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PHILEQUITY CORNER

By Wilson Sy

US dollar renews strength

Several factors have caused the renewed strength of the US dollar in recent weeks. These are the recent rise in US interest rates, cautious optimism about the resolution of the US debt ceiling and the strong US stock market. The strong buying in mega-tech stocks and the frenetic fervor in AI-related issues have propelled the Nasdaq 100 index to a 52-week high. The Nasdaq 100 is currently up 26.4% year-to-date. The US dollar advanced nearly 2% in the past two-weeks, marking the biggest two-week gain since September.

US dollar index &

Source: Tradingview.com, Wealth Securities Research

Rising US rates

US interest rates, particularly the 2-year and 10-year Treasury yields, have been on the rise. As of Friday, the US 2-year yield reached 4.349%, and the 10-year yield climbed to 3.719%, marking their highest levels in two months. The increase in US rates has resulted in an expansion of interest differentials between the US and its global peers. Notably, over the past two weeks, the US 2-year premium has surged 30 basis points against Germany and 25 basis points against the UK, underscoring the widening gap between the interest rates of these nations.

Cautious optimism about the US debt ceiling

After the strong words, bickering and walkouts, there is still cause of optimism towards a resolution of the US debt ceiling. House Speaker Kevin McCarthy is aiming to finalize a deal following Biden's return from the G7 meeting in Japan. This has provided welcome respite from concerns and has alleviated pressure on the US dollar.

Yen & yuan fall to news lows for the year

The Japanese yen and Chinese yuan fell to their lowest level against the US dollar this year, fueled by rising US rates and lackluster economic data from China and Japan. China's industrial output and retail sales growth in April fell short of expectations, signaling a slowing economic momentum. Likewise, Japan experienced a downturn in export growth due to weakened demand from China. Last Thursday, yen reached 138.75, marking its weakest level since December 1, 2022. Similarly, the yuan weakened to 7.06 last Friday before settling in at 7.01.

Powell indicates potential pause in rate hikes

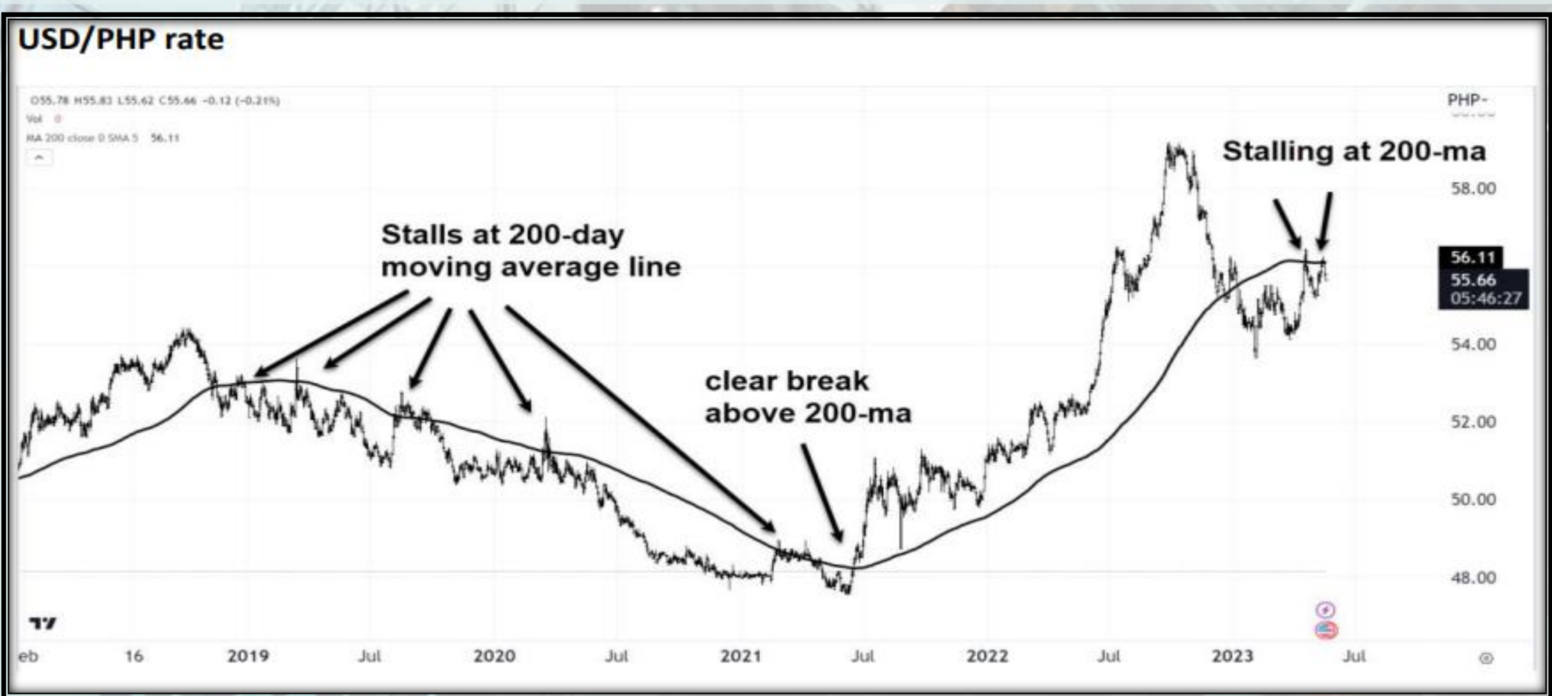
Federal Reserve Chairman Jerome Powell stated last Friday that stresses in the banking sector may reduce the need for higher interest rates to control inflation. Tighter credit conditions resulting from banking sector issues are likely to impact economic growth, hiring, and inflation. As a result, Powell suggests that the policy rate may not need to rise as much as previously anticipated, indicating a potential pause in rate hikes. The US dollar index fell 0.32% last Friday in response to Powell's statement.

BSP's prudent pause

While the US dollar index recorded consecutive gains last week, the peso recovered 0.27% against the greenback. BSP Governor Felipe Medalla's recently said that "a pause for two or three policy meetings" is the more probable scenario for the BSP. According to Medalla, a prudent pause allows the BSP to assess further how macroeconomic and financial conditions would evolve, considering tighter global financial conditions. This statement alleviated earlier concerns among investors that a dovish BSP may lead to a rate cut in the second half of the year.

USDPHP repulsed at a key level

In our article last month (see Divergent peso, April 24), we noted how USDPHP was rejected at the 200- day moving average, which falls within the range of 56.10 to 56.50. Last week, the rate approached or tested this key technical level again but failed to break through. After touching 56.25 last Wednesday, the Philippine peso rallied to close at 55.67 last Friday. The peso, which strengthened 0.45% against the US dollar last week, outperformed its peers. In comparison, the Malaysian ringgit, Thai baht, and the Singapore dollar weakened -1.35%, -1.22%, -0.51%, respectively. Meanwhile major currencies like the Japanese yen and the euro, declined -1.59% and -0.40%.



Source: Tradingview.com, Wealth Securities Research

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