MONEX | USA

CURRENCY OUTLOOK

May 2025

IN BRIEF

What Happened

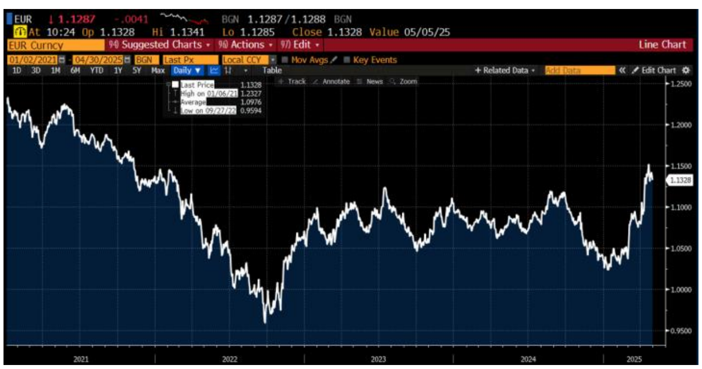
- Per the Bloomberg Dollar Spot Index, the Buck fell by 4.0% in April, marking its worst monthly performance in about three years
- Safe-haven Swiss Franc (CHF) and Japanese Yen (JPY) gained significantly with investors looking for a place to park funds; CHF touched best level since 2011
- Euro reached its strongest value since November 2021 with a stellar monthly gain not seen in two decades
- The Canadian Dollar rose by 3.6% to its highest value since November as the country elected a new leader
- Mexican Peso strengthened by 3.8%, holding on to its best level against the Dollar since last October

Monex USA's View

- Dollar turmoil will continue as long as the "Sell America" trade remains across global markets
- Following data showing contraction to Q1 growth, there is growing concern that we will enter a period of "stagflation," high prices and weakened growth
- May started with hopes that the U.S. and China can lower tensions as well as tariff levies on each other
- All eyes and ears will be on the Fed when they meet May 7th to get a clue if recessionary pressures are forming that will make a case for interest-rate cuts
- The month will be a test for a tentative minerals trade deal between the Ukraine and the U.S., a step towards negotiations towards peace with Russia

IN FOCUS

EUR: April saw the shared currency rise by 5.0% as European assets grew in popularity



(Bloomberg chart shows EUR resurgence throughout this year and climb to best levels in about four years)

Renewed faith in European markets has fueled a major comeback for Euro thus far in 2025

- There is currently a positive correlation between European equities and Euro, rising in tandem with the Stoxx Euro 50 Index up by 5.0% for the year
- The Euro-zone's economy has experienced unexpected growth after initial Q1 Gross Domestic Product doubled its estimate at 0.4% vs. 0.2%
- Although tariff talk has rattled the ability to make long-term plans, the outlook remains optimistic
- Desire to upgrade military capabilities is making governments increase the share of budget delegated towards defense spending

THE VIEW — Confusion over trade putting downward pressure on the Buck

Inconsistency in tariff back-and-forth solidifying loss of faith in the Dollar

Markets tend to enjoy having a source of stability and reliability regardless of the will to take risks. With a flood of tariffs being levied, various announcements about their implementation and sudden cancellation, and the friction between the world's two largest economic engines, global prosperity is facing a challenge. Long-term planning is becoming more difficult and even large firms across industries are foregoing putting together projections and earnings forecasts. U.S. treasuries, usually a source of safety for investors as they watch dwindling values for stocks, have also been subject to declines as usual purchasers seek other alternatives. Overall, 2025 has been characterized by traders and investors questioning dollar dominance and even its role as the #1 reserve currency.

MonexUSA.com
hello@monexusa.com
800.834.2497

WASHINGTON, DC - HQ
1101 K Street NW
Suite 600
Washington, DC 20005

LOS ANGELES
8383 Wilshire Boulevard
Suite 1032
Beverly Hills, CA 90211

NEW YORK
385 5th Avenue
Suite 1500
New York, NY 10016

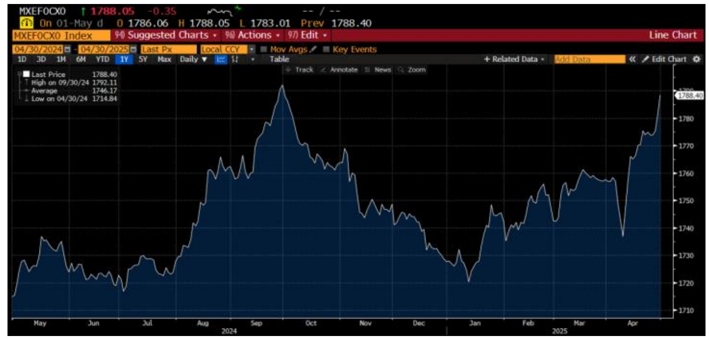
(Bloomberg Dollar Spot Index one-year graph displaying the dramatic change from Dollar-positive to negative)

The Buck's weakening has been accompanied by losses in value across market classes with Purchasing Managers as well as consumers explaining they have no pulse on what trade could look like 3 or 6 months from now. "Liberation Day" along with other rhetoric soured the mood for a world accustomed to free trade and the usual hope of expanding it to where it may not be yet exercised.

Data is providing clear evidence of an American economy that could fall into worsening scenarios if the trend of shedding American assets continues. Gross Domestic Product for the first quarter of the year revealed a (-0.3%) contraction, a steep decline from Q4 2024 that came in expanding by 2.4%. If it was not for the resilience of the consumer, things could be terrible. Personal Consumption was the saving grace at 1.8% vs. 1.2% estimated. Analysts tend to agree that some of this jump to buy in the first quarter may be due to fear of higher inflation later as tariffs get imposed.

Uncertainty over costs to trade has made for plenty of headwinds that put a dent on risk-appetite within American exchanges. The White House has made it clear that they want countries to come to the table and negotiate, but the unilateral approach has somewhat backfired. While a number of nations are claimed to be working on new bilateral deals with the U.S., China and the European Union countered with retaliatory tariffs of their own, affecting everything from foodstuffs to high-end technology.

Issues over the sustainability of the supply-chain have been compared to the turbulent times of the pandemic, with companies loading up to avoid pain, but wondering if the tariff threats are just a temporary bargaining chip to achieve certain concessions. Without clarity, exemptions and headlines declaring de-escalation of any kind have been celebrated as reprieve, but things are ever-changing.



(MSCI Emerging Markets Currency Index 1-year flow shows revival while the U.S. copes with recessionary concerns)

Federal Reserve officials have been questioned plenty about what it would take for them to reconsider going back to cutting interest rates. The most recent indicators surely are the first step in building a perspective that the financial environment will need to be more accommodative. It is why the graph above is used to highlight how rapidly the Buck can sink when the prospect of slashing borrowing costs by the Fed come into play. Back in September, it was also the cause for rapid improvement of EM/LATAM FX as those countries remain steadily advancing.

May has already provided relief as both China and the United States are gradually taking back tariff increases on key items, particularly those tied to tech components, while showing willingness to talk and seek common ground. Japan, a country with a lot on the line when it comes to automotive shipments, has also focused on direct conversations with the U.S. to prevent calamity to their economic standing. The Bank of Japan recently warned they see trouble ahead.

Meanwhile, our neighbor to the north elected a new Prime Minister in Mark Carney, leader of the Liberal Party after building a solid reputation holding the highest positions at the Bank of England and Bank of Canada. He is scheduled to meet with his U.S. counterpart on Tuesday May 6th to discuss upholding USMCA as the main reference for trading and improving the relationship following a strange spat that we have found bewildering, yet fixable.

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