
WHY MONEY KEEPS FLOWING OUT OF CHINA

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China has wiped out about a quarter of the worlds heftiest foreign-currency stockpile over the past 18 months in its quest to keep the yuan stable. According to Commerzbank AG, such intervention is futile.

Data Tuesday showed Chinas foreign reserves slipped below \$3 trillion in January, the first time theyve breached that psychologically potent level in almost six years. Yet the experiences of some fellow BRICs show that drawing down the stockpile will probably have little effect on the currencys long-term fate, Hao Zhou, Commerzbanks Singapore-based senior emerging-markets economist, wrote in a research note late Tuesday.

While efforts by Russia and Brazil in recent years might have cushioned the blow of currency declines, they couldnt change the markets dynamics. In Russias case, a collapse in oil prices and the imposition of economic sanctions over the Crimea crisis proved more powerful drivers than the sale of a third of the countrys foreign-currency hoard between April 2013 and March 2015. The ruble fell more than 50 percent versus the dollar in the period.

Brazil similarly failed to arrest the reals decline from the start of 2013 to the end of 2015, when its economy fell into what some termed an economic depression. The Latin Americas central bank used foreign currency swaps instead of tapping reserves to try and stem the reals drop.

At the end of the day, fundamentals are still the key factor, Hao said.

The yuan is under pressure to weaken due to the economys bumpy growth profile, said Hao, who forecasts it will slip to 7.15 per dollar by the end of this year from current levels around 6.88. The yuan slumped 6.5 percent in 2016, its worst performance in more than 20 years.

Intervention has not changed the market expectations over yuan exchange rates, he said.

Kaynak/Source: