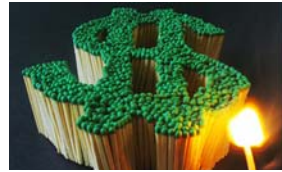


## US Dollar: De-dollarization?



Amid the optimism that the global economy will recover soon, the US dollar dropped to the lowest level in a year versus the euro. In fact, Federal Reserve Chairman Ben S. Bernanke's declaration that the recession is likely over while cautioning that growth may not be strong enough to reduce the unemployment rate quickly, leading investors to sell the US currency and buy riskier assets. In addition, the speculation that the US interest rates will rise soon has been evaporated since the Fed will likely keep its target lending rate at near zero over the coming months and extend the end date of its \$1.45 trillion program to buy securities, which is a strategy of quantitative easing. As a result, the process of "money printing" will continue and the dollar will come under further pressure as funds have been starting to flow out of the US to seek higher returns elsewhere. Investors are playing carry-trade on speculation investors bought

high-yielding assets with funds borrowed in the US. The dollar declined last week to the lowest level in more than a year against the Australian and New Zealand dollars and the Swiss franc. Last week, the cost of three-month loans in dollars between banks fell to a record low of 0.289%, according to the British Bankers' Association. The London interbank offered rate, or Libor, is lower than that of the yen and Swiss franc, making the dollar the cheapest funding currency. The Fed will keep its target rate for overnight loans in a range of zero to 0.25% at its two-day policy meeting starting Sept. 22, according to the survey made by Bloomberg. The central bank decided in August to end purchases of up to \$300 billion in Treasury debt next month. On the other hand, Japanese yen has long been intervened due to its strength

might not be realized recently despite approaching 90 level against the US dollar. On Sept. 16, Japan's Finance Minister Hirohisa Fujii declined to embrace a "weak" currency, fueling speculation that the new government opposes intervening in the market to restrain the currency's strength. In the near term, the US dollar may rebound as the pound sterling remains weak. The pound slid last week to the weakest level since 2H as Lloyds Banking Group Plc, the UK's biggest mortgage lender, said it may pull out of the government's asset-insurance program as the Financial Times reported that the bank's capital position was too weak for it to do so. Nevertheless, the de-dollarization process has just begun and it seems nothing can change it, unless there is another financial crisis or political event to deter this trend. **E**

## Microscope

The dollar is usually used as the standard unit of currency in international markets. Currently, the US dollar remains the world's foremost reserve currency. In addition to holdings by central banks and other institutions there are many private holdings which are believed to be mostly in \$100 denominations. As a matter of fact, the majority of US notes are actually held outside the United States. Many economists maintain that the overseas demand for dollars allows the United States to maintain persistent trade deficits without causing the value of the currency to depreciate and the flow of trade to readjust. However, at some stage in the future the negative perception with regard to this issue will precipitate a run against the US dollar with serious global financial consequences. In recent years, the government of the People's Republic of China threatened to sell its substantial reserves in American dollars in response to American legislative discussion of trade sanctions designed to revalue the Chinese yuan. The Chinese government denied that selling dollar-denominated assets would be an official policy in the foreseeable future. **E**

### MARKET BRIEFING

#### YTD % (local curr)

|                                 |                |
|---------------------------------|----------------|
| <b>US DJ</b>                    | 9,820 (11.9%)  |
| <b>Nasdaq</b>                   | 2,132 (35.2%)  |
| <b>Euro Stoxx 50</b>            | 2,887 (17.8%)  |
| <b>HSI</b>                      | 21,623 (50.3%) |
| <b>Japan NK225</b>              | 10,370 (17.1%) |
| <b>China Shanghai Composite</b> | 2,962 (62.7%)  |
| <b>Singapore</b>                | 2,647 (50.3%)  |
| <b>India BSE30</b>              | 16,741 (73.5%) |
| <b>Brazil BOVESPA</b>           | 60,703 (61.7%) |
| <b>Aus All Ord</b>              | 4,693 (28.3%)  |
| <b>US-10yr Bond</b>             | Yield 3.46%    |

As at 18/09/09

## Insight: "M&A Trend"

The year 2008 was a challenging period for mergers and acquisitions (M&A). The deal landscape around the world was hampered by an ever dwindling credit market, leading to distressed investments across sectors including financial services, automotive, consumer products and retail. Until recently, M&A seems to come back. The attention grabbing news of potential deals between Disney and Marvel Entertainment and between Kraft Foods and Cadbury might prove this. Especially when the securities market rises, potential buyers might be feeling that the bargain prices seen at the start of the rally may have been lost

But there is still value to be had before valuations run even higher. M&A activity is set to start increasing picking up significantly by the last quarter, if the current predictions on recovery of the economy are correct and the loosening monetary policies adopted by G20 countries are still maintained. After a contraction a year ago, deals began to pick up in March and again in June. However, as the markets rose in July and August, and firms continued to undertake measures to repair their balance sheets, M&A activity stayed on summer vacation, with the number of deals falling 3% and 18% respectively on a month over month basis. On a dollar basis, the change is even greater with drops of 47% in July and 32% in August for global deals and declines of 20% and 61% respectively for US based deals. **E**

## A-Z Financial Tools

**Low price-earnings ratio effect** means that there is a tendency of portfolios of stocks with a low price-earnings ratio to outperform portfolios of stocks with high price-earnings ratios. During bear market, low price-earnings ratio effect dominates due to the concerns over the imminent drop of corporate earnings without growth potential. **E**



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