy cycle



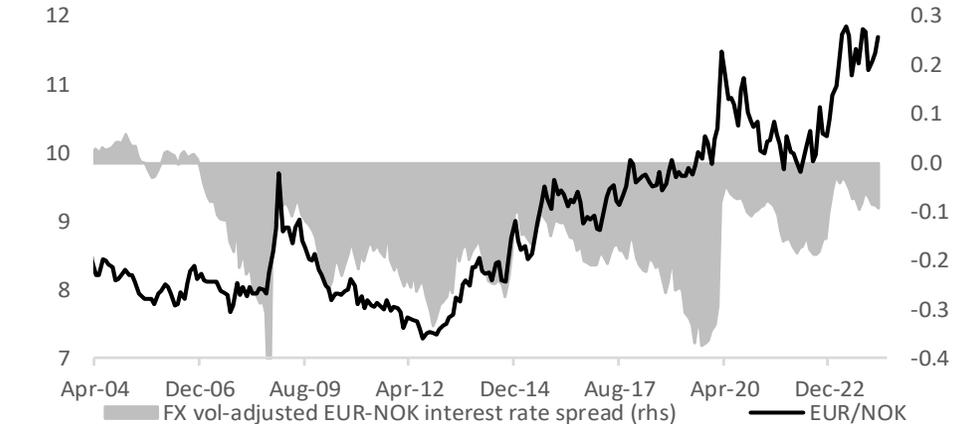
Average USD ATM vol and Fed cycle



NOK TWI vs NOK rank in G10 FX carry trade (max is 10)



EUR/NOK vs EUR-NOK vol-adjusted interest rate spread



Source all charts: Crédit Agricole CIB., Bloomberg

FX outlook (1): the Fed

The markets are expecting easing to start soon and result in policy convergence between the Fed and the rest of G10 central banks

Policy easing, apart from Japan (OIS-implied, end-of-year values)

	Expected G10 central bank policy rates			
	Current	2024	2025	2026
EUR	3.99%	3.11%	2.46%	2.34%
USD	5.33%	4.93%	4.21%	3.99%
GBP	5.20%	4.65%	4.03%	3.77%
NOK	4.50%	4.44%	3.96%	3.68%
SEK	4.00%	3.28%	2.63%	2.47%
CAD	5.00%	4.38%	3.88%	3.40%
CHF	1.50%	1.06%	0.97%	1.02%
AUD	4.35%	4.09%	3.77%	3.75%
NZD	5.50%	5.07%	4.51%	4.13%
JPY	-0.10%	0.31%	0.55%	0.62%
US rates less G9 average				
	1.91%	1.95%	1.60%	1.51%

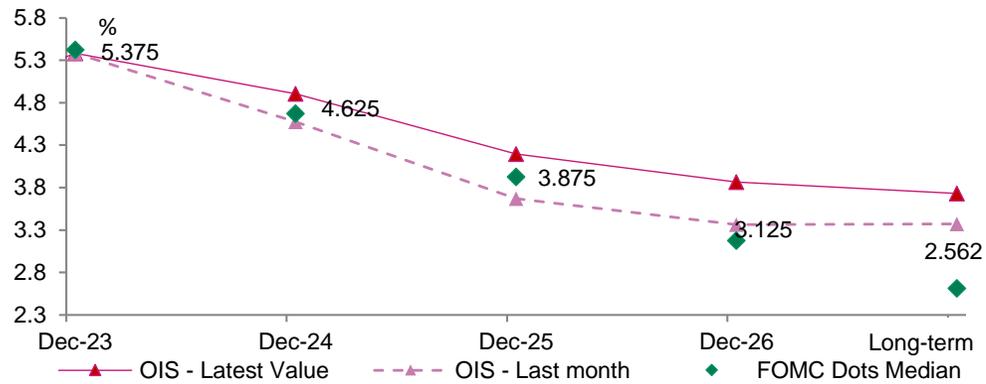
The USD and its rate advantage vs the rest of G10 FX



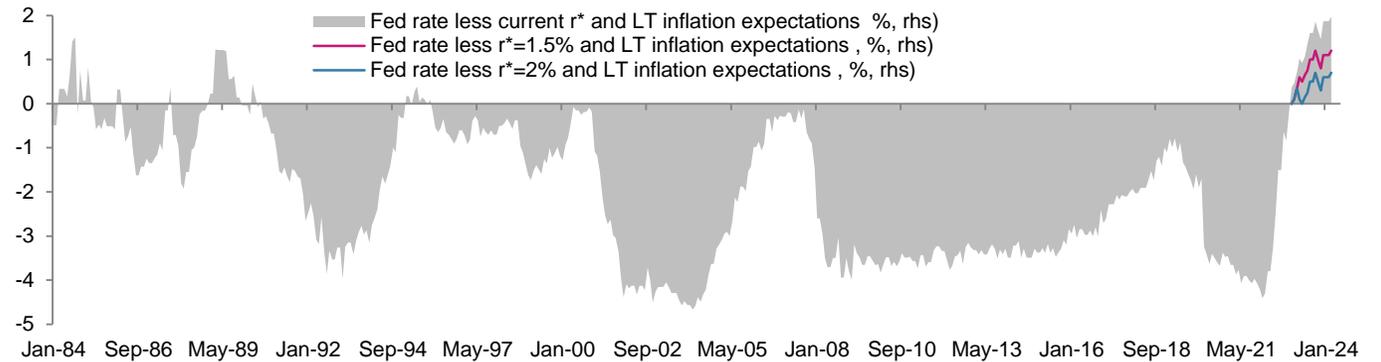
FX outlook (2): the Fed

The current Fed dot plot maybe inconsistent with a no landing of the US economy

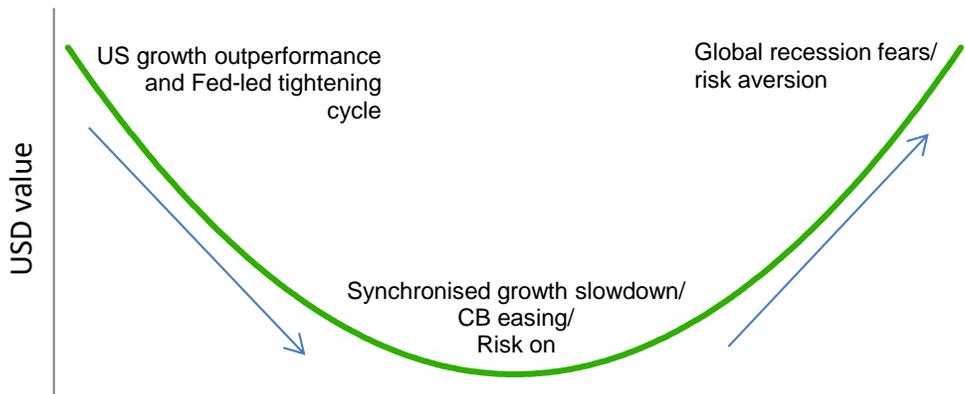
The Fed dot plot vs rates markets' rate expectations



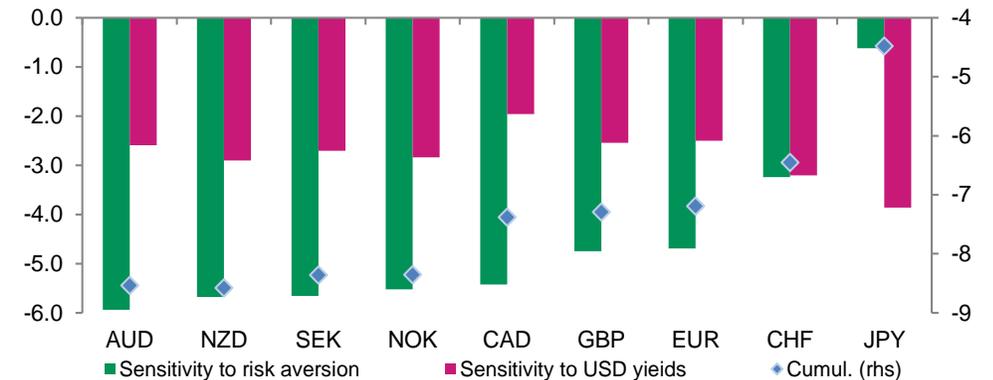
Spread between Fed rate and nominal r* (e.g. r* + long-term inflation expectations)



The 'USD smile'



G10 FX sensitivity to risk aversion and UST yields (average t-stats)

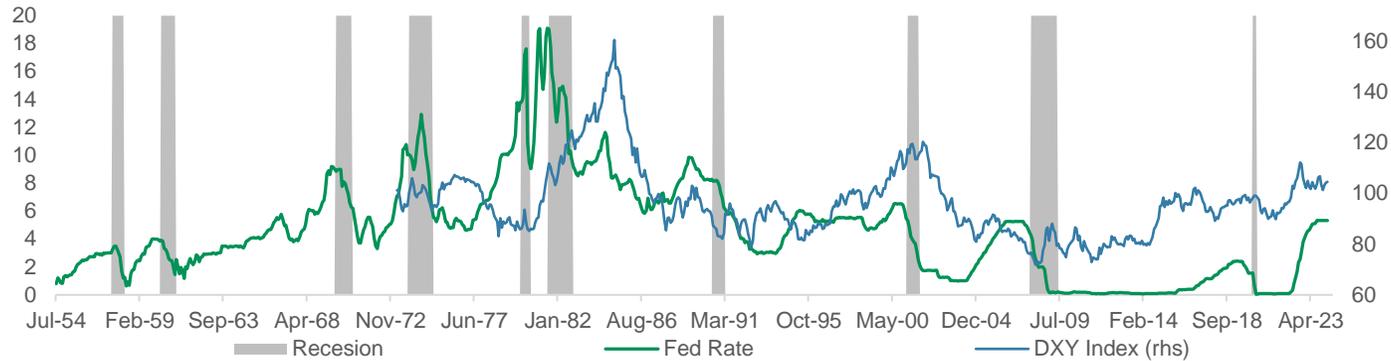


Source all charts: Crédit Agricole CIB, Bloomberg

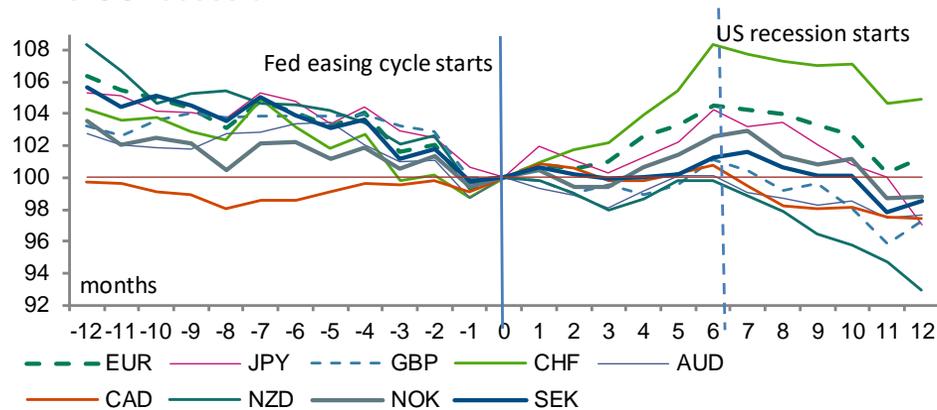
What 50 years of US history tells us about the next 6-12M

The USD impact of past Fed easing cycles depended on the resilience of the US economy: Fed cuts + US no landing = strong USD

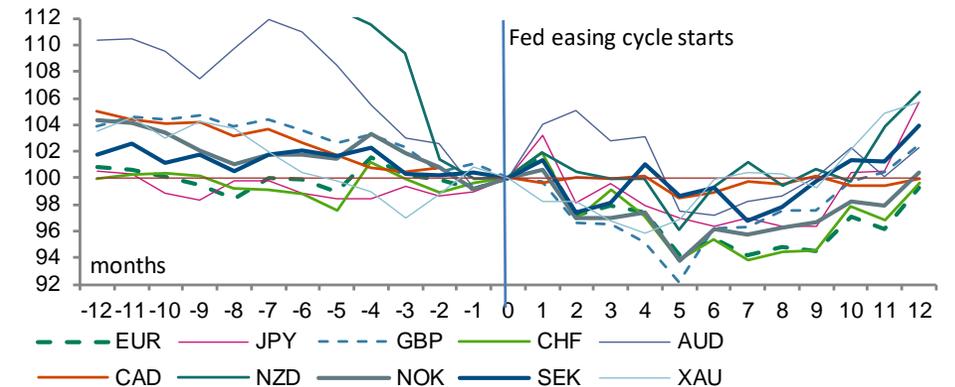
USD, Fed funds rate and US recessions



FX performance vs the USD around past Fed easing cycles coupled with a US recession



FX performance vs the USD around past Fed easing cycles coupled with a no landing in the US



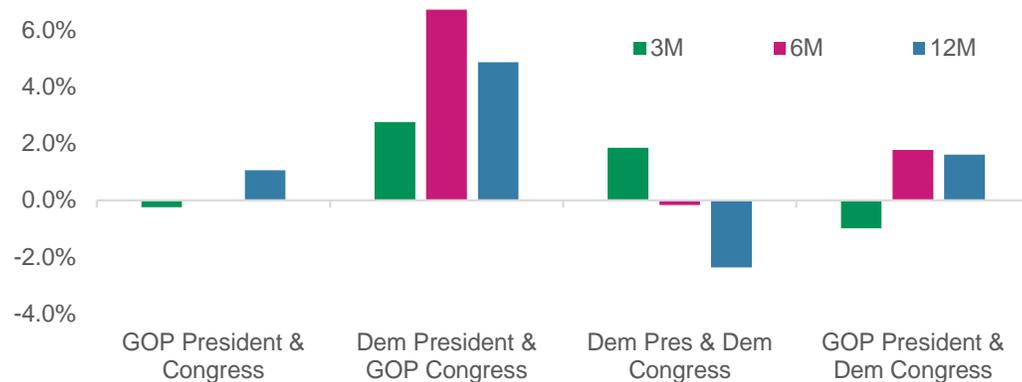
Source all charts: Crédit Agricole CIB, NBER, Bloomberg

FX outlook (3): US elections

A potential Trump victory could result in stickier US inflation and more hawkish Fed

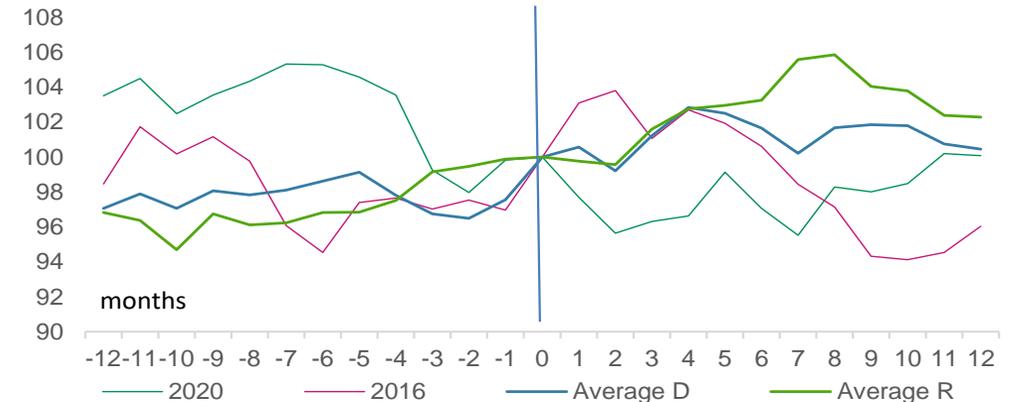
- Depending on the outcome of the presidential election, we could have either a Democratic or Republican administration and a GOP-dominated US Congress:
 - **Base case:** Trump victory with Republican Congress;
 - Biden with Republicans controlling at least one chamber of Congress;
 - Biden with Democratic Congress;
 - Trump with Democrats controlling at least one chamber of Congress
- Most FX investors assume that the **prospect of a Trump victory would initially embolden the USD-bulls** given the risk of US tariffs and a re-escalation of the global trade war.
- The **longer-term USD impact** from the election would depend on the **trade, fiscal, energy, immigration and foreign policy mix**. Under a potential Trump victory, the policy mix could result in stickier inflation that, depending on the US growth outlook, could boost or hurt the investment appeal of the USD.

Historic USD performance under four possible election scenarios



Source all charts: Crédit Agricole CIB, Bloomberg

USD performance around recent US presidential elections and historic averages

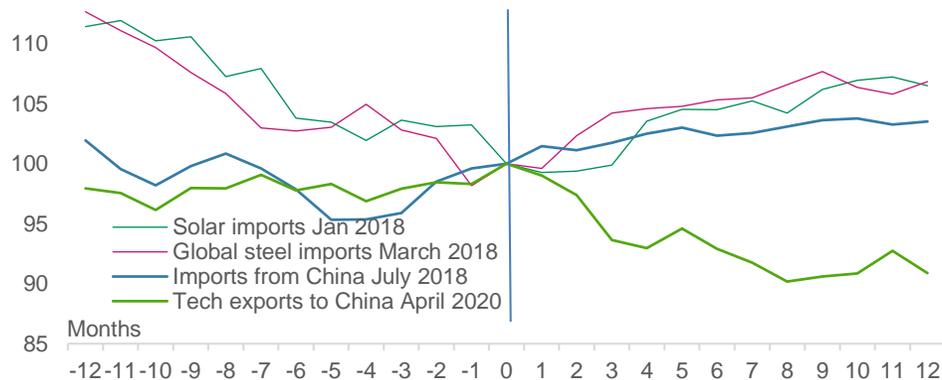


FX outlook (4): Trade war 2.0?

A trade war could boost global inflation and weigh on growth

- Donald Trump has threatened to introduce new tariffs on the US trading partners if elected. **President Trump's trade policy measures suggests that the threat of tariffs could support the USD.**
- **JPY and AUD were the worst and the CAD the best performing G10 currencies in the aftermath of the tariff announcements** by the Trump administration in 2018 and 2020 (data available upon request).
- **Long USD could be the best Trump hedge ahead of the election.**
- **PS:** The GBP was the best performing and the JPY was the worst performing major currency in the wake of the 2016 and 2020 Presidential elections.

USD performance around the announcement of US tariffs

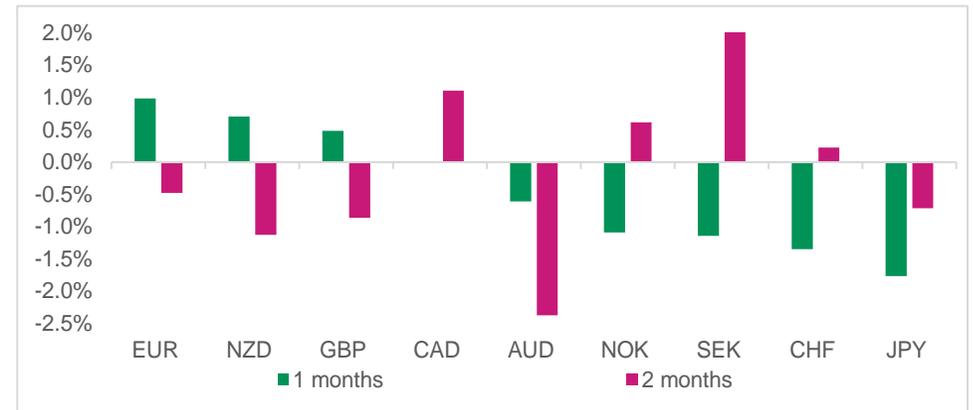


Source all charts: Crédit Agricole CIB, Bloomberg

2M FX performance vs the USD after election day – 2016 vs 2020



Average FX performance in the wake of announcements of US tariffs



Summary and FX forecasts

- **USD: US growth premium + relatively hawkish Fed => (unhedged) inflows in the USD assets;**
- **USD: Reserve currency + safe haven => USD inflows during bouts of risk aversion;**
- **EUR: Export champion + investment inflows since Brexit + liquidity appeal => EUR-demand on the crosses;**
- **NOK and SEK: recycling of excess savings + lack of domestic liquidity => a perfect storm for Scandies.**

FX outlook:

- **3M-6M:** Resilient global macro backdrop and the start of the ECB and Fed easing cycles in the summer could boost the Norwegian terms of trade and fuel demand for FX carry trades.
- **The NOK** could benefit from the relatively late start of the Norges Bank's easing cycle and resilient commodity prices.
- **6M-12M: US elections, stickier US inflation and US growth slowdown** as well as persistent geopolitical risks could create a less favourable backdrop for the NOK.
- **Accelerating Fed and ECB easing cycles to offset** the negative impact from US politics and geopolitics as well as weaker US outlook, helping the NOK recover in 2025.
- **Main risks:** US cyclical divergence => policy divergence between the Fed and the rest of the central banks => boost to the USD exceptionalism.
- Tighter global financial conditions could hurt the growth outlook, erode risk sentiment and hurt NOK.

FX Forecasts

		Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
USD Exchange rate								
Industrialised countries								
Euro	EUR/USD	1.07	1.06	1.05	1.07	1.09	1.10	1.12
Japan	USD/JPY	148	146	144	142	142	140	138
United Kingdom	GBP/USD	1.26	1.26	1.25	1.27	1.30	1.33	1.35
Switzerland	USD/CHF	0.92	0.91	0.90	0.89	0.88	0.88	0.88
Canada	USD/CAD	1.37	1.34	1.36	1.34	1.32	1.30	1.28
Australia	AUD/USD	0.68	0.70	0.72	0.70	0.70	0.72	0.74
New Zealand	NZD/USD	0.62	0.62	0.64	0.62	0.62	0.64	0.66
Sweden	USD/SEK	10.55	10.55	10.75	10.30	9.90	9.65	9.40
Norway	USD/NOK	10.55	10.40	10.95	10.35	9.90	9.55	9.10

Euro Cross rates

Industrialised countries								
Japan	EUR/JPY	158	155	151	152	155	154	155
United Kingdom	EUR/GBP	0.85	0.84	0.84	0.84	0.84	0.83	0.83
Switzerland	EUR/CHF	0.98	0.96	0.94	0.95	0.96	0.97	0.98
Sweden	EUR/SEK	11.30	11.20	11.30	11.00	10.80	10.60	10.50
Norway	EUR/NOK	11.30	11.00	11.50	11.10	10.80	10.50	10.20

Source: Crédit Agricole CIB

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