Currencies rally against the US Dollar and Commodities also continue to benefit

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Market activities and the declining Dollar

As I have several times commented before the US Dollar continues to decline, while other currencies rally and commodity values increase. Overnight markets are suddenly accepting the cold hard truth and interest rates around the world are going up, but staying down in the US. The S&P have just downgraded the US outlook to negative, which raises a big question over holding US Dollars. The euro EUR has rallied to an exchange rate of 1.45, the Australian Dollar AUD to $1.065. Gold is now over $1,500, as predicted in my investment report entitled "The Bank of International Settlements actions have just reinforced the position of gold", e-mailed out on 13.7.2010.

What I have been highlighting in various investment reports over the years is now happening – the declining Dollar!

Sweden's Riksbank added further pressure this week, by hiking their internal interest rate by 25 basis points (1/4%) bringing this to 1.75%. I expect the Riksbank to hike rates quite frequently throughout the year, and would predict that they will push their rate to 2.5% next year. The Swedish krona SEK received a large boost after the rate hike, and has finally moved back to its level of 2008 where it stood at before the financial crisis.

As noted above, gold is trading above $1,500 now which is responsible for helping the Australian Dollar reach a 29-year high at $1.065! And silver is trading above $46! At this point it is important to remember that those who think that, because holdings in gold and silver do not pay interest, higher rates around the world will halt the gold rally are wrong!!

Much has happened lately, higher rates around the world pressuring the Dollar downward, but gold and silver being used as "Dollar alternatives represents a big change.

In similar vein, the price of oil is rising again – now in the order of US$110/barrel - and investors are again trading aggressively in this commodity. They are also using oil investments as Dollar alternatives! That is one reason why I have added Oil to the asset class of the Professional Investor's Fund last year anticipating these above. The fund continues to trade oil within this Fund as markets allow.

The rise in the price of oil benefits the petrol currencies as they are called. These are: Canadaian, Norwegian, UK, and even Mexican (even with their depleting oil reserves) all of which will be boosted against the Dollar. The markets have ambushed the Dollar and are now holding it captive!

The Canadian Dollar (CAD) received an extra boost after their March inflation rate jumped to 3.3%! I think it very likely that the Bank of Canada (BOC) is going to have to come back to the rate hike table sooner than they had previously indicated! Recently the BOC had backed away from the rate hike table, not wanting to attract attention to the CAD, since they did not want the currency to overheat. But rather than not wanting to see the currency appreciate, the

BOC needs to accept a stronger CAD, and let it do some of the work to hold down inflation pressures.If oil is going to remain above $100, and food prices continue to be more than transitory, inflation is going to remain a problem for the BOC and more importantly the Canadian people. I predict that they will hike rates soon.

The New Zealand Dollar (NZD) has touched a conversion rate of 80 US cents The last time the NZD was above this level was three years ago, in February of 2008, topping out at 0.8214.

The fact that the earnings season has been reasonable so far is also weighing on the Dollar; markets are taking good results as a reason to rally versus the Dollar, on the back of risk sentiment. If the risk sentiment is to remain, and continue to put pressure on the Dollar, the earnings will need to be strong.

Portugal and Spain were able to auction bonds this week without major problems, which is a good sign for them, and for the euro. It is likely that the media will refocus on restructuring Greek debt, to take the heat off the Dollar. Let’s see! The viewpoint may be cynical, but that is what happens every time in these circumstances, and it is so predictable!

China and the Dollar

The debt in the USA is $14TRIILLION (US$14,000,000,000,000) at this point, and increasing every second, and up to its neck in trouble.

China is set to designate one bank in Singapore to take on the role of clearing yuan trades as it gradually moves to internationalize its currency. I believe that either the Bank of China or the Industrial and Commercial Bank of China will be the designated clearing bank, a view shared by our analysts. This can be seen as a move by China to reduce its reliance on the USD as a reserve currency.

I draw attention to the fact that Thio Chin Loo, Senior Foreign Exchange and Interest Rate Strategist with BNP Paribas, said: “So with the volatility of the US asset market over the last two years, it has probably caused some pain to external balance sheets and therefore the need to want to diversify FX reserve holdings with the US Dollar.”

I predict that China’s Central Bank may also grant the Monetary Authority of Singapore (MAS) qualifying foreign institutional investor status, which allows the MAS to invest in Chinese financial products on the mainland.

The reports on China and their move toward a freely exchangeable currency are finally being aired to the markets; it would appear that China is moving more quickly than they had previously planned because of the state of play in the USA. A report on RIO Professional and it performance is due out in the next few days mean while I will e-mail out to membership the fund fact sheet.

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