

Yuan Traders Look to Trump-Xi Meeting to Seal Currency's Course

[Enda Curran](#) June 28, 2019, 4:22 AM EDT

Photographer: Jerome Favre/Bloomberg

economics

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Shifts in U.S.-China trade war have been yuan turning points

Trump and Xi are set to meet on sidelines of G-20 Osaka summit

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Forecasters penciling in year-end projections for the yuan may want to keep their erasers handy this weekend. With the course of the U.S.-China trade war at stake, Saturday's presidential meeting has the potential for major implications for exchange rates.

Presidents Donald Trump and Xi Jinping aren't likely to seal some new [Plaza Accord](#) -- Chinese officials are keenly aware of the judgment that Japan's 1985 agreement to revalue the yen [proved disastrous](#) for its economy. But any progress in the Osaka sit-down toward a broader trade deal, and even a promise to keep high-level talks going without further protectionist moves, could relieve pressure on the yuan.

Coin Toss

Trump-Xi tete-a-tete could send yuan in either direction



Source: Bloomberg

A Xi-Trump breakdown could conversely roil the yuan, testing officials' readiness to hold the line at the psychologically important 7-per-dollar level, which hasn't been seen since 2008. Such a move could in turn roil not only other Asian currencies that increasingly take their cue from the yuan, but demand for risk assets such as equities as well.

“Anything that infers progress on talks or prospective talks is likely to be as good as it gets -- that will give risk another leg-up,” said Dwyfor Evans, head of Asia Pacific macro strategy at State Street Global Markets. But “once Osaka is removed from the equation, there is political space for Beijing to pursue renewed currency flexibility,” with the yuan allowed to depreciate on account of the hit from trade and monetary easing, he said.

‘Tremendous Pressure’

Both the U.S. and China agree that the trade war has affected the yuan's exchange rate. Trump says the depreciation has been an intentional attempt to ease the cost of American tariff hikes. People's Bank of China Governor Yi Gang said this month that “tremendous pressure” from the U.S. had made the

currency “[a little bit weaker.](#)”

The broad consensus that's emerged among economists and strategists in the run-up to the presidential tete-a-tete is some sort of a repeat of their Buenos Aires meeting last December, which -- like the one scheduled for Saturday -- was on the sidelines of a Group of 20 summit. Trump and Xi [agreed to a truce](#) in the trade war and the resumption of talks.

Yet Trump has made clear in recent days he's keeping [more tariff hikes](#) on the table, making the weekend tough to predict. Another wild card: at least at one point, the Trump administration was pushing for a [currency-stability pledge](#) in the bilateral talks. While Chinese officials have if anything lately moved to keep the yuan stable, such an outright pledge would contrast with the stated goal of the market setting the exchange rate.

‘Handshake Agreement’

“Most likely we're going to see a handshake agreement that China and the U.S are going to resume negotiations, but we may not see a lot of concrete steps coming out of that,” said Becky Liu, head of China macro strategy at Standard Chartered Plc in Hong Kong. That sort of a consensus-forecast outcome would leave the yuan within its current 6.85 to 6.95 range, she said.

The yuan rose to 6.8674 per dollar in Shanghai Friday afternoon. Liu said an escalation in tensions would send the yuan weaker, forcing the PBOC to intervene probably to protect 7 per dollar -- even though Yi this month said no level mattered more than another. Upside for the yuan could be capped around 6.6, given China's economic fundamentals don't support sustained appreciation, she said.

[China's economy continued to weaken in June -- read more here.](#)

What Bloomberg Economists Say:

Chinese authorities are likely to be [very](#) careful in light of the risks. Even so, they

may let the currency break through if there's no resolution to the trade war. In this scenario, we would expect the PBOC to send signals to the market de-emphasizing the importance of 7 as a key threshold and emphasizing the bank's intention to avoid extreme volatility -- even while allowing the market to play a bigger role in pricing.

-- Chang Shu and Qian Wan. See the full note [here](#).

The yuan could see a mild positive effect from a deal to resume talks, said Eswar Prasad, an economics professor at Cornell University and former International Monetary Fund economist. But “it is difficult to imagine there being enough progress on deescalation of trade tensions in the coming weeks that the yuan receives a significant positive boost,” he said.

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