

**THE U.S. DOLLAR STANDS TO LOSE SOME OF ITS ATTRACTIVENESS
AS THE INTERNATIONAL CURRENCY OF TRADE**

It seems that, while the US economy is faltering – although a number of Wall Street gurus would take issue with that statement – the main economies of Asia are going from strength to strength.

TARGET () is not just referring to the economy of the People's Republic of China (PRC), but, also, to the economies of Japan, Thailand, The Philippines, Singapore, the Hongkong Special Administrative Region (HKSAR) of the PRC, Malaysia, Indonesia, Taiwan and South Korea.

Each one of the above-mentioned countries/territories is amassing huge current account trade surpluses, never seen in the past.

While the US dollar weakens against a number of '*hard*' currencies, in Asia, the currencies of many countries are strengthening in relation to the almighty greenback.

With crude-oil prices, continuing to rise to record levels, of course, no country's economy will be immune from the inflationary pressures which are bound to result in the case of prolonged, record-high energy prices, but some economies, clearly, will be a better position than others to withstand such pressures.

As the US dollar weakens further vis-à-vis the currencies of many countries in Asia, the resultant factor will be for the de facto stronger Asian currencies to be able to purchase US-produced goods and services at something of a discount to, say, the prices of a few months prior.

This situation is a double-edged sword, however, because it means that trade contracts, entered into some month prior, contracts, denominated in US dollars, will have to be renegotiated because the US dollar's buying power has been eroded, compared to the time that the contracts were first entered into.

Profit margins are being squeezed due to the de facto devaluation of the US dollar, almost across the board.

As the buying power of the US dollar continues to be eroded, Asian producers of goods and services may well opt to denominate the currencies of contracts other than in US dollars.

In short, the US dollar will fail, at least temporarily, to be the preferred international currency of trade.

As this takes place, it means, in fact, that the currencies of Asia will become stronger on international, foreign-exchange markets.

Japan is unlikely to benefit from an abject weakness of the US dollar because its most-important, single customer is the US.

The same is true, of course, for the PRC, proper, being distinct from the HKSAR of the PRC, but, in the case of the economy of the populous country of the world, while the country is, still, the largest single producer in the world of such things as microwave ovens, garments, electrical appliances, shoes, etc, etc, etc, the country, also, has a large human population which is extremely acquisitiveness.

The PRC's Government has been sufficiently perspicacious to go further afield so that the US marketplace is not the only major market for its products and services.

By all accounts, it seems likely that the US dollar will continue to weaken against a number of South-East Asian currencies far into next year.

It is noted that some of the Asian countries have seen little appreciation in the translation values of their currencies against, say the euro, the US dollar and/or the British pound.

In the case of Singapore, this is due to the government of that territory, intervening on foreign-exchange markets as a deliberate policy in order, no doubt, to permit its exporters to continue to have an edge on the competition.

But this type of currency artificiality will backfire on this authoritarian government in due course and, eventually, the Singapore Monetary Authority will have to permit future currency appreciation or suffer the inevitable consequences.

Currency forecasts are being changed for a number of Asian countries, based on the relative strengths of their economies, present and forecast in the coming year.

While it is a given that the economy of the PRC, proper, will continue to power ahead, during the next year, at least, its red-hot economy will have to be curtailed and inflation will have to be tamed.

Luckily, the political 'A' team of the PRC is top drawer.

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