

## FX: King dollar loses its crown

The dollar's four percent decline in July marked its largest monthly drop since 2010. Driving this decline is both a re-rating of the European project, but also the dollar's loss of its growth and yield advantage. The latter leaves the dollar vulnerable into November's contentious presidential elections



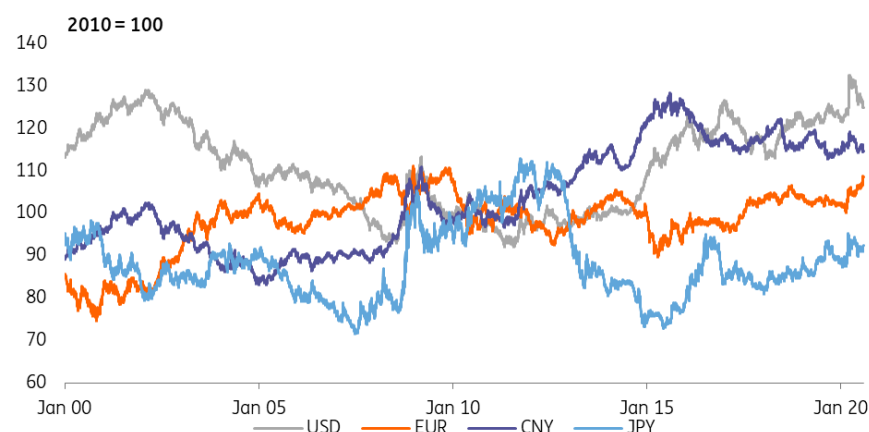
### Dollar: We don't need you any more

The myriad of factors which propelled the dollar around eighteen percent higher between March 2018 and March 2020 have faded. The dollar rally in 2018 and 2019 was all about large US fiscal stimulus and then US protectionism. These drove a growth and interest rate wedge between the US and the beleaguered overseas economies.

The dollar rally in March 2020 was all about liquidity needs. The fact that foreign central banks are now only drawing down around US\$100bn from the Fed's dollar swap lines – versus a peak of US\$450bn in May – suggests the need for emergency dollar liquidity or [hoarding](#) has reversed.

In other words, dollar demand from both the investor and commercial community is in decline and the dollar is no longer the only game in town.

## Trade weighted exchange rate indices: USD retreats from highs



Source: BIS

## Euro: A reluctant alternative

Progress on the EU recovery fund has prompted a re-assessment of the European project and the euro. Investor surveys show the fund management community are still overweight US equities but inclined to move into Europe. Depending on the path and handling of Covid-19 second wave, a re-allocation of funds towards Europe should be the theme for 2H20.

We expect EUR/USD to maintain its bullish momentum into an uncertain US presidential election in November. That means pressing 1.20, with outside risk to 1.25. This environment should also favour the liquid, defensive currencies of JPY and CHF – as the market seeks dollar alternatives.

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