

**IN BRIEF**

**What Happened**

- U.S. Dollar's overall value strengthened by 1.6% in March, per the Bloomberg Dollar Spot Index, marking its best monthly performance since October 2024
- Across Majors peers, the Buck climbed to its best level since Thanksgiving and experienced the fastest pace of recovery in a month since September 2022
- As a whole, the first three months of the year, Q1 2026, represented the best quarter for USD since Q4 2024
- Middle East turmoil and damage to energy facilities exacerbated inflationary pressures with uncertainty over duration, escalation, and impact on global trade
- The demand for "Petro-Dollars" has only increased with panic over oil prices skyrocketing and no clarity over a plan to re-open one crucial passage: Strait of Hormuz

**Monex USA's View**

- "Stagflation" worries might return as main fundamental risk once the armed conflict with Iran eases or a ceasefire is indeed achieved
- Low growth and higher inflation are expected, thus Federal Reserve likelihood of staying cautious while not signaling any moves will stay high
- Europeans may need to put "hawkish" sentiment into action and hike interest rates to combat inflation
- Emerging-Markets currencies have chance of a comeback if shipping obstacles diminish after falling to their weakest since last November
- The fog of war may blur envisioning into the future, but there is hope the conflict eases next few weeks

**IN FOCUS**

*MSCI EM Index: Emerging-Market Currencies crumbled in value following attacks on Iran*



**(Bloomberg chart shows how the EM tender collapsed as the need for USDs increased over energy anxiety)**

*Demand for USDs is an absolute necessity with oil prices rising fast in the middle of armed chaos*

- What began with limited attacks over Iranian military infrastructure, quickly expanded to damages to energy facilities and crucial oil hubs in the region
- Since the 1970s' energy crisis, the globe has been accustomed to payments for oil mainly in USDs, with roughly 80.0% of all oil sales denominated in it
- Prior to physical engagement causing turmoil in the Middle East, markets were focused on Artificial Intelligence and the rare metals behind tech material
- A 3.0% drop overall for EM currencies could easily be recovered once the focus shifts from concern over oil scarcity to resources for tech's expansion

**THE VIEW — U.S. Dollar's safe-haven run could be limited**

*The globe is looking for solutions to overcome a crisis and poor risk sentiment*

Armed conflict always comes with negative effects and the potential for a longer engagement than originally planned. World leadership is scrambling to make sure energy does not cause too much of a slowdown in activity, with arrangements already made in some countries to ration energy use. Furthermore, there have been some riots and

protests over the sky-rocketing price of gas at the pumps, with Diesel fuel being a particular point of concern as trucking is coping with the challenges of costs as well as availability. April is starting off with focus on how to come about a resolution with mixed messages from all parties involved, but a more unified global effort to normalize trade.



***(Bloomberg chart shows the U.S. Dollar's inconsistent run and spike as a result of the Middle East crisis)***

At the time of writing, there was major confusion about where the wind was blowing. The start of the month was characterized by hope that the worst of the military intervention was over with the White House announcing that recently replaced Iranian leadership were being “very reasonable” and asked for a ceasefire. Naturally, the Buck started losing its strength from the safe-haven rise it experienced as global risk-appetite improved with the news.

Soon after, everything was back to worry mode with Iran denying any interest in talking and doubling down on their refusal to allow passage of ships through the Strait of Hormuz. By now, it is very much understood how pivotal this waterway being shut down is because not only is it affecting the movement of oil and gas, but also key raw materials along with fertilizer and aluminum. Subsequently, the Buck reemerged without hesitation and returned to its best since around Thanksgiving.

We think trouble is brewing for the American economy and this will matter in bringing down the value of the U.S. Dollar. For a while now, “stagflation” has been mentioned and the idea that while prices remain stubborn, only exacerbated now with energy-cost drama, economic growth and productivity have been harder to come by.

It appears that the situation out there is tougher than experts anticipated with evidence that Gross Domestic Product growth is half what was expected for Q4 of 2025 coming in at just 0.7%, representing half of the 1.4% forecast. Worse yet, Personal Consumption, which had been a highlight of maintaining the economy going, improved at a lower pace than estimated at 2.0% vs 2.4%.

When it comes down to affordability, it seems neither consumers nor suppliers are catching a break with the latest inflationary figures pointing to high averages for various gauges. Consumer Price Index annual average is at 2.4% while the Personal Consumption Expenditures Price Index yearly mean stands at 2.8%. Meanwhile, the Producers Price Index has gone up without mercy with the year-over-year climbing from 2.9% in January to 3.4% in February. Plenty of this analysis occurred prior to being able to assess the impact of the combat across the ocean.

Central banks may differ from the Federal Reserve going forward as central bank policy divergence takes place in a world characterized by lack of consensus. Decision announcements from diverse countries lately have featured split votes, displaying the difference in opinion as so many variables have to be taken into account by respected decisionmakers. In Mexico, Banxico decided to cut interest rates in a surprise 3-2 result that temporarily crushed MXN value, which fell to its weakest since beginning of December. It speaks of how much more concerned officials are with low levels of growth as Q4 2025 numbers showed the economy only advancing by 0.9%, thus making it only a 0.6% jump entirely for all of 2025.

On the other hand, over in Japan and Europe, their financial authorities are far more interested in containing inflationary pressures and the odds of their central banks acting “hawkishly” surged. For Japan, almost all of their oil is imported from overseas and 90.0% of the shipments come from the Middle East. While the Yen moved beyond a level most thought would trigger FX intervention, the talk has switched to how to use the oil futures market to alleviate domestic markets.

Banking institutions are being engaged on the matter while some analysts ponder about how it could potentially hurt the government’s credibility as it would represent a novel and unusual approach. On the other side of the Atlantic, Russian oil is becoming attractive once again so we shall see a tremendous diplomatic push from Euro-zone leaders to ease the pain. USD-dominance may not continue its run.

**Ready to better position your FX payments to navigate the volatility?**

Visit [MonexUSA.com](https://www.monexusa.com), or open your [Monex USA Online](#) account today