Currency experts give their take on euro, US$

They say China, with its currency controls, is importing US monetary conditions and building up asset bubbles, reports CHEW XIANG

The outlook on the US dollar was the subject of a seminar yesterday held at the NUS Business School’s spanking new building, but worries over the euro and China took centre stage.

While three currency experts gave their views on the dollar’s outlook to a packed room of investors and businessmen, there was special attention paid to the future of the euro and possibility of asset bubbles in booming China.

Thomas Harrison, senior foreign exchange strategist at Standard Chartered Bank, said European clients he met on a recent trip there were very bearish on their currency. “But we think the euro will gradually stabilise in the first half of this year,” he said in a presentation. “We know the Germans don’t want to bail out Greece, but we do see some kind of liquidity support from the euro area.”

More bearish was David Dredge, managing director of Arturus Fund Management. The Greek tragedy was rooted in its adoption of the euro 10 years ago when it was allowed, more or less unchecked, to build up serious trade deficits with its bigger neighbours such as Germany, he said. “We now are at the point where the imbalances are breaking down.”

Even if the currency zone survives in the short term, or for years even, its long-term future is in doubt, Mr Dredge said. “The euro, like any artificial currency maintained by politically elected representatives, is destined to failure.”

The currency will always be under pressure – perhaps not immediately, or even for decades, but eventually, because voters can boot out politicians who demand austerity to save the currency. “We have to decide whether Europe is a continent or a country.”

Mr Dredge said possibly the starkest – perhaps only – lesson of the episode is the importance of fiscal austerity and living within one’s means. Asian countries endured “extreme pain” in the aftermath of the financial crisis 12 years ago, but “now they are the sole engine of growth in the world”, he said.

Panelists also expressed some concern that China, with its currency controls, is importing US monetary conditions and building up asset bubbles throughout its economy. Joseph Cherian, practice professor of finance and director of the Centre for Asset Management Research & Investments at NUS, said news that a significant portion of Beijing commercial property was empty was “shocking” and the fact that rigid currency controls were enabling such distortions showed why the yuan was clearly not ready to take on a bigger part on the world stage.

Prof Cherian said that with such problems with the yuan, and the issue of sket-ting the euro, the US dollar would likely continue to bear the burden of being the world’s reserve currency, which could keep its value high in the medium term. But the dominance of the dollar has had a lot to do with the huge savings and consumption imbalance between Asia and the US, and Prof Cherian said one solution was to consider Asian Currency Units, or a dual currency system based on a basket comprising major currencies of East Asian economies, as a way to reduce borrowing costs, by decoupling Asia from the economic situation in the United States.

A corollary of the burgeoning demand from the Chinese economy is that “commodity currencies” such as the Aussie dollar have been rising strongly. Mr Dredge said the dependency of Australia on China was of concern, as it would be for any company with just a single major client.

Mr Harr said the Reserve Bank of Australia was likely to increase rates again this year. “We forecast parity against the USD by the end of the year,” he said. “Short term it still has a way to go, but long term, Australia is very expensive.”

The US dollar itself is expected to see a broad rally in the next few months, followed by general weakening, Mr Harr said. “Imbalances in the euro zone are clearly benefiting the US dollar,” he said. As well, present regulatory uncertainty to do with the aftermath of the financial crisis will for the time being be seen as positive for the US dollar, he said.

Prof Cherian said the US dollar appears to have limited downside and could strengthen later this year, particularly if global economic growth disappoints, or if the much-touted dollar carry trade – which some reports say could be nationally worth as much as US$1.5 trillion – starts unwinding.

The NUS Business School-Business Times CEO Luncheon Series aims to be a dynamic forum for industry captains and academics to discuss and deliberate on current issues. It is one of many joint initiatives to provide thought leadership to the business community. It is also part of a year-long series of celebratory events by the school to commemorate its 45th anniversary.

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