

## GBP-USD investors to move their funds to Dollars

Wednesday, 21 January 2009

The Dollar gained ground against the Pound last week as cross currency data led investors to move their funds to Dollars, which is now seen as a safe haven currency due to the perceived safety of US Treasuries (US Government debt).

Despite risk sentiment being the dominant factor in the markets with investors retreating to the Dollar, economic data coming out in the US showed year on year decline. In fact December's retail sales report showed the single biggest monthly decline in the survey's 20 year history, by 2.7% in one month. Industrial production also shrank by 2% - Both pieces of negative data came out at least double their expected size.

There have been few signs of hope in recent economic data released, although some analysts believe that the economic stimulus plans and the US Treasury's bailout funds will improve US projections in the longer term.

On Monday, despite being a national holiday (Martin Luther King jr. day) the US dollar continued to post modest gains against the Pound. This was largely due to the announcement by RBS of a loss in 2008 of up to £8 Billion and a share price drop of 67%, reigniting concerns about the health and stability of the UK financial system.

In the week of Barack Obama's inauguration as US President, the housing market will also be in focus. The National Association of Home Builders' Housing Index will be released on Wednesday, whilst Housing Starts and Building Permits are both due on Thursday, although risk sentiment is likely to remain important to US Dollar direction.