

# PHILEQUITY CORNER

By Wilson Sy



## When the dollar and oil rise together

The US dollar index (DXY) closed last Friday at 99.32. WTI crude ended at \$100.39 per barrel. Nearly three months into the US-Iran war, the dollar and oil have been rising together. Textbook economics says this should not happen.

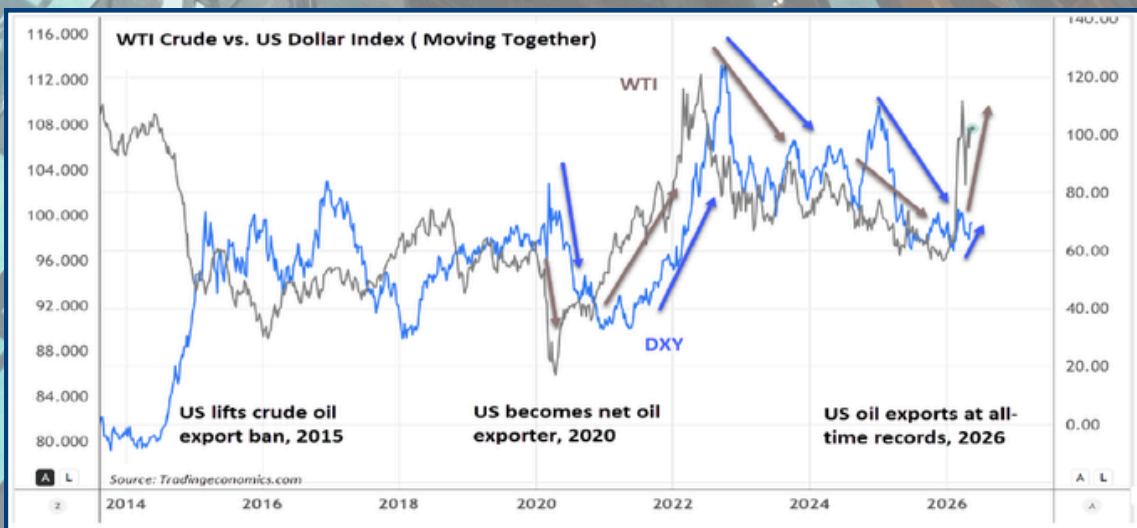
## The textbook rule

For decades, the US dollar and oil moved in opposite directions. From 2002 to 2014, the rolling correlation between the DXY and WTI crude was negative. The textbook explanation was simple: oil is priced in dollars, so a stronger dollar made barrels more expensive abroad and dampened demand. And vice versa.



## When shale flipped the math

After 2015, the relationship changed. The Bank for International Settlements (BIS), in a 2023 working paper by economist Daniel Rees, documents a clean structural break. The US shale boom and the lifting of the crude export ban turned America into a net oil exporter by 2020. Higher oil prices once hurt the US terms of trade. Now they help. The dollar benefits when oil rises.



## Two regimes, not one

The dollar-oil relationship is not fixed. It depends on what is driving markets. The pattern shows up in two ways. The first is the classic demand-driven regime. When global risk aversion spikes (a banking crisis, a growth scare, a pandemic), the dollar rises as a safe haven and oil falls on weaker demand. The dollar and oil move in opposite directions.

The second is the supply-driven regime. When the shock comes from oil producers, crude oil rises on supply fears. We saw this during the 1973 oil embargo, the 2022 Russia-Ukraine war and today's Iran-US war. The dollar rises on the broader geopolitical risk premium and on America's new status as a net exporter. Both move up together.

## Oil importers bear the brunt

For oil-importing economies, the supply-driven regime is the worst possible combination. The import bill rises in dollars. The currency that buys those dollars depreciates. Inflation accelerates. Central banks face an unpleasant choice: defend the currency through rate hikes that slow growth or let it slide and import more inflation. The pain is showing across Asia.

Asian currency vs USD	% since US-Iran war (Feb. 28)	Current Acct (% of GDP)	Profile
Chinese yuan	0.97%	+3.7% (2025)	Oil importer, surplus
Taiwanese dollar	-1.04%	+19.4% (2025)	Oil importer, massive surplus
Singapore dollar	-1.16%	+16.7% (2025)	Oil importer, massive surplus
Malaysian ringgit	-1.92%	+1.6% (2025)	Net oil exporter, surplus
Japanese yen	-1.97%	+4.9% (2025)	Oil importer, large surplus
Thai baht	-4.89%	+2.8% (2025)	Oil importer, surplus
Indian rupee	-4.94%	-0.4% (2025)	Oil importer, deficit
South Korean won	-5.10%	+6.7% (2025)	Oil importer, large surplus
Indonesian rupiah	-5.30%	-0.1% (2025)	Oil importer, marginal deficit
Philippine peso	-6.53%	-3.4% (2025)	Oil importer, deficit

Source: Bloomberg, Wealth Sec. Research

For Filipinos, the cost shows up in the peso. The peso hit a fresh all-time low of 61.75 against the dollar on Tuesday and closed the week at 61.695. The 10-year Philippine government bond yield surged to 7.87 percent, its highest level since November 2018. When the world's reserve currency and the world's most important commodity rise together, oil-importing economies pay the heaviest price. The Philippines is paying for it now.

## Central banks forced to hike

The Bangko Sentral ng Pilipinas (BSP) reversed course in April. After six straight rate cuts, it raised the benchmark to 4.50 percent, its first hike in two years. Governor Eli Remolona Jr. had warned that \$100 oil and a stronger dollar would force the central bank's hand. Both came to pass and the BSP acted.

The pressure extends across Asia. Last week, Bank Indonesia surprised markets with a jumbo 50 basis-point hike to 5.25 percent, its largest move since 2022. Governor Perry Warjiyo cited "global volatility due to the Middle East war" as the reason for the hike. Bloomberg reported that interest-rate swaps in India are pricing in about 125 basis points of hikes over the next year. Philippine swaps imply about 70 basis points over the next three months. April inflation in the Philippines rose at the fastest pace in three years.



## When the war ends

The dollar-oil relationship reflects whichever shock is hitting markets. Today's shock is the US-Iran war. As long as it continues and the Strait of Hormuz remains mostly shut, the supply-driven regime is likely to persist. The US dollar and oil may keep rising together, with the peso staying under pressure.

Over the weekend, President Trump said a peace deal with Iran that would reopen the Strait of Hormuz is “largely negotiated” and will be announced soon. When the war ends, the classic inverse relationship should reassert itself and the peso should get relief.