

# Yuan Battlefront Risks Currency Wars for World's Central Banks

[Enda Curran](#) August 5, 2019, 5:31 AM EDT

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China's move to let its yuan weaken to its lowest level in more than a decade and the Trump administration's labeling the nation as a manipulator opens up a new front the world's central banks must contend with: a currency war.

Treasury Secretary Steven Mnuchin "will engage with the International Monetary Fund to eliminate the unfair competitive advantage created by China's latest actions," the department said in a statement Monday. Should Beijing allow the yuan to keep plunging well beyond 7 per dollar, that would be a clear signal it has given up trying to mollify the U.S. president.

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The Treasury's move sent American stock futures tumbling, the offshore yuan down and the yen climbing. The 10-year Treasury yield dropped to the lowest since before President Donald Trump's election as markets priced in more easing.

A weaker yuan and knock-on to other emerging-market currencies is also a headache for the Bank of Japan and European Central Bank, whose own weakening economies don't need a stronger yen or euro. Even before the latest escalation in tensions between the world's two largest economies, central banks across the world were already turning dovish.

"The China-U.S. trade war is now setting the stage for a currency war that could end up enveloping many of the major central banks around the world," said Eswar Prasad, former IMF China division chief and author of "Gaining

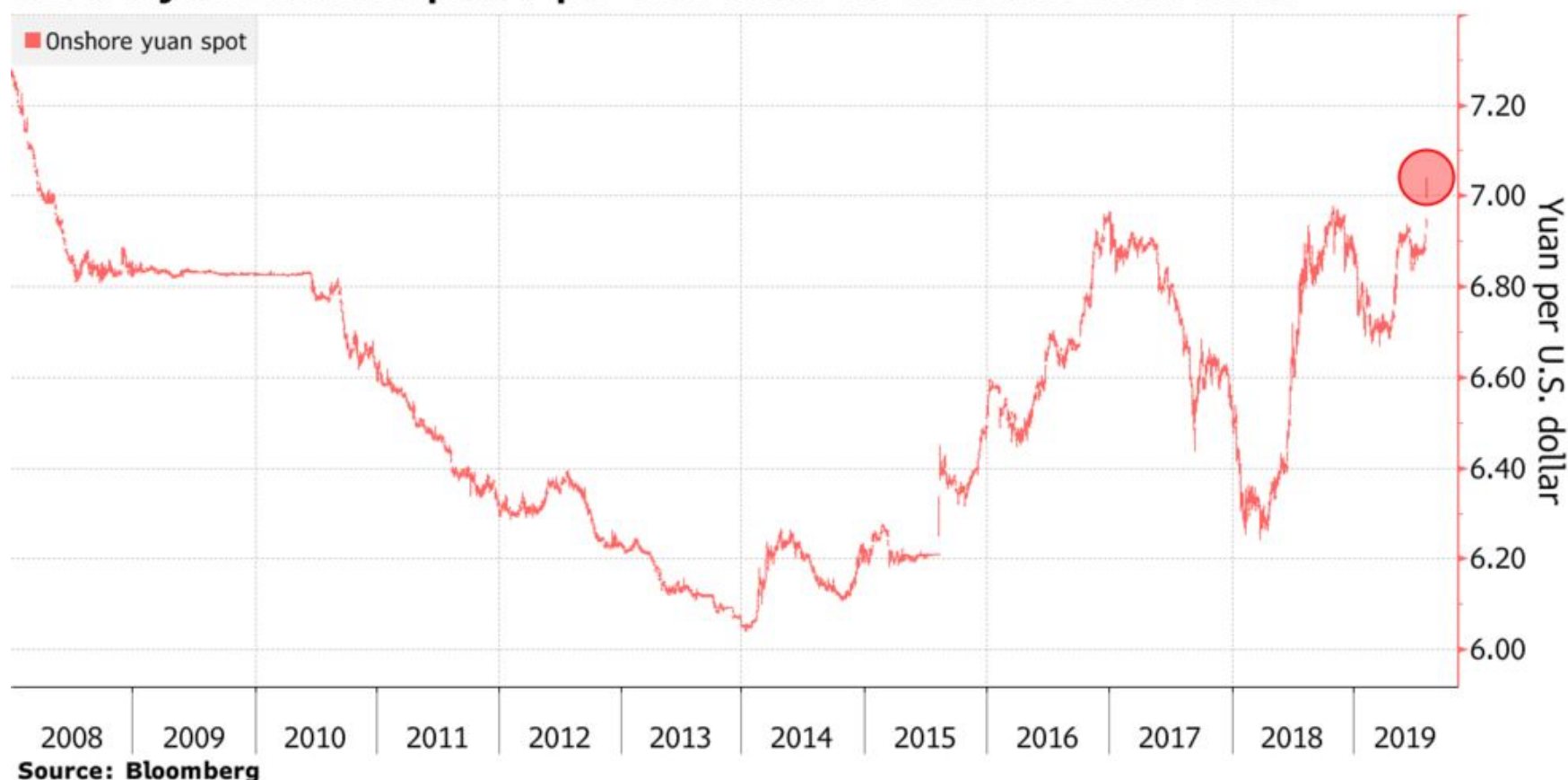
## Currency: The Rise of the Renminbi.”

Emerging economy central banks were caught in the crossfire on Monday as currencies across Asia slumped and South Korea’s won hit a three year low. It’s set to be another volatile day in financial markets Tuesday. That complicates plans among smaller economies to support growth with lower rates.

“The yuan beyond 7 is uncharted waters for the market and central banks worldwide,” said Hui Feng, a senior research fellow at the Griffith Asia Institute and co-author of “The Rise of the People’s Bank of China.

### Sudden Slump

China's yuan weakens past 7 per U.S. dollar for first time since 2008



While the PBOC pledged to keep the currency stable and economists say the yuan’s move beyond 7 was inevitable given pressures on China’s economy, the outlook remains fragile.

### What Bloomberg’s Economists Say...

“If China needed any more convincing that negotiations with the U.S. are unproductive, the Treasury’s latest decision provides it. By adding to the

trade-war turmoil, the currency manipulator tag makes a market-driven yuan drop more likely. By removing the last vestiges of political constraint on China's FX policy, it reduces Beijing's incentive to lean against it."

--Tom Orlik

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Trump last week proposed adding 10% tariffs on another \$300 billion in Chinese imports from Sept. 1, abruptly ramping up the trade war between the world's largest economies shortly after the two sides restarted talks. He has repeatedly criticized China's handling of its currency, though his Treasury department has stopped short of labeling it a manipulator.

White House economic adviser Larry Kudlow on Friday said the administration would not undertake currency intervention. Yet a week earlier, Trump said he had not ruled out taking steps on the dollar.

Slowing growth and escalating trade tensions have already forced many central banks to cut interest rates this year, even as many question if easier policy will be effective in combating the trade war's blow to business confidence and expansion plans. The Fed [cut](#) last week for the first time in a decade and others, including India, Turkey and Australia have also lowered rates. The [ECB](#) is also tipped to unleash fresh stimulus.

"If the U.S. government were really to attempt to weaken the dollar, that would be bad news for economic policy makers in Europe and Japan. In both places, currency appreciation would be very unwelcome at a time that growth is already faltering," said Louis Kuijs, chief Asia economist at Oxford Economics in Hong Kong.

(Updates with Trump administration labeling China as currency manipulator from first paragraph.)

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