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G-20 Officials Seek Currency Policy Compromise (Update1)
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(Adds context on Brazil warning starting in first paragraph.)

By Eunkyung Seo

Sept. 28 (Bloomberg) -- Leaders of Group of 20 nations may ease tensions over exchange-rate policies by the end of their November summit, a South Korean official said after Brazil warned of deepening divisions.

"Policy makers are talking over the currency issue and thus I expect they will be able to find a compromise at the Seoul summit," Sakong Il, chairman of the nation's presidential committee for the summit, told reporters in Seoul today. He didn't elaborate on what kind of solution may be found.

Sakong's comments come a day after Brazilian Finance Minister Guido Mantega said a "currency war" has begun, with nations seeking to cheapen their exchange rates to bolster exports. Japan this month broke a six-year policy by selling yen, joining countries across Asia and Latin America that have tempered gains in their currencies against the dollar in a move that drew criticism from the U.S. and euro area.

"There is a scramble for export competitiveness and that's going to continue so we're going to have more comments such as Mantega's and more central banks intervening," said Neil Mellor, a currency strategist at Bank of New York Mellon Corp.
in London. "It has to be a subject discussed at G-20 but where the meetings of minds will be is very difficult to guess."

Since G-20 leaders began holding summits in November 2008, they have pledged not to raise or impose trade barriers, seeking to avoid the type of protectionist measures that crippled the global economy in the 1930s.

G-20 Pledges

The G-20 pledged in April 2009 in London to "refrain from competitive devaluation" of their currencies, and the leaders said at their last gathering in Toronto in June that "market- oriented exchange rates that reflect underlying economic fundamentals contribute to global economic stability."
Devaluations were blamed for worsening the Great Depression.

Even so, Mantega said yesterday said that "we are experiencing a currency war -- devaluing currencies artificially is a global strategy." He added that his government will buy all "excess dollars" in the market to curb the real's appreciation. "We're already buying a bigger volume of currency
-- we'll keep buying."

China has incurred international criticism for limiting gains in its exchange rate. The yuan has risen about 2 percent versus the dollar since the People's Bank of China in June pledged greater flexibility in the currency after pegging it around 6.83 for two years.

Currency Selling

Asian nations including South Korea and Thailand have also sold their currencies as have Brazil and Switzerland. Japan did so on Sept. 15 after the yen surged to the highest level since 1995 against the dollar, imperiling the exports responsible for more than half of Japan’s economic growth in the second quarter.

“The days of global cooperation to achieve internationally shared goals are long past,” Stephen Lewis, chief economist at Monument Securities in London, said in a research note yesterday. “There must be some danger to the global free trading system.”

Bank of New York Mellon’s Mellor said policy makers are acting to weaken their currencies as the Federal Reserve considers taking more steps to boost the U.S. economy, resulting in a weaker dollar.

“It’s almost inevitable with the Fed’s policy that we’ll have more central banks looking to intervene,” he said. “There are huge forces against the dollar right now.”

ADB’s Call

“Emerging currencies in Asia need to be more flexible and probably need to appreciate against the G-3,” Asian Development Bank President Haruhiko Kuroda told reporters today in Kuala Lumpur. The G-3 refers to the euro, dollar and yen. “Emerging economies in Asia are really growing fast.”

U.S. lawmakers aim to consider this month legislation allowing American companies to seek protection against imports from nations pursuing misaligned exchange rates.

Former Canadian Prime Minister Paul Martin also said at the joint press conference in Seoul today that the G-20, as a steering committee for international economic cooperation, has to deal with the currency issue involving the U.S. and China.

It’s not just a matter between the two countries, Martin, also a former finance minister, said.

U.S. Treasury Secretary Timothy F. Geithner said this month that the Obama administration will use every available tool to urge China to let its currency rise more quickly. Premier Wen Jiabao countered last week that a 20 percent jump in the yuan risks “major” social upheaval and job losses.

European Rebuke

Japan’s intervention this month drew a rebuke from Luxembourg Prime Minister Jean-Claude Juncker, who chairs meetings of euro-region finance ministers. Juncker said in an interview in Brussels that the group was “insisting” Japanese authorities “step back from unilateral interventions.”

Juncker’s comments came the same day the European Union’s statistics office said the region’s exports fell in July for the first time in three months.

The G-20 includes the world’s biggest developed and emerging-market nations, from China, Brazil, Russia and India to the U.S., Japan, Germany, France and the U.K. Its finance ministers meet in Korea on Oct. 21-23 ahead of the summit of leaders in Seoul on Nov. 11-12.

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--With assistance from Simon Kennedy in London and Pooi Koon Chong in Kuala Lumpur. Editors: Chris Anstey, James Hertling

To contact the reporter on this story:
Eunkyung Seo in Seoul at +82-2-3702-1639 or eseo3@bloomberg.net

To contact the editor responsible for this story:
Chris Anstey in Tokyo at +813-3201-7553 or canstey@bloomberg.net