

## Asian currencies fall this week amid risk of capital controls

Asian currencies fell this week, led by Indonesia's rupiah, on speculation regional policy makers will restrict capital inflows to prevent appreciation that may hurt exports.

The Indonesian central bank is "studying" the possibility of limiting foreign holdings of Bank Indonesia's bills, Senior Deputy Governor Darmin Nasution said Nov. 19. South Korea's government agencies plan to hold talks on what can be done to address inflows financed with cheap U.S. dollar loans, so-called carry trades, Kim Jong Chang, governor of the Financial Supervisory Service, said late that day. Slides in global stocks also curbed demand for emerging-market assets.

"Everything came at the same time," said Lindawati Susanto, head of currency trading at PT Bank Resona Perdania in Jakarta. "It was mainly the global stocks which came off this week, leading to instability in all the other currencies and stock markets. Then, the BI news added even more pressure to the rupiah."

Indonesia's rupiah dropped 1.0 percent from a week ago to 9,468 per dollar. The Philippine peso slumped 0.8 percent to 47.08 and India's rupee slid 0.7 percent to 46.6599.

The MSCI Asia-Pacific Index of shares slid 0.5 percent Friday, a fourth straight drop, following a 1.3 percent slide in the Standard & Poor's 500 Index of U.S. equities. The benchmarks are up 31 percent and 21 percent, respectively, this year and the S&P 500 this week posted its best close since October 2008.

### 'Systemic risk'

Bill Gross, who runs the world's biggest bond fund at Pacific Investment Management Co., said Nov. 19 the "systemic risk" of new asset bubbles is rising with the U.S. Federal Reserve maintaining near-zero interest rates. In carry trades, investors obtain funds in countries that have low borrowing costs to buy currencies offering better returns.

South Korea's won fell for a second day after the financial regulator on Nov. 19 announced limits on banks' foreign-currency funding, including curbs on the amount of forwards contracts they can sign with companies.

"These measures are taken to prevent destabilizing effects of capital inflows, but should not be taken as capital controls," said Mirza Baig, a currency strategist in Singapore at Deutsche Bank AG.

### Possible intervention

Taiwan's dollar dropped for a third day Friday, its longest losing streak of the month, after the central bank said it will intervene if irregular factors cause excessive currency volatility. Policy makers can try to influence exchange rates by buying or selling currencies.

Taiwan has seen a decline in the amount of speculative capital from overseas sitting in the island's banks, Central Bank of the Republic of China (Taiwan) Governor Peng Fai-nan said Nov. 19, more than a week after the island's financial regulator banned foreigners from placing funds in time deposits.

"The central bank is upset about the currency trade," said Eric Hsing, a fixed-income securities trader at First Securities Inc. in Taipei. "I think in the long term the Taiwan currency should be on an uptrend. In the shorter term, the central bank wants to lower the volatility."

Taiwan's dollar declined 0.2 percent yesterday to NT\$32.35 versus the greenback, trading little changed for the week. Malaysian ringgit dropped 0.2 percent from Nov. 13 to 3.3845 and Thailand's baht rose 0.1 percent to 33.25.

(Source: Bloomberg)

# Asian stocks post biggest drop in three weeks on Japan concerns

Asian stocks fell this week, dragging the MSCI Asia Pacific Index to its biggest weekly decline in three amid Japanese share sales, while companies including Sony Corp. fueled profit concerns.

Mitsubishi UFJ Financial Group Inc. sank 7.3 percent after announcing Japan's biggest public sale of additional common shares. Hitachi Ltd., the Nikkei 225 Stock Average's fourth-largest company by sales, plunged 14 percent after revealing its plan to sell securities. Sony Corp., which makes the PlayStation 3 game console and Bravia televisions, slid 5.5 percent as it pushed back profitability targets.

"What you're seeing is very much Japan-related," said Nader Naeimi, a Sydney-based strategist at AMP Capital Investors, which holds \$75 billion in assets. "Everywhere else in Asia you have a very strong growth profile, but Japan has a lot of long-term structural issues that still need to be tackled."

The MSCI Asia Pacific Index fell 1.2 percent to 116.91 this week, the steepest weekly retreat since the five days to Oct. 30. Seven of the 10 heaviest drags on the gauge were Japanese shares, including Mitsubishi UFJ.

Japan's Topix index slid 3.2 percent, extending its drop to a fourth week. The gauge has fallen 2.4 percent in 2009, making it the only loser among the world's 10 biggest stock markets, according to data compiled by Bloomberg.

The Kospi Index jumped 3.1 percent, breaking a five-week losing streak.

Samsung Electronics Co., the world's largest television maker, soared 5.7 percent after lifting its full-year TV shipment target. Lihir Gold Ltd. jumped 6.6 percent in Sydney, pacing gains among miners of the precious metal, after bullion climbed to a record.

### China's growth

The S&P/ASX 200 Index fell 0.4 percent in Sydney. Hong Kong's Hang Seng



Index declined 0.4 percent, having closed at a level in the week that was double its March 9 low. The Shanghai Composite Index climbed 3.8 percent as the Ministry of Commerce's Yao Jian said consumer spending will become an "important engine" for growth.

Expectations for more robust growth in emerging economies including China have overshadowed concerns about Japan's recovery, driving up Asian equities faster than other regions. The MSCI Asia Pacific Index has risen 31 percent in 2009, compared with a 21 percent gain by the Standard & Poor's 500 Index in the U.S. and a 23 percent climb by Europe's Dow Jones Stoxx 600.

The Organization for Economic Cooperation and Development lifted its growth outlook for China on Nov. 19, saying the nation's economy will expand 8.3 percent in 2009. In contrast, the Paris-based group said Japan will contract 5.3 percent this year and recommended the central bank

buying more government bonds to grapple with deflation.

### Interest rates near zero

The Bank of Japan on Nov. 20 kept its overnight lending rate at 0.1 percent and raised its economic assessment even as government pressure for it to fight deflation intensified.

Mitsubishi UFJ, Japan's biggest listed bank, fell 7.3 percent to 471 yen.

The lender planned to raise as much as 1 trillion yen (\$11.2 billion) by selling common stock, Mitsubishi UFJ said on Nov. 18, as international regulators worked on tighter capital rules.

Hitachi, which makes rice cookers and builds nuclear power plants, slid 14 percent to 253 yen, the steepest slump since the week ended May 15.

The company will sell stock for the first time in 27 years, Hitachi said on Nov. 16.

Tokyo Tatemono Co., a property developer, and Nomura Real Estate Residential Fund Inc. also tumbled after revealing

share-sale plans.

Tokyo Tatemono lost 21 percent to 325 yen, while Nomura Real Estate slumped 15 percent to 352,000 yen.

### Valuation concerns

Sony sank 5.5 percent to 2,410 yen. The Tokyo-based company said on Nov. 19 that it's aiming for a 10 percent return on equity by March 2013, which is later than its previous target of March 2011.

The new prediction from Sony helped fuel concerns that Asian equities had become too expensive relative to earnings expectations. The MSCI Asia Pacific Index has climbed 66 percent since March 9 amid signs the global economy is recovering from its worst slowdown since World War II.

Stocks on the gauge trade at an average 1.5 times book value, up from 1 at the March low. Shares on the U.S. Standard & Poor's 500 Index are valued at 2.2 times, while Europe's Dow Jones Stoxx 600 Index is at 1.7 times.

"The market has gone up a lot in a short span of time, so I would expect to see a correction in the near-term, since it's not extremely cheap," said Nicholas Yeo, head of Hong Kong and China equities at Aberdeen Asset Management Co., which manages \$40 billion in Asian equities.

### Asset bubbles?

Bill Gross, who runs the world's biggest bond fund at Pacific Investment Management Co., said Nov. 19 the risk of new asset bubbles in global economies and markets is rising, echoing similar comments by Hong Kong Exchanges & Clearing Ltd.'s Chairman Ronald Arculli the previous day.

Samsung, which counts China as its biggest market by revenue, jumped 5.7 percent to 755,000 won, the first weekly since September. The company on Nov. 16 raised its flat-panel TV shipment target for this year by 15 percent.

Lihir climbed 6.6 percent to A\$3.58, a third weekly advance. Newcrest Mining Ltd., Australia's largest gold producer, added 3.7 percent to A\$35.84.

Gold for immediate delivery rose to a record \$1,152.85 an ounce on Nov. 18 as the weakening U.S. currency prompted investors to flock to the metal as a haven. The dollar has depreciated in 2009 against all the 16 major currencies tracked by Bloomberg.

(Source: Bloomberg)

## Gold ends week above US\$1,150 on buying interest despite stronger dollar

Gold prices ended higher Friday as a late session rally driven by strong buying interest pushed the metal above the U.S.\$1,150-mark despite a stronger U.S. dollar.

Traders said gold's ability to stem losses despite weaker equities and oil prices, and a stronger Dollar, signal strong buying interest.

Gold was under pressure earlier in the session as the dollar rose for a second straight session as investors cut risk exposure. "Technical buying and short covering started a late session rally, Frank McGhee at Integrated Brokerage Services, told Reuters, adding that strong buying may boost prices early next week.

On the Comex division of the New York Mercantile Exchange, December gold futures settled U.S.\$4.90 higher at U.S.\$1,146.80 an ounce (last Friday's close U.S.\$1,116.70), for a weekly increase of 2.69%, ranging from U.S.\$1,132.50 to U.S.\$1,148.50.

The December contract hit a record US\$1,153.40 on Wednesday. After Friday's settlement, it hit a high of U.S.\$1,150.50. Last week's high was U.S.\$1,123.4.

Spot gold closed U.S.\$6.3 higher or 0.55% at U.S.\$1150.9 for a weekly gain of U.S.\$32.4, or 2.9%.

The yellow metal has now gained in eleven out of the past thirteen weeks, in the past six trading sessions and in the past three weeks.

Gold for immediate delivery rose 2.9% this week, 8.70% in the last 30 days, by 8.7% in the quarter to the end of September and 54.57% year-on-year.

The ICE Futures U.S. dollar index, which measures the dollar against other major currencies, rose 0.4% on Friday. Gold has traditionally shared a strong inverse relationship with the greenback, while also being a useful hedge against rising consumer prices.

Gold's uptrend remained intact this week and may have even accelerated as the correlation with the dollar turned positive, according to analysts Dollar strength makes gold and other commodities priced in the U.S. unit less attractive to non U.S. investors. But the dollar's gains proved fleeting and the market has kicked on strongly again having found decent support at the lower levels.

It looks like a very well-behaved uptrend," Phil Roberts, analyst at Barclays Capital, told Reuters.

"We do not expect much direction from currencies," says Friday's gold-market comment from Standard Bank analyst Walter de Wet.

"In fact, correlations between commodities and the Dol-



lar have fallen substantially. Look to equities for direction, de Wet said." La Salle Futures Group trader Matt Zeman said investors are not being fooled by any short-term gains in the U.S. currency and can see a bright future for gold.

"No one has faith in a sustained dollar rally," he told Business Day.

"Gold just seems resilient in the face of a stronger dollar. This is a

big bullish signal. People want gold to go higher," Zeman said.

Gold has also woken up in other denominations. Gold priced in euros has hit its highest in almost nine months, while sterling-priced gold has also jumped to its highest since February. Gold priced in British Pounds hit a new all-time record at the Friday AM Gold Fix of £690.83 per ounce and £691.04 at the PM Fix.

Agreed as a clearing and benchmark price twice each day, the Fix has risen by 280% for UK gold buyers from this time 10 years ago.

The price of gold has risen by 19% vs. the Dollar since the start of September priced against a basket of currencies, the Dollar itself has lost 4.5% of its value since then.

The S&P 500 index of U.S. stocks has risen 7.3% in that time.

Gold, up over 29% this year, has outperformed U.S. stocks and bonds as investors seek to protect their wealth against currency debasement and an inflation threat.

"Higher highs and higher lows keep trend followers looking for a continued bullish move," Scotia Mocatta said in its daily note on Thursday. "Our measured target is US\$1,188."

"Gold feels frothy today," writes Société Générale analyst Dylan Grice in a detailed report, "but

[last month's] Indian purchase of IMF Gold eerily parallels the French purchases of the late 1960s. And ill policy winds are blowing in gold's favour."

Claiming that "There is a case for gold being 'cheap' at current prices" thanks to what he calls the "market displacement" of huge monetary expansion worldwide, Grice believes the gold price has yet to undergo four further stages of a "Minskian mania" – boom, euphoria, crisis and finally revulsion.

Encouraged by India's decision, "We've had the displacement and are only now entering into the boom phase," says SocGen's behavioral analyst, who replaced James Montier at the French bank's London strategy team in September. "The mania phase lies well ahead. But that is a long way off."

(Source: bi-me.com)



## China growth faces currency dilemma-thinktank economist

BEIJING(Reuters) — International pressure on China to lift the value of its yuan against the dollar could stoke risks to growth in 2010, an economist at a top state think-tank has said, warning of a deepening dilemma facing currency policy.

Yu Bin, head of macro-economic research at the State Council Development Research Center, told a meeting in Beijing the nation could enjoy annual growth of over 8.5 percent next year, but currency pressures, falling consumer demand and other worries could erode that growth, the Hong Kong-based Wen Wei Po newspaper reported on Sunday.

Yu's warning of a currency "dilemma" confronting Chinese policy-makers underscored the tricky choices they face in navigating between foreign calls to let the yuan CNY=CFXS rise against the dollar and domestic fears that such a move could pummel exporters and drag down growth.

China allowed the yuan to rise 21 percent against the dollar between July 2005 and July 2008 before effectively repegging the yuan to help its exporters cope with a slump in global demand.

Beijing now faces mounting international calls to let the yuan, or "renminbi", rise on the grounds that it is undervalued and stoking imbalances with other big economies, but it showed no public sign of budging during last week's visit by U.S. President Barack Obama.

Yu told the meeting on Saturday that the Chinese economy faced risks if the dollar continues to depreciate against other major currencies, and from pressure to let the yuan rise in value against the dollar.

"China is stuck in a dilemma," he said, according to the paper.

The weakening of the dollar could mean China pays relatively more for bulk commodities, said Yu, whose thinktank advises the State Council, or central government cabinet. Those commodities, such as oil and ore, are crucial ingredients for Chinese growth.

"With the depreciation of the dollar, maintaining stability of the renminbi exchange rate against the dollar will make the renminbi appreciate against the yen and euro, fanning trade friction and increasing pressure for appreciation of the renminbi," the report cited Yu as saying.

"If the renminbi appreciates too quickly, this will be a blow to China's huge export-driven industries, while a small appreciation will draw more capital into China speculating on the renminbi exchange rate, creating instability in financial markets", added Yu.