

## The depreciation of the dollar as the image of the change in context

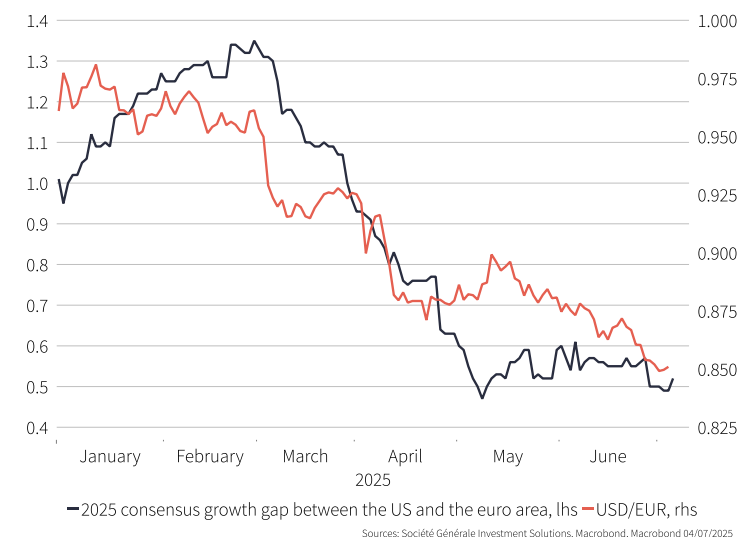
*While markets have been characterized by high volatility in the first part of the year, the main trend that emerges is the depreciation of the dollar. Indeed, the dollar fell by an average of 9% against developed currencies and by 6% against emerging currencies. This depreciation is primarily a reflection of a smaller expected growth gap between the United States and the rest of the world and the renewed attractiveness of real interest rates in other countries. Secondly, this depreciation also reflects the various fears about US economic policies that have led investors to increase their financial allocation to other regions. These elements should keep the dollar weak and also lead us to maintain our Underweight position on the dollar, against the major currencies*

**A particularly unfavourable Q1-25 for the dollar.** One of the main financial trends of the first half of the year is the sharp depreciation of the dollar. This depreciation is even more striking as it has taken place during episodes of equity market volatility (post-Liberation Day) and rising geopolitical tensions (Israel-Iran war), episodes that are generally favourable to the US currency. Thus, the EUR/USD parity reached a level of 1.17 at the end of June against a parity of 1.04 on January 1st, i.e. an appreciation of 12%. The CHF, JPY and GBP also rose against the dollar by 14%, 9% and 8% respectively. However, the weakness of the dollar is also visible against the main emerging currencies, with the Mexican peso appreciating by 10% against the dollar while effective tariffs on Mexican imports have increased significantly. In the same line, the Chinese yuan also appreciated against the dollar by 2% in a context where the tariff rate on Chinese imports increased to 30%.

**A rotation of macroeconomic factors behind macroeconomic depreciation.** One of the reasons behind this sharp depreciation of the dollar is the growth dynamic between the United States and the rest of the world. If the strength of the dollar in 2024 reflected the strength of US growth relative to the rest of the world, growth in 2025 plays the opposite role. Indeed, the outlook for US activity has deteriorated since the beginning of the year, with growth close to 3% at the end of 2024 and 1.5% in 2025, in the context of US economic policy uncertainty. However, growth prospects in the rest of the other major economies have remained stable, while the euro area is expected to grow close to 1% in 2025 and gradually accelerate in 2026 as part of the recovery plans. A second factor that explains the depreciation of the dollar against developed currencies is the tightening of real interest rate spreads. Indeed, in the euro area, real Bund rates reached 0.9%, their highest level since 2013 in a context of sharper disinflation and increased supply of German securities (still AAA rated) which keeps long-term interest rates high. However, in the United States, real rates have remained broadly stable since the beginning of the year, at 2%. This reduction in real interest rate differentials has been favourable to the euro since the beginning of the year.

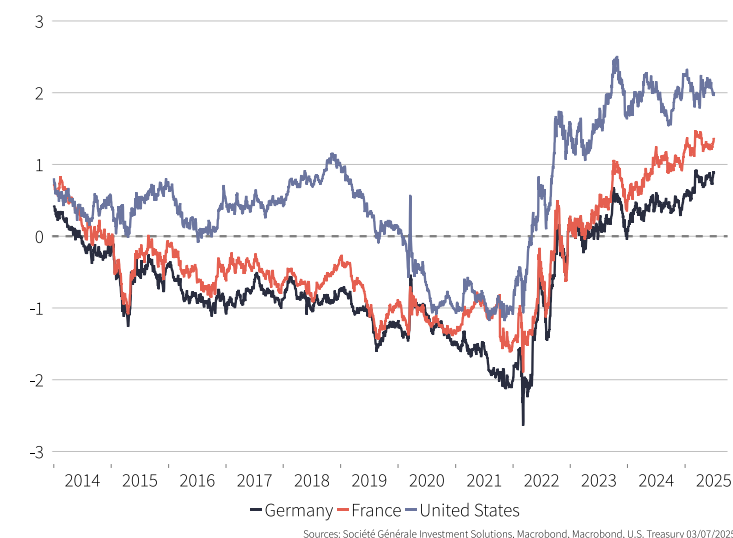
**Some structural factors also work against the dollar.** In addition to macroeconomic factors, the high uncertainties about the direction of US economic policy, particularly on the international side, are also contributing to the weakness of the dollar. Indeed, one of the Trump administration's objectives is to have a weaker dollar to reduce the trade deficit as well as to reduce the dollar's role as a reserve currency. As a result, investors are reportedly reducing their allocation of US assets in favour of other regions. Monthly capital flow data for April in the United States thus show a clear slowdown in inflows compared to the 2024 trend.

## EVOLUTION OF THE 2025 GROWTH FORECAST VARIANCES AND EXCHANGE RATES



## REAL SOVEREIGN INTEREST RATES

Nominal interest rate minus inflation hedges



Past performance is not a guarantee of future performance. All data is from Bloomberg, Macrobond as of 7/4/2025, completion date of this publication. In accordance with the regulations in force, we inform the reader that this document is qualified as a promotional document



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# OUR MACRO COMMENTS

## Last week's events

### United States: Congress adopts budget

The budget bill voted on July 3 extends significant reductions in household and corporate taxation implemented in 2017. On the spending side, the law specifically increases the defense and interior department budgets, while at the same time it provides for significant cuts in Medicaid, the public insurance system for Americans, as well as a reduction in tax credits decided under Biden in favor of renewable energy. The budget voted is expected to further deteriorate the public accounts, with a deficit expected to widen on average to 7% of GDP over the next few years according to the Congress Budgetary Office (CBO), and a debt that is expected to reach 115% of GDP in 2030.

### US unemployment remains at a low level

The labour market remains resilient. Indeed, the number of job creations in June amounted to 147 thousand positions, against 106 thousand expected by the consensus, and the unemployment rate decreased to 4.1% against 4.3% expected by the consensus. Incomes also remain on a good trajectory with growth of 3.7% year-on-year in June. This good performance of the labor market would push the Fed to maintain its cautious bias while the risk of a stronger rise in inflation is still high.

### Trade balance remains stable, effective tariff rate increases slightly

US imports in May remained at the same level as April, 15% lower than March, which was marked by frontloading. Importers therefore did not want to replenish stocks in view of the end of the suspension of tariffs scheduled for 9 July, thus showing moderate concern about an increased resumption of customs duties. At the same time, the average effective rate on US imports rose to 8.8% in May from 7% in April.

### Eurozone: Inflation hits 2% target in June

In the euro zone, the June inflation rate stabilised in Germany (2%) and Italy (1.7%), and increased slightly in Spain (2.2%) and France (0.8%). Inflation in the euro zone as a whole rose by 2% year-on-year in June, exactly the ECB's target. Core inflation, excluding energy and food, remained stable at 2.3%. Most of the inflation was driven by services. In this context of inflation control, the European Central Bank met in a forum in Portugal. In particular, it has slightly modified its inflation target. Until now, the target was set at 2% with a preference for a level of inflation slightly below the target rather than above. It now takes a symmetrical view, with a tolerance when inflation is slightly above or slightly below its target, to avoid overreacting to temporary movements.

### EVENTS AND KEY FIGURES TO COME

#### Monday

Euro area	Retail Sales (May)
Germany	Industrial production (May)

#### Tuesday

Germany	Trade balance (May)
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#### Wednesday

China	Inflation Rate (June)
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#### Friday

Euro area	Producer prices (May)
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#### Saturday

China	Trade balance (June)
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### EVENTS IN THE COMING MONTHS

9 July: End of the suspension of US tariffs

July: Announcements of the French government's budgetary guidelines

July: Potential vote on the US budget (possible postponement to September)

25 July: ECB monetary policy meeting

30 July: Fed monetary policy meeting

7 August: BoE monetary policy meeting

# MARKET PERFORMANCES

## Interbank rates

%	02/07/2025	04/06/2025	04/04/2025	01/01/2025	04/07/2024
US SOFR	4,326	4,31	4,34	4,53	5,34
Euro area €ster	1,923	2,17	2,42	2,91	3,66
UK SONIA	4,217	4,21	4,46	4,70	5,20
Switzerland SARON	-0,041	0,20	0,21	0,45	1,21
Japan TONAR	0,477	0,48	0,48	0,23	0,08

## 10Y Government rates

%	03/07/2025	04/06/2025	04/04/2025	01/01/2025	04/07/2024
US Treasuries	4,35	4,37	4,01	4,58	4,36
France OAT	3,28	3,20	3,31	3,18	3,24
Germany Bund	2,63	2,52	2,57	2,36	2,59
Italy BTP	3,45	3,48	3,76	3,52	4,00
Spain Bonos	3,16	3,11	3,26	3,06	3,35
Switzerland	0,41	0,24	0,39	0,32	0,65
UK Gilts	4,54	4,62	4,45	4,55	4,23
Japan JGB	1,43	1,48	1,36	1,08	1,05

## Credit

%	03/07/2025	04/06/2025	04/04/2025	01/01/2025	04/07/2024
United States IG	5,05	5,16	5,10	5,33	5,41
United States HY	6,95	7,41	8,30	7,49	7,92
Europe IG	3,26	3,36	3,56	3,44	3,99
Europe HY	5,51	5,58	6,39	5,70	6,67
Emerging FX	5,96	6,17	6,32	6,40	6,89

## Equity indices

03/07/2025 vs	-1w	-1m	-3m	01/01/2025	-1y
World	1,36	4,094	20,06	8,07	14,34
United States	1,89	5,395	24,53	7,18	15,92
Euro area	0,31	-0,405	14,21	14,74	15,52
France	0,90	-0,209	9,97	8,64	7,56
Germany	-0,31	-1,689	15,70	19,71	29,02
United Kingdom	0,19	0,577	11,35	9,96	12,36
Japan	-0,44	1,852	14,33	2,93	1,72
Emerging	0,76	4,693	11,20	11,47	13,79
China USD	-0,61	2,274	4,36	17,97	34,51
India USD	-0,15	4,143	13,62	5,37	2,06
Latin America USD	3,20	6,301	22,72	33,56	17,59

## Foreign exchange rates

	03/07/2025	04/06/2025	04/04/2025	01/01/2025	04/07/2024
EUR/USD	1,18	1,14	1,10	1,04	1,08
GBP/USD	1,36	1,36	1,29	1,25	1,28
EUR/CHF	0,94	0,94	0,94	0,94	0,97
USD/JPY	145,12	143,21	146,01	157,00	161,07
USD/CNY	7,17	7,20	7,28	7,30	7,27

## Commodity prices

	03/07/2025	04/06/2025	04/04/2025	01/01/2025	04/07/2024
Brent, USD/BL	69	65	66	75	88
Copper, USD/Metric ton	10 120	9 674	8 831	8 706	9 727
Gold, USD/Troy oz	3 326	3 373	3 037	2 606	2 357
Silver, USD/Troy oz	37	34	31	29	30
Palladium, USD/Troy oz	1 122	1 000	922	909	1 025
Platinum, USD/Troy oz	1 378	1 079	936	913	1 012

Source : Bloomberg on 4 July 2025, 1W = 1 week change, 3M = 3 month change, 12M = 12 mont change, YTD = year to date change, Equities; total return in local currency . Government bonds = 10 year returns. Figures are rounded..



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