

Foreign exchange indicator



Topic: Foreign Exchange Indicator The current meltdown in the global economies has raised quite a few questions. As Darwin had quoted long ago, it will only be the survival of the fittest. Given below are reports and comparisons of forecasts of foreign exchange indicators by two agencies .

Major currencies

Global Currency Forecast (end of period)

Source: Global Economic Research, Scotia Bank, Feb. 2009.

(Pl. note that figures for Q2, Q3, Q4 of 2009 and 2010 are only predictive.)

2007

2008

2009

2010

09Q1

09Q2

09Q3

09Q4

10Q1

10Q2

10Q3

10Q4

Japan

USD/JPY

112

91

90

85

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92

94

92

90

90

88

92

90

Europe

EUR/USD

1. 46

1. 40

1. 40

1. 48

1. 33

1. 32

1. 36

1. 40

1. 41

1. 44

1. 47

1. 48

EUR/JPY

163

127

125

126

122

124

125

126

127

127

126

126

U. K

GBP/UD

1. 99

1. 46

1. 50

1. 64

1. 45

1. 43

1. 46

1. 50

1. 55

1. 60

1. 63

1. 64

According to this report and forecast by Scotia Bank, the rate of growth is slowing down globally. This report feels that the intervention of the US government in infusing huge liquidity in the credit market a few months back

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was a move in the right direction and has brought a little stability and direction to the global equity markets. The report also predicts that the Japanese Yen will be a safe bet for people dabbling in foreign exchange and thus, will be strong in the coming months. Both the US and Japanese governments have adopted a near zero interest rate policy. The Euro and GBP have come under stress and will be showing a bearish trend. With a second set of rescue measures being announced by the government to rescue banks in the UK, global investors are viewing the GBP with skepticism and there is a possibility of its remaining weak.

According to another report by Forex Capital Markets, a financial services provider in New York, " The Swiss Franc outperformed all other G10 currencies against the USD in the first quarter of the year, gaining nearly 15% on the troubled Greenback. By comparison, the Euro gained only 9%. Limited direct exposure to the U. S. and a massive liquidation in carry trades has driven the Swiss franc higher in the first quarter. However, the significant downturn in the euro zone has begun to transmit the effects of waning global growth to the Swiss economy. Interest rates are now lower in the U. S. than Switzerland. With the Fed intent on further rate cuts, the yield gap between the two countries is expected to widen, which will drive the USD/CHF lower. The case of the EUR/CHF will be quite different. The unfolding slowdown in the euro zone will drag Switzerland along via the close trade relationship between the two markets. This transmission mechanism will erase much of the qualitative advantage of the franc against the euro as growth slows globally, leaving interest-rate expectations to drive the EUR/CHF."

The above reports contrast the different opinions of a fund house in the US

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and the Scotia Bank on the forecast for foreign exchange indicators. While a host of factors like lending rates, GDP, growth rate, inflation, risk aversion and political and economic factors will be influencing the actual exchange rates for currencies, based on past experience, the two reports have tried to analyze the situation and give a reasonable forecast for the current and coming year. While the first report maintains an optimistic view on the USD, the second one fails to do so, and predicts the weakening of the dollar in the coming months when compared to other currencies like Franc and CHF.

I would agree with the first report and believe it to be more accurate due to a variety of reasons. Absurd as it may sound, first and foremost, it is not the opinion of a fund house, and as such, there might not be any vested interest in the publication of the report. I also feel that there is more punch in the first report as the statistics for 2007, 2008 and 2009(Q1) are true. The forecast for 2009 is based on various economic indicators like change in interest rates, effect of government intervention in the banking industry in respective countries, negative to zero growth in the developed markets and its influence on the developing markets.

Operational and Planning Issues at Southwest Airlines

In view of the economic slowdown, which has hit the US, many companies have made alterations in their operations and planning, to just stay afloat. While Southwest is a very popular airline in the continent, it might also have to incorporate a few changes to its operations in the coming months.

According to press reports, " Southwest said its revenue " softened" in February, even though unit revenue was up 2 percent through the first two months. Business travel, in particular, has softened significantly, as measured by a decline in the percentage of full-fare traffic," On the whole,

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the company has given a "cautious" guidance for its revenues for the current year. However, a good outcome of its lower air-fares is that even in these times of recession, it has managed to fill 69.1% seats, a growth of 0.4% over February 2008.

As the report by Scotia Bank forecasts an appreciation for the Euro in 2010 as compared to 2009, the airlines could offer to sell its tickets at a lower rate if bought in Euros till the third quarter of 2009. This would give it a chance to hedge in the currency when it actually appreciates.

References

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