Report | 20 November 2020 FX

2021 FX Outlook: Back on Track

2021 will be the year that FX markets get back on track, as the gravitational pull of the dollar fades. We forecast the dollar to broadly decline in 2021 - generally by 5-10% against most currencies

Source: Shutterstock

Executive summary

- In 2021, exchange rates will increasingly be driven by how quickly confidence builds in a, hopefully, post-pandemic global recovery. This year has been a wild ride for FX markets, masked by a trade weighted dollar unchanged on the year.
- It is clear that investors are being encouraged to move out along the credit curve and out of the dollar, too. Aggressive fiscal and monetary policy support packages have certainly helped here.
- 2021 will be the year that FX markets, diverted by two years of President Trump's protectionism and then by one year of the Covid-19 crisis, get back on track as the gravitational pull of the dollar fades. We forecast the dollar to broadly decline in 2021 - generally by 5-10% against most currencies.
- It will not be a straight-line sell-off in the dollar - the legacy of Covid-19 in both Europe and the US will see to that. And key risks to our bullish call on global currency pairs stem from the world economy failing to exit stall speed or the Fed taking away the punchbowl too early.

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