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China May Float Yuan, Shun One-Off Jump, Survey Shows (Update2)
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(Rewrites headline.)

By Bob Chen

April 13 (Bloomberg) -- China may allow the yuan to appreciate by June 30 to curb inflation while avoiding a one- time jump in value that might endanger export jobs, a survey of analysts showed.

Twelve of 19 respondents surveyed by Bloomberg said the central bank will allow the currency to float more freely this quarter, five expect it to happen by Sept. 30, and the rest see the move by year-end. Eleven rule out a one-off revaluation, including state-owned Bank of China Ltd. and China Construction Bank Corp. Fifteen predict a wider daily trading range.

China, which relies on manufacturers to help create jobs for 230 million migrant workers, will safeguard “its own economic and social development needs” when deciding exchange- rate policy, President Hu Jintao said in Washington yesterday.

Allowing the currency to strengthen would temper inflation after a 17 percent surge in import prices in March from a year earlier helped cause China’s first trade deficit since 2004.

“China won’t allow one-off revaluation when it’s faced with foreign pressure,” said Zhao Qingming, a senior analyst in Beijing at Construction Bank, the country’s second-largest lender. Even so, he added, “China may let the yuan exit the dollar’s peg at the end of the second quarter or the start of the third as the rebound in the economy is quite good.”

The trading band may be widened to between 0.75 percent and 3 percent either side of the central bank’s daily reference rate, the survey showed. In May 2007, the central bank widened the daily trading band to 0.5 percent, from 0.3 percent.

‘Managed Float’

The median estimate in the survey is for the yuan to strengthen 3.1 percent to 6.62 per dollar by year-end. Estimates ranged from 6.4 yuan to 6.8 yuan in the survey carried out since April 9. Eight respondents forecast an one-time gain of between 0.5 percent and 5 percent.

The yuan was revalued by 2.1 percent on on July 21, 2005, after China ended the decade-long peg to the dollar and introduced a “managed float” against a basket of currencies.

Speculation on when and how the yuan will begin appreciating escalated in the past week as U.S. Treasury Secretary Timothy Geithner met Vice Premier Wang Qishan in Beijing after delaying a decision on whether to label China a currency manipulator.

Forwards Weaken

The New York Times reported on April 8 that China’s government is “very close” to announcing a change in currency policy, possibly including a revaluation as occurred in July 2005. A small, one-time move may be better than gradual appreciation in helping deter speculators, Xia Bin, an adviser to the central bank, said that day at a forum in Shanghai.

The analysts are more bullish on the currency than traders in the forward market. Nine-month non-deliverable yuan contracts show traders are pricing in a 2.2 percent gain in the currency from the spot rate of 6.8267 as of 11:04 a.m. in Hong Kong.

The contract weakened 0.14 percent today to 6.6802 after Hu told U.S. President Barack Obama that a stronger yuan won’t reduce the U.S. unemployment rate, riding at 9.7 percent in March. Obama, under pressure from U.S. lawmakers to use the threat of trade sanctions to force a policy change, told Hu China needs a “more market-oriented exchange rate.”

Traders Reducing Bets

Bank of China, the country’s largest foreign-exchange lender, was the least bullish on the yuan, predicting a 0.4 percent gain by year-end. Societe Generale SA was the most bullish, forecasting a 6.7 percent jump.

Foreign-exchange reserves rose to $2.45 trillion in March, the world’s largest holdings, as the central bank sold its own currency to maintain an almost two-year-old peg.

Those currency sales have helped fuel inflation and asset- price bubbles. Consumer prices rose 2.7 percent in February from a year earlier, the biggest increase in 16 months.

Executives at companies focused on the Chinese market, including Beijing-based computer maker Lenovo Group Ltd. and Shanghai-based China Eastern Airlines Corp., say they would gain from lower import costs and stronger consumer purchasing power.

Yuan gains will “unambiguously reduce China’s soaring import bill,” said Glenn Maguire, regional head of research at SocGen in Hong Kong. “China is a ‘‘price taker’’ of commodities.”

Loss of Competitiveness

China should allow the yuan to trade more freely, while avoiding adjustment “abruptly” that would cause a “sudden loss of competitiveness,” former central bank adviser Fan Gang wrote March 26 in the government-backed China Daily newspaper.

Overseas shipments, which slumped for 13 months until November 2009, gained 24 percent in March from a year earlier, the customs bureau reported April 10. Imports jumped 66 percent, leaving a $7.2 billion trade deficit, China’s first since 2004.

Chinese textile makers stand to lose the most from appreciation and some would “face bankruptcy” as their profit margins are as low as 3 percent, Zhang Wei, vice chairman of the China Council for the Promotion of International Trade, said last month after carrying out stress tests of 1000 companies.

A “slow” appreciation would give manufacturers enough time to adjust their businesses, according to Oversea-Chinese Banking Corp. The number of laborers who left China’s farms for urban jobs increased by 4.36 million last year to 230 million people at the end of 2009, government data show.

“The timing itself is out of the economists’ hands,” said Emmanuel Ng, a strategist at Oversea-Chinese Banking, the owner of Singapore’s biggest life insurer. “It’s more an issue of what goes on at the highest, head of state level.”

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19 Banks	Reval Timing	One-off Reval	Band Width Widening	Year-End Forecast
SocGen	Q2	Yes, 5%	Yes, +/- 1%	6.4
Barclays	Q2	No	Yes, +/- 0.75%	6.6
Credit Agricole	Q2	Yes, 2%	No	6.5
NAB	Q3	Yes, 2%	Yes, +/- 1.5%	6.5
SJS	Q2	No	Yes, +/- 1%	6.69
BNP	Q3	No	Yes +/- 1%	6.62
Deutsche	Q2	Yes, 2%	Token Move	6.65
RBS	Q2	Yes, 0.5%	Yes, +/- 1%	6.5
OCBC	Q2	No	Possible	6.65
Morgan Stanley	Q3	Yes, 2-3%	Token Move	6.54
HSBC	Q2	No	Possible	6.5
Bank of China	Q4	No	Possible	6.8
China Merchants	Q2	No	Yes +/- 1%	6.75
CCB	Q3	No	Yes +/- 1%	6.65
BoCom	Q3	No	Yes	6.62
Citic	Q4	No	Yes	6.7
Stanchart	Q2	No	Yes, +/- 1%	6.65
ING	Q2	Yes, 3%	Yes, +/- 3%	6.6
IDEAGlobal	Q2	Yes, 2.5%	Yes, +/- 3%	6.5
Median	Q2	No	Yes	6.62

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