

Chinese Yuan: Fresh All Time Highs in 2013

Published June 4, 2013

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In the first four months of 2013, the Chinese yuan has appreciated by 1.05% against the U.S. dollar, continuing its march through all time highs.¹ For the remainder of the year, we see several positive catalysts for why the yuan could keep moving higher: • In a recent speech, Chinese Premier Li Keqiang focused on the need for reform in the government; we believe that part of this agenda could be the continued promotion of Chinese yuan holdings in Asia and a timetable for increased currency liberalization. • In 2012, the Chinese government widened the daily trading band to 1.00%. In 2013, we believe that regulators will widen the band to 2.00%, potentially causing a new round of investor interest. • While some investors have been disappointed with recent economic data, many economists are still projecting close to 8% annualized economic expansion for China in 2013. In a speech published on a Chinese government website², Premier Li laid out a frank yet encouraging discussion about how China's government needs to reform in order to promote growth. While no specific policies were mentioned, the theme of getting the government out of the way and allowing private industries to lead China's growth was at the center of his argument. As a result, many economists view this rhetoric as a clear positive for China's economic future. As we mentioned in a [previous blog](#), China's transition from an export-driven, manufacturing-based economy to a domestic, service-driven economy is a priority for the new administration. Also central to this plan is the wider trading and use of China's currency, the yuan. In the coming months, we expect Chinese policy makers to expand the daily trading band to at least 2.00%. Currently, the yuan is only permitted to trade within a 1.00% band. We believe this move is consistent with a future plan to liberalize the yuan, ultimately leading to full convertibility against other major currencies. Recently, a variety of sources including Bloomberg quoted³ a five-year path to yuan convertibility. While several intermediate steps need to occur before this can become a reality (such as allowing market forces to dictate longer-term interest rates), we believe the Chinese yuan will continue its moderate pace of appreciation while these plans are devised. Should the government provide more formal guidance about reform measures and a plan for currency liberalization, we believe these policies could serve as a catalyst for increased trade and investment on the mainland. Increased trade activity, higher equity prices and a better understanding of the glide path of China's economic policies could ultimately provide a fresh catalyst for investment in the Chinese yuan. ¹Source: Bloomberg, as of April 30, 2013. ²Source: http://paper.people.com.cn/rmrb/html/2013-05/15/nw.D110000renmrb_20130515_1-02.htm ³Source: <http://www.bloomberg.com/news/2013-05-06/china-names-yuan-convertibility-plan-among-goals-for-this-year.html>

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