THE U.S. DOLLAR'S FALL IS FAR FROM OVER, FOLKS !

And The Appreciation Of The RMB Is Just Beginning !

Since about the first quarter of 2002, the translation value of the US dollar vis-à-vis other *'hard'* currencies of the world has appreciated between 25 percent and 35 percent, depending on which yardstick one uses, but, today, there appears to be every indication that there could well be an even higher acceleration rate in the depreciation of the US dollar in the months to come.

A major threat to the world is that if the US dollar's translation value depreciates too quickly, it could well exacerbate the situation that exists in countries which are experiencing trade deficits as well as those countries, enjoying trade surpluses.

Such a situation could raise the level of inflation in the US, resulting in the US Federal Reserve, being forced to determine an increase in interest rates as a counter-measure to the increased threat to the largest-single economy of the world.

Such a situation would, inevitably, reduce US exports which, in turn, would have a knock-on effect in Europe, Canada, Australia and quite a number of other smaller economies.

The end result of such a scenario: Another bout of international financial upheaval.

If such a scenario should come to pass, then, a global recession could well be the next act in this play.

Because the warning sirens are ringing, loudly and clearly, from Washington D.C., to London, England, to Tokyo, Japan, it is unlikely that the world will experience another situation as happened with the onset of The Great Depression of 1928-1929.

Nevertheless, this does not appear to be the time to be complacent about the economic state of affairs that exists in today's world.

To recap the past a little: Between 1995 and 2002, the US dollar's translation value rose, on a trade-weighted average, by about 40 percent, according to records.

By 2006, the US current account deficit was more than $US800 billion, equivalent to about 6 percent of the country's **G**ross **D**omestic **P**roduct (GDP) – the total value of all goods and services, produced within a country in a year, minus net income from investments in other countries.

Two major threats were, then, posed to the stability of the world's economies:

1. The risk of international financial instability, resulting in a decided economic retreat, worldwide; and/or,

2. The threat of the US Congress, looking to pass legislation, restricting trade with certain countries in certain areas, thus resulting in a tit-for-tat response from the trading partners of the US and a decided disruption to the international status quo.

In order to balance the books, so to speak, the US had to attract about $US7 billion in foreign capital, daily, allowing the country to finance the current account deficit as well as fund the US Government's large foreign investments.

The US economy did not always achieve that goal of an inflow of about $US7 billion in foreign capital on a daily basis and, hence, the translation value of the US dollar drifted to lower levels, causing consternation in many other countries of the world.

Brazil was among the first country in the world to opt for euros instead of US dollars in payment of its crude oil.

Other countries followed suit.

The question was raised: Is this the beginning of the dethronement of the US dollar?

The fall in the translation value of the US dollar against other major currencies of the world has assisted in causing price increases, most notably in the market price of a barrel of crude oil.

But contrary to popular belief, the depreciation in the translation value of the US dollar vis-à-vis other *'hard'* currencies of the world was not responsible for the rapid increase in the price of crude oil on international markets.

Supply-demand factors were the result of that situation.

For More On This Subject, Please Refer To:
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'*LET'S TALK PLAINLY, SHALL WE ?*'

Oil-producing countries of the world – especially those members of the cartel of The **O**rganisation of **P**etroleum **E**xporting **C**ountries (OPEC) – noting that the purchasing power of the US dollar was being eroded on an almost daily basis, sought to seek measures to redress this situation.

The ever-increasing erosion in the buying power of the US dollar against other countries' currencies resulted in US exports, growing by about 12 percent per annum, compound, over the past few years, according to the US Commerce Department's statistics.

With the notably US economic slowdown, it is telling that exports are now expanding at about 4 times the growth of imports.

If the level of imports is a measure of a country's economic health, then, the US economy is more than a little sick.

Of that, there can be no fight.

Whereas, in the more-recent past, investment in the US was centred in bricks and mortar, leading to rapid consumer consumption as the value of bricks and mortar rose to record highs, today, domestic consumption in the US is decidedly on the wane.

In fact, US consumption is rising much slower than industrial output, according to the US Government's statistics.

The US Dollar's Translation Value

One should not think for a second that the US dollar's translation value vis-à-vis other '*hard*' currencies has reached its nadir: Far from it.

A fall in the US dollar's translation value of between 5 percent and 10 percent is well probable, according to the reading of the present tarot cards by many internationally respected economists.

Such a fall would cut the present, record-high current account deficit of the US to about 3 percent of the GDP.

The US Government would relish that state of affairs, no doubt, because a current account deficit of just 3 percent is easily manageable in today's world.

In the People's Republic of China (PRC), there is a very healthy current account surplus.

The coffers of the PRC are awash with foreign exchange.

Present indications are that the current account surplus of the PRC will eclipse the current account deficit of the US in absolute terms before the year is out.

The PRC's current account surplus is about 10 percent of that country's GDP.

This is an unprecedented level for the world's largest exporting nation.

If the decline in the translation value of the US dollar could be aimed, specifically, at the renminbi and certain other relatively strong Asian currencies, as well as the currencies of the major, oil-exporting countries, it would result in a very positive aspect for the world's largest single economy.

In the event that Asian countries and the oil-exporting countries resist, permitting their currencies to appreciate significantly against the US dollar, it could strain the economy of the US even more, producing new problems, not just for the US, but for the world.

It is well accepted that further increases in the current account surpluses of the PRC and certain other Asian economies, concomitant to a decline in the US trade deficit, will place a great deal of pressure on the growth prospects for the rest of the world.

For the PRC economy, of course, its pen-pushers are well aware that if the renminbi were to be permitted to float freely, it could well give other Asian economies an edge over the PRC's economy, undercutting the Middle Kingdom's very strong position as the world's tailor shop, the largest manufacturer of microwave ovens, refrigerators, condoms, etc, etc, etc.

Thus far, the PRC Government has successfully resisted US Government pressure to allow its currency to appreciate against the US dollar and, as a direct result, the US Congress has been toying with the idea of passing legislation to force the Government of the PRC to reconsider its position.

It would be in the interests of the PRC economy, eventually, to allow its currency to float, freely, because it is a given that the currency is badly undervalued and that is not helpful to the long-term interests of the Chinese Government.

The question is: When will it be a good time for a change of heart on the part of the powers-that-be in the fastest-growing economy of the world?

Last week, it was announced that the PRC Government was getting concerned about inflows of hot cash into the country in the expectation of an appreciation of the renminbi against the US dollar.

If this situation were allowed to continue unabated over an extended period of time, it could be economically destabilising for the country.

Permitting a faster rate of appreciation of the renminbi vis-à-vis the US dollar could well put paid to the threat of foreign hot money, flooding into the country's banking system.

The powers-that-be in the PRC are as intelligent and perspicacious as any high-ranking leaders of the world, today, and, in a number of cases, they are more in touch with the economic situation, internationally, than the heads of certain Western countries.

There can be no doubt: The Chinese Government sees the writing on the wall and, eventually, it will have to accede to international pressure and permit a more rapid acceleration in the translation value of the renminbi against the US dollar.

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