

## On the Repeated Trend of RMB under the Current Epidemic Situation

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### Abstract

**In 2021, the global epidemic situation will still be dominated by the foreign exchange market trend, and the overseas epidemic situation will continue to spread, forcing the RMB to remain strong. At present, the fluctuation of the RMB exchange rate has fallen back, and it is still strong compared with the US dollar and major US dollar currencies. In the future of 2023, the comparative advantage of China's economy will be very narrow, and China's major balance of payments surplus is expected to gradually decline. As the supply and demand of the foreign exchange market become more balanced, the RMB exchange rate is expected to become more differentiated and the exchange rate fluctuation is expected to increase.**

### Keywords

**RMB Trend; USD Index; RMB Outlook.**

### 1. Introduction

The epidemic has not only brought us warmth and protection, but also brought us a lot of disasters. Countless lives have passed away, the real industry has nearly collapsed, the catering industry has been hit hard, the economy has fallen and the city has been closed down again and again, which has caused immeasurable losses to the national economy and is a huge test for everyone in the society. The epidemic has had a huge impact on China and even the global economy. We can also see that China has a great impact on the global economy. Nowadays, the domestic economic and financial forms are complex and changeable, the uncertainty of the external environment is increasing, and the internationalization of the RMB has attracted more attention. The internationalization of RMB is not far away from ordinary people. Nowadays, more and more people travel abroad. The exchange rate of RMB has become closely related to everyone, and the internationalization of RMB is also gradually related to everyone.

### 2. Review of RMB Trend in 2021

The RMB exchange rate against the US dollar basically fluctuated between 6.35 and 6.58 throughout the year. In the first half of the year, it fell first following the US dollar index. In the second half of the year, it mainly fluctuated laterally. The annual trend can be divided into three stages:

From the outbreak of the epidemic on the eve of the Spring Festival to the end of March, the trend of RMB against the US dollar can be divided into three stages:

In the first stage, under the guidance of the epidemic, the RMB depreciated and then stabilized. On the eve of the Spring Festival, with the spread of the epidemic throughout the country, since the first phase of the trade agreement, the RMB has dropped more than 600 points to 6.93 points in the first four trading days under the condition of improved market conditions. During the Spring Festival, the epidemic situation intensified and control was strengthened throughout the country. Offshore notes fell 7 percent. On the first working day after the extension of the Spring Festival, the domestic RMB began to be short, and the closing day was 957 basis points higher than the previous day. In the following days, the market became more stable, with the average price stable at about 6.98, and the market price close to the middle price. In the first week after the holiday, the interbank foreign exchange market accounted for about \$14 billion. Table 1 From the middle of February, the trade volume will gradually recover, the market purchase volume and the number of low note will increase, and the RMB exchange rate will basically approach the elastic fluctuation trend at around 7.

In the second stage, the epidemic situation abroad accelerated, indicating that the RMB was stronger. In the second half of February, the price of the domestic credit market (LRs) was adjusted as planned, the RMB exchange rate remained stable, and the epidemic situation accelerated its spread abroad, especially in Europe and the United States, where newly diagnosed cases continued to rise and market risks increased. At the beginning of March, the Federal Reserve announced an emergency reduction of 50 basis points. The US dollar fell sharply to a low of 94.65. The RMB exchange rate remained firm, and the RMB CFETS index remained above 93. In order to accelerate the economic recovery, the RMB has shown its strength and strength. At the beginning of March, the average price of RMB rose steadily to 69260 yuan and briefly to 69070 yuan, up nearly 2% from the low point at the end of February. Since then, the RMB has remained stable between 6.93 and 6.96.

In the third stage, the dollar index rose and fell, and the RMB depreciated passively. On March 11, the World Health Organization (WHO) announced that this new sexually transmitted disease is a "global epidemic". The Federal Reserve reduced the federal funds rate to 0.25% from 0% per month. The RMB initially hovered around 7 o'clock. After the dollar liquidity crisis continued, the dollar index rose to a high of 102.99 and passively depreciated to a low of 71264. At the end of March, more than 10 central banks in the United States began to exchange currencies, implemented open easing policies, and passed a \$2 trillion stimulus bill. The dollar crisis gradually weakened, and the dollar index fell. At the same time, the recovery of the country's production and living order has accelerated. The Central Bank has issued the GSP fiscal guidelines. The LPR supply remains unchanged, the open market operating interest rate has declined, and the RMB exchange rate is currently fluctuating between 7.08 and 7.08.

The RMB CFETS index rose 100 points to a new high since 2016. As of December 24, the exchange rate of RMB against the US dollar reached 63700, 1698 basis points higher than the 6.5398 at the end of 2020.

### **3. Analysis of RMB Trend in 2021**

#### **3.1. The Current Project Surplus Remains at a High Level, Providing Basic Support for RMB**

The impact of COVID-19 on global foreign trade supply and demand pattern still exists. According to the data of the Administration of Foreign Exchange, China's current account surplus in the first quarter of 2021 is 20.28 billion US dollars. Compared with the same period last year, it increased by 35%, accounting for 1.6% of GDP. During the biennium ended 31 December 2003, the UNCTAD secretariat received a report on UNCTAD's technical cooperation activities. The service trade deficit was 82.1 billion US dollars. Although the surplus of ongoing projects has decreased compared with the second half of 2020, it remains at a high level.

Since 2021, the demand for exchange rate and the change of exchange rate demand in coastal markets are still of great significance to the trend of RMB exchange rate. From March to April, the RMB depreciated against the US dollar. Since May, the sales surplus has increased, and the RMB exchange rate has risen for two consecutive months. From July to August, as the demand for domestic currency distribution enterprises increased, the onshore foreign exchange supply declined slightly, including the demand and demand in the foreign exchange market turned into a small deficit in August. After September, the trade surplus rebounded again. At this stage, the RMB continues to maintain a strong momentum and will exceed 6.40 points by the end of October. Therefore, China's economy is still mainly dependent on the RMB exchange rate while the current account, direct investment and other major balance of payments surpluses remain at a high level.

### **3.2. The Gap between China and the United States has Narrowed Slightly, and Foreign Investment has Increased China's Assets, and the Enthusiasm Remains Unchanged**

With the acceleration of bilateral opening up of China's financial market, China's economic and financial system is generally strong. Compared with more developed countries, China's domestic strength has made its assets an important choice for global investors to avoid investment risks. In 2021, although the income gap between China and the United States will narrow slightly, foreign investors' enthusiasm for investing in the domestic financial market will not diminish. From the relationship between the "swap" cross-border capital flows in the financial market and the fluctuation of the RMB exchange rate, in addition to the increase in the net capital flows at the beginning of the year, the stock market and bond market in other months generally showed a stable net inflow trend. This is also an important factor in keeping the RMB exchange rate throughout the year.

### **3.3. The Fluctuation of Foreign Exchange Market is Weakened, and the Correlation between RMB and American Finger is Reduced**

In the case of a weak financial climate after the epidemic, the situation of the global financial market has generally improved, and the volatility of the foreign exchange market has decreased. The main fluctuation range of the dollar index in the whole year is 89.5-97, slightly lower than the fluctuation level in 2020. The basic characteristics of China's economy and other internal factors that affect the dynamics of the exchange rate, as well as the impact of the external conditions of the US dollar on the dynamics of the Chinese people's exchange rate, are weakening. The RMB exchange rate is no longer only following the passive rise of the US dollar index, but also greatly improves its price autonomy.

With the appreciation of the RMB against the US dollar, the RMB against the US dollar index has shown a volatile upward trend over the past year, indicating that the RMB has continued to appreciate against a basket of currencies.

### **3.4. Coordination of Offshore Exchange Rate Fluctuations and Price Harmonization**

From 2021, the offshore exchange rate of RMB will basically synchronize with the onshore exchange rate, and the price will be further unified. According to statistics, offshore - within 80% of the calculation operation period each year, the offshore price remains at around 50 points, accounting for 93% to 100 points of the calculation period. During the year, the exchange rate of offshore business exceeded the peak of 150 points onshore, and the lowest point was 230 points, all of which were observed in the first quarter. In the case of low market volatility, the policy of blindly pursuing the offshore market trend failed. In the offshore market, the "price stabilizer" is more prominent than the "leading price" in the offshore market.

#### 4. US Dollar Index and the Future Trend of RMB

The situation since mid August is worrying again: the number of new cases in the United States has decreased, and the number of new cases per day is still less than 50000. In the United States, the number of new infections is increasing, but the number of new infections is decreasing, indicating that the rate of transmission of the virus may be declining. At the same time, the number of new cases in Europe has increased, and the number of new cases in early September exceeded that in the United States. In this "recession", market sentiment had a significant impact on the market, and then the dollar index fell. As a result, the exchange rate of the US dollar against the RMB has also remained at around 6.8 recently, without falling.

In addition, if the epidemic situation in the United States continues to be effectively controlled, the economic recovery will be accompanied by the continuous turbulence of various issues in the China US game, and the RMB exchange rate will remain stable. However, the Federal Reserve then took decisive measures to implement "unlimited easing", quickly filling the market liquidity gap, and then the dollar index fell from more than 100 to the current 90. At the same time, since May this year, the United States has still lacked effective control over the epidemic and normal economic recovery. The social contradiction of white police using force against black suspects has exacerbated this and further exacerbated the domestic economic situation.

During the same period, Europe's control of the epidemic was relatively high. It is expected that the prospects for economic recovery in both countries will improve, leading to a further decline in the dollar index. Historical data show that the decline of the dollar index may lead to the corresponding passive appreciation of the RMB. The logic behind this is that the weakening of the US dollar means the weakening of the US economic base and the devaluation of the US dollar.

#### 5. Prospects for the Future Market of RMB Exchange Rate

At present, the country has made steady progress in fighting the epidemic, and production has continued to recover, laying a solid foundation for exchange rate and financial stability. But at the same time, the epidemic is spreading overseas, and the volatility of the international market is intensifying. In the short term, the RMB will continue to exert pressure. In the long run, the domestic economy is basically stable, the supply and demand of the foreign exchange market are generally stable, China's asset attractiveness continues to grow, external pressure drops, and the RMB exchange rate keeps rising steadily, maintaining two-way fluctuations.

First of all, we should maintain a stable relationship between the RMB and the long-term economic mainstream. The epidemic is having a devastating impact on the global economy and trade. Some domestic export enterprises have shifted from supply chain interruption to external demand reduction. The short-term impact of the second epidemic is inevitable. But in the long run, the impact of the epidemic on the economy and exchange rate will be eased. As the first country in the world to control the epidemic, we accelerated the restoration of production and living order and built business confidence. The meeting of the Political Bureau of the CPC Central Committee pointed out that "we should strengthen macroeconomic policies and promote the effective expansion of domestic demand". This means that the future counter cyclical regulation and domestic demand expansion will help further develop and supplement external demand. At the same time, China has huge economic potential and strong strength, and its economy is in good condition for a long time to ensure the stability of the RMB exchange rate. Secondly, supply and demand in the foreign exchange market remained stable on the whole. From January to February this year, the bank balance continued to grow, reaching 20.6 billion US dollars. Table 1 A. Administrative and budgetary aspects of the financing of United Nations peacekeeping operations After taking into account long-term prospects, options and other

supply and demand factors, preparations for market swaps have stabilized. At the same time, China's foreign exchange reserves remained stable, about 3.1 trillion dollars in the past two years. Table 1 A. Administrative and budgetary aspects of the financing of United Nations peacekeeping operations In the administrative and budgetary aspects of the financing of United Nations peacekeeping operations, supply and demand in the foreign exchange market are basically balanced, foreign exchange reserves are fairly stable, and the RMB exchange rate can be maintained at a reasonable and balanced level.

The global attractiveness of RMB assets has risen again. The speed of domestic capital market reform and opening up will not be threatened by the epidemic. With the opening and opening-up of China's capital account gradually expanding, the interaction and two-way opening of financial markets continue to expand, and the interest of Chinese assets in financial market investors continues to grow. At present, the interest rate of major overseas economies is at the edge of zero or negative interest rates, and China's monetary policy is still at a normal stage. With the tightening of domestic countercyclical regulation, monetary policy has become more flexible and appropriate, but it will remain stable and flexible. The RMB still has enough room for manoeuvre, and its asset allocation is still valuable and attractive.

Finally, the dollar index seems to ease the external pressure on the RMB in the short term. Before that, the dollar index rose to a high level, and then the Federal Reserve took a series of tools and measures. The \$2 trillion stimulus bill failed. Table 1 In addition, the US dollar rose and remained unchanged in the short term. At present, the dollar crisis has eased temporarily, but the epidemic is likely to intensify, and the financial market may experience new sharp fluctuations, which will continue in the short term. In the long run, the appreciation of the US dollar may lead to intervention. In the United States, under the pressure of the Federal Reserve or further easing policies, the dollar may fall during the economic recession to ease the external pressure on the RMB.

In the short term, the global epidemic trend will continue to affect the RMB exchange rate, but in the long term, with the acceleration of domestic order and more active macroeconomic policies, China's economy will maintain a good level. The RMB exchange rate will remain stable, maintain two-way fluctuations, and actively play the role of macroeconomic and balance of payments "stabilizer".

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