Economic Focus

N° 01 - APRIL 2025

Will the U.S. dollar fall further?

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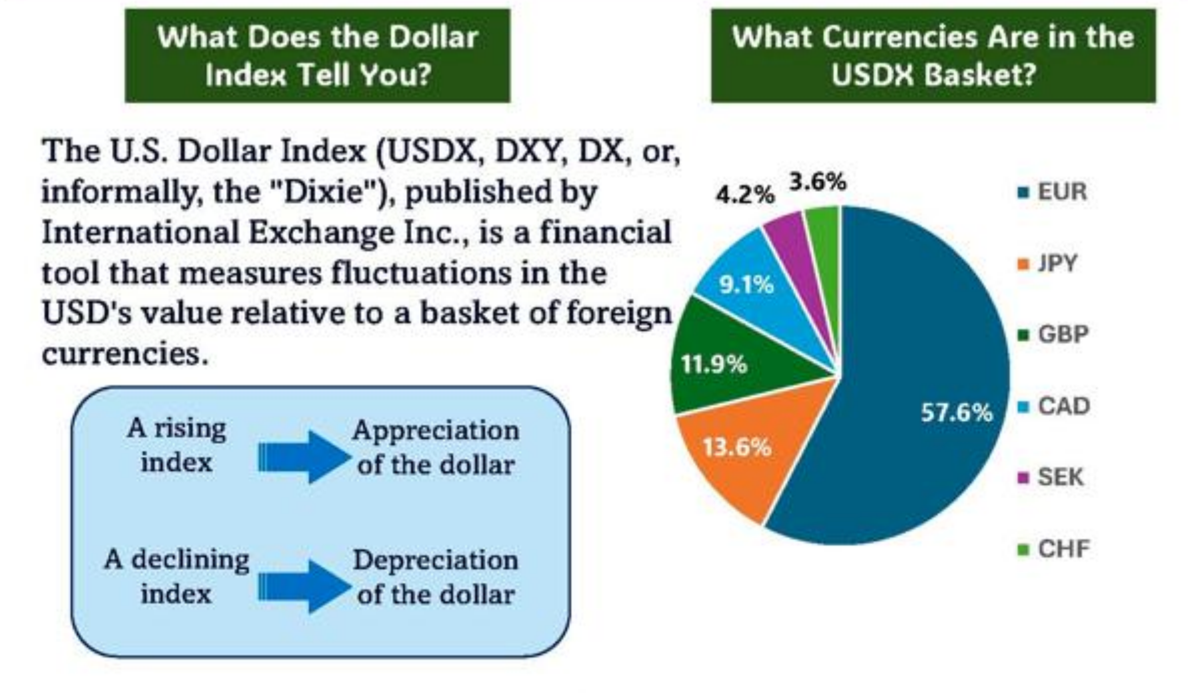
Key takeaways

- The US dollar downtrend continues as long as its global reserve currency status remains threatened by the Trump administration.
- A mixture of uncertainties (midterm elections, degree of resistance of the Fed to Trump pressures, …) put downward pressure on the dollar.
- The 'de-dollarization' process is well underway despite the lack of any credible alternative to the greenback.

The Trump administration remains convinced that the dollar is overvalued, and its usual global reserve currency status has become a major lever of industrial decline in the United States. On 2 April 2025, the US administration triggered a global shock by announcing sweeping new tariffs. Financial markets (Stocks, Bonds, FX, derivatives, ...) quickly responded to new tariffs. Investors' distrust of US assets resulted in the collapse of the financial markets and undermined the U.S. dollar's role as the de facto global reserve currency. The US dollar index, or DXY, which measures the performance of the dollar against a basket of other currencies (Figure 1) has already shown a distinct decline since the beginning of the month, reflecting the strong selling pressures to which the dollar is victim.

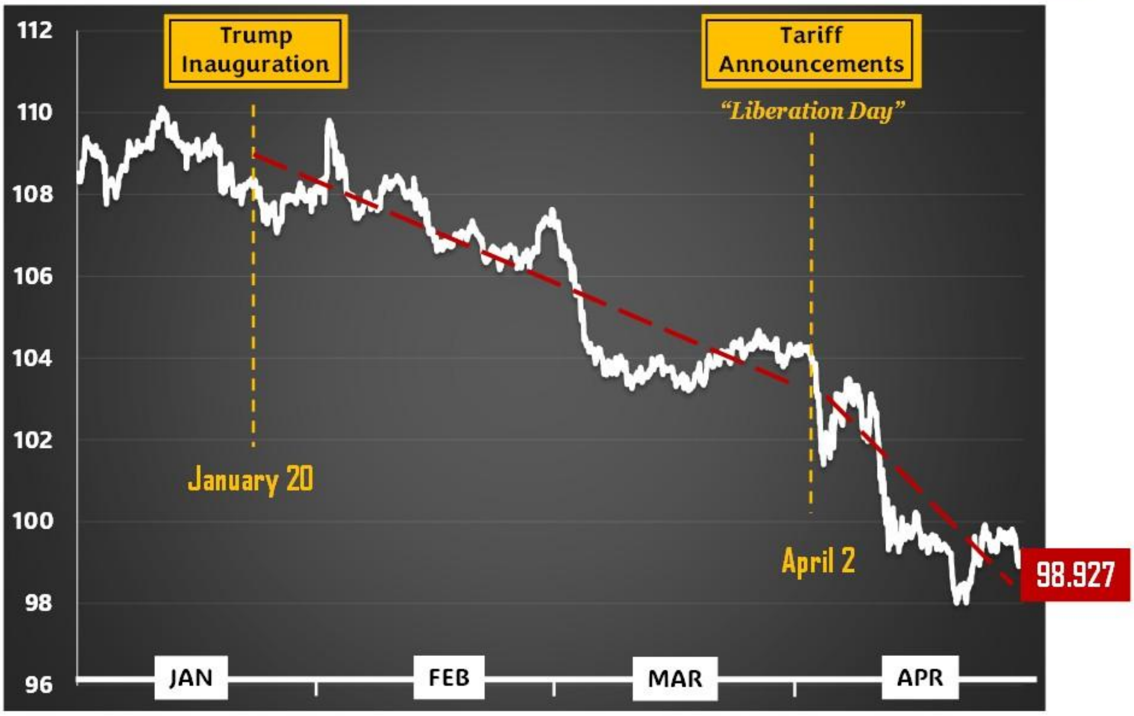
Figure 1: US Dollar Index – Composition



Source: *International Exchange Inc.*

Since the subprime crisis, the DXY has risen more than 40%. But recently, since Trump's inauguration on January 20, 2025, it has declined by 8.6% to reach the level of 98.927 (Figure 2).

Figure 2: U.S. Dollar Index – Chart



Source: *London Stock Exchange Group*

The 'de-dollarization' process is also well underway despite the lack of any credible alternative to the greenback.

Four uncertainties argue in favor of the further decline of the US dollar.

Trump's tariff Backtrack: a hidden agenda or a weak grasp of economic issues?

On 2 April 2025, US President Trump raised baseline tariffs on Chinese imports to 125%. In retaliation to the Chinese decision to also increase tariffs, Trump decided to raise them from 125% to 145%. A few days later, Trump spared smartphones, computers, and other electronics from China tariffs.... And after a few days, the White House suggested Chinese exports are facing tariffs of up to 245%!!! Also, backtracking and dithering about Canada, Greenland and the Panama Canal have increased market uncertainty and put the USD under strong selling pressure over the next few months. Recently, Trump's about-face on tariffs and Fed Chair Powell also confirms the US policy backtracking.

The temptation of protectionism: a mercantilism new look or a trade war?

The protectionist economic policy adopted by the Trump administration is counterproductive for two reasons. First, it evades special features of the US economy: the difficulty of changing the organization of value chains, the full employment, and the high level of production costs in the US. Second, the tariffs announced have created a climate of a Trade war, thus limiting the possibilities of reaching a global agreement on the US dollar parity, as was the case of the coordinated effort by G5 central bankers during the Plaza Accord in 1985. Certainly, the dollar could benefit a little from the lack of an agreement between central banks to push it down. However, the negative effect of losing the status of safe haven will have a greater impact on moving it in a bearish trend. These reasons have fueled doubts about Trump's promise of a radiant future for the US economy, ultimately reducing dollar demand and precipitating its slump.

Fed: independent or dependent?

Another uncertainty factor is related to the policy conducted by the Fed. On many occasions Trump has called on Powell to cut interest rates. Until today, the Fed has not responded to these calls. Since 2022, the Fed has been in a quantitative tightening (QT) program. But its last decision to slow down the pace of its QT program has been regarded as a sign of monetary easing. A Fed orientation that could trigger the return of the quantitative easing programs, especially if the yield on long-term Treasury bonds continues to rise. Will Jerome Powell be able to withstand Trump's pressure? A real dilemma for the president of the Fed. On the one hand, giving in to pressure from the Trump administration could affect the credibility of the monetary authority. On the other hand, resistance could bring Trump to force Fed Chair Powell to resign or to look for a new chair in May 2026, undermining the central bank's independence. In short, creating a serious dilemma that would increase uncertainties and the downward pressure on the dollar.

Midterm elections: sanction or approval?

Republicans are increasingly anxious about the negative impact on voter confidence of the president's tariffs in the 2026 midterms. These elections will be another source of uncertainty for the capital markets. The success scenario could strengthen Trump in its orientation, and therefore we should expect new decisions that push the dollar down. And the scenario of an election debacle fuels the rise in tensions between Democrats and Republicans and that is not a good omen for growth and the dollar.

The US dollar's Golden Age seems truly behind us. However, the US dollar has some beautiful days ahead as long as a credible alternative has not yet emerged. The euro remains penalized by economic and geopolitical turmoil. The Chinese yuan would not be able to replace the dollar due to the central bank, which is highly dependent on the government, and their financial markets are still developing. The Swiss franc remains handicapped by its capital market which was not large enough to attract the huge capital flows. Gold is a good instrument to diversify away from the dollar's dominance and to fight against inflation and currency devaluation, but a complete replacement of the dollar is highly unlikely considering its limited stock and low liquidity. Bitcoin and other cryptocurrencies remain unfinished projects and highly volatile assets. The Special Drawing Rights (SDR) cannot play the role of the US dollar in view of the cumbersome process of issuing and the great weight of the dollar on a basket of the component currencies,...

In sum, the de-dollarization' process is well underway, and the lack of any credible alternative for the greenback and the Trump's about-face on tariffs, can only slow down the trend.

(April 28, 2025)

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