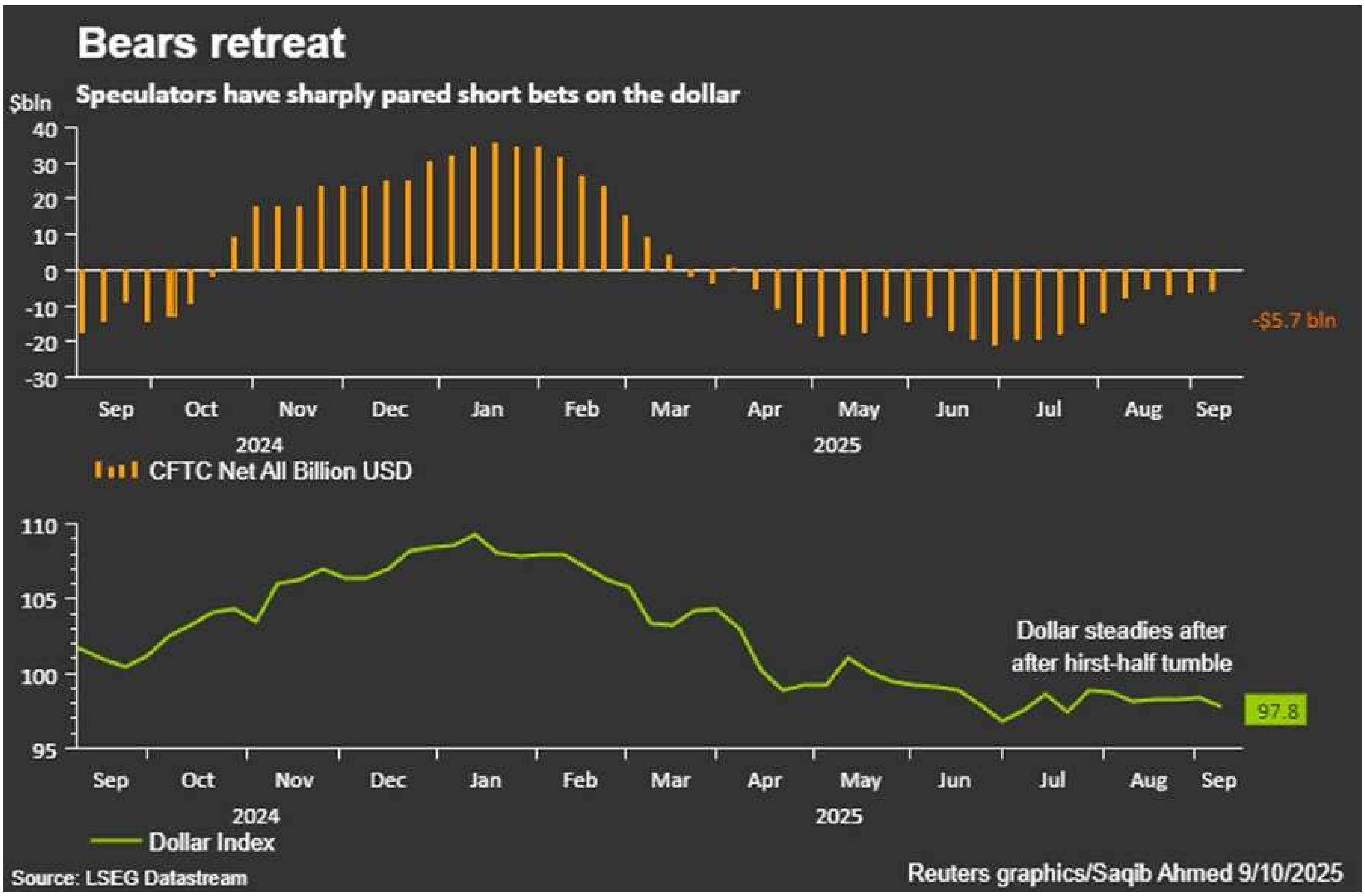
US dollar bears think record slide may resume after recent pause

By Saqib Iqbal Ahmed and Laura Matthews, Reuters, September 11, 2025

- Dollar still pressured by concerns over trade and twin deficits
- Bears also worry aggressive Fed rate cuts could sink dollar
- Another worry: global investors rebalancing away from US assets

NEW YORK - The U.S. dollar has steadied since a record slide earlier this year, but many currency market players still view the greenback as locked in a bearish trend and are bracing themselves for further losses. The dollar index (.DXY) fell about 11% in the six months through June in one of its steepest declines on record. The greenback has steadied in recent weeks along with a sharp pullback in bearish futures bets. As of last week, speculators' net short dollar position was at $5.7 billion, near the smallest since mid-April. That was down sharply from about $21 billion in late June, CFTC data show.

Many investors view this as a pause in the selling rather than a reversal. Worries include twin U.S. fiscal and trade deficits, chances that a slow job market may prompt more aggressive rate cuts from the Federal Reserve and the view that global fund managers may be in the process of rethinking their FX hedging practices as they look to reduce their exposure to the U.S. dollar. "The dollar is in the process of declining, and there's more to go," Francesca Fornasari, head of currency solutions at Insight Investment said. "It's messy and it's probably going to be pretty noisy," Fornasari said.



Many of the forces that drove the dollar's slide remain in place. These include a rethink of U.S. exceptionalism, worries about economic growth due to U.S. President Donald Trump's protectionist trade stance, and persistent twin-deficit concerns. Soft jobs data give the Fed scope to cut rates more aggressively. This would erode the yield advantage for the greenback. "The markets are now starting to think about the degree to which the U.S. economy is going to weaken ...how weak will the labor market get going forward and what does that mean for Fed monetary policy," said Paresh Upadhyaya, director of fixed income and currency strategy at Amundi, the biggest European asset manager. The Fed will likely resume cutting short-term rates next week and continue on for the rest of the year. Upadhyaya, who started the year bearish on the greenback and has been adding to short dollar positions, sees little reason to change course now.

GLOBAL INVESTORS FACE HEDGING HEADACHE

Years of U.S. outperformance have left global investors heavily exposed to American assets. April's tariff turbulence prompted some to trim positions and reassess hedges, but the repositioning is far from complete, investors said. With foreign holdings of U.S. assets in the trillions, according to banks including Deutsche Bank, any paring of exposure could weigh on the dollar, a move that has yet to materialize in a big way, analysts said. "The next big drop in the dollar could be if foreign investors decide they want to now start reducing their U.S. allocation," Amundi's Upadhyaya said. The dollar's dismal first-half performance has already prompted a pick-up in hedging activity by asset managers. Slower-acting market participants could join the fray over the next three to six months, Insight Investment's Fornasari said.

Hedging flows typically involve selling dollars via forwards or swaps, adding supply that can pressure the greenback. Lower U.S. interest rates relative to overseas rates reduce the cost of popular hedging instruments and can make hedging more attractive. "It is stating the obvious that additional Fed cuts from here would increase incentives to hedge dollar assets by foreign investors," George Saravelos, Global Head of FX Research at Deutsche Bank, said in a note on Monday. Dollar bulls are unlikely to find support from the Trump administration, investors said, as the "America First" agenda and plans to revive U.S. manufacturing work against a stronger currency. The administration has occasionally said it is committed to protecting the strength and power of the U.S. dollar.

"They still believe in a strong dollar, king dollar, but a little bit weaker than the very elevated level (at the start of the year,)" Thanos Bardas, managing director and co-head of global investment-grade fixed income at Neuberger Berman, said. "There is no way they can bring manufacturing back to the U.S. with the dollar index at 110," said Bardas, who expects the index to linger in the 95 to 100 range in the near term. On Wednesday the index was at 97.72. "I don't think the U.S. wants to necessarily signal its desire for a weaker dollar, but it's not going to stand in the way of a weaker dollar," said Shaun Osborne, chief FX strategist at Scotiabank. Osborne sees the dollar falling another 5% to 7% over the next year or so against major peers.

MANY SAY DOLLAR IS STILL OVERVALUED

There is still some chance that the dollar finds some support, given how much it has already fallen this year and the extent of Fed easing already priced in by the market. One risk to the weaker-dollar view is an unexpected brightening in the U.S. economic growth outlook, Neuberger Berman's Bardas said. The economy expanded faster than first estimated in the second quarter, helped by business investment in intellectual property such as artificial intelligence, though import tariffs kept the outlook cloudy. Still, the dollar remains expensive relative to many currencies, investors said, discouraging potential buyers in FX markets, known for prolonged periods where currencies overshoot in both directions. "We're just barely getting to what I would consider neutral levels for the dollar," Amundi's Upadhyaya said, noting that the dollar is far from undervalued. "We have more of the dollar bear market still to come."

India rupee sinks to record low, US tariffs keep outlook fragile

By Nimesh Vora and Jaspreet Kalra, Reuters, September 11, 2025

MUMBAI - The Indian rupee dropped to an all-time low against the U.S. dollar on Thursday, in a slide that reflects the mounting strain of U.S. tariffs on Asia's third largest economy. The rupee closed 0.39% lower at 88.4425 against its previous close of 88.1000. The currency had hit its previous record low of 88.36 last Friday. Punitive U.S. tariffs on Indian goods, which kicked in last month, are denting investor confidence, making the rupee one of the most vulnerable Asian currencies. Foreign investors have withdrawn a net of $11.7 billion from India's debt and equity markets so far this year. Washington's steep tariffs have hurt India's growth and trade outlook and clouded the path for currency.

To curb the impact of the levies, Indian Prime Minister Narendra Modi has rolled out consumption tax cuts. Both U.S. and India are also looking at resuming negotiations to address the trade barriers. For now, Indian exporters face uncertainty over order flows, while importers are forced to hedge their forex exposure more aggressively, distorting the demand-supply balance in the currency market. "While importer dollar demand is persistent, exporter flows, and foreign portfolio flows seem to be muted, which is leading to pressure on the rupee," said Dilip Parmar, a foreign exchange research analyst at HDFC Securities. The USD/INR pair is likely to continue following a pattern of consolidation for a few days before breaking higher, Parmar said.

The Reserve Bank of India has stepped in frequently to temper the pace of the rupee's decline. Market participants say the central bank has been selling dollars to prevent large swings. The interventions are not aimed at defending any particular level, bankers say, but are intended to keep the slide "measured" and to prevent unease among companies and investors. The rupee's weakness is in contrast to its regional peers, most of which have been buoyed by expectations of a Federal Reserve rate cut next week. Weakness in the rupee is likely to persist in the near term considering the impact of the U.S.

tariffs on labour-intensive sectors, Abhishek Goenka, founder & CEO of IFA Global, said. Most Asian currencies fell on Thursday while the dollar index inched higher, as investors awaited U.S. inflation data due later in the day.