Currency Manipulation

The US Treasury Department has **declared China** as a **currency manipulator.** This move comes after the People's Bank of China (PBOC), which is the central bank of China, allowed the **yuan** to suddenly **depreciate** (or lose value) **relative to the dollar** by 1.9% - one of the biggest single-day falls.

Background

- China's currency move came as a result of new tariffs announced by the US President on $300 billion of chinese imports.
- The move roiled markets, with **S&P 500 Index sliding more than 1%** in Asia.
    - The S&P 500 or Standard & Poor's 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies.
- Also, a weaker yuan makes **Chinese exports more competitive,** or cheaper to buy with foreign currencies.
- The US government has said that it will now engage with the **International Monetary Fund (IMF)** to eliminate the unfair competitive advantage created by China's latest actions.
- It seems that the ongoing **trade war** between the world's two biggest economies is now turning into a **currency war** as well.

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- Currency manipulation happens when governments try to artificially tweak the exchange rate to gain an "unfair" advantage in trade.
- The US Treasury department defines currency manipulation as **when countries deliberately influence the exchange rate between their currency and the US dollar** to gain "unfair competitive advantage in international trade".
- Once a country is designated as a currency manipulator by the U.S., the next step taken by the US government is to seek negotiations with the government accused of manipulation.
    - But officials in Beijing and Washington have already been engaged in trade talks for more than a year.
    - If there is no progress a year after the designation, China could face possible sanctions including its firms being prohibited from competition for US government contracts and excluded from getting financing from an American government agency for development projects.

Exchange Rate

- Exchange rate is the **price of one currency in terms of another currency.**
- It often determines the affordability of buying or selling internationally.
    - For instance, if one wants to buy a car produced in the U.S., that will involve two transactions: one, using rupees to buy dollars; two, using these dollars to buy the car.
- The exchange rate for any currency would be **determined by the interplay of its demand and supply.**

- For instance, if more Indians want to buy US goods, there would be a higher demand for the dollar relative to the rupee. This, in turn, would mean the dollar would be “stronger” than the rupee — and gain in strength as the demand increases.
- If demand falls, the dollar would depreciate relative to the rupee (or the rupee would appreciate relative to the dollar).

- **Sometimes central bank of a country intervenes** to reduce wild fluctuations in the exchange rate. But excessive and **undisclosed interventions are not considered fair.**
    - For instance, if China’s central bank buys dollars in the forex market, it can artificially weaken the yuan — and Chinese goods will then become more affordable (and competitive) in the international market.

Source: IE

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