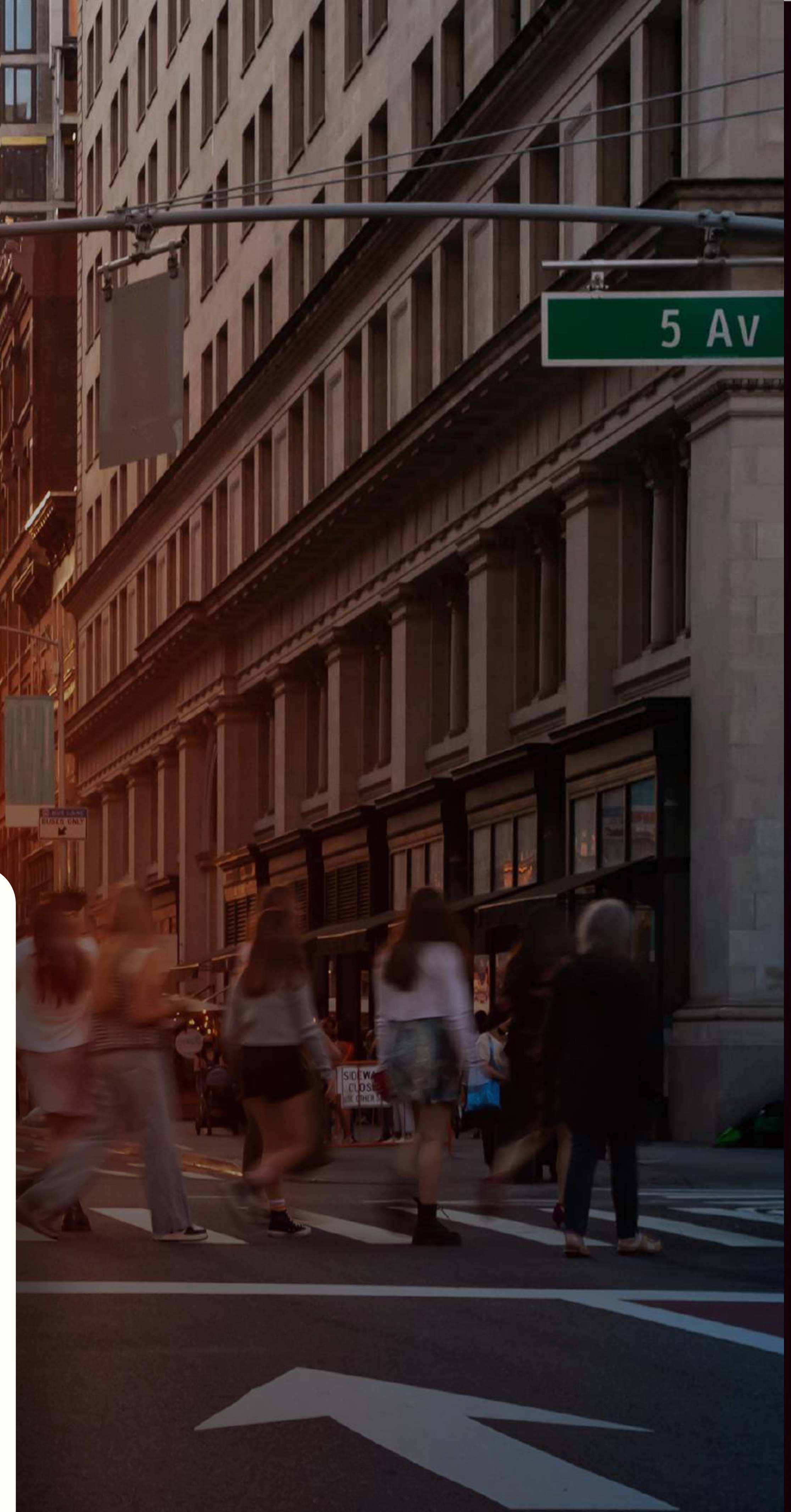
iBanFirst

FX Market:

What to expect in 2025?

Your guide to better understand currency volatility in 2025 and improve your budget forecasts



Foreword

Have you ever heard of the **carry trade**? This is what almost triggered a financial crisis at the height of the summer. The carry trade consists in borrowing in a low interest-rate currency and investing the proceeds in a high interest-rate currency. For years, investors could simply borrow in yen at zero or negative interest rates and make a handsome gain by buying in euros and dollars. Easy! But this was before the Bank of Japan decided to raise its policy rate to 0.25% last July. Panic ensued. Reimbursing astronomical sums running into several hundred billion dollars at 0.25% is quite different from reimbursing them at a zero interest rate, as originally expected, especially as many businesses and investors had not hedged their short positions in the yen, exposing them to heavy losses.

This example highlights the degree to which currency volatility remains a huge challenge for managers of companies with international operations. This guide does not pretend to be a crystal ball. But by sharing with you the key market trends and major events likely to influence currencies, we hope to be thought-provoking and help you minimize the risks that your company may face in 2025.

Pierre-Antoine Dusoulier, CEO and founder of iBanFirst

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Trends to watch

No recession risk in developed countries

There are many question marks today about the growth trajectory in developed countries. We think a recession is unlikely. Real wage growth above inflation, the end of the negative impact of restrictive monetary policies on credit and an expansionary fiscal policy in many countries, particularly in the US, are supporting economic growth. Barring an unexpected setback, growth rates should gradually rise back to their pre-Covid levels. As for the US economy, it is likely to continue outperforming the rest of the world in the years ahead.

Lingering challenges

The economy is not just made up of certainties and obviously has some areas of fragility: the heavy private debt burden needs refinancing at higher interest rates, persistent difficulties in the property sector have still not been dealt with, company margins are starting to come under pressure, and it is becoming harder to interpret job market statistics. Is this the aftermath of Covid or is this the new norm? For now, it is too soon to say. Lastly, PMI manufacturing activity indicators have weakened in recent months. Is this due to seasonality? Possibly, but these indicators will need to be watched closely in the future. Yet despite these numerous uncertainties, there are no signs of a severe economic downturn in the near future.

The market is indecisive about the direction of the dollar

How will the dollar perform over the coming months? There is no consensus among analysts. Republican candidate Donald Trump wants to see the dollar depreciate. He has never made a secret of this. But this is unlikely to happen if he brings in tariffs. Economy theory demonstrates that tariffs have the reverse effect: they lead to a currency appreciation through a reduction in volumes of US imports, resulting in weaker demand for foreign currencies relative to the US dollar. Regardless of the name of the next US president, we think a strong dollar world is here to stay thanks to the country's more vigorous growth and the attractiveness of the US stock market – two structural supports for the dollar.

Regional analysis

World: attacks on international trade are growing

Back in the 14th century, the School of Salamanca in Spain demonstrated that free trade is not only effective from an economic standpoint but is morally legitimate, as it allows people to come together and contribute to the wealth of their community. Today, however, free trade is under threat from mounting protectionist measures, economic boycotts and difficulties in securing trade routes. For example, **one in three countries globally and 60% of developing countries are under US economic sanctions**. This is unprecedented.

These trade frictions and barriers to international trade routes (the Formosa strait between China and Taiwan and the blockade of the Bab El Mandeb strait in the Red Sea) pose a clear threat to global trade – so much so that companies are being forced to develop in-house expertise to predict and manage geopolitical risks. This is the case, for example, of French shipowner CMA CGM, a global giant in its sector, which has its own geopolitics department.

Principal risk

Rising protectionism and economic sanctions

Probability

High

Eurozone: oops, missed again!

It is always the same thing with the eurozone. Initial hopes of a sharp jump in growth inevitably run out of steam and fall back to a long-term average of around 1%. The reasons for this are twofold: monetary policy that is not sufficiently accommodative and the German economy is faring poorly. Germany has massive fiscal leeway, and yet its economy is stagnant, and it has a huge need for public investment. It's also important to keep in mind that Europe's major dependence on the Chinese economy is a significant impediment to an economic recovery.

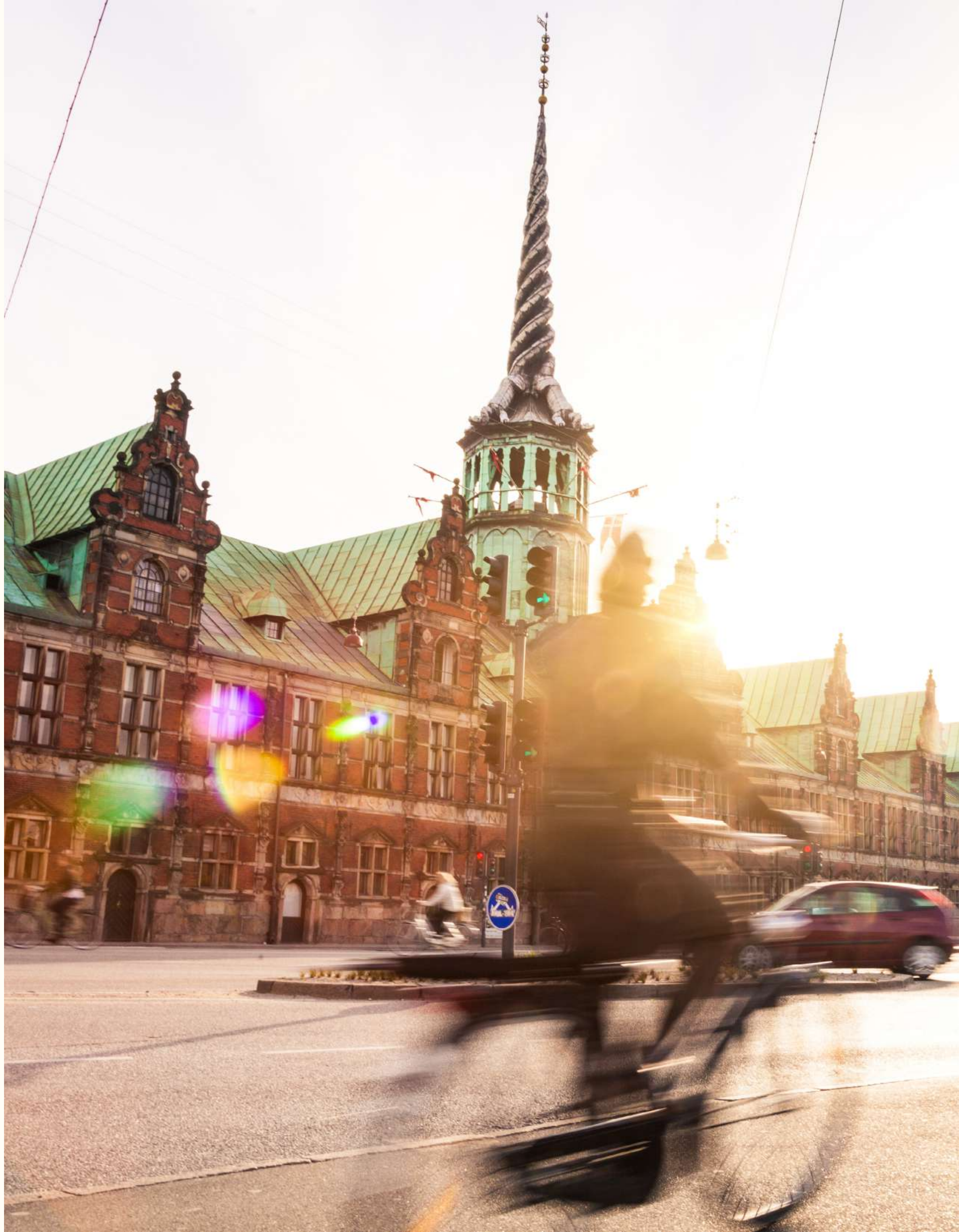
Europe has also stuck firmly to the proverb **"do what I say, not what I do"**. Sanctions on Russia have proven to be a failure. On paper, Europe has isolated Russia economically. In reality, however, economic ties are still strong: they are simply passing through third countries. For example, German exports to Georgia have more than doubled since the war in Ukraine. Goods sent to Georgia are then transported to Russia. Not a pretty sight.

Principal risk
Weak growth

Probability
High

In many ways, the eurozone economy is boring: sluggish growth, receding inflation, flagging productivity and declining demographics. Nothing much is new since the pre-Covid era."

Joost Derks
International Head of Account Management at iBanFirst



United States: a separate case

While growth in the rest of the world is returning to pre-Covid levels, the US economy stands out with its strong growth and sharply rising productivity. What is the US economy's secret? A massive public deficit that is expected to remain at between 5% and 7% of GDP over the coming years. In Europe, the deficit is just as high in many countries, and yet growth is more subdued. The reason is simple: in Europe, the deficit is allocated to recurrent expenditure and interest repayments on debt, whereas in the US it goes towards funding investments in innovations in priority, which has the effect of sparking a surge in productivity.

Regardless of who the next president is, there is a broad consensus in the US political class about the need to bring back to the motherland activities considered essential for the economy, such as semiconductors. **US economic exceptionalism** is likely to persist. The wealth gap between the two sides of the Atlantic will inevitably grow. A chilling prospect for Europe...

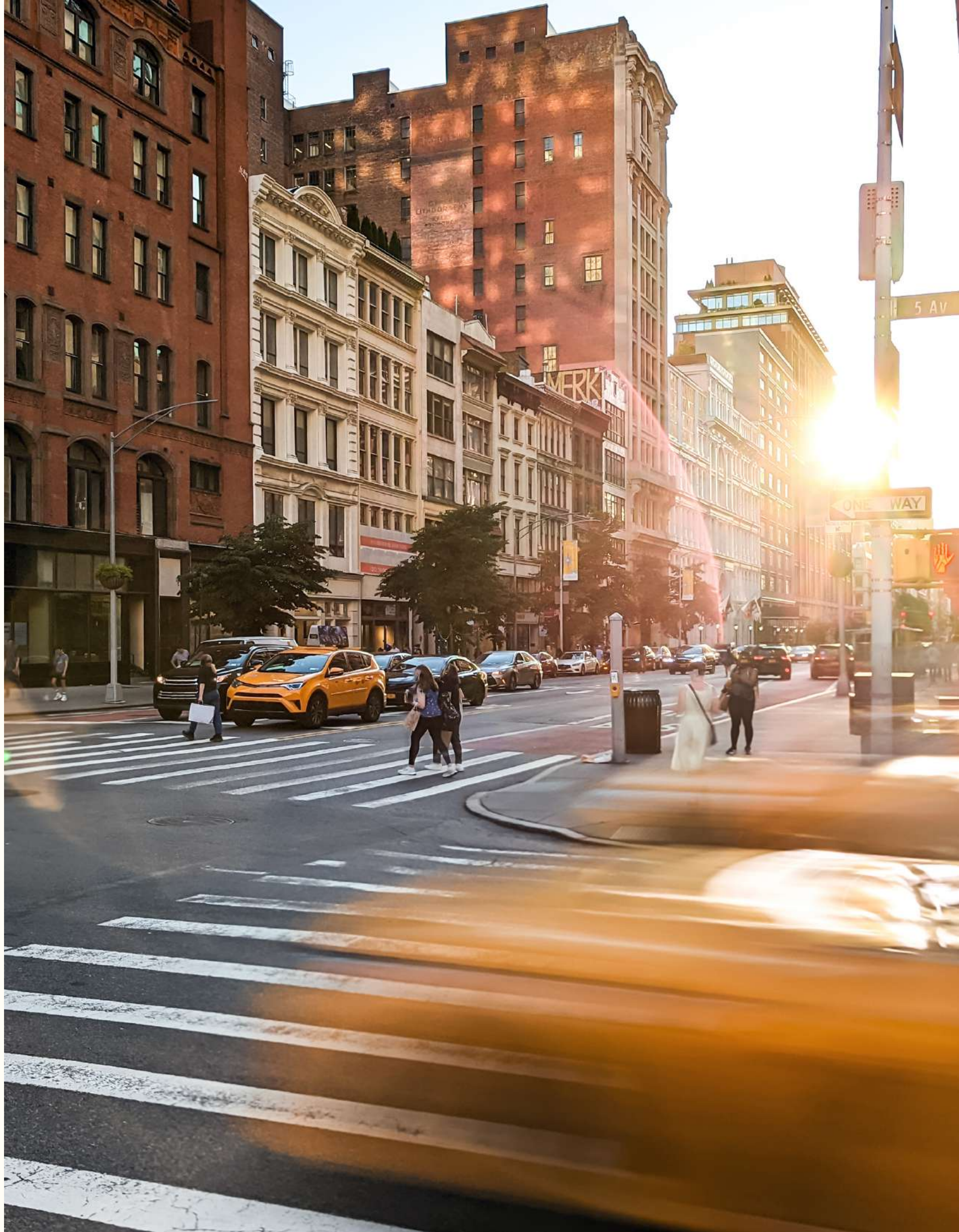
Principal risk
Recession

Probability
Low

The trade war continues!

According to a study carried out by Swiss asset manager Pictet AM in August 2024, the tariff increase proposed by the Biden administration on China would have a marginal impact on Chinese GDP. The proposal is to raise tariffs by 27.7% on a selection of goods representing just 3.6% of total exports to the US.

In contrast, Donald Trump's proposal of a 49.2% tariff hike on all goods would cause Chinese GDP to plunge by 1.4%. That's massive! Watch this space.



China: when your luck runs out, it's really out

How is China doing? Badly. The country is confronted with a **silent banking crisis**: 3,800 small local banks in rural areas are in difficulty. This represents approximately 55,000 billion yuan of assets, equivalent to 13% of the Chinese banking system. The worst affected banks have up to 40% of non-performing loans on their balance sheets, mainly reflecting high exposure to the crisis-hit property sector and large-scale fraud.

For the time being, Beijing is succeeding in stemming the crisis. Two options are on the table:

- Letting the smallest banks whose disappearance would not create serious economic and financial problems go under;
- Encourage bank mergers. In both cases, this would continue to depress economic activity and reduce access to credit in a country in desperate need of it.

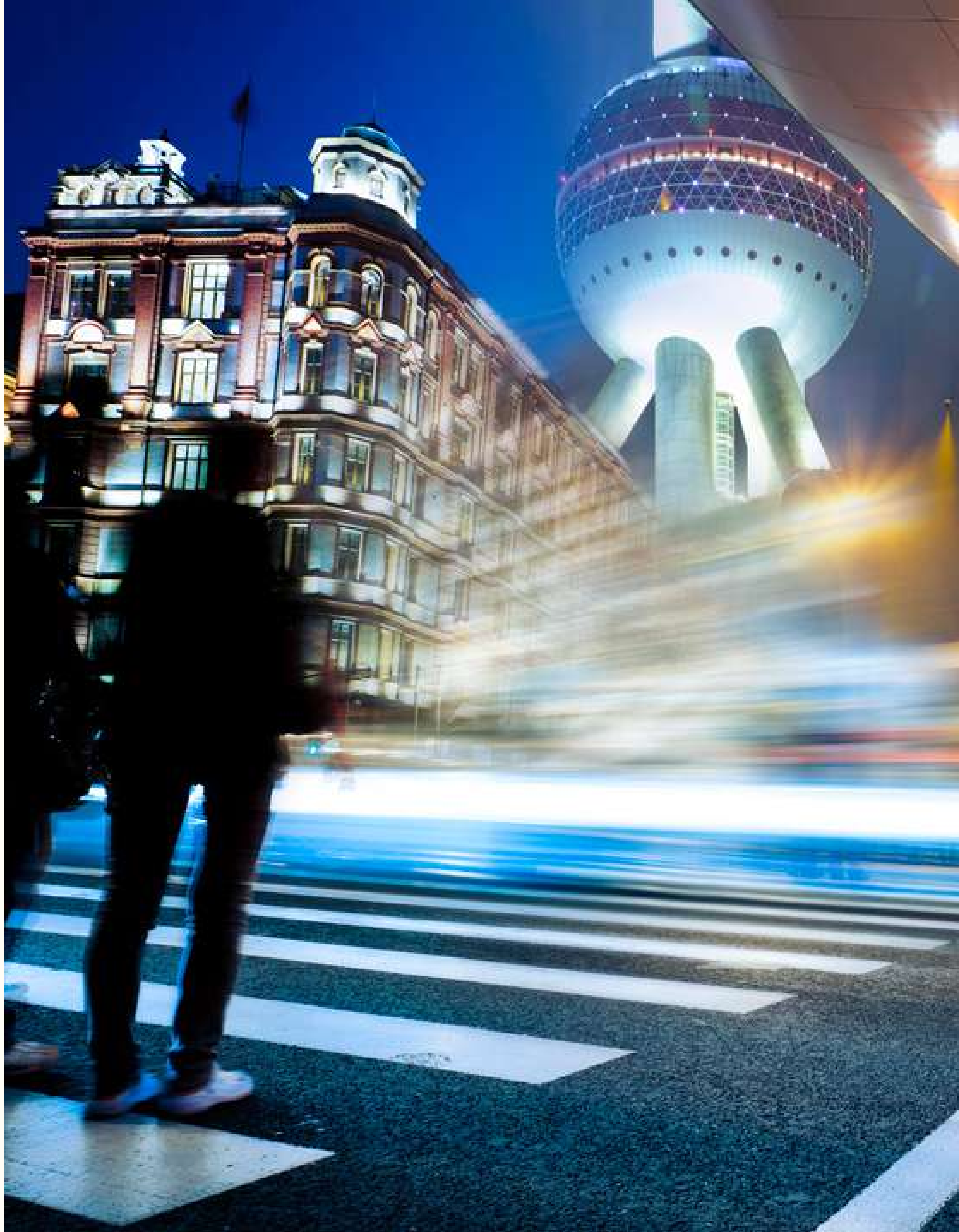
For months, the central government has touted the possibility of a **consumption-led stimulus** to boost growth. Unfortunately, this has still not materialized. Perhaps in 2025?

Principal risk
Continued sluggish growth and low inflation

Probability
High

China is in bad shape and, as always when this is the case, rumors have spread about a devaluation of the yuan. This is unlikely since it would trigger an uncontrollable capital flight, as seen in 2015-16".

Joost Derks
International Head of Account Management at iBanFirst



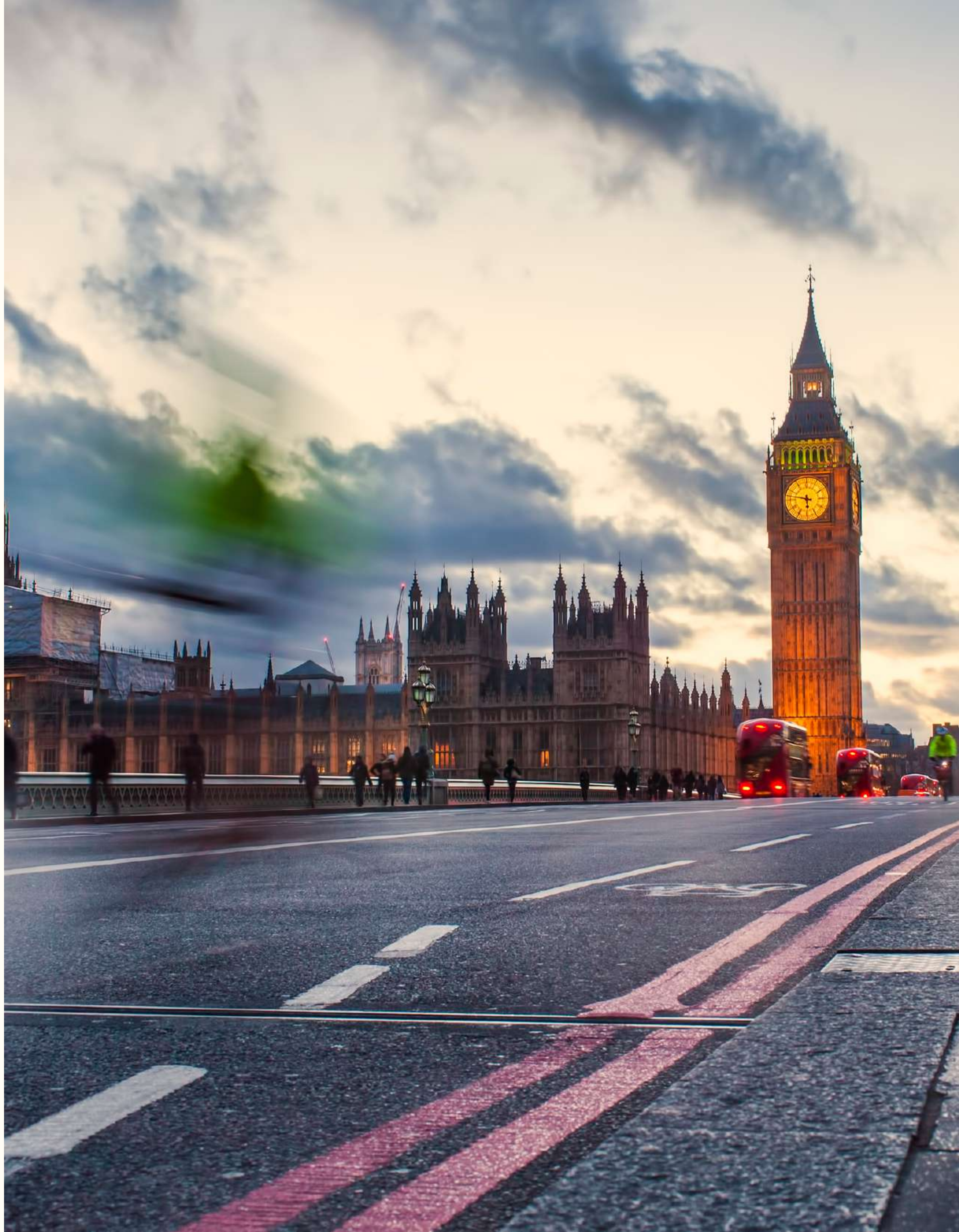
United Kingdom: are you familiar with "securonomics"?

We've had Macronomics in France, Bidenomics in the US, and Abenomics in Japan. In the 1990s, we even had Anthony Giddens' third way for social democracy, symbolized by Tony Blair's economic policy. Today, we need to talk about **"securonomics"**, theorized by the new Chancellor of the Exchequer, Rachel Reeves. This is the in-vogue economic and social philosophy in the UK that brought the Labour party back to power.

It is often presented as a British version of Bidenomics. But it goes further than this, with four principal concerns:

- Economic growth is the priority.
- Economic transition. Yes, but pragmatically with nuclear power. The UK is the only European country, along with France, to be increasing its nuclear power supply capacity.
- Social touch. Say goodbye to precarious zero-hour contracts with no minimum fixed working time, together with the "fire and rehire" practice that some employers used and abused.
- Good management of public finances and reduction in public expenditure. Debt is at a 60-year high, with interest payments on net debt amounting to more than 80 billion pounds this year alone. There is no choice other than to reduce debt. This is the number one priority. Under the **Conservatives, between 2010 and 2024 – and omitting the Covid effect –, interest payments on debt doubled!** How was this allowed to happen? There was a Brexit effect, but above all the Conservatives spent massively on projects whose capital revenues were paid out to their private sector partners who reaped massive profits totaling around 1,000 billion pounds. The country is now completely beholden to its creditors. Not a thrilling prospect...

Principal risk	Probability
Austerity measures	**Median**



Japan: the end of deflation at last!

Is Japan becoming a “normal” economy again? Since 2022, inflation has made a comeback, wages have risen substantially – with a negotiated increase of 5.3% in spring 2024 – and the stock market has recovered from its lethargy. **Deflation has ended** at last! The ageing population and astronomic debt burden remain structural problems but the economy seems to be back on the rails again. Rising wages have boosted consumption and curtailed savings behavior. Coupled with a sharp increase in capital expenditure, a virtuous circle is coming into place. This should be confirmed in 2025.

Principal risk
Decline in consumption

Probability
Median

“The Japanese yen has delivered many surprises in 2024. It literally collapsed against the dollar and euro before regaining a little strength over the summer. Let us hope that 2025 will be a little calmer”

Joost Derks
International Head of Account Management at iBanFirst

Canada: the housing market bubble is not going away

Canada is not benefiting as much as might be expected from the dynamism of the US. The economy is even in recession if one divides the wealth it produces by the number of inhabitants. This reflects weak productivity and substantial growth in the active population over the past few years resulting from higher employment immigration. Like other developed economies, Canada has also suffered in recent years from high inflation, which has eroded consumer spending power. The good news is that the inflow of new workers should ease upward pressures on wages and hence help to restore company margins.

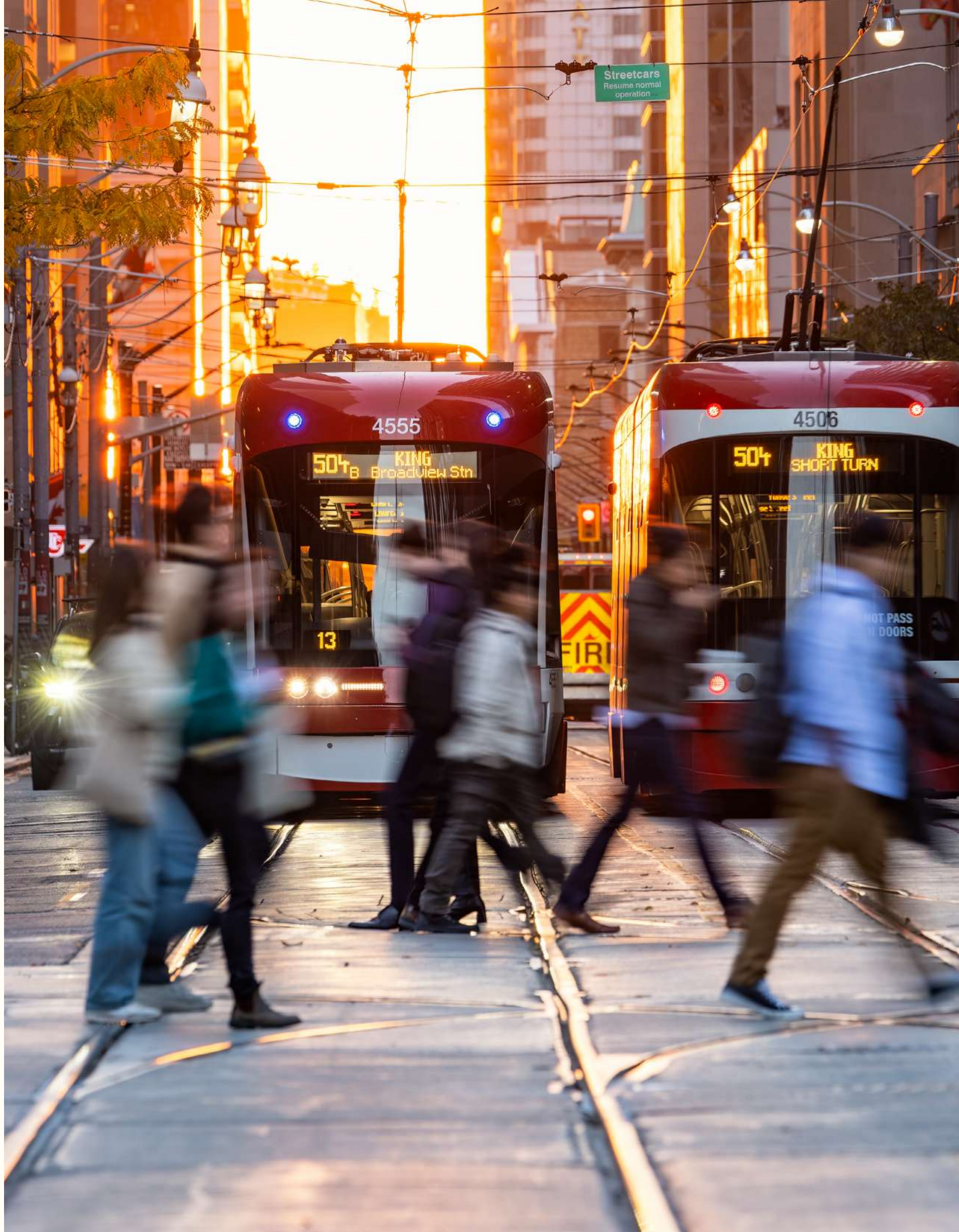
The **housing market bubble** is still present. For years, gloom merchants have predicted it will burst, but it rumbles on for now. The first rate cuts by the Bank of Canada last spring should avert an accident at this level.

Principal risk

Bursting of the housing market bubble

Probability

Median



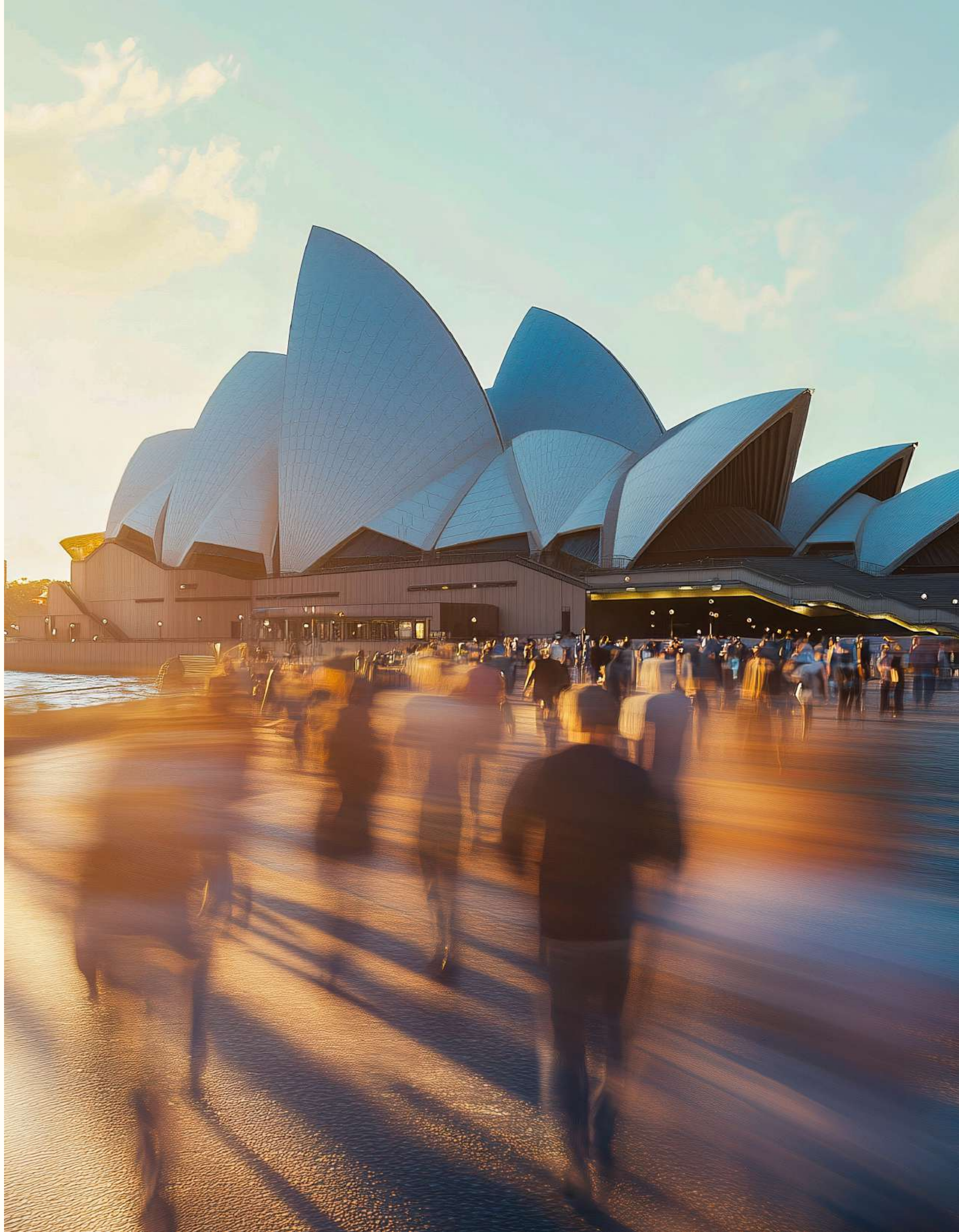
Australia: it's chaos

If there's one word that captures Australia's current economic situation, it's 'chaos'. The signals are contradictory. The housing market bubble has still not burst. Activity in services and the manufacturing sector is consistent with an economic expansion phase. Job market indicators, especially those relating to hiring intentions, seem to point to a risk of recession if the government does not intervene through public aid measures. Lastly – and this is the paradox – inflation remains so high that the Reserve Bank of Australia came close to raising its policy rates over the summer, at a time when all other central banks in developed countries (aside from the special case of Japan) entered a rate-cutting cycle.

What will we need to watch for in the coming months to judge if Australia will recover or not? The Chinese economy. At present, this does not look very promising. The Australian government has warned of a plunge in Chinese demand for iron ore, one of Australia's principal exports to the country. According to estimates published by the Australian finance ministry at the end of August 2024, this could result in a loss of 3 billion Australian dollars for the Australian economy (the equivalent of 1.83 billion euros at the current exchange rate) over the next three years. Terrifying.

Principal risk
Steep drop in Chinese demand for raw materials

Probability
Median



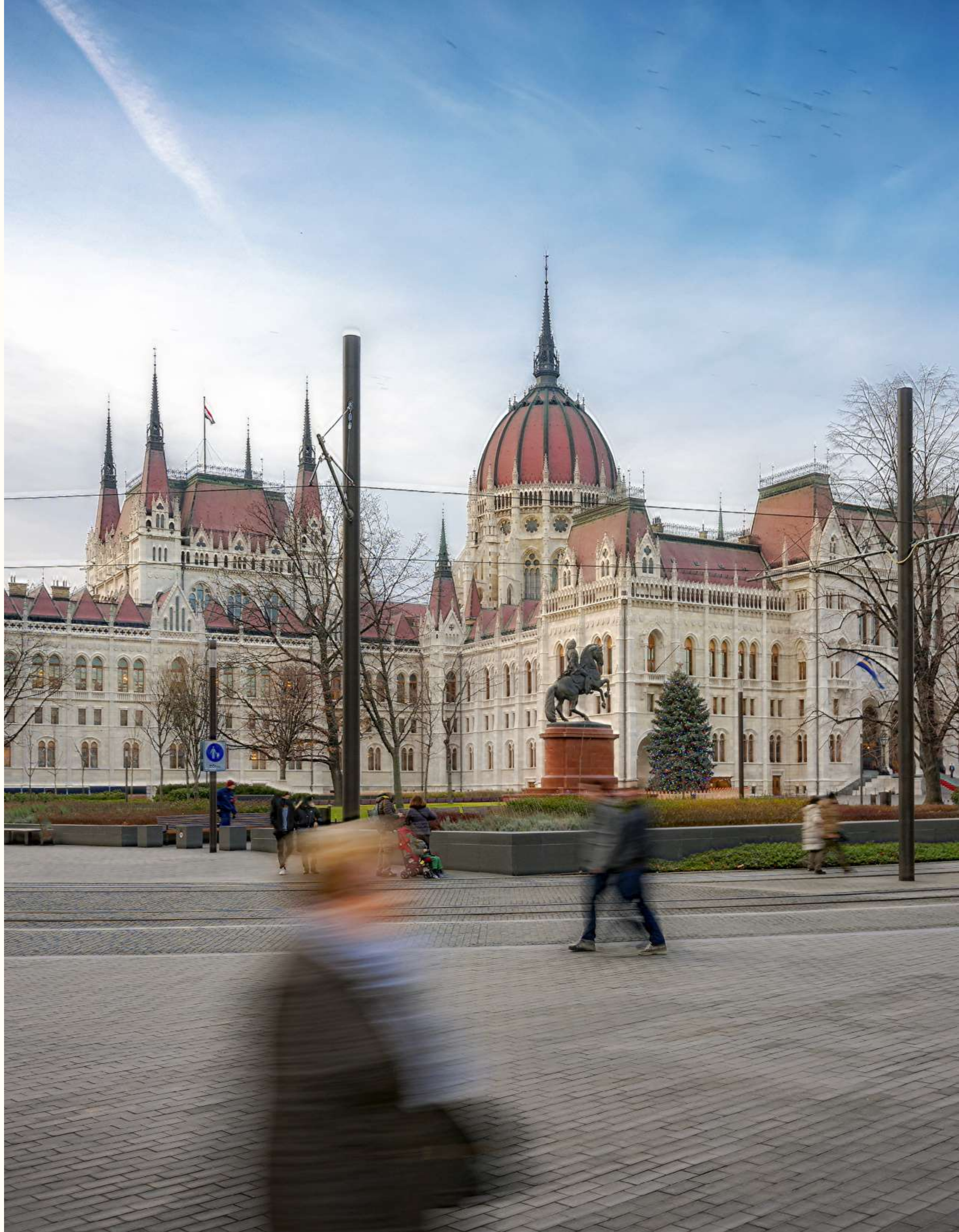
Hungary: not doing well

Hungary will be happy to see the back of 2024. The country's manufacturing sector is lagging, like its German counterpart. Industrial production has declined throughout much of the year and the key manufacturing sectors – electronic equipment, electronics and transport equipment – are showing no signs of a future improvement. Manufacturing is now the principal factor behind the decline in GDP. This may continue to be the case in 2025 if the international backdrop does not improve. That said, there is one small ray of hope: domestic demand may pick up towards the end of the year, injecting temporary momentum into the economy.

In the long term, our two chief grounds for concern are **the weakness of capital spending** (tax measures are necessary in view of the magnitude of the task) and **deteriorating business confidence**. During our discussions with foreign companies operating in Hungary, all said that it is becoming increasingly difficult to do business in the country, mainly because politics has an increasing presence in business affairs.

Principal risk
Lasting recession

Probability
Median



Romania: the laggard in Europe

Romania will not be able to avoid tough negotiations with the European Union over its budget. With a deficit set to remain around **7.0% of GDP** in the near term and the triggering of the excessive deficit procedure, the country will have to present a fiscal adjustment program over seven years that could well have an adverse effect on growth. However, we expect the European Commission to show clemency and not demand drastic cuts to investment programs for 2025-26. This is good news.

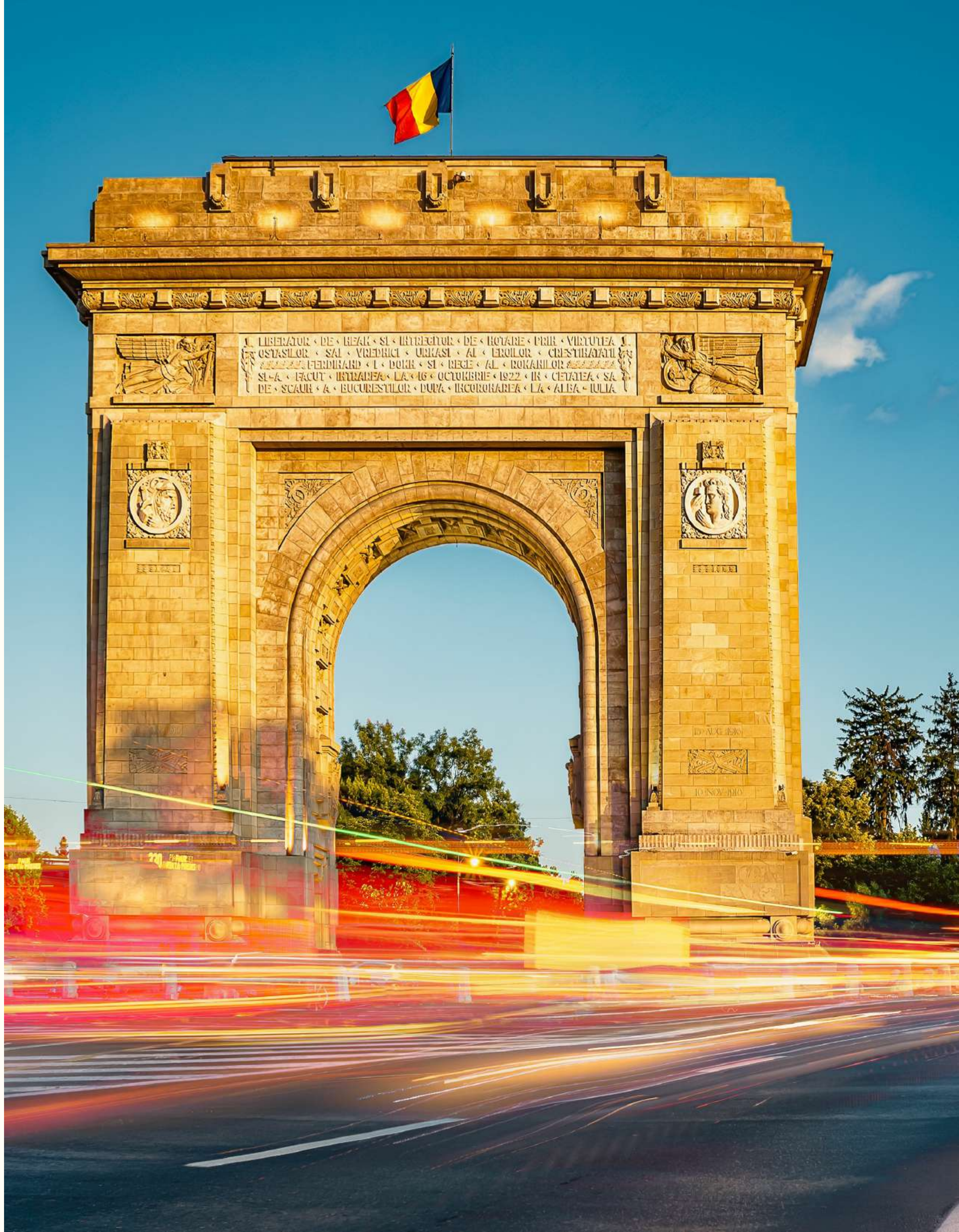
But there is more. We doubt that the rating agencies will downgrade the country's sovereign rating, which could imperil its banking sector. Romania will probably not avoid a negative outlook on its rating, but this is a lesser evil. It should also be kept in mind that the Romanian central bank plays a major role in the local bond market, helping avoid hiccups on sovereign debt issues. Overall, Romania should not fare too badly in the short term. In the long term, however, if the country wishes to avoid being forced into **austerity measures**, it will have to consider cutting spending and/or raising taxes.

Principal risk

Downgrade of the sovereign rating

Probability

Median



Key dates to watch

31 October 2024
Presentation of the French budget for 2025 to the European Commission

5 November 2024
US presidential election

11-22 November 2024
G20 summit in Brazil

18-19 November 2024
G20 summit in Brazil

29 November 2024
Revision of France's sovereign rating by S&P

20 January 2025
Inauguration of the new US president

20-24 January 2025
Davos Economic Forum

29 January 2025
Start of the Chinese New Year

1 May 2025
Local elections in the UK – the first electoral test for the Labour party since its return to power

1 July 2025
Bulgaria could adopt the euro if it complies with the Maastricht criteria*

7 July 2025
The date from which a new dissolution of the National Assembly is possible in France

September 2025
NASA's crewed mission around the Moon – the first since 1972

28 September 2025
Federal elections in Germany

* the inflation rate must not exceed by more than 1.5 points that of the three Member States with the best results in terms of price stability; the annual public deficit must not exceed 3% of GDP; public debt must not exceed 60% of GDP.

Our convictions for 2025

> **“The biggest takeaway from 2024 is to always remain cautious of exchange rate risk. Market shifts can happen when you least expect them.”**
>
> **Pierre-Antoine Dusoulier**, CEO and founder of iBanFirst

1 The market tends to overestimate the effect of geopolitical risk

2024 has been rife with geopolitical upsets, especially in the Middle East. On each occasion, gloom merchants have predicted a surge in the oil price to stratospheric levels, the return of risk aversion and a rush into gold and the dollar. But this is rarely what happens. This does not mean that geopolitical factors should be overlooked. For example, a Chinese invasion of Taiwan would obviously have devastating consequences for the world economy. In 90% of cases, however, geopolitical risk has very short term effects, mainly at times when market liquidity is in short supply and, in particular, during the Asian session and at the opening of the European session.

2 The strong dollar is still the norm

Based on our calculations, the US dollar index is 9% overvalued against the currencies of its principal trading partners. It’s a lot, but it’s been worse in the past: in the 1980s, the dollar’s overvaluation peaked at 20%. This led to the signing of the Plaza agreements in 1985 to stabilize exchange rates and drive down the greenback. The dollar index’s current strength is explained by the outperformance of the US economy, boosted by a fiscal deficit that is likely to remain close to 5-7% of GDP in the years ahead, the domination of the US stock market and the dollar’s major role in international trade. The de-dollarization of the world economy is just an illusion. All these structural factors should favor a strong dollar in 2025 and probably beyond.

3 Central banks will continue to cut rates

This is a known unknown. Rate cuts will probably be of a lesser magnitude than during previous loosening cycles. This is due to the absence of a recession that usually necessitates drastic measures. All the leading central banks have embarked on this process, with the exception of the Bank of Japan, which is likely to continue raising interest rates next year amid a return of inflation.

4 Emerging currencies may tremble if Trump is elected

2024 has been a fairly good year for emerging currencies. Inflation was brought back under control more swiftly in emerging countries than in developed countries, allowing central banks to lower their policy rates from mid-2023 and to focus on supporting growth. In many cases, this has been decisive in explaining the good trajectory of these currencies. Nonetheless, the possible election of Trump, mounting protectionism and a more uncertain global economic environment could favor safe-haven currencies – the dollar and euro – against emerging currencies in 2025. The good news, despite all this, is that there are fairly few major elections scheduled in emerging countries next year. This is usually a significant factor behind exchange-rate instability.

5 Volatility is set to remain high

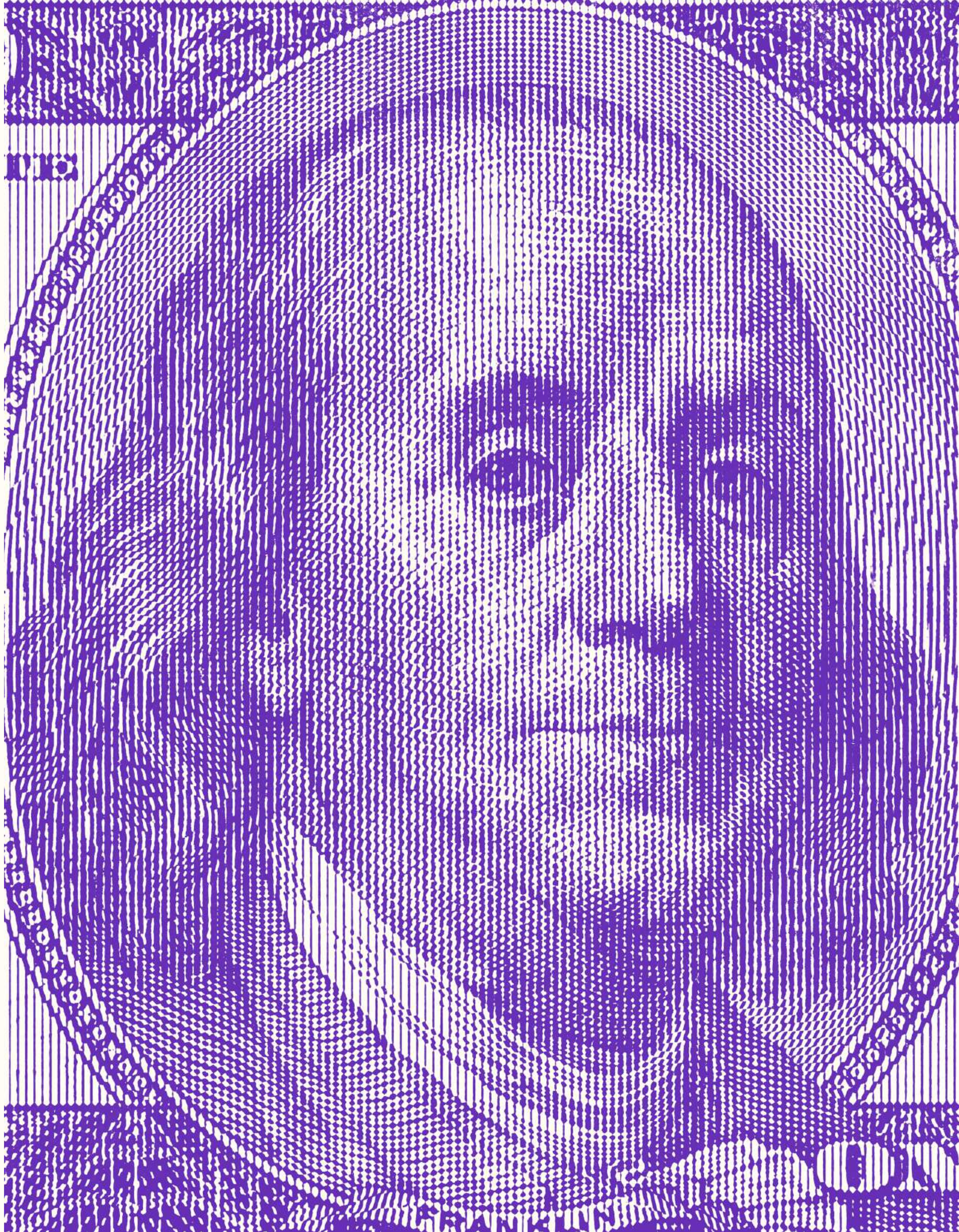
Central banks keep on repeating that they are “data-dependent”, i.e. that their monetary policy shifts as new statistics come out. The objective is to avoid cutting or raising interest rates too quickly. On the face of it, this is well meant. But this approach is above all a source of strong volatility, especially in the bond and currency markets, and creates uncertainty – everything investors detest.

Forecasts for the principal currency pairs

EUR/USD

A little higher, but not much

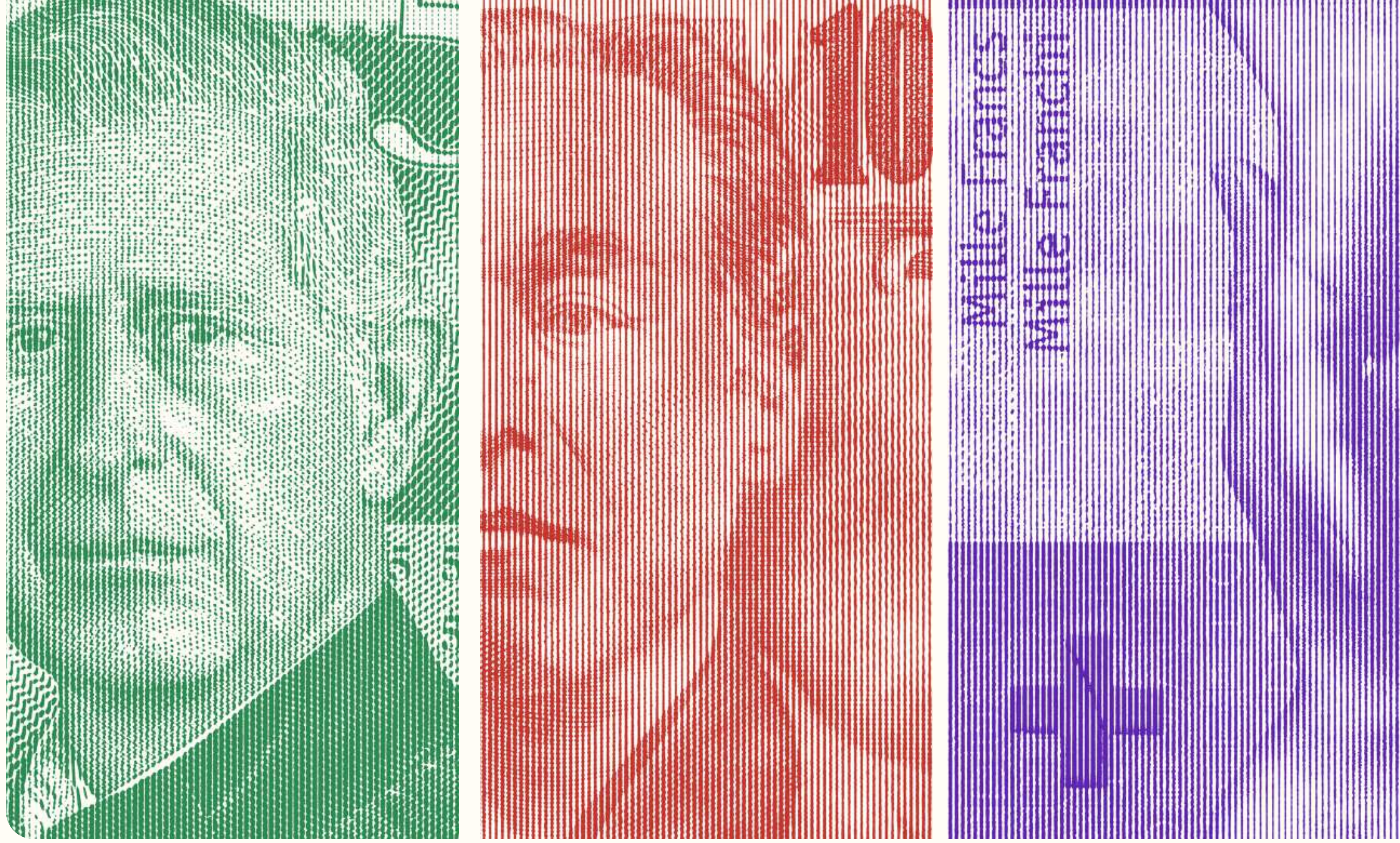
Where will the EUR/USD be next year? Probably at around 1.15 in the best of cases. This will not be because of the arguments usually made by experts. Many credit the single currency's appreciation with the improvement in the eurozone economy. Unfortunately, there has been no tangible economic improvement. **In reality, the drop in US bond yields linked to receding inflation and Fed monetary loosening is the predominant cause of the euro's appreciation.** Investors, especially hedge funds, are selling dollars and investing their capital in other currencies, boosting the euro. Is this trend sustainable? Probably not. We struggle to see what factors could drive the EUR/USD above the 1.15 threshold. A US recession? This is not our baseline scenario. Initially, a recession would weaken the dollar, but since this would inevitably spread to the rest of the world, other currencies would end up suffering most over the long term. We are still in a strong dollar world.



EUR/GBP

Some movement at last!

For a long time, this pair held out few surprises, moving within a narrow range around 0.86. Things have changed and the euro has entered a downward trajectory since the summer in the direction of 0.83. We think the EUR/GBP pair could stabilize in the months ahead at around **0.83-0.84**, which appears to be its new cruising regime. As always, sterling is little affected by the macroeconomic situation in the UK. In contrast, monetary policy plays a role. In the view of many FX operators, **the European Central Bank could cut its interest rates more rapidly and sharply than the Bank of England**. This is a factor explaining the recent trajectory of the EUR/GBP.



EUR/JPY

Set to swing

Last year, we told you that this would swing. This has been the case. Up to the end of July 2024, the yen plunged against its principal counterparties. **Measured in purchasing power parity, the yen even reached its lowest level since the late 1970s.** But nothing is lasting. The Bank of Japan (BoJ) raised its policy rate to 0.25% in July. The market instantly took fright and liquidated in panic mode its short positions in the yen (as we discussed in the foreword). Many hedge funds were caught out. **For the first time since 2021, these now have long positions in the Japanese currency.** Further rate hikes expected in the fourth quarter of 2024 and next year should extend the yen's upward trend. But do not expect the yen to switch from being a weak currency to a strong currency overnight.

EUR/CHF

Keep an eye on the Swiss National Bank

The Swiss franc has tended to appreciate recently. This will surely not be to the liking of the Swiss National Bank (SNB). Its interventions in the currency market have been marginal in 2024, mainly consisting of pure accounting operations. This could change in 2025 if the Swiss franc becomes too strong. In the long term, and taking into account a possible intervention by the SNB, **we expect the EUR/CHF to strengthen**. Be aware that political and geopolitical risk may periodically trigger pullbacks.

EUR/CAD

Weak link with oil

The historical correlation between the Canadian dollar and oil has been weaker in 2024 than in the past. It is hard to know today if this will be lasting. But judging by several other markets, such as equities and commodities, long-term correlations between financial assets are no longer relevant. This is surely due to growing interventionism by central banks in the markets – not only in bonds and equities, but also in forex and some commodities such as oil. The principal drivers of the Canadian dollar today are the **international macroeconomic environment (strong influence on the currencies of small, open economies)**, Canada's monetary policy and, to a lesser extent, trends in the local housing market (a particular focal point). In the very near term, the EUR/CAD is on a downward trend, but not for long.

EUR/AUD

Lack of visibility

This is certainly the pair on which visibility is weakest for 2025. The complicated macroeconomic backdrop in Australia is no help, with a mixture of signals pointing to a recession and others highlighting inflationary pressures. We doubt the Reserve Bank of Australia will raise its rates again. It could have done so last July but chose not to. That said, the rate-cutting cycle may be slower in Australia than in other developed economies. **In theory, this should be a long-term support factor for the Australian dollar.**

EUR/CNH

Still no devaluation

Last year, we warned you of those predicting a devaluation of the CNH to stimulate exports and growth in a context of weak lending. No such devaluation took place, and neither will it be the case in 2025. While **China is likely to miss its 5% growth target in 2024 for the third time in 27 years**, it is clear that Beijing does not want to repeat the same mistakes as in 2015 and will not opt for a competitive stimulus through its currency. We think it is in Beijing's interest to have a fairly stable currency, especially against the dollar, but also against the euro. This is fairly **good news**, since it will avert a currency war in Asia that no-one would gain from.

EUR/HUF

Stability

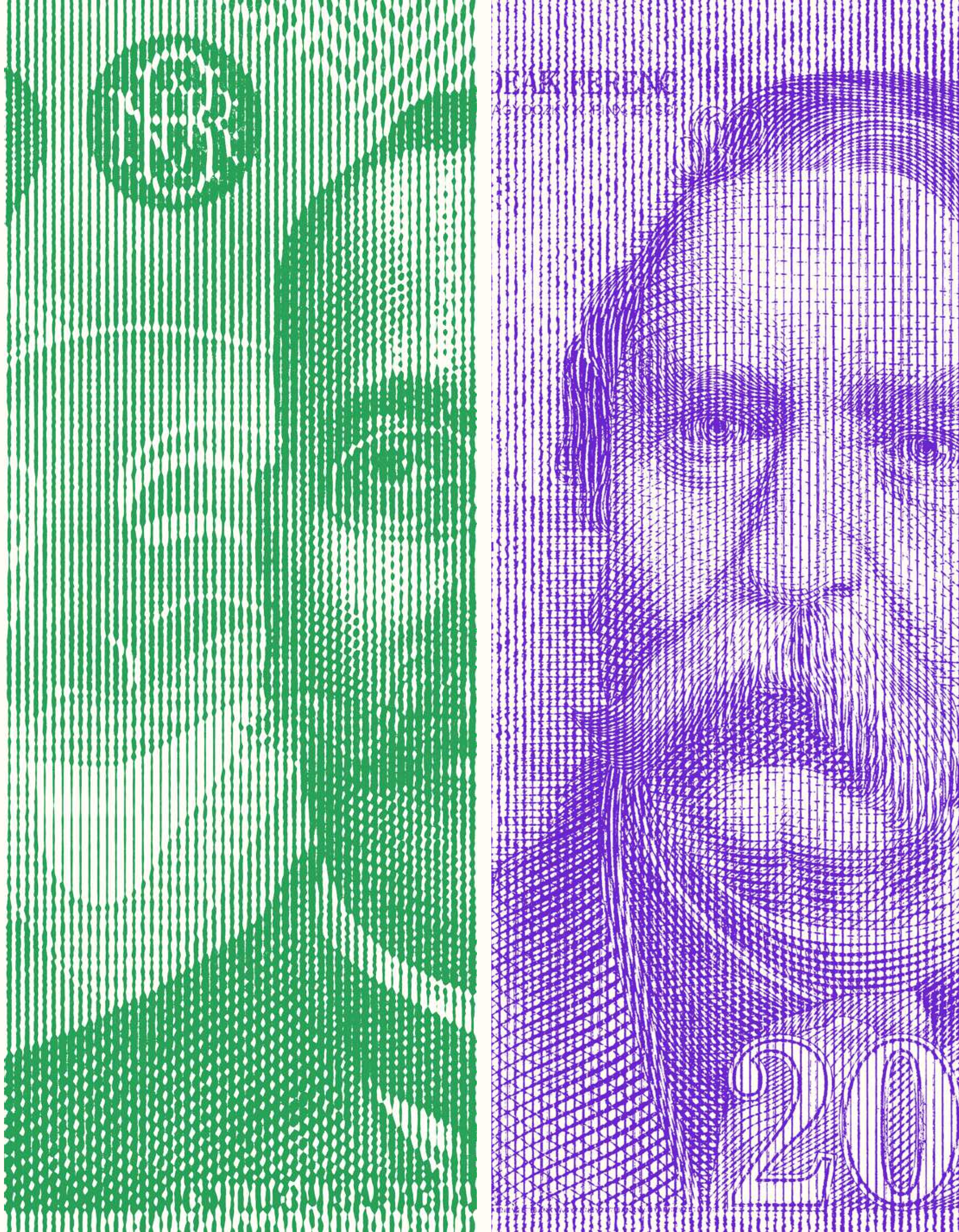
Over the last six months, the EUR/HUF has traded in a narrow range of 20 pips between 380 and 400, with the latter threshold recently breached. In the short term, the price zone around 400 seems to satisfy the Hungarian authorities, which are much less interventionist today in the markets. We doubt that Hungary's monetary policy will truly be a differentiating factor for the pair next year: most rate cuts have already been implemented in Hungary.

The local macroeconomic context is a factor that is marginally penalizing the HUF. Objectively, however, the real problem would be if relations between Budapest and Brussels deteriorate. In the past, this triggered sharp downward swings in the HUF. **Fortunately, this is no longer the case.** In the long term, we think the EUR/HUF pair will clearly remain on an upward trend.

EUR/RON

Stable but cautious

Unsurprisingly, the EUR/RON pair is likely to be fairly stable next year. The Romanian central bank will probably continue injecting liquidity into the market to guarantee sufficient volumes in the currency and the debt market. In terms of policy rates, **monetary loosening is likely to continue**. The principal policy rate is set today at 6.50%. In reality, it is lower because of the unsterilized liquidity surplus in the interbank market. On our estimates, the real rate is closer to around 5.50% (this is also in line with the deposit facility rate). However, it should be kept in mind that a large part of the drop in inflation results from external factors (such as food prices), implying that rate cuts in 2025 may be less significant than the market expects if energy or agricultural commodity prices were to rise. This is not the case at present.



Foreign exchange risk in the face of market volatility

Far from being a problem reserved for large multinationals, foreign exchange risk can affect all sorts of companies, that carry out cross-border flows. A fluctuation – even a small one – in exchange rates can thus affect your sales margin or your competitiveness in your foreign markets.

The implementation of a foreign exchange risk management strategy should be considered if:

You invoice your exports or costs related to your international activity in foreign currency (subsidiaries, salaries, etc.).	Avoid passing the cost of adverse foreign exchange movements to your clients or facing problems with the consolidation of your financial statements.
You pay for imported goods and services in foreign currencies.	Maintain your sales margins and keep them immune from currency volatility.
You make upstream purchasing commitments with your foreign suppliers.	Secure your price budget to stop renegotiating your contracts with foreign suppliers in case of price fluctuations.

3 reasons to choose iBanFirst to effectively manage your fx risk exposure

We are at your disposal to help you build the foreign exchange risk management strategy that will help you secure your sales margin.

1

A team of specialists

Our foreign exchange experts offer you the benefit of their know-how to enable you to make an informed decision.

2

A personalised strategy

Our range of currency risk management instruments is fully customisable to suit your needs and business structure.

3

A dedicated account manager

Your account manager is at your disposal to answer your questions and assist you in the follow-up of the chosen solutions.

Any questions?

Talk to an expert

iBanFirst

The new standard for cross-border transactions

About us

Founded in 2016, iBanFirst has quickly established itself as the leading alternative for businesses that trade and carry out international payments. iBanFirst offers a next-generation cross-border payment experience that combines a powerful platform and the support of FX experts. With iBanFirst, executives and finance teams can get direct access to currency markets, receive, send and track payments and develop tailored hedging strategies.

With more than 350 employees in 10 European countries, processing a volume of transactions worth more than €2 billion each month, and listed by the Financial Times as one of Europe's fastest growing companies, iBanFirst became in less than 10 years a trusted partner for SMEs across borders.

iBanFirst has the financial backing of the French public investment bank (bpiFrance), European venture capital leaders (Elaia, Xavier Niel), and the American investment fund Marlin Equity Partners (more than 8 billion dollars of capital under management).

Regulated by the National Bank of Belgium as a payment institution, iBanFirst is authorised to operate throughout the European Union. Member of the SWIFT network and SEPA certified, iBanFirst holds AISP and PISP accreditations under PSD2.

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