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Japan threatens huge dollar sell-off

Heather Stewart in Tokyo**Sunday December 5, 2004**[The Observer](#)

Japan is warning the White House that there will be 'enormous capital flight' from the dollar if the Bush administration maintains its laissez-faire approach to the mounting currency crisis.

Tokyo fears that Japan's strongest economic recovery in a decade could be derailed by the sudden appreciation in the yen against the greenback.

The criticism of President Bush's inaction, by a senior member of the ruling Liberal Democratic Party, will be taken as a veiled threat that Japan could start to sell off its multi-billion-dollar holdings of US Treasuries. 'The Japanese government is going to ask for a strong dollar policy; if it continues to fall, there would be enormous capital flight from the dollar,' said Kaoru Yosano, chairman of the LDP's policy council, adding that Japan would be calling on its fellow G7 governments to demand the US deal with the massive fiscal deficit that has helped to prompt the dollar's decline.

Yosano's remarks echoed a warning from a senior Japanese Ministry of Finance official that if the US does not push up interest rates to make the dollar more attractive, 'the one-way sentiment on the dollar will have a negative impact on the flow of capital into the US.' He added that Japan is urging its European counterparts to join a campaign of coordinated currency-market intervention, saying: 'If the dollar is depreciating, we should have coordinated action: that has already been communicated to my European counterparts.'

Like Japan, the eurozone fears that its tentative recovery could be choked off by the fall in the dollar, which European Central Bank president Jean-Claude Trichet has called 'brutal'. However, the ECB has so far dismissed the idea of intervening.

Japan is taking a double hit from the decline in the dollar

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because the Chinese renminbi is pegged to the US currency, so Japanese exports are simultaneously becoming sharply dearer in both their major markets. Takeo Fukui, the chairman of Honda, admits, for example, that an appreciation of 1 yen against the dollar, if it lasts for more than three months, knocks 10 billion yen off the carmaker's profits.



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