US dollar movements in 2007

Hasan Bakhshi, 27 December

This note comments on changes in the value of the US dollar against selected currencies between January 2007 and December 2007. It updates the discussion in the research paper "Long-run trends in exchange rate competitiveness", published by the UK Film Council in May 2007. Chart 1 shows exchange rate movements over the year, and Chart 2 shows the volatility of these changes. Key points to note are:

- Although the US dollar weakened against the pound during most of 2007, a recovery at the end of the year meant that the US dollar-pound exchange rate was the same at the end of 2007 as it was at the beginning (Chart 1).

- The pound has shown much greater stability against the US dollar than the other currencies (consistent with long-run trends).[1]

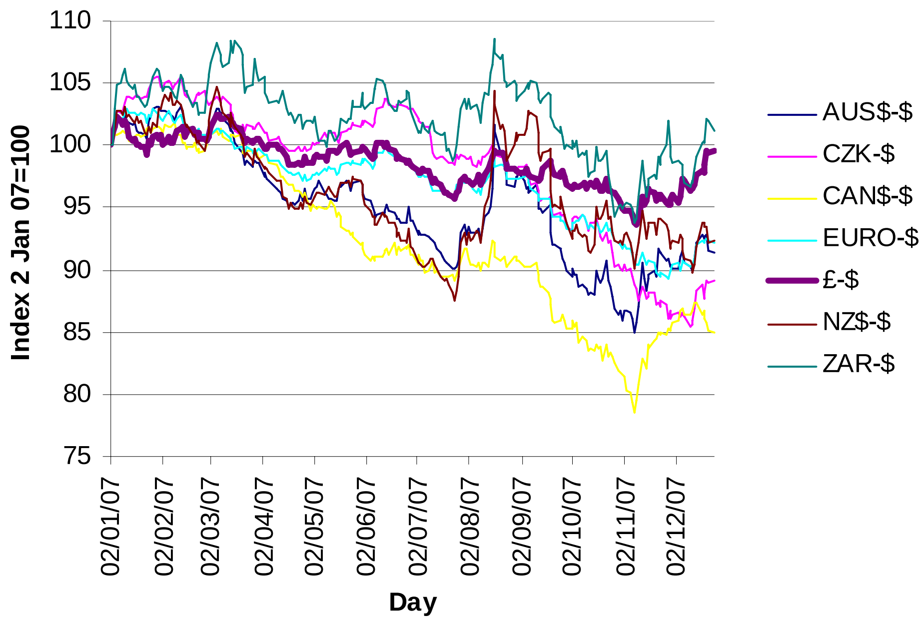
- Both the US dollar and the pound depreciated significantly against most other currencies shown in Chart 1 during 2007. The value of the US dollar fell by 15.1% against the Canadian dollar; 10.9% against the Czech koruna; 8.5% against the Australian dollar; 7.8% against the euro; and 7.6% against the New Zealand dollar.

- These are significant shifts; other things being equal, they have made both the US and UK more attractive as production locations.[2]

- Chart 2 shows the relative instability of the value of the South African rand, the Czech koruna and the Canadian, New Zealand and Australian dollars against the US dollar. This is a strong argument for US filmmakers not to locate films in these countries, as they would be exposed to volatile short-term exchange rate movements. The chart also shows that the US dollar-pound relationship has been much more stable.

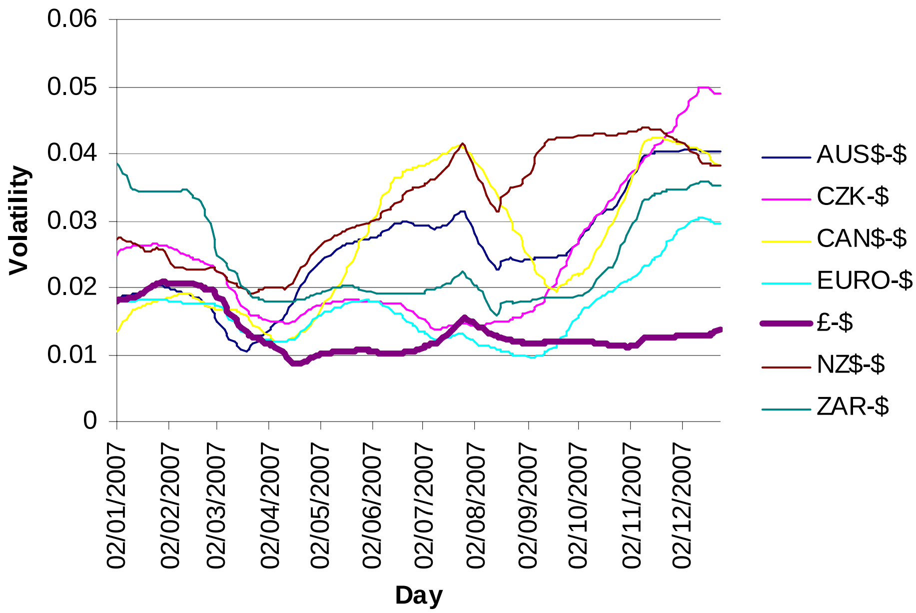
[1] The original research paper, "Long-run trends in exchange rate competitiveness", gives historical trends in exchange rates.
[2] Again, see the original research paper for a discussion of how exchange rates affect the competitiveness of countries as production locations.

Chart 1: Movement in nominal value of US dollar January to December 2007



The exchange rate data can be downloaded from the Bank of England's website: http://www.bankofengland.co.uk/mfsd/iadb/Index.asp?first=yes&SectionRequired=I&HideNums=-1&ExtraInfo=true&Travel=NIx

Chart 2: Exchange rate volatility January to December 2007



The volatility measure is the rolling 100-day coefficient of variation (calculated as the standard deviation of exchange rate movements in rolling 100-day periods divided by the mean value of the exchange rate over each period).