MONEX

CURRENCY OUTLOOK
September 2026

IN BRIEF

What Happened

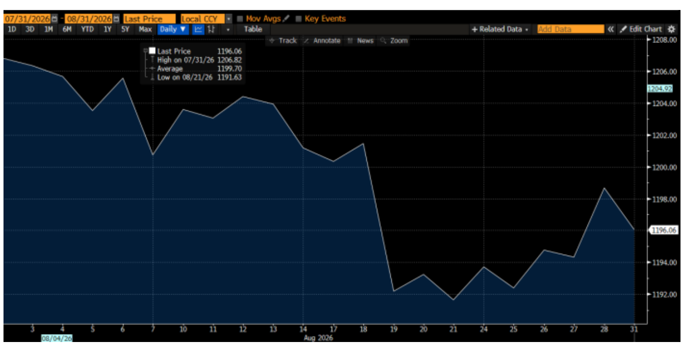
- U.S. Dollar downfall continued into August with the Bloomberg Dollar Spot Index registering a 0.8% decline overall
- The U.S. Treasury Secretary Scott Bessent admitted to coordinating FX intervention with the Bank of Japan to aid the Japanese Yen (JPY) on August 3rd
- Yet JPY depreciated by 1.6% for the month, making it the worst performer among G-10 currencies
- On Aug. 19th, as U.S. long-dated treasury bonds yields reached the highest in decades, Bessent stepped in again to provide liquidity-support buyback operations
- Euro gains were limited, up 0.9%, as inflation, per Consumer Price Index, hit the highest level in 3 years

Monex USA's View

- Monetary policy divergence seems to be affecting perception of USD while other central banks look towards hiking interest rates to combat inflation
- After experiencing its best monthly performance since Aug. 2024, the Canadian Dollar (CAD) could keep gains as it manages friction with U.S. over trade
- Mexican Peso (MXN) climbed 1.2%, its strongest month since Sept. 2025 as central bank, Banxico, left interest rates untouched at 6.5%; volatility for LATAM
- Korean Won (KRW) had its strongest month in 26 years; Emerging-Market tender appealing investors
- Greenback stability coping with various challenges along with armed conflict stealing the headlines

IN FOCUS

BDXY: The losses for the Buck continued from the end of July with August confirming a loss of faith



(Bloomberg chart shows USD tumbling particularly in the middle of the month as Bessent surprised markets)

U.S. Dollar woes remain as doubts regarding the Fed and the Treasury intensify

- U.S. Treasury Secretary Scott Bessent had a very busy month in which he felt the need to give an ally in Japan some relief to help JPY recover
- Additionally, U.S. national debt surpassing the $40.0-trillion mark pushed yields on domestic bonds to their highest since 2007 inspired a buy-back
- Fed Chairman Kevin Warsh differentiated himself with a message of letting markets ride freely
- FX and yield interference is blurring the lines between the Treasury and the Fed, fomenting uncertainty and confusion without solving much

THE VIEW — Souring on the Buck, markets look for alternatives to invest

September will bring with it central bank actions that could sink USD further

The troubled U.S. Dollar is being impacted by a mix of concerns over the future of policy and a relentless drive in risk appetite. As mentioned above and previously in the August outlook, markets are starting to wonder just how much interest there is in direct intervention to keep the financial environment under control. Things appear a little counterintuitive at the moment, with announcements that had almost no effect.

In attempting to prop up the yen, the U.S. chose to cooperate with the BOJ and the Finance Ministry but gave only a very short reprieve to the currency's value, which returned to weakening throughout last month. Following a fruitless attempt to pull down the highest yield for 30-year U.S. notes in 19 years, while the S&P 500 Index reached record highs, traders are scratching their heads.

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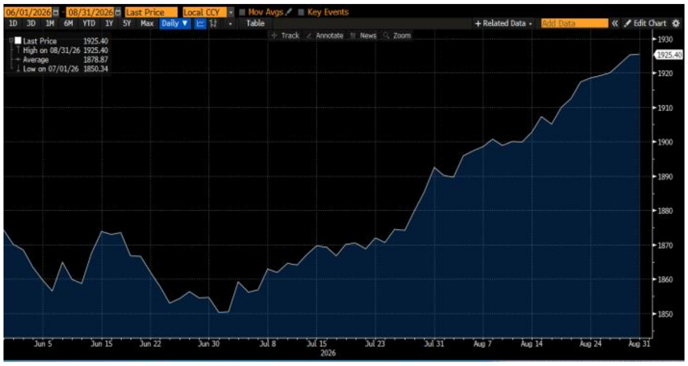

(Bloomberg chart shows the MSCI EM Currency Index climbing by 2.7% since June 1st, reaching new record highs)

The markets appear to be functioning while ignoring some degree of peril. When it comes to equities, resilience in the belief behind artificial intelligence and high-end technology keeps testing the limits of investor enthusiasm. Sometimes, we hear worries that only a handful of companies are benefiting from the grandiose amount of funds being borrowed and reinvested into A.I. and its potential to disrupt labor markets.

Nevertheless, S&P 500 Index second-quarter earnings were on track to increase 47.0% year over year, making it the highest growth rate since Q2 2021. Furthermore, the labor market is holding steady, with U.S. weekly jobless claims down to their lowest levels since January 2024, indicating that companies are holding on to their workers and not conducting layoffs, although there has been a cooling in consumption.

Consumers are indeed the ones voicing feelings of unease with their current surroundings. According to the Conference Board's Consumer Confidence Index, there was a drop in optimism, marking the weakest reading since January. This was due to pessimism about short-term business conditions, income stagnation, and adverse expectations about available jobs. Cementing the negativity, the University of Michigan's Consumer Sentiment Index fell by 6.0% from its prior survey reading, thus nipping months of recovery as respondents revealed fears over long-term inflationary pressures and anxiety regarding ongoing Middle East tensions.

Meanwhile, the BDXY has not really changed much from where it was when 2026 began. BDXY losses amount to only a 0.7% slip, but when taking into account emerging-market currencies, the story is quite different. July witnessed the best monthly resurgence, up 2.04%, for the MSCI EM Ccy. Index since November 2023. There had been a 32-month run with no monthly gain above 2.0%. July–August was the best two-month stretch in three years.

Taking into consideration talk about the U.S. dollar's debasement—the gradual loss of the currency's purchasing power resulting from unconstrained government debt and rapid expansion of the money supply—investors certainly appear more eager to seek alternatives. As an example, Bitcoin had a stellar performance throughout August, jumping by 25.4%, thus marking its best single-month return since November 2024.

Ultimately, the Buck seems to be running into a crisis of confidence. One explanation for the enduring decline in faith could be attributed to three combined factors that are cause for long-term concern about the USD's dominance and trust as the go-to reserve currency. First, the U.S. Treasury's participation in bumping up the value of the yen, along with a liquidity-driven strategy, feels somewhat intrusive and not in the spirit of the "laissez-faire," let-it-happen approach that economists tend to foster.

Second, the Fed's Kevin Warsh has not been a source of clear communication or guidance in the way that his predecessor, Jerome Powell, was, consequently making Wall Street a bit uncomfortable with the lack of answers. However, it was a welcome sign of greater assertion and certainty when Warsh sternly described interest rates as a "dominant tool" for combatting inflation during statements given at the Jackson Hole Symposium, a yearly gathering of governors from major central banks around the globe.

Finally, the third issue emanates from war fatigue, diplomatic confrontations, and their crippling effects. During the G-20 gathering this past weekend, Bank of England Governor Andrew Bailey spoke about how hostilities have been a substantial supply shock to international trade, fueling energy inflation and forcing higher interest rates that are crushing the ability to borrow and expand credit. When it was time for the U.S. delegation to speak, the Canadians present stood up and left. We are hopeful that things can improve as the U.S. dollar navigates shifting narratives while the world focuses on finding relief.