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Yuan Strength Could Pressure U.S. Dollar, Trade Balance

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The Chinese yuan may strengthen beyond 7 per U.S. dollar if global market conditions align, raising potential implications for U.S. trade and financial markets. The outlook comes from Guan Tao, global chief economist at Bank of China International Securities and a former senior official at China's State Administration of Foreign Exchange.

Guan said several developments could put pressure on the dollar and support the yuan, including potential U.S. economic weakness, possible Federal Reserve interest rate cuts, and declining investor confidence in U.S. assets. He also suggested that renewed trade negotiations between Washington and Beijing—similar to the deal reached during President Donald Trump's first term—could encourage global investors to shift capital toward Chinese markets.

The U.S. dollar has already declined about 8% this year, reflecting market expectations of slower growth and eventual rate cuts. However, the yuan has gained only 1.6% against the dollar, trailing other Asian currencies. Against a broader trade-weighted basket, the yuan has dropped 5.2%. Analysts say this underperformance has fueled speculation that Beijing is deliberately restraining its currency, but Guan rejected that view.

"The Chinese government's aim is not to weaken the currency to boost exports, but to prevent excessive short-term volatility," Guan said. He added that China has the tools to manage fluctuations and should continue to let the yuan be more market-driven.

For U.S. policymakers and businesses, a stronger yuan could have mixed effects. American exporters may find improved competitiveness in China if the dollar weakens relative to the yuan, but U.S. importers could face higher costs on goods manufactured in China. Economists also note that a stronger yuan could reduce inflationary pressure in the U.S. by making Chinese goods more expensive, thereby curbing import volumes.

Major global banks—including Deutsche Bank, UBS, and Toronto-Dominion—have recently raised forecasts for the yuan to approach 7 per dollar. The offshore yuan last crossed that level in September 2024 and is now trading near 7.18.

China's central bank has signaled caution on further monetary easing, pledging to maintain a "reasonable and balanced" exchange rate while supporting growth through a moderately loose policy. Guan, however, cautioned U.S. and global investors not to underestimate risks.

"The U.S. and China may have extended their trade truce by 90 days, but tough negotiations could still reignite frictions and put the currency back under pressure," he said.

With U.S.–China trade relations closely tied to currency stability, the yuan's trajectory remains a key marker for Wall Street and Washington in the months ahead.

Yuan Could Strengthen Past 7 Per Dollar, Says Chinese Economist

The Chinese yuan may rise beyond 7 per U.S. dollar if market conditions align, according to Guan Tao, global chief economist at Bank of China International Securities. Guan's comments come as traders weigh whether Beijing will allow the currency to appreciate, despite lingering uncertainty in U.S.–China trade relations.

Guan, a former senior official at China's State Administration of Foreign Exchange, said several factors could lift the yuan. These include potential U.S. economic weakness, possible Federal Reserve rate cuts, and eroding investor confidence in the dollar. He added that the prospect of a renewed U.S.–China trade deal, similar to the one reached during President Donald Trump's first term, may also boost sentiment toward Chinese assets.

Even though the dollar has declined about 8% this year, the yuan has gained only 1.6%, lagging behind many Asian currencies. Against a trade-weighted basket, the yuan has fallen 5.2%. Analysts say this underperformance has fueled speculation that Chinese policymakers are deliberately managing the exchange rate, but Guan rejected that view.

"The Chinese government's aim is not to weaken the currency to boost exports, but to prevent excessive short-term volatility," Guan said. He noted that China has the tools to handle greater exchange-rate fluctuations and should continue allowing the yuan to be more market-driven.

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China's central bank has signaled caution on further monetary easing, pledging to implement a moderately loose policy while keeping the yuan at a "reasonable and balanced" level. Still, Guan warned investors not to ignore risks.

"The U.S. and China may have extended their trade truce by 90 days, but tough negotiations could still reignite frictions and put the currency back under pressure," he said. "Markets should not become too complacent."

The outlook for the yuan remains tied to broader U.S.–China economic relations, making the exchange rate a key marker for global investors in the months ahead.