# Daily: Diversify beyond the US dollar

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## From the studio

Podcast: Signal over Noise | How AI may complicate inflation signals , on Apple and Spotify (6 mins)Video: CIO Monthly | Kiran Ganesh on market drivers, scenarios, and opportunities (4 mins)Video: The AI Show | China tech earnings update and what's next (3 mins)

## Thought of the day

Investors' focus on the long-term shift away from the US dollar, known as de-dollarization, has increased recently amid renewed concerns about the US fiscal outlook. Over the past month, the DXY dollar index has fallen 2.4%.

The US dollar may receive near-term support from the situation in the Middle East and higher oil prices. But we think that gradual diversification away from the US dollar—and a depreciation trend over the medium to longer term—will remain intact, underpinned by continued concerns over the US fiscal trajectory, uncertainty around trade policy, and growing evidence that many countries are diversifying their reserve holdings away from the US currency.

Investors should ensure their currency allocations align with their liabilities and spending plans, and consider exposure to gold, broad commodities, and select global currencies to benefit from diversification.

Gold has room to rally further. Gold is a clear beneficiary of de-dollarization, as investors consider bullion a reliable store of value and an alternative to traditional reserve currencies. The gold price has risen around 15% this month, and we think it can continue to climb amid further pressure on the US dollar. We also expect markets to scale back their expectations for Federal Reserve rate hikes, which should support gold. Recent data point to continued demand for the precious metal—investment flows into gold exchange-traded funds (ETFs) have resumed, while central bank purchases remain robust. In July, the People's Bank of China increased its gold reserves by 20 metric tons, the largest monthly increase since October 2023. We forecast gold prices to reach USD 5,400/oz over the next 12 months.

Broad commodities offer a differentiated source of return. Gold is not the only asset that can hold its value when traditional currencies lose purchasing power. A broad allocation to commodities can provide an additional source of long-term returns and help protect portfolios if rising inflation expectations challenge equities and bonds. Oil demand remains strong, and we expect it to continue growing over the coming years, particularly in emerging markets. Industrial metals should also benefit from long-term demand linked to electrification, the energy transition, and the ongoing global buildout of AI infrastructure. Meanwhile, weather disruptions related to El Niño could restrict crop supplies and push agricultural commodity prices higher.

Select currencies should benefit more from US dollar weakness. We see scope for a broader recovery in the euro against the US dollar, as incoming data should allow market expectations to shift further toward no Fed hikes this year and possible rate cuts in 2027. A further rate hike by the European Central Bank in September should also help EURUSD move toward 1.20 over time. While we keep a

Neutral stance on the euro, we think the current environment is supportive of selective exposure to higher-yielding currencies, including the British pound and the Norwegian krone. We also like the New Zealand dollar given the hawkish policy bias of the country’s central bank, and the Chinese yuan amid strong export-driven FX inflows. Select emerging market currencies may also offer carry opportunities.

So, as the long-term shift away from the US dollar continues, we think exposure to gold, broad commodities, and select currencies can help support returns and manage portfolio risks. An actively managed approach to commodities can also help investors navigate changing supply conditions, geopolitical risks, and shifts in market leadership.

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