



Country: China

Currency: Chinese Yuan (CNY)

Phonetic Spelling: /'ju:'ɑ:n/ or /'ju:ən/

Abbreviation: CNY

Etymology

In Mandarin, yuán literally translates to “round object” or “round coin”, as during the Qing Dynasty, the yuan was a in fact a round coin made of silver. Informally, the word is symbolized by the Chinese character 元, which means “beginning”. In more formal and banking contexts, the simplified character 圆 is interchangeably used along with the more traditional version 圓 - both meaning “round”.

Inside China, ‘¥’ or ‘RMB’ is often prefixed to the amount to indicate that the currency is the renminbi - which is the colloquial, official currency of the Peoples Republic of China, with the Yuan acting as the basic units of the renminbi. (e.g. ¥100元 or RMB 100元).

Currency History

China has a rich history, in every sense. China was one of the first nations to create currency to take the place of barter. Cowry shells were believed to be the earliest form of currency used in Central China, about 3000 to 4500 years ago. The Chinese Yuan is the most recent of its currencies. During the Imperial period, as part of the Unification of China, Qin Shi Huang (260 BC – 210 BC) abolished all other forms of local currency and introduced a uniform copper coin based on the coins previously used by Qin. The first instances of this currency took the shape of coins with circular holes in the middle, made from bronze and cast into molds. Nearly a century later the first emperor of China, Shi Huangdi, changed that to a square hole, and that design remained for another 2,000 years.

CHINA - CHINESE YUAN, CNY

Country Overview

FOREIGN EXCHANGE

The Chinese Yuan is controlled by the Central Bank of China, (<http://www.cbc.gov.tw/mp2.html>) and it’s operational objectives include: promoting financial stability, ensuring sound banking operations, maintaining the stable internal and external value of the currency and fostering economic development. It’s core functions and operations consist of monetary management currency issuance and foreign exchange management among others.

The CNY is allowed to fluctuate $\pm 2\%$ (instead of $\pm 1\%$) around the People’s Bank of China’s central parity for USD – CNY benchmarks. It should be noted that CNY’s trading band has widened, allowing market forces to play a larger role in the currency’s valuation.

SOVEREIGN DEBT

China enjoys a relatively stable credit rating outlook. It’s long-term foreign currency ratings are: Standard & Poor’s: “AA-”; Fitch Ratings: “A+” and Moody’s: “Aa3”. The market’s perception of China’s sovereign credit risk has been fairly volatile as of late, however the 5-year credit default swaps are currently near the six-month average level, which is just under under 80 basis points.

GROWTH OUTLOOK

According to forecasters, China’s economic expansion is slowing down mostly due to the ongoing transition to a new stage of economic development. The shift is set to rely more on productivity improvements than other inputs, such as fixed capital formation. This economic reform plan aims to decrease the role of government in resource allocation. Another notable economic factor are home prices, which have recorded month-to-month declines in most cities as of late. This poses the largest downside risk to economic momentum, however the government has the ability to take fiscal and monetary measures in order to provide enough support should the output growth slow down more than envisioned.

Before the Yuan, China momentarily experimented with paper notes around 910 AD during the Five Dynasties period. The currency caught the attention of the famous explorer Marco Polo, noting that the emperor could print enough money to buy all the goods in the world at no cost to himself. In 1889, the Yuan was introduced as a silver coin derived from the Spanish dollar (peso). The peso had been widely circulated in South East Asia since the 1600's due to Spanish presence in Guam and the Philippines. The Yuan replaced copper cash and silver ingots called sycees. Around that same time the Yuan was also issued in banknotes.

Later, in 1903, the government started issuing other coins in the Yuan currency system. These were brass and copper coins in the denominations of 2, 5, 10 and 20 and silver coins in 1, 2, and 5. The sizes of the coins and metals used did not change after the revolution and stayed the same until the 1930's when nickel and aluminum coins were introduced. The Communist Party of China gained control of large areas of China during 1948 and 1949. Although several regional banks were established, they were united in December 1948 as the People's Bank of China, and the new bank took over currency issuance.

Today, the Chinese Yuan is also colloquially referred to as the Renminbi (RMB) which translates to "the peoples' currency". It was first issued by the Chinese Communist Party's People's Bank of China in 1948, with a second series of Yuan issued in 1955, replacing the old Yuan at a rate of 10,000 old Yuan to one new Yuan, the currency used today.

INFLATION

China's reported inflation is at 1.7 (2014) with a manageable inflation outlook through 2014 and 2015. With consumer prices rising by 1.6% y/y in September and producer price deflation due to industrial overcapacity, concerns regarding rising pressure on prices should be alleviated.

The Central Bank of China manages monetary in order to maintain financial stability and the value of the currency. Recently, the central bank has implemented targeted monetary easing measures that include calculated reserve requirement cuts and interest rate reductions, all while injecting liquidity into the banking system, in addition to their increased encouragement of mortgage lending.

GOVERNMENT

China has been a socialist country since 1949, and, for nearly all of that time, the government has played a predominant role in the economy. President Xi Jinping and Premier Li Keqiang have focused on the implementation of structural reforms, which include liberalizing interest rates and exchange rate – both significant economic reforms given China's political landscape. Additionally, there have been adjustments to the management of local government finances and state-owned enterprises. He would be stepping down as Prime Minister of Iraq to allow his opponent Haider al-Abadi to take his place.

FINANCIAL SECTOR

China's total GDP of 9.24 trillion USD as of 2013 symbolizes its status as a major player in the world's economic landscape. The financial system is moving toward a market-oriented framework, with a focus on the liberalization of banking which will force banks to compete for deposits and adopt adequate risk management practices. Importantly, uncertainty regarding the banking sector's asset quality continues, especially given the rapid credit growth in recent years, however all major international rating agencies are closely monitoring the situation.



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