البنك الأهلي المتحد
ahli united bank

Feb 2025

Tariff uncertainty sets the tone

FX Markets Update

AUB Group | Financial Markets Sales Team

Foreign Exchange Risk Management Solutions

US exceptionalism in doubt

البنك الأهلي المتحد
ahli united bank

KEY DRIVERS

- Soft economic data from the US impacted sentiment for the greenback during February. On 14th Feb. Retail Sales figures for Jan. showed a 0.9% MoM drop against a consensus of -0.2%. The University of Michigan consumer sentiment survey also surprised to the downside as consumers showed higher long run inflation expectations.
- The dollar index fell 1.6% month to date on the soft data along with increased tariff policy uncertainty.

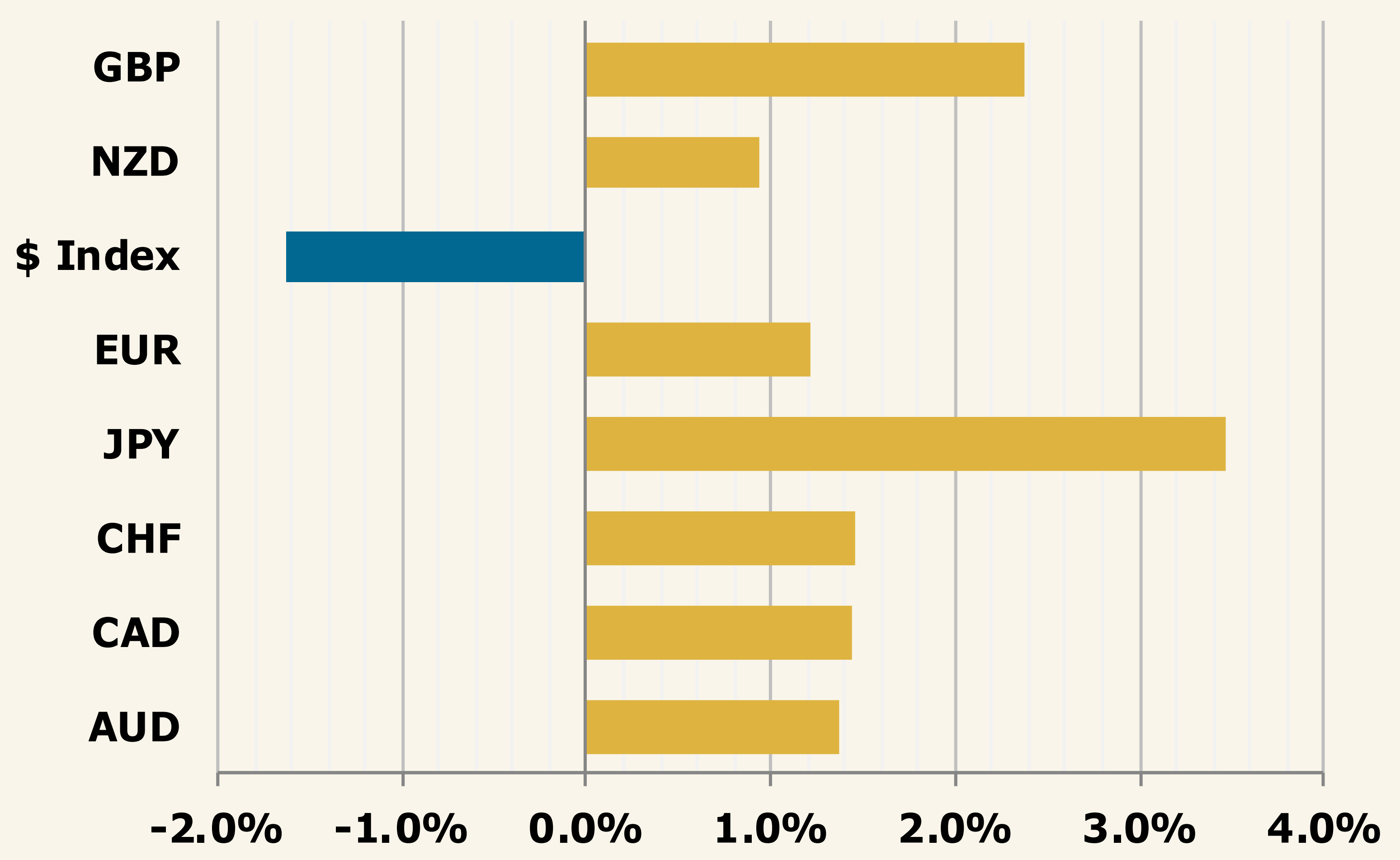
MARKET EXPECTATIONS

- The dollar may underperform given the recent visible shift in economic data which diminishes the case for "US exceptionalism" and pressures the dollar. Retaliatory tariffs or continued uncertainty may provide further downside risk.
- Long dollar positioning has dramatically increased since the US election and early 2025. The current positioning exposes the dollar to the risk of exacerbated bearish moves as positions are unwound.

RISKS TO OUTLOOK

- Fed officials have increasingly offered hawkish views particularly after Jan's hotter than expected CPI. Officials expressed patience and willingness for an extended pause on rate cuts before an inflation victory is declared. This may see dollar gaining back some strength in a yield driven scenario.
- Markets are seen to have already priced in a "soft-tariffs" scenario. The dollar may surprise to the upside in case a "hard-tariff" stance materializes.

2024 currency performance (vs. the USD)



Major macro indicators	2022	2023	2024	2025(f)	2026(f)
Real GDP (%yoy)	2.9	2.8	2.3	2.0	2.0
CPI (%yoy)	4.1	3.0	2.8	2.6	2.5
Unemployment rate (%)	3.6	4.0	4.2	4.2	4.1
C/A Bal. (% GDP)	-3.3	-3.6	-3.7	-3.6	-3.5
Fiscal Bal (% GDP)	-6.3	-6.9	-6.5	-6.5	-6.5
Policy rate (end of period)	5.50	4.50	4.10	3.65	

Data source: Bloomberg

UK so far unscathed by Trump's tariffs

ahli united bank

KEY DRIVERS

- Sterling gained 2.4% so far in Feb. against the dollar and has outperformed most G10 peers as the UK appeared relatively immune from Trump tariffs threats. The pound also got a boost from a surprise 6% gain in wages and better than expected 4Q24 growth figures.
- The Bank of England decided on 6th Feb. to cut rates by 25bps to 4.50% with a notable descent by two members in favor of a 50bps cut.

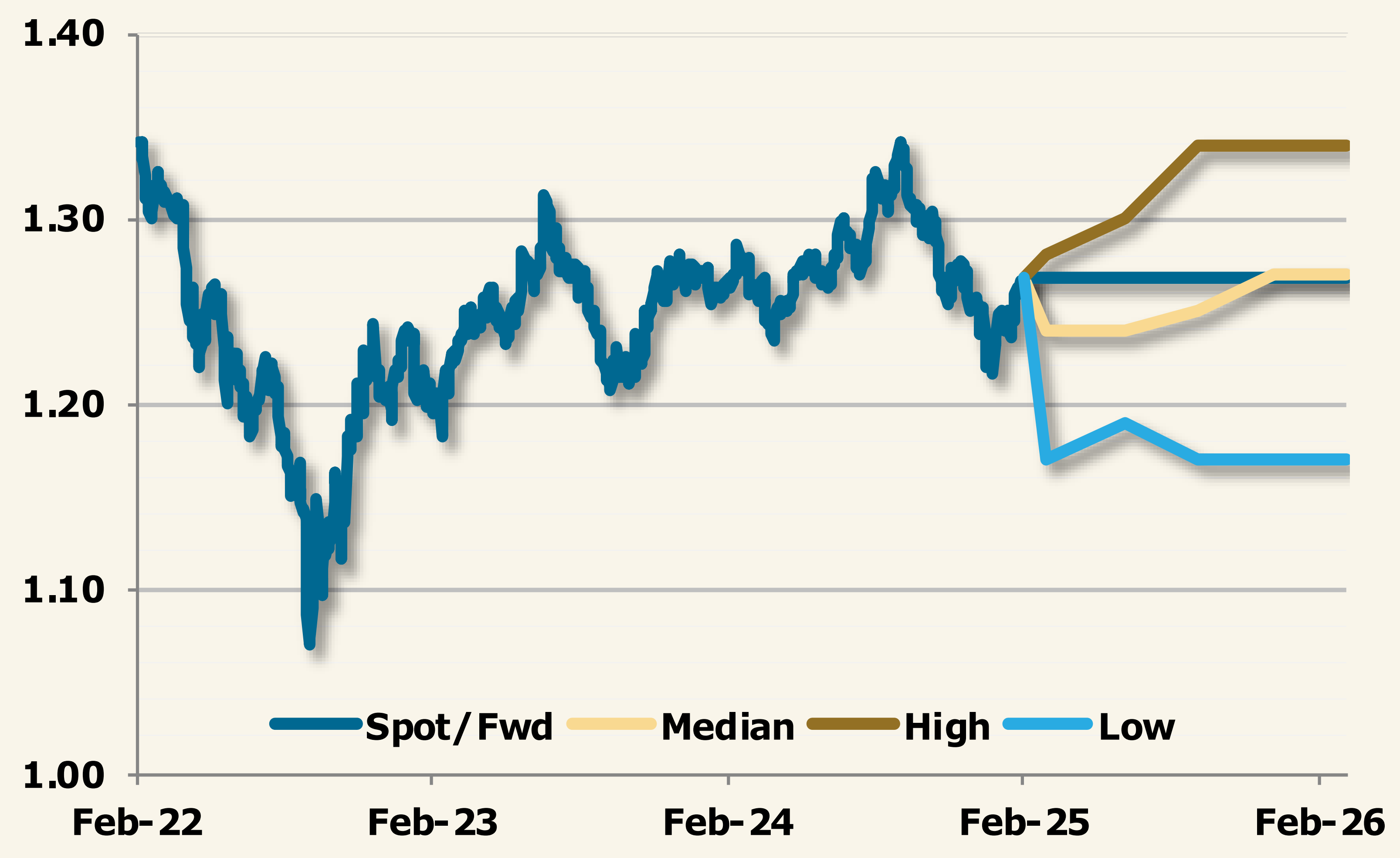
MARKET EXPECTATIONS

- The tariff policy uncertainty may extend support to the pound as the UK has – so far – been less exposed to Trump's tariff agenda. The UK economy is also mainly services driven and less so by exports.
- Furthermore, a continuation of recent upside surprises in wage growth and inflation may force the BoE to adopt a more measured approach and may see GBP maintain a supportive rate differential.

RISKS TO OUTLOOK

- The threat of 25% levies on aluminum and steel may present downside risks as the US accounts for about 15% of total UK exports, with iron and steel representing 7.7% of total exports.
- Lackluster UK economic data could come back to haunt the pound as fiscal concerns have not fully abated and a stagflation scenario remains a possibility.

GBPUSD - Recent trend & forecasts



	Spot	Q125	Q225	Q325	Q425	Q126
Median	1.2688	1.2400	1.2400	1.2500	1.2700	1.2700
High	1.2688	1.2800	1.3000	1.3400	1.3400	1.3400
Low	1.2688	1.1700	1.1900	1.1700	1.1700	1.1700
Forward	1.2688	1.2672	1.2671	1.2671	1.2671	1.2669

Major macro indicators	2022	2023	2024	2025(f)	2026(f)
Real GDP (%yoy)	0.4	0.9	1.0	1.4	1.6
CPI (%yoy)	7.4	2.5	2.8	2.3	2.0
Unemployment rate (%)	4.1	4.3	4.5	4.6	4.6
C/A Bal. (% GDP)	-2.2	-2.6	-2.9	-2.9	-2.7
Fiscal Bal (% GDP)	-5.2	-4.5	-3.8	-3.4	-2.5
Policy rate (end of period)	5.25	4.75	3.80	3.35	

Data source: Bloomberg

EUR gets a break from soft tariffs and Ukraine

KEY DRIVERS

- Euro extends gains versus the dollar after Germany's conservative opposition leader Friedrich Merz said he'll move quickly to form a new government after he won Federal elections on 23rd Feb.
- EUR was up 1.2% month to date which market analysts attributed to "dollar bull fatigue". Further improvement in sentiment came after the EU threatened reciprocal tariffs on the US.

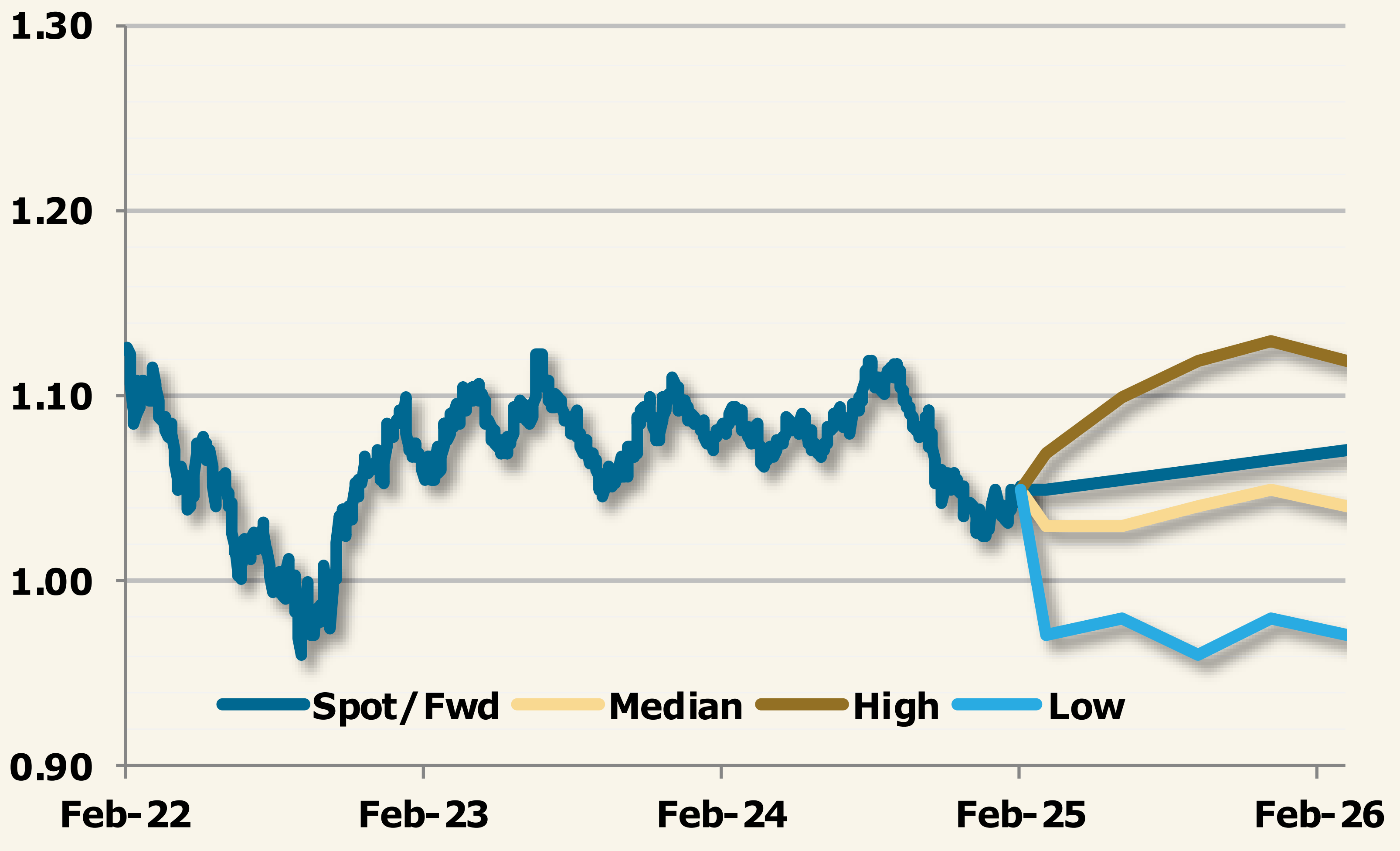
MARKET EXPECTATIONS

- EUR/USD parity talk is fading quickly on tariff relief; however, a continuation of the EUR's positive momentum would necessitate policy certainty. A ceasefire in Ukraine delivered by President Trump may further boost the Euro as economic pains from Europe's energy crisis are relieved.
- Improved economic conditions in China due to stimulus efforts may also improve demand for Eurozone exports and the common currency.

RISKS TO OUTLOOK

- Continued policy uncertainty from Trump's tariff agenda may add to other global policy headwinds faced this would add to near-term downside economic risks and may see the Euro head lower.
- Optimism on fiscal stimulus in Europe, particularly from defense spending, may not materialize as centrist parties in Germany require support from other parties as they fell short of the two-thirds majority required to revisit the "debt brake".

EUR/USD-Recent trend & forecasts



	Spot	Q125	Q225	Q325	Q425	Q126
Median	1.0487	1.0300	1.0300	1.0400	1.0500	1.0400
High	1.0487	1.0700	1.1000	1.1200	1.1300	1.1200
Low	1.0487	0.9700	0.9800	0.9600	0.9800	0.9700
Forward	1.0487	1.0492	1.0547	1.0603	1.0659	1.0712

Major macro indicators	2022	2023	2024	2025(f)	2026(f)
Real GDP (%yoy)	0.4	0.7	0.9	1.2	1.3
CPI (%yoy)	5.5	2.4	2.1	1.9	2.0
Unemployment rate (%)	6.6	6.4	6.4	6.4	6.3
C/A Bal. (% GDP)	1.7	2.7	2.3	2.5	2.5
Fiscal Bal (% GDP)	-3.6	-3.1	-3.0	-2.8	-2.4
Policy rate (end of period)	4.50	3.15	2.15	2.15	

Data source: Bloomberg

Yen rallies on a hawkish BoJ

KEY DRIVERS

- Disappointing US economic data sent US yields lower and provided a lift to the yen. The yen outperformed most G10 peers and was only behind the Swedish Krona gaining 3.5% against the dollar as of 27th Feb.
- Higher yields in Japan further narrowed the rate differential between USD and JPY and bolstered the yen's rally. Safe-haven flows also extended support amid risk-off trading in the month.

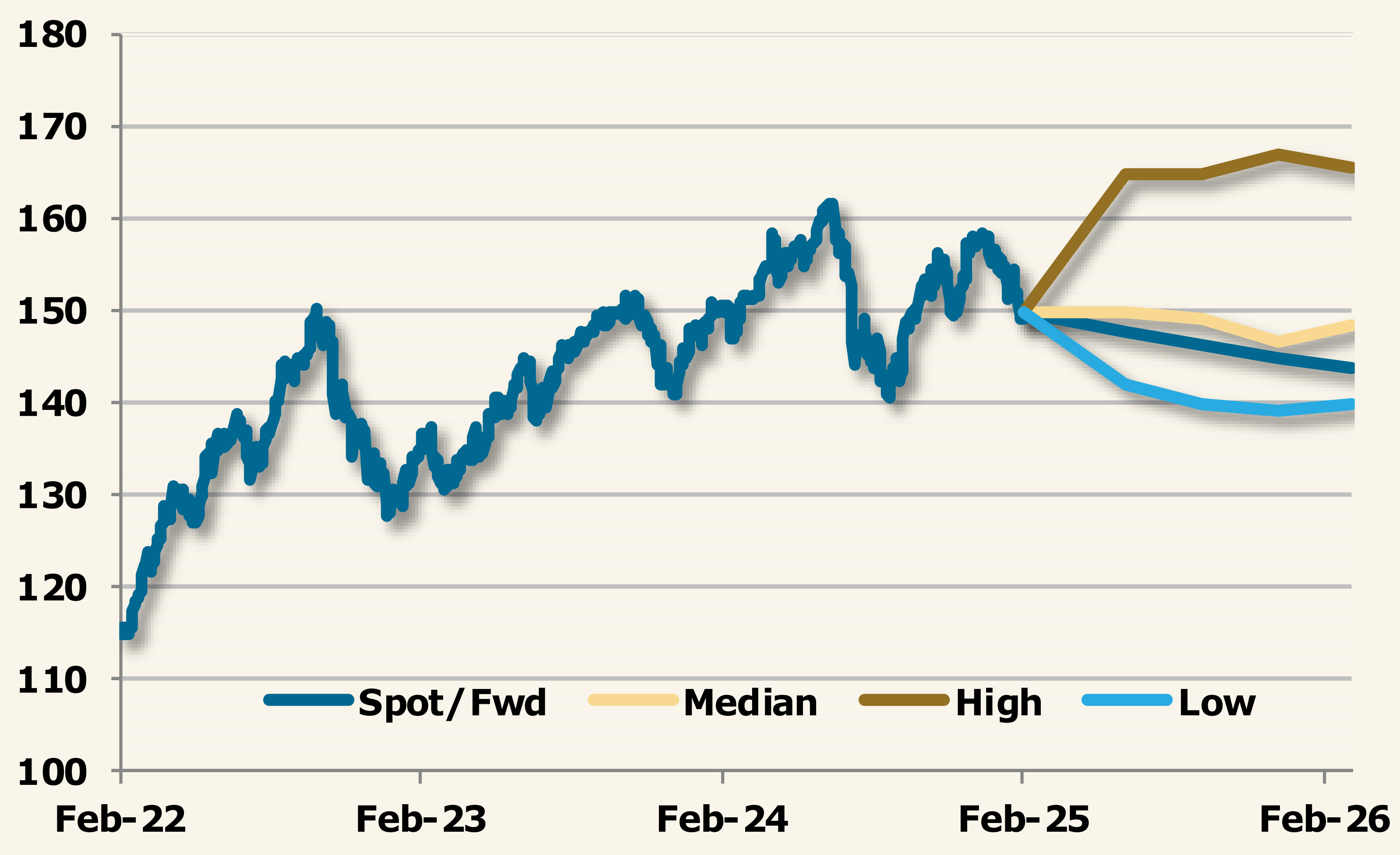
MARKET EXPECTATIONS

- Yen may continue outperforming as the Bank of Japan is normalizing rates at a time when G-10 peers are pausing or still on an easing path. A 4.0% CPI print for January further bolstered expectations of upcoming rate hikes. Markets are pricing in 35bps of hikes for by the BoJ.
- Although Japan may not avoid the tariff threat altogether, it appears not on President Trump's priority list which keeps Japanese exports at play and provides support to the yen.

RISKS TO OUTLOOK

- Should policy uncertainties ease further or resolve that may send JPY lower on reduced safe-haven flows and resumption of carry trades in a risk-on mode.
- While US economic data is mixed to soft lately any readings suggesting a resurgence of inflation may see markets price in a wider rate differential between the USD and JPY therefore driving the yen lower especially if coupled with a BoJ that is reluctant to hike.

USDJPY - Recent trend & forecasts



	Spot	Q125	Q225	Q325	Q425	Q126
Median	149.82	152.50	150.00	149.00	146.50	148.27
High	149.82	165.00	165.00	165.00	167.00	165.59
Low	149.82	146.00	142.00	140.00	139.00	139.71
Forward	149.82	149.29	147.73	146.35	145.06	143.82

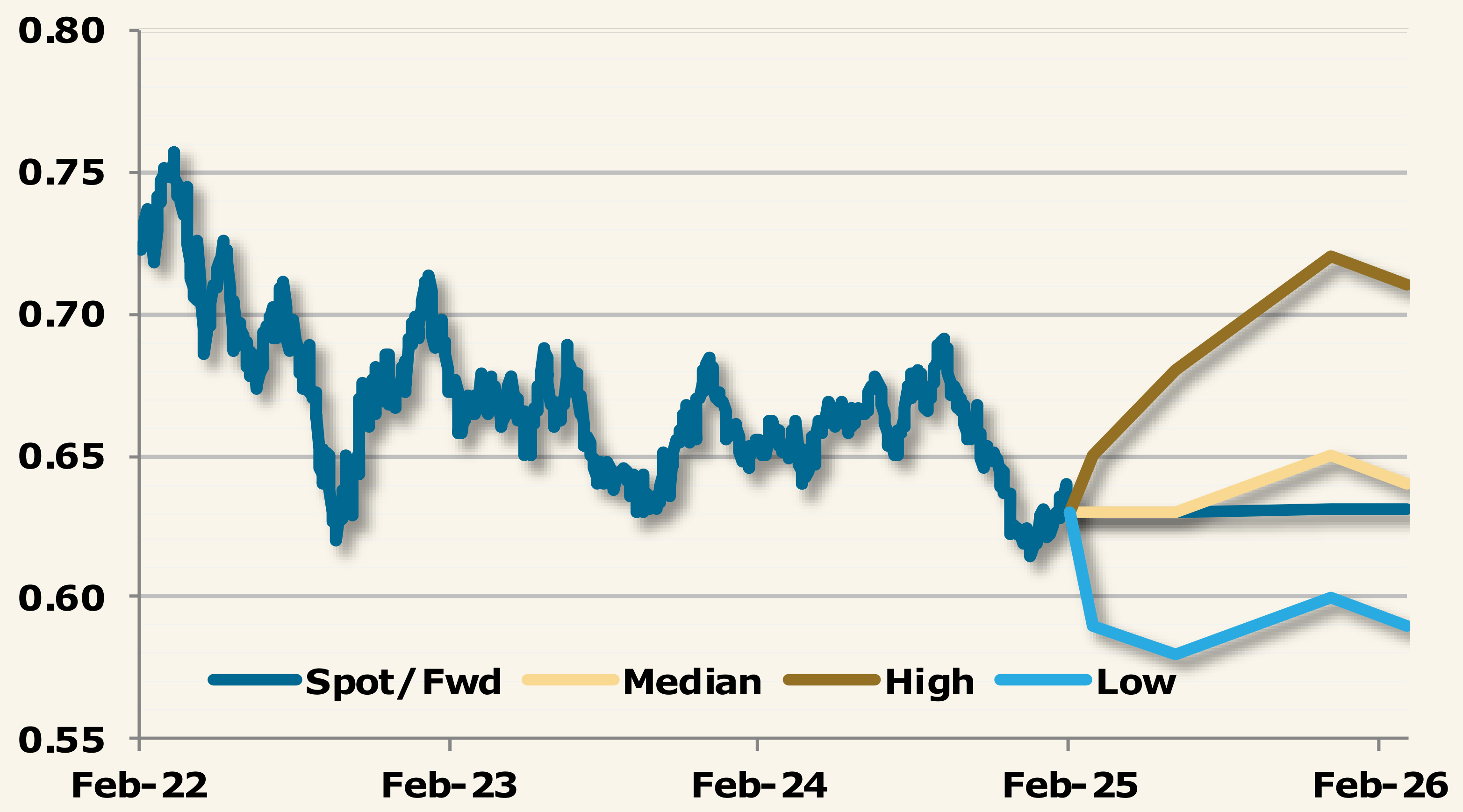
Major macro indicators	2022	2023	2024	2025(f)	2026(f)
Real GDP (%yoy)	1.5	0.1	1.2	0.9	1.0
CPI (%yoy)	3.3	2.7	2.4	1.9	1.8
Unemployment rate (%)	2.6	2.5	2.4	2.4	
C/A Bal. (% GDP)	3.8	4.8	4.5	4.2	
Fiscal Bal (% GDP)	-3.8	-2.4	-3.6	-3.4	-2.7
Policy rate (end of period)	-0.10	0.25	0.80	1.00	

Data source: Bloomberg

Aussie and Kiwi underperform on rates cut

ahli united bank

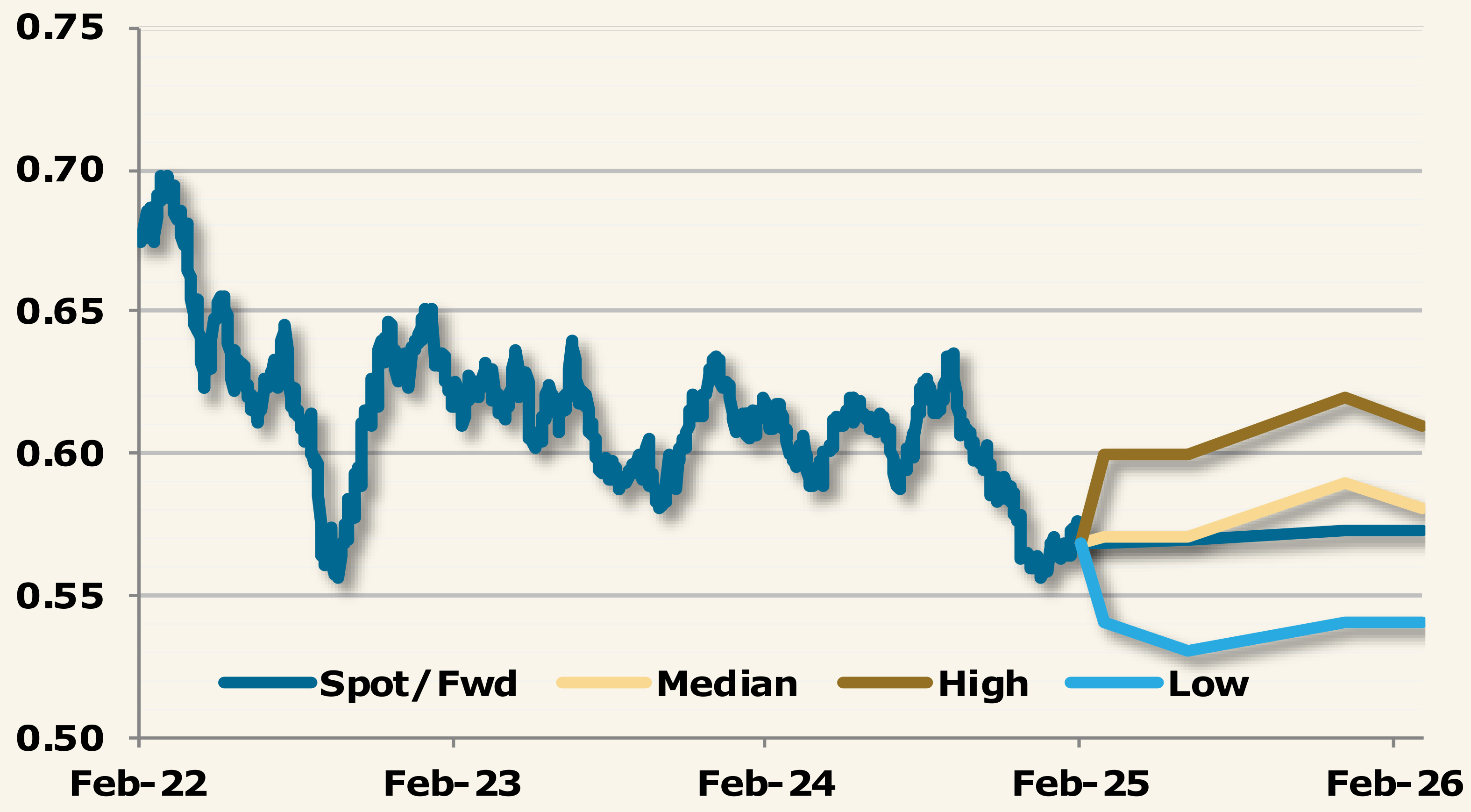
AUD/USD - Recent trend & forecasts



- Reserve Bank of Australia cut rate for first time since Nov. 2020 from 4.35% to 4.10%. On 20th Feb., the Aussie posted a fresh 2 month high near 0.6380 as higher jobs than expected were added to the economy.
- Despite the minor revision to the annual consumer price baskets, it is expected that inflation would continue to moderate, enabling the RBA to deliver up to 75 bps of additional rate cuts this year which may pressure the Aussie lower.

	Spot	Q125	Q225	Q325	Q425	Q126
Median	0.6304	0.6300	0.6300	0.6400	0.6500	0.6400
High	0.6304	0.6500	0.6800	0.7000	0.7200	0.7100
Low	0.6304	0.5900	0.5800	0.5800	0.6000	0.5900
Forward	0.6304	0.6301	0.6305	0.6310	0.6314	0.6317

NZD/USD - Recent trend & forecasts



- The Reserve Bank of New Zealand cut rates by 50 bps to 3.75%. This led the kiwi to fluctuate, initially falling vs. USD on the central bank's signal for more cuts before erasing its losses, ending the day (19th Feb.) 0.04% higher at 0.5705 against USD.
- The spare capacity in the economy may allow inflation to return to its target band, allowing for rates cuts to further weaken the currency.

	Spot	Q125	Q225	Q325	Q425	Q126
Median	0.5687	0.5700	0.5700	0.5700	0.5900	0.5800
High	0.5687	0.6000	0.6000	0.6000	0.6200	0.6100
Low	0.5687	0.5400	0.5300	0.5400	0.5400	0.5400
Forward	0.5687	0.5685	0.5698	0.5711	0.5723	0.5732

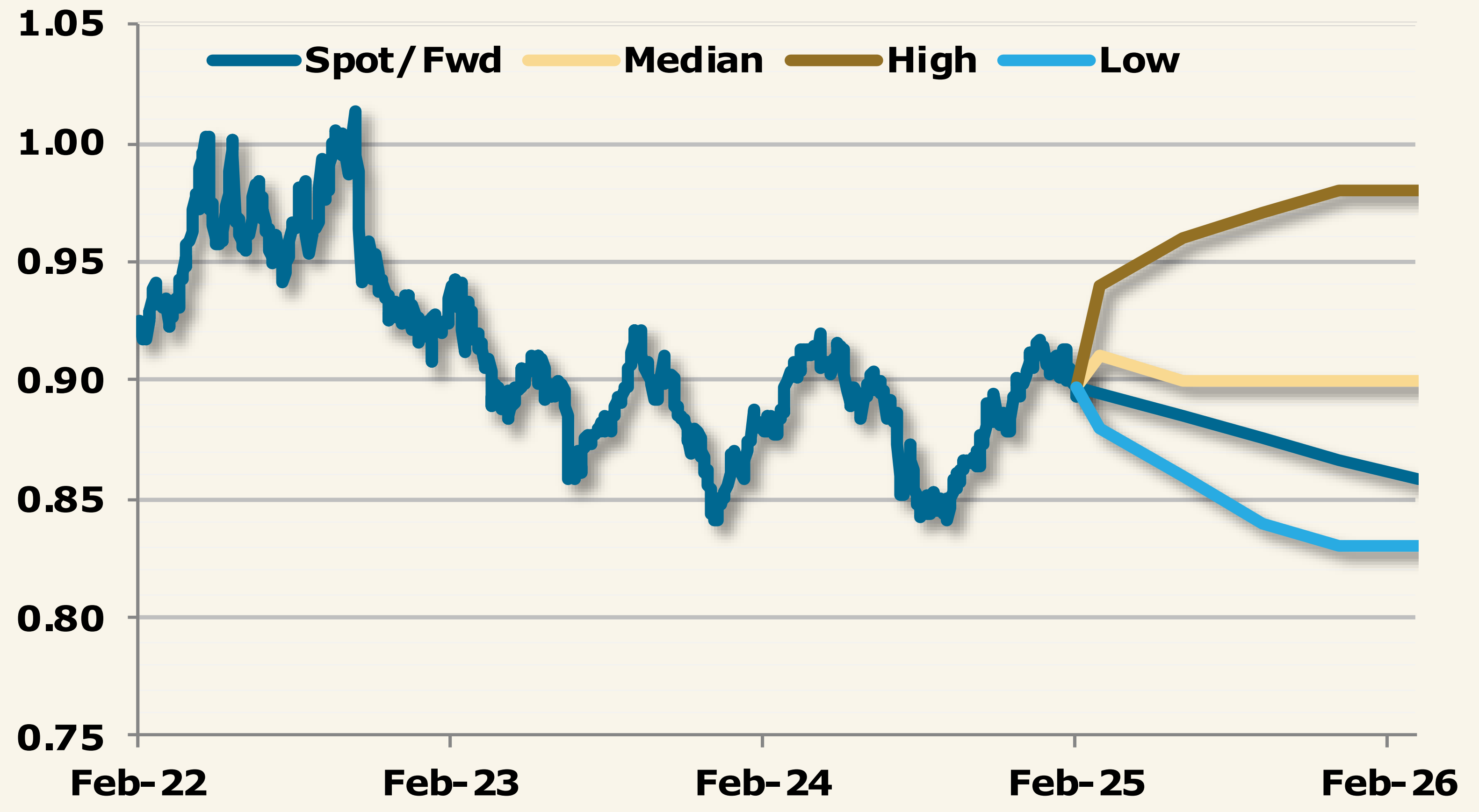
Data source: Bloomberg

Soft US data supports CHF, oil pushes CAD lower

ahli united bank

البنك الأهلي المتحد

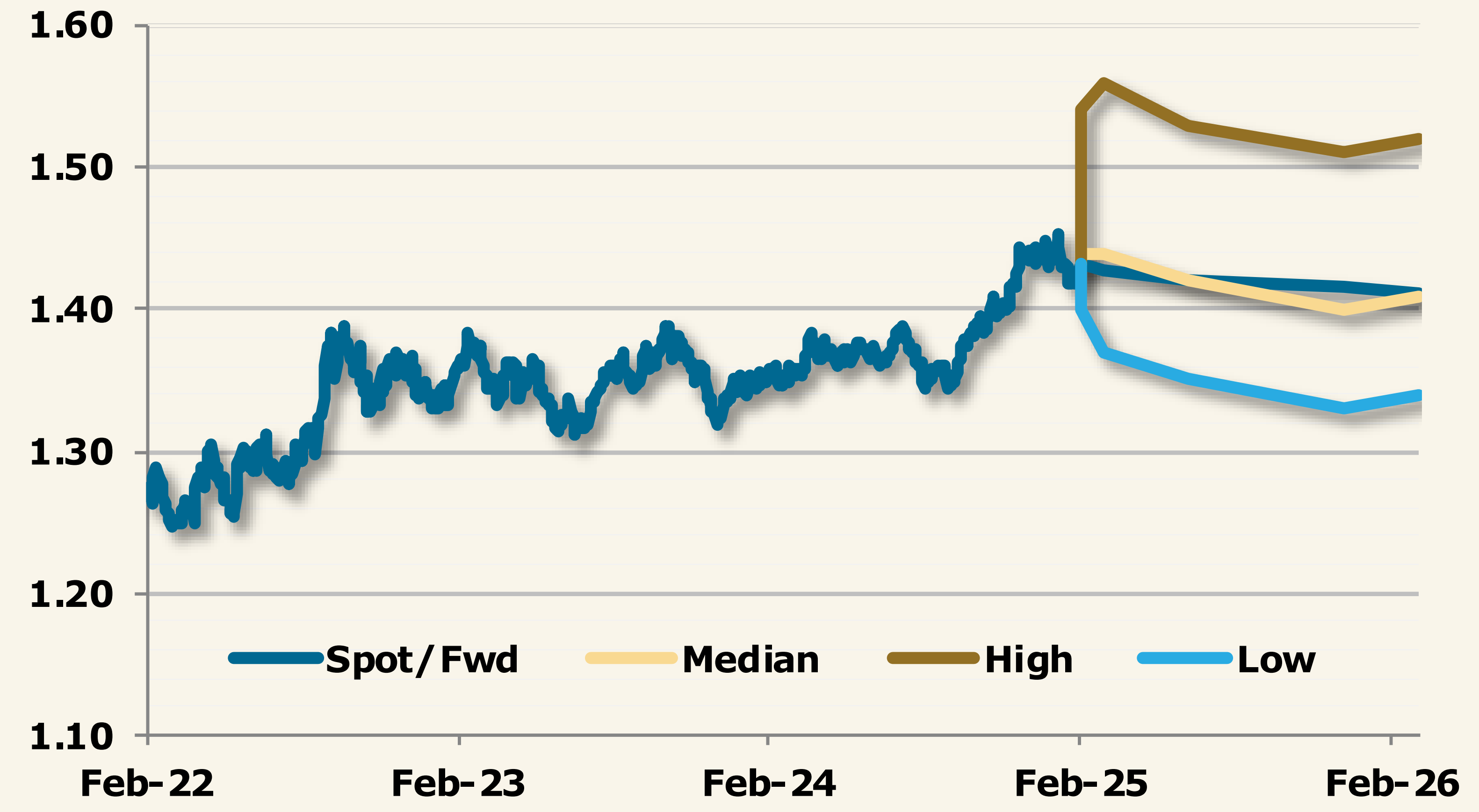
USD/CHF - Recent trend & forecasts



- Swiss franc strengthened during the month against the USD and was driven by disappointing US economic data, including the latest initial jobless claims and PMI readings. USD/CHF slid as low as 0.89795 on 20th Feb.
- Inflation is expected to be within SNB's target range with the real economy remaining solid amid renewed global uncertainty. Such a forecasted scenario may see the franc strengthen further.

	Spot	Q125	Q225	Q325	Q425	Q126
Median	0.8977	0.9100	0.9000	0.9000	0.9000	0.9000
High	0.8977	0.9400	0.9600	0.9700	0.9800	0.9800
Low	0.8977	0.8800	0.8600	0.8400	0.8300	0.8300
Forward	0.8977	0.8952	0.8853	0.8762	0.8672	0.8587

USD/CAD - Recent trend & forecasts



- USD/CAD continues its upward momentum toward 1.4350 level as the USD strengthens and oil prices weaken after Trump's claim that the US does not need Canadian crude oil or lumber.
- A looming trade conflict adds downside risk to the outlook and will likely encourage the Bank of Canada to cut rates in 25 bps moves in the near term putting further downward pressure on the Loonie.

	Spot	Q125	Q225	Q325	Q425	Q126
Median	1.4329	1.4400	1.4400	1.4200	1.4000	1.4100
High	1.4329	1.5400	1.5600	1.5300	1.5100	1.5200
Low	1.4329	1.4000	1.3700	1.3500	1.3300	1.3400
Forward	1.4329	1.4321	1.4261	1.4203	1.4149	1.4098

Data source: Bloomberg

GCC FX & related FX: KWD and SAR forward premia show volatility

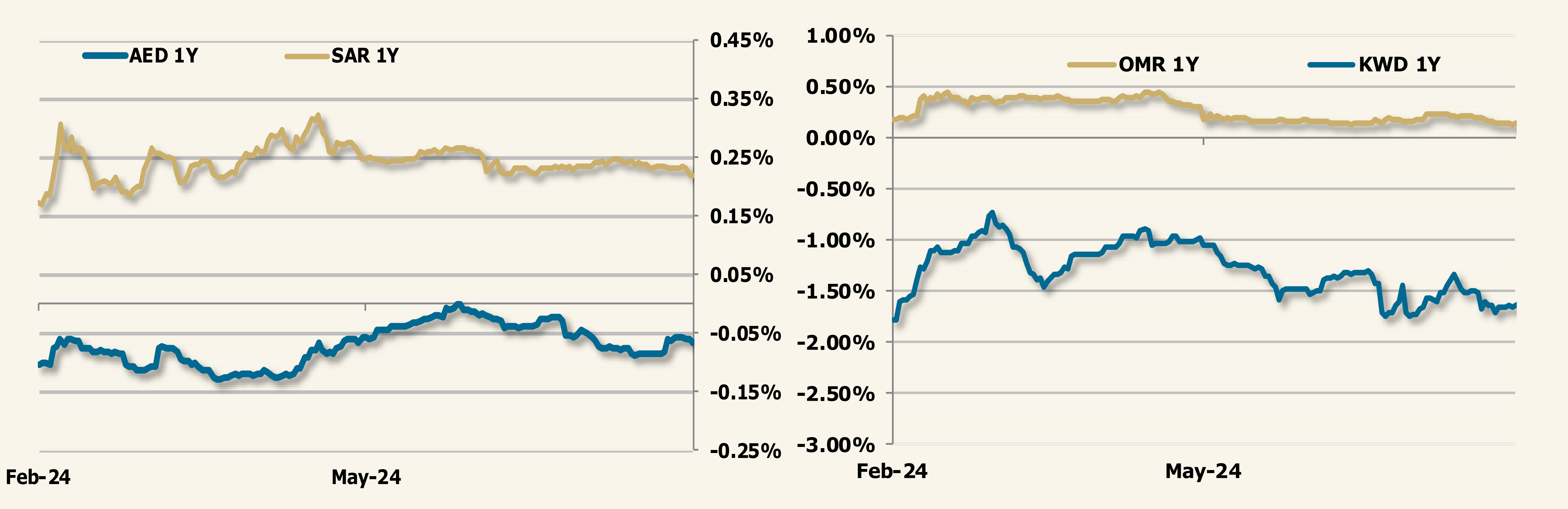
ahli united bank

- The MENA region is set to experience moderate economic growth in 2025, with GDP projected to expand by 3.4%. The forecast has been slightly trimmed due to Opec+’s decision to delay oil output hikes. The economic expansion is expected to be driven by a gradual recovery in oil production and robust non-oil sector growth, mainly in the Gulf countries. Inflation across the region is forecasted to remain uneven but less volatile than in previous years, stabilizing as currency fluctuation in Egypt and Lebanon ease.

- Qatar is expected to see the lowest inflation among the GCC countries and the wider Arab region this year with its CPI expected to average to 1.4% against 1.9% in the GCC and as high as 8.5% in the wider Arab world. According to the World Bank, inflation in the GCC region came in at 2.1% in 2024, kept down by subsidies, fuel price cap, and currency pegs. However, in certain sectors such as the housing sector, inflationary pressures remained in several of the GCC nations.

- Saudi Arabia has raised EUR 2.25 billion (USD 2.36 billion) though a euro-denominated bond sale, including its first green tranche, as part of its Global Medium-Term Note Issuance Program. It was oversubscribed four times the issuance size. The green tranche, valued at EUR 1.5 billion, carries a sever-year maturity, while the second tranche, worth EUR 750 million, matures in 12 years.

GCC 1Y Forward Premium (% p.a. vs. spot FX rate)



USD GCC Forwards	Spot	1M	3M	6M	1Y	2Y
USD AED	3.6727	3.6722	3.6713	3.6703	3.6690	3.6657
USD SAR	3.7504	3.7532	3.7566	3.7608	3.7659	3.7777
USD BHD	0.3769	0.3772	0.3774	0.3779	-	-
USD OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3855
USD KWD	0.3073	0.3072	0.3067	0.3059	0.3040	0.3042
USD TRY	36.43	37.36	39.45	42.50	45.57	48.70

Data source: Bloomberg

FX Hedging Solutions

Summary of hedging solutions

ahli united bank

- We present few protection strategies towards hedging your FX Exposures namely:
  - Clients looking to sell USD and buy EUR or any G10 currency
  - Clients looking to buy USD and sell SAR (or any other GCC or EM currency)
- Structures can be customized to suit your hedging requirements and market view

Hedging Strategy	Benefits	Risks
Flexi-term Forward	Flexibility to take delivery anytime in the activation period at a pre-agreed Strike	Strike offered is worse than FX Forward Rate
Chose Forward	Partial participation in favorable spot moves	Opportunity loss on leveraged hedge notional
Collar	Participation in favorable market movements up to the Cap Rate	Opportunity loss in event of EUR depreciation below the Cap rate on the leveraged notional amount
Dual Currency Forward	Better buying rate for USD against SAR is offered	Client may have to purchase EUR instead of USD

EURUSD Hedging – Flexi-term forward

ahli united bank

DESCRIPTION

- Flexi-term forward allows the client to hedge their currency risk for a specific period with full latitude of timing of the flows: in essence, it is like a plain FX forward with flexibility over the delivery dates.
- The client is free to take delivery at single strike rate during the activation period.
- The FX hedge price is slightly more expensive than a conventional FX forward price to account for the liquidity and the flexibility provided by this solution.

MAIN FEATURES / DRAWBACKS

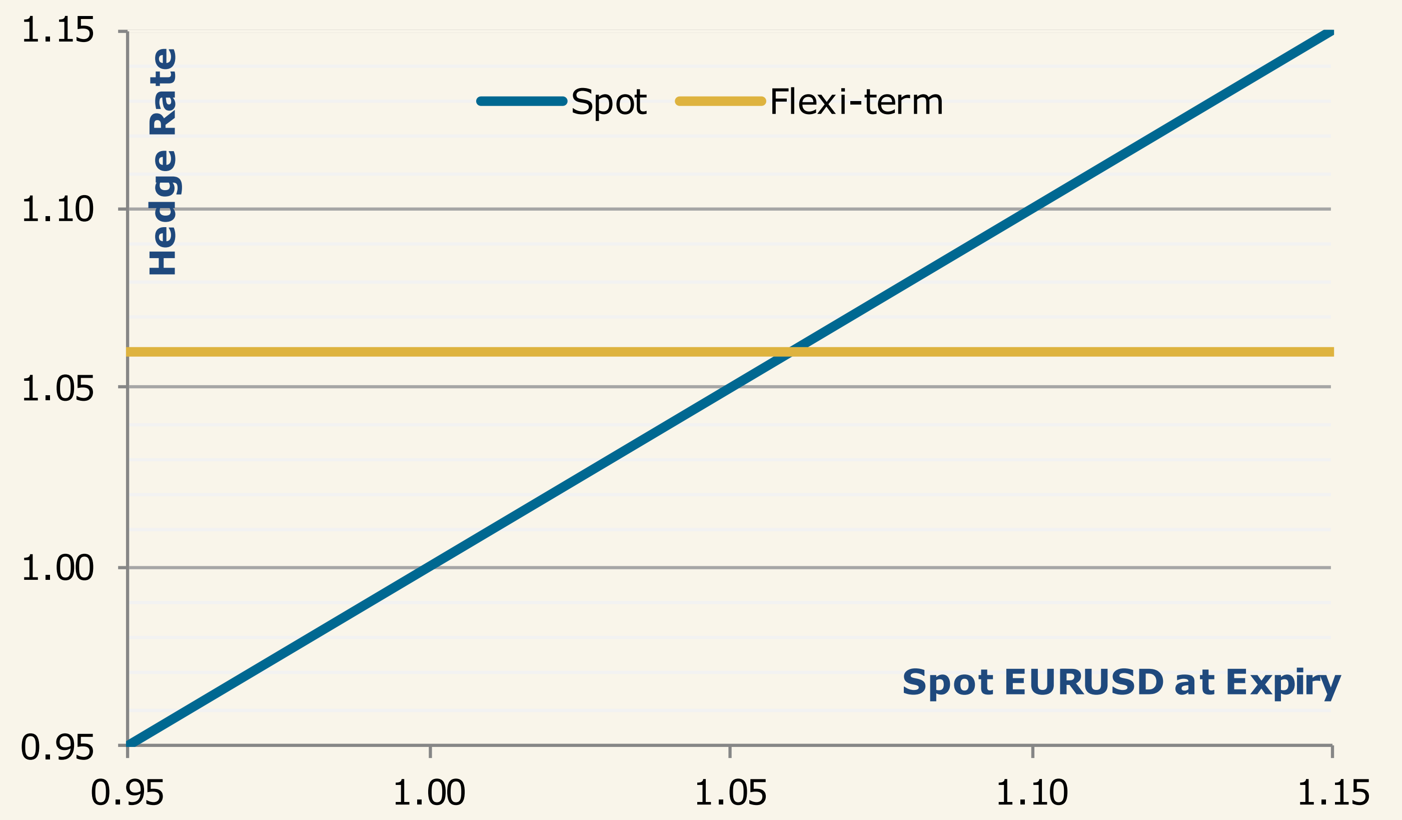
- Guaranteed worse case hedge, no knock-out risk.
- Flexibility to take delivery and manage cashflows, without doing FX swaps (as required for conventional forwards).
- Protection rate is worse than comparable FX forward rate.

Indicative Terms	
Currency pair	EUR USD
Direction	Buyer of EUR, Seller of USD
Spot reference	1.0477
Notional	USD 6 million
Expiry	6 months from Trade Date
Minimum amount / delivery	USD 0.5 million per delivery
Delivery	Flexible settlement with 2 business days notice during activation period
Activation period	Spot date till expiry date
Strike Rate	1.0600
FX Forward Rate	1.0585

MECHANICS

- The Client can use the amount fully or partially at any time between the start date and the expiry date by giving 2 business days' notice.
- If by expiry date the amount traded has not been fully used, the “unused” hedge amount will be delivered at maturity.

Payoff profile



EURUSD Hedging – Choose forward

ahli united bank

DESCRIPTION

- The Choose forward provides the client with guaranteed worse case rate hedge. Further, the client has unlimited participation in all favorable market movements subject to payment of a spread versus the market rate.

MAIN FEATURES / DRAWBACKS

- Guaranteed worse case hedge, no knock-out risk.
- Unlimited participation in favorable market movement, subject to cost of spread.
- Protection rate is worse than comparable FX forward rate.
- Opportunity loss in event of EUR depreciation on the leveraged notional amount, limited to the cost of spread.

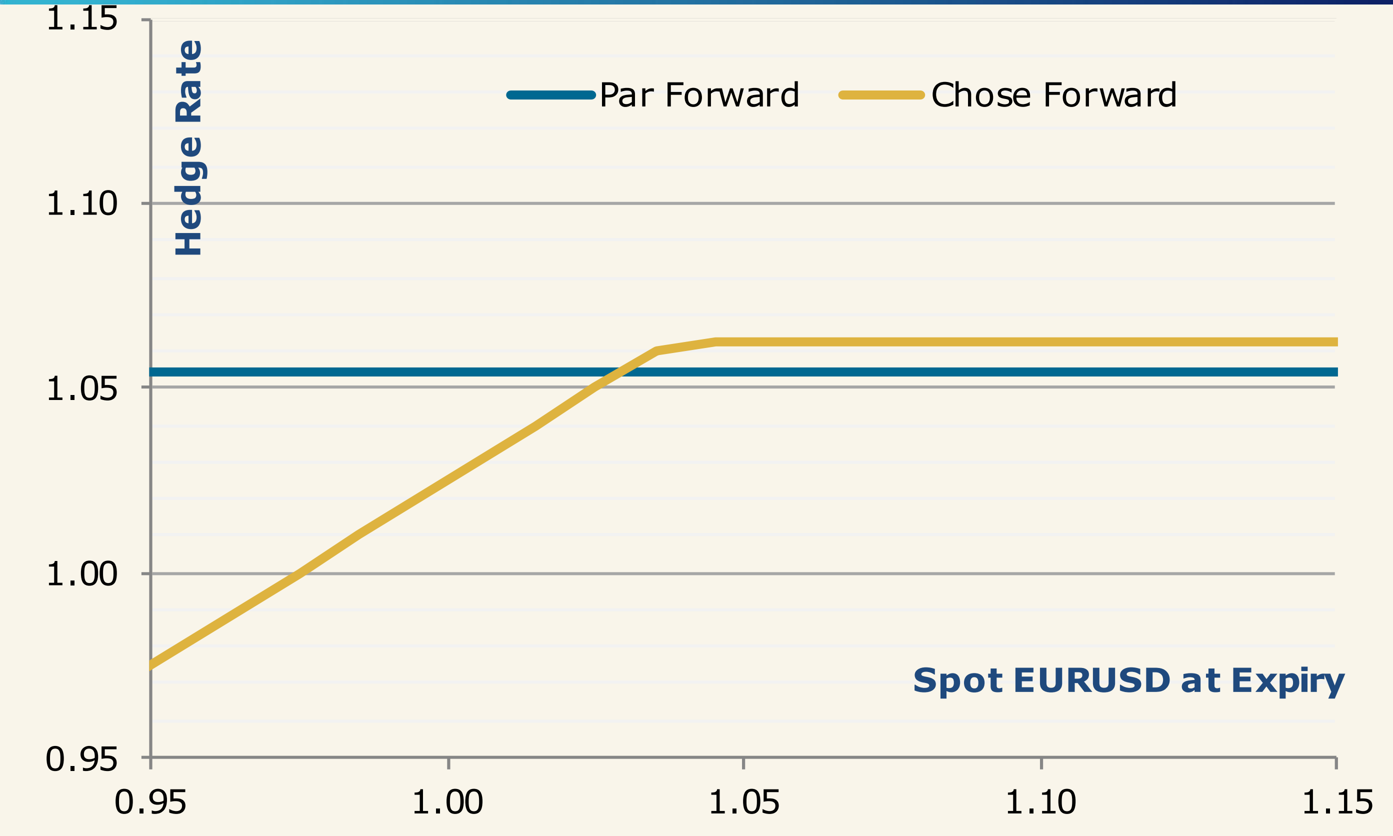
SCENARIOS AT RESPECTIVE EXPIRY DATES

- If EURUSD is at or above the Strike rate, Client sells USD 1 mio and buys EUR at Strike rate.
- If EURUSD is below the Strike rate, Client sells leveraged USD amount and buys EUR at Strike = Min (Strike Rate, EURUSD Fixing + Spread).
- For e.g., for 1.5x Notional
  - EURUSD fixing 1.0500, you sell USD 1.0 mio / buy EUR at 1.0627
  - EURUSD fixing 1.0400, you sell USD 1.5 mio / buy EUR at 1.0627
  - EURUSD fixing 1.0200, you sell USD 1.5 mio / buy EUR at 1.0450

Indicative Terms

Currency pair	EUR USD	
Direction	Buyer of EUR, Seller of USD	
Spot reference	1.0477	
Notional	USD 1 million per expiry	
Expiry	6 Monthly expiries from Trade Date	
Settlement	2 business days after each expiry	
Par Forward	1.0540 (average for 6 expiries)	
Ratio	**1.5x Notional**	**2x Notional**
Protection Rate	1.0627	1.0582
Cap Rate	0.025 USD per EUR	0.0205 USD per EUR

Payoff profile at expiry for Ratio 1.5x notional



EURUSD Hedging – Collar

ahli united bank

DESCRIPTION

- The FX Collar provides the customer with a guaranteed worst-case hedge rate as well as the possibility of participating in any favorable move in the underlying up/down to a predefined cap.

MAIN FEATURES / DRAWBACKS

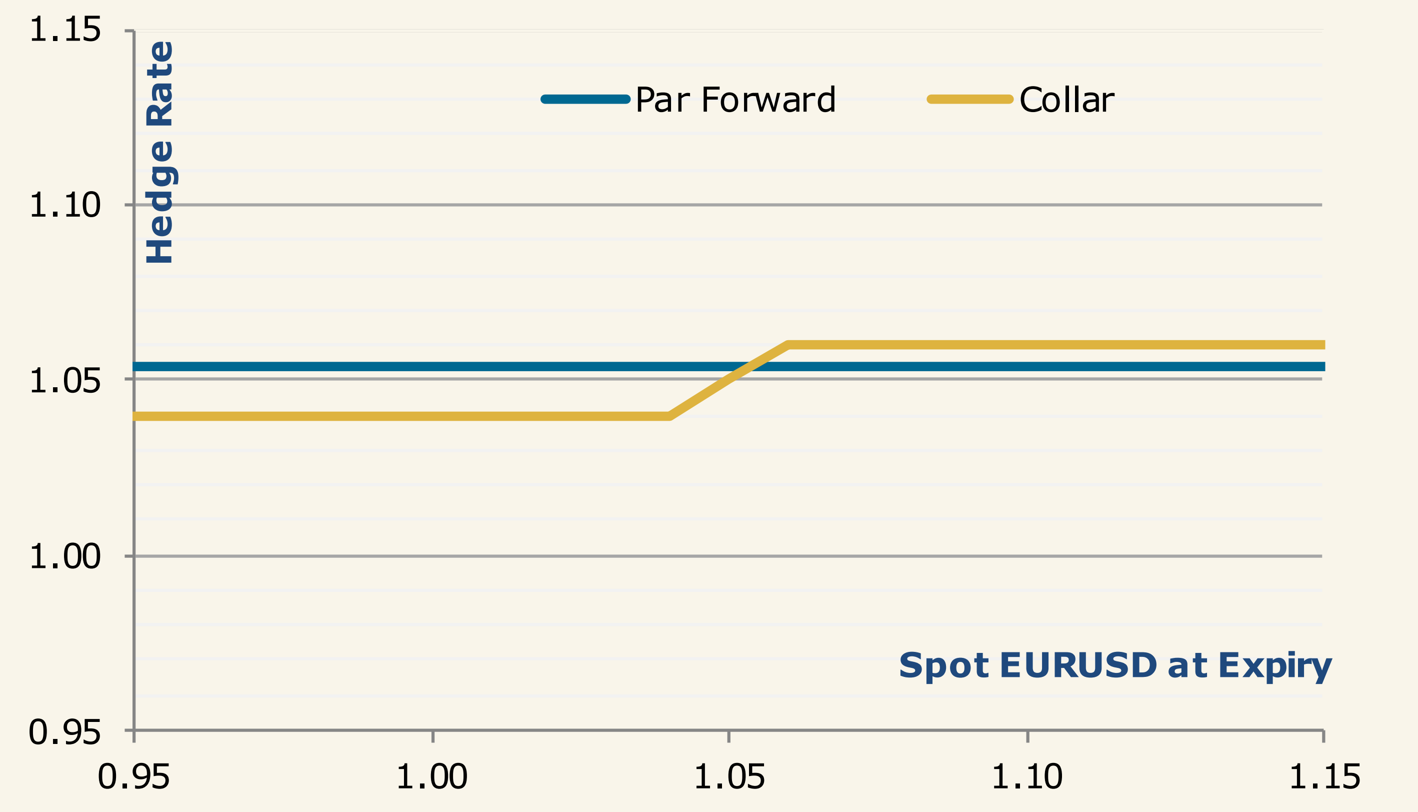
- Guaranteed worse case hedge, no knockout risk.
- Participation in favorable market movements up to the Cap rate.
- Protection rate is worse than comparable FX forward rate
- Opportunity loss in event of EUR depreciation below the Cap rate on the leveraged notional amount

Indicative Terms		
Currency pair	EUR USD	
Direction	Buyer of EUR, Seller of USD	
Spot reference	1.0477	
Notional	USD 1 million per expiry	
Expiry	6 Monthly expiries from Trade Date	
Settlement	2 business days after each expiry	
Par Forward	1.0540 (average for 6 expiries)	
Ratio	**1.5x Notional**	**2x Notional**
Protection Rate	1.0600	1.0600
Cap Rate	1.0400	1.0140

SCENARIOS AT RESPECTIVE EXPIRY DATES

- If EURUSD is above the Protection rate, Client buys EUR notional at the Protection rate
  - For e.g., for 1.5x Ratio, if EURUSD is above 1.0600, Client buys EUR and sell 1 million USD at 1.0600.
- If EURUSD is below the Cap rate, Client is obliged to buy the Leveraged notional amount at the Cap rate.
  - For e.g., 1.5x Ratio, if EURUSD < 1.0400, Client buys EUR and sell 1.5 million USD at 1.0400.

Payoff profile at expiry for Ratio 1.5x notional



USDSAR Hedging – Dual Currency Forward

البنك الأهلي المتحد
ahli united bank

DESCRIPTION

- The Dual Currency Forward is a hedging tool that enables a client to buy USD against SAR at a better rate than the spot market.
- In return, the client accepts the possibility of selling the SAR against EUR should EURUSD at expiry trade below a given Barrier.

MAIN FEATURES / DRAWBACKS

- Client can buy USD sell SAR at a strike which is better than current USD/SAR spot rate, as well as 12 month Par Forward rate of 3.7605.
- No knock-out risk.
- If EURUSD spot fixes below Barrier, client will need to sell SAR and buy EUR instead of USD.

Indicative Terms	
Currency pair	USD SAR and EUR SAR
Direction	Client buy USD or EUR, sells SAR
Spot reference	EURUSD: 1.0477, USDSAR: 3.7505
Notional	USD 1 million per expiry (~SAR 3.7505 mn)
Expiry	12 Monthly expiries from Trade Date
Settlement	"If EURUSD spot fixes below Barrier: Client sells SAR Notional buy EUR at EURSAR Strike. Else: Client sells SAR Notional buy USD at USDSAR Strike"
Barrier	1.0100 EURUSD
Strikes	USDSAR Strike: 3.7470, EURSAR Strike: 3.7845

SCENARIOS AT RESPECTIVE EXPIRY DATES

- If EURUSD fixing is above the Barrier, then client sells SAR against USD at USDSAR Strike on the respective Settlement Date
- If EURUSD fixing is at or below the Barrier, then client sells SAR against EUR at EURSAR Strike on the respective Settlement Date

Scenario Analysis of a DCF

Settlement	USDSAR Fixing	EURUSD Fixing	EURUSD Barrier	Client buys USD	Client buys EUR
1	3.7550	1.0300	1.0100	1,000,000	-
2	3.7555	1.0250	1.0100	1,000,000	-
3	3.7560	1.0200	1.0100	1,000,000	-
4	3.7565	1.0150	1.0100	1,000,000	-
5	3.7570	1.0100	1.0100	1,000,000	-
6	3.7575	1.0050	1.0100	-	990,099
7	3.7580	1.0000	1.0100	-	990,099
8	3.7585	0.9950	1.0100	-	990,099
9	3.7590	0.9900	1.0100	-	990,099
10	3.7595	0.9850	1.0100	-	990,099
11	3.7600	0.9800	1.0100	-	990,099
12	3.7605	0.9750	1.0100	-	990,099

Disclaimer & contact details

ahli united bank

Bahrain Financial Markets Sales

Sameh Baqer
+973 1758 5823
Sameh.Baqer@ahliunited.com

Abdulla AlKhaja
+973 1758 7105
Abdulla.Ahmed@ahliunited.com

Hussain Baqer
+973 1758 5592
Hussain.Baqer@ahliunited.com

Hamad AlBassam
+973 17154952
Hamad.KAlBassam@ahliunited.com

Bahrain
2006 – 2018 & 2021

Bahrain
2006 – 2021

Best Local Bank in Bahrain
2008 – 2021

DISCLAIMER

This document has been prepared and issued by Ahli United Bank B.S.C. ("AUB") which is regulated by the Central Bank of Bahrain.

All recipients of this document should note that it is being furnished to them solely for information purposes and may not be reproduced or redistributed to any other person without the permission of AUB.

Although information has been obtained from and is based upon sources believed to be reliable, AUB does not warrant its accuracy and it may be incomplete or condensed.

All opinions and estimates constitute AUB's judgment at the date of publication and are subject to change without notice.

AUB does not advise as to the suitability or otherwise of this information and provides the information to recipients exclusively on the basis that they have sufficient knowledge, experience and / or professional financial, legal, tax and other advice to make an independent assessment thereof.