

16/06/2003

Euro on the rise

FOUR YEARS ago when the single European currency the euro was launched, it stood at \$1.17 to the United States dollar. For a while it declined but now, four years later, a surge has seen the euro back at its powerful best with one euro buying as much as US\$1.17 in. Indeed, the dollar has fallen in value against the euro by 8% since the beginning of 2003 as well as a host of other major currencies. In part, this has been caused by a faltering United States economy after nearly three years under George Bush's Republican administration. The plunging interest rates as well as the US' burgeoning trade deficit with the rest of the world are factors in depressing the dollar. Foreign exchange market players were not deterred by warnings from the European Central Bank that further strengthening of the euro would dampen price competitiveness as they pushed it beyond \$1.18. That wave of buying occurred in the first week of June shortly after the European Central Bank made a widely-expected cut of its short-term interest rates half a percentage point to 2%. This rate cut narrows the differential between interest rates in the US and Europe.

Not much can dampen the euro's rise, not even the much-expected British `..yes but not yet' verdict delivered by Gordon Brown in the House of Commons speech on Monday (June 9). The finance minister (who goes by the officious title of Chancellor of the Exchequer) delivered a rapid fire riposte to proponents of an early entry by the UK into the eurozone by announcing that the Labour government was all for monetary integration but that there still remains some hurdles to clear. He has set out cogent reasons why the euro would be good for Britain and was keen to join provided it passes all the tests the government has set out. So far, the euro has only proven to be good for the financial markets in the City of London but other equally important sectors have yet to show an ability to reap benefits.

The widely-anticipated verdict by Brown may not have satisfied its proponents but did not disappoint them either. His impressive 33-minute speech made him sound both pro-euro and pro-Britain in equal measure. This decision means UK shoppers will not have to switch to the euro soon but wait for another year before there is to be an embrace.

How did Europe take to this `snub'. With resigned equanimity it must seem judging by reaction from the European Community vice-president Neil Kinnock. His immediate reaction was that this was a sensible thing to do under the circumstances, calling it `practical and sensible'. He added that there was widespread acknowledgment among his fellow commissioners of the realities of the situation in the UK. On its part, the European Commission said that it would continue to pursue further integration within the euro area despite the UK decision.

The euro's rise and the dollar's decline and its continued fall in the foreseeable future has prompted Prime Minister Datuk Seri Dr Mahathir Mohamad to urge the private sector to opt for the former in trade. He said there needed a move at; `...weaning ourselves away from the dollar;' due to its instability. Speaking at the recent Nikkei Future of Asia 2003 conference in Tokyo he said; `We need to rethink whether we can depend on the US dollar.' He said he would like to peg the ringgit against the euro too but that this was not feasible now since so much trade in the region was conducted in the greenback.

Geopolitical realities have had a role to play in this new-found affinity for the euro realities. Early this year, Pertamina, the Indonesian national oil company proposed that its oil exports be conducted in the euro in a bid to move away from the hegemony of the greenback. This call was also echoed by Malaysia although the use of the US dollar has

become too entrenched for anyone contemplating such a revolutionary switch.

But then moves are afoot in the attempt to wean international trade off the dollar. Asian and European leaders have formed a task force to help Asian central banks to increase their euro reserves, issue more euro-denominated debt and to use it to settle trade bills.

The euro it seems has won converts far beyond euroland with nationalistic vicissitudes of Britons having no effect on its preeminence.

(END)