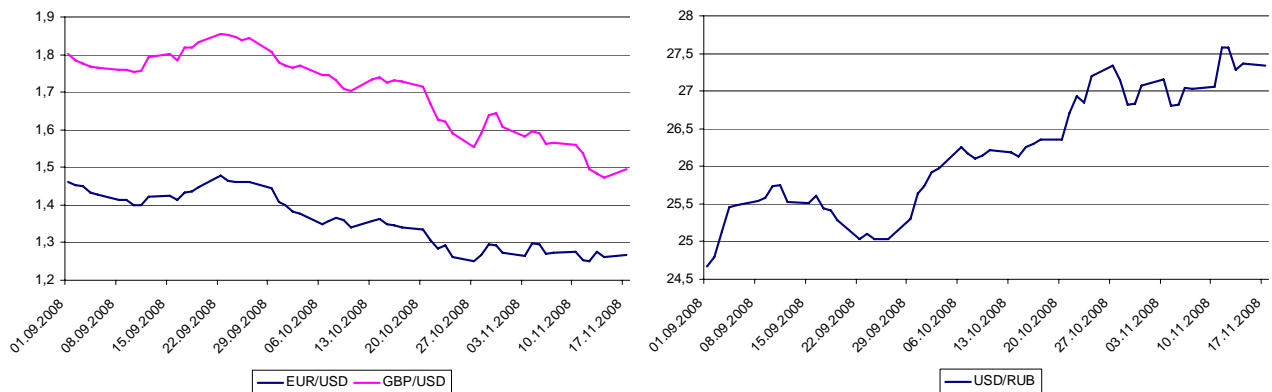


US dollar holds up?

The slowdown in financial markets had become increasingly obvious in recent months, this has grown into a global economic crisis – a result of redistribution of risks between various sectors of economy. It seems we have almost forgotten that the global recession stemmed from the US mortgage crisis. When the financial turmoil has just hit the US, many believed that the rapidly progressing crisis was merely a local problem. However, time has shown that those forecasts were erroneous: now there are dozens of economies facing a crisis. GDP growth rates are slowing down, inflation is rising, unemployment rate is increasing, stock indices are falling – all causing economies to lose their investment attractiveness and, consequently, capitals. This, in its turn, has a negative implication on national currencies.

The last statement is true for any currency except the US dollar. The crisis-ridden US is facing its national currency strengthening.



Source: Bloomberg

Investors continue to buy US dollars – both as cash and securities – giving the greenback a boost. Investors' confidence in the dollar however might in a single instant be replaced by a refusal to park their money in the US national currency. Foreign exchange markets follow the same law as other financial markets. Normally, a surge in assets is followed by a fall, the most drastic drops being preceded by most robust growths. At this stage, there are many investors who tend to buy assets trading in the US currency and who are not interested in the dollar depreciation. What should happen to the US economy to make the dollar weaken?

The recent G20 meeting in Washington put forward a question of the world's reserve currency. More than fifty years ago, after the Bretton Woods agreement was passed, the dollar alongside gold was recognized as one of the world's most important currencies. Evidently, the current economic malaise in the US forces major market players to search for new financial instruments. But the dollar cannot be supplanted quickly. It is the most widely used form of cash internationally, so

transition to another currency (or asset) will be associated with both large-scale financial turmoil and psychological strain.

By Galina Kovalishina