

August 2009

Month-end Exchange Rates

	July 31, 2009	August 31, 2009
EUR/USD	1.41775	1.43505
USD/JPY	95.195	92.765
GBP/USD	1.65785	1.6298
EUR/JPY	134.96275	133.12245
EUR/GBP	0.8552	0.8805
USD/CHF	1.07625	1.05685
USD/CAD	1.0811	1.09825
AUD/USD	0.83135	0.84305
NZD/USD	0.65835	0.68575

Market Commentary – August 2009

USD continued to see some selling pressure against JPY and EUR in August, following declines in July, although perhaps exaggerated to a degree by the very thin holiday affected volumes. GBP was an exception, declining against USD as well as EUR and JPY. For the month, USD fell 1.2% and 2.6% against EUR and JPY respectively, whilst GBP was down 1.7% against USD and nearly 3% vs. EUR. Year to date, however, GBP has had one of the best performances of the majors with GBPUSD up 13% and appreciating almost 9% vs. EUR. In contrast, EURUSD is 3% higher, whilst the JPY has fallen 2% against USD.

US Dollar started on a stronger footing at the beginning of the month with US data in particular appearing to raise expectations Fed rate hikes may come sooner in 2010 than previously forecast. However, towards the later part of the month USD came under pressure as risk appetites, global bourses and commodities all appeared somewhat stronger – although the last few trading sessions of the month saw both USD and JPY somewhat stronger as China announced the potential imposition of investment restrictions in certain key economic areas putting downward pressure on risk appetites. In addition, earlier expectations for future rate increases were dampened with the Fed announcing that rates were likely to stay at current levels for the foreseeable future. USD continued to lose ground as several key economic indicators disappointed – retail sales fell 0.1% (vs. estimate of +0.7%), initial jobless claims rose a further 4k and US business inventories declined 1.1% in June. As noted earlier, thin markets due to summer holiday season may have lead to exaggerated intra session moves as the previously held pattern of risk appetites reacting to data releases and then subsequently translated into stock market and commodity price moves, saw USD (and JPY) ebb and flow throughout the later part of August with USD ending the month moderately weaker against both EUR and JPY.

Japanese Yen started the month weaker as risk appetites and global bourses were generally positive on the back of global data releases. As the month progressed, Japanese domestic data also showed signs of improving, or at least stabilising from previous weak conditions, leading to a rebound in the Japanese currency. Upward momentum was further supported by a general struggle for global stock markets to hold on to previous strong performance.

EUR appeared to find support during the month, as has been the case over the last few months, from stronger EZ economic data, with the mid-month release of better than anticipated PMI and ZEW reports both pointing towards a healthier than expected economic recovery. A note of caution part way through August from ECB's Trichet does not seem to have dampened expectations too much, with market participants rather taking their lead from data releases such as Q2 GDP (+0.3%) for France and Germany indicating both economies had moved out of recessionary conditions.

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As noted previously, GBP came under pressure during August predominately from a surprise weak house price indicator as well as the continuing deterioration in public finances, with the latest MPC minutes showing the most recent decision to increase quantitative easing was split, with several members calling for an even greater increase to that which was decided. Despite this, the major influences on GBP continue to be the improvement (or not) in economic conditions, and in particular the housing sector which appears to have bottomed in terms of declines. In conjunction with this is the unwinding of previously held tight credit conditions as banks restart lending both at a retail and corporate level. Further QE measures, however, could undermine this improving picture. On the horizon is the prospect of political gyrations over the next 9 months as the UK heads towards a general election next May. This could certainly lead to some temporary increase in volatility for GBP as the markets digest the rhetoric. In the next few weeks, the major political parties will be setting out their stalls in the forthcoming annual conferences which should give market analysts an opportunity to assess the potential longer term effects on the economy – in particular, how each party will deal with the burden of public debt brought about during the recent economic crisis.

AUD, CAD and other commodity based currencies came under pressure early in the month as a general commodity sell off took hold. However, as risk appetites improved over the later part of August, and with it higher commodity prices, these currencies rebounded. AUD also took comfort from comments of RBA Governor who stated that the “bank would ultimately raise rates from current “emergency” levels, and normal rates were considerably higher than current conditions”. Some profit taking during the last week of August left the AUD off its highs for the month, but nonetheless up vs. USD. CAD also weakened slightly due to profit taking, and was further pressured by release of Q2 GDP showing an annualised decline of 3.4% with Q1 being revised lower as well. This left the CAD weaker on the month vs. USD.

Economic data releases over the coming months will continue to be the catalyst for further movements, with direction influenced by the strength or weakness of economic improvement. As analysts and market participants assess the continuing improvement in global conditions, and risk appetites show further signs of improving, the EUR and to a lesser extent the USD should benefit. JPY may be pressured as the new government begins to release details of its spending and taxation plans in the coming months. As noted last month, the focus may gradually shift towards inflationary pressures emerging and thus the future interest rate policy from the major economies of US, EZ, UK and Japan.

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