

# Washington strangely silent in face of dollar slide

AFP, Washington

The dollar's slide against the euro and sterling has left US authorities silent, with analysts saying the weak greenback may be a benefit for Washington and its preoccupation with Asia.

The dollar has been hovering near all-time lows against the euro and the British pound has risen above two dollars for the first time in 26 years, but this has generated no comments from Washington.

US officials "are not saying anything right now because they're not especially worried about the weakening of the US exchange rate given that it has yet to put unwanted upward pressure on Treasury bond yields," said John Lonski, chief economist at Moody's Investors Service.

Lonski said that low rates for US bonds mean there is strong demand for government debt and Washington is not forced to pay higher rates for borrowing.

"Given the deceleration of domestic spending, the US Treasury quietly approves of recent

dollar exchange rate weakness," he said.

The Treasury has not changed its public mantra that a strong dollar is in the nation's interest.

Market movements accelerated after last weekend's meeting of Group of Seven finance ministers, which repeated a phrase that exchange rates "should reflect economic fundamentals" and that excessive fluctuation is "undesirable."

The G7 had faced some pressure from Europe to deal with the weak yen, which is being used for so-called carry trades using low-cost loans in Japan.

But Washington and Tokyo had resisted any specific language on the yen, and the result has been further weakness in the Japanese currency. The dollar has been impacted by the shift into European currencies and amid concerns about softening US economic conditions.

David Kotok, analyst at Cumberland Advisors, said Washington appears more focused on the Chinese yuan in the face of a massive US trade deficit with China, and to some degree on the yen.

Kotok said the US administration "seems to make its noise in the direction of the Far East," but is silent about the yen "because the administration knows the Japanese are weaning themselves from a zero-interest rate policy."

In the United States and Britain, key rates stand at 5.25 percent. The main interest rate is at 3.75 percent in the eurozone and 0.50 percent in Japan.

Analysts expect the Bank of England to increase British interest rates by a quarter-point to 5.50 percent in May and further still before the end of 2007. Eurozone rates are also believed headed higher but traders expect US rates to go lower this year.

"The growth rate in Europe is higher or projected to be higher than in the US, and the growth rate in China is substantially higher," Kotok said.

"The strength of the currencies around the world are not determined by rhetoric, they are determined by economic variables, particularly the real interest rate," or the base rate minus the inflation rate.

Eric Chaney, analyst at Morgan Stanley, said the investment bank's calculations show the euro is 20 percent over-valued against the US dollar, 34 percent against the yen and 16 percent against the Swiss franc, with only sterling slightly overvalued against the single European currency.

"In the real world of financial markets, fundamentals matter only in the long term and deviations from fundamentals may last for long periods of time," Chaney said.

Some European officials fear the high euro may kill off the economic recovery by pricing the zone's exports out of the market.

But Chaney said eurozone officials "have already implicitly acknowledged that a weaker US dollar makes sense, in order to reduce the US current account deficit that they have identified as a threat for financial stability."

Analysts point out that the US trade deficit was cut in half between 1985 and 1995 during an earlier round of dollar weakness.



PHOTO: HSBC

Monirul K Liton, head of Sales of HSBC Bangladesh, and Sylvia Yong, director, Regional Marketing of Bumrungrad International Hospital, exchange documents after signing an agreement recently. As per the agreement, HSBC premier customers will enjoy privileged services and special discounts at the hospital. Officials from both the sides were also present.



PHOTO: TRIUNE LTD

Ismail R Chowdhury, deputy managing director of GMG Airlines, and Kazi Wahidul Alam, chairman of Dhaka Travel Mart 2007, sign a Memorandum of Understanding recently. Under the deal, the private airline becomes a premium partner of the 4th edition of the international travel fair scheduled for April 26-28.



PHOTO: APOLLO HOSPITALS DHAKA

Apollo Hospitals Dhaka recently signed a corporate agreement with NYK Logistics and Megacarrier Bangladesh. Under the deal, the hospital will provide medical services at special rates for the staff of NYK Logistics. Praful B Pawar, director (Medical Services) of the hospital, and Rashed A Ali, chief operating officer of NYK Logistics and Megacarrier Bangladesh, signed the deal on behalf of their sides.

## Toyota profits expected to hit new record

AFP, Tokyo

Japan's top auto company, Toyota Motor Corp. is expected to report a record operating profit of 2.25 trillion yen (19 billion dollars) for the year to March, up 20 percent, a report said Friday.

The figure marks the seventh consecutive year of record profits on the back of brisk shipments overseas, particularly in North America, as well as a weak yen, the Nikkei business daily reported, without citing sources.

Sales for the fiscal year are estimated at nearly 24 trillion yen, up roughly 10 percent, the newspaper said.

## Automakers display new products in China

AP, Shanghai

Global automakers are putting their hottest new products on display in Shanghai, counting on design, quality and technology to give them an edge against newcomer Chinese car makers in the world's fastest-growing major market.

All the big global names are in China's biggest city this week for the Shanghai Auto Show, a biennial event showcasing the one-time bicycle kingdom's newfound devotion to the motor vehicle.

Confronted with an onslaught of competition from both foreign automakers like Toyota and up-and-coming local manufacturers, General Motors Corp. is showing 41 vehicles in Shanghai, including a hydrogen fuel-cell car and a new version of the classic Buick Riviera developed by its local engineering and design joint venture.

"Our target is pretty simple: to keep growing faster than the market," said Kevin Wale, president of GM China Group. "Everyone in the world wants to be in China. We think we have all the fundamentals in place and we're going to continue to do what we think we need to do to win."

## Weekly Currency Roundup

April 15-April 19, 2007

### Local FX Market

The demand for US dollar was stable against the Bangladeshi taka throughout the week. The supply of USD tightened slightly causing the USD to rise slightly against the Bangladeshi taka.

### Money Market

Overnight money market was stable last week. The call money rate was range bound and ranged between 6.75 and 7.5 percent.

### International FX Market

The past week was a bad one for the US dollar as it lost out to all its major rivals. The top story of the week was surrounding the sterling and euro, both of which reached record highs against the US dollar. The sterling had crossed the \$2 mark and reached a 26 year high against the dollar. The sterling reached such amazing heights after data showed that the UK inflation was higher than expected which indicated that the Bank of England would raise the interest rate as early as May. The euro also reached a 2 year high against the dollar and neared the all time high of \$1.3670 mark struck in December 2004. The yen, which has been bad hurt by carry trades, hit a record low against the euro. However, near the end of the week, the yen also clawed back some of its loss against the dollar and the euro. Investors were winding down their carry trade positions based on comments by the Chinese Central Bank regarding rate hikes to cool down the rapid economic growth.

### US Dollar

The USD hit record lows against the Sterling and Euro, amid concerns about US economic growth. Lingering concerns about the health of the US economy should keep pressure on the greenback in the weeks ahead. The US Fed is expected to cut interest rate in contrast to other major economies, where the interest rates are expected to rise. Weak performance in the housing sector has raised fear that this might hurt the broader economy.

### Sterling

The Sterling finally crossed the psychological \$2 barrier to hit a 26-year peak against the dollar. UK data showed consumer prices had accelerated to 3.1 percent in March, its highest since comparable records began in 1997. The US consumer data also contrasted sharply with a jump in UK consumer prices. This has cemented expectations for a May interest rate hike to 5.5 percent by the Bank of England and the possibility of more hikes in the future. This would top the current US federal funds rate.

### Euro

The Germany's ZEW index showed strong sentiment among German investors on the outlook for Europe's largest economy improved by more than expected in April. The robust German investor sentiment gave the Euro support against the dollar. There was also suggestion last week that the ECB is likely to raise rates in June or beyond to stem higher inflation. Investors shifted funds to the Euro after the European Central Bank kept its benchmark interest rate unchanged at 3.75 percent.

### Yen

The yen hit a record low versus the euro on Monday. This was after Group of Seven finance officials expressed no concern about the Japanese currency's weakness at a weekend meeting, prompting traders to load up on carry trades. Near the end of the week, the yen rose sharply against the Euro and dollar. The rise was due to concerns about a near-term Chinese interest rate hike, which lowered the risk appetite of investors, leading investors to reverse their carry trades. Chinese first-quarter growth and March inflation data came in above forecast. This was reflective of red-hot growth in one of the world's fastest-growing economies.

-Standard Chartered Bank

## STOCK