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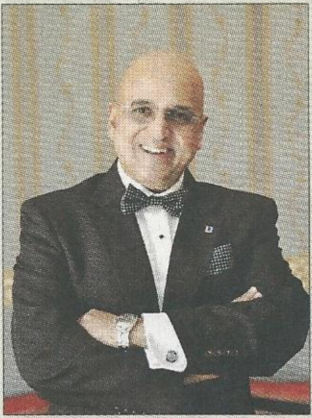
Banker's Take

Dollar rally continues as Fed meeting looms

By Dr R Seetharaman



The dollar index rose to a fresh 12-year high and closed at 100.330 by the end of last week, its first close above 100 since April 2003. US dollar has been strengthening after expectations of an interest rate rise in the US were bolstered by strong jobs figures last week. US added 295,000 jobs in February extending a labour market boom that is powering the US economy.

The unemployment rate fell to 5.5%, a new post-recession low, though part of that stemmed from a shrinking workforce. For 12 months in a row, the US has added at least 200,000 jobs.

The dollar index has surged by more than 11% in 2015. The index surged by more than 12% in 2014 on account of the US economic recovery as the Federal Reserve ended its bond buying programme. The producer price index of the US fell a seasonally adjusted 0.5% in February compared with January. However the weak inflation data failed to stem expectations the Fed will move to tighten monetary policy.

The euro was at 1.0496 against the dollar by the end of last week and had fallen to its weakest since early 2003 last week. The European Central Bank has just kicked off a massive bond-buying programme which can cause further euro weakness. The ECB has stated it would purchase sovereign debt from March until the end of September 2016, the new quantitative easing programme which will release €60bn per month. The euro has fallen by more than 13% in 2015.

The pound was at 1.4744 against the dollar by end of last week and it fell to a near-five year low against the US dollar after a dismal start to the year for the UK's construction industry. Construction output is now 3.1% below the level of a year ago, which is the first time that a year-on-year decline has been registered since May 2013. The pound has also came under pressure following remarks by Bank of England governor Mark Carney that pushed back expectations of an interest rate hike as the policy maker's guard against the threat of prolonged low inflation.

The Swiss franc was at 1.0056 against the dollar by end of last week, down by more than 1%. The franc did come under a pressure as Switzerland's unemployment rate was shown to have increased to 3.59% in February 2015.

The Japanese yen was at 121.40 against the dollar by end of last week and has weakened by more than 1% year to date (YTD). The yen skidded to 8-year lows against the dollar last week on expectations the Fed may raise rates as early as in June. The Bank of Japan left the cash rate unchanged at its most recent meeting and reaffirmed its commitment to its unconventional monetary policy, announcing it will buy local bond assets to the value ¥80Otn over the next year.

The Australian dollar was at 0.7637 against the US dollar by end of last week and has weakened recently on account of strong US job data and slowdown in China. It has weakened by more than 6% YTD. However it marginally rebounded following poor US retail sales data .The US retail sales data released overnight indicated a 0.6% fall for February, below the market expectation of a 0.3% rise.

The Chinese yuan was at 6.25 against the US dollar by end of last week. Chinese authorities continue to keep the yuan in a tight daily trading band against the dollar; the yuan has lost less than 1% against the dollar year to date.

The Russian rouble was at 62.23 against the dollar by end of last week and has fallen by more than 2% YTD. Last week, Russia's central bank cut its key interest rate by one percentage point to 14%, as concerns over inflation receded. However slow growth remains.

Brazil's real was at 3.2487 against the dollar by end of last week and has fallen by more than 22% YTD. The Brazilian real reached its weakest point against the dollar in 12 years last week as inflation continues to rise and political issues create uncertainty. The Indian rupee closed at 62.97 against the US dollar by end of last week. The rupee last Friday breached the 63-mark intraday against the dollar on sustained dollar demand from importers amid weakness in local shares.

The next Federal Open Market Committee will happen this week. Since December, the Fed has maintained it can be "patient" in raising interest rates, and it may remove the expression this week.

■ *Dr R Seetharaman is Group CEO of Doha Bank. The views expressed are his own.*