

# Currencies

# USD vs Developed Markets Currencies

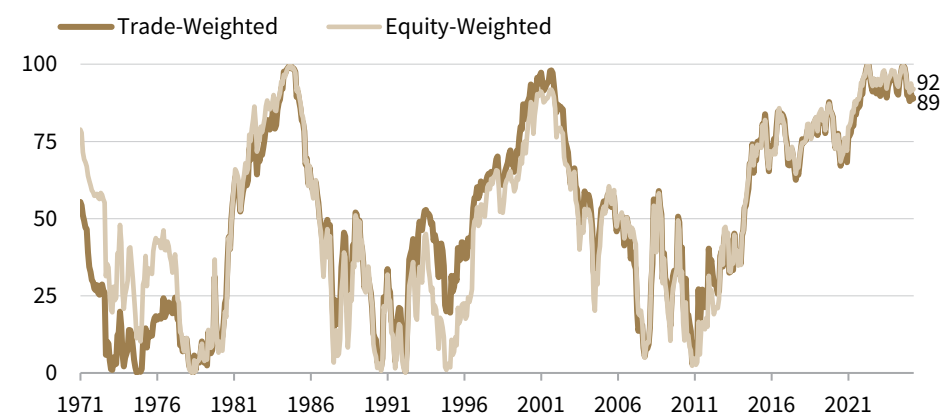
## Facts & Figures Third Quarter 2025

The US dollar rose 0.9% in 3Q 2025 in trade-weighted terms, bringing its trailing one-year performance to -1.3%, though it remains 8.4% below its end-2024 peak. This weakening was driven by tariff announcements and resultant growth and rate differential narrowing, in addition to reduced foreign asset purchases. Further USD weakness is possible as these themes persist, aided by a still-elevated valuation.

- The US dollar remains richly valued, with its real effective exchange rate at the 92nd and 89th percentiles for the equity- and trade-weighted series, respectively. This elevated valuation suggests scope for further depreciation over a multi-year horizon as several cyclical and secular trends reverse.
- A widening in interest-rate differentials—driven by earlier US inflation and a more hawkish Fed—was the main driver of dollar strength since mid-2021. Most of this had played out by October 2022, leading to a period of range trading since then. By the start of the year, we were back toward the top of that range, as proposed US tariff, tax, and immigration policies were expected to boost US growth and inflation in the short term.
- We have returned to the bottom of that range as markets focused on the growth-negative impacts of tariffs for the US. Declining growth and interest rate differentials between the US and its peers has underpinned this move lower, with both developments having further room to run. The Fed is likely to cut rates more aggressively than peers, with the BOJ in fact hiking, while fiscal easing may support euro area growth. Non-US investors have also turned somewhat more cautious on US investments.
- A key risk to this view is whether the US economy, despite a softening labor market, may reaccelerate because of stimulus from the OBBB and potential tariff rebate stimulus. Additionally, while elevated equity valuations and concentration in tech/AI are a risk factor for a dollar, persistence of that sectoral theme could offer some support.

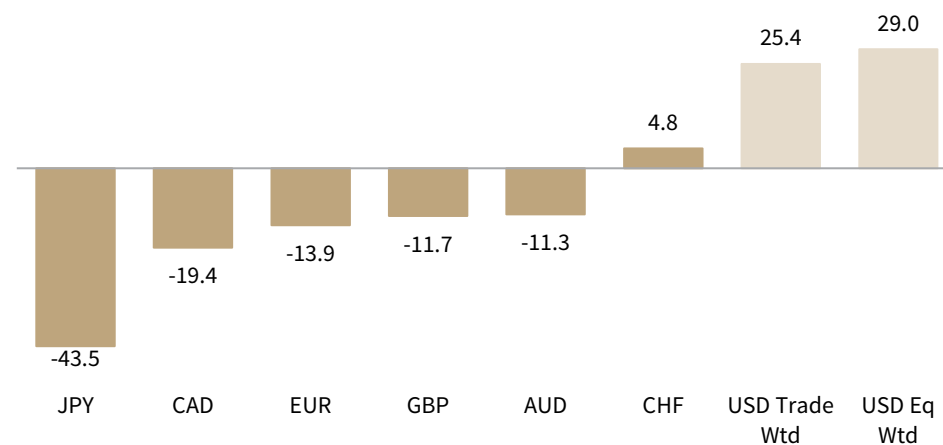
### USD basket real exchange rate percentile

Jun 30, 1971 – Sep 30, 2025



### Real exchange rate vs the USD: % from median

As of Sep 30, 2025



Sources: MSCI Inc., National Sources, OECD, Refinitiv, Thomson Reuters Datastream, and US Federal Reserve. MSCI data provided "as is" without any express or implied warranties.

Notes: Australian inflation data are quarterly and as of June 30, 2025. All other inflation data are as of August 31, 2025.

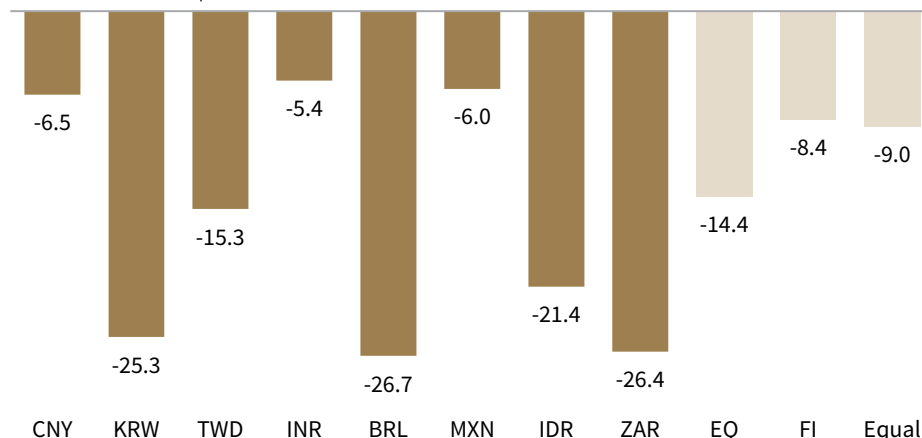
# Emerging Markets Currencies

## Facts & Figures Third Quarter 2025

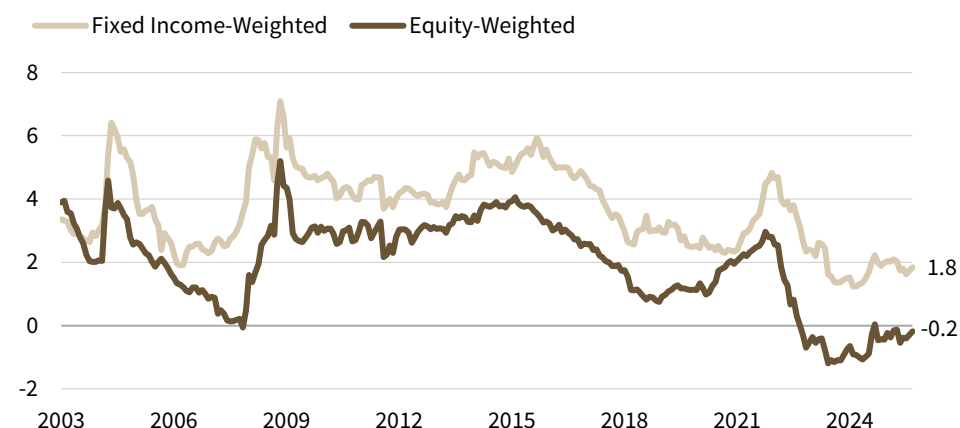
**EM currencies declined by 0.6% in 3Q 2025 in equal-weighted terms, bringing the trailing one-year performance of the same basket to nearly flat (+0.1%). In a continuation of last quarters' theme, Eastern European and LatAm currencies generally outperformed, while Asian FX lagged. Tariff and policy risks remain, but further USD softness and central bank actions support the medium-term outlook.**

- EM currencies remain sensitive to global growth prospects, with post-COVID factors such as impaired supply chains, geopolitical risks, and fears of policy-induced slowdown having impacted performance in recent years. More recently, while US tariff policy has posed a risk to global growth, it has also weakened the dollar, thereby lifting EM FX up from its low at the end of 2024.
- Asian inflation has generally been lower than peers, resulting in Asian bonds and currencies in modern times trading with a lower beta during risk-on and risk-off periods. However, Asia's greater integration into global supply chains has seen the region impacted to a relatively greater extent than peers due to current US tariff policy. As a result of this, the Asian-heavy, equity-weighted index has lagged both the debt-weighted index and the equal-weighted index. The traditionally higher-beta EM currencies of LatAm have performed strongly in the recent risk-on environment, while widening interest rate differentials have supported Eastern European currencies.
- While the carry of EM currencies has been in long-term decline as the differential between EM and DM interest rates has narrowed, there has been an increase more recently as DM central banks have delivered rate cuts and some further easing has been priced in. Hedging FX exposure in EM equities currently offers a minor carry pick-up for USD-based investors, while hedging EM local bonds costs 1.8%, reflecting the higher yield of currencies in that index.

**EM real exchange rate vs USD: % from median**  
Jan 31, 1994 – Sep 30, 2025



**EMFX implied carry**  
Jan 31, 2003 – Sep 30, 2025 • Percent (%)



Sources: Directorate-General of Budget, Accounting and Statistics, Executive Yuan, Taiwan; INE - National Institute of Statistics, Chile; International Monetary Fund; J.P. Morgan Securities, Inc.; MSCI Inc.; National Bureau of Statistics of China; Refinitiv; Thomson Reuters Datastream; and US Department of Labor - Bureau of Labor Statistics. MSCI data provided "as is" without any express or implied warranties.

## GBP vs Developed Markets Currencies

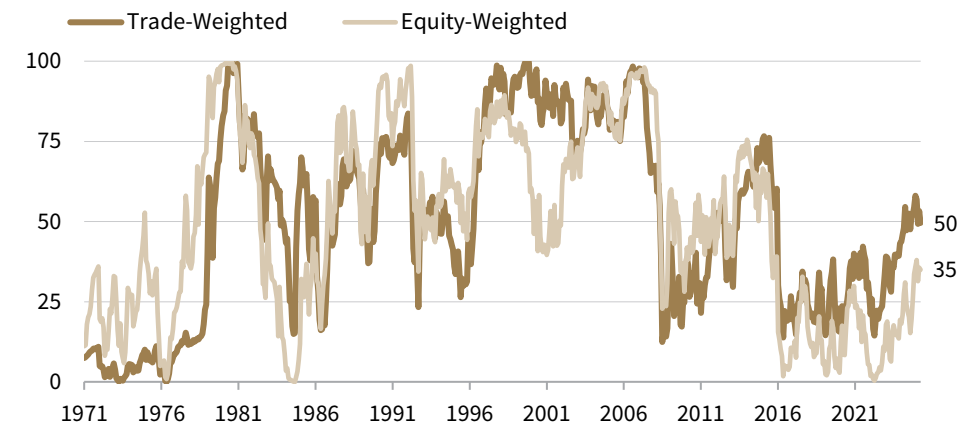
### Facts & Figures Third Quarter 2025

**Sterling declined 1.7% in trade-weighted terms in 3Q 2025 bringing its trailing one-year performance to -2.6%. The trailing one-year performance is primarily a function of a rising euro, while in 3Q a small rebound in the dollar was also a headwind. Domestically, activity has decelerated, the BOE cut interest rates, while the upcoming budget led to some volatility in bond markets.**

- Sterling remains near fair value in trade-weighted terms but is still cheap relative to the dollar. The USD dominates the equity-weighted index with a weight of 77%, while the euro has a weight of 56% in the trade-weighted index. An expectation of further weakness in the dollar should support sterling going forward, particularly on an equity-weighted basis
- The economic backdrop is somewhat mixed in the UK. While the UK has had the fastest economic growth in the G7 YTD, the pace of expansion slowed to 0.3% in 2Q, down from 0.7% in 1Q. Likewise, the S&P Composite PMI has declined to 50.1, a level which is consistent with a weak expansion. Consensus 2025 GDP growth for the UK stands at 1.3%, up two-tenths on the quarter but still lagging the 1.5% expected for broader DM.
- The BOE cut their base rate by 25 bps to 4% during the quarter. They would like to do more to support activity, but sticky inflation is restraining them. Nonetheless, further, gradual rate cuts are likely, especially if activity remains weak. Continued rate cuts should bring down currently high levels of household saving, underpinning domestic conditions.
- The UK's structural current account deficit and the prevalence of cyclical sectors in its asset markets give sterling a risk-on/risk-off profile. Sentiment toward UK risk assets remains depressed, which could prove supportive if fundamentals improve. Recent fiscal concerns, while likely over-amplified, do maintain some potential to disrupt markets as we approach the November budget.

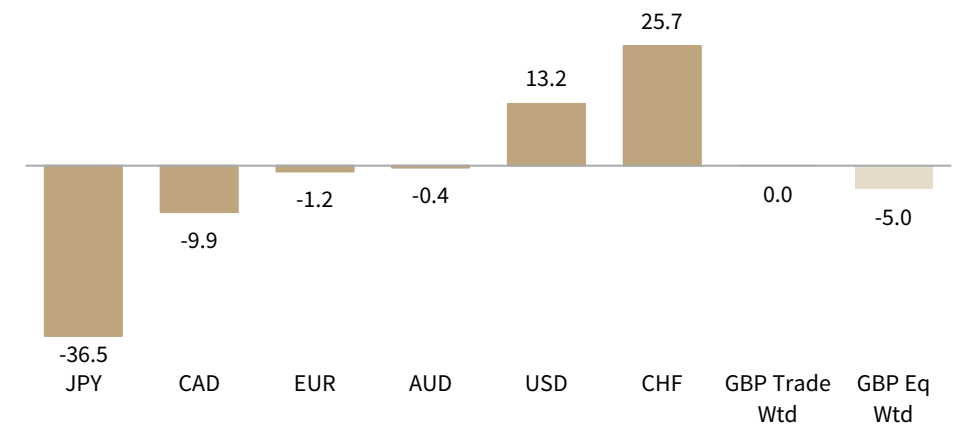
#### GBP basket real exchange rate percentile

Jun 30, 1971 – Sep 30, 2025



#### Real exchange rate vs the GBP: % from median

As of Sep 30, 2025



Sources: Bank of England, MSCI Inc., National Sources, OECD, Refinitiv, and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

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# EUR vs Developed Markets Currencies

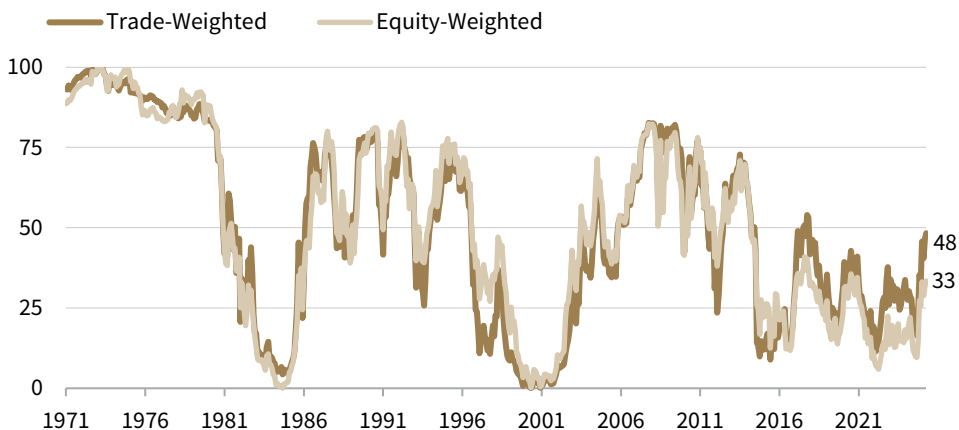
## Facts & Figures Third Quarter 2025

The euro rose 0.7% in trade-weighted terms in 3Q 2025 bringing its trailing one-year performance to 4.2%. The euro's rise has been supported both by dollar weakness and broad strength for domestic reasons. ECB rate cuts, announced German stimulus, and strong peripheral growth were key drivers of regional optimism, while US policy uncertainty and concerns around the impact of tariffs have weighed on the dollar.

- On a valuation basis, the euro's REER stands at the 33rd percentile on an equity-weighted basis and the 48th percentile on a trade-weighted basis, 8.0% and 0.5% below median, respectively. While the rise of the trade-weighted index to near its median reflects improved expectations of domestic circumstances, the direction of the dollar remains a key driver for the equity-weighted index (81%) and explains the remaining undervaluation on that measure.
- Despite improving growth expectations, the economic backdrop is somewhat mixed. Eurozone GDP growth has been positive for several quarters, supported by strong periphery performance. The cumulative 200 bps of rates cuts delivered by the ECB, an untroubling inflation environment and planned German fiscal stimulus are all supportive of future growth. These factors have contributed to a rise in real rates, which supported the euro's climb. Nonetheless, Germany's growth impulse is anemic currently as it battles competitiveness issues, while French activity indicators are also weak. Eurozone growth is expected to be 1.3% this year, up from 1% at year end, compared to 1.5% for DM.
- To further materially drive domestically generated euro appreciation, greater fiscal and regulatory convergence between the periphery and the core is likely needed to boost potential growth. Completing the capital markets union and expanding jointly issued bonds would also contribute to the financial resilience of the region. While expecting further appreciation against the dollar, risks include growth acceleration in the US due to fiscal support, a more decisive growth drag from tariffs, and an escalation of French political instability.

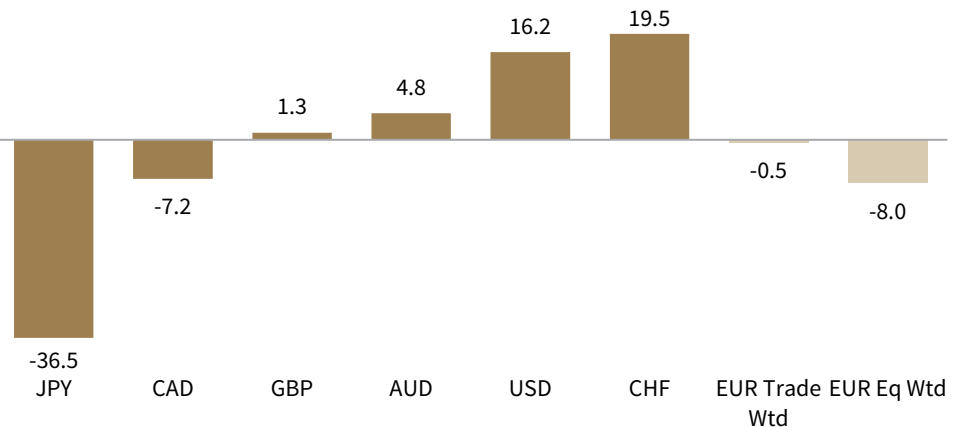
### EUR basket real exchange rate percentile

Jun 30, 1971 – Sep 30, 2025



### Real exchange rate vs the EUR: % from median

As of Sep 30, 2025



Sources: European Central Bank, MSCI Inc., National Sources, OECD, Refinitiv, and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: Australian inflation data are quarterly and as of June 30, 2025. All other inflation data are as of August 31, 2025.

## Digital Assets

### Facts & Figures Third Quarter 2025

**Bitcoin rose 6% in 3Q and 80% over the past 12 months (USD), while the S&P Cryptocurrency Broad Digital Market Index gained 16.2% and 63.5%, respectively. Performance was driven by risk-on sentiment and expectations for lower interest rates.**

- Given bitcoin's unique characteristics and limited history, there are few reliable valuation metrics. One metric is price-to-transactions per coin (P/TC), which can capture bitcoin's utility as a medium of exchange. Bitcoin's current P/TC ratio is highly elevated relative to history, which signals speculative pricing compared to transaction volume.
- The market backdrop in 3Q was strong for risk assets, boosted by expectations of lower US policy rates. Bitcoin has tended to appreciate in such environments. Since the tariff-related volatility that weighed on bitcoin in April, it has traded near its all-time high price for several months. However, a resurgence of tariff-related tensions could weigh on bitcoin.
- Momentum was strong across digital assets, with bitcoin leading a pronounced rally and the S&P Cryptocurrency Broad Digital Market Index also posting returns. Technicals were supported by broad-based gains and increased investor interest.
- Key risks remain elevated, as digital assets continue to exhibit much higher price volatility than equities. Over the past three years, bitcoin's standard deviation was nearly five times greater than that of equities, and less established cryptoassets are likely to be even more volatile. While volatility has moderated with broader acceptance and liquidity, it remains a defining feature.
- Implementation options have expanded, with both passive and active vehicles now available, including custodians, cryptoasset trusts, and VC and hedge funds, providing a range of access points to the broader universe.

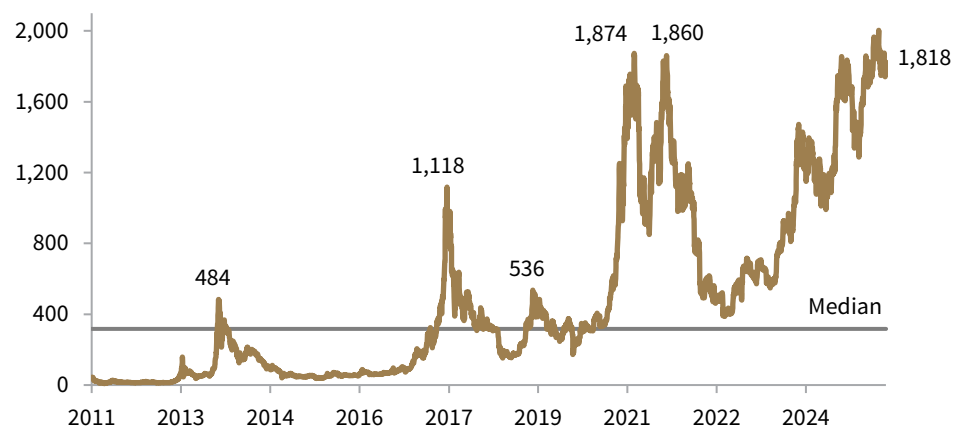
#### Bitcoin price

Dec 31, 2015 – Sep 30, 2025 • US Dollars



#### Ratio of bitcoin price to transactions per coin

Aug 31, 2011 – Sep 30, 2025



Sources: Blockchair.com and Thomson Reuters Datastream.

Notes: Bottom chart represents the USD price of bitcoin divided by the number of transactions per coin outstanding. All data are daily.