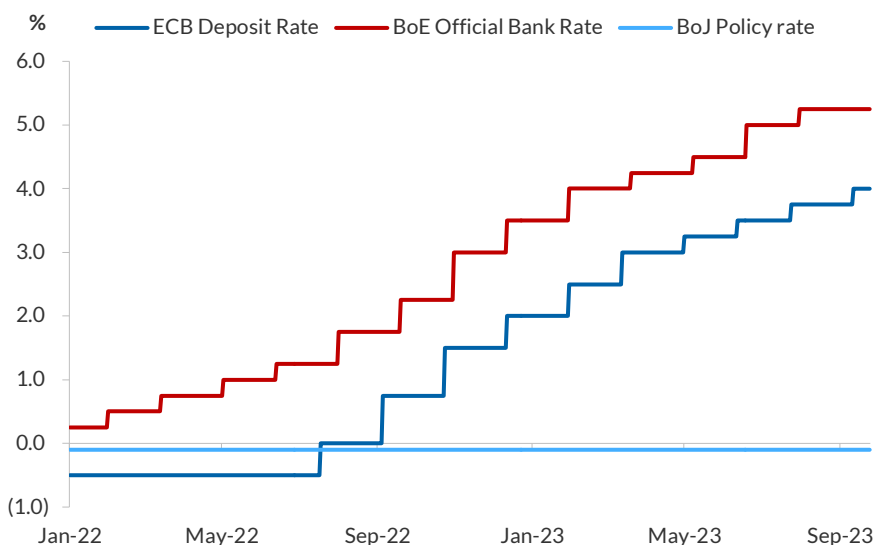


Dollar Rally – Long in the Tooth

Dollar Index Peaking at 108-109

- The US Dollar has been riding on the coattails of a weaker Yen, Euro, and Sterling. Indication of a terminal policy rate from the ECB and BoE and policy divergence of BoJ has resulted in a jump in the Dollar against the basket of currencies. However, the Fed’s policy rate at 5.5% is also very much assumed to be the terminal rate given the downward revision of Core PCE Inflation
- Markets are pricing in a very small probability of further hikes in Fed policy rate, which in our view should result in a peak in US Treasury yields
- If US sovereign yields have risen, yields on German Bunds, Japanese Bonds and UK Gilts have also hit multi-year highs, retaining their spread with US Treasuries
- Bank of Japan has indicated that it will aggressively intervene in FX markets, if USD/JPY breaches 150 mark
- Higher US Yields are just not the consequence of interest rate trajectory but also now a function of higher US Market borrowing and falling foreign ownership of US Treasuries
- Although there is no recession risk, we see the US economy slowing down in early 2024, manifested by the exhaustion of excess household savings and rising debt delinquency rates. The lagged impact of policy rate hikes will be evident in 2024, interest rate changes generally work with a lag of 18 months
- A Higher US dollar amid rising Government Debt and widening Fiscal shortfall is not justifiable
- We see the Dollar Index peaking at the 108-109 mark

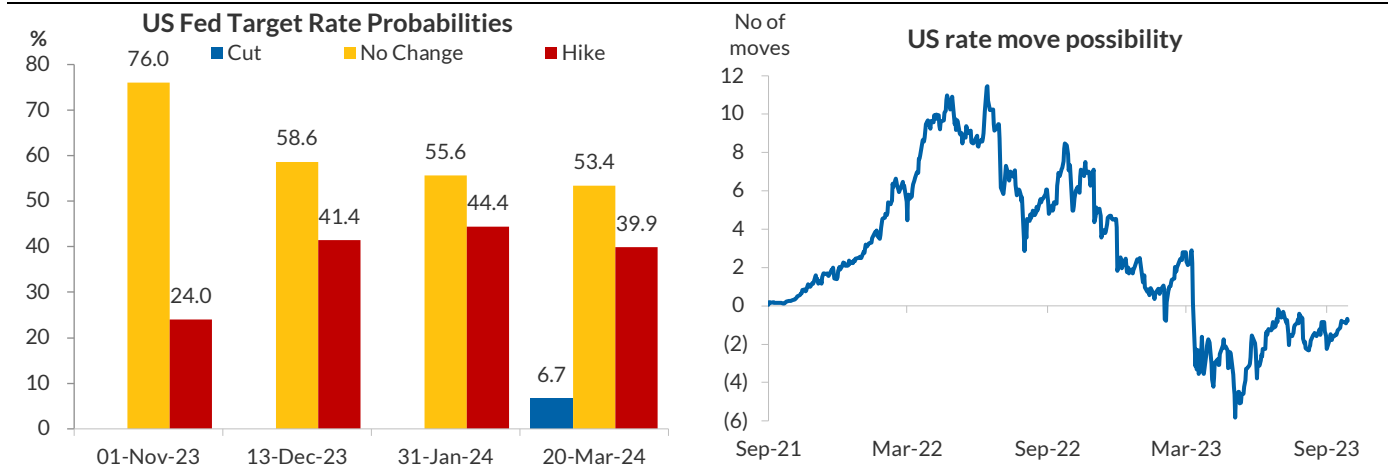
Exhibit 1: Indication of a Pause on the interest rate by the ECB, and BoE and inaction by BoJ has triggered a rally in Dollar Index...



Source: Bloomberg, YES Sec

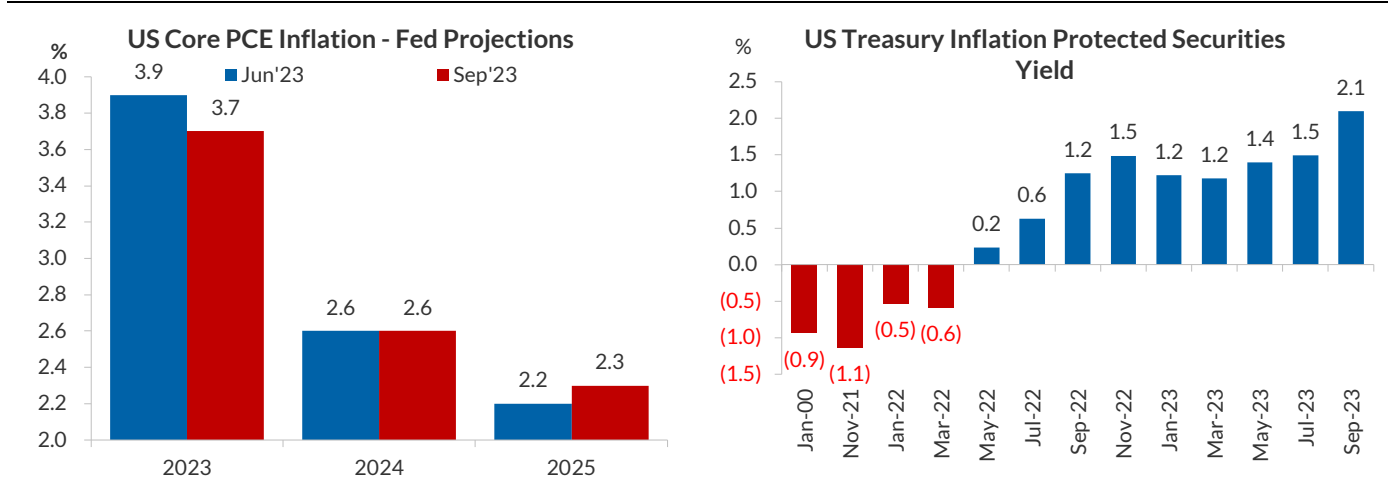
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<p>KEVAL SHAH, Associate</p>	

Exhibit 2: ...however, interest rate futures are also pricing in a status quo on the Fed policy rate for the next 12 months...



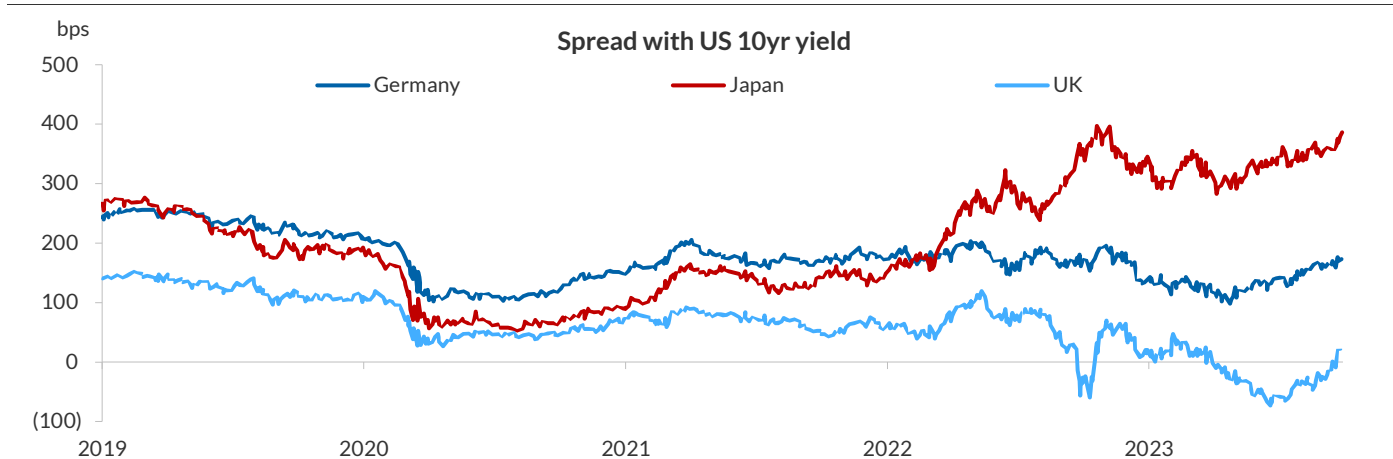
Source: CME, Bloomberg, Yes Sec

Exhibit 3: ...core inflation in the US is seen tilting lower, while Real Yields remain elevated, which does not warrant any further rate hikes



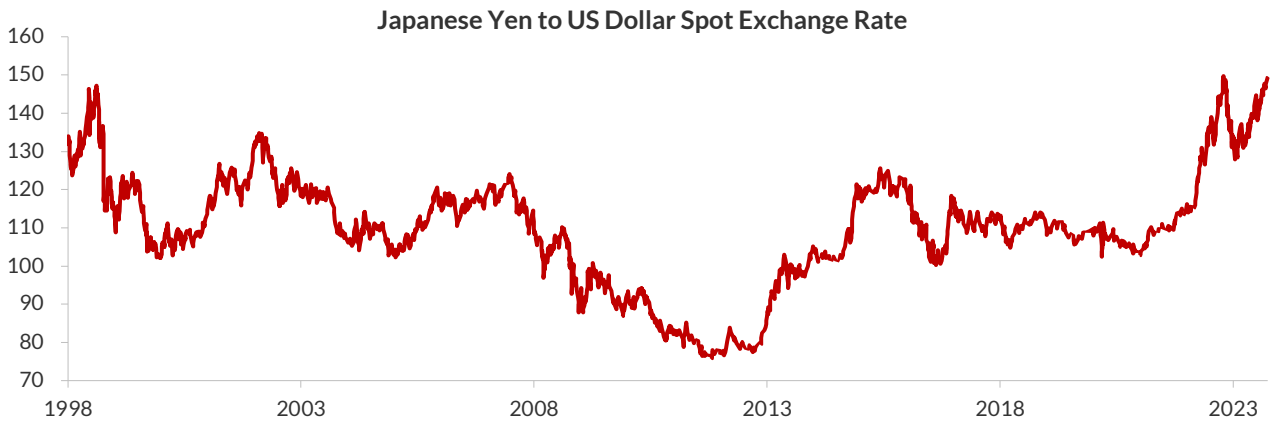
Source: Bloomberg, YES Sec

Exhibit 4: Higher inflation in Europe, UK and Japan has driven their sovereign yields higher, keeping the spread with the US Treasury in a familiar range, which does not justify a burgeoning rise in the Greenback



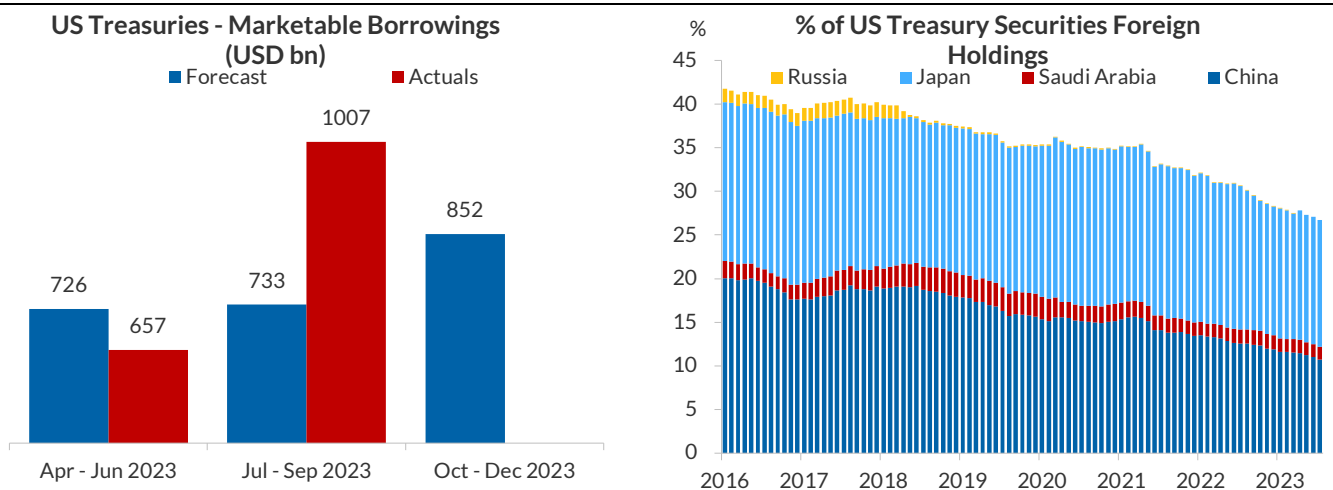
Source: Bloomberg, YES Sec

Exhibit 5: Bank of Japan has vehemently conveyed to intervene in FX markets if USD/JPY breaches 150, we are on the cusp of it



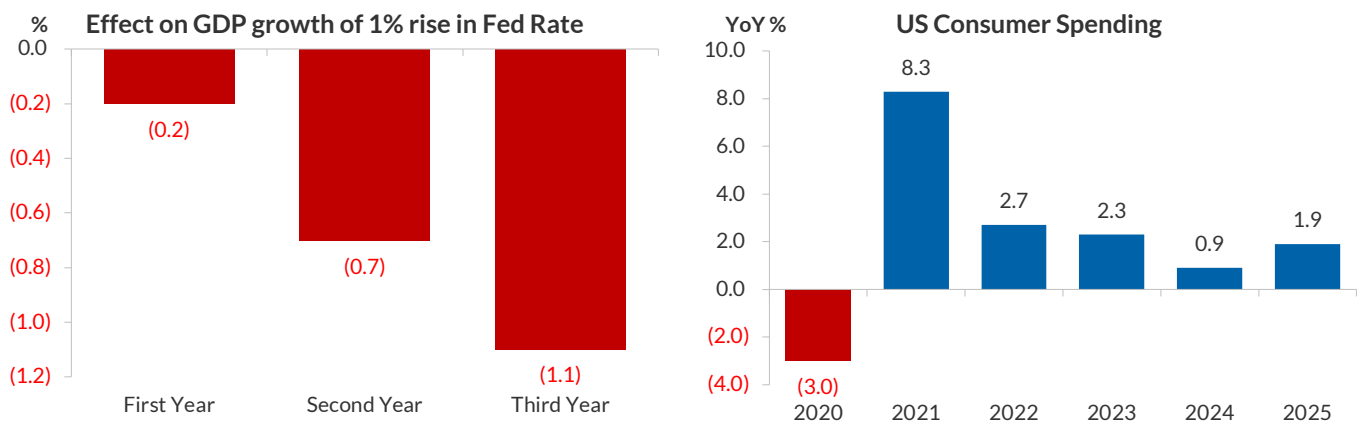
Source: Bloomberg, YES Sec

Exhibit 6: US Yields have also risen due to higher US Government market borrowings and falling holdings of major foreign investors in US Treasuries. Higher US Market Borrowings and falling foreign ownership of Treasuries does not spell any sort of exuberance for the US Dollar



Source: Bloomberg, YES Sec

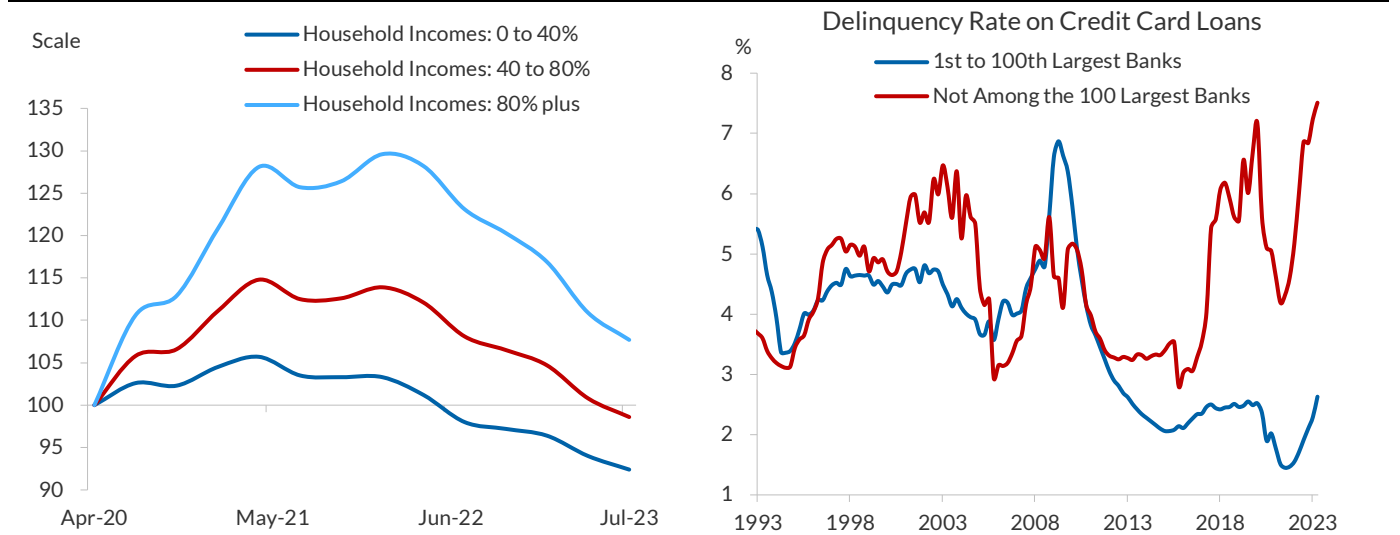
Exhibit 7: 550bps hike in Fed rates will have its impact on the economy with a lag...



Source: Bloomberg, YES Sec. Note: Interest Rate Hike Effect on GDP is derived from US Federal Reserve MPS Model (1995). Consumer Spending Growth for 2023-2025 are projections

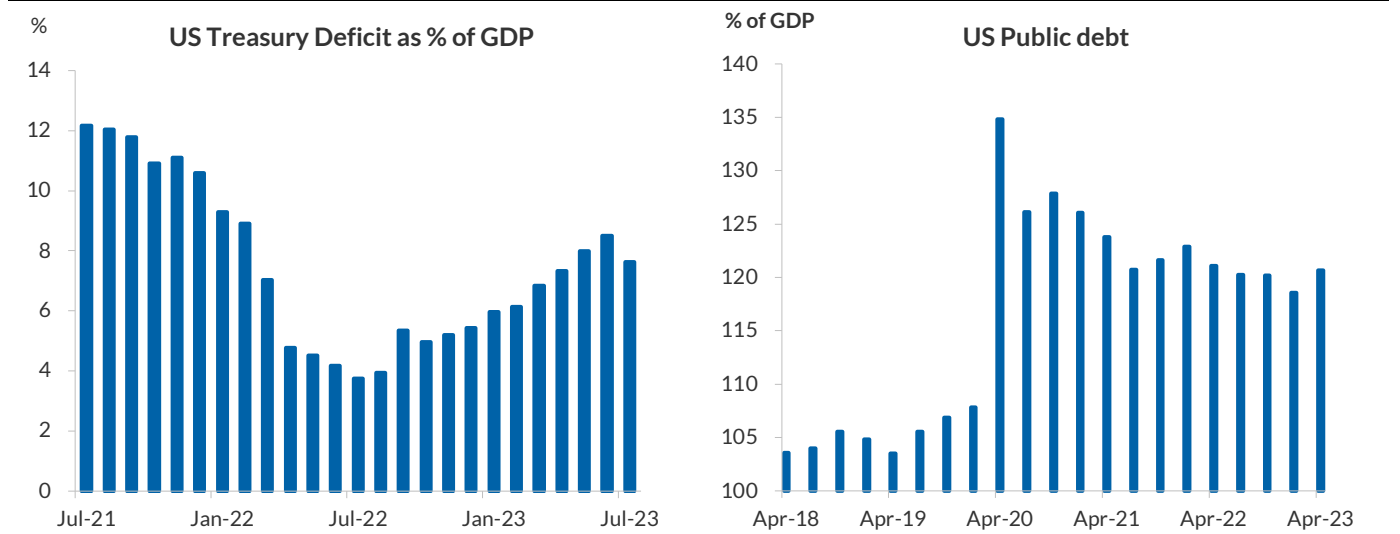
Dollar Rally – Long in the Tooth

Exhibit 8: ...bottom 80% of US Households have exhausted their excess savings, a precursor to an impending slowdown. Credit Card Delinquencies of US Small Banks surpass GFC levels amid rising interest rates, while Large Banks are also seeing a rise



Source: Bloomberg, YES Sec

Exhibit 9: Higher US Dollar juxtaposes rising Government Debt and widening Fiscal shortfall



Source: Bloomberg, YES Sec

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