DynexCorp

# Dynamic Currency Debt Management

## 3nd Quarter 2008 Report 9 October 2008

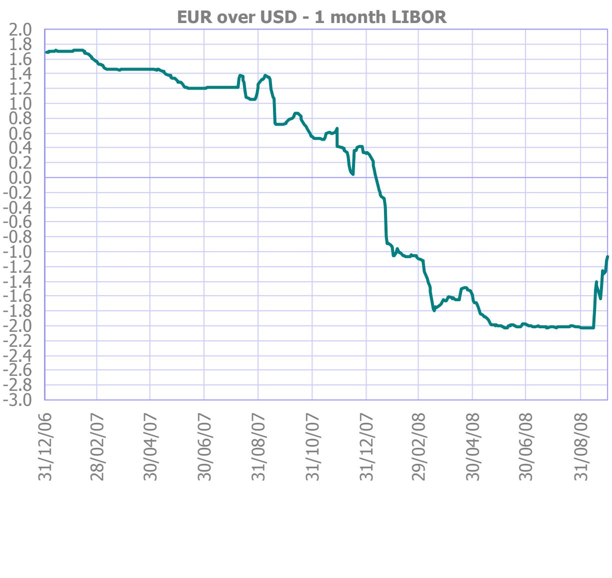
As the chart at the left bottom corner shows, the interest rate difference advantage of the USD versus the EUR seems to have taken a turn, temporarily or longer term, we don't know. Guessing or forecasting interest rate movements is a tricky if not impossible thing. One should perhaps not get married to the view that the euro could not go any lower against the dollar, overvalued as it is on Purchasing Power Parity.

As John Percival put it rightly: "another device for avoiding market mindsets is to close positions, in order to be free to rethink things; you can always go back in…

The initial rationalisation of current market chaos, and of the dollar's unexpected strength, is *escalating risk aversion*, with the premise that liquidation involves flows into the dollar. This is intuitive in the case of commodities and other margined positions denominated in currencies which are not the accounting units. But that the dollar should shoot up on revelations of the dysfunction of America's credit markets and its political process is not instantly intuitive. This may be another reason for stepping out and waiting for more typical times and ones that are less driven by events that we may not profitably use to trade off."

### To put the micro-world into a macro view it is useful to see the BIG PICTURE in the EURUSD bull:


### The interest rate advantage of USD versus EUR has reversed




* Performance Data calculated with the using the following sources:

- Data are based on ACTUAL performance
- Order execution details of Borrower's Bank
- British Bankers Association LIBOR daily LIBOR data
- European Central Bank FX reference rates based on the regular daily concertation procedure between central banks within and outside the European System of Central Banks (normally at 2.15 p.m. ECB time)

Borrowing can become an advantageous business if loan balances can be reduced through a) interest rate reduction and/or b) dynamic switching to weaker currencies. Interest rates for different currencies vary greatly. Switching loan balances into low interest rate currencies can reduce the interest burden. Switching loan balances into currencies that fall against the original loan currency can also reduce the loan burden. DynexCorp uses a combination of both to achieve benefits for the borrower.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