Mizuho Brief: USD

Economics & Strategy | Asia ex-Japan

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USD Outlook: Inorganic Exceptionalism

"Some are more equal than others." - **George Orwell**, ***Animal Farm***

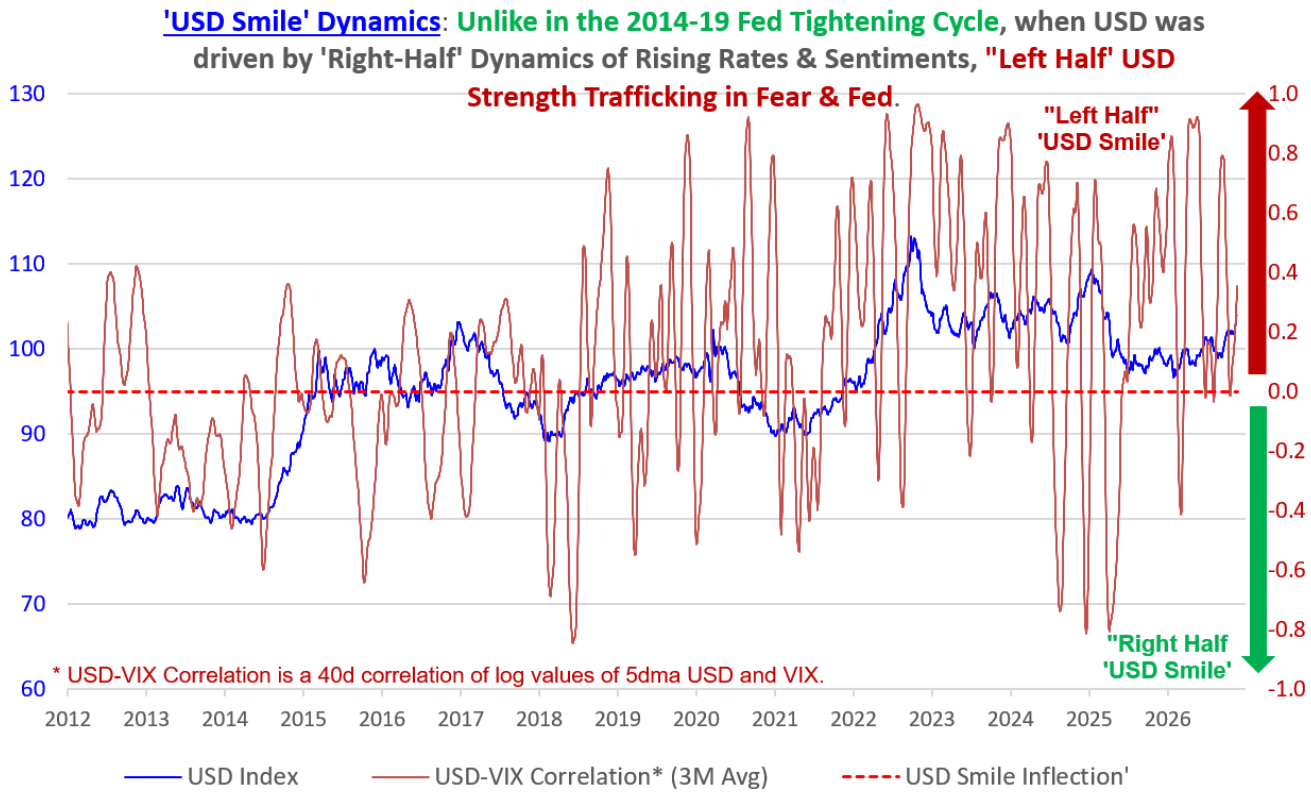
In a Nutshell: The **USD is set to defy structural headwinds**, including unsustainable debt and debasement risks, **to remain relatively buoyant** – staying resilient through at least H1 2027. For a start, a ***hawkish Fed*** makes dollar shorts expensive. **Beyond just the hawkish policy phase** *as other central banks inclined to cut will mute rate-differential shifts,* so any **USD softening in late-2027/2028 should be restrained**. The ***alternatives are unappealing***. **EUR is exposed to fiscal risks** and **Russia-Ukraine spillover**, while **JPY is hampered by fiscal strain** and **Fed-BoJ differentials**. ***Crucially, "inorganic"*** forces, namely a ***geopolitical premium*** from "Pay America" policies boosting USD ***and AI-driven capital inflows***, are *overwhelming fundamental cracks*. Upshot is **underlying, structural USD cracks may be temporarily papered over**. Meanwhile, **AXJ currencies** are prone to **pressure from a strong USD** amid a hawkish Fed, persistent trade risks and disproportionate US-China spillovers.

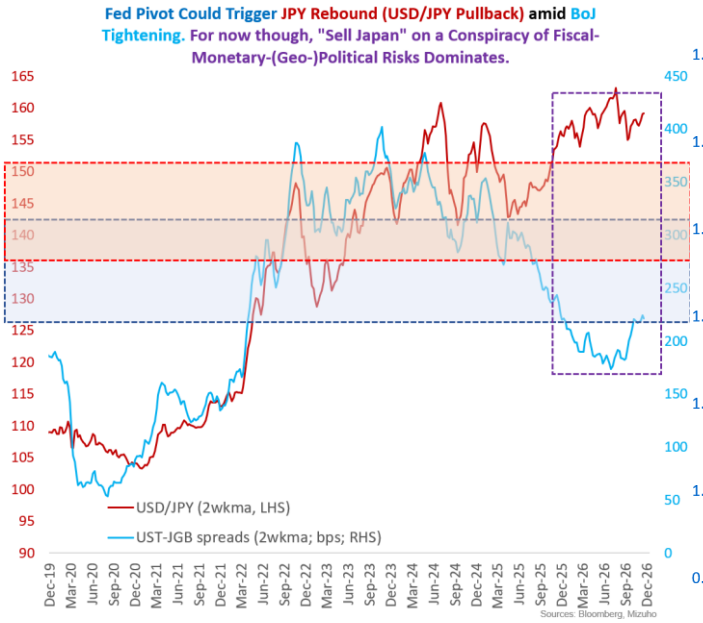
1. Defiant Exceptionalism: The big picture is that the **USD will defy structural headwinds** – led by pressures from worries of unsustainable debt, debasement risks – **to remain relatively buoyant on inorganic exceptionalism**.
2. Underscoring H1 2027 Resilience: At the very least, the **Greenback** is likely to remain **resilient through at least the first half of 2027**, *even if the longer-term outlook is decisively not bullish.*
3. Amid Expensive Shorts: Especially as the ***backdrop of "higher for longer" Fed/US rates***, renders shorting the dollar an expensive proposition – particularly through the first half of 2027.
4. Beyond Just Hawkish Fed: And **not merely because of USD boost from** (anticipated) **hawkish Fed**, whose **propensity and scope to hike is unlikely to be matched** sufficiently by the BoJ or ECB.
    a. To be sure, an *unequivocally hawkish Fed into mid-2027,* set for hikes punctuated by hawkish talk, will be the *first line of USD support* (albeit mostly baked in by now).
    b. What's more, *even as Fed hawkishness peaks/inflects, other central banks inclined to cut* rates in tandem are likely to *blunt the softening impulse on the Greenback* as relative rate differentials shifts are muted.
    c. And so, even if Fed turns dovish/cuts, it is **not a straight, unfettered path to emphatic USD decline**. Instead, **some USD softening come through in late-2027/2028**, but ***in a restrained manner***.
    d. In fact, ***even when the USD softens further out on peak*** - followed quickly by falling - **Fed rates**, downside sensitivity to rate cuts are likely to be uncharacteristically diminished.
5. Flattered by Less Alluring Alternatives: Partly because the main **"USD alternatives"** such as the EUR, JPY and other Major alternatives to USD are **notably less alluring**.
6. As Geo-political, Fiscal & Fiat Risks Conspire : In fact, EUR and JPY are **arguably exceptionally vulnerable** and **more conspicuously unviable** *as geo-politics compounds threats from fiat-fiscal fault-lines.*
    a. EUR: For one, euro remains prominently vulnerable to not just European fiscal risks but the evolving Russia-Ukraine spillover.

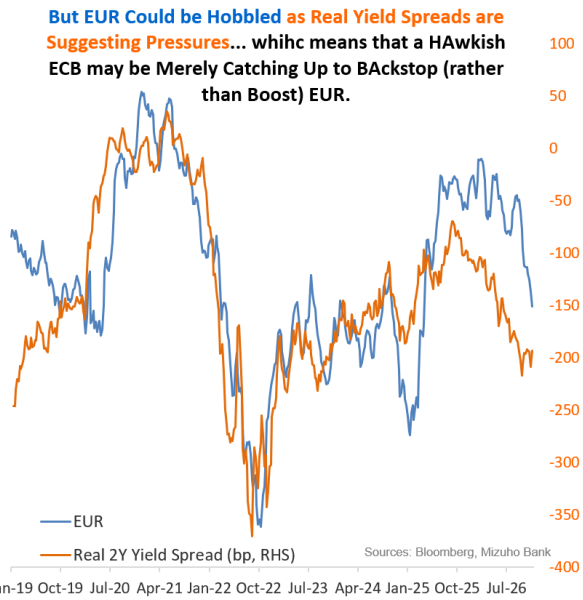
   b. JPY: Meanwhile, the JPY is confronted by fiscal concerns and hampered Fed-BoJ interest-rate differentials. If anything, higher JGB rates risk compounding JPY fragilities via fiscal pressures.

7. Exceptional, Inorganic USD Boost: Crucially, as this is **profoundly accentuated by "inorganic" forces** such as; i) *geopolitical premium* (led by extractive "Pay America"* US policies) and; ii) overwhelming *AI capital suction* into the US.
   a. On (i), **cash flows from investments (into US) demanded of allies** and trade partners as **a source of dollar support**.
   b. Crucially, **AI-driven/related capital flows are expected to favor the US**.
   c. And to be sure, ***despite concerns about AI valuations***, **AI companies expected to raise more capital** – either to fund future investment or cover cash-flow shortfalls tied to future commitments – **thereby underpinning the USD**.
8. Overwhelming Fundamental Cracks: Such that **intervening "inorganic" Geo-political and tech (A.I.) forces overwhelm fundamental hollowing out from** *unsustainable fiscal/debt dynamics* amid *fiat debasement risks.*
9. Deferring USD Weakness: The broader point being, while fundamental fiscal/debt and debasement risks strongly suggest **inevitable USD weakness**, it **need not be imminent**.
10. AXJ Compromised: AXJ may be **prone to be compromised by a strong USD**. **Exacerbated by** *persistent trade risks* amplified by *geopolitical supply shocks,* and remarkably, *adverse spillovers from US–China tensions*.
   a. **US trade antagonism** alongside **geo-political upheavals** and a hawkish Fed are set to pressure AXJ.
   b. Notably, **US–China tensions perversely tend to inflict disproportionately large collateral damage on the rest of Asia** (e.g. adverse data center impact post-Nvidia fiscal controls)

* See Publication here







	Q3 2026	Q4 2026	Q1 2027	Q2 2027	Q3 2027	Q4 2027	Q1 2028
DXY	101.45	103.6	105.2	102.8	101.0	99.6	98.8
	98.5-101.7	100.2-105.6	101.2-106.8	100.6-105.5	98.5-103.8	96.8-102.3	96.5-101.8

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