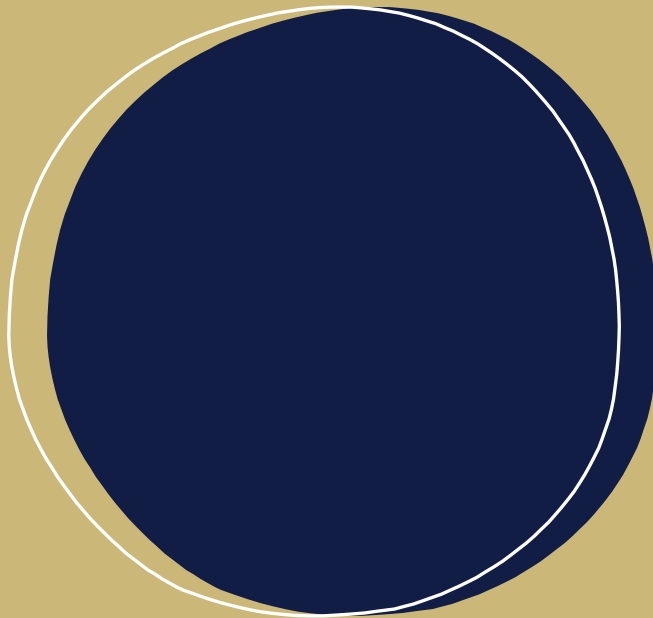


News from the financial markets

Trend reversal in the US dollar?

January 20, 2010





Trend reversal in the US dollar?

Oliver Schlumpf, Investment Strategist

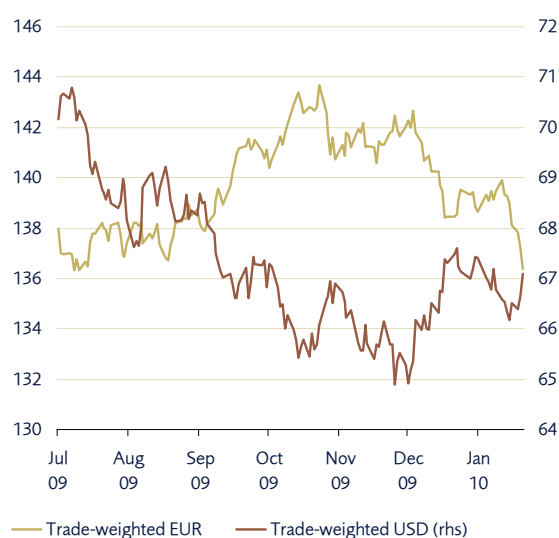
Already in December, the EUR/USD exchange rate corrected on the downside by roughly 5%. After a short recovery phase, the currency pair has now exited its sideways channel and is in the process of testing the 1.42 USD per EUR level.

The greenback's strength since December is largely a function of euro weakness: on a trade-weighted basis, EUR has simply been depreciating at a significantly faster pace than the rate at which USD is gaining ground. Discussions surrounding the national indebtedness of several EU member states, Greece in particular, have had a clearly negative impact on the euro – not to mention the bleaker economic outlook for Germany and what on the whole are less dynamic fundamental data.

Special factor: filling Ted Kennedy's Senate seat

In the special election to fill the vacant Massachusetts seat in the US Senate formerly held by the now deceased Edward M. Kennedy, the Democrats under President Obama were forced to accept a bitter defeat yesterday. With the election of Republican candidate Scott Brown, the Democrats have lost their strategically important 60-vote majority in the upper house. Thus it will be more difficult for the Democrats to force-through key legislative proposals – in particular, passage of the healthcare reform bill is now threatened. The related reforms, although planned as net neutral to the budget, would most certainly result in tax increases for the populace. And anyway, a deficit-neutral financing approach has been repeatedly called into question. A potentially watered-down reform bill, plus the fact that the passage of additional economic stimulus measures will tend to be more difficult now, has helped USD to mount an impressive rally.

Trade-weighted currencies



Sources: VP Bank, Datastream

Is this equivalent to a trend reversal?

The fundamental factors still argue in favor of a stronger dollar as the year progresses. More than anything else, US private spending could be good for a surprise and lead to noticeably improved economic dynamism on the other side of the Atlantic. At present, however, the dollar's strength is more a function of the euro's weakness. Therefore, owing to the special factors that can play a role in this regard, we are holding back on any adjustment to our appraisal of the situation.

The bottom line:

Various factors are currently influencing the EUR/USD exchange rate. Above all, the euro is having difficulty holding up. That being said, we expect to see a stronger US dollar by year's end. Thus we will of course be seeking opportunities to build up USD positions during the course of the year.

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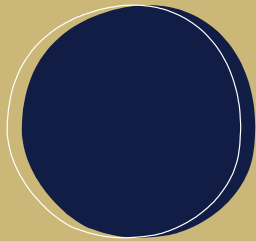
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