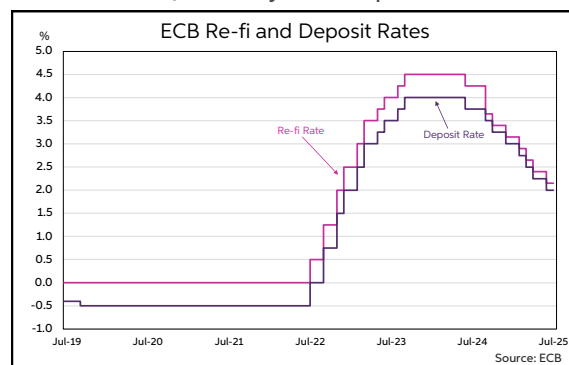


## It takes two to tango

- **Assessing the currency market action amongst the majors over the first half of 2025, the most notable mover has been EUR/USD, which is the world's most transacted forex pair.** It is up by over 10% from where it commenced 2025. This represents quite a turnaround for the euro after a weak start to the year, when EUR/USD fell to a low of \$1.015 in February. As the months progressed though, the single currency saw quite a reversal of fortunes against the dollar. However, this had more to do with weakness on the part of the dollar rather than any standout euro strength.
- **From a dollar perspective, the currency started to come under sustained downward pressure from early March onwards.** There were a number of factors that came together to put the greenback on the defensive. Towards the end of Q1, amid the impending announcement of tariffs (in early April) and concerns over the precarious fiscal position for the world's largest economy, the previous optimism on the US economic outlook turned to pessimism. This, coupled with increasing tensions between the White House and Fed over the timing of rate cuts weighed heavily on the dollar. EUR/USD finished H1 above the \$1.18 threshold, trading to a 4-year high of \$1.1829. Over recent weeks though, the dollar has regained some ground. This has been against the backdrop of better-than-expected US macro data, including for the labour market (albeit the underlying payroll details were not as strong as the headline metric suggested), and signs in the latest CPI numbers of some tariff related upward pressure on inflation, resulting in a firming in US rate expectations. The EUR/USD pair has tested back below the \$1.16 handle. It may also be the case that given dollar positioning was stretched extreme short, the better than anticipated US macro news has prompted some reversal of these positions, and in turn provided a support to the greenback.
- **Dollar volatility is likely to remain a feature over the coming months.** We saw a stark example of that last Wednesday. Speculation over Fed Chair Powell's position saw EUR/USD surge up from \$1.156 to \$1.17 and back down below \$1.16 within a short space of time. President Trump is likely to continue to deploy a strategy of 'talking down' US rates until the Fed resumes its cutting cycle. This on-going conflict remains a source of instability for the dollar, as does the raft of on-going trade negotiations, including the US/EU talks. If the current resilience in the US macro data starts to wane, this could put the dollar on the defensive again and push EUR/USD back up along \$1.16-1.18 territory. This is still a relatively solid position for the dollar versus the euro though. The pair has not traded consistently above the \$1.20 level since 2014. To sustain a break above this mark, will likely require a combination of dollar weakness and some outright euro strength. From a euro viewpoint, political risks remain bubbling just below the surface. This includes the French minority government facing an uphill struggle to pass a Budget this autumn, while we have seen signs of tension emerge in Germany's new coalition. Overall, though, assessing the respective economic growth trajectories (Eurozone modestly picking up, US slowing) and monetary policy outlook, we lean towards EUR/USD resuming its uptrend over the remainder of the year, although a sustained break above \$1.20 may be a step too far for now.
- **In terms of monetary policy, the main highlight this week will be the ECB meeting.** The ECB has cut rates by 25bps at each of its first four meetings this year, and by 200bps this cycle, bringing the Deposit rate down to 2%. However, in June, President Lagarde noted that the ECB was drawing to the end of its easing cycle, albeit while emphasising that it will continue to take a "data-dependent" and "meeting-by-meeting" approach to setting policy. Since then, Governing Council officials, including the influential Schnabel, have suggested that the cutting phase may have ended. In contrast, other officials have voiced concern that potential 30% tariffs on exports to the US, and the recent appreciation of the euro may act as headwinds to the economy, which could warrant further easing. **In any case, markets are of the view that the ECB will leave rates on hold this week.** Further out though, expectations are for one more rate cut this year, albeit it is not fully priced-in until December. Thus, investors will be paying close attention to the meeting statement and to the press conference for any guidance on the path of policy.
- **Data-wise, the flash PMIs for July are due.** In the Eurozone, the services sector has outperformed manufacturing so far this year. This trend is set to continue, as both of the PMIs are expected to edge slightly higher, albeit with manufacturing remaining below the key 50 threshold. Similarly in the UK, the services sector has been firmly in expansion territory recently, whereas manufacturing has been declining. Both surveys are forecast to improve at the start of H2, although as in the Eurozone, manufacturing is projected to stay below 50. In the US, both of the PMIs surveys have been solid in recent months. Furthermore, this is expected to remain the case in July, as the PMIs are forecast to be little changed.
- **Elsewhere, a slew of important national surveys (German Ifo, French INSEE, Italian ISTAT) for July will be released in the Eurozone.** Meanwhile, UK retail sales are forecast to rebound modestly (+1.2%) in June, having fallen sharply (-2.7%) in May.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2025	2025	2026
Fed Funds	4.375	4.125	3.875	3.625
ECB Deposit	2.00	2.00	2.00	2.00
BoE Repo	4.25	4.00	3.75	3.50
BoJ OCR	0.50	0.50	0.75	0.75

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q3	End Q4	End Q1
		2025	2025	2026
EUR/USD	1.1656	1.18	1.19	1.20
EUR/GBP	0.8662	0.86	0.85	0.84
EUR/JPY	172.96	170	170	168
GBP/USD	1.3451	1.37	1.40	1.43
USD/JPY	148.38	144	143	140

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)		Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>		Cipollone (Mon)		
	<b>BoE Speakers:</b>		<b>Bailey</b> (Tue)		
	<b>Fed Speakers:</b>		<b>Powell</b> (Tue)		
<b>Mon 21st</b>					
<b>Tue 22nd</b>					
<b>Wed 23rd</b>	<b>SPA:</b>	08:00	Overnight Stays (June)	Jun'24: 38.2m	
	<b>EU-20:</b>	15:00	Flash Consumer Confidence (July)	-15.3	-15.0
	<b>US:</b>	15:00	Existing Home Sales (June)	4.0m / +0.8%	4.0m / -0.7 %
<b>Thu 24th</b>	<b>JPN:</b>	01:30	Flash Jibun Bank Composite PMI (July)	51.4	
	<b>GER:</b>	07:00	Gfk Consumer Sentiment (August)	-20.3	-19.0
	<b>FRA:</b>	07:45	INSEE Business Climate (July)	96.0	97.0
	<b>SPA:</b>	08:00	Unemployment Rate (Q2)	11.4%	
	<b>FRA:</b>	08:15	Flash HCOB Composite PMI (July)	49.2	49.3
	<b>GER:</b>	08:30	Flash HCOB Composite PMI (July)	50.4	50.7
	<b>EU-20:</b>	09:00	Flash HCOB Composite PMI (July)	50.6	50.8
			- Manufacturing / Services	49.5 / 50.5	49.8 / 50.8
	<b>UK:</b>	09:30	Flash S&P Composite PMI (July)	52.0	51.9
			- Manufacturing / Services	47.7 / 52.8	48.0 / 53.0
	<b>IRE:</b>	<b>11:00</b>	<b>New Dwelling Completions (Q2: 2025)</b>	<b>Q2'2024: 6,829</b>	
	<b>EU-20:</b>	13:15	ECB Policy Rate Decision		
			-Deposit rate	2.0%	2.0%
			-Re-fi rate	2.15%	2.15%
	<b>US:</b>	13:30	Initial Jobless Claims (w/e 14th July)	+221,000	
	<b>EU-20:</b>	13:45	ECB Post-meeting Press Conference		
	<b>US:</b>	14:45	Flash S&P Composite PMI (July)	52.9	52.8
			- Manufacturing / Services	52.9 / 52.9	52.5 / 53.0
	<b>US:</b>	15:00	New Home Sales (June)	+0.62m / -13.7%	+0.65m / +4.3%
<b>Fri 25th</b>	<b>UK:</b>	00:01	Gfk Consumer Confidence (July)	-18.0	-20.0
	<b>JPN:</b>	00:30	Tokyo CPI (July)	(+3.1%)	(+3.0%)
	<b>UK:</b>	07:00	Retail Sales (June)	-2.7% (-1.3%)	+1.2% (+1.8%)
			- Ex-Fuel	+2.8% (-1.3%)	+1.3% (+1.8%)
	<b>FRA:</b>	07:45	INSEE Consumer Confidence (July)	88.0	88.0
	<b>EU-20:</b>	09:00	M3 Annual Money Growth (June)	(+3.9%)	(+3.7%)
			- Loans to Households	(+2.0%)	
	<b>ITA:</b>	09:00	ISTAT Consumer Confidence (July)	96.1	
	<b>ITA:</b>	09:00	ISTAT Business Confidence (July)	87.3	87.7
	<b>GER:</b>	09:00	Ifo Business Climate Index (July)	88.4	89.2

♦ Month-on-month changes (year-on-year shown in brackets)

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