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Asian Currencies Slump on Risk of More China Policy Tightening

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By Patricia Lui

Jan. 26 (Bloomberg) -- Asian currencies fell, led by the South Korean won and Philippine peso, on concern China's lending curbs will cool demand for regional exports and hinder an economic recovery.

The MSCI Asia-Pacific Index of shares dropped to its lowest level in 2010 after Reuters reported several Chinese banks will face an additional increase in the amount of cash they are required to set aside as reserves, citing sources the news company didn't identify. The won extended initial losses that were sparked by a report showing fourth-quarter gross domestic product growth eased to 0.2 percent from 3.2 percent in the prior three months.

"Asian currencies fell on talks that China has stepped up its policy tightening and asked some banks to raise their reserve ratios again," said Joanna Tan, regional economist at Forecast Singapore Pte. "This caused some knee-jerk risk aversion sell-off in Asian currencies and the yen rose."

The won dropped 1.3 percent to 1,165.50 per dollar as of 2:18 p.m. in Seoul and reached 1,166.50, the weakest level this year, according to data compiled by Bloomberg. The peso tumbled 0.5 percent to 46.47 and Malaysia's ringgit slipped 0.6 percent to 3.4205. The rupiah fell 0.4 percent to 9,380.

China's central bank earlier this month raised the reserve requirement for banks by a quarter-percentage point to 16 percent to curb record loan growth and prevent asset bubbles in property and stocks. The People's Bank of China kept one-year bill yields unchanged today for the first time in three weeks.

Stocks Slump

The reported credit tightening reduced demand for Chinese stocks, sending the Shanghai Composite Index 2.3 percent lower, while most other regional benchmarks also declined. The yen and dollar rose against the euro, reversing earlier losses, as the China steps curbed demand for higher-yielding assets.

The yen climbed to 126.44 per euro in Tokyo from 127.75 in New York yesterday. The dollar advanced to $1.4092 against the single European currency from $1.4151.

Taiwan's dollar reversed an earlier gain that was driven by a government report late yesterday showing factory output increased at a record pace.

Data this month showed a pickup in Taiwan's exports is gathering pace and unemployment fell, helping lift the currency to its highest level since September 2008. Trade and investment accords with China have attracted an influx of capital from overseas, prompting the central bank to warn against speculative inflows.

Taiwan, Korea Data

“The Taiwan dollar has the pressure to appreciate because of the hot money inflows into Asia, including Taiwan,” said Tarsicio Tong, a currency trader in Taipei at Union Bank of Taiwan. “The central bank is all the time in the market. If the market is volatile or disorderly, it will step in.”

The island’s dollar traded at NT$31.99 against its U.S. counterpart from NT$31.97 yesterday, according to Taipei Forex Inc. It earlier rose 0.1 percent and reached NT$31.695 on Jan. 15, the strongest level since Sept. 8, 2008.

South Korea’s economic growth slowed in the fourth quarter by more than the median estimate of economists in a Bloomberg News survey for a 0.5 percent expansion from the prior three- month period.

The slowdown in October to December is a “temporary adjustment” that doesn’t signal a reversal of the nation’s growth momentum, Kim Myung Kee, a Bank of Korea official, said after the GDP report was released today.

“The global economic recovery is still in process and we have to admit, it is not as smooth or as fast as expected, so we expect markets to remain volatile in the first quarter,” said Lindawati Susanto, head of currency trading at PT Bank Resona Perdania in Jakarta.

Elsewhere in Asian currency trading, the Singapore dollar lost 0.4 percent to S$1.4041 versus the greenback, while the Thai baht slid 0.2 percent to 33.02. China’s yuan was unchanged at 6.8269.

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