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China hints at halt to renminbi rise

By Jamil Anderlini in Beijing

Chinese central bank officials have suggested the renminbi is no longer significantly undervalued after six years of gradual appreciation, citing the country's large trade deficit in February.

According to recently released government figures, last month China notched up its biggest monthly trade deficit since 1998, with imports outpacing exports by $31.5bn. "This trade deficit is a positive sign that the renminbi exchange rate is close to its equilibrium level," Yi Gang, deputy central bank governor, said at the National People's Congress, the annual session of China's rubber-stamp parliament.

Zhou Xiaochuan, central bank governor, was more cautious on the sensitive issue of whether the renminbi is fairly valued. Asked whether the February trade deficit meant the renminbi was approaching equilibrium, Mr Zhou said that this was a "good thing".

The central bank governor also dodged a question about whether the central bank had decided to halt the appreciation of China's currency. "Generally speaking, as the renminbi exchange rate gets closer to the equilibrium point the market supply and demand should take a greater role - that is to say we should allow and encourage a greater role for market supply and demand," he added.

The US and other trading partners have long argued that China's exporters receive an unfair advantage from an undervalued currency. US president Barack Obama has, however, refrained from formally declaring China a "currency manipulator". Mitt Romney, frontrunner for the Republican presidential nomination, said he would make that designation on his "first day in office".

"While China has allowed the [renminbi] to rise minimally, we are still far from equilibrium," said Sherrod Brown, a Democratic senator from Ohio. "We are past the point of being patient."

Since China removed a decade-old peg to the dollar in July 2005, the currency has appreciated roughly 30 per cent against the greenback. Beijing did, however, reinstate a de facto peg during the 2008 financial crisis that kept the renminbi fixed against the dollar for two years. After appreciating five per cent against the dollar in 2011, the renminbi has barely budged this year.

Last week it had its weakest run against the greenback since mid-2010. Monday also saw the biggest one-day weakening in the daily renminbi-dollar reference rate, set by China's central bank, since August 2010.

A growing number of analysts point to China's trade data, cross-border capital flows and slower accumulation of foreign exchange reserves as evidence that the renminbi is no longer grossly undervalued. "Fundamental surpluses have continued to narrow and the renminbi is closer to the equilibrium value than ever before," said Paul Mackel, head of Asian currency research at HSBC. "This structural change in China's balance of payments has profound implications for the currency."

Chen Deming, China's commerce minister, last week said the renminbi's exchange rate had reached a "reasonable range". Li Daokui, a central bank adviser, also said the currency was close to its fair value.

Mr Zhou noted that China also notched up a trade deficit in the first few months of 2011 but ended the year with a $150bn trade surplus thanks to seasonal fluctuations and a continued surge in exports. Partly because of distortions arising from the lunar new year holiday, China reported a large trade surplus in January, making the combined trade deficit for January and February around $4.2bn.

Most analysts expect the surplus for 2012 to narrow from last year, especially as key export markets such as Europe remain sluggish. Mr Zhou identified the unstable economic and financial situation in Europe and a slow global recovery as the biggest uncertainties for China's economy this year.