

UOB Investment Insights

FX Insights

7 July 2020

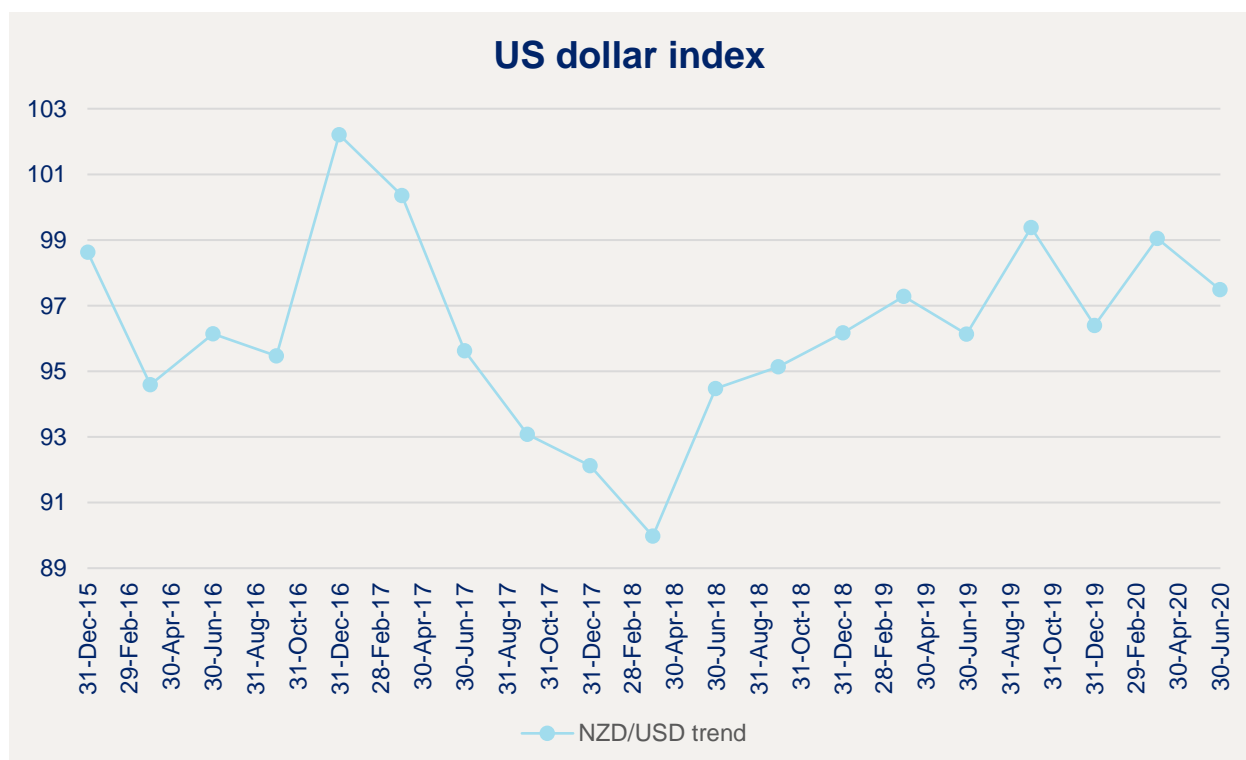
The US dollar to slide further in 2H as the economy faces a bumpy recovery

- The USD has peaked in March and looks set to slide further against most FX Majors in the 2H
- This view holds unless a second wave of COVID-19 infection hits

It would appear that The US dollar (USD) has peaked in March. Among the FX Majors, risk currencies such as the Australian dollar (AUD) and the New Zealand dollar (NZD) rebounded ferociously against the USD in the 2Q and completed the V-shaped recovery from March's lows. EUR/USD mustered enough momentum from hopes of a euro-area recovery fund to push above its key resistance at 1.10 in end-May. Overall, across the 2Q, we have seen the mighty USD lose its shine and the US Dollar Index (DXY) appears to have topped out in March at 103 as it pulled back towards 97 as of end-June.

Going forward, we continue to see this gradual pullback in the USD. FX Majors like the Euro (EUR) and AUD, are expected to consolidate recent gains against USD in the second half, amidst an on-going bumpy global recovery. Overall, we expect the DXY to ease lower towards 95.3 by mid-2021.

The key caveat to our broad view of gradual USD weakness from here on is a resurgent second wave of infections, which could easily upend the relative stability that financial markets are enjoying now and bring about a fresh bout of volatility leading to renewed USD strength yet again.





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