

Dear All,

The strong dollar is a double-edged sword for all economies including the USA. The dollar is at an all-time high right now. Here are my learnings:

1. The DXY index measures the strength of the dollar vs currencies – Euro, Pound, Yen, Krona, Canadian dollar, and the Swiss franc. These are the major trading partners of USA.
2. To understand this, we need to go back to August 15, 1971, when President Richard Nixon disbanded the Bretton Woods agreement since rich surplus countries like Germany were not reevaluating their currencies.
3. Till then all currencies were pegged against gold.
4. Today all commodities and Oil is traded in Dollars, when Nixon devised this, it was called a Petro dollar strategy.
5. The DXY is at a 20 year high. The dollar has risen 22% vs the year, 13% vs the Euro.
6. There are many reasons for the dollar strength:
 - a. US economy is a bell weather for this. The US economy has strong job creation thus implying that they will not see a recession. The US economy at \$24.5 Trillion is about 25% of the global GDP.
 - b. Interest rate hikes by the Federal reserve to tame inflation. As interest rates go up, more investment in dollar happens as people expect returns on financial goods like the dollar which are linked to US government bonds.
 - c. The Ukraine war and the uncertainty in Europe.
 - d. Oil and energy prices are high.
 - e. Asia is losing steam
7. What does a strong dollar mean?
 - a. Imports into America become cheaper
 - b. Exports become expensive
 - c. Government debt becomes more expensive
 - d. A 10% appreciation in the dollar means a 1% jump in inflation in most countries.
8. Only the Brazilian real and Mexican peso have appreciated vs the dollar in 2022.
9. A strong dollar squeezes global credit, a lifeline for trade.
10. For the dollar to slide down from here, we need to see:
 - a. A return to growth of the global economy. This has to be led by China, Europe, Japan, India, seems unlikely right now.
 - b. Price growth and wage price growth has to drop in the US
 - c. Energy prices must be stable.

The dollar is always seen as a haven. This is so because markets factor economic and political stability from USA and these two parameters are at a premium in emerging markets. 50% of the cumulative loans and international credit is in dollars.

Feedback welcome

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