Managing in a Global Economy

The 2025 Dollar Decline

Understanding the Causes, Consequences, and Challenges

Presented by: Nile Love, Akilatu Ayinla, Allison Marino, Peter Melle, Roshi KC

TOPICS

- Scope & Timeline of the Decline
- Implications
- Trade Fragmentation & Reshoring
- Core Drivers of Currency Volatility
- External Pressure Points: Yen & Euro
- De-Dollarization & Geopolitical Shifts

A Historical Shift

Dollar index fell by

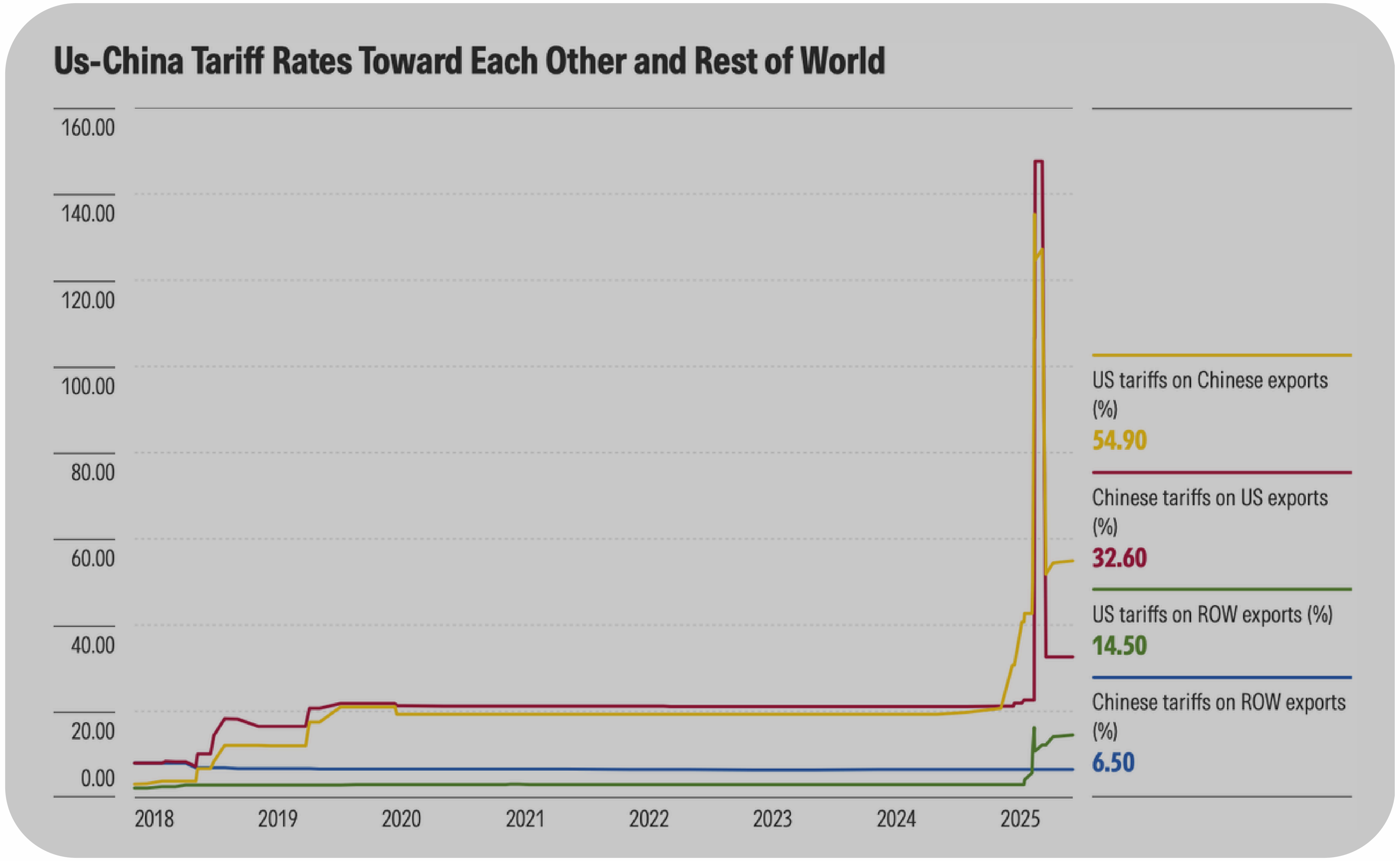
11%

In first half of 2025

- Worst first half since 1973
- Ends our decade long strong dollar cycle (2014–2024)
- The downturn reflects a shift in sentiment
- It is expected that the dollar will continue to fall into mid 2026

Sources: Morgan Stanley (2025), CNBC (2025), Reuters (2025).

Key Turning Points in 2025



January - June
Tariff tensions and weak job and growth data sparked selling, driving an 11 percent fall

July
Dollar rebounded 3–5%, best month since 2022, as traders covered short positions

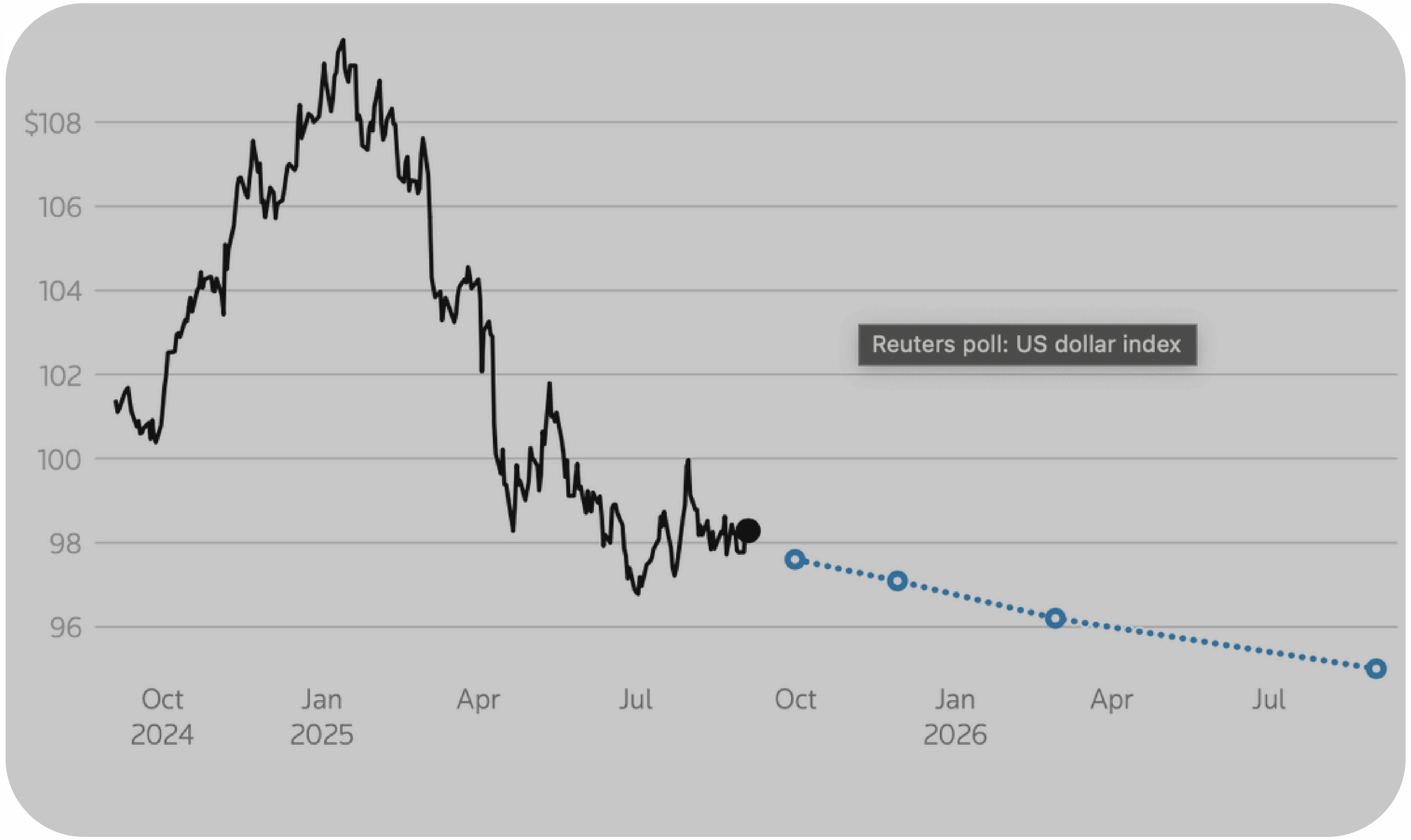
August
Weakness resumed due to expectations on Fed rate cuts fueling selling pressure

September
The Fed cut rates by 0.25%, confirming an easing cycle

October
Dollar weakened again as trade frictions and deficits are keeping investors cautious

Sources: Morningstar (2025), Reuters (2025), Federal Reserve (2025).

What is Behind the Decline?



Monetary

The shift to the Fed cutting rates reduced the yield premium that we have had supporting us against other currencies

Fiscal

There has been record treasury issuance about financial stability, causing foreign investors to hedge their holdings = more selling

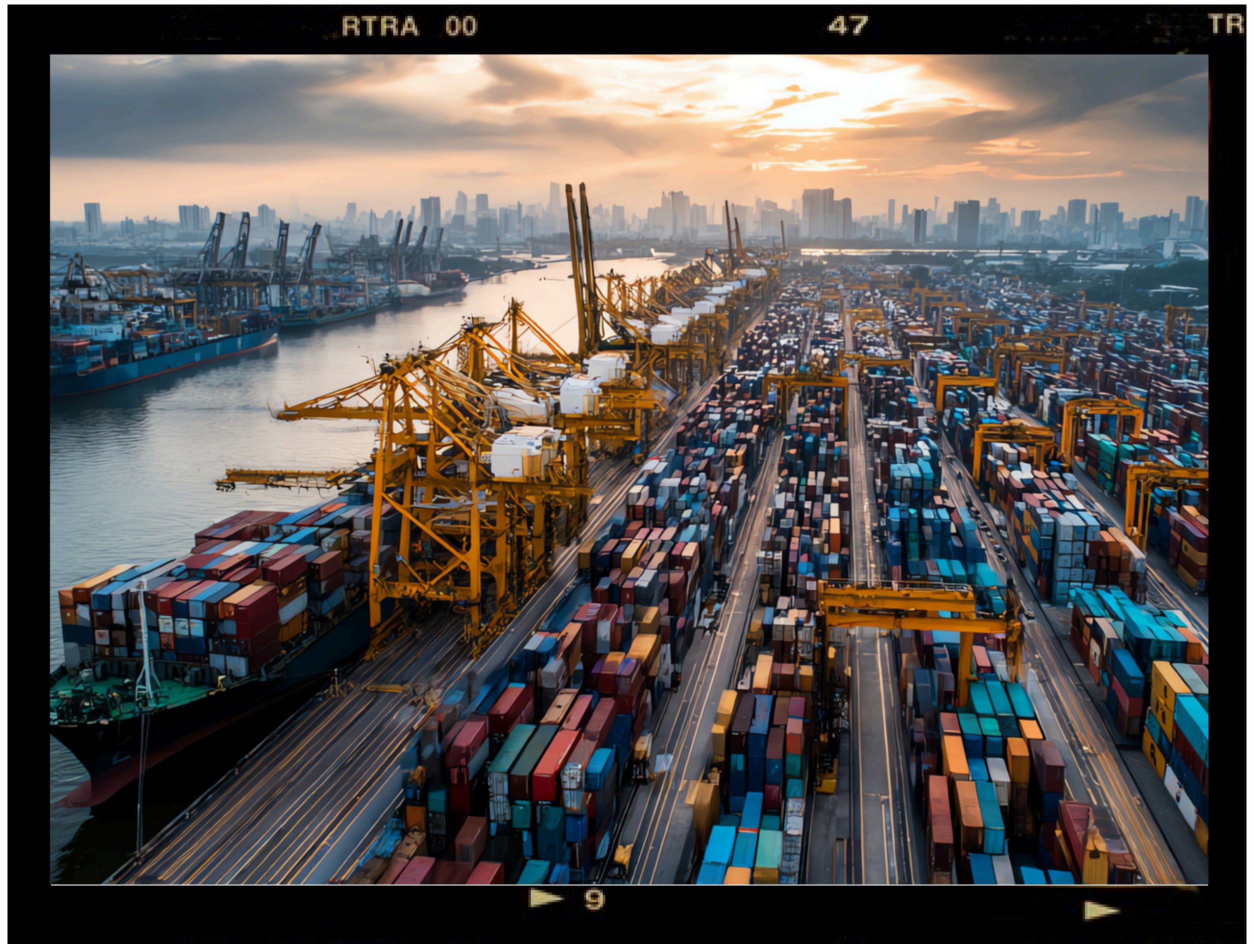
Policy

Political friction, tariff uncertainty, and even the risk of a prolonged government shutdown added to volatility and skepticism about U.S. policy direction

Sources: Federal Reserve (2025), EBC (2025), Morgan Stanley (2025), Reuters (2025), Macrotrends (2025)

Implications

- Higher import costs
- Shifts in corporate profits
- Trade + supply chain pressures
- Investor confidence uncertainty
- Global currency influence challenged



What is Trade Fragmentation?

Reshoring: Bringing manufacturing back in the US to reduce dependence on foreign supply chain.

Friend-shoring: Partnering trade with geopolitical allies instead of rivals.

Tariffs: Taxes on imports that increase costs.

Conflicting Pressures

01 Downward Pressure

- **Reduced Global Trade:** Fewer component imports (from reshoring) and tariffs reduce the need for USD in global settlements.
- **Lower Foreign Investment:** A fragmented world dampens cross-border capital inflows, a key source of dollar demand.
- **Margin Pressure:** Higher domestic production costs can pressure corporate profits, making U.S. assets less attractive.

02 Upward Pressure

- **Safe Haven Status:** Increased geopolitical uncertainty and fragmentation often drive a 'flight to safety' into the U.S. dollar.
- **Domestic Support (Short-Term):** Reshoring can boost domestic employment and consumer spending, supporting the U.S. economy.
- **Relative Strength:** Fragmentation may hurt other major economies (e.g., Europe, China) more, making the USD stronger by comparison.

Core Drivers of currency Volatility

Key Economic Drivers

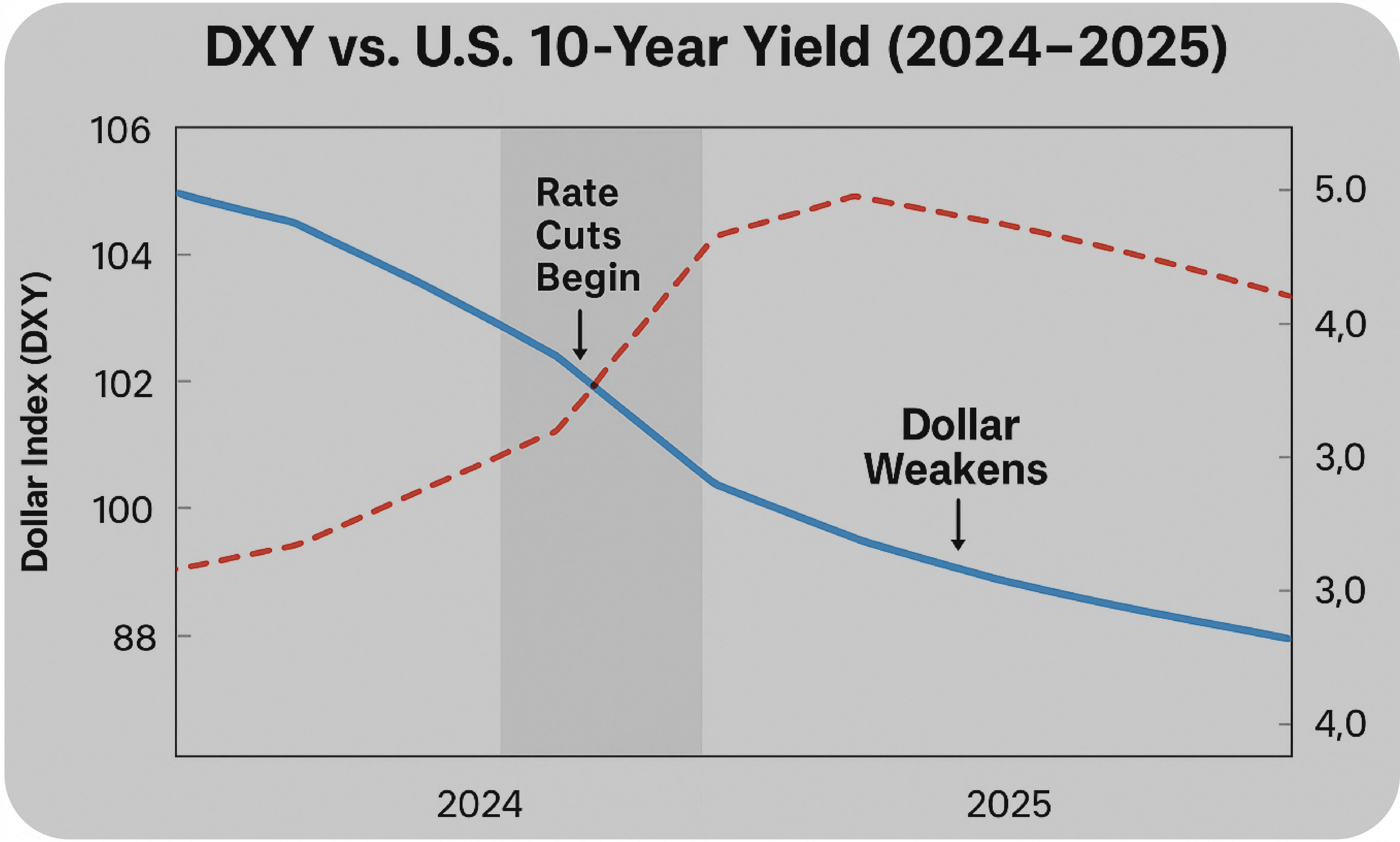
Interest Rates – Lower U.S. yields and Fed rate-cut expectations in 2025 reduced foreign inflows.

Inflation – Rising prices erode purchasing power, decreasing currency value.

Trade Balance – Persistent U.S. trade deficits create downward pressure.

Fiscal Deficit & Debt – $34 trillion in debt undermines investor confidence.

Growth Prospects – Slower GDP growth than emerging markets shifts capital away



Source: Conceptual chart created based on data trends from Morgans Stanley (2025) Reuters (2025), and Al Jazeerra (2025).

Market Psychology & Short-Term Volatility

Risk Sentiment	"Risk-on" vs "risk-off" shifts influence dollar demand.
Speculative Trading	Hedge funds and algorithms amplify short-term swings.
Central Bank Action	Fed rate decisions and communication drive sharp moves.
Political Uncetainty	Tariffs and fiscal debates increased investor caution.

External Pressure Points: Euro

The global role has dropped

More trade done in euros

U.S. debt and policy worries

External Pressure Points: Yen

Seen as a potential strength

Viewed as a “safe haven” currency

Yen weakness creates rebound risk

De-Dollarization and Geopolitical Shifts

Decline in USD Reserves:

- Global USD share fell to ≈58% (IMF, 2025) — lowest in 25 years.
- Central banks diversifying into other currencies amid uncertainty and sanctions risk
- **Impact:** Signals weakening global dominance of the dollar.

BRICS+ & ASEAN Local-Currency Trade

- New systems for local or digital settlements reduce USD dependence.
- Regional alliances promote multi-currency trade and seek economic independence.
- **Impact:** Gradual shift toward multi-currency global trade.

Surge in Gold Reserves

- Central banks bought 1,000+ tons of gold (2024) — record high.
- Used as a hedge against USD volatility and Western financial sanctions.
- **Impact:** Gold is seen as a neutral, safer reserve asset.

Lower Foreign Demand for U.S. Treasuries

- China & Japan cut holdings amid rising U.S. debt.
- **Impact:** Weaker investor confidence → downward pressure on USD.

Key Findings

Economic Slowdown: Lower growth and high U.S. debt reduced global confidence in the dollar.

Trade & Market Changes: Trade deficits and investor sentiment added short-term volatility.

Global Diversification: BRICS+, ASEAN, and central banks increased use of local currencies and gold.

Geopolitical Impact: Policy gridlock, sanctions, and new alliances accelerated de-dollarization.

"The dollar remains dominant, but global power is slowly shifting toward a multi-currency world."

Thank You!

Any Questions?

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