

# US\$: The safe haven currency

The US greenback continues to hold its allure, perceived as a safe haven for many investors, according to **Sachin Patki**.

**W**e have been getting doses of bad news from the financial sector globally almost every day and we keep wondering how did it come to this? We see stories of incredible corporate greed, and at times of leadership napping while at the controls. The sheer noise has led many to believe that we may never see the return of better times, but given human nature, it is possible to believe again. Hopefully, this time hopes will rest on better leaders who will deliver.

The main culprit seen in recent times has been that of financial toxic pollution. The fact that it was hidden has made it even harder to believe that it could get so far. Small individual investors have had their savings wiped out, retirees have seen their incomes disappear. The social cost alone will take time to attend to, as consumers won't be easily fooled again.

The wipeout of financial institutions once perceived as infallible does show that financial models have changed. The corporate earnings season seems to have turned into an open season, given the number of CEO's we have seen leave unceremoniously; corporate results have been consistently poor, and any signs of reversal have raised statements of 'first shoots of spring'. Which may yet take some time to appear.

The global market forecasts are for the US economy to stay in the red for most of this year, with some potential to move back into positive GDP growth in Q4, 2009, with real growth seen only in 2011. Inflation raised by incessant printing of new notes is expected to drive the money supply to astronomical highs, which will impact asset prices, and push long term interest rates higher. The same is expected in the Euro-zone where GDP is expected to go into positive territory only in the second half of 2010, with 2011 seen as the first year of all quarters of positive growth.

The near term risk has also been seen in falling interest rates which could remove the risk/return positive motivation for financial institutions to lend to each other, as well as to consumers. Japan has seen all its key economic indicators in the red, and with global markets depressed for all its export industries. We do not see the economy on firm footing till 2011, given the right steps and stimuli by the authorities. The lost decade of the 90's in Japan is a grim reminder that only a positive view of the future can change matters, no matter how much stimulus the government provides. Emerging markets with larger populations of active consumption have fared much better with countries like China and India seeing their GDP growth rate still in positive territory this year.

The US dollar continues to find itself in a lot more wallets, ranging from central banks to retail consumers, due to the fact that it still remains the currency of safe haven, a key reason for its undiminished allure despite the lack of economic fundamentals. The recent correction in the US\$ may be the respite from the continued bull run which has seen the Euro slip to the lows near

1.2300 and the recent correction to the 1.3200 region give it some time to build a base for a rally. The chances for the Euro to touch recent levels of 1.4200 remain low, and a clear weekly close above the 1.3100 level may give rise to that possibility. A reversal would be seen with a drop below 1.3050 towards 1.2760, 1.2470 and 1.2140.



Sterling looks for a similar attempt near 1.4970/1.5080 levels to break higher towards 1.5315 and 1.5500. Unless we get a clear signal of this being a recovery rally towards 1.5500, sterling may slip back into lower range trading, edging lower to 1.4450, 1.4270 and 1.4010. A medium-term potential exists for a test of 1.3500 again, but it may be brief. The British economy has not yet flushed out all of the negative news from its system, and the longer it takes to tackle this issue, some of its key areas like real estate, inter-bank lending and retail spending may continue to remain below expectations. GBP/Euro remains hopeful of a rally towards 1.12500, with support near the 1.0500 level holding for now; failure to rise above 1.1570-1.1670 range would indicate that the rally does not have enough momentum as yet.

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Views expressed are the author's and not necessarily those of Mashreq. Data and comments are as of April 16, 2009.