

China fixes the yuan higher

Today's fixing is an even bigger depreciation move, but some were expecting the fix to be higher still, and the market response is more balanced



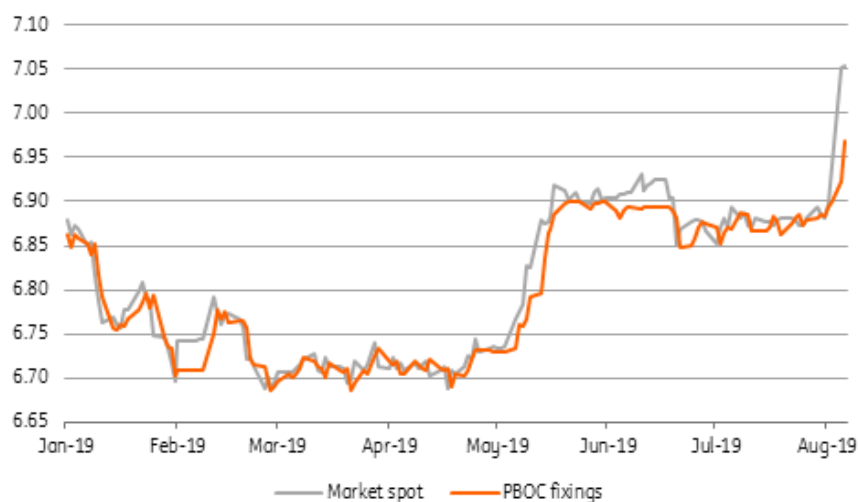
New mid-point for CNY is 6.9683

Today's fix at USD/CNY 6.9683 comes close to the estimates published each day by some of those attempting to mirror how the People's Bank of China sets its mid-point relative to its trading partners. But it is nonetheless quite a big move and about double the increase seen yesterday. As we noted in our morning note today, a move of this size could theoretically see USD/CNY spot rise to 7.10, given the 2% trading band permitted.

But the moves so far don't look anything like this big, and it seems that some market participants were expecting the fix today to be even higher, so the actual result is "less unsupportive" than some had imagined.

High yielders in the region, like the Indonesian rupiah and Indian rupee, are still looking soft, but the low yielders, Korean won, Singapore dollar, seem to be taking some support from this fix.

USD/CNY - PBOC Fixing and the market spot rates



Source: Bloomberg, ING

Bill issuance announcement also provides some CNY support

Backing up what some are viewing as a stronger than expected fix, the PBoC also announced they would issue 30 billion of yuan bills in Hong Kong next week. The sales are part of regular issuance, but the amount is larger than needed to simply replace maturing bills, so should provide some boost to short term Chinese rates, and thereby to the CNY.

So, far from looking like the PBoC is embarking on an aggressive depreciation, it is looking more likely that they are now trying to put the brakes on yesterday's move and bring some two-way risk back to the CNY outlook.

This probably has nothing to do with the announcement from the US earlier this morning, that they would label China a "currency manipulator". Moreover, with that decision now made, and the implications of this less worrying than tariffs already in place, that genie is now out of the bottle, and can't readily be re-used.

We now have to wait to see how the US President views today's move, as it looks like he is personally taking control of US trade policy. If he views it negatively, the next step for the US could be to consider increasing the tariff rate on the latest \$300bn of goods from the planned 10%, to 25%. Then we will have to see how China responds to that. Watch this space...

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

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