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Chief Investment Office GWM
Investment Research

EURUSD: Level up

CIO View: EURUSD

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The original report listed our forecasts incorrectly in the third bullet. Please refer to this version.

- Increasing prospects of stronger economic growth in Europe bring forward our expectations of a recovery in the euro.
- We raise our EURUSD forecasts to 1.06, 1.08, 1.10, and 1.12 (prev. 1.02, 1.04, 1.06, and 1.07) for Jun 25, Sep 25, Dec 25, and Mar 26 respectively.
- After a sharp rise in the euro to date, we would not chase this rally in the short term. Instead, we look for pullbacks to 1.06 before adding fresh longs.

Germany's step change

Germany is poised to implement a substantial fiscal package aimed at revitalizing its economy and enhancing defense capabilities. The proposed measures include the creation of a EUR 500 billion infrastructure fund and a significant overhaul of borrowing rules to facilitate increased government investment. As such, we have upgraded our German GDP growth outlook for 2025 and 2026 while acknowledging that the positive impact may only become more evident a year out from now. Additionally, we expect modest positive spillovers to growth elsewhere across the EU and broader region. However, unlike Germany, the rest of Europe only has a limited ability to embark on large-scale fiscal expansion. The knock-on effect on rates is also clear—given stronger growth and higher fiscal deficits, we lift our outlook for government bond yields and the EUR. With Eurozone inflation remaining stickier than initially expected, we see the risk that a fiscal boost of this magnitude could slow further progress on inflation, which has implications for the ECB's outlook. European yields are likely to stay above 2%.

US growth concerns come to the fore

Meanwhile, the new US administration's policies are losing their shine, with the current focus on tariffs and spending cuts overshadowing potentially growth-positive initiatives like tax cuts. This is important, as US growth expectations were firmly on the rise into 2025. Any significant threats to the growth outlook and the potential for more Fed rate cuts could lead to a further reversal of USD strength, something we initially penciled in for 2H25.

Investment considerations

Prospects: After the spike higher in the EURUSD, we expect the pairing to consolidate. This is reflected in our June 2025 forecast of 1.06. As we progress through the year and into 2026, the EURUSD should gravitate higher to 1.10 and 1.12.

CIO Forecast- EURUSD

Positive long term trend

13 Mar 25	1.09		
Jun 25	1.06	PPP*:	1.25
Sep 25	1.08	TEEER*	1.28
Dec 25	1.10		
Mar 26	1.12		

Refinitiv, Macrobond, UBS calculation. *Purchasing Power Parity (PPP) is not a forecast per se, but a long-term equilibrium value for an exchange rate, calculated by UBS, TEEER refers to the 'trend-extrapolated equilibrium exchange rate', which is a three-year projection of the PPP.

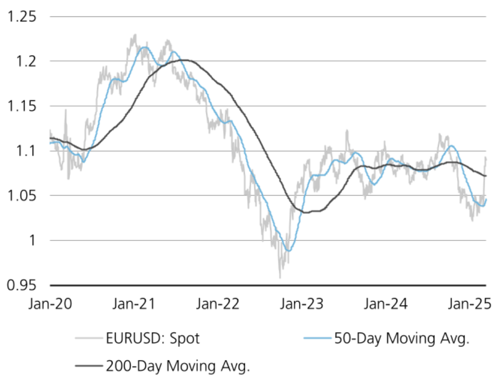
Fundamental influence

	Curr	CB target rate (1)	CPI F	10Y Yield (1)	GDP F
2024	EUR		2.4		0.7
2025	EUR	2	2.4	2.3	0.9
2024	USD		3		2.8
2025	USD	3.83	2.6	4	2

F=Forecast, (1) Year end, CB = Central Bank
Source: UBS

Policy driven spike in EURUSD

Daily data



Source: Bloomberg, UBS, as of March 2025

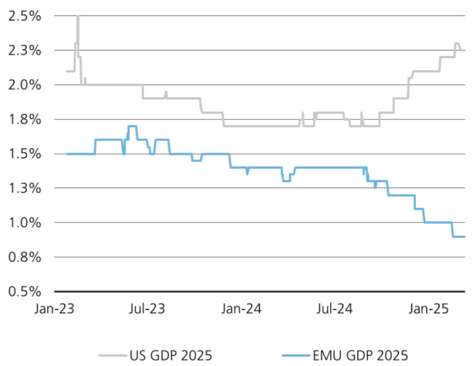
Boundaries: We look for technical support around 1.06 and 1.02 to the downside. To the upside, we see resistance around 1.10 and 1.12.

Risks: The risks to our view are highly symmetrical, both in the short and longer term. On the European side, a much smaller fiscal spending boost than expected could see the EUR weaken once again. Moreover, US tariffs have the potential to damage European growth in 2025, while Europe's fiscal spending has yet to trickle down into the real economy. Lastly, Fed rate cut expectations have risen close to 80bps by year-end. Should the US economy stay robust and inflationary pressure stay high, such rate cut expectations would look somewhat aggressive to us. In this scenario, we believe the EURUSD would swiftly trade below 1.05 and struggle to move higher per our forecasts.

As for the US economy, a brisk slowdown in US activity could see the EURUSD move even higher. While uncertainty tends to be USD positive, greater equity market weakness may not be as supportive of the USD this time around. Should this lead to greater Fed rate cuts amid a more stable yield backdrop elsewhere, the USD may weaken as uncertainty rises. We saw short-lived USD strength during the pandemic, followed by broader weakness. In such a scenario, the EURUSD would likely jump to 1.12, in our view.

Relative growth expectations have room to reverse

Daily data



Source: Bloomberg, UBS, as of March 2025

Appendix

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