



Currencies in movement - ever heard about the 'Khaleeji' project?

Source BIS

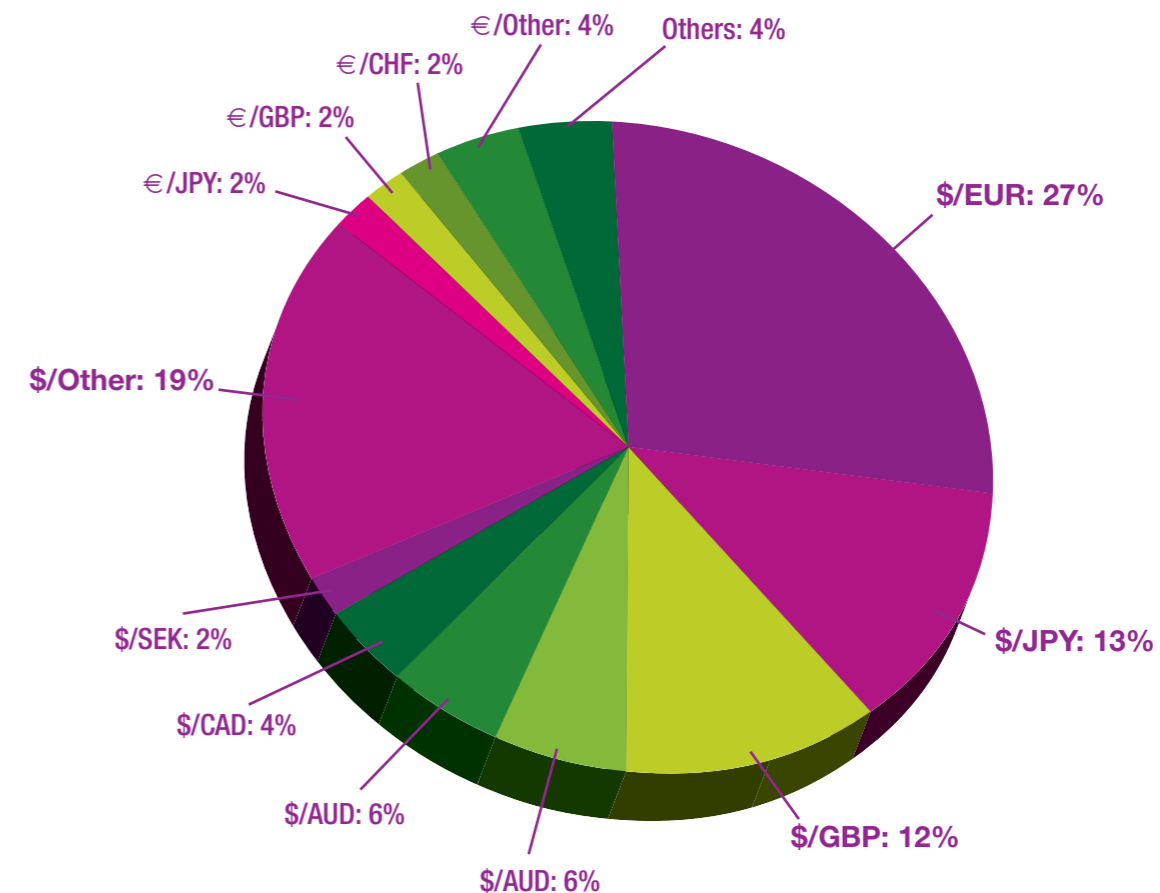
In some aspect this underlines the distribution of the most widely-held reserve currencies in the world of which the US-\$ counts for some 64% and the EUR for some 26.5% (in 2008). Even when the US-\$ market share is gradually shrinking over the years it still stays the dominant factor in our market environment and is not about to become replaced.

What I am driving at?

The globalisation and its economic impacts, the current financial crisis and also some political developments require some reorganisation in the world currency structure. There are growing tendencies to reduce a portion of payments made in US-\$ and to move to another currency. So be it! The driving forces are those just mentioned above.

Just to remind you, stage three of the Delors report of 1989 was the start of the EURO as a real currency (book money) as of 1 January 1999 and the responsibility of the European Central Bank (ECB) being in charge of a single European monetary policy. There was still a three-year transition period before EURO notes and coins were legally introduced (1 January 2002). The project was not given that much chance but the impossible thought became a reality!

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Foreign Exchange Market Turnover by currency pair in 2007

Besides previous talks on the possibility of making the Russian Rouble a reserves currency, other voices once favoured the Chinese Yuan. Well, the financial crisis has slowed down some developments but the world is still in a process of change. Diversification in business has never become a mistake but dominance and monopolism often did..

Anyway, not much recognized in public but certainly for a while by some has been the introduction of a 'GCC currency' (GCC - Gulf Cooperation Council) the so called 'Khaleeji'. The GCC single currency was agreed in principle in 2001, with 2010 set as target for monetary union to take effect. In light of the current financial crisis a delay till 2015 would be more realistic. But what could be the speciality of the 'Khaleeji'? Well, difficult to answer now, but payments of oil could get routed into the new currency which will attract new FX market participants. Even more exciting there are some rumours to back the new Gulf currency by Gold – and here is when it becomes really interesting. If so, we might see a revival of the Bretton Woods system (and now take a look into history).

What are the facts? Originally the GCC (Arabian Gulf Cooperative Countries, or see above) became established in 25 May 1981 and comprised the states of six Arabian Gulf countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. Just recently, May 5th, the GCC announced Riyadh as the future seat of the GCC Central Bank (and the Gulf Monetary Council).

Unfortunately Oman moved out of the GCC common currency project in 2007 and the United Arab Emirates shortly after the announcement of the seat of the future Central Bank in Saudi Arabia. So it looks the way is stony and still influenced by politics.

Maybe the global financial crisis is a brutal reminder of some of the good advantages of the single currency plan helping to establish regions that are independent in economical and financial terms. Diversification and bigger currency blocks will broaden the business and opportunities in the world's FX markets. 'Think big' could once more be the device in the Gulf area to strengthen the Arab world and to encourage further convergence.

There is no doubt about it. The US-\$ holds by far the biggest market share as a traded currency according to the reported figures published in: 'foreign exchange market turnover by currency pair' by BIS. Just to interpret this tableau, one can say that 88% of the overall traded FX volume involves the USD whilst just 37% involves the EUR as the second largest currency traded.