

"What was true in 1945 can no longer be true today," French President Nicolas Sarkozy said in August. "The dollar cannot claim to be the only currency in the world."

PRESENT AND FUTURE CONCERNS These latest concerns about the dollar can be partly attributed to the current economic crisis, in which overwhelming reliance on the U.S. currency has roiled economies throughout the globe. There is also considerable worry about a weakening dollar acting as a roadblock to worldwide recovery, as well as the prospect of inflation decimating foreign reserves held in U.S. dollars.

Nobel Laureate Paul A. Samuelson has warned that a "truly global financial panic" is a likely prospect if countries decide to suddenly unload their huge dollar reserves. And Columbia University economist Joseph Stiglitz has called for "a new global reserve system" to put the world's economic house back in order.

But is the dollar down for the ten-count? Will we be awash in has-been greenbacks? Not necessarily, according to a number of observers.

In the view of Wharton's Richard Marston, director of the Weiss Center for International Financial Research, the dollar will probably remain the reserve currency for now, reflecting the dominance of the

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U.S. economy. But he does see the potential for the dollar "to deteriorate quite substantially in the long run," if the United States is slow to reduce spending as its economy recovers.

"If we continue to borrow from foreign countries to sustain our spending, eventually there will come a time when asset holders around the world will begin to wonder whether the United States is creditworthy," Marston says.

INCUMBENT ADVANTAGES Morris Goldstein, a senior fellow at the Peter G. Peterson Institute for International Economics, shares the view that the dollar is still the strongest contender. He does not see a switch to an alternative as inevitable.

"The incumbent reserve has a lot of network advantages, and the only case in which people would be moving away from it is if U.S. economic policy makes them very nervous," Goldstein says. "You'd have to have extremely poor economic performance in the United States — high inflation, runaway fiscal deficits with no prospects of correcting them, and very large trade deficits with no end in sight."

Among foreign exchange strategists, one of the biggest champions of the U.S. dollar is Marc Chandler, global head of currency strategy at Brown Brothers Harriman & Company. In his recently published book, *Making Sense of the Dollar*, he points out that the dollar's share of world reserves has grown in the last year, not fallen.

"There's no sign of a move away from U.S. dollars taking place," Chandler says. "Even the Chinese, who have been among the most critical of the dollar, have increased their dollar holdings. From June 2008 to June 2009, their store of U.S. Treasuries rose roughly 7 percent." Not

all strategists see it that way. Mitul Kotecha, head of foreign exchange for Calyon Credit Agricole CIB, views the fading of the dollar as an ongoing phenomenon.

"The move away from the dollar as a reserve currency is already taking place as reserve holders become increasingly sensitive to their high exposure to dollar assets," Kotecha says. "Central banks have been diversifying their reserve holdings for several years and the share of the dollar in global foreign exchange reserves has been falling."

IMF DATA As evidence, Kotecha points to International Monetary Fund (IMF) data that shows the percentage of dollars in foreign exchange reserves falling from more than 70 percent in 1999 to around 64 percent at the end of 2008. He also notes that the share of European currency has increased to 27 percent from 18 percent over the same period.

"Eventually, the dollar will likely find itself sharing the mantle of global reserve currency," he predicts. "But I don't believe the dollar's reserve role will diminish completely. The dollar remains the dominant currency in terms of trade and investment flows and any decline in its role in this respect will be gradual and take place over a number of years."

One of the biggest questions, of course, is what currency would nudge the dollar aside. The continued growth of other contenders, most prominently the euro, is by no means assured. Chandler notes that the dollar derives its strength from the massive U.S. Treasury market, and that the European bond market, by contrast, is fragmented.

"In Europe, there are a lot of different issuers, different conventions, different schedules and different tax rates," Chandler says. "It's like dealing with the U.S. municipals market."

SDR AS A CONTENDER Another contender to replace the dollar, one suggested by China, is an IMF product known as special drawing rights (SDR).

The IMF created the SDR in 1969 to act as a shared currency for international reserves, but it has acted more as an accounting currency among member nations than a trading currency. Initially pegged to the dollar, it is now based on a composite of the dollar, the Japanese yen, the euro and the British pound. Under China's proposal, the IMF would expand the basket of currencies underpinning the SDR to all large economies.

Most observers, however, give the SDR little prospect of supplanting the dollar.

"The IMF would have to decide the quantity of SDRs to create, something that could become highly politicized," Kotecha points out. "Moreover, the whole process of weaning investors and companies off the dollar could take years. Overall, the SDR is probably not the answer."

Roughed up though it may be, the dollar is still taking on all comers — and, for the time being, holding its own.



Clearing Up Confusion About Grain Swaps

Dan Gould runs the Kansas City office of Houston-based Atlas Commodity Markets. We decided to ask him a few questions about the burgeoning OTC Grain Swaps market.

What are Cleared OTC Grain Swaps?

DG: Cleared OTC Grain Swaps are cash settled forward traded instruments, traded off exchange, hence, **Over-the-Counter (OTC)**. These products create synthetic fixed price risk management tools over multiple periods. Regardless of the type of instrument — a fixed price swap, basis swap or an option on a swap — the term, volume and price are privately negotiated transactions between two qualified counterparties. After each party agrees to the terms, the trade is submitted directly to the CME for clearing, no additional documentation such as an ISDA is needed. Finally, trades are marked-to-market by the exchange at the end of each trading day. The result is the price protection that fits your exact needs, a superior credit quality counterpart and independent valuation—all of which shows up on your FCM statement just as a futures position would.

Why would I do a swap when there is an existing robust futures market?

DG: The swap market is not a new or competing market; it is a complementary and additive tool for the trader and risk manager. Swaps extend the hours you can trade a position or hedge risk. This benefits the trader because market and weather events occur twenty-four hours a day, seven days a week, oftentimes outside of exchange trading hours and without regard to exchange limits.

"As a market-maker in the grain swaps, we see huge opportunities for all participants to be able to capture price movements before and after the regular trading hours of the exchange. These are often periods when government reports are released or when there is volatility in correlated sectors, such as energy." John Stotts, Director of Agricultural Trading at Infinium Capital Management

A great advantage of a swap transaction is its ability to be privately negotiated between counterparties. This gives market participants the ability to execute larger transactions over greater durations with minimal slippage. In fact, in other more mature markets such as the crude oil market, the swap volume is a multiple of the futures market and trades out as far as 20+ years.

Market participants are very excited about the customizability of these new products. The flexibility of swaps offers an unlimited combination of risk management tools. Corn calendar swaps have the ability to trade for all 12 calendar months, while the futures are

only listed for five of the months. This flexibility allows traders to develop an endless array of new products. As an example, Atlas has been able to use the swap to create new products and actively quote intra-month hedging tools, entire calendar years, quarterly strips, and monthly index rolls.

How do swaps help me?

DG: In addition to achieving a long or short fixed price position, OTC swap products have a wide range of applications. Take for instance an ethanol producer. The ethanol producer is inherently short corn and long ethanol. Swaps help the ethanol producer lock margins and allocate capital better — buying the corn swap and selling the ethanol swap as a "crush" provides the producer measurable cross margining benefits. The producer can also choose to utilize the corn basis swap that provides absolute price protection on the cash corn leg. Both the fixed price swap and the basis swap enjoy absolute credit mitigation via CME Clearport central clearing.

Who is trading grain swaps?

DG: A wide range of market participants are trading swaps today. Counterparts include trading companies, processors, ethanol producers, industrials, banks, hedge funds and oil refiners. Judging from our conversations, the number and types of counterparties will continue to evolve.

Why Atlas and why Atlas Insite?

DG: Atlas combines innovative technology, found on Atlas Insite, with professional voice brokerage services. By marrying electronic trade execution technology with the best voice brokers, Atlas gives clients an edge in effective price discovery and efficient deal execution. Atlas is a neutral intermediary, matching buyers and sellers at the best price—meaning you get the best price in the market on every trade every day. Atlas provides most major market participants with a single comprehensive source for price transparency, market liquidity, and efficient trade execution.



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