

## Chart of the Day

The US Dollar has strengthened approximately 45% over the last decade and nearly 10% in 2022 alone. In a dollar dominated global economy, the implications of dollar strength ripple through economies and markets globally.

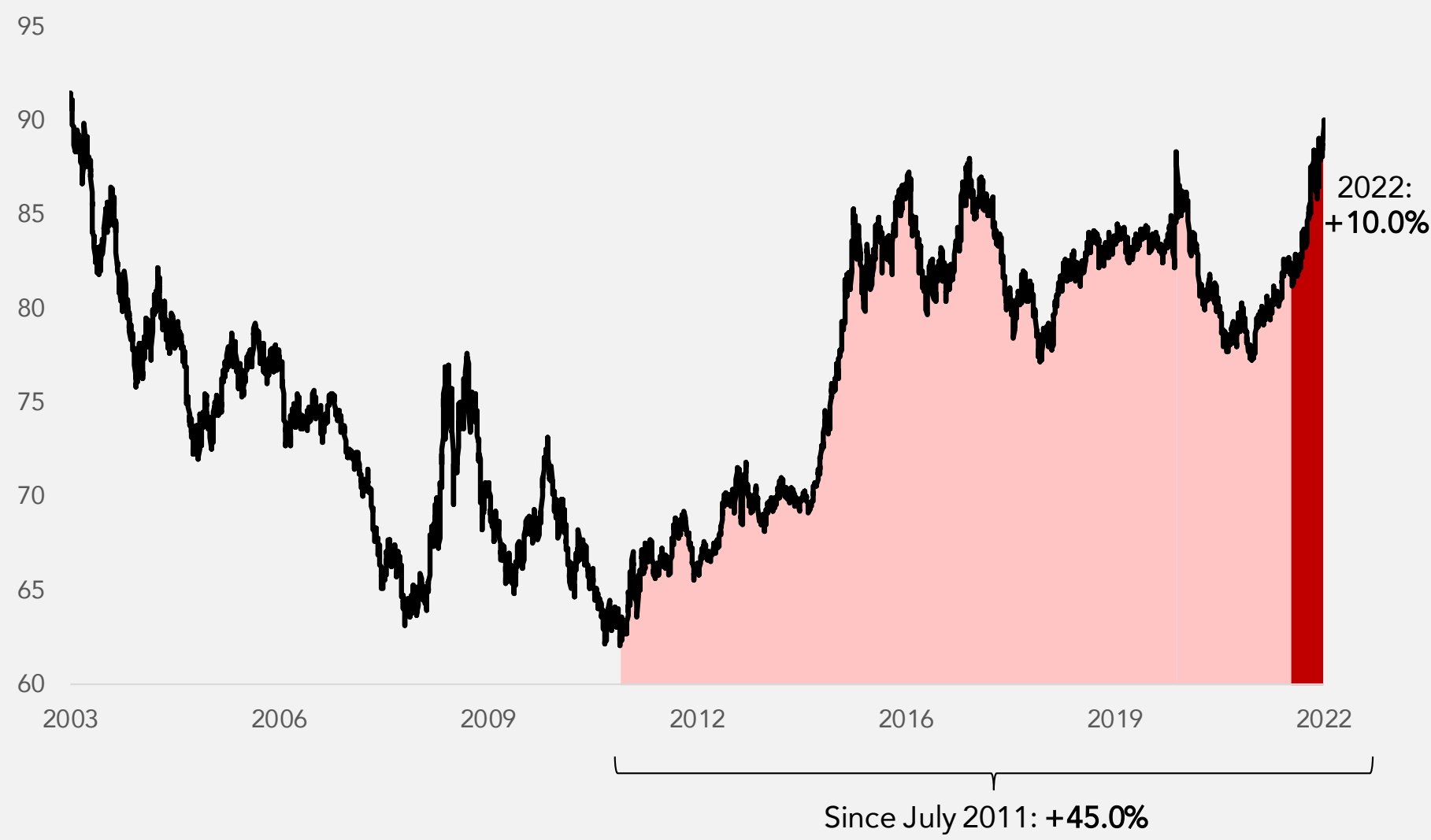
USD strength contributes to a sharp tightening in financial conditions that impacts foreign currencies, trade volumes, supply chains, borrowing costs, commodity pricing and corporate profitability. Roughly 40% of S&P 500 revenue comes from outside the US (59% for tech). According to the WSJ, S&P 500 companies reported \$7.42 billion more in Q1 FX effects than the prior year.

According to the BIS, non-US global corporates have more than \$12 trillion in dollar denominated external debt (over \$4 trillion in EM). Emerging markets are particularly vulnerable, especially those that rely heavily on USD denominated imports and commodities (i.e., many commodities such as oil and copper are priced largely in US dollars).

The USD is one of many factors in financial conditions, but the correlation between higher USD and tighter financial conditions is much higher today than historically because other drivers of financial conditions (equities, credit spreads) are responding to the same economic and monetary policy expectations. In other words, there is a joint correlation of financial conditions that is expected to hold through this cycle. According to Bloomberg, USD strength over just the last year has been concurrent with a 2.5 point tightening in the Bloomberg financial conditions index.

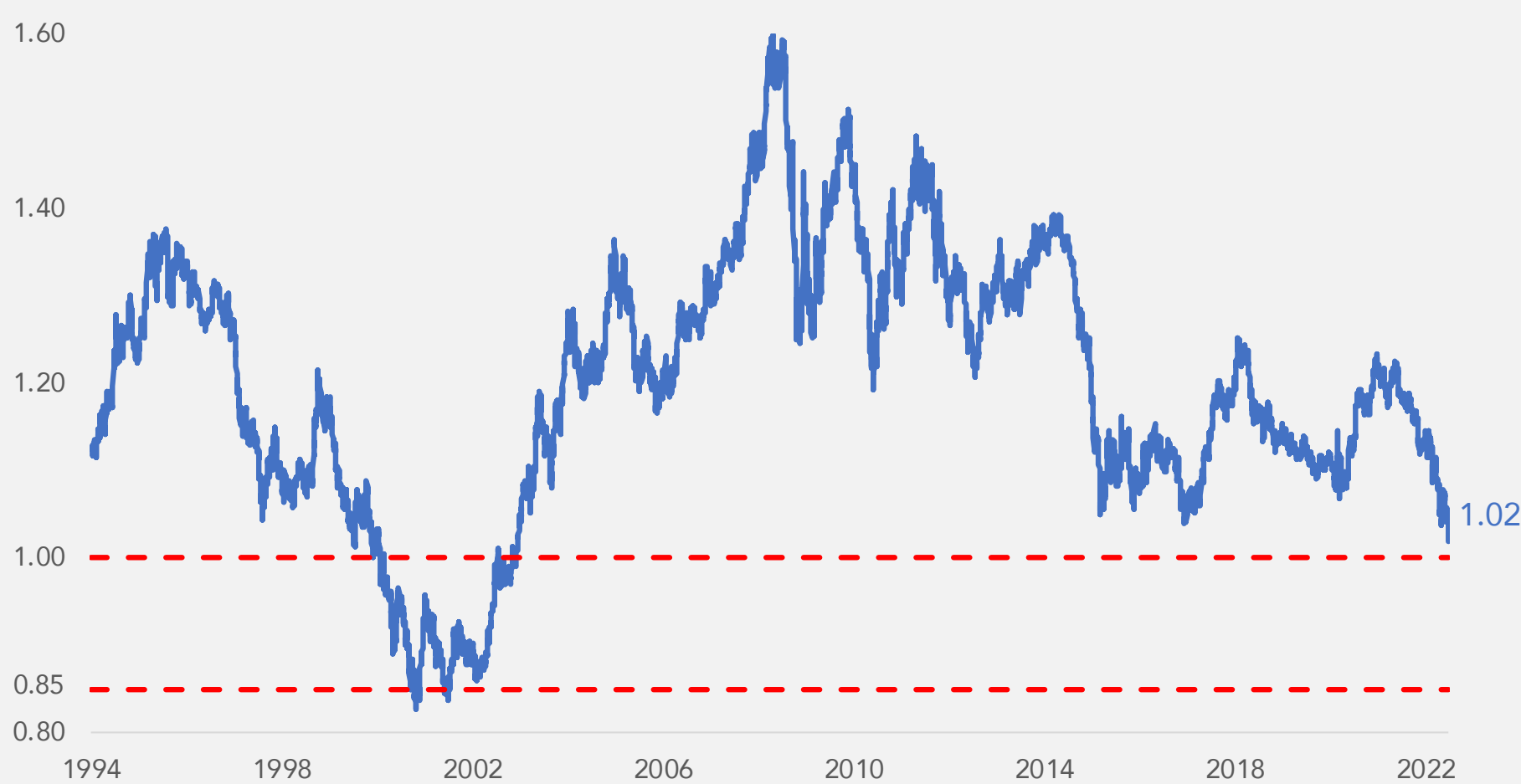
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### USD trade weighted index



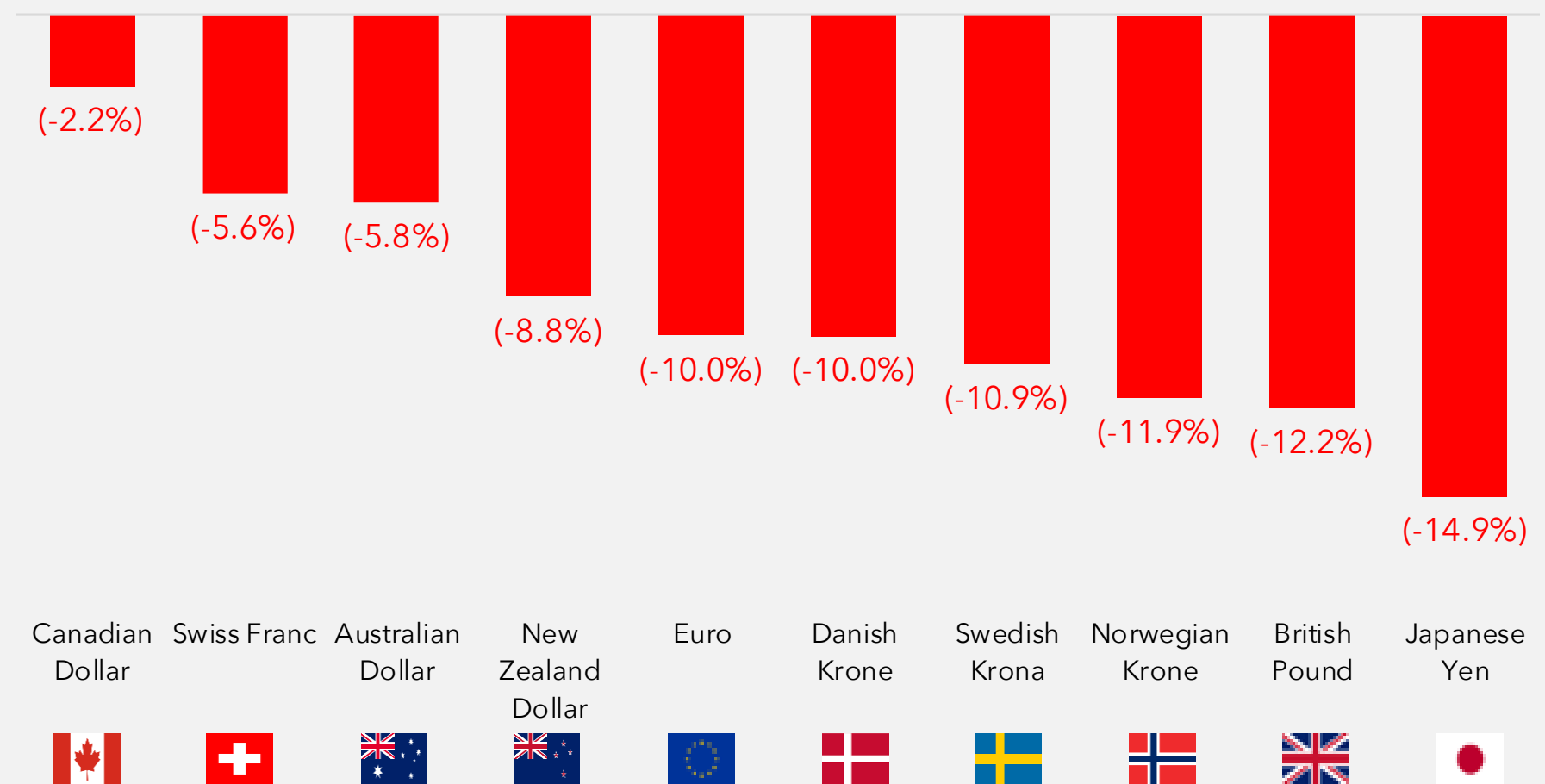
The Euro has declined sharply in the 1H 2022, rapidly approaching parity with the US dollar. While not a baseline MUFG forecast, continued weaponization of energy markets, and potential European economic recession scenarios, could precipitate a larger decline in Euro to levels below parity not previously anticipated.

### EUR/USD



Though traditionally a reliable safe haven in global markets, Yen has been the worst performing G10 currency since the Ukraine invasion began on February 24.

### G10 currencies vs US Dollar Since February 24, 2022



Source: (1-3) Bloomberg. Data as of July 6, 2022. Currency is vs. USD.

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