

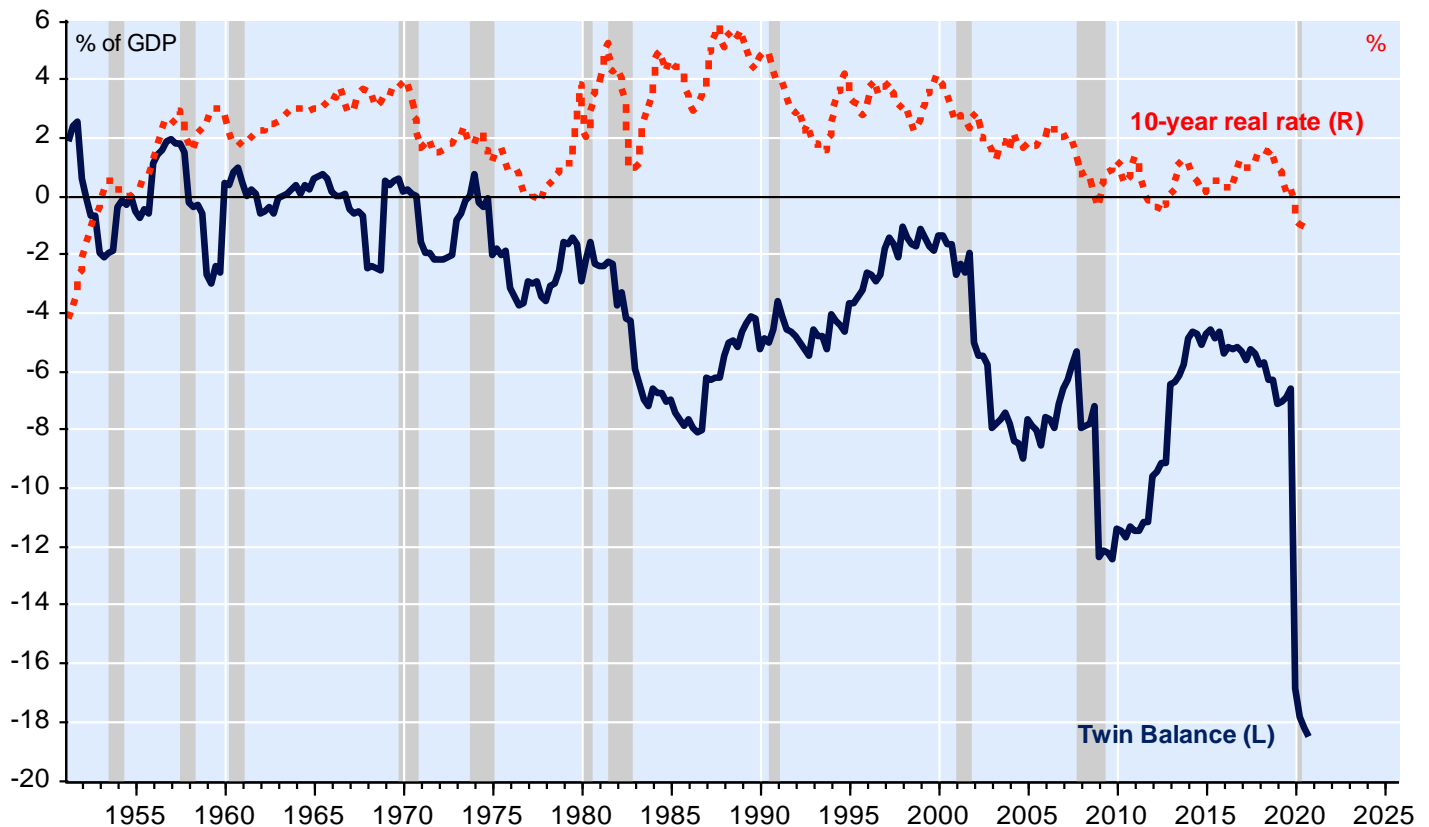
U.S. Watch

By Stéfane Marion

After three consecutive monthly increases, the broad USD index fell more than 2% in April. Some investors may have been surprised by this turn. After all, recent economic reports confirm that a strong U.S. GDP recovery continues unabated. In normal times, such a picture would suggest higher interest rates and a stronger currency. But as we wrote last month, these are not normal times. Mr. Powell made this clear when he met the press after the April 28 FOMC meeting (see our analysis [here](#)). This means that our forecast of negative U.S. real interest rates over the foreseeable future remains on track. As today's Hot Chart shows, this backdrop – a first in 70 years – is accompanied by a swelling twin deficit (current-account and fiscal). This combination argues for continued USD weakness in coming months. As argued in our latest [FOREX](#), the road to a CAD of 1.20 to the USD remains open.

U.S.: Not a good combo for USD appreciation

Twin balance (current-account and fiscal) and real interest rate*



* 10-year Treasury yield minus 5-year-moving-average inflation

NBF Economics and Strategy (data via Refinitiv and [Shiller](#))

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