



CIO expects both gold prices and the Swiss franc to gain ground. Both can improve portfolio diversification and insulate against risks. (UBS)

Any jumps in the dollar should be used to fade greenback exposure

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The US dollar has weakened to its lowest level this year despite the recent scaling back of market expectations on Federal Reserve rate cuts for 2024.

Fed funds futures markets are now pricing in just over 100 basis points of cuts in 2024, down from as many as 136 basis points earlier this month. The DXY index, which measures the greenback against six other major currencies, has lost around 3% so far in August.

The rebound in US equities and fading fears of an imminent recession have shifted investors back into riskier assets, while the rapid unwinding of yen carry trades has accelerated the US dollar's decline. Fresh economic data in the next few weeks have the potential to lead to temporary bouts of USD strength, but we believe any jumps in the dollar should be used to fade greenback exposure and move into other G10 currencies.

US rate cuts appear to be imminent. Minutes of the Fed's July meeting revealed that most officials are strongly inclined toward a rate cut in September, with several even open to an immediate reduction last month. Released on Wednesday, the minutes showed that "almost all participants" believed that US inflation is nearing the Fed's 2% target and that officials expressed growing concerns over a slowing labor market. Separately, the latest data from the Bureau of Labor Statistics showed that the number of workers on payrolls will likely be revised down by 818,000 for the 12 months through March, the largest downward revision since 2009. Fed Chair Jerome Powell is expected to signal the US central bank's path to rate cuts at the Jackson Hole symposium later this week.

US fiscal deficit remains a concern. While momentum in the US presidential race appears to have shifted in favor of Vice President Kamala Harris, the growing US federal deficit is likely to come under the spotlight regardless of who wins the White House. Indeed, the Congressional Budget Office recently projected that interest costs on US debt are set to exceed defense spending this year. In our view, fears about the size of the US fiscal deficit will be a headwind for the US dollar over the longer term.

So, we expect the US dollar to stay under pressure. Meanwhile, we expect both gold prices and the Swiss franc to gain ground. Both can improve portfolio diversification and insulate against risks.

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Original report - [US dollar is likely to stay under pressure, 22 August 2024.](#)

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