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FX Focus: EURUSD – Rangebound to End-2026

The EURUSD spot has traded in a broad 1.13-20 range since April 2025. The pair's drivers have changed but the range looks likely to hold as long as oil prices remain elevated. The euro's vulnerabilities from the "higher oil prices for longer" theme allows scope for medium-term underperformance against energy producers such as Australia, Canada and Norway, as well as against the Yuan as Chinese policymakers continue to support gradual currency strengthening.

- Prior to April 2025, the euro (EUR) was sharply weaker against the U.S. Dollar with the spot almost touching parity, primarily due to diverging monetary policy, fears of U.S. trade tariffs, and political instability in the euro area.
- The European Central Bank (ECB) cut interest rates aggressively from mid-2024 to stimulate a sluggish economy by halving its deposit facility rate from 4 to 2% (a 200-basis point cut) over the ensuing 12 months, whereas the U.S. Federal Reserve (Fed) cut rates by just 100 bps from a high of 5.5% during the same period, thereby widening the yield gap against EUR. The prospect of sweeping trade tariffs on a heavily export reliant euro area economy from the incoming US administration also weighed on investor sentiment. There was also political instability from the ousting of the French minority government in a historic no-confidence vote and fractured coalition politics in Germany.
- But sentiment quickly turned 180 degrees in EUR's favor after April 2025 when the ECB signaled it was nearing the end of its easing cycle and markets believed U.S.-induced tariffs would likely hurt the U.S. economy more than the euro area, resulting in a loss of confidence in the USD. But the positive sentiment was somewhat tempered by warnings from ECB officials in July 2025 and January 2026 that levels above 1.20 for the currency pair may be problematic and force action.
- This shift to a moderately positive backdrop for EUR was also partly influenced by a coordinated boost to defense and infrastructure spending by the European Union (EU) in March 2025, in particular Germany's vote to overhaul strict fiscal constraints ("debt brake" rules) and approve a historic €500 billion fund to boost infrastructure.
- Fast forward to today and the drivers of EURUSD spot may have changed but the 1.13 – 20 range has not. The positive boost from euro area fiscal spending has largely been replaced by concerns about stagflation risks from higher oil prices caused by the Middle East conflict while expectations for faster rate hikes from the ECB versus the Fed have limited the downside in the pair.
- The euro area has a well diversified oil supply base with more than 40% imported from non-Gulf countries (U.S., Norway and Kazakhstan). But with imports constituting roughly 97% of its crude oil needs with no large-scale oil reserves, the economy is more vulnerable to a terms of trade shock and stagflation than the United States. The U.S. as a net energy exporter is more insulated to stagflation risks, while elevated oil prices translating to higher pump prices across Europe may lead to greater inflationary pressures and a sharper reduction in household spending. This poses a downside risk to EURUSD.
- In summary, safe haven inflows into USD due to the U.S.'s status as a net energy exporter, euro area's vulnerabilities to higher oil prices and ECB's warnings about levels above 1.20 in EURUSD spot likely being problematic make it difficult for the pair to sustainably rise above 1.20 as long as oil prices remain elevated.

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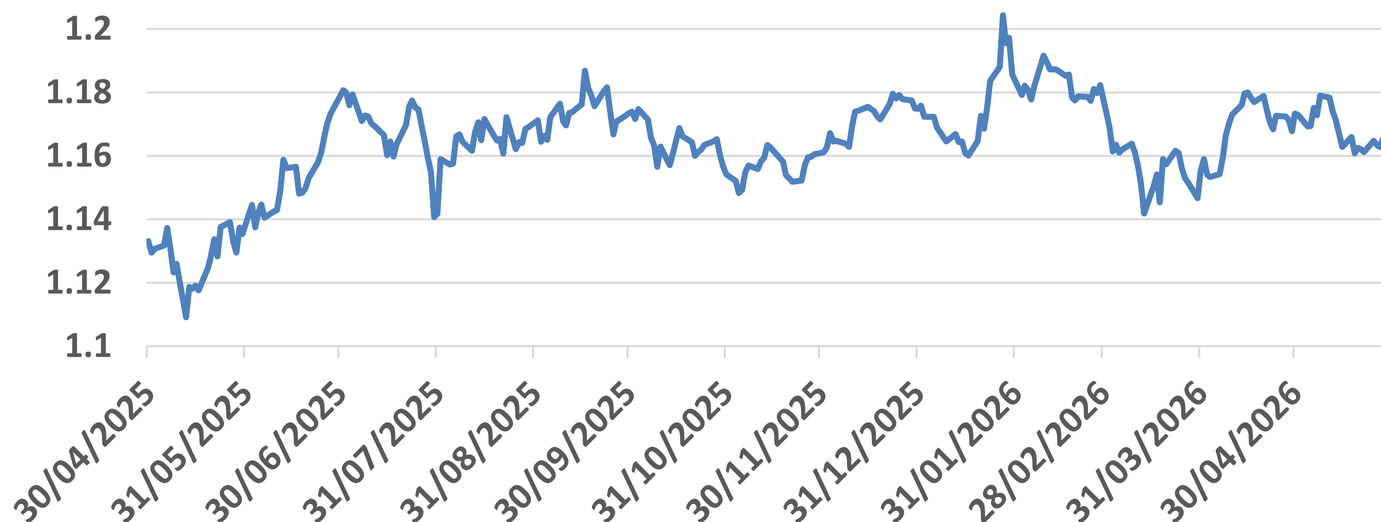
- But the downside in EURUSD spot also has limits with the 1.13/14 level offering strong support this year due to the strong credentials of the ECB in anchoring inflation expectations. Limits on the extent of downside risks facing EURUSD spot also come from longer-term USD headwinds: the U.S. fiscal deficit and trade policy uncertainty that are likely to reassert themselves once oil prices return to pre-conflict levels.

BOTTOM LINE: With investor positioning in EUR now more balanced, a broad 1.13-1.20 range looks likely to hold as long as oil prices remain elevated (possibly to year-end). Ultimately, expectations for renewed USD weakness will need to be balanced by the extent of stagnation faced by the euro area due to the higher energy prices and tighter financial conditions. Meanwhile, EUR's vulnerabilities from the "higher oil prices for longer" theme allows scope for further medium-term underperformance against Australia, Canada and Norway and their respective currencies. It also leaves the EUR underperforming against the Yuan as Chinese policymakers continue to support a gradual strengthening of their currency.

FIGURE 2: EURUSD spot has traded in a 1.13-1.20 range for the most part since April 2025



Source: Bloomberg, June 1, 2026. Past performance is no guarantee of future results. Real results may vary.

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