Can China’s currency continue its bull run?

Veröffentlicht am 5. März 2021

Mobeen Tahir
Director, Macroeconomics and Thematic Research

China’s currency has been on a strong bull run against the US dollar since 27 May 2020. Since then, the renminbi is up almost 11%[11] relative to the greenback. This is especially noteworthy given other currencies in the emerging markets universe, such as the Russian ruble or the Mexican peso, have not demonstrated similar gains. The story, therefore, is not merely one of dollar weakness. We outline the key forces influencing the currency’s trajectory.

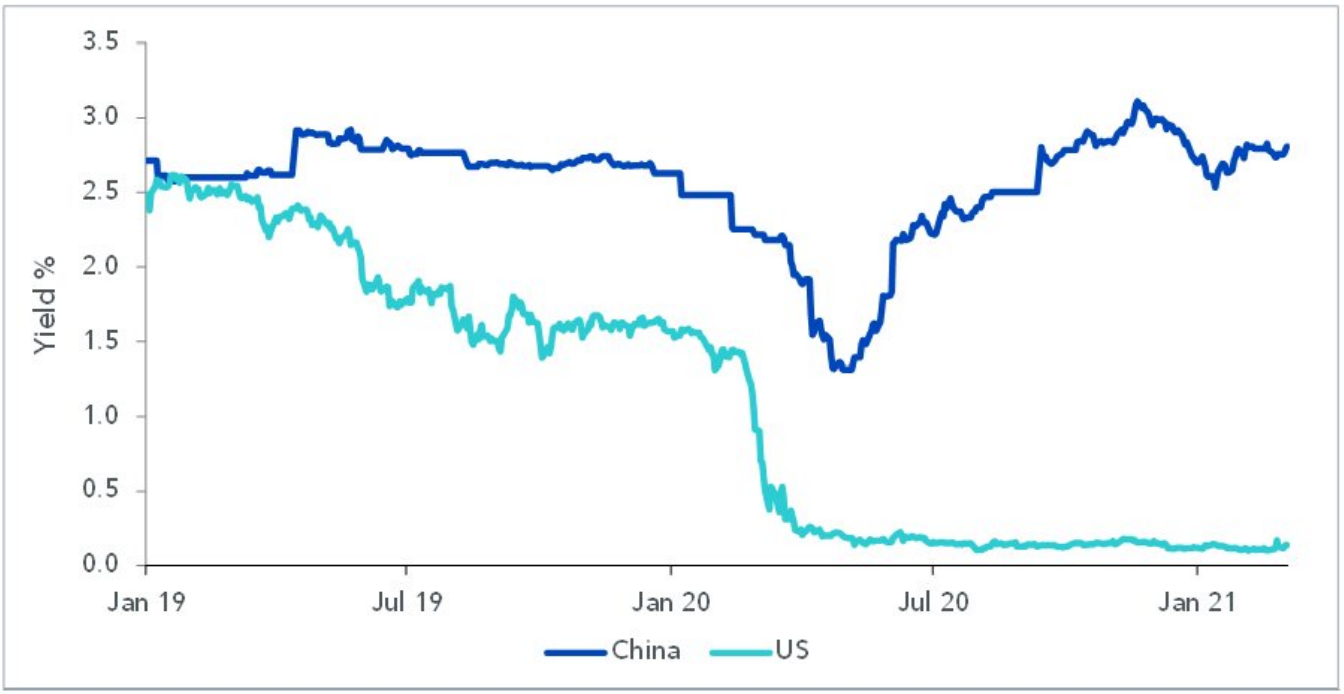
Ties with the Biden administration

China received considerable ire from the Trump administration over its currency. While it would be premature to assume that trade tariffs will diminish or disappear imminently, China’s relationship with the new administration may be more orderly. Might China allow its currency to remain strong or get stronger still in a bid to improve bilateral ties? If that happens, policy intervention could take a back seat, and market forces could operate unabated.

The lure of a higher yield

Chinese government bonds offer meaningful yield pickup relative to other major economies (see figure 01 below). The combination of China liberalising its capital markets and higher relative yields bodes well for the flow of foreign funds into the country. Chinese government debt is increasingly being added to notable bond indices – with the expected inclusion in FTSE Russell’s World Bond Index later this year being a noteworthy highlight. And if the US dollar remains weak, investors will be incentivised further to hold or purchase renminbi denominated assets.

Figure 1: 2-year government bond yields have diverged significantly



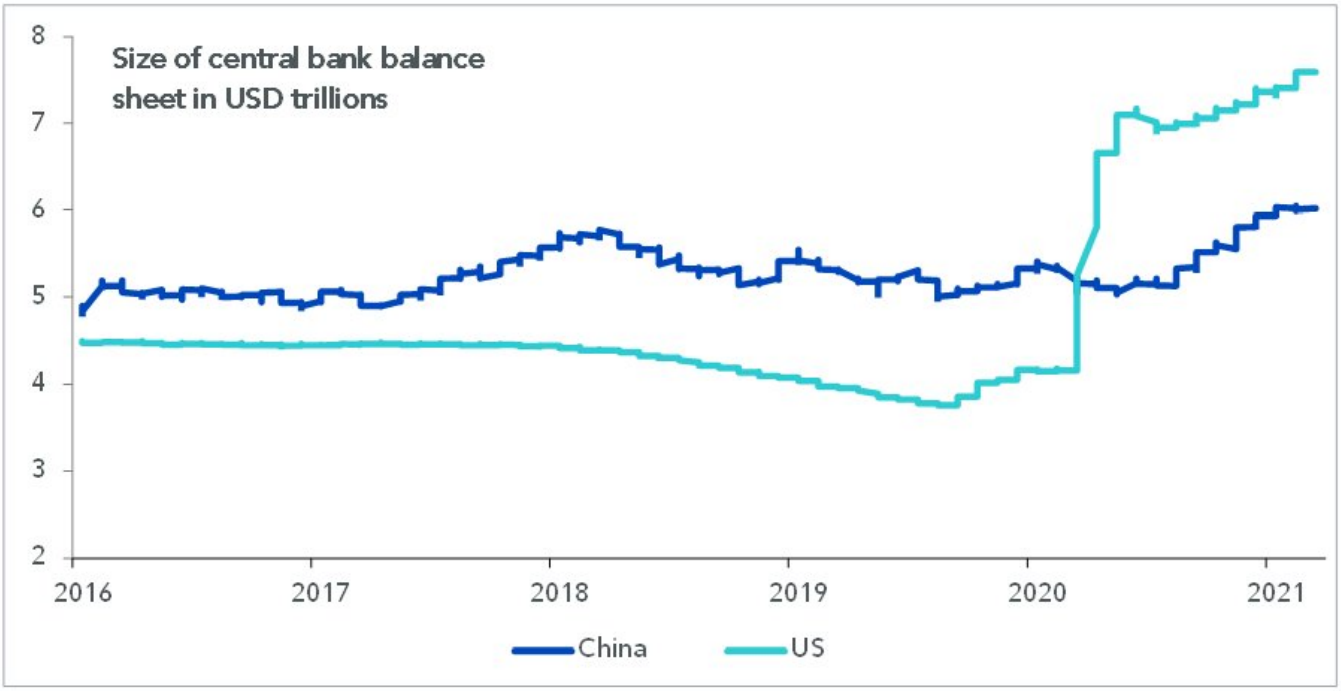
Source: Bloomberg, data as of 04 March 2021. Using Generic China 2 Year Government Bond (GTCNY2Y) and Generic US government Bond 2 Year Yield (USGG2YR).

Historical performance is not an indication of future performance and any investments may go down in value.

US monetary policy largesse may continue

Money supply from the US Federal Reserve (Fed) has reached record highs since the pandemic last year. While the People's Bank of China has also been accommodative, its dovishness appears relatively subdued in comparison (see figure 02 below). The Fed has recently reiterated its accommodative policy stance despite rising inflation expectations in the US. While China's central bank may not necessarily turn hawkish this year, its position may be less dovish than that of the Fed, given its economy has experienced a much stronger and swifter recovery than the US. This could keep the pressure on the US dollar.

Figure 2: Central bank accommodation has been much higher in the US



Source: Bloomberg, data as of 04 March 2021.

Historical performance is not an indication of future performance and any investments may go down in value.

In our equity strategy for this year, we advocated how China warrants consideration within a strategic asset allocation. The implication of renminbi's strength is, therefore, not only important for currency investors but crucial for investors of all asset classes in deciding whether to consider hedged or unhedged exposures.

[1] WisdomTree , Bloomberg. From 27th May 2020 to 4th March 2021.

Important Risks Related to this Article

Important Information

Marketing communications issued in the European Economic Area ("EEA"): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as "WisdomTree" (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and affer seeking independent investment, tax and legal advice.

The application of regulations and tax laws can offen lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and affer seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.