



China Exchange Rate Outlook Tools & Forecasts

July 2024

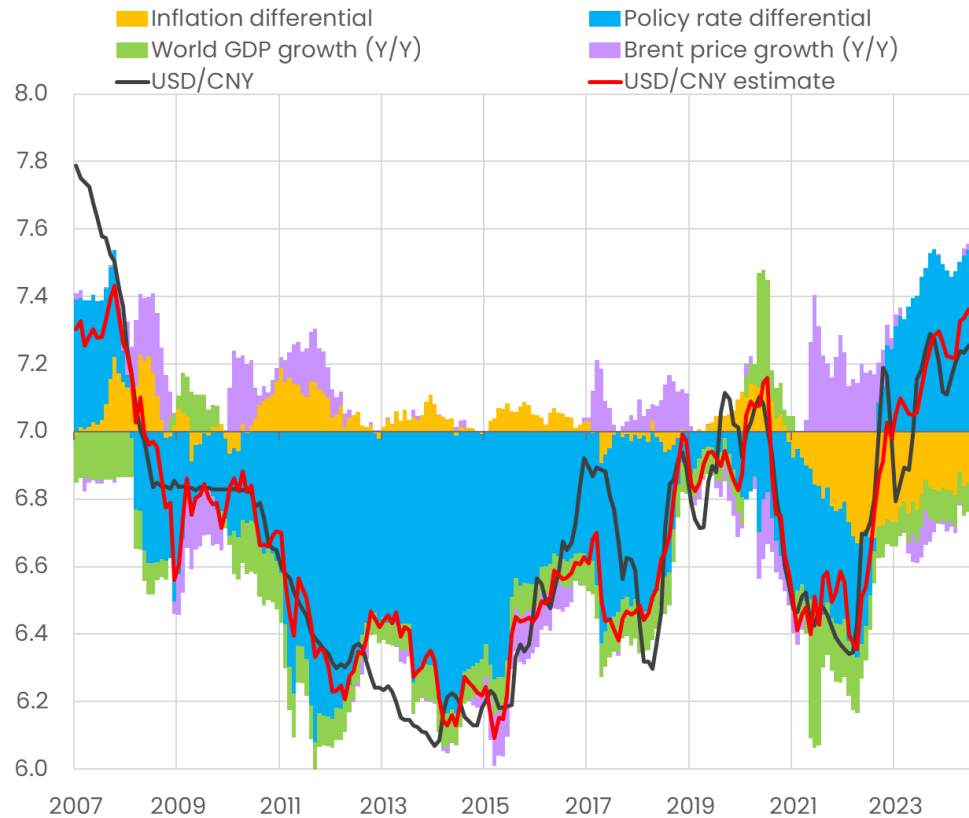


Difference between CNY and CNH exchange rates



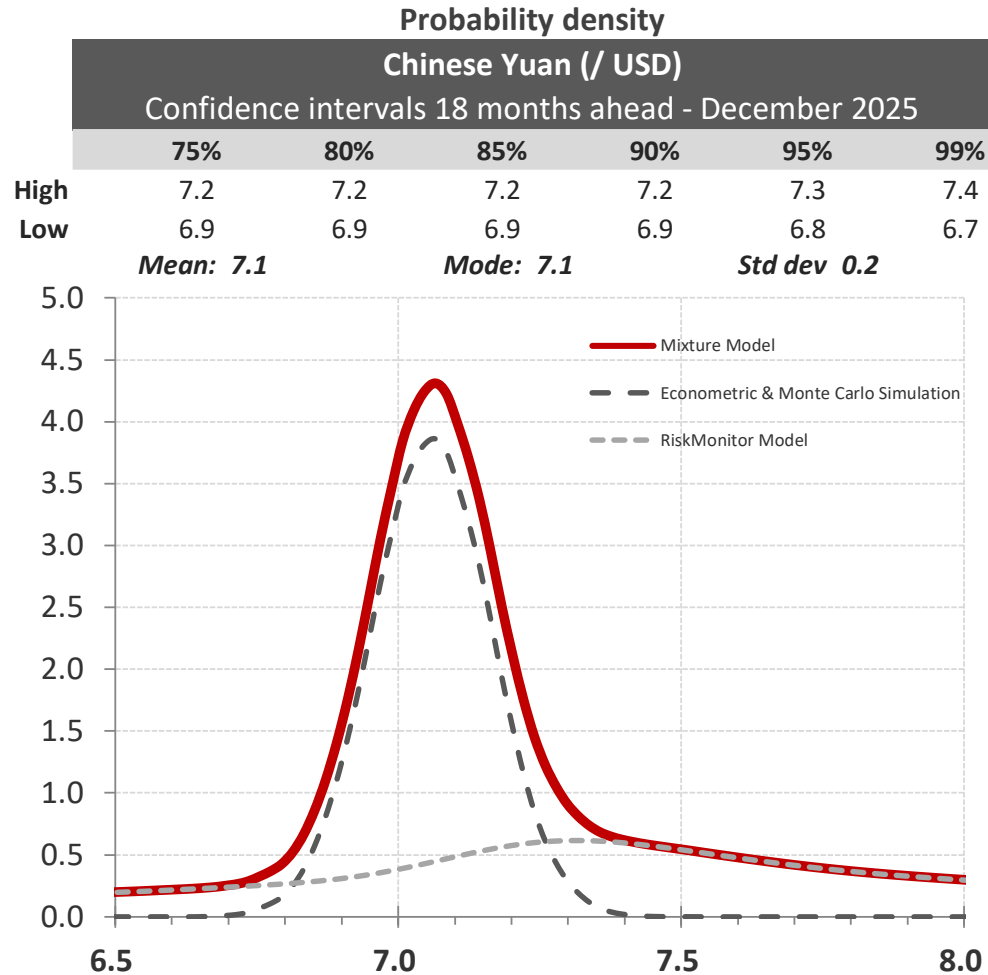
The first tool assesses the underlying pressures on USD/CNY from capital flows exiting mainland China (ratio of CNY against offshore CNH), with clear evidence of underlying pressures.

USD/CNY historical estimates and contributions (deviation from intercept value at 7.0)



This second chart is derived from our proprietary econometric model projecting monthly values for USD/CNY up to 18-month ahead, showing what are the critical economic variables explaining the deviation from the “neutral level” of 7.0 CNY to the USD.

The key message is the **dominant role of short-term interest rate differential between the US and China** (Fed Funds versus 3m-Shibor) and to a lesser extent the inflation differential... i.e. a very traditional behavior of a currency!



The last chart is the probability density function for the USD/CNY exchange rate at the end of the horizon forecast (December 2025), a sophisticated and powerful combination of Monte Carlo simulations on our econometric model and the currency outlook implied by our non-linear Exchange Rate Risk Rating. The “mode” of the probability distribution suggests **a level at USD/CNY 7.1 in 18 months.**

As expected, the probability distribution shown by the Monte Carlo simulations has a symmetric / gaussian shape, but the same distribution derived from the Exchange Rate Rating is both very flat and asymmetric: this points to (1) a large uncertainty and likely bouts of heightened volatility, and (2) large “fat tails” of the distribution: the combination of MC simulation and RiskMonitor outputs, indeed shows almost **25% probability of the USD/CNY moving above 7.50 by the end of next year and 15% above 8.0.**

Contacts

Léa Dauphas

Chief Economist, Deputy CEO
lea.dauphas@taceconomics.com

Morgane Lohéziec

Head of sales & communication
morgane.lohezic@taceconomics.com

Tel: 33 2 99 39 31 40

