



Bank

# **In search for a new benchmark?**

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**Economic Summit ACI Belgium**

**KBC Bank, Brussels**

**17.02.2005**

- 1. The USD weakness: a surprise?**
- 2. The US twin deficits: major problems?**
- 3. The sponsors: still ready to help?**
- 4. The interest rates: the key for a USD rebound?**

# 1. The USD weakness: a surprise?

## • EUR-USD: the revenge of the EUR?

### EUR/US 1990-2004



### EUR/US 1999-2004



# 1. The USD weakness: a surprise?

- **USD - Asian currencies: no surprise?**

## USD/JPY



## JPY/KRW



# 1. The USD weakness: a surprise?

## USD/THB



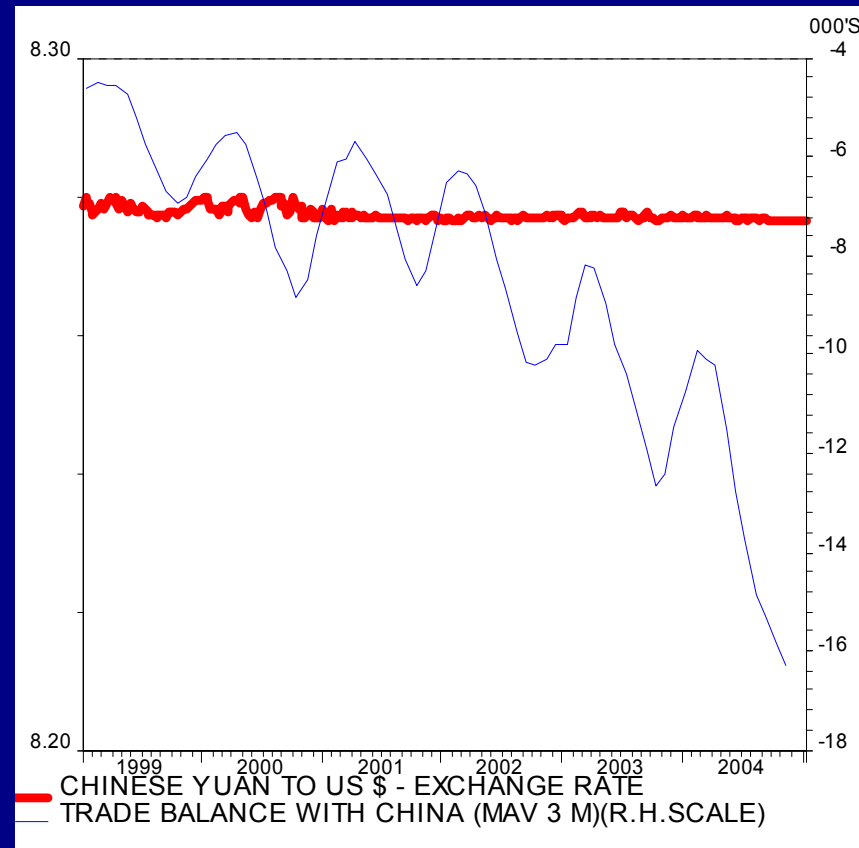
## USD/SGD



# 1. The USD weakness: a surprise?

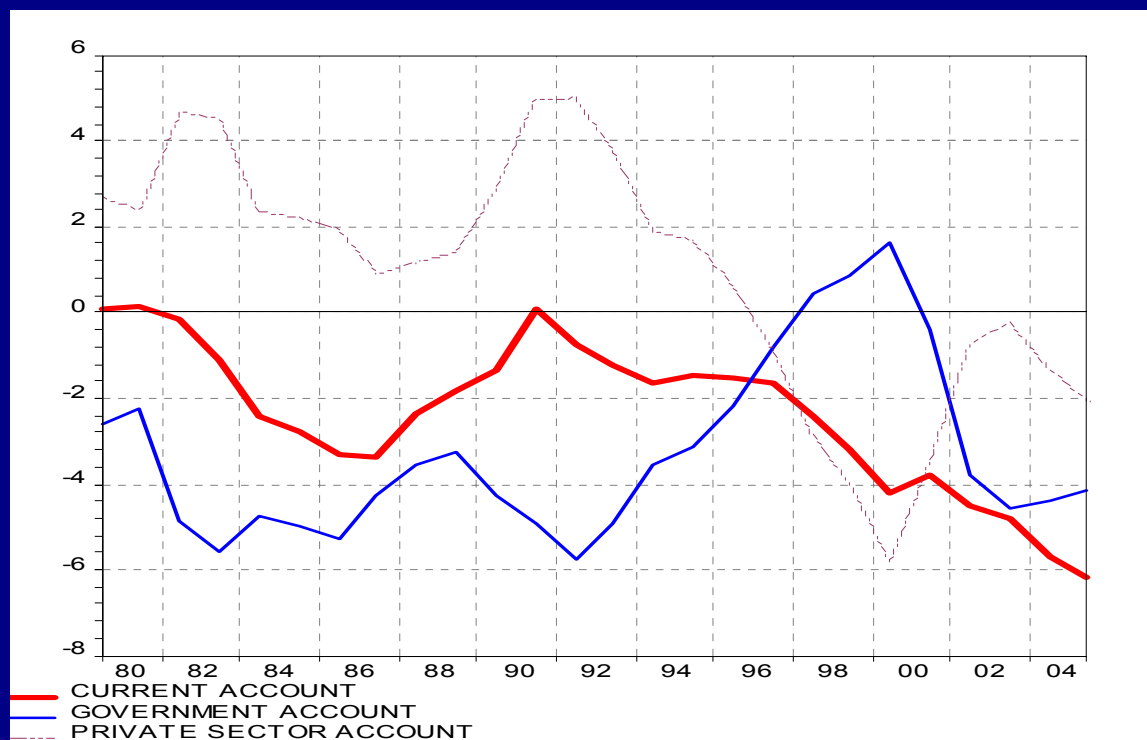
- **USD – Chinese yuan: the crucial relationship?**

## USD/RMB and trade balance



## 2. The US twin deficits: major problems?

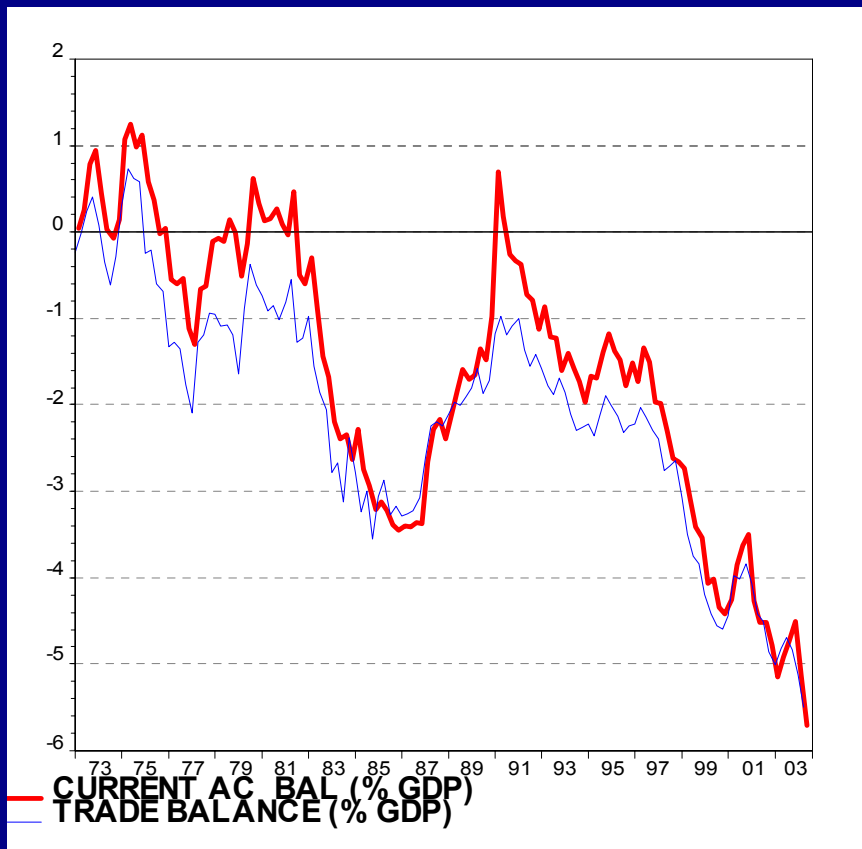
- **The financial accounts: an explosive situation?**



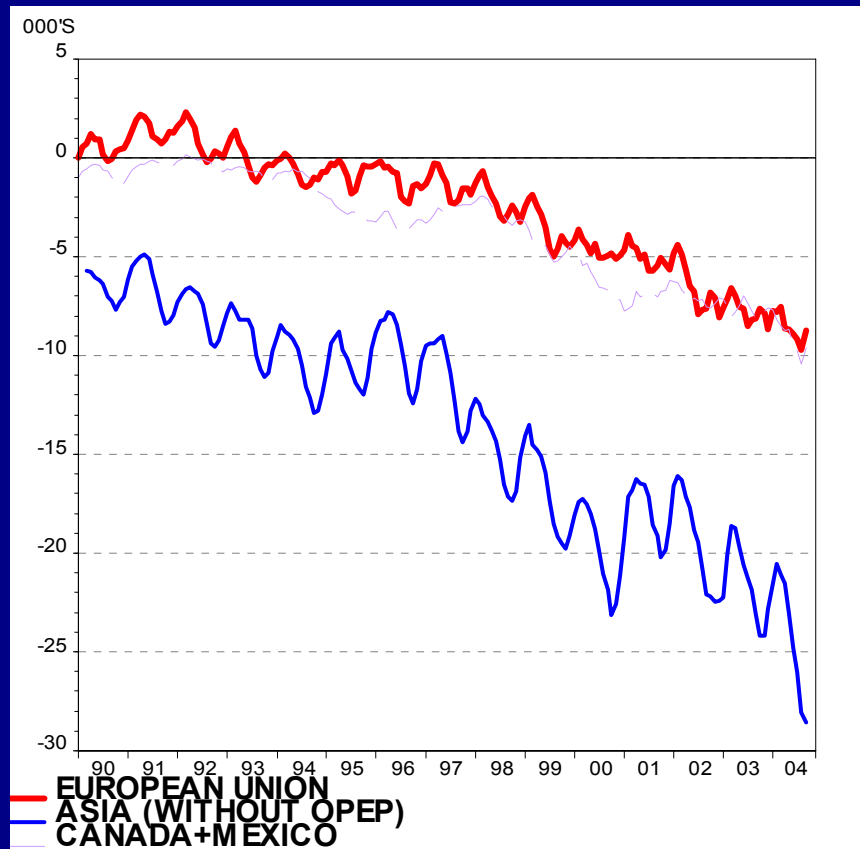
## 2. The US twin deficits: major problems?

- The external deficit: structural?

Current account and trade balance  
(in % of GDP)



Deficit with Europe and Asia

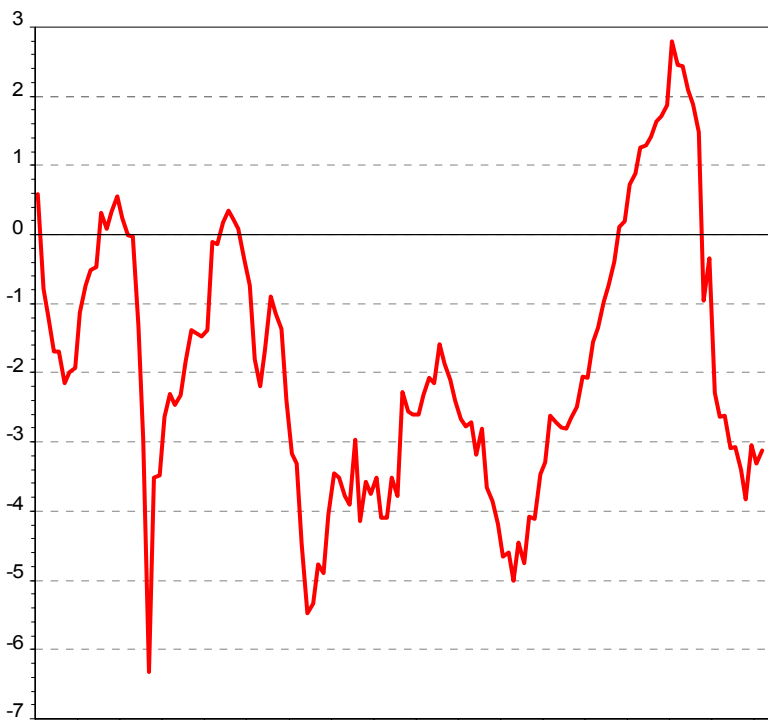




## 2. The US twin deficits: major problems?

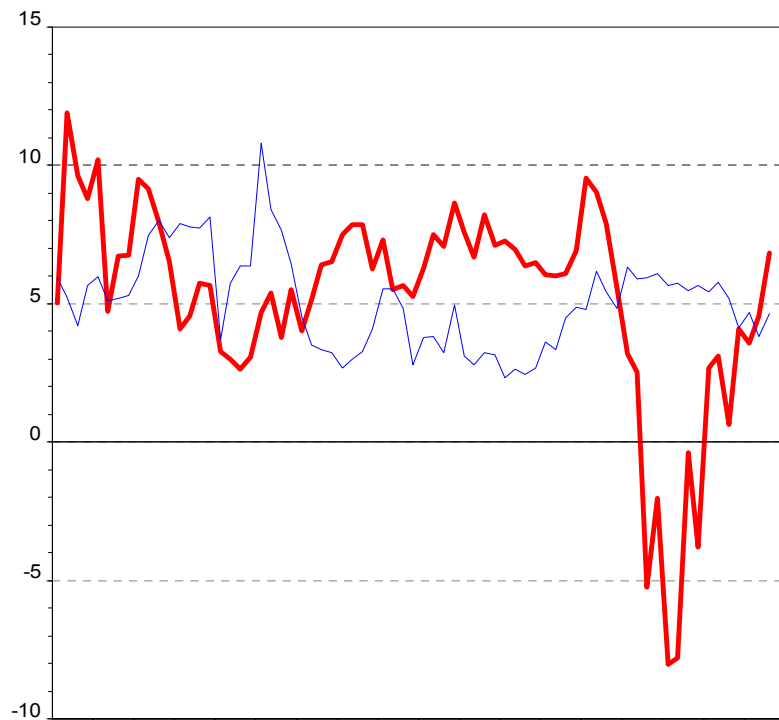
- The budget deficit: a cyclical phenomenon?

**Budget balance  
(in % of GDP)**



**BUDGET BALANCE (% GDP)**

**Receipts and spending  
(%, yoy)**

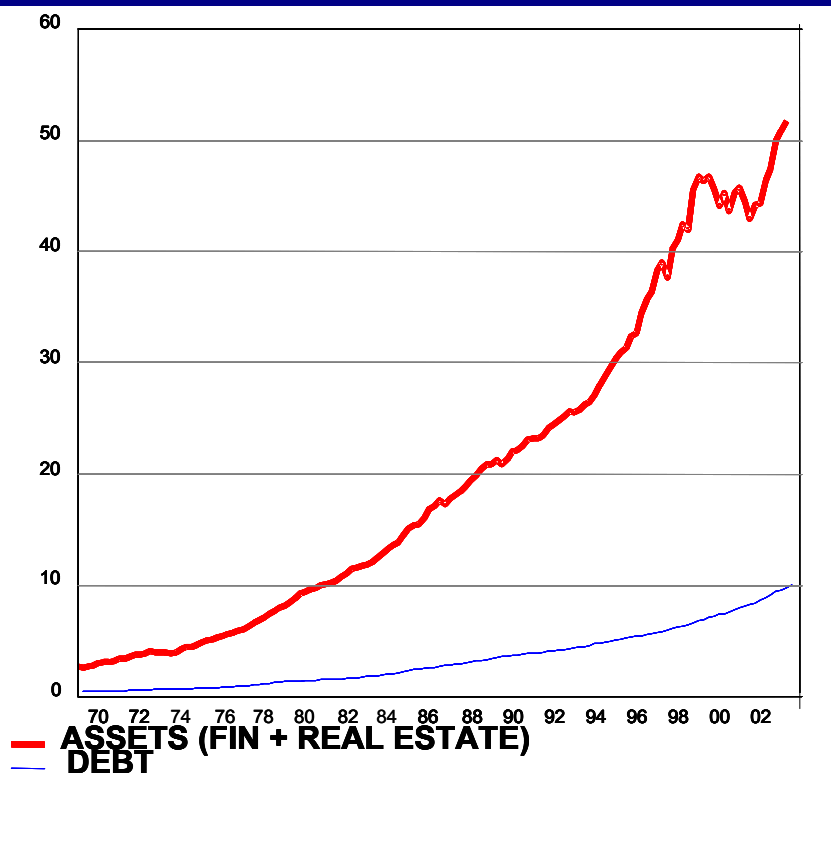


**RECEIPTS (%;Y-O-Y)**  
**SPENDING (%;Y-O-Y)**

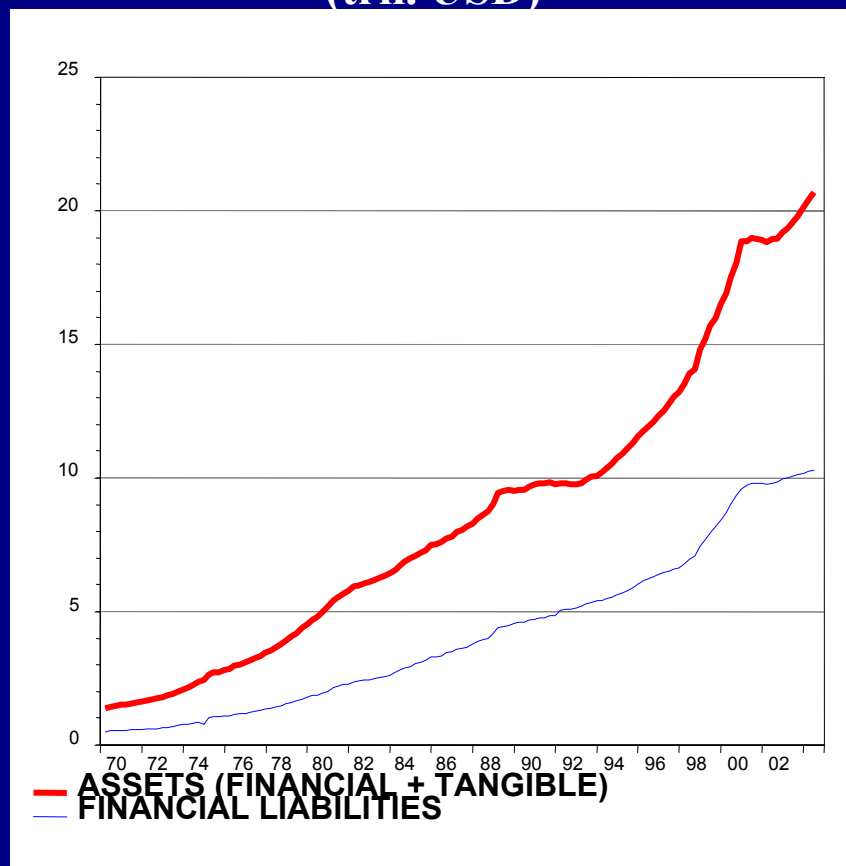
## 2. The US twin deficits: major problems?

- The private sector debt: no panic?

Households assets and debt  
(tril. USD)



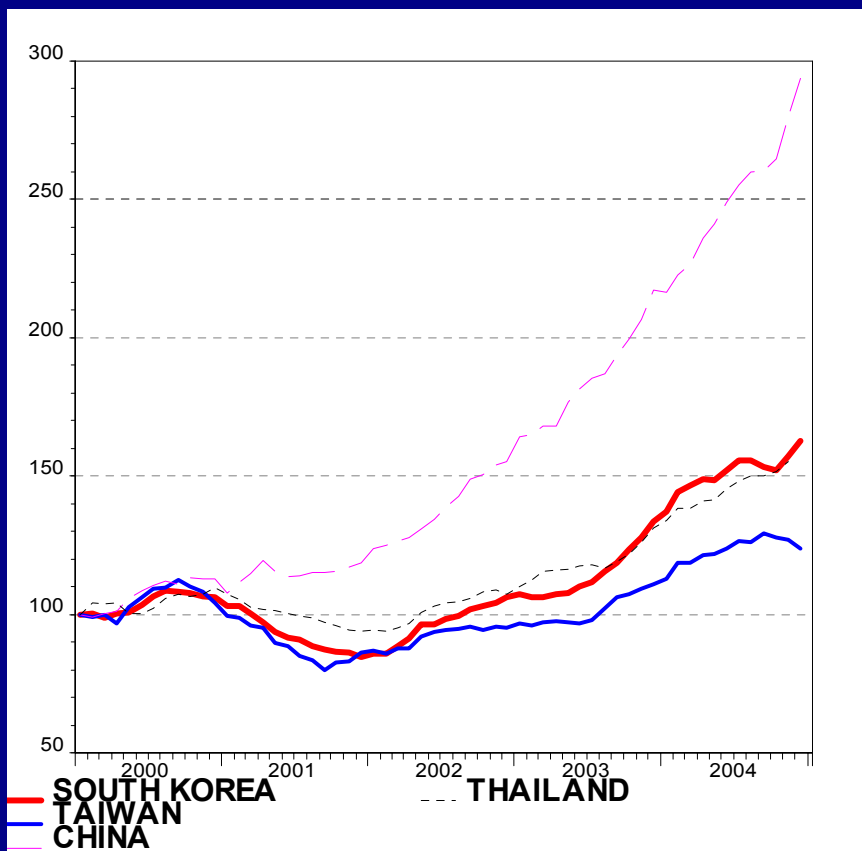
Assets and financial debt  
(tril. USD)



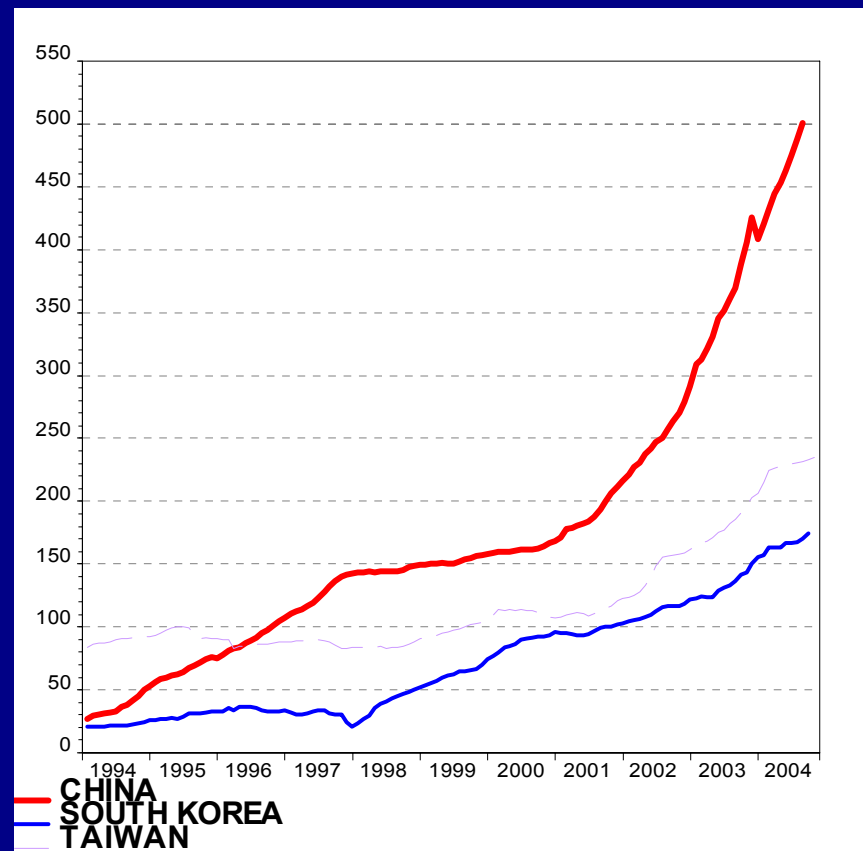
### 3. The sponsors: still ready to help?

- The Asian export dynamics and reserves

#### Exportations



#### Reserves



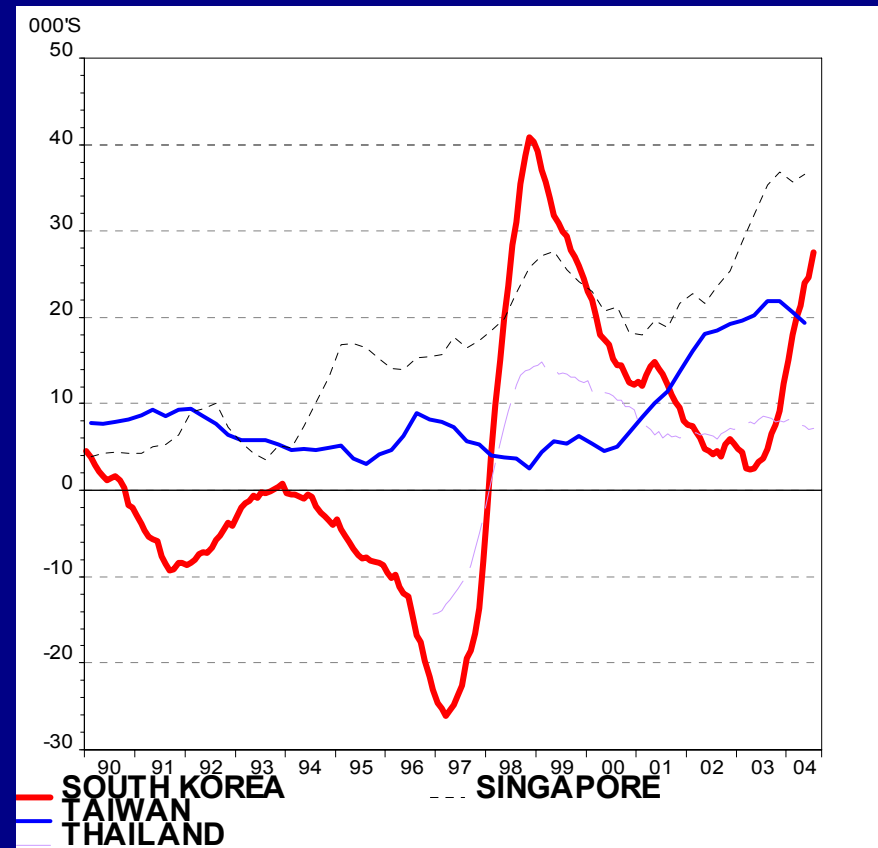
### 3. The sponsors: still ready to help?

- The attractive current account surpluses

#### Current account

	2003(R)	2004(F)	2005(F)
Japan	+3,2	+3,7	+3,2
China	+3,2	+2,2	+1,6
South Korea	+2,0	+4,1	+3,3
Thailand	+5,6	+3,9	+2,6
Singapore	+30,9	+28,0	+23,0

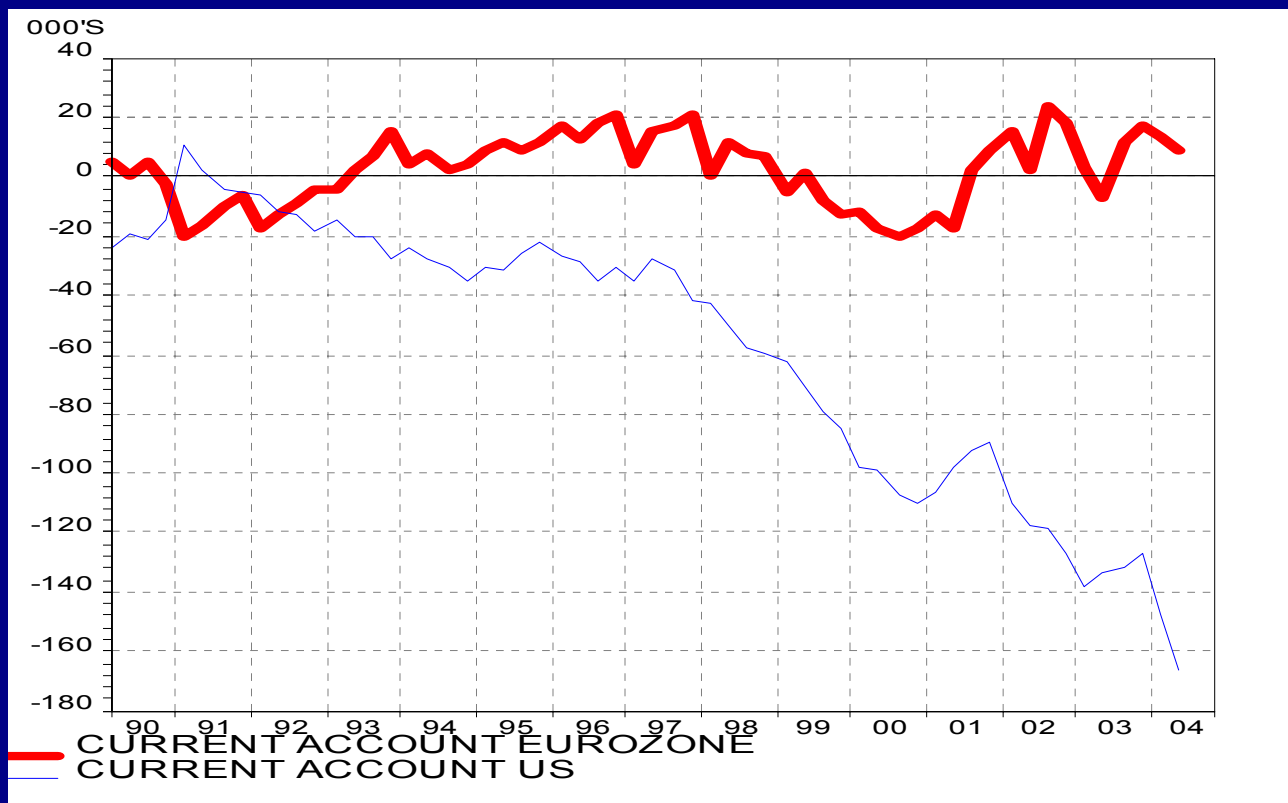
Source: Dexia Bank Research



### 3. The sponsors: still ready to help?

- The current account divergence

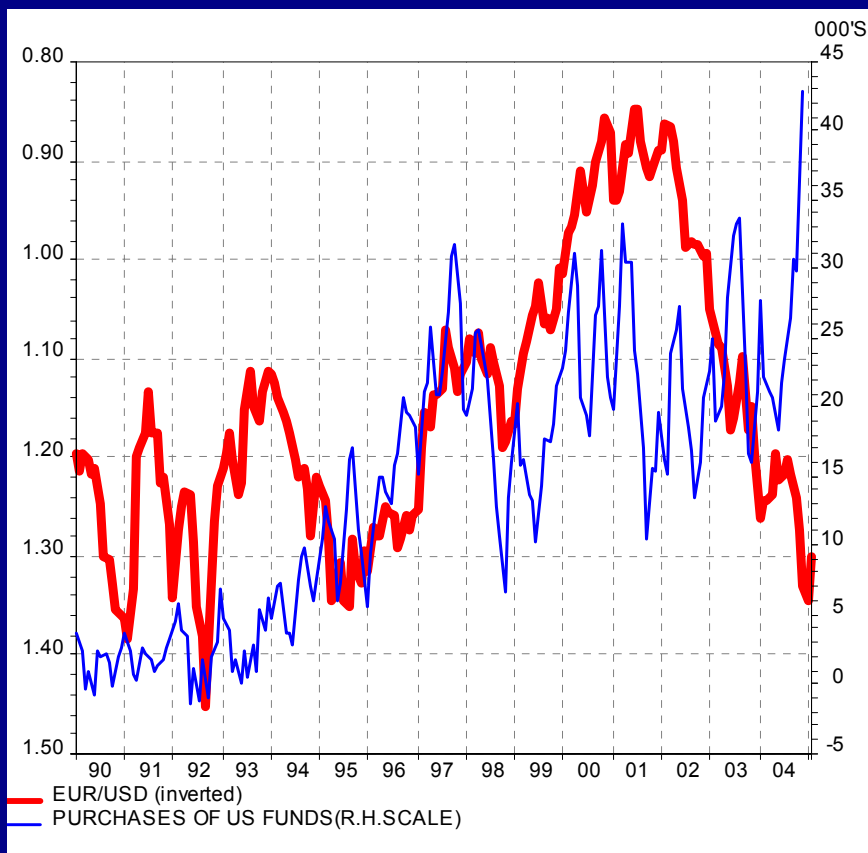
#### US-eurozone



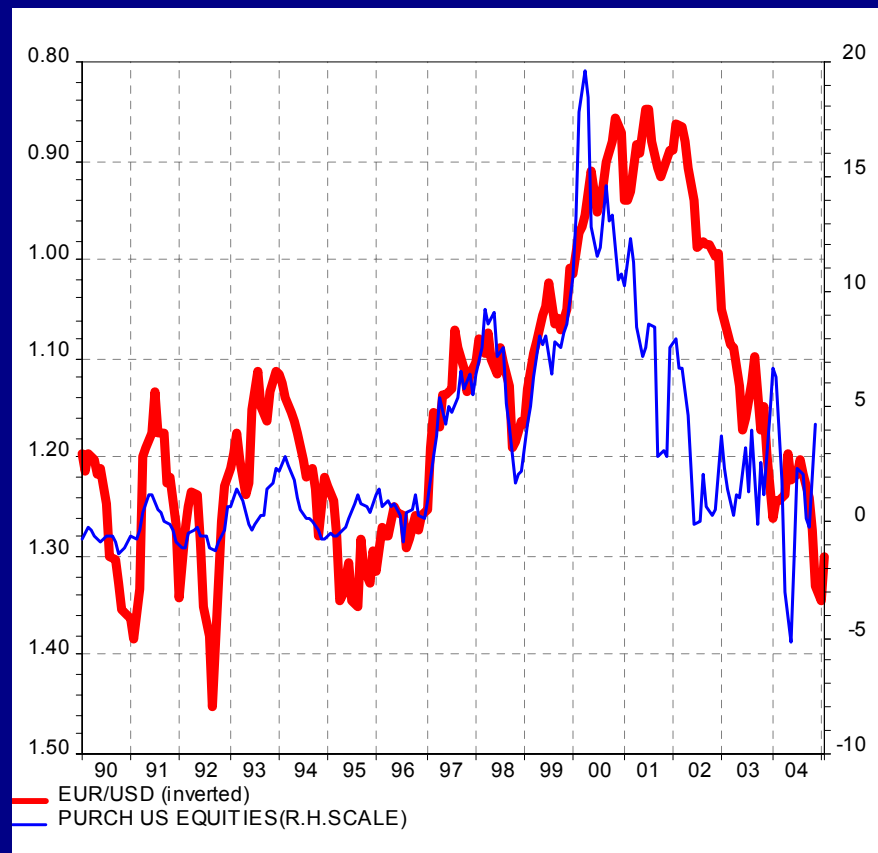
### 3. The sponsors: still ready to help?

- European net purchases of US securities

#### EUR/USD and purchases of US funds



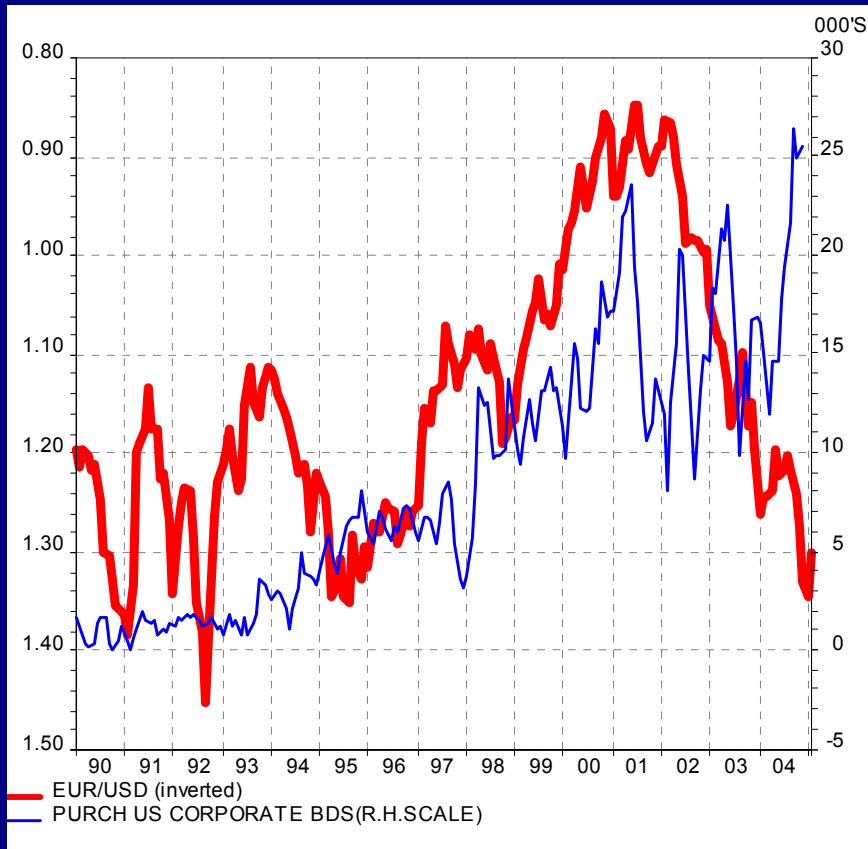
#### EUR/USD and net purchases of US equities



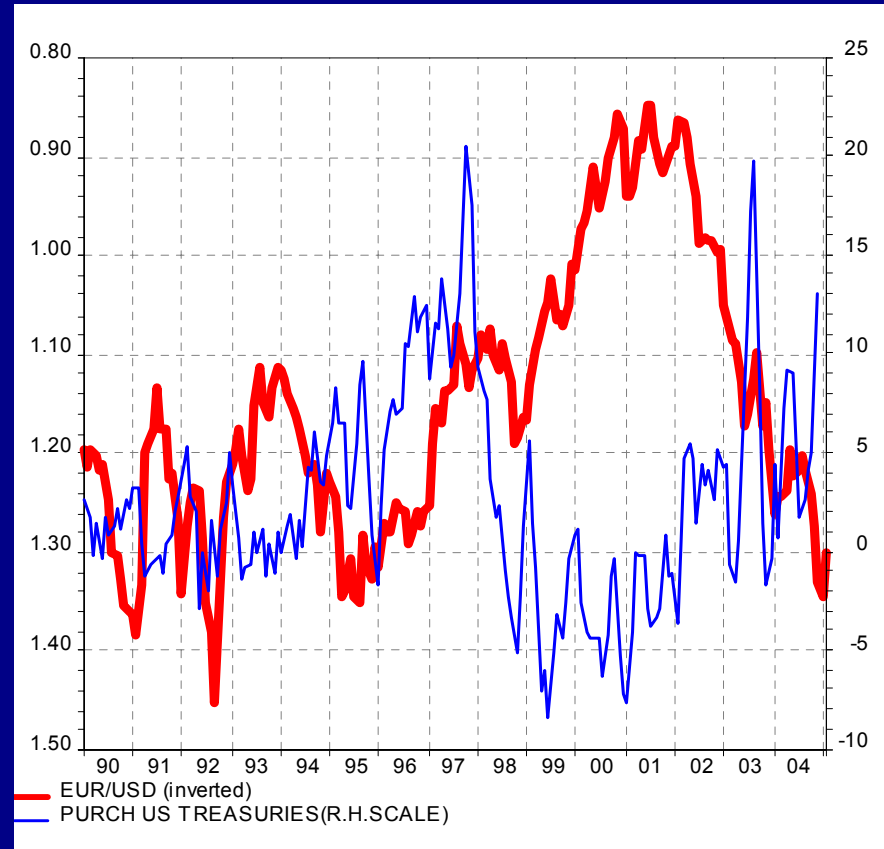
### 3. The sponsors: still ready to help?

- **US corporate bonds and govies rediscovered**

**EUR/USD and net purchases of US corporate bonds**



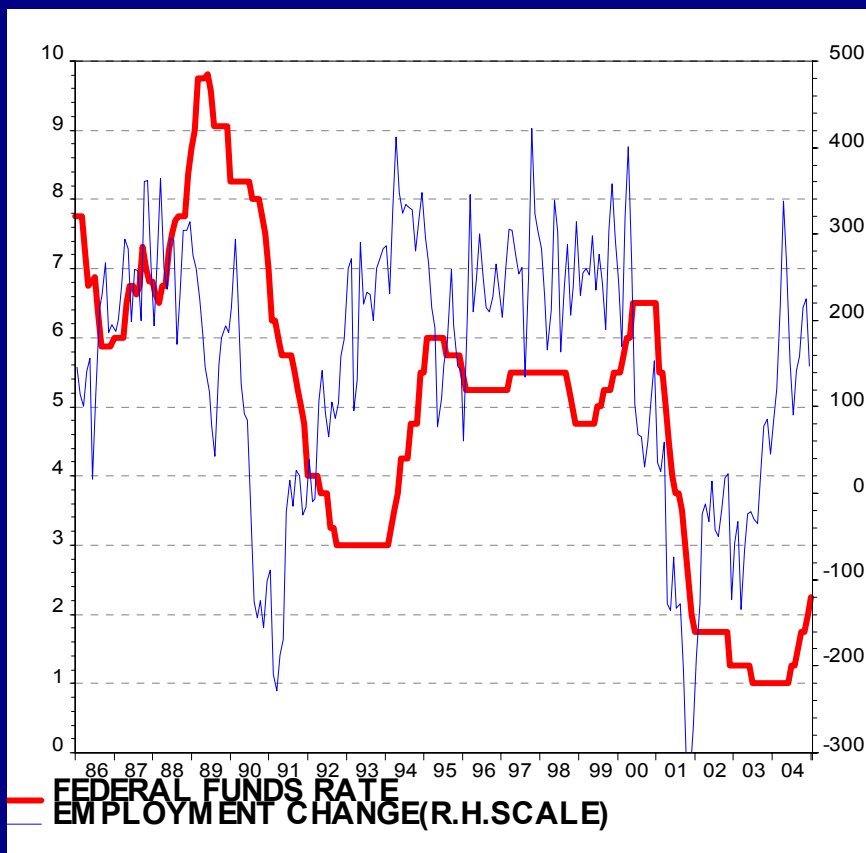
**EUR/USD and net purchases of US govies**



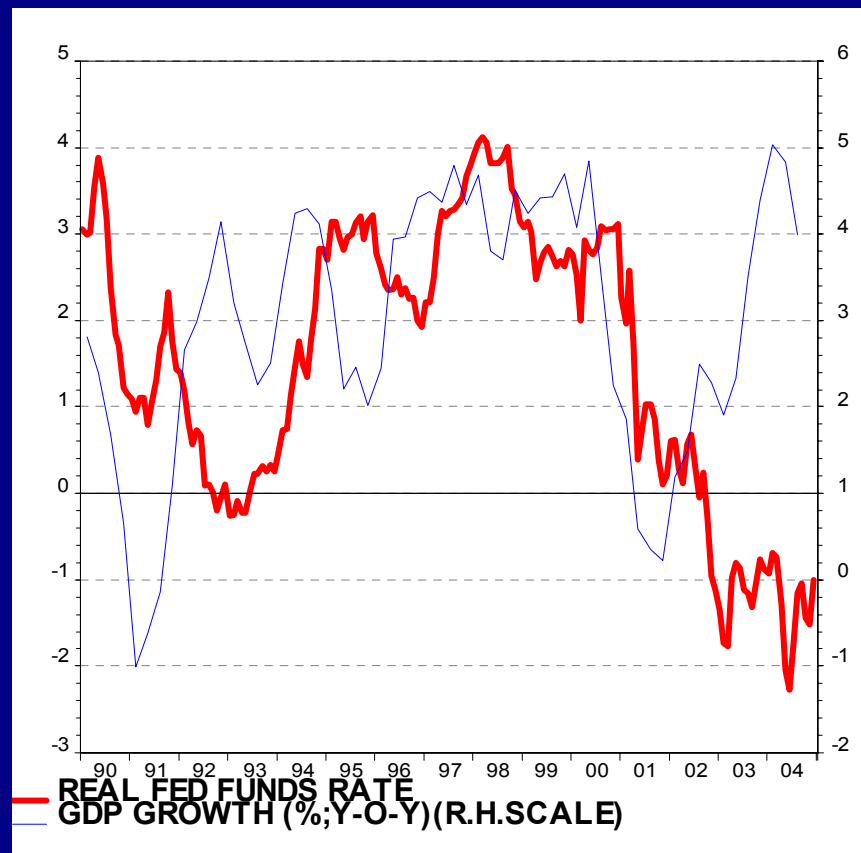
## 4. The interest rates: the key for a USD rebound?

- **Tightening of monetary policy in US**

Fed funds rate and employment change



Real Fed funds rate and GDP growth

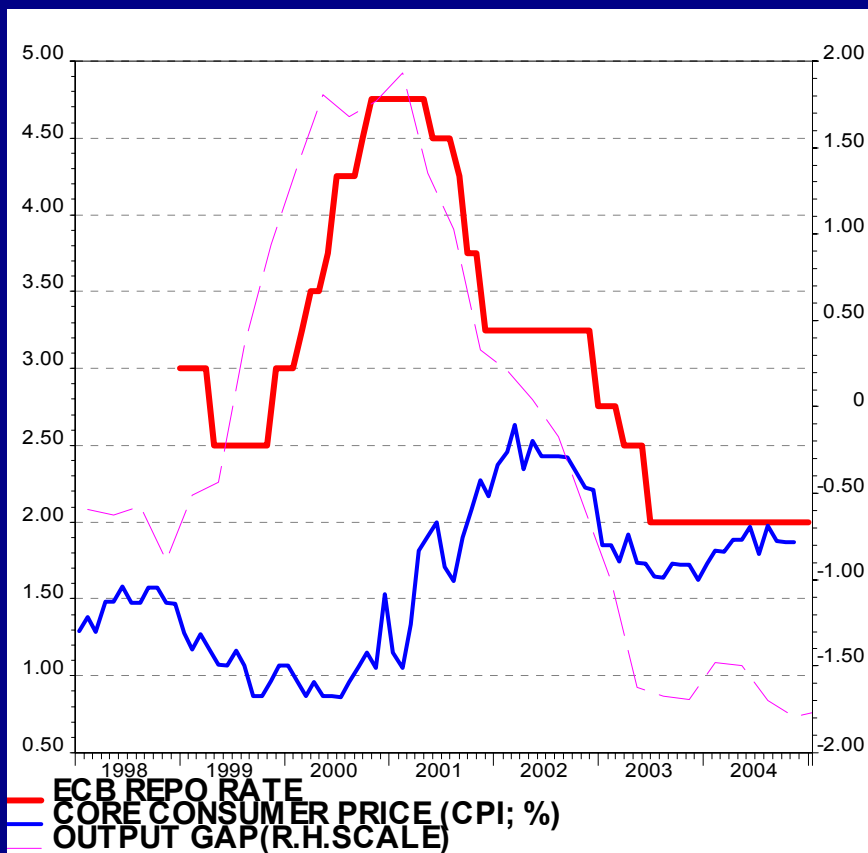




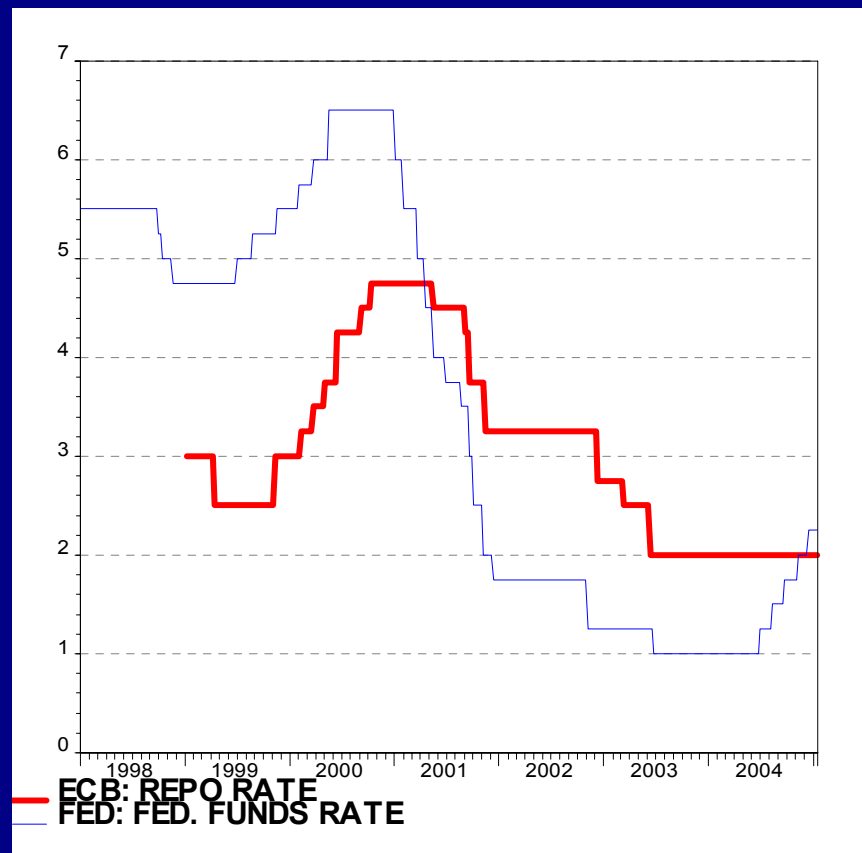
# 4. The interest rates: the key for a USD rebound?

- No change in ECB attitude

## ECB repo rate, core consumer price and output gap



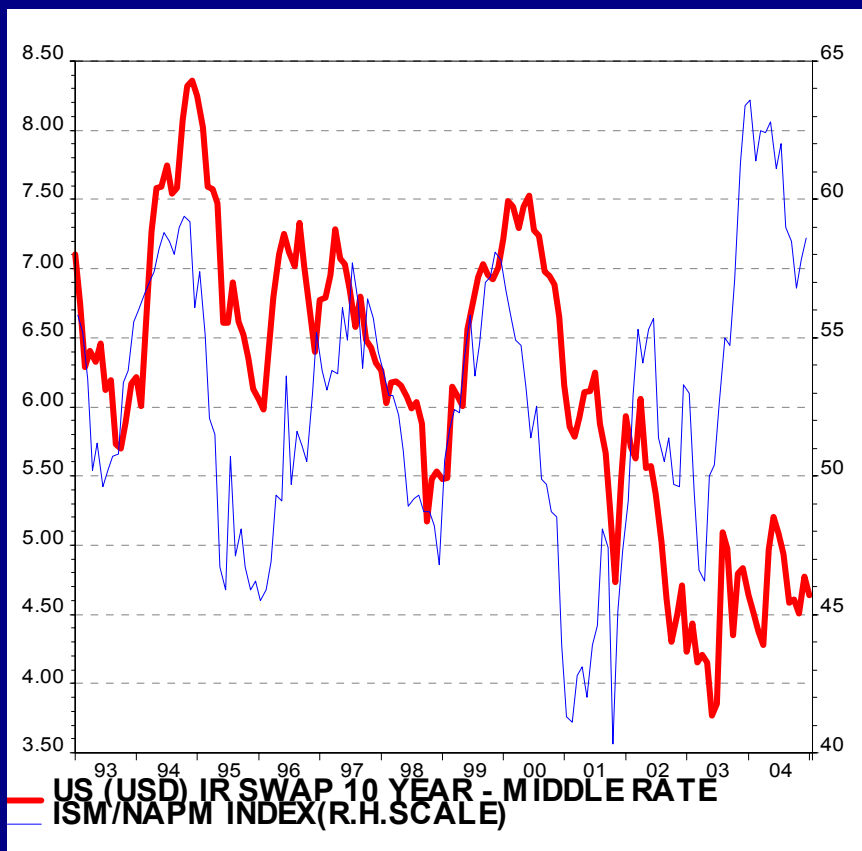
## ECB repo rate and Fed funds rate



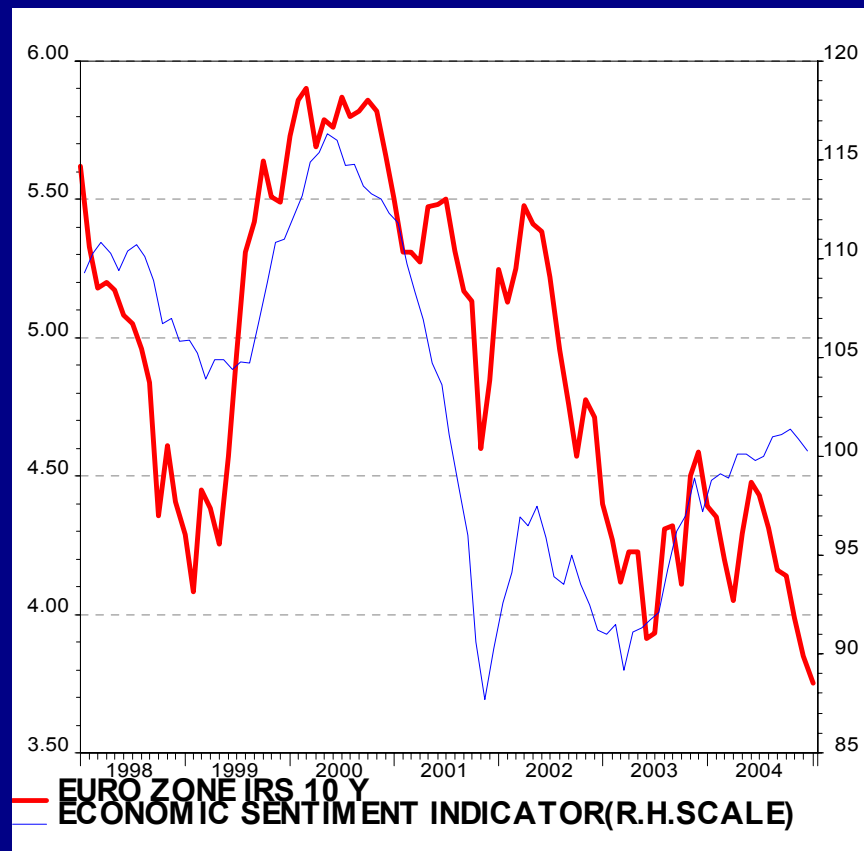
## 4. The interest rates: the key for a USD rebound?

- Too low long term rates

### USD 10 y. swap and ISM/NAPM index



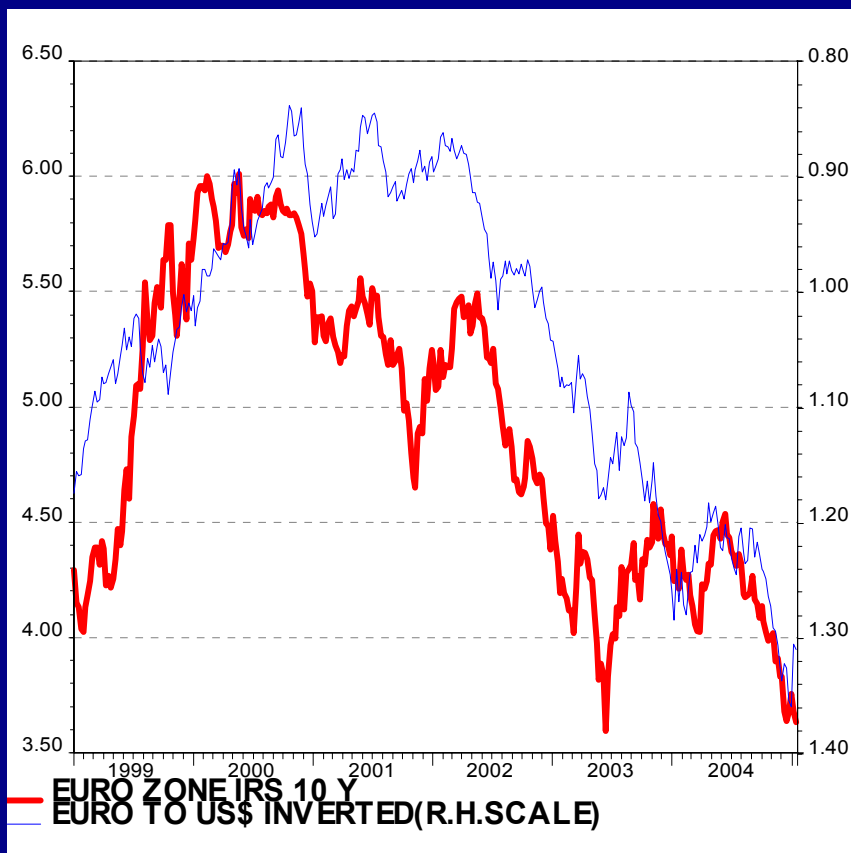
### Eurozone IRS 10 y. and economic sentiment indicator



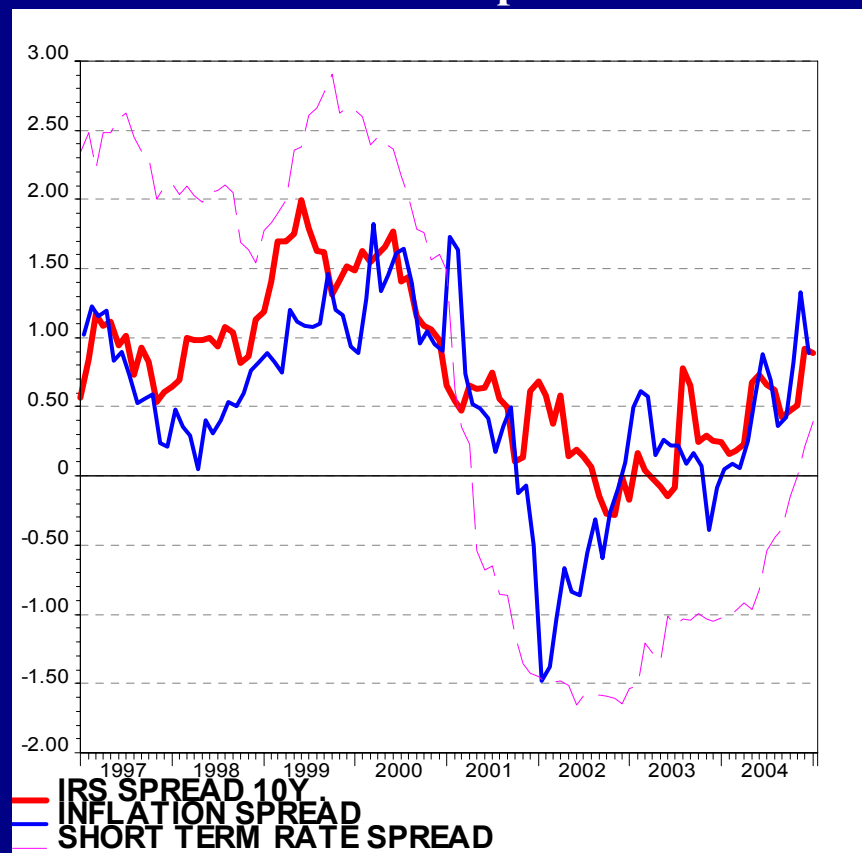
## 4. The interest rates: the key for a USD rebound?

- Widening gap US-eurozone

Eurozone IRF 10 y. and EUR/USD  
(inverted)



IRS spread 10 y., inflation spread and short term rate spread



## 4. The interest rates: the key for a USD rebound?

- Yield curve at a turning point

### US-eurozone



## 4. The interest rates: the key for a USD rebound?

- And the winner is ...

	USD	EUR
Labour market	+	-
Economic evolution	+	-
Monetary policy	+	-
Long term interest rates	+	-
Budget	-	-
Current account	-	+
Reserves central bank	-	+
Stock market	-	+
Geopolitical pressure	-	+
Political leadership	+	-



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