FX Viewpoint

Currencies
Global

USD: Consolidating for further strength in 2025

- The USD is likely to consolidate over the near term when markets eye US data releases and the Fed
- The case for USD strength in 2025 looks robust…
- …but there could be moments when the USD may face a squeeze lower

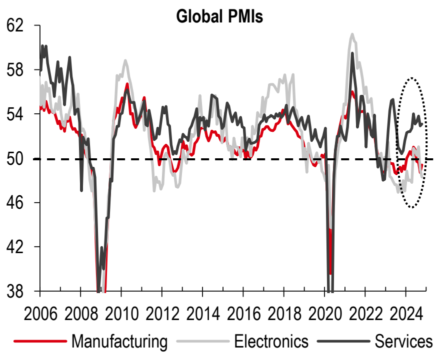
We expect the USD to consolidate over the near term

Approaching 2025, the USD may first go through a period of consolidation, in our view. Near-term market focus will probably be US data releases, such as **non-farm payrolls (6 December)** and **CPI (11 December)**, ahead of **the Federal Reserve's** (Fed) **meeting on 17-18 December**. Markets currently price in a c40% chance of a 25bp rate cut in December and a c70% chance to deliver such a cut in January (*Bloomberg*, 21 November 2024). **Our economists' central case is that the Fed will probably deliver it in December.** But this cut (if it happens) is likely to be accompanied by hawkish revisions to the median interest rate projections (known as "median dots") and the economic projections. The Fed may even signal that it will pause its rate cuts. All this could send **mixed signals to the USD, which is why a consolidation seems more likely to happen in the coming weeks**.

In 2025, USD strength is likely to be supported by relatively high US yields, global growth uncertainties and potentially its "safe haven" status…

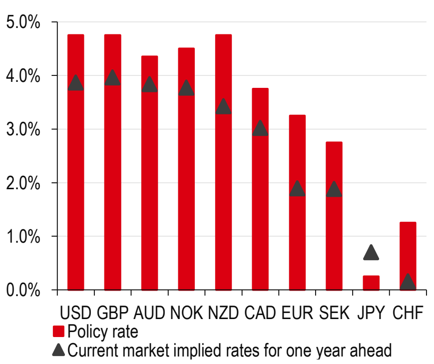
But looking beyond the near-term FX movements, we think **the case for USD strength through 2025 is robust.** Our long-held framework for thinking about the USD's direction of travel boils down to the "circle of trust" – global growth dynamics, US yields relative to others, and risk appetite. On this note, **global growth has been lacklustre** (Chart 1) and would look even more fragile should tariffs begin to come increasingly into the frame. Expectations of fiscal stimulus and import tariff risks may slow the Fed's easing pace, maintaining **the USD's high yields relative to other currencies** (Chart 2). Both of these could also weigh on risk appetite in FX markets, which would play to the USD's advantage. In addition, the possibility of **deregulation and corporate tax cuts may foster capital inflows into the US**, supporting the USD.

1. Global growth is still lacklustre, with risks tilted to the downside



Source: Bloomberg, HSBC

2. The USD's yields may remain high relative to many other G10 currencies



Source: Bloomberg, HSBC

…but the ride could be bumpy

Still, **there could be moments when the USD may face a squeeze lower next year.** For instance, newly elected US President Donald Trump could make USD negative comments. Nevertheless, the past occurrences indicate that the impact on the USD would likely be small and transitory.

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