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"The Dollar's getting a new Boss"

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How good must Ben Bernanke feel at the moment? As soon as he was confirmed as the President's nominee for the new Federal Reserve Chairman, the US Dollar gained over a cent against the Pound. Now that's a welcome; fancy being so well received as to move the financial markets by that amount. He should feel very honoured especially when the current chairman, Alan Greenspan, is so well respected and his reassuring confidence will be sorely missed by many market participants when he departs the role in January 2006.

However, if Mr Bernanke thought he might get a lengthy honeymoon period, I fear he is sadly misinformed. The US economy is sprinkling mixed signals about the markets with gay abandon and he will be dropped firmly in the 4 metre end trying to make head and tail of the streams of conflicting economic data releases. For example, US citizens are carrying record levels of personal debt and saving historically low amounts as higher energy costs and rising housing prices have pushed inflation higher. This in turn has pressed the Federal Reserve into raising interest rates; making all those loans and credit cards costlier still and dampening consumer confidence.

But consumers are still sucking in imports at an alarming pace; keeping the US trade deficit as alarming as ever. Thankfully, the inward investment within the US by overseas investors is at record highs with last months \$91.3 billion easily covering the \$59 billion trade gap. These funds are almost universally finding their way into the treasury and bond markets as international investors seek interest rate returns. With the current Fed Chairman, Alan Greenspan constantly reiterating his mantra of hiking interest rates at a measured pace, higher interest rate yields in the US are almost certain. One thing that must concern Messers Greenspan and Bernanke and, for that matter, everyone else viewing the US economy, is what is likely to happen when US interest rates stop rising? Undoubtedly, inward investment flows will ease and that puts the trade deficit back in the spotlight. It may be that the Fed will need to keep raising rates for longer than they would wish in order to keep that demand for US bonds at the current levels.

US economic growth, at 3.5%, is still easily outstripping the UK and Europe. A large part of next year's growth will come from the ongoing expense of operations in Iraq and Afghanistan and the rebuilding process after this year's terrifying hurricane season. The fact that the price of oil is easing is seen as a positive for the economy and oil should continue to slide in the US as more of the Mexican Gulf refining capacity comes back on line.

So, if you pick through the details of the US economy, it would be hard to see the US Dollar doing anything other than strengthening in the near term and it seems obvious that the US Dollar should be in a downward trend against the Pound. Of course the other side of the equation is the UK economy and this could easily wrap you up in just as much debate.

The Bank of England is faced with a strange combination of subdued high street sales while inflation is rising and is already above the Bank of England's target of 2.0%. It isn't just the higher price of oil and gas that is keeping UK inflation above target; the fact that the UK retail sector has been under pressure for easily two years means that, sooner or later, prices had to rise and we are seeing some of that effect at the moment.

Adding to the complex picture is the news that the UK housing market is wobbling but has certainly not succumbed to the dire crash that many commentators foresaw two years ago. In fact there are flickering signs of life in the first time buyers market. Whether this influx will survive if the Bank of England has to raise interest rates to stem inflation is another question. When the BoE cut UK interest rates from 4.75% to 4.5% in August, traders were initially excited that it would herald further cuts but that fervour has been swept aside by increases in inflation. Today the debate amongst some analysts is not about which direction interest rates will head from here but how long it will be before we see the next interest rate hike.

The guiding light in foreign exchange



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So at a time when the US Dollar is looking like it should advance, the Pound looks set for a period of decline. The omens are not good for those needing to buy US Dollars unless they do so soon enough to avoid the consequences of a sharp fall in the GBPUSD exchange rate.

Sophie Stride is an FX Consultant with Halo Financial Ltd, a specialist foreign exchange company providing expert currency exchange services to both companies and private individuals. If you are at the start of buying an overseas property or in the process of buying currency to migrate, it is never too soon or too late to save money on foreign exchange. Halo Financial can be contacted on +44 (0)20 7350 5474 and their website can be viewed at www.halofinancial.com