



## UOB Investment Insights

# FX Insights

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### **The US dollar is likely to continue to decline at a gradual pace**

- The abundant USD liquidity helped spur the recent weakness in the USD
- A debasement of the USD remains unlikely at this juncture
- FX volatility is expected to rise in the coming months

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The USD Index (DXY) has fallen from a high of 103 in March 2020 – at the height of the COVID-19 pandemic – to almost 92 in August 2020. There are two key dominant drivers of the US dollar (USD) weakness – The spike in US money supply growth from the massive Federal Reserve easing as well as the further deterioration in US debt load in the form of a much higher US Debt-to-GDP ratio.

While the USD sell-off has picked up pace since July, we note that the USD is still the world's undisputed leading payment and reserve currency. Stopping short of a viable alternative, this will limit any runaway USD weakness.

Overall, we maintain our negative USD outlook and see more gains in FX Majors against the USD, particularly the Euro (EUR) and the Australian dollar (AUD) – both rising further to 1.22 and 0.76 by 1Q21 respectively. The exception is the Sterling Pound (GBP), which may be topping out around 1.32 against the USD due to on-going challenges with the Brexit transition. As echoed by US policymakers, the COVID-19 situation remains very uncertain, and together with the upcoming US elections in November, FX volatility is also certain to rise in the upcoming months.



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