THE U.S. DOLLAR: IT IS LIKELY TO REMAIN THE '*DARLING*' OF THE WORLD'S INVESTORS

The US dollar appreciated against the major currencies of the world by nearly 12 percent, during the 12 months, ended December 31, 2015.

The main reasons that is generally accepted for US dollar's strength are due to:

1. Positive employment reports in The United States of America; and,

2. Overall, a perceived, relatively healthy economy in The United States of America.

The above two factors led to the US Federal Reserve (The Fed), taking a more bullish stance in December 2015, than in 2014, and it raised interest rates by 0.25 percent.

At the 2015 year's end, the US dollar was continuing to appreciate against most of the world's major currencies.

The Import Price Index of The US Bureau of Labour Statistics, this Bureau, being a division of US Government's Department of Labour, responsible, inter alia, for the collection and collation of statistics, broadly in the field of labour economics as well as serving as an agency for the US Federal Statistical System, measured a decline through-out most of 2015.

Its decline, in fact, was by about 8.30 percent by December 2015, Year-On-Year, The Bureau reported.

Contributors to the decline in the value of the Import Price Index were erosions in the price of commodities.

The main contributors included falling commodity prices for: Oil; gold; other precious metals; and, copper.

The strength of the US dollar, during 2015, vis-à-vis the major currencies of the world, was the result of declines in the prices for finished goods in addition to falling commodity prices.

As the US dollar continued to strengthen against the world's major currencies, during 2015, it spurred relatively cheaper imports in terms of the country's trading partners: Imports into the US cost less in terms of the US dollar; and, each US dollar bought more in terms of a foreign currency.

Effectively, therefore, in US dollar terms, importers were paying less for more goods, produced outside Continental US shores.

There were, also, other factors, contributing to the US dollar's strength, relative to other countries' currencies throughout 2015.

These included the slower growth of the economy of the People's Republic of China, weak international economic growth, a reduced demand for specific commodities and the instability of governments of a number of Middle Eastern countries.

All of the above and more contributed to having the effect of a constructive devaluation of most European currencies, vis-à-vis the US dollar.

In the Eurozone – the 19 members of the **E**uropean **U**nion (**EU**) that have adopted the euro as their common currency – during 2014, there was a paucity of output and relatively little growth in employment.

The **E**uropean **C**entral **B**ank (**ECB**), in order to help to stimulate growth, was forced to expand **Q**uantitative **E**asing (**QE**).

The abject weakness of the economies of many European countries helped to contribute, also, to the strength of the US dollar on world markets, throughout 2015.

Only recently, The Bank of Japan, the Central Bank of Japan, introduced QE, following along the lines of The Fed and The Bank of England.

With regard to Japan, QE is not working as well as had been hoped and there remains grave concerns that it will work to any great extent.

It is not always possible to translate one economic formula in one area of the world in the hope of achieving similar success in another area, as Prime Minister Shinzo Abe has come to learn.

Today, Prime Minister Abe's political life hangs by a thread.

Since, 2013, the Japanese yen has depreciated against the US dollar by 33.90 percent.

Wages in the country, today, remain almost unchanged from their 2013 levels and the inflation figure that had been hoped, at about two percent, has not been met: Deflation and stagnation remain the country's bugbear.

Conclusion

Exchange rates, clearly, have a direct impact on goods that are priced in foreign currencies.

That is a given and requires no extrapolation.

When foreign exporters sell to importers in the US, the cost of the foreign goods is translated into US dollars since that is the currency that is used to satisfy the price, demanded by foreign exporters.

During 2015, the US dollars appreciated against the euro so that the US dollar's buying power rose, proportionally to the weakness of the euro.

But there was a reverse effect in terms of a number of commodities.

The price of oil on the world's markets is, always, based on US dollars so that there is a strong correlation between the price of this commodity and the translation value of the US dollar.

Historically, oil has been the largest single import into the US, accounting for about 10.50 percent of the dollar's value of all imports in 2014.

In the 2015 year, however, the price of oil fell and the US dollar imports of oil, in terms of its domestic requirement, dropped from 10.50 percent about 4.50 percent.

Oil prices have continued to fall, internationally, due to waning global demand which, invariably, must lead to lower prices.

By the end of last year, the US dollar price of imported oil into the US had fallen by about 43.70 percent, compared with 2014.

The price of a barrel of West Texas Intermediate fell to $US37.13 by December 31, 2015.

That was a fall per barrel of about 30 percent, compared with 2014.

As the US dollars gained in strength in 2015, imported gold prices decreased by about 11.20 percent.

The import price of copper, into the US, dropped by about 21 percent in 2015, the lowest level since 2009.

The price of other precious metals, excluding gold, followed the path of copper: Down by about 24 percent.

Today, it is questionable as to whether or not The Fed will raise interest rates, aggressively.

There are just too many imponderables to be factored into the equation as to the best action to take in these uncertain times.

The global economy continues to be weak and, in the Middle East, chaos is widespread with one nation/territory, pitting its military might against another, while the killers, guiding the military expeditions of **ISIL** – The **I**slamic **S**tate of **I**raq and the **L**evant – lick their lips with delight in the midst of the furore.

Gold may be the '*currency of last resort*', but the US dollar remains the reserve currency of the world: It is the preferred currency with regard to international trade; and, central banks of most countries are prepared to stock up on the '*greenback*' as part of their foreign-exchange reserves.

The US dollar, for many a decade, has been the '*darling*' of the world and continues to be considered among the world's safest currencies.

It is difficult to think of it, being anything but strong vis-à-vis most other currencies and this situation is likely to remain as such for some time to come.

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