Bloomberg

# Yuan Gain May Quicken as Trade Surplus Sparks Senate Protest: China Credit

By Bloomberg News - Dec 9, 2010

China's trade surplus may have exceeded $21 billion in November, set to match the biggest quarterly gap since 2008 and adding to pressure for yuan gains to appease U.S. lawmakers and cool inflation.

The excess of exports over imports in the past five months climbed to $114 billion, more than double the $55 billion total for the first six months, the median of 30 analyst estimates in a Bloomberg survey shows before a government report tomorrow. The renminbi's advance of 0.1 percent last month and 0.3 percent in October fell short of the 1.7 percent climb in September that Treasury Secretary Timothy F. Geithner signaled was appropriate.

China's policy makers, seeking to curb the fastest inflation in two years, may allow the yuan to rise 6.2 percent by the end of 2011, the most among BRIC nations, according to a Bloomberg survey of economists. Senate Foreign Relations Committee Chairman John Kerry said this week that Congress is "impatient" with the artificially low value of China's yuan and may impose legislation "with teeth" next year.

"The numbers are going in the wrong way," said Gary Hufbauer, a senior fellow at the Peterson Institute for International Economics in Washington. The current legislation in Congress targeting China will be "only the first installment unless there's a fairly major shift in the Chinese currency policy," he said.

Exports Climbing

Geithner may have indicated to China to allow yuan gains of about 1 percent a month, said Hufbauer, who previously worked at the Treasury Department. Geithner said in an interview on the "Charlie Rose" show aired on PBS Oct. 12 that the currency should rise "at a gradual but still significant rate," terming the move since the start of September as "pretty significant."

The yuan rose 0.1 percent to 6.6575 per dollar in Shanghai as of 2:25 p.m. local time, taking its gain this month to 0.2 percent. Twelve-month non-deliverable forwards reflect bets for a 2.2 percent advance in the coming year. The median estimates in Bloomberg surveys of economists are for the

Russian ruble to gain 4 percent by the end of 2011 and the Indian rupee 5 percent, while the Brazilian real should drop 2 percent.

China's exports for November may have climbed to about $140 billion, based on economists' forecasts and previous data for the same month in 2009. The estimate would be the third-biggest monthly total, and compares with a record high of $145.5 billion in July.

## Yuan Gains

The forecast trade surplus would be the fifth this year of more than $20 billion versus $19 billion a year earlier and $27 billion in October. A stronger currency could narrow the gap by making Chinese products more expensive overseas.

Exports climbed 23.6 percent in November from a year earlier, the survey indicated, compared with a 22.9 percent increase in October. Imports may have gained 24.5 percent after rising 25.3 percent.

China's Poltiburo announced Dec. 3 that the nation will officially switch to a tighter monetary stance next year, as the government seeks to damp inflation. Ba Shusong, a researcher for the cabinet, told the state-run People's Daily that the nation should allow "appropriate" appreciation in the yuan under the new stance. The nation's leaders warn excessive gains could cost too many jobs and threaten social stability.

## Inflation Surging

The pace of the yuan's gains is likely to accelerate as inflation rises and the trade surplus remains "high," said Shen Jianguang, a Hong Kong-based economist at Mizuho Securities Asia Ltd. who formerly worked for the International Monetary Fund and the European Central Bank. Shen also expects interest rates to rise by year-end, possibly as early as tomorrow.

Consumer prices probably increased 4.7 percent last month, the most since August 2008, according to the median forecast of 29 economists surveyed by Bloomberg before government data due Dec. 11. McDonald's Corp., the world's largest restaurant chain, raised prices in China last month citing higher costs.

"The current uptrend in inflation has a lot in common with the previous inflation cycle in 2007-2008," said Shen. "But with more domestic liquidity, a bigger asset bubble, and more upward pressure on resources and labor, we expect the upward pressure to be more severe this time."

The People's Bank of China raised lenders' reserve requirements twice last month and announced in

October the first interest-rate increase since 2007. The central bank will lift its one-year lending and deposit rates by a percentage point before the end of 2011, according to the median forecasts of economists surveyed Dec. 2 by Bloomberg.

Bond Yields

The yield on China's benchmark 10-year bonds reached 4.02 percent on Nov. 29, the highest level since September 2008. The rate on the 3.67 percent note due in October 2020 rose one basis point, or 0.01 percentage point, to 3.82 percent yesterday. One- year interest-rate swaps based on the floating seven-day repurchase rate climbed 11 basis points yesterday to 3.06 percent.

The People's Bank of China won't sell three-year bills in today's open-market operations amid cooling demand from banks, which are demanding higher yields. The central bank said it will sell 5 billion yuan ($751 million) of three-month bills and refrain from offering notes due in three years, halting bi- weekly auctions of the longer-dated securities, according to a statement on its website.

Five-year contracts to protect against non-payment of China's debt rose 4 basis points yesterday to 71, according to CMA prices in London. Credit-default swaps pay the buyer face value in exchange for the underlying securities or the cash equivalent should a government fail to adhere to debt agreements.

U.S. Visit

Chinese President Hu Jintao will face criticism from a new U.S. Congress when he visits Washington in January. Vice Premier Wang Qishan will also visit the U.S. this month for meetings on trade. In a Dec. 6 letter to Wang, a group of 30 senators said that the "House of Representatives recently passed legislation intended to address persistent currency undervaluation by U.S. trading partners, and the U.S. Senate may follow suit."

China had a $151 billion trade surplus with the U.S. in the first 10 months of this year, while posting deficits with Japan and Association of South East Asian Nations this year, according to Chinese data.

"China's unwillingness to allow for significant currency appreciation even as its trade surplus continues to balloon will ratchet up tensions" before Hu's visit, said Eswar Prasad, a senior fellow at the Brookings Institution and a professor at Cornell University. Tensions may "boil over into legislative action," he said.

--Rebecca Christie, Paul Panckhurst. With assistance from Chinmei Sung and Jay Wang. Editors: Paul Panckhurst, Garfield Reynolds.

To contact the reporters on this story: Rebecca Christie in Washington at rchristie4@bloomberg.net;

To contact the editor responsible for this story: Chris Anstey in Tokyo at canstey@bloomberg.net