

Dear All,

Last week, a colleague messaged me asking – ‘will the dollar hit Rs 100?’ ‘My son is studying in the US, and I am earning in Indian rupees, how will this play out?’

She is not alone to worry about the strong dollar, the whole world is worried. Here are my learnings on the strong dollar:

1. The US dollar has gained 14.67 % in the last one year. The USDIX, or the US dollar index is a measure of the dollar’s strength vs a select basket of currencies. That index last week was 106.55. The US dollar index was instituted after the collapse of the Bretton woods system in 1973.
2. The \$ typically is related to the following:
 - a. It tends to go up when the Fed increases rates
 - b. It tends to go down when US debt to GDP goes up
 - c. It tends to go up when the Euro weakens and
 - d. It tends to go up when there is uncertainty in the world and the \$ is then seen as a haven.
3. A year ago, Bitcoin was on the way up and the dollar on the way down. Things have changed in a year.
4. The \$ is up 15% vs the yen, 10% vs the British Pound and 5% vs the yuan.
5. The dollar is at its strongest in the last 20 years, it was at an all-time high in 1985 and an all-time low in 2008.
6. The strength of the dollar is surprising since everyone is talking about a recession in the US and many tech giants are cutting back hiring or postponing hiring. So, what explains its strength?
7. Analysts believe that the Feds monetary policy as the US came out of the pandemic contributed to 50% of the gains and the other 45 % came because it is considered a haven.
8. The fed has been more hawkish while the euro zone the Japanese central bank have been more dovish.
9. With an increase of 1.5 % and two more rate hikes in the offing, American assets are expected to become more attractive. And hence that makes the \$ stronger
10. This has a lot of implications for global trade. American exports will become more expensive while American imports will be cheaper and flourish.
11. Oil prices and the dollar are inversely correlated. All countries buy oil using the dollar. So, when dollar price goes up, it dampens demand for oil and oil prices go down.
12. The hedge funds and investment banks believe that there is an upside to the dollar even at current rates!!

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