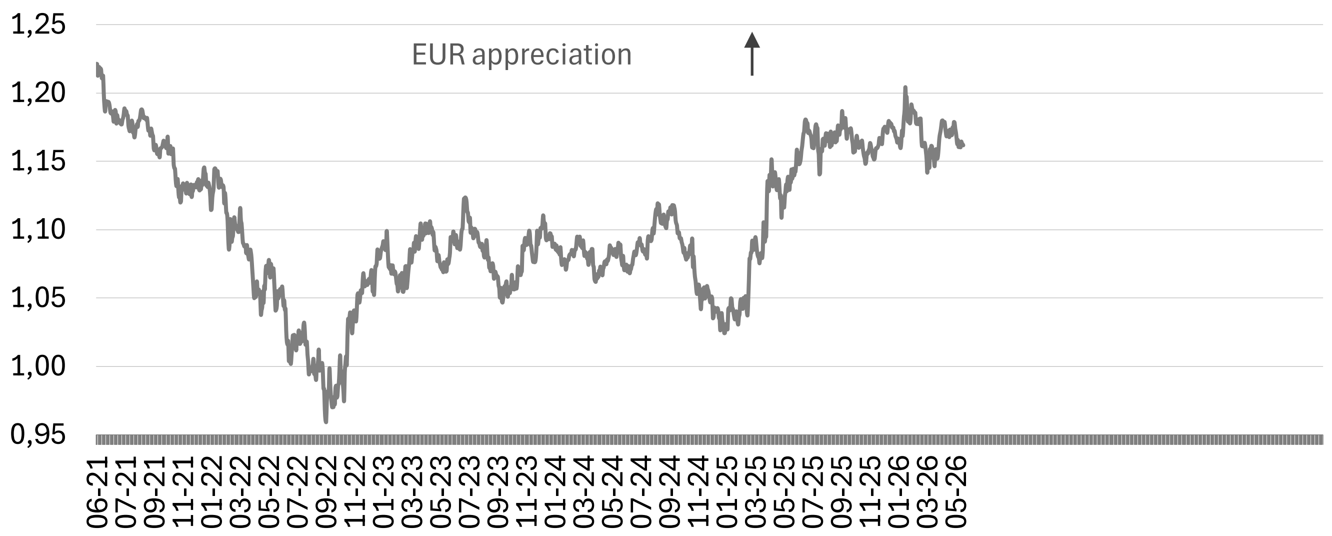
FX Flash: Euro/Dollar

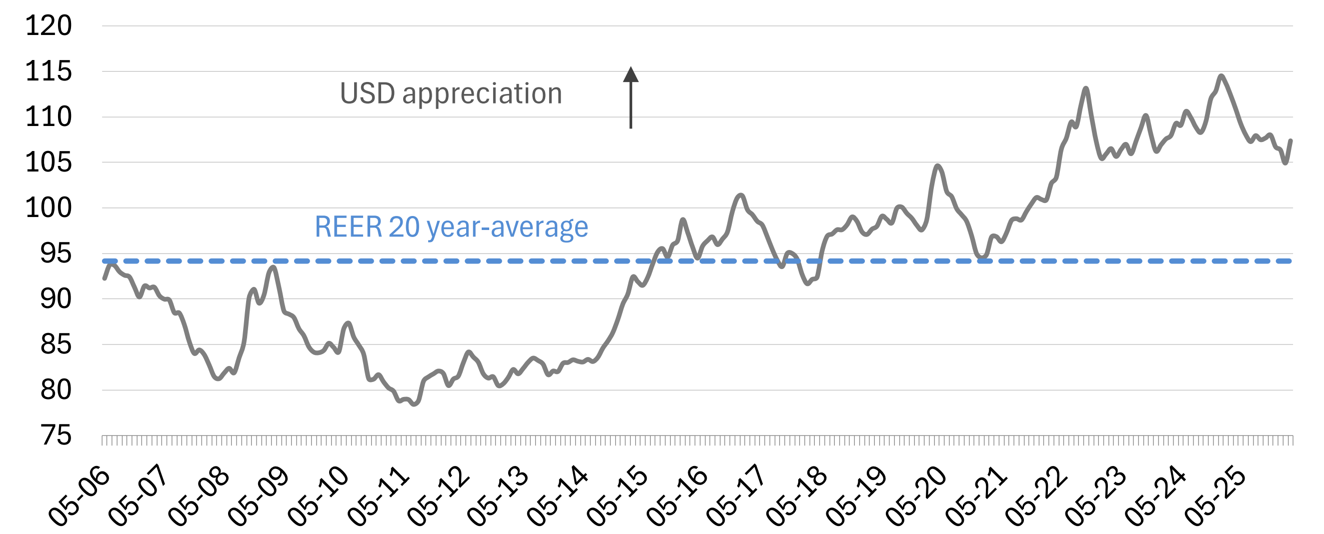
28-may-26

- EUR/USD has traded largely sideways since mid-2025, hovering around 1.17, after a year of elevated volatility. The currency pair appears to have stabilised between its long-term historical averages, around 1.12 (10-year average) and 1.22 dollars per euro (20-year average).
- The escalation of the conflict in Iran prompted a near 3% appreciation of the dollar, modest relative to moves in other asset classes. Based on historical relationships with oil prices, real rates and risk indicators, such a shock would normally be consistent with a stronger dollar and EUR/USD below 1.10. The muted response points to a weakening of these correlations, leaving fair value harder to pin down and more contingent on geopolitical outcomes.
- A de-escalation scenario, involving the reopening of the Strait of Hormuz, would likely trigger a correction in oil prices, ease inflation pressures — particularly in the euro area — and support risk appetite. In such a setting, the euro would be better placed to strengthen, with EUR/USD moving towards the 1.20 area.
- A prolonged conflict, by contrast, would keep energy prices elevated and raise stagflation risks in the euro area, arguing for a weaker euro and a return towards 1.10.
  - The macro backdrop continues to favour the dollar: US growth remains relatively firm, supported by AI-related investment and a labour market that has yet to show material slack. The drag from higher energy costs on consumption has so far been limited, although it remains a source of concern.
  - On monetary policy, the ECB's scope to sound more hawkish than the Fed has largely been priced in. The Fed, however, retains some capacity to surprise on the restrictive side, introducing a short-term bias in favour of the dollar.
- Overall, under our central assumption that worst-case geopolitical outcomes are avoided, EUR/USD is expected to drift higher towards 1.20 over the coming quarters, albeit with downside risks more pronounced than earlier in the year.

EUR/USD – long term



US dollar real effective exchange rate (last 20 years)



Market snapshot

Latest	12M high	12M low
1,16	1,20	1,13

Based on the previous session's closing prices.

Change over:		Volatility in	
1 month	-0,73%	1 month	4,64
3 months	-1,57%	3 months	6,37
12 months	2,96%	12 months	6,38

(–) EUR depreciation (+) EUR appreciation vs USD

Note: volatility is calculated as the standard deviation of daily FX changes over each period.

Fundamental valuation of the dollar vs the euro

SPOT EUR/USD		1,163	Deviation
Purchasing power parity (GDP)	Dec-25	1,52	31%
Big Mac	Jan-26	1,01	-13%

(–) USD undervaluation (+) USD overvaluation

REER USD			Deviation
Latest	Apr-26	107,1	
Average 10A		87,5	22%
Average 20A		94,2	14%

(–) USD undervaluation (+) USD overvaluation

Dollar strengths

1. The US economic cycle remains more resilient and, with inflation expectations having risen more sharply in the euro area, higher expected real interest rates in the US continue to favour the dollar.
2. Despite weaker fiscal and external fundamentals, the dollar retains its dominant role as the global reserve currency, providing structural support.
3. Market positioning remains tilted towards a weaker dollar, increasing the risk that any escalation in geopolitical tensions could trigger an amplified dollar rally through rapid position unwinds.

Dollar weaknesses

1. The dollar remains significantly overvalued in real effective terms relative to its historical average, limiting further upside.
2. The muted response of the dollar to recent shocks in oil prices and real rates suggests reduced sensitivity to its traditional drivers and points to a geopolitical risk premium weighing on the currency.
3. The euro area exhibits a relatively stronger combination of external balances and fiscal discipline.
4. Speculative positioning in favour of dollar depreciation remains below early-year peaks, leaving scope for a larger move should global conditions improve.

CaixaBank Research forecasts

Current	Q226	Q326	Q426	Q427	Q428
1,16	1,18	1,19	1,20	1,21	1,22

Source: CaixaBank Research. Data refer to period-end values.

Consensus forecasts

Q226	Q326	Q426	Q427	Q428
1,17	1,18	1,19	1,22	1,21

Source: Bloomberg. Data refer to period-end values.

Macro data and forecasts – United States

	Latest		2025	2026	Valuation
Real GDP (y/y) (1)	2,7	Q126	2,1	2,1	Dynamic growth
CPI (y/y) (1)	3,8	Apr-26	2,7	3,5	Deterioration of less than 1 pp
Unemployment rate (%)	4,3	Apr-26	4,5	4,2	Labour market resilience
Curr. Acc. balance (% of GDP)	-3,6	Q425	-3,6	-4,1	Worsening external position
Fiscal balance (% of GDP)	-6,0	Q126	-5,4	-7,5	Poor fiscal outlook
Fed policy rate (1)(2)	3,50	May-26	3,50	3,50	Monetary policy steady

(1) CaixaBank Research forecasts. Policy rates at period-end. Other variables: OECD forecasts or Bloomberg consensus.
(2) Lower bound of the Fed funds target range.

Macro data and forecasts – euro area

	Latest		2025	2026	Valuation
Real GDP (y/y) (1)	0,8	Q126	1,4	0,7	Deceleration from a low point
CPI (y/y) (1)	3,0	Apr-26	2,1	3,1	Deterioration of 1 pp
Unemployment rate (%)	6,2	Q126	6,3	6,4	Labour market resilience
Curr. Acc. balance (% of GDP)	1,7	Q425	2,7	2,8	Stable, positive ext. Position
Fiscal balance (% of GDP)	-2,9	Q425	-2,9	-3,1	Worsening fiscal balance
ECB deposit rate (1)	2,00	May-26	2,00	2,50	Monetary policy tightening

(1) CaixaBank Research forecasts. Policy rates at period-end. Other variables: OECD forecasts.

Cut-off date for this edition: 28/05/2026