

BANKING ON KNOWLEDGE

Dollar regains strength on Fed interest rate hike hopes

By Dr R Seetharaman

In the last week-end, the US non-farm payrolls data reflected that it had rose by 271,000 in October, while the jobless rate eased to 5.0% from 5.1%. This is the largest gain since last December. The robust report has improved the chances of the Fed raising rates before year's end, which would be the first increase in almost a decade and end seven years of easing monetary policy. Earlier last week Janet Yellen, chair of the Federal Reserve, said the US economy was performing well and that Fed might consider raising rates at their meeting next month. The dollar index regained strength and hit a high of 99.345 last week and ended last week at 99.168, its strongest since mid-April.

It was near 90 levels at the beginning of the year and is up by close to 10% YTD. The euro was at \$1.0741 by end of last week, it was near \$1.21 at the beginning of the year and had weakened by more than 11% YTD. The euro has already been under pressure in recent weeks on expectations the European Central Bank will beef up its stimulus next month. ECB President Mario Draghi has said the bank is considering more bond purchases or further rate cuts at its December meeting. The Pound was at \$1.5053 by end of last week, it was near \$1.5580 at the beginning of the year and has weakened by more than 3% YTD. The pound had fallen last week after the latest Bank of England inflation report indicated it was unlikely to raise rates soon. It also fell after better than expected US jobs data in October 2015.

The Japanese yen was 123.13 against the US dollar by end of last week, it was 119.84 against the US dollar by beginning of the year and had weakened by close to 3% YTD. The Bank of Japan recent meeting minutes expressed worries that the recent drop in crude oil prices could delay 2% CPI and blamed firms for a slow rise in wages amid record profits. Apart from the US jobs data, the slow growth in Japan and inflation pressures weakened the yen. The Swiss franc was 1.0054 against the US dollar, it was at 0.9943 against the US dollar and had weakened by more than 1% YTD. It had climbed last week to 1.0076 against the US dollar, after the strong US Jobs data, which is strongest since mid-March. The Australian dollar was at \$0.7043 by end of last week, it



was at \$0.8165 at the beginning of the year and had weakened by more than 13% YTD. The slowdown in Chinese economy had weakened the Australian dollar this year, also fell last week on

account of better than expected US jobs data.

Brazil real was at 3.7688 against the US dollar by the end of last week, it was at 2.6576 against the US dollar at the beginning of the year and had weakened by more than 41% YTD on account of slowdown in Brazil economy. The Russian rouble was at 64.5050 against the US dollar by end of last week, it was at 60.7355 against the US dollar by beginning of the year and had weakened by more than 6% YTD on account of slowdown in Russian economy.

The Chinese Yuan was at 6.3535 against the US dollar by end of last week, it was at 6.2077 against the dollar by beginning of the year and had weakened by more than 2% YTD on account of devaluation of yuan and



slowdown in Chinese economy. The Indian rupee was at 65.7625 against the US dollar by end of last week, it was at 63.0437 against the US dollar by beginning of the year and had weakened by more than 4% YTD on account of Chinese yuan devaluation and uncertainty over Bihar elections. The dollar index had touched an all-time 100.33 in March 2015 this year and it needs to be seen whether this dollar rally can continue to that level. The emerging economy currencies may feel some pressure in the near term on expectations of fed rate hike increase.

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