

US Treasury officially labels China a currency manipulator

Decision comes after Beijing let renminbi fall through key level



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The Trump administration has officially labelled China a “currency manipulator” after the Chinese central bank allowed the renminbi to fall below a key threshold, marking a dramatic escalation in the trade war between the two economic powers.

The US Treasury announced its decision after financial markets closed on Monday. It came just hours after President Donald Trump again accused China of weakening its currency to create an unfair trade advantage.

The Treasury designation was seen by analysts as a largely symbolic move that would serve as a political justification for more tariffs.

“The US Treasury’s designation of China as a currency manipulator signals that the trade war is expanding into an all-out and open economic warfare between the two countries,” said Eswar Prasad, a Chinese financial system expert at Cornell University.

The Treasury department said China had a “long history of facilitating an undervalued currency” by intervening in the markets. “In recent days, China has taken concrete steps to devalue its currency, while maintaining substantial foreign exchange reserves despite active use of such tools in the past,” it said in a statement.

The designation came after China let the renminbi weaken to under Rmb7 to the dollar on Monday, [shaking markets](#) around the world. US stocks recorded their biggest one-day drop this year and [bond yields dropped](#) as investors worried that US-China trade tensions hold back global growth. On Tuesday, Asian stock markets opened [sharply lower](#).

Beijing acted after Mr Trump said on Friday the US would [impose tariffs](#) on another \$300bn worth of Chinese goods next month, shattering a truce that he reached with Chinese president Xi Jinping in June. In further retaliatory measures on Monday, Beijing asked its state-owned enterprises to halt US agricultural goods purchases in retaliation to the US tariff threat.

On Tuesday, China’s Ministry of Commerce said the government was “currently not ruling out applying additional tariffs” on imports of US agricultural goods because of Mr Trump’s plan to raise tariffs on \$300bn of Chinese goods. It added that the US president’s plans “seriously violated the consensus reached by the US and China” at the G20 meeting in June.

China’s potential tariffs would apply to purchases of agricultural goods made after August 3, the day after Mr Trump announced his tariff increase, it said.



Why renminbi fall is the latest salvo in US-China trade war

Joseph Gagnon of the Peterson Institute for International Economics said the “bombshell” move should be seen as political ploy aimed at giving Mr Trump more ammunition to justify tariffs. He said China had previously resisted weakening its currency when hit with tariffs. “China has resisted doing that, which was doing us a favour. Now they’ve decided not to do us a favour any more,” said Mr Gagnon.

Mr Prasad said the designation technically triggered a process whereby the US could ask the IMF to evaluate China’s currency policies. But he said the move had political motivations, as well. “This justification provides political cover since the currency manipulation charge has long been levelled at China by Chuck Schumer, the top Senate Democrat, and other Democrats,” he said.

The designation was welcomed by the American Iron and Steel Institute, which said Beijing’s move on the renminbi on Monday was “just one more instance of its active role in manipulating the value of its currency to promote Chinese exports”.

The currency move marks the latest serious deterioration in relations between the US and China, which have been on a downward spiral since the White House described China as a “revisionist” power in its first national security strategy at the end of 2017.

Hopes that the trade war would end rose in June after Mr Trump and Chinese president Xi Jinping agreed at the G20 summit to resume talks that had collapsed in May. After Steven Mnuchin, Treasury secretary, and Robert Lighthizer, US trade representative, returned from Shanghai last week, Mr Trump decided that China was moving too slowly. In recent days the US president had resumed his attacks on Beijing over the value of the renminbi.

“China is intent on continuing to receive the hundreds of billions of dollars they have been taking from the US with unfair trade practices and currency manipulation,” Mr Trump said on Monday. “So one-sided, it should have been stopped many years ago!”

Marc Chandler, chief market strategist at Bannockburn Global Forex, said the move by the Trump administration “won’t stand up in the court of public opinion”.

“Many people in foreign exchange markets accept the idea that the People’s Bank of China has been leaning against the wind,” he said. “They are not driving the currency down but just accepting market forces. It is hard to imagine how we claw back from this.”

In addition to accusing China of weakening its currency, Mr Trump has criticised the US Federal Reserve for policies he says have helped contribute to a stronger dollar.

Amid rising speculation that Mr Trump was putting pressure on the Fed and Treasury to intervene in the markets to weaken the dollar, Larry Kudlow, the top White House economic official, last week said the president had convened a meeting of his top economic aides and had “ruled out” any currency

intervention in the markets.

With additional reporting by Yuan Yang in Beijing

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Why the US labelled China a currency manipulator