

FX Viewpoint

Currencies
Global

“Safe haven” currencies: USD, JPY, and CHF?

- ◆ “Safe haven” currencies should be supported amid heightened geopolitical concerns
- ◆ The USD has bounced back; but both the JPY and CHF weakened, probably reflecting local dynamics
- ◆ The USD may be a better “safe haven” than the CHF or JPY

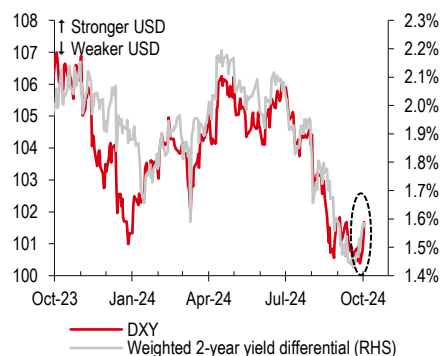
The USD has strengthened recently, as **markets are digesting heightened geopolitical risks in the Middle East**. At the same time, the recent dovish developments related to the European Central Bank (ECB) and the Bank of England (BoE) have also supported the USD, from the yield differential's channel (Chart 1). Markets are currently fully priced for 25bp cuts at both the 27 October and 12 December ECB meetings (*Bloomberg*, 3 October 2024). In the UK, **BoE Governor, Andrew Bailey, said policymakers could be a bit more aggressive and activist if inflation continues to decelerate** (*The Guardian*, 3 October 2024).

The “safe haven” USD has strengthened as of late, amid geopolitical headlines and dovish developments elsewhere

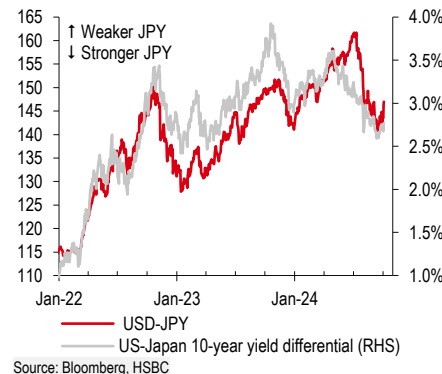
Unlike the USD, **both the JPY and CHF have weakened lately, reflecting local dynamics**. In Japan, markets are digesting comments from the new Prime Minister, Shigeru Ishiba, who said the economy is not ready yet for further interest rate hikes (*Bloomberg*, 2 October 2024). At the same time, the Bank of Japan (BoJ) Governor, Kazuo Ueda, said he would move cautiously when deciding whether to hike further (*Bloomberg*, 2 October 2024). The BoJ is widely expected to keep rates unchanged at its 31 October meeting. **The attraction of the JPY as a “safe haven” currency may have to contend with the less hawkish tone from Japanese policymakers**. That being said, our economists expect the BoJ to hike its policy rate to 0.5% in January 2025. **With the prospect of monetary policy divergence between the Federal Reserve and the BoJ, USD-JPY is likely to decline moderately** (Chart 2) over the medium term, in our view.

The JPY’s “safe haven” status could be undermined by domestic developments

1. The US Dollar Index (DXY) and its yield differential



2. USD-JPY and its yield differential



Meanwhile, in his first speech as Swiss National Bank's (SNB) president, Martin Schlegel, indicated that the central bank can intervene in currency markets if required and stands ready to lower interest rates again (*Bloomberg*, 2 October 2024). In other words, **the SNB's tolerance for CHF strength would likely have its limits**.

SNB rhetoric may mean that the CHF may not be the “safe haven” of choice

Perhaps, **the USD is a better “safe haven” currency** than the JPY and CHF amid heightened geopolitical risks, and **in the run-up to the 5 November US elections**.

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