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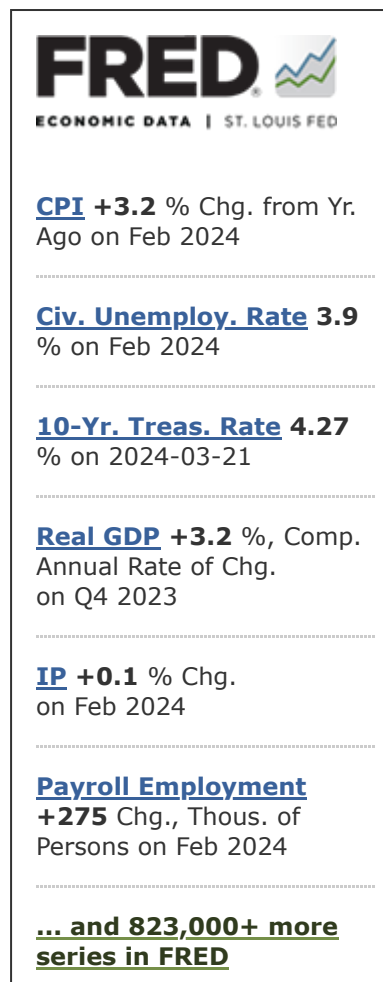
The FRED® Blog

Strong and weak currencies

A primer on exchange rates



Posted on September 11, 2023



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It's common to hear talk of one currency being “stronger” or “weaker” than another. This comparison helps determine how much of each currency is required to make purchases. A currency that's stronger than another means it requires less of *that* currency to purchase the same good or service. The opposite is true for weaker currencies.

The graph above compares two currencies with the US dollar (USD) over the past 3 years: the Swiss franc (CHF) and the Canadian dollar (CAD). As we can see, the USD/CHF exchange rate is almost always below 1, while the USD/CAD rate is always above 1 (always above 1.2, in fact). This means, in general, that a Swiss franc is stronger than a US dollar and a Canadian dollar is weaker than a US dollar.

Example: If a cup of coffee in the US costs 3 USD, it would require only 2.61 CHF but 4.02 CAD to purchase that cup of coffee.

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Most USD currency exchange rates in FRED appear with the USD as the “base currency” (or numerator in the ratio) and the foreign currency is the “quote currency” (or denominator). This formula answers the following question: For each USD, how much of the foreign currency would it take to achieve the same value? However, there are a few exceptions where the USD is the quote currency—most notably, when comparing it with the British pound sterling (GBP) and the euro (EUR).

The second graph compares the USD with the GBP and EUR. Currently (i.e., at the end of August 2023), the USD is weaker than both those currencies, as the exchange rates are both greater than 1. So, it takes more than 1 USD to match the value of 1 GBP or 1 EUR.

As both graphs show, exchange rates fluctuate daily. There are many factors that can cause an exchange rate to change. One key reason is differences in a country’s inflation rate. Countries with higher inflation tend to have higher interest rates (to help curb inflation) compared with countries with lower inflation rates. For more on these topics, look to these blog posts from [Ana Maria Santacreu](#) and [YiLi Chien](#).

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Other factors include the amount of public debt. If national debt gets too high relative to national income, it raises the chance a country will create more currency to pay its bills. This can cause a currency to weaken, as the supply of currency increases and/or the demand falls as people sell their own currency for other nations' currencies.

Finally, overall economic strength plays a role, as countries with robust and stable economies will be more attractive to investors, which increases demand for its currency as more business is conducted within its borders.

How these graphs were created: For the first graph, search [FRED](#) for "Swiss Franc to US Dollar" and click on Swiss Francs to US Dollar Spot Exchange Rate. Then click "Add Line" in the "Edit Graph" section, search for "Canadian Dollar to US Dollar Spot Exchange," and click "Add data series." Then adjust the time frame to the past 3 years. For the second graph, search for "US Dollars to Euro Spot Exchange Rate" and click on the first option. Then click "Add Line" in the "Edit Graph" section, search for "US Dollars to UK Pound Sterling Spot Exchange Rate," and click "Add Series." Then adjust the time frame to the past 3 years.

Suggested by [Charles Gascon](#) and [Jack Fuller](#).

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