



US growth and Fed tapering to boost dollar in 2014

The DOLLAR INDEX At the beginning of the year was slightly below 80. It reached a yearly high of above 84.3 in July 2013 as US Fed indicated it would begin tapering of its quantitative easing. However, the dollar index fell as Fed tapering fears eased and US debt ceiling issues came to surface. In Oct 2013, dollar index fell below 80 on account of US government closure. The recent US economic data is positive and the US Fed has also announced quantitative easing tapering in December 2013 with \$10 billion trimmed equally from mortgage-back securities (MBS) and treasury bonds. US economy expanded at annual rate of 4.1 per cent in the third quarter of 2013. IMF has also raised its growth outlook for US economy as a budget deal in Washington and the Federal Reserve's plan to reduce its bond buying eased doubts about the future. The dollar is above 80 and will receive a boost in 2014 mainly on account of revival of growth in US economy and tapering by US Federal Reserve.

The euro was equal to \$1.32 at the beginning of the year and fell to a yearly low of \$1.27 in March 2013 on concerns of euro crisis and Cyprus bailout. It touched an yearly high of \$1.38 in October



The Japanese yen is now below 105 against the US dollar and is expected to further fall in 2014. — Bloomberg

2013 mainly on account of US government closure, recovery in Germany exports and signs of economy recovery in the eurozone and currently is above \$1.37. Euro zone growth of one per cent is expected in 2014 and hence euro could strengthen however strengthening of US economy can prevent significant rise of euro against the dollar. The pound was equal to \$1.61 at the beginning of the year and came

to a yearly low of \$1.48 against the dollar in July 2013 on concerns of Fed tapering. Pound continued to recover in the second half of 2013 as Fed tapering fears came down and improvement was witnessed in UK economy. Pound is currently above \$1.64. Pound strengthening can happen in 2014, however, a significant surge may not happen on account of Fed tapering and recovery in US economy.

The Japanese yen was 86.62 against the US dollar at the beginning of the year and has fallen by more than 20 per cent this year after implementation of Abenomics. It is now below 105 against the US dollar and is expected to further fall in 2014 to enable recovery of Japanese economy. At beginning of the year AU\$1 = 1.04 and it has fallen by close to 13 per cent this year and touched an all-time low of 68.8 against the dollar in August

2013. However the measures taken by RBI, improvement in current account deficit and the deterrent of Fed tapering enabled rupee to recover and till date it is down by more than 12 per cent. The Chinese yuan was at 6.25 against the dollar at the beginning of the year and had gained by more than two per cent this year. The Brazil real was at 2.05 against the dollar at the beginning of the year and touched an yearly low of 2.45 against the dollar in August 2013 on concerns of Fed tapering. It recovered as Fed tapering concerns eased however it has so far fallen by more than 15 per cent till date. The Russian rouble was at 30.52 against the dollar at the beginning of the year and touched an yearly low of 33.51 against the dollar in September 2013 on concerns of Fed tapering. It recovered as fed tapering concerns eased however it has so far fallen by more than seven per cent till date. Except China other emerging market currencies will face challenges in 2014. Such economies will continue to work on various initiatives to prevent fall in their respective currencies.

The author is the group chief executive officer at Doha Bank. Views expressed are his own and do not reflect the newspaper's policy.