

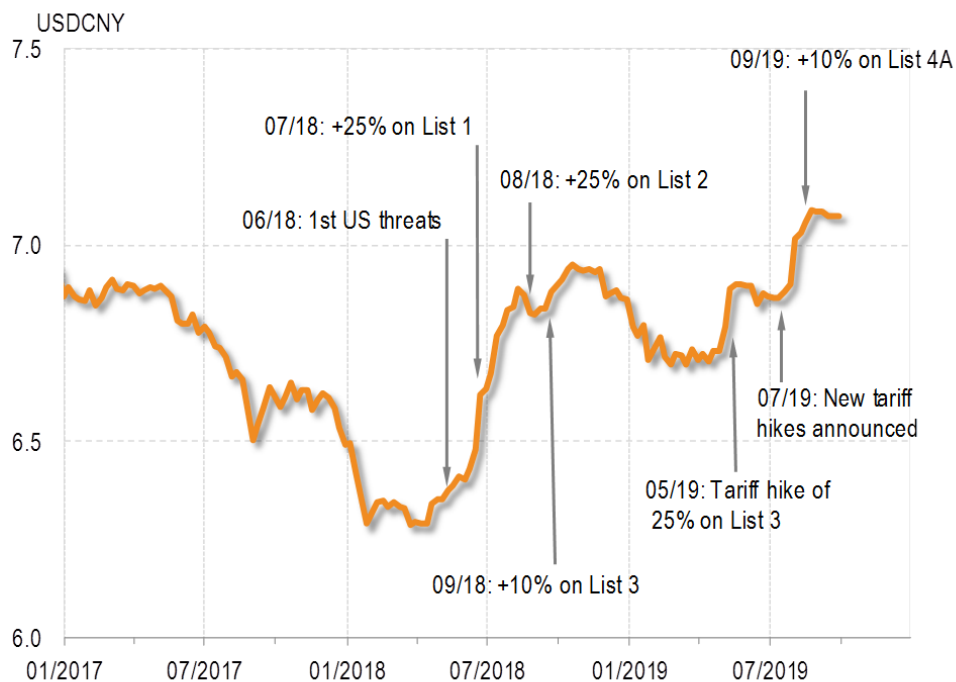


China: US tariff hikes and trends in the yuan

Between the end of March 2018 and the end of August 2019, the yuan lost nearly 13% against the dollar. With each new increase in US tariffs (announced or effective), the Chinese authorities have responded by letting the yuan depreciate to offset partially the impact on export corporates. In September, despite the introduction of new tariffs, the yuan levelled off against the dollar, because Beijing and Washington had agreed to restart trade talks. In the short term, exchange rate policy is likely to be used moderately to stimulate economic growth, especially due to the risk of a vicious circle as the anticipation of currency depreciation fuels new capital outflows triggered by the yuan's decline. Yet this risk is limited, however, by ongoing controls on resident capital outflows. The slight improvement in the current account surplus and the expected increase in foreign portfolio investment inflows into China's financial markets (following recent opening measures) might also support the yuan in the short term.

Note: The lists of Chinese goods imported by the US and affected by tariff hikes are called "List 1" totalling USD 34 bn, "List 2" totalling USD 16 bn, "List 3" totalling USD 200 bn and "List 4A" of USD 125 bn (first slice of list 4).

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Source: China Foreign Exchange Trading Center, BNP Paribas