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G-7 Won't Target Exchange Rates Amid Currency War Concern (3)
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(Updates with analyst comments in eighth, 16th paragraphs.
See GMEET for more on the G-20 meeting.)

By Simon Kennedy and Gonzalo Vina

Feb. 12 (Bloomberg) -- The world's major industrial nations sought to soothe mounting fears of a currency war with a pledge to avoid devaluing their exchange rates in the pursuit of stronger economic growth.

"We reaffirm that our fiscal and monetary policies have been and will remain oriented towards meeting our respective domestic objectives using domestic instruments, and that we will not target exchange rates," the Group of Seven's finance ministers and central bank governors said in a statement released today in London.

The stance is tougher than the G-7's last joint comment on exchange rates in 2011 and marks an effort to avoid a 1930s- style spiral of retaliatory devaluations in which weak economies try to boost exports by driving currencies down. It follows an outbreak of concern that Japan's new campaign to beat deflation is an outright attempt to weaken the yen, an allegation its government again denied today.

The yen pared gains versus the dollar after the statement's release and as Finance Minister Taro Aso said the G-7 acknowledged Japan is not chasing a weaker yen and that its monetary policy is aimed at reversing a decline in prices. The yen traded at 94.33 per dollar at 10:25 a.m. in London after strengthening as much as 0.5 percent.

No Pressure

"The G-7 doesn't put any additional pressure on Japan so the downward trend in the yen will reassert itself," Adam Cole, head of global foreign-exchange strategy at Royal Bank of Canada in London, said in a telephone interview. "There is nothing here really to stop the yen falling."

The G-7 also reiterated its traditional stance that members are committed to "market-determined" exchange rates and that "excessive volatility and disorderly movements" can hurt "economic and financial stability."

The statement was released three days before finance chiefs from the Group of 20 hold talks in Moscow, and with the yen having fallen about 14 percent against the dollar since mid- November to its lowest since 2010. The G-7 may have acted today to smooth the G-20 talks where the yen's decline could have drawn complaints from China which is often attacked for massaging the yuan's value.

"They may be trying to dictate the discussion on foreign exchange and reduce the likelihood that Japan's current tactics become a divisive point when crafting the G-20 communique,"
said Daragh Maher, a strategist in London at HSBC Holdings Plc.

Post-Election Push

Driving the yen's slide is a post-election push by Japanese Prime Minister Shinzo Abe for easier monetary policy to propel the world's third-largest economy from 15 years of deflation and repeated recessions. That strategy has drawn words of warning from Canada to Germany as policy makers fret Abe is actively trying to weaken the yen, threatening their own exporters.

"Each nation understands that Japan's policies to tackle deflation are not aimed at influencing foreign exchange rates,"
Aso told reporters in Tokyo today. "This was discussed by everyone. We didn't urge" the G-7 to issue the statement.

The ability of G-7 nations to criticise Japan for introducing monetary stimulus is weakened by the reliance on it of other economies such as the U.S, said Chris Turner, head of foreign exchange strategy at ING Group NV. The U.S. dollar has fallen about 14 percent in trade-weighted terms since early 2009 as the Federal Reserve cut interest rates and bought assets.

Discouraging Tokyo

"Today's statement is primarily aimed at Japan and discourages Tokyo from talking the yen lower," said Turner.
"We very much doubt this G-7 agreement has any bearing on Tokyo's domestic policy."

U.S. Treasury Undersecretary Lael Brainard told reporters in Washington yesterday that the U.S. supported Japan's attempt to "reinvigorate growth," while cautioning all countries against competitive devaluations. The topic of exchange rates may also come up tomorrow when Jack Lew testifies before lawmakers as part of his confirmation process to become Treasury secretary.

Swiss National Bank President Thomas Jordan, who caps the Swiss Franc against the euro, said he doesn't see a currency war brewing as "central banks' monetary policies are internal programs."

Those comments, made today, were more supportive of Japan's approach than others made elsewhere in the past month. German Chancellor Angela Merkel and Canadian Finance Minister Jim Flaherty are among those to have raised questions about Japan's strategy.

French Finance Minister Pierre Moscovici today repeated his call for a "coordinated, intelligent exchange-rate strategy"
at the global level.

The G-7 may become more critical if the yen keeps falling, said Hiroaki Muto, a senior economist at Sumitomo Mitsui Asset Management in Tokyo.

"The tone indicates that the current weakness in the yen may be OK, but further depreciation won't be overlooked," said Muto.

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