

Will Yuan emerge as a dollar competitor?

Beijing has taken bold steps to globalize the yuan, such as its launch of yuan-denominated crude oil futures and issuance of a digital currency but before yuan can become a global currency it must first be successful as a reserve currency.

At this stage of the recent crisis, as other currencies saw spikes in volatility, Yuan was relatively stable and range bound. The PBOC tightly manages yuan, intervenes to dampen volatility using its vast foreign-exchange reserves, which was more than \$3 trillion to prevent the yuan from depreciating too quickly. To facilitate global transactions, investment and to maintain price stability China pegs its currency to the dollar using a modified fixed exchange rate. When the dollar loses value, China buys dollars through U.S. Treasury to support it.

Growing global Chinese trade activity leads towards internationalizing its currency. The U.S. has trade deficit with China. In an effort to manage the large deficit with China, President Donald Trump began imposing import tariffs on Chinese imports in 2018.



Although the CNY is already a minor reserve currency in the eyes of the IMF, sentiment toward the CNY eventually overtaking the U.S. dollar as the world's dominant currency is positive. Due to China's economic growth combined with the lagging performance of the USD. In the long term, the yuan's cross-border transactions will "take a leap" as they further opens capital accounts which include FDI's, portfolio investments, the reserve account and other investments. As a result, the reserve levels of the CNY are projected to approach those of the Japanese yen and British pound in coming decades.

Pakistan central bank has been quick to foresee this emerging trend and incentivize the traders. Many importers have switched their portfolios in yuan as SBP has allowed forward booking on Yuan, unlike the dollar. Pakistan has decided to choose yuan for bilateral trade, Rupee-yuan swaps amount now reach to 20 bln yuan which helps to ease off pressure on forex reserves and exchange rate and to reduce the dependency on greenback gradually over time.

Iqra Zameer

The writer is a data & content aggregator at Tresmark Pvt Ltd.