# China's yuan move: not 'why' but 'why now?'

BBC News

"THIS isa not what New China should look like", screams one report in my inbox this morning.

I've seen similar statements repeated across the board since China's surprise move to devalue its currency yesterday and then by allowing it to weaken further on Wednesday.

As currency analyst Philippe Gelis told me: "China's rapid U-turn in monetary policy highlights that's the nation's economic situation is reaching desperation point.

"Despite previously stating that the currency would let the yuan float, China has instead opted for a clear currency war".

Strong words, for what seem on the surface to be small moves.

Let's look at the numbers. China devalued its currency against the US dollar by 1.9 percent on Tuesday and cut it's reference rate by a further 1.6 percent yesterday. China sets its own exchange rate for its currency - although it's now saying that the new mechanism it has used to change the value of the yuan will be more market oriented.

But still - those are tiny devaluations in the big scheme of things.

Also the devaluations are unlikely to have an immediate effect on exports. DBS Bank in its daily breakfast note said "A proper devaluation is 10 - 30 percent, and it has to stay the course for a year before exports start to show any change".

But the question we should be asking isn't how much did China's devalue its currency by - but why now?

China's been under international pressure to allow its currency to be driven by market forces as opposed to by the government for years. The US has been its biggest critic - saying that Beijing keeps the currency artificially low to help boost exports.

So in theory, China says it is doing what the US and the international community wants. According to the language of the Chinese central bank, China will now allow the yuan's value to be more flexible.

This has already got it a nod of approval from the International Monetary Fund (IMF) which overnight said China's new mechanism for setting the daily reference rate for the yuan was a "welcome step".

Remember China wants to enter the IMF's elite global currency club - something it can't do without more of a more market driven exchange rate.

So again - in theory - the US should have welcomed this move too. But overnight, the US Treasury department said:

"We will continue to monitor how these changes are implemented and continue to press China on the pace of its reforms…Any reversal in reforms would be a troubling development."

So let's go back to that key question: why did China devalue its currency now - and allow for market forces to play more of a role now?

Well some economists say the timing of the depreciation appears to be far too sudden, a kneejerk reaction to the weaker than expected export figures.

Over the weekend export figures showed a slump of more than 8 percent from last year. Analysts say Chinese officials are clearly concerned about the fact that rebalancing their economy and moving from exports to consumption is taking longer than they expected.

But Chinese factories employ millions of people - and any sharp slowdown could affect their livelihoods - and lead to massive job losses, which could make the Chinese government unpopular - and possibly lead to social unrest.

The reality is that rebalancing takes time - but it appears that it may be taking too long for Chinese officials to allow the economy to re-engineer itself.

China's move is already having repercussions around the region. Asian currencies are reacting by all falling even lower than the levels they've been trading at. So this move could be seen as a race to the bottom - one in which nobody wins, as one DBS report put it:

"So China goes back to producing stuff that generates lower and lower profit margins - stuff that is increasingly surplus to what the world can consume…. That would be unsustainable. "

But China has already said it's not trying to manage the money markets - in a statement the People's Bank of China said "Looking at the international and domestic economic situation, currently there is no basis for a sustained deprecation trend for the yuan."

Whether the market will remain convinced of that though, will depend on what China's next move will be.

REUTERS

Men stand next to a board showing currency exchange rates of the US dollar, euro, and British pound against the ruble in Russia. The Russian ruble hit a six-month low yesterday, tracking down lower oil prices and ignoring a central bank statement saying that the devaluation of the Chinese yuan may ultimately benefit the ruble.

## Russia's ruble slides on Chinese yuan cut

AFP, *Moscow, Russia*

RUSSIA'S currency fell to a six-month low Wednesday as oil prices were forced down by China's devaluation of the yuan for the second straight day, with the dollar topping 65 rubles.

The ruble hit 65.25 to the dollar and 72.48 to the euro in early trading before recovering slightly, approaching the lows of over 67 rubles in early February.

The ruble's creeping 20 percent slide over the last two months has given rise to new fears of destabilisation and a run on the currency similar to one in December that was brought on by falling oil prices and Western sanctions over Ukraine.

Russia's government has predicted that the economy would have hit the bottom in the second quarter, when it contracted by 4.6 percent year-on-year.

Analysts have said they expect a recovery will start in the current quarter.

The ruble is highly dependent on oil prices, as oil and gas is the main source of Russia's income.

Russia's optimism regarding an oil recovery has been "short-lived," said a note by ING Bank's chief Russia economist Dmitry Polevoy.

## IMF welcomes China currency devaluation

AFP, *Washington*

THE International Monetary Fund welcomed Beijing's surprise devaluation of the country's currency, saying it will allow market forces to play a greater role in the nation. China cut the yuan's value against the dollar for a second day Wednesday, sending ripples through financial markets and raising fears that the currency could fall further.

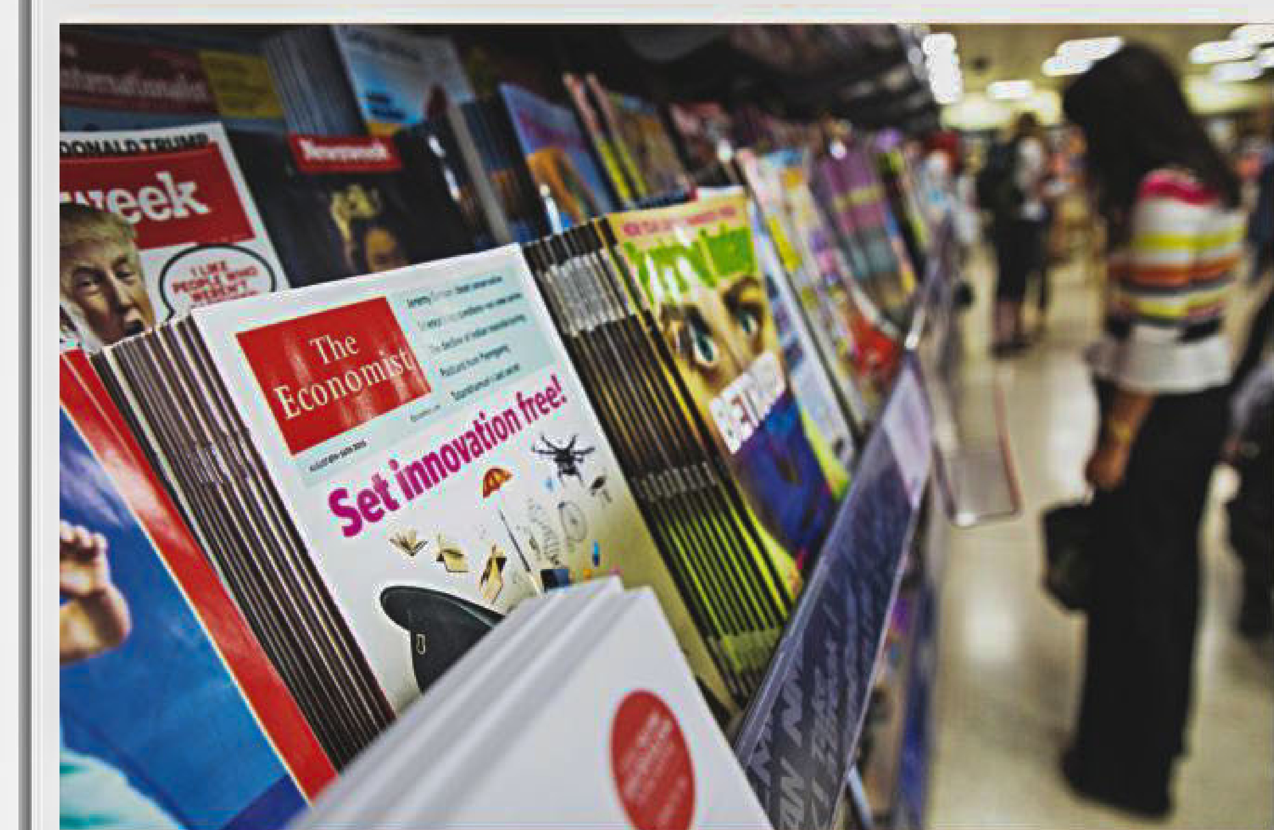
The IMF said the step could be a boon in the long run.

"The new mechanism for determining the central parity of the renminbi (yuan) announced by the PBC (People's Bank of China) appears a welcome step as it should allow market forces to have a greater role in determining the exchange rate," an IMF spokesman said in a statement.

"Greater exchange rate flexibility is important for China as it strives to give market forces a decisive role in the economy and is rapidly integrating into global financial markets," the statement said, adding that China should achieve a floating exchange rate within two to three years.

After Tuesday's devaluation Chinese authorities said they were seeking to push market reforms in a one-time move.

Officials will now use the previous day's close, foreign exchange demand and supply and the rates of other major currencies to decide the daily rate around which the Chinese currency can trade.




AFP

A copy of the Economist magazine is pictured on a news stand in London. British publishing company Pearson yesterday said it had agreed to sell its 50-percent stake in the Economist Group, owner of the prestigious magazine. The share is being sold for £469 million, split between the Economist Group itself and Italian investment firm Exor, which is controlled by the Agnelli family.

## Malaysian ringgit slumps to weakest level in 17yrs

AFP, *Kuala Lumpur*

MALAYSIA'S ringgit currency slid past 4.0 to the dollar on Wednesday for the first time in 17 years, pounded by concerns over economic growth and political uncertainty stemming from a government financial scandal.

Analysts said China's surprise devaluation of the yuan also pressured the ringgit, the worst-performing currency in Asia over the past year.

Malaysia's economy has been dogged for months by concerns that slumping oil prices will harm growth in the oil-exporting country.

Prime Minister Najib Razak also is struggling to fend off corruption allegations related to his links with debt-ridden state investment firm 1Malaysia Development Berhad (1MDB).

"Malaysia's vulnerability is heightened by deteriorating terms of trade, high debt, and a fragile fiscal position highly dependent on oil-related revenue," said Chua Hak Bin, an economist with Bank of America Merrill Lynch.

"Political uncertainty and 1MDB are also hurting consumer and business confidence."

The ringgit closed near 4.03 on Wednesday, down 1.36 percent on the day and more than 20 percent over the past year, according to Bloomberg News.

Najib has faced mounting pressure in the past year over allegations that hundreds of millions of dollars disappeared from deals involving 1MDB, which he launched in 2009.

The Wall Street Journal last month reported that Malaysian government investigators had found nearly $700 million was routed to Najib's personal bank accounts.

Najib and 1MDB have denied wrongdoing, and Malaysia's anti-graft agency has claimed the deposits were "donations" from unidentified parties, a contention that has been questioned by critics.

Global funds have pulled about $3 billion from the country's stock market this year, Bloomberg said. Malaysia's main stock index has lost more than 13 percent since April.

The ringgit's level on Wednesday was the lowest since then-leader Mahathir Mohamad imposed capital controls and a peg of 3.8 ringgit per dollar in 1998 to shield the economy amid a regional financial crisis.

The government on Thursday unveils the figure for second-quarter economic growth, which analysts expect to have slowed from the previous quarter's 5.6 percent.

## Sealing Pacific trade deal will be tough: Australia

AFP, *Sydney*

AUSTRALIA'S trade minister said Wednesday the last negotiating stages of a massive Pacific trade pact were "very difficult", with the deal more likely to fail when the US presidential election cycle kicks in.

Australia and 11 other Asia-Pacific countries have for more than five years been negotiating the Trans-Pacific Partnership (TPP), an agreement that would encompass 40 percent of global trade.

The most recent round of talks -- billed to be the last -- failed to reach aagreement in late July.

"I think it's still doable," Andrew Robb told the National Press Club in Canberra. "We did really get very close but... the last few yards are very difficult."

Robb said if two key issues -- auto trade and dairy -- were resolved, it would only take several days of negotiations to seal the deal but the timing of such agreements was crucial.

"Canada is into an election already. So there are some complications and the closer we get to a US presidential election, the more prospect of it falling over," he said.

"If we don't shake on it, my experience in doing deals in business and in government over nearly 40 years is that the chances are it will fall apart. We won't get back to it."

US Secretary of State John Kerry said last week in Vietnam, one of the nations involved in negotiations, that he was hopeful of securing a deal by the end of the year.

## Facebook struggles to sell advertising in India

Reuters, *San Francisco/Mumbai*

FACEBOOK is trying to lure skeptical advertisers in India with features such as free email support for questions about advertising and advice on increasing sales in a bid to boost revenue from its second biggest market.

Facebook has 132 million users in India, trailing only the 193 million in the United States, according to the company, and the country is critical for the Menlo Park, California, social network's global expansion.

But so far, the payoff has been small: Facebook earns 15 cents per user in India every quarter, compared to the $7 to $8 it makes on each US user, according to analysts.

Facebook does not break out its revenues in India, but Neil Shah, an analyst at Counterpoint Research, a Hong Kong-based technology consulting firm, estimates it brings in $15 million a quarter, far behind the $350 million he estimates Google earns there per quarter.

Google, which set up in India in 2004, has been in the Indian market six years longer than Facebook, and its search ads are more familiar to advertisers there than the display ads Facebook offers.

The business-boosting features, described to Reuters by company executives and Indian business people, are aimed at advertisers such as Mohit Khattar, managing director at online grocery company Godrej Nature's Basket, one of the roughly 60 to 65 million small- and medium-sized businesses in the country.

REUTERS/FILE

A man is silhouetted against a video screen with a Facebook logo.

He said he began advertising on Facebook about two months ago as the company ramped up its online presence. He found that advertising in-store events and advertising helped attract customers, but would not provide specific figures.

"Since our customers are on Facebook, we are on Facebook. It's that simple," Khattar said.

Facebook declined to say how many staff members it has in India or how much it has invested since it launched operations there in 2010.

But the world's largest social network says it has seen early signs its efforts are working. The company unveiled a new type of ad designed specifically for India last year, called "click to missed call."

Users click a button on an ad, which automatically calls an advertiser. The user hangs up - to save them the charge for the call - and the advertiser calls back with a pre-recorded message.

Garnier Men, a leading men's hair care company in India and a unit of beauty products giant L'Oreal SA, saw online sales more than double by using click to missed call, according to Facebook and the company.

But Indian advertisers still overwhelmingly flock to television ads and remain skeptical of the value of advertising on social media, analysts and business executives said.

"Advertisers in India are not warmed enough to social media as a concept of marketing," said Shah, the Counterpoint analyst.

"We really need to help them see how Facebook pages and advertising will help grow their businesses," said Andy Hwang, Facebook director of small- and medium-sized businesses for Asia Pacific.

For instance, the company advises businesses to create interactive Facebook pages and use Facebook Messenger to interact with customers as a way of increasing sales.

Technology companies have turned to India and other markets in Asia for growth because the region contains two-thirds of the world's population. Asia is Facebook's fastest-growing region, with 57 percent year-over-year growth in monthly active users.

India alone has 1.3 billion people, second only to China, and Facebook increased the number of users there by 22 percent last year. On the other hand, only 252 million people in India have Internet access.

Expansion in India is also important because of the "China factor." Facebook, like Google Inc and Twitter Inc, is shut out of the biggest market of all due to the Communist government's concerns over control of information. Other tech companies, such as eBay and Yahoo, have struggled to crack the Chinese market.