

## **Asia steps in to support dollar**

*Kevin Brown, Peter Garnham and Chris Giles*

*Asian central banks intervened heavily in the currency markets on Thursday to stem the appreciation of their currencies against the US dollar amid fears that their exports could be losing ground against China.*

The mainly south-east Asian countries have been spurred to defend the competitiveness of their currencies by China's decision to in effect re-peg the renminbi to the dollar since July last year.

Simon Derrick, at Bank of New York Mellon in London, said: "Other Asian central banks outside China are naturally looking to aggressively defend their competitive edge against undesirable currency strength as the dollar weakens."

After allowing the renminbi to appreciate by about 20 per cent against the US dollar from mid-2005, Beijing re-pegged its currency to the greenback when export growth contracted.

The greenback hit one-year lows against a raft of regional currencies. The dollar index, which tracks its value against a basket of six main currencies, hit a 14-month low in afternoon trading in New York.

Jean-Claude Trichet, European Central Bank president, issued a warning about the euro's strength on Thursday and said that authorities on both sides of the Atlantic would "co-operate as appropriate".

Marco Annunziata, chief economist at Unicredit, said: "He clearly tried to signal as convincingly as possible that the eurozone and the US are united in the desire to limit the rise in the euro versus the dollar – but the market is calling his bluff."

Gold prices hit an all-time high for the third day in a row, on the dollar's weakness. Base metals such as aluminium and copper jumped 4 per cent, while crude oil surged almost \$3 to more than \$70 a barrel.

The central banks identified by traders as substantial buyers of US dollars included Thailand, Malaysia and Taiwan. Hong Kong and Singapore, which both have managed currency regimes, were also buyers.

The moves to limit Asian currency appreciation is ammunition for those who warn that the new Group of 20 framework for strong and balanced growth is toothless. Less than a week after the world's finance ministers and central bankers agreed to foster more balanced world economic growth in Istanbul, Asian officials have intervened to prevent exchange rates playing their part in the process.

However, traders said that the central bank interventions appeared to be aimed at controlling the pace at which the US dollar declines rather than solely to stop Asian currencies appreciating.

The Obama administration has not altered its refrain that it believes in a "strong dollar" but is seen as unlikely to intervene in currency markets, particularly as the US Treasury recognises the trade-weighted value is similar to where it was two years ago.

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