

Danger lurks in dollar weakness

IT COMES as a bit of a shock to see that the pound hit a five-year high against the dollar yesterday, getting clear over 1.70 again at one point.

The change in sentiment towards the dollar is the phenomenon of the year, almost as remarkable as the fact that US Treasury Secretary John Snow is going to appear before the Senate Banking commission in Washington today to talk about the administration's policy towards the currency and in particular to try to put more pressure on the Chinese to revalue their currency.

It is almost an article of faith among finance ministers that they never discuss policy towards their currency because they will almost invariably be misunderstood by the markets and set off a speculative run in one direction or another. But Snow is breaking this golden rule because he is agitated about Asia.

In the year since the dollar began its slide, almost all the adjustment has been against the euro. The Asian currencies have not moved because by and large they are pegged to the dollar, so go down with it, and their governments have purchased vast quantities of US government debt to make sure that the



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stresses caused by the adjustment do not force them to abandon the peg.

As a result the US trade deficit with these countries and particularly with China has gone through the roof, and caused an upsurge of protectionist sentiment so strong that people have even turned on Wal-Mart because it sells so much stuff sourced from the People's Republic. Snow wants to solve some of his problems at home by curbing the flow of imports from that part of the world.

Chances are he will be ignored where it matters because though it runs a surplus with the US, China does not have a huge surplus overall. Chances are that the dollar will continue to slide too because the US

growth looks just skin deep — fuelled by one-off tax cuts rather than a genuine recovery in investment.

But as Standard Chartered chief economist Gerard Lyons pointed out earlier this month in a speech in Singapore, there is a great danger lurking in this assumption of continued dollar weakness.

Back in 1998 all the hedge funds bet on a collapse in the value of the yen, and markets were thrown into turmoil when it went the other way. It was one of the ingredients in the crisis at hedge fund Long Term Capital Management, which shook the world. Today almost all the hedge funds are betting on continued dollar weakness. But if the greenback does go sharply the other way for

whatever reason — an interest-rate rise or a bear squeeze by the Bank of Japan — it could cause a huge amount of pain.

The Boots pinch

NEW boss of Boots Richard Baker has lost little time chopping out a few of his boardroom colleagues, which is par for the course these days in British business, but he may well find that is the easy part. Actually improving Boots' performance — or stemming its slow decline — could be a lot harder.

The problem is pretty simple to define. Boots has thousands of stores and millions of customers. But the stores tend to be relatively small in High Street locations and the customers, though they visit a lot, come in for specific items and don't spend much.

Pharmaceutical products aside, it is a store people visit when they have run out of something. When they are well-organised, they buy the shampoos and sticking plasters more cheaply in the big supermarkets with their weekly shop.

The average Boots purchase is well

under £10 — a tenth of the supermarket average. It takes a huge number of customers to make serious money in the modern retailing environment when each person spends so little. That in turn means the business does not generate the cash needed to upgrade the stores to the standard shoppers increasingly come to expect, so it risks falling further behind.

Steve Russell, Baker's predecessor, tried to solve the problem by building added value services around the pharmaceutical offering, but execution was poor and the City did not give him anything like long enough to see if it might work.

It might have liked him better if he had taken the axe to the astonishingly large head office campus in Nottingham. The fact remains though that the unique thing about Boots is its pharmaceutical offering, and unless it can build a value-added proposition around this, it is hard to see in the long term what the group is for.

Baker is clearly a good retailer, and he may import more of that ilk. But merchandising and retailing skills can only take the business so far. He still has to find an answer to the question of what is Boots for.