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FINANCIAL SOLUTIONS

19 April 2015

This week proved to be the perfect storm for oil backed currencies or better known as petro dollars. America's currency has been losing steam since the bottoming of oil prices and with the Federal Reserve Bank announcing that at this point interest rate rises are inevitable. We should see the greenback further decline as it did this week as oil linked currencies rose against the dollar. The most significant was the USD/CDN with traders actively dumping the green back for the Loonie, pushing at a price near 83 cents.

Oil prices have been above their 11 week range which has weakened a very illiquid foreign exchange market creating a sharp sell of American dollars and buying of Canadian dollars. All eyes are on oil and inflation right now which would be the very reason the American Federal Reserve would raise rates if core inflation looks to get out of hand.

Rising oil prices may just not appreciate petro currencies but prove to cause the American dollar to further decline putting off the need for the American Federal Reserve to increase interest rates anytime soon and allow export and corporate competitiveness to strengthen at home. Currency trade activity points to a weakening dollar with these weeks sell of favouring petro currencies being the start of a weakening phase for the greenback overall.

A 1-1 with the Euro dollar is at hand, America must remain competitive in exports and manufacturing, as European companies kick into high gear as the low Euro dollar stimulates manufacturing and exports for the EU overall.

China's slowing economic state has taken more than just a financial toll on the dragon nation. Government crack downs, tighter control and higher scrutiny are driving internal tension higher. The easy money of yester year is long gone. China must now reform itself into a first tier economic engine or see itself fade away. Will the Politburo allow the necessary monetary and fiscal reforms along with liberalization is hard to comment on. This is a very delicate transition point for China as turmoil and unrest is all around its boarders. Neighbourly relations are at all time lows. Relations with America are cold at best. Internal unrest with Hong Kong is at near historical levels. I would not count China out however don't expect the Dragon flame with economic fire anytime soon.

As stated above oil has broken out of its 11 week range with price slowly advancing. Oil refiners again are announcing shut downs and lay offs as demand is weak while supply continues to grow.

Gold strengthening over the last week as the Federal Reserve delayed raising rates and the rise in oil price has oil helped gold appreciate in American dollars. Future appreciation of gold could point to how much of a decline in the green back is possible.

Canada had the biggest advance among the petro currencies along with retail sales as posted by Stats Canada. Retail sales rose 1.7 % for the month of March posting their highest increase in 8 months. Gains were in all 11 sectors including an increase in sales of gasoline at the pumping station of 2.2%. Stats Canada report goes against the comments of Bank of Canada governor Steve Poloz stating that our economy stalled in the first three months of the year.

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Inflation also rose in Canada at 1.2 % in March with gasoline being the main driver rising 2.2% in March. Ontario has the strongest inflation reading in March at 1.6%. The unexpected rise in retail sales and inflation better explains the actions of the Bank of Canada in not dropping interest rates.

When inflation readings are at the low end of the range this points to moves to cut interest rates. As inflation rates move closer to the higher range, that points to a need to cool the economy down.

A note to remember, historically, home prices tend to climb at a greater pace as inflation rises.

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