BORDER GOLD
CORP.
Dealer In Precious Metals

Macro Market Insights

October 12th, 2013

Robert Levy
MA (Economics)
Director
rlevy@bordergold.com
(604) 535-3287
www.bordergold.com

The Almighty US Dollar

The Triffin Dilemma, named after economist Robert Triffin, speaks to the balancing act required on the part of the government that stands behind the world's reserve currency. On the one hand, foreign nations wish to hold the reserve currency either to conduct international transactions, or as diversification for their foreign exchange reserves to ensure stability in their exchange rate vis-à-vis their price level. This requires the issuer of the reserve currency to run trade deficits as their currency must be in surplus. In the case of the United States reserve status, there must be excess dollars in the world in order for other countries to hold their currency. Thus, nations that hold the US dollar look to the issuer for stability. The dilemma for the States, however, is that any short term policy or shocks can have long term implications on the currency's value. This is especially true if the shocks are manufactured by their government.

The Triffin Dilemma was specifically used to explain the role of the United States during the period of Bretton Woods. The world operated on a gold exchange standard, as 35 US dollars was fixed to an ounce of gold. Eventually, continuously expanding fiscal policy in the United States caused investors' perceptions to devalue the US dollar relative to an ounce of gold. This resulted in countries, led by France, to call on the US to redeem their dollars for gold. Ultimately, the Bretton Woods regime collapsed. In 1971 the price of an ounce of gold again began to float against the dollar. Similarities though, from the Triffin Dilemma can be drawn to the international monetary regime we are in today.

The US dollar is still by and large the world's reserve currency, and there's no escaping it. About 85% of international transactions are done in US dollars, and of the world's central banks 62.2% of their Foreign Exchange Reserves are US dollars verses the second most held currency, the Euro, which accounts for 23.7% of reserves. What this has meant for the US though, is that this demand for US dollars and US debt created by their currency's reserve status has allowed them to borrow at relatively cheaper levels, and this also doesn't account for the US Federal Reserve's easy money policies supressing what would be a natural level for interest rates. Moreover, it becomes clear that events in Washington over these last few weeks illustrate how US policy makers abuse the privilege of the role of the US Treasury in international financial markets.

There is no question, and never was a question surrounding whether or not the US was going to default on their debt. The idea of a manufactured default orchestrated by the President and Congress's inability to negotiate a deal to raise the debt ceiling, however, is what led investors to interpret the situation like it were probable. The discussion itself though was enough to damage the credibility of the US dollar. Large institutions like Fidelity and JPMorgan sold near dated Treasury's as the idea of the US going past the debt ceiling deadline was not worth flirting with.

No other currency can handle the inflows of capital like the US dollar. There is no alternative. However, investors more than ever require that hedge to their US dollar assets. We saw an IMF report last week that showed the Canadian dollar, after a long time in the making, is now the fifth widest held Forex Reserve, and it's not just because of our strong commodity export sector. There's also an increasing demand for reserve assets uncorrelated with, or negatively correlated with the US dollar. Policy makers today exemplify the importance of diversifying away from or hedging against the US dollar.

All investments contain risks and may lose value. This material is the opinion of its author(s) and is not the opinion of Border Gold Corp. This material is shared for informational purposes only. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. No part of this article may be reproduced in any form, or referred to in any other publication, without express written permission. Border Gold Corp. (BGC) is a privately owned company located near Vancouver, BC. ©2013, BGC.

BORDER GOLD
CORP.