(BN) Yi Warns on Currency Wars as Yuan Close to ‘Equilibrium’ (1
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(Updates with yuan trading in seventh paragraph. Click DAVOS <GO> for more on the World Economic Forum.)

By Jeff Black and Zoe Schneeweiss

Jan. 28 (Bloomberg) -- China’s foreign-exchange regulator urged Group of 20 nations to improve collaboration to avoid any so-called currency wars while signaling he’s comfortable with the value of the yuan.

On a global level, there needs to be “better communication and coordination” on foreign exchange among the G-20, Yi Gang, who is also a deputy governor of China’s central bank, said in an interview at the World Economic Forum’s annual meeting in Davos, Switzerland, on Jan. 26. “Right now, it is pretty much close to the equilibrium level,” he said, referring to the Chinese currency’s exchange rate.

Japanese Economy Minister Akira Amari said in Davos that his nation is trying to defeat deflation rather than weaken the yen, after Prime Minister Shinzo Abe’s push for laxer monetary policy sparked a slide in the currency. His comments on Jan. 26 followed a week in which German and Canadian policy makers joined a worldwide chorus highlighting a recent plunge in the yen as a worry.

“A currency war, a series of tit-for-tat competitive devaluations, would trigger trade protection measures that would damage global trade and therefore growth globally,” said Louis Kuijs, chief China economist at Royal Bank of Scotland Plc in Hong Kong, who previously worked for the World Bank. “That would not be good for any country with a stake in the global economy.”

Criticism Abated

The yuan is still “somewhat below ‘fair value,’” Kuijs wrote in a Jan. 25 note. He estimated that its nominal effective exchange rate, the relative value of the yuan compared with other major currencies, has appreciated 2.5 percent between the end of September and Jan. 23.

Criticism over China’s exchange-rate system has abated in recent months. Lawrence Summers, the former top economic adviser to U.S. President Barack Obama, said Jan. 14 that the yuan is no longer as undervalued as it was five years ago. The currency, which has strengthened about 17 percent against the dollar since the end of 2007, rose 1 percent last year, the least in three years.

The People’s Bank of China today set the daily yuan fixing at the lowest level against the dollar since Jan. 7, and the currency fell for a seventh day in Hong Kong, headed for its longest losing streak since 2010. The currency weakened 0.1 percent to 6.2220 as of 11:14 a.m. in Hong Kong.

Gaining Momentum

China’s new leadership, headed by Xi Jinping, is seeking to support a recovery in the world’s second-biggest economy without triggering inflation and a surge in banks’ bad debts. Gross domestic product increased 7.9 percent in the fourth quarter from a year earlier, the first acceleration in two years.

Industrial companies' profits rose in December for a fourth month, a statistics bureau report yesterday showed, adding to signs the country's rebound is gaining momentum. Net income increased 17.3 percent from a year earlier to 895 billion yuan
($144 billion), after a 22.8 percent jump in November. Earnings for the full year gained 5.3 percent, down from a 25.4 percent pace in 2011.

Yi, who heads the State Administration of Foreign Exchange, said he's concerned about the potential fallout from expanded asset-purchases programs and near-zero interest rates in the world's advanced economies.

"Quantitative easing for developed economies is generating some uncertainties in financial markets in terms of capital flows," Yi, who is also head of China's foreign-exchange regulator, told reporters. "Competitive devaluation is one aspect of it. If everyone is doing super QE, which currency will depreciate?"

Global Liquidity

SAFE warned last week that China will see fresh speculative inflows of money after the U.S. and Japanese central banks said they would pump more funds into their financial systems.

"The policies in major economies of monetary easing and low interest rates will boost global liquidity, increase risk preferences in the market and drive speculative funds into China," the regulator said on its website on Jan. 25.

China's economy expanded 7.8 percent last year, the least since 1999, and that compared with an average annual increase of more than 10 percent over the past two decades. Policy makers have signaled a tolerance for slower growth as they seek to shift to a consumer-driven economy and away from a reliance on exports and investment that's led to environmental degradation, industrial overcapacity and social unrest.

During a panel discussion at Davos, Yi said that "for the foreseeable future probably we still have the potential of 7 to
8 percent growth" that will be mainly be led by domestic demand "as people's income continues to increase."

Slower Expansion

Yi's growth estimates are in line with projections from the nation's statistics bureau that the economy is entering a period of permanently slower expansion as the working-age population declines and resources become more scarce.

"The most important thing is the quality of growth and a higher growth rate isn't that important," Yi said Jan. 26.
Quality refers to better income distribution, improved labor productivity, environmental protection and energy efficiency, he said.

"If you maintain the quality of the growth and if you can reach 7 percent, that's fine," he said.

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