



THE BANKER'S COMMENT - JEAN-PIERRE PATAT

A former central banker looks at the news

January 2014, TAC Newsletter - www.tac-financial.com

Figures of the month: 5,559 and 5,080 planes: order books for Airbus and Boeing at the end of 2013.

The dollar: dethroned by the yuan?

That is s being predicted by some economists and analysts who have no hesitation in so doing. Recent figures showing that China is henceforth the leading global economic power seem to back up this conjecture.

Let us recall that a “global currency” has four functions, serving as currency for: international funding source; international payments; billing; and reserves offering adequate investments to central banks.

For the first function, the euro holds a place similar to that of the dollar. For each of the other three, though, the dollar has certain attractions that are not seriously challenged at this time. The mass of dollars in circulation and the extreme liquidity of the markets in which they are exchanged mean that many transactions between countries issuing other currencies and whose markets are narrow are carried out through the use of the US dollar. As far as billing in dollars in oil contracts is concerned, this is based as much on the intrinsic reputation of the dollar as it on the strategic power of the United States (there is no other explanation for the fact that Gulf countries stick to the dollar whatever the fluctuations, often erratic and sometimes strong, of its exchange rate). Finally, as far as the function of reserve currency is concerned, the colossal market of the American public debt, fed as it has been by decades of fiscal vice, diversified liquid and wholly fungible instruments, offers central banks the optimum combination for investing their exchange reserves - liquidity, security, and returns.

We need no long demonstrations to understand that the Chinese currency does not, by a long chalk, hold such attractions - attractions that even the euro has only in part. Nor do we see how, in a relatively near future, China could measure up to such criteria - excepting perhaps for a huge global shock from which it would benefit. As did the United States who emerged as the great winners of the second world war, permitting them to completely shoe out the pound sterling and dominate the IMF.

Names of the month: Sabine Lautenschlägen and Jörg Asmusser.

The first, vice-president of the Bundesbank, is joining the Board of the Central European Bank; the second, also German and who was working there, has just resigned to join Angela Merkel's new government. This operation has two consequences: first to give a seat on the Board of Governors, at long last, to a woman; second to have the Bundesbank confiscate posts on the Board that are attributed to Germany, with the Bundesbank president already sitting there. A “tightening of the nuts” to ensure a better hearing for the apostles of “true” monetary policy. Mr Asmusser was in fact more open to Mario Draghi's policy than is the president of the Bundesbank, who will draw his gun on the slightest provocation.

Africa: governance of course.

Analyses and thinking are in harmony regarding Africa's “take-off”. Figures are certainly flattering. Two remarks, though: in the majority of countries we see the lack of what provides the real bases of any sustained take-off: infrastructures, public services, and a middle class (we can see the BRICs paying the cost of their deficiencies in these domains). What is more, those countries that seem to be the most advanced in these respects are not the ones enjoying an income from commodities: Ethiopia, Ghana, Burkina, Tanzania ... all of which are countries with a “State” that is not necessarily democratic according to western criteria, but a State that functions nevertheless, with an administration that reacts; all of which contributes to what is called “capacity building” by the Anglo-Saxons.

Optimism for the euro zone?

That's the feeling expressed by Mario Draghi, a truly atypical central banker in a corporation where it is usual to estimate that the worst is ever possible, if not certain. Yes, appearances are favourable. Yet, euro bashing still carries on. Most recent of the detractors, Bernard Connolly, a former civil servant in the Commission, author of “The rotten heart of Europe” and a columnist for the Wall Street Journal, compares the behaviour of those who oversaw the birth of the euro with that of the politicians who precipitated Europe into the 1914 war; and calculates that Germany should transfer 10% of its GDP every year to the peripheral countries to help them to stay in the zone. To me, more serious are the streams of attacks against France. Should that contribute to a crisis of confidence towards our country, the shock waves for the Eurozone would be in the order of magnitude 8. For sure, our situation is not great (France is now alone in the zone, with some Baltic countries and Greece, with an external deficit). The present attacks, though, echo the climate that existed in the years 92 to 95 when, in a clear desire to break up the so-called European Monetary System and kill off the euro project, the markets and the Anglo-Saxon press brimmed with articles describing France as tottering on the edge of an abyss.

Addiction to the debt - still.

Supporters of still more debt were somewhat silenced when interest rates paid by the most indebted countries took off. They're back! Working from the less and less evident standpoint that the policies being conducted in Europe to reduce deficits are having disastrous effects, they are arguing for running into debt again, but of course in a good cause (investments). This, they argue, is based on a solid economic calculation since interest rates are again low. Except that, if rates are low it is precisely because European countries are reducing their deficits and their debts, and the least inclination to reverse that orientation would be enough to propel interest rates sky high yet again.