



## News: Bloomberg

### China is Putting Yuan Front and Center to Repel Increasingly Weaponized Dollar

***“China is actively promoting the yuan to challenge the US's global monetary dominance by expanding its usage through various deals.”***

China is putting the yuan front and center in its fight back against the US's unique influence over global money. President Xi Jinping's government has been busy striking deals over the past year to expand the ways in which the currency is used, with new agreements linked to the renminbi stretching from Russia and Saudi Arabia to Brazil and even France.

While the US remains the world's clear financial hegemon, these moves are helping China to carve out a bigger place for itself in the international financial system. They come at a time when geopolitical strains are growing and global commerce is becoming an ever-more-active battleground.

Antagonism has flared between the two economic titans over issues ranging from trade and Taiwan to TikTok and technological know-how. Hard-hitting sanctions on Russia have revealed a new willingness by the US to weaponize the dollar. Together, that's done more to promote China's yuan over the past year than Xi's government achieved in the preceding decade.

The ramp-up is also a response to China's shifting position within the global economy as it emerges from the era of Covid-lockdowns with growth running more slowly than it once did and the global push for freer trade in retreat. That's spurred leaders in Beijing to up the ante in building the country and in particular its currency into an alternative pole for international finance, trade and lending.

The nation is working to demonstrate “that there's a world outside of the US and the Western world,” said Adrian Zuercher, head of global asset allocation and co-head of global investment management for the Asia-Pacific region at UBS Global Wealth Management's office in Hong Kong. “You're sending a very strong signal to the US by basically saying we don't need you and we don't need your US dollar.”

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That message is resonating in some parts of the world. Unease with the dominance of the US and the greenback is pushing some countries and companies to diversify away from America and Europe. The use of the renminbi in contracts for everything from oil to nickel is gathering speed, with the currency's share of global trade finance tripling since the end of 2019. That's still a tiny portion of global transactions, and the currency remains tightly controlled by Chinese authorities. But sanctions that ensnared Moscow following its invasion of Ukraine have added to that pace. The yuan's usage in Russian export payments surged 32-fold last year alone.

Xi, who is embarking on his second decade in charge of the People's Republic, has taken steps to promote the country's reputation abroad, even as he focuses on implementing reforms and bolstering growth at home. His first foreign excursions after lifting lockdowns were to key energy suppliers Saudi Arabia and Russia.

Trips to Beijing by Brazilian President Luiz Inacio Lula da Silva and France's Emmanuel Macron were accompanied by a host of new commercial agreements. And China was central to brokering an Iran-Saudi detente. With the US, though, flashpoints have multiplied from feuds over spy balloons to semiconductor technology.

The ostracism of Russia in the wake of Vladimir Putin's war in Ukraine has provided China with an important opening to demonstrate just how the yuan can be used. It also stoked concern among some nations about being beholden to the dollar and the euro, the two biggest currencies.

Locked out of the central international payments system known as SWIFT, Russia embraced the yuan for trade, private savings and foreign-exchange transactions. China has developed its own international-payments platform CIPS that's entirely separate from SWIFT, which has been embraced not only by institutions in Russia, but also by banks that operate in places like Brazil.

"China's willingness to maintain growth while paving new paths lends itself for other nations to have greater confidence to use the yuan," said Victor Gao, a professor at Soochow University and vice president of think tank Center for China and Globalization. "If the US wants to rock the boat, then China will need to make necessary amendments to meet the challenges."

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The lack of deep, free markets is a hindrance if China really wanted to take on the dollar or euro as the global currency of choice. A fully international yuan “can’t happen unless China allows greater freedom of the currency and inward as well as outward investment,” said Jim O’Neill, the former Goldman Sachs Group Inc. chief economist. Even with the drumbeat of international deals, the currency is not fully convertible. There are restrictions on its use in areas such as cross-border loans and portfolio investments.

Limitations on the variety of renminbi-based investment products and the simple inertia that stems from sticking with the prevailing reserve currency are also major impediments to the yuan becoming broadly accepted as an alternative to the dollar. “There’s still a long way to go for China to build up its global clout,” said Chen Xingdong, head of global markets research in China at BNP Paribas SA.

In the first few decades of this century, China has taken steps to open up stock and bond markets to encourage inbound investment and loosened some of the strictures around its managed currency. But Xi’s government has resisted broader measures that would encourage international yuan usage such as allowing capital to flow freely to avoid the possibility of sudden outflows that stand to potentially destabilize the economy and threaten the Communist Party’s grip on power.

Even with the dollar’s dominance relatively entrenched for years to come, some observers speculate that the greenback is headed for a longer-term decline. The events giving life to yuan usage right now may ultimately be a key contributor.

Repercussions from Russia’s war have made other nations anxious about the risk of US-led sanctions, said Esther Law, a senior money manager at Amundi SA. She expects the yuan to continue rising in popularity amid the fear of US-led sanctions and as a “practical” part of China’s growing role as a lender. The perk of diversification also applies to China. There’s safety in having standing arrangements with a plethora of trading partners in case simmering tensions with the US turn to a boil.

Source: <https://www.bloomberg.com/news/articles/2023-05-03/world-s-top-currency-china-takes-yuan-global-in-bid-to-repel-us-dollar-USD>

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### Hong Kong Raises Base Rate by 25 Basis Points as Fed Tightens, Hints at Final Move

***“The Hong Kong Monetary Authority raised its benchmark interest rate by 25 basis points, following the US Fed for what may be the final hike of its tightening campaign.”***

The Hong Kong Monetary Authority raised its benchmark interest rate by 25 basis points on Thursday, following the US Federal Reserve for what may be the final hike of its tightening campaign.

Hong Kong's base rate was increased to 5.5% from 5.25%, according to a statement from the HKMA on Thursday. The rate moves in line with the Fed's benchmark in order to protect the local dollar's peg to the greenback.

The HKMA has been intervening in the foreign exchange market to protect its currency peg, draining liquidity from the financial system and, in turn, pushing up short-term interbank rates. That raises the funding costs for banks and puts pressure on them to hike their lending rates in order to maintain their profits.

Fed watchers expected this rate increase to be the central bank's final hike for a while, as tighter lending conditions and signs of a slowing economy suggest inflation will cool in the months ahead. For Hong Kong, a pause in rate hikes may bring some relief as the city stages its economic recovery.

The economy finally emerged from recession in the first quarter as the reopening of its borders revived spending, according to data this week. The economy expanded 2.7% in the three months to March from a year earlier, topping forecasts. It was the first quarterly gain in gross domestic product in more than a year.

Source: <https://www.bloomberg.com/news/articles/2023-05-03/hong-kong-raises-base-rate-as-fed-tightens-hints-at-final-move>

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### Nearly Half of Americans Worry Their Bank Deposits Aren't Safe

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A Gallup poll released Wednesday shows 48% of Americans are very or moderately worried about their money following the worst spate of bank failures in 15 years. Only 20% say they’re not worried at all.

Levels of concern break somewhat among party lines, with 55% of Republicans saying they’re worried about their deposits, compared to 36% of Democrats. That’s nearly a mirror image of the partisan split during the financial crisis when Republican President George W. Bush was in office.

“The same dynamic was in play, but with a Republican in the White House the views were reversed almost exactly,” said Megan Brennan, senior editor of US polls for Gallup. “We know that economic views are largely shaped by politics these days.”

Worries are also significantly higher among those without a college degree and those who make less than \$100,000, even though Federal Deposit Insurance Corp. guarantees deposits up to \$250,000.

The telephone survey of 1,013 US adults was conducted April 3 to April 25, following the failures of Silicon Valley Bank and Signature Bank the previous month but before the collapse of First Republic Bank last week. The margin of error is plus or minus 4 percentage points.

Source: <https://www.bloomberg.com/news/articles/2023-05-04/are-us-bank-deposits-safe-48-of-americans-are-worried>

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