

COMPLEXITIES OF THE WORLD

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INTRODUCTION

In this paper I will be talking about the rising interest rates and depreciating currencies against the Dollar, is the Dollar rising or is the Rupee sliding, is the dominance of the Dollar declining and the concept of Europe + 1.

1. Depreciating currencies and rising interest rates.

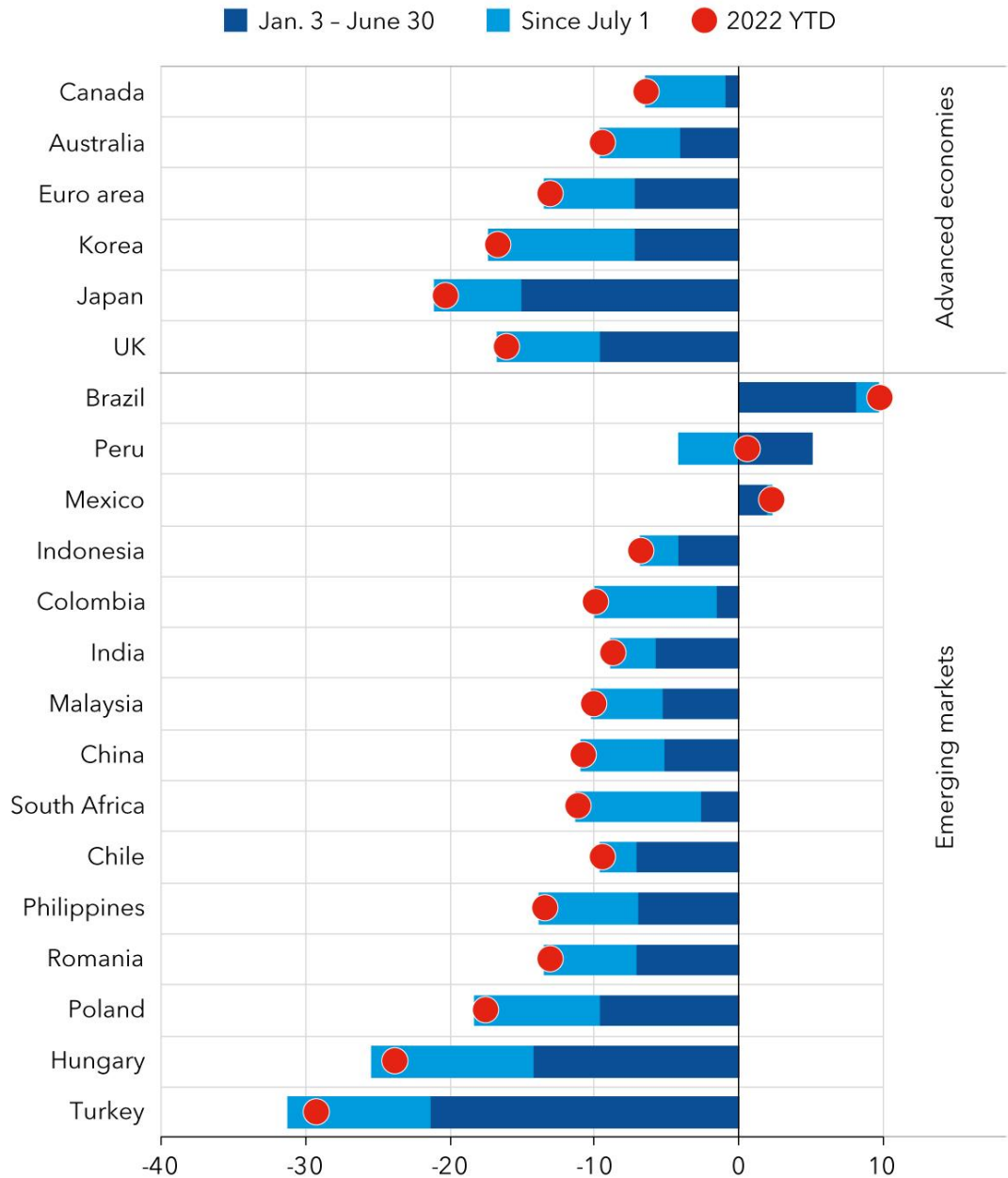
Most of the currencies of the world are depreciating against the Dollar , the Dollar is rising because when inflation in the US was rising the FED started hiking the interest rates to cool down the inflation and when interest rates are hiked the bond yields also rise , this attracted foreign investors and these foreign investors pulled out their money from other markets and invested it into the dollar bond because they were getting higher interest rates , because of exchange rate risks as many currencies are not convertible easily and can become weak but the Dollar will remain strong , so as there is more and more demand for Dollar the Dollar started increasing . All the currencies of the world have depreciated a lot against the Dollar in the past few months and the forex reserves of India have dropped from around 620 billion Dollars to 540 billion Dollars in the last 8 months, this happened because the RBI

had to pump out a lot of the forex reserves to stabilize the Rupee against the Dollar. The unusual strengthening of the Dollar is destabilizing the global economy, because of this many central banks are selling their Dollars to support their own currency, even the central bank of Japan who earlier thought that the Yen was too strong and tried to weaken the Yen because it was not competitive for exports with the Dollar is now pumping Dollars into the market to support their currency. In a report Mr. Ruchir Sharma laid down an argument which states that the Biden administration should launch a coordinated plan to bring down the value of the Dollar because of the following reasons – it's hurting the US, its allies, the emerging markets and the global economy. In this report he also suggested the actions that should be taken to bring down the value of the Dollar they are – accept that the Dollar is overvalued so there is need to bring down its value , too many speculators have taken long positions on the dollar thinking that it will keep going in the same direction and that's why he suggested that a coordinated plan by not just the US FED but many other central banks and countries takes place to sell Dollars in the market it would shock the markets and all the speculators and thus bring down the value of the Dollar . Another article from the New York Times says that the US is the leader of the global economy so they have to make a choice between real recession or Dollar value driven inflation.

Dollar surge

For many countries, the weakening of their currencies relative to the US dollar has made the inflation fight harder.

(exchange rates vis-à-vis US dollar, percent change)



Source: Haver Analytics and IMF staff calculations.

Note: As of October 4, 2022.

IMF

Above is a picture of how currencies have performed against the Dollar over the past few months.

Is the Dollar rising or is the Rupee sliding.

The Dollar is strengthening this is because all the currencies including the Rupee are weakening to the Dollar but the Rupee is strengthening to most of the other currencies. The RBI spent almost around 100 billion Dollars in the past year to defend the Rupee, the finance minister of India said that the RBI was putting in efforts towards seeing that there is not too much volatility and not to intervene in the market to fix the Rupee. The only currency which is strengthened against the Dollar over the past year is the Russian Rouble , one of the reasons for the strengthening of Rouble is that Russia started exporting oil , food grains and other products either in the local currency of that particular country or it took gold against the products supplied . USD is the global reserve currency and 40% of all transactions in the world is done in USD so if Dollar goes up or down it affects all other currencies.

HOW ₹ PERFORMED VIS-A-VIS MAJOR CURRENCIES

	Dec 31,'21	Sep 19,'22	Change in %	
Japanese yen	0.65	0.56	16.19	
British pound	100.44	90.61	10.84	
Taiwan dollar	2.70	2.54	6.39	
Euro	84.21	79.54	5.87	
China renminbi	11.70	11.38	2.79	
Swiss franc	81.45	82.52	-1.30	
Canadian dollar	58.44	59.88	-2.41	
Singapore dollar	55.10	56.57	-2.59	
Hong Kong dollar	9.53	10.16	-6.21	
UAE dirham	20.24	21.72	-6.81	
US dollar	74.34	79.77	-6.81	
Russian rouble	0.99	1.32	-25.36	

Source: Bloomberg

Compiled by BS Research Bureau

Above is a picture of the Rupee against all other major currencies.

Is the dominance of the Dollar declining.

During the Russia – Ukraine war when the US put sanctions on Russia, Russia started trade with other countries such as India, China and some other large countries in their local currencies. For example, when Russia exported oil to India, we paid them in Rupees now Russia cannot use these Rupees to trade with other countries and can use these Rupees only to pay us when we export something to them, because of this reason Russia started more and more trade with other countries and this also opened many windows for different countries to trade with each other in their local currencies and thus trade in the USD decreased. Earlier the USD was the main currency for trade and thus the US had a lot of influence on the global trade but now trade in the USD has decreased as different countries are trading with each other in their local currencies , thus the influence of the US over global trade is also decreasing . More than 60 nations in the past year have dumped Dollars into the market, the US economy is built on a bad foundation and they have borrowed excessive debt from other countries, the US government has been spending excessively for decades and yet banks keep lending them money because the Dollar is the world's dominant reserve currency. Nearly 45% of the world debt is denominated in Dollars, about 52% of international trade is conducted in Dollars. Since banks around the world need a lot of Dollars to conduct business, almost 62% of foreign exchange reserves are held in Dollars. The high demand for Dollars keeps the interest rate on America's debt low .Because many people want to own Dollars, they want to buy Dollars. Purchasing US debt in the form of US Treasury Bonds is an easy way to do that. Since so many people want to buy these bonds, the US government can sell them at incredibly low interest rates. As

nations start to lose faith in the US financial system and sell of their Dollar reserves, the situation is changing. The Dollar is losing its reserve currency status. Its value is decreasing, and the interest rate that banks charge the US for loans is rising. The only reason why the Dollar is not already collapsed is that the world's other major currencies are in even worse shape than the Dollar. Since there is currently no viable alternative reserve currency, banks grudgingly continue to use the Dollar despite of its flaws.

Europe...Crisis, Come Europe + 1.

There are fears that companies might start disinvesting across Europe because of poor gas supply. This may cause blackouts and shortages all through winter. Factory shutdowns may also be a consequence. Europe will also propose a mandatory target for reducing electricity consumption. This will eventually lead to lower production and supply chain disruptions, thus causing losses for companies with manufacturing units across Europe.

This makes India an attractive destination for investment. The huge investment by the government in infrastructure will prove to be a boon as it will accelerate foreign investment. India can provide a base for the manufacturing and production units of large companies if it takes steps to promote such investment.

Many big chemical players have confirmed that they have already started experiencing a hit. Plants are running at low capacity in Europe.

All in all, Europe began to record a record high inflation at the beginning of the Russia-Ukraine war. The permanent shutting off of Nord Stream 1 and the incoming winter has exacerbated the problem. Thus high gas prices and inflation all across

Europe might scare off investors. Things might work out in India's favour if investors are sufficiently attracted to investing here.