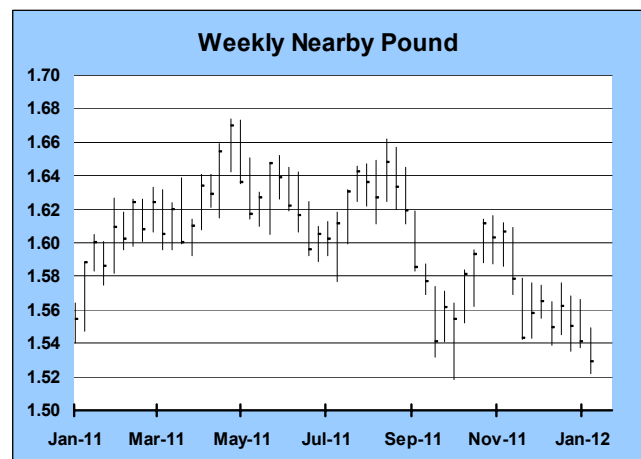
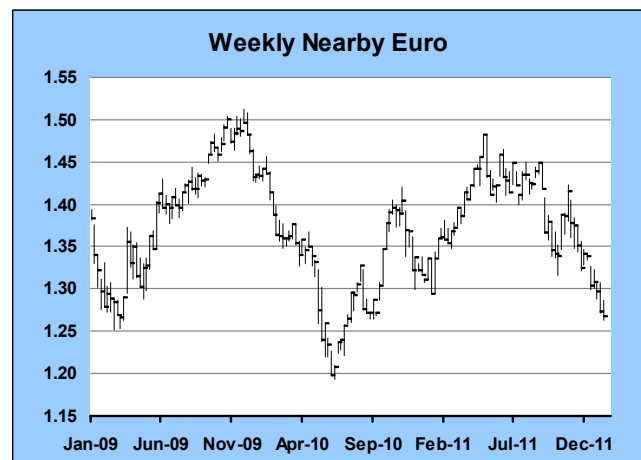
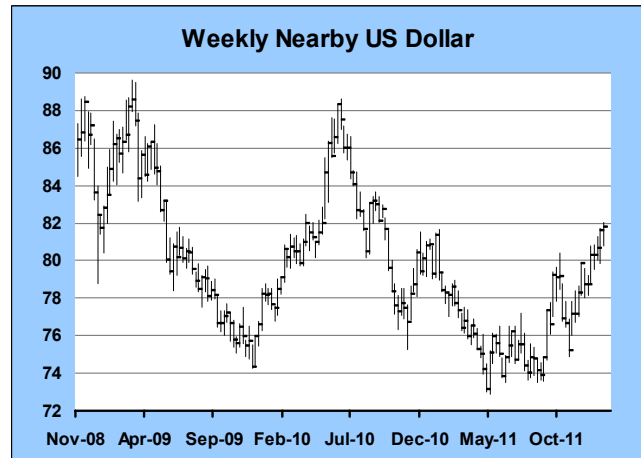


## Currencies January, 2012

The Dollar was able to start off 2012 with an initial rally, as prices reached their highest levels since September 2010. Overseas risk concerns were the main source of support, as ongoing problems with EU sovereign kept a “risk-on” market mentality from fully developing early in the year. In addition, signs of a potential economic slowdown in China were seen as keeping market anxiety at comparatively high levels. However, gradual improvements in US economic data were highlighted by a slide in Jobless Claims and helped to lift US equity markets up into new high ground. This led to increasing talk that the US markets would see a “decoupling” from European problems and keep the Dollar close to early 2012 highs. A positive tone in macroeconomic sentiment led to the Dollar falling sharply in mid-January, as market participants indicated stronger demand for global equity and commodity markets. Looking forward, the Dollar is likely to be driven by “safe-haven” support, as many global problem spots have yet to show signs of resolution.

The Euro remained in an extended downtrend early this year, as the debt problems with peripheral EU nations still threatened to cause a contagion throughout the Euro zone. A major credit rating agency downgraded several nations in mid-January and pressured the Euro down to 15-month lows. However, good demand at a series of sovereign debt auctions after the multi-nation downgrade helped to turn market sentiment around and lift the Euro well clear of the recent lows. Greece debt negotiations continue to hang over the market, as an unsuccessful conclusion could lead to further problems with Portugal and Hungary during the near future.

The Japanese Yen has kept within a relatively tight trading range this year, as the threat of intervention has kept prices from fully benefiting from a modest flight to safety out of Europe. The British Pound and Swiss Franc were able to find considerable benefit from the recent improvement in Euro zone sentiment and are trading higher for 2012. “Commodity” currencies such as the Canadian Dollar and Australian Dollar were under significant pressure from signs of a weakening Chinese economy, but both currencies were able to post extensive recoveries as they found carryover support from surging global equity and commodity markets.





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