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25 interventions in a one week band

Posted by **Izabella Kaminska** on Sep 28 12:10.

Ben Davies, CEO of gold hedge fund Hinde Capital, made an interesting point on the subject of currency intervention in a recent letter to investors, as picked up by the King World News blog.

He alludes to the writing of Henry Hazlitt, an inflationista who predicted a dismal inflationary future for the world following the collapse of the fixed rate exchange mechanism of Bretton Woods:

> *To maintain the last decade of prosperity (illusion) countries are systematically hell bent on exporting themselves to economic health. This is a zero sum game. Not all countries can export at the same time by definition that the global balance of payments will not then balance. For one winner there is a loser. The implication on import prices is dramatic. Inflation is imported or exported depending on your view point around the world. Let's rephrase 'inflation' – global citizens will experience a rise in the value of goods due to creation of more money used to devalue their currency.*
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> —
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> *It is politically more savoury to expropriate the output from another country, unfortunately this will be at the loss of the majority.*
>
> ***Within a single week 25 nations have deliberately slashed the values of their currencies. Nothing quite comparable with this has ever happened before in the history of the world. This world monetary earthquake will carry many lessons.***
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> *Henry Hazlitt 1948 wrote this in a book "From Bretton Woods to World Inflation", which predicted the inevitable collapse of this fixed exchange rate mechanism. It was a compilation of his editorials from both his time at the New York Times and Newsweek, which ridiculed the prevailing economic Keynesian thinking to great effect. A brilliant journalist, economists and liberal philosopher, this man intuitively understood the pernicious nature of the Bretton Woods fixed exchange rate arranged in 1944.*

Which made us wonder, just how many countries have engaged in interventionist currency policy in the last year alone?

Here, for a start, is our preliminary and very non-exhaustive list (in which we count de facto intervention, suspected intervention and talk of intervention — and include talk of quantitative easing among the latter):

- Federal Reserve $ Dollar – via QE.
- Bank of England £ sterling – via QE.
- Japanese yen intervention.
- Taiwan dollar – suspected intervention.
- Argentinian peso intervention.
- Brazil real intervention fears.
- Russian ruble intervention.
- Australian dollar RBA intervention.
- SNB Swiss franc intervention.
- Poland's NBP zloty intervention.
- Colombia's peso intervention.
- Indonesian rupiah intervention.

And some more courtesy of Marc Ostwald at Monument Securities:

- South Korean won intervention.

- Thai baht intervention fears.
- Ukrainian hryvnia intervention.
- Israeli shekel intervention.
- Chilean peso intervention fears.
- And Turkey has adjusted its reserve requirements in order to weaken the lira.

And also:

- Peruvian sol intervention.
- Phillipines peso suspected intervention.
- Romanian leu intervention.

We realise that's not quite 25 interventions in a one week band, but it does seem we could be building up to it.

(Readers — please do advise of other interventions we may have missed out.)

Related links:
On your marks, get set, devalue – FT Alphaville
A Zimbabwe rally effect? – FT Alphaville
Currency wars: sound bite of the week – FT Alphaville

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Comments

You can also add Mexico to the list, they buy dollars through an options mechanism. Their main objective is to replenish reserves and not to weaken the peso, but they did buy dollars. Bloomberg headline from a few days ago: *MEXICO CENTRAL BANK SAYS $113 MILLION OPTIONS EXERCISED

Sing Dollar?

http://www.todayon.../MAS-intervened-at-$1,3200-vs-US$--Source

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Of course a gold hedge fund always is interested in making people believe in any inflation scare, that guy is trying to talk up his book.

If everybody is doing it, the central banks would buy each others newly issued currency without any effect, either on exchange rates or inflation rates. The money supply would increase without a change to the economies outside the central banks' balance sheets. If Japan's central bank buys Chinese Yuan and sells Yen to weaken the Yen and then China buys Yen and sells new Yuan to weaken the Yuan nothing has changed in the economy except larger central bank balance sheets. I don't see how this can be inflationary. Going back to the old quantity equation, the velocity of money will have decreased in the example above, as more currency is sitting on central banks balance sheets instead of circulating which reduces the inflationary impact of the increase in the money supply. Nothing happens to prices, or output, in the symmetric example above. Additionally, many of these purchases, if not most, will be sterilized without sizeable balance sheet effects further reducing inflationary concerns. I don't buy the inflation scare, especially not with ample spare capacity in the advanced economies.

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my point is, if everyone is doing the same thing, whilst some are adding to the global money supply, then surely eventually it will become inflationary for the world as a whole - irrespective of the possible capital controls, trade protection moves etc.

If a central bank is buying foreign currency it is paying with domestic currency, thus the central bank balance sheet increases. Oftentimes, as is the case with China, these interventions are sterilized, meaning the central bank will at the same time sell domestic assets in exchange for domestic currency. This leaves the overall central bank's balance sheet length unchanged. If there is no offsetting sterilization a foreign currency intervention is just another form of quantitative easing, which is why it was neat, from a theoretical perspective, to see them linked here.

The move benefits different interest groups, depreciating the exchange rate helps exporters, buying government bonds keeps yields down, buying mortgage backed securities props up housing prices and helps the financial sector.

The intervention in the foreign exchange market isn't necessarily inflationary, it aims to change relative prices worldwide, especially if sterilized as outlined above. The interventions might even lead to reduced inflation in the countries that see their currency rise, like Brazil, as imports are relatively cheaper. Since Brazil's central bank has increased interest rates to subdue inflation this might even help.

If everyone is buying eachother's currency to keep theirs weak you're clearly just going to get global mega inflation - right?

Add Peru

There is an older paper by Calvo and Reinhart, 2002 in QJE, "The Fear of Floating" which is relevant here. Many countries saying they float their currency nevertheless regularly intervene sometimes without saying so.

http://ideas.repec...r/nberwo/7993.html

Ofcourse the Chinese intervention...isnt it a continuous process

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FYI - Marc Ostwald has sent me a note adding:

"Philippines, South Korea, Thailand, Israel, Ukraine, Chile

All very recent outright"

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and at least a very good partial explanation on why the Euro remains so strong despite Ireland, Greece etc and all the nonsense talk around EZ breakup.

Ms Kaminska, I think Till Schreiber has a good point. A monetary theory of relativity: a difficult subject, that's for sure.

Nice research IZZY its very good

@till scrheiber - i deliberated about including them. Still not sure if it makes sense to include them.

You are missing the interventions for countries following a fixed exchange rate regime. They intervene regularly and include many oil exporters, China, Hong Kong among others.

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faints at shocking thought of FT journos indulging in a little light innuendo

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i was trying to evoke "23 positions in a one night ...."

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is that a prince song?

Perú http://www.zerohed...tion-race-yes-peru
