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Countries may still weaken currencies if yen falls more, says Oanda's Duker

SAMUEL ISAAC CHUA/THE EDGE SINGAPORE

Duker expects some central banks in Asia to take action if the yen slips to ¥100 against the US dollar

| BY FRANKIE HO |

A currency war seems to have been averted with the world's finance ministers agreeing to refrain from devaluing their currencies in response to the yen's slide against the US dollar. But according to Oanda Corp CEO K Duker, central banks are still likely to take action if Japan's aggressive monetary easing continues to put pressure on its currency and gives the world's second-largest economy an unfair trade advantage over other countries.

The yen has fallen at least 14% against the greenback since December, when Shinzo Abe became Japan's new prime minister. His pledge to fix Japan's chronic economic malaise by easing monetary policy, as well as through fiscal spending and structural reforms, prompted investors to bet that the yen would depreciate in value. A weaker yen makes Japan's exports more competitive in global markets and spells increased earnings for Japanese manufacturers.

The Bank of Japan (BOJ)'s aggressive easing follows that of the US Federal Reserve, whose actions in recent years have driven the greenback lower against other currencies. The yen's decline has stoked concerns of a tit-for-tat response from other countries as they seek to safeguard their own exports. While chances of that happening appear to have decreased after finance chiefs in the world's G7 and G20 economies recently concluded at separate meetings that they would not pursue competitive currency devaluations, central banks may still retaliate if the yen falls further, Duker says.

The way he sees it, with Japan in recession and still battling years of deflation, the Abe administration is prepared to tolerate a weaker currency as it endeavours to get the economy moving again. The premier, who has denied charges that he is manipulating the yen, has even signalled his intention to curb the BOJ's independence if it fails to achieve his target of a 2% inflation rate announced last month.

"Given the early success [in bringing down the yen], there's going to be the temptation to continue," Duker tells *The Edge Singapore*. With G20 leaders deciding not to take action against the weakening yen at the end of their two-day meeting in Moscow on Feb 16, he expects the BOJ's continued monetary easing to push the Japanese currency to a low of ¥100 against the US dollar by 2Q2013.

'Turbulence' at ¥100

"The ¥100 level will be a key psychological mark for central bankers. At that point, I think we will begin to see some turbulence. We'll probably see some headwinds in terms of other countries, particularly in Asia, beginning to take action," Duker says.

A prolonged period of countries trying to bring down the value of their currencies is not likely, though, he adds. "Will there be an all-out currency war? I doubt it. There have always been bouts of competitive devaluations. The truth of the matter is that they have always been transient. The effects of these moves have always been short-term in nature, at best."

Countries are also aware that nobody ultimately wins in a currency war, he says. "I think everybody loses. While you can get a short-term benefit for your exports, at the end of the day, it does come back to bite you on the other side of the equation: Devaluing your currency will also mean the value of your investments gets affected."

Wary of the risk, the world's finance ministers and central bank governors pledged in a statement issued at the end of the G20 meeting in Moscow to avoid "persistent exchange-rate misalignments" and "work more closely with one another so we can grow together".

A former forex options trader, Duker joined Oanda in 2007 as head of its Asia-Pacific operations before being promoted to CEO last May. Founded in 1995 by academic Michael Stumm and statistician Richard Olsen, Oanda is a Toronto-headquartered company that runs an online foreign-exchange trading platform used by retail and institutional investors. It has seven offices worldwide, including one in Singapore set up in 2007. Duker, 52, was previously with Deutsche Bank, where he ran its Asia-Pacific online forex business from Singapore and set up its retail Internet forex trading platform.

Although based in Toronto, Duker visits Singapore often — every six weeks or so — as his family lives here. His wife is Singaporean and they have two young children. He also interacts regularly with the Monetary Authority of Singapore (MAS), offering views and feedback for various industry consultation papers put up by the central bank, which regulates Oanda's operations here. The company has about 30 staff in Singapore and nearly 300 worldwide.

Singapore dollar, euro

As far as the Singapore dollar goes, he sees it hovering at current levels vis-à-vis the greenback for the foreseeable future. "Of all the currencies in Asia, it's probably the one that sees the least movement, whether up or down. It's very well buffered. That has to do with the very high level of sophistication the MAS has in terms of how it manages the currency."

Predicting the euro's performance is trickier, though, he concedes. While the single currency has appreciated against the US dollar in recent months as investors see Europe's debt situation stabilising, it still faces a lot of uncertainty. The European Central Bank has sought to assure markets that the euro would not be allowed to rise to a point where it hinders the eurozone's economic recovery. The economies of Germany, Italy and France shrank more than expected in 4Q2012, dragging the eurozone deeper into recession in the final three months of the year.

"There's no escape for Europe," Duker says. "Either you take the pain in one short sharp shock, or you take the pain over many years. Europe has chosen to take the pain over many years. There are going to be a few more years of austerity, if not longer. It's going to be a tough time, certainly for the foreseeable future."

Expanding in Asia-Pacific

While forex markets are facing increasing volatility, Oanda is making plans to expand its reach. It intends to open two more offices in Asia-Pacific by year-end — one in Hong Kong and another in Australia. Besides Singapore, its other office in Asia is in Tokyo. Its remaining offices, in addition to its Toronto headquarters, are in Chicago, London, New York and Zurich.

As part of its expansion, Oanda will team up with more technology service providers in the forex business. The firm provides analytical tools and other features, such as pictorial depictions of targets for profit-taking and stop-losses, to help its users make informed decisions on their forex trades.

"We are basically trying to build a community of technology players who share our values. The key thing about it is they all have to be customer advocates. They must want to do the right thing for customers, in terms of providing better charts, better analytics and so on. Yes, we make money in volatile times, but we want you to survive too," says Duker.

"The reason Oanda was set up was to give clients a fair shake. The founders felt that clients were getting prices that were so wide you could drive a bus through them, and that clients were getting hit by fees, bad practices and so on," he adds. E