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## EXCLUSIVE-Bank of Mexico's Sanchez worried about speculation

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2010-11-19 05:04:35 GMT (Reuters)

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By Pedro Nicolaci da Costa

WASHINGTON, Nov 18 (Reuters) - Ultra-low interest rates in the developed world are fueling dangerous speculation in emerging markets, forcing counter measures that could hurt global economic growth, a top official at Mexico's central bank said on Thursday.

Manuel Sanchez, a member of the Bank of Mexico's board, told Reuters Insider he was concerned about a tit-for-tat in economic policy that could damage trade relations.

"To the extent that appreciation of those currencies have pushed some governments into a reactive stance, generating some measures of capital controls in some cases or interventions in foreign exchange markets, I argue that that's not a good sign for the ongoing recovery of the world economy," he said on the sidelines of a meeting sponsored by the CATO Institute.

The Federal Reserve's ultra-loose monetary policy, and in particular its decision this month to pump an additional \$600 billion in monetary stimulus into the banking system by buying up U.S. Treasury bonds, has raised sharp criticism overseas.

Officials from key emerging countries like China and Brazil have depicted the policy as a backdoor attempt to help boost U.S. exports by weakening the U.S. dollar, an intent Fed officials expressly deny.

Sanchez, the Bank of Mexico's deputy governor, said he saw the rapid influx of cash into riskier but higher yielding financial assets in the developing world as an unintended consequence of Fed easing, albeit a key one.

"The most important threat generated by these actions is widespread movement toward protectionism that could hamper the sustained recovery of the global economy. Thus it's preferable to completely avoid these measures," Sanchez said in remarks earlier in the day.

Asked about Mexico's outlook, he said the economy appeared set to expand by around 3.2 percent to 4.2 percent in 2011, citing the central bank's official forecasts. That would be down from an estimated 5 percent growth rate for 2010, and reflect in part dimmer prospects for the U.S. recovery.

Mexico's economy is very closely linked to the United States, with about 80 percent of the country's exports destined for its large northern neighbor.

Sanchez did not comment directly on monetary policy. The central bank said earlier this month it could cut interest rates or boost international reserves if a flood of foreign investment into the country's capital markets persists.

(Reporting by Pedro Nicolaci da Costa)

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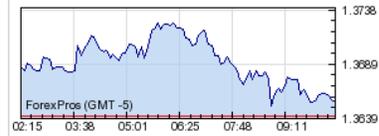
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USD/JPY	83.50	-0.02	-0.026%
AUD/USD	0.9826	-0.0072	-0.727%
USD/CAD	1.0229	+0.0039	+0.378%
US Dollar Index	78.73	+0.04	+0.04%

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