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October 01, 2014 – The American Dollar Hits A Four Year High – By Jeffrey Hagenmeier



Yesterday the American dollar surged to a four year high against a number of currencies. The US dollar may end up having the best business quarter in 6 years as far as an increase in value. Investors may wish to know why is this happening? It is the result of the dollar being the best of limited options. The other major currencies in the world are all in trouble for one reason or another. Although the US dollar has gone through extensive *quantitative easing* (QE) over the last few years, the Federal Reserve in the United States is winding the policy down. The central bankers have even hinted that record low interest rates in the United States will begin to rise sometime in 2015.

Last December, the Federal Reserve announced the beginning of the winding down of quantitative easing in the United States. It was reduced from \$85 billion USD (United States Dollar) to \$75 billion USD. This last round of quantitative easing was initiated in 2009. A combination of Treasury notes and mortgage backed securities were purchased each month at a rate of \$85 billion USD. This would total over \$1 trillion USD on an annual rate. In 2014 this rate was gradually reduced on a monthly basis. It is due to end this month. The asset balance sheet held by the Federal Reserve has gone from \$900 billion USD at the beginning of the crisis of 2008 to over \$4.4 trillion USD today.

Despite the huge asset purchases by the Federal Reserve the United States over the past few years it is finally ending the policy. This is in contrast to many other areas of the world. Japan is set to continue QE and Europe will begin QE in October. The announcement by the ECB (European Central Bank) of the decision to expand the money supply, caused the Euro to drop to a 14 month low against the US dollar at below \$1.29 USD. Yesterday the Euro slipped below \$1.26 USD for the first time in two years dropping nearly 1% in a single day.



The US dollar index has gained nearly 8% over the last three months against a basket of currencies. It has undergone a record breaking 11 successive weeks of gains in value. The dollar is experiencing its biggest quarterly gain since 2008. This is a result of a growing belief that the currency of the United States, is a safer place to invest money with than in most other world currencies. This coincides with a growing notion among a number of analysts, that the United States economy will be growing faster than Japan and Europe as a whole in the years ahead. This will bring higher interest rates in the United States, making it a much more attractive currency to invest in.

The American dollar moved up to another 6 year high against the Japanese yen. The yen is now at 109.75 to the US dollar. The dollar had gained nearly 5% in value in a month against Japan's currency.

	USD	29.75	30.55
	GBP	47.85	49.27
	EUR	42.21	43.18
	CNY	4.28	4.88
	JPY	37.45	38.94
	MYR	9.21	10.28
	AUD	31.68	32.85
	HKD	3.77	4.00
	KOR	0.022	0.033

Even the Swiss franc was a big loser against the dollar. It has dropped 0.8% in value. As a result of almost no inflation in Switzerland, the bond purchases in the currency are now ultra low in interest rates. This has caused the Swiss franc to decline in value equaling just 0.9586 to the American dollar.

In addition to the changing monetary policy of the United States, civil unrest and military movements overseas make the US dollar seem more attractive. Economic difficulties in many areas of the world add to this perception. In South America, the economy of Brazil has basically come to a standstill.



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Argentina has serious debt problems and Venezuela is in chaos. In Africa there are problems with disease complicated by ethnic and religious conflicts. The Middle East is plagued with rising terrorism and violence. Nation states like Libya and Syria have lost the cohesiveness of a central authority over large swaths of their territory. Iraq will soon follow this pattern. In Europe, you have the conflict with Russia over Ukraine. In the past week civil disturbances in Hong Kong have reached a fevered pitch, troubling the usual order in this part of the world.

These events make the United States a bastion of law and order and its currency a refuge. At least in the short term, investors will continue to look upon the US dollar as a sanctuary for investment. Bad news overseas will be good news for the US dollar. This will also help the US stock market as well. Another consequence will be as the dollar appreciates in value, look for many commodities especially energy and precious minerals like gold and silver, to decline in price.

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