THE U.S. DOLLAR GETS THE 7-YEAR ITCH

Too much sugar can make one very sick.

In fact, too much of a good thing can turn out to be a bad thing.

Which leads TARGET to the question of the US dollar and its translation into other currencies.

Of late, the US dollar has been under considerable pressure as traders swap the greenback for euros and/or Japanese yen.

What many people may have forgotten is that the US dollar has appreciated against most other *'hard'* currencies by about 33 percent over the past 7 years.

And, over the past few months, it has fallen back by about 5 percent against the euro, and nearly 7 percent against the yen.

If the US dollar continues to weaken, it will be a fillip for US industry, which has been hard-pressed to sell goods and services outside the Continental US, anyway, due to the fact that US industry was not competitive when compared with similar products, manufactured in places, such as Europe, both Eastern Europe and Western Europe.

For the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), the Hongkong dollar, being linked to the US dollar at $HK7.80, the weaker US dollar vis-à-vis the Japanese yen/euro, etc, will do the territory little good because much of the HKSAR's material requirements, needed for the production of goods for export, are purchased from international suppliers, most of whom demand payment in US dollars. These suppliers are, mainly, in Japan, Asia and Europe.

That means that the cost of goods, produced in the HKSAR, will, in relative terms, be more expensive; it is unlikely that these additional manufacturing/material costs can be passed on to customers.

This may well come to mean that HKSAR producers will have to cut their profit margins – if there be any profit margin, these days – or, alternatively, seek other ways to offset the increased costs of production – if that be possible.

For the US, on the other hand, it is pretty self-sufficient with regard to components, needed for the manufacture of goods for export.

That being the case, US manufacturers will be in a better position to sell their goods on the world's marketplace at relatively cheaper costs to international importers just as long as the US dollar continues to weaken.

However, how much would be too much?

At what point would a weak US dollar start to fan the inflationary flames on the home front, thus souring the sweetness of a weaker US dollar?

One of the many reasons that has been given for investors, shifting out of US dollars and diving into the Japanese yen and the euro, is a marked cutback in the buying of US stocks and bonds by non-US companies/citizens on US stock markets.

Statistics, released by the US Commerce Department, recently, indicate that, in January and February, this year, non-US entities/investors bought close to $US27-billion worth of US equities and fixed-income securities.

This is down from a year earlier when the figures for January and February were closer to $US100 billion.

Overseas investors, looking at the low returns from investing in US equities, no doubt, leaned toward Japan and Europe as alternative venues in which to invest.

Another reason for the seeming duller glow of the US dollar, as an international currency of choice, just now, is the slowdown in mergers and acquisitions of US entities, public and private.

There is a lesser requirement for non-US entities to buy US dollars in order to execute mergers and acquisitions of US corporations – because there are precious few corporate entities that non-US entities want to buy/merge, at this time.

In the month of April, the US Commerce Department reports, global mergers and acquisitions slowed to about $US14 billion.

That represented the lowest level in the past 5 years.

In the first 4 months of 2002, of all of the internationally announced mergers and acquisitions, the US accounted for less than 14 percent.

In 2001, during the first 4 months, the US was said to have accounted for about one third of international mergers and acquisitions.

US corporations, clearly, are no longer attracting international players onto their pitches.

It is hardly surprising that the gilt is wearing thin on US-dollar acquisitions, considering the amount of money that has had to be written off investments in the telecommunication sector, alone, over the past few years.

Many a non-US entity and, especially, many a Japanese entity rue the day that they bought into US companies at the time that the bulls were running down Wall Street.

Turning just to US industry, again, and trying to analyse the impact of a weak US dollar on its industry, it would appear that telecommunications companies and technology companies might well benefit, at least in the short term.

It is estimated that about 45 percent of US technology is exported to non-US territories.

US energy companies are known to be reliant to the extent of about 33 percent on export sales.

Industrial companies, operating out of Continental US, may well reap rewards from a weak US dollar since they will be in a better position to compete with European rivals.

US motor-car companies may, also, be in a better position to compete on the world stage.

Canada, no doubt, will suffer because, as the US dollar weakens against other *'hard'* currencies, the Canadian dollar will, effectively, go in the opposite direction, thus eroding any benefit that may have been derived from establishing manufacturing bases, north of the US border.

But, for the HKSAR, the benefits of a weaker US dollar are not as clear because of the territory's heavy reliance on imports in order to produce goods for export, whether or not production bases are in the PRC, proper, or in the HKSAR.

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