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Boundless Luxury

Dollar's double blow from Vietnam and Qatar

By Ambrose Evans-Pritchard

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Vietnam is planning to cut its purchases of US Treasuries and other dollar bonds, raising fears that Asian central banks with control over two thirds of the world's foreign reserves may soon join the flight from US assets.

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The Saigon Times said this morning that the State Bank of Vietnam was abandoning the attempt to hold down the Vietnamese currency through heavy purchases of dollars. The policy is causing the economy to overheat, driving up inflation to 8.8pc.

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Vietnam, which has mid-sized reserves of \$40bn, is seen as weather vane for the bigger Asian powers.

Together they hold \$3,575bn of foreign reserves, over 65pc of the world's total. China leads with \$1,340bn, but South Korea, Taiwan, Singapore, and even Thailand all built up massive holdings.

The concern is that once one or two members of the region jump ship, it could set off a broader scramble. None of them want to be the last one left holding a devalued asset. Vietnam's central bank said this week that it would move "gradually" to a floating currency.

Separately, the gas-rich Gulf state of Qatar announced that it had cut the dollar holdings

of its \$50bn sovereign wealth fund from 99pc to 40pc, switching into investments in China, Japan, and emerging Asia.

The move is intended to increase long-term returns for future generations, but it can easily be seen as a vote of no confidence in US economic management.

The drastic shift by the Qatar Investment Authority is a warning that petro-dollar powers with some \$3,500bn under management may pull the plug on the heavily indebted US economy -- which needs to suck in the majority of the world's savings just to stay afloat.

"OPEC and Asia have been the two blocks funding the US current account deficit," said Hans Redeker, currency chief at BNP Paribas.

"Vietnam is a relatively small country but it is symptomatic of Asia. The entire region is seeing inflation move up as a result of mercantilist policies of holding down their currencies with 'dirty floats', which are designed to help their export sectors. They need to change monetary policy," he said.

There have been reports that China is already pulling out of US bonds to fund its new sovereign wealth fund. Foreign central banks slashed holdings by \$32bn in the last two weeks of August. We will not know which country was responsible the Treasury's TIC data is released in November.

Japan also has colossal reserves, now near \$914bn, but it is does not face the same inflationary threat as the rest of Asia, and is in any case an intimate military ally of the United States.

It is likely to coordinate its dollar policy very closely with Washington for geo-strategic reasons.

Saudi Arabia set off jitters in the currency markets last month when it decided not to cut interest rates in lockstep with the US Federal Reserve, raising doubts about its commitment to the Saudi dollar peg. But it too has strong political reasons to stick with America.

Kuwait has already abandoned its peg, fearing that its economy would overheat if it continued to import America's loose monetary policies.

Separately, Iran said it would soon refuse to accept dollars for its oil exports, preferring to be paid in a "more credible currency".

It already receives 65pc of payments in euros and 20pc in yen, but insisted that the remaining 15pc in dollars entailed an excessive risk of devaluation.

The demarche is largely political, since oil is a fungible commodity and the currency markets are highly liquid.

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