

Analysis of Recent RMB Exchange Rate Movements

Yu Qi

Dalian University of Foreign Languages, Dalian, Liaoning, China

Keywords: Introducing Exchange Rate Changes, Economic Situation, International Trade

Abstract: The RMB exchange rate has been subject to two pressures - economic downturn and the powerful US dollar - causing it to fluctuate around 7, and even breach the 7 mark at times. This shift has had a considerable impact on both personal and societal life, and the financial market may be subject to further alterations in the days ahead. As a result of the fluctuations in the international financial market, the RMB exchange rate has generally exhibited two-way fluctuations and a slight recovery. The state strengthens the supervision of the exchange rate market, promotes the quality growth of the economy, enhances the convenience of foreign trade, realizes the high-quality development of the national production and life, and pushes the economy to realize the qualitative and effective enhancement and quantitative and reasonable growth.

1. Introduction

The exchange rate of the RMB, the currency of China, is determined by the market supply and demand. As China's economy expands and its openness to the outside world grows, the two-way fluctuation of the RMB's exchange rate is becoming increasingly adaptable. The fluctuation of RMB on foreign exchange can flexibly adapt to market demand to a certain extent, avoiding the contradiction of excessive appreciation or depreciation. By 2023, the global economy is predicted to experience a gradual expansion, with the likelihood of a recession in Europe and the US escalating, potentially leading to a "high inflation, high interest rates, low growth" state. In addition, China's economy is anticipated to keep improving, while the epidemic prevention and control measures are expected to be successful. Moreover, Europe and the United States will enter the latter half of the interest rate hike, thus relieving the external pressure on the RMB exchange rate. The domestic financial market is anticipated to bolster China's balance of payments, thus sustaining a fundamental balance, and thus providing support for the RMB exchange rate, due to the continual influx of foreign capital [1].

2. Analysis of Recent Exchange Rate Changes

As the U.S. dollar strengthened, the RMB exchange rate experienced a double blow of economic decline and fluctuation around 7. Even when it breached the 7 mark, it still dropped normally. However, as China's economic power continues to expand, the country has made considerable

changes to its macroeconomic policies, which are now essential in deciding the RMB exchange rate's future trajectory. In recent years, due to the increase in domestic and foreign trade, the price of the RMB has been rising, a phenomenon that has been attributed to China's improving domestic environment.

The appreciation pressure on the RMB has been steadily diminishing as the balance of payments has declined, thus facilitating the alteration of the bilateral exchange rate. This year, even around 7 has failed to provide substantial benefits to investors who own less foreign currency. The RMB's rise, though it certainly reduces domestic production, also gives a boost to import trade domestically; thus, this negative effect is only temporary and the RMB's exchange rate could potentially alter financial markets even more in the days ahead. It is expected that in the next few months, the trend of RMB change may be less obvious, but it can still maintain relative stability. The international financial market's alterations have caused the RMB exchange rate to move towards a more equitable state, potentially resulting in a more stable intermediate price in the future [2-3].

An examination of the elements both domestically and internationally impacting exchange rate alterations.

The relationship between the circulation of money and its liquidity, or supply and demand, is the first point to consider. When the two variables are in flux, the RMB exchange rate will also be affected.

The exchange rate can be impacted by the fluctuations in both the domestic and foreign economic conditions. For instance, when the domestic economy is thriving, the demand will rise, resulting in an appreciation of the RMB exchange rate; however, when the domestic economy is in recession, the demand will diminish, resulting in a depreciation of the RMB exchange rate.

The alteration of monetary policy is third in line. This is the monetary policy that the government has implemented, which can have a direct influence on the demand and supply of money, thus influencing the exchange rate fluctuations. China's monetary policy is ever-evolving, taking into account both the domestic economy and the global market's demand. Thus, in the event of market fluctuations, our monetary policy is in constant flux, with the potential to either slow or increase, which could have a major effect on the RMB's circulation. This is due to the ongoing integration of the globalized market. The exchange rate of the RMB will be significantly impacted by this, which will have a considerable effect on the RMB's circulation and, in turn, the RMB exchange rate.

3. Impact of Recent Exchange Rate Changes

The RMB exchange rate plummeting below 7 can cause imported goods to become more expensive, thus potentially resulting in a rise in imported inflationary pressure. In order to alleviate inflationary pressure, policy makers should closely monitor price trends and adjust macroeconomic policies in a timely manner to maintain price stability. The depreciation of RMB has enabled export enterprises to become more competitive, and has also broadened the scope of their exports. To further bolster their competitiveness in the international market, the government should stimulate innovation and optimize their industrial structure, thereby augmenting the value of export products [4].

The financial market's capital flows, along with exchange rate fluctuations, can cause a swift influx or withdrawal of foreign capital, thus compromising the steadiness of the stock, bond, and other financial markets. Regulatory authorities should bolster early warning and surveillance of market risks, and implement macro-prudential policies at the appropriate juncture, in order to stabilize the capital market. Variations in the cost of foreign financing for businesses, as well as exchange rate fluctuations, will have an effect on the cost of foreign financing for businesses. Enterprises ought to be vigilant regarding fluctuations in exchange rates, as well as

judicious arrangements for foreign financing schemes to diminish financing costs and exchange losses.

International trade trade friction between China and the U.S. intensified, the RMB exchange rate fell below 7 may aggravate the trade friction between China and the U.S..China should actively engage in international economic collaboration, foster the formation of a multilateral trading system, and seek more backing from trading partners to manage trade friction. Increased trade protectionism and exchange rate volatility may lead other countries to adopt trade protectionist measures.China should seize the chance to hasten reform and liberalization, continually upgrade the business atmosphere, actively draw in foreign investment, and fully exploit the immense potential of the Chinese market.

For our consumers, the RMB "breaking 7" may bring some impact. Many of the products we use in our daily lives, including electronic products, home appliances and clothing, are imported from abroad.The exchange rate of the RMB fluctuating could result in a rise in the cost of these imported goods. Secondly, for people traveling abroad or studying abroad, the RMB "breaking 7" may also bring some impact.Exchanging RMB for foreign currencies while abroad can have a direct effect on the amount of money spent, as well as the payment of tuition fees, when traveling or studying. Changes in the exchange rate will also have an effect. Again, for those who work or live overseas, the "breaking of the RMB to 7" may bring some positive effects.Should they need to convert foreign currencies into RMB, the exchange rate alteration will result in them obtaining a greater amount of RMB, despite their overseas work and earnings. Therefore, we should not rely too much on or panic about its fluctuations. As consumers, we can better anticipate and respond to price movements by increasing our knowledge and information [5].

In addition, for investors, the "breaking of 7" may also bring some opportunities.The performance of the stock, bond, and other investment markets may be impacted by exchange rate fluctuations. To adjust their strategies, investors can take into account the exchange rate changes; for instance, when the RMB depreciates against the dollar, they may opt to purchase more US dollar assets in anticipation of gains when the RMB increases. However, investment is an activity that requires specialized knowledge and experience. For ordinary people, we should be cautious about investment and not be easily influenced by market fluctuations and make impulsive decisions.By gaining knowledge and insight, we can augment our financial acumen to more accurately comprehend the risks and possibilities of investing.

4. Strategies for Coping with Exchange Rate Changes

Strengthening regulation of the exchange rate market will promote both quality economic growth and ease of foreign trade [6-7].

In 2020, the emergence of XKP prompted China to hasten its reforms and vigorously advocate the "We take the lead" and "First in, first out" monetary policies, thus hastening the narrowing of the interest rate gap between China and the U.S. and encouraging investment and entrepreneurship of domestic businesses, thereby ensuring a secure future for the country's growth.By the close of 2021, particularly in the latter half, government departments have taken steps to bolster monetary flexibility and implement beneficial fiscal policies. The Federal Reserve's monetary policy has been a major factor in the introduction of a range of monetary policy measures, such as reducing interest rates, boosting short-term liquidity, etc. These policy measures have not only improved the interest rate differential between China and the U.The introduction of these policy measures has not only advanced our monetary policy, but has also provided us with more chances; moreover, they have hastened the process of reducing the interest rate disparity between the two countries.In 2023, despite the potential for adverse effects on the nation's financial system and cost, we shall still

adhere to the principle of stability and continue to pursue a more advantageous fiscal and more pliable monetary policy to guarantee the country's sustained progress. Therefore, whether or not changes in the exchange rate of the RMB can be adequately taken into account will have a direct impact on the flexibility of our macroeconomic policies.

To ensure the sustainability of the "double cycle", all relevant departments must bolster their oversight of the RMB exchange rate, thereby guaranteeing its steadiness and preventing any extreme fluctuations. Consequently, a series of prudent macroeconomic tactics should be put into effect, including establishing a counter-cyclical factor, establishing a foreign currency risk reserve ratio for forward purchases, setting a reserve ratio for foreign exchange deposits of commercial banks, adjusting the prudential adjustment parameters for cross-border investment and financing markets, and fortifying the pertinent regulations on "restricting inflows" and "regulating outflows". Regulations concerning "restricting inflows" and "restricting outflows" have been reinforced to guarantee the exchange rate's steadiness, thus enabling sustained economic expansion. To ensure the freedom and convenience of international commerce and foreign investment, we will persist in executing the "National Conditions for Pre-entry + Negative List Regulation" or other significant global economic regulations, while also significantly enhancing the access of the financial market to the outside world and augmenting the supervision and regulation of cross-border portfolio investment. In addition, we will strengthen the implementation of "two markets, two resources" to promote the global circulation and application of the RMB. The effects of monetary policy shocks on foreign trade shall be lessened, the supply and demand of raw material and commodity markets balanced, prices stabilized, the impact of relative fluctuations in domestic and foreign incomes diminished, thus diminishing the RMB exchange rate's fluctuations, and export products' competitiveness improved to lessen dependence on foreign trade. The process of RMB internationalization should be moderately hastened to raise the proportion of RMB in the settlement, which would help to lessen the effect of foreign currency fluctuations on the RMB exchange rate in the foreign exchange market and reduce the volatility of foreign trade settlement. Moreover, it is essential to take into consideration the potential for systematic financial risks that may arise from accelerating the RMB internationalization process.

To secure balance of payments equilibrium, ensure economic stability, bolster the control of international firms, and safeguard our national economic security, thirdly is essential. The Federal Reserve's "fast-in, fast-out" policy and the sharp rise in U.S. bond yields and the U.S. dollar index have affected the implementation of the "dollar shortage" policy. China's balance of payments status has been drastically altered by the alteration of the RMB exchange rate, resulting in a decrease in foreign exchange reserves. In comparison to Japan, South Korea, and other countries, China's decline in foreign exchange reserves is more severe. The alteration of the RMB exchange rate has caused a decrease in China's private net foreign trade assets, and the currency's distribution has been altered, thus altering the macroeconomic atmosphere of the country, thus making its foreign trade stability more dependable and effective in the face of both external and internal forces. The coordination of monetary policy globally must be intensified, and international exchanges must be initiated in real-time in response to the Federal Reserve's alterations. To minimize policy unpredictability and guarantee the RMB exchange rate's steadiness and various economic factors, domestic monetary and fiscal policy should be unified.

To reduce the profit space for arbitrage capital and the market volatility caused by the interest rate differential between China and the United States, the transmission barriers created by market segmentation should be hastened. Fourthly. The capital market should be opened prudently, with capital controls that are stable and orderly, and the monitoring of speculative capital in and out of China, especially during times of financial crisis, should be rigorously enforced due to the presence of interest rate differentials, a large quantity of speculative capital in the form of clandestine trade

into China, its real estate sector, foreign exchange, and capital. The financial market, which can easily generate economic bubbles due to China's economic development, is highly beneficial; however, it is not without its drawbacks.

Systematically, the fifth step is to deepen the exchange rate market-oriented reform. To this end, the bank's modernization process should be vigorously advanced, along with the monetary policy system's transformation, and the model of monetary supervision should be further enhanced, while the policy synergy between domestic currency and foreign exchange should be strengthened. Through the refined supervision of international trade equilibrium and based on situation assessment and stress test, based on contingency planning, we will construct a perfect macroeconomic management system with Chinese characteristics, adhere to the fiscal and monetary regulations, and improve the risk prevention and management skills under the open conditions. To optimize resource allocation, price determination, and risk avoidance, a deep and liquid foreign exchange market should be developed to better adapt to the exchange rate's dynamic fluctuations. This should be done by popularizing market education and raising awareness of risk balance. Transform the foreign trade development mode and foster the building of a major trading nation to guarantee the domestic economy's stability, financial system's stability, and the RMB's purchasing power. Additionally, enhance the market-oriented median price strategy, adjust the managed exchange rate's floating range, broaden its flexibility, and properly manage the "median price's" transparency and credibility. The international market can be bolstered by augmenting the bargaining strength of domestic companies.

5. Conclusion

Achieving high-quality development is the essential requirement of Chinese modernization. The economy must be advanced and advanced to achieve both effective qualitative growth and reasonable quantitative growth; the exchange rate, as a significant financial instrument, can not only ensure the economy's steady expansion, but also foster the advancement and innovation of finance. It provides an important reference for the implementation of more scientific and reasonable financial policies, provides a strong support for the implementation of more precise financial policies, and provides a solid foundation for promoting more excellent development and greater openness. In response to fluctuations in exchange rates, a heightened openness to the external world should be encouraged, with a steady progression of systematic opening up and the development of a new pattern of growth. By unifying development and security, national security is the cornerstone of national revival, economic security is the foundation of national security, and the Party and the nation must strive to uphold national security throughout the entire process.

Funding

This article is not supported by any foundation.

Data Availability

Data sharing is not applicable to this article as no new data were created or analysed in this study.

Conflict of Interest

The author states that this article has no conflict of interest.

References

- [1] Liu Wei Liu Shouying Frontline *"Adhering to the theme of high-quality development to advance the historical process of Chinese-style modernization"* 2022(11)
- [2] Mitsui China Construction Informatization *"Endeavouring a New Journey to Write a New Chapter"* 2022(20)
- [3] *"How to deal with international green trade barriers"* 2020-01-08
- [4] Daily Newspaper Reading *"What is the impact of RMB exchange rate fluctuations on your life and mine? The authoritative response is here »* 2020-07-17
- [5] China Financial Information Network *"Onshore and offshore RMB continues to rise, two-way exchange rate fluctuation is obvious"* 2023-01-04
- [6] Guan Tao *"Guan Tao: The rate cut is not enough? Need to cope with sharp fall in RMB? Policies need to be restrained to cope with greater difficulties - »* 2022-04-26
- [7] Liu Wenge Lin Dandan *《Taxation and Economy》* 2023-03-04