CURRENCY OUTLOOK
April 2025

IN BRIEF

What Happened

- The U.S. Dollar collapsed in Q1 after March remained a month of losses with overall monthly value down by 1.5% according to the Bloomberg Dollar Spot Index
- Fear over the effects of tariffs on the U.S. economy brought down U.S. stocks with the Dow Jones Industrial Average dropping by 2.8% for the month
- Euro touched its strongest levels since October 2024 as fiscal stimulus in Germany ends era of austerity
- After a big jump in the first two months of the year of 4.5%, Japanese Yen value dwindled by (-0.3%)
- Mexican Peso resilient in the face of trade headwinds, kept a positive trend and advanced by 1.0%

Monex USA's View

- Entering new wild territory as the globe figures out how nations will adjust to increases in costs
- USD value could be in trouble long-term if countries shed reserve positions and begin process of "de-dollarization"
- April's look at Q1 data will shape perspective on the economy's need for interest-rate cuts down the line
- Lack of clarity and guidance will maintain volatility high as countries look for alternatives for trade such as BRICS as well as exemptions on charges
- 2025 is certainly defying the early-year notion that risk-appetite would be accompanied by a stronger Dollar, which has aided in our FX rankings

IN FOCUS

JPY: The third most used reserve currency is climbing, but there will be challenges ahead

(Bloomberg chart shows JPY improving in value against the Dollar by over 5.0% for Q1 in 2025)

Yen appreciation has been a result of a solid economic situation and interest in holding it

- After the U.S. Dollar and the Euro, the Japanese Yen ranks as the 3rd most used currency with 6.0% of global foreign exchange reserves
- Japan's economy is steadily growing, with Q4 Gross Domestic Product at 0.6% while Purchasing Managers Indices surveys indicated rosier readings
- Yen utilization could expand with China, Japan, and South Korea entertaining a trilateral trade pact
- It is possible that we could witness a return to more regional Trading agreements to counter the U.S. measures that are amounting to protectionism

THE VIEW — Troubled Dollar as tariffs challenge established globalization

Markets think U.S. growth will be compromised with uncertainty over trade

Maybe there will be a landing after all. After cycles of economic resurgence in the post-pandemic world, markets are fearful that the U.S. is risking a lot by levying higher tariffs across the globe. In the early moments of April, equities have gone down in value along with the Dollar, as investors and businesses try to foresee a future in which the proposed taxes on certain imports may not be permanent.

"Liberation Day" came and delivered a blow to markets that seemed to only exacerbate at the time of writing. Indeed, the Bloomberg Dollar Spot Index plummeted, crashing by 2.1% the morning after the announcement. It represented the biggest intraday loss ever for the Buck against that basket of currencies. Meanwhile, the Mexican Peso rose to its best levels since November.

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(Bloomberg Dollar Spot Index had its steepest intraday drop, 4/2-4/3, since the gauge was introduced in 2005)

On April 2nd, U.S. President Donald Trump presented a variety of changes to the current costs of doing business with America by choosing specific situations for each case. While the overall blanket 10.0% baseline global tariff on all countries was lower than some other bleaker scenarios, China was handed an additional 34.0% bringing its overall effective tariff rate at 50.0% with all other former duties combined.

As previously discussed in the [outlook for March](), the decoupling with China has only grown in focus throughout this year. The White House has promised to do what it can to incentivize a return to manufacturing within U.S. shores, but that desired transformation could run into complications. The global supply chain has already established an interdependence that values the ability for China to make as well as consume almost anything. This is one of many reasons why truly pulling away from the Pacific Rim is not perceived as easy nor instrumental to fostering prosperity.

Ever since the end of World War II and the Bretton Woods System, the United States has always played the role of institutionalizing global stability. From leading the United Nations to achieving the signings of many accords towards free trade, America has not been concerned only with its own matters, but actively pursued influence in the policies promoting innovation as well as mobility in business. Thus, the U.S. Dollar has been the pillar of the financial system.

Now that the U.S. is looking to scale back and promote productivity here instead of "Friendshoring" or even "Nearshoring," it could add to pressures on de-Dollarization. China could use the opportunity to expand the use of the Chinese Yuan, particularly across Asia and enact measures that bring those emerging nations closer to its foreign-policy goals. Asian tender from the Singapore Dollar (SGD) to the Malaysian Ringgit (MYR) have seen boosts from 1.0-2.0% already this year. Emerging-Market currencies are up 12.0%.

On the other side of the Atlantic, the Europeans are trying to form a united front that can handle and withstand the headwinds of tariffs, which only threaten to increase the risk of perpetual "stagflation."

With economic activity already feeble and inflationary pressures likely to increase, the proposed April 9th toll of an added 20.0% on all EU goods headed to the U.S. makes for unwanted barriers as Germany and others try digging themselves out of a hole. Regardless, European equities and the shared currency are enjoying some good fortunes with the Stoxx 600 Index and Euro coinciding in having their best quarterly performance since 2015 in Q1.

When it comes to our neighbors, "Liberation Day" did not mean an increase in USMCA-exempt goods, which helped in strengthening both the Mexican Peso and the Canadian "Loonie." Nevertheless, there is incessant back and forth between the leaders of the countries as they try to uphold the USMCA and look for ways to keep cooperating with one another despite some differences. We know volatility will not go away anytime soon as long as the narratives seem to be ever-changing.

Throughout his speech about the tariffs to come, President Donald Trump repeated that if nations wanted a better deal while exporting to the United States, they would need to be proactive in abandoning their blockades over importing certain American products. It is why we do not think the precise figures shown will last. Foreseeing the future has only gotten blurrier with these developments, which only bode well for instability and the potential for new trade realignments and pacts that may surprise you.

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