

FX Strategy

Back on track

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In H1, the turbulent onset of Trump's second term disrupted traditional market correlations, weakening the USD's role as a safe haven during risk-off periods. Since May, Trump's more conciliatory stance on the ongoing tariff dispute has contributed to the gradual restoration of traditional market correlation patterns, which in turn has helped to limit further downside pressure on the U.S. dollar.

Against this backdrop, we anticipate the gradual reestablishment of the traditional "risk-on, dollar-down" dynamic to continue in the coming months, with the divergence in 1) the growth-inflation mix and 2) monetary policy between the U.S. and the Euro Area likely to regain prominence as key drivers of the EUR/USD exchange rate.

Nonetheless, while we do not believe the dollar's safe-haven status has undergone a structural change, we continue to caution that current market signals point to a fragile and incomplete transitional period, with FX volatility still elevated.

*Against this backdrop, we tactically remain **NEUTRAL on EUR/USD (NEUTRAL on the DXY)** as we see near-term risks as broadly balanced.*

***Strategically, we turn LONG on EUR/USD (SHORT on DXY).** As we gradually look ahead to 2026, we expect the macro-divergence between the U.S. and the Euro Area regarding 1) the growth-inflation mix and 2) monetary policy will progressively shift in favour of the EUR, driving EUR/USD upwards.*

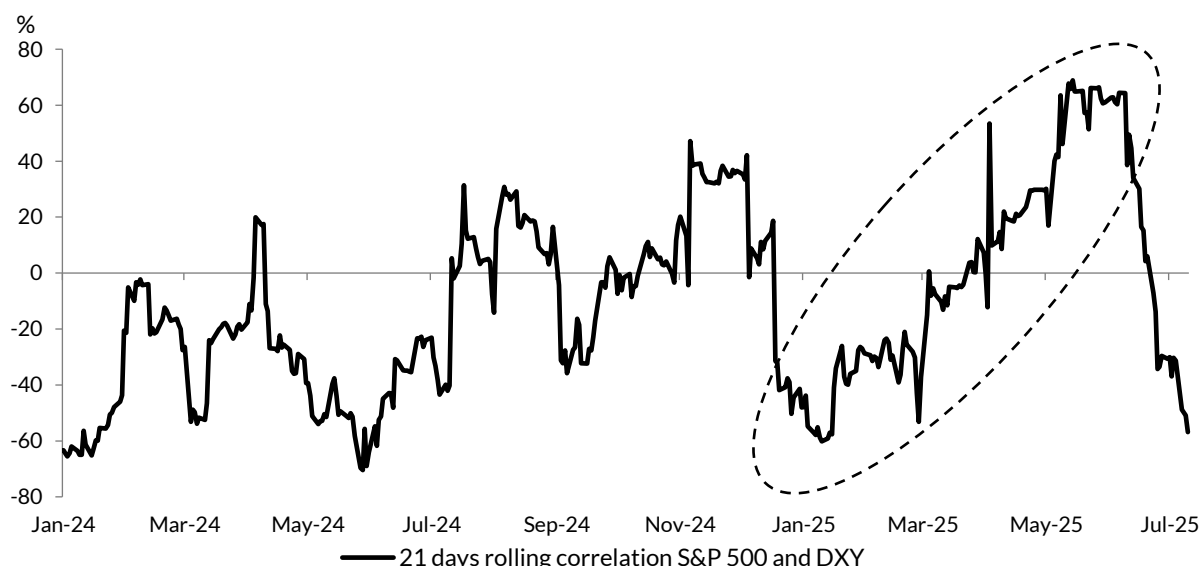
Back on track

In H1, the turbulent onset of Trump's second term disrupted traditional market correlations, weakening the USD's role as a safe haven during risk-off periods. As a result, the usual inverse relationship between the USD and equities broke down, with the dollar failing to strengthen amid market stress.

This change prompted a broader reassessment of USD exposure, leading to increased hedging activity, as global investors holding long positions in U.S. stocks began to sell dollars more aggressively. De-dollarisation pressures intensified in the aftermath of the so-called "Liberation Day", reaching a peak in mid-May (Figure 1).

Figure 1

The usual inverse relationship between USD and US equities broke down in H1, peaking in May



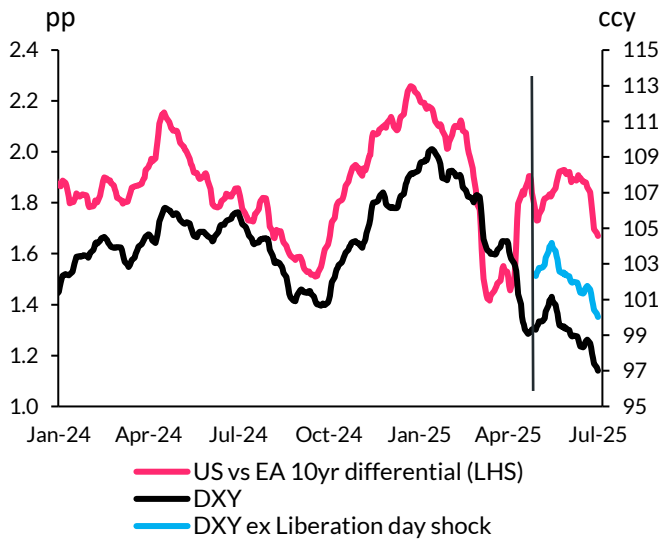
Source: Datastream Refinitiv, ANIMA Research

The “calm” after the storm...

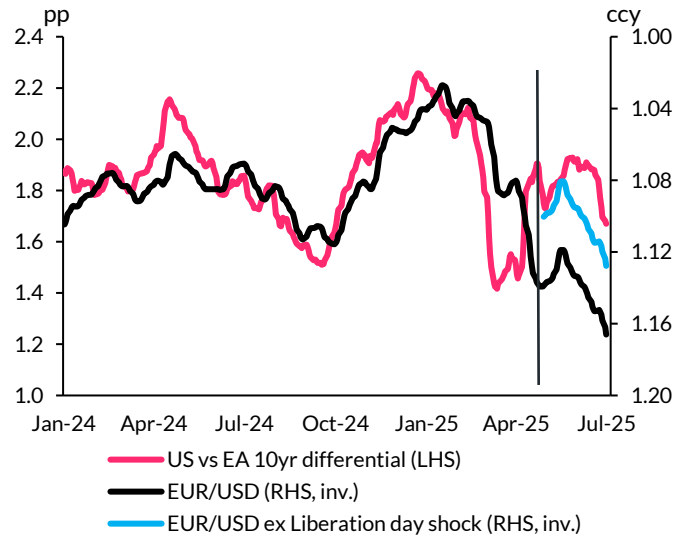
Since May, Trump's more conciliatory stance on the ongoing tariff dispute has contributed to the gradual re-emergence of traditional market correlation patterns, which, in turn, has helped to limit further downside pressure on the U.S. dollar. This stabilisation has provided a degree of reassurance to investors (Figure 1). Moreover, when examining the dollar's performance against major currencies in relation to interest rate differentials, we notice that, once the initial shock of Liberation Day had subsided, the typical relationship between currency movements and rate spreads appears to have been largely restored (Figures 2-5).

We anticipate this process of normalisation to continue in the coming months, with the divergence in 1) the growth-inflation mix and 2) monetary policy between the U.S. and the Euro Area likely to regain prominence as key drivers of the EUR/USD exchange rate.

Furthermore, as time passes, a return to a more stable correlation environment would, in turn, lower the risk premium demanded by foreign investors for holding U.S. assets, potentially reducing the need for further shifts in hedging strategies.

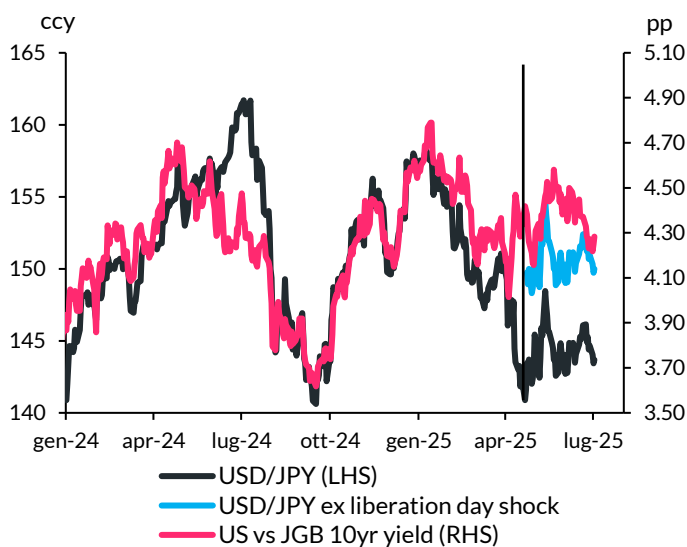
Figure 2**FX correlation with yields differential resumes: DXY**

Source: Datastream Refinitiv, ANIMA Research

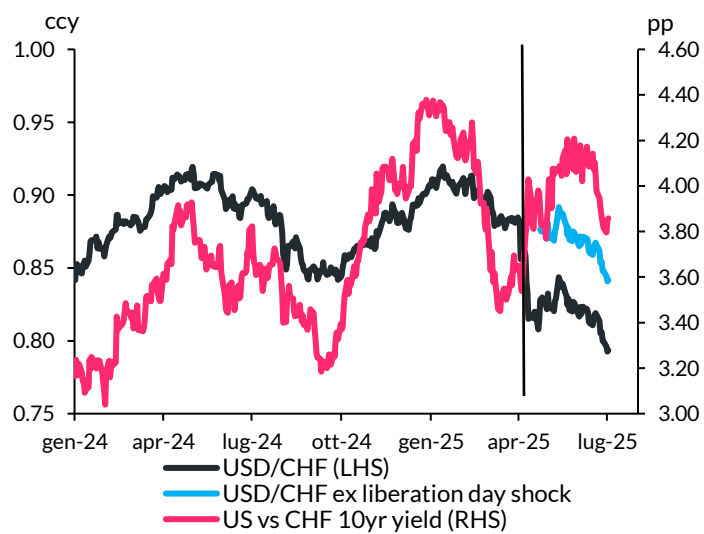
Figure 3**FX correlation with yields differential resumes: EUR/USD**

Source: Datastream Refinitiv, ANIMA Research

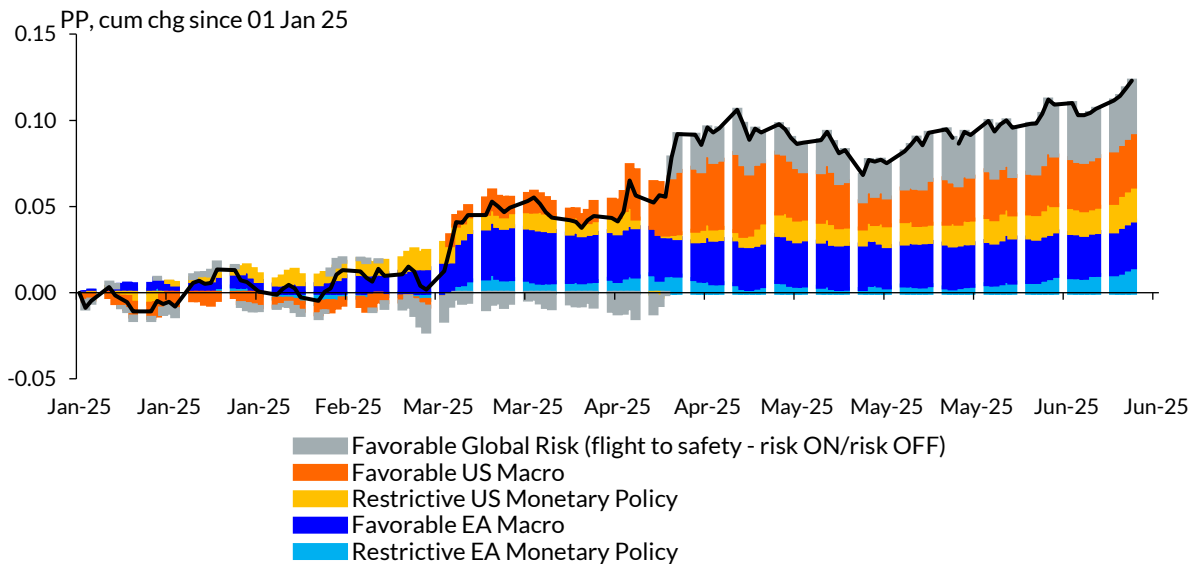
Against this backdrop, we expect the gradual reestablishment of the traditional “risk-on, dollar-down” dynamic to enable US/EA macro and monetary policy differentials to explain EUR/USD trends (i.e. a gradual consolidation within the 1.1580–1.1810 trading range; Figure 6).

Figure 4**FX correlation with yields differential resumes: USD/JPY**

Source: Datastream Refinitiv, ANIMA Research

Figure 5**FX correlation with yields differential resumes: USD/CHF**

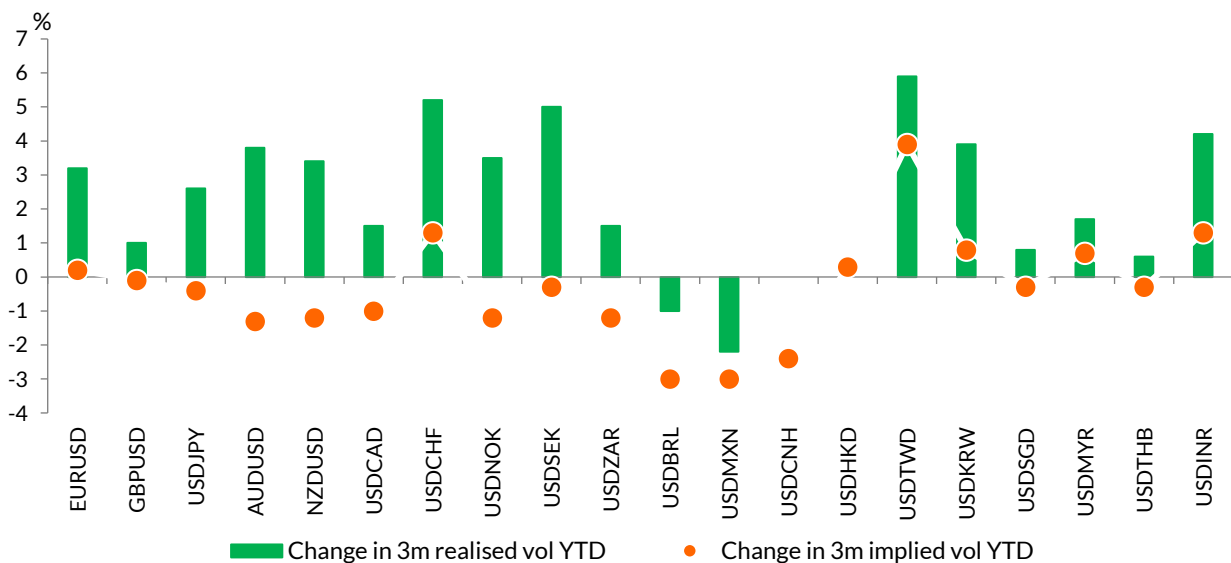
Source: Datastream Refinitiv, ANIMA Research

Figure 6**US/EA macro and monetary policy differentials set to regain center stage in driving EUR/USD**

Source: Bloomberg, ANIMA Research

...with a note of caution

While in our base case we anticipate a gradual consolidation of EUR/USD toward the 1.16–1.18 range, the key uncertainty is whether this return to a more “traditional” market regime will prove durable. Current market signals point to a fragile and incomplete transition, with FX volatility still elevated. (Figure 7).

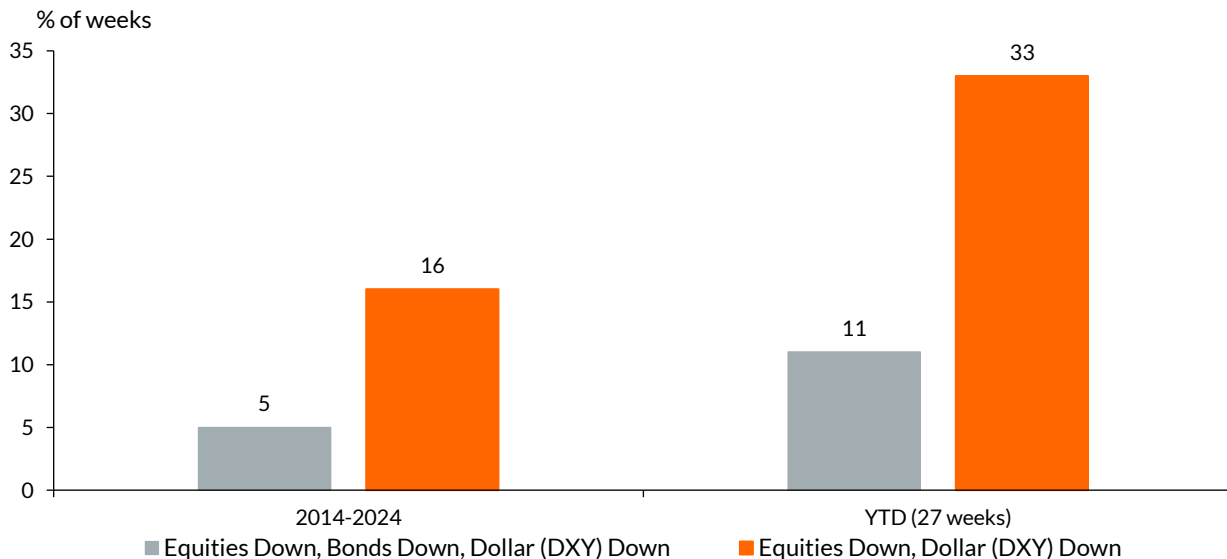
Figure 7**Change in 3m FX vol. indicates that the transition since Liberation Day remains incomplete**

Source: Bloomberg, ANIMA Research

As we said, one of the most notable trends of 2025 has been the dollar's depreciation alongside U.S. equities (even against more cyclical currencies) during sharp market corrections. Although the data sample remains historically limited, this pattern has already occurred more than twice as frequently this year as it did over the past decade (Figure 8).

Figure 8

USD down & US equities down occurred more than twice as often in 2025 than in the past 10y



Source: Datastream Refinitiv, GS, ANIMA Research

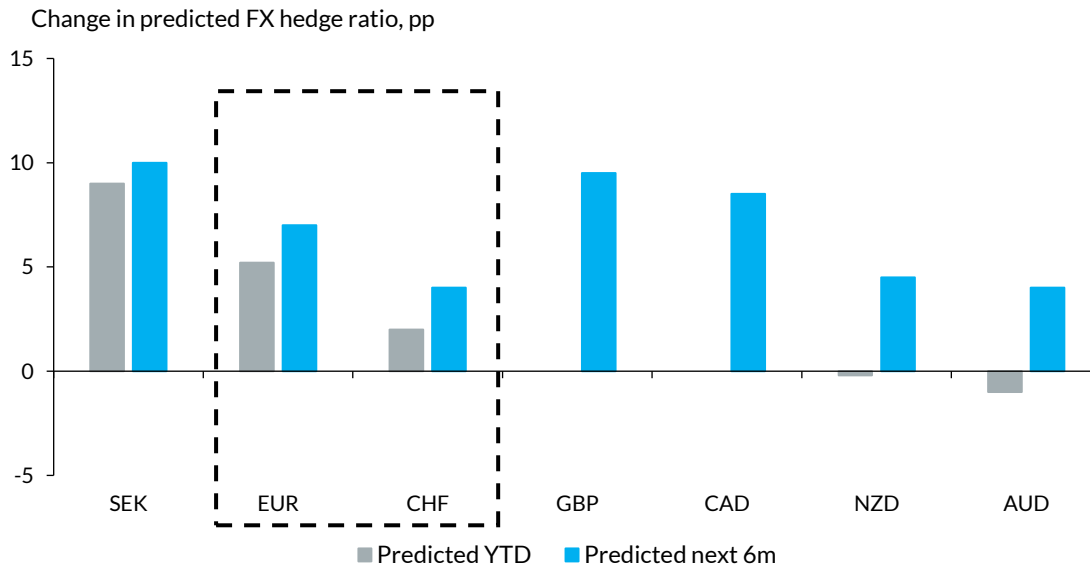
While we do not believe the dollar's safe-haven status has undergone a structural change, and although USD-equity correlations have normalised somewhat in recent weeks, we caution that such a "spurious" correlation experienced during Liberation Day might abate very slowly. Assuming the positive USD-equity correlation observed over the past six months could resurface due to a renewed market shock, (similar to the "Liberation Day" one) this could imply a further rise in predicted hedge ratios for currencies that have already seen notable increases year-to-date, such as the EUR and CHF; there may also be scope for rising hedge ratios in other currencies as well (GBP, AUD, CAD, Figure 9).

Still elevated policy uncertainty - ranging from trade tariffs to concerns over Federal Reserve independence¹ - continues to loom over market sentiment and the dollar. As a result, we think foreign investors will likely prefer to wait for greater clarity and stability in U.S. policy before completely returning to the "usual" USD safe-haven status.

In addition, as we anticipate the US economy to gradually slow down throughout 2025, expectations of U.S. exceptionalism, although still alive, are set to diminish in the coming quarters, thereby strengthening the case for a continuation of global FX diversification.

¹ As of today, the direct odds of a Powell departure are below 20% ([FX Blog: What if? - Deutsche Bank Research](#)).

Nonetheless, we caution against underestimating that Fed independence is the cornerstone of the global dollar monetary system. Therefore, a concrete challenge to its independence will have consequences that could reverberate far beyond the US borders.

Figure 9**New shocks similar to Liberation Day might end up triggering a rise in predicted hedge ratios**

Source: Bloomberg, ANIMA Research

Bottom line

Against this backdrop, *we tactically remain NEUTRAL EUR/USD (NEUTRAL on the DXY)* as we see near-term risks as broadly balanced. On the one hand, trade tensions (dollar negative) are shifting to the sidelines, while concerns over Federal Reserve independence (dollar negative) seem overstated. On the other hand, going into Q4, we expect the US economy and the US labour market to continue overperforming the EA economic momentum (dollar positive).

Strategically, we turn LONG on EUR/USD (SHORT on the DXY). As we gradually look to 2026, we expect the macro-divergence between the U.S. and the Euro Area regarding 1) the growth-inflation mix and 2) monetary policy will progressively shift in favour of the EUR, driving EUR/USD upwards.

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