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Rupiah Gains 5 Times More Than Yuan on Revaluation (Update2)
2010-04-13 07:34:57.978 GMT

(Adds Hu comment in fifth paragraph, prices in eighth.)

By Bo Nielsen and Matthew Brown

April 13 (Bloomberg) -- The best currency to own when China lets the yuan appreciate won't be the yuan, if history is any guide. It's everything from South Korea's won to Singapore's dollar and Indonesia's rupiah.

The won rose five times as fast as China's currency in the 12 months after officials in Beijing last relaxed the foreign- exchange regime in July 2005, data compiled by Bloomberg show. Singapore's dollar climbed three times as much, the rupiah five times and Malaysia's ringgit twice as fast.

As President Barack Obama pressed Chinese President Hu Jintao in Washington today to let the yuan rise at a faster pace, traders are betting on a repeat of five years ago as an appreciating currency boosts China's power to buy Malaysian palm oil to Indonesian coal and Indian copper. Revaluation may also enable Asian nations to do the same with their own currencies without damaging exports, while fueling U.S. trade as the global economy emerges from its deepest postwar recession.

"A Chinese appreciation will kick off tightening in the whole Asian complex of currencies," said Richard Benson, who oversees $14 billion of currency funds as an executive director at Millennium Asset Management in London and is backing the won and the ringgit to lead the gains. "These currencies are fundamentally cheap."

Hu's View

Obama reaffirmed to Hu his view that it's "important" for China to move toward a "more market-oriented exchange rate," Jeff Bader, senior director for Asia at the National Security Council, told reporters after the meeting on the sidelines of a two-day nuclear security summit in the U.S. capital. Hu told Obama that China's actions must be "based on its own economic and social-development needs," the official Xinhua News Agency reported today.

Singapore will let its currency advance to keep inflation from accelerating after the economy grew more than anticipated in the first quarter, according to Goldman Sachs Group Inc. The rising cost of imports will also spur Taiwan to let its dollar appreciate, it said. Bank of Tokyo-Mitsubishi UFJ Ltd. said on April 8 the won and rupiah may climb about 13 percent against the yen as central banks from Indonesia to Taiwan raise interest rates and reduce currency intervention.

Biggest Candidates

"The heavily managed Asian currencies are the biggest candidates for appreciation once the yuan starts gaining," said Thomas Stolper, a foreign-exchange analyst with Goldman Sachs in London. "Many of these countries are facing fiscal pressure and would like to see their currencies appreciate. A Chinese revaluation would give them the opportunity.”

Twelve-month non-deliverable yuan forwards traded at 6.6370 per dollar in Hong Kong today, reflecting bets the yuan will climb 2.9 percent from the spot rate of 6.8265 according to data compiled by Bloomberg. The contracts touched 6.6055 on April 9, the strongest since Jan. 19.

The Singapore and Taiwan dollars are the most managed currencies in the region, making them more likely to rise with a yuan revaluation, Stolper said. He added a “buy” recommendation on Taiwan’s dollar versus the greenback on March 31 and on the Singapore dollar April 1.

While the yuan will appreciate between 5 percent and 8 percent a year, other currencies will gain more as investors target countries with less regulation in foreign-exchange markets, according to Jens Nordvig, a managing director of foreign-exchange research at Nomura International Plc. The firm is Asia’s biggest bank by assets.

“You’ll see a surge in inflows as investors anticipate an 8 percent move in the yuan,” New York-based Nordvig said. “If you’re an investor, why not make the money now instead of waiting around for a year in China? You’ll see a more immediate impact in Korea, Taiwan, Malaysia and the Philippines.”

Shielding Exporters

South Korea’s won will surge 9.6 percent to 1,025 per dollar, the Singapore dollar 9.1 percent to 1.28 and the Taiwan dollar 5.3 percent to 30 per dollar by the end of March 2011, while the yuan appreciates 6.8 percent to 6.36 per dollar, according to Nomura. China’s currency won’t gain more than 4.9 percent to 6.49 in the next 12 months as the won jumps 6.7 percent and Taiwan’s dollar 5.2 percent, Goldman Sachs forecast.

Chinese Premier Wen Jiabao’s government has kept the yuan at 6.83 per dollar for the past 21 months to shield exporters from the global recession and a slump in world trade. The country allowed the yuan to appreciate 21 percent in the three years before that.

Revaluation Probability

It gained 1.4 percent versus the dollar in the year following the July 2005 revaluation. By comparison, Singapore’s dollar surged 4.3 percent, the rupiah 7 percent, the won 7.4 percent and Malaysia’s ringgit 3.3 percent, Bloomberg data show.

Implied volatility from options trading monitored by Bloomberg shows a 77 percent probability that the yuan will strengthen to 6.7 per dollar by the end of 2010.

Benefiting from a rise in the yuan is complicated by the restrictions on the movement and convertibility of the currency, forcing speculators to buy the non-deliverable forwards contracts based on future rates that are settled without an actual exchange of the two currencies. The rising cost of such contracts reduces potential profit should the People’s Bank of China allow a stronger yuan.

“It’s very hard to make money betting on a move in the yuan by betting on the yuan,” said Benson. “Chinese forwards are very expensive.”

‘Not Much Room’

Many Asian currencies have already advanced in anticipation of a strengthening yuan. Indonesia’s rupiah strengthened beyond 9,000 against the dollar for the first time since July 2007 yesterday. Taiwan’s dollar traded at a 19-month high and the won at an 18-month high.

“I’m not looking for much room from here,” said Thomas Harr, a senior currency strategist at Standard Chartered Plc in Singapore. The British bank makes most of its profit in Asia.

Asian central banks have been at the forefront of global monetary tightening this year, with India and Malaysia increasing borrowing costs last month, while the U.S. Federal Reserve has kept its target rate for overnight loans between banks between zero and 0.25 percent.

Asian nations “have the internal demand, and they have had some inflation problems, which is good,” said John Taylor, who holds Thai baht and Indonesian rupiah in the $7.5 billion of assets he helps oversee as chairman of FX Concepts Inc. in New York. “It means they have to keep their interest rates up or make them go higher, which is good for currency managers.”

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