BANKING ON KNOWLEDGE

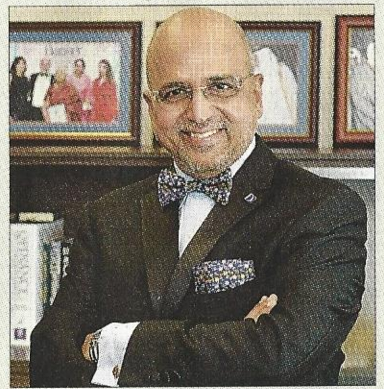
The rush towards safe havens amidst currency volatility

By Dr R Seetharaman

The US dollar index had closed at 98.956 by end of last week. It was flat this year and had surged by more than 9% in 2015 on US economic recovery and rate hike by Fed in December 2015.

Last week the demand for dollars also helped to lift the prices of US government debt — lowering yields — as well as high-quality corporate debt, as investors look for a safe haven to park them to receive an income. US GDP growth was at 2.1% in third quarter of 2015. The expectations of monetary tightening by the US Fed in 2015 were finally met when it hiked the rates in December. However, we need to see this year whether the Fed will realign its action in the light of Chinese slowdown and drop in oil prices.

The British pound was at $1.4258 by end of last week. It had weakened by more than 3% this year. The concerns



about Britain's future in the EU and a weak domestic economic recovery have weighed on the pound since the start of the year. It had fallen last week due to an unexpected deterioration in the United Kingdom's manufacturing sector. On an annual basis, manufacturing production fell by 1.2% in November 2015. British pound has weakened by more than 5% in 2015 on account of delay in expectations of rate hike by Bank of England (BoE).

The euro was at $1.0916 by end of last week. The strengthening of the euro recently was on account of the majority of European Central Bank (ECB) representatives talking against a further loosening of monetary policy. The euro had weakened by more than 10% in 2015 on account concerns of deflation in eurozone, slow growth and monetary easing pursued by the ECB. The ECB is buying €60bn-worth of bonds a month as a way of injecting cash into European banks.

The Japanese yen was at 116.98 against the US dollar by end of last week. It had strengthened by 2.68% this year. The yen has outperformed in times of trouble because of its widespread use as a funding currency. Yen had also witnessed a safe-haven buying. In 2015, yen had weakened by less than 1%.

The Swiss franc was at 1.0012 against

the US dollar by end of last week and had surged by less than 1% against the dollar this year. The traditional safe-haven, the Swiss franc has not benefited from the persisting risk-averse environment. The Australian dollar was at US$0.6864 by end of last week and has weakened by close to 6% YTD on concerns of slowdown in China. Australian dollar had also weakened by more than 10% in 2015 mainly on account of slowdown in Chinese economy.

The emerging economy economies currencies witnessed a fall this year on account of steep fall in capital markets due to concerns of Chinese slowdown and fall in oil prices. The Indian rupee ended last week at 67.6050 against the US dollar and had weakened by more than 2% YTD. The Chinese yuan ended last week at 6.5849 against the US dollar and had weakened by more than1.4% YTD. Chinese yuan devaluation had a bearing on both China and India as Indian rupee weakened on concerns it's exports could weaken.

Indian rupee had weakened in 2015 by 4.5% YTD on account of delay in reforms and rate hike expectations from the Fed. Chinese yuan had weakened by more than 4.6% YTD in 2015 on account of Chinese devaluation and slowdown in Chinese economy.

The Russian rouble was at 77.7049 against the US dollar by end of last week and had weakened by more than 6% YTD this year on account of steep fall in oil prices which are at new lows around $29 by end of last week. The Russian rouble had weakened by more than 25% YTD in 2015 on account of slowdown in Russian economy and fall in oil prices.

The Brazil real was at 4.0490 against the dollar by end of last week and had weakened by more than 2% YTD. Brazil real had fallen due to Chinese slowdown and its impact on commodities apart from domestic economy challenges. It had weakened by more than 47% YTD in 2015 on concerns of slowdown in Brazil economy.

The significant fall in global financial markets last week has contributed to the currency volatility which will continue with flow of funds towards safe havens such as the yen, US treasuries and gold.

- *Dr R Seetharaman is Group CEO of Doha Bank.*