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## PBoC seeking a weaker yuan?

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- EM FX lower ahead of FOMC and further declines in commodity prices
- PBoC allowing market forces a greater role ahead of FOMC meeting
- No change in PBoC FX policy

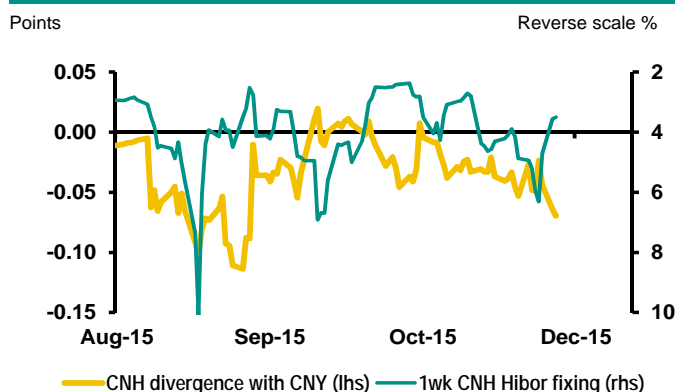
### EM FX lower ahead of FOMC and weaker commodity prices

Emerging market currencies were mostly lower in the past week as financial markets position for a US rate lift-off to take place likely next week. In addition, the resumed slide in commodity prices exerted downward pressure on currencies of commodity producers. Weaker oil prices is also likely to weigh on inflationary pressures in most emerging market economies, increasing the likelihood that monetary policy will remain loose for a longer period.

### PBoC allowing market forces a greater role ahead of FOMC meeting next week

Since last Friday, we suspect that the People's Bank of China (PBoC) has either refrained from or reduced its intervention activities in the currency market to defend weakness in the Chinese yuan. This is based on several observations.

### CNH discount to CNY; 1wk CNH Hibor fixing



Source: Bloomberg

First, both the onshore (CNY) and offshore (CNH) exchange rates have depreciated significantly versus the US dollar over the past week. Second, both onshore and offshore short term rates have started to trend lower, reflecting an improvement in liquidity as

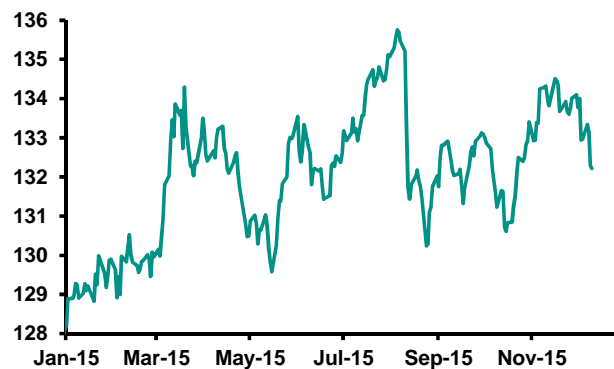
intervention activities decline. Third, the onshore yuan divergence with the daily reference rate has also increased. Fourth, the offshore yuan (CNH) discount to the onshore yuan (CNY) has widened to above historical average. We suspect that the PBoC is allowing market forces to play a larger role in determining the exchange rate ahead of next week's US FOMC monetary policy meeting (16 December). This is similar to what was observed during weeks before the September FOMC meeting. Nevertheless, ahead of the next FOMC meeting, we expect a CNH discount to the CNY of around 1000 pips to trigger action from the central bank.

### No change in PBoC FX policy

We do not think that there has been a fundamental change in the central bank's exchange rate policy. We still think that the PBoC is not willing to tolerate a too sharp depreciation of the currency, as that might trigger more capital outflows. Furthermore, the weak yuan fixing against the US dollar is not materially out of line with other currencies' movements as the yuan has not declined substantially against its trade weighted basket of currencies. We still expect the CNY to weaken versus the USD in 2016 to 6.55 end-of-period. This is less pessimistic than what the forwards market are implying (above 6.70).

### CNY TWI

Index value



Source: BIS, ABN AMRO

### ABN AMRO emerging market currency forecasts

	10-Dec	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
USD/CNY (onshore)	6.44	6.40	6.45	6.50	6.55	6.55	6.55	6.55	6.50	6.50
USD/CNH (offshore)	6.52	6.40	6.47	6.53	6.57	6.57	6.57	6.55	6.50	6.50
USD/INR	66.8	66	66	67	67	67	67	66	66	65
USD/KRW	1,182	1,190	1,200	1,220	1,230	1,240	1,240	1,220	1,200	1,200
USD/SGD	1.40	1.43	1.45	1.47	1.48	1.50	1.50	1.48	1.46	1.45
USD/THB	36.05	36.80	37.00	37.20	37.50	38.00	38.00	37.50	37.20	37.00
USD/TWD	32.65	33.00	33.50	33.70	33.80	34.00	34.00	33.70	33.50	33.20
USD/IDR	13,954	14,300	14,500	14,800	14,900	15,000	1,500	14,700	14,500	14,200
USD/RUB	69	60	60	60	55	55	55	55	50	50
USD/TRY	2.91	3.00	3.00	2.95	2.95	2.90	2.85	2.80	2.75	2.75
USD/ZAR	14.98	14.00	13.80	13.60	13.40	13.20	13.00	12.80	12.70	12.50
EUR/PLN	4.34	4.20	4.20	4.15	4.15	4.10	4.10	4.05	4.05	4.00
EUR/CZK	27.50	27.00	27.00	27.00	27.00	26.50	26.25	26.00	25.75	25.50
EUR/HUF	316	310	305	300	300	300	295	290	285	280
USD/BRL	3.75	3.80	3.75	3.70	3.60	3.60	3.55	3.50	3.45	3.40
USD/MXN	17.06	16.75	16.50	16.25	16.00	15.75	15.50	15.25	15.00	14.50
USD/CLP	704	700	690	680	670	660	650	640	630	620

Source: ABN AMRO Group Economics

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