

**China's yuan hits 14-month low as attack on speculators gains traction**  
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China's yuan traded at its weakest against the dollar in 14 months on Tuesday, as traders say what began as a short-term attack on rampant speculation in the market continues to find deeper market traction.

Spot yuan traded at 6.2383 (RM3.26) per US dollar in the afternoon, its lowest level since February 2013, as corporate appetite for dollars remained strong, supported by central bank guidance.

The yuan has depreciated more than 3% versus the dollar so far this year after the People's Bank of China guided the yuan weaker to deter speculators in February and March from betting on a rising Chinese currency.

The PBOC never said it was deliberately pushing the currency down, but forex dealers said they suspected the drop was driven primarily by China's 'big four' major state-owned banks, who started buying up US dollars in the forex market at the central bank's behest.

However, forex dealers and economists now say that even if the trend began as a top-down phenomenon, corporate sentiment is now supporting the move as firms begin restocking dollars for use in trade and in overseas mergers and acquisitions.

"Sentiment towards the yuan has been weakened by its sharp depreciation this year, with companies retaining more dollars on hand recently," said a dealer at a Chinese commercial bank in Shanghai.

The sudden decline has provoked expressions of concern from trading partners, most notably the US government, which has called for Beijing to stop meddling in its currency market.

Most economists, however, still believe that the PBOC's attack on short-term speculation in the foreign exchange market was, on balance, a good thing, in no small part because the yuan's one-way trajectory had attracted so much hot money that they had begun to distort export statistics and complicate management of the money supply.

The winding down of the Greek debt crisis in 2012 helped China's currency embark on a non-stop rise against the dollar that saw it gain nearly 5.5 percent from July 2012 through mid-January this year. This trend was perceived by many investors as irreversible, to the extent that many Chinese corporates began leveraging themselves in dollars to stock up on yuan.

Others went so far as to falsify or inflate trade invoices to 'smuggle' yuan investment into the country disguised as trade.

Prior attempts by Beijing to quash hot money inflow and trade manipulation saw little success until February. The combination of lower guidance rates and behind-the-scenes intervention knocked the yuan down over 3%, more than giving up its gains of 2013 and forcing leveraged speculators with short-dollar positions to hit the eject button. – Reuters, April 22, 2014.

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