

Carlsquare/Vontobel weekly trading note: Mind the German-US interest gap

This week, we argue that the euro should strengthen further against the US dollar. This is because the interest rate spread between US and German ten-year Treasury yields has narrowed recently. Furthermore, the US federal administration will shut down until Congress agrees on a plan to reduce the federal budget deficit.

This week, the focus is on the United States, where significant state budget deficits have led to parts of the federal administration being shut down since Wednesday, 1 October. For the federal administration to reopen fully, Republicans and Democrats in Congress must reach an agreement on federal budget cuts. After stabilising at the turn of the millennium, the US annual budget deficit has gradually risen to around 6% of the country's GDP. Meanwhile, Trump has wanted a weaker USD, probably partly to stimulate job creation in domestic industries. We argue that, although German and European PMI figures and ten-year government bond yields rose during the third quarter of 2025, this has not yet been fully reflected in the EUR/USD exchange rate. Therefore, we believe that taking a long position in EUR/USD could be a promising strategy.

Please find out more in our weekly letter on certificates Vontobel.com: [Read the weekly newsletter here](#)

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Attachments

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