



By: *Emre Alkin*

# Where Does The Euro's Strength Come From?



From time to time, an old acquaintance of mine reaches out to me on WhatsApp to enquire whether I still haven't changed my mind about the euro.

Unlike other currencies, the euro does not have a uniform decision-making mechanism, government or fiscal unity. The euro can rather be considered as the leverage of Europe's longest period without war, during which different interests, ethnicities and cultures have been trying to melt into one pot.

That is to say, while the dollar has equal strengths in terms of economic and political influence, the political strength of the euro overshadows its economic impact.

From afar, people most likely see the euro as a mix of "Productive Germany and Dynamic France". However, today the euro is the currency of countries with unique political, social and economic problems, such as Greece, Spain, Portugal, Italy and Belgium, as well as the medium of exchange for countries that have newly joined the Union.

This fact immediately reminds us of the following question: Why is the euro more valuable than the US dollar despite all these problems in the continent?

## As the US economy improves, the euro appreciates further

Well, the main reason for this is the dollar's working principle, not the strong nature of the European Economy. Given the fact that the dollar is a saving and investment instrument at an international scale, investors who are not afraid of taking risks first sell their dollars and then open positions in other assets.

Interestingly, as the US economy improves, the euro appreciates further. Because a better US economy means, "things are going well" which increases the risk appetite even more. Throughout history, we can observe that the euro hits record high levels whenever the US economy achieves a peak performance.

Recently, I shared the following post on social media: "US economy is sending good signals. The euro/dollar parity will try to exceed 1.05".

Having read that, an acquaintance of mine, and also a technical analyst, replied to my post, "I think it will remain between 0.96 and 1.05 for a long time". I did not reply. Because only a few people admit that technical analyses sometimes yield erroneous results.

More precisely, few people admit that the technique used to read a technical analysis might be incorrect. The euro/dollar parity, like a financial instrument, is too normative to be read solely through technical analysis. It requires reading and analysing many developments simultaneously.

With the recovery of the US economy and the return of risk appetite, three developments may occur that will disrupt the euro-dollar exchange rate, which continues to rise:

1. Sudden negative vibes from the US Economy
2. A new pandemic wave or worsening of the Russia-Ukraine conflict
3. A major disruption that might occur in the Eurozone

Notice that I say "a major disruption". Because other developments above will cause a greater harm to the European economy, if they happen.

As a matter of fact, a rising euro-dollar exchange rate is not good news for many economies in the Eurozone. Anytime their economies take a downward slope, they lose power against their competitors outside the Eurozone. Because not every European country provides sine qua non products or services to the world.

Therefore, Europe is trying to keep competitiveness alive with impositions such as the Green Deal. As far as I see, the EU has not been able to reach a full consensus on the principles of implementation.

Regional Trading Alliances' attempts to breach the World Trade Organisation rules using sympathetic designs have always caught my attention. Nevertheless, I still support such alliances since, at their core, they are made to yield useful results.

## Euro Is a Political Medium of Exchange

The euro, the glue of the European political union, is the key to end the brutality and conflicts that have ravaged Europe for hundreds of years by appealing to the notion of "common interest". In fact, the euro itself is an alliance and powerful political formation within the EU; perhaps a stronger formation than the Union.

Therefore, one should not be satisfied with examining a very short period of time when running a technical analysis of the euro-dollar exchange rate.

They should also know that small kingdoms of the Middle Ages had collected "safe pass taxes" from merchants, whenever these merchants travelled from one kingdom to another, and that later how people rebelled against the Vatican's "Let them be small so that we can rule" strategy and consequently created nation-states.

It would also be useful to look carefully at the causes of the endless wars among these nation-states.

A European philosopher once said, "Once has to appeal to the expedience of people, not their logic, so that they accept your propositions".

Although the euro was violently opposed by Europeans at first, today it has become the common interest of the peoples of Europe. If anything threatens this sense of common interest, then we might see a huge deprecation of euro.

The decreases in euro's value against the dollar

so far have resulted from investors selling their assets and returning to the safe haven of the dollar. As long as nothing major happens, the euro would fall against dollar only because of a rapid downward trend of the risk appetite. Therefore, I recommend that investors keep that in mind when making their analyses.

I should also add that unexpected disputes and conflicts not only in the Eurozone but also in the EU might similarly cause fluctuations in the parity, which would endanger the positions of dollar-euro investors

Dr Emre Alkin is one of the most influential economists in the world. He is the President of Topkapi University in Istanbul, and well known author of the 4 best selling novels and 14 in total about socio-economics in Turkish and English. He held various positions in GSM and Telecommunication, International Financial Institutions, Payment Systems, Energy, Iron-Steel Industry and Insurance. Prof. Alkin participates in international projects about payment systems and financial management.