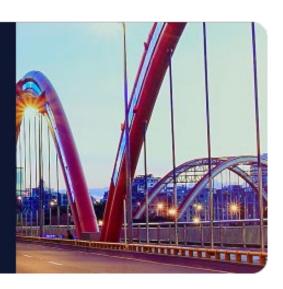


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FX Focus: USD's tactical rebound may lead to range-bound 2H25

FIGURE 1: FX Forecasts

Forecast (July 2025)	Spot	0-3m	6-12m	Long-term
DXY	98.18	95.89	97.93	99.16

Source: Citi Research as of July 2025.

Prior to the US July jobs report release on August 1, the dollar staged a tactical rebound in early July. But this tactical rebound may be ending, and USD's next bearish phase may be commencing. However, we believe there are limits as to how much the USD could potentially fall over the medium term.

- Prior to the release of the US July jobs report on August 1st, the dollar staged a tactical rebound in early July due to:
 - o A resumption of US stock outperformance vs the Rest of the World
 - o Global trade and fiscal uncertainty partially declining in anticipation of US tariff announcements
 - o The US Federal Reserve's reluctance to consider lowering rates on concerns about tariff–induced inflation
 - A stretched short investor base established from the selling of USD post "Liberation Day"
- However, the tactical rebound may abate in favor of USD weakness again:
 - With the US labor market now showing greater signs of distress (as per the July jobs report), USD market rates are now discounting multiple Fed rate cuts (~150bp in cuts to the end of 2026 with 60bp in cuts discounted to the end of 2025). Should the Fed follow through with such cuts at a time when most other G10 central banks are close to ending their easing cycle, the resulting sharp narrowing in USD vs Rest of the World rate differentials will likely pose a longer-term headwind for USD.
 - Global trade and US economic (fiscal) uncertainty, while somewhat lower, is also likely to remain a longer-term constraint on USD and limit any upside. Scope for further tariff negotiations exist which means the amount of tariff revenues the US is likely to receive to fill the budget gap over the next 10 years remains uncertain as trade flows shift. These uncertainties are what started the selloff in USD post-Liberation Day in early April.
- Ultimately, we believe that there are limits as to how much the USD could potentially fall:
 - USD already has a significant in-built negative premium as it trades well below what is implied by USD less Rest of G10 rate differentials
 - If the Fed were to cut rates to offset the current economic slowdown alongside the new stimulative tax bill, a reaccelerating US growth trajectory in comparison to the Rest of the World may support demand for US assets and dollar strength
 - The greenback's downside will be constrained by limits on how much FX strength major economies outside the US are able to absorb

BOTTOM LINE: The 100 – 102 area may end up being a formidable resistance hurdle for the DXY Index to cross while the 93-95 level may limit the extent of the decline to year-end.

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FIGURE 2: The price action in DXY since "Liberation Day" on April 2^{nd} – A steady DXY Index decline with a tactical short covering rally in early July



 $Source: Bloomberg, August 11, 2025. \label{eq:source} \textbf{Past performance is no guarantee of future results.} Real \ results \ may \ vary.$

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