

Insights

# 2022 Currency Outlook

FX markets became more focused on inflation and rising treasury yields in 2021, as the effects from the COVID-19 pandemic continued to linger. US dollar strength was buoyed by evolving expectations of the Fed's response to these factors as inflation was on the rise. After cryptocurrencies' breakout year in 2020, bitcoin and ether extended their runs in 2021 through increased institutional adoption and the rise of decentralized finance.

## Inflation, the Fed and the US dollar

Inflation continues to be an important topic of conversation going into the New Year, as its transitory vs. persistent nature is a major discussion point in central bank policy. Following a weak 2020, the US dollar reversed course in early 2021 as US exceptionalism and rising US treasury yields were the dominant factors in the first quarter, stoking fears that higher than expected inflation could cause the Fed to shift policies sooner than anticipated.

As yields leveled out and tilted lower, the US dollar followed suit and weakened temporarily before regaining strength as yields rebounded and Fed rhetoric became more hawkish. US dollar strength was supported into year-end as the Fed doubled the pace of tapering to \$30 billion a month and signaled three rate hikes in 2022 through its dot plot.

All told, the US dollar gained 6.4% in 2021 as reflected through DXY, the strongest annual performance since 2015.



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