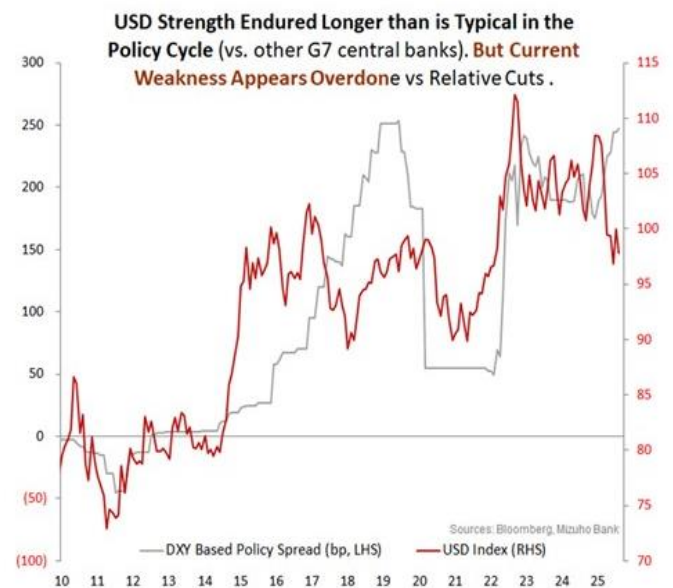
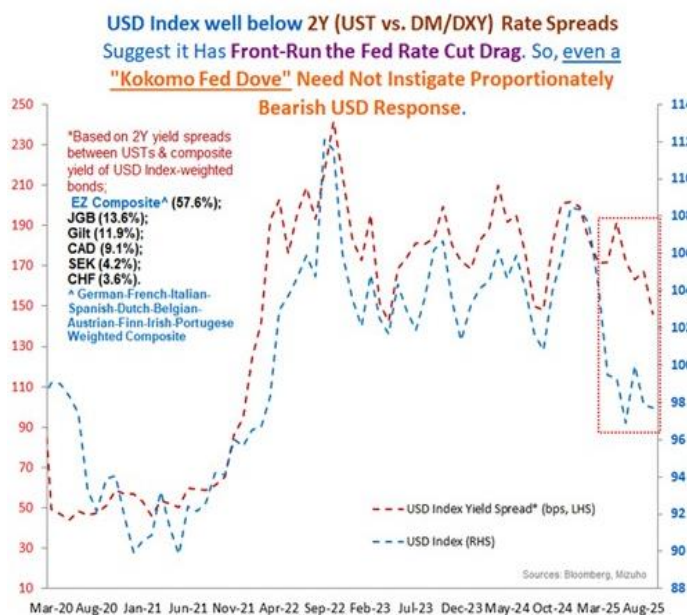


## Why USD is a Non-Linear Fed Bet

### In a Nutshell:

- The **temptation to view the USD as a linear bearish (bullish) bet on a dovish (hawkish/less dovish) Fed shifts is understandable but flawed.**
- For one, with Fed rate cuts already priced in, USD response to dovish/hawkish (less dovish) triggers are **likely to be asymmetric.**
- Second, **dynamic shifts** in comparative monetary policy elsewhere amid unprecedented **geoeconomic uncertainties** will also augment relative FX shifts vs. USD.
- Third, varying degrees of coincident economic, geo-political and fiscal/political stress elsewhere will also **significantly vary relative FX performance (vs. USD).**
- In other words, the Fed may be the main game, but not the only gambit, in town.
- Finally, *should more aggressive Fed cuts trigger recessions fears*, **USD could flip the script to surge** (on haven demand) **rather than slump on rate differential cues.**
- All said, the **USD is neither a linear** (both in sensitivity and symmetry) **nor a stable Fed bet.**
- Notably, any **AXJ gains on USD slippage from Fed cuts** are expected to be **relatively more muted** (anchored by relative CNH stability) and crucially, performance far more divergent on risk exposures.



- The **Greenback's jump on a less dovish than expected (hoped for) Fed**, with Powell pushed back against expectations of underwriting rate cuts, **appears to square with a Fed-sensitive USD**.
- Specifically, a *USD which falls with a dovish Fed* that is committed to, and delivers on, rate cuts. And as a corollary (in current circumstances), *rebounds on rate cut expectations pared back*.
- **By and large**, this **USD bull/bear correlated** with a **directionally (more) dovish/hawkish** may **hold as an initial reflex**. **But** it is **misguided to expect a stable relationship** between USD cues in response to the Fed.
- In fact, this is **necessarily a non-linear relationship**.
- Not just *in terms of marginal sensitivity* of USD weakness (strength) to incremental dovish (hawkish/less dovish) cues/shifts, but more importantly *even in terms of directional relationship* and *symmetry*.
- For one, (and **starting with symmetry**), **USD bears already appear to be pricing in steep cuts**, further **exacerbated by "Sell America" themes**.
- And so, *Fed cuts need not invoke the same degree/depth of pullback as restraint* (from cuts/dovish inclinations) *may induce a jump*.
- Hence, **dovish/hawkish (less dovish) triggers may not have a correspondingly symmetric bearish/bullish USD response**.
- Second, the **degree of relative USD weakness/strength** will also **depend on the shifts in expectations of other global central banks**. *Especially amid unprecedented global geoeconomic uncertainties*.
- Notably, the currencies of those latching on to Fed cuts to also ease may not rise against the USD much (or at all) as compared to those holding firm. So, **relative USD moves will vary** across the FX complex, **depending on comparative monetary policy shifts**.
- Third, signs of **economic and/or political stress elsewhere** also mean that expecting **unadulterated FX response relative to Fed-USD cues could be misguided**. At times, costly even.
- That's to say, *even if the Fed is the only game in town* (which it clearly isn't given Trump's geoeconomic upheavals), it is **not be the only USD gambit** to contend with.
- Finally, and perhaps most importantly, **if Fed cuts turn unexpectedly more aggressive**, the **Greenback could flip the (Fed dove-USD bear) script** to surge rather than slump.
- In particular, **if generalized risk aversion, with attendant USD strength from flight to safety, is invoked by US hard-landing fears** either emanate from or drive, these forceful cuts.
- Admittedly, **perceptions of Fed independence in delivering rate cuts will have a huge impact in amplifying bearish USD response** and/or **undermining the flight to safety** that would otherwise underpin the Greenback in larger cuts amid recession risks.
- Nonetheless, what's clear is that the **USD's Fed response will necessarily neither be linear nor stable as geoeconomic conditions rapidly evolve to frame the context of Fed rate cuts** (or lackthereof).
- Notably, in the **AXJ space**, we by and large expect **bearish USD triggers on a dovish Fed to be somewhat more muted albeit divergent** given *prevailing trade/exports risks*, somewhat *more pronounced political/fiscal uncertainty* and attendant *central bank policy tensions*. More so, as relatively tempered CNH appreciation reins in AXJ.

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