# Mizuho Brief: USD

**Economics & Strategy | Asia ex-Japan**

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## USD: Doubt, Not Demise

*"Reports of my death are greatly exaggerated."* – **Mark Twain***

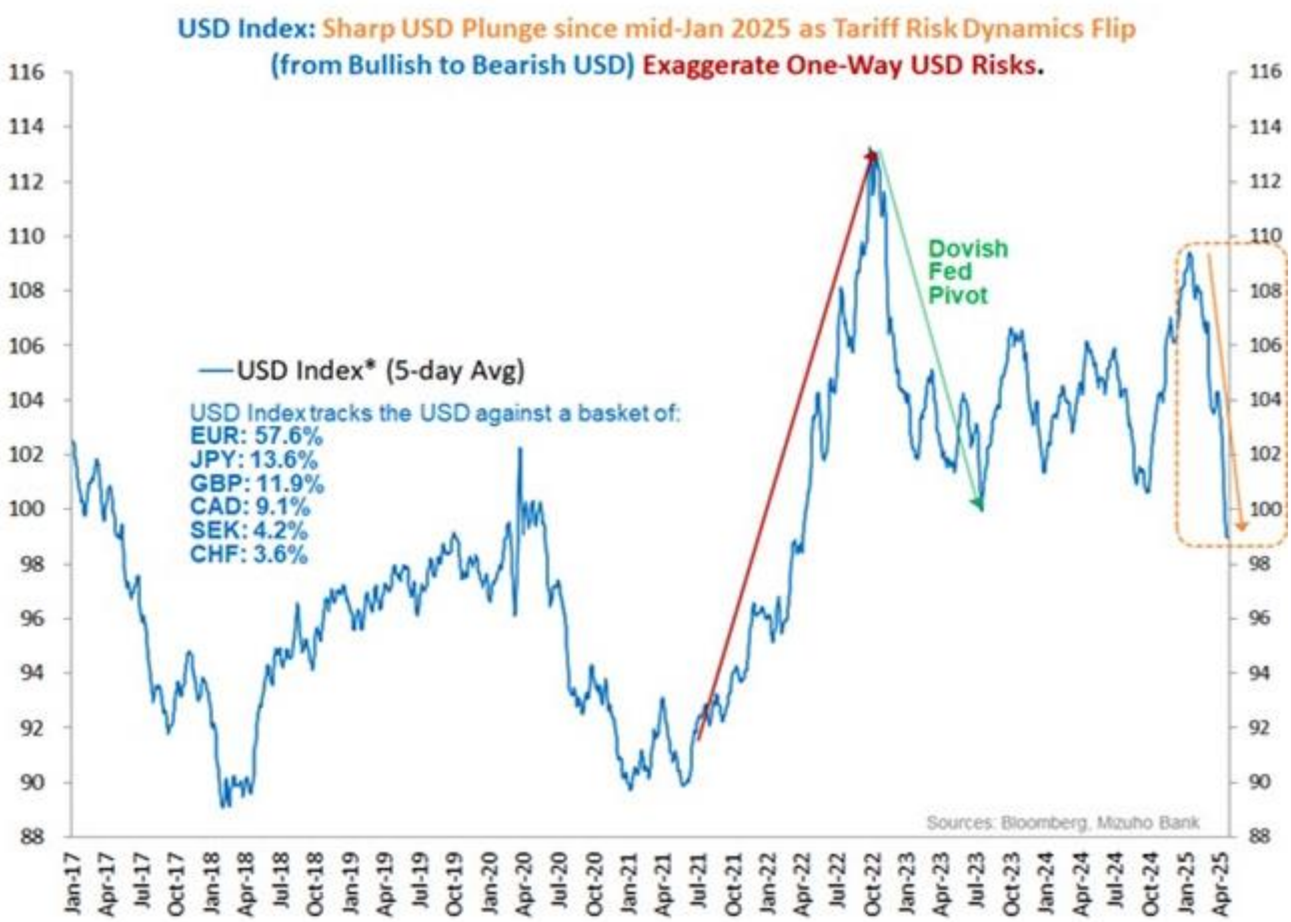
In a Nutshell:

- The **USD's exceptionally sharp plunge** predominantly reflects **abrupt** and **front-loaded macro doubts** amid tariff shocks.
- **Not an imminent demise of the USD's reserve currency status** that squares with a far greater order decline.
- **Stretched bullish USD positioning earlier** had **exaggerated the intensity of USD bearishness**.
- More so given aggressively **front-loaded, tariff blowback shocks** (detrimental to USD) **accentuated by overturned haven allure**.
- But it will be **misguided** to **project a linear USD depreciation of the USD** based off current pace/rate of travel.
- Measured DXY Declines: Instead, a (relatively) measured a **level shock for the USD** that **shifts near-term equilibrium lower** (~96-98 UXY center-of-gravity) is more likely.
- Lagged, Phased, Incomplete CNH Gains: **Lagged**, **phased** and **incomplete CNH catch-up** ***corresponding to USD declines*** is **likely on the cards as US-China trade talks emerge**.
- Exploiting Convenient Policy Buffer: But for now, **expect the PBoC to exploit the** cover of a weak USD to derive some policy from a **considerably weaker trade-weighted CNH** amid trade headwinds.
- Relative CNH & AXJ Underperformance: In other words, **CNH is set to continue under-performing most Major FX** amid a softer USD. And **AXJ are likely to follow suit** as trade bugbear impacts Asia disproportionately.

### Rude Doubt, Not Imminently Inevitable Demise

- A **staggeringly sharp 10-11% plunge in the USD**** since its mid-January highs (of 110 DXY to test 98) begs the question of **how much further the USD is liable to fall**.
- And that ultimately depends on **whether** the **USD** is
- merely *suffering* from a bout of **acute macro doubt** that is **driving sharp**, ***but not unbridled,*** **recalibration** or;
- *staring down* **unavoidable** (albeit phased) **demise** that **structurally shatters significant reserve currency premium**.
- Admittedly, the **Trump Administration unwittingly flirts with dangerous erosion of critical reserve asset backstop every time it** *disregards Fed independence* or *indulges in extractive "Mar-a-Lago Accord"* [See Figure 1] plans.

- Nonetheless, **current USD woes predominantly reflect rude doubt from the blowback of Trump 2.0 tariff shocks**, and ***not imminently inevitable demise*** **of the USD's reserve asset status**.




Exaggerated by Wrong-Footed Positions

- Admittedly, **USD woes have been exceptionally sharp since the "Liberation Day" tariffs shocks**.
- But the **intensity of the overwhelming speed and depth of USD sell-off** is arguably **exaggerated** by *an exceptionally rich Greenback wrong-footed.*
- Especially given the run-up of **exceptionally low Majors** (led by EUR, JPY, GBP) **starting point** exaggerating the moves
- Notably, the **abrupt impetus to unwind** sweeping and saturated USD strength is likely to have been inadvertently amplified as **"tariff shocks" ripple across various dimensions of** (earlier) USD buoyancy.

Tariff Shock Ripples

1. Most obviously, the **USD has been subject to a fundamental tariff "shock" re-pricing lower** on the basis of;

- Pricing the tariff blowback that was earlier ignored (and complacently assumed to be predominantly detrimental to trading partners).
- In turn, US exceptionalism (and attendant long-USD positions) seriously challenged on account of **mounting US vulnerabilities to adverse income/demand shocks**.
- Corresponding/consequent Fed (dovish) re-pricing in **response to income/demand shocks** that are **expected to accompany tariff risks**.
- As a result of which, "haven demand" for the USD from "tariff shocks" is undermined, if not overturned.

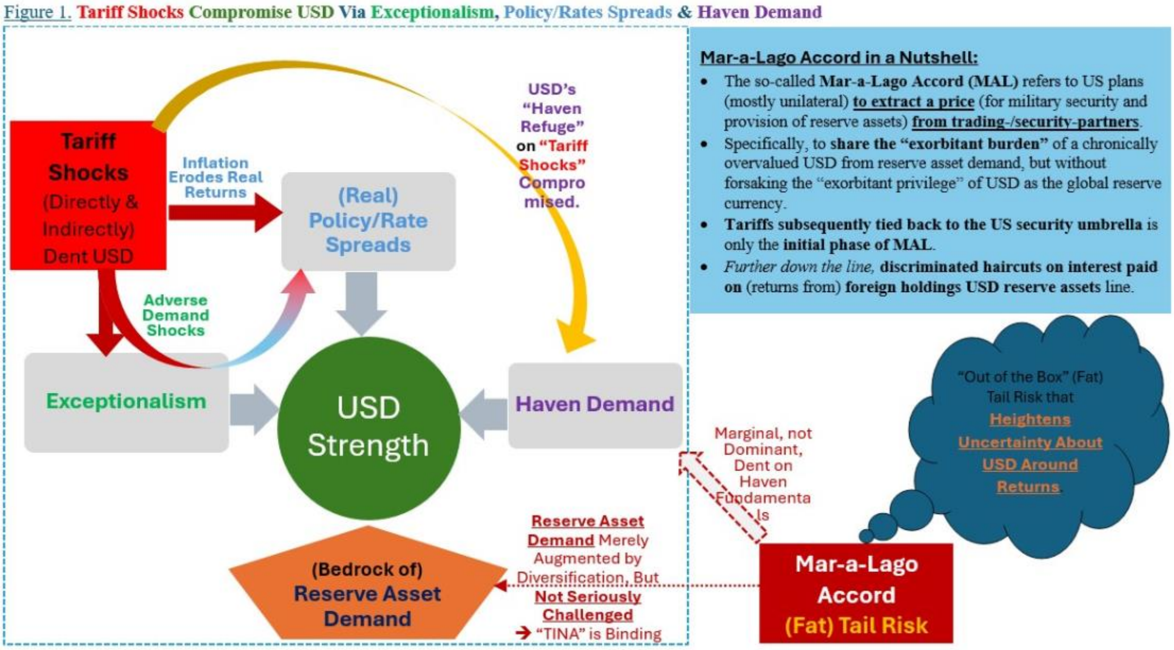
2. What's more, **harsher inflation shocks tilted to US** *diminishing the relative real return profile for USD assets.*

- *Specifically, the* asymmetry of effective import tariffs *(US imposing far higher tariffs than most trade partners)* **suggests US suffers relatively larger inflation shocks** *associated with* **eroding real (US) returns**.
- *What's more, adverse feedback between real US returns eroded by relatively higher US inflation and a softer USD also features as dent on the USD.*

3. In addition, **structural global asset re-allocation away from "richly valued" US** assets to global assets elsewhere (led by reallocation to "cheaper" EUR and JPY assets) on account of;

- In particular, as global supply-chain reconfigure around US barriers, **potentially isolating** *and partly undermine* **US interests**. More imminently, there is also the very real prospect of US margins being squeezed amid higher costs from self-inflicted tariffs (at least near-term), which begs a **revaluation (lower) of US assets**, with **corresponding USD drag**.

Figure 1. Tariff Shocks Compromise USD Via Exceptionalism, Policy/Rates Spreads & Haven Demand



## Reserve Asset Demand Augmented, Not (effectively) Challenged

- Arguably, **"Mar-a-Lago" (MAL) Accord fears prompting large-scale** and **irrevocable capitulation out of the USD** may be **overblown** *at this point.*
- To be sure, this is a so-called **"fat-tail" risk**, the **probability of which is not negligible**. Afterall, it is well-documented, and part of the broader global re-ordering plan.
- Nonetheless, with ***USD already on an unexpected sharp and early decline***, on fundamental US doubts, it is **unlikely that the Trump Administration will further jeopardize confidence in the USD**.
- Crucially, as **retaining the USD's global reserve currency status** (and attendant **exorbitant privileges**) **is an overt desire enshrined in the MAL Accord**.
- This underpins **marginal hedge against**, *not wholesale capitulation out of,* USD (**to the benefit of hard non-USD currencies/real assets**).
- Especially as the **"TINA*** problem" of no viable and liquid alternative to USD reserve assets** (USD as reserve currency) limits prevailing "exit options".

## Measured Level Shock for USD?

- All said, a **level shock for the USD** is, **shifting near-term equilibrium lower**, is not outlandish given that **wider "tariff shock" factors** were **under-accounted for earlier**.
- ***But*** equally, much of the softer USD re-pricing from these "shocks" are **probably extrapolated and** front-loaded.
- Hence, it may be **misguided** to **project a linear USD depreciation of the USD** based off current pace/rate of travel.
- Instead, **further USD depreciation**, while ***prone to bouts of exaggerated swings amid turbulence from over-the-top tariff headlines***, will **probably have downside guarded** ahead of 95 first and then 93.
- The **"center-of-gravity" for USD swings** may be in the **ballpark of 96.0-98.0** (from our call of "either side of 100) earlier [See Table below].

Table 1: DXY & CNH

| | Q2 2025 | Q3 2025 | Q4 2025 | Q1 2026 | Q2 2026 |
|---|---|---|---|---|---|
| **DXY (Old)** | **104.3** | **102.8** | **99.5** | **100.6** | -- |
| | 99.0-108.8 | 98.8-105.8 | 97.5-104.3 | 96.0-103.8 | -- |
| **DXY (Revised)** | **98.8** | **96.8** | **99.2** | **98.5** | **96.5** |
| | 96.2-104.5 | 93.5-100.8 | 94.8-102.5 | 94.0-100.5 | 93.6-99.5 |
| **USD/CNH (Revised)** | **7.38** | **7.23** | **7.12** | **7.14** | **7.11** |
| | 7.18-7.45 | 7.10-7.45 | 7.03-7.38 | 7.00-7.28 | 6.98-7.36 |

## CNY "Catch-Up"

- Broad USD moves though are **not likely to be perfectly matched/synchronised with corresponding CNY antagonism**.
- That is, ***CNY** is **unlikely to appreciate*** *(depreciate)* ***in lockstep with USD pullback*** *(gains).*
- Instead, **policy of (by and large) stable USD/CNH levels** pursued by the PBoC (with **corresponding, sharp CNH under-performance against** many of the **G10 FX**) may be retained.
- Notably, as **effectively weaker trade-weighted CNH** provides **convenient buffer from trade headwinds**, in the ***cover of USD weakness***. Effectively, this **allows PBoC to side-step US allegations of mercantilist FX policy** response to tariffs.
- Into **H2** though, odds of **US-China negotiations may prompt** a **cautious, phased shift lower in USD/CNY** in ***partial CNH catch-up***.
- Although *even with the partial catch-up,* **CNH will be well under levels that had corresponded to 96-98 DXY in the past** as the bugbear of US-China trade antagonism lingers.
- Likewise, AXJ could also take cues from CNH to under-perform most Major FX against a backdrop of weaker USD as structural US-China geoeconomic risks disproportionately impact the region (see US-China Risks Feature below).


* This is the more popular paraphrasing of Mark Twain's original quote, which was "the report of my death was an exaggeration".

** Although (at the point of publication) this was partly reversed to ~99 as Trump denied (implied) treats to fire the Fed Chair and suggested a path to

US-China tariff de-escalation.

*** TINA being a well-known market acronym for "there is no alternative". Arguably this applies most distinctly to the USD's role as the global reserve currency.

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## Feature

### US– China Trade Risks: No Easy Fix

The Fear: The clear underlying fear in this structural US-China geo-economic antagonism is **stumbling into a neo-geoeconomic 'Cold War'** that polarizes trade, which not only ***fragments supply-chains*** but ***diminishes aggregate demand***.

The (Asia) Asymmetry: Not all global economies are evenly impacted, with the rest of **Asia considerably more vulnerable** given the **"bar-bell" risks** of deep supply chains with China on one end, and end-demand in the US/West at the other.

The Devil & the Deep Blue Sea: **Tensions between China and US dependencies** means that **Asia will probably face the sharpest trade-offs**; caught in the classic "**devil and deep blue sea**" **dilemma between bad choices**.

The Entire Stream of Risk Transmission: Imaginably, the likes of Vietnam, Cambodia, Thailand and Malaysia may be **most adversely affected from inextricable supply-chain linkages**, while **commodity demand/commodity-sector investments** is a particular soft spot for Indonesia. For Korea, Japan and Taiwan, the **ability to replace China demand**, if the US imposes sanctions on high-tech exports to China, **will be the key pain point for upstream exporters**. Simply put, Asia's collateral risks from **US-China geo-economic spans upstream and downstream partners**.

The Bar & Line: Striking **a deal with the US will be a higher bar** and drawing a **line under US-China antagonism** will be **profoundly challenged** as the nature of the risk evolves (and not quite eradicated).

The USD & AXJ: Hence, **unbridled AXJ bullishness on the back of a weakening USD** may be careless, if not **cavalier**. ***Expect AXJ under-perform key G10 currencies***.