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US Dollar Fall Under Scrutiny…

The recent depreciation of the US dollar can be attributed to many economic provoking factors. These include concerns about a US economic slowdown, uncertainty surrounding decision-making by the Federal Reserve and geopolitical instability. Critics argue that the Federal Reserve was too timid in tightening the monetary policy during the first quarter of 2006 against a backdrop of strong economic growth and incipient inflationary risks. Political pressures surfaced especially in the run-up to US mid-term elections in November, which saw the Democrats emerge victorious and President Bush popular support unexpectedly falter.

Compounding matters, the recent fall of the US dollar was also catalyzed by investors re-focusing on the widening US current account deficit. A great deal of the external pressure emanates from the US trade deficit, which rose by almost 10% to US$643.4 billion in the first ten months of 2006. China, the major exporter to the US reaped a trade surplus of US$202 billion in 2005 and more than US$190 billion has already been recorded for the year ending October 2006. Financing of the US external current account deficit is not a problem. International investors increased their holdings of US securities (mainly treasuries, corporate and agency bonds) by $82 billion in October, following an increase of $72 billion in September.

The US dollar depreciated to 20-month lows against the euro and slumped to a 14-month low against the pound by end-November 2006 forcing major diversification strategies across the board. At present, China is holding roughly US$1 trillion of foreign exchange reserves, a stockpile reflecting the outstanding performance of China's economic achievements since the 1980's. During the Thanksgiving holiday, the Chinese Central Bank authorities announcing their intentions to diversify foreign exchange holding away from the dollar, leading to some tumbling of the US currency.

For the past two years, China has managed to accumulate US$400 billion in external reserves, partly reflecting the strength of the Chinese currency. China has limited the renminbi's gain to 5.7% against the US dollar since ending the peg to the dollar in July 2005, giving Chinese exports a significant price advantage in international markets. This has again fueled demands for protection from some US lawmakers and companies. Fed Chairman Bernanke recently urged China to let the renminbi appreciate at a faster pace to enhance China's growth.

Driven by the financial risks posed by the sliding of the US dollar, commodity prices have skyrocketed. Even though the price of oil has been above US$50 over the past eighteen months, it was greatly outpaced by the move to more save haven

commodities. Zinc prices have doubled in the past five months ending in November, while copper prices rose by 80%. Silver gained 18% and gold, aluminum and platinum have gained 14%, 36% and 35%, in prices respectively.

While it is difficult to predict the course of currency markets, the pressures are growing on the US dollar. Any disorderly fall will entail significant spillovers to global financial markets and to emerging market economies. A multilateral solution remains the best option.

FINANCIAL & ECONOMIC INDICATORS
As at 14 December 2006

Exchange Rate/US$	Closing Value	Previous Week
Yen	117.83	115.26
Euro	1.31	1.34
Jamaica	66.93	66.95
Guyana	201.7	201.4

Commodity Prices	Closing Value	Previous Week
Crude oil (US$/bbl)	62.51	62.49
Natural Gas (US$/mmbtu)	7.23	7.56
Gold (US$/Troy Ounce)	625.85	633.56

Eurobond Indices (Returns, % YTD as of 14- Dec- 06)	
Lehman Brothers Global Aggregate Index	3.61
JP Morgan EMBI+	-26.36
CMMB Eurobond Index	4.11

Policy Interest Rates (%)	Closing Value	Previous Month
United States	5.25	5.25
Euro Zone	3.25	3.25
Japan	2.28	0.26
Brazil	13.19	13.18
Trinidad	8.00	8.00
Jamaica	11.95	11.95
Barbados	4.75	4.75

Market Interest Rates (%)	Closing Value	Previous Week
US 90-day T-Bill	4.81	4.85
US 10-Yr Treasury	4.60	4.48
3-month UK Libor	5.30	5.27
Japan 90-day T-Bill	0.33	0.33
Brazil 90-day T-Bill	13.21	12.95
TT 90-day T-Bill	6.74	6.74
Jamaica 90-day T-Bill	11.73	11.73
Barbados 90-day T-Bill	6.60	6.60

Sources: Bloomberg, CMMB Research Centre, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, www.lehman.com