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The U.S. Dollar Forecast 2023 - Will the U.S. Dollar Go Up in 2023?

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At the close of a year of economic uncertainty around the world, the value of the dollar reached a level not seen in 20 years. The resilience of the US dollar can be attributed to a variety of domestic and global reasons. A strong dollar is expected to persist in 2023, despite the fact that economic conditions may change.

Why Is the U.S. Dollar so Strong?

We polled experts to find out what fueled the dollar's growth in 2022. They provided several important justifications:

- **One of the Last Safe-Haven Currencies is the US Dollar.**

Part of the dollar's success in 2022 comes from the centrality it has assumed in international trade.

Since World War II, the United States dollar has been relied upon by central banks throughout the world more than any other currency to facilitate international trade and financial operations.

According to Eric Donovan, head of Institutional FX at StoneX, a financial services company, "the

primary reason the dollar grew so strong is that it is still considered the safe-haven currency,” meaning that it will strengthen when markets are experiencing panic.

The conflict in Ukraine, according to Dave Schabes, an associate adjunct professor at the Harris School of Public Policy at the University of Chicago.

He claims that the United States has traditionally been seen as the world’s premier refuge from political or military unrest. When hostilities began, moneyed individuals sought security in order to ride out the conflict.

Meanwhile, Russia’s intervention in Ukraine may delay Europe’s energy issue past 2023.

- **Increases in Interest Rates Will Proceed**

The USDX is a measure of the dollar’s strength in comparison to a basket of other currencies. Which means the economic actions of other countries have an impact on its worth.

The Dollar Index tracks the value of the US dollar relative to a basket of other currencies, including the Euro, Japanese Yen, British Pound, Canadian Dollar, Swedish Krona, and Swiss Franc (CHF).

Policymakers in the United States have raised interest rates in an effort to reduce inflation, but other countries have not followed suit. Schabes claims that while all these countries have increased interest rates, the United States has done so at a much higher rate.

He says, “The U.S. can afford to do this because the U.S. economy is still reasonably strong,” whereas the Eurozone is “suffering from weakness in various nations,” which has been worsened by the price rises in natural gas and oil and their knock-on effects across the supply chain.

Director of macroeconomic policy at the Washington Center for Equitable Growth Michael Madowitz claims that lower U.S. inflation has encouraged capital inflows from overseas investors.



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Will the U.S. Dollar Go Up in 2023?

The value of the dollar in the following year may be affected by a variety of variable factors.

The Federal Reserve's future interest rate adjustments are uncertain, but the U.N. has urged the organization to suspend hikes. According to the report, more price increases for U.S. goods would damage poor countries even more than they already do.

Even so, additional rate increases are possible. Until the Fed sees inflation moderate sufficiently and the US economy does not enter a recession, Schabes believes the Fed will continue to raise rates through much of 2023.

However, other countries have started raising their rates and may keep doing so, which could even things out for the dollar.

According to Madowitz, "higher U.S. rates are a component of the strong dollar story," but "far less than we'd expect considering how fast the Fed has hiked rates." This is because other countries will soon be raising their own interest rates.

There will be more factors influencing the value of the dollar in 2023, including the ongoing crisis in Ukraine. Donovan and Schabes agree that so long as the war continues, the dollar will remain high in relation to European currencies.

How Does a Strong Dollar Help American Consumers?

For American shoppers, a strong dollar might go either way.

Stock prices in the United States are likely to fall as the currency appreciates, reducing the purchasing power of many retirees' portfolios. Northwestern Mutual revealed that the average retirement account balance has decreased by 11% between 2021 and 2016.

In a positive way, a stronger dollar can make previously expensive items more affordable. Schabes argues that a strong currency makes imported goods cheaper than those made in the United States.

The import price index reported by the Bureau of Labor Statistics fell 1.1% in September (the month the U.S. dollar peaked) and another 0.2% in October.

When the dollar rises relative to the local currency, it can be cheaper to take a trip abroad. By the end of the year 2022, this list will expand to include the United Kingdom, Sweden, Switzerland, and Canada in addition to Japan.

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