BANKING ON KNOWLEDGE

Dollar movement restrained by US economic outlook

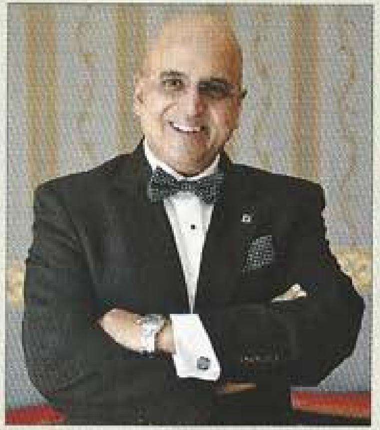
By Dr R Seetharaman

The Dollar index had fallen last week after Federal Reserve indicated that interest-rate increases will be slower — and that they're not yet "reasonably confident" that inflation is rising towards their target level.

But the dollar and Treasury prices rose last Friday, a sign some investors were seeking safety in those assets on concerns of Greece.

The Federal Reserve also lowered both its US growth forecast and its interest-rate projections at its policy meeting last week. The Federal Reserve projects the economy to grow 1.8% to 2% this year, well below range of 2.3% to 2.7% in its March forecast.

According to the 'dot plot', the central bank's median near-term interest-rate outlook was essentially unchanged at 0.625%, but its median forecasts for year-end 2016 and 2017 shifted down by



0.25% to 1.625% and 2.875% respectively. Dollar index had closed at 94.085 by end of last week. It had strengthened by more than 4% during the year on recovery in US economy and hopes of rate hikes.

The euro had closed at 1.1352$ by end of last week and had declined by end of last week on concerns of Greece. It had weakened by more than 6% during the year on concerns of slowdown in eurozone and ECB monetary easing action. Investors are looking to an emergency meeting this week where eurozone leaders will try to find a way to unlock aid for Greece.

The pound had closed at 1.5883 a dollar by end of last week and had surged by closed to 2% for the year. The pound was down slightly against the dollar after soaring to a seven-month high above $1.59 on Friday on hopes of bet on an early rise in UK interest rates.

Official data released earlier last week showed wages grew at a rate of 2.7% between February and April, the fastest rate since August 2001, and also outpacing inflation which is currently 0.1% in the UK.

If the pace of economic growth revives, as widely expected, the recent upturn in pay can put pressure to tighten policy looks set to build significantly as

we move into the second half of the year.

The Japanese yen had closed at 122.71 against the dollar by end of last week and had weakened by more than 2% this year. Last week the Bank of Japan (BoJ) announced it would improve the way in which it communicates policy decisions and economic forecasts in the future. However, there is little reason to believe the changes will have a meaningful impact on the Japanese yen through the near-term.

The Swiss franc had closed at 0.9175 against the dollar by end of last week and had strengthened by close to 8% this year. Last week the Swiss National Bank (SNB) stated it will maintain its policy of negative interest rates and penalties for holding Swiss francs in cash. The central bank said it will remain active in currency markets to keep the "significantly overvalued" franc down with foreign exchange valuations.

The Australian dollar had closed at 0.7772 a dollar by end of last week and had weakened by close to 5% against the dollar on account of slowdown in Chinese economy and hopes of rate hike by the US Federal Reserve.

The Indian rupee had closed at 63.56 against the dollar by end of last week and weakened by less than 1% in this year. It had recovered a bit last week after the fed meeting.

Brazil real had closed at 3.09 against the dollar by end of last week and had weakened by more than 16% this year on concerns of slowdown in Brazil economy.

Russian rouble had closed at 54.03 against the dollar by end of last week and had strengthened by more than11% this year. It had had collapsed last year as oil prices fell and contributed to slowdown in economy. It has recovered this year as oil price improved.

The Chinese yuan was at 6.20 against the dollar by end of last week and remained in a range this year.

The US dollar had touched an yearly high of 100 in March 2015 on hopes of recovery in US. However, the US economy had contracted by 0.7% in 1st quarter of 2015. With the Fed recently revising US economy's outlook, dollar's movement is restrained in recent times on account of change in US economic outlook.

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