

DAILY GLOBAL COMMENTARY

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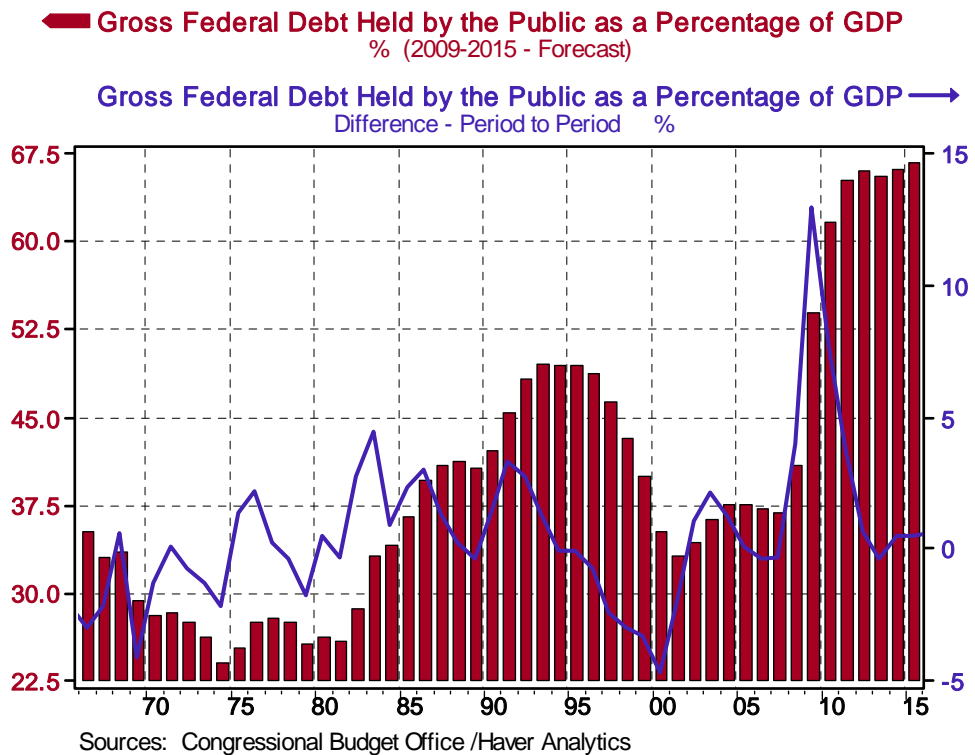
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Public Debt of the U.S., its Peers, and the Dollar

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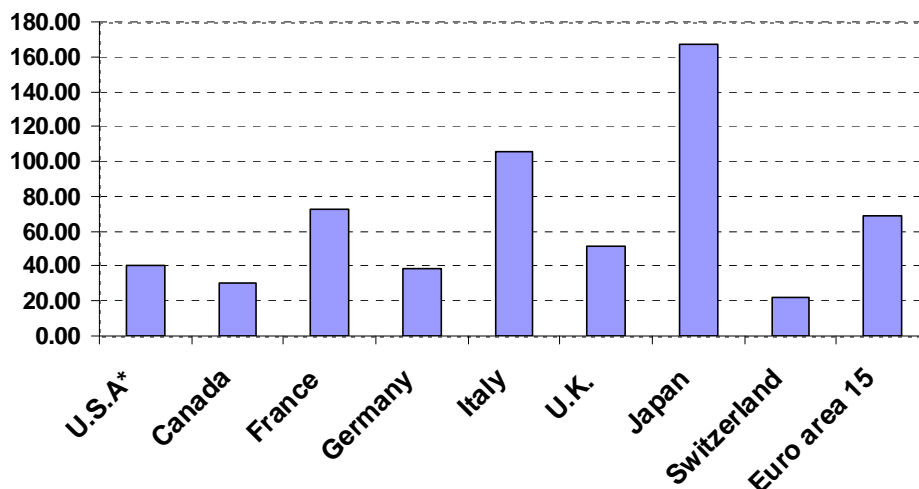
Publicly held debt of the U.S. was 40.8% of GDP in 2008. The Congressional Budget Office estimates the ratio of debt to GDP ratio will continue to advance but the rate of increase tapers off noticeably after 2011. The costs associated with the wars and the financial crisis has led to the sharp jump in the budget deficit in 2008 and 2009, which has consequently raised the ratio of debt to GDP.

Chart 1



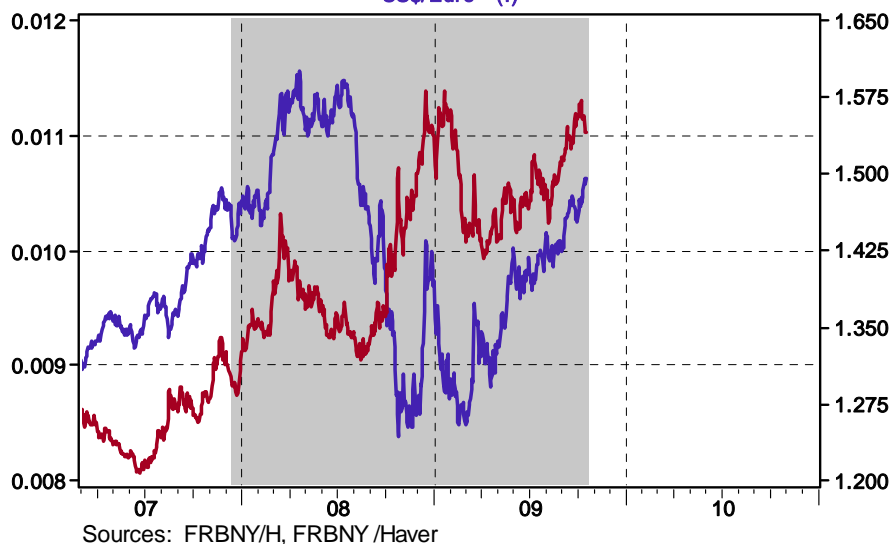
The other nations of the G-7 also have accumulated debt such that their respective ratios of debt to GDP are significantly larger than that of the United States. Switzerland and Canada are the only two countries who are in a more favorable position vis-à-vis the United States. The situation in Germany compares closely with the U.S. but the ratio of debt to GDP of the Euro-area exceeds that of the U.S. (see chart 2). The trajectory of debt in the Euro area, Japan, and U.K. is not predicted to reverse the upward trend in the near term.

Chart 2
Debt as percent of GDP - 2008



Among the various factors listed to explain the recent loss in the value of the dollar is the poor current and projected fiscal status of the U.S. economy. If the debt-GDP ratio is one of those indicators playing a role in the price of the dollar, then the euro and yen should be in a relatively less favorable position vis-à-vis the dollar.

Chart 3
 ← FRB Exchange Rate: United States/Japan
 US\$/Yen (l)
 Foreign Exchange Rate: European Monetary Union →
 US\$/Euro (l)



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The loss in the value of the greenback reflects the change in the risk-reward equation as market participants are now willing to shift from the dollar after seeking a safe haven during the darkest period of the financial crisis. Currently, the trade weighted dollar is a tad higher than the pre-crisis level of 2007 (see chart 4).

Chart 4

Nominal Trade-Weighted Exch Value of US\$ vs Major Currencies

3/73=100 (I)



Source: Federal Reserve Board /Haver Analytics

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