

World Bank chief surprises with gold standard idea

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(Reuters) - Leading economies should consider adopting a modified global gold standard to guide currency rates, World Bank president Robert Zoellick said on Monday in a surprise proposal before a potentially acrimonious G20 summit.

Writing in the Financial Times, Zoellick called for a "Bretton Woods II" system of floating currencies as a successor to the Bretton Woods fixed-exchange rate regime that broke down in the early 1970s.

The former U.S. trade representative, who served in several Republican administrations, said such a move "is likely to need to involve the dollar, the euro, the yen, the pound and (a yuan) that moves toward internationalization and then an open capital account.

"The system should also consider employing gold as an international reference point of market expectations about inflation, deflation and future currency values," he added.

Analysts were cautious. "Going forward that would be something that we

could look toward, but it's not going to happen within a short period of time," said Ong Yi Ling, analyst at Phillip Futures in Singapore, adding that gold prices barely reacted to the comments.

Gold briefly hit a record high of \$1,398.35 an ounce in early trade on Monday on concerns of a continued weakening dollar trend after the U.S. Federal Reserve last week acted to resume buying Treasuries.

SUMMIT ACRIMONY?

That policy has fed acrimony among leading economies in the Group of 20 in the run-up to their summit in Seoul on Wednesday and Thursday.

China and Germany, major exporting nations, have both decried the Fed's quantitative easing -- effectively printing money -- which is weakening the dollar.

Investors are pumping dollars into emerging markets in search of higher yields, and the potentially destabilizing impact of this, along with big current account deficits and surpluses as well as China's reluctance to let the yuan appreciate faster, are set to dominate the G20 debate.

France, which takes over the G20 chair after this week's summit, says it plans to work on a new international monetary system to bring greater currency stability.

Beijing's central bank chief has suggested an alternative monetary system based on using the International Monetary Fund's Special Drawing Rights, a notional unit of value based on a basket of major currencies, instead of the dollar as the sole global reserve currency.

Zoellick was a senior official in the U.S. Treasury at the time of the 1985

Plaza and 1987 Louvre Accords on rebalancing currencies among major industrialized nations. He noted that that phase of currency coordination helped launch the Uruguay Round of world trade liberalization negotiations.

While his opinion article in the Financial Times did not represent either U.S. or World Bank policy, it may reflect a greater openness in Washington than in the last two decades to some form of international currency cooperation.

"The dollar is losing its relevance especially with the emergence of Asia economies, so a more neutral benchmark may be required. Gold, amid all the recent uncertainty, is proving its worth," said ANZ's senior commodity analyst Mark Pervan.

Gold retreated to around \$1,390 an ounce by 1000 GMT as speculators booked profits.

Zoellick said a new monetary system would take time to develop and should be part of a package approach including possible changes in IMF rules to review capital as well as current account policies, and linking IMF monetary assessments to World Trade Organisation obligations.

The dollar rose sharply on Monday as unwinding of dollar short positions that began with solid U.S. jobs data snowballed, pushing down the euro to its lowest level since the Fed embarked on fresh easing last week. <USD/> (Reporting by Lewa Pardomuan, Nick Trevethan and [Paul Taylor](#); Editing by Ruth Pitchford)



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