

# Dollar rallies on Fed rate hike hopes



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DATELINE**  
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**T**HE DOLLAR index has once again remained high as the US created 257,000 jobs in January versus an estimated 234,000 and the unemployment rate stood at 5.7 per cent. The strength of employment growth indicates that Fed may drop its 'patience' language in March 2015 and can start raising its policy rate by mid-year.

The dollar index has surged by close to five percent YTD and is at 94.59 levels. The dollar index surged by more than 12 per cent in 2014 on account of the US economic recovery as the Fed ended its bond buying programme.

Greece wants to renegotiate its bailout after the European Central Bank has increased pressure by banning the nation from using its bonds as collateral for cash. The eurozone central bank has a waiver that allowed Greece to swap its junk-rated debt for money. This expired on February 11. This move means Athens will now have to provide its banks with tens of billions of euros of additional emergency liquidity in the coming weeks at less attractive interest rates. Greece saw its credit rating cut by Standard & Poor's, warning the country's cash constraints could force it to leave the euro. S&P downgraded Greece to B- from B, one notch above default range, and kept the outlook on the nation at "negative", meaning further cuts to the rating are possible.

Eurozone finance ministers met at the Euro group gathering last week at which the Greek finance minister presented a comprehensive proposal. The euro is weak against the US dollar and is hovering at 1.13 US\$ levels as strong US employment data sent the greenback broadly higher, while ongoing concerns over Greece's future in the eurozone continued to weigh on the single currency. It has fallen by more than six per cent YTD on slowing growth, concerns of deflation and commitment from European Central Bank to a quantitative easing programme of at least €1.1 trillion in which it would buy sovereign debt and other financial assets to the tune of €60 billion a month from March 2015 to September 2016, and possibly beyond.

The yen fell against the dollar as a surge in US payrolls fuelled bets the Federal Reserve will raise interest rates sooner and it is hovering below 119 levels against the dollar. China's trade performance slumped in January 2015, with exports falling 3.3 per cent from year-ago levels while imports tumbled 19.9 per cent.

The Japanese yen may continue to rise as soft Chinese trade data and fears of Greece's exit from the eurozone fuel market-wide risk aversion.

The Bank of England interest rate decision produced no changes in policy, leaving the British pound without guidance intended to steer going forward. The markets will look to dispel this uncertainty as the central bank publishes its quarterly Inflation Report. British pound is at 1.52US\$ levels and will look to BoE Inflation Report for further direction.

Swiss franc is 0.9232 against the dollar. It has strengthened by more than seven per cent against the dollar YTD. Swiss franc has strengthened across currencies after the Swiss National Bank (SNB) abandoned the minimum rate of 1.20 francs against the euro in January 2015 to regulate its inflows.

The Australian dollar retreated and was at 0.7827US\$ as trade figures from China hit the market well under expectations, confirming fears of a slowdown in the world's second largest economy. Australian dollar has weakened by four per cent YTD against the US dollar mainly on account of hopes of strong US data and slowdown in China.

The Brazilian real was at 2.78 against the dollar and has weakened following disappointing economic data from top trade partner China. Latin America is one of China's top suppliers of raw materials such as iron ore, soybeans, copper and petroleum. A slowdown in the Chinese economy tends to reduce demand for Latin American assets. It has fallen by close to five per cent YTD against the dollar.

*The writer is group CEO of Doha Bank. Views expressed are his own and do not reflect the newspaper's policy.*

# 257,000

**JOBS CREATED IN US  
ECONOMY IN JANUARY**