

# The new Chinese monetary system

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From 'The Economist' (EU Kindle edition) of 15th August 2015, chapter 'Finance and economics', 'The devaluation of the Yuan. The battle of midpoint':

Every morning, marketmakers such as the big state-owned banks submit yuan-dollar prices to the People's Bank of China (the central bank). It then averages these to calculate a 'central parity' rate, or midpoint. Over the course of the day, the PBOC intervenes to keep the exchange rate from straying more than 2 % above or below the midpoint.

The aim of the reform is to establish the yuan as an international **reserve currency**.

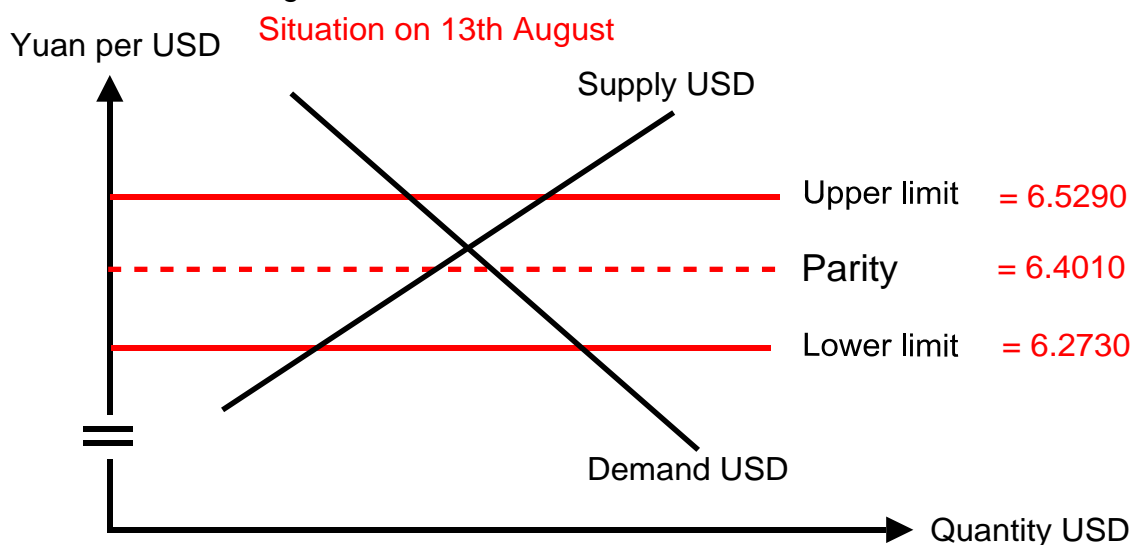
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It is a **system of fixed exchange rates** with the following features:

- The parity (midpoint) is not set by the central bank (PBOC), but by large state-owned banks and by market conditions.
- The parity is reset daily, namely on the basis of the previous day's closing rates.
- The band of 4 % ( $2 * 2\%$ ) can be regarded as high.

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- Closing rates on 12th August 2015: Yuan 6.3870 = US Dollar (USD) 1
- Situation on 13th August 2015:



6.3870 and 6.4010 from NZZ (Kindle) 14th August 2015: 'Chinas Notenbank lässt los'

- **Daily interventions** by the Chinese central bank:
  - if the upper limit is exceeded:  
supply of USD to get lower rates
  - if the rate falls under the lower limit:  
demand of USD to get higher rates

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By applying such a system **massive rate changes in a short time can be avoided:**

- During the day, the rate can fluctuate within the band of 4 %.
- From one day to another, the fluctuations are limited to approximately 2 %  
(at the maximum either from the upper limit or from the lower limit to the new parity  
= half of 4 %).