US dollar movements since January 2007

Hasan Bakhshi, 14 March

This note comments on changes in the value of the US dollar against selected currencies between 2 January 2007 and 11 March 2008.[1] 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, there was a recovery at the end of the year. There has been some renewed weakness of the US dollar against the pound at the start of 2008, but the US dollar-pound exchange rate remains roughly at what it was at the beginning of 2007 (Chart 1).

- The pound has shown much greater stability against the US dollar than the other currencies (consistent with long-run trends).[2]

- Both the US dollar and the pound have depreciated very significantly against most other currencies shown in Chart 1 since the beginning of 2007. The value of the US dollar fell by: 21.2% against the Czech koruna; 14.6% against the Canadian dollar; 13.9% against the Australian dollar; 13.4% against the euro; and 11.5% against the New Zealand dollar.

- These are important shifts; other things being equal, they have made both the US and UK more attractive as production locations.[3]

- 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 again shows that the US dollar-pound relationship has been much more stable.

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[1] 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

[2] The original research paper, "Long-run trends in exchange rate competitiveness", gives historical trends in exchange rates.

[3] 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, 2 January 2007 to 11 March 2008

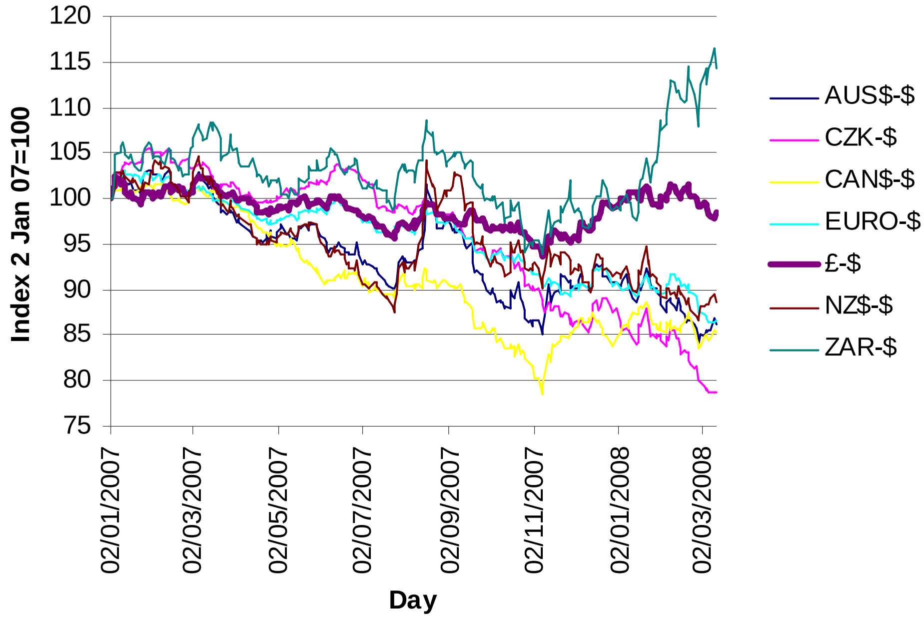
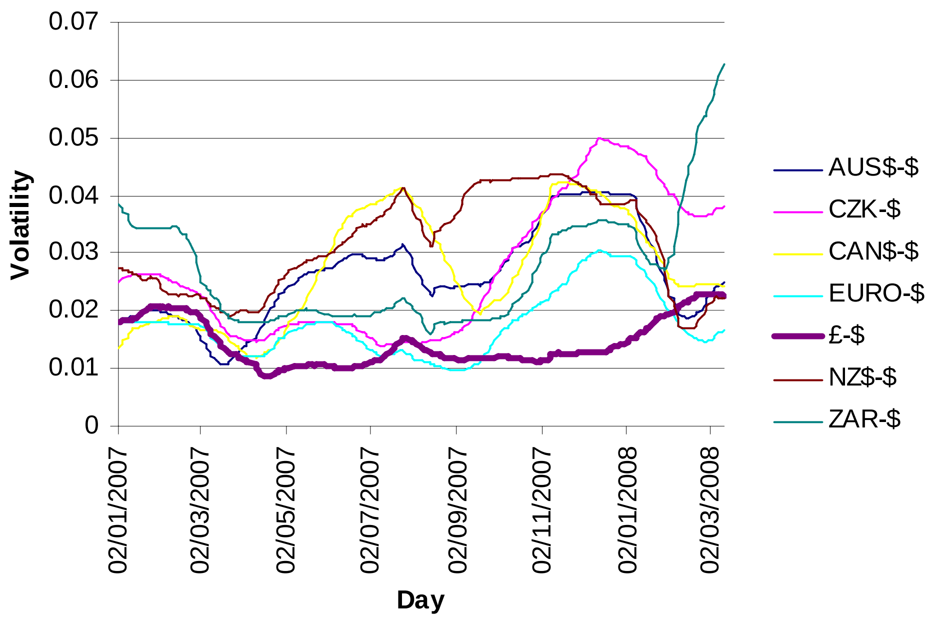


Chart 2: Exchange rate volatility, 2 January to 11 March 2008



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).

ANNEX

Chart A1: Movement in nominal value of US dollar against selected currencies, 2 January 2007 to 11 March 2008

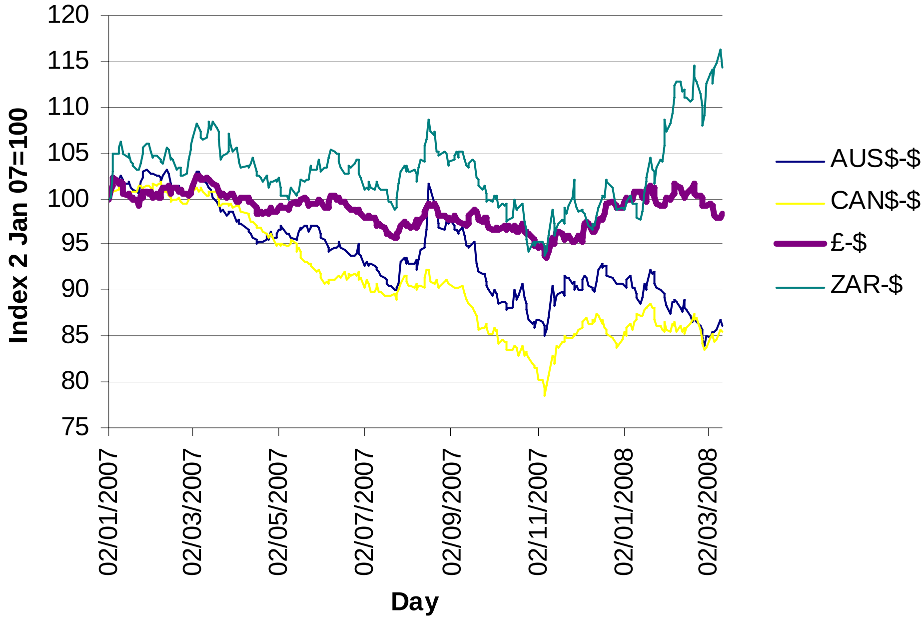
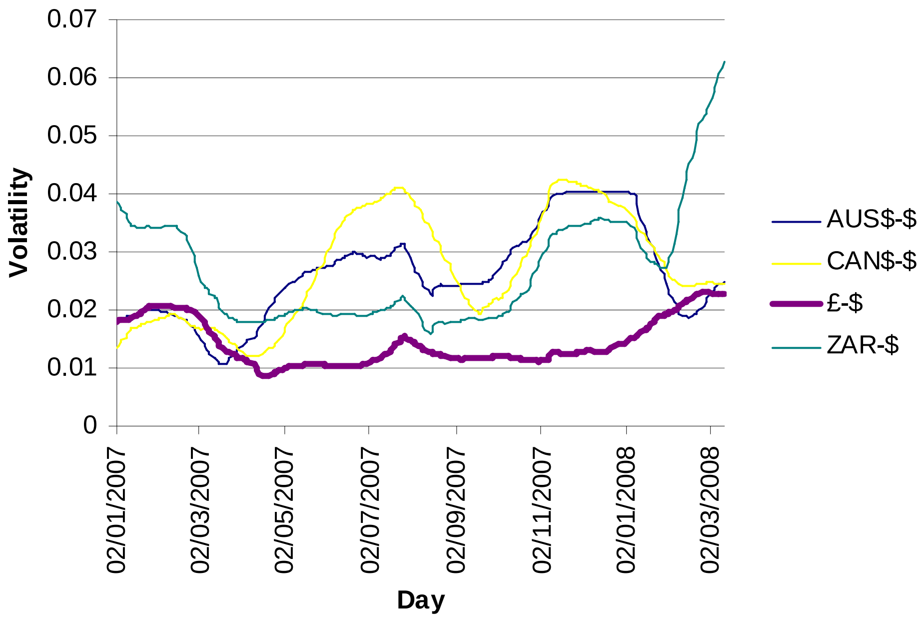


Chart A2: Exchange rate volatility of selected currencies, 2 January to 11 March 2008



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).