

## USD: Doubt, Not Demise

*“Reports of my death are greatly exaggerated.” – Mark Twain\**

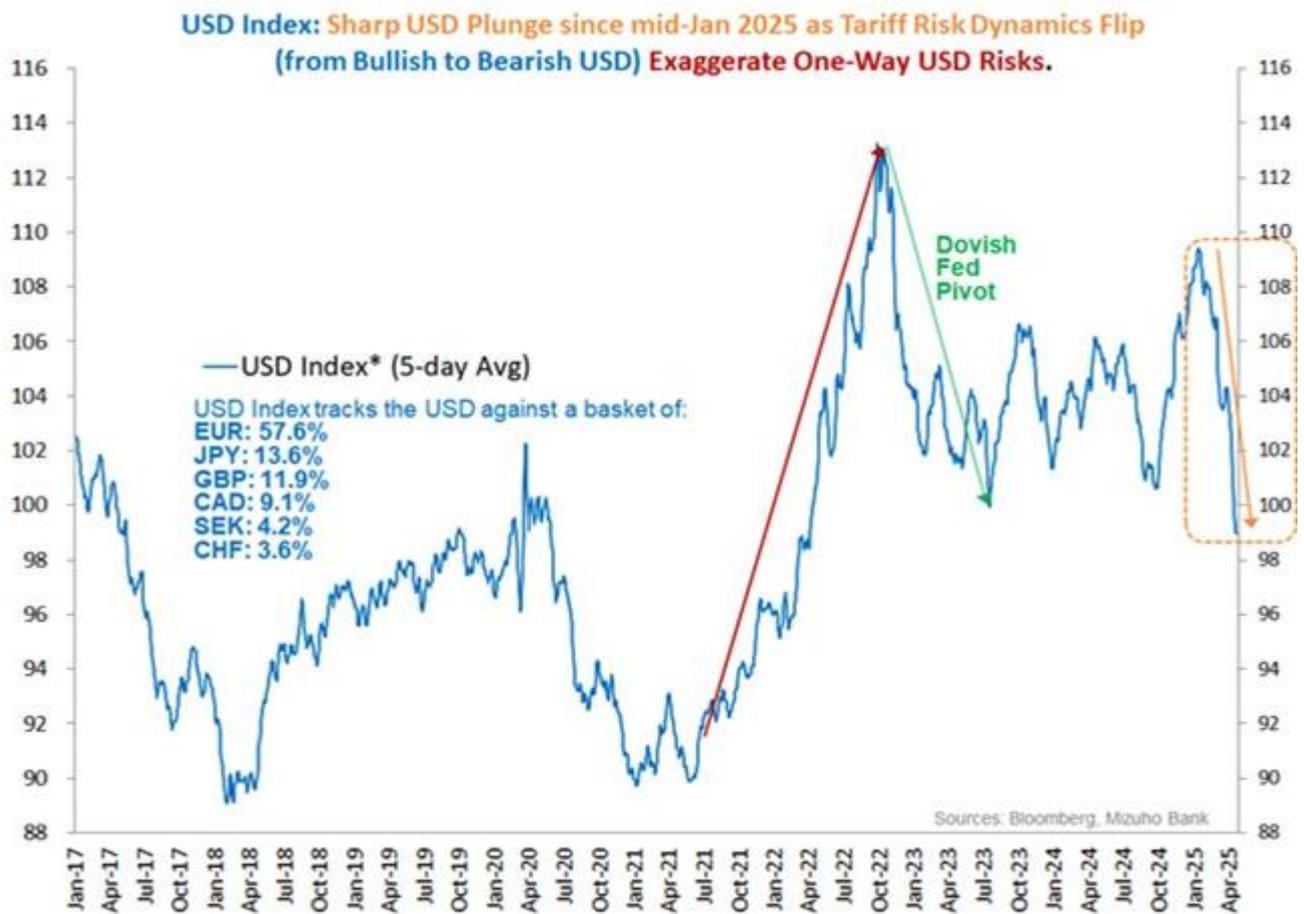
[In a Nutshell:](#)

- 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

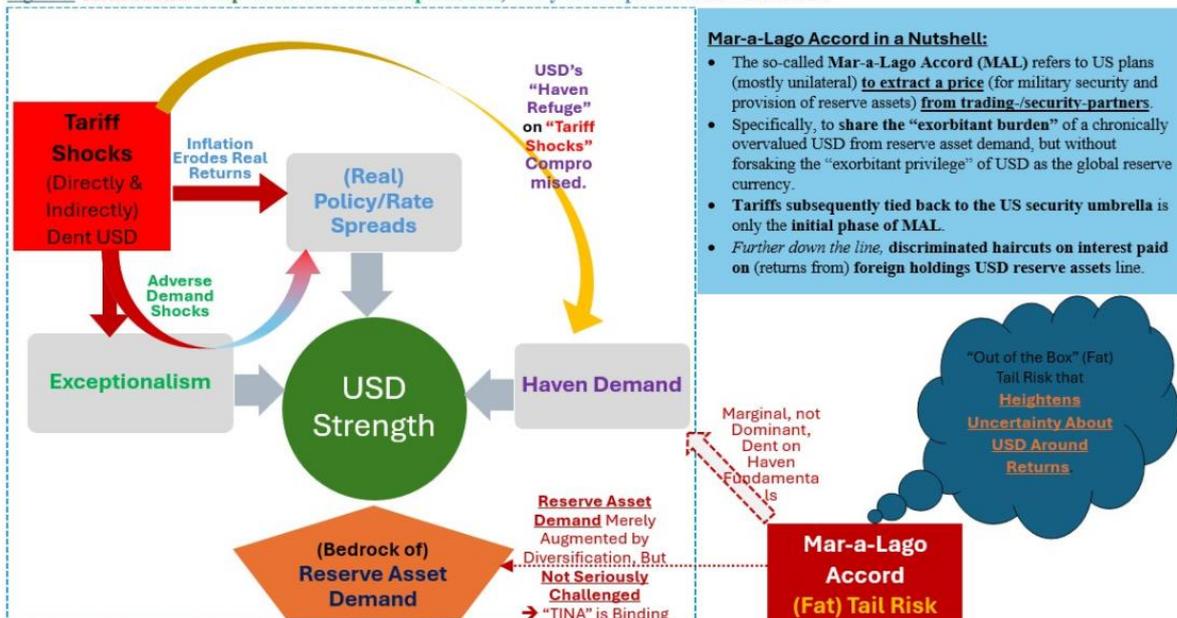
- Admittedly, **USD woes have been exceptionally sharp since the “Liberation Day” tariffs shocks.**
- But the **intensity of the overwhelming speed and depth of USD sell-off** is arguably **exaggerated** by *an exceptionally rich Greenback wrong-footed.*
- Especially given the run-up of **exceptionally 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 **reevaluation (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 &amp; CNH

	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026
<b>DXY (Old)</b>	<b>104.3</b>	<b>102.8</b>	<b>99.5</b>	<b>100.6</b>	<b>--</b>
	99.0-108.8	98.8-105.8	97.5-104.3	96.0-103.8	--
<b>DXY (Revised)</b>	<b>98.8</b>	<b>96.8</b>	<b>99.2</b>	<b>98.5</b>	<b>96.5</b>
	96.2-104.5	93.5-100.8	94.8-102.5	94.0-100.5	93.6-99.5
<b>USD/CNH (Revised)</b>	<b>7.38</b>	<b>7.23</b>	<b>7.12</b>	<b>7.14</b>	<b>7.11</b>
	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-geo-economic ‘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**.

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