CIO View Special

10 themes for the year ahead

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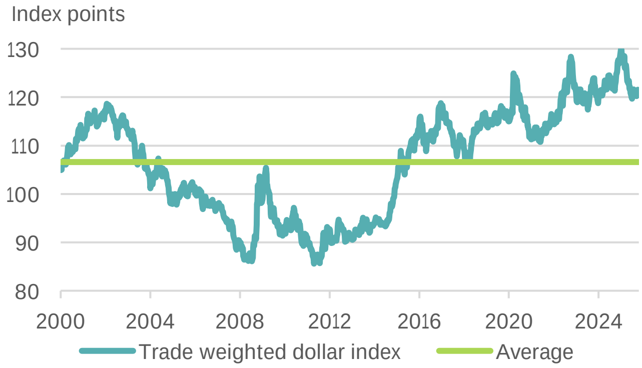
Marketing material

U.S. dollar under pressure, but that's not the end

The greenback is caught between tactical shifts and structural anchoring.

Since the beginning of the year the U.S. dollar has lost around 7% of its value, as measured by the broad dollar index, prompting speculation about a potential "de-dollarisation" of the global economy.[1] But these concerns seem exaggerated. Despite its recent weakness, the greenback remains the backbone of the global financial system. According to the U.S. Federal Reserve (Fed), the dollar is involved in almost 90% of all foreign exchange transactions,[2] and the IMF has confirmed that the dollar's share of global currency reserves remains stable at around 57%.[3] Nevertheless, recent market movements seem to reflect an adjustment to a changed environment for the dollar.

Trade-weighted dollar still trading clearly above its long-term average



Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 11/3/25

The dollar's pronounced weakness in spring 2025 was less a reflection of structural capital flight and more a consequence of technical factors. According to the Bank for International Settlements, the key role was played by currency hedging by non-U.S. investors.[4] They reduced their currency risks via swaps and forwards without selling off U.S. assets on a large scale. At times, the dollar, U.S. Treasuries and American equities fell together. This highlights the cyclical nature of the weakness, which was not rooted in a fundamental loss of confidence and a structural exit from the dollar.

However, it is noteworthy that the dollar has not yet recovered sustainably following its period of weakness in the first half of the year. Rather than a clear counter-movement there has been more or less a sideways trend since then, which may suggests that market participants are still waiting for clarity on monetary policy and fiscal discipline.

At the same time it appears that market participants are not questioning the dollar across the board, but rather reacting in a differentiated manner. Expectations of cuts to U.S. interest rates have triggered tactical shifts, including in favor of assets that are seen as more independent of policy-makers, such as gold and cryptocurrencies. This dynamic may be less an expression of a paradigm shift than of short-term uncertainty. In our view, the credibility of the Fed remains in place and an important factor where the dollar's prospects are concerned.

In the long term the liquidity the dollar offers and U.S. institutional stability may help support the dollar's role as a reserve currency. As long as no alternative offers the same functionality, liquidity and legal certainty, the dollar's primacy is likely to remain intact, in our view. The discussion about stablecoins does little to change this; they merely seem to reflect the need for digital liquidity rather than a structural replacement for the dollar.

The so-called "debasement trade," i.e. the search for scarce, politically independent assets to hedge against U.S. inflation, policy credibility, fiscal and debt risks, has become a common strategy. In our view, gold seems to fulfill this role effectively. Crypto assets, however, remain a highly volatile addition.

"We are not seeing a collapse of the dollar system here, but rather a valuation premium within the existing fiat system," says Xueming Song, currency strategist at DWS. "The dollar appears cyclically vulnerable, but we believe remains structurally anchored." Currently, short- and medium-term factors such as hedging costs and political risks seem to be influencing the direction of the currency without eroding its fundamental framework.

The debasement trade appears to be a reaction to interest rate, fiscal deficit and U.S. credibility risks. But the swan song for the dollar seems premature. As long as U.S. institutions remain solid the dollar is likely to remain the most liquid unit of settlement and the central medium of security for global financial flows.

Footnotes

[1] Bloomberg Finance L.P. as of 11/03/25
[2] "The International Role of the U.S. Dollar – 2025 Edition," FEDS Notes as of 7/18/25
[3] "Currency Composition of Official Foreign Exchange Reserves," IMF as of 10/2/25
[4] "US dollar's slide in April 2025: the role of FX hedging," BIS as of 6/20/25

Glossary

The Bank for International Settlements (BIS) is the international organization of central banks.

The Bloomberg Dollar Spot Index measures the value of the U.S. dollar against 10 global currencies, both developed market and emerging market.

A crypto asset is the digital representation of a value or contractual right that is created, transferred, and stored using distributed ledger technology (blockchain) and authenticated through cryptography.

Cyclical is something that moves with the cycle.

The debasement trade is a market narrative in which investors are shifting capital into "scarce" or real-value-like assets out of fear of systematic debasement of fiat currencies.

Fiat money carries no intrinsic value and is not tied to any commodity.

Fiscal policy describes government spending policies that influence macroeconomic conditions. Through fiscal policy, the government attempts to improve unemployment rates, control inflation, stabilize business cycles and influence interest rates in an effort to control the economy.

FX or foreign exchange is the currency – literally foreign money – used in the settlement of international trade between countries.

A forward contract, or simply a forward, is a non-standardized contract between two parties to buy or sell an asset at a specified future time at a price agreed on in the contract, making it a type of derivative instrument

Greenback is a commonly used expression for the U.S. dollar.

In finance, a hedged investment uses financial instruments to reduce or eliminate the risk from currency fluctuations, aiming for more stable returns by locking in an exchange rate. Hedging protects against potential currency losses but also sacrifices potential currency gains, while unhedged investments expose investors to both currency risks and opportunities.

Inflation is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

The International Monetary Fund (IMF), created in 1945 and headquartered in Washington, D.C., is an organization of 188 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

Liquidity refers to the degree to which an asset or security can be bought or sold in the market without affecting the asset's price and to the ability to convert an asset to cash quickly.

Monetary policy focuses on controlling the supply of money with the ulterior motive of price stability, reducing unemployment, boosting growth, etc. (depending on the central bank's mandate).

A reserve currency is a foreign currency held in significant quantities by central banks and international financial institutions. Foreign currency reserves allow a country to pay off its international debt obligations or boost its currency's value.

A stablecoin is a digital token that is pegged to an asset, like a national currency or gold.

A swap, a type of derivative, is an agreement between two parties to exchange sequences of cash flows for a set period of time.

A trade-weighted exchange rate is a weighted average of the individual exchange rates of a particular country with its main trading partners. The bilateral exchange rates are weighted according to the importance of each partner country's share of trade with the reporting country.

The Trade-Weighted U.S. Dollar Index tracks the performance of the U.S. dollar relative to other world currencies, weighted according to the importance of each partner country's share of trade with the reporting country.

Treasuries are fixed-interest U.S. government debt securities with different maturities: Treasury bills (1 year maximum), Treasury notes (2 to 10 years), Treasury bonds (20 to 30 years) and Treasury Inflation Protected Securities (TIPS) (5, 10 and 30 years).

The U.S. Federal Reserve, often referred to as "the Fed," is the central bank of the United States.

A valuation premium is the excess a buyer is willing to pay for one asset relative to other assets.

Volatility is the degree of variation of a trading-price series over time. It can be used as a measure of an asset's risk.

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