AmBank Group

AmBank Economics

#WhatWeThink

Upside risks to DXY amid desensitivity to tariffs

11 July 2025

Tariffs announced but kicked down the August road

US President Donald Trump's threats of tariffs were rehashed on another fresh quarter start (see Exhibit 1), with more steadily being announced ahead of the 'August deadline'. However, the repetition of Trump's negotiation playbook, the delayed timeline of implementation, and more limited set of countries targeted, meant that market reaction has been muted thus far (see Exhibit 2).

Currencies continue dancing to the dollar tune

Trump's July tariffs represent the latest ripple from continued US-centric developments, which has driven FX movements to be heavily dictated by the rhythms of the USD. Four distinct phases are identified over the past year (see Exhibit 3), and barring some domestic idiosyncrasies, DM FX generally move in similar (but opposite) direction of USD, given their economic interconnectedness from trade, business cycles, and capital/financial market flows – leading to similar economic/inflation conditions and central bank actions. The search for safe-haven alternatives to the USD also spurred greater volatility in the CHF and JPY over the past year, volatility of which exceed their medium-term trends (see Exhibit 4). In contrast, commodity-linked currencies (AUD, NZD) exhibited smaller volatility and closed weaker against the USD over the past year, as elevated economic uncertainties helped drive commodity prices lower. Meanwhile, regional currencies of insular economies (PHP, IDR) also saw lower FX volatility than their more export-oriented peers (SGD, MYR, THB) – indicating that trade flows may be a driver of volatility recently – even despite the Philippine and Indonesia economies' twin deficit issues.

Dollar direction biased up over the near-term

While we remain biased towards USD downside over a longer horizon, we think a near-term upward correction is due, given a year-to-date DXY decline of 3.7% (see Exhibit 5):

i) Passage of Trump's fiscal bill, a USD5 trillion increase to the debt ceiling, and Scott Bessent's comment that long-dated debt will not be proportionally increased over the next several quarters, reduces fiscal-related risk premia.

ii) Continued US labour market resilience and upside inflation risks from tariffs, suggests Fed rates are likely to be kept higher for longer.

iii) Risks of updated baseline tariffs globally (to 15-20%) and for the EU (unknown) to diminish bearish USD positioning into the weekend.

As such, we reiterate our forecasts for DXY to rebound to 100.0 by end-2025. Near-term downside risks to our DXY call include a resumption of market concerns on the US fiscal outlook or Fed monetary independence, or a paring of recent US equity gains.

Exhibit 1: New tariff rates on key countries

Key Countries	% share of US imports	Previous rate	New rate	Other notes
Japan	4.5%	24%	25%	Auto-heavy
South Korea	4.0%	25%	25%	Semicon-heavy
Thailand	1.9%	36%	36%	Auto-heavy
Malaysia	1.6%	24%	25%	Semicon-heavy
Brazil	1.2%	10%	50%	BRICS
Cambodia	<1%	49%	36%	
Indonesia	<1%	32%	32%	BRICS
South Africa	<1%	30%	30%	BRICS
Philippines	<1%	20%	17%	

Note: Trump has also threatened to raise tariffs for Canada (to 35%), all countries globally (via higher baseline tariffs of 15-20%), and BRICS-affiliated nations (by an additional 10%); while also raising copper tariffs (to 50%) effective 1 Aug. Sectoral tariffs also serve as the minimal level of tariff applied for particular goods, even if a country enjoy (as a whole) a lower rate than the sectoral rate.

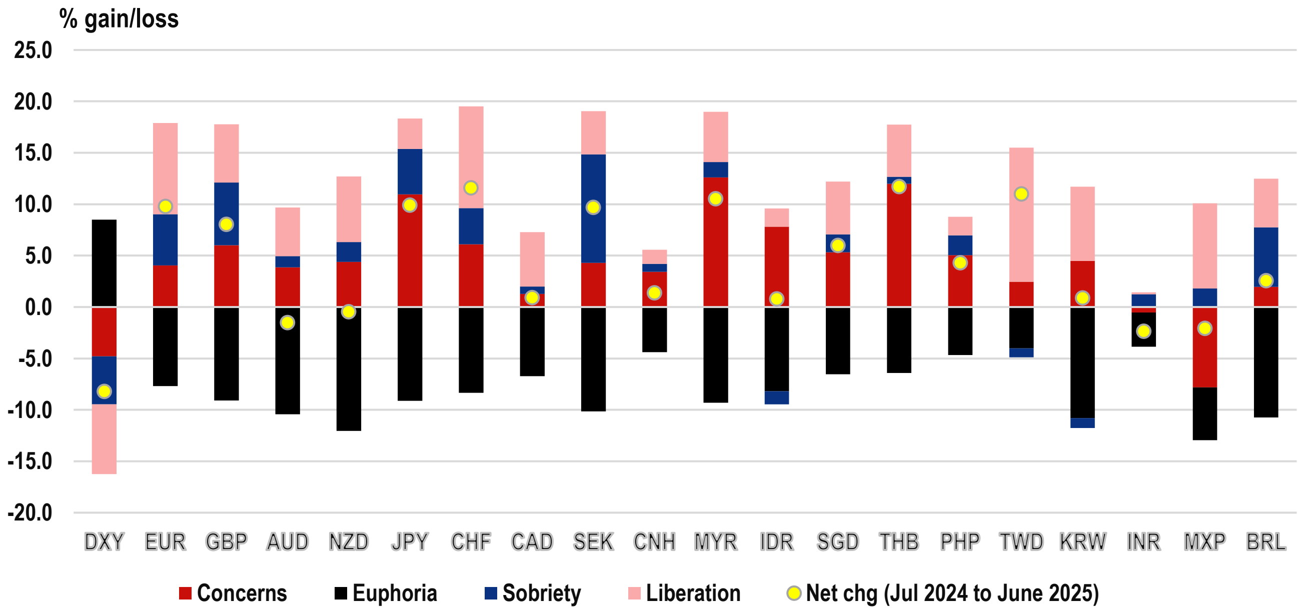
Exhibit 2: Market reaction to new US tariffs notably down in July, compared to April

Currencies	A*	B*
DXY	**-1.0%**	**0.5%**
EUR	1.1%	-0.7%
GBP	-1.5%	-0.5%
AUD	**-4.7%**	**0.5%**
NZD	-2.8%	-0.4%
JPY	1.2%	-1.2%
CHF	**2.8%**	**-0.4%**
CNH	-0.9%	-0.2%
MYR	-0.1%	-0.6%
SGD	-0.6%	-0.4%
TWD	-0.3%	-1.1%
KRW	-0.7%	-0.7%
G10 FX vol	**25.8%**	**-2.1%**
EM FX vol	**18.1%**	**-0.8%**
Others	**A***	**B***
S&P 500	**-2.9%**	**0.6%**
VIX	**38.7%**	**-2.7%**
2Y UST	**-23.1 bps**	**-0.8 bps**
10Y UST	**-21.1bps**	**+0.4 bps**
MOVE	**8.3%**	**-1.9%**

*A = 4-day %chg since 1 Apr 2025
*B = 4-day %chg since 6 Jul 2025

Sources: AmBank Economics, Bloomberg, CEIC, various news sources

Exhibit 3: FX performance over the past year may be distinguished into four (near-identical in duration) phases



Jul – Sep 2024

Concerns over a series of inflation and labour market data disappointments in the US, leading to heightened bets of Fed rate cuts (prior to the sharp 50bps rate cut by the Fed in Sep – its first during the current cycle, and lagging DM peers in cutting rates).

Oct – 17 Jan 2025

Euphoria for markets as rising likelihood of a Trump victory in US presidential elections led to a stronger dollar amid the rally in US equities and the uptick in UST yields, given his campaign promises of broad-based tariffs, looser fiscal plans and regulations, and tougher immigration plans – all recipes for higher inflation and a slower easing of Fed policy rates)

18 Jan 2025 – 1 Apr 2025

Sobriety grips sentiment after Trump's inauguration in Jan, as a series of unorthodox executive action spooked markets, including tariffs by countries (Canada, Mexico, China) and product categories (steel & aluminum, automotives & parts) – spurring inflation risks. Markets also anticipated the announcement of a more broad-based US tariffs, which were estimated then to range from 10-20%.

2 Apr 2025 – 3 Jul 2025

Liberation day tariffs announced that were more punitive than expected, comprising a base 10% as well as an additional 'reciprocal' tariff layer, based on the US's trade deficit vs. import value from each country. Despite the subsequent 90-day pause for negotiations (for reciprocal tariffs) and a further pullback in Fed rate cut expectations, dollar weaknesses persisted, given 1) US self-induced policy uncertainties, and 2) Fiscal-related concerns.

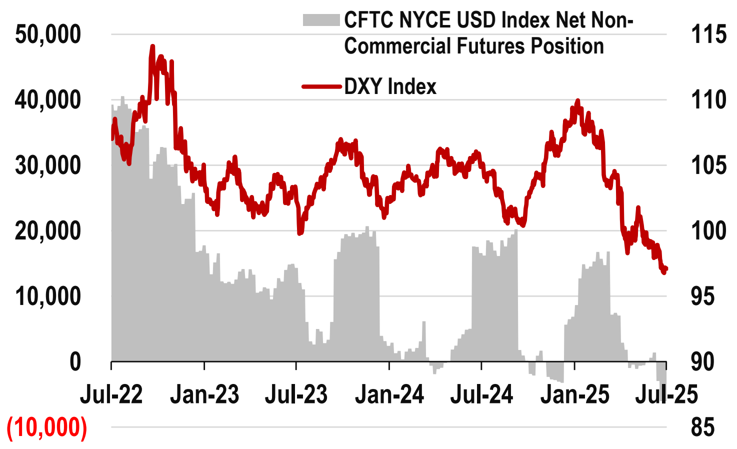
Exhibit 4: A flip in dynamics as traditional 'safe-haven' currencies turn more volatile than commodity-linked FX

FX	A period*			B period*		
	STDEV	10th percentile	90th percentile	STDEV	10th percentile	90th percentile
DXY	0.5%	-0.6%	0.5%	0.4%	-0.5%	0.5%
EUR	0.5%	-0.5%	0.7%	0.5%	-0.6%	0.6%
GBP	0.5%	-0.5%	0.6%	0.5%	-0.6%	0.6%
AUD	0.6%	**-0.7%**	**0.7%**	0.7%	**-0.8%**	**0.8%**
NZD	0.7%	**-0.7%**	**0.8%**	0.6%	**-0.8%**	**0.8%**
JPY	0.7%	**-0.9%**	**0.8%**	0.6%	**-0.7%**	**0.7%**
CHF	0.6%	**-0.7%**	**0.6%**	0.5%	**-0.6%**	**0.5%**
CNH	0.3%	-0.3%	0.3%	0.3%	-0.3%	0.3%
MYR	0.5%	-0.6%	0.5%	0.3%	-0.4%	0.4%
SGD	0.3%	-0.5%	0.4%	0.3%	-0.3%	0.3%
TWD	0.4%	-0.4%	0.3%	0.3%	-0.3%	0.3%
KRW	0.6%	-0.7%	0.6%	0.6%	-0.6%	0.7%

*A and B = Over a 1- and 5-year horizon respectively

Sources: Respective official statistics, AmBank Economics

Exhibit 5: Overly bearish DXY positioning suggests medium-term upside risks



Sources: Bloomberg, AmBank Economics

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