

## GETTING TECHNICAL

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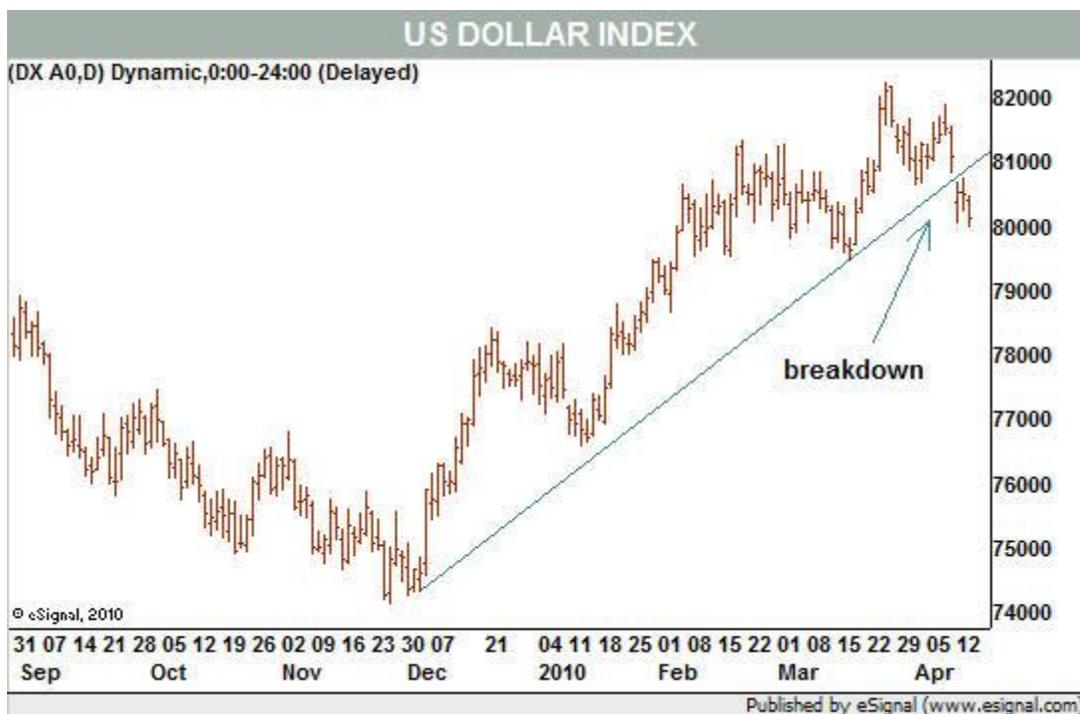
The Return of a Dismal Dollar

By MICHAEL KAHN |

*Europe's woes gave greenback bulls a false sense of confidence in the first quarter.*

THE U.S. DOLLAR INDEX GAINED a handsome 10% between December and March, but action this week has ended that run. As of Monday, the index dropped sharply through its rising trendline and now threatens to lose even more value (see Chart 1).

Chart 1



The U.S. Dollar Index tracks the value of the greenback versus a basket of currencies weighted by economic trade. The euro is far and away the most heavily weighted and represents more than 57% of the index's value. In essence, dollar-index performance is the inverse of the euro and that leaves out much of what is happening in the rest of the world.

If we look at the individual performances of major currencies versus the dollar we will find that the dollar was not as strong as the dollar index suggested. European currencies were the clear laggards while such currencies as the Canadian dollar, Australian dollar and Brazilian real were leaders. The U.S. dollar was in the middle of the pack.

In other words, the dollar was mediocre and it was Europe that was weak.

Boris Schlossberg, a managing director with BKForex Advisor, concurred. He said, "the global economic recovery is very uneven with Asia, specifically China, leading the way. This in turn pulls the commodity economies forward so Aussie, Loonie (Canada) and to a lesser extent Kiwi (New Zealand) are very much holding their own against the buck. So yes, the dollar rally was partially a function of euro weakness."

This in part explains how gold and other commodities could be strong even as the dollar index rose. Most commodities are priced in U.S. dollars so a rising dollar translates into lower commodity prices, all else being equal. But since the dollar more or less marked time with relation to all the world's major currencies, gold moved mostly sideways.

Schlossberg continued, "We are no longer in a bipolar world in foreign exchange where the only trade is pro-dollar or anti-dollar."

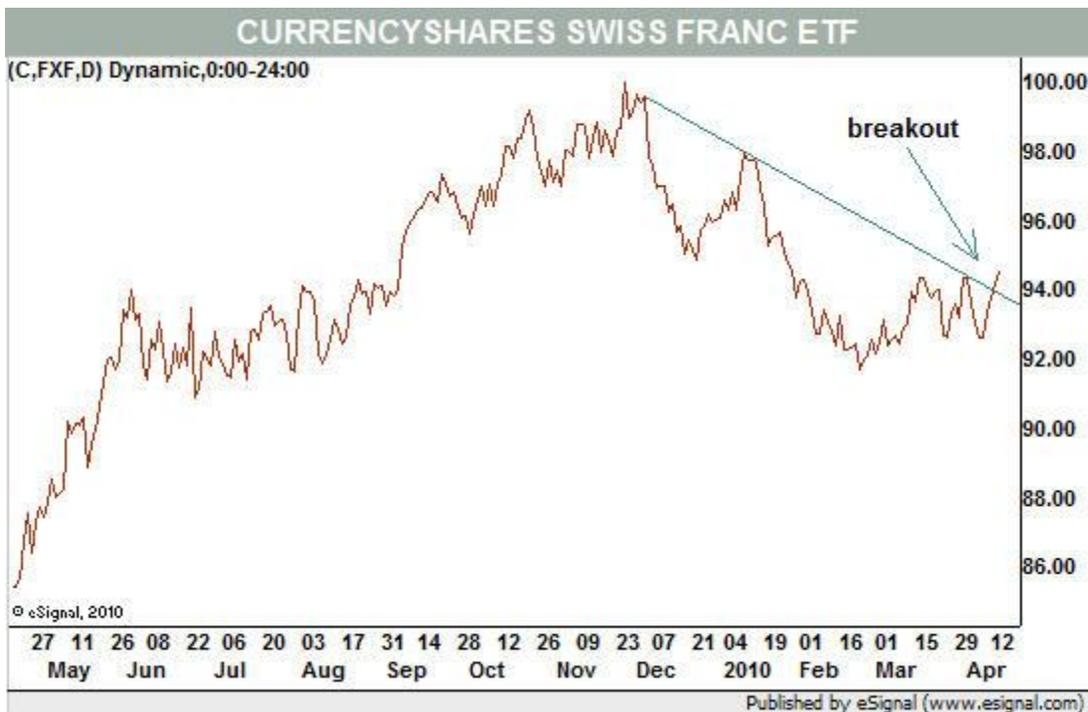
Looking out to the rest of the year, John Person, president of NationalFutures.com, thinks that the dollar will continue to decline against most currencies. Aside from such fundamental concerns as record-high budget deficits and continued easy monetary policy, he cited a rather unattractive interest rate for foreign buyers of our debt. Low demand for Treasury securities from abroad translates into lower demand for dollars.

The question for investors is what to do about it. If the U.S. Dollar Index is now weakening and was already lagging Canada

and others, the math says that Europe is starting to rally. In other words, the dollar is now falling behind the euro and the British pound, both components of the U.S. Dollar Index, at least in the near term.

The Swiss franc is not a component of the dollar index but it, too, shows strength (dollar weakness). One look at a chart of the CurrencyShares Swiss Franc Trust (FXF) indeed shows a move above the declining trendline drawn from its December high with implications for weeks, if not months, of gains (see Chart 2).

Chart 2



So, with Europe getting stronger while most of the rest of the world continues to outperform, the dollar's outlook is as shaky as ever.