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China Devalues Currency Again

by VOA News

China devalued its currency for a third consecutive day, while global markets recovered after Beijing signaled it would not continue the devaluation much further.

The central bank on Thursday set the yuan's daily reference point about 1 percent lower than the previous day, at about 6.40 per dollar.

Beijing strictly controls the yuan within a range of 2 percent above or below the reference point, which it sets daily.

The currency has lost more than 3 percent of its value since the first change in the market midpoint on Tuesday.

'Market level'

Central bank officials on Thursday attempted to ease fears of further devaluation, saying the yuan was now close to "market level."

"The adjustment to close the gap between central parity rate and actual trading rate of Chinese currency ... has basically completed," said an official at the People's Bank of China, according to the Xinhua news agency.

There have been rumors Beijing was prepared to let the yuan slide by as much as 10 percent.

Central bank Deputy Governor Yi Gang on Thursday firmly dismissed that speculation. "This is complete nonsense, completely without basis," he said.

Asian markets react

Trading was mixed Thursday across Asia, but ended mostly in positive territory following the central bank's comments. The initial Chinese move had prompted two days of declines on major world stock markets.

Many investors are worried the intervention signals growth in the world's second-largest economy is slowing more than originally thought.

There are also concerns it could prompt other nations to devalue their currency, since a weaker yuan makes Chinese exports more competitive for foreign buyers.

Vietnam on Wednesday did just that. Under the new rules, Vietnam's currency, the dong, can be traded within two percent above or below the daily reference point. The previous rules allowed trading within 1 percent.

"As China is Vietnam's largest trading partner, an adjustment of Chinese currency will have a negative impact on Vietnam's economy," said the State Bank of Vietnam.

An editorial Thursday in China's state-run *Global Times* said it was "absurd" to hype the threat of a yuan devaluation, saying there is "hardly" a currency war.

"Since the yuan exchange rate is determined by the market, there are bound to be possible fluctuations in both directions – revaluation and devaluation. And it would be abnormal if it only goes up," the editorial said.

In a VOA interview, Peterson Institute scholar Nicholas Lardy said the change gives Beijing more flexibility in managing the economy.

Lardy said the change also improves the chances China's currency will play a larger role in international commerce.

Reserve currency

Duke University business professor Campbell Harvey said China wants the yuan to eventually become a "reserve"

currency like the dollar and the euro. He said such currencies must be driven by market forces.

Beijing's change in currency exchange policy brought criticism from several members of the U.S. Congress, who say it continues a practice that gives Chinese exporters an unfair advantage and hurts American jobs.

Exchange rates are among many issues likely to be on the agenda for September's planned visit to Washington by China's President Xi Jinping.

<http://www.voanews.com/content/china-devalues-currency-for-third-day/2916086.html>