Opportunities in Currencies and Commodities
20 September 2024
Chief Investment Office (CIO)
Moneta Bank

"Opportunities in Currencies and Commodities"

Currency Strategies

General Guidance:
Our CIO recommendation is that investors should align the currencies in which they hold liabilities with the currencies in which they spend. However, due to the dominance and scale of the US financial markets, many global investors hold substantial unhedged positions in US equities and bonds. It is crucial for these investors to consider the potential impact of a weakening US dollar on their portfolios. Additionally, we anticipate higher gold and oil prices due to supportive market fundamentals and heightened geopolitical tensions.

Current Market Conditions:
The US dollar's interest rate advantage over other currencies is expected to diminish further over the coming year following the Federal Reserve's initial steps toward policy easing. We rate the Swiss franc, euro, British pound, and Australian dollar as Most Preferred, as the central banks of these currencies are likely to cut rates less aggressively than the Fed. In the commodities space, gold should continue to be supported by lower US rates, global economic and geopolitical uncertainties, and central banks' diversification of reserves away from the US dollar. Oil is also expected to rise, driven by further declines in inventories and strict adherence to OPEC+ production cuts.

Reduce Dollar Exposure:
Since peaking in late June, the DXY dollar index has fallen by nearly 5%. With the dollar's interest rate advantage over other currencies set to decrease even further in the coming year, we expect the greenback to continue its downward trend. Additionally, increased focus on the US fiscal deficit, especially after the US elections, could further pressure the dollar. Our CIO have recently downgraded the US dollar to Least Preferred and upgraded the euro, British pound, and Australian dollar to Most Preferred. CIO recommend that investors reduce their exposure to the USD, particularly against the GBP, CHF, and EUR. Levels such as EURUSD at 1.10, USDCHF at 0.86, and GBPUSD at 1.30 are viewed as attractive points to increase USD short exposure.

Prepare for a Stronger Franc:
The Swiss franc has been performing strongly this year, with USDCHF hovering near 0.85. We anticipate further strength in the franc, expecting only one more rate cut from the Swiss National Bank (SNB) in this cycle, while the Federal Reserve has much further to go in terms of rate cuts. Uncertainty surrounding the US election outcome, persistently elevated short CHF speculative positions, and what we view as overly optimistic expectations for SNB rate cuts should all contribute to supporting the franc. We forecast USDCHF at 0.83 by the end of 2024 and 0.80 by June 2025 and continue to rate the Swiss franc as a Most Preferred currency.

Commodity Strategies by our CIO:

Gold:
Gold has enjoyed a strong year, with prices increasing by nearly 25% and reaching new record highs. The yellow metal has been bolstered by expectations of lower interest rates, heightened

economic and geopolitical uncertainty, and central banks diversifying their reserve assets away from the US dollar. We believe that gold prices will rise further. Geopolitical tensions are likely to persist beyond Q4, with uncertainty surrounding the next US government and its policies, and ongoing conflicts in Ukraine and the Middle East. Historically, a weaker US dollar and lower interest rates have supported gold prices, and we expect demand to remain strong, driven by continued central bank purchases and increasing demand for gold ETFs. We forecast gold prices reaching USD 2,700/oz by mid-2025 and suggest allocating up to 5% of a balanced USD portfolio to gold.

Oil:
We also anticipate higher oil prices in the future. While oil prices have been volatile recently due to concerns over global economic growth—temporarily pushing Brent crude below USD 70/bbl—some market participants have attributed this volatility to a perceived lack of transparency in OPEC+'s production guidance. However, OPEC+ has reiterated its commitment to strict compliance with production cuts, including requiring compensation from countries that previously overproduced. With further oil inventory declines expected as supply continues to lag demand growth, and given low speculative positioning, we maintain a positive outlook on prices. We expect Brent crude oil to rise back above USD 80/bbl in the coming months.