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Manipulator label untrue, Beijing says

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The State Administration of Foreign Exchange, the country's foreign exchange regulator, said on Wednesday that the United States labeling China as a currency manipulator "is completely the opposite of the truth, and the action simply doesn't hold water".

Former US treasury secretary Lawrence Summers criticized on Tuesday the Trump administration's decision to label China as a "currency manipulator" and said Treasury Secretary Steven Mnuchin has "damaged his credibility and that of his office" by doing so.

China will maintain the stability and continuity of its foreign exchange policies, and continually promote the opening-up of the financial market, the administration said in a statement on its website.

The US action is not consistent with the quantitative criteria set by the US Treasury Department for a so-called currency manipulator, said Wang Chunying, a spokeswoman for the SAFE.

The Omnibus Trade and Competitiveness Act of 1988, which was quoted by the Treasury Department, has no specific criterion, and "it is much more arbitrary and capricious", according to Wang.

In an opinion piece published in The Washington Post, Summers said: "By labeling as Chinese currency manipulation an exchange-rate move that was obviously a natural response to his boss's policies, the secretary has damaged his credibility and that of his office.

"It will be harder now in the next difficult financial moment for Treasury Department pronouncements to be credited by market participants. Having seen the United States label China a manipulator, the world will wonder whether and how the United States will get China to change its exchange-rate policies," Summers wrote.

"If Chinese policies do not change, we will have only demonstrated our impotence to China and the world. Why is that desirable?"

He ended the article by saying: "There is a final problem with the Treasury Department's manipulation claims. … We have only limited capacity to shape Chinese behavior. Should we not focus on areas where our position is clearly right and the stakes are high rather than areas where our claims are dubious and prosecuting them damages our economy?"

Summers served as treasury secretary in the administration of president Bill Clinton and as an economic adviser to former president Barack Obama.

Daniel Ikenson, director of the Cato Institute's Center for Trade Policy Studies in Washington, said on social media: "The Chinese did not devalue their currency. The yuan has been depreciating because of the tariffs and it is no longer tenable for China to continue to prop up the yuan. There is no manipulation."

Last week, Trump said he would impose a 10 percent tariff on an additional $300 billion of Chinese goods starting from Sept 1.

In response, the yuan fell to a low of just beyond 7-to-1 against the US dollar on Monday. Allowing the yuan to fall reduces the relative price for Chinese imports and makes US products comparatively more expensive.

Trump called the action "currency manipulation" and an attempt to steal US jobs and depress wages. The Treasury Department designated China a currency manipulator, but the US can't seek formal penalties until it attempts to strike a deal with China.

The major stock indexes—the Dow Jones Industrial Average, the Nasdaq composite and the S&P 500—closed up more than 1 percent each on Tuesday. After Monday's sell-off, the biggest of the year, Tuesday's rebound of 312 points put the Dow at 26,023.

On Monday, the Dow lost 767.27 points, or 2.9 percent, after US President Donald Trump accused China of currency manipulation.

"There is more uncertainty in the global environment," said Usha Haley, the W. Frank Barton Distinguished Chair in International Business and a professor of management at Wichita State University. "It does not contribute to planning or investment in the global economy and doesn't benefit China or the US. We're in uncharted territory."

But Trump may be able to use the currency-manipulation charge to his advantage, one expert said.

"Unfortunately, the declaration that China is a currency manipulator can be used by the president as a reason to take further unilateral actions against China," said Steve Charles Kyle, an economics professor at Cornell University. "It is clearly bad news for both the USA and China."

With equity markets roiled and supply chains disrupted, Goldman Sachs now expects the Fed to cut interest rates by at least a quarter-point in September and October.

Trump has frequently called for more cuts to the federal funds rate. But inflation is close to the Fed's 2 percent target in December, Goldman Sachs believes rate cuts will stop.

Jan Hatzius, an analyst at Goldman Sachs, said he doesn't expect a trade deal to be reached until after the November 2020 election.