

Global FX Trader

Sliding into Summer

Our Thoughts on USD, EM FX, KRW, CAD, INR, ILS, Section 899, Fiscal Risks & FX Manipulation

- **USD: Still sliding.** The broad Dollar has fallen about 6% on the year and has now fully reversed its Q4 2024 surge. At the same time, the Dollar has been roughly flat against other DM currencies on net over the last six weeks. It is therefore not surprising that investors see more two-way risks around the currency now than they have for some time. But while this adjustment has been swift and meaningful—which is pretty standard behavior around currency peaks—we still think this is more the “end of the beginning” rather than the “beginning of the end” of the Dollar shift. Today’s payrolls report is consistent with more slowing in the real economy and less exceptional US performance, which we think should still weigh on the Dollar over time. And some of the skepticism stems from whether foreign investors will continue to diversify out of US assets in an environment where US returns are solid but not exceptional (Exhibit 1). But, while US equities are back to flat on the year, for a EUR-based investor they are down 8%, which puts the relative performance to European equities in even starker contrast. This is one reason why we still think foreign investors will continue to see a stronger case for diversification ahead, especially when there are signs of a less-welcoming environment for foreign investors in US assets. As a result, while Dollar depreciation may be shifting to a new phase, we still think it is here to stay. Given the confirmation of a slowdown in US activity and a shift in global investor appetite, we are rolling our EUR/USD forecasts to 1.17, 1.20 and 1.25 in 3, 6 and 12 months (from 1.12, 1.15 and 1.20, which we established after the Liberation Day announcement).

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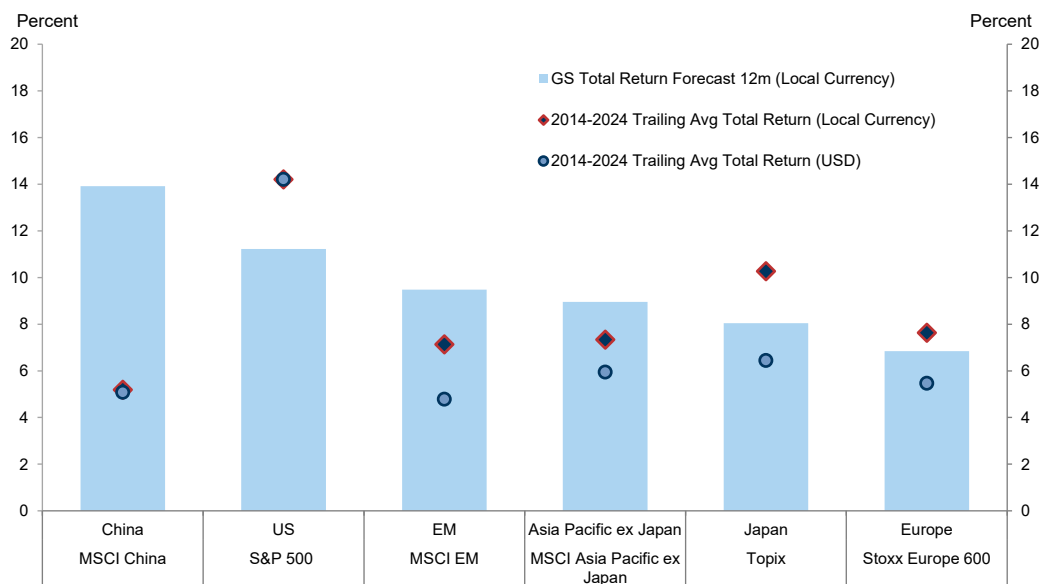
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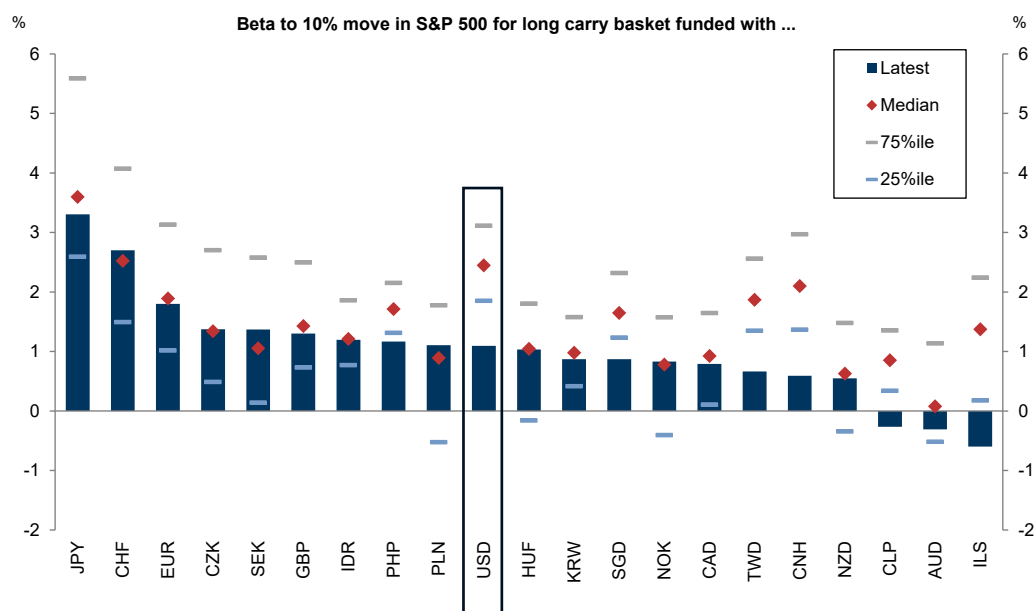
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Exhibit 1: Less exceptional US return prospects should weigh on the Dollar over time

Source: FactSet, Goldman Sachs Global Investment Research

- EM FX: Optimising for carry and risk exposure.** Relative value (RV) FX carry baskets are typically higher yielding than long-only baskets versus the Dollar, as they use lower carry currencies as funders. However, returns for long/short FX carry strategies have been range-bound this year whereas long-only EM carry baskets versus the Dollar have outperformed. Looking at the sensitivity to risk of different carry expressions ([Exhibit 2](#)), we find that the risk beta of a USD-funded EM carry basket has been declining and is close to historic lows. On the other side, EUR-funded EM carry positions feature a higher sensitivity to risk sentiment (currently the third most 'risk-on' carry expression after JPY and CHF funding in our analysis), making the Euro a less attractive funder than in the past. These shifting correlations together with our constructive view on other EM currencies that typically screen as low-carry funders (such as CNH and KRW) argue for EM carry longs to be expressed outright versus the Dollar. For investors looking to neutralise the risk exposure further, we note that other high-beta but low-carry currencies such as CLP, ILS, AUD and NZD can substantially lower the risk exposure of an EM carry basket without a significant reduction in carry. Turning to the long leg, we think that BRL screens as the most attractive carry long given the outright carry level, its undervaluation signal and sensitivity to the strengthening we expect in CNY. Nevertheless, because of country-specific risks across various high-carry currencies, we recommend investors hold a diversified carry basket that also includes MXN, INR and ZAR. ZAR shares many features with BRL so it can be an effective diversifier of country-specific risk without a significant shift in global risk exposures. Instead, we think that MXN and INR can offer greater 'global' beta diversification and resilience even as valuations are less attractive and central bank reaction functions have leaned more dovish. Finally, we think that a higher sensitivity to oil prices makes COP a less attractive long relative to other options.

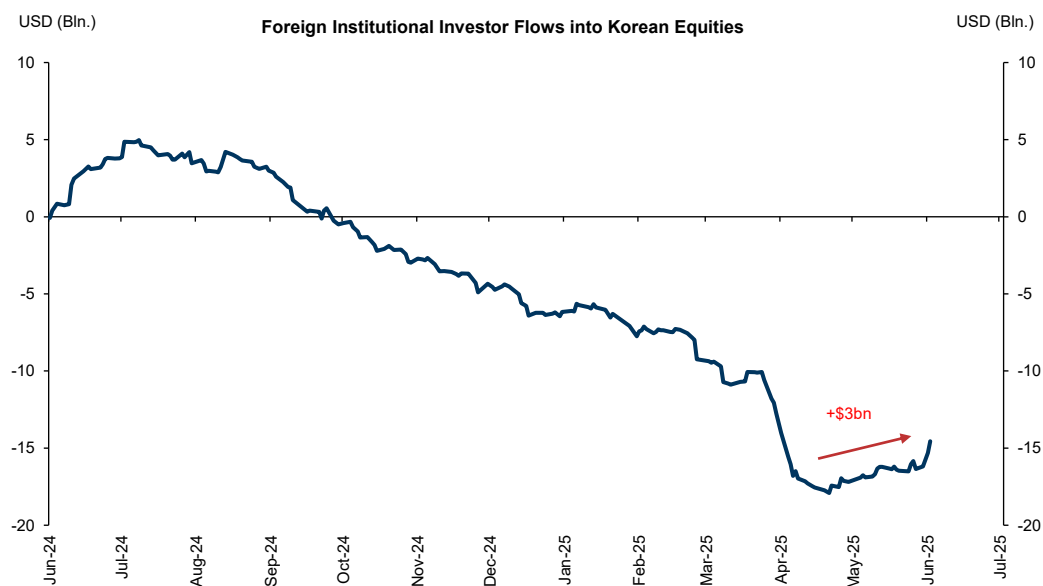
Exhibit 2: The beta to risk of a USD-funded EM carry basket is near its historic lows, whereas it is in line with historical averages for JPY and EUR



Long carry basket includes BRL, COP, MXN, INR and ZAR. Betas estimated over rolling 6-month windows since 2012 and controlling for changes in US yields, oil and copper prices.

Source: Bloomberg, Goldman Sachs Global Investment Research

- KRW: A Win for the Won.** The clear victory of the Democratic Party candidate in the South Korean presidential elections should pave the way for a swift formation of a new cabinet (given control of both the executive and legislative branches), substantial fiscal stimulus, renewed progress in US-Korea trade negotiations and further progress in implementing broad corporate governance reforms. All of this should ultimately help to narrow the persistent discount in Korean equities and the Korean Won; and not surprisingly, the Kospi index and the Korean Won are among the best performing equity markets and currencies over the past week. We had recommended being long Korean equities in USD for exposure to this theme, and despite the sharp move higher, we think there is room for the positive momentum to extend as the persistent outflow trend of 2024 reverses (Exhibit 3). Korean equities offer decent growth, at extremely attractive valuations, and the KRW is one of the most sensitive currencies to the broad Dollar weakness and CNY strength that we expect, with domestic policymakers also not averse to further strength.

Exhibit 3: Following persistent outflows, FIIs have turned buyers of Korean equities in the past couple of months


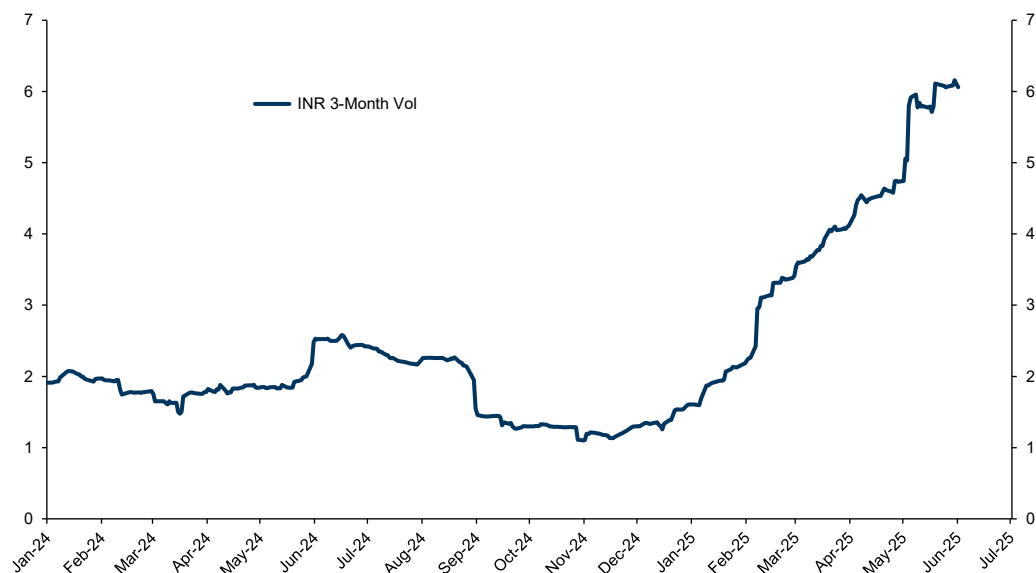
Source: Bloomberg, Goldman Sachs Global Investment Research

- CAD: Rise and grind.** The BoC kept rates on hold this week, as widely expected. And following today's employment report, our economists have removed a cut from their policy forecasts. They now expect the BoC to cut once this year to a terminal rate of 2.50%. While the labor market data was soft and the continued rise in the unemployment rate seems to confirm below trend growth, the weakness does not yet seem broad enough to prompt the BoC to cut imminently. Plus, the BoC still faces a difficult tradeoff between inflation and growth risks. We think a more hawkish BoC, alongside better growth later this year, should support a stronger Canadian Dollar. USD/CAD has grinded lower since we revised our forecasts to show greater CAD appreciation in late-April. We expect this pace of appreciation to continue and reiterate our optimistic view on the currency.
- INR: Higher but not high vol.** It was fun while it lasted: after a giddy six-month period where INR volatility increased sharply, the Rupee appears to be settling down into a new vol regime. We have argued that this shift from almost a quasi-peg until Q3 last year, to a higher, but not high vol regime, was a healthy shift. From here, we expect the INR to appreciate versus the Dollar, but it is likely to be a slow grinding move in contrast to the rapid swings down and up of the past six months. After delivering a bumper 50bp cut and a commitment to easy liquidity in June, the RBI has signalled the end of the cutting cycle, and GDP growth and corporate earnings appear to be bottoming, so the macro backdrop is supportive of further currency strength. But, the Rupee, while undervalued versus the Dollar, is more fairly valued on a broad trade-weighted basis. In addition, policy authorities are likely to use any capital inflows to shrink their forward book and keep an eye at the cross rate with the CNY as well. So it does not face the same fundamental strengthening pressure as other currencies in NJA and we expect it to be a laggard in the spot appreciation race. Even so it can provide diversification and resilience to an EM FX Carry strategy

given the lower but still attractive carry-to-vol (see EM FX bullet).

Exhibit 4: INR vol has picked up, but looks to be stabilising.

3-month annualized realized volatility



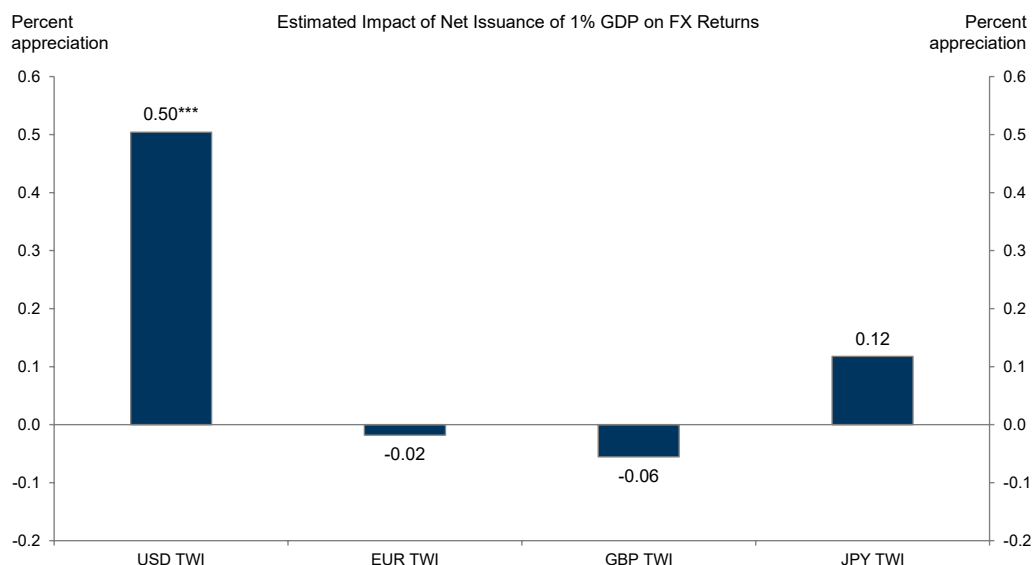
Source: Goldman Sachs FICC and Equities, Goldman Sachs Global Investment Research

- **ILS: Balancing the global vs the local.** The Shekel is trading close to its strongest levels over the last two years. This move was initially driven by the recovery in global risk sentiment, led by the sharp recovery in US equities to which the Shekel is highly sensitive. Indeed, we have found ILS to be among the EM currencies most sensitive to US-specific growth pricing and a cross where the relative outperformance of EM growth does not have an offsetting impact. Therefore, in world where US risky assets underperform those in EM, we think the Shekel could be an attractive low-yielding funder for more risk-neutral EM carry trades. On the other side, while ILS has kept its tight correlation to tech stocks over the last year, at certain points, domestic developments have too been in driver's seat in particular in relation to the Gaza conflict. This was true also over the last week with news reports suggesting a bill to dissolve the Knesset may be advanced, which would result in early elections (ahead of the scheduled October 2026 legislative elections). If, through this process, domestic shifts warrant a decline in country-specific risk premium, we think USD/ILS could trade back close to its of fair value around 3.30. This would argue against funding out of Shekel until there is greater clarity on domestic developments or ILS screens as less undervalued.
- **Section 899: Taxation without representation?** A provision in the House-passed fiscal package (H.R. 1), would create a new Section 899 of the tax code, raising the US tax on many forms of passive income. Aspects of Sec. 899 could add incremental downside risk to appetite for US assets and the Dollar. As written, dividend payments to many foreign holders would face higher withholding tax and the provision is ambiguous as to whether US interest received by sovereigns, including central banks, would face a new withholding tax. While returns are not a

primary consideration for most USD reserve holdings, the proposal would further inhibit return prospects on US investments, which is an important consideration for private sector global allocations. And most importantly, changes like this move in the direction of making the US a less welcoming destination for foreign capital at a time when foreign appetite is already waning. This should only exacerbate current concerns and add to the case for increased diversification and a shift in future allocations away from US assets. We would expect that even an incremental move toward new capital controls is likely to lead foreign investors to demand more compensation than before to fund the growing current account deficit.

- **Fiscal Risks and the Dollar.** The ongoing budget process in the US has focused investors' minds on lingering fiscal sustainability concerns, not only in the US but in the UK and Japan as well. Empirically, while the impact of fiscal expansions on the Dollar depends on the state of the business cycle and monetary policy, greater net Treasury issuance is a positive for the Dollar on average (Exhibit 5). That result does not apply to the US's G10 peers though, but instead is a function of the US-specific privilege in typically seeing foreign demand for Treasuries increase in step with higher net issuance. However, in the current backdrop of already substantially elevated foreign allocations to US assets, diminished return prospects and a less friendly environment for foreign investment, it is possible that the historical relationship among US issuance, foreign inflows, and the Dollar will eventually begin to look more like what we observe in other G10 economies—implying less of a Dollar-positive response to domestic fiscal easing. We have also seen a re-pricing higher in US fiscal risk premium recently, which tends to impact FX markets through different channels. A sharp steepening in US 5s30s tends to weigh more on high yielding currencies, such as BRL, MXN and INR—though recently there has also been evidence of greater resilience in EM local rates to higher US yields. Meanwhile, a sharp widening in US credit default swaps is typically associated with underperformance in more cyclical currencies such as ZAR, NOK and AUD.

Exhibit 5: Historically, greater net issuance in the US has been Dollar positive but less meaningful for other G4 economies



Sample includes quarterly data, in changes, from 2000-2024. Controls include S&P 500 returns, GDP-weighted EMU spreads to bunds, terms of trade, and the level of domestic 5y rates. *** denotes $p < 0.01$.

Source: Haver Analytics, Goldman Sachs Global Investment Research

- **FX Manipulation: Upcoming reports to include more “intensive analysis.”** This week, the US Treasury [released](#) its semiannual FX [report](#). Ireland and Switzerland were added to the Monitoring List which also includes China, Japan, Korea, Taiwan, Singapore, Vietnam and Germany. While the first report from the new Trump Administration did not label any trading partner a “currency manipulator,” it stated that future reports will “strengthen” analysis of currency practices. This may involve more “intensive analysis” of intervention behavior and “greater vigilance” of a wide array of government practices including purchases by sovereign wealth funds or state pension funds to determine whether they effectively constitute currency intervention—just carried out by other government entities. Separately, the report also noted explicitly that China’s lack of transparency around its exchange rate policies “will not preclude Treasury from designating China” a currency manipulator if “available evidence” suggests intervention. Taken together, the report strongly suggests that the Trump Administration intends to widen the scope of its FX investigations in future reports and take a more flexible approach to what could be deemed as FX manipulation. The report suggested that Treasury could recommend using tariffs, among other countermeasures, if it finds evidence of unfair currency practices in the future.

Global FX Forecasts

	Current Spot	3-Month Horizon		6-Month Horizon		12-Month Horizon		Longer-term Forecasts (eop)		
		Forward	Forecast	Forward	Forecast	Forward	Forecast	2026	2027	2028
G10										
EUR/\$	1.14	1.15	1.17	1.16	1.20	1.17	1.25	1.25	1.25	1.25
£/\$	1.36	1.36	1.38	1.36	1.40	1.36	1.44	1.36	1.34	1.33
AUD/\$	0.65	0.65	0.66	0.65	0.66	0.65	0.66	0.65	0.68	0.71
NZD/\$	0.60	0.61	0.61	0.61	0.61	0.61	0.61	0.58	0.60	0.61
\$/CAD	1.37	1.36	1.36	1.36	1.35	1.35	1.34	1.32	1.31	1.30
\$/CHF	0.82	0.81	0.81	0.80	0.79	0.78	0.76	0.78	0.78	0.79
\$/NOK	10.07	10.08	9.83	10.08	9.50	10.08	9.04	8.51	8.08	7.74
\$/SEK	9.57	9.51	9.23	9.46	8.92	9.36	8.48	8.23	8.04	7.88
\$/JPY	144	142	142	141	138	138	135	127	120	115
EMEA										
\$/CZK	21.7	21.6	21.4	21.6	20.9	21.5	20.2	20.8	20.8	20.8
\$/HUF	352	354	350	355	338	359	320	320	324	324
\$/PLN	3.74	3.75	3.68	3.75	3.54	3.77	3.36	3.44	3.52	3.60
\$/RON	4.41	4.44	4.36	4.48	4.29	4.54	4.16	4.20	4.24	4.28
\$/RUB	81.35	81.35	100.0	85.18	105.0	92.09	110.0	120.0	130.0	130.0
\$/UAH	41.4	42.6	42.0	43.8	43.0	46.2	46.0	48.0	49.0	51.0
\$/TRY	39.28	43.14	41.0	46.91	43.0	54.41	45.0	47.00	53.00	60.00
\$/ILS	3.50	3.49	3.55	3.48	3.50	3.47	3.50	3.50	3.45	3.40
\$/ZAR	17.73	17.85	18.00	17.97	17.75	18.24	17.50	17.50	17.00	16.50
\$/NGN	1552	1614	1600	1665	1500	1837	1400	1600	1800	2000
Americas										
\$/ARS	1190	1267	1250	1337	1350	1489	1500	1530	1680	1820
\$/BRL	5.59	5.71	5.65	5.84	5.60	6.10	5.50	5.50	5.40	5.30
\$/MXN	19.16	19.36	19.25	19.56	19.00	19.96	18.75	19.00	19.00	19.00
\$/CLP	931	931	940	931	920	933	900	880	870	860
\$/PEN	3.63	3.64	3.70	3.65	3.70	3.67	3.70	3.60	3.55	3.50
\$/COP	4109	4157	4200	4207	4150	4318	4100	4100	4000	3900
Asia										
\$/CNY	7.18	7.12	7.20	7.08	7.10	7.00	7.00	6.90	6.70	6.50
\$/HKD	7.85	7.79	7.75	7.76	7.75	7.73	7.75	7.80	7.80	7.80
\$/INR	85.80	86.25	84.50	86.64	84.00	87.58	83.50	83.00	82.00	81.00
\$/KRW	1356	1347	1360	1339	1340	1325	1310	1290	1270	1250
\$/MYR	4.23	4.21	4.25	4.20	4.15	4.17	4.05	4.00	3.90	3.80
\$/SGD	1.29	1.28	1.28	1.27	1.25	1.26	1.23	1.26	1.28	1.29
\$/TWD	29.9	29.4	30.0	28.9	29.0	28.1	28.5	28.3	28.0	27.8
\$/THB	32.51	32.42	33.00	32.21	32.50	31.84	32.00	31.80	31.70	31.60
\$/IDR	16275	16309	16300	16366	16200	16527	16000	15750	15500	15000
\$/PHP	55.64	55.73	55.00	55.86	54.50	56.09	54.00	55.00	56.00	57.00
Euro Crosses										
EUR/GBP	0.84	0.85	0.85	0.85	0.86	0.86	0.87	0.92	0.93	0.94
EUR/CHF	0.94	0.93	0.95	0.93	0.95	0.92	0.95	0.97	0.98	0.99
EUR/NOK	11.53	11.60	11.50	11.67	11.40	11.80	11.30	10.64	10.10	9.68
EUR/SEK	10.95	10.95	10.80	10.96	10.70	10.96	10.60	10.29	10.05	9.85
EUR/CZK	24.81	24.89	25.00	24.97	25.10	25.12	25.30	26.00	26.00	26.00
EUR/HUF	403	407	410	412	405	420	400	400	405	405
EUR/PLN	4.28	4.32	4.30	4.35	4.25	4.41	4.20	4.30	4.40	4.50
EUR/RON	5.05	5.12	5.10	5.18	5.15	5.32	5.20	5.25	5.30	5.35
EUR/RUB	93.1	93.7	117.0	98.7	126.0	107.8	137.5	150.0	162.5	162.5

Note: Spot values are as of Thursday's close.

See dynamic table here (or click image above): <https://publishing.gs.com/content/themes/fx-forecasts.html>

Source: Goldman Sachs Global Investment Research

Return Forecasts & Valuations

	Current Spot	Forecast: 12-Month Return (%)				GSDEER			GSFEER			Average Estimate	PPP*
		Spot	Carry	Total	NEER	Estimate	Misalignment		Estimate	Misalignment			
							Bilateral	Trade- Weighted		Bilateral	Trade- Weighted		
G10													
EUR/\$	1.14	9.2	-2.2	6.8	6.4	1.19	-4%	8%	1.33	-14%	0%	1.25	1.51
GBP/\$	1.36	6.1	-0.1	6.0	1.4	1.24	10%	23%	1.46	-7%	9%	1.33	1.49
AUD/\$	0.65	1.4	-0.7	0.8	-2.1	0.82	-21%	-3%	0.80	-19%	-1%	0.81	0.70
NZD/\$	0.60	1.1	-1.0	0.0	-2.1	0.67	-10%	7%	0.66	-8%	9%	0.67	0.67
\$/CAD	1.37	2.1	-1.6	0.4	0.4	1.25	-9%	-4%	1.26	-8%	-3%	1.25	1.17
\$/CHF	0.82	7.8	-4.3	3.2	2.2	0.86	5%	14%	0.74	-9%	5%	0.82	0.95
\$/NOK	10.07	11.4	0.1	11.5	4.7	6.79	-33%	-26%	7.89	-22%	-9%	7.23	8.92
\$/SEK	9.57	12.8	-2.2	10.4	5.0	7.59	-21%	-13%	7.99	-16%	-1%	7.75	8.39
\$/JPY	143.5	6.3	-3.6	2.5	3.8	95	-34%	-23%	109	-24%	-10%	101	93
EMEA													
\$/CZK	21.67	7.1	-1.0	6.0	0.0	25.2	16%	25%	18.6	-14%	-1%	22.6	16.0
\$/HUF	352	10.0	1.9	12.1	3.2	333	-5%	1%	306	-13%	0%	322	257
\$/PLN	3.74	11.3	0.7	12.1	5.4	4.03	8%	17%	3.3	-11%	4%	3.75	2.47
\$/RON	4.41	6.1	2.9	9.2	--	--	--	--	4.71	7%	22%	--	--
\$/RUB	81.4	-26.0	13.2	-16.3	-29.5	80.32	-1%	16%	73.51	-10%	11%	77.60	40.44
\$/UAH	41.43	-9.9	11.6	1.7	--	--	--	--	--	--	--	--	--
\$/TRY	39.28	-12.7	38.5	20.9	-15.4	25.91	-34%	-30%	32.24	-18%	-2%	28.44	24.19
\$/ILS	3.50	-0.1	-0.7	-0.8	-3.5	3.52	1%	12%	3.05	-13%	-1%	3.33	4.76
\$/ZAR	17.7	1.3	2.8	4.2	-3.1	12.74	-28%	-20%	14.3	-20%	-4%	13.36	18.30
\$/NGN	1552	10.9	18.3	29.2	--	--	--	--	--	--	--	--	--
Americas													
\$/ARS	1189.8	-20.7	25.2	4.5	-22.9	--	--	--	--	--	--	--	--
\$/BRL	5.59	1.6	9.1	10.8	0.1	4.18	-25%	-13%	5.04	-10%	6%	4.53	5.03
\$/MXN	19.16	2.2	4.2	6.5	0.6	20.26	6%	13%	17.28	-10%	-3%	19.07	20.05
\$/CLP	931	3.4	0.2	3.6	1.4	696	-25%	-11%	745	-20%	-5%	716	754
\$/PEN	3.63	-2.0	1.1	-0.9	-3.9	2.97	-18%	-6%	2.92	-20%	-7%	2.95	3.98
\$/COP	4109	0.2	5.1	5.3	-1.6	3447	-16%	-4%	3676	-11%	2%	3538	3147
Asia													
\$/CNY	7.18	2.5	-2.5	0.0	-0.3	5.17	-28%	-20%	5.44	-24%	-11%	5.28	6.16
\$/HKD	7.85	1.2	-1.4	-0.2	-2.1	7.08	-10%	12%	6.20	-21%	-2%	6.72	5.98
\$/INR	85.80	2.7	2.1	4.9	0.4	76.53	-11%	-2%	70.86	-17%	0%	74.26	58.27
\$/KRW	1356	3.5	-2.3	1.2	1.0	1171	-14%	4%	1108	-18%	-2%	1146	913
\$/MYR	4.23	4.4	-1.4	2.9	0.9	3.36	-20%	-6%	3.73	-12%	5%	3.51	2.03
\$/SGD	1.286	4.6	-2.3	2.2	1.0	1.36	6%	24%	1.20	-6%	12%	1.30	0.59
\$/TWD	29.92	5.0	-5.9	-1.2	1.4	26.2	-12%	7%	23.4	-22%	-6%	25.1	13.8
\$/THB	32.51	1.6	-2.1	-0.5	-1.9	31.62	-3%	17%	28.27	-13%	5%	30.28	19.38
\$/IDR	16275	1.7	1.5	3.3	-1.7	14381	-12%	6%	12877	-21%	-6%	13779	10967
\$/PHP	55.64	3.0	0.8	3.9	-0.6	58.82	6%	27%	54.15	-3%	16%	56.95	52.56
Euro Crosses													
EUR/GBP	0.84	-2.8	2.1	-0.7	1.4	0.96	14%	23%	0.91	8%	9%	0.94	1.01
EUR/CHF	0.94	-1.3	-2.1	-3.3	2.2	1.03	10%	14%	0.99	5%	5%	1.01	1.43
EUR/NOK	11.53	2.0	2.3	4.4	4.7	8.09	-30%	-26%	10.48	-9%	-9%	9.05	13.49
EUR/SEK	10.95	3.3	0.1	3.4	5.0	9.05	-17%	-13%	10.61	-3%	-1%	9.68	12.67
EUR/CZK	24.81	-2.0	1.2	-0.7	0.0	30.10	21%	25%	24.69	0%	-1%	27.93	24.13
EUR/HUF	403	0.7	4.1	4.8	3.2	397	-1%	1%	406	1%	0%	401	388
EUR/PLN	4.28	2.0	2.9	4.8	5.4	4.80	12%	17%	4.4	3%	4%	4.65	3.73
EUR/RON	5.05	-2.9	5.2	2.3	--	--	--	--	6.26	24%	22%	--	--
EUR/RUB	93.1	-32.3	15.4	-16.9	-29.5	95.8	3%	16%	97.6	5%	11%	96.5	--
Addendum													
USD	--	-2.8	-1.5	-4.1	-4.1	--	--	15%	--	--	17%	--	--

Note: USD returns average of all other currencies (except ARS, NGN and UAH) with opposite sign; *EM estimates adjusted for per capita income. Spot values as of Thursday.

See dynamic table here (or click image above): <https://publishing.gs.com/content/themes/table.html?criteriaKey=1k2HGqgS2h>

Source: Goldman Sachs Global Investment Research

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We, Kamakshya Trivedi, Michael Cahill, Danny Suwanapruti, Teresa Alves, Karen Reichgott Fishman, Isabella Rosenberg, Stuart Jenkins, Victor Engel and Lexi Kanter, hereby certify that all of the views expressed in this report accurately reflect our personal views, which have not been influenced by considerations of the firm's business or client relationships.

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