

IN BRIEF

What Happened

- September marked an end of USD losses with the Bloomberg Dollar Spot Index rising by 1.7%; its third best monthly performance of 2026 after March & June
- Euro value dropped to its weakest since June 2025 as political upheaval in the Euro-zone erupted following concerns over fiscal issues and legislative friction
- Mexican Peso touched its lowest value against the Buck in 11 months, now facing losses for the year
- After reaching its strongest point since February, the Japanese Yen (JPY) managed a 1.7% monthly gain, navigating wild swings and a “dovish” Bank of Japan
- U.S. Dollar back to playing role as safe-haven asset in the midst of shifting narratives and declining confidence

Monex USA's View

- Fear over energy costs and negative effects from armed conflict will keep USD buoyant
- Any relief to come from announcements regarding ceasefires or re-opening of oil traffic will challenge the current trend of USD strengthening
- Emerging-Market currencies such as Brazilian Real will be highly volatile as elections take place and central banks reassess monetary policy
- Build-up to U.S. Midterm Elections may rattle markets a bit with close attention to talks about treasury-bond as well as FX interventions
- USD resurgence could prove to be temporary if economic indicators point to struggle, “stagflation”

IN FOCUS

BDXY: Back to Dominance! After tumbling since July, the U.S. Dollar made a big return in September



(Bloomberg chart shows USD recoveries after more than a few downfalls experienced throughout the year)

U.S. Dollar fluctuations have been varied in a 2026 characterized by lack of clarity

- In just a month, the USD fortunes flipped from representing a 1.4% loss to being a yearly 1.3% gain from start of the year
- A unanimous decision by the Fed to hike interest rates established a “hawkish” tilt
- Economic growth figures helped in making a case in favor of the Buck with better-than-expected growth in Q2 and resilience in consumption
- A bit of American “exceptionalism” amid chaos and negative headlines could fade quickly with peace

THE VIEW — U.S. Dollar turbulence as markets look for some safety

Nothing is guaranteed with mixed messages about the economy and conflict

Suddenly, the Buck is back on top. After a summer defined by U.S. Dollar weakness, the latter half of September delivered major gains for a currency that had experienced annual losses but quickly returned to positive territory. The combination of a unified Federal Reserve, record diesel prices, greater economic resilience than in most nations, and the effects of escalating conflict successfully boosted it.

Although the USD found more than a little reprieve after recording its best September appreciation since September 2023, some doubts remain about the potential for further interventions in the Treasury and FX markets. Furthermore, domestic and external political pressures could derail the U.S. Dollar's present direction, with plenty ahead as Q4 begins.



(Bloomberg chart shows the Japanese Yen's volatile run this year, with September reaching its strongest levels since February)

Traders and investors were taken by surprise after the September 16th Federal Open Market Committee meeting and press conference. Even with most economists expecting a 25-basis-point hike, the fact that all members agreed on the move was particularly striking. Only weeks earlier, much of Wall Street seemed to sour on newly elected Fed Chairman Kevin Warsh, as he seemed unwilling to combat stubborn price growth by raising borrowing costs. Additionally, the prevailing view across markets seemed to be that Warsh and other officials did not possess the ability to rein in inflation.

Similar to Warsh, U.S. Treasury Secretary Scott Bessent has faced some criticism as he has led the charge to protect the financial environment by expanding liquidity-supporting bond buyback operations and coordinating FX interventions with Japanese financial authorities to support the value of the Yen. The results, many argue, have not aligned with the intended outcomes, such as lowering yields on long-dated Treasury bonds or preventing JPY from depreciating. Subsequently, Bessent appears to be somewhat of a wildcard who can alter the trajectory of the Buck at any moment.

While the U.S. appears to be handling disruptions to energy supplies and gridlock in trade routes much better than its global peers, there is mounting domestic pressure to find a way out of the armed conflict and intensify efforts to ease the situation in the Middle East. Diplomatically, there is interest in getting Russia and Ukraine to put down their weapons and in protecting key oil infrastructure as Europe reconsiders amending relations to facilitate much-needed energy supplies. It is possible that anxiety over the U.S. Midterm Elections will foster a push to reach the negotiating table and achieve a concession or declaration of victory on one or more fronts. This may represent an obstacle to the dollar's prospects for further gains.

For now, the Federal Reserve might see fit to use contractionary monetary policy, but its stance could change if the economic picture shifts. At the time of writing, markets were reacting to shockingly poor September Non-Farm Payrolls figures, which came in at just 29K, instead of the estimated increase of 90K. Meanwhile, August Core Personal Consumption Expenditures figures showed a slightly slower pace of inflation, but inflation increased, nonetheless.

In an economy plagued by "stagflation," in which economic growth may be precarious, financial conditions are tightening, and price increases are incessant, the Federal Reserve faces the dilemma of choosing what to prioritize. Soon after Warsh finished his press conference, the White House reiterated its preference for lower interest rates. If the labor sector continues to weaken and other economic indicators similarly demonstrate a difficult environment for consumers, then perhaps those expectations of "higher for longer" will need to be curbed. Not long ago, we were in a "loosening cycle," during which the Fed reduced interest rates six times between September 2024 and December 2025.

Other economies, both advanced and emerging, are coping with turmoil stemming from geopolitical uncertainty as well as domestic problems arising from a lower quality of life. In France, students have rioted amid scenes of violence in the streets as they protest unaffordability and limited employment opportunities. Simultaneously, French Finance Minister Roland Lescure admitted that the government would miss its 2026 deficit target, while growth forecasts were revised downward. This only makes the Euro look more vulnerable. In LATAM, the end of the month will be affected by the second round of elections in Brazil on October 25th and a "hawkish" meeting of Colombia's central bank on the last day.

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