China is not a currency manipulator

That’s good news but it does not affect China’s currency strategy

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China isn’t a currency manipulator, according to the US Treasury’s bi-annual currency report. When the US Treasury told the world that China has acted to avoid a “disorderly” depreciation and allowing the CNY to strengthen against the USD, it is odd because the result has been mainly linked to the weakening dollar.

The US report does not mean whether China has reduced intervention or will intervene less. The report is just a description that CNY has appreciated against the dollar. During March to June the CNY appreciation speed stagnated vs the then fast weakening of the dollar. That deviation had been caught up by September.

The CNY fixing mechanism follows the prior day close plus a basket of currencies (which we believe is the USD index basket), and the recently introduced counter-cyclical factor. Among these three factors, the countercyclical factor looks like a black box to us, and doesn’t seem to be applied daily.

> Going forward, with a weakening USD the People's Bank of China (PBoC) will be happy to ride the trend to strengthen the CNY and attract net capital inflow into the Mainland.
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> In his speech, yesterday President Xi mentioned allowing the market to play a more significant role in pricing. Though he did not pinpoint a particular market, his tone echoed PBoC officials that the central bank would intervene less and allow the market to find the value of USD/CNY.

That confirms our view that the CNY trend will be more likely to sync with the direction of other Asian currencies coming off the weak USD. We reiterate our 6.50 USD/CNY forecast for the end of 2017 and forecast further 4% appreciation in 2018.

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