VOLUME VI No. 228 W E D N E S D A Y December 1, 2004

SELL U.S. DOLLARS AND BUY CANADIAN DOLLARS

The US dollar is under pressure, internationally, and many companies are facing the prospects of having to make provisions with regard to translation losses in their balance sheets for the 2004-Year.

Where is one to run for cover, at least, for the next year or so?

The answer is, probably, not the euro, which has hit new highs against the US dollar of late, eclipsing $US1.31, but the Canadian dollar.

This is not to suggest that the Canadian economy is good or that its economic growth is outstripping that of the US, far from it, because the quasi-socialistic governmental system of this North American country leaves a lot to be desired.

Nevertheless, with about 85 percent of Canada's exports, going south to the US, Canada, being rich as it is in oil and other natural resources/commodities, stands to gain as the US dollar depreciates against other *'hard'* currencies.

It is possible that, before the end of next year, the Canadian dollar could well be trading at more than $US1.10.

If **TARGET**'s prognostications are correct, people, selling the US dollar, today, are looking at an appreciation, within a period of less than one year, of the order of about 30 percent.

Of course, between now and the time that the cows must return to their sheds for the night, anything is possible, but, all things being equal, a target of $US1.10 for the Canadian dollar would seem likely.

There is not one reason for **TARGET** to come to his conclusion, but a whole slew of reasons, some of which are given below.

If trend is, truly, one's friend, then the US dollar's decline against many *'hard'* currencies will, definitely, continue.

The US Government has gone on record to state that it would do all that it could to reduce the country's budgetary deficit, which is likely to approach $US600 billion before the Fiscal Year is out the way that things are moving, today.

But any attempts to rein in the deficit will take time and, in **TARGET**'s opinion, a great deal of time, considering how US President George W. Bush is spending his country's money.

And, as the good Protestant spends more and more money than the country is earning, it leads to more and more inflation.

A situation, such as this, will have to be addressed by Dr Alan Greenspan, the Chairman of The US Federal Reserve.

A depreciating US dollar means that US exports, of course, become relative cheaper, but, at the same time, the US imbalance of payments is bound to escalate, with countries, such as the People's Republic of China (PRC), finding themselves, having to consider what action to take in order to rewrite export contracts so as to guarantee profit margins, which, in the case of the garment industry, may be as low as 3 percent for high-volume, long-term contracts.

It was not that long ago that export contracts for Japanese goods contained clauses, which took into consideration foreign-currency translation changes.

It could happen again.

Equity prices in countries where their currencies are under pressure will, naturally, find themselves, staring at depreciating values of stocks and shares, brought about, completely, by foreign-exchange translation factors as investors realise that external sales will hurt companies, dependent on exports.

Conversely, in countries where their currencies are depreciating, following the US dollar's decline, their equity prices are quite likely to rise, smartly.

One must add to this formula, however, the coefficient that central banks, concerned about the appreciation/depreciation of their respective currencies, will not hesitate to take definitive action when it is deemed that needs be such.

Last Monday, the Governors of The Bank of Japan stated, very clearly, that Japan's Central Bank was watching the situation with regard to the yen's appreciation against the American greenback; and, it would not hesitate to support the US dollar as a means to hold down the appreciating value of the currency of Japan.

Because Japan is a net exporting country, dependent to a very large extent on the US consumer market, The Bank of Japan must protect its home-grown industries, or suffer the consequences of non-action.

When President George W. Bush last visited Japan and spoke to Prime Minister Junichiro Koizumi, he asked the Prime Minister to exert pressure on The Bank of Japan in order to let the US dollar find its own level against the yen.

Prime Minister Junichiro Koizumi did nothing.

He remarked, publicly, that he saw nothing wrong with the way in which The Bank of Japan had been acting in defence of the yen.

As central banks support the US dollar in order to defend their own currencies, and, it follows, its industries, it will be good for equities, generally, one must speculate, because of the boost to liquidity.

However, against this prospect, the US Federal Reserve Board is, just about, guaranteed to take action, too: It will boost interest rates in the US to at least 4 percent before 2005 draws to a close.

That is an increase of 100 percent, compared with The Fed Funds Rate of 2 percent, today.

The next Open Market Committee Meeting of The Fed is scheduled for December 14, 2004.

The preferred international reserve currency of world, **TARGET** would like to reiterate, will, most likely, continue to be the US dollar, with little to no chance of the euro, replacing it in this decade.

The growth of the **G**ross **D**omestic **P**roduct (GDP) of both of the European powerhouses of France and Germany for the 4^{th} quarter of this year is likely to be no more than 2 percent.

The Central Bank of the European Union, the **E**uropean **C**entral Bank (ECB), is unlikely to raise interest rates at its next meeting this month because such a move would be counter-productive and, if anything, the ECB wants to discourage a flood of investments into the euro and, worse, speculation on how high will the euro rise vis-à-vis the US dollar.

So, where does one go for honey?

The Canadian dollar appears to be a good, temporary refuge, all things considered.

-- E N D --

While TARGET makes every attempt to ensure accuracy of all data published, TARGET cannot be held responsible for any errors and/or omissions.