

# Euro hits parity (€1 = \$1)

The impact to SVB's clients

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# Euro hits parity

The euro is the most actively traded currency by SVB tech clients in the US.

Earlier stage tech clients who are funding European operations with USDs are buyers of EUR. Parity means USDs go further, resulting in a much needed windfall that is extending runways.

Many later stage tech clients have established overseas revenue hubs in Europe and are pricing revenues in local currency. Parity represents erosion of top-line revenues and profits.

In 2022, we saw an increase in hedging interest both from clients locking in gains (EUR buyers), and those protecting non-USD earnings (EUR sellers).

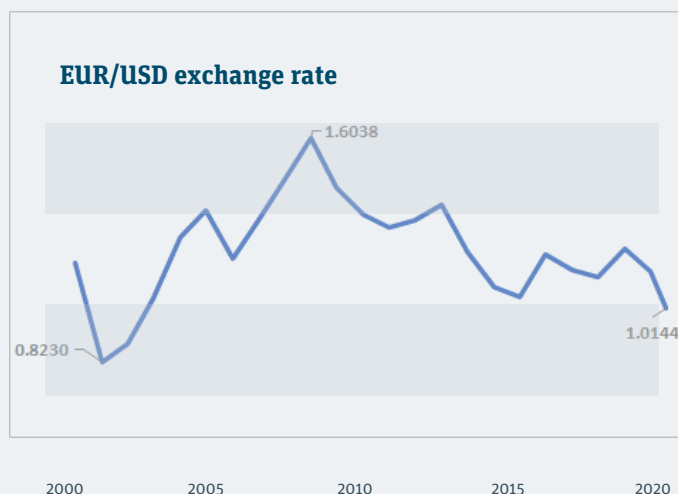
2 in 3 FX clients  
trade euro

Trading in euro  
makes up 1/3 of all  
client FX volumes

There are 3 euro  
buyers for every  
seller of euro

# Euro hits parity...

Key historical levels  
(versus USD)



Source: Bloomberg

The euro was launched on **1-Jan-1999** at a rate of **1.1686**

Within a year of its inception, the euro broke parity once before on **2-Dec-1999**

The euro hit its all-time low of **0.8230** on **26-Oct-2000**

Since hitting all-time low, it took euro almost 8 years to reach the all-time high of **1.6038** on **15-Jul-2008**

Largest **down (up)** move in the euro over 12-month period **-25% (+29%)**

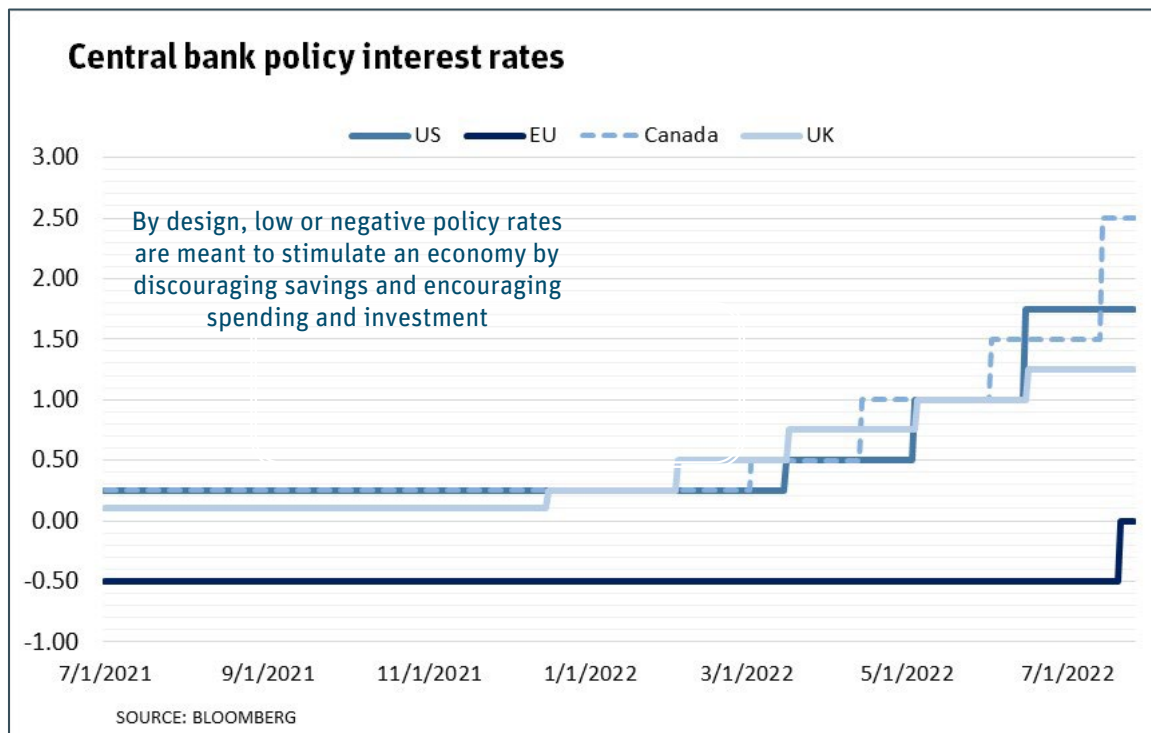
**1.1966**

Long-run average  
1999-2022

**17%**

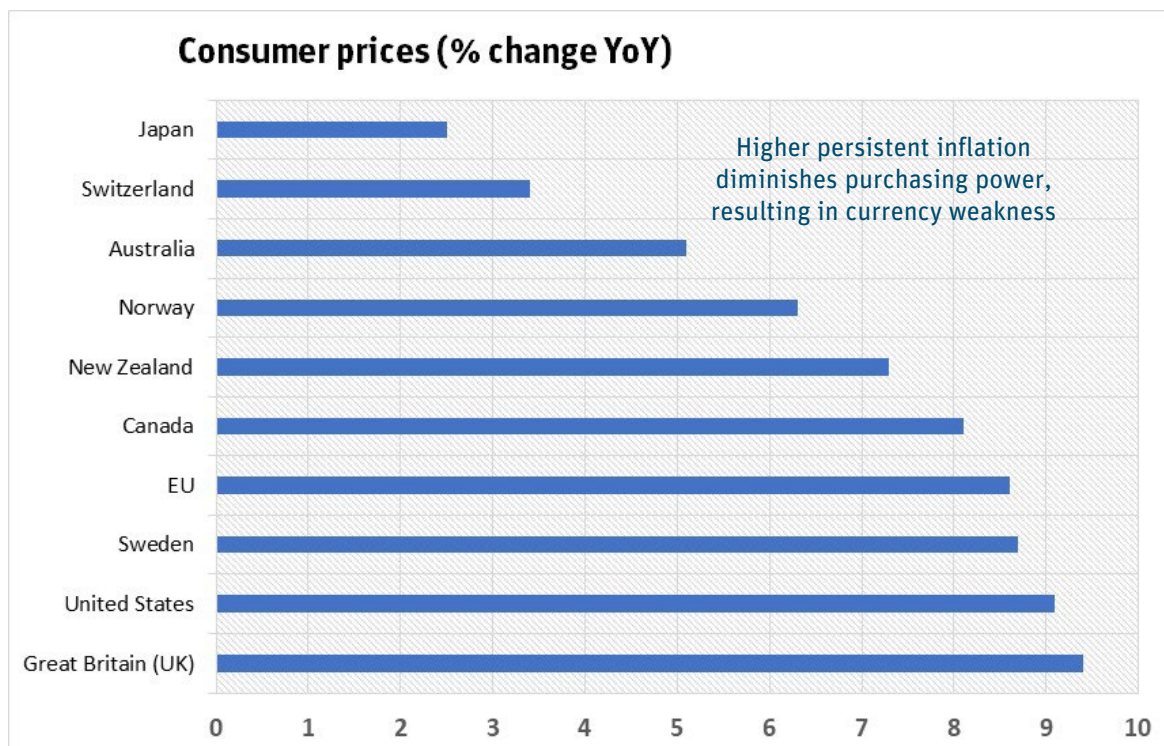
Average annual trading range (peak to trough)  
1999-2022

## 1. European Central Bank (ECB) lagging behind other developed economy central banks on rate hikes



Over short-term horizons, higher interest rates generally support currency strength from yield-seeking capital inflows. The ECB is lagging behind on rate hikes, creating downward pressure on the euro.

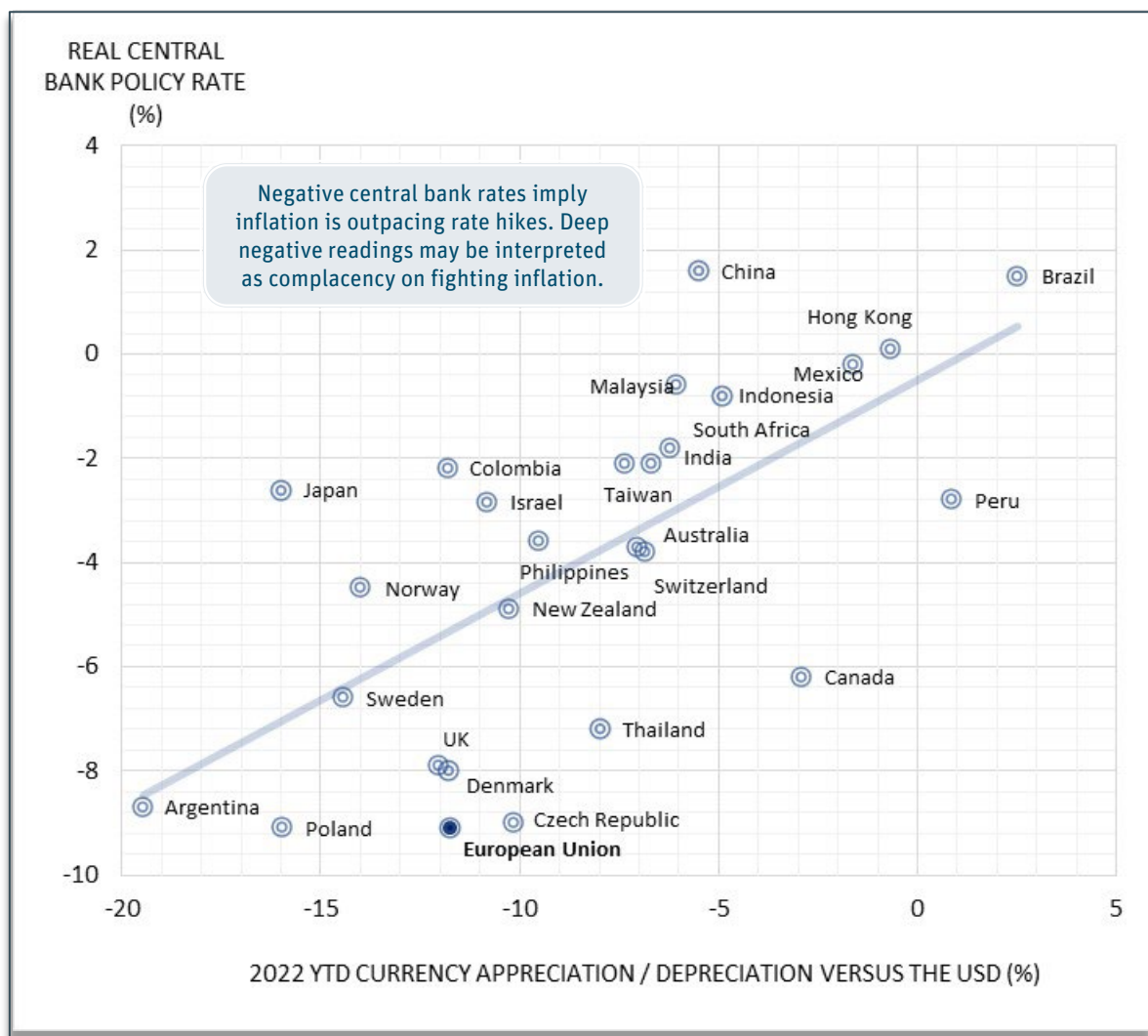
## 2. Euro area inflation, however, not lagging – one of the highest among developed economies



Source: Bloomberg. Data through 7.22.2022

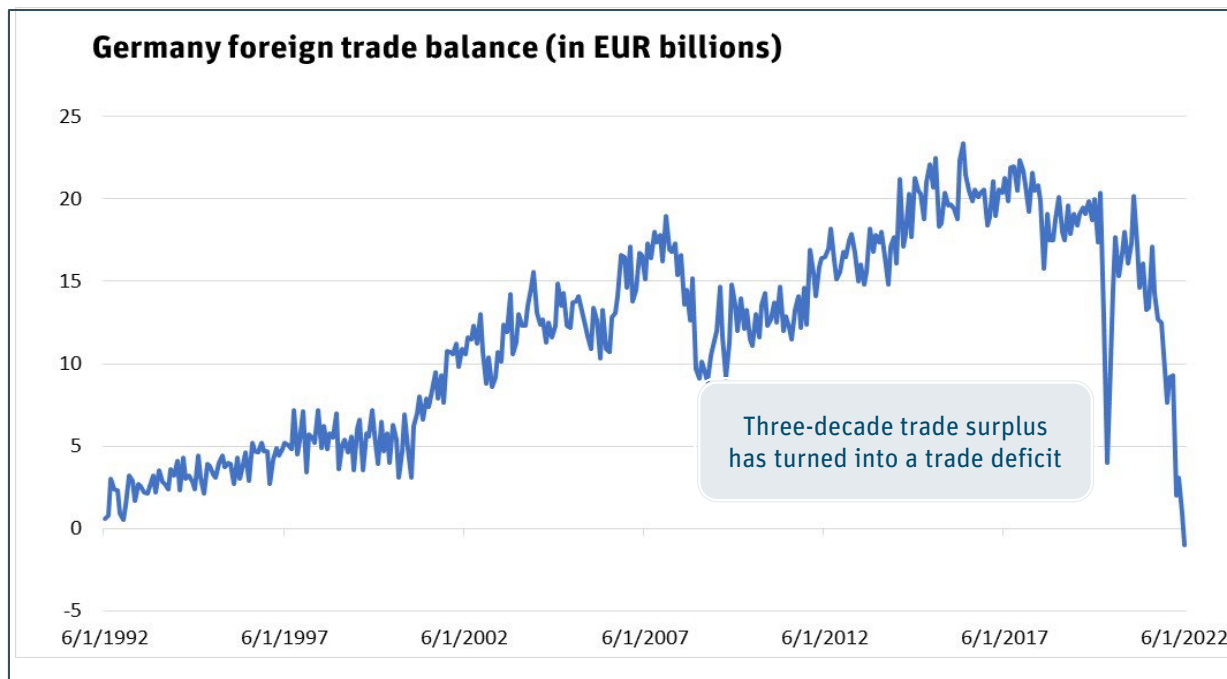
# Euro hits parity

3. Central banks perceived to be behind the curve on fighting inflation are facing downward pressure on their currencies



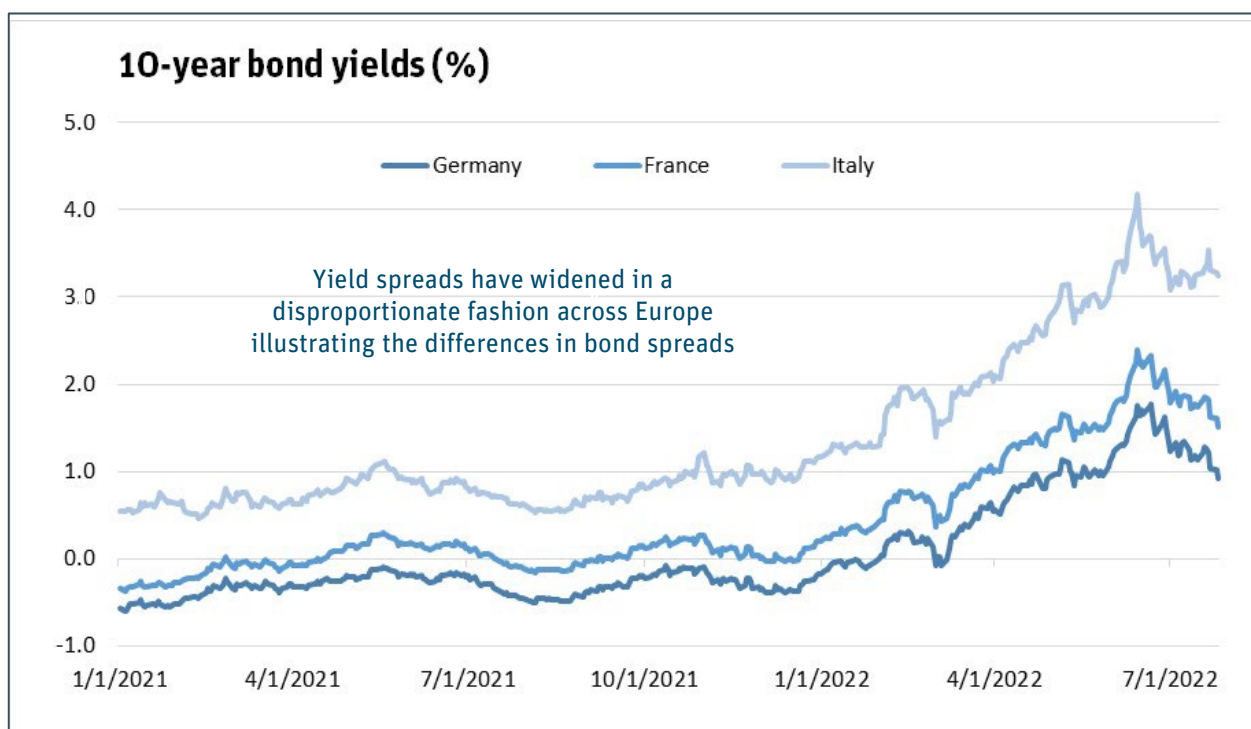
Source: Bloomberg. Data through 7.22.2022

**4. Disruptions to the energy supplies of Europe's largest economy stemming from Russia-Ukraine war have led to a sharp deterioration in trade activity**



Access to cheap energy from Russia contributed to Germany's competitive advantage in the exports sector. Lower exports results in less demand for euros, thereby resulting in downward pressure on the currency. Source: Bloomberg. Data through 7.22.2022

**5. Euro-area still very fragmented, so ECB will likely have a greater challenge in reigning in inflation while engineering a soft-landing**



Source: Bloomberg. Data through 7.22.2022

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