

RMB trading band to be widened this summer

Currently the daily trading band of Chinese RMB is at 1% level and the existing foreign exchange reserve of China has been increased by \$128 billion totaling \$3.4 trillion during the first quarter of 2013. The record level of high foreign exchange reserve held by China is increasing the pressure from the USA side for further exchange rate appreciation of the RMB against the USD. Two past trading band widening actions took place weeks or days before the US-China strategic and Economic Dialogue (S&ED) meetings, on April 2012 and May 2007. This year's US-China Strategic and Economic Dialogue meeting is scheduled for July 8 to 12, 2013.

Therefore, it is expected that a new trading band increase might be announced before this meeting. Currently, one USD is around 6.17 RMB level and in line with the expected widening of the RMB trading band to 2%, we can expect around 1% appreciation of the RMB until the meeting. In other words, during the summer the USD/RMB exchange rate might be around 6.08-6.11 levels, which is equivalent to a 1.00% to 1.5% appreciation in the RMB from its current levels.

On April 17, Wang Yu, deputy director-general of the research bureau of the People's Bank of China, said that China will likely broaden RMB's trading range. A day later, the deputy governor of the Chinese Central Bank, Yi Gang, also made similar comment, saying that "the exchange rate is going to be more market-oriented," and the RMB's "trading band will be further widened in the near future." However, as well known the speed of exchange rate appreciation has been at a slow level depending on the national interests of China rather than yielding to external pressures. Therefore, the exchange rate issue will be a tension between the USA and China for longer periods of time until China has lower trade surplus against the US economy. We should also note that due to the slow economic recovery in the USA, Federal Reserve is following loose monetary policy and this leads the Chinese Central Bank to slow down the pace of appreciation against the US dollar. Chinese Central Bank will avoid giving an impression of yielding to the external pressures on their monetary policy. This means the appreciation of the RMB against the USD will be limited during this summer.

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