The Markets
Will the Dollar Keep Dropping?
Kunal Shah, Co-CEO, Goldman Sachs International
Chris Hussey, Host, Goldman Sachs Research
Date of Recording: July 24, 2025

Chris Hussey: This is The Markets. I'm Chris Hussey. And today is Thursday, July 24th. And with me is Kunal Shah, who is co-CEO of Goldman Sachs International. And he comes to us live from the London trading floor of Goldman Sachs. Kunal, thanks so much for joining us.

Kunal Shah: Chris, great to be here. Thanks for having me.

Chris Hussey: So, you got a big title now. You don't have to go back too far, and you were an emerging market trader. You're in the weeds of everything. So, you have a really keen appreciation for everything that's happening in the markets today. We've just seen a big rally. What do you make of the rally? What's got you most concerned now?

Kunal Shah: Look, I still hope I am in the weeds. I still am a global co-head of FICC. So, got the big title, but still definitely spending a lot of time down here on the trading floor.

Look, the risk asset rally, particularly in the US, it's been fierce, that recovery from April when we had all of that chaos, has been strong. I think it's been well grounded. Earnings have been exceptionally strong. You've got the undercurrent of deregulation on its way. Obviously, the AI theme. And look, all of this has led to that clear debate, again, on US exceptionalism. Is it back? Where are we on that?

Look, I would say the rally thus far has had strong underpinnings. But I do think the technicals from here are less compelling. There was just a big re-risking from April. Retail bought the dip. But our institutional clients definitely got defensive. And they had to just chase that rally. But I think a lot of that underweight has been covered.

The systematic buying. Some of the best of that is behind us. The corporate buying. Some of the best of that is behind us too. So, I don't think the technicals are as favorable from here.

And then, look, in reality, my spidey sense is also tingling a bit when you see this meme stock mania and just little flash points of that froth that we've seen in the past. Which look, does make me a little bit more cautious. Now, again, these kinds of overshoots can persist for some time. I'm not saying the structural undercurrents aren't still positive. But I do think it is, you know, opportune time to get a bit more defensive, at a minimum just so I can enjoy my holiday next month.

Chris Hussey: No question. There are some tactical factors out there that are sort of pointing to being a little bit more defensive. But, you know, one of the fundamental things that's been moving around with markets has been this sort of end of US exceptionalism trade. And of course, you can't have the end of US exceptionalism unless you have an alternative. That alternative this year has been Europe.

But Europe is now expanding fiscally. So, that's not necessarily going to be good for bonds. And Europe doesn't have a big tech sector. So, that's not necessarily good for stocks. So, is there a sustainable Europe exceptionalism trade?

Kunal Shah: Look, I think the last few months have very much told us all do not try and bet against the US. And whilst there was that chaotic period, the range of outcomes narrowed and policy certainty on many key things returned, right, which really helped that catch up in the US.

Look, the reasons why Europe outperformed were also clear. There was a loud wake up call in this time zone on the back of just the geopolitical changes and some of the political changes clearly also spearheaded in Germany by these bold moves catalyzed that. Now, that really helped at a time when the US story was getting challenged. So, the rotation of capital back home for the European investors or the hedging of the dollar exposure all resonated then. That's less clear at a time when the US has now also clearly found its footing.

I think on the European story, under the hood there are things to get excited about. Look, Germany has been even more bold with their budget than many people thought. So, what was backloaded growth may even be coming more forcefully next year. But mid next year, I think we think on our forecast, Germany's going to be growing at two percent. Right? That's going to be outpacing what we think the US is. So, that is a place to continue to focus. Spain continues to grow.

But there are other parts of the, you know, broad European zone which are under pressure. Right? France has had its difficult budget concerns. Here in the UK, there are some very significant trade-offs and challenges. So, I don't think you can play the broad European story as one clear block.

For me, fixed income perspectives, it's not obvious. The point you made around fiscal side, there's going to be tons of issuance, right, for infrastructure. For defense. And just to fund these budgets. So, we still think there's going to be pressure on the back ends of these curves. And as the ECB has told us this week, they're in no rush. They may be done. So, I don't think there's a clear rates theme across that curve here. Equities had their moment. But that's been consolidating. But I do think when it comes to FX, we're now in a zone where upside, again, in euro dollar can kick in again. And that is something that we've been engaged in. That was popular when you had the April chaos. And people were buying the euro. And we saw a significant move higher. That consolidated over the last few weeks. From our own flows, positioning materially came down.

And I think from here, one of the key drivers beyond the long-term capital allocation themes is really just relative monetary policy. We're at a point now where the ECB may be done, at least for now. But there is pressure on the Fed to cut. Now, of course you need to figure out whether they've got a green light from a data perspective. But there's definitely room there for further easing in the front end of the US curve. And I think that can catalyze another move higher in the euro.

And when the euro is rallying, it is the ultimate FOMO trade that I think people now are going to have to re-risk into.

Chris Hussey: Okay, Kunal, please, let's expand on the central banks for a second here because we are coming to you on the day that the ECB announced its policy, which was no policy change. What are you expecting from the Fed next week?

Kunal Shah: Look, I think it is highly likely that they do anything next week consistent with market pricing. But we have to watch that press conference closely because they're going to have some clear signaling to start to make around what may happen in September.

I think at this point right now, there probably is going to be a path for them to normalize as they showed in the dots. We'll get a signal of that rhetoric next week at the FOMC. And there is clear space for them to continue to cut once they get that green light. So, that to me is why I think the dollar can resume a lower trend from there.

Chris Hussey: Yeah, it makes a lot of sense. All right. Let me shift the conversation a little bit to Asia if we can because you looked at China a lot over your career. China's an alternative maybe as well to the US. China now seems to be righting their ship a little bit from a growth standpoint. They do have this opportunity in tech that sits here with the equity markets. They are expanding fiscally as well as Europe. But they may be in a little bit different place from a debt to GDP standpoint. How do you think about China as an alternative investment?

Kunal Shah: Sure. So, look, whether it's an alternative investment or not, I do think the international asset allocators just got cautious because of geopolitics. Right? So, they were definitely under risk. And that's partly why then when you started to see green shoots, especially in the equity market, a lot of capital did start to have to move back in.

I think when you look at China this year, look, GDP performed well. You look at H1, the latest print, you're at 5.3 percent. And I think some of that boost you saw was on the back of front loading prior to tariffs. Some of it was on the back of some of the specific stimulus policymakers in China implemented. For example, the kind of cash for clunkers program. But a lot of the best of that is now behind us.

So, our own forecast actually for growth in H2 are going to be weaker. There is still an undercurrent of a housing situation that does remain unresolved. Look, there's room for some further stimulus that could come with more special bond issuance, etcetera. But I think the broader prospects for growth aren't that great. They may meet that roughly on average five percent target for the year. But I don't think that's going to be the structural reason why people invest.

I think sentiment in the equity market remains positive. Look, we see that as a firm just with the ECM market really reawakening. You know, the AI theme. The technology theme there, which still plays through there, more from an equity lens.

For us on the fixed income floor, it's more about the currency. If you look at the renminbi, you've had a continuation of stronger fixes in the currency. And after they found some common ground on the trade deals, that's continued, whether the broad dollar was going up or whether it was going down. And from our perspective, there is still upside in the renminbi. We think it's going to trade down to around seven to the dollar over the course of the next few months. It is not an overvalued currency. Their goods are still competitive. Yes, they're focused on what they call anti-involution and trying to stop some of what really was overcapacity in some industries. But look, I think in aggregate it will help them to rebalance a bit.

With a stronger currency, there is no capital outflow pressure. If anything, it's inflow pressure. And that's why the policymakers are smoothing the move. So, I think dollar scene hedge will keep grinding down lower. And that's, you know, a trade we very much believe in.

Chris Hussey: All right. So, let's put a bow around all this. Because as you point out, you are in the weeds. You're coming to us from the weeds. What's your favorite trade?

Kunal Shah: Look, so we have as I mentioned, expressions of dollar weaker across a renminbi in Asia. We like topside in euro dollar in this time zone. Then when it comes to the monetary policy plays, I'd mentioned a bit about the tricky growth dynamic that we have here in the UK. For us, receiving front end rates in the UK curve is one that very much stands out. The policy at The Bank of England, it's at 4.25. Market's pricing roughly down to 3.5. Look, we think neutral rate's somewhere around 2.75. They've got a hump in inflation to work through. We'll get through that. The fiscal situation is tight. We've seen that with the U-turn the Labour Party had to make on the welfare cuts into the budget that's going to be coming later on this year. It's a tricky environment for them to keep the pro-growth rhetoric they wanted. I think The Bank of England is going to look through that inflation spike. They're going to focus on growth, which still remains sluggish. And the bank will follow with cuts. So fade that received rates in the UK. You could do that outright. You could sell payers various ways to play it that we like.

Chris Hussey: What are you looking for next week in addition to the Fed?

Kunal Shah: Look, we've got to get the actual final clarity on some of these trade deals. It was good that Japan got done. Of course, here in Europe, whilst there's rumor in the press around exactly what that deal may look like, in the next few days hopefully we'll get clarity. Obviously, if we don't, we then have to brace for maybe a bit more of an eventful week next week. But after that, it is about the Fed meeting. Right? Not looking for the cut, but really just looking to maybe what's in the statement. But more so the press conference and what that lays out for post summer.

Chris Hussey: That is terrific. Kunal, thanks so much for taking the time with us. Really appreciate it.

Kunal Shah: Chris, thanks for having me.

Chris Hussey: That does it for this week's episode of The Markets. I'm Chris Hussey. Thanks for listening.

The opinions and views expressed in this program may not necessarily reflect the institutional views of Goldman Sachs or its affiliates. This program should not be copied, distributed, published, or reproduced in whole or in part or disclosed by any recipient to any other person without the express written consent of Goldman Sachs. Each name of a third-party organization mentioned in this program is the property of the company to which it relates, is used here strictly for informational and identification purposes only, and is not used to imply any ownership or license rights between any such company and Goldman Sachs. The content of this program does not constitute a recommendation from any Goldman Sachs entity to the recipient, and is provided for informational purposes only. Goldman Sachs is not providing any financial, economic, legal, investment, accounting, or tax advice through this program or to its recipient. Certain information contained in this program constitutes “forward-looking statements”, and there is no guarantee that these results will be achieved. Goldman Sachs has no obligation to provide updates or changes to the information in this program. Past performance does not guarantee future results, which may vary. Neither Goldman Sachs nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this program and any liability therefore; including in respect of direct, indirect, or consequential loss or damage is expressly disclaimed.

Disclosures applicable to research with respect to issuers, if any, mentioned herein are available through your Goldman Sachs representative or at http://www.gs.com/research/hedge.html.

This transcript should not be copied, distributed, published, or reproduced, in whole or in part, or disclosed by any recipient to any other person. The information contained in this transcript does not constitute a recommendation from any Goldman Sachs entity to the recipient. Neither Goldman Sachs nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this transcript and any liability therefore (including in respect of direct, indirect, or consequential loss or damage) are expressly disclaimed. The views expressed in this transcript are not necessarily those of Goldman Sachs, and Goldman Sachs is not providing any financial, economic, legal, accounting, or tax advice or recommendations in this transcript. In addition, the receipt of this transcript by any recipient is not to be taken as constituting the giving of investment advice by Goldman Sachs to that recipient, nor to constitute such person a client of any Goldman Sachs entity. This transcript is provided in conjunction with the associated video/audio content for convenience. The content of this transcript may differ from the associated video/audio, please consult the original content as the definitive source. Goldman Sachs