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China Pledges to Invest in Europe’s Bailout Funds, Hold Euros
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By Bloomberg News

Feb. 15 (Bloomberg) -- China pledged to invest in Europe’s bailout funds and sustain its holdings of euro assets, spurring gains in the currency and Asian stocks on optimism the region’s debt crisis will be overcome.

“China will always adhere to the principle of holding assets of EU sovereign debt,” People’s Bank of China Governor Zhou Xiaochuan said in a speech in Beijing today. “We would participate in resolving the euro debt crisis,” he said, echoing comments by Premier Wen Jiabao yesterday.

The remarks offer a carrot to European finance ministers, who are increasing pressure on Greece to deliver budget cuts in exchange for a second bailout. At stake for China is helping to stabilize the economy of its largest export market amid a global slowdown that has curtailed growth in Chinese shipments abroad.

“Wen and Zhou are giving the best support China can offer now, which is to send out positive messages such as promising not to cut euro assets and to buy European bonds to help bolster market confidence,” said Shen Jianguang, a Hong Kong-based economist at Mizuho Securities Asia Ltd. who previously worked at the European Central Bank. “How much and when China will buy will depend on its foreign-exchange investment strategy -- when they find the pricing and exchange rate favorable.”

The MSCI Asia-Pacific Index of shares advanced 1.6 percent at 1:10 p.m. in Tokyo, heading for the biggest increase in a month. The euro rose 0.2 percent to $1.3165, the first gain in four days.

‘Sincere and Firm’

Zhou’s comments came a day after Premier Wen Jiabao said the nation is willing to get “more deeply” involved in resolving Europe’s debt crisis, although the continent must send a clearer message to show how it’s working to strengthen its finances.

“China’s willingness to support Europe to cope with sovereign debt problems is sincere and firm,” Wen said at a joint press conference yesterday in Beijing with European Union President Herman Van Rompuy. “China is ready to get more deeply involved in participating in solving the European debt issue.”

Van Rompuy said he welcomed the interest China has shown in investing in European sovereign bonds and the region’s rescue fund. Meantime, back in Europe finance ministers are slated today for a teleconference call to prod Greece to do more to qualify for another bailout.

“We expect those highly indebted countries to strengthen fiscal consolidation, cut deficits and reduce debt risks in light of their national conditions,” Wen said. “We hope the EU will soon reach internal consensus, make the political decision and send to the international community a clearer and a stronger message of policy responses.”

Right Time

While Brazil, Russia India and China are all very positive towards helping Europe, they have to wait for the right time and right opportunity, Zhou said today in comments made through a translator. He pledged the nation won’t reduce its holdings of the euro.

“We are in firm support of all the measures taken by the European Central Bank in order to promote the development of the European nations,” he said, and reiterated comments by Wen that China is confident in the euro and the region’s ability to solve its debt problems.

“China will always adhere to the principle of holding assets of EU sovereign debts for example through the IMF or EFSF” and the ESM, Zhou said. China has been wooed by European leaders to help fund the temporary European Financial Stability Facility and its permanent successor, the European Stability Mechanism.

‘Truly Appealing’

China can use three avenues to help: the central bank, China Investment Corp., the nation’s sovereign wealth fund, and banks including China Development Bank and Export-Import Bank of China, the central bank chief said.

Even so, China hopes for more “innovation” from Europe to provide more lucrative products that are “truly appealing” to Chinese investors, Zhou said, reiterating comments by Premier Wen.

China, which holds the world’s largest foreign-exchange reserves of $3.18 trillion, has previously signaled it wants to diversify the holdings away from U.S. dollar-denominated assets.
The country doesn’t publicly disclose a breakdown of its reserves.

The government is considering funding options for the EFSF and the ESM through the International Monetary Fund, Wen said on Feb. 2 after meeting German Chancellor Angela Merkel in Beijing.
Officials previously said they needed more details on any plan to contribute funds.

Moody’s Investors Service cut the debt ratings of six European countries on Feb. 13, including Italy, Spain and Portugal, and said it may strip France and the U.K. of their top Aaa ratings, citing Europe’s debt crisis.

Spain was downgraded to A3 from A1 on Feb. 13, Italy to A3 from A2 and Portugal to Ba3 from Ba2, all with negative outlooks.
Slovakia, Slovenia and Malta also had their ratings lowered.

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