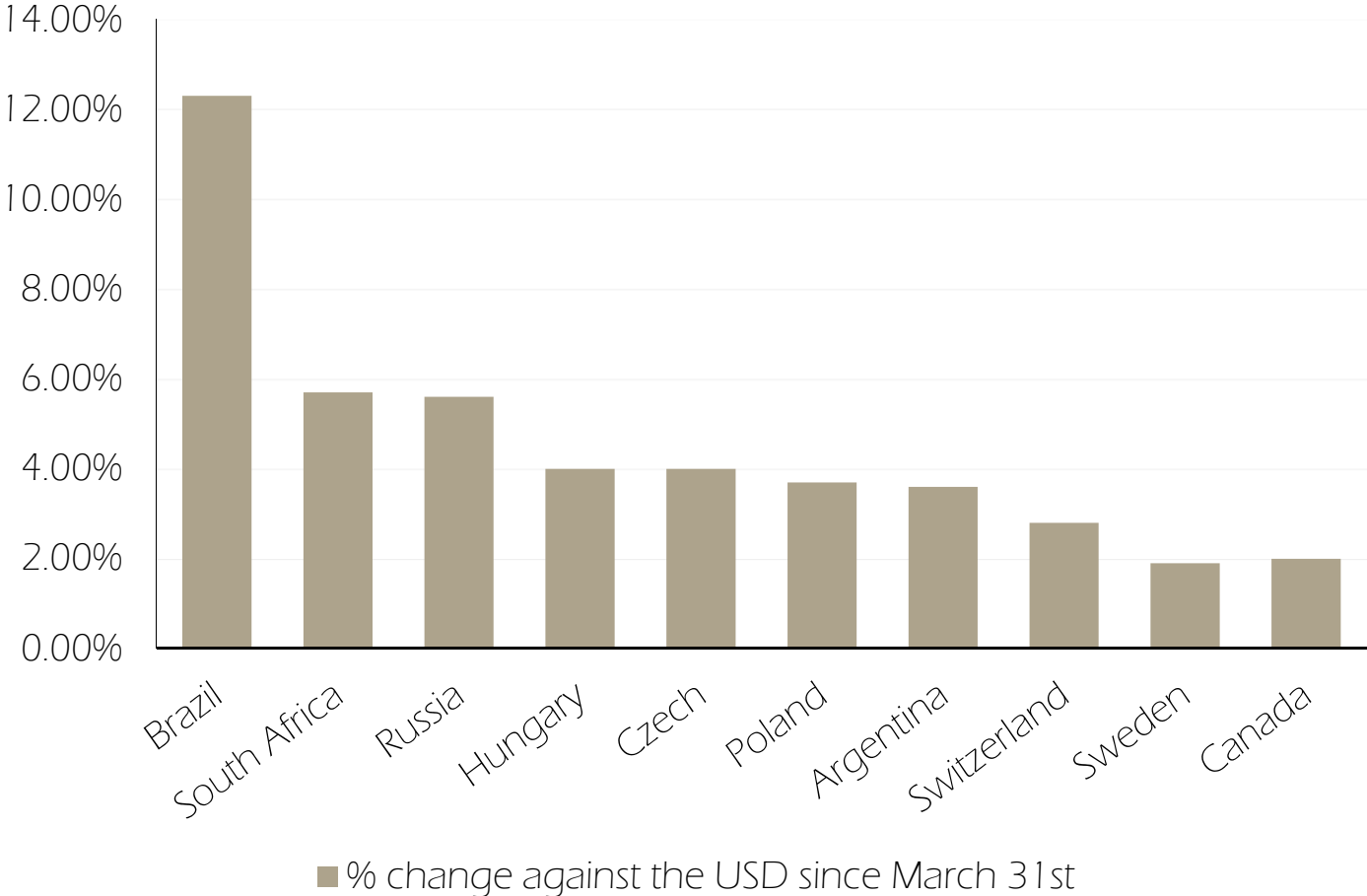


# Dollar weakest against higher-yielding EM currencies

The dollar has fallen against most currencies since the end of March.

The bulk of the fall was against higher-yielding emerging market currencies.

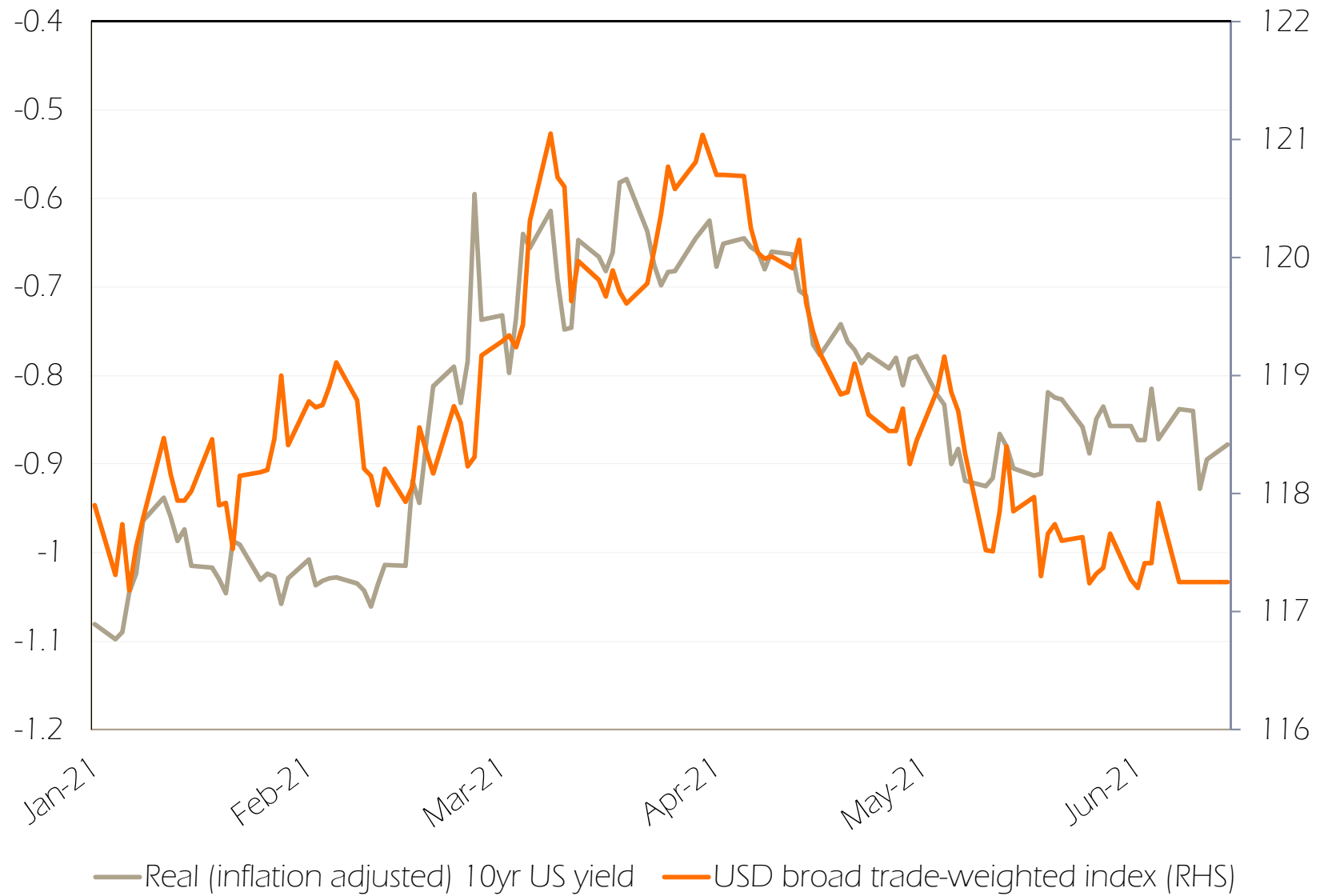


Source: Bloomberg

# Dollar follows real US yields

US treasury yields rose sharply in Q1, lifting the dollar.

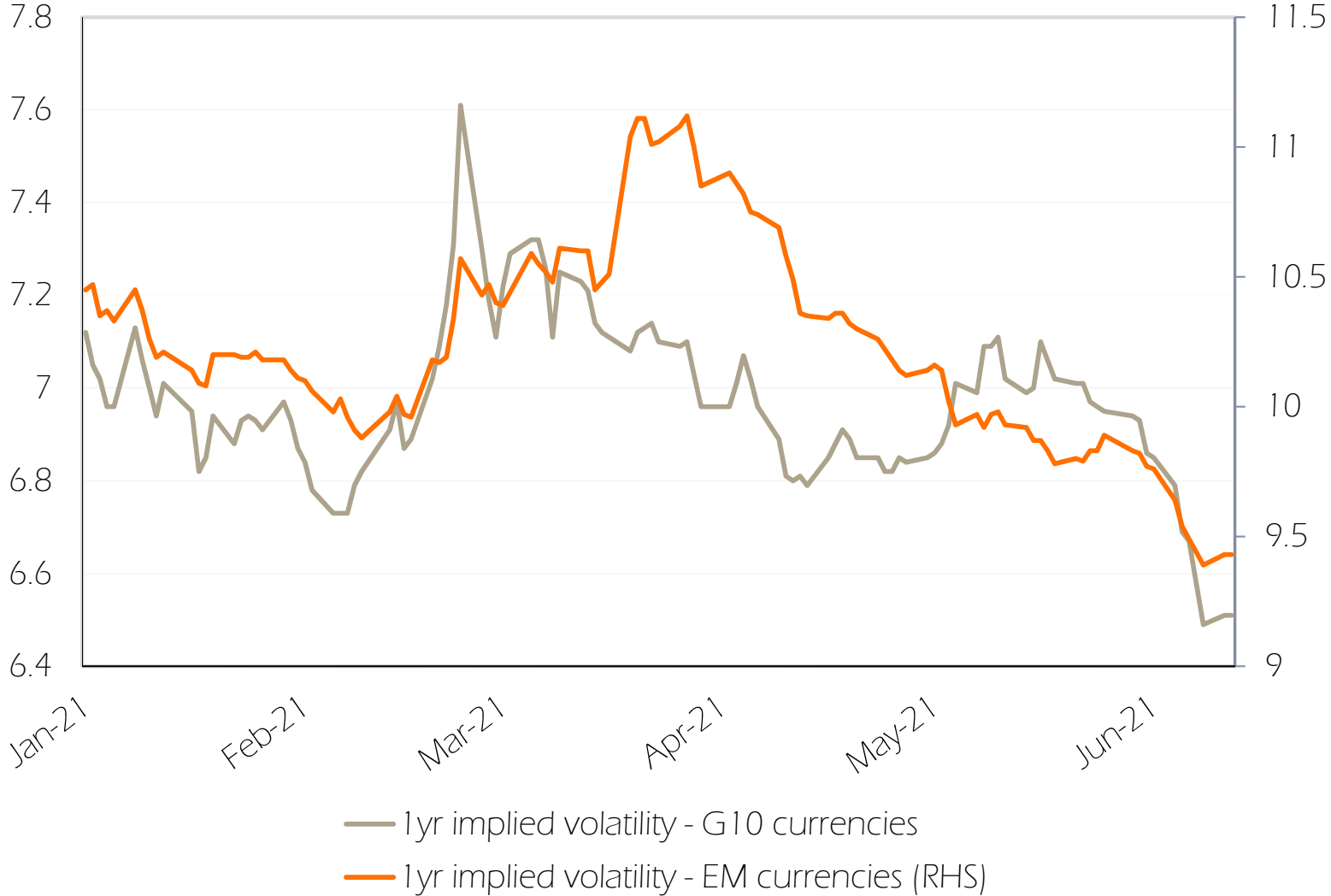
But in Q2 US inflation has risen dramatically and real (inflation-adjusted) US yields have fallen - and the dollar has followed.



# Falling dollar since the end of March helps reduce volatility

The weakness in the dollar in Q2 has helped to reduce implied volatility.

This, in turn, has helped higher-yielding developed and developing currencies gain strength from carry-trade demand.



Source: Bloomberg

# The market volatility picture looking into Q3

Leading economic Indicators (LEI) as well as coincident economic indicators (COI) in the US are starting to roll over (last monthly print 17 June).

We are expecting a volatile 3<sup>rd</sup> quarter where the USD could strengthen.



# Is the USD bottoming, or do we get one more leg lower

The broad Bloomberg USD Index showing signs of bottoming.

A failure to break lower given the current account deficits in the US and the amount of easy money would be worrying and something we are paying close attention to.



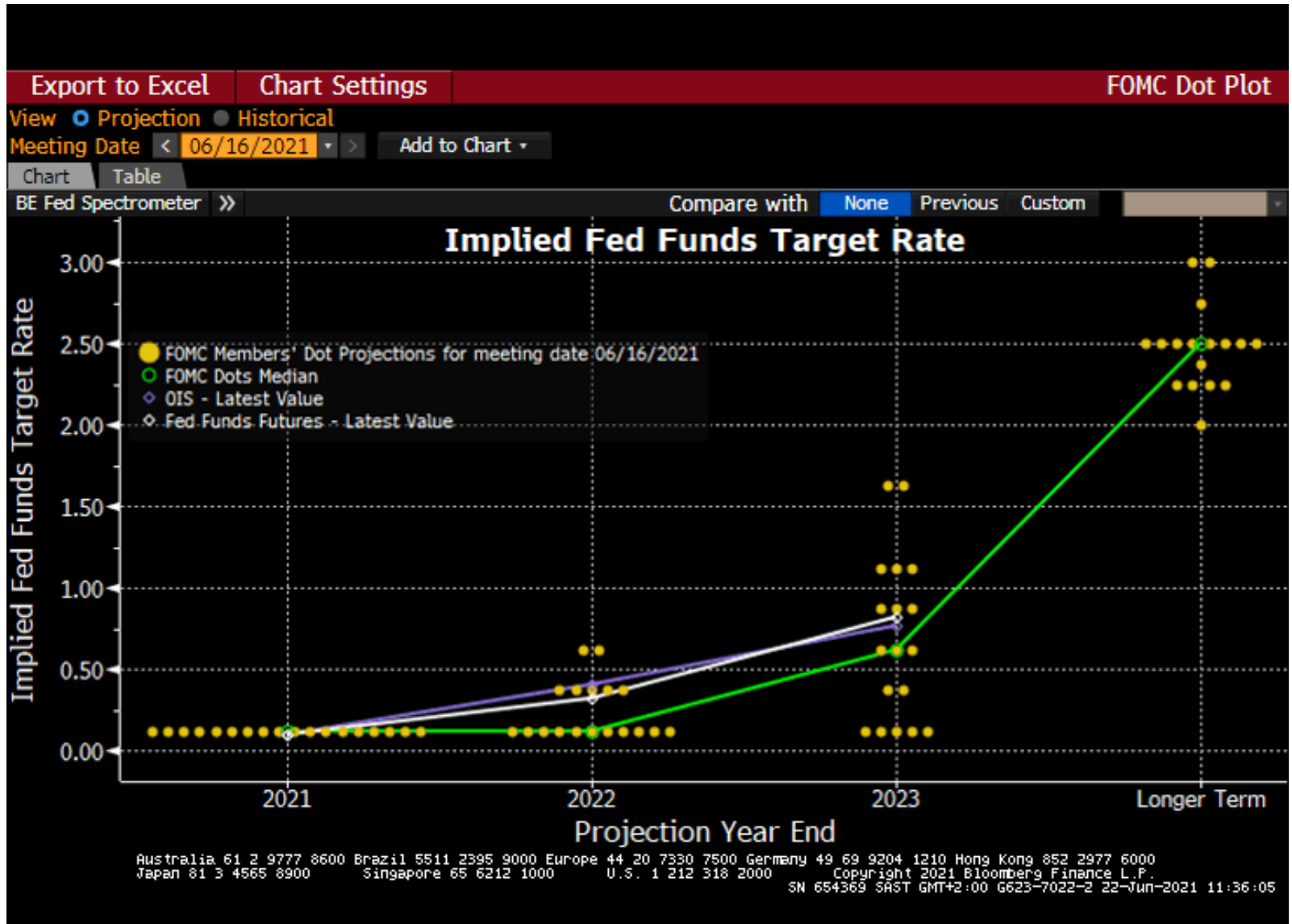
Source: Bloomberg

# The STIR market is ahead of the FED

The STIR market is pricing in hikes by the end of 2022.

Some as early as Q2.

The real question is whether corresponding markets are watching STIR or the FED?



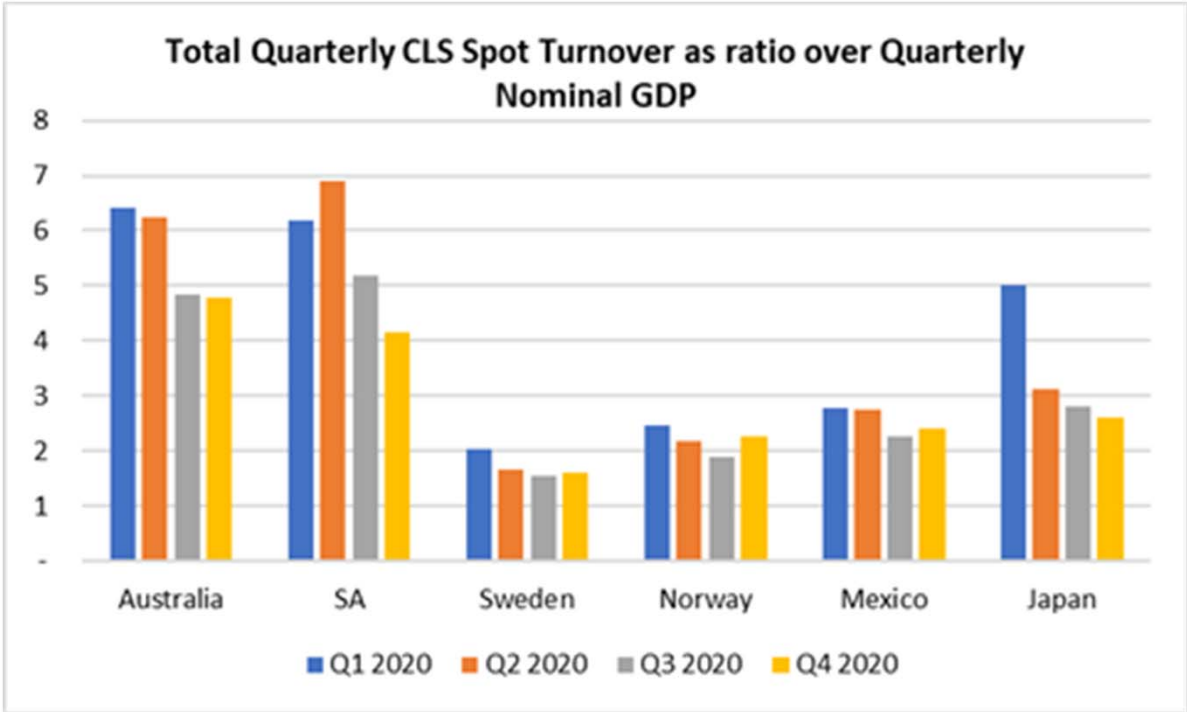
Source: Bloomberg

# Proxy hedging via ccy is very much in play

Proxy hedging is very much in play still

Here are some examples to show multiples of GDP turned over in CLS

SA and Australia remain very high on the list



Source: Bloomberg

# Which countries have the largest hedged FI exposure?

This gives an idea of where some of the surplus FED USD have gone.

This is the spread between the 3m FX swap implied rate and the generic 10 government bond

We can see that South Africa in particular still offers significant pick up even when hedged.

