MONEX | USA

CURRENCY OUTLOOK

July 2025

IN BRIEF

What Happened

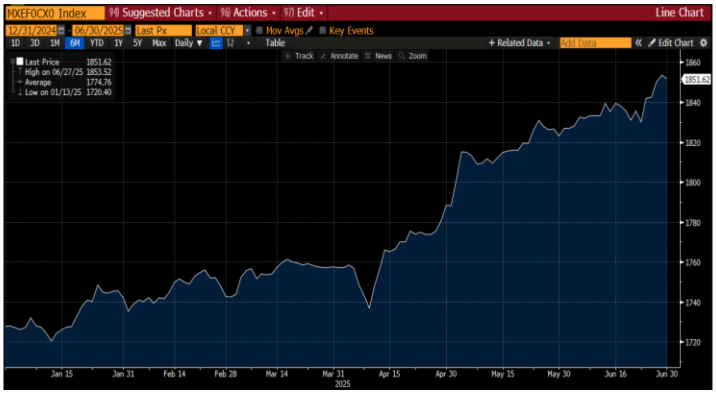
- Per the Bloomberg Dollar Spot Index, the Buck's damage continued throughout June by falling 1.5%
- The U.S. Dollar experienced its worst first half-of-year performance on record since the Dollar Index (DXY) was created in 1973 plummeting by 10.8%
- Euro and Swiss Franc both rose by 3.0% in June, with the former clinching its best 6-month run since the second half of 2017
- Sterling climbed to its highest point since October 2021 as economic indicators surprised with expansion
- Mexican Peso strengthening continued despite "dovish" monetary policy decisions; up to its strongest over the dollar since August

Monex USA's View

- Faith in the U.S. Dollar floundering as markets question sustainability of tariffs and fiscal policies
- Weaknesses revealed in growth and labor making for jittery investors betting on looser monetary policy from the Fed in the second half of 2025
- Mexican Peso strength could be derailed by commitment to lower interest rates as contraction in Gross Domestic Product was not avoided
- Geopolitical conflicts will remain a source of uncertainty and headwinds, potential dollar-positive
- July will be a test for diplomacy as countries look to make deals and avoid obstacles to trade

IN FOCUS

Emerging-Market Currencies: doubts on the U.S. Dollar helped other tender reach record highs



(Bloomberg chart shows MSCI EM Currency Index surging to its highest value of all time after a bad H1 for USD)

A mix of underwhelming indicators in advanced economies and gloomy outlooks aiding EM FX

- The Buck's collapse this year was exacerbated by a credit downgrade to the U.S. by Moody's agency in May, highlighting concerns about mounting debt
- Meanwhile, EM countries had narrower current account deficits and lower inflation volatility resulting in better economic fundamentals
- Higher capital inflows also had a positive influence with improved investor sentiment into the stocks of Thailand, Mexico, and South Korea
- Developed regions including the U.S. and Europe seem stagnant while confidence in the Emerging-Market has surged

THE VIEW — Dollar struggles to find steadiness and stay afloat

Second quarter of the year closed with a 7.0% decline in U.S. Dollar value

All the pressure continues to be on an unexpectedly weakened dollar. Defying outlooks by various large institutions, the center of the global financial system has not met the fortunes many foresaw against its major peers. According to the graph above, it has not fared well against currencies all across the board.

Uncertainty has become a theme for the year with a variety of items still up in the air, including the important question over the chances of countries facing tariffs in trading with the United States. Along with trade concerns, economists feel we may be experiencing "stagflation," with growth compromised and prices still stubbornly rising.

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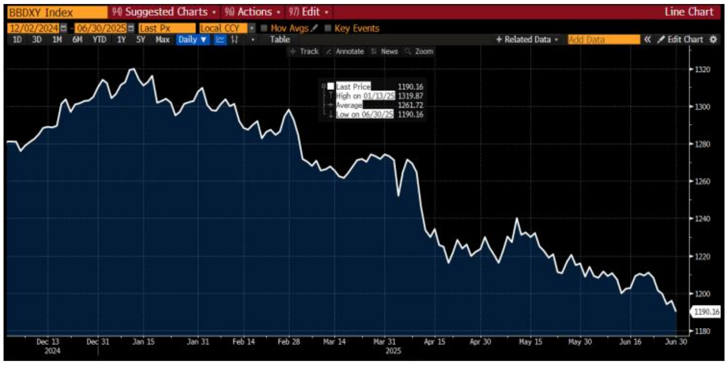

(Bloomberg Dollar Spot Index displaying the momentum shift for the Buck at the turn of the year and value collapse)

There is no clearer sign of worry than the first quarter's reading of Gross domestic Product. The final number for Q1, which had been previously registered as a contraction of (-0.2%), was actually revised further downward to (-0.5%). This represented the first quarterly decline in three years. The slowdown has been credited to less spending from both private as well as government sources due to budget freezes and some infrastructure delays.

An accompanying issue is the slump in what was carrying the American economy: the consumer. Personal Consumption for Q1 was anticipated to grow by 1.2%, but the indicator only came in at 0.5%, In contrast, the end of 2024 had a robust showing of 4.0%, which highlights the significant drag in the current environment. The data point marks the weakest pace seen since the pandemic.

Overall, consumers and companies are feeling the effects of disruption to the supply-chain with costs fluctuating and changing their projections for future inflation. What is clear though is that price-growth has been persistent. As illustrated by the Core Personal Consumption Expenditures (PCE) Index, there was a 3.5% resurgence in the first quarter of the year, slightly higher than the 3.4% estimated. May inflationary gauges have showed that suppliers had increases as well as PCE items for the common person, so the trend has not gone away.

So what can be done to foster a turnaround for both the economic picture and the world's preferred reserve currency? As far as monetary policy is concerned, the Federal Reserve seems to be willing to continue playing it cautiously for as long as they can. Officials have not ruled out cuts, but maybe only one reduction to borrowing costs is what is in the horizon. At the time of writing, odds of a cut by December stand at 72.0%.

While those chances may not encourage investors, particularly those in equities who have been hoping for stimulus-driven policies, they could help give the Buck some relief as it runs into central-bank-policy divergence with other regions, which are trying to minimize the negative impact any tariffs or changes to the status quo their national economies could run into.

Thus far this year though, majors such as the Euro and Mexican Peso have climbed in value regardless of their central bank policymakers slashing away at interest rates. In part this is due to attracting capital investment, especially after years of EU-related assets being undervalued. There has been a rotation out of U.S. holdings with American earnings also coming short to forecasts. Mexican firms on the other hand have benefitted from the volatility involved in trade between China and the hemisphere.

The European Central Bank as well as Banxico, Mexico's financial authority, cut into interest rates and remained vigilant over inflation staying under control. It is possible that if more friction is expected from increased costs to trade, the central bankers will need to weigh the potential for price growth to return to undesirable levels while coping with signals of recession. The dilemma can worsen if no resolutions calm the nerves for all market classes.

It is not easy to envision how the second half of the year will play out as we foresee further dizziness riding the roller-coaster. Unlike others, we did not call for Euro-Dollar parity and were less wrong/ranked. Any progress in achieving ceasefires or peace could spark gains for the Dollar if America leads those fronts, but as always, the economy must show signs of life.