



Corporate &
Investment Banking

EUROPE

QIS Tactical

13 May 2025
(10:40 CET)

De-dollarisation

Tariff relief rally over? The announcement of a 90-day pause between the US and China in their trade war has driven a significant rally to above pre-Liberation Day levels. Since the beginning of May, the US dollar has rallied alongside higher US real yields and a stronger US equity market performance, suggesting that investors have become positive on the US exceptionalism theme once again. This was the consensus theme at the start of the year, but we believe it could be too early to position for the US to outperform again. In our base case, we see a 10% blanket tariff to remain for US imports. This, in combination with diminished labour supply on the back of an immigration clampdown, is likely to slow US economic growth and once again challenge the US exceptionalism narrative.

End of US exceptionalism? US Liberation Day ended up being the day when global investors liberated themselves from the view of US exceptionalism. The USD index suffered its second-worst return in April in the last 15 years, and the USD its worst YtD performance for at least 30 years. The trend of de-dollarisation has accelerated rapidly, and might be hard to reverse anytime soon. Europe actually proved to be more of a safe haven than the US, much as we expected (see [QIS Tactical: European exceptionalism](#)). We believe global investors remain overweight US assets and markets are currently in the process of a global reallocation away from the US.

The broken smile. The BBVA FX strategy team believes that Trumponomics is weighing on the USD ([FX Insights 2Q 2025: The Broken Smile](#)), with the currency entering a phase of structural weakening, driven by protectionist US policies, elevated trade uncertainty and deteriorating confidence in US assets. The traditional “USD smile” has fractured, with long USD positions unwinding sharply in Q1 2025. We see continued downside risk for the USD, particularly versus the EUR and JPY, as portfolio and reserve flows rotate into alternative safe-haven assets. While short-term volatility may interrupt the trend, the medium-term outlook remains bearish. The peak in the USD appears to be behind us, and the reallocation away from USD assets is gaining traction.

De-dollarisation index. Despite equities, credit and US Treasuries recovering some losses from the Liberation Day risk-off event, the USD has remained weak over the past month. This supports our view that a structural de-risking away from the USD is currently underway. Long-USD positioning reversed quickly in 1Q, but there is room for a further drop from multi-decade USD highs through portfolio and central bank reserve diversification, mainly into the EUR, but also the JPY, CHF and gold.

Looking ahead, we expect non-USD currencies to continue to benefit from the global de-dollarisation flows. Investors agreeing with our view could consider a basket of global G-10 currencies excluding the USD, AUD and NZD. We avoid the AUD and NZD due to their close economic ties with the Chinese economy, where growth could remain under pressure in the near term. We have weighted the currencies based on their GDP value to represent a proxy availability of liquid assets to absorb USD outflows.

LONDON:

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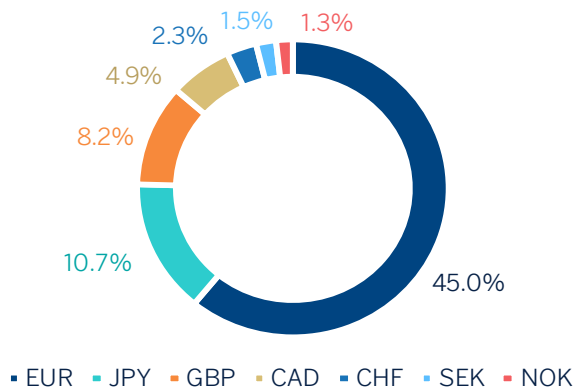
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Figure 1

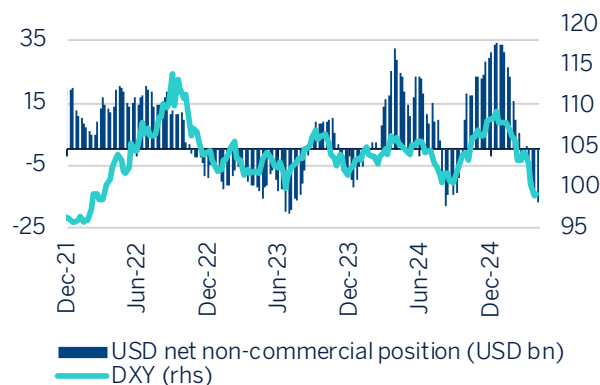
BBVA de-dollarisation basket



Source: Bloomberg and BBVA Global Markets Strategy

Figure 2

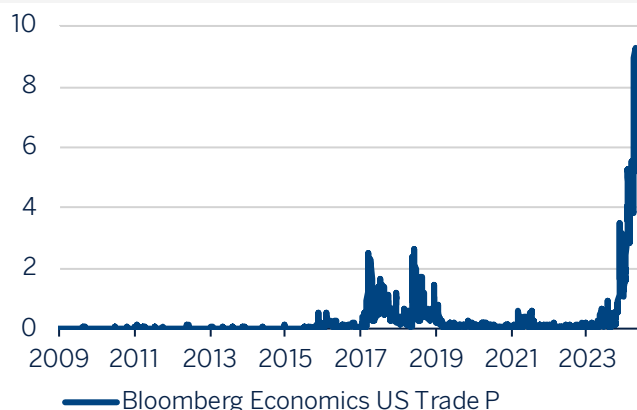
Positioning reversed; a more structural shift could open more room



Source: Bloomberg and BBVA Global Markets Strategy

Figure 3

US trade policy uncertainty index remains near extreme highs



Source: Bloomberg and BBVA Global Markets Strategy

Figure 4

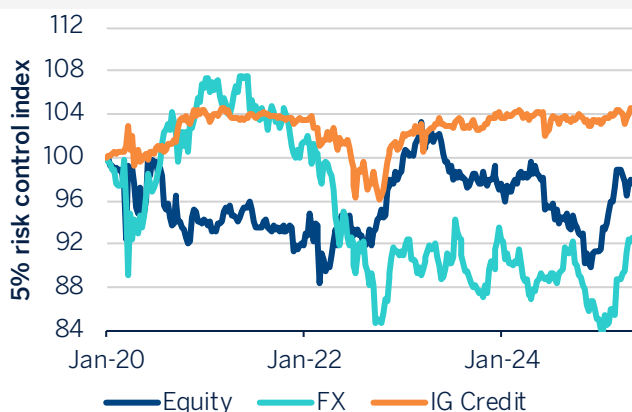
USD share of foreign reserves was in decline even before Trump (%)



Source: IMF and BBVA Global Markets Strategy

Figure 5

European exceptionalism playing out year-to-date (performance rebased to 100)



Source: Bloomberg and BBVA Global Markets Strategy

Figure 6

Trump 2.0 starting similarly to Trump 1.0 for the USD (performance rebased to 100)



Source: Bloomberg and BBVA Global Markets Strategy



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