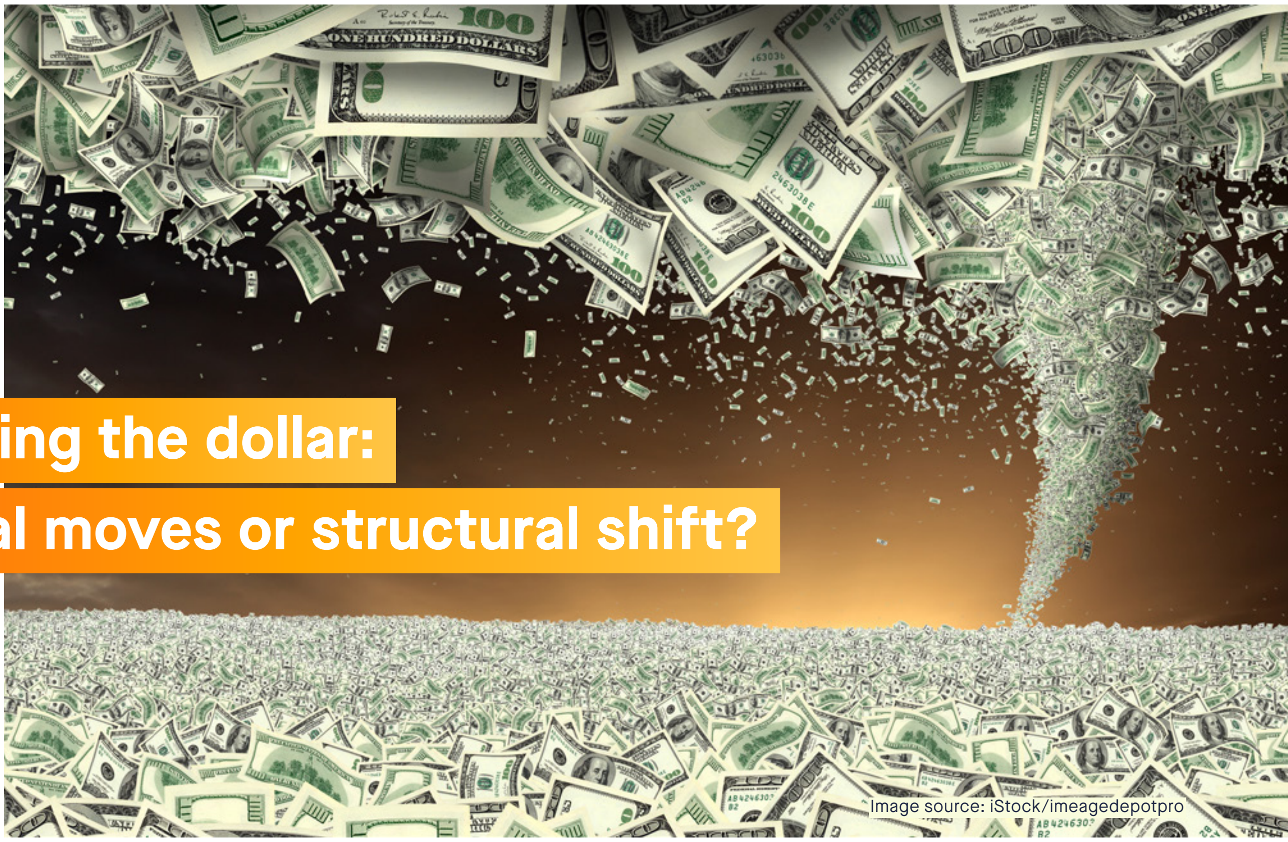
FOCUS

RESEARCH | ANALYSIS | INSIGHT 25 April 2025



Repricing the dollar: cyclical moves or structural shift?

The US dollar has experienced a notable shift in direction this year so far, surprising many investors and policymakers alike.

Adrien Pichoud
Chief Economist
adrien.pichoud@syzgroup.com

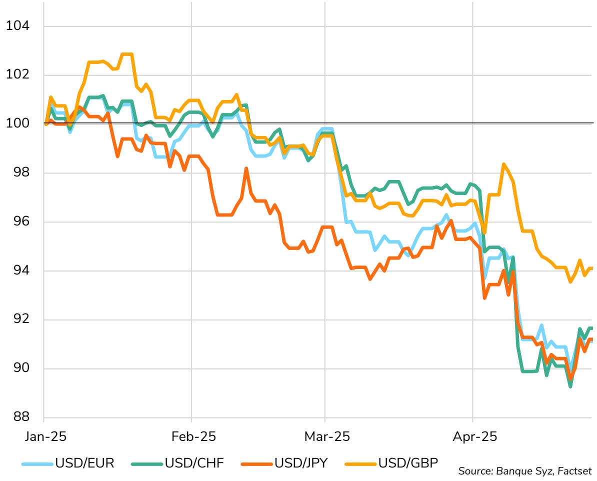
PRIVATE BANKING

After a period of strength in late 2024, the greenback has significantly weakened against major global currencies, prompting renewed scrutiny of its underlying drivers and long-term role in the international monetary system. While headlines have focused on the dollar's sharp decline, especially following key political and economic developments, a closer examination reveals a more nuanced picture—one where short-term macroeconomic adjustments intersect with broader, more structural questions about the dollar's global status. Recent market developments have shown that the stated willingness of the Trump administration to weaken what it sees as an "overvalued dollar" may be more complex than initially thought. A Mar-a-Lago Accord like the Plazza Accord is far from being a done deal and the implications for the US and global economy may be far reaching. The reaction of the US bond market in April has reflected the risks for the funding of the US fiscal and external deficit in a scenario of rapid dollar depreciation, and the recent softening in tone from President Trump and his administration have been reassuring. After a few hectic weeks on financial markets where the US currency has been front and centre, let's take a moment to contextualise the recent movements of the dollar, assess their causes, and explore what they may signal for the currency's future trajectory.

Putting recent dollar movements into perspective

After a strong run in the 4th quarter of 2024, the US dollar has reversed course since the beginning of the year. It is down around -10% versus the euro, the Swiss franc, or the Japanese yen, and -6% versus the Pound sterling. The greenback has dropped to a 3-year low against the euro and even reached a 14-year low against the Swiss franc, nearing the record low briefly hit during the summer 2011 just before the introduction of the SNB floor.

Evolution of the US dollar against the euro, Swiss franc, and yen in 2025

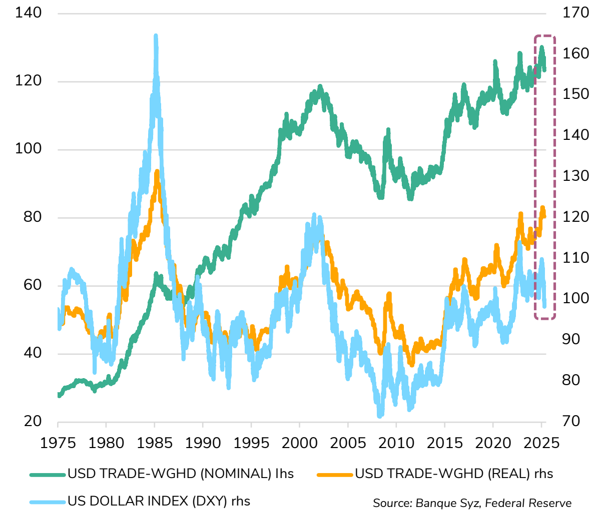


Source: Banque Syz, FactSet

This dollar depreciation has caught most investors wrong-footed as the consensus view following the election of President Trump in November was that the greenback will be supported by the economic policy mix of the new Administration. However, the movement is not so spectacular from a historical perspective. The US Dollar Index, a gauge of the USD versus six currencies of developed economies: EUR, JPY, GBP, CAD, SEX and CHF is down -8% since the beginning of the year to its lowest level in three years, but it remains above the lows reached after the Covid pandemic, and far above its level of the 2004-2014 period or the early 90's.

Looking at broader measures of the dollar value mitigates further the magnitude of the recent movement. The Trade-Weighed Broad Dollar Index, a gauge of the US dollar against all currencies weighed by their share in US international trade, had reached an all-time high early in January this year before retreating by -5%. Still, it remains at a historically elevated level. Even in real terms—adjusting for inflation differentials—the trade-weighted dollar is still hovering at levels only seen in the mid-1980's. From a long-term and broad perspective, the recent dollar movement is far from unusual neither in its magnitude nor in its level.

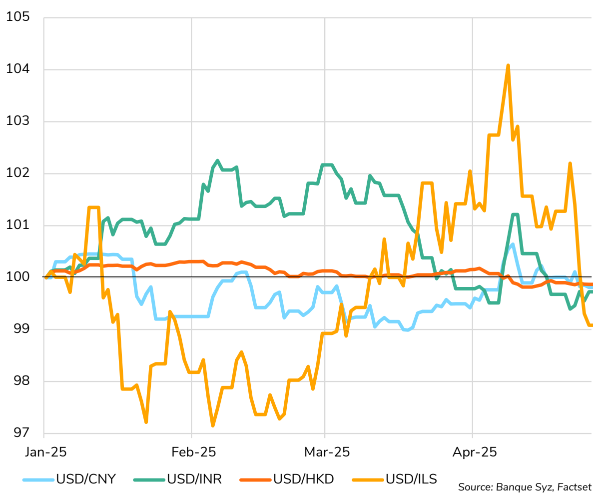
US Dollar Index (DXY) and US Trade-Weighted Dollar — Nominal and Real Terms (1975–Present)



Source: Fed

Interestingly, the dollar weakness has not been broad-based since the beginning of the year. Beside the Japanese yen, most Asian currencies have been rather stable against the greenback, admittedly due to currency management by most of those economies. In particular, the Chinese yuan has been remarkably stable despite a context of rising trade tensions that could have paved the way to currency devaluation. Movements in emerging market currencies have been much milder than those witnessed against large developed market currencies.

Evolution of the US dollar against the Chinese yuan, the Indian rupee, the Hong Kong dollar, and the Israeli shekel in 2025



Source: Banque Syz, FactSet

Therefore, the evolution of the US dollar in the recent months has not been uniform. The drop was unexpected and sudden against other major currencies, but—with the noticeable exception of the Swiss franc—the levels reached after this decline are far from abnormal when put in a long-term context. The key question now is whether the trends observed since the beginning of the year are likely to continue. Understanding the drivers of the dollar so far in 2025 is essential to forming a view on its future trajectory.

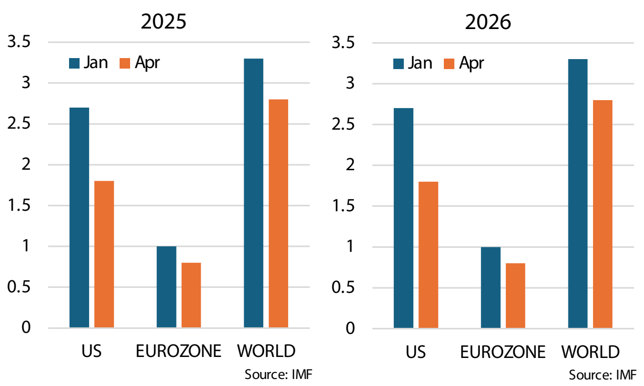
The drivers of the dollar weakness this year

Part of the US dollar weakening witnessed since the beginning of the year can be attributed to traditional economic factors and the adjustment in relative growth, inflation and rate prospects.

Growth prospects

After the initial optimism fuelled by the election of Trump in the last months of 2024, US economic growth prospects have been revised lower in 2025. The Federal Reserve reduced its GDP growth projections from 2.1% to 1.7% for 2025, and from 2.0% to 1.8% for 2026. The IMF just revised down its growth forecast from 2.7% to 1.8% for the current year, and from 2.1% to 1.7% for the next. In parallel, GDP growth prospects for the Eurozone and world economy were also revised lower due to the expected impact of US tariffs and increased uncertainty. However, the magnitude of the revisions was significantly lower: -0.4% over two years for the Eurozone and -0.8% for the world economy, compared to -1.3% for the US. The larger downward adjustment to US growth prospects than for the rest of the world has been a logical factor of US dollar weakness so far this year.

IMF GDP growth projections (January and April 2025)



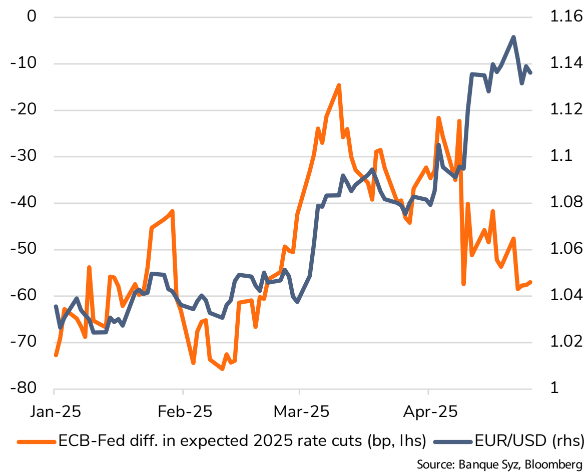
Inflation dynamics

In parallel, inflation dynamics have also been adjusted with the expected impact of US tariffs, which also contributed to undermine the value of the US dollar. Tariffs on US imports will have a clear inflationary impact in the US, while the impact of potential retaliatory tariffs on other economies can be expected to be much milder. Tellingly, the Federal Reserve revised its "core" inflation projections up in March while the ECB revised its own projection slightly down. Higher expected inflationary pressures in the US have also been a headwind for the US dollar since the beginning of 2025.

Central banks' rate expectations

The evolution in expectations for central banks' rate cuts can also be considered as a driver of the weaker dollar trend. Prospects of slower economic growth this year have led to a repricing of expected short-term rates across most large economies. The monetary policy easing cycle had started in 2024 as fading inflationary pressures were no longer warranting the restrictive stance implemented to stem the post-Covid inflation burst. It was expected to continue in 2025, but downward revisions to the growth outlook led investors to adjust their rate projections lower. From two 25bp rate cuts by the Fed in 2025, future markets have come to expect close to four 25bp cuts this year. The adjustment has been less pronounced for the Eurozone—from five to six 25bp cuts—or Japan—from two 25bp rate hikes to just more than one—while SNB rate cut expectations for the year 2025 are today similar to where they were in January. As a result, the short-term rate differential expected at the end of the year between the USD and the EUR, JPY, and CHF has narrowed since January. While the hefty rate differential in favour of the US dollar had previously been expected to persist in 2025, and even possibly to increase, the narrowing of this differential over the course of the first quarter has weighed on the value of the USD against the currencies above-mentioned.

Up until 2 April, relative adjustments in rate cut expectations stemming from lower growth prospects have likely been the main driver of the depreciation of the US dollar against the EUR, the yen, and the Swiss franc.



Confidence in the dollar takes a hit in April

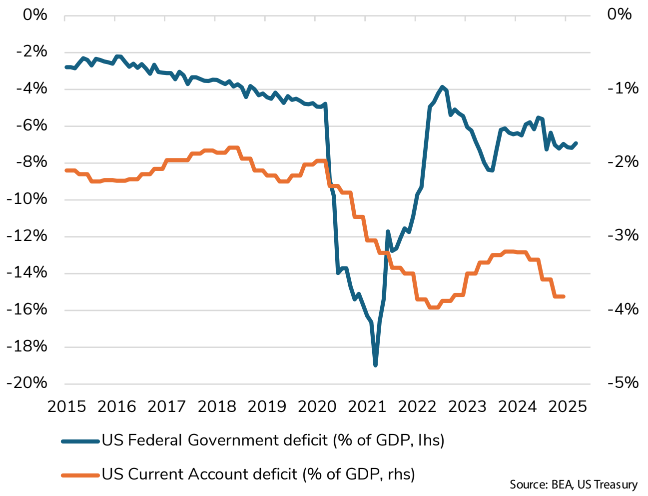
However, since the widespread tariffs on US imports were announced on 2 April, another factor appears to have weighed on the US dollar beyond the fundamental economic drivers mentioned above: a growing questioning of the greenback's reserve currency status by global investors. Indeed, in April, the dollar continued to lose ground against major currencies (–5% on average), at a pace no longer justified solely by relative adjustments to growth, inflation, and interest rate forecasts.

The blunt and radical shift in US trade relations —the "method" used to determine tariff levels for each country, President Trump's communication on 2 April and in the following days, and the ensuing escalation with China to the point where trade between the world's two largest economies became virtually impossible—has been a shock to the rest of the world. President Trump's rhetoric has pointed toward a willingness to alter some entrenched economic trends, and the hypothesis of a Mar-a-Lago Accord in the vein of the Plazza Accord has been rumoured for some time. However, it was hard to imagine such a sudden upheaval of the global economic order with seemingly little regard for the immediate consequences that this could have on the US and other economies, as well as the international monetary system.

Suddenly, the world has been left to wonder if exposure to the US economy is still attractive, if the US is still a reliable and predictable partner for economic and political relations, and finally if the US dollar as an asset is still a sound choice for holding reserves. To be fair, some of those questions arose already in the previous years, with the rise of China and the sanctions against Russia in 2022. However, the US exceptionalism in terms of economic growth, huge consumer market, lead in advanced technologies, and global military presence have preserved the uniqueness of the dollar in the global financial system.

In a matter of months, all these factors have been challenged. Be it by the tariffs that will restrain access to the US domestic market, China's breakthrough in AI with DeepSeek, or by the questioning of long-established alliances with Canada, Europe, or Ukraine. Possibly even worse is the unpredictability and unilateralism shown by the Trump administration's policies that are causing the rest of the world to question the value of the US dollar as the world's reserve currency. This is a non-trivial question that could have profound and long-lasting consequences if there are not reassuring answers soon. In that sense, recent like interventions by US Treasury Secretary Scott Bessent hinting at some economic rationality in the implementation of President Trump's agenda, can be seen as reassuring. It is likely no coincidence that the dollar has been bouncing up from its three-year low since then. The US economy could afford large "twin deficits" (of the current account and government balances) thanks to the reserve currency status of the greenback. However, it would become increasingly difficult to finance those deficits if the rest of the world gradually shies away from the dollar, or if the dollar begins to be treated as a "normal currency".

The US "twin deficits" have so far been seamlessly financed by global demand for the dollar as a reserve currency



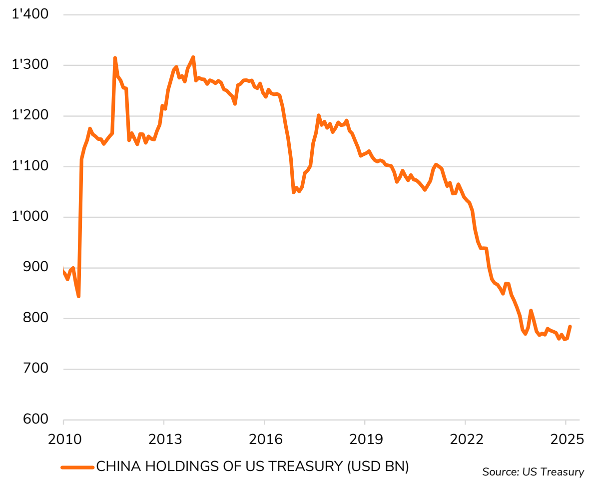
Source: Financial Times

As such, the depreciation of the US dollar so far in 2025 appears to be a combination of a "classic" repricing of currency pairs caused by macroeconomic factors, on the one hand, but also of some longer term, fundamental shifts in the perception and role of the US dollar in the global economy. The adjustment has been swift and has pushed some safe-haven assets such as the Swiss franc and gold close to or at record highs. However, when looking at the broad value of the dollar and at the level reached in April, the movement of the US dollar has not been extreme yet. Whether this was the beginning of a durable downward trend or a regular adjustment to changing macroeconomic conditions remains to be seen.

What's next for the dollar?

The predominance of the US dollar in the global financial system had started to be challenged for years with the rise of China, the growing "East/West divide", sanctions on Russia, and the willingness of Middle East countries to reduce their dependency to the United States. In that sense, the first three months of President Trump's office should be seen as a potential accelerator of this prevailing trend, and not the cause of it. Even if some of the recent US policies happen to be reversed in the coming months, this episode will only strengthen the existing willingness of the rest of the world to diversify away from the US in terms of economic activity, military security, and use of the dollar as a reserve asset. This can be expected to be a long-term trend that will continue regardless of economic and political cycles in the United States or elsewhere.

China's holdings of US Treasury bonds have been on a downward trend for a decade, with an acceleration since 2022 that coincides with the sanctions imposed on Russia



Despite everything considered, the central role of the US dollar in the global economy will not vanish overnight: the greenback still is by far the main reserve currency of the world (60%) and the most traded currency in the world (90%). There is currently no viable alternative to completely replace the dollar as a reserve asset, even if its dominant share in global reserve might gradually erode over time. A further loss of confidence in US economic and international policies could contribute in amplifying the trend witnessed in April. It appears reasonable to expect that sensible voices in the US Administration—US Treasury Secretary Scott Bessent in particular—will eventually prevail in setting a clearer and more predictable path for the implementation of President Trump's objectives. In that case, the evolution of the dollar against other major currencies can be expected to be dictated by the usual macroeconomic and financial drivers in the second half of the year. Still, the underlying willingness of a large part of the world to lower its exposure to the mighty dollar can be expected to remain a gradual long-term trend, that the past few weeks have likely only reinforced.

Welcome to Syzerland®

For further information

Banque Syz SA
Quai des Bergues 1
CH-1201 Geneva
T. +41 58 799 10 00
syzgroup.com

Adrien Pichoud
Chief Economist
adrien.pichoud@syzgroup.com