

## BANKING ON KNOWLEDGE

## US economic recovery acknowledged by rising dollar

By Dr R Seetharaman

The US economy added 321,000 jobs in November 2014, which is the latest sign that the nation is outperforming other economies throughout the developed world.

The unemployment rate remained at a six-year low of 5.8% last month. The US dollar index arose to 5 year-high after US job data, which backed the case for the Federal Reserve to lead global central banks in raising interest rates.

The US dollar index is above 89.4. It has surged by more than 11% this year on account of US economic recovery, Fed ending its bond buying programme and slowdown in the eurozone and Japan. The fall in oil prices also contributed to the strengthening of dollar. The dollar index has surged by more than 12% since July 1, till date. WTI has fallen by more than 35% since July 1 and is near \$65/ Barrel. Brent crude has fallen by more than 36% since July 1 and is near \$68/Barrel. Brent and US crude both remained near five-year lows on account of oversupply due to the US



shale boom and the recent decision by the Organisation of Petroleum Exporting Countries not to cut production. Natural gas is near \$3.7MMBTU and has fallen by more than 15% YTD. Natural gas recently declined after a government report showed a smaller-than-forecast drop in US inventories.

The euro is near \$1.23. It has fallen by more than 11% since the beginning of the year on account of slower growth and fear of deflation. The euro recovered marginally last week after the European Central Bank President Mario Draghi did not send as strong a signal about injecting more stimulus as the market had expected.

The British pound is around \$1.55. It has fallen by more than 6% since the beginning of the year on account of delay in economic recovery in the UK. The last month's US Job data further weakened the pound.

The Japanese yen was below 121 against the dollar after US Job data. It is now at a 7-year low against the dollar. It has fallen by more than 15% since the beginning of the year on account of easing measures pursued by the Bank of Japan and on account of Japan's recession in third quarter. The weak growth follows an increase in the country's consumption tax in April from 5% to 8%, which attributes as a leading cause of the recession.

The Swiss franc was at around 0.98 against the dollar. It has weakened by close to 10% since the beginning of the year on account of slowdown in Eurozone. Demand for Swiss goods is closely tied to growth in the European Union, particularly Germany, where business confidence reversed its six-month slide in November. The Australian dollar was near \$0.83. It has fallen by more than 7% YTD mainly on account of Chinese slowdown. It had



recently fallen after Chinese manufacturing activity slipped to its lowest showing since March and following the release of lower-than-expected third-quarter current account deficit.

The Chinese yuan is near 6.16 against the dollar and had fallen by close to 2% YTD. However, it has strengthened since June 2014. The People's Bank of China (PBOC) increased the currency's reference rate to 6.1320 per dollar on November 27.

The Russian rouble is above 53 against the dollar and had fallen by more than 60% YTD. Ukraine tensions and fall in oil prices have significantly weakened the Russian currency. The Brazil riyal was at 2.588 against the dollar and had fallen by close to 10% on account of slowing growth and rising inflation.

The Indian rupee was near 61.9 against the dollar. On a YTD basis, it has fallen by close to 2% against the dollar and has remained firm on account of stable

government in India and falling current account deficit.

Gold is near \$1,195/ounce and silver is at \$16.3/ ounce. Gold is down by less than 1% YTD and silver is down by more than 16% YTD. Both had fallen after better than expected US job data. Copper is at \$6,515/tonne and had fallen by close to 12% in 2014 on concerns of slowdown in China. Aluminum was at \$1977/ounce and China's Aluminum demand has weathered real estate slow down. Aluminum is up by more than 12% YTD in 2014. Nickel was at \$16,732/ounce and it arose after a court upheld a ban on exports of unprocessed ore from Indonesia, the world's biggest producer of the mined metal. Nickel is up by close to 21% YTD in 2014.

Wheat price at Nybot is \$5.94/ Bushel. It is recovering from a slump that sent prices to their lowest level in more than four years in September 2014. Corn at Nybot is \$3.95/bushel and prices surged

a bit because of the cold weather. It is unlikely that the crop will be damaged by the plummeting temperatures. However, the snow and wintry conditions could make it difficult for farmers to gather the crop. Soyabean at Nybot is \$10.36/bushel and it had marginally arose on cold weather. Corn slumped more than 14% this year and soybeans fell 21% amid prospects for record harvests in the US, the world's biggest grower. Wheat lost close to 8% as global production climbed to the highest ever, according to the US Department of Agriculture.

Cocoa prices have surged by more than 7% YTD and is at \$2890/tonne. Global warming and dip in cocoa production from the farms in Ghana put pressure on cocoa prices. Coffee prices surge by more than 46% YTD to \$180.10/pound on account of production losses in Brazil.

Sugar price is down by close to 15% YTD to \$15.14/pound on expectations that global production of the sweetener would continue to exceed demand.

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