

Why Is The USD So Weak?

The USD has been weak all 2017. In early 2018 its weakness has worsened acutely. With the US economy in good health and printing growth numbers like 2.6% annualized in Q4 2017 and with interest rates rising, its difficult to understand why the USD is weak.

Some have attributed the weakness to the pre-emptive nature of markets and that investors are looking for a turn in monetary policy at the ECB and BoJ and that a change in policy has greater impact on markets than a continuation of policy, however determined. Others point to the trade deficit which has begun to widen again, but the US is a chronic deficit nation.

What is more likely is that the USD is a safe haven currency. For the last 8 years we have had fear and trepidation which has buoyed the USD. Sure, there have been bouts of USD weakness coinciding with JPY strength but these are not because JPY is a haven currency but that it is a funding currency. The same could be said about EUR.

If the USD is indeed a safe haven currency, then the current exuberance about global growth prospects and equity markets explains the weakness as investors diversify into riskier assets and currencies. If correct, the USD could be a cheap hedge to equity risk, and could be an interesting value play in itself. Sooner or later, risk manifests itself as damage.