New Year Deepens Dollar Crisis

At the middle of the ninth week of consecutive losses against all other leading currencies, on Jan. 5 the U.S. dollar tumbled to a new historic low against the euro ($1.277), having fallen through the $1.25 level without stopping or looking around. Statements by American currency "experts" and by Treasury Secretary John Snow, that the dollar fall is being slowed and will not go below $1.35, look panicky. The dollar also reached new multi-year lows to the yen, the British pound, and the Swiss franc. For the full year 2003, the dollar decline in respect to the euro amounted to 17%, the U.S. currency's biggest annual decline since the euro was established in 1999.

All of this evidence of the crumbling floating-exchange-rate monetary system, happened amidst the permanent issuance of "super-optimistic" reports concerning the American economy, claiming that U.S. manufacturing, construction activity, and other indicators are currently rising at their greatest speed in 20 years.

Strong Inflation Pressure

The fall of the dollar is also triggering strong inflationary pressures among key commodities in recent months. While the gold price exceeded $422 on Jan. 5—its highest level in 14 years—the silver price also hit a new 5-year high. The prices of some of the industrial metals are rising even faster than those of the precious metals. At the end of 2003, the price of nickel had increased by 120% for the year, lead by 55%, copper by 40%, tin by 40%, and zinc by 30%. In the United States the prices of gasoline and heating oil also began to jump in early January; that of natural gas had already soared in the last six months of 2003.

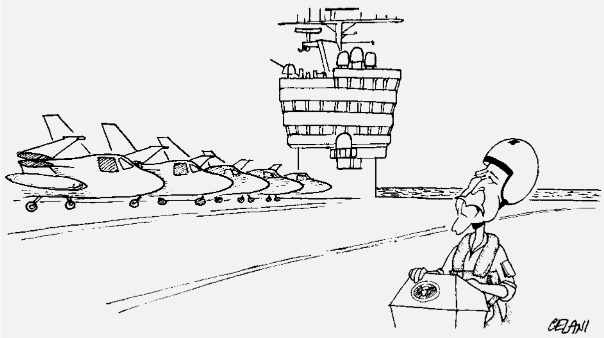
Federal Reserve Chairman Alan Greenspan had to make a special presentation on Jan. 5, on the Fed's policy not to use interest rates to restrain financial bubbles, in order to emphasize that the Fed was *not* planning any interest rate increase, so that the U.S. "stock market recovery" could keep going a bit longer.

As the new year starts, central banks in Europe and Asia are preparing for further dramatic declines by the

U.S. dollar. Unnamed European Central Bank officials indicated in press interviews, that some form of action may be required once the euro breaks the $1.30 mark. After the Japanese authorities had spent $188 billion for currency interventions during 2003, to prevent the yen from rising too fast against the dollar, the Japanese government has now received a $93 billion credit from the Bank of Japan specifically to keep up this superheated pace of currency interventions, until the doubling of the government's borrowing limit for such activities goes into effect.

The *China Business Post* reported on Dec. 22 that the Chinese central bank has been studying a plan to peg the renminbi to a *basket of 10 currencies* instead of its current peg to the dollar. The basket of currencies is supposed to reflect the country's foreign trade and investment volumes and, in particular, to avoid short-term foreign exchange rate fluctuations. A timetable for this possible change was not mentioned.

In Russia, the central bank reported cash exchanges during October 2003 at a level not seen since the 1998 crisis: Russian citizens exchanged over $5.5 billion of foreign currency. In its monthly review of the currency market, the Russian central bank noted: "The decline of the ruble-dollar exchange rate in September, combined with the rise of [the] euro, greatly increased the interest in the euro among Russian individual depositors. The demand for euro[s] increased by 42% in October. The structure of currency demand has abruptly changed in favor of the euro, while the demand for the U.S. dollar fell by 11%." Russian President Vladimir Putin, speaking at a meeting with the government leadership on Dec. 29, emphasized Russia's vast amount of gold reserves, which are among the highest in the world.



- "I declare major economic problems over!"