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# Ways to "de-dollarize" in APAC

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**After a few weeks of risk-on markets and a USD rebound, a disappointing July NFP print amid continuing concerns about Fed independence could generate disruption. We think investors need to look through the noise and focus on the de-dollarization theme, which could well be strengthened in the current environment. In APAC, we think the AUD, CNY, and SGD are good ways to diversify away excess USD exposure. All three APAC currencies also bring access to onshore bond markets that international investors could access for yield enhancement.**

US financial markets began August on a somewhat down note due to a rather weak July nonfarm payroll (NFP) release that included large downward revisions for both the May and June numbers. The S&P 500 fell 1.6% on the day, taking the four-day fall to a total of 2.4%. The futures market turned dovish on Federal Reserve expectations, with a 25bp cut in September being given an almost-96% chance, and at least 100bps of cuts by June 2026. This dovish shift, plus concerns about Fed independence still swirling in the background, likely helped to push the USD (DXY index) down 0.8% on Friday itself, reversing a prior 10-day rise of 2.4%.

Investors though, might do well to look beyond the near-term noise and refocus on a key trend that could be likely to prove enduring: de-dollarization. Polls conducted by Reuters in July revealed that there is significant concern amongst economist and market-based respondents about both Fed independence and the accuracy of US economic data. The latter is due to cuts in resources available to the US Bureau of Labor Statistics (BLS), the principal agency for labor market and inflation data. Last week's firing of the head of the BLS, along with the surprise resignation of a Fed governor (and Federal Open Market Committee) member, should likely add to those concerns. The renewed focus on the Fed's reaction to waning growth momentum might also increase attention on US policymaking rigor and create more volatility in US Treasury yields.

Investors would do well to consider diversifying away excess USD exposure in portfolios; the currently elevated USD and stock prices constitute good levels to do so, in our view. We review some viable Asia Pacific options for diversification.

**AUD remains a key beneficiary.** After the EUR, the AUD looks set to benefit strongly from the move out of the USD. The recent rebound in the USD took the AUDUSD from a nine-month high of 0.66 to a low of just below 0.6430. Although the pair has since recovered to a little below 0.65, we still think that this is an attractive level to go long for a target of 0.70 as early as 1Q26. One AUDUSD-specific support is that we expect the Reserve Bank of Australia to cut its policy rate by 75bps from now through to 1Q26, compared to 100bps for the Fed. Diversifying into AUD also comes with the availability of a liquid bond market.

Australia boasts a very solid sovereign debt profile, with a debt ratio of 55% to 60% of gross domestic product (GDP) in recent years, and a low net-interest-to-government revenue ratio. Australia's policymaking bodies have a history of fiscal discipline, and that credibility helps to justify the AAA rating of its sovereign debt, in our view. For AUD bonds, we prefer investment grade and high grade bonds in the mid-duration segment. We see good value in defensive sectors such as telecommunications, utilities, consumer staples, and financials, given the slowing economy, trade risks, tight spreads, and the absence of a cyclical premium.

**Enticing offshore investors to CNY bonds.** The USDCNY has also been caught in the wake of the USD's rise, and rose to 7.21. However, we note that China's outflows for services, investment, and offshore assets have moderated, while foreign investor flows have stabilized. China's policymakers seem to be comfortable with a stronger RMB given the erosion of investor confidence in the USD, perhaps in pursuit of further RMB internationalization. We maintain our USDCNY forecasts at 7.10 at end-2025 and 7.00 by mid-2026, with risks still skewed toward further downside.

Investors looking to diversify away excess USD exposure can consider the lower-volatility CNY as an alternative. The People's Bank of China (PBoC) recently added two new features to the Northbound Connect that should help facilitate foreign ownership. Offshore investors can now 1) re-hypothecate onshore bonds; and 2) conduct cross-currency repos. These seem aimed at China government bonds (CGBs) to help improve collateral utility, funding flexibility, and liquidity for offshore investors. In our view, these measures should make it easier for offshore investors to hold CNY bonds, and seem well-timed to coincide with the de-dollarization trend.

**SGD bonds as regional hedge.** We see the USDSGD moving down to 1.25 by 1Q26. We favor using bouts of USD strength (not unlike the present) to diversify and hedge USD exposure. For investors looking to hold SGD assets, we believe SGD credits have emerged as a relative hedge among regional markets. SGD credits will likely continue to prove attractive, buoyed by resilient corporate fundamentals, rate declines, and strong demand for a perceived safe haven amid structural concerns over the USD. We would also suggest taking on subordination risks with a focus on extracting yield within the SGD perpetuals space. Specifically, we see value in select perpetuals with short call dates that offer decent carry over a one to two year horizon.

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