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# China Central Bank Reintroduces Measure to Bolster the Yuan

Tool's renewed use marks the latest in quickening steps to support the Chinese currency

The reapplication of the 'countercyclical factor' essentially reasserts the central bank's heavier hand in setting the yuan's value. **PHOTO:** THOMAS WHITE/REUTERS

*By Lingling Wei*

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BEIJING—China is stepping up efforts to stem the yuan's rapid depreciation, in a policy shift intended to fend off capital flight and blunt U.S. criticism that Beijing is weakening its currency as part of the countries' trade fight.

In a statement Friday, the foreign-exchange trading arm of the People's Bank of China said the central bank has tweaked the mechanism for setting the yuan's daily official value to prevent the currency from falling too sharply. To do so, the statement said, the central bank reapplied to its model a "countercyclical factor."

The tool, used previously to counteract market forces, essentially reasserts the central bank's heavier hand in setting the currency's value, and its renewed use marks the latest in quickening steps to support the yuan.

Early this month, the central bank reimposed a yuan-trading requirement that makes it costlier for investors to wager against the yuan. Central-bank officials have also been warning commercial banks and other market participants against speculative trading in the yuan, according to Chinese officials and banking executives.

For much of the year, the PBOC has taken a more hands-off approach to the traditionally tightly tethered currency, even as the yuan dropped nearly 10% in value against the U.S. dollar between April and mid-August.

The yuan's slump is rekindling concerns among officials that businesses and individuals may rush to take money out of China. The Trump administration, meanwhile, suspects that China wants a weaker currency to help exporters and ease the impact of tariffs; Mr. Trump criticized Beijing anew for manipulating the yuan's value this past week.

The policy shift "seems aimed at reducing the risk of speculative outflows and also deflecting criticism from Washington," said Cornell University economist Eswar Prasad, who consults with Chinese officials.

The yuan's slide against a strong dollar makes it one of the worst-performing currencies in Asia. It ended at 6.8789 per dollar Friday in mainland trading, close to its weakest level in a year.

With the Chinese economy cooling and everything from factory investment to retail sales flagging, authorities have been easing credit and encouraging more spending to prop up growth—conditions that are weakening the currency.

In addition, a full-bore trade war with the U.S. threatens to drag down exports, a major driver for growth in the past year or so, and hurt overall confidence in the Chinese economy.

This week, a fresh round of trade negotiations between the two governments failed to produce any visible signs of progress. The outcome reduces the chances of a settlement in the near term and makes it more likely the Trump administration will move ahead with plans to impose tariffs on $200 billion worth of Chinese goods, escalating the trade fight that has seen the governments levy penalties on $50 billion in each other's products.

Before this week's talks started in Washington on Wednesday, officials on both sides said they were ready to discuss China's currency policy. It's unclear whether the topic came up during the discussions.

Chinese officials say the latest moves to defend the yuan show that the central bank is wary of a rapid depreciation that could trigger excessive capital outflows—as happened in late 2015 and 2016. For now, official data show China's cross-border fund flows are largely balanced. But officials fear that could quickly change if the yuan's decline is unchecked.

If that happens, companies and households will find it increasingly less attractive to hold the currency. Too much money leaving China could then create a liquidity shortage for a financial system already battling rising defaults.

Even though the latest measures could help stabilize the yuan in the near term, the policy shift means Beijing, once again, is backtracking on its efforts to make the yuan more market-driven. The central bank reimposed heavy controls on the yuan and cross-border fund flows two years ago, and some of those controls were only relaxed early this year.

The countercyclical factor was first introduced in mid-2017, as the central bank sought to curb depreciation expectations for the yuan. In January, as the yuan started to rise in value, the central bank suspended its use, signaling that it didn't want the currency to strengthen too much and that market forces could again have more sway.

In Friday's statement, the China Foreign Exchange Trade System cited the strengthening dollar and the trade friction as the main reasons investors kept bidding down the yuan. The reapplication of the “countercyclical factor,” it said, could help the yuan remain largely stable.

*—Bob Davis in Washington contributed to this article.*

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