

Investment Note

September 2009

A Weaker Dollar – Dollar “Bears” Have the Upper Hand

The US Dollar has fallen to one year lows!

Is it a coincidence that, as Gold breaks through the \$1,000 an ounce level, the US Dollar has fallen to its lowest level against many of its major trading partners in over a year? A report this week has suggested that some countries (particularly China) are, once again, diversifying reserves away from the US Dollar into Gold (and the Euro), thus helping to push the precious metal up to current levels. Statements from the United Nations suggest a multi-national reserve currency.



Whilst it is true that the Dollar certainly becomes the favoured currency in times of economic “stress” and, given the wave of optimism that has swept the equity markets, including a number of company and industry upgrades, one might suspect the currency will weaken as risk appetite returns.

Is a weak dollar a bad thing? Interestingly, several of the main proponents of the reserve diversification theory do not think so and have good reason to talk the Dollar lower. China’s currency, for example, is pegged to the Dollar; a weaker Dollar will make their goods cheaper in Europe (and other non-Dollar denominated countries). The oil producing nations (OPEC) crave a weaker Dollar, given a rise in oil demand and price that would likely follow. Russia, its economy in tatters and completely dependent on energy exports, would similarly welcome a lower Dollar. Even South Africa, Australia and other basic resource dependent economies would benefit from higher commodity prices that would ensue.

In the US also, exporters would welcome a lower Dollar as the cost of goods abroad falls. Additionally, any US firms with significant earnings abroad will benefit from the increase in their non-Dollar earnings. Of course, all international energy and basic resource companies would love to see a weak Dollar to return to the earnings nirvana they enjoyed in previous years. As long as US rates stay near zero and the US government easing is injecting new Dollars into the system, the Dollar should continue to fall against its major trading partners (as illustrated in the chart opposite). Add to this, the self-serving calls for a non-Dollar based reserve currency and one can anticipate that this weakness will continue, especially if market sentiment improves further. However, we all know that there are no guarantees in the financial markets and, should market sentiment falter, (possibly as investors again focus on fundamentals), the Dollar’s safe-haven mantle may rise again.



This document is not intended in isolation as an offer or solicitation or recommendation to use or invest in any of the services or products mentioned herein. Investors should be aware that the value of the portfolio and the income from it can go down as well as up so you may get back less than you invested. Past performance is not necessarily a guide to future returns. The value of investments denominated in foreign currency may fall as a result of exchange rate movements. The investments and services referred to in this document may not be suitable for all investors and, if in doubt, you should seek qualified independent financial advice. Any opinions, expectations and projections within this note are those of TAM International Limited, represent only one possible outcome and do not constitute investment advice. TAM International Limited is a subsidiary of TAM Asset Management Ltd and is regulated by the Financial Services Commission of Mauritius. TAM Asset Management Ltd is authorised and regulated by the Financial Conduct Authority in the United Kingdom.

For Further Information Contact:
TAM International Limited
 7th Floor, Wing B, Cyber Tower
 Ebene, Mauritius
 Tel: (+230) 454 6400
 Fax: (+230) 454 5413