

## **China's yuan still a narrow peg - expert**

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**\*\*SINGAPORE:** China's revaluation of the yuan was so small and its new trading ranges are so tight that the currency effectively remains a narrow peg, a Singapore-based professor of international economic policy said yesterday. **\*\***

Ramkishan Rajan, who teaches at Singapore's Lee Kuan Yew School of Public Policy and has researched extensively on Asian exchange rate regimes, said only time would tell whether the yuan was pegged exclusively to the US dollar or to a broader basket of currencies.

"One can say they are effectively still operating a narrow peg. But the question is narrow peg to what - narrow basket peg or narrow US dollar peg? Too early to say right now," Rajan said.

China severed a decade-old yuan peg to the US dollar last Thursday, and said it would manage the yuan against a basket of currencies.

It revalued the yuan by 2.1 per cent to 8.11 per dollar, and said markets could trade the dollar-yuan pair each day in a 0.3 per cent band around the previous day's close.

Since being depegged, the yuan has defied market expectations of a gradual appreciation and has instead weakened on 3 of the last 4 trading days. It ended Wednesday at 8.1128 a dollar.

Its constricted range of 8.1089 to 8.1128 over these 4 days has given rise to speculation that the yuan may still be managed tightly against the dollar.

"We can only tell this when there are significant movements in the major currencies like the US dollar, yen and euro," Rajan said.

"If the yuan moves almost one to one with the dollar, then we know it is a narrow dollar peg still, rather than a basket peg." Rajan said the new yuan regime was not really a managed float.

Nor could the regime be termed a band-basket-crawl or BBC, a system that Singapore follows, since the yuan was not being allowed to crawl and its trading range of 0.3 per cent was hardly a band, he said.

China's central bank, the People's Bank of China, said last week the yuan would only be allowed to fluctuate 1.5 per cent against non-dollar currencies such as the euro, yen and sterling pound, which are traded on the domestic currency exchange.

"A basket does not operate like this. Generally a basket implies that you are pegging the nominal effective exchange rate at some level and you may have a band around that to allow it to fluctuate," Rajan said. "You don't worry about how much it necessarily fluctuates relative to specific currencies - you are only concerned about your effective exchange rate."