US plans to press ahead with sanctions against EU exports

Banana trade war looms

The US Government plans to press ahead with sanctions which would double the price of a string of European Union (EU) exports - including anything from cashmere jumpers to handbags.

The US action which could start on 25 January is a result of an escalating argument over banana imports into Europe and could have serious repercussions for UK jobs.

The US claims that Europe gives an unfair advantage to banana imports from its former colonies and wants to see the market opened up to Latin American producers.

The UK and France have agreements with their former African and Caribbean colonies which give their banana producers preferential access to the common European market.

The chances of a trade war are growing, despite moves by the World Trade Organisation (WTO) to broker a settlement between the US and the European Commission.

US trade ambassador Rita Hayes said Washington would press ahead with sanctions regardless of the WTO's moves to re-examine Europe's banana import rules.

But the WTO voted to set up a disputes panel to adjudicate and is due to report in 90 days.

Industry fleeced

The news came as a Scottish cashmere producer, Clan Douglas, warned that the banana trade war may force it to cut 700 jobs if it loses its £1.25m US exports.

Meanwhile, British industry is claiming the threatened retaliatory US trade blacklist will cut £82m from UK exports overall. The US is applying for the WTO to apply trade sanctions by the end of January which would amount to 100 per cent taxes on a host of EU goods.

The 100 per cent taxes would effectively double the price to American consumers and will hit trade from Europe hard.

UK trade minister Brian Wilson said that Britain and the EU were appealing to the US's sense of "fair play and common sense" and asking it not to go ahead with the sanctions but pursue the matter through then WTO instead.

"There is absolutely no connection between bananas and cashmere or greetings cards, except in the minds of the US officials who have drawn up this list for random retaliation," he said.

The list of products facing 100 per cent import taxes from as early as 1 February include:

- Pecorino cheese
- Sweet biscuits, waffles and wafers
- Bath preparations and salts
- Candles and tapers
- Non-adhesive plates, sheets and films
- Handbags and plastic coated articles normally carried in a handbag
- Uncoated felt paper and paperboard
- Non-corrugated paper boxes and cartons
- Greeting cards
- Knitted cashmere clothing
- Unembroidered cotton bed linen
- Lead-acid storage batteries, excluding those used in cars.
- Electrothermic coffee and tea makers
- Non-base metal chandeliers and other electric light fixtures, except those used in public spaces.

EU changes

On 1 January, the European Union revised its import regime to comply with a WTO ruling that it must cut back the trade benefits enjoyed by its banana suppliers.

The US Government remains unsatisfied that EU changes comply with the rules and is lobbying for equal access to the European market for American companies such as the multinational Chiquita.

— BBC Internet

US-Japan trade tensions

Call for corrective steps to mend ties

WASHINGTON, Jan 13: US trade representative Charlene Barshefsky warned Tuesday that US-Japanese trade frictions were increasing dramatically and urged Tokyo to take immediate "corrective" measures, reports AFP.

She was speaking here following talks with Japanese Minister of Trade and Industry Kaoru Yosano, discussions she and Commerce Secretary William Daley described as "very frank."

"It's no secret that trade tensions between the US and Japan are increasing quite dramatically," she said, citing a recent surge in Japanese steel exports.

She described the surge as "well beyond any economically explainable level."

She also cited Washington's insistence that Japan comply with the terms of agreements covering trade in automobiles, flat glass and insurance.

"It's up to Japan to take necessary corrective actions, she said.

Daley told reporters that Yosano made no commitments on Japanese steel exports nor were any requested.

But he said that the Japanese official believed that such exports this year would be "substantially less" than in 1998.

The United States last week publicly warned Japan that its steelmakers could face punitive sanctions if they fail to take quick action to reduce exports.

Daley said that Washington would, therefore, closely monitor the flow of steel from Japan to the United States in the coming months.

In later comments to reporters, Yosano said he had told Barshefsky and Daley that forecasts from Japanese steel mills suggested exports to the United States this year would decrease close to the level in fiscal year 1997 owing to such factors as the decline in US steel demand and the impact of the stronger yen."

Exchange Rates

Following is yesterday's forex trading statement by Standard Chartered Bank :

Selling TT/OD	Selling BC	Currency	Buying TT Clean	Buying OD Sight Doc	Buying OD Transfer
48.7100	48.7500	USD	48.3150	48.1549	48.0708
0.4376	0.4379	JPY	0.4260	0.4246	0.4238
35.3740	35.4031	CHF	34.7066	34.5915	34.4569
29.0459	29.0698	SGD	28.5381	26.4435	28.3938
32.3805	32.4071	CAD	31.6757	31.6708	31.4538
6.2878	6.2930	SEK	6.1811	6.1606	6.1475
31.4180	31.4433	AUD	30.1727	30.0727	29.8760
12.8529	12.8635	MYR	12.6804	12.6384	12.6064
6.2952	6.3004	HKD	6.2273	6.2066	6.1934
13.0241	13.0348	SAR	12.8477	12.8051	12.7726
13.2989	13.3099	AED	13.1180	13.0746	13.0411
0.0415	0.0416	KRW	0.0411	0.0410	0.0409
80.1182	80.1840	GBP	78.4781	78.2180	77.9372
56.9956	57.0424	EUR	55.5284	55.3444	55.2477

USANCE EXPORT BILLS

TT DOC	30 Days	60 Days	90 Days	120 Days	180 Days
48.2154	47.9179	47.5208	47.0641	46.5677	45.4558

Exchange rates of some Asian currencies against US dollar

Indian Rupee	Pak Rupee	Thai Baht	Mal. Ringgit	Indo. Rupiah	Sing. Dollar
42.420/42.550	51.45/51.55	6 .670/36.72	3.79/3.8002	8350/8450	1,6845/1.6855

US DOLLAR	Buying	Selling	LIBOR	1 Month	3 Months	6 Months	12 Months
Cash notes	48.15	48.75	USD	5.62875	5.28083	5.15813	5.15609
TC	48.1	48.7	GBP	6.5	6.34813	6	5.67531

Market Commentary

In the local market on Wednesday, demand for US dollar was very high and the exchange rate rocketed and ranged between BDT 48.6550 and BDT 48.6650. Decreased inward remittance and export earnings and high demand for forward cover spurred this high demand for dollar. The call money market continued to be very dull and call rates ranged between 5.5 and 6.25 per cent. In the kerb market, exchange rate for cash US dollar ranged between BDT 48.70 and BDT 48.85.

In the international markets, Tuesday's intervention by the Bank of Japan proved to be short-lived and dollar lost against yen due to dollar bearish factors. But dollar was strongly supported by apprehension of another round of dollar-buying intervention by the Japanese central bank. Euro gained against USD due to a favourable market sentiment about it.

At 1520 hours local time, USD traded at 111.61/65 JPY, GBP at 1.6396/06 USD and euro at 1.1620/25 USD.

Philippines drops plan for $500m global bond

MANILA, Jan 13: The Philippines has dropped plans for a $500 million bond following heavier-than-expected demand for a $1 billion bond launched last week, a finance official said Wednesday, reports AP.

"We won't be pursuing it anymore," said Finance Secretary Edgardo Espiritu, citing the "overwhelming demand" for the $1 billion global bond.

The decision to drop the bond will not affect a separate $500 million euro-denominated bond planned for the coming months, however.

The bonds are aimed at financing a sharp increase in government spending this year, in an effort to revive the sagging economy. With the blessing of the International Monetary Fund, the budget deficit is planned to rise to 68.4 billion pesos ($1.8 billion).

The 1998 budget deficit totalled 52.7 billion pesos ($1.4 billion), slightly higher than the ceiling set by the IMF under the terms of $1.4 billion borrowing programme for the country, Espiritu said Wednesday.

Last week's $1 billion global bond was well received by the market and fortuitously coincide with Standard and Poor's affirmation of its credit ratings for the Philippines. The bond was heavily oversubscribed, enabling the government to increase its initial size of $750 million to $1 billion.

Comments by Espiritu suggest the government now wants to replace a $500 million yen-denominated bond with a borrowing issue for two state-owned utilities, of $300 million to $ 500 million, that would be guaranteed by Japan's Export-Import Bank under the so-called Miyazawa Fund for crisis-hit Asian economies.

Chinese exports collapse

Asia's economic crisis has hit China's export trade hard.

China has paid the price for not devaluing its currency, with export growth slowing to 0.5 per cent year-on-year, the lowest annual rate for 15 years. Basing the figures on volume rather than price, exports actually declined.

In the past few years, Chinese exports have been growing fast. They improved 20 per cent last year, but the decision to keep China's currency, the yuan, at the fixed rate of 8.28 to the dollar, made many of its products uncompetitive in Asia.

Asia trade suffers

Exports to the rest of Asia fell by 9.9 per cent to $98bn as crisis-torn economies like South Korea and Thailand cut back dramatically on imports.

China was able to compensate to some extent by selling more to the United States and Europe, with exports rising 16.2 per cent and 18.1 per cent respectively.

Part of the reason was that other Asian countries were unable to provide export credit guarantees because of the depth of their financial crises.

This year is likely to be different, and the lower priced goods from the rest of Asia are likely to hurt Chinese exports to the West even more.

"We are still quite cautious if not negative on China's export outlook, particularly in the first half of the year," said Eddie Wong of ABN AMRO.

Foreign-based exports strong

One bright spot was exports by foreign-based companies in China, which saw exports grow by 8 per cent to $81bn.

These companies, which often export branded finished goods, are less vulnerable to competition from lower-priced commodity exports from other Asian countries.

Shanghai, which is one of the centres of foreign investment in China, also showed strong export growth of 12 per cent.

Focus on domestic growth

The Chinese authorities have admitted that the domestic economy will have to be the focus of economic growth in 1999.

China managed a growth rate of 7.8 per cent last year, despite the fall in exports, by spending more on the domestic economy.

However, it now faces tough choices about whether to continue subsidising loss-making state firms or close them down, leading to mass unemployment in the urban areas.

-- BBC Internet

Argentine Foreign Minister Guido de Tella and US Secretary of State Madeleine Albright sign agreements during a ceremony at the State Department in Washington Tuesday. The agreements included US-Argentina cooperation on education, agriculture and space.

— UNB/AP photo

Bizarre banking

They want to know how long I have to queue up to get served. What will they think of next?

Long gone are the days that banks just lent you money, or provided a safe haven for your cash.

Intense competition has forced financial institutions to reinvent themselves over the last few years and offer customers an ever expanding range of services.

Today they do anything from insuring valuable possessions to booking a holiday in the sun.

But now First Direct, the telephone banking arm of Midland Bank, has come up with something far more bizarre.

Called Octopus, the new business idea may conjure up images of selling eight legged sea food. But in some ways the service is even more strange than its name suggests.

Answering machine

For a fee customers can phone up First Direct, and ask them to find the answer to any question. The bank has a team of researchers who will endeavour to do anything from finding out the name of the artist who recorded the annoying tune on the soap powder advertisement, to finding your nearest launderette.

The idea is designed to appeal to those overworked First Direct customers who have not got time, or perhaps the patience, to do the research for themselves.

Some of the requests have been truly weird and wonderful.

Lighting up his life

One customer wanted to buy Boeing 747 landing lights and purple runway lights to illuminate his garden - a scheme which could have dangerous consequences for those that live under a flight path.

Others wanted to know how to be buried at sea and where to find an 'Alien in a Jar'.

Penny Marshall, head of marketing innovation at First Direct, admits that it is a strange business for a bank to be involved in. But she claims that it is yet another way to reach out to customers.

"There is more and more choice (of information) but it is getting harder and harder to edit that choice. We thought people were becoming bewildered ... and we wanted to find a way of simplifying people's lives," she told BBC News Online.

The service does not come cheap. A one-off enquiry costs £5, or customers can pay £15 a month to ask as many questions as they like. And First Direct are coy about just how many people use the service. At the moment the bank only employs 10 researchers for the scheme.

Branching out

But First Direct's initiative is indicative of the pattern developing across the financial service industry. It is not the only bank trying to branch out from its roots.

Lloyds will help you find an emergency plumber if your pipes spring a leak, and NatWest has launched a service which uses databases to get information on, for example, the travel or the weather.

With new entrants pouring into the financial services market, such as Virgin and the supermarket chains, there are too many companies chasing too little money.

Having more fun

The traditional High Street banks have had no choice but to adapt, and seek out new ways of making a living. And they are looking for new ways to exploit their brand names and valuable customer bases.

Ms Marshall tellingly said : "At the end of the day financial services are not that exciting and there are lots of things people want help with which are more fun or inspiring."

— BBC Internet

4 pc contraction of Indonesian economy predicted

JAKARTA, Jan 13: A leading private Indonesian economic consultancy yesterday painted a bleak picture for the economy in 1999, predicting a four per cent economic contraction compared to the government's zero growth, reports AFP.

"The government says that 1999 will be the turning point for a recovery of the economy: We do not dare to say that yet," said Rizal Ramly, who heads the Econit Advisory Group.

He said that despite some improvement in financial indicators in 1998, "real economic indicators such as private capital inflow, investment, sales and unemployment levels still show negative tendencies."

The group forecasts minus four per cent growth for 1999, inflation at around 25 per cent compared to the government's 17 to 20 per cent and a current account surplus of 2.8 billion dollars.

Econit forecasts an average rupiah exchange rate of 8,000 rupiah per dollar compared to the government's predicted 7,500 rupiah.

"With the negative economic growth forecast for 1999, Indonesia is estimated to only enter the economic recovery phase in the year 2000," Ramly said.

Asian unemployment likely to swell, warns ILO

BANGKOK, Jan 13: Asia's unemployed ranks could swell as desperate businesses in the region's shattered economies trim their workforces, the International Labour Organisation warned today, reports AFP.

The crisis has "reversed decades of progress towards full employment in Indonesia, the Republic of Korea (South Korea) and Thailand," the ILO said as a major conference opened here with officials from 12 Asia-Pacific nations.

Job prospects in the region have been "sharply reduced," said the report which warned of serious shortcomings that must be addressed.

Without urgent action, countries could find themselves "backsliding into problems of unemployment, underemployment and poverty that economic growth and industrialisation had done so much to reduce," it said.

"Disastrous employment consequences of the financial crisis may worsen as banks and enterprises strive to regain profitability, notably by shedding labour."

Asia's financial crisis, which erupted in 1997, has seen thousands of firms plunge into debt, forcing them to cut operations and lay off staff.

There have been warnings the turmoil could wipe out the nascent Asian middle class and hit the economies of developed nations which have taken healthy profits from feeding the region's booming consumption in sectors like consumer goods and luxuries.

The report says that gender inequalities, child labour and poverty were declining in virtually all countries but warns that gains may be lost.

"These trends risk being reversed by the severe economic setbacks suffered by the dynamic East Asian economies and the recessionary conditions created by the crisis," it said.

The conference of the Asian regional consultation on follow-up to the 1995 world summit for social development, is aimed at reviewing progress toward full employment and poverty eradication.

The international labour conference concluded in 1996 that full employment was an achievable goal and promotes policies which provide clear incentives for companies to create investment and job creation.

'APEC a toothless talking shop'

Mahathir proposes a new Asian grouping

TOKYO, Jan 13: Malaysian premier Mahathir Mohamad blasted the Asian-Pacific Economic Cooperation (APEC) forum as a toothless talking shop and called for a new Asian grouping in an interview published here today, reports AFP.

Mahathir, who hosted the last APEC leaders summit in November 1998, accused the United States of seeking to use the forum to "expand it domination" of the Asia-Pacific region.

He complained that his own proposals to regulate hedge funds during the APEC summit had merely been passed on to the Group of 22 nations for further discussion.

"That means APEC members will never be able to agree on anything," the Malaysian leader told the Mainichi newspaper.

"APEC is now just a place to meet each other. APEC has no clout."

Mahathir said a better idea would be a summit involving the Association of Southeast Asian Nations (ASEAN) plus three — Japan, China and South Korea.

ASEAN includes Brunei, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

"North America and Europe have similar regional bodies, why not Asia?" asked Mahathir. "It would be a good balance. US domination is not a good idea, look what the United States did in Iraq."

Shipping Intelligence

Chittagong Port

Berth position and performance of vessels as on 13.01.99.

Berth No	Name of Vessels	Cargo	L Port Call	Local	Date of Agent	Leaving Arrival
J/1	Golden D	Wheat (G)	K Dia	Lams	R/A	14/1
J/2	Min Jiang	GI	Col	BDShip	5/1	13/1
J/3	Jammi	Rice (G)	Cal	Royal	2/1	19/1
J/4	Ecso Argo	GI	Tanj	Prog	12/1	14/1
J/5	Såmuda	Rice (P)	Kand	Seacom	1/1	16/1
J/6	Lucky Oldendorff	M Seed	Mad	Lutful	10/1	20/1
J/7	Pirnia Cynthia	GI	Sin	Prog	29/1	14/1
J/8	Song Lin	GI	Sing	BDShip	30/12	19/1
J/9	Al Swamruz	Wheat (G)	K Dia	ASLL	R/A	20/1
J/10	Great Fortress	Wheat (P)	Turk	OWSL	28/12	19/1
J/11	Banglar Mamata	Wheat (G)	K Dia	BSC	R/A	15/1
J/12	Kota Singa	Cont	Sing	Pil (BD)	6/1	16/1
J/13	Banglar Moni	Cont	Sing	BSC	5/1	13/1
CCT/1	Budi Amana	Cont	Sing	RSL	3/1	15/1
CCT/2	Kota Cahaya	Cont	Sing	Pil (BD)	1/1	13/1
CCT/3	Prosrich	Cont	Sing	QCSL	4/1	14/1
RM/14	Youngliy	C Clink	Sing	PSAL	10/1	25/1
CCJ	Anodad Naree	C Clink	Indo	Delmure	30/12	25/1
GSJ	Banglar Shobha	Wheat(G)	-	BSC	R/A	15/1
TSP	Qin Ling	R Phos	Nanj	Seacom	4/1	14/1
RM/3	Patty Ann	CDSO	Darb	TSL	4/1	15/1
DOJ	Banglar Jyoti	C Oil	-	BSC	R/A	14/1
DDJ/1	Tanary Star	Idle	Para	PSAL	-	31/1

Vessels due at outer anchorage

Name of Vessels	Date of Arrival	L Port Cal	Local Agent	Cargo	Loading Port
Melor	13/1	P Said	Ancient	Wheat (G)	-
Banga Birol (Cont) 10/12	13/1	Sing	BDShip	Cont	Sing
Asian Century (Roro/24) 24/12	13/12	Col	JF	Vehi	-
Coral Hero (48) 27/12	13/1	-	Everett	GI	-
Anshuan Jiang (48) 3/1	14/1	-	BDShip	GI	-
Bunga Maslapan (Cont) 6/1	14/1	-	EOSL	Cont	Sing
Gomain Naree	14/1	-	Prog	GI	-
Kim Dong	15/1	-	MSL	Rice	-
Island Princes (48) 6/1	15/1	Cal	CLA	Rice (P)	-
Tea Dong Gang	15/1	-	PSAL	Cement	-
Ocean-1	16/1	Yang	SMSL	GI (Log)	-
Nazli G	15/4	Mong	MBL	Urea	-
Kota Naga (Cont) 5/1	15/1	Sing	Pil (BD)	Cont	Sing
Qc Pintail	18/1	Sing	QCSL	Cont	Sing
Hexagram	16/1	-	Simni	Scraping	-
Banglar Urmi	17/1	Male	BSC	GI	-
Xpress Resolve 3/1	17/1	Sing	RSL	Cont	-
Budi Teguh 10/1	17/1	Sing	RSL	Cont	Sing
Yasmina	17/1	Yang	SMSL	GI	-
General Mojica	17/1	Sing	Dolphin	R Seed	-
Banglar Groub	18/1	Kara	BSC	Rice(P)	-
Bung Mas Enam 12/1	18/12	-	EOSL	Cont	Sing
Sin Hai (Cont) 10/1	19/1	Yang	SMSL	GI	Sing
Arktis Blue 11/1	19/1	Hazi	RSA	GI (St Coil)	-
Makassar Exress	19/1	-	Baridhi	Cont	Sing
Ocean Brave	20/1	-	Everett	GI	-
Amfitriti	20/1	-	Oil	GI	-
Bright Vega	21/1	-	BBA	Vehi	-
Dragon Brani	21/1	-	Nol	Cont	Sing
Banga Biraj	21/1	Sing	BDShip	Cont	Sing
AA Venture	22/1	-	CLA	Rice (P)/GI	-
QC Teal	23/1	Sing	QCSL	Cont	MGL
Coastal Corpurs Christi	23/1	-	Lams	Wheat (G)	-

Tanker Due

Nagayevo	13/1	-	TSL	Tallow	-
Trent	14/1	Sing	MSTPL	HSD/MS	-
Pacific Hunter	16/1	Juba	ECSL	HSD	-

Vessels at Kutubdia

Name of Vessels	Cargo	Last Port Call	Local Agent	Date of Arrival
Sea Bulk Command	-	-	IBS	R/A (22/12)
Hassbat Qatar	C Oil	Jabe	USS	9/1
Banglar Shourabh	C Oil	-	BSC	R/A (12/1)

Vessels at outer anchorage

Ready on				
Ava	GI	Yang	MTA	5/1
Alpine	GI	Yang	SMSL	6/1
Jurong Balsam	Cont	Sing	NOL	6/1
Pulau Mawar	GI	Bang	OLM	8/1
Richmond	Cont	Sing	QCSL	9/1
Ostfriesland	Rice (P)	Kand	MHCSL	5/1
Diligence Cont	Cont	P Kel	QCSL	10/1
Blue Angel	Wheat (P)	Mad	AASS	10/1
Kota Berjaya	Cont	Sing	Pil (Bd)	10/1

Vessels awaiting instruction

Ulloa	PSSP	Sing	Cosmos	11/1
Banglar Maya	Wheat (G)	K Dia	BSC	R/A (12/1)
Karya Sentosa	Rice (G)	-	USTC	R/A (18/09)
Ritz	Rice (P)	Kaki	Cross	R/A(24/09)
Delta Star	-	-	RSA	R/A (07/07)
Chalkidon	-	-	OWSL	R/A (8/1)
Sea World	-	-	Lams	R/A (5/1)
Adventure	-	-	Seaglory	R/A (10/1)
Al Muztuba	-	-	CLA	R/A (13/1)
Barge : Wombat / Le Macareux/PDC-1	-	-	Karna	R/A (30/10)

Vessels not entering

Banglar Asha	Wheat (G)	K Dia	BSC	R/A (10/1)
Diler-4	GI	Sing	BSL	9/1
Jollity	Cement	Jaka	USTC	6/1
Martina	Cement	Sing	USTC	27/12
Sunsin	Mop	Col	Litmond	29/12
Berge Lord	Scraping	Mumb	AHZ	6/1
Al Salamas	-	-	ASLL	R/A (28/11)
Namreen-1	Repair	Darb	AHZ	11/12

Movement of vessels for 14.1.99

Outgoing	Incoming	Shifting
J/1 Golden D	J/1/4 Asian Centuri	J/10 General Fortress
J/4 Esco Argo	J/4/1 Ava	
J/7 P Cynthia	J/2 Alphain	
CCT/3 Prosrich	CCT/3 Richmond	
TSP Qing Ling	DOJ B Shourabh	
DOJ B Jyoti	TSP B Maya	
	J/10 Anton Topic	

The above are shipping position and performance of vessels of Chittagong Port as per berthing sheet of CPA supplied by HRC Group, Dhaka.

Declining dollar hurts Japan more than the US

NEW YORK, Jan 13: The dollar has lost more than a third of its value against the yen since last summer, but for now, the country that seems to be worrying the most about it is Japan, reports AP.

The strengthening yen is hurting Japanese exporters like Toyota and Sony just when Japan's economy is mired in its deepest recession since World War II. That helps explain why Japan's central bank sold yen for dollars Tuesday in an effort that lifted the US currency, at least briefly, from the 28-month lows reached Monday.

The dollar's fall from August's eight-year highs isn't expected to show up soon on stickers of Japanese cars and price tags of VCRs, but travelers returning to Japan for the first time since last summer may find their dollar buys a lot less in an already expensive country to visit.

So far, US financial authorities do not appear to see the dollar's slide as a threat. Despite frequent assertions from top US officials in favour of a strong dollar, there was no sign that the Federal Reserve joined the Bank of Japan in propping up the dollar in the open market.

On Tuesday, Treasury Secretary Robert Rubin insisted the administration's advocacy of a strong dollar remains in place. "I'll just repeat what I've said so often, which is a strong dollar has served us well and our dollar policy is absolutely unchanged," he told reporters in Washington.

For now, currency experts agree that the shift in the dollar's fortunes against the yen is being felt far more in Japan than in the United States.

"It is a bigger issue for Japan, where the economy is in a much more precarious situation," said Bob Sinche, a currency strategist at Citicorp.

The dollar's surge from historic lows in 1995 through last summer's peak has bolstered the US economy by helping to keep the prices of imported goods low. By curbing inflation, the strong dollar has given the Federal Reserve leeway to lower interest rates. Three rapid-fire rate cuts last fall are keeping borrowing costs low and have been a factor behind the stock market's rally and keeping alive the American economy's second-longest expansion ever.

But a prolonged slump in the dollar could also be felt in the United States. Eventually, Japanese manufacturers would be forced to raise prices for goods sold in the United States even though it would make it easier for American companies to compete in the Japanese market.

Trade tensions already are high between the countries, with the United States on Tuesday warning Japan to act quickly to halt a flood of cheap steel shipments to US markets or face trade sanctions.

By making US stocks and bonds less attractive to international investors, a weak dollar already has led to higher interest rates on US bond markets. It could also push down American stock prices if foreigners start pulling money out.

At the same time, rising bond yields in Japan appear to be leading some major investors there to keep their money at home. This trend may be accelerating with the end of the Japanese fiscal year coming up in March.

Another factor weighing down on the dollar is the prolonged impeachment battle in Washington. "Any time you have a crisis of confidence in the leadership of a country, the currency suffers," said David DeRosa, former currency trader who now teaches international finance at Yale School of Management.

The deep economic problems in Brazil, a close neighbour to the United States, are also seen as a negative for the dollar. The sharp declines in Brazilian stocks this week, including a plunge of nearly 8 per cent plunge Tuesday, have been keeping the dollar reined in, currency traders say.

Despite the political problems in Washington and the economic woes in Latin America, many experts agree that most of the reasons for the dollar's volatility against the yen has more to do with Japan than with the United States. They point out that the dollar has hardly changed at all against other major currencies such as the British pound and Canadian dollar since last August, when it began falling against the yen.

"This has been a yen volatility story rather than a dollar volatility story," said Citicorp's Sinche. "It was an overshot on one side, and now we're getting an overshoot in the other direction."

The dollar's decline against the yen has also come at the same time as the birth of Europe's new unified currency, but it does not appear that the euro has established itself as a challenger to the dollar.

But the advent of the euro is clearly of prime concern to Japan, which fears that the euro could supplant the yen as the world's No. 2 currency after the dollar.

The bank of Japan's intervention in currency markets came just as Prime Minister Keizo Obuchi was wrapping up a trip to Europe during which he called for greater stability in currency markets.