HSBC bids farewell to dollar supremacy

The sun is setting on the US dollar as the ultra-loose monetary policy of the US Federal Reserve forces China and the vibrant economies of the emerging world to forge a new global currency order, according to a new report by HSBC.

By Ambrose Evans-Pritchard
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"The **dollar** looks awfully like sterling after the First World War," said David Bloom, the bank's currency chief.

"The whole picture of risk-reward for emerging market currencies has changed. It is not so much that they have risen to our standards, it is that we have fallen to theirs. It used to be that sovereign risk was mainly an emerging market issue but the events of the last year have shown that this is no longer the case. Look at the UK – debt is racing up to 100pc of GDP," he said

Crucially, China and rising Asia have reached the point where they can no longer keep holding down thei**currencies** to boost exports because this is causing mayhem to their own economies, stoking asset bubbles. Asia's "mercantilist mindset" of recent decades is about to be broken by the spectre of an inflation spiral.

The policy headache was already becoming clear in the final phase of the global credit boom but the financial crisis temporarily masked the effect. The pressures will return with a vengeance as these countries roar back to life, leaving the US and other laggards of the old world far behind.

A monetary policy of near zero rates – further juiced by quantitative easing – is completely incompatible with circumstances in most of Asia, the Middle East, Latin America, and Africa. Divorce is inevitable. The US is expected to hold rates near zero through 2010 to tackle its own crisis.

What is occurring is an epochal loss in the relative wealth and economic power of the old G10 bloc of rich countries compared to rising regions of the world. The euro, yen, sterling, Swiss franc and other mature currencies will be relegated along with the dollar in this great process of rebalancing, but the Greenback will bear the brunt.

The Fed's super-loose policy is turning the dollar into the key funding currency for the next phase of the global "carry trade", taking over the role of Japan during its period of emergency stimulus.

Mr Bloom said regional currencies would emerge as the anchor for their smaller trading partners, with China, Brazil, or South Africa substituting the role of the US. Australia is already linking its fortunes to China through commodity ties.

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