Yuan hits record high one year after rate reform

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(Xinhua)

BEIJING - The renminbi (RMB), China's currency, rose to a new high of 6.4696 against the US dollar on Monday.

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It indicated a 5.24-percent growth from a year earlier when China launched its further exchange reforms on June 19, 2010. The ratio on the trading day before June 19 last year was 6.8275 yuan per US dollars.

Analysts believe the new exchange rate will help fight imported inflation. The consumer price index (CPI) hit a 34-month high of 5.5 percent in May, despite the country's efforts to stifle inflation.

As global prices soar, the RMB appreciation could help reduce imports cost, relieve imported inflation pressure and boost economic restructuring, said Zhang Bin, a researcher on finance with the Chinese Academy of Social Sciences (CASS).

Despite the positive effects, yuan appreciation has also caused worries, such as soaring costs for exporters, inflows of speculative "hot money," and soaring foreign reserves, said Ding Zhijie, director of the School of Banking and Finance with the University of International Business and Economics.

Yuan appreciation is burdening Sun Yun, a clothes exporter whose export destinations mainly include the United States and European countries.

"We just finished a contract of $1 million, but the buyer is only ready to provide $200,000 in deposit and the remaining will be paid at delivery three months later. If the yuan appreciates just one percent, it would cost us a fortune," Sun said.

Many small enterprises prefer short or mid-termed deals to avoid risks of exchange rate fluctuations these days, Sun said.

Despite the pressure for exporters, the yuan appreciation will boost restructuring and help the domestic economy and commodities move upward to a higher platform with new international competitive edges, Ding explained.

Hot money inflow is another byproduct of yuan exchange rate reforms.

Yuan exchange rate reforms can help avoid depreciation trailing US dollars, but its upward trend incurs expectations of continuous appreciation and hence, speculative hot money, Ding said.

A huge amount of yuan was issued to convert foreign investment into local currencies for circulation, creating high funds outstanding for foreign exchange and thus counteracting the country's monetary tightening policies, Ding said.

The central bank has raised the bank reserve requirement ratio (RRR) six times this year to cope with high funds outstanding for foreign exchange.

China abandoned a decade-old peg to the US dollar by allowing its currency to fluctuate against a basket of currencies on July 21, 2005.

The reforms were suspended in a bid to fight the global downturn in 2008. The yuan exchange rate again was pegged to US dollars at a ratio around 6.83 from September 2008.

The peg was lifted on June 19, 2010, when the central bank announced further yuan exchange rate formation mechanisms.

In China's foreign exchange spot market, the yuan is allowed to rise or fall by 0.5 percent from the central parity rate each trading day.

The central parity rate of the yuan against the US dollar is based on a weighted average of prices before the opening of the market each business day.