 SEPTEMBER 28, 2018 4:21PM ET

U.S. Dollar Poised to Remain Strong Against Global Currencies

By Glenn Kalinoski

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Decision-makers have yet to make changes to their sourcing strategies based on the strengthening dollar, but the trend is definitely on industry professionals' long-term radar.

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According to Chie Nicholson, managing partner at Bannockburn Global Forex, LLC, in Cincinnati, the dollar index is at a high not seen since mid-2017 and is 8 percent higher from the beginning of this year.

The main driver has been monetary policy. Also, the U.S. economy has been strong, well ahead of others in terms of global economic expansion.

"These are changes that will have a longer-term directional impact. You can't turn on a dime," said Steve Lamar, executive vice president of the American Apparel & Footwear Association. "Then, you could start to see longer-term sourcing changes. Companies might shift some of their short-term buying patterns among factories they have relationships with. Sourcing is more of a longer-term calculation because it takes time to move sourcing into new countries and new facilities."

The impact of the rising U.S. dollar can depend on how sourcing is billed and quoted.

Aday Clothing uses a full-service factory in China and sources heat transfer labels and zippers for some styles, while other zippers are sourced from Italy.

"They quote and bill us in [U.S. dollars], so I don't foresee them being transparent and lowering prices on our end, even if they are getting a better conversion rate on their end," Aday development and production manager Eden Spatz said in an emailed statement. "This is motivation for us to source with new factories in these countries if we know we could potentially be offered a better rate because of the rising dollar. But it doesn't affect our existing styles with our current manufacturers."

For Aday's upcoming SS19 collection, material sources include Portugal, Taiwan, Japan, Italy and others.

"As far as billing currency, currently all of our suppliers convert to [U.S. dollars] except for the EU factories and suppliers, who bill in euros," Spatz stated. "If the dollar were to strengthen against the euro, this would improve things for us greatly on both manufacturing and materials, but for the other countries, we likely won't see a change in the [U.S. dollar] pricing we're given, even if the dollar strengthens in those markets."

Ed Jernigan, CEO of Jernigan Global of Nashville, Tenn., which focuses on cotton and textile supply chain management, said supply chains are in a state of flux because of the China-U.S. trade war.

"The currency risk is lower down on the chain," Jernigan said. "I don't think it is driving decisions right now because in every country the dollar is strong against that currency. You have a strong dollar everywhere. There's not one place that's better."

The most important strategy, he added, is to diversify sources out of China.

"Bangladesh and Vietnam are particularly doing well because they are popular options," Jernigan said. "Bangladesh is a great alternative to China due to their focus on cotton, and Vietnam is close to capacity."

Executives monitoring currency trends to take advantage of future opportunities can expect the overall dollar strength to continue.

The U.S.-China trade war appears to have no end in sight. CNBC reported new tariffs worth $16 billion on Chinese imports, with China retaliating against American products with a same amount.

"With China's [currency] dropping, people are wondering if that drop will likely mitigate what they are experiencing with the tariffs," Lamar said.

He noted members of the American Apparel & Footwear Association consider currency movements as they develop their costing strategies and patterns.

"If you've got two factories that are comparable with similar production, the larger companies will have programs to predict how currencies will be moving, and you could see buying patterns shift," Lamar said.

Rising global trade tension has helped the dollar as the escalating trade war will most likely impact other trading partners more than it would the United States, Nicholson noted in an emailed statement.

Nicholson said the U.S.-China exchange rate "is trading at a one-year high with 7.000 being a psychological target," referring to a term used in technical analysis that is a significant level and is usually a round and easy number to remember.

"It has rallied almost 10 percent this year," Nicholson said.

The dollar was worth as much as 6.9376 yuan last month, coming up just short of 7 yuan per dollar, according to Bloomberg News.

Nicholson listed the main drivers for the Chinese currency's weakness as: China's current account surplus is narrowing; the rate differentials are widening (the U.S. is raising rates while China has cut); trade tensions; and soft Chinese economic data with domestic demand, fixed asset investment, PMI and retail sales all lower.

Marvin Loh, senior global markets strategist at BNY Mellon Markets, is forecasting an extension of the dollar strength trend.

"Certainly the sourcing aspect of the product has gotten cheaper as the year has progressed," he said. "The overlay of tariffs has generated enough concern for retailers. It's hard to say how all of this will evolve. In the interim, you are seeing a cheaper product coming into the country. The source of their goods is cheaper."

Along with mentioning that India's rupee is down almost 9 percent this year, he said the Chinese currency could easily fall below 7 yuan per dollar.

"We're so close, at 6.9, that we're one headline potentially away from hitting it," he said. "With the trade concerns and with the outperformance of the U.S. economy, the broader dollar strength theme is likely to remain in place based on how macroeconomic developments evolve. Those themes look like they will roll into next year."

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