

# FX, an Alternative View on Asian Currencies

We have a crisis in debt that started in the US housing sector, that spread to the US financial system and then to the US economy. As a result, Asian equity markets and economies have suffered far worse than the US or Europe. Makes perfect sense, doesn't it? It does. And it will have some surprising implications for currencies.

The US economy is a consumption driven one and they have their own problems. The problem that Asian economies have, however, is that they have been over reliant on exports. That pillar has been pulled out from under them as the US consumer has retrenched.

How must Asia respond? Well, in the 1990s, the Japanese pushed their exports even harder. What will China, India, Japan and the rest of Asia do? They have the potential internal demand. That is, they have a heck a lot of potential consumers. With savings. But no job security. These lot will likely save more and thus cause an even bigger problem for economic growth in the region. What it will look like from a trade perspective, is that Asia is leaning harder against its exports because net exports may even increase. That's when imports shrink even faster than exports. Can happen. Has. This, by the way, is the evidence that the Asian domestic economies are shrinking even more than expected or forecast.

The bottom line is that its hard being an exporter today. Export economies are highly pro-cyclical. The current cycle will see export economies shrink significantly and see their currencies weaken substantially. Importers, however, tend to be less cyclical which speaks for the strength of the USD.