14 August 2026

FX Viewpoint

Currencies
Global

USD to resume strength against EUR and JPY

- The USD has weakened recently, given JPY-supportive intervention and rising Fed-driven US policy uncertainty
- The ongoing debate over the direction of the US data pulse has added to the pressure
- Even so, unless the outlook clearly improves in other major economies, the USD could resume its upward trend

The USD has struggled recently, falling back to levels last seen around the 16-17 June Federal Open Market Committee (FOMC) meeting. Two headwinds stand out. First, the US Dollar Index (DXY) has been weighed down by **spillover effects from coordinated intervention** by Japan's Ministry of Finance and the US Treasury to support the JPY. Second, the USD softened **after the July FOMC meeting**, reflecting a poor market reception to the statement and Chair Warsh's messaging.

USD has been weighed down by JPY intervention…

…and a poor reception to the last FOMC meeting

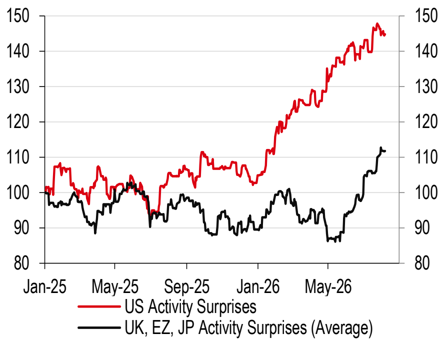
Looking ahead, the Federal Reserve's (Fed) next steps will be pivotal for near-term USD direction. We still think the USD should be **supported by a stronger cyclical outlook than elsewhere**, but that view can be challenged if US policy uncertainty becomes a more material drag. This may help explain why resilient US growth and relatively high short-term rates haven't translated into the USD strength one might expect. Some moderation in the US data pulse is possible, but the contrast versus activity surprises elsewhere in the G4 remains sizeable (Chart 1).

We think the next FOMC meeting will be pivotal

Across the suite of the USD's rate differentials, the gap that continues to stand out to us is between EUR-USD and the difference in five-year inflation adjusted yields. Despite the move lower in the yield differential in the last few months, **EUR-USD has remained elevated** (Chart 2), suggesting the USD is adjusting only gradually.

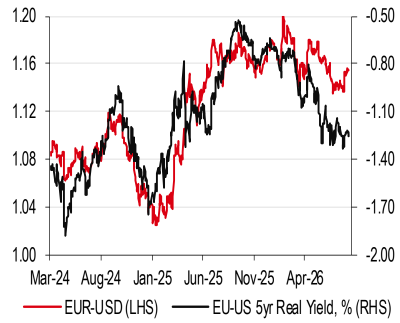
The USD should be supported by a better cyclical outlook…

1. US growth surprises are stronger than elsewhere



Source: Bloomberg, HSBC

2. EUR-USD is high versus a real yield measure



Source: Bloomberg, HSBC

We believe the currency can resume its gradual appreciation, including against the EUR and JPY, given its sizeable interest rate differential gaps still in place. Nonetheless, with another round of key US data before the next FOMC meeting, the road ahead may be bumpy.

…and sizeable interest rate differentials

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