China: PBoC FX stance reaffirms gradual CNY strength

- **During the EU-China trade talks in Beijing, the PBoC released a statement detailing its exchange rate policy stance, as the CNY TWI reaches a new high since 2022.**
- **Weak domestic demand and low Chinese yields will likely still support a case of slow and gradual CNY appreciation. The PBoC is unlikely to target closing undervaluation gaps put forward by global institutions.**
- **We expect USD/CNY to continue to grind lower into year-end, with the support from seasonal flows, despite the recent USD strength.**



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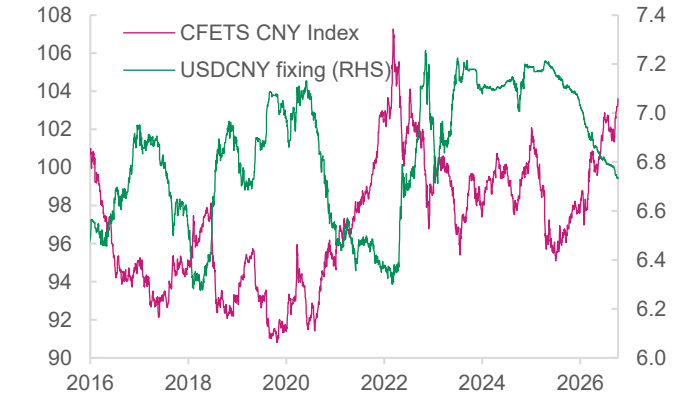
PBoC FX stance reaffirms gradual CNY strength

On 8 October, the PBoC released a policy statement (PBoC's View on the RMB Exchange Rate), outlining its CNY exchange-rate policy stance. The statement arrived during the two-day EU-China trade talks in Beijing and has likely served as a response to mounting EU pressure on China to address the widening trade imbalance (see our report China: rising EU trade imbalance and policy risks, 8 September for detailed analysis). Alongside this, the valuation of the CNY has gained prominence with the EU arguing that its undervaluation gives Chinese exporters a structural competitive advantage and contributes to China's large trade surpluses. In July, the IMF estimated that the CNY REER was undervalued by 17.3-25.3%. EU policymakers have cited estimates of 25-30%.

In our view, the PBoC is striving to balance external calls for a stronger currency against the need to maintain stable domestic financial conditions and support demand recovery and reflation.

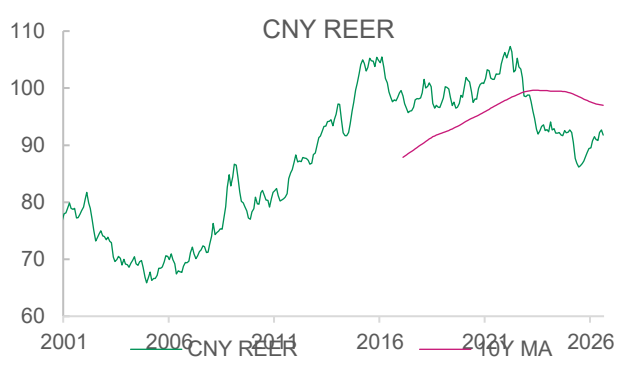
Fundamentally, China's trade surplus is likely to remain large, supported by resilient external demand for Chinese goods while domestic demand remains weak. However, export performance is increasingly K-shaped: strength is concentrated in technology and green products, amid the global AI-capex boom and energy-supply shocks, while momentum in other exports is more subdued. These stronger export sectors are relatively capital-intensive and may generate more limited employment spillovers. At the same time, Chinese yields remaining below global yields continue to weigh on capital flows. Weak domestic demand and persistent deflationary pressures remain genuine headwinds for the CNY.

PBoC tolerating CNY gains against the USD and peers



Source: Bloomberg, Crédit Agricole CIB

CNY REER has rebounded since mid-2025



Source: Bloomberg, Crédit Agricole CIB

Accordingly, while the domestic backdrop presents genuine headwinds for the CNY, the broad direction still points to gradual strengthening. The CNY has already

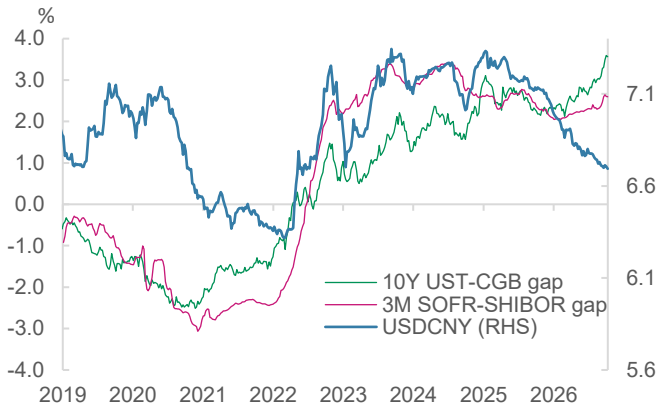
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appreciated approximately 9% against the USD since 2025. In our view, the CNY appreciation is not a result of pressure from the EU or the IMF. Rather, the PBoC used the occasion of the trade talks to restate its own longstanding approach of gradually strengthening the currency while managing expectations to limit excessive volatility that could undermine domestic financial stability. Further appreciation is unlikely to be rapid or substantial. The statement suggests that the PBoC is not targeting a rapid correction of the valuation gaps identified by international institutions. We therefore expect gradual, managed CNY strengthening to continue.

Following the release of the PBoC statement, today's USD/CNY fixing showed no clear break from the recent pattern. It remained consistent with the PBoC leaning against broad USD strength and the CNY continuing to outperform other currencies. The CNY trade-weighted index rose further to 103.6, its highest level so far in 2026 and since 2022. Spot USD/CNY fell below 6.70 again, as the DXY consolidated around 102 after rising by about 1% in recent days.

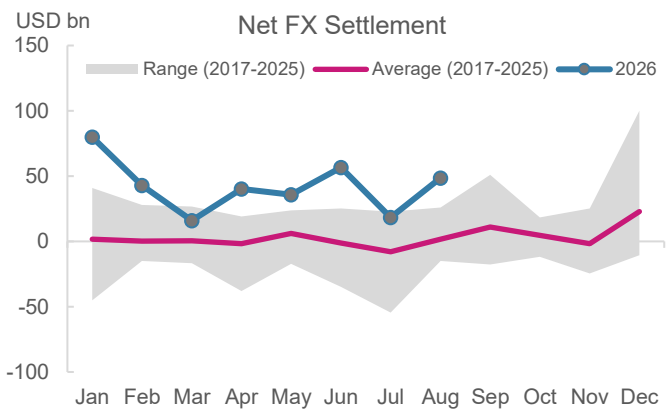
Looking ahead to year-end, we continue to expect USD/CNY to trend gradually lower. While the USD is looking more supported, we expect the PBoC to continue to push back against this. Heading into the end of the year, a pick-up of seasonal remittances and strong FX settlement will remain an important source of strength for the CNY. We maintain our USD/CNY forecast at 6.62 at end-2026 and 6.50 at end-2027 (read more).

Low China yields weighing on capital flows



Source: Bloomberg, Crédit Agricole CIB

Seasonal demand to support the CNY into year-end



Source: Bloomberg, Crédit Agricole CIB

The key points from the PBoC's statement

- China operates a managed floating exchange-rate regime based on market supply and demand, with reference to a basket of currencies.
- The CNY has become more flexible over time, with increasingly evident two-way movements.
- China neither needs nor intends to secure a trade advantage through currency depreciation, and does not engage in competitive devaluation.
- Exchange rates are influenced by many factors – including economic growth, monetary policy, financial markets, geopolitics and unexpected shocks – and have no simple linear relationship with the current account.
- International methods for assessing equilibrium exchange rates remain underdeveloped. Treating individual estimates as "official evidence" that the RMB is undervalued misrepresents and misuses those findings.
- Global imbalances reflect the evolution of global supply chains, tensions inherent in the international monetary system, and persistent fiscal deficits and high consumption in some economies. Addressing them requires a collective effort. Attributing weaker domestic competitiveness, reduced fiscal discipline and complex structural problems to another country's exchange rate deflects responsibility for domestic adjustment.
- China has contributed positively to global rebalancing and will continue to transform its growth model and deepen opening-up.

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