Dollar loses reserve status to yen & euro

By PAUL THARP

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Ben Bernanke's dollar crisis went into a wider mode yesterday as the greenback was shockingly upstaged by the euro and yen, both of which can lay claim to the world title as the currency favored by central banks as their reserve currency.

Over the last three months, banks put 63 percent of their new cash into euros and yen -- not the greenbacks -- a nearly complete reversal of the dollar's onetime dominance for reserves, according to Barclays Capital. The dollar's share of new cash in the central banks was down to 37 percent -- compared with two-thirds a decade ago. Fed boss Ben Bernanke may be forced to raise rates in order to restore faith in the dollar — and help bring the euro and the yen back to earth.

Currently, dollars account for about 62 percent of the currency reserve at central banks -- the lowest on record, said the International Monetary Fund.

Bernanke could go down in economic history as the man who killed the greenback on the operating table. After printing up trillions of new dollars and new bonds to stimulate the US economy, the Federal Reserve chief is now boxed into a corner battling two separate monsters that could devour the economy -- ravenous inflation on one hand, and a perilous recession on the other.

"He's in a crisis worse than the meltdown ever was," said Peter Schiff , president of Euro Pacific Capital. "I fear that he could be the Fed chairman who brought down the whole thing."

Investors and central banks are snubbing dollars because the greenback is kept too weak by zero interest rates and a flood of greenbacks in the global economy.

They grumble that they've loaned the US record amounts to cover its mounting debt, but are getting paid back by a currency that's worth 10 percent less in the past three months alone. In a decade, it's down nearly one-third. Yesterday, the dollar had a mixed performance, falling slightly against the British pound to $1.5801 from $1.5846 Friday, but rising against the euro to $1.4779 from $1.4709 and against the yen to 89.85 yen from 89.78.

Economists believe the market rebellion against the dollar will spread until Bernanke starts raising interest rates from around zero to the high single digits, and pulls back the flood of currency spewed from US printing presses.

"That's a cure, but it's also going to stifle any US economic growth," said Schiff. "The economy is addicted to the cheap interest and liquidity."

Economists warn that a jump in rates will clobber stocks and cripple the already stalled housing market. "Bernanke's other choice is to keep rates at zero, print even more money and sell more debt, but we'll see triple-digit inflation that could collapse the economy as we know it.

"The stimulus is what's toxic -- we're poisoning ourselves and the global economy with it."