

## CNY: PBOC relinquishes some control

China is changing the way it manages the Renminbi and we think the move is line with PBoC's journey towards liberalising its FX regime



Source: Shutterstock

The Renminbi (CNY) has weakened today on news that the People's Bank of China (PBOC) has told commercial bank counter-parties that it is removing the counter-cyclical factor (CCF) from its daily CNY fixing mechanism. The CCF was an arcane measure introduced last May by the PBOC to exert more influence over the Renminbi – after USD/CNY neared 7.00 and threatened to exacerbate portfolio outflows from China.

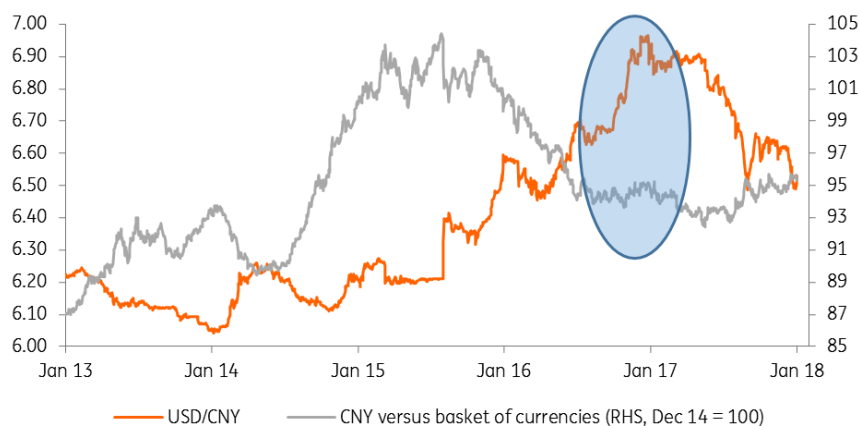
### Why now?

At the time (May 2017) we felt the introduction of the measure was to limit the chances of USD/CNY breaking above 7.00 – triggering further portfolio outflows and likely to send China's FX reserves below the psychological US\$3 trn level.

In a way, the PBOC was unlucky in choosing to liberalise its FX regime at the start of 2016, choosing to keep the Renminbi stable against a basket of currencies rather than the dollar. The PBOC was caught out by the dollar strength from 2016 onwards as the ECB extended QE, and the dollar broadly rallied.

## USD/CNY versus CNY basket

PBOC had struggled with USD/CNY near 7.00 in late 2016 and early 2017



Source: Bloomberg

Indeed the CCF was introduced to try and break the ‘herd behaviour’ of dollar strength, leading to higher USD/CNY fixings, fuelling expectations of further USD/CNY strength.

Yet the broad dollar trend turned in 2017, and the PBOC will be far less concerned now about CNY weakness. In fact, one could argue that today’s move could have been triggered by a desire to prevent excessive CNY strength. Incidentally, the Korean Won weakened yesterday when a government official warned it would take action to avoid one-sided moves in the Won.

### What’s the outlook for the Renminbi?

The initial market reaction has seen USD/CNY move higher on the view that the PBOC is down-scaling its support operation for the CNY. We prefer to view the move as one in keeping with the PBOC’s journey towards liberalising the FX regime – after a retrograde step last May.

A more flexible (and presumably more volatile) Renminbi should, therefore, be more susceptible to the external FX environment. Given that we look for the DXY dollar index to depreciate around 7% this year, we believe the USD/CNY bear trend will remain in place.

As ING’s Economist for Greater China, Iris Pang, [notes](#), we expect PBOC to tolerate modest appreciation pressure in the Renminbi this year and USD/CNY to end 2018 at 6.30.

[Read why we expect 3% appreciation of CNY against the USD](#)

## Author

### Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).