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## U.S. dollar sags on global financial leaders' omission

By Kevin Carmichael  
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*Currency traders rid themselves of greenbacks with G20 meeting silent on dollar's role in recovery*

It's what the G20 didn't say.

Global traders pushed the U.S. dollar to new lows in a bet that leaders of the world's major economies are unlikely to take steps to stem the currency's long slide.

By omitting any discussion of the faltering U.S. dollar at a key gathering, global financial leaders effectively pulled the rug out from under the world's reserve currency as it continues a months-long decline.

The U.S. dollar sank to new lows against a basket of currencies in the wake of a Group of 20 gathering in Scotland on the weekend, where finance ministers, central bankers and International Monetary Fund officials discussed policies aimed at nursing the global economy back to health.

Investors took the relative silence on foreign exchange as a cue to carry on ridding themselves of the legal tender of the world's largest economy.

"Bottom line, the G20 and the IMF seemed nonchalant about the dollar," said Marc Chandler, head of global currency strategy at New York-based Brown Brothers Harriman. "That gave traders a green light to do whatever they want to do, which is to sell the dollar."

For the United States, the weak dollar is the price paid for the country's monetary policy, which promises to keep interest rates near zero for the foreseeable future, in the hopes that heavy stimulus spending in the U.S. and around the world will spark

economic growth.

But there's an upside to the weak greenback that keeps officials from rushing to its defence. The weaker dollar is making the world's largest economy stronger, as exports become more competitive, providing a boost for the long-suffering manufacturing industry. Big multinational corporations also are benefiting because they are earning a windfall as they convert their overseas sales into dollars.

The dollar fell to its lowest level in 15 months Monday on an index that tracks the greenback's strength against six major currencies, including the euro and yen, amid a day of raucous trading.

The Canadian dollar resumed its upward charge, tacking on 1.57 cents (U.S.) to reach 94.57 cents. Commodity prices, which often move in the opposite direction as the U.S. dollar, popped higher. Gold hit a record high of \$1,111.70 an ounce in New York, and oil gained about \$2 to 79.43 a barrel. Stocks also jumped as commodity-related shares climbed along with blue chips. The Dow Jones Industrial Average hit a 13-month high.

The G20's silence on foreign exchange rates reflects both the inevitability of the dollar's decline as the U.S. grapples with massive budget deficits and soaring unemployment in the wake of the worst financial crisis since the Great Depression, and the complicated business of trying to achieve consensus among so many countries with competing interests.

Complicating the currency question is China, which refuses to stop linking the value of the yuan to the dollar. That prevents the yuan from rising, and keeps China's exports competitively priced. It also forces the adjustment of the greenback on European countries, Canada and other nations with a floating exchange rate. For now, instead of openly criticizing China, the U.S. has opted for a quieter approach in hopes Chinese officials will come around on their own.

In Canada, the surging loonie makes exports less competitive with the U.S.

Bank of Canada Governor Mark Carney has repeatedly aimed to talk down the value of the Canadian dollar, pledging to keep interest rates at historically low levels until next summer in a bid to provide much-needed assistance to the domestic economy and chase away speculators betting on rising rates here.

"This is not the time for bullish confidence in the economy," Finance Minister Jim Flaherty told reporters on the weekend.

The U.S. dollar is falling because the currency offers no compelling case for shorter term profit. While it remains a fundamental pillar of the world economy because so many goods are priced in U.S. dollars, the Federal Reserve's plan to leave its benchmark lending rate near zero until well into next year means higher immediate profits can be found elsewhere.

In fact, the IMF says traders are using the dollar to fund "carry trades" where they borrow at low rates in the United States to invest in higher yielding assets in countries with higher benchmark lending rates. The same phenomenon is contributing to a weaker yen because the benchmark lending rate in Japan is a mere 0.1 per cent. By comparison, the official interest rate in South Africa is 7 per cent and 2.5 per cent in New Zealand.

Still, the dollar remains on the "strong side" of what might be expected given the

outlook for the U.S. economy over the medium term, the IMF concluded in a report released at the G20 meeting in the Scottish golfing town of St. Andrews on Saturday.

And much of the dollar's current weakness actually reflects growing confidence in the recovery from the deepest recession in more than six decades.

With the financial crisis at its worst, international investors flocked to the safety of assets priced in the world's most circulated currency. Now, with significant signs of growth in countries such as China, Australia and Germany, investors are paying closer attention to fundamentals that cast the U.S. in a negative light, such as a deficits now well above \$1-trillion and an unemployment rate above 10 per cent.

"I would expect increasing currency volatility as the cross currents of weak U.S. fundamentals play out against political rhetoric aimed to slow or manage the inevitable and ongoing decline," said Daniel Bain, president and chief investment officer at Thornmark Asset Management Inc. in Toronto.

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