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An Asian perspective on de-dollarization

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As we approach the 9 July deadline for the reconsideration of reciprocal tariffs, the beleaguered USD might finally find its footing. Further out though, we expect the erosion of confidence in US policymaking will see the USD depreciate over the medium term. The EUR, AUD, and gold remain the main alternates to the USD. In Asia, the KRW and TWD provide appreciation prospects and access to the tech story. Also, the CNY and SGD offer resilience and access to attractive options for boosting portfolio income.

As the S&P 500 edged to a new all-time high late last week, the USD (DXY) index bounced off an almost 40-month low just above 97. With the 9 July tariff risks deadline approaching and geopolitical tensions in the Middle East still simmering, investors would be forgiven for questioning if the adjustment in the DXY, after a 10% year-to-date decline, might be over.

While we recognize that the various risks point to increased volatility and a possible short-term rebound in the USD, we continue to expect the USD to weaken over the medium term. Fading US exceptionalism should prompt global investors to reconsider their US exposure over the coming quarters. US trade policy, fiscal sustainability, and central bank independence are the key concerns. Additionally, we also see the US Federal Reserve cutting its policy rate by 75-100 bps over 12 months beginning in September. Below are our preferred alternate stores of value to the USD, including options in Asia.

EUR, AUD, and gold still head the list. As the most liquid alternative to the USD, the EUR is still likely to be the main beneficiary of the erosion of confidence in the USD. Also, fiscal measures in Germany and increased European defense spending will likely be supportive for the EUR. Investors should also note our preference for using the potential upcoming market volatility to buy European Quality stocks, which are well suited to portfolio diversification and increasing exposure to European equities.

The AUD meanwhile boasts the highest yields among the G10, and Australia is likely to escape with relatively limited impact from the trade war. Gold also remains a key portfolio hedge, and we continue to recommend a 5% allocation in balanced USD-based portfolios. Over the next 12 months, we see the EURUSD moving to 1.20 and the AUDUSD moving to 0.70. Our target for gold in 12 months is USD 3500/oz in our base case and USD 3800/oz in our upside case.

KRW and TWD offer appreciation and exposure to tech story. We expect both of these North Asian currencies to gain against the USD over the next 12 months, on the back of a more favorable policy environment and better flows environment. The KRW offers the most compelling appreciation prospects of 5-7% and remains our top pick in Asia, thanks to supportive policy measures, progress in US-South Korea trade talks, ongoing equity inflows, and attractive valuations. The TWD should remain bolstered by exporters and life insurers increasing their USD selling and hedging. Taiwan's policymakers also seem more comfortable with further appreciation, given the resilience of Taiwan's tech sector. We see the USDKRW and USDTWD at 1280 and 28.0 by mid-2026.

Investors should note that we see Taiwan's equities as Attractive; we believe they are well positioned to benefit from global tech demand and capital rotation, given its leadership in AI and technology hardware and relatively light foreign positioning. Within Korea, we remain bullish on the memory producers and value-up beneficiaries. The approach of the 9 July tariff deadline might provide some buy-on-dips opportunities for some key semiconductor names in South Korea and Taiwan. These are boosted by strong structural drivers such as resilient AI capex and the ongoing monetization. Structured solutions may also offer an alternative avenue to gaining exposure amid heightened volatility.

CNY and SGD offer resilience and portfolio income options. We believe the tariff truce has set a floor for CNY and paves the way for continued CNY recovery. We see scope for the USDCNY to reach 7.10 by year-end and 7.0 within a year, assuming the tariff truce holds. This move will likely be driven by exporters and corporates converting more USD earnings into CNY, as China's policymakers signal comfort with a firmer currency. Within onshore A-share markets, dividend-yielding stocks are particularly attractive amid a declining yield environment. We favor value and defensive sectors with a focus on high-dividend stocks.

We see the USDSGD moving down to 1.25 by June 2026. Despite the likelihood of further easing, we expect broad USD weakening to dominate. We favor using bouts of USD strength to diversify and hedge USD exposure. For investors looking to hold SGD assets, we have upgraded Singapore equities from Neutral to Attractive. Singapore offers a defensive bulwark amid ongoing geopolitical uncertainty, backed by a stable currency, generous dividend yields, and a steady earnings outlook. The ongoing equity market reforms provide additional catalysts in the form of a SGD 5bn capital injection and potential value-up initiatives to unlock shareholder value. Additionally, we believe SGD credits have emerged as a perceived "safe haven" among regional markets. SGD credits will likely continue to prove attractive, buoyed by resilient corporate fundamentals, rate declines, and strong demand for a safer haven amid structural concerns over the USD.

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