

FX Alpha

Buy EUR/USD targeting 1.15

Key takeaways

- We buy EUR-USD via spot (current spot: 1.1061), targeting 1.15, with stop/loss 1.0750
- Tariff pause good but some damage to USD is done. Europe has started hedging its US exposure
- Risks: back to US exceptionalism, Europe failing to step up and reform itself

The trade

We buy EUR-USD via spot (current spot: 1.1061), targeting 1.15, with stop/loss 1.0750.

Tariff pause good but some damage to USD is done

Yesterday's developments were welcomed by markets, but our bearish USD view remains. Even with the worst-case tariffs seemingly avoided, a blanket 10% across the board still projects stagflationary impulses on the US economy, and the US and China (a massive holder of USD/USTs) remain in an escalating trade war. The de-dollarization theme should continue, albeit with a less luminous spotlight upon it for now (see our report: [USD FAQ: Tariff pause, but the damage is done 10 Apr '25](#)). We find noteworthy the "fragile" or shifting USD correlation to rates (Exhibit 1) and to equities (see our reports: [Rhyming FX correlations 8 Apr '25](#) and: [USD & S&P – The times they are a changin' 20 Mar '25](#)). And while in our view the Fed may be slightly relieved, they remain in a difficult spot: holding rates steady for now could still mean deeper cuts later.

Europe has started hedging more its US exposure

EUR's resilience post-"Liberation Day" suggests an improved market image. Blanket US tariffs are bad for Europe but worse for the US. We see upside EUR risks from (1) progress on the EU capital markets union (Letta report); (2) reforms to boost the EU competitiveness and lower internal trade barriers (Draghi report); (3) EU pushing for enhanced trade agreements with the rest of the world. Meanwhile, we think markets have not appreciated enough the German fiscal package (the fast German coalition agreement was also a small plus), and we see upside risks to our already bullish base case from (1) more EU spending closer to the June NATO summit and the June EU Summit and (2) the new German government front-loading some of the spending and/or triggering the escape clause, not least in response to US tariffs. We will also continue monitoring the European Asset Managers' asset allocations and potential adjustments to their hedge ratios (see Exhibit 2 in our report: [EUR in a less USD world 9 Apr '25](#)).

Risks: return of US exceptionalism, Europe not stepping up

The main risk to this trade is a return of the "US exceptionalism" theme – solid US growth-outperformance amid a resilient US consumer and contained inflation risks. On the Europe side of things, failure of Europe to step up and to reform itself.

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Currency Strategy
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For a complete list of open closed trades over the past year, please see [Global FX weekly: The USD has stopped smiling 4 Apr '25](#)

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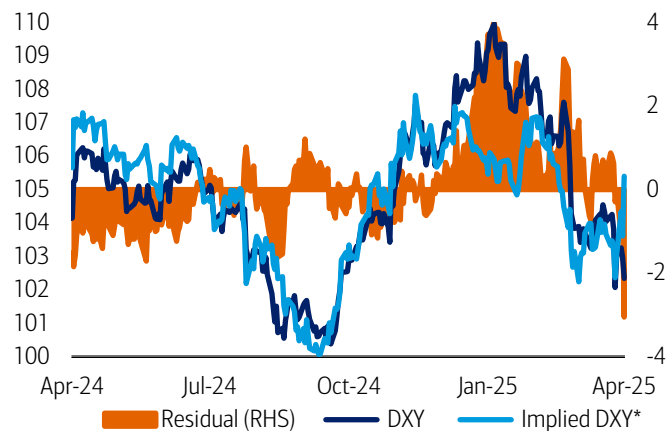
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Exhibit 1: USD still showing roughly 3% negative risk premia to rates; biggest over the past year

DXY & Implied DXY based on weighted 2y rate differentials

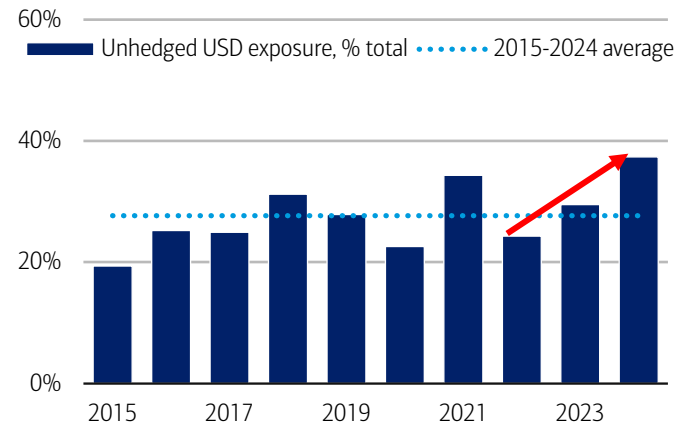


Source: Bloomberg; BofA Global Research

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Exhibit 2: Rising USD exposure for Danish asset managers into '25

Unhedged USD exposure of Danish insurance and pension funds



Source: Danmarks Nationalbank, BofA Global Research.

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