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Macro Roundup Artcile

Headline: China's New Currency Peg

Article Link: https://www.cfr.org/blog/chinas-new-currency-peg

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Publication	Council on Foreign Relations
Publication Date	April 12, 2024

Tweet: .@Brad_Setser argues that the People's Bank of China dropped the pretense of a market-driven exchange rate in 2023, and is currently targeting the yuan's value against the dollar, not a basket of currencies.

Summary: Faced with ongoing depreciation pressures (and a regime where, absent heavy-handed intervention by the PBOC, the market was basically leading the yuan to crawl down), the PBOC dropped the pretense that the yuan, which is required to trade within a two-percentage point band around the daily fix – was flexible and that the fix was somehow market determined. The fix just stopped moving, which meant that spot could weaken further. It worked. The CNY has stabilized, and spot no longer leads the fix down. It just isn't quite anything that can realistically be called a flexible exchange rate. It also has become clear that the PBOC is currently targeting the yuan's value against the dollar, not its value against a basket of currencies. Related: The Threat from China's Capital Flight and Anatomy of Capital Fight in China… and Is the Chinese Government Pushing Down the Yuan?

Primary Topic: Financial Markets

Topics: China, Financial Markets, GDP, Op-Ed/Blog Post, Savings Glut/Trade Deficit

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