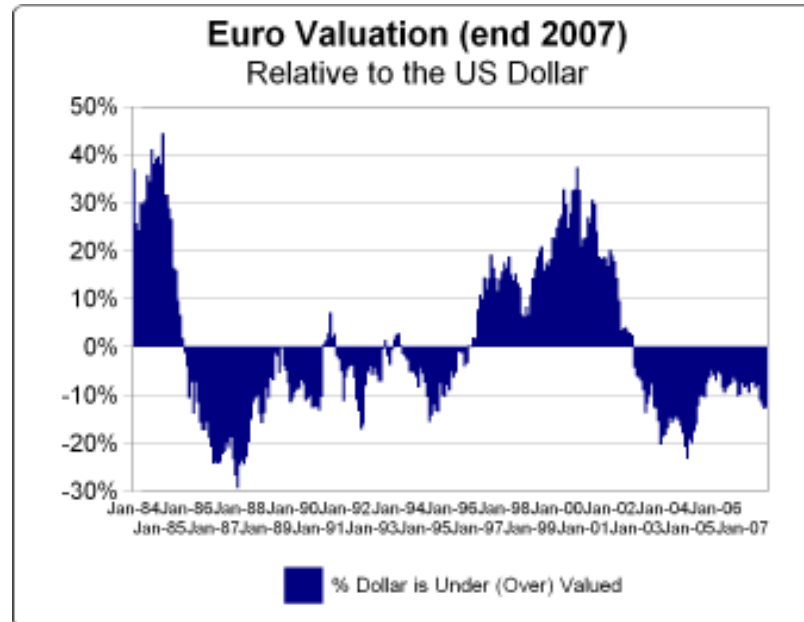


# Currency Markets: A Prelude to Further Turmoil?



**NY QWAFEFW PRESENTATION 29 JANUARY 2008**

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## Currency Markets: A Prelude to Further Turmoil?

Despite widespread predictions that the dollar would decline in value during 2005, it held its own quite well, thank you. However, that respite was short-lived. The next two years have been ones of marked weakness in the greenback.

How long will this continue, and what implications does this have for the financial markets and the global economy?

Only time will tell, of course, but we hope these graphics will provide food for thought and discussion.

Alford Associates uses a combination of valuation modeling to provide a long-term view and adaptive (feedback) modeling to make short-term predictions. These approaches can sometimes yield different predictions, and the challenge becomes one of combining the results.

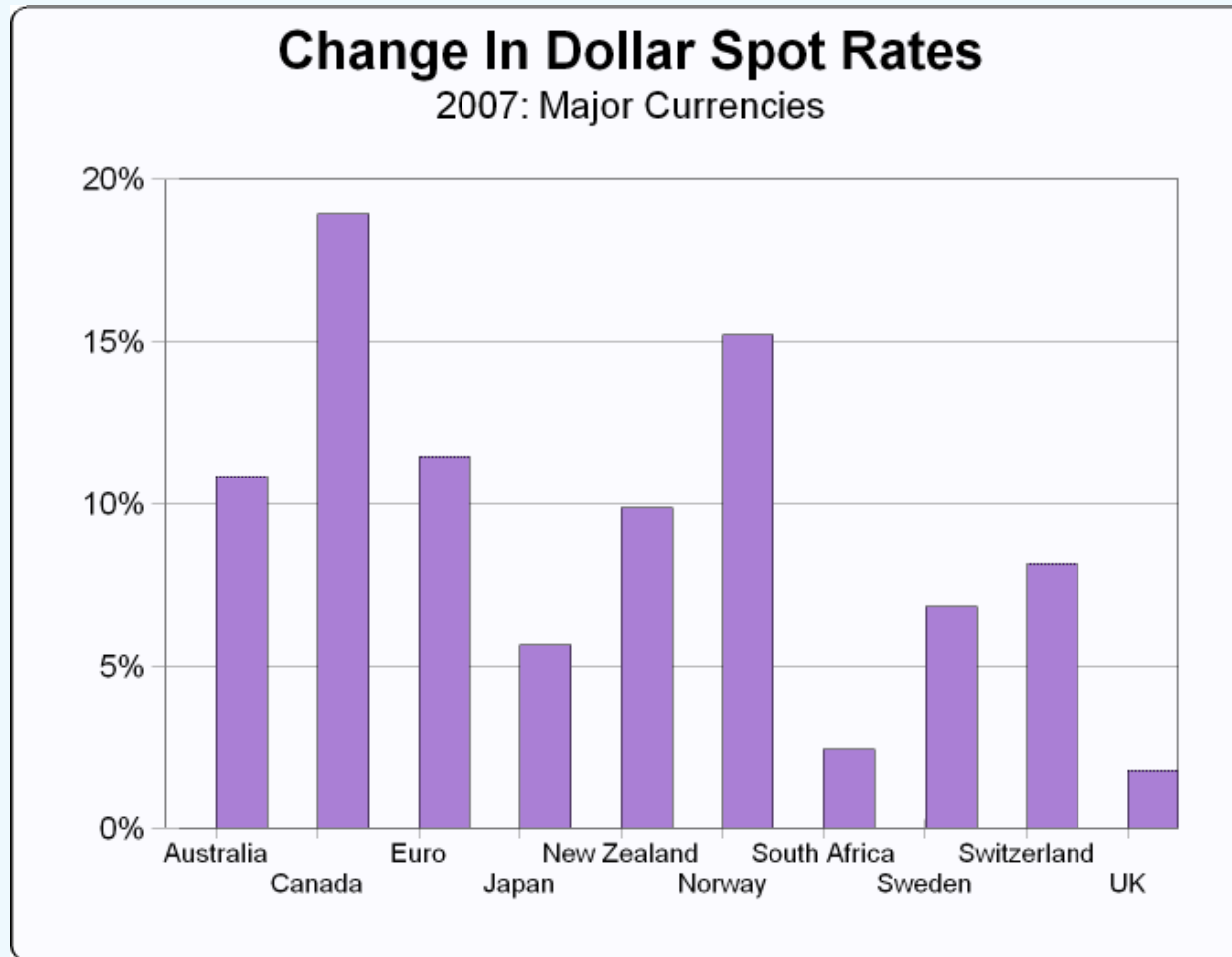
This talk will include:

- a review of 2007
- a discussion of economic factors bearing on currency markets
- predictions for 2008

***Further Turmoil? NY QWAFEFW Presentation 29 January 2008***

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## Greenback Weakness in 2007



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## How High the Moon?

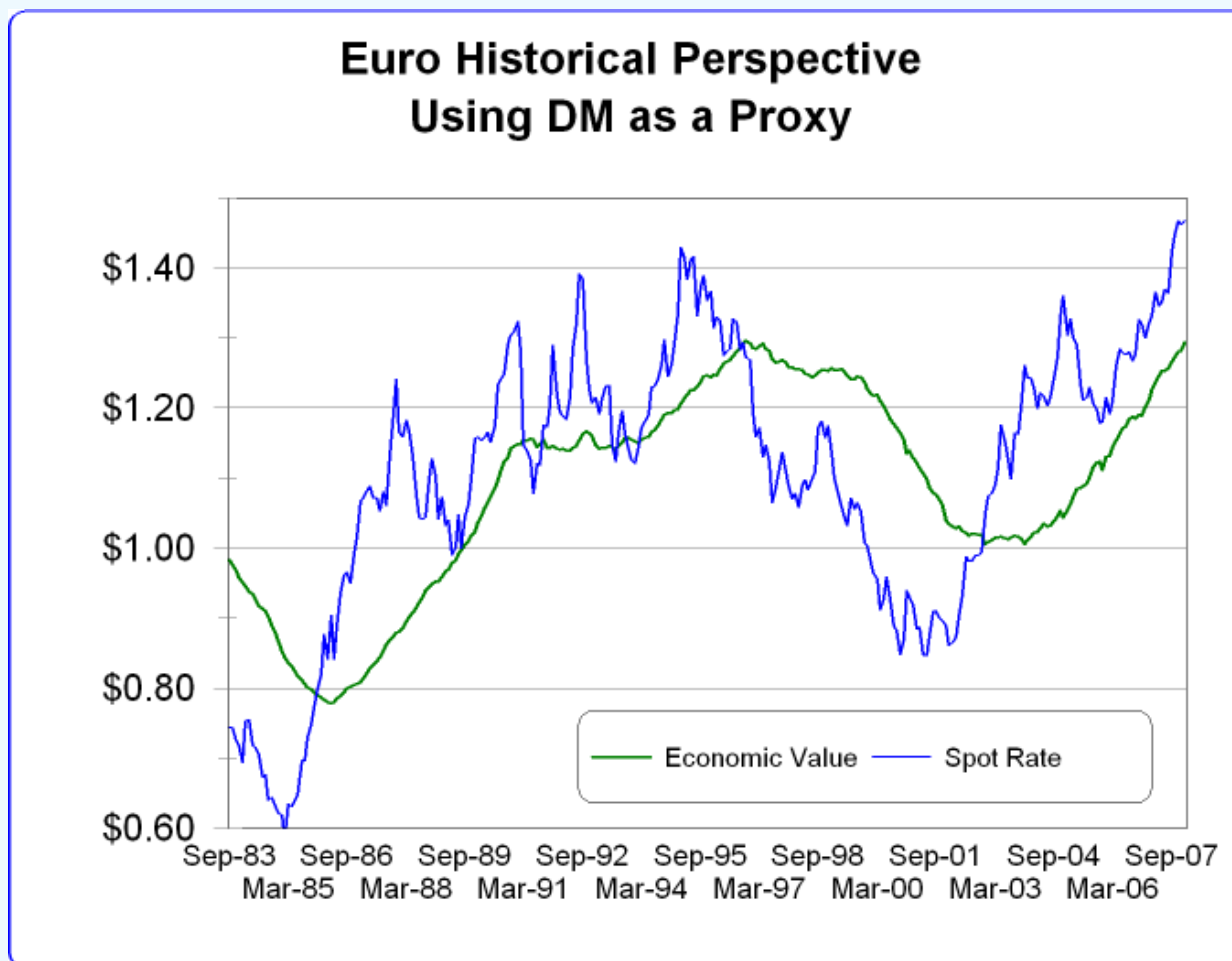
**Euro -- Spot Rate versus US\$  
Weekly Since Launch as of 25 Jan 2008**



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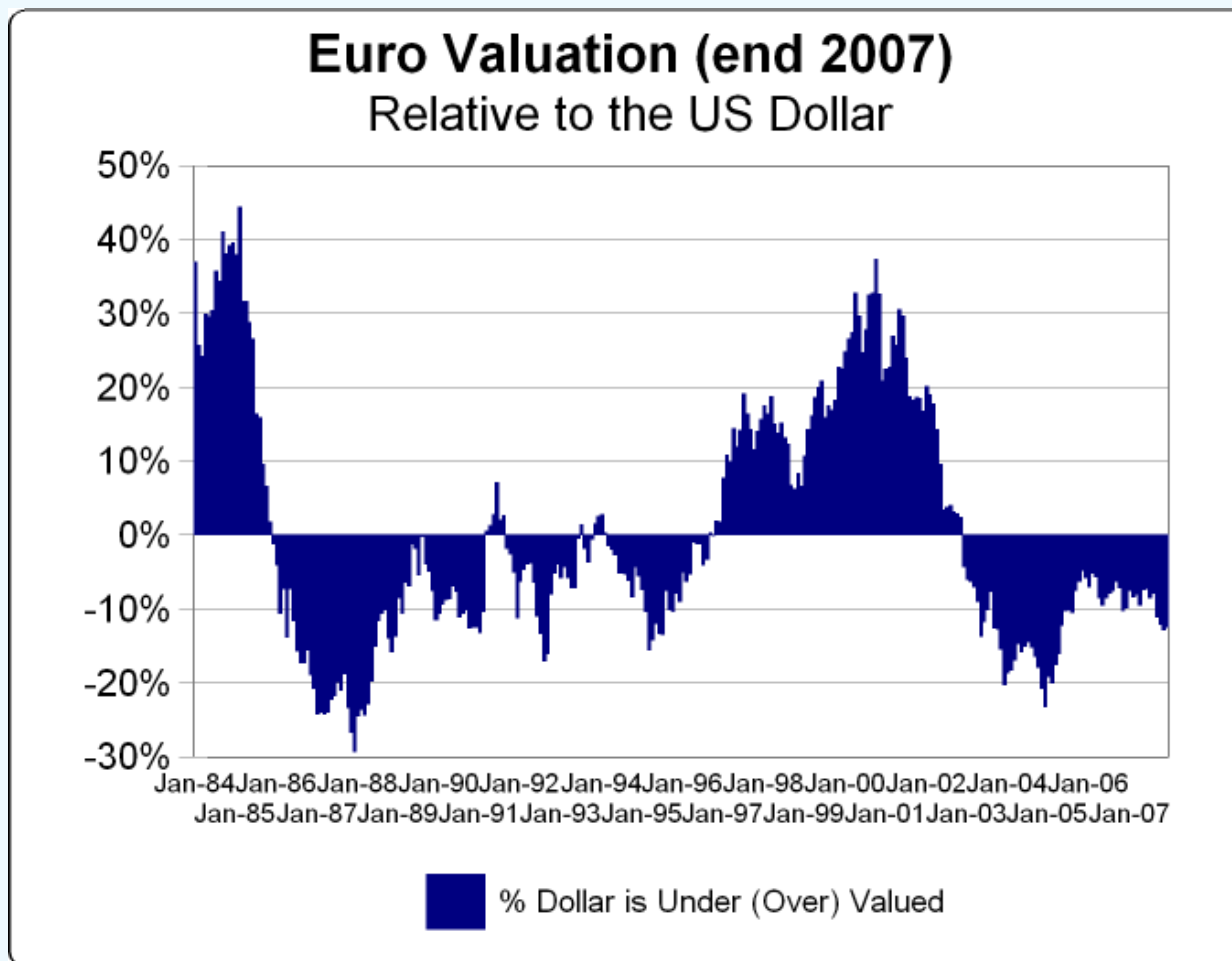
## Valuation Cycles of FX Rates Are Very Long



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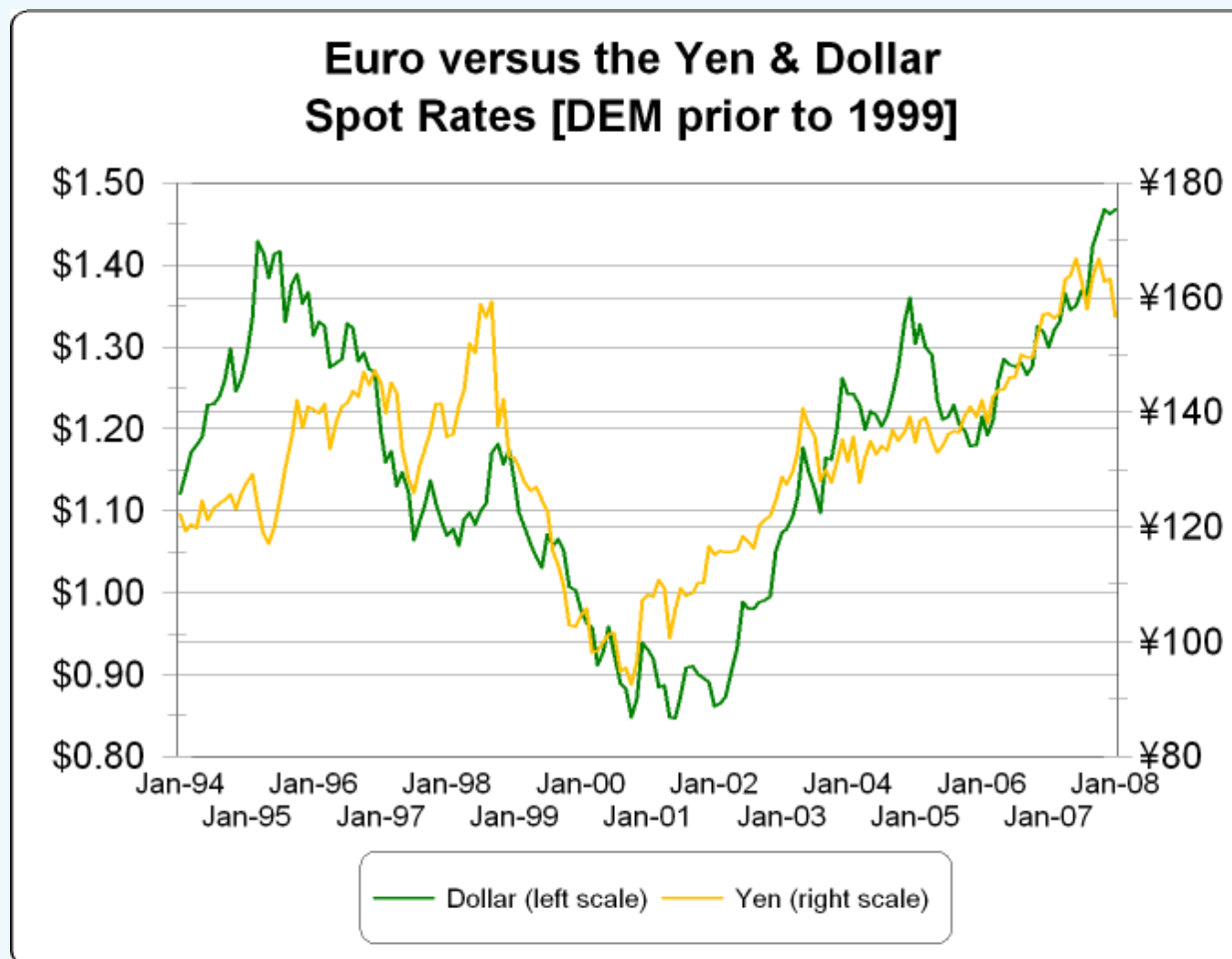
## Unlikely that Economic Shifts Are Complete



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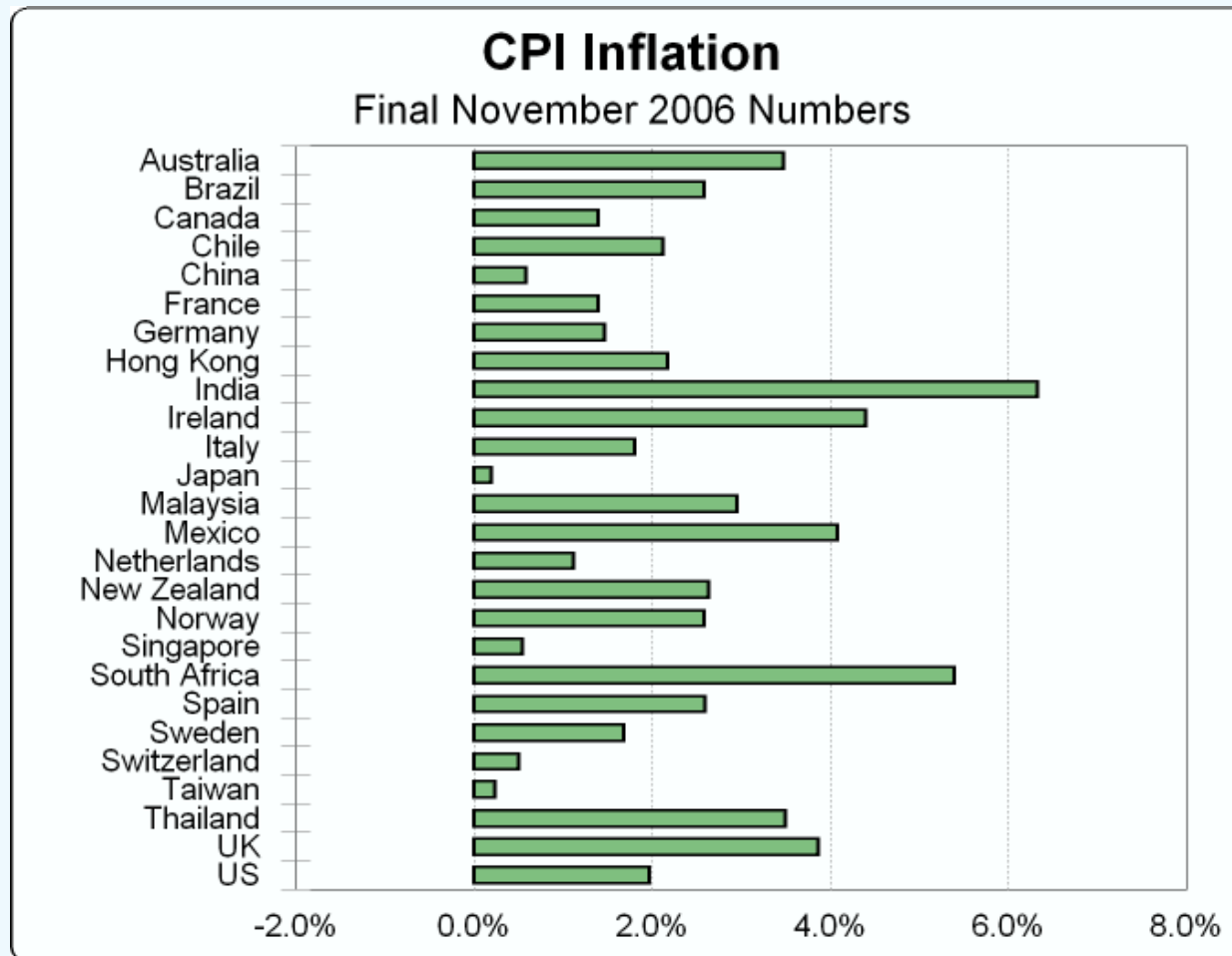
## Euroyen Has Been Relatively Stable



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## Inflation Had Been Moderate, Despite Rising Energy Quotes

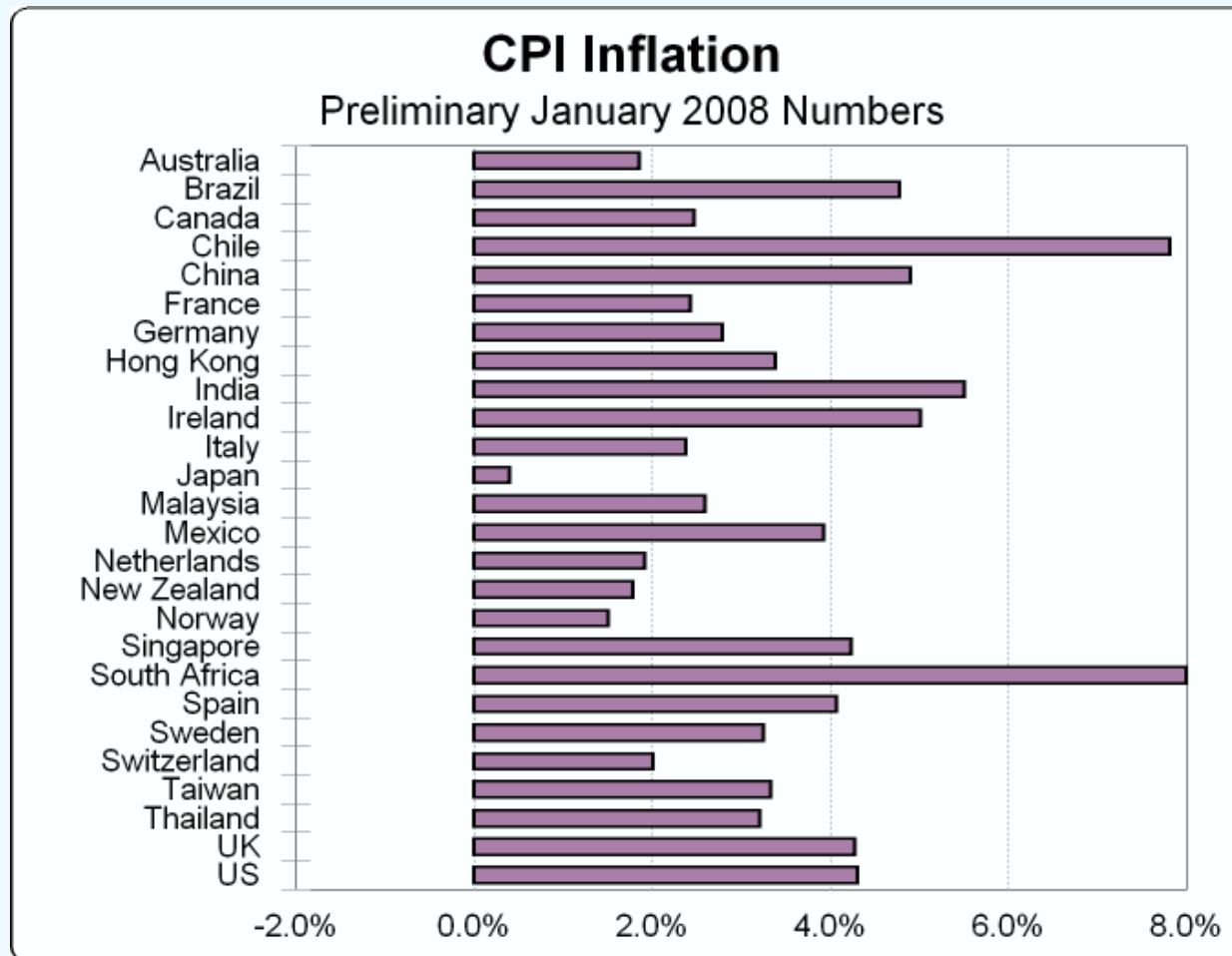


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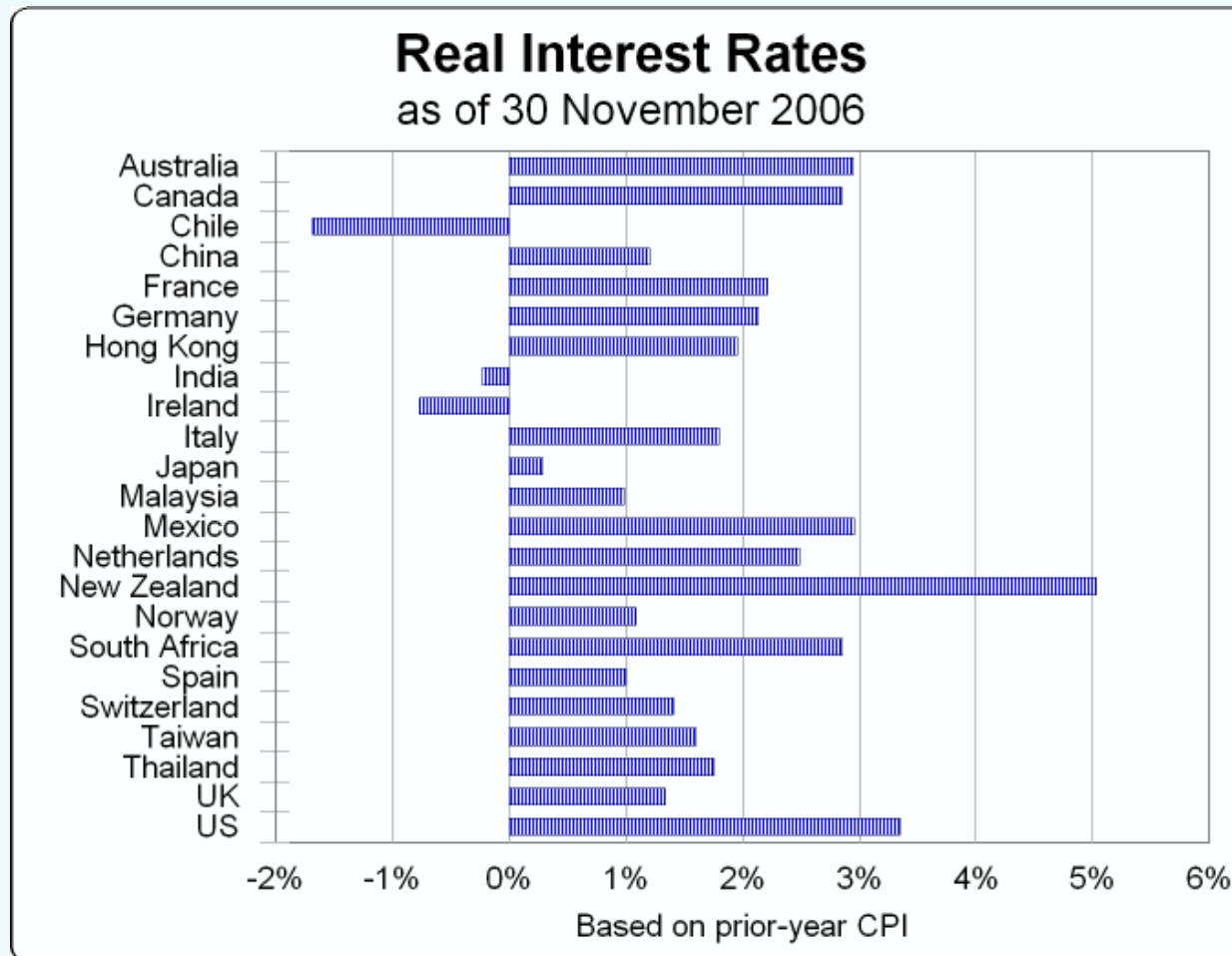
## But Now ...



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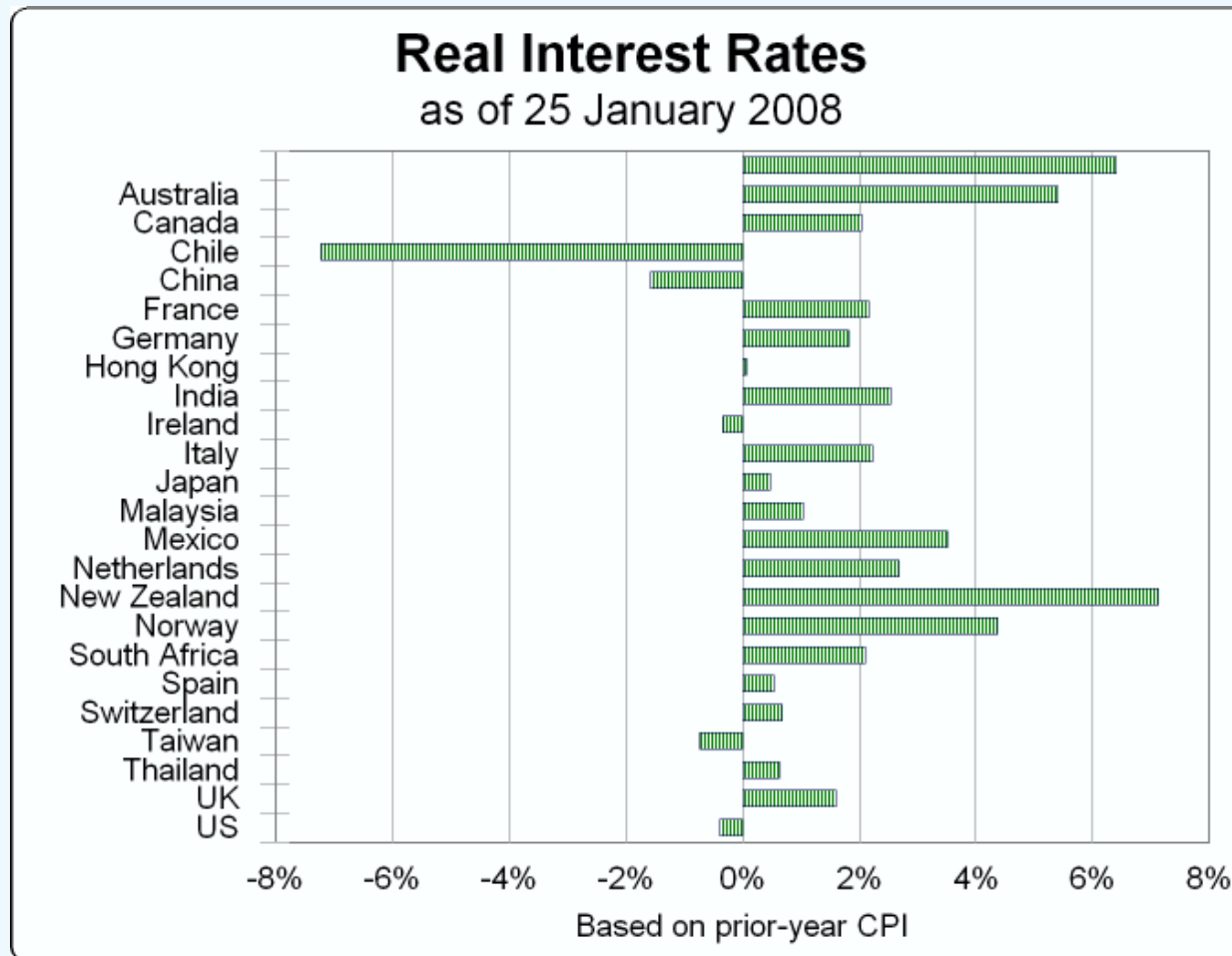
## Dollar Declined Even When Rates Were Favorable



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## Now, Rate Comparisons Do Not Favor the Dollar



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# Currency Valuations

and Recommended Exposures

for Dollar-Based Investors

as of 25 January 2008

Country	Code	Spot Rate	Economic Value	One-Year Target	1-Year Expected Return	Relative Valuation	30-90 Day Forecast	1-Month Expected Return
<b>Europe:</b>								
Euro	EUR	\$1.4671	\$1.29	\$1.57	8.7%	-33%	\$1.4719	0.32%
Norway	NOK	kr 5.4975	kr 6.13	kr 5.12	11.4%	37%	kr 5.4107	1.71%
Sweden	SEK	6.4683 kr	7.06 kr	5.96 kr	9.7%	-23%	6.4217 kr	0.73%
Switzerland	CHF	SFr. 1.0973	SFr. 1.18	SFr. 1.02	8.0%	-29%	SFr. 1.0829	1.16%
UK	GBP	\$1.9818	\$1.82	\$2.08	6.2%	-17%	\$1.9758	-0.20%
<b>Asia/Pacific:</b>								
Australia	AUD	\$0.8804	\$0.77	\$0.95	13.2%	-25%	\$0.8830	0.50%
India	INR	INR39.34	INR47	INR38	7.0%	-41%	INR39.17	0.72%
Japan	JPY	¥106.83	¥105	¥99	7.8%	-29%	¥104.78	1.63%
New Zealand	NZD	\$0.7703	\$0.69	\$0.85	16.9%	-20%	\$0.7723	<b>0.61%</b>
Singapore	SGD	\$1.4247	\$1.54	\$1.38	0.5%	-50%	\$1.4135	<b>0.79%</b>
Taiwan	TWD	NT\$32.30	NT\$30	NT\$31	3.8%	-2%	NT\$32.24	0.03%
Thailand	THB	31.15Bt	39Bt	28Bt	11.4%	-50%	29.20Bt	6.61%
<b>Americas/Africa:</b>								
Brazil	BRL	R\$ 1.7864	R\$ 2.58					
Canada	CAD	\$1.0070	\$1.23	\$0.98	4.1%	-41%	\$1.0259	-1.86%
Chile	CLP	\$469.04	\$589	\$437	-0.2%	-48%	\$465.45	0.43%
Mexico	MXP	N\$10.8968	N\$11.78	N\$10.35	8.4%	12%	N\$11.0687	-1.33%
South Africa	ZAR	R 7.1736	R 7.18	R 6.33	15.0%	-19%	R 7.3676	-2.16%

**Notes to the table:** The Australian and New Zealand dollars, the euro, and the British pound are priced in US dollars, all other currencies are shown as units of currency per US dollar.

**“Economic Value”** is our estimate of the current long-term central value of the currency.

**“One-Year Target”** is our forecast of where the spot rate will be in one year’s time.

**“1-Year Expected Return”** is the total return expected from the currency component of holding an investment position. This calculation includes (among other factors) an allowance for our forecast of how far the currency will move toward or away from its economic value as well as any change in that economic value anticipated as a result of differential inflation over the next year between the US and the country being analyzed.

**“Relative Valuation”** is a statistical measure, expressed within a range of -100% to +100%, associated with the relationship of our “Economic Value” calculation and the current spot rate. A positive number indicates that the currency is undervalued relative to the dollar; the scale is a confidence interval based on a 10-year history.

**“30-90 Day Forecast”** is a near-term prediction for the spot rate by our adaptive forecasting algorithms. Heavier weight is given to factors (interest rates, for example) that have been recently influencing market behavior. Each currency is forecast with a model that is unique to that country.

**“1-Month Expected Return”** is the total return from a one-month forward, based on the previous column. Forecasts in this column shown in **bold** type have changed direction from last week’s report.