



CIO thinks the currency is best placed to benefit from China's economic recovery among G10 currencies, while the domestic economy is expected to experience a soft landing. (ddp)

# US dollar to come under further pressure

24 April 2023, 1:11 pm CEST, written by UBS Editorial Team

**The US dollar remains under pressure, with the DXY index now just a touch higher than its recent one-year low. Since September, when the index hit a 20-year high, it has fallen close to 11%.**

We recently brought forward our forecasts for USD weakness, and now expect a steeper depreciation. We believe the greenback will fall further against key currencies like the EUR over the next 6–12 months for a number of reasons:

**The US growth premium is set to shrink.** The US has enjoyed a growth premium relative to the rest of the developed world in recent years, but we believe this will erode in the coming months. While the data remains noisy, the trend is for a weakening US economy. On Friday, the S&P Global flash US Composite PMI came in above expectations at 53.5 (vs. 51.2 expected), driven by the services sector. But the ISM manufacturing PMI for March was at its lowest level in nearly three years, while the services PMI dropped to a three-month low and other data released last week also pointed to weakness. The Philadelphia Fed's manufacturing business outlook survey for April fell to a new low for this cycle at –31.3 (vs. –19.3 expected) and the Conference Board's leading index for March also declined by a larger-than-expected –1.2% (vs. –0.7% expected). Taken overall, we expect a falling growth differential between the US and Europe—given that various European economies have already suffered downturns, whereas the US is only about to enter this phase.

**The US labor market and inflation are cooling.** The March US labor report showed a 236,000 increase in nonfarm payrolls, the smallest since December 2020; the latest JOLTs survey data showed lower-than-expected job openings; and last week's weekly jobless claims showed an increase of 5,000 to 245,000 claims, suggesting a softer US labor market. In year-over-year terms, the headline inflation rate fell to 5%, the lowest since May 2021, and inflation in the cost of shelter, one of the main recent drivers of core CPI, also moderated.

**The Fed is likely to cut rates ahead of other major central banks.** While the US central bank looks set to raise rates by another 25 basis points in May, it is also coming closer to the end of the tightening cycle against a slowing growth

backdrop. Conversely, recent comments from European Central Bank officials have been more hawkish, suggesting that the job of tightening monetary policy in the Eurozone is not yet done. On Monday, Belgium central bank head Pierre Wunsch predicted the ECB could hike interest rates to 4%. Elsewhere, UK inflation remains above 10%.

So, the US dollar remains least preferred in our global strategy, and we now forecast EURUSD, GBPUSD, and USDCHF to reach 1.16, 1.33, and 0.84, respectively, by year-end. We have upgraded the Japanese yen to most preferred, as we expect the Bank of Japan to eventually follow all other G10 central banks and tighten its ultra-loose policy. With Japan's negative output gap expected to close fully by midyear, coupled with inflation staying above target, the BoJ may allow a further rise in Japanese government bond yields in the second half of this year.

We keep the Australian dollar as most preferred. We think the currency is best placed to benefit from China's economic recovery among G10 currencies, while the domestic economy is expected to experience a soft landing. We also continue to like gold as an attractive portfolio diversifier, forecasting the price of the precious metal to hit USD 2,200/oz by March 2024.

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**Content is a product of the Chief Investment Office (CIO).**

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