G-7 Officials to Speak on Europe Today Ahead of Summit

By Theophilos Argitis and Karl Lester M. Yap - Jun 5, 2012

Finance ministers and central bank governors from Group of Seven countries plan to hold a call today to discuss Europe's worsening sovereign-debt crisis as risks to the global economy escalate.

G-7 members are “concerned about the unstable situation in the current global economy and we need to share these concerns,” Japanese Finance Minister Jun Azumi told reporters in Tokyo. Canadian Finance Minister Jim Flaherty said yesterday in Ottawa that officials would discuss “the situation in Europe,” without elaborating about the call.

Asian stocks snapped four days of losses on speculation global policy makers will take steps to stimulate economic growth threatened by a further deterioration in Spain’s banking industry and a possible Greek departure from the 17-member euro area. President Barack Obama last week laid blame for slowing U.S. job gains at the feet of European leaders, saying they haven’t done enough to resolve the crisis, now in its third year.

“I applaud them for maintaining open lines of communication,” said Todd Elmer, head of Group-of-10 foreign-exchange strategy for Asia excluding Japan at Citigroup Inc. in Singapore. “But what’s important for the market is whether they’re prepared to take concrete steps of action.”

G-20 Summit

The G-7 discussions today precede a summit of leaders from the Group of 20 in Los Cabos, Mexico, June 18-19. The G-20 includes the G-7 advanced-economy nations along with major emerging markets such as Brazil, Russia, India and China.

Markets have been bracing for the possible fallout from Spain’s banking industry and a potential Greek exit from the euro as the region’s leaders wrangle over the details of support for the currency bloc. The euro reached its lowest level since July 2010 last week, while the Stoxx Europe 600 has tumbled about 14 percent from its 2012 high.

The euro advanced for a third session today, trading at $1.2527 as of 1:35 p.m. in Tokyo. The MSCI Asia Pacific Index of stocks gained 1 percent.

Equity prices aren’t reflecting corporate performance, Azumi said today, after saying yesterday they were out of kilter with economic fundamentals. Japan’s Nikkei 225 Stock Average (NKY) has fallen for nine straight weeks, the longest losing streak since 1992. The yen gained the most last month against the dollar among all 175 currencies tracked by Bloomberg as it benefitted from Japan’s haven status as the world’s largest net creditor.

Japan’s Stance

“If there is a chance to speak, I will express Japan’s stance” to G-7 colleagues, Azumi said today, without specifically referring to a conference call.
The Reserve Bank of Australia today lowered its benchmark rate by a quarter point, citing in part a deterioration in financial markets and heightened political uncertainty in Europe. Australia is a G-20 member.

Spain’s woes have added to risks posed by a June 17 Greek election that may determine whether the country remains in the euro region. The Spanish government’s nationalization of the lender Bankia last month underlined banks’ mounting losses and the strains on the state’s ability to absorb them.

Prime Minister Mariano Rajoy has repeatedly said Spain won’t need a rescue for the nation or its banks, even while arguing the region’s permanent bailout fund should be able to recapitalize lenders directly. German Chancellor Angela Merkel’s spokesman says it’s up to Spain to decide whether to seek aid and accept the conditions linked to it, giving no ground to Rajoy’s pleas to explore alternatives for resolving the crisis.

European leaders have split on issues including the issuance of joint euro-denominated government bonds.

“The problem is that everyone, for now, has to wait for political decisions,” Azumi said at a press conference in Tokyo yesterday. The global economy “will embark onto an important phase” the week after the Greek election, during which the G-20 summit will be held. “Japan will also have to consider what it can do, how it can play a bigger role.”

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