

November 2009

Month-end Exchange Rates

	October 30, 2009	November 30, 2009
EUR/USD	1.47545	1.50135
USD/JPY	90.52	86.145
GBP/USD	1.64835	1.6411
EUR/JPY	133.55775	129.3338
EUR/GBP	0.8951	0.9148
USD/CHF	1.02425	1.00425
USD/CAD	1.0772	1.05425
AUD/USD	0.9036	0.91535
NZD/USD	0.7229	0.71525

Market Commentary – November 2009

USD lost further ground in November against EUR, as risk appetites continued to move higher with optimism for sustainability of global growth taking a firm hold. US currency also lost significant ground against JPY, mainly in the last week, reversing gains made the previous month. A flight to the relative safety of Japanese currency followed the Dubai credit crisis which emerged towards month end. In addition, JPY also benefitted from firmer global stock markets which in turn followed good US housing and labour market data and subsequently saw a USD sell off.

EUR was once more the beneficiary of a weaker USD but also continued to gain momentum from the emergence of strong tier 1 economic data across the Eurozone. Capping upside potential for the single currency in the last days of the month, however, were comments from French Finance Minister that the EUR strength is already beginning to impact EZ exporters – a situation similar to that in Japan where the government has already noted they are looking closely at recent fx movements, and would take appropriate action if they thought it necessary.

GBP remained locked into a narrow range as market participants continue to keep a close eye on Bank of England policy decisions, and in particular any signs they [BoE] may increase the quantitative easing measures established earlier in the year to pump much needed liquidity into the credit markets and economy. For the month USD ended -1.7% vs. EUR and -4.8% vs. JPY, with just a small +0.4% gain vs. GBP.

AUD and CAD also had a positive month vs. USD with AUD +1.3% and CAD +2.1%. AUD has already seen improving domestic conditions and strong economic outlook translate into 2 rate hikes since early October. With the RBA increasing further their economic forecasts, and at the same time confirming the move to “normalisation” of rate policy will continue for the foreseeable future; AUD has benefitted significantly (note RBA raised rates 25bps for a 3rd time on December 1st to 3.75%, confirming this relatively aggressive policy).

Both the USD and JPY had a poor start to the month having had a brief rally on the last day of October. A stronger Wall St on the back of better than expected US data once more saw risk appetites improve and a move away from the safety of USD and JPY. On the data front, US pending home sales rose 6.1% mom whereas the market had been expecting a flat reading. US manufacturing pmi was also stronger than anticipated as was construction spending in the US as well. USD continued to track the well established pattern of a funding currency - falling on rising risk appetites (accompanied by rising global bourses), as consensus continued to build throughout the period for sustainable domestic and global recovery. G20 statement added to this positive growth / negative USD tone stating that they would collectively continue to stimulate world economies until recovery was fully established. The final confirmation that USD could see further weakness going forward, came following the APEC summit in which US and China failed to

Disclaimer: This document may not be copied or distributed or passed on, directly or indirectly, to any person without the express written consent of Overlay Asset Management. This document is issued by Overlay Asset Management. An investment manager registered with the "Autorité des Marchés Financiers". This information does not constitute or form part of an offer document or any offer or invitation to subscribe for or purchase any securities, or derivatives thereof, nor shall it or any part of it form the basis of any contract or commitment whatsoever. You should seek your own legal and taxation advice in relation to investments in the proposed funds structures presented. This report is prepared for professional investors and is not intended for private or retail customers and should not be passed on to any such persons. Past Performance is no guarantee of future results, the value of an investment can go down as well as up.

November 2009

agree about the Yuan strength, as Fed Chairman Bernanke stated that they [Fed] were watching the USD closely and remain committed to job growth and inflation containment, and thus suggesting rate policy will remain on hold for the foreseeable future. The remainder of November continued with USD generally weaker although the last few trading days saw a flight to USD safety as risk appetites and global stocks plunged on the news of Dubai credit default concerns, and USD strengthened moderately. Following the UAE commitment to the region and in particular Dubai, old patterns reemerged as risk appetites returned to the markets.

The turning point for JPY during the month, where it appears to have decoupled from shadowing USD pattern with respect to rising and falling risk appetites, came towards the middle of November when encouraging signs of Japanese domestic growth emerged. Q3 GDP data proved slightly stronger than expected, increasing 1.2% qoq – the fastest pace in 2 years. With no comments from the Finance Ministry on recent yen strength, the currency pushed through a 14 year high vs. USD towards month end. Indeed the deputy Finance Minister added to this by stating they [Fin Min] were not considering intervention at this point.

As noted earlier, the EUR has once more benefitted from the weaker USD environment as well as the continuation in general economic improvement across the Europe wide zone. This was tempered slightly by the concerns expressed during the month by the French finance minister that the EUR strength was already showing signs of having an adverse effect on European exporters. Also undermining the single currency during November was a resurfacing of potential banking sector worries, in particular West Landesbank. It was announced that European banks may need to sustain a further €400 billion in losses as a result of the recent credit crisis.

Elsewhere GBP had a quieter month in November than the previous month. Some downward pressure was seen early on as the rating agency Fitch commented that UK sovereign rating was at risk due to the poor fiscal position. This came at the same time as the latest trade balance was released showing a further deterioration in the deficit to £7.194 billion. On the positive side, and offsetting some of the negative effects from the aforementioned, was the release of slightly better data in the form of retail sales which showed an improvement to a 2 year high, as well as the RICS housing price balance which moved to levels not seen since December 2006. Overshadowing Sterling remains the question of whether the BoE will act further with more QE measures. Certainly the market took Governor King's comments, that they [BoE] remain open to further moves should the recovery not materialise decisively, as an opportunity to maintain downward pressure on the currency.

The outlook for the next month or so, as we move into the last few weeks of the year and enter the liquidity constrained holiday season, will most likely see similar trading conditions to November – namely a range bound environment with choppy intraday trading dominated by the ebb and flow of investor risk appetite. The next quarter will most likely be dominated in the most part by the release of Q4 data, especially the consumer spending over the holiday season, as well as close scrutiny on the central banks' policy meetings.