

**BANKING ON KNOWLEDGE**

# Will the dollar surge continue?

By Dr R Seetharaman

The US dollar index, which measures the greenback against a basket of six major currencies, was marginally down last week as investors took advantage of the pullback in US bond yields to lock in gains that have propelled the currency to a nearly 14-year peak. It closed at 101.490 by end of the week.

The dollar index has strengthened by close to 3% YTD. The strong US durable goods orders and consumer sentiment data last week bolstered the already heightened expectations that the Fed will keep tightening monetary policy to prevent the economy from overheating.

The dollar posted its biggest three-week gain versus Japanese yen since 1995 on hopes that the US interest-rate

increase next month is a certainty. The yen was at 113.22 against the dollar by end of last week.

The yen remains under pressure, as USD/JPY continues to trade at its highest level since March. The yen received no help from inflation indicators on Friday, as the economy continues to grapple with deflation. The BoJ has failed to kick-start inflation or boost growth, despite radical easing measures such as negative interest rates. Japanese policymakers have indicated that the government may resort to fiscal stimulus in order to increase economic growth.

The euro tumbled to a 20-month-low last week after the US economic data and was equal to \$1.0589 by the end of the week. The euro has weakened by 2.5% YTD.

The pound has come under pres-

sure against US dollar as US treasury yields continue to rise and pull up the dollar alongside. The pound was equal to \$1.2477 by end of last week and has weakened by more than 15% YTD.

The Swiss franc was at 1.0141 against the US dollar by end of last week and has weakened by close to 1.4% this year. The recent weakness is attributed to the dollar's strength.

Recently, the Australian dollar has embarked on a shallow recovery, as also last week, as expected. The move appeared to be corrective after two weeks of aggressive selling in the wake of the US presidential election. Markets speculated that the policies to be pursued by president-elect Donald Trump will be inflationary and require a steeper Fed rate hike path

However, it has weakened by more than 2% this year on concerns of slow-

down and recent strength in US dollar. It ended at 0.7443 against the dollar last week.

The Indian rupee was at 68.4725 against the US dollar by end of last week and had weakened by close to 3.5% YTD. It touched an year-low last week and recovered after the RBI's intervention and the marginal weakening of the US dollar.

The Russian rouble was at 64.8285 against the US dollar by end of last week. Despite the recent weakness against dollar, it has strengthened by more than 11% this year on hopes of economic revival in Russia.

The Brazil riyal was at 3.4141 against the US dollar and has strengthened by close to 14% this year on hopes of revival in economy.

The Chinese yuan was at 6.9188 against the US dollar by end of last week and



has weakened by close to 7% YTD. China has tolerated a weaker yuan since early October, right after its entry into the International Monetary Fund's elite group of reserve currencies, acknowledging that a cheaper currency is the price of using easy money to prop up the economy. However, the pace of depreciation has quickened since Trump's surprise presidential-election win sent the greenback soaring and emerging-market currencies tumbling.

The US dollar rally witnessed recently is mainly on account of hopes of rate hike by the Fed and speculation over fiscal stimulus to come from Trump. We need to wait and see how long will this dollar surge continue.

■ Dr R Seetharaman is Group CEO of Doha Bank.

