

Twitter Thread by Mohit ■■



Mohit ■■

[@agrawalmohit12](#)



1/

■on dominant USD■

USD has been on upward swing since mid 2021 and has jumped sharply more recently

■What is \$ Index?

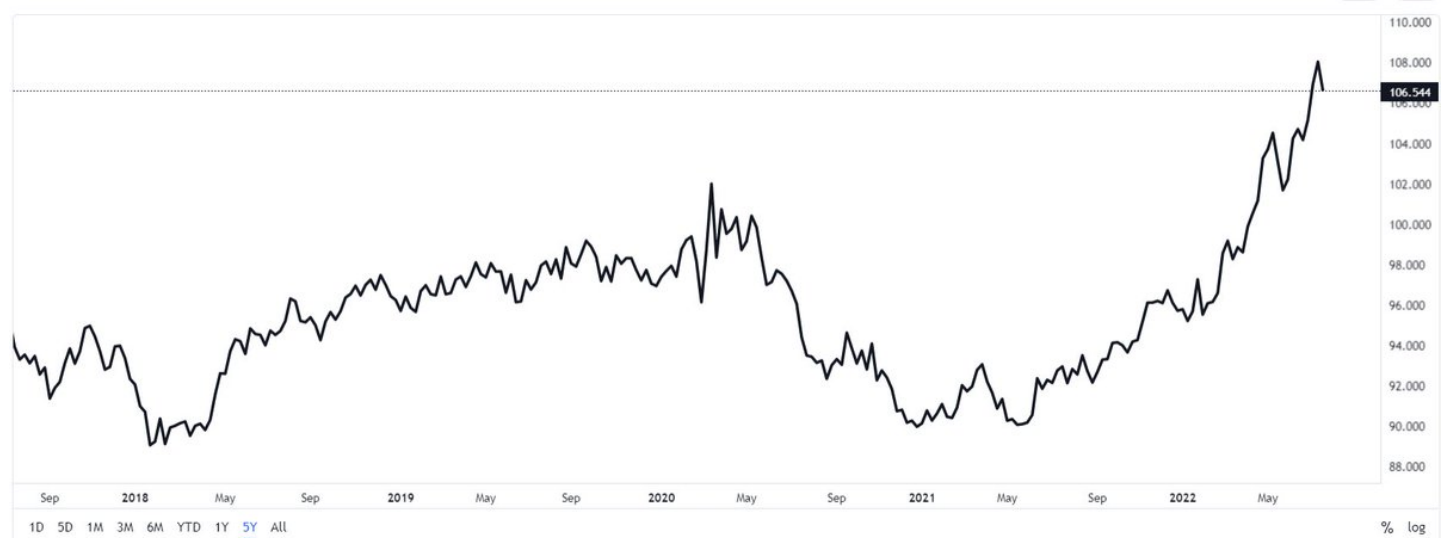
■USD■role in global economy? <- reserve currency

■Why it is so 'strong' right now?

■What drive it?

■Will it collapse?

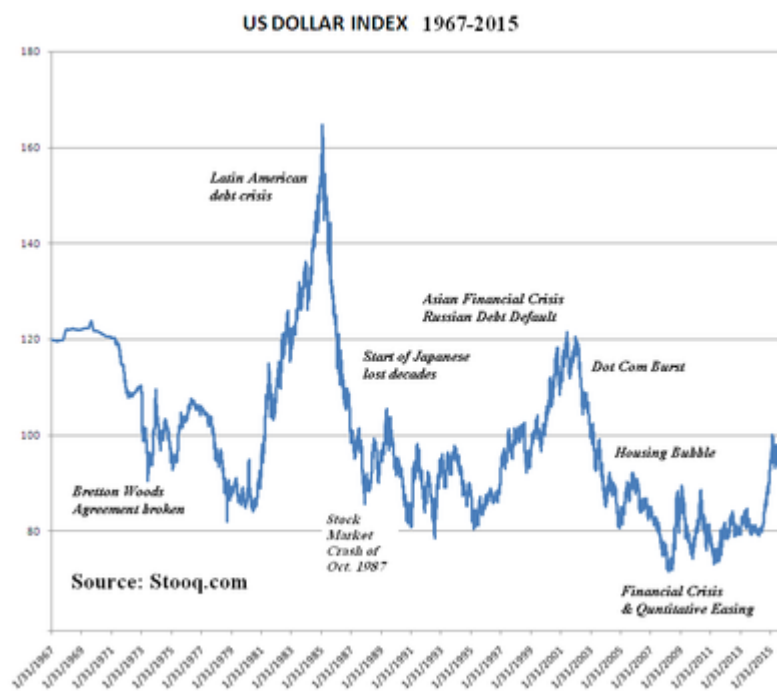
DXY Chart >



2/

What is \$ Index?

The US Dollar Index (USD_X, DXY, DX, or, informally, the "Dixie") is a measure of the value of USD■relative to a basket of foreign currencies often referred to as a basket of U.S. trade partners' currencies.



3/

■ The elimination of the gold standard fostered the birth of DXY

■ DXY was originally developed by US Fed in 1973 to provide an external bilateral trade-weighted avg value of the USD against global currencies

■ DXY reached its high point in 1985 and its low point in 2008

U.S. Dollar Index



Source: [Yahoo Finance](#)

The following six currencies are used to calculate the index. It is a weighted basket

- 1■Euro (EUR) 57.6%
- 2■Japanese yen (JPY) 13.6%
- 3■Pound sterling (GBP) 11.9%
- 4■Canadian dollar (CAD) 9.1%
- 5■Swedish krona (SEK) 4.2%
- 6■Swiss franc (CHF) 3.6%

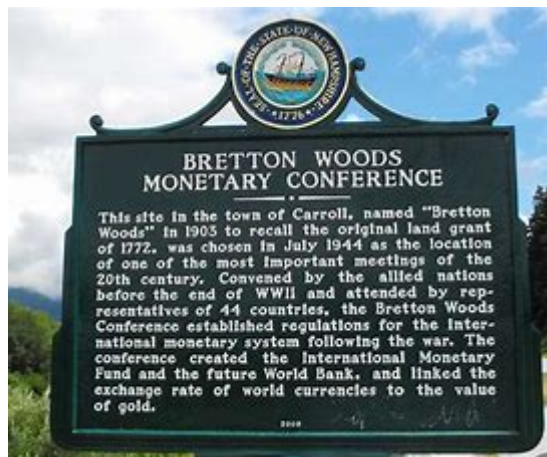
DXY Movers	Name	Weight(%) ↓
21) EUR	Euro	57.6
22) JPY	Japanese Yen	13.6
23) GBP	British Pound	11.9
24) CAD	Canadian Dollar	9.1
25) SEK	Swedish Krona	4.2
26) CHF	Swiss Franc	3.6

What is a Reserve Currency?

- has depth and liquidity to allow reliable & efficient international transactions
- freely and easily exchanged for other currencies
- held by many monetary institutions in significant amounts
- A large % of commodities are priced in it



In 1973 President Nixon's brought an end to the Bretton Woods system of fixed exchange rates. It also decoupled the U.S. dollar from the value of gold.



7/


Why the US Dollar is the Reserve Currency?

It's currently fashionable to espouse the inevitable end of the dollar as reserve currency. Here are some facts in a nutshell I wrote


<https://t.co/a43XqjBxix>

~90% of foreign currency trading involves the dollar on one side of the transaction


What To Know About the US Dollar as the Global Currency



The 1944 Bretton Woods agreement allowed other countries to back their currencies with dollars rather than gold




In the early 1970s, former President Nixon separated the dollar from gold




The relative strength of the U.S. economy supports the value of the dollar

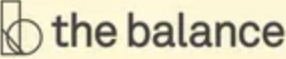
\$	USD		+2.74	
€	EUR		+2.31	
£	GBP		-0.41	
¥	JPY		+3.16	
A\$	AUD		+2.71	



Nearly 40% of the world's debt is issued in dollars



Countries like China and Russia are currently calling for a one-world currency



Will the US dollar remain the global reserve currency?

It's clearly fashionable currently to espouse the inevitable end of the US \$ as the world's reserve currency.

Here is a good blog from [@EmorningcoffeeC](https://t.co/oKCTm8GIWY) which opines on the issue and some facts below

— Mohit Agrawal (@agrawalmohit12) April 13, 2022

8/

Despite trillions of \$\$ in debt and large deficit spending, the US still holds global trust and confidence in its ability to pay its obligations. For this reason it will continue to be the top global currency in the years to come

This makes USD exchange rate very important

9/

What are the threats to replacing it as a reserve currency?

■ China → opening up and allowing the free flow of capital with less government intervention (unlikely)

■ EU → getting their shit together (unlikely)

Crypto → restoring trust in the system (unlikely in the short term)

10/

Underlying supply and demand mechanics drive its strength. Over simplified key factors:

- 1 ■ The role of bonds
- 2 ■ Economic outlook
- 3 ■ Inflation
- 4 ■ Central bank policy
- 5 ■ Political stability
- 6 ■ Trade balances

Price equilibrium is set where demand and supply meet



11/

1■The role of bonds

■■US govt issues bonds to raise capital that is then purchased by foreign investors

■■'safehaven' <- US has never defaulted on this debt

■■foreign investors to sell their currency to buy dollars to purchase bonds

12/

2■Economic outlook

When a country's economy is booming, so are investments in that country. More \$ in = higher demand for local currency = stronger currency.

Ex: India (IT and manufacturing) and Taiwan (Semiconductor)

13/

3■Inflation

A country with a consistently lower inflation rate exhibits a rising currency value, as its purchasing power increases relative to other currencies.

This works in lockstep with central bank policy, which has controlling inflation as part of its mandate.

14/

4■Central bank policy

Central banks play an instrumental role in exchange rates due to the interest rate they set. If the interest rate in one country is relatively more attractive than in another, there will be foreign investment inflow into that country.

15/

5■Political stability

A collapse in political stability will lead to contagion as confidence is lost in the system.

Srilanka

<https://t.co/X2WXgXOqjA>

China

<https://t.co/Q8XmES2dZW>

The US track record for political stability leads it to be viewed as a "safe haven"

#SriLanka is in a mess. The President has resigned, the state machinery has crumbled, the political order has collapsed.

Where is the country headed?

How can the crisis be solved?

What lessons should the world take? [@palkisu](#) explains on [#GravitasPlus](#) pic.twitter.com/ITxv8aip0s

— WION (@WIONews) [July 16, 2022](#)

16/

6 ■ Trade balances

When the US exports products or services it creates demand for dollars because customers need to pay for this in the local currency, USD. They will therefore have to sell their own currency to buy USD, which is favorable for the demand for the dollar.

17/

Why is ■ so strong right now?

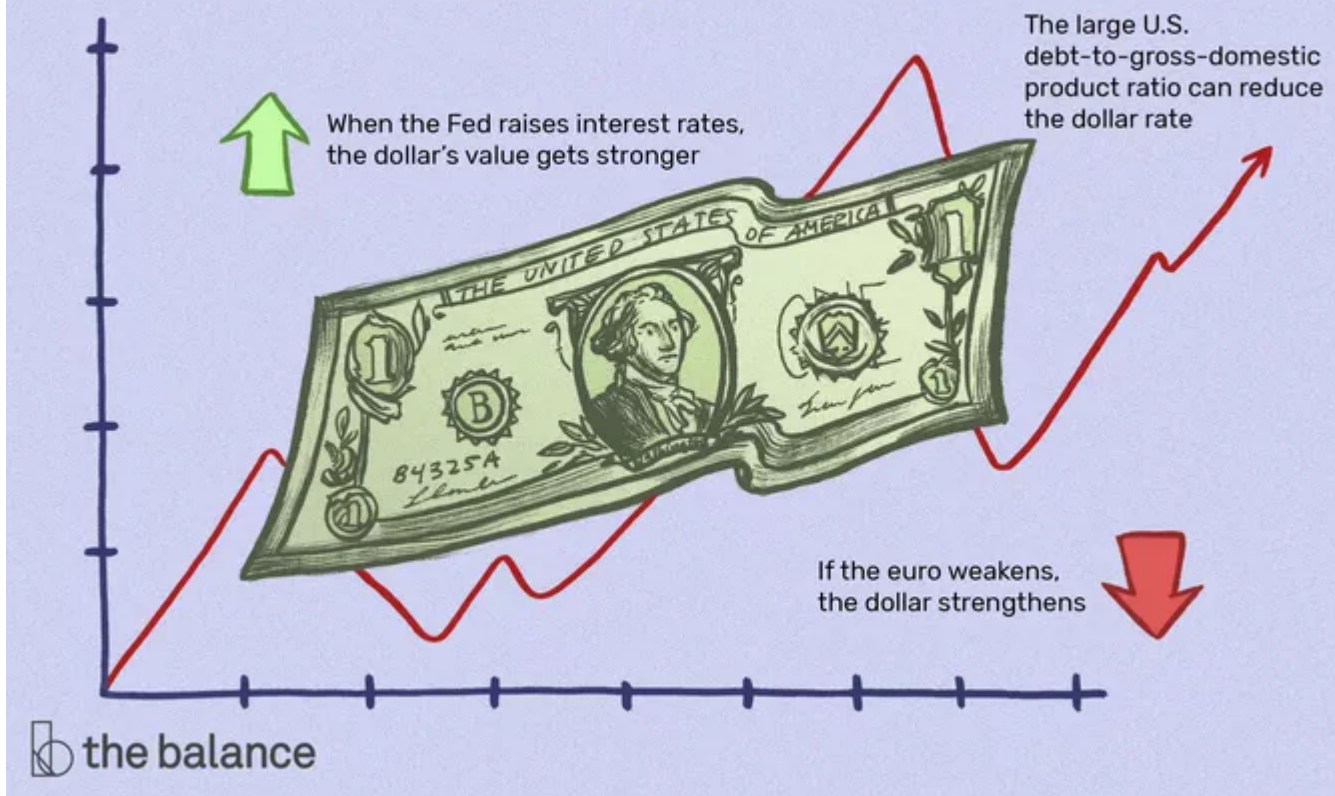
1 ■ Fed ended its expansive monetary policy (QT)

2 ■ Fed also raised interest rates

3 ■ ECB still slow to raise rates

The ■ automatically strengthens when the ■ weakens - this is because the euro makes up 57.6% of the value of the DXY.

What Impacts the Strength of the American Dollar?



18/

Recent Run-Up in DXY ➡ ■ Supply/Demand factors

It is all relative. The top two constituents of the DXY, Japan and Europe.

1EUR < 1USD

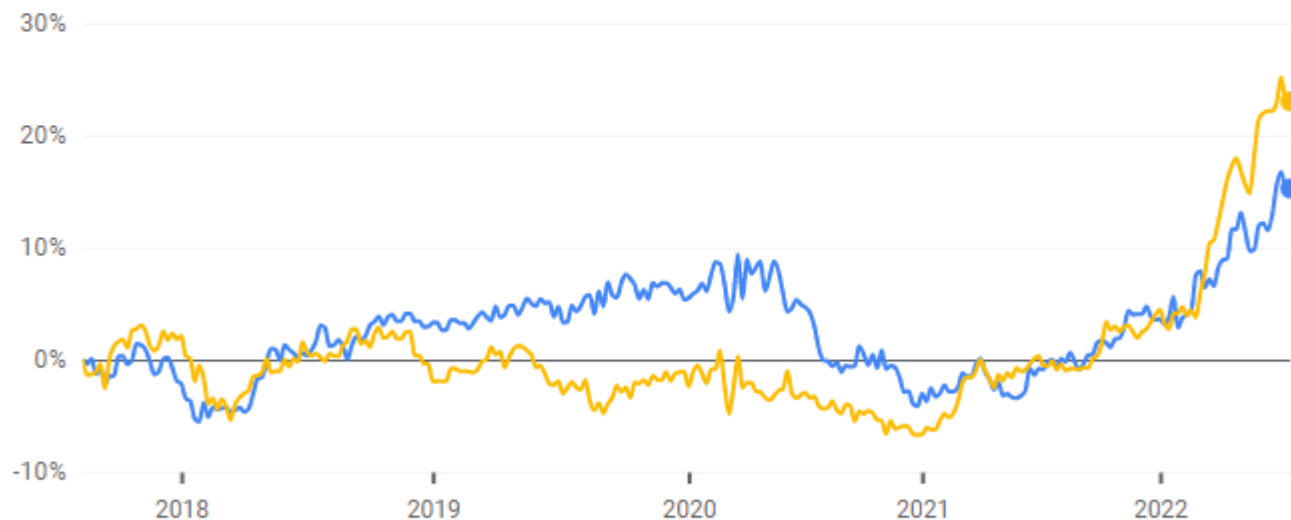
First time since 2002, we now have parity in the EUR and the USD.

Fed has been hawkish to contain inflation while ECB is still hesitant

United States Dollar to Euro

0.9790 ↑15.27% +0.1297 5 Y

24 Jul, 09:51:25 UTC · Disclaimer

1 D 5 D 1 M 6 M YTD 1 Y 5 Y MAX

USD / EUR	0.9790	+0.1297	↑15.27%
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USD / JPY	136.1780	+25.5080	↑23.05%	×
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19/

The dollar is surging: Who wins and who loses?

I wrote a ■some time back on this<https://t.co/3JnG06U5VF>

The main driver of the recent DXY strength is the central bank monetary policy gap.

The Fed is starting to ramp rates up while the ECB and BoJ are still too hesitant

The dollar is surging: Who wins and who loses?

As a mighty dollar ripples through the global economy in profound ways, its impacts are being felt unequally.

source [@MorningBrew](#)Just last week, \$ hit 1:1 parity against the \u20ac for the first time since 2002 pic.twitter.com/RXsjlvDIBS

20/

Why the **■**wont collapse (different than decline)?

- 1 **■**backed by the U.S. government
- 2 **■**universal medium of exchange
- 3 **■**most international contracts are priced in \$\$
- 4 **■**US is the largest export market for many countries and these countries have pegged their own currency to the **■**

21/

■Impact on Earnings Season

Lot of companies report in **■**but are widespread across all geographies. Currencies affect the bottom lines of companies when exposures are not hedged back to the home currency.

IBM <https://t.co/x0IfcbPINs>

\$MSFT <https://t.co/BerCtUjItX>

23/

What Is the Petrodollar?

- A petrodollar is a **■** paid to an oil-exporting country that cannot be spent on imports for that country.
- The 1945 U.S.-Saudi agreement created the petrodollar.
- The purchasing power of a petrodollar relies on the value of the U.S. dollar.

24/

Wrap-up

In the current state of the **■**, monetary policy differentials between the Fed and other central banks and a 'flight to safety' amidst global recessionary fears explain most of the USD appreciation in this recent run.

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However, I think the tide is about to change.

If the market is widely expecting a US recession and moderating inflation figures over the next year - these two developments should tighten policy spreads.

Source

■ <https://t.co/UGQaiDoGQ9>

■ <https://t.co/HrQMCAkDTX>

■ <https://t.co/5q6Wvb7dL9>

■ <https://t.co/kBXIoUIh5a>

■ <https://t.co/6NGM6K2dIN>

■ <https://t.co/JZ5An7XVPg>

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