China fixes yuan stronger vs dollar, reversing falls

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The People’s Bank of China set the yuan’s **midpoint rate** at 6.3975 per dollar prior to market open, firmer than the previous fix at 6.401.

Bloomberg News reported **Wednesday** the central bank had intervened in the market to buy dollars and prop up the **yuan**, which PBoC Deputy Governor Yi Gang declined to confirm at Thursday’s briefing.

The Chinese central bank has tried to ease worries about a **currency** war, asserting that there is no basis for the **devaluation** to persist.

Tan said that China’s gross domestic product (GDP) accounted for 43 **percent** of the total created by the economies in the Asian Pacific region, so there is no doubt that other regional currencies will follow the **yuan** to move lower, while the magnitude of the falls in different currencies will vary.

China keeps a tight grip on the yuan, allowing it to fluctuate up or down just two percent on either side of the reference rate, which it sets daily.

The improved mechanism takes into consideration the closing rate of the interbank forex market on the previous day, as well as supply and demand in the market, and price movement of major currencies.

“The central bank, if necessary, is fully capable of stabilising the exchange rate through direct intervention in the foreign exchange market”, PBOC economist Massachusetts Jun said. It fell again on Wednesday and by midday on Thursday was down 0.3%.

Crude oil futures remained under pressure, plunging to 6-1/2-year lows after data revealed a big rise in U.S. stockpiles, fuelling fears of a growing global glut.

Sources told Reuters some powerful voices in the **Chinese** Government were pushing for an even deeper devaluation to help China’s struggling exporters.
We have had the Chinese markets crash and burn in July and then we had the PBOC stepping in to spur export growth by a surprise devaluation of the Yuan this past Tuesday.

Economic growth in China has slowed to 7.4 per cent, after enjoying a break neck pace of above 10 per cent in recent years.

But he said China still risks overshooting its target.

Duke University business professor Campbell Harvey says China wants the yuan to eventually become a “reserve” currency like the dollar and the euro.

The Federal Reserve is expected to boost the short-term interest rate it controls later this year.

The Chinese central bank’s “opaque communications policy may well have led to panic over-selling earlier in the week”, market analyst Angus Nicholson of IG said in a commentary.
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