


US Dollar: Rebound!




Microscope

Latin American leaders agreed in October on the creation of a regional currency, the Sucre, aimed at scaling back the use of the US dollar, which will be rolled out starting in 2010 in non-paper format. The currency is named after Jose Antonio de Sucre, who helped Venezuela fight for independence from Spain two hundred years ago. Obviously, the move echoed the European Union's introduction of the euro precursor, the ECU, an account unit designed to tie down stable exchange rates between member states before the national currencies were scrapped. There are 10 member states using the Sucre, including Bolivia; Venezuela; Cuba; Ecuador; Nicaragua; Honduras; Dominicana; Saint Vincent and Antigua and Barbuda. More importantly, the move to hedge a declining dollar echoes recent sentiment shown largely by China, now the largest foreign holder of US debt, regarding the viability of the US dollar as a significant world reserve currency. China and other central banks around the world have been actively diversifying their reserves most notably by larger and more frequent purchases of gold. For example, central banks are now net purchasers rather than sellers of gold worldwide. 

The US dollar advanced to a two-month high against the euro as a bigger-than-forecast increase in retail sales and consumer sentiment released last week indicated the US economic recovery might be gaining momentum. US retail sales rose 1.3% in November after climbing a revised 1.1% in the prior month, according to the US Commerce Department. On the other hand, the Reuters/University of Michigan preliminary index of consumer sentiment increased to 73.4 for December, compared with 67.4 in the previous month. The median forecast of 71 economists in a Bloomberg survey was for an advance to 68.8. In addition, Federal Reserve Chairman Ben S. Bernanke said a moderate pace of US expansion was likely. Officials will decide on policy at their Dec. 15-16 meeting. Nevertheless, the Fed is expected to hold the target lending rate at zero to 0.25% at the conclusion of this meeting,

according to all of the 91 economists in a Bloomberg survey. In fact, economic data seemed to continue to surprise on the upside, especially from the recent jump in retail sales after Black Friday. The US dollar is well supported by short-covering with regard to carry-trade. The Dollar Index, which the ICE futures exchange uses to track the greenback versus currencies including the euro, yen and pound, increased 0.9% to 76.565 this week, from 75.911 on Dec. 4. It touched 76.726 last Friday, the highest level since Nov. 3. The gauge of the dollar has tumbled 5.8% since the start of this year as signs of global economic recovery led investors to buy higher-yielding assets with amounts borrowed in the greenback. A target lending rate of virtually zero made the dollar popular for funding such transactions. The trading pattern shifted on Dec. 4,

when an unexpected drop in the US unemployment rate to 10% pushed the Dollar Index up 1.7%. The dollar appreciated 1.7% to \$1.4615 per euro last week, from \$1.4858 on Dec. 4. It touched \$1.4586 last Friday, the strongest level since October with the help of unstable outlook of credit marking in Euroland. Last week, Spain saw the outlook on its AA+ debt rating cut to negative from stable by Standard & Poor's. Greece's credit was also reduced one step to BBB+ by Fitch Ratings. Furthermore, Portugal's outlook was revised to negative from stable by S&P. Now, the global financial crisis is in a temporary reprieve. We can imagine economic data turning in favor of the US compared with Europe or Japan. But, over a longer term, huge US government debt issuance will eventually drag the dollar into a lower arena. 

MARKET BRIEFING

YTD % (local curr)

US DJ	10,471 (19.3%)
Nasdaq	2,190 (38.9%)
Euro Stoxx 50	2,862 (16.8%)
HSI	21,902 (52.2%)
Japan NK225	10,107 (14.1%)
China Shanghai Composite	3,247 (78.3%)
Singapore	2,800 (59.0%)
India BSE30	17,119 (77.4%)
Brazil BOVESPA	69,267 (84.5%)
Aus All Ord	4,651 (27.1%)
US-10yr Bond	Yield 3.55%


As at 11/12/09

Insight:


"Regular vs. Lump Sum Investment"

If you are saving money in cash account, the sooner you invest and the more you invest, the more money you will earn in interest. The amount of interest you receive can go up and down depending on the interest rate but the overall value of your investment will either stay the same (if the interest rate is equal to 0%) or increase (any other rate of interest). If you are investing in stocks or funds, the value of what you buy varies over time. Even in normal market conditions it is possible for your investment to be worth less than it cost you. Many investors try to time the market, which means that they make their investments at a time when

they believe that values have dropped to such a level that the only way for prices to go is up. History has shown time and time again that this is extremely difficult to predict, even for professional investors. A

simple way to smooth out the ups and downs of financial markets is to make smaller regular investments rather than one large lump sum. The process of regular investment leads to an effect called dollar cost averaging. If you are investing for a long-term period, you might run into a huge drop, but you could just as easily (in fact more easily) miss a huge rise when you have a lump sum investment. You are allowed to set up a regular investment scheme. These allow you to drip feed money into your chosen investment and usually have a much lower trading cost than for normal lump sum investments. 

A-Z Financial Tools

Ex-warrant is used to refer to a stock that no longer carries the right to a distribution of declared warrants. As a result, the buyer of a stock trading (ex-warrants) will not receive the warrants. In fact, the warrant's price will affect the share performance in terms of implied volatility. The price of this stock will mainly depend on the fundamentals of the company. 



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