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US in warning over exchange rates

By Robin Harding in Washington

The US warned China and Japan not to manipulate their exchange rates in a report that could raise tensions in global currency politics.

In its semi-annual currency report, released late on Friday, the US Treasury said that Japan should “refrain from competitive devaluation” and China’s renminbi “remains significantly undervalued”.

The release of the report comes just days before the world’s economic policy makers gather in Washington for spring meetings of the World Bank and International Monetary Fund.

The Treasury found that no country met the legal standard to be designated a “currency manipulator” – despite pressure from Congress to put that label on China – but sharpened its language on a group of East Asian countries.

“This report could signal a resumption of tensions on the currency issue,” said Eswar Prasad, professor of economics at Cornell University. “The US is intensifying its push for faster renminbi appreciation while China feels under siege on account of the aggressive monetary policy actions of the US, Japanese and other advanced economy central banks.”

The report triggered a jump in the yen late in the trading day, from Y99 to close to Y98, because of the perception that the US was pushing back against the recent depreciation of the Japanese currency.

The yen has taken a long slide from Y78 last October after the election of Shinzo Abe as the Japanese prime minister and an aggressive monetary easing by the Bank of Japan last week. Japan is expected to come under international scrutiny at the IMF meetings next week.

“We will continue to press Japan to adhere to the commitments agreed to in the G7 and G20, to remain oriented towards meeting respective domestic objectives using domestic instruments and to refrain from competitive devaluation and targeting its exchange rate for competitive purposes,” says the report.
“The contents are not surprising and are exactly what I would have expected from the US Treasury,” said Alan Ruskin at Deutsche Bank. “This is not an attempt to block a weaker yen as long as it is an outcrop of domestic oriented reflationary policies and does not include anything that is perceived as currency ‘manipulation’ – like talking about currency levels, or buying foreign bonds.”

The report also marks a return to pressure on China for undervaluing the renminbi. The Treasury notes $109.9bn of foreign currency purchases by Chinese corporations and the central bank in the first quarter of 2013 and says that the resumption of foreign exchange market intervention is “troubling”.

“Still, as the report notes, this is against the background of substantial declines in China’s trade and current account surpluses, along with more easing of restrictions on capital outflows.”

The report also singles out South Korea and says that it has intervened in markets to slow down appreciation of the won.