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US Dollar in 2011 : The Impact for Forex Traders

Moves in the USA dollar have a huge impact on other asset sectors. We check out potential drivers of the world's reserve currency and, given some of the lingering macro issues, how it may impact [forex](#) and other trading for the next year.

Firstly, it is worth indicating that we could see a basic shift in the way the currency is traded. Last year, the first driver of USD appreciation was definitely risk aversion, with traders searching for safe-haven assets when either terrible news or poor global business information arose. This can change this year with the greenback not only trading in line with risk sentiment, but also as a growth currency. And with further signals of an growing economy pushing up treasury yields, we could see subsequent USD volume grow.

We have already seen signs of improvement in US manufacturing and initial unwaged claims have been heading lower. With QE2 and the Bush era tax-cut extension still much on the cards, potential plays in the USDJPY and USDCHF might be really engaging at these low levels. These could be the pairs to look out for in 2011.

3 key themes for 2011 for currencies

The China economy

A deceleration in China would definitely be a main driver for risk and might have the biggest result on commodity currencies. With its central bank orchestrating cooling measures to control inflationary pressures, we are likely to see more moderate expansion of about 9% in 2011 for the area. With six reserve ratio requirement hikes and 2 interest rate moves last year, the market is concerned that China could be heading for a hard landing. More than 65% of all Australian exports are destined for this area ; this may usually be the major risk to a serious retreat in the AUD. Our dollar may be exposed to downside pressure anyhow, given its 17% gain vs the euro and 12% against the greenback in 2010.

A good way to play the strength in commodities through currencies might be with the Canadian dollar. It's got a high dependence on the US economy and underperformed in 2010 compared against the AUD. With 70% of Canada's exports going to the US, it does not have anywhere near the same reliance the AUD has on China.

Eurozone debt concerns

Eurozone worries will doubtless be another main driver for risk assets in 2011. Spain is crucial, and ensuring the fixed revenue market doesn't attack yields by selling its bonds too forcefully, is important. If bond yields undergo the same treatment that troubled Ireland and Greece, we could see the USD being bid up, and the euro and commodity currencies (significantly the AUD) may come under serious selling pressure.

As it stands, of the 37 researchers surveyed by Bloomberg, the typical estimate for the EURUSD is 1.30 for year end. Interestingly, net-short positions from futures traders have risen of late, indicating a bearish view. On the flip side, if the Eurozone comes up with an all-encompassing and cohesive plan to unify the area and the market is certain it'll work, the latest positive price action could catch the currency forecasters off guard (like it did in 2010).

An improving United States Economy

US economic growth is certainly key to the USD. The Fed is under serious pressure to keep to its mandate of price stability and to lower the unemployment rate from around 10%. Given the stringent measures that have taken place, we should in theory start to actually see some traction going into the second half 2011. As it stands, the treasury market is pricing in indicators of growth in the US, and this more forward looking asset class could be testament to a rise in the USD.

Merrill Lynch's researchers recently advised the us economy will grow by approximately 2.8%, with it set to pick up thru the year. Capital spending and company spending will be stronger than consumer expenditure, which may suffer with the jobless rate not far lower than it is today. They are bullish the US dollar and believe it will strengthen against the euro (to 1.20) and the Japanese yen.

How am I able to take advantage of this?

Have you got a view on the direction the USD will take in 2011 and how it'll impact other majors? Why not exploit this through [forex trading](#), my favourite [FX trading](#) provider offers tight spreads, a huge range of currency pairs and a free demo account.