Dollar: The Warning
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A rumor, refuted several hours later, was enough to raise a fever on the foreign exchange planet. By allowing the idea to gain currency that it could reduce its dollar reserves, the Central Bank of South Korea has just provoked a good shake-up on the foreign exchange markets. In itself, the episode could be considered purely marginal. In the background, the spectacular plunge in the greenback this rumor occasioned resonates like a brutal revelation.

For those who were in doubt, it came to say that the period of calm observed in the markets since the beginning of the year was only a parenthesis. A remission.

Far from having killed their old demons, trading rooms have, in fact, spent two months with their weapons loaded and at the ready while they waited to understand Bush Administration declarations of intention on the political economic front. The pause is over. The feverishness currency traders have demonstrated the last few days with regard to the dollar confirms the end of the truce. The same phenomenon reveals their doubts about the White House commitment to restore order to an American economy that, with its abysmal budgetary and trade deficits, puts the equilibrium of the entire global economy in danger.

At the moment, no other news appears to be capable of drawing the markets out of this obsession. Not the transatlantic economy's tonus, which should push investors into massive dollar purchases. Nor the progressive increases in interest rates offering a more generous remuneration on United States' currency.

The markets stick to single warning signals. Nothing says that George W. Bush's commitments to deficit reduction will be ratified by Congress. The reductions in taxes have been made permanent. The bill for the war in Iraq should grow still heavier. Add to that the bill for oil which can only aggravate the deficits more, given the new surge in crude prices.

The market's apparent calm was deceptive. It was, in any case, no guarantee that the dollar would interrupt its fall. Nothing has been settled as of today. In fact, there is every indication that the greenback could be the number one problem for the world economy in 2005.

This warning shot intervenes at the very moment George W. Bush is visiting Europe. Given their divisions, Europeans, moreover, have few resources and little legitimacy with which to induce their American partner to wrestle down its financial problems. Unless they should demonstrate their own determination to make their own economies more competitive, to be in a better position to confront the great disorder in the currency markets. And to play a full role in the dialogue of the big world economies in which Asia weighs ever more heavily opposite the American giant. On these conditions, Europe will be able to participate in rather than submit to what, on the level of currencies, is also a competition for global leadership.

Translation: ***t r u t h o u t*** *French language correspondent Leslie Thatcher.*

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