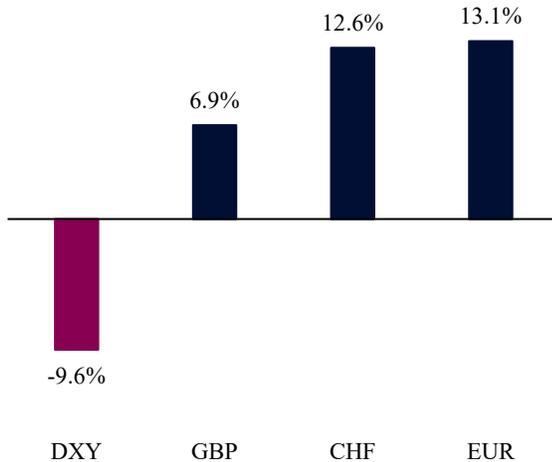


## What to expect from the USD going forward?

Foreign exchange (FX) markets are the clearest expressions of global macro trends, being at the centre of capital flows and the allocation decisions behind them. Last year, major FX markets have presented significant volatility. The USD Index (DXY), a traditional benchmark that measures the value of the USD against a weighted basket of six major currencies, has experienced an 9.6% depreciation in 2025, one of the worst performances for the greenback in almost a decade. In contrast, the Euro (EUR), the Swiss Franc (CHF) and the Pound Sterling (GBP) appreciated markedly against the USD.

**Major FX movements in 2025**  
 (USD index and currencies versus USD, % change)



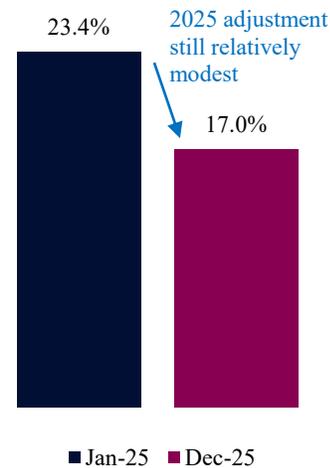
Sources: Bloomberg, QNB analysis

After such a significant USD selloff, analysts and investors debate the direction of the USD going forward. There is currently no clear consensus when it comes to the USD. Bulls believe that the USD should be well supported by continuous US “exceptionalism” underpinned by higher productivity growth and a superior supply of high-quality assets. In our view, however, there is room for further USD adjustments to the downside. Three main factors support our assessment.

First, despite the significant depreciation in 2025, the USD still remains “overvalued” according to some standard metrics, suggesting the need for more long-term adjustments. A common way to look at

currency “valuations” is to analyse trade-weighted, inflation-adjusted exchange rates, i.e., the real effective exchange rates (REER), and compare it to their own long-term averages or historical norms. This REER metric is more robust than traditional FX rates as it captures changes in trade patterns between countries as well as economic imbalances in the form of inflation and inflation differentials. The REER picture for December 2025 suggests that the USD is indeed the most overvalued currency in the advanced world, by more than 17% of its notional “fair value.” Importantly, while the USD depreciation last year was significant, it accounted for only a modest adjustment of USD overvaluation. In fact, from peak USD strength in January 2025, the overvaluation had only declined by 640 basis points or less than 30% of the value needed for a full adjustment. A higher US inflation than what is observed in important US trade partners in Asia and Europe also make a full adjustment more difficult. In other words, structurally, both due to accumulated imbalances and higher relative inflation, the USD is expected to remain under pressure.

**Currency deviation from REER 20-year average**  
 (in %, beginning and end of period, 2025)



Sources: Haver, QNB analysis

Second, shifts in the drivers of major advanced economies could narrow their growth and interest rate differentials with the US. In recent years, the US has been more aggressive than its peers in applying expansionary fiscal policies, pushing its deficit to



around 7% of GDP and bolstering economic performance. Currently, the US has limited space for further fiscal expansion whereas other advanced economies lean toward more expansionary measures. This should diminish the US growth advantage. A narrower growth differential ultimately favours other currencies over the USD.

Third, global investor's overall positioning suggests that portfolio rebalancing could favour increased capital allocations to non-US assets. Over the past decade, portfolios have become highly concentrated in US assets, reflecting a long period of US economic outperformance, strong US equity market returns and the central role of US Treasuries in global finance. As a result, many global investors are structurally overweight US assets, while allocations to other advanced economies remain comparatively low.

Hence, even relatively small changes in global asset allocation, such as marginal reductions in US exposure for diversification or risk-management purposes, could translate into sizeable capital flows towards under-allocated asset classes, which imply USD selling pressure. In addition, lower USD interest rates widen the premium of higher yielding currencies, particularly in emerging markets, favouring further outflows from the US.

All in all, we see scope for further USD adjustments beyond current levels. The currency is likely to move toward more "fair" levels, supported by a "normalization" of the US exceptionalism and broader moves of portfolio re-balancing.

#### QNB Economics Team:

##### [Luiz Pinto\\*](#)

Assistant Vice President -  
Economics  
+974-4453-4642

\* Corresponding author

##### [Bernabe Lopez Martin](#)

Senior Manager -  
Economics  
+974-4453-4643

##### [Aisha Khalid Al Thani](#)

Senior Associate -  
Economics  
+974-4453-4647

**DISCLAIMER:** The information in this publication ("**Information**") has been prepared by Qatar National Bank (Q.P.S.C.) ("**QNB**") which term includes its branches and affiliated companies. The Information is believed to be, and has been obtained from, sources deemed to be reliable; however, QNB makes no guarantee, representation or warranty of any kind, express or implied, as to the Information's accuracy, completeness or reliability and shall not be held responsible in any way (including in respect of negligence) for any errors in, or omissions from, the Information. QNB expressly disclaims all warranties or merchantability or fitness for a particular purpose with respect to the Information. Any hyperlinks to third party websites are provided for reader convenience only and QNB does not endorse the content of, is not responsible for, nor does it offer the reader any reliance with respect to the accuracy or security controls of these websites. QNB is not acting as a financial adviser, consultant or fiduciary with respect to the Information and is not providing investment, legal, tax or accounting advice. The Information presented is general in nature: it is not advice, an offer, promotion, solicitation or recommendation in respect of any information or products presented in this publication. This publication is provided solely on the basis that the recipient will make an independent evaluation of the Information at the recipient's sole risk and responsibility. It may not be relied upon to make any investment decision. QNB recommends that the recipient obtains investment, legal, tax or accounting advice from independent professional advisors before making any investment decision. Any opinions expressed in this publication are the opinions of the author as at the date of publication. They do not necessarily reflect the opinions of QNB who reserves the right to amend any Information at any time without notice. QNB, its directors, officers, employees, representatives or agents do not assume any liability for any loss, injury, damages or expenses that may result from or be related in any way to the reliance by any person upon the Information. The publication is distributed on a complementary basis and may not be distributed, modified, published, re-posted, reused, sold, transmitted or reproduced in whole or in part without the permission of QNB. The Information has not, to the best of QNB's knowledge, been reviewed by Qatar Central Bank, the Qatar Financial Markets Authority, nor any governmental, quasi-governmental, regulatory or advisory authority either in or outside Qatar and no approval has been either solicited or received by QNB in respect of the Information.