

Concerns over GCC dependence on US treasury bills and dollar despite debt default optimism: Comments in The National, 15 Oct 2013

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Questions have been raised about the GCC's dependence on US treasury bills and the dollar, even as optimism rises about a deal to avert a debt default by the world's biggest economy. GCC governments are among the largest global investors in US treasuries, long considered a safe way to protect the oil wealth of future generations.

But US sovereign debt and treasury bills could no longer be considered a "risk free" asset for investors, said Nasser Saidi, the former chief economist of Dubai International Financial Centre.

"The GCC countries should reduce their dependence on the United States by diversifying their international reserves and investment holdings out of the US and US dollar," said Mr Saidi, the founder and president of Nasser Saidi & Associates, a Dubai-based economic advisory and consulting company.

He said the US dollar had "abused" its position and would be "losing the right to print money and issue debt that the rest of the world considered a 'reserve asset'."

The warning comes as stocks were boosted yesterday on expectation that an agreement could be reached to raise the nation's statutory borrowing limit and end a partial shutdown of the federal government that started on October 1. Failure

to reach an agreement by Thursday would leave the US government unable to pay bills owed from as early as next month, as well as risking derailing the US and global economic recovery.

Fuelling the optimism, the US senate majority leader Harry Reid, a Democrat, and the Republican senate leader Mitch McConnell ended talks on Monday, with Mr Reid saying "tremendous progress" had been made.

Shares in Asia raced to five-month highs yesterday, while the Euro Stoxx 50, an index of European blue chips, reached a two and a half year high.

Even before the deadlock, the US Federal Reserve has risked sapping investor confidence by pushing down bond yields through aggressive monetary easing.

Sentiment has also been knocked by the current debt deadlock, along with previous similar episodes of uncertainty about America's fiscal outlook in July 2011 and January of this year.

"The politics remains a concern but the economic outlook [for the US] is still brighter than rest of the G7," said Neil Shearing, an emerging markets economist at Capital Economics.

Sultan Al Suwaidi, the Governor of the UAE Central Bank, said in November 2011 that the UAE was investing in US treasuries. It is not known the bank's total holding.

Saudi Arabia is another large holder of treasuries.

Fahad Al Mubarak, the chief of the Saudi Arabian Monetary Agency, was quoted by Bloomberg at the annual meeting of the IMF and World Bank on Sunday as saying that "the US current crisis will go away and we think its effect won't be lasting on our investments".

US treasury one-month bill yields were yielding about 26 basis points yesterday, up from 2.5 basis points on September 30, just before the partial government shutdown began, according to Reuters.

The dollar added 0.5 per cent to reach a one-month high against a basket of currencies.

But analysts have already warned that the damage already done

by the debt stand-off was likely to keep the currency under pressure in the coming months.

The GCC has strong links to the greenback, with the UAE, Saudi Arabia, Qatar, Oman and Bahrain all pegging their currencies to the world's foremost reserve currency. It has made sense to hold most of their oil wealth in dollars as the commodity is traded in the greenback.

Dollar weakness can directly translate to local currencies, pushing up the cost of imports and fuelling inflation.

Mr Saidi said it was time for the GCC to consider breaking the dollar link.

"The strong peg to the dollar should be reviewed and a move to a basket is warranted both because of growing uncertainty with respect to fiscal and monetary policy but also because Asia and China are now the most important economic partners of the GCC, implying that the Asian business cycle is what matters," he said.

He added that the GCC should consider pricing and settling energy sales to China, their biggest client, in yuan as well as building up yuan reserves.

In moves seen as scaling back the use of the dollar in international trade, the UAE Central Bank has signed bilateral currency swap agreements with South Korea and China. The South Korea deal, announced on Sunday, is worth up to US\$5.4 billion over three years.