AUGUST 04, 2025

# PHILEQUITY CORNER

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## Return of the King

The US dollar's attempt to reclaim its throne faced an immediate test Friday as Trump's announcement of new tariffs and weaker-than-expected jobs data interrupted what had appeared to be a decisive technical breakout. The US dollar index (DXY) surged to a two-month high of 100.257 early last Friday but it tumbled 1.37% after nonfarm payrolls showed just 73,000 jobs were added in July. This figure is well below the 100,000-consensus estimate. Likewise, massive downward revisions to previous months' reports revealed hidden weaknesses.

## Technical levels briefly breached

Thursday's rally had followed what we outlined in a previous article (see Dollar Tests Key Levels in Rally, July 21) that suggested "the US dollar's historic plunge – its steepest first-half decline in five decades – may be abating." After five unsuccessful attempts to reclaim the 50-day moving average, the dollar index managed to clear that level on its sixth try and briefly touched the psychologically important 100 level before Friday's reality check.

## Crowded short positions had favored "dollar squeeze"

The initial breakout had aligned with positioning dynamics highlighted in the July 21 analysis as ripe for reversal. Heavily crowded short positions appeared ready to unwind in a potential "dollar squeeze" scenario, contributing to DXY's move higher to our initial target of 100 before the jobs data shifted the narrative.

## Euro weakness provided backdrop

The dollar's rally had been supported by euro weakness following July 28's announcement of an EU-US trade deal viewed as asymmetrically favorable to Washington. The agreement included $750 billion in energy purchase commitments and $600 billion in US infrastructure investment pledges. The euro had tumbled 1.2% on the trade deal announcement, but Friday's jobs shock triggered a 1.5% rally.

## Shoot the messenger

The employment report exposed months of labor market weakness through massive downward revisions. May was revised down by 125,000 (from +144,000 to +19,000), while June fell by 133,000 (from +147,000 to +14,000). The combined 258,000 in revisions, alongside July's disappointing 73,000 gain, contradicted Chair Jerome Powell's assertion that "you don't see a weakening in the labor market." This sparked a surge in September rate-cut expectations. In a bizarre but characteristic "shoot-the-messenger" reaction, President Donald Trump fired Bureau of Labor Statistics Commissioner Erika McEntarfer moments after the release.

## Warning signs had been flashing

The market's vulnerability to Friday's shock had been flagged in last week's article (see Record After Record, July 28). We noted: "As markets continue to push higher, signs of excess are emerging. Risk appetite has surged with money rotating into laggards, speculative plays and stocks with questionable fundamentals… It's a classic setup for a pullback. As markets soar, caution is warranted." The dismal jobs data triggered the correction that was long in coming.

## Tepid reaction to outstanding earnings report

Despite record highs, the market had shown signs of fatigue. Even a wave of outstanding corporate earnings from the likes of Microsoft, Meta, Apple and Google failed to lift the market. The muted response signaled that investors were no longer rewarding strong results, a clear sign that a pullback was brewing.

That reversal came swiftly. All major US indices closed red for the week, with small caps suffering their worst performance since Liberation Day's collapse. Friday's selloff was particularly severe, with the DJIA down 2.9%, S&P 500 falling 2.4%, Nasdaq declining 2.1%, and the Russell 2000 plunging 4.2%. With valuations stretched, seasonality turning negative, and growth concerns resurfacing after a weak jobs report, investors used the strong earnings as an opportunity to lock in gains—accelerating the longawaited correction.

## Return of the king or temporary bounce

Despite the sharp Friday decline, the DXY closed above both its 50-day moving average and the critical 97- 98 trendline support zone. Technical support remains intact, but Friday's reversal raises questions whether the return of the king above the 50-day moving average marked a sustained recovery or merely a temporary bounce. Meanwhile, USD/PHP pushed above its 200-day moving average, reaching a high of 58.63 last Friday before closing at 58.145. It remains uncertain whether the dollar is mounting a real comeback or simply staging a short-lived return to the throne.