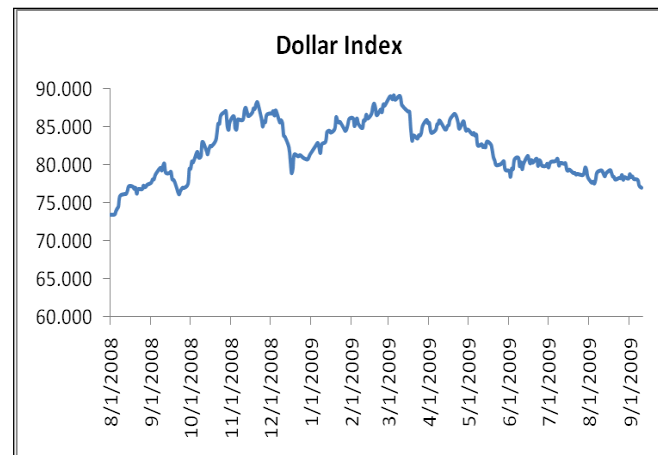


Greenback: No Longer Green

The dollar index, a performance measure of greenback against the six-major currencies of world, has been showing a downward trend for almost a year after seesawing. It is lingering at the same levels as it was almost a year ago though it has made a high of 89 on 9th March during this period. We, from here, see a further downside in the dollar index on account of burgeoning US trade deficit, huge borrowings and a slower recovery in the economy. Record-breaking deficits have raised concerns about America's ability to finance its debt and whether the United States can maintain its top-tier AAA credit rating. Dollar can also be questioned as a reserve currency on concerns that foreign central banks would reduce holdings of U.S. financial assets. However, the performance of other currencies in the dollar index basket can not be sidelined.

The recent crisis has put severe impacts on many world currencies and the dollar, the most common currency, is no other exception. The dollar was seen appreciating in the beginning of this year despite some negative news coming from the US but in the meantime, the other economies also reported negative economic data which caused their currencies to fall against the dollar. The dollar index gained in Jan'09 and Feb'09 by 5.08% and 2.25%, respectively. It fell by more than 6% in the month of May'09 when Euro, the heavy-weight in the dollar index, gained more than 10% against dollar followed by British Pound appreciating around 15%. There were some speculative factors also involved in this significant movement of dollar with a rise and the current fall.



The dollar started declining from July when it gave a monthly return of -1.62% and almost flat in August with nominal gain of 0.69%. Since, dollar index has now touched 76.98 levels today; it is a wake-up call for many investors to churn their portfolios as the month-till-date return of dollar index stands at -2.26%.

The greenback is finding no support which could give some boost to this currency. Major fundamentals and economic events are turning out to be a deterrent for the US dollar to stay upbeat. Depreciation of dollar could be attributed to many reasons. The uncertainties over the revival of the US economy are mainly triggering the dollar to decline.

The US GDP, coupled with other economic factors, is rebounding but still falling in the negative growth trajectory where it could contribute less to its currency. The personal income has been continuously falling since May 2009, followed by the consumer confidence remaining weak. The unemployment has become a big headache for the US government as it has reached to an all-time high of 9.7%, amid declining non-farm payrolls. Although, the inflation has been in check in the recent past but going ahead, it could rise on the back of widening trade deficit and huge borrowings for spurring the US economy.

Durable goods orders and factory orders although showed some recovery but are not supporting the overall economy. Housing, the sector which actually caused the economic mishap, is on the revival tracks with a healthy increase in existing home sales and new home sales. Existing home sales has risen to 7.2% in the month of July against 3.6% in June while new home sales have added another 50,000 new homes to the June month sales.

Federal bank has maintained the interest rates as low as to 0.25% since Dec '08. Rising interest rates create demand for the home currency which didn't happen in this case.

Impact of Countries planning to reduce reliance on American Dollar

Many countries are planning to reduce their reliance on dollar and diversify their foreign currency reserves. In this context, Russia and Brazil have already planned to buy \$20 billion of bonds from the IMF, hence cutting their investments in US treasuries. Russia stands 3rd in terms of forex reserves with a whopping \$413 billion, as on July 2009. The investments in dollar itself are valued at \$140 billion. China plans to buy \$50 billion and India may also announce similar funding.

The impact could be seen in the form of declining dollar on concerns that foreign central banks would reduce holdings of U.S. financial assets just as America sells a record amount of debt to finance a growing budget deficit and pull the economy from the deepest recession since the 1930s. This will result in the dollar's future questionable as a reserve currency.

The recent Updates

- ✓ The US president Barrack Obama revised the US trade deficit forecasts to \$9.1 trillion between 2010 and 2019 in comparison with \$7.108 trillion forecast earlier this year. These budget projections are now in line with the economic data expected.
- ✓ Mr. Obama has also increased U.S. marketable debt to an unprecedented \$6.78 trillion as he borrows to spur the world's largest economy. Goldman Sachs Group Inc. predicts that the country will sell about \$2.9 trillion of debt in the two years ending next September. The US government has started auctioning government bonds.
- ✓ The G-20 nations meeting came out with the declaration that they won't stop infusing liquidity into the system in the immediate future.

Technical Analysis: Dollar Index Spot

The Dollar Index prices were seen trading down from the past seven months after witnessing a recent high of 89.624 (March 2009). Overall it fell sharply by losing as much as 9.6% till today closing rate at 77.17 levels. Market has breached the support at 61.8% (77.928) and heading towards 76.4% (75.165) levels of the range 89.624-70.698. Prices are trading below the short term (10, 20) and medium term (50) EMA signaling downhill prices in the nearby term. However, if market fails to breach the support at 75.165(76.4%) may possible to trade in the band of 78-75 levels for short term. Conversely, on the higher side resistance is at 78.9 then 82 levels. Nevertheless, break below 75.000 could extend the corrections to previous low of 72-70 levels.



The momentum indicator RSI (14) monthly is trading at 0.43 levels and expected to test oversold zone before taking a pullback, where as MACD took a higher crossover on the trigger line and trading below the "0" median line showing further down fall in the prices.

Our Stance: We expect the ongoing correction to continue having crucial support at 75; breach of the same may extend the correction to 70 levels.

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