

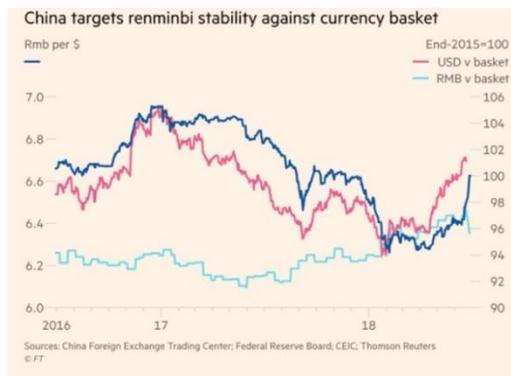


Here we go again... Currency wars anybody?

[Renminbi's worst month ever sparks US-China currency war fears](#)
[Financial Times, 2nd July 2018](#)

CNY, the Chinese currency, suffered its largest monthly fall against the USD in June this year, falling 3.3%. For some this sparked concern that Beijing might use devaluation as a weapon in the escalating trade war with the US. Although this may happen, currently that thought is premature, but the US-China Trade skirmishes could well lead to a global trade war and nothing will be off the table.

During 2005-2014 China systematically intervened to weaken Renminbi. But reversed that policy. In 2016 Trump revived those accusations of currency manipulation, even though China had a policy of a stronger CNY to prevent capital flight, not for the first time Trump was out of sync with most of the intelligent world. The recent move in June looks like market forces. The trade wars influencing movement heavily with the Shanghai composite down 8% in June and signs of an economic slowdown weakening the CNY.



Former Deputy Assistant US Secretary said, “For now, it’s relatively easy to explain the CNY move in the context of China’s effort to manage its currency against its basket”.

But if the central bank allows this to continue with no attempt to influence; then accusations of a tactical depreciation of the CNY, even if by simply taking no action, will grow and grow. It’s not really in China’s interest to allow devaluation of the Renminbi because of the effects domestically of capital flight and resultant real tightening of rates and its effect on credit stress at a time it can’t afford it.

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