Beijing warns on currency strategies

Fear of 'competitive depreciation'

Minister urges G20 to keep promises

By Leslie Hook and Simon Rabinovitch in Beijing

Beijing has issued a new warning against competitive devaluations by rich countries, saying emerging markets will pay the price for so-called currency wars.

"For the global economy this year, I am worried about inflation, about competitive currency depreciation and about the negative spillover effects of excessive issuance of the main currencies," Chen Deming, commerce minister, said yesterday.

Mr Chen, speaking at the National People's Congress, China's rubber-stamp parliament, said the deliberate depreciation of main currencies could have a "huge impact" on developing countries including China. Beijing has expressed fears that a currency war will hurt its exporters while driving up the cost of global commodities, fuelling inflation in China, which relies heavily on natural resource imports.

Global worries over competitive devaluation have been on the rise since January, when Shinzo Abe, Japanese prime minister, announced that Japan would buy government bonds in potentially unlimited quantities to stimulate the economy and raise inflation.

On Thursday, the European Central Bank reiterated its commitment to an "accommodative" monetary stance as the eurozone battles record unemployment.

Mr Chen urged central bank governors and finance ministers of the other Group of 20 nations to abide by their commitment, made at a meeting in Moscow last month, not to "target our exchange rates for competitive purposes".

Beijing has long worried that it could be on the receiving end of hot money inflows because of loose monetary policy in developed economies.

Since late last year, when the Chinese stock market began to recover and the yen's fall deepened, there have been signs of rising capital inflows. China's central bank reported this week that companies and individuals sold Rmb684bn ($109bn) worth of foreign exchange and bought an equivalent amount of Chinese currency in January, a record for a single month.

China also holds more than $3tn in foreign exchange reserves, the world's largest, making the country particularly vulnerable to depreciation-related losses.

Yi Gang, central bank vice-governor, said last week that China was hopeful that a currency war could be avoided but would take steps to insure itself against the possibility.

The central bank has started to increase cash withdrawals from the economy, a way of blunting the inflationary impact of capital inflows. China is also better placed than most countries to withstand the impact of cross-border money flows, because it still keeps a tight grip on capital controls.

>$3tn

Value of China's foreign exchange reserves

When there has been talk of currency wars in the past, as when the global financial crisis erupted in 2008, China has shown a preference for locking the renminbi in place against the dollar – preventing it from appreciating and presenting an appearance of stability.

Last year the central bank had allowed the renminbi to trade within a slightly wider band against the dollar. But that range has narrowed in the past few months even as capital inflows have increased, an indication that Beijing is once again intervening to hold its currency in place.

Meanwhile, China's imports fell sharply in February and export growth slowed after factories and offices closed for the country's new year holiday.

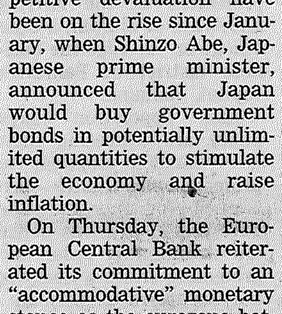
Imports fell 15.2 per cent year on year after rising 28.8 per cent a month earlier.

Exports rose 21.8 per cent year on year in February, down from 25 per cent growth in January.

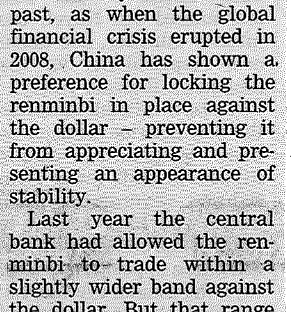
John Authers video: www.ft.com/authersnote

Currency concerns

Chinese domestic sales of foreign exchange to the central bank, monthly change (Rmb bn)



Chinese foreign exchange reserves ($ tn)



Source: Thomson Reuters Datastream