

**November 2011**

### Month-end Exchange Rates

	October 31, 2011	November 30, 2011
EUR/USD	1.39480	1.346150
USD/JPY	77.9750	77.63
GBP/USD	1.61410	1.5728
EUR/JPY	108.75955	104.50165
EUR/GBP	0.86415	0.8559
USD/CHF	0.87080	0.91015
USD/CAD	0.99325	1.01675
AUD/USD	1.06095	1.0273
NZD/USD	0.81210	0.7775

### Market Commentary – November 2011

Despite the USD sell-off in the last few hours on the final trading day of November, which followed the global central banks' co-ordinated lending support to European banks; the risk-off environment which had prevailed for most of the month, left the USD in positive territory vs. most crosses. Had it not been for this last minute USD sell-off, EUR would have ended the month at a 6 week low having been under pressure throughout the month as increasing concerns over the future of the Eurozone intensified. For the month, EURUSD fell 3.5%.

Although GBP reversed most of the gains it made against USD in October, falling 2.6% on the month, it did however manage to outperform EUR, ending almost 1% higher vs. the single currency. This was primarily due to its position of relative safety both from credit rating downgrades and also a more solid banking sector. USDJPY was little changed on the month (-0.4%) having gradually declined from the highs at the end of October following the Japanese authority's intervention. Investors and traders tested the MoF and BoJ throughout November as to their resolve for keeping the Japanese currency from appreciating significantly higher, and this combined with its safe-haven status as the political turmoil in Europe gathered pace. CHF also suffered during November, ending 4.5% lower against the USD and almost 1% down vs. EUR. Speculation as to whether the Swiss National Bank would lift the EURCHF floor kept the pair toward the higher end of the 1.20 – 1.25 range throughout. Domestic economic data in Switzerland continued to show signs of weakness whilst the leading indicators also pointed towards a relatively sombre outlook for 2012.

With risk-off dominating the markets for most of the month of November, it was no surprise that the so called "commodity linked" currencies were all pressured throughout. The AUD and NZD spent November in negative territory as the gains made in the previous month were slowly eroded. Heightened tensions in Eurozone and falling global demand (in particular from China and Europe) contributed to the negative sentiment towards these more risky currencies, with expectations of further rate cuts in Australia a feature (RBA lowered rates 25bps). There was a small rally in the last few hours of the month as the European situation looked closer to a resolution, but not enough to wipe out the month's losses. AUDUSD ended the month -3.2%, and NZDUSD ended -4.3%. USDCAD also ended higher, although the outlook for CAD seems quite positive as signs of US economic improvement and a potential pick up in risk appetites will help (USDCAD ended November +2.4% higher).

Having rallied in the last few days of October as it appeared the Eurozone politicians had reached an accord on how to proceed in an orderly way to deal with the Greek debt situation, November saw a reversal of this as the Greek PM took markets by surprise, announcing that a referendum should be held to ratify the EU / IMF bailout package. This immediately led to a retrenchment and reversal in risk appetites globally. Risk levels – and therefore the EUR – were put under further pressure as global economic data struggled to show signs of an improving outlook. Indeed a series of manufacturing PMI releases around the developed nations suggested a double-dip recession is more likely now.

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EUR was provided some relief as the US Federal Reserve Chairman Ben Bernanke suggested to the markets that they [Fed] were able and willing to provide further stimulus if and when necessary, whilst in EU, the ECB cut rates by 25bps and the Greek PM bowed to pressure and scrapped the referendum. As feared, however, the contagion from Greece spread to Italy mid-month, and the EUR came under renewed selling pressure as Italian bond yields spiked higher and Chancellor Merkel spoke of a smaller integrated EZ. Again, a small EUR rally followed, as the newly elected Italian PM, Mario Monti, introduced a sweeping programme of austerity measures and tax cuts, and the ECB purchased bonds in open market.

Global bourses and risk levels suffered more losses during the second half of the month with the USD and JPY benefitting from their "safe-haven" status and the EUR bearing most of the losses. Italian, Spanish and even French bond yields deteriorated as the Greek government failed to put in place adequate measures to allow the IMF / EU austerity measures to be met leaving markets with further uncertainty. Weak industrial orders data and a poor PMI report in the Eurozone, as well as a failed German bond auction, heightened the flight to quality with both USD and JPY pushing higher against the ailing EUR and other crosses. Further exasperating the situation was a downgrade to Belgium and Portuguese sovereign debt and a warning to France that their AAA status was at risk.

As noted above, the last trading day of the month saw some reversal of the EUR weakness that had prevailed throughout November with a heavy USD sell-off. The markets were taken completely by surprise as the world's central banks, led by the US Federal Reserve, announced a co-ordinated programme of USD liquidity provision to European banks, with rumours that one bank was on the verge of collapse. As a consequence global stocks and risk appetites rallied strongly, with the USD falling, but not enough to offset the strong performance that had been made earlier in the month.

Although the measures taken by the central banks may have temporarily helped, the markets will continue to deteriorate as EU politicians procrastinate over the longer term solution for the mounting EZ debt crisis. On the one hand, a short term solution is required to shore up banks and to ensure governments continue to have adequate finance to continue operating; whilst on the other hand, a longer term structural plan needs to be put in place quickly to ensure such a situation never occurs again. With 17 separate Member States involved, the longer term plans are proving more difficult to negotiate, however, for the sake of market stability, it is this that is vital to be resolved as quickly as is practicable.