

# EURUSD Analysis Report

## Executive Summary

The current macroeconomic landscape is characterized by a precarious balance between inflationary pressures and monetary policy responses, particularly as the Federal Reserve has raised real interest rates from approximately 1.5% to over 3% in the past year (VJ1SRO3W8). This tightening is expected to decelerate economic growth, evidenced by a drop in GDP growth rates from 3.2% to 1.8% and a decline in the Consumer Confidence Index from 120 to 95 (J8D0E7VC2). The economy appears to be transitioning from a post-pandemic recovery phase into a cautious growth environment, with risks increasingly tilted toward recession. Structural factors, including deteriorating terms of trade and ongoing geopolitical tensions, such as the conflict in Eastern Europe, are exacerbating inflation and squeezing margins for businesses and consumers (HWGNUP2XG). The U.S. trade deficit has expanded to \$900 billion, raising concerns about the dollar's stability and foreign investor confidence (XPGIRT4RH). The interplay of these macroeconomic variables is likely to depress equity valuations, particularly in growth sectors sensitive to interest rate changes, such as technology and consumer discretionary (J8D0E7VC2). Rising borrowing costs may pressure corporate earnings, especially for highly leveraged firms, leading to a reassessment of risk premia across asset classes (VJ1SRO3W8). Notably, while some sectors may thrive-evidenced by Soilbuild Construction Group's EPS growth from S\$0.055 to S\$0.16, a 191% increase-this divergence underscores the selective nature of market performance amid broader economic headwinds (J8D0E7VC2). Looking ahead, the base case anticipates a period of subdued economic growth characterized by persistent inflation and tightening monetary policy, which will likely increase volatility in equity markets and could trigger corrections in overvalued sectors. Key risks include a sharper-than-expected slowdown in consumer spending, geopolitical shocks that exacerbate supply chain issues, and potential policy missteps by the Fed that could either stifle growth or fail to contain inflation. Investors should monitor consumer sentiment, inflation data, and Fed communications for signals of policy shifts or economic turning points, as these indicators will be crucial in shaping market dynamics. Confidence in this outlook is moderate, given the inherent uncertainties in both domestic and global economic conditions.

On the political front, the Trump administration's policies are contributing to economic strain, particularly among Black Americans, whose unemployment rate has surged to 7.2%, the highest since the pandemic (1443EJVX4). This trend follows a broader decline in job gains, with U.S. employers adding only 73,000 jobs in July 2023, significantly below expectations (1443EJVX4). The administration's efforts to reverse pandemic-era policies and eliminate diversity initiatives may further destabilize the labor market, potentially leading to reduced consumer spending and overall economic contraction (1443EJVX4). The political landscape is also marked by contentious redistricting efforts in Texas, which could have significant implications for the upcoming midterms (1443EJVX4). Geopolitically, U.S.-Russia relations are poised for volatility, particularly with the potential for a meeting between Trump and Putin that may occur without Ukrainian President Zelensky, raising concerns about U.S. concessions to Russia (K8PPBLI93). The failure to secure a ceasefire could lead to increased volatility in energy markets, especially if crude oil prices breach

critical thresholds (K8PPBLI93). The base case anticipates that the U.S. will maintain a cautious approach, balancing diplomatic engagement with support for Ukraine, while key risks include miscalculations that escalate tensions and domestic political pressures influencing foreign policy decisions. What to watch includes official announcements regarding the meeting, responses from Ukraine and European allies, and market reactions to these developments. Confidence in this analysis is moderate, given the unpredictable nature of geopolitical negotiations and the complex interplay of international relations at play (K8PPBLI93).

## **Fundamental Analysis**

The current macroeconomic landscape is characterized by a complex interplay of structural and cyclical factors shaping market dynamics over the multi-year horizon. Central to this analysis is the ongoing tension between inflationary pressures and monetary policy responses, particularly in the context of the Federal Reserve's interest rate decisions. The Fed's commitment to controlling inflation through rate hikes has been evident, with real interest rates rising from approximately 1.5% to over 3% in the past year, significantly impacting consumer spending and business investment (ID: VJ1SRO3W8). This tightening of monetary policy is expected to lead to a slowdown in economic growth, as evidenced by recent data indicating a deceleration in GDP growth rates from 3.2% to 1.8% and a decline in the Consumer Confidence Index from 120 to 95 over the same period (ID: J8D0E7VC2).

In terms of structural regimes, the economy appears to be transitioning from a post-pandemic recovery phase into a more cautious growth environment, where the balance of risks is tilted towards recession. This shift is underpinned by deteriorating terms of trade, as supply chain disruptions and geopolitical tensions, such as the ongoing conflict in Eastern Europe, continue to exert upward pressure on commodity prices, thereby squeezing margins for businesses and consumers alike (ID: HWGNUP2XG). Furthermore, the net external position of the U.S. is becoming increasingly precarious, with a growing trade deficit that has expanded to \$900 billion, potentially leading to vulnerabilities in the dollar's value, particularly if foreign investors reassess their exposure to U.S. assets (ID: XPGIRT4RH).

The causal chain linking these macroeconomic variables to market pricing is multifaceted. Rising interest rates typically lead to higher discount rates applied to future cash flows, which can depress equity valuations, particularly in growth sectors sensitive to rate changes, such as technology and consumer discretionary (ID: J8D0E7VC2). Additionally, as borrowing costs increase, corporate earnings may come under pressure, particularly for firms with high leverage, which could lead to a reassessment of risk premia across asset classes (ID: VJ1SRO3W8). The recent performance of Soilbuild Construction Group, which has seen its earnings per share (EPS) grow from S\$0.055 to S\$0.16, reflecting a 191% increase, illustrates how selective sectors may still thrive despite broader economic headwinds, suggesting a divergence in market performance based on sectoral fundamentals (ID: J8D0E7VC2).

In conclusion, the base case anticipates a period of subdued economic growth characterized by persistent inflation and tightening monetary policy, leading to increased volatility in equity markets and potential corrections in overvalued sectors. Key risks include a sharper-than-expected

slowdown in consumer spending, geopolitical shocks that could exacerbate supply chain issues, and a potential policy misstep by the Fed that could either stifle growth or fail to contain inflation. Investors should closely monitor indicators such as consumer sentiment, inflation data, and Fed communications for signals of policy shifts or economic turning points. Confidence in this outlook is moderate, given the inherent uncertainties in both domestic and global economic conditions.

## **Medium Analysis**

The current macroeconomic landscape is marked by significant political and economic shifts under the Trump administration, which are likely to influence market dynamics over the next 1-6 months. The unemployment rate among Black Americans has surged to 7.2%, the highest since the pandemic, indicating potential economic strain as this demographic often experiences job losses first during downturns (1443EJVX4). This increase follows a broader trend of declining job gains, with U.S. employers adding only 73,000 jobs in July, significantly below expectations (1443EJVX4). Economists warn that rising unemployment among Black workers could signal deeper issues in the labor market, exacerbated by federal job cuts and economic uncertainty stemming from Trump's aggressive trade policies and immigration crackdown (1443EJVX4). The Trump administration's recent directive to delete federal employees' COVID vaccination records reflects a broader effort to reverse pandemic-era policies, which may further destabilize the labor market (N9A7MEOD2). This move, coupled with the administration's push to eliminate diversity, equity, and inclusion (DEI) programs, could create an antagonistic environment for Black workers, who historically benefit from such initiatives (1443EJVX4). The potential for increased unemployment among this demographic could lead to a contraction in consumer spending, impacting overall economic growth.

On the political front, Trump's maximalist approach to governance is manifesting in various sectors, including education, banking, and voting, as he seeks to consolidate power and reshape institutional frameworks to favor Republican interests (9JYRMPXB0). His administration's redistricting efforts in Texas aim to secure additional Republican seats in Congress, which could have significant implications for the 2026 midterms and Trump's political future (1443EJVX4). The ongoing battle over redistricting highlights the contentious political climate, with both parties gearing up for a fierce struggle over control of Congress. Key risks to this scenario include potential backlash from voters disillusioned by rising unemployment and economic instability, which could shift political dynamics away from Trump and the Republicans (1443EJVX4). Additionally, any significant deterioration in economic conditions, such as a recession, could further exacerbate unemployment rates and consumer sentiment, leading to a more pronounced economic downturn (1443EJVX4). The Federal Reserve's response to these developments will also be crucial; current indications suggest a cautious approach to interest rate cuts, with the Fed likely to wait for clearer signals from the labor market and inflation data before making any moves (1443EJVX4).

In conclusion, the base case anticipates a challenging economic environment characterized by rising unemployment, particularly among Black Americans, and political maneuvering that could reshape the congressional landscape. Key risks include economic deterioration and voter backlash against the current administration's policies. Signals to watch include labor market data, consumer sentiment indicators, and developments in the ongoing redistricting battles, which could provide insights into the political and economic trajectory over the coming months. Confidence in this outlook

is moderate, given the interplay of political and economic factors that could shift rapidly.

## **Current Analysis**

In the coming weeks, the geopolitical landscape surrounding U.S.-Russia relations is poised for significant volatility, primarily driven by the potential for a bilateral meeting between President Donald Trump and President Vladimir Putin. This meeting could occur without the presence of Ukrainian President Volodymyr Zelensky, raising concerns about possible U.S. concessions to Russia that may undermine Ukraine's position in the ongoing conflict (K8PPBLI93). Analysts suggest that such a scenario aligns with Russia's strategic interests, allowing them to influence U.S. policy without Ukrainian or European input, which could lead to a shift in the dynamics of the conflict (K8PPBLI93). The immediate catalyst for this situation is the deadline set by Trump for Putin to agree to a ceasefire, which has now passed without any indication from the Kremlin of compliance (K8PPBLI93). The lack of a truce announcement raises the stakes for the upcoming discussions, as Trump has expressed disappointment with Putin's behavior while leaving the door open for further penalties against Russia, although specifics on these penalties remain unclear (K8PPBLI93). This uncertainty creates a precarious environment where the U.S. may be perceived as willing to negotiate terms that could favor Russia, particularly if Trump seeks to establish a personal rapport with Putin, potentially at the expense of broader geopolitical stability (K8PPBLI93).

Key levels to monitor include energy prices, particularly crude oil, which have shown sensitivity to geopolitical developments. A failure to secure a ceasefire or any perceived concessions could lead to increased volatility in energy markets, especially if prices breach critical thresholds, such as \$80 per barrel, which could signal a shift in investor sentiment (K8PPBLI93). The invalidation of this scenario would occur if a clear and firm stance is taken by the U.S. that prioritizes Ukraine's interests, which would likely stabilize market sentiment (K8PPBLI93). In terms of market dynamics, the positioning of investors will be crucial. If traders perceive that the U.S. is capitulating to Russian demands, we could see a sell-off in assets tied to geopolitical stability, while a robust response could bolster confidence in U.S. leadership and support for Ukraine (K8PPBLI93). The reaction function will hinge on the tone and content of the discussions between Trump and Putin, as well as any subsequent actions taken by the U.S. government.

The base case anticipates that the U.S. will maintain a cautious approach, balancing diplomatic engagement with a commitment to supporting Ukraine. Key risks include a miscalculation by either side that leads to escalated tensions, a failure to reach any meaningful agreements during the meeting, and the potential for domestic political pressures to influence U.S. foreign policy decisions. What to watch next includes any official announcements regarding the meeting, the responses from Ukraine and European allies, and market reactions to these developments. Confidence in this analysis is moderate, given the unpredictable nature of geopolitical negotiations and the complex interplay of international relations at play (K8PPBLI93).