



People from all countries and all walks of life come to live in Thailand. It is no surprise then, that chicken-legged, pot-bellied men with bargirls in tow may indeed be early retirees with extensive business experience. Having made their money as professionals, they probably retain at least a passing interest in what affects their wealth in the wider world. At least, that is my assumption in writing this page! If you find it too hard going, my apologies, and your comments are welcome.

Are We Headed Up?

If you're confused as to whether or not the global outlook is improving, you are one of many. In the world's leading economy, price falls in US treasury bonds have put the currency market into turmoil, as traders looking for confirmation of a US-led recovery see Wall Street unnerved by the corresponding rise in yields. The stronger than expected US retail sales figure announced mid-August should really be a positive, but a strange pattern has emerged, whereby the greenback falls with stock prices, only to bounce back in the following sessions as money flows are attracted by the better yields on offer.

Two Camps

Favourable yield spreads have mostly been dollar-positive in the past, and there are those that believe rising long-term yields always indicate a good US economic outlook. What those in this camp have not seen yet is a corresponding switch from bonds into stocks. That is not to say it won't happen, and soon, but meantime another opinion is also rife.

In the other camp, the view is that the rise in long-term yields will result in higher mortgage costs and from there a spectacular but painful bursting of the US housing bubble. This would surely kill off consumer confidence and switch everyone's attention back to the USA's enormous deficits.

At this time, we can do nothing but watch and wait to see whether the pessimists will prove to be right or not. Probably, both will be right in some respect eventually. I expect you know some economist jokes.

Across The Atlantic

European markets have decided that there won't be any further ECB (central bank) rate cuts and in fact, by April 2004 they will start going up. Consensus among currency traders is that when the next most likely month for a rate cut comes along in November, improved economic numbers by then will rule it out. Also supporting the single currency against the dollar is recent terrorism concerns, as there have been warnings issued in Saudi Arabia, Australia and the UK, with some arrests being made in the USA.

A recent surprise has been the nearly 9000 fall in UK unemployment claimants, which has just boosted sterling against the dollar

and the yen, despite a Bank of England quarterly report expressing inflation fears. The British labour market is nothing if not resilient, it seems, and many analysts are reading confidence into this one.

Sunny In Oz

Seems things can't go wrong down there - except they might lose the Rugby World Cup title later this year! The Aussie is high yielding and benefits from weakness in US treasuries, keeping the currency supported at 0.6550 against the greenback. Against the yen, there are other strengtheners, as the Japanese are now keen buyers of Australian bonds, known as 'uridashi'. And I thought that uridashi was what you did when getting out of the car after a long drive! But underlying it all is a confident RBA (central bank), subdued consumer prices, good retail sales, building approvals and robust credit growth.

In that other center of rugby excellence, New Zealand, the kiwi wraps up our Money World review for this issue. Back up now in the 59 cent range against the USD, a major rally will be needed to push beyond the July top of 0.5935 - and the N.Z. Superannuation Fund's recent pledge to invest 78% offshore put a wet blanket on that possibility. But yield demand should keep the kiwi supported.

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