

## USD US consumer spending

Thursday, 05 March 2009

This afternoon we saw the GBP/USD Interbank rate drop below 1.4 for the first time since 27th January, yet we have seen a high today of 1.4350 so it looks like Cable could have another volatile week. Last week US consumer spending fell more than expected and the Dollar suffered from deteriorating risk appetite accordingly as it is now seen as the Safe-Haven currency with its 0% interest rate and after Japan entered recession.

The US government also announced its support package for Citigroup with the authorities taking a larger stake in the bank which triggered more risk-aversion and therefore investors ploughed more of their funds into the Greenback, supporting the US currency. These swings in risk appetite have made for choppy trade in Cable with over 7 points between the high and low of the last 10 days. The Pound was a bit of an innocent bystander in all of this and the market mainly moved on the back of US data releases as the only UK data of interest was Actual 4Q GDP figures which were only slightly better than expected.

This morning the US announced a new \$30billion support package for flailing insurance giant AIG, creating further downward pressure on equity markets; therefore causing more risk aversion and supporting the Dollar. Cable is also being forced down with markets starting to price in a 50 basis point cut in UK interest rates which is expected when the MPC make their announcement at the end of their 2-day meeting on Thursday.

Also out this week we have US Pending Home Sales for January on Tuesday, and more importantly US Non-Farm Payrolls on Friday. The forecast is for the US unemployment figure to rise from 7.6% to 7.9%. In the UK, other than the rate decision, the only release of interest is Nationwide Consumer Confidence, in the early hours of Wednesday morning which is expected to fall slightly from last months reading; a further indicator of the economic downturn in the UK.

All in all we are expecting a volatile week with Sterling being driven lower against the Dollar if interest rates are reduced to 0.5% on Thursday as expected. Either way, those looking to trade the US Dollar in the not too distant future should talk to their EMYC Account Executive as the added factor of global risk appetite must now be taken into account, whether you are buying or selling Dollars.