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As Its Economy Slows, China Embraces a Weaker Currency

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Chinese 100 yuan notes.

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By Joanne Chiu

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China set a reference rate for the yuan at its weakest point in 12 years, a signal that Beijing sees the benefits of a weaker currency as it grapples with an economic slowdown and rising tensions with Washington.

On Tuesday, the People's Bank of China set a daily midpoint for the yuan at 7.1293 per dollar, the lowest level since February 2008. The central bank lets the onshore yuan trade in a band around this fix, which it sets based partly on previous market prices. The currency also trades in less tightly controlled offshore markets, in Hong Kong and elsewhere.

The yuan weakened through much of 2018 and 2019 as U.S.-China trade tensions built. It broke below 7 yuan per dollar in August, prompting President Trump to accuse

Beijing of manipulating its currency. But then it rallied into January 2020, when the world's two largest economies signed a partial trade deal.

On Tuesday afternoon in Hong Kong, the Chinese currency traded at 7.1321 per dollar onshore and 7.1448 a dollar offshore.

Chinese leaders have said they want to hold the currency, which is also known as the renminbi, fairly steady. Last week Premier Li Keqiang said: "We will keep the renminbi exchange rate generally stable at an adaptive, balanced level."

However, economists and analysts said three consecutive weaker fixings suggested little appetite to defend recent yuan levels, amid growing frictions with the U.S.

Iris Pang, chief economist for Greater China at ING Bank NV in Hong Kong, said the yuan was falling against a strong dollar, and because investors expect tensions between the two nations on trade and technological supremacy to escalate further. Ms. Pang said the yuan could fall to as low as 7.30 a dollar by the end of the year if there was a full-blown trade and tech war, or remain closer to 7.05 a dollar if that didn't occur.

Kevin Lai, chief economist for Asia excluding Japan at Daiwa Capital Markets, said China was under pressure to weaken its currency and he expected it to reach 7.60 per dollar by the end of 2020.

Aidan Yao, senior emerging Asia economist at AXA Investment Managers, said the yuan would remain volatile. He said China's growth this year was likely to exceed downbeat market expectations, but that wasn't the only factor driving the yuan.

"There's a tug of war between the geopolitical force and the fundamental economic force, and that really makes forecasting the currency very difficult," he said.

Just this month, the Trump Administration blacklisted dozens of Chinese companies and institutions and outlined new export restrictions to cut Chinese telecommunications giant Huawei Technologies Co. off from overseas suppliers.

A Chinese plan to impose new national-security laws on Hong Kong could also trigger further U.S. measures.

Bhaskar Laxminarayan, chief investment officer for Asia at Bank Julius Baer, said the yuan was likely to strengthen in the long term, since China remained a key engine of global growth, and foreign investors would want to hold more of the currency, as well as Chinese bonds and stocks.

"The need to have the yuan in your portfolio is not going to go away," he said.

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