

Global Outlook, April 2008

With the US dollar depreciating against most major currencies and reaching all-time lows in respect to the Euro, US monetary policy is placing upward inflationary pressure on all economies with either a fixed or pegged exchange rate, or are strong trading partners to an economy which utilizes US dollars. Regardless to the press statements of US Treasury Secretary Paulsen, the US does not have a strong dollar policy. Post-9/11, the US has engaged in a weak dollar policy to enhance the export of US goods. The USD/EUR exchange rate has declined from its peak in 2000 losing almost 50% of its value. The British Pound and Canadian Dollar have experienced similar, albeit, smaller declines in value, 33% and 44% respectively.

The exchange rate volatility exhibited in the US raises several concerns for global business development and investment. A declining dollar makes capital transactions in the US market, and in markets tied to the dollar, less attractive as the growth rate of the investment must exceed the depreciation in the currency. However, investment in real assets in the US becomes increasingly attractive as the dollar continues to slide against global currencies. Domestic mortgage policy has resulted in large amounts of residential real estate available at below market prices. Additionally, the housing market crisis in the US has created higher than expected returns in rental income as fewer individuals are able to maintain their mortgages.

US trade policy has created a situation where cheap foreign goods supply the low end of the market. Due to the weak dollar policy, these cheap foreign goods should become more expensive to acquire and should stimulate demand for domestic production. However, most suppliers of these cheap foreign goods have exchange-rate mechanisms that are tied to the US dollar. Therefore, as the US dollar declines in value, effectively the Chinese yuan also declines in value being pegged to the dollar. The lower and middle classes in the United States are increasingly dependent upon cheap foreign goods to maintain their current standard of living. And yet the purchase of the same cheap foreign goods reduces the competitiveness of US businesses and results in fewer jobs. Expectations of increased unemployment have put downward pressure upon wages in the US, again, creating opportunities for foreign investors who require specific talent.

The second part of the problem in the US is rising energy prices, fueled in part by oil commodity sales being priced in US dollars. Most oil-producing nations have their exchange-rate fixed to the US dollar. Therefore, for them to maintain their current standard of living the price of oil must rise. The primary issue here is that many oil-producing nations sell their oil in US dollars,

but purchase their goods and services from nations not on the dollar standard such as the EU, Japan, Russia and Australia.

The third and possibly the most pressing issue, is the American engagement in Iraq. The US is currently spending \$16,000 per second in Iraq. Unlike previous military engagements, the Iraq conflict is being funded by foreign capital, while at the same time, domestic taxation was decreased. The upturn in government spending and the decrease in tax revenue, coupled with global inflationary pressures, domestic housing and health crises, and stagnant wage growth have resulted in a persistent increasing government deficits and foreign debt.

Healthy and robust growth in much of Africa, the EU and the Asia-Pacific region provide excellent opportunities for business investment, expansion and growth. Careful attention must be paid to funding and financial arrangements to ensure proper risk management of potential currency volatility. Financial and economic troubles in the United States present many more opportunities than challenges for growing your business. Identification of key problems and the creation of appropriate and adequate solutions are necessary to weather any upheaval caused by recession and reduced consumption in the US.

Global growth in infrastructure, alternative energy and high technology will remain strong and become exceedingly more important as energy costs and feedstocks become significantly more expensive. Marginal technologies, once thought to be too expensive and commercially cost prohibitive are now possible and become increasingly more important as capital in resources become more scarce. The tightening of conventional financial markets creates many obstacles for enterprises to grow. Euroasian provides many facilities that offer financial vehicles that can provide your business with the necessary capital during these uncertain times. Where there is risk, there is opportunity.