

# GLOBAL FX STRATEGY | PUBLIC MARKET NOTE

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## EURO BULLISH SKEW AT 6-MONTH HIGH AMID GROWTH DIVERGENCE AND POLICY TURN

### EXECUTIVE SUMMARY

The euro's options market has turned decisively bullish, with the 1-month 25-delta EUR/USD risk reversal rising toward +0.575 — the strongest positive skew in six months. This reflects renewed demand for EUR upside exposure, consistent with perceptions that the Fed's easing cycle may outpace the ECB's. However, growth divergence persists: the euro area economy remains stagnant while the U.S. expands solidly, keeping yield spreads USD-supportive. Longer-dated risk reversals (3M, 6M) remain near multi-year highs, signaling structural confidence in euro resilience. Still, with speculative positioning already net long EUR (114k contracts) and USD sentiment turning net short, upside momentum may slow if U.S. data remain firm. Our base case: EUR/USD consolidation near 1.17, with a bullish bias toward 1.19 by year-end, supported by narrowing policy divergence and softer U.S. inflation.

### MARKET OVERVIEW

Macro divergence remains the core driver. U.S. GDP rose 3.3% annualized in Q2 2025, while euro area growth was flat at +0.1% q/q. Inflation differentials persist, with U.S. core CPI near 3.1% versus euro area inflation around 2.1%. The Fed initiated a 25 bp cut in September, while the ECB maintains a data-dependent stance after its earlier March cut. Yield spreads continue to favor the USD, but narrowing differentials suggest downside exhaustion. Investor sentiment remains constructive though cautious. Extended EUR long positioning and light USD shorts imply positioning risk if macro data surprise positively for the U.S.

### CURRENCY ANALYSIS

The 1-month risk reversal bounce toward +0.575 underscores increased euro call demand. Longer tenors show persistent bullish skew, confirming market confidence in euro stability. Fiscal discipline and the EU's reformed fiscal rules provide a moderate tailwind, while geopolitical exposure remains the main risk (Ukraine, EU politics, energy). Technically, EUR/USD trades above its 50-, 100-, and 200-day moving averages. Momentum indicators confirm bullish continuation, with next key resistance near 1.19. Our BEER (Behavioral Equilibrium Exchange Rate) framework suggests EUR/USD remains moderately undervalued by roughly 3–4% relative to equilibrium, driven by productivity and current account factors.

### TRADE SETUP

Directional Bias: Bullish (EUR strength expected to extend into Q4) Entry: 1.1720 Stop-Loss: 1.1637 Target: 1.1900 Rationale: Breakout confirmation above the 50- and 100-day EMA suggests continuation of bullish trend. The BEER model signals moderate undervaluation, while option skew and positioning reinforce a constructive bias. Risk lies in U.S. yield rebound or European geopolitical escalation.

## FORECASTS

Pair	1M	3M	12M	Bias
EUR/USD	1.18	1.19	1.22	Bullish

This report has been prepared by Jashan Singh, Senior Global FX & Macro Research Analyst. The analysis reflects publicly available data and professional interpretation consistent with institutional research standards. All forecasts are subject to change based on evolving macroeconomic and market conditions.