

June 2010

## Month-end Exchange Rates

	May 31, 2010	June 30, 2010
EUR/USD	1.22705	1.22490
USD/JPY	91.035	88.490
GBP/USD	1.45295	1.49610
EUR/JPY	111.7045	108.39140
EUR/GBP	0.84455	0.81875
USD/CHF	1.15535	1.07835
USD/CAD	1.04935	1.06265
AUD/USD	0.83875	0.84465
NZD/USD	0.67360	0.68765

## Market Commentary – June 2010

June saw USD begin to give up some of the recent strong performance seen in Q1 as well as April and May, especially against EUR. In contrast to May, where market conditions were amongst the most volatile since late 2008 as risk appetites shrank across global financial markets, the last month of Q2 was relatively calm with some risk appetite returning. The exception to this relatively calmer market performance was Swiss Franc which appreciated almost 10 big figures against EUR over the course of June and a similar amount for Q2 as a whole – this translated into an almost 7% move for CHF vs. EUR over the month and quarter (and similar moves vs. most crosses). Having recently been intervening in the markets during the course of Q2, the Central Bank (Swiss National Bank) chose to scale back its activities during June and eventually stopped all together - the rationale being their view that deflationary pressures had subsided and no longer presented such a high risk to the economic recovery.

USD started off the last month of Q2 in resilient form as US economic data showed continuing signs of strength with construction spending and manufacturing ISM both surpassing expectations; and indeed even upstaged the impressive German unemployment data which fell a surprise 45k over the same period. However, as the month progressed, and risk appetites started to gradually return in line with a rebound in global stocks and commodity prices, USD came under pressure. Downward USD momentum was also aided by poor US data (US jobless claims and Philly manufacturing data both disappointed), but the big news came after markets had closed and as China announced the “further reform to the exchange rate regime and enhance exchange rate flexibility” – in other words the end to the USD peg that has been in place for over 2 years. USD remained weak throughout the remainder of June as further signs poor economic data overshadowed. For June, USD ended just 0.2% up vs. EUR and fell 2.8% vs. JPY; leaving the US currency 9.3% higher, and 5.3% lower vs. the EUR and JPY respectively over Q2.

Having started the last month of Q2 where it left off in May, EUR continued to come under pressure from economic weakness (EZ retail sales fell 1.2% mom). More concerning was the emergence of what appeared to be a fresh wave of banking sector problems. ECB sent out a warning to the market that EZ banks may face a €193 billion write-down by 2011, whilst the Hungarian government announced that it too may face similar fiscal problems as had recently been seen by Greece, and which had put the market in turmoil since the turn of the year. However, over the course of the last half of June, EZ data appeared more resilient (solid IP) and several national bond auctions were better received than had been feared (allaying any funding fears). By month and quarter end, even the banking woes had receded as it emerged the financial community would not need to call on as much of the €442 billion ECB liquidity renewal facility as many analysts had previously suggested. The biggest move over the course of Q2 has been in EURJPY which has fallen 14.3% over the period with the bulk of the movement (-10.6%) occurring in May when risk appetites dried up due to the renewed focus on the Greek debt crisis causing global fx and security markets to tumble heavily and flight to relative JPY (and USD) safety.

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 “Autorite 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.

**June 2010**

With a new Prime Minister in office during June and firmer Japanese data, JPY overcame slight gains in global bourses as risk appetites recovered moderately. Rather, market participants focused on the new PM signalling that his government was determined to confront Japan's huge debt problems, just as other G20 countries have been indicating in recent weeks. JPY was approximately 3% stronger vs. both USD and EUR during June and moved 5.3% and 14.3% higher against each currency over the second Quarter.

Sterling was dominated throughout the first month of Q2 by the closest government election in almost 60 years. With markets more inclined to a Conservative government being able to tackle the large public deficit more effectively than the other mainstream parties, GBP held up well in the pre-election run-up in April. Following the early May election GBP was left weaker as the political uncertainty leading up to the May general election turned to political limbo as no clear political party were able to form a government on their own, leaving the uncharted territory of a coalition being formed by the first and third parties (Conservative and Liberal Democrats) – a union not seen for over 50 years. As promised in the joint communiqué from the coalition, their primary policy was set out to effectively, decisively, and quickly tackle the budget deficit; and therefore an emergency budget was presented to Parliament during June. It would appear that not only the market analysts, participants and investors received the austerity measures favourably, but it would also appear that the rating agencies have also given UK Plc some breathing space in the near term at least. For the month, GBP appreciated 3% against both EUR and USD, whilst the quarter saw Sterling fall a little over 1% vs. USD but move up over 8% against a weaker single currency (EUR).

As noted previously, risk appetites, having been significantly reduced during the middle month of Q2, had a modest rebound in June. As a result, those currencies which traditionally benefit from such upward movement (and likewise tumble under risk averse conditions as was the case in May) had a stronger month. AUD, and NZD benefitted in part from the rising commodity prices associated with better economic activity as well as rising risk appetites. In addition, and in respect of the regionality of both China and Australia, AUD also benefitted following the removal of the Yuan peg. Although Australian domestic data has been strong throughout Q2, leading to several rate increases by the central bank, June's data was somewhat disappointing thus rates were left on hold. Likewise, NZD also took its cue from the NZ central bank who raised the OCR for the first time since April 2007, lifting NZD. April and June's positive moves were not enough, however, to offset the very heavy falls that each currency sustained in May as shrinking global risk appetites and heightened market volatilities played their part. For the month, AUD managed a 0.7% rise vs. USD, whilst NZD strengthened by 2%. Q2 saw each currency fall 8% and 3% respectively vs. USD, all of which occurred in May.

CAD by contrast did not follow its "commodity like" partners, and instead added to the losses seen in May. Weaker economic data was the primary driving force behind the fall, with the strong retail sales, released in May, reversed by June's release. In addition, the announcement of a weaker April GDP than had been expected also put downward pressure on CAD as market expectations for a near term rate hike were paired back. CAD finished the quarter almost 5% weaker vs. USD, having fallen 3.6% and 1.6% in May and June alone.

The outlook remains mixed, especially as we head into the summer holiday season and what is traditionally regarded as a lower market volume period. Of concern will be the recent trend in weaker than expected US and EZ economic data, with hints that some analysts are now beginning to talk about a "double dip" recession. This will have a consequent negative effect on USD. Likewise, there are concerns that the continuing fiscal situation in many major developed economies, and the austerity measures that governments are beginning to put in place, may have a detrimental drag on economic growth. Asia (ex Japan) remains a region that perhaps is countering this situation, with many people looking to China to continue increasing demand for US and EZ goods and thereby stimulate growth. Of concern, however, is the latest reading from China which shows Conference Board revised China's April leading indicator sharply down from previous reading of 1.7% to 0.3%. China manufacturing PMI dropped more than expected to 52.1 in June, adding to sign that China's fast growing economy maybe cooling which in turn could be highly problematic for US and other dependant economies.

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.