CORPORATE governance issues, a slowdown in capital inflows to the United States, a reluctance to hold US assets, in addition to concerns over the ability of the United States to finance the twin trade and budget deficits have led to the depreciation of the US dollar, the Economic Report 2003 said.

Up to early this year, the US dollar had strengthened vis-a-vis the yen whilst the euro had traded within a relatively narrow range against the dollar.

The strength of the US dollar was boosted by market perception of the resilience of the US economy against the slowdown, which began early last year.

The yen, however, was affected by the continued weakness in the Japanese economy.

The euro performed relatively better, trailing closely the movements of the US dollar, till early April when the value of the dollar fell relative to the euro and yen when the US market fell in the wake of corporate scandals, followed by worsening current account deficit revelations.

The dollar continued to slide and, on July 15, fell below the parity to the euro for the first time since early 2000, although lasting only a week.

As at end August, the yen had appreciated by 11.3% against the dollar, while the euro gained 11.2% since the beginning of this year.

On stock markets, the best performing bourses as at the end of last month, were in Asia, with those of Bangkok and Jakarta leading the pack. In contrast, London and New York fared poorly.

The Asian bourses have generally been less severely affected by the gyrations in the US and European stock markets, given the improvements in macroeconomic fundamentals and sectoral policy adjustments, since the Asian financial meltdown.

Between January and May, the Dow Jones Industrial Average traded within a moderate range of 9,500 to 10,500 points, damaged by weak investor sentiment, and by July 23, the Dow plunged to 7,702.34 points, the lowest level since October 1998.

Mirroring the poor market sentiment, the Nasdaq, a technology-heavy index, has also fallen to 1,206.01 points, the lowest for the year, from its peak of 5,048.62 points on March 10, 2000.

In Asia, the Japanese stock market remained volatile. Having hit a year to date low of 9,420.85 points on Feb 6, the Nikkei climbed to almost 12,000 points by early March, thanks to an inflow of foreign funds.

From March to May, the index fluctuated between 11,000 and 12,000 points before sliding to 10,100 points towards the end of June.

Since late July, the Nikkei index has continued its downtrend to below 10,000 points on concerns of a setback in the US recovery.

The Hang Seng Index has been fluctuating between 9,770 points and 11,900 points since this January, compared to its peak of 18,301.69 points on Mar 28, 2000.

The Hong Kong bourse remains muted in view of its weak domestic environment, and is less severely affected by the vulnerabilities in the US equity markets.