THE OMNIVEST MARKET VIEW
Investments

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# Don't Capitulate on the US Dollar

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It is far too premature to turn positive on the greenback, despite the fact that the US dollar is positing its fifth straight month of gains. The same pattern occurred between June and November in 2008 when the dollar index rallied from 72.87 to 86.52. However, by November 2009, the dollar index had fallen again to 74.87. The fact that the dollar index has rallied over the past five months is not at all indicative of dollar strength. A closer look at the composition of the dollar index reveals that the index is comprised of only six currencies, with the euro weighted disproportionately at 57 percent. The remaining index members are the Japanese yen, British pound, Canadian dollar, Swedish krona and Swiss franc.

A broader review of the US dollar compared to 16 major currencies reveals that the dollar has only gained ground against the Danish krone, the euro and the British pound, with increases of 5.25%, 5.29% and 9.40% respectively.

Conversely, against the other 13 major currencies, the US dollar has lost ground by 5.30% on average. Over the five month period, the dollar has fallen 11.6% against the Aussie dollar, 8.65% against the Korean won, 7.3% against the Brazilian real and 6.5% against the Canadian dollar.

From our perch, there is little reason to turn positive on the US dollar based on the performance of the dollar index. We actually remain negative towards the dollar and believe that the worst may now be over for the euro.

With a framework now in place to deal with country specific problems in the European Union, there should be little reason to speculate on the collapse of Greece or any other country for that matter. While it is true that the euro has not mounted a strong recovery in light of the combined resolution of the EU and the IMF, the fact remains that the euro did not completely collapse.

The search for fundamental reasons for the US dollar to appreciate against a broad basket of currencies remains an elusive effort. Fiscal policies in the United States have now racked up an estimated $1.5 trillion deficit, which amounts to 10.5% of GDP. Global investors are becoming more aware of sovereign credit risk and the US is not immune to a downgrade. Investors will react much more quickly to a continued deterioration of the US fiscal condition, well before the irrelevant rating agencies take action.

The mid-year November election results will most likely result in more confusion and hostility in Washington between the Administration and Congress -- a recipe for dollar weakness.

Finally, there has been an eerie absence of action to promote the strengthening of the dollar, despite the Administration's oral message of a "strong dollar policy". China is clearly uncomfortable with its large dollar holdings and the losses that have been incurred over the past year. The continuous threat that China will eventually de-peg its currency from the US dollar should also prevent the dollar from establishing anything more serious than a technically driven and short-lived rally.

**This report was prepared by Omnivest Research. This material reflects the current opinion of the firm based on sources deemed reliable, but we do not guarantee its accuracy or completeness.**

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