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As the dollar declines, it's each country for itself

NEW YORK

Worries grow that nations protecting own economies will hurt those of others

BY GRAHAM BOWLEY

Is this a currency war or what?

Fast-growing nations like Thailand are trying to devalue their currencies to bolster their export-driven economies.

In Washington, where "strong dollar" has been the mantra for years, policy makers are taking steps that could make the already weak dollar weaker still.

European policy makers worry that a resurgent euro will be a threat to growth in their own backyard. And the entire world, it seems, is jawboning China to level the playing field and let the undervalued renminbi appreciate. It is a step that Beijing, by all accounts, does not want to take.

With so many economies struggling, it suddenly seems as if it is every nation for itself in the currency markets. Policy makers the world over are worried that their economic rivals are trying to turn exchange rates to their advantage and are considering how they should respond to preserve jobs and growth at home.

NACHO DOCE/REUTERS

A Brazilian shoe factory. The currencies of emerging markets, including Brazil's real, are soaring as a result of the dollar's decline.

Even as Washington chides Beijing for the renminbi, critics accuse the United States and other rich nations of waging an international currency war that harks to the protectionist policies of the 1930s, when nations looked out for themselves rather than working together.

"Today, there is a risk that the single chorus that tamed the financial crisis will dissolve into a cacophony of discordant voices, as countries increasingly go it alone," Dominique Strauss-Kahn, managing director of the International Monetary Fund, said during a speech in Shanghai this week. "This," he said, "will surely make everybody worse off."

The abrupt decline in the dollar — by about 10 percent since early June against major currencies — is upsetting the delicate balance of world economies still recovering from the shocks of the financial crisis.

Many other currencies, especially in Asia and in other emerging markets like Brazil, are soaring as a result of the dollar's fall. Those nations' domestic economies are attracting floods of speculative capital seeking higher interest rates and are at risk of overheating.

The dollar's decline is being driven by what everyone in global markets is now expecting: another round of so-called quantitative easing by the United States. In the next few weeks, the Federal Reserve is expected to inject vast sums of money into the economy in another attempt to spur growth.

While such policies may benefit the convalescent U.S. economy, they are also drawing criticism that Washington is deliberately devaluing the dollar at others' expense.

The dollar had at least a brief uptick Tuesday, as global investors sought the currency as a haven after China startled the markets by raising interest rates. But its decline resumed Wednesday, to a 15-year low against the yen, and currencies like the Brazilian real — up more than 12 percent since July against the dollar — were still lofty.

The tensions underline the startling fact that two years after the peak of the financial crisis, the world is on two tracks economically. Much of the developing world, including countries like China and Brazil, is growing fast, while the industrialized economies of the United States, Japan and much of Europe still struggle.

In Brazil, officials have been especially critical of U.S. policy. On Sept. 27, its finance minister, Guido Mantega, first described the currency tensions as practically an "exchange war, a trade war." This week, the Brazilian central bank governor said that Washington's expected monetary stimulus would create "serious distortions."

In deflecting criticism, the United States emphasizes the role of China, an ever-growing power in the global economy. Beijing continues to peg the value of its currency to the dollar, despite an immense accumulation of foreign reserves and a persistent surplus in China's account equal to about 10.5 percent of its annual economic output, a surplus that in standard monetary theory would prompt China to allow its currency to rise.

As a consequence of the link to the dollar, the renminbi has also declined — which is one reason that despite the fall in the dollar, the U.S. trade deficit has continued to widen.

The weakness in the renminbi, just as much as the dollar's decline, has put pressure on economies across the developing world, where a weaker renminbi undercuts their exports, and hence their growth.

"We're in this currency conflict because central banks have had to be pushed into the position of being policy makers of last resort," Barry Eichengreen, professor of economics and political science at the University of California, Berkeley, said at a recent I.M.F. forum.

Financial markets expect the Fed to announce early next month that it will proceed with more quantitative easing — the creation of money by a central bank to purchase assets, thus increasing liquidity — involving purchases of bonds, which would reduce longer-term interest rates and put further downward pressure on the dollar.

Even as Washington chides Beijing, critics accuse rich nations of waging an international currency war.

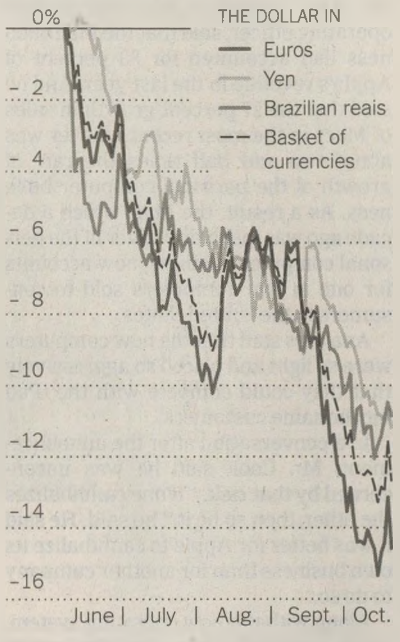
That worries other countries. A stronger U.S. economy is in everyone's interest, but the other countries fear that investors will flee the low U.S. interest rates and the declining dollar and instead pour capital into their markets, overheating their economies and creating the types of bubbles in stocks and housing that burst with such devastating effects in the 1990s.

Already there is evidence of this: U.S. investment in overseas stock funds, which was running about $4 billion a month over the summer, has surged since Ben S. Bernanke, the Federal Reserve chairman, suggested the possibility of another round of quantitative easing at the end of August. About $19 billion has flowed into these funds since Aug. 1, according to TrimTabs, a funds researcher.

In recent weeks, central banks around the globe, including those of the Philippines, Thailand, Indonesia, Malaysia, Israel, Taiwan, Brazil and Japan, have intervened in foreign exchange markets in hopes of weakening their own currencies. But currency speculators, moving just as fast, so far seem to be largely undermining those efforts by selling their dollars and betting that the U.S. currency will continue its decline.

Downward trend

The dollar has fallen sharply against other currencies since early June.



Source: Bloomberg

In the Chicago futures markets, one of the principal arenas where traders can take positions against the currency, positions betting on a depreciation of the dollar totaled $32.6 billion in the latest week, close to a record, according to the investment firm Nomura.

Some countries have gone further than merely criticizing the United States, embracing forms of capital controls to reduce incoming short-term investment. Brazil is increasing the tax on money flooding into its bonds. South Korea cited the need to check speculative foreign capital inflows.

Some economists play down the fears of currency battles and see the dollar's movements as a natural readjustment to a weaker economic outlook in the United States. The dollar suffered periodic bouts of weakness before. It strengthened through 2008 but weakened in 2009. More generally, it has been on a longer-term decline since 2002. Some economists think it could recover again soon.

But others worry that by letting the dollar weaken, Washington may be stoking dangerous inflationary pressures that will have repercussions around the world.

Sewell Chan contributed reporting from Washington.

Credit Suisse posts sharp drop in net

PARIS

BY MATTHEW SALTMARSH

Credit Suisse reported a sharp and unexpected decline in third-quarter earnings Thursday after a weaker-than-expected performance by its investment banking arm.

The Swiss bank's net income for the third quarter was 609 million Swiss francs, or $632 million, after 1.6 billion francs in the previous quarter. That was well below the 980 million francs average forecast of analysts polled by Reuters.

"These were really bad numbers," said Dirk M. Becker, an analyst at Kepler Capital Markets in Frankfurt. "It's mainly from a fall in revenue at the investment banking side, especially from equities."

Net revenue was 6.29 billion francs, down from 8.42 billion during the second quarter.

Brady W. Dougan, chief executive and among the best-paid bankers in Europe, described the earnings as "solid" and said the quarter was "characterized by challenging conditions with low market volumes and subdued client activity."

He said the bank had expanded market share in "targeted businesses," but gave no clear outlook for the rest of the year, promising only that its business model, global presence and market position would enable it to "deliver high returns and generate strong cash flow as markets improve."

Mr. Becker, the analyst, said that he found it "difficult to understand the bank's logic that it is winning market share" when the client business appeared to be struggling. He said the bank seemed content to wait for market conditions to improve.

The bank's shares fell 4.5 percent to 41.41 Swiss francs in Zurich.

Last year, the bank altered the remuneration mix for its top employees, tying bonuses to a specific financial measure and saying that it would claw back the payouts if the bank's fortunes dimmed.

The Swiss public will be carefully watching the bank's bonus payments early next year, as discontent over previous bumper payouts, notably for Mr. Dougan, continues to percolate in a country whose banks are part of the national image.

In April, the bank said Mr. Dougan was paid 71 million francs worth of shares under a multiyear bonus fund; for 2009 he also received additional remuneration of 19 million francs.

Lost mortgage papers fuel face-off

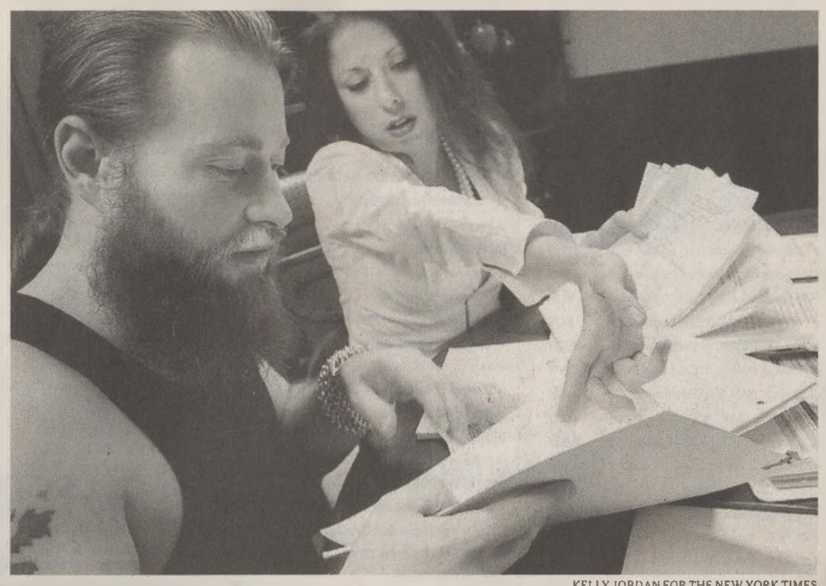
NEW YORK

BY GRETCHEN MORGENSON AND ANDREW MARTIN

About a month after Washington Mutual Bank made a multimillion-dollar mortgage loan on a mountain home near Santa Barbara, California, a crucial piece of paperwork disappeared.

But bank officials were unperturbed. After conducting a "due and diligent search," an assistant vice president simply drew up an affidavit stating that the paperwork — a promissory note committing the borrower to repay the mortgage — could not be found, according to court documents.

The handling of that lost note in 2006 was hardly unusual. Mortgage documents of all sorts were treated in an almost lackadaisical way during the dizzying mortgage lending spree from 2005 through 2007, according to court documents, analysts and interviews.



KELLY JORDAN FOR THE NEW YORK TIMES

Cynthia Veintemillas, a lawyer in Florida, working with a client on his foreclosure case.

Now those missing and possibly fraudulent documents are at the center of a potentially seismic legal clash that pits big lenders against homeowners and their advocates who are concerned that the lenders' rush to foreclose flouts private property rights.

That clash — expected to be played out in courtrooms across the United States and scrutinized by law enforcement officials investigating possible wrongdoing by big lenders — leaped to the forefront of the mortgage crisis this week as big lenders began lifting their freezes on foreclosures and insisted the worst was behind them.

U.S. government officials meeting in Washington on Wednesday indicated that a government review of the problems would not be complete until the end of the year. In short, the legal disagreement amounts to whether banks can rely on flawed documentation to repossess homes.

While even critics of the big lenders acknowledge that the vast majority of foreclosures involve homeowners who have not paid their mortgages, they argue that the borrowers are entitled to due legal process.

Banks "have essentially sidestepped 400 years of property law in the United States," said Rebel A. Cole, a professor of finance and real estate at DePaul University in Chicago. "There are so many questionable aspects to this thing it's scary."

The country's mortgage lenders contend that any problems that might be identified are technical and will not change the fact that they have the right to foreclose en masse.

"We did a thorough review of the process, and we found the facts underlying the decision to foreclose have been accurate," Barbara J. Desoer, president of Bank of America Home Loans, said this week. "We paused while we were doing that, and now we're moving forward."

Some analysts are not sure that banks can proceed so freely. Katherine M. Porter, a visiting law professor at Harvard University and an expert on consumer credit law, said that lenders were wrong to minimize problems with the legal documentation.

"The misbehavior is clear: They lied to the courts," she said. "The fact that they are saying no one was harmed, they are missing the point. They did actual harm to the court system, to the rule of law. We don't say, 'You can perjure yourself on the stand because the jury will come to the right verdict anyway.' That's what they are saying."

"We did a thorough review of the process, and we found the facts underlying the decision to foreclose have been accurate."

Cynthia Veintemillas, a lawyer representing a borrower in the case, said the paperwork surrounding her client's foreclosure was riddled with problems.

"Everybody knows the banks screwed up and loaned out money to people who couldn't pay it back," she said. "Why are people surprised that they don't know what they are doing here either?"

Robert Willens, a tax expert, said that documentation issues had created potentially severe tax problems for investors in mortgage securities and that there was "enough of a question here that the courts might well have to resolve the issue."

As lenders and Wall Street firms bundled thousands of mortgage loans into securities so they could be sold quickly, efficiently and lucratively to legions of investors, slipshod practices took hold among lenders and their representatives, former employees of these operations say.

Banks routinely failed to record each link in the chain of documents that demonstrate ownership of a note and a property, according to court documents, analysts and interviews. When problems arose, executives and managers at lenders and loan servicers sometimes patched such holes by issuing affidavits meant to prove control of a mortgage.

In Broward County, Florida, alone, more than 1,700 affidavits were filed in the past two years attesting to lost notes, according to Legalprise, a company that tracks foreclosure data.

For years, lenders bringing foreclosure cases commonly did not have to demonstrate proof of ownership of the note. Consumer advocates and consumer lawyers complained about the practice, to little avail.

But a decision in October 2007 by Judge Christopher A. Boyko of U.S. District Court in northern Ohio to toss out 14 foreclosure cases put lenders on notice. Judge Boyko ruled that the entities trying to seize the properties had not proved that they actually owned the notes, and he criticized the banks for worrying "less about jurisdictional requirements and more about maximizing returns."

Currency rift obscures Group of 20 talks

WASHINGTON

As U.S. and China clash, other countries worry about being left behind

BY SEWELL CHAN

Representatives of the Group of 20 economic powers, who managed to cooperate during the financial crisis two years ago, will confront festering disputes over trade and currency this weekend and try to reconcile diverging approaches for how to deal with them.

The frictions have strained the G-20, threatening to undermine what was championed as the most productive forum for international economic cooperation.

As the United States and China battle over the artificially low value of China's currency and over the U.S. trade imbalance, officials from the big emerging economies of the G-20 are showing frustration at being caught in the cross-fire.

Officials in India and South Africa said this week that they feared the outbreak of a damaging currency war. Brazil, which warned early on that such a war was under way, announced that it would not take part in two days of G-20 ministerial meetings in Kyongju, South Korea, this weekend. And a top Turkish official expressed doubts Wednesday about the effectiveness of the G-20, which operates by consensus and has no legal force.

The U.S. administration, meanwhile, is trying to channel the frustration into a united front against China. Without identifying China explicitly, a senior U.S. Treasury official warned that the economy was worse off "when large economies with undervalued exchange rates act to keep their currencies from appreciating."

The official, who spoke on the condition of anonymity under ground rules set by the Treasury, added: "It's bad for the system, and it's bad for all of us. It imposes an unfair burden of adjustment on other emerging markets that are running more flexible exchange-rate regimes."

The official avoided criticizing Brazil, noting that Brazil had resisted political pressure to keep its currency, the real, from rising. "The Brazilians have really framed the debate that we need to have at the G-20," the official said. Brazil and India, the official said, are "among these countries that have the greatest to gain" from the G-20 process because a sudden influx of foreign capital has threatened the stability of their fast-growing economies.

The United States is also seeking the support of other wealthy countries, but Europe and Japan have their own problems and have been reluctant to confront Beijing.

South Korea, which is playing host to the meeting of finance ministers and central bankers this weekend and to a G-20 leaders' summit meeting in Seoul in November, has an interest in serving as a mediator. But South Korea is among the countries that have taken or considered steps to prevent their currencies from rising in value to bolster exports.

The U.S. Treasury secretary, Timothy F. Geithner, recently warned of a cycle of "competitive nonappreciation," in which countries try to outdo one another in holding down their currencies to cheapen their exports and gain a trade advantage. Mr. Geithner and Lael Brainard, the Treasury under secretary for international affairs, are attending the meetings Friday and Saturday, along with the chairman of the U.S. Federal Reserve, Ben S. Bernanke.

But some believe that the United States is actually contributing to the same problem. The Fed is expected to resume an unconventional program next month that involves buying large amounts of government bonds to further lower long-term interest rates and spur growth. To do so, the Fed will have to print new money — possibly hundreds of billions of dollars — and that is likely to lower the value of the dollar.

G-20 leaders agreed at a meeting in Pittsburgh in September 2009 to promote "strong, sustainable and balanced growth." In essence, that mantra means that deficit countries — like the United States and Britain — should save and export more while borrowing and importing less. Surplus countries — like China and Germany — should stimulate consumer demand at home.

But as Mervyn A. King, governor of the Bank of England, said in a speech Tuesday, "there is a clear difference between the path of adjustment desired by the surplus countries, which are faced with the need for a longer-term structural shift away from reliance on exports, and the path of adjustment preferred by the deficit countries, which are under greater near-term pressure to reduce the burden of debt in both private and public sectors."

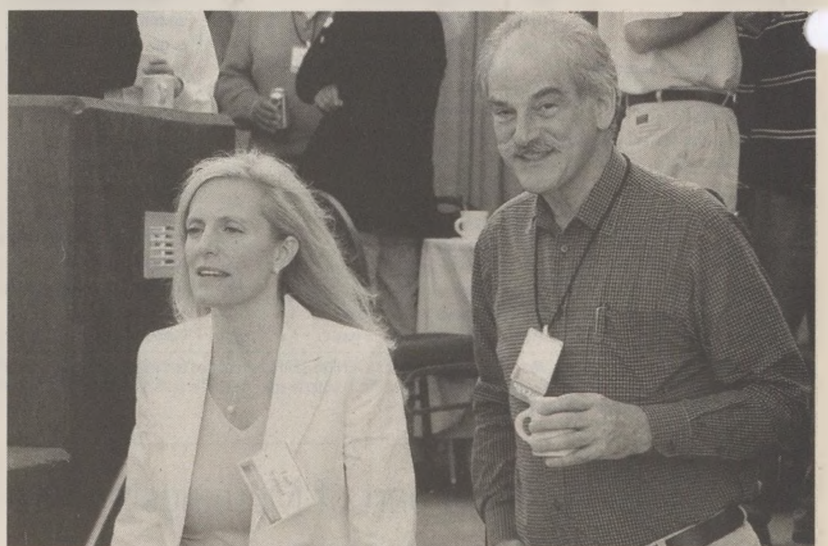
U.S. officials have called on the International Monetary Fund to play a stronger role in mediating exchange-rate disputes and in evaluating the G-20 members' compliance with their commitments.

"Meaningful reform of I.M.F. surveillance is a core challenge for the institution," the U.S. Treasury official said, "and the G-20 must give the fund greater ability to fulfill its original role of providing oversight of the international monetary system through stronger and more frank evaluations of exchange-rate policies and reserve-accumulation practices."

The United States is pushing Europe to give up some seats on the 24-member board that governs the I.M.F., hoping that greater representation for the fast-growing emerging economies will encourage them to share in the costs of cooperation.

The Treasury official suggested that the United States had at least one tool of leverage with other countries: its size.

"The health and strength of the U.S. recovery is extremely important to their own economic growth," the official said.



REED SAXON/THE ASSOCIATED PRESS

Lael Brainard, left, the U.S. Treasury under secretary, and John Lipsky of the International Monetary Fund. U.S. officials want the I.M.F. to play a stronger role in currency disputes.