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## PBoC seeking a weaker yuan?

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- **Sell off in Chinese yuan – PBoC willing to let yuan fall to 6.80**
- **Remain sceptical on market news**
- **Chinese yuan forecast under review post Brexit**

### **Selloff in Chinese yuan – PBoC willing to let yuan fall to 6.80**

Both the onshore and offshore Chinese yuan were under pressure after Reuters reported that the People's Bank of China (PBoC) was willing to let the yuan fall to 6.80 against the US dollar this year. This is weaker than what was implied by the non-deliverable forwards market. The onshore yuan (CNY) declined from 6.6440 to 6.6540 and the offshore yuan (CNH) was sold off more aggressively declining from 6.66 to 6.70. The selloff in the Chinese yuan had a spillover effect on other Asian currencies including both the euro and the Sterling. At the time of writing, losses in both the CNY and CNH were total erased.

### **Remain sceptical on market news**

Though we cannot verify if the news was credible, in our view we think that the announcement from the PBoC (if true) is untimely. This is because though market sentiment has improved modestly in the past few days, it remains fragile. Any public announcement that they are seeking a weaker yuan will magnify capital outflow concerns. In addition, central banks tend not to specify a particular level for a currency. It is also against the principle that the PBoC is seeking to let the yuan be more market based, ahead of the CNY implementation in the SDR basket later this year on 1 October.

### **Chinese yuan forecast under review post Brexit**

Our 2016 year end USD/CNY forecast of 6.70 is under review, given that the unexpected Brexit outcome is likely to weigh on risk sentiment in financial markets in the coming months. Our new forecasts can be expected next week.

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