



The euro, the dollar, and all the others

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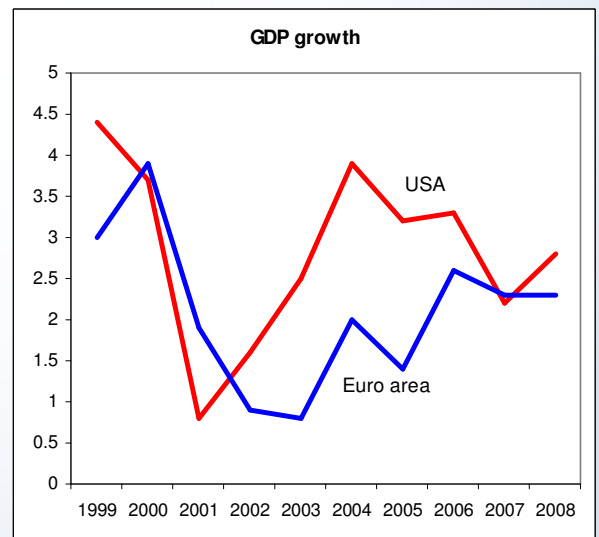
PowerPoint presentation held at
The Euro and the Dollar: Pillars in Global Finance
Federal Reserve Bank of New York
April 17, 2007

An unusual juncture

- Growth in the US lower than in Europe
- Inflation remains subdued in Europe, higher and possibly heading up in the US
- Financial risks exist in the US, not in Europe
- Interest rates are lower in the euro area and, yet, the euro is appreciating vis a vis the dollar

Unlikely to last

- The US locomotive temporarily slowed down
- Other locomotives pulling ahead
 - East Asia
 - European domestic demand
 - Pretty much all the rest of the world
- No bilateral issue
 - Just a diffuse fear of US hard-landing
 - We have been there many times...

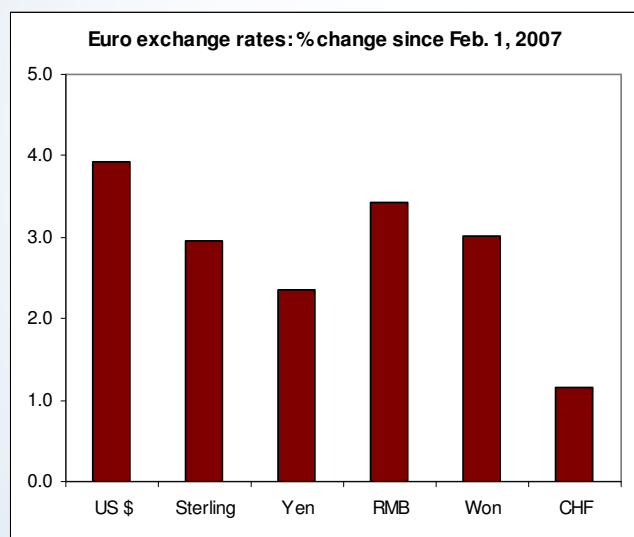




Multilateral macro issues

- The (now old) global imbalance issue
 - No improvement in US current deficit
 - Even though the budget deficit is slimming down
 - So almost entirely a private sector saving story
 - What do we know that they don't?
- The exchange rate issue

The exchange rate issue

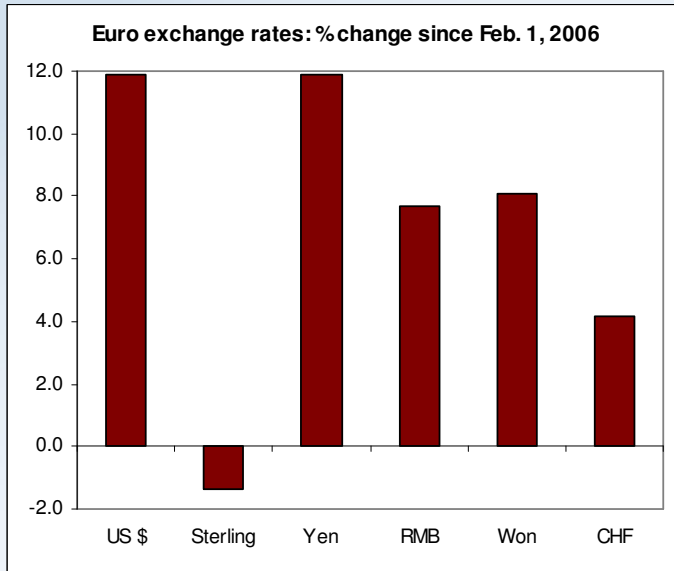




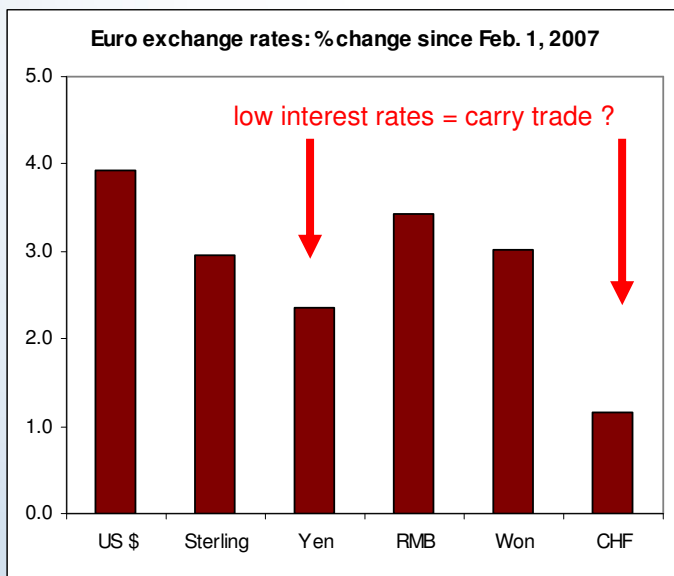
one currency  many opportunities

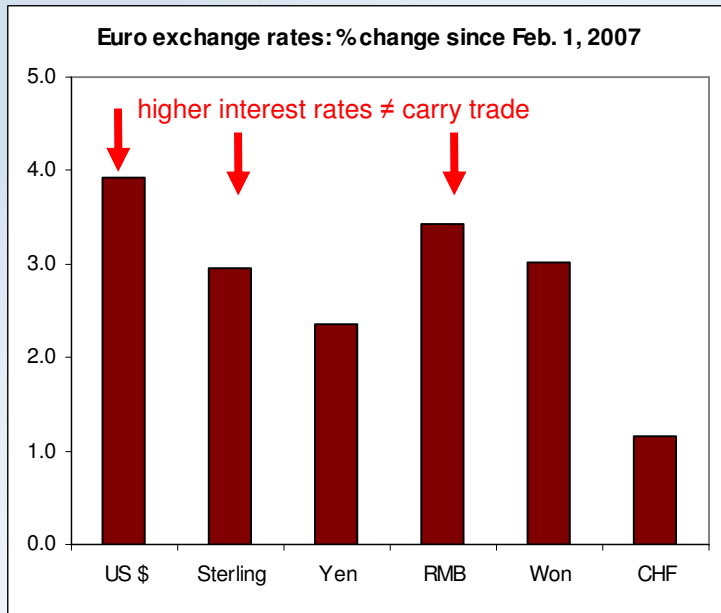


Not a new issue

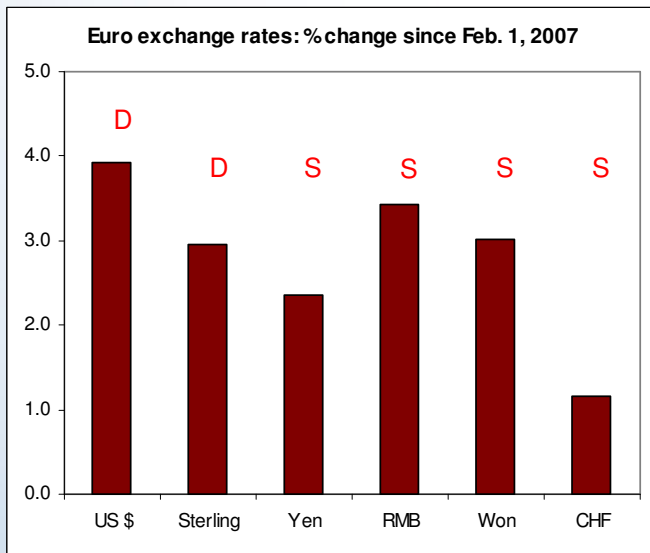


An unexplained issue





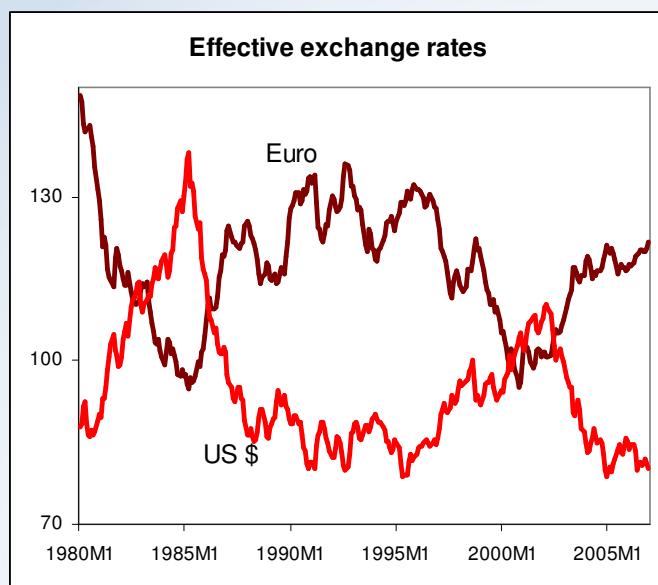
Currency accounts





An unexplained issue

- The euro is pulled up as the dollar drags most other currencies down



Nothing
new!

A uselessly divisive issue

- Different viewpoints
 - US worries about RMB and yen
 - Europe worries about US \$
- Can't agree if can't explain
- Anyway, agreement is "do as you please"
- So, please, let exchange rates fluctuate, or not
 - Unless we identify a bubble