

# 2021 Currency outlook

In the most unusual of years, 2020 will be remembered in FX for the market implications related to COVID-19, Brexit, and the US election. A culmination of factors led to significant US dollar weakness, calling into question the dominance of the US dollar and its status as the world’s reserve currency. As the US dollar continues to weaken into the New Year, the rising adoption of digital currencies in investor portfolios has gained momentum.



**Uto Shinohara**  
Managing Director  
Senior Investment Strategist  
Currency Management

## US dollar weakness

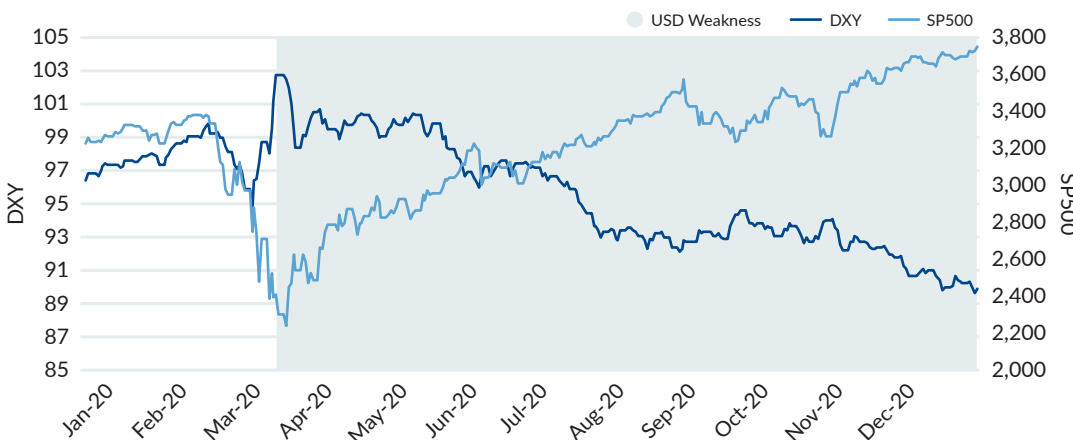
US dollar weakness took center stage in 2020 as markets reacted to the global spread of the pandemic. In the early stages of COVID-19, investors rushed to the US dollar and other safe-haven currencies. Soon after, the US dollar index (DXY) experienced a peak-to-trough drawdown of over 12.5% from mid-March through the end of the year as risk assets climbed significantly over the same time period.

It is notable that this dollar weakness occurred in the face of great uncertainty, marked by the raging global pandemic, California wildfires, a record-breaking Atlantic hurricane season, a tense US election, and an erratic foreign policy stance by the US. Various factors contributed to the falling dollar and stronger markets during this time of adversity. As fear concerning the global economy emerged, central banks



“The US dollar index (DXY) experienced a peak-to-trough drawdown of over 12.5% from mid-March through the end of the year.”

CHART 1



Source: Bloomberg, January 2020 to December 2020. Past performance is not necessarily indicative of future results. Actual results may materially differ.

played a pivotal role in buoying the markets by injecting massive amounts of liquidity and monetary stimulus into the marketplace, supporting an exceptionally fast rebound in capital markets and more dollar selling. While the global economy remains dollar-dependent, Trump's economic nationalism reduced the US role in global trade and revealed vulnerabilities in the US economy, resulting in a less attractive safe-haven alternative than in the past. As the year moved forward, the markets grew more confident as the US election outcome became more certain, vaccine advances were progressing, Brexit negotiations were headed toward agreement, and additional fiscal stimulus packages were passed.

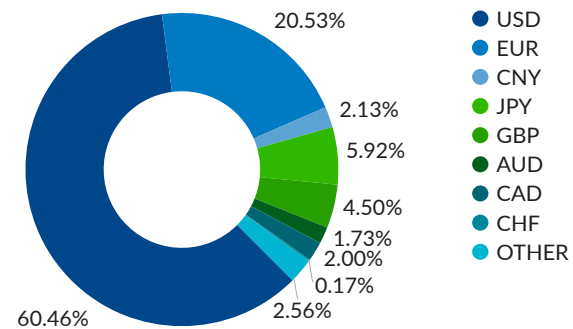
Going forward into 2021, US dollar weakness continues to be a prominent theme in the FX markets. As vaccines become readily available and the global economy has an opportunity to recover, improved market conditions should mute the dollar's safe-haven tendencies. The Fed's rate cuts during the pandemic have eroded the US dollar carry advantage, making it less attractive to investors, while the new average inflation targeting framework strongly implies that an expansionist monetary policy of ultra-low rates and further easing will remain in place for the next few years. Although weakening substantially in 2020, US dollar remains in the upper end of its trading range over the last decade, overvalued against many currency crosses on a long-term basis. While the consensus is generally risk-on headed into the New Year, we should remain cognizant of potential factors that could affect this risk-positive outlook, including disruptions in vaccine distribution, workforce impairments post-COVID, rising interest rates, or the many unforeseen events that will inevitably surface over the coming year.

The dollar's tumble in 2020 has raised concerns about its potential dominance in the global financial system. As the dollar is often considered a reflection of global perception towards the United States and its economy, the significant weakness experienced last year has called into question the US dollar's reserve currency status.

## US dollar reserve currency status

The US dollar has enjoyed reserve currency status due to its outsized role in global trade and history of monetary stability, as central banks across the world have accumulated the US dollar in reserves. Over 60% of all allocated central bank reserves are held in US dollar, with the Euro a distant second at over 20%. Over the last decade, the US dollar share has remained above 60%, reaching a high of 66% in 2015 before moving down towards today's value.

CHART 2: GLOBAL FX RESERVES - 3Q2020



Source: International Monetary Fund. Past performance is not necessarily indicative of future results. Actual results may materially differ.

The dollar's sharp decline in 2020 has cast doubt on its standing in the global marketplace. When COVID-19 first reared its ugly head, dollar dependency on a global scale was extremely evident as institutions and governments scrambled to accumulate dollars to cover their liquidity requirements in the face of an unknown future. However, strength quickly turned into sustained weakness, prompting many questions.

As the world continuously becomes more connected, the dominant role the US has played in global trade and commerce has eroded. The world's confidence in the US has been shaken as its share of global trade has fallen, notably during the trade war with China, and high levels of public debt challenge its assumed stability. The dollar's stance as the premier safe-haven refuge during times of crisis is being questioned more than ever by central banks and institutional investors.

While central banks have the influence to further erode the role of the dollar in international payments, there are no obvious alternatives that hold a high position in global trade and reflect the stable safe-haven characteristics sought during times of uncertainty. The euro and renminbi are the most often suggested currencies, as the second largest reserve currency and the second largest economy, respectively, yet each has its shortcomings. The euro has exhibited weak governance as well as public debt issues, while the capital controls and lack of transparency in China make renminbi a sub-optimal candidate. The US dollar has continued to showcase its global stronghold, representing one side of 88% of all FX transactions according to the BIS Triennial Central Bank Survey.<sup>1</sup>

While the US dollar is poised to remain the world's primary reserve currency for the foreseeable future, its sustained weakness in 2020 signaled to many that the United States no longer commands the same global trust and confidence, suggesting that the geopolitical world order is showing signs of age. Back in 2019, Mark Carney, Bank of England Governor at the time, deemed the world's reliance on the US dollar as a reserve currency as too risky, proposing a new digital currency to replace it that would provide more equilibrium between countries with zero or negative interest rates and those with positive interest rates.<sup>2</sup> While still in their infancy, digital currencies have continued to mature, with investors evaluating their potential as an alternative to gold, their portfolio diversification benefits, and their possible role within central banks.

## Digital currencies

Fueled by the meteoric rise of bitcoin, digital currencies have attained mainstream prominence within news outlets and the investing community, as speculators drove several volatile price swings. As the digital currency market has matured over the past few years, it has become more regulated, drawing the attention of a new kind of investor.

CHART 3



Source: Bloomberg. Past performance is not necessarily indicative of future results. Actual results may materially differ.

The rally in 2020 was spurred by more reliable sources of investment. According to a survey from Fidelity Investments, 36% of large institutional investors own digital assets, including pension funds, family offices, investment advisers, and hedge funds.<sup>3</sup> Investors and recent advocates include investment heavyweights Ray Dalio, Paul Tudor Jones, Stanley Druckenmiller, and Bill Miller.

As more credibility is given towards digital currencies, more investors have included it as part of their investment portfolio. With improved regulation, digital currencies are competing with gold as an alternative currency, exemplified by Fidelity Digital Assets allowing its institutional customers to pledge bitcoin as collateral against cash loans.<sup>4</sup>

With differing return and risk factors, digital currencies act as an alternative investment, providing portfolio diversification and return enhancement with little negative carry consequence. They have also become a topic of conversation among central banks, as seven major central banks and the BIS released a report in October assessing the feasibility of central bank digital currencies, the digital form of a fiat currency. The central banks involved included the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the Federal Reserve, Sveriges Riksbank and the Swiss National Bank.<sup>5</sup>

## Conclusion

As the US dollar plays a prominent role in not just US-based portfolios but also in portfolios across the globe holding a large percentage of US assets, the FX outlook is heavily guided by the US dollar as the dominant global currency. The market themes heading into 2021 point towards continued US dollar weakness to start the year.

We will be closely watching the US dollar's role in the global marketplace and any impact on its reserve currency status. As the landscape can shift quickly as it did in 2020, we recommend institutions refresh their currency hedging policies prior to seismic shifts in the FX markets, holistically managing currency risk and providing downside protection in falling markets.

We, at Mesirow Currency Management, wish you a healthy and prosperous 2021.

---

## About Warakirri Asset Management

Warakirri is a multi-boutique asset management firm established in 1993 with specialist investment offerings for institutional and retail investors across multiple asset classes, including agriculture, equities, cash and specialised U.S real estate. Warakirri's equities offerings provide access to ethical investing across domestic and global equities, emerging markets and in partnership with Flinders Investment Partners Pty Ltd, to small cap equities. Warakirri also has a distribution partnership with Mesirow Financial Investment Management Inc providing institutional investors access to currency management services and direct U.S. real estate investments. Warakirri is also a leader in Australian agricultural investment management with extensive experience in acquiring, developing and operating agricultural assets on behalf of investors. Warakirri is based in Melbourne and is 100% owned by its directors and employees.

---

## About Mesirow

Mesirow is an independent, employee-owned financial services firm founded in 1937. Headquartered in Chicago, with locations around the world, we serve clients through a personal, custom approach to reaching financial goals and acting as a force for social good. With capabilities spanning Global Investment Management, Capital Markets & Investment Banking, and Advisory Services, we invest in what matters: our clients, our communities and our culture. To learn more, visit [mesirow.com](https://www.mesirow.com) and follow us on [LinkedIn](#).

**For further information on Mesirow's currency management solutions available in Australia, please contact:**

### Conor Hayes

Head of Institutional, Warakirri Asset Management  
e: [conor.hayes@warakirri.com.au](mailto:conor.hayes@warakirri.com.au) | m: 0410-027-422

1. BIS, [https://www.bis.org/statistics/rpfx19\\_fx.htm](https://www.bis.org/statistics/rpfx19_fx.htm)
2. <https://www.cnb.com/2019/08/23/bank-of-england-governor-mark-carney-says-trade-war-is-having-a-confidence-effect-on-business-around-the-world.html>
3. <https://www.bloomberg.com/news/articles/2020-06-09/fidelity-says-a-third-of-large-institutions-own-crypto-assets>
4. <https://markets.businessinsider.com/currencies/news/bitcoin-price-considerable-upside-forecast-competes-gold-alternative-currency-jpmorgan-2020-10-1029716041>, [https://www.business-standard.com/article/markets/fidelity-digital-assets-to-hold-bitcoin-as-collateral-for-cash-loans-120121000048\\_1.html](https://www.business-standard.com/article/markets/fidelity-digital-assets-to-hold-bitcoin-as-collateral-for-cash-loans-120121000048_1.html)
5. <https://www.bis.org/press/p201009.htm>

Mesirow Currency Management ("MCM") is a division of Mesirow Financial Investment Management, Inc. ("MFIM") a SEC registered investment advisor. The information contained herein is intended for institutional clients, Qualified Eligible Persons and Eligible Contract Participants and is for informational purposes only. This information has been obtained from sources believed to be reliable but is not necessarily complete and its accuracy cannot be guaranteed. Any opinions expressed are subject to change without notice. It should not be assumed that any recommendations incorporated herein will be profitable or will equal past performance. Mesirow does not render tax or legal advice. Nothing contained herein constitutes an offer to sell or a solicitation of an offer to buy an interest in any Mesirow investment vehicle(s). Any offer can only be made through the appropriate Offering Memorandum. The Memorandum contains important information concerning risk factors and other material aspects of the investment and should be read carefully before an investment decision is made.

Currency strategies are only suitable and appropriate for sophisticated investors that are able to lose all of their capital investment.

This communication may contain privileged and/or confidential information. It is intended solely for the use of the addressee. If this information was received in error, you are strictly prohibited from disclosing, copying, distributing or using any of this information and are requested to contact the sender immediately and destroy the material in its entirety, whether electronic or hardcopy.

Certain strategies discussed throughout the document are based on proprietary models of MCM's or its affiliates. No representation is being made that any account will or is likely to achieve profits or losses similar to those referenced.

Performance pertaining to the Currency Risk Management Overlay strategies is stated gross of fees. Performance pertaining to the Currency Alpha and Macro strategies may be stated gross of fees or net of fees. Performance information that is provided net of fees reflects the deduction of implied management and performance fees. Performance information that is provided gross of fees does not reflect the deduction of advisory fees. Client returns will be reduced by such fees and other expenses that may be incurred in the management of the account. Simulated model performance information and results do not reflect actual trading or asset or fund advisory management and the results may not reflect the impact that material economic and market factors may have had, and can reflect the benefit of hindsight, on MCM's decision-making if MCM were actually managing client's money in the same manner. Performance referenced herein for Currency Risk Management Overlay strategies prior to May 2004, the date that the Currency Risk Management team joined Mesirow, occurred at prior firms. Performance referenced herein for Currency Alpha and Macro strategies prior to October 1, 2018, the date that the Currency Alpha and Macro Strategies team joined Mesirow, occurred at prior firms. Any chart, graph, or formula should not be used by itself to make any trading or investment decision. Any currency selections referenced herein have been included to illustrate the market impact of certain currencies over specific time frames. The inclusion of these is not designed to convey that any past specific currency management decision by MCM would have been profitable to any person. It should not be assumed that currency market movements in the future will repeat such patterns and/or be profitable or reflect the currency movements illustrated above.

Comparisons to any indices referenced herein are for illustrative purposes only and are not meant to imply that a strategy's returns or volatility will be similar to the indices. The strategy is compared to the indices because they are widely used performance benchmarks.

The U.S. Dollar Index (USD<sub>X</sub>, DXY & DX) is an index of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies.

Australian Investors: The information contained herein is intended for Wholesale Clients only and is for informational purposes only. This document is not a prospectus or product disclosure statement under the Corporations Act 2001 (Cth) (Corporations Act) and does not constitute a recommendation to acquire, an invitation to apply for, an offer to apply for or buy, an offer to arrange the issue or sale of, or an offer for issue or sale of, any securities or investment service in Australia, except as set out below. The strategy has not authorised nor taken any action to prepare or lodge with the Australian Securities & Investments Commission an Australian law compliant prospectus or product disclosure statement. Accordingly, this strategy and document may not be issued or distributed in Australia other than by way of or pursuant to an offer or invitation that does not need disclosure to investors under Part 6D.2 or Part 7.9 of the Corporations Act, whether by reason of the investor being a 'wholesale client' (as defined in section 761G of the Corporations Act and applicable regulations) or otherwise. This document does not constitute or involve a recommendation to acquire, an offer or invitation for issue or sale, an offer or invitation to arrange the issue or sale, or an issue or sale, of any strategy or investment service to a 'retail client' (as defined in section 761G of the Corporations Act and applicable regulations) in Australia.

Canadian Investors: The information contained herein is intended for Permitted Clients only and is for informational purposes only. This confidential material pertains to the offering of the currency strategies described herein only in those jurisdictions and to those persons where and to whom they may be lawfully offered for sale, and only by persons permitted to sell such strategies. This material is not, and under no circumstances is to be construed as, an advertisement or a public offering of the strategies described herein in Canada. No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the strategies described herein, and any representation to the contrary is an offence.

EU Investors: The information contained herein is intended for Professional Clients as the term is defined by MiFID II and is for informational purposes only. Recipients that are classified under MiFID II as retail clients must opt up to Professional Clients before receiving any services from Mesirow Currency Management.

Japanese Investors: Mesirow Currency Management provides discretionary investment management services to managed accounts held on behalf of qualified investors only. MCM will not act as agent or intermediary in respect of the execution of a discretionary investment management agreement. Please note that this presentation is intended for educational purposes and solely for the addressee and may not be distributed.

Hong Kong Investors: The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the contents of this document. You should obtain independent professional advice prior to considering or making any investment. The investment is not authorized under Section 104 of the Securities and Futures Ordinance of Hong Kong by the Securities and Futures Commission of Hong Kong. Accordingly, the distribution of this Presentation Material and discretionary management services in Hong Kong are restricted. This Presentation Material is only for the use of the addressee and may not be distributed, circulated or issued to any other person or entity.

South Korean Investors: Upon attaining a client, Mesirow Financial Investment Management, Inc. ("MFIM") will apply for the appropriate licenses and retain the services of a local licensed intermediary (a Korean financial investment company). In the interim, MFIM will rely on and sub-delegate to Mesirow Advanced Strategies, Inc. ("MAS").

Singapore Investors: Mesirow Currency Management provides discretionary investment management services to managed accounts held on behalf of qualified investors only. MCM will not act as agent or intermediary in respect of the execution of a discretionary investment management agreement. Please note that this presentation is intended for educational purposes and solely for the addressee and may not be distributed.

Swiss Investors: Services are only offered to Regulated Qualified Investors, as defined in Article 10 of the Swiss Collective Investment Scheme Act. There can be no guarantee investment advice will be profitable or meet its investment objectives.

UAE Investors: This information does not constitute or form part of any offer to recommend, issue or sell, or any solicitation of any offer to subscribe for or purchase, any securities or investment products or strategies in the UAE (including the Dubai International Financial Centre and the Abu Dhabi Global Market) and accordingly should not be construed as such. Furthermore, this information is being made available on the basis that the recipient acknowledges and understands that the entities and securities to which it may relate have not been approved, licensed by or registered with the UAE Central Bank, the Dubai Financial Services Authority, the UAE Securities and Commodities Authority, the Financial Services Regulatory Authority or any other relevant licensing authority or governmental agency in the UAE. The content of this report has not been approved by or filed with the UAE Central Bank, the Dubai Financial Services Authority, the UAE Securities and Commodities Authority or the Financial Services Regulatory Authority.

United Kingdom Investors: In the United Kingdom, this communication is directed only at persons who fall within the definition of: (i) "investment professionals" as defined in COBS 4.12 and Article 14 of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the "PCISE Order"); or (ii) "high net worth companies, unincorporated associations etc" as defined in COBS 4.12 and Article 22(2)(a) to (d) of the PCISE Order (all such persons together being referred to as "Relevant Persons"). This communication must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this communication relates is available only to Relevant Persons and will be engaged in only with Relevant Persons.

Warakirri Asset Management Ltd (ABN 33 057 529 370) (AFSL 246782) is the exclusive representative of MFIM in Australia. You should consult a financial adviser to help you form your own opinion of the information, and on whether the information is suitable for your individual needs and aims as an investor. The content within this document is not an offer or solicitation to enter into any agreement of any kind or intended to have that effect.

Mesirow refers to Mesirow Financial Holdings, Inc. and its divisions, subsidiaries and affiliates. The Mesirow name and logo are registered service marks of Mesirow Financial Holdings, Inc., © 2021, Mesirow Financial Holdings, Inc. All rights reserved. Investment management services provided through Mesirow Financial Investment Management, Inc., a SEC registered investment advisor, a CFTC registered commodity trading advisor and member of the NFA, or Mesirow Financial International UK, Ltd. ("MFUIK"), authorized and regulated by the FCA, depending on the jurisdiction.