

Global Currency Commentary

Q2 2025



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Global Currency Commentary Q2 2025

Record Currency Management

\$101bn

AuM
as of March 2025

94

Employees

40+

Years' experience
managing currency

29

Members of the
Investment Team

\$900bn

Annual Trading
Volume

Valuations

	Start	End	% Change	High	Low	Valuation†
EUR	1.08	1.17	-7.98%	1.17	1.08	-28.1%
JPY	149.54	144.45	3.53%	149.73	140.73	-36.4%
GBP	1.29	1.37	-5.81%	1.37	1.28	-12.3%
CAD	1.44	1.36	5.48%	1.44	1.36	-21.1%
CHF	0.88	0.80	11.15%	0.88	0.80	10.0%
AUD	0.62	0.66	-4.91%	0.66	0.60	-14.0%
SEK	10.05	9.53	5.40%	10.06	9.45	-14.5%

†over/under valuation of foreign currency vs USD based on PPP

3m Annualised Carry (Hedging to USD)

EUR	JPY	GBP	CAD	CHF	AUD	SEK	Total
2.4%	4.1%	0.2%	1.8%	4.6%	0.8%	2.4%	2.3%

Total = MSCI World ex-US

G10 Currency Moves



Depreciated against all G10. Despite a brief jump due to the conflict between Israel and Iran. Overall USD pessimism continued due to slow progress on trade deals and rising fiscal risks.



Appreciated due to the EU being a primary destination for risk-off movements out of the USD. Positive fiscal developments in Germany bolstered the EUR further.



Appreciated as a beneficiary of risk-off movements from the dollar. Although, yen strength was somewhat limited due to Japan's vulnerability to Liberation Day tariffs.



Appreciated despite a more subdued growth outlook. Waning confidence in US policy and a more hawkish BoE outlook all helped the pound reach a three-year high versus the dollar.



Appreciated as the primary beneficiary of global risk-off movements. The franc held on to most of its gains despite falling rates with further cuts to come.



Appreciated as a result of less severe tariff effects compared to those imposed on other nations. Strong domestic factors helped the Canadian dollar fend off any negative movement.



Appreciated despite mounting global recession fears initially weighing on the currency. AUD rebounded thanks to the postponement of Liberation Day tariffs and a US-China trade truce.



Appreciated off the back of deteriorating US policy confidence. A mid-June rate cut by the Riksbank partially eroded gains for the krona.

Appreciation/depreciation is against the USD, with USD versus G10 average

Source: Record, MSCI. Data as of June 30, 2025, unless stated otherwise. June 30, 2025 numbers will be available when Record plc announces its trading update on July 25, 2025.

Developed Markets



Fiscal uncertainty weighed heavily on the dollar in Q2

US dollar

Trade developments dominated the headlines in Q2 and were the primary driver of dollar price action. The quarter started with a bang, as “Liberation Day” brought forth a 10% global baseline tariff on all US trade partners, with greater levies on those deemed to engage in unfair trade practices. The overall rates were higher than expected and triggered significant currency moves with the dollar rapidly weakening in the aftermath amid a U.S. equity market downturn. The rapid decline in equities, and more importantly Treasuries, ultimately forced the Trump administration to institute a 90-day grace period the following week. Despite rescinding the worst of the reciprocal tariffs – outside of China – investors struggled to understand the policy landscape. US dollar weakness was pronounced against other reserve currencies (Swiss franc, euro, yen), while losses were more muted against cyclical and emerging market currencies amid ongoing global growth concerns.

Overall USD pessimism continued into May, underpinned by slow progress on trade deals and rising fiscal risks. Dollar sentiment picked up on stronger domestic data, allowing USD to recover some ground against safe havens. The stronger data also influenced markets to trim Fed pricing closer to two cuts in 2025, in line with the FOMC’s own estimates. On the fiscal side, investors paid close attention toward the US budget bill under

negotiation in Congress. The bill was subject to intense market scrutiny over the quarter as the proposed tax cut extension could balloon US borrowing needs. Market participants made their concerns heard as long-term yields picked up on rising fiscal risks. US risk sentiment peaked mid-May after US and China officials agreed to a significant de-escalation in the trade war. The 90-day agreement brought US tariffs on Chinese goods down from 145% to around 30%. Dollar movements were choppy in June, with a brief jump in response to a possible prolonged conflict between Iran and Israel. The resulting USD strength soon dissipated as a ceasefire held and global risk sentiment recovered.

Euro

The EU was a primary destination for risk-off movements out of the dollar as the USD’s diminished global status and Europe’s growing appeal drove euro strength. The dollar recovered some ground in May as US risk sentiment improved, however, the volatile US policy environment limited dollar upside as Trump threatened, and then withdrew, 50% tariffs on the EU. Later in the quarter, the euro picked up steam as market participants responded positively to the German fiscal push, which the IMF expects to begin paying dividends for the economy in 2026. The euro further benefitted from a rebound in global risk sentiment following the Israel-Iran ceasefire and settling in global oil prices.

Japanese yen

The yen continued to benefit from risk-off movements out of the dollar, although to a lesser degree than the euro and Swiss franc. Much of this can be owed to Japan’s vulnerability to Liberation Day tariffs. Japan was first in line for a bilateral trade deal with the U.S., but a lack of progress has weighed on the yen and Japan’s key export industries, particularly the auto and steel which are subject to some of the harshest sector tariffs. Market participants have pared back expectations for BoJ rate hikes this year as policymakers take a wait-and-see approach to negotiations. Japan also announced upper house elections for July, in which the ruling LDP party is expected to lose its majority, potentially limiting any fiscal response to tariffs.

British pound

The pound reached a three-year high versus the dollar, helped by the loss in US policy confidence and more hawkish Bank of England (BoE) outlook. Cooling geopolitical tensions near the back end of the quarter also contributed to a strengthening pound. UK growth picked up in Q1, although declining labour demand in Q2 signalled a more subdued growth outlook. Faced with fragile growth in conjunction with rising inflation and wage pressures, the BoE ultimately delivered a 25bps cut at its May meeting, with the caveat that a more gradual approach to easing is the inclination of policymakers. A US-UK trade deal was announced in May, but this agreement had a negligible impact on the pound, as the UK runs a trade deficit with the US and most exports are still subject to 10% blanket tariffs.

Swiss franc

The Swiss franc was the primary beneficiary of risk-off movement versus the US dollar during the quarter. Its appreciation came despite the SNB lowering its policy rate to zero in June. Stoking inflation remains the SNB's goal, however a negative CPI print in May signalled that the SNB still had work to do on this front and reinforced market expectations for further cuts into negative territory later this year. There was some giveback as trade developments and the Israel-Iran ceasefire stoked risk sentiment, but the franc held on to much of its gains.

Canadian dollar

Liberation Day tariffs against Canada proved less severe than the reciprocal duties imposed on other nations, limiting CAD weakness in the aftermath of the announcement. Domestically, the ruling Liberal party picked up seats in the late April election, providing a stronger counterparty in trade negotiations and reinforcing the likelihood of fiscal support in the near term. Further, a burst in domestic inflation led the Bank of Canada to pause its easing cycle as policymakers continue to monitor tariff effects. Despite softer domestic data as a result of tariffs and volatile global oil prices, the Canadian dollar proved resilient during the quarter.

Australian dollar

In April, AUDUSD fell as low as 0.59 on mounting global recession fears post-Liberation Day, driving down demand for Australia's commodity exports. However, AUD recovered ground later in the quarter as it benefitted from rebounding risk sentiment following the postponement of Liberation Day tariffs and the US and China reaching a temporary trade truce. Domestically, the RBA held rates in April but proceeded with a 25bps cut in May, motivated by easing inflation pressured and weaker-than-expected Q1 GDP data. AUD upside

was somewhat limited by the RBA's more dovish outlook and a slip in global iron ore prices.

Swedish krona

Deterioration in US policy confidence and exposure to the European asset rally produced durable gains for the krona this quarter. A pause by the Riksbank at its May meeting further solidified gains for the currency, however this was partially eroded by a mid-June rate cut. That said, Swedish economic data has impressed, and activity is expected to remain on par with the Eurozone in 2025 before picking up in 2026 according to fresh Riksbank projections.

Equities and Bonds

The **S&P 500** ended the quarter at an all-time high, following an **approximate 10.9% gain for Q2**. The index declined over 21% from its February high in the second week of April, stemming from a sell-off in response to Liberation Day reciprocal tariff announcements. Ground was re-gained after President Trump announced a 90-day postponement of these tariffs, revitalising confidence in the market, alongside cooling geopolitical tensions, the possibility of trade agreements, and optimism surrounding rate-cuts from the Fed. Comparatively, **10-year Treasury yields remained flat, gaining approximately 3 basis points**. Yields rose in May, resulting from the US credit downgrade and waning confidence in the US fiscal outlook but settled down again, following further postponement to reciprocal tariffs to the 1st August.



Deterioration in US policy confidence drove risk-off moves away from the US amid rising geopolitical tensions

Emerging Markets

Key EM Themes

De-escalation of “peak tariffs” shifted focus from trade wars to the speed of the US economy, where soft data is pointing towards slowing, while hard data is mixed. The overall softer US data and speculation about a dovish Fed successor led to a strengthening of EM vs the dollar. High real yields in many EMs, especially LatAm and parts of CEEMEA attracted renewed interest in carry trades. Central bank divergence deepened: several DM peers eased, while most EM authorities stayed on hold or delivered only “hawkish cuts,” preserving yield gaps. Geopolitical flare ups (Israel/Iran, South-African coalition strains) proved transient, encouraging risk-taking. Commodity prices stabilised or firmed, lending an extra tailwind to exporters such as Brazil, Colombia and South Africa.

Emerging market currencies generally appreciated against the dollar due to Washington dialing back its most punitive “reciprocal” tariffs, calming trade recession fears. Furthermore, FX volatility fell, which revived the global hunt for yield just as many EM central banks kept real rates high.



Many EM currencies appreciated as “reciprocal” tariffs were dialled back

CEEMEA

CEE currencies led the pack. The Czech koruna (**CZK**) and Hungarian forint (**HUF**) benefited from euro-zone tailwinds, resilient local data and still-elevated policy rates. The Polish zloty (**PLN**) and Romanian leu (**RON**) rode the same EUR-strength story although the Polish central bank cut rates by 50bp. **RON** also benefitted from the second-round presidential election victory of the mainstream candidate. With no renewed tariff shocks and Europe unveiling extra fiscal support, investors treated the region as a high-carry extension of the euro bloc, driving sharp appreciation.

LatAm

The Mexican peso (**MXN**) rallied as calmer US/Mexico trade rhetoric, judicial-reform clarity and Banxico’s cautious approach kept its carry premium relatively attractive. Brazil’s real (**BRL**) also climbed, supported by some of the highest real yields in EM, easing fears that fiscal slippage would trigger another BCB hike, and temporarily by firmer commodity prices due to conflict in the Middle-East.

Asia

Taiwan’s dollar (**TWD**) outperformed after conversions of tech-export receipts and the central bank signalling comfort with a stronger currency as trade negotiations with the US continued. The Korean won (**KRW**) followed, buoyed by receding political risk, hints that FX issues would feature in US/Korea trade talks, and broader relief as US/China tariff tensions moderated.



Taiwan continued its trade negotiations with the US

Currency upside considerations

\$

- **FOMC cutting cycle shallower** than expected on inflation pressures
- **Tariff rates reduced** and policy confidence restored, supporting the dollar
- **Geopolitical risks rise** in Middle-East, Russia-Ukraine war, and Sino-US relations

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- **UK and EU build on relations** under a Labour government
- **Growing wage demands and tight labour** market add to BoE hawkishness
- **Labour budget improves growth** and investment beyond the near term

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- **Conflict de-escalation** in the Russia / Ukraine war and ceasefire / peace deal
- **Trump lowers proposed tariffs** on key sectors in Europe after concessions
- **Germany debt brake reform** leads to fiscal windfall in second half of year

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- Yen weakness and or volatile moves drive **intervention by Ministry of Finance**
- **Political pressure ahead of July election** leads to a more assertive Bank of Japan
- **Risk-off events** (e.g. China/US/Taiwan) and lower commodity prices

Currency downside considerations

- **Fiscal risks** lead to higher term premia amid a weakening real economy
- **Tariff rates increased** as trade negotiations stall
- **Institutional and monetary stability** risks under a Trump presidency
- **Potential stagflationary** impact of Trump's immigration and trade policy

- **Labour pursue a fiscal expansion** with limited structural growth impact
- **Inflation moderates further**, increasing the probability of rate cuts
- **Risk sentiment worsens** and weighs on the pound as a risk-sensitive currency

- **Easier ECB policy** from stronger euro and excess supply of global goods
- **Germany's economy weakens** as traditional business model threatened
- **Fiscal pressures from defence** spending widen peripheral spreads

- **LDP Minority government** lacks mandate and encourages easier policy by BoJ
- **Wage growth fails to settle at 3%**, reducing the BoJ's confidence in rates hikes
- **Output gap falls below zero** as an impediment to policy normalization

Key Event Risks

Date	Currency	Event	Potential Implication
July 20	JPY	Japan upper house election	The ruling LDP is currently expected to lose its majority coalition which presents fiscal risks. An economic package to help absorb the impact of tariffs would face a tough legislative battle in the event of an LDP election defeat.
Jul 24	EUR	ECB interest rate decision	No interest rate cut expected.
Jul 29	JPY	BoJ interest rate decision	No hike is expected for this meeting. However, the market will likely focus on any remarks about the recent yen weakness vs USD and sticky wage growth.
Jul 29	USD	Fed interest rate decision	Fed is likely to keep rates on hold as it awaits more concrete data on the effects of tariffs. CPI undershot consensus in June and July but one data print is not enough for policymakers to feel comfortable shifting from wait-and-see mode.
Aug 1	USD	Effective date of Reciprocal tariffs	Start date for reduced reciprocal tariffs. Levies are largely reduced from Liberation Day levels, ranging from 20-40%.
Aug 7	GBP	BoE interest rate decision	25bps interest rate cut expected.

Risk Warnings

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Germany

Bockenheimer Anlage 46
60322 Frankfurt am Main
Germany

+49 211 5403 9587

United Kingdom

Morgan House, Madeira Walk
Windsor, Berkshire, SL4 1EP

3 Sheldon Square, Paddington,
London, W2 6HY
+44 (0) 1753 852 222

Switzerland

Münsterhof 14
8001 Zürich

+41 43 508 5947