

Business English News 32 – Currency Wars

Discussion Questions

1. What effects have you experienced as a result of your currency increasing or decreasing in value relative to the US dollar?
2. One possible outcome of the currency wars is parity between the US dollar and the Euro; how do you think that will affect the global economy?
3. Do you think a competitive devaluation can provide a long term solution to a country's economic problems?

Transcript

It's been a **wild ride** since the global economy welcomed in the New Year, and the **scale** of **global easing** that's taking place has **stunned** investors. On average, an interest rate has been cut somewhere in the world once every 3 days, **catching** everyone **off guard**, as Reuters explains:

If 25 countries cutting rates since the start of the year wasn't **proof enough**, this week's warning from Janet Yellen about the dollar's strength confirmed that the world's top **central banks** are fighting a **currency war**.

A currency war, also known as **competitive devaluation**, is a term **coined** in 2010 by Brazil finance minister Guido Mantega. Mantega was **criticizing** the Fed **monetary policy** to unfairly weaken the **greenback**, giving the Americans a **leg up on** the rest of the market. Quartz explains:

Mantega **made headlines** by **decrying** the Federal Reserve's efforts to **jolt** the US economy **out** of its **malaise** by creating new money, and using it to buy bonds. A weak US dollar - and **by extension** a strong **Brazilian Real** -made his country's exports less competitive in the global market.

As nations **devalue** their currencies to fight **sluggish** growth rates amid a **dearth** of policy alternatives, **foreign exchanges** have witnessed the highest **volatility** in two decades. As Bloomberg reports, the trend of nations trying **to one up** each other is just beginning:

Certain central banks are **making moves**, leaving a lot of others having to respond **on the fly** to the implications of those changes. They have to **keep a step ahead** and we've seen that on **a number of occasions**. There will probably be more surprises.

Australia, India, Mexico and many others have cut interest rates in recent months. **Quantitative easing** by the ECB has sent the euro **sliding**, forcing up other currencies in response. Rob Carnell, chief international economist at ING had this to say:

From the ECB with its 1 trillion euro **QE bazooka**, China, India and Russia in **emerging markets**, to Denmark and Switzerland where rates are now so **negative** that it would be cheaper for anyone with **serious money** to rent a **vault** and hire some **heavies** with machine guns than to keep it at the central bank.

The markets are now **facing a situation** where countries compete against each other to weaken their own currency in order to boost **exports**, and/or raise **inflation**. **Policymakers** have been **under pressure** to devalue their currency from their exporters, as Straits Times notes:

There are two main causes: economies that never **sufficiently** recovered from the great financial crisis; and, falling or low inflation, and the risk of **deflation**, thanks largely to the sharp fall in oil prices. If everyone else is **pushing** their currencies **weaker** and you don't, you will **end up** with a strong currency that will come **at the expense** of your **competitiveness**.

Not everyone agrees, however. Bank of Japan Governor Haruhiko Kuroda **shrugged off** the view that countries are **rushing** to weaken their currencies to give their exports a **competitive advantage**. Speaking at a news conference in Tokyo, Kuroda said:

I really don't see any sort of currency war developing in the world now. The **monetary policy** actions by the Federal Reserve, the **BoJ** and the European Central Bank have been made to achieve their **price stability targets**, not to **depreciate** their currencies.

The **big question** is, how long will this go on, and who is going to win? Some analysts suggest that currency wars could be a **zero sum game**, as FxStreet explains:

For most of last year the BoJ was **best positioned** to **claim victory** in the currency war although in recent months the ECB has done even better. **Facilitating** this success has been the strengthening US Dollar but, by commenting that this is "**pushing down US inflation**," Fed Chair Yellen this week finally **dipped a toe** in the currency **battleground**.

So, what's the effect of all of this, and, you may be asking, how does this affect me? **On top of** making Italian cars, German machine tools, and Irish **pharmaceuticals** dramatically more affordable, it will certainly help the European tourism industry with **peak season** fast approaching. As CTV concludes:

The euro's **dramatic decline** could be a **boon** to tourists by making it less expensive to buy a trip to the **Italian Riviera**. The lower euro means people can **get more bang for their buck** on an upcoming Easter break to Paris.

Vocabulary

Wild ride: An unforgettable or emotional experience.

Scale: Significance, size/amount, or importance; "The scale of real estate development in China is incredible!"

Global easing: The implementation of quantitative easing on a global level.

To stun: To astonish or shock someone; "We're all stunned by the news that our CEO is retiring. I thought he'd be here for 10 more years."

To catch off guard: To be unprepared or unsuspecting; "If we launch the program before the summer, we may catch our competitors off guard and that could help us significantly."

Proof enough: To be sufficient evidence or confirmation; "Andrea admitted he broke the rules; if that's not proof enough, then I don't know what is."

Currency war: A condition in international affairs where countries compete against each other to achieve a relatively low exchange rate for their own currency.

Central bank: An institution that manages a state's currency, money supply, and interest rates.

Competitive devaluation: An economic strategy which involves lowering the value of the country's currency relative to that of other countries.

To coin (a term/phrase): To create a new term or phrase; "He was, to coin a phrase, as sick as a parrot."

To criticize: To show disapproval of or judge something negatively; "A good manager will always praise his team in public, but criticize in private."

Monetary policy: Economic strategy applied through the central bank to decide expansion or contraction in the country's money-supply.

Greenback: Slang term for the US dollar.

A leg up: To get an advantage over the others; "He hopes that all the extra advertising will give him a leg up on the competition."

To make headlines: To become an important news story; "Although it wasn't his intention, Mike made headlines by supporting the unions during their contract negotiations."

To decry: To publicly criticize or denounce something; "The UN has decried human rights violations in North Korea."

To jolt (out): To move forcefully; "Carol jolted out of bed when she heard the fire alarm go off."

Malaise: A general feeling of discomfort or unease; "Politicians are trying to win votes because of the malaise that many citizens are feeling."

By extension: To show that what follows comes from or is connected with something that has already been mentioned; "The new measures benefit taxpayers and, by extension, the economy."

Brazilian Real: The national currency of Brazil.

To devalue: To make cheaper or less valuable; "I'm frustrated by the way management seems to devalue my achievement."

Sluggish: Slow, inactive, unresponsive; "My phone has been sluggish since I updated the operating system."

Dearth: A scarcity or lack of something; "A dearth of opportunities in Europe has led to a huge increase in the number of people leaving their countries."

Foreign exchange: Trading one currency for another.

Volatility: The amount of unpredictable changes in the market.

To one up: To get an advantage over someone; "We spend too much time trying to one up our competitors and not enough time focusing on customer experience."

To make moves: To do something in order to achieve a result; "The Federal Reserve made its move yesterday, cutting interest rates for the third time this year."

On the fly: To do something quickly and without thinking carefully beforehand; "She was the sort of person who would make decisions on the fly rather than thinking about them first."

To keep a step ahead: To be slightly better prepared or more successful than someone else; "The filmmaker manages to keep one step ahead of his critics by constantly trying new ideas."

A number of occasions: Numerous, plenty of times; "I asked for clarification on a number of occasions but never received a reply."

Quantitative easing (QE): The introduction of new money into the money supply by a central bank.

To slide: To change gradually to a worse condition or lower level; "If our revenues continue to slide, we will need to consider cutting some positions."

QE Bazooka: The €1.1tn QE package announced by ECB Chief Mario Draghi in January 2015; much larger than analysts expected.

Emerging markets: A country that has some characteristics, but does not meet standards to be a developed market.

Negative (deposit rate): An interest rate that is below zero used when a central bank wishes to boost money supply.

Serious money: A significant or considerable sum of money; "I recently received a job offer; it's an exciting position, and they're offering some serious money."

Vault: A secure room in a bank in which valuables are stored; "I have my great-grandmother's diamond necklace in a vault at the bank; it's worth a lot of money and it's irreplaceable."

Heavy: Security guards or someone who is very muscular and intimidating.

To face (a situation): To confront, deal with, or accept; "Three of our top people have left already this year, and we're facing a real problem in the sales department."

Exports: A product or service sold abroad; "Oil accounted for 27% of Canada's exports in 2014."

Inflation: The increase in the general level of prices of goods and services.

Policymaker: A person responsible for or involved in formulating policies, especially in politics.

To be under pressure: To be faced with stress or difficulty; "Everyone will be under a lot of pressure at the office until we finalize the big merger this summer."

Sufficiently: Adequately, enough, or as much as is needed; "A sufficiently trained team will understand every area of a company, no matter how large it is."

Deflation: The reduction of the general level of prices in an economy.

To push (weaker): To cause to move in a certain (negative) direction.

To end up: To finally be or do something; "After years managing a restaurant, Phil ended up becoming a lawyer in his dad's law firm."

At the expense of: To the detriment of; "He worked for 6 months straight and succeeded in becoming the regional manager, though at the expense of his health."

Competitiveness: The ability of a business, a country, or a person to compete; "This project should help the our competitiveness here in Germany and also abroad."

To shrug off: to treat something as if it is not important or not a problem; "As a team, we need to shrug off this terrible first quarter and focus on the rest of the year."

To rush: To do something very quickly or hastily; "Everyone rushed to finish the balance sheet before the end of month."

Competitive advantage: An advantage that a firm has over its competitors; "The competitive advantage that Apple has over everyone else is the \$150 billion dollars in cash it has available."

BoJ: Bank of Japan

Price stability target: The target level for inflation/deflation where prices of goods and services don't change much over time.

To depreciate: To diminish or reduce in value over a period of time; "The moment you drive your new car off the lot, it will depreciate by as much as 11%."

Big question: The most important, primary, or principal question; "The big question on everyone's mind right now is who will replace the CEO."

Zero sum game: A situation where one person's gain is the same as another's loss, making the net change in wealth/benefit zero.

Best positioned: To be in the ideal location to achieve a goal or objective; "Caterina is best positioned to take over the health store from her father; she has the experience and personality, and he brothers aren't interested."

To claim victory: To become or be declared the winner.

To facilitate: To make or help cause something to be easier; "A good trainer's role is to facilitate the discussion of the group."

To dip a toe (in/into): To try or test a new situation; "With the iWatch, Apple has dipped its toe into the wearable technology market."

Battleground: The area where a battle or competition takes place.

On top of: In addition to, as well as, what's more; "On top of a company car, Reiko received a big signing bonus when she accepted the new role."

Pharmaceuticals: Relating to the production and sale of drugs and medicine.

Peak season: The busiest, and most expensive/profitable, period of the year; "Peak season for gyms and fitness centers is the first part of the January when many people make their new year's resolution."

Boon: A benefit or advantage, something pleasant; "Bob's donation to the animal shelter was a boon to their important work."

Italian Riviera: The northwest coast of the Italian region of Liguria famous of its beaches.

To get (more) bang for your buck: To receive good value for the amount of money one spends; "If you want to get the most bang for your buck, I'd suggest the Moto G mobile."

Language Review

A. Collocations

Match words from each column to make collocations found in the article.

1. Make	a. Advantage	
2. Peak	b. Victory	
3. One	c. Off	
4. Best	d. Question	
5. Competitive	e. Positioned	
6. Claim	f. Headlines	
7. Big	g. Up	
8. Shrug	h. Season	

B. Vocabulary Quiz

1. According to the article, a weaker Euro means European _____ are cheaper.
 - a. Imports
 - b. Inflation
 - c. Exports
 - d. Deflation
2. Which of the following is the monetary policy whereby the central bank prints more money?
 - a. Price stability
 - b. Quantitative Easing
 - c. Currency war
 - d. Competitive devaluation
3. "I don't want to be too _____, but your performance recently has not been at the level that we expect from you."
 - a. Criticize
 - b. Criticism
 - c. Critically
 - d. Critical

4. The success of the new Chinese development bank has _____ the world _____.
- Caught/off guard
 - Made/moves
 - Ended/up
 - Kept/a step ahead
5. "If you have technical problems during your presentation, you'll have to adjust _____."
- One up
 - On the fly
 - On top of
 - Leg up
6. "Some managers believe that giving too much praise will _____ the truly 'good' work that colleagues do."
- Depreciate
 - Deflate
 - Devalue
 - Decrease
7. "If we're going to improve our local business, we need to start focusing on a smaller _____."
- Scale
 - Battleground
 - Boon
 - Dearth
8. "We're sorry, but your experience simply isn't _____ enough for us to proceed with your application at this time."
- Competitive
 - Volatile
 - Wild
 - Sufficient
9. "Let's _____ the facts, we've made a number of moves recently, and not all of them have been successful."
- Face
 - Rush to
 - Push
 - Facilitate
10. "Becoming salesman of the year was an absolutely _____ achievement."
- Decrying
 - Stunning
 - Jolting
 - Sliding

Answers

A. Collocations

1. Make Headlines
2. Peak Season
3. One Up
4. Best Positioned
5. Competitive Advantage
6. Claim Victory
7. Big Question
8. Shrug Off

B. Vocabulary Quiz

1/c, 2/b, 3/d, 4/a, 5/b, 6/c, 7/a, 8/d, 9/a, 10/b

Online Practice

Click the "Launch" button to open the **online practice:**

Launch Quiz