Asian banks dump dollar

Asian central banks are quietly moving away from holding the US dollar in their foreign exchange reserves, suggesting further weakness in the value of the greenback this year.

A new analysis by Lehman Brothers estimates that in the last half of last year as much as $133 billion of foreign exchange reserves in non-Japan Asia left the dollar for stronger, higher-yielding currencies such as the euro, pound and Australian dollar.

The research compared US Treasury statistics on foreign holders of its debt with Asian central banks' statistics on reserve holdings.

'The dollar's now sharing its reserve currency status a little - perhaps not a bad thing,' says John Llewellyn, chief economist at Lehmans.

Last week it was revealed that foreign exchange reserves held by Asian countries had reached $2 trillion, as governments overinsured against a currency crisis.

The bulk of this had been in dollars and dollar debt such as US treasuries. Asian central banks financed half of the US current account and fiscal deficits last year.

But diversifying reserves away from US dollar assets, which are low yielding and becoming more risky, has become compelling over the past year. Lehmans says its research is 'tentative' but consistent with the strength in the euro, and hints that the US dollar has further to fall.

Other leading economists agree. 'It was very clear in 2003 that these central banks did not buy anywhere as much treasuries as they have accumulated forex reserves. It was particularly marked in the second half of last year,' said Jim O'Neill, head of economic research at Goldman Sachs.

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