

# The NewsLine

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## CHINA

### Rise in renminbi reflects reform zeal

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The Chinese economy is performing less dynamically than expected while at the same time the external value of the renminbi continues to rise. Such a constellation would have been practically inconceivable just one or two years ago.

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On the basis of the purchasing managers' index conducted by HSBC and Markit sentiment in the Chinese economy clouded over further in June. The overall index dropped 0.9 points to 48.3 points. However, it is difficult to draw clear conclusions as to the exact growth momentum at present from this, particularly given the fact that the official purchasing managers' index has flagged up more positive readings than the HSBC/Markit index in recent months. But one thing is clear: so far this year the Chinese economy has performed less dynamically than many economists – ourselves included – had expected at the start of 2013.

In this light the development in the exchange rate of the renminbi is all the more astounding. Since the beginning of the year the Chinese currency has risen by 1.7% against the US dollar. Looking at the effective exchange rate of the renminbi, i.e. the exchange rate against the main trading partners, the appreciation amounts to more than 5%. In recent years phases of weaker economic growth had regularly prompted the central bank to curb, or even halt, the ongoing rise of the renminbi against the US dollar seen since 2005. In our view the fact that this is not happening now means two things: Firstly, the Chinese government is evidently indeed prepared to accept lower growth rates than to date. And secondly, it plainly means business with the structural reforms it has announced and in some cases already launched. Among other things, the government is aiming to make the growth model less reliant on the export sector and to bolster private consumption. Precisely on the latter the

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June 20, 2013

exchange rate policy can help, as an appreciation of the renminbi boosts the Chinese population's foreign currency purchasing power. In the coming months we expect the moderate pace of appreciation to continue. At the end of 2013 one US dollar is likely to cost 6.10 renminbi (end-2012: 6.23 CNY/USD).

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June 20, 2013

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