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Currency Manipulation or Plain Politics?

America may engage with IMF to eliminate unfair competition.

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America claims China is manipulating its currency and will engage with the IMF to eliminate unfair competition. This follows the USDCNY breach of the psychological 7 level. This is more a symbolic move than a substantive one, but it dials up the pressure in a trade war that has rapidly escalated into a currency war, harming businesses, consumers and others that depend on steady relations between the world's two largest economies.

U.S. law sets out three criteria for identifying currency manipulation: a global current account surplus, a significant bilateral trade surplus with the United States and persistent one-way intervention in foreign exchange markets. The Treasury demand special talks, with penalizing action to follow. The Treasury designated Taiwan and SK as manipulators in 1988, and China was the last country to get the designation, in 1994.

In the last 6mths CNY has depreciated 4% whilst the USD has depreciated 5.7% against JPY. 'Depreciation' is strange terminology for a currency that is the same dollar level as in 2016.

During 2005-2014, China did systematically intervene to weaken Renminbi, but since then it actually adopted a strong Yuan policy, whilst the US had a strong USD policy for a long time but now is also actively looking for ways to weaken the US.

US say China's actions violate its commitment to refrain from competitive devaluation as part of the Group of 20 industrialized countries. The US Treasury said it expect China to adhere to those commitments and not target China's exchange rate for competitive purposes.

China's PBOC said that these actions will cause chaos in markets, and will not use the exchange rate as a tool to deal with trade disputes, warning the US to "rein in its horse before the precipice, and be aware of its errors, and turn back from the wrong path". It also blamed CNY weakness on effects of economy of US Tariffs (25% on \$250b, 10% on \$300b).



But China is not intervening, ironically it has stopped intervening (from supporting the Yuan!!) and could actually be accused of letting the markets determine the Yuan level, note it is still tightening liquidity which actually supports the Yuan. The yuan didn't fall on Monday because China pushed it down; it fell because China failed to keep pushing it up. That may have been contrary to U.S. interests, but it's the opposite of currency manipulation.

Trump has been personally accusing China since 2016 and using the presidential tweet said "We look forward to continuing our positive dialogue with China on a comprehensive Trade Deal, and feel that the future between our two countries will be a very bright one!"

Countries always have currency policies/targets, and this has no different from rate or inflation targets and policies. They act to stimulate or dampen economic activity when they feel it is needed. Regardless of who is in the right you need to understand the how/why/implications.

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