

Target change for the EUR/USD



EUR/USD Target change to 1.20

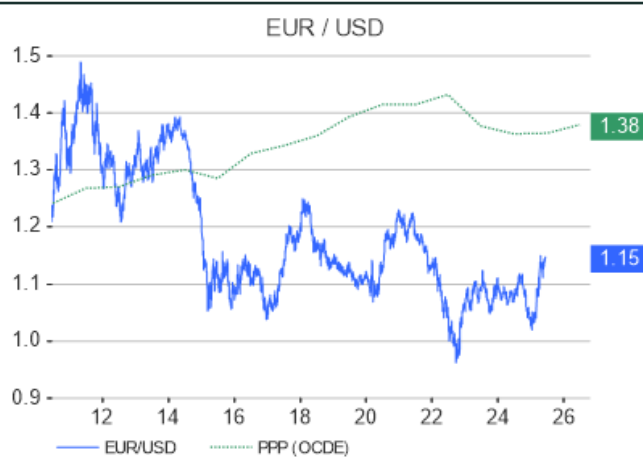
We believe that capital is starting to be reallocated away from US assets, a trend that would not be reversed by tariff de-escalation. Two recent developments support the bearish view of the USD. Firstly, Section 899 of Trump's tax and spending bill refers to the potential taxation of 20% of foreign investors' holdings of US stocks and bonds from countries that supposedly impose unfair tax policies on the US. Secondly, ongoing fiscal pressure could affect the appetite of the US Treasury, as the deficit will widen due to developments regarding the TCJA extension and other tax bill changes, as well as further spending. Regarding central banks, we continue to expect the Fed to cut rates in September and December, followed by two further cuts in H1 2026, leading to a terminal rate of 3.5%. As for the ECB, we still expect one more rate cut this year, which would take the terminal rate to 1.75%. Furthermore, we continue to believe that the unwinding of US exceptionalism and the growing risk of a deterioration in the US economic outlook are also limiting demand for US assets. **Taking these factors into account, we have changed our 3-month target to 1.15 and our 12-month target to 1.20 (the value of one EUR).**

Medium-term drivers

In the medium term, the key driver will remain the Purchasing Power Parity (PPP). This measures the exchange rate that equalises the price of a representative basket of goods when calculated in dollars.

The estimated long-term fair value for one euro ("Purchasing Power Parity" or PPP) provided by the OECD is around 1.38 dollars (based on Germany's figures). Deviations from PPP can, however, be seen over a long period. Some academic studies suggest that a more relevant approach would be the so-called notion of half-life*. According to Craig (2005) *"a half-life" represents the amount of time that elapses before a discrepancy between the PPP level and the current exchange rate is half its current size'*. He found that for large differences, this period could be around 12 to 18 months. Currently, the notion of half-life suggests a fair value of one euro of around 1.26.

EURUSD LONG-TERM FAIR VALUE



Source: LSEG Datastream, 12/08/2025

* See B. Craig (2005) "The Growing Significance of Purchasing Power Parity", Federal Reserve Bank of Cleveland, Economic Commentary.

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FX forecast tables

	Country	Spot 09/06/2025	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD 1.14	Neutral	1.15	Negative	1.20
	United Kingdom	EUR / GBP 0.84	Neutral	0.85	Negative	0.87
	Japan	EUR / JPY 164.98	Neutral	167	Neutral	168
	Switzerland	EUR / CHF 0.94	Neutral	0.94	Neutral	0.94
	Australia	EUR / AUD 1.75	Neutral	1.74	Negative	1.88
	New-Zealand	EUR / NZD 1.89	Neutral	1.92	Negative	2.00
	Canada	EUR / CAD 1.56	Negative	1.61	Negative	1.68
	Sweden	EUR / SEK 10.96	Neutral	11.00	Positive	10.70
	Norway	EUR / NOK 11.48	Neutral	11.60	Neutral	11.30
Asia	China	EUR / CNY 8.20	Neutral	8.28	Negative	8.64
	India	EUR / INR 97.71	Negative	101.20	Negative	105.60
Latam	Brazil	EUR / BRL 6.37	Negative	6.67	Negative	7.20
	Mexico	EUR / MXN 21.76	Negative	23.00	Negative	24.00

	Country	Spot 09/06/2025	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD 1.14	Neutral	1.15	Positive	1.20
	United Kingdom	GBP / USD 1.35	Neutral	1.35	Neutral	1.38
	Japan	USD / JPY 144.61	Neutral	145.00	Positive	140.00
	Switzerland	USD / CHF 0.82	Neutral	0.82	Positive	0.78
	Australia	AUD / USD 0.65	Neutral	0.66	Neutral	0.64
	New-Zealand	NZD / USD 0.60	Neutral	0.60	Neutral	0.60
	Canada	USD / CAD 1.37	Negative	1.40	Negative	1.40
Asia	China	USD / CNY 7.18	Neutral	7.20	Neutral	7.20
	India	USD / INR 85.65	Negative	88.00	Negative	88.00
Latam	Brazil	USD / BRL 5.59	Negative	5.80	Negative	6.00
	Mexico	USD / MXN 19.08	Negative	20.00	Negative	20.00
EMEA	South Africa	USD / ZAR 17.71	Neutral	18.00	Neutral	17.50
	USD Index	DXY 98.94	Neutral	98.83	Negative	95.33

Source: BNP Paribas, Refinitiv Datastream. As at 10 June 2025

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