China may diversify forex reserves from US dollar

AFP, *Beijing*

China has suggested it may diversify its foreign reserve holdings away from a current heavy focus on the US dollar although analysts said Friday Beijing does not intend a major change in policy.

"We will perfect the management of our foreign exchange reserves and actively explore new ways to use our reserve assets even better," State Administration of Foreign Exchange (SAFE) chief Hu Xiaolian said in a statement late Thursday.

"We will further improve the currency and asset structure in the foreign exchange reserve portfolio and continue to broaden the investment channels for our reserves."

The statement, posted on SAFE's website, said the diversification would serve the twin purposes of strengthening risk management and boosting the yields of forex reserve assets.

China's foreign exchange reserves, the second-largest in the world after Japan, rose to 794.2 billion dollars at the end of November, according to previous reports in the state media.

Some economists estimate they will soon be even bigger than Japan's, topping one trillion dollars by the end of this year, and so China may be wanting to signal its growing clout, according to analysts.

"This is the first time China has come out and said 'we're looking at diversification'. It's an important admission," said Callum Henderson, head of foreign exchange strategy at Standard Chartered in Singapore.

"It's also an important message to the US. It's a reminder of who holds the cards in terms of foreign exchange reserves -- not just Japan, but China."

With most of their reserves denominated in dollars, China and its Asian neighbors now hold the greatest sway ever over the US unit's value.

That makes any decision to lower the dollar's weight in their holdings important to currency markets.

Ray Attrill, global head of research at 4CAST, said that the SAFE statement, although significant, would probably simply see a continuation of a region-wide policy supporting more diversified portfolios.

PHOTO: SHAHJALAL ISLAMI BANK

AK Azad, director of Shahjalal Islami Bank Ltd, inaugurates the bank's 15th branch at Baipal in Savar, Dhaka recently. Sajjatuz Jumma, chairman of the Board of Directors of the bank, among other senior officials, was present at the inauguration.

PHOTO: MITHUN KNITTING AND DYEING

The 14th annual general meeting (AGM) of Mithun Knitting and Dyeing (CEPZ) Ltd was held recently in Chuadanga. Chairman and Managing Director of the company Md Mozammel Haque presided over the AGM, which declared a five percent cash dividend for its shareholders.

PHOTO: ONE BANK

Zahur Ullah, first vice chairman of One Bank Ltd, inaugurates the 17th branch of the bank at Chashara in Narayanganj recently. Other senior officials of the bank are also seen in the picture.

PHOTO: INCEPTA PHARMACEUTICALS

The annual sales conference of Incepta Pharmaceuticals Ltd was held on Thursday in Dhaka. Abdul Muktadir, managing director, Hasneen Muktadir, director, among other senior officials, were present at the conference.

Mithun Knitting okays 5pc cash dividend

Mithun Knitting and Dyeing (CEPZ) Ltd has declared a five percent cash dividend for its shareholders.

The dividend was approved at the 14th annual general meeting (AGM) of the company held recently in Chuadanga, says a press release.

Chairman and Managing Director of the company Md Mozammel Haque presided over the AGM, which was attended by directors and other senior officials.

Chrysler to boost output

AFP, *Frankfurt*

Chrysler, the US arm of German-US auto giant DaimlerChrysler, is to introduce more flexible production methods in its factories in order boost output, the division's chief executive Tom LaSorda said in a newspaper interview published Friday.

LaSorda told the Financial Times Deutschland that maximum output would reach 3.5-4.0 million vehicles after the factories had been converted.

South Korea intervenes to stop won's rise

AFP, *Seoul*

South Korean financial authorities on Friday intervened to stop the won's sharp rise against the dollar, announcing measures aimed at reducing the dollar supply and curbing speculation.

The won gained 1.12 percent to hit 987.30 won against the dollar on Thursday, the highest level since November 14, 1997 when it hit 986.30.

It rebounded strongly to trade around 993 won per dollar Friday, breaking a five-day losing streak against the South Korean currency.

Following an emergency meeting of government and central bank officials, Vice Finance Minister Kwon Tae-Shin said the recent volatile movement of the market was abnormal.

"This development can have a negative impact on the economy. We will therefore use all our authority and power to fight it," Kwon told journalists.

"Especially, we will crack down hard on market-destabilizing speculative acts."

Kwon said the government would curb dollar loans from abroad while easing regulations on overseas investment by South Koreans.

As a measure to help increase the outflow of the dollar, the government will immediately expand the ceiling for overseas investment by individuals from the current three million dollars to 10 million dollars.

This ceiling itself will be completely removed within this year, Kwon said.

It will also raise the cap on the amount individuals can spend to buy real estate in foreign countries to one million dollars from 500,000 dollars, the finance ministry said.

Dealers said the won was expected to continue rising gradually against the dollar because of robust exports and the global weakness of the greenback.

Weekly Currency Roundup

Jan 01-Jan 05, 2006
Local FX Market

Demand for US dollar was high in this week and USD remained bullish against Bangladeshi taka.

Money Market

In the Treasury bill auction held on Sunday, bid for BDT 4,045.00 million was accepted, compared with total of BDT 5,268.00 million in the previous week's bid. Weighted average yields increased for longer term bills, while remained unchanged for 28-D bill.

Overnight call money market was high at two digit rates throughout this week. The rate ranged between 12.00 and 15.00 percent in the beginning of the week. The rate increased further by the end of the week and ended the week at 12.00-18.00 percent.

International FX Market

International markets were closed on Monday due to prolonged weekend for New Year.

The dollar fell against the euro and yen on Tuesday as investors turned their attention to the release of Federal Reserve minutes from its latest rate meeting that could yield vital clues on the longevity of US monetary tightening. Trading volumes were low as market participants started to return from vacations, but holidays in Japan, China and New Zealand kept some operators away and exaggerated price swings. The market was expected to look closely at Tuesday's release of the minutes of the Federal Open Market Committee's Dec 13 meeting at 1900 GMT to gauge the future direction of rates and the Fed's 1-1/2 year monetary tightening cycle. The dollar was down half a percent against the euro and fell 0.75 percent against the yen.

On Wednesday, the dollar fell half a percent to two month lows against the euro and three-week lows against the Swiss franc on Wednesday, after reports of an earthquake in the Gulf of California followed talk of an end to US rate rises. A magnitude 6.7 earthquake hit the Gulf of California off the Mexican coast on Wednesday, the US Geological Survey website said, although it added there were no reports of damage. The dollar fell in a knee-jerk reaction to early reports suggesting the earthquake had hit California. The currency added to losses made on Tuesday after minutes of the Fed's Dec 13 policy setting meeting suggested that US rates were near a peak, following an 18-month rate-rising campaign. By 1040 GMT, the euro was up a third of a percent against the dollar after hitting its highest level since late October at $1.2095. The euro has rallied as much as two percent against the dollar in the past two days. The dollar fell to a three-week low against the safe haven Swiss franc. The dollar was steady against yen, but within striking distance of hitting a two-month low. The euro showed little reaction to a flash estimate of inflation in the euro zone, which was in line with forecasts at a year-on-year rate of 2.2 percent in December, slightly down from 2.3 percent in November.

The dollar made a slight recovery against the euro on Thursday after a two-day battering driven by growing expectations that the Federal Reserve is close to ending its campaign of US interest rate rises. Traders said that after a self-off that had pushed the dollar down 2.5 percent against the euro and 2 percent versus the yen since Tuesday, investors were waiting for more clues on the US monetary policy outlook before selling the dollar any further.

- Standard Chartered Bank

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