

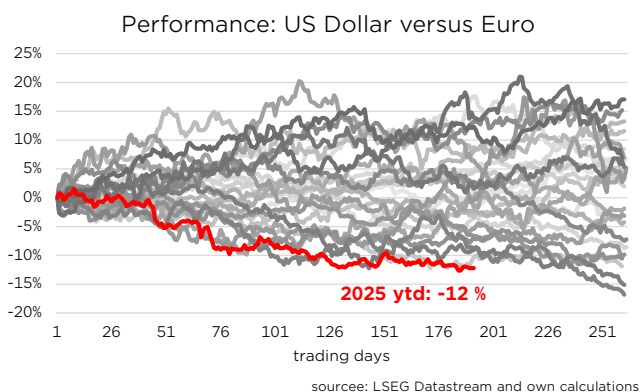
Economic Situation and Strategy

26 September 2025

Will the US dollar remain under pressure or will the trend reverse?

The year 2025 has so far been characterized by extremely poor performance of the US dollar. Since the beginning of the year, the US dollar has lost more than twelve percent of its value against the euro – a magnitude rarely seen in recent decades (see figure).

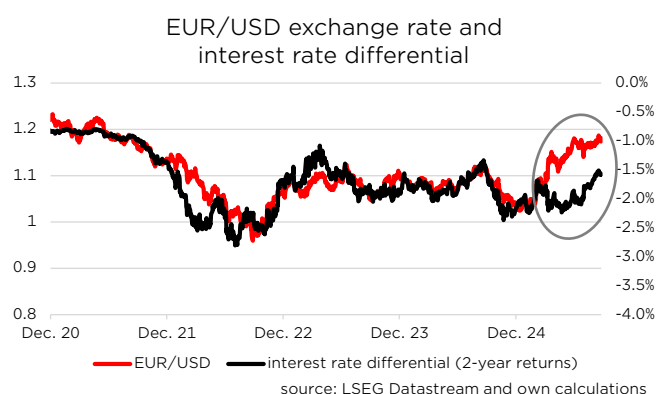
For investors in the Eurozone, this sharp depreciation of the US dollar has had unpleasant consequences: US investments lose value when the dollar weakens as soon as the returns are converted into euros. This is clearly demonstrated by the S&P 500 Index: While the US stock index, calculated in US dollars, has achieved a gain of 14 percent since the beginning of the year, a euro investor has only achieved a gain of 0.5 percent over the same period. Despite the positive share price momentum of many US companies, this increase in value has barely reached European investors.



The reasons for the depreciation of the US dollar this year are complex, but can essentially be traced back to emotional factors and a noticeable loss of confidence in the greenback. Donald Trump's erratic political style, his

attacks on the rule of law, and his attacks on the independence of the US Federal Reserve unsettled many investors.

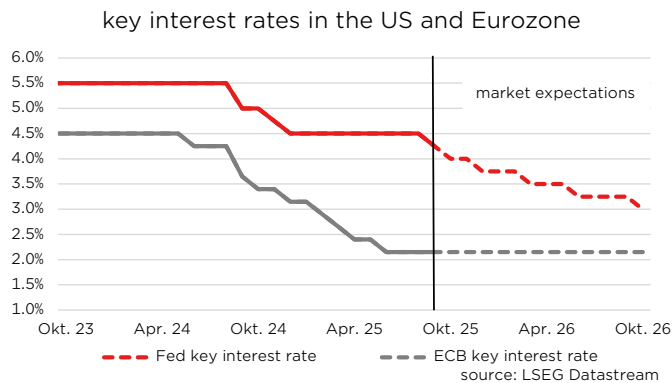
Fundamentally, the weakness of the US dollar this year is difficult to explain. A key indicator of exchange rate developments is the interest rate differential between the US and the Eurozone, measured, for example, by the yield spread on two-year government bonds. Historically, there has been a close correlation (see figure): When interest rates in the Eurozone become more attractive, demand for the euro increases, and the common currency appreciates. Since the beginning of the year, however, this fundamental correlation has only been limited: the euro has gained in value, even though the interest rate differential actually suggests a stronger US dollar. In our view, this suggests an exaggeration in the foreign exchange market.



What happens next?

In September 2025, the US Federal Reserve cut its key interest rate for the first time this year. The trigger for this change in monetary policy was, in particular, weaker labor market data, which justified a less restrictive monetary policy stance, even though the inflation rate in

the US remains above the target. The market is pricing in two additional interest rate cuts by the Fed over the course of the year and even three more by the end of next year. This would lower the US Federal Reserve's target range for the key interest rate to 2.75 to 3.00 percent. For the Eurozone, however, the futures markets are not signaling any further monetary easing. This means that the interest rate differential between the US and the Eurozone is likely to narrow further – a factor that fundamentally favors a weaker US dollar.



However, in our opinion, this development is already priced in. A further depreciation of the US dollar would require either a surprise reversal by the ECB or even more significant interest rate cuts by the Fed. Additional easing measures by the Fed, in turn, require a further slowdown in the labor market and a slowdown in inflation. However, the price components in the purchasing managers' indices point to further price pressure, and the risk of inflation has not yet been averted against the backdrop of US import tariffs. The priced-in interest rate cut path could therefore prove to be too ambitious.

Furthermore, the latest interest rate projections by the FOMC members ("dot plots") point to only three further interest rate cuts by the end of 2026 (target range: 3.25 to 3.5 percent). At the same time, the central bankers raised their forecasts for US growth and inflation for 2026, and the unemployment rate is even expected to decline slightly next year. This underscores our expectation that the US Federal Reserve will have less scope for interest rate cuts than the market assumes.

What scenarios exist?

Given the current monetary policy and economic conditions, we consider a significant appreciation of the greenback unlikely. This scenario would only be plausible if US inflation rises significantly and the Fed is forced to raise interest rates again.

At the other end of the spectrum is a sharp depreciation of the US dollar. In our view, this scenario is only realistic if the independence of the US Federal Reserve is undermined by massive political influence. However, this extreme scenario is not our base case, as the institutional hurdles for such a development remain high.

We consider strong exchange rate fluctuations unlikely for the remainder of the year and, in our base case, expect a moderate appreciation of the US dollar to EUR/USD 1.15.

What insights does technical analysis provide?

The EUR/USD currency pair has continued to trade in a moderately downward trend channel since its all-time high of 1.255 in February 2018. The upper edge of this channel currently sits at approximately 1.2050, where it encounters significant horizontal resistance in the form of the all-time low from July 2012. This convergence forms a significant cross-resistance, making life difficult for the euro in the area around 1.2050.

Following the dynamic rise from the lower edge of the trend channel at the beginning of the year at 1.0142 to an interim high of 1.183, a consolidation in the form of a classic flag began at the end of June. From a technical perspective, after the completion of this move and taking into account the 50 percent Fibonacci retracement, a potential correction target of 1.10 appears. Shortly after the US Federal Reserve's latest interest rate decision, the flag formation was briefly broken upwards, setting a new high at 1.1918, but the hoped-for follow-on momentum failed to materialize. The potential derived from the flag, which would have enabled a rapid rise to the 1.22 range, was not realized. Instead, the price fell back into the flag formation – a short-term exaggeration not uncommon on days of central bank decisions.

The most important trend-following indicators are also currently not providing clear buy signals. The Relative Strength Index (RSI) remained below its June high, while the MACD, on a weekly basis, continues to show a sell signal at its highest level since 2017. Furthermore, speculative USD short positions have recently declined significantly – dollar bears are slowly losing courage, which suggests a weakening selling momentum in the US dollar.

Even in the event of a short-term upside breakout above the trend channel, numerous former highs and reversal points in the range between 1.23 and 1.25 serve as further

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resistance, limiting the residual risk of a sustained rise to around six percent. On the downside, after the failed breakout from the flag, a retracement to the weekly 38 EMA at 1.136 or even the 50 percent Fibonacci retracement at 1.10 is possible at any time, which corresponds to a recovery opportunity of around seven percent from a euro investor's perspective.

Overall, the technical picture remains neutral to slightly negative for a further weakening of the dollar. The intact downtrend channel limits the euro's upside potential, while the recent recovery has stalled. Only a sustained breakout above 1.2050 would significantly brighten the

chart picture. Until then, a continuation of the consolidation is expected, with major impetus coming primarily from monetary policy surprises or significant movements in the bond markets.

Fundamental analysis: Nils Essmann and Simon Landt

Chart analysis: Nils Theilfarth



source: LSEG

Market data

Stock marktes	As of	Change versus				
	26.09.2025 07:51	19.09.2025 -1 week	25.08.2025 -1 month	25.06.2025 -3 months	25.09.2024 -1 year	31.12.2024 YTD
Dow Jones	45947	-0,8%	1,5%	6,9%	9,6%	8,0%
S&P 500	6660	-0,1%	3,4%	9,3%	16,4%	13,2%
Nasdaq	22385	-1,1%	4,4%	12,1%	23,8%	15,9%
DAX	23535	-0,4%	-3,0%	0,2%	24,4%	18,2%
MDAX	30035	-0,5%	-3,3%	0,4%	14,1%	17,4%
TecDAX	3612	-0,6%	-4,2%	-5,1%	9,5%	5,7%
EuroStoxx 50	5445	-0,2%	0,0%	3,7%	10,7%	11,2%
Stoxx 50	4569	-0,6%	-0,8%	3,1%	3,2%	6,1%
SMI (Swiss Market Index)	11876	-1,9%	-2,7%	0,0%	-2,2%	2,4%
Nikkei 225	45755	1,6%	6,9%	17,5%	20,8%	14,7%
Brasilien BOVESPA	145306	-0,4%	5,3%	7,0%	10,4%	20,8%
Indien BSE 30	80766	-2,3%	-1,1%	-2,4%	-5,2%	3,4%
China CSI 300	4578	1,7%	2,4%	15,6%	34,6%	16,3%
MSCI Welt	4252	-1,0%	1,9%	7,7%	15,1%	14,7%
MSCI Emerging Markets	1344	0,2%	4,5%	10,1%	18,2%	25,0%
Bond markets						
Bund-Future	128,00	-18	-99	-246	-644	-544
Bobl-Future	117,51	-18	40	-24	-228	-35
Schatz-Future	106,94	-3	-6	-33	-15	-5
3 Monats Euribor	1,99	-2	-3	0	-136	-72
3M Euribor Future, Dec 2025	2,02	0	6	22	16	12
3 Monats \$ Libor	4,04	1	-25	-34	-65	-33
10 year US Treasuries	4,18	8	-8	-9	40	-39
10 year Bunds	2,77	6	5	21	65	40
10 year JGB	1,66	2	5	26	84	57
10 year Swiss Government	0,24	-1	-12	-18	-25	-3
US Treas 10Y Performance	631,44	-0,3%	1,2%	2,1%	1,4%	6,7%
Bund 10Y Performance	557,95	-0,2%	0,1%	-0,8%	-2,1%	-1,2%
REX Performance Index	457,60	0,1%	0,0%	-0,4%	0,5%	1,1%
IBOXX AA, €	3,16	2	-1	6	15	12
IBOXX BBB, €	3,45	2	-1	0	-7	-1
Commodities						
MG Base Metal Index	447,44	2,1%	4,9%	5,3%	3,6%	10,3%
Crude oil Brent	69,57	4,3%	2,7%	2,8%	-6,9%	-6,9%
Gold	3745,60	2,0%	11,0%	12,6%	40,8%	42,7%
Silver	32,54	0,0%	0,0%	0,0%	2,1%	9,6%
Aluminium	2656,40	-0,8%	1,1%	3,9%	5,5%	5,1%
Copper	10227,95	3,1%	5,2%	4,2%	5,7%	18,2%
Iron ore	105,54	0,1%	3,9%	11,7%	14,4%	1,9%
Freight rates Baltic Dry Index	2266	2,9%	16,6%	36,1%	12,4%	127,3%
Currencies						
EUR/ USD	1,1678	-0,5%	-0,2%	0,7%	4,3%	12,4%
EUR/ GBP	0,8744	0,3%	1,0%	2,5%	4,7%	5,8%
EUR/ JPY	174,80	0,6%	1,4%	3,4%	8,2%	7,2%
EUR/ CHF	0,9330	-0,1%	-0,6%	-0,3%	-1,7%	-0,9%
USD/ CNY	7,1323	0,2%	-0,3%	-0,6%	1,4%	-2,4%
USD/ JPY	149,80	1,2%	1,4%	3,1%	3,5%	-4,7%
USD/ GBP	0,75	1,0%	1,1%	2,0%	0,1%	-6,2%

Source: LSEG Datastream

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