



The Euro trading at all-time highs against the Dollar and ten-year highs against Sterling

Will this trend continue?

1 Euro = 1.49 Dollars or 0.75 Pounds

The Euro is continuing to strengthen against the US Dollar and having firmly broken out of its long-term trading range against Sterling (1.52 to 1.37) looks set to move even higher, in the short-term at least. The Dollar has been on a losing streak against most major currencies since it became clear that the US economy is in a recessionary environment. Growth forecasts have been cut and interest rates have begun to fall. The UK economy, through not facing the same recessionary forces as the in the US, has started to slow led primarily by a soft property market and fears over consumer credit. The Bank of England has temporarily put its inflation-fighting mandate on hold and is now looking to stimulate growth in the economy. UK base rates have already been cut once in December and look set to fall again in February.

By contrast the more diffracted Euro zone economy remains more robust principally from not having the same retail credit exposure, through is still susceptible further strength in the Euro hitting export growth and the indiscriminate global drag that a severe recession in US would create. Mixed messages from the European Central Bank indicate that interest rates may remain unchanged for a prolonged period of time. The most recent reading on Inflation has shows it is now at its highest level since 2001 strengthening the case for higher rates, but an expectation that the ECB may marginally lower its growth estimate (from 2%) for this year, and calls from export nations to curtail the euros rise may force inaction. Which ever scenario plays out we do not expect lower European interest rates until the second half of the year at the earliest.

This will leave the window open for the yield differential (difference in interest rates) between the Euro, the Dollar and Sterling to continue moving in the favor of the Euro and result in Euro currency maintaining its current levels or move even higher. We should never forget that the Dollar is not dead; if we succumb to a world-wide recession investors may well seek the perceived safety of the dollar with disregard for any negative fundamentals.

On balance, expect further Euro strength (after some consolidation) and on-going dollar weakness. We continue to monitor the implications for our multi-currency investment portfolios and will position them accordingly.

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EUR/USD Monthly Chart



EUR/GBP Monthly



Chart

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