Philequity Corner (July 18, 2022)
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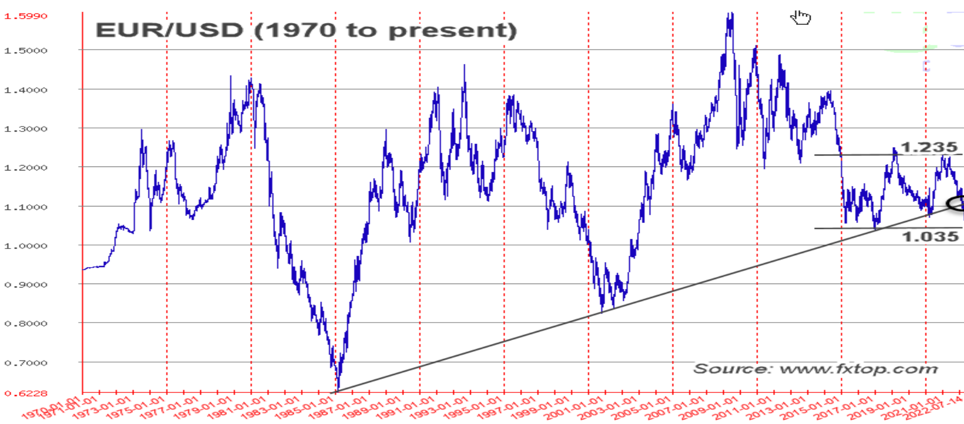
Euro parity

The euro reached parity with the US dollar for the first time in two decades. From an all-time high of 1.60 in 2008, the euro has since gone down 38%. The ongoing war in Ukraine, a potential energy crisis in winter, and a looming recession in the region significantly weakened the euro this year. In addition, worries that Russia will entirely halt gas deliveries to Europe following the maintenance shutdown of Nord Stream 1 sent the euro to an intraday low of 0.9952 last Thursday before closing at 1.008 for the week.

The monthly chart of EURUSD below shows a major breakdown in the 37-year trendline that started in 1985. Technical analysis indicates that a decisive break of the euro parity (€1:US$1) would signal a bigger move lower for the euro.



King dollar

The King dollar has been on a major bull run this year as the Fed aggressively hiked rates and withdrew liquidity from the system to reduce inflation. The Fed has increased policy rates three times, raising the Fed funds rate from 0.25% back in March to 1.75% in June. Additionally, investors expect the Fed to raise rates by 75 to 100 basis points at its July 26-27 meeting. In contrast, the ECB and the BOJ have not yet hiked, widening the interest rate differential and consequently strengthening the dollar.

The table below shows the US dollar index surging 13.0% year-to-date and 16.7% in the past 12 months. On the other hand, the Japanese yen has been the worst performing major currency, depreciating by 17% year-to-date and 20.7% over the past year. In Asia, the yen is also the worst performer. The second worst performer is the Korean won, which declined by 10.3% year-to-date and 13.9% over the past year.

	Year-to-date (%)	Year-on-year (%)
Dollar Index	13.0%	16.7%
Major currencies		
Canadian Dollar	-3.0%	-3.4%
Swiss Franc	-6.6%	-6.1%
Australian Dollar	-6.5%	-8.5%
New Zealand Dollar	-9.7%	-11.7%
Norwegian Krone	-13.3%	-13.3%
British Pound	-12.4%	-14.3%
Euro	-11.4%	-14.7%
Japanese Yen	-17.0%	-20.7%

Asian Currencies	Year-to-date (%)	Year-on-year (%)
Indonesian Rupiah	-4.9%	-3.4%
Singaporean Dollar	-3.9%	-3.5%
Chinese Yuan	-5.9%	-4.4%
Malaysian Ringgit	-6.4%	-5.5%
Indian Rupee	-6.9%	-6.7%
Taiwanese Dollar	-7.6%	-6.9%
Thai Baht	-9.3%	-10.8%
Philippine Peso	-9.6%	-11.0%
Korean Won	-10.3%	-13.9%
Japanese Yen	-17.0%	-20.7%

Source: Bloomberg, Wealth Securities Research

Peso stable against the euro

Like most currencies, the Philippine peso has also depreciated against the US dollar this year, declining by 9.6%. However, against the euro, the peso has been relatively stable, ranging between 54 and 60 over the past 3 ½ years. In fact, the peso has even appreciated 2.4% against the euro this year. Likewise, the Philippine peso has strengthened against the yen by 9.3% and the British pound by 3.5% over the same period.

Catching up with jumbo hikes

Central banks across the globe are trying to catch up, especially after US CPI in June jumped to a new 40-year high of 9.1%. Canada raised its policy rates three times this year for a total of 2%, including a surprise jumbo 100 bps hike last Wednesday. New Zealand hiked by 50 bps for the third consecutive time, and South Korea tightened by 50 bps after five 25 bps increases. Meanwhile, Chile raised its key rate by 75 bps. Last Thursday, Singapore and the Philippines joined the inflation battle surprising the market with off-cycle hikes. Elsewhere, Australia is expected to tighten by 75 bps, in addition to two previous rate hikes this year.

A more aggressive approach to inflation

The BSP's decision to do an off-cycle 75 bps hike signals a more aggressive approach to quell inflation. BSP Governor Felipe Medalla explained that *"the BSP had to act to prevent the foreign exchange from overshooting and help manage spillover effects from other countries that could disanchor inflation expectations."* He also signaled that the Philippines still has room to raise rates which may warrant further action from the BSP.

Strong dollar momentum

With inflation spiraling out of control, global central banks led by the Fed are doing everything they can to tighten monetary policy and maintain price stability. The Fed has committed to fighting inflation by aggressively raising interest rates. Consequently, this has made the US dollar more attractive to yield-seeking investors.

This year, the powerful move of the US dollar against the euro and the Japanese yen shows that the strong dollar momentum remains. Unless US interest rates and inflation ease, and other central banks catch up with the hawkish Fed, the dollar will continue to be the favored "safe-haven" for investors.

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