China alarmed by US money printing/II

The US Federal Reserve's policy of printing money to buy Treasury debt threatens to set off a serious decline of the dollar and compel China to redesign its foreign reserve policy, according to a top member of the Communist hierarchy.

By Ambrose Evans-Pritchard, in Cernobbio, Italy
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Cheng Siwei, former vice-chairman of the Standing Committee and now head of China's green energy drive, said Beijing was dismayed by the Fed's recourse to "credit easing".

"We hope there will be a change in monetary policy as soon as they have positive growth again," he said at the Ambrosetti Workshop, a policy gathering on Lake Como.

"If they keep printing money to buy bonds it will lead to inflation, and after a year or two the dollar will fall hard. Most of our foreign reserves are in US bonds and this is very difficult to change, so we will diversify incremental reserves into euros, yen, and other currencies," he said.

China's reserves are more than – $2 trillion, the world's largest.

"Gold is definitely an alternative, but when we buy, the price goes up. We have to do it carefully so as not to stimulate the markets," he added.

The comments suggest that China has become the driving force in the gold market and can be counted on to buy whenever there is a price dip, putting a floor under any correction.

Mr Cheng said the Fed's loose monetary policy was stoking an unstable asset boom in China. "If we raise interest rates, we will be flooded with hot money. We have to wait for them. If they raise, we raise.

"Credit in China is too loose. We have a bubble in the housing market and in stocks so we have to be very careful, because this could fall down."

Mr Cheng said China had learned from the West that it is a mistake for central banks to target retail price inflation and take their eye off assets.

"This is where Greenspan went wrong from 2000 to 2004," he said. "He thought everything was alright because inflation was low, but assets absorbed the liquidity."

Mr Cheng said China had lost 20m jobs as a result of the crisis and advised the West not to over-estimate the role that his country can play in global recovery.

China's task is to switch from export dependency to internal consumption, but that requires a "change in the ideology of the Chinese people" to discourage excess saving. "This is very difficult".

Mr Cheng said the root cause of global imbalances is spending patterns in US (and UK) and China.

"The US spends tomorrow's money today," he said. "We Chinese spend today's money tomorrow. That's why we have this financial crisis."

Yet the consequences are not symmetric.

"He who goes borrowing, goes sorrowing," said Mr Cheng.

It was a quote from US founding father Benjamin Franklin.

http://www.telegraph.co.uk/finance/economics/6146957/China-alarmed-by-US-money-printing.html