

# Chinese Yuan Hits New 16-Month Low as Trump Tariffs Loom

The yuan is tightly controlled by the Chinese Communist Party via though China's central bank, and analysts predict the currency will continue to fall.



A Chinese bank employee counts 100-yuan notes and US dollar bills at a bank counter in Nantong in China's eastern Jiangsu province on Aug. 28, 2019. AFP via Getty Images

By Alex Wu

Chinese currency slipped to a new 16-month low on Jan. 10, despite China's central bank's efforts to ease investor worries over the threat of U.S. tariff hikes under the incoming Trump administration.

China's yuan initially rose slightly on Friday after the central bank, The People's Bank of China (PBOC), said it would suspend treasury bond purchases, triggering a jump in bond yields. Hours later, the Chinese yuan's exchange rate against the U.S. dollar fell to 7.33, the weakest since September 2023, slipped from 7.33 per U.S. dollar on Jan. 6, which was a 16-month low.

Meanwhile, China's stock market is also struggling. Its benchmark CSI 300 index is down more than 4 percent this year.

By contrast, strong U.S. employment and services data released on Jan. 7 by the U.S. Treasury have boosted investor confidence that the Federal Reserve may slow the pace of interest rate cuts. U.S. job openings rose to a six-month high, and the U.S. services index has hit the highest level since early 2023. The U.S. dollar index rose 0.5 percent on Jan. 8.

President-elect Donald Trump has frequently pledged to impose tariffs in excess of 60 percent on Chinese goods and to end China's most-favored nation trading status on his first day in office. The threats have generated great attention to the growth prospects for the world's second-largest economy.

Analysts have said that depreciation of the yuan could offset the incoming U.S. tariff hikes to certain extent, but it could also lead to capital outflows and will bring other risks to China's frail economy.

Chinese investors purchased large volumes of Hong Kong mutual fund products this week as they looked to invest overseas, particularly those focused on U.S. Treasuries and other bonds.

The depreciation of the yuan will unlikely be enough to offset the impact of a sharp tariff increase, Frank Xie, professor in Business at University of South Carolina Aiken, said of the falling Chinese currency. However, it will have multiple negative effects on the Chinese economy.

“It will reduce the wealth of Chinese businesses; importers will be hit especially hard by it. The depreciation will devalue the wealth of ordinary Chinese people, making it more expensive for Chinese people to study or travel abroad. Depreciation will lead to higher import costs, further increasing prices [for Chinese],” Xie said.

The negative impacts of depreciating the yuan may be greater than its limited effect in offsetting the incoming U.S. tariffs, Davy J. Wong told The Epoch Times.

“Corporate debt will increase because many Chinese companies have foreign debts that are denominated in U.S. dollars,” Wong said.

This will accelerate capital outflow, he said, as “foreign-invested enterprises are worried that the RMB will eventually depreciate significantly and trigger severe inflation. So, they may stop investing in China or even withdraw their investment, which will have a greater impact on China.”

He explained that “when foreign companies come to China, they not only bring capital, they also bring orders, technology, and management experience, all of which are very much needed in China.”

## Falling Yuan

The yuan is tightly controlled by the Chinese Communist Party (CCP) through China’s central bank. Despite the central bank’s vows to “maintain the basic stability” of the yuan with supportive policies, analysts predict the currency will continue to fall.

The RMB exchange rate continues to be under downward pressure at present, mainly due to the weak economy and continued capital outflow, according to Wong.

“China’s post-COVID economic recovery is very weak, with poor performances in exports, consumption, and real estate investment, leading to weak market confidence in the RMB,” he said.



A man wearing a mask walks past the headquarters of the People's Bank of China, the central bank, in Beijing, China, on Feb. 3, 2020. Jason Lee/Reuters

Regarding the possibility of the yuan’s further depreciation, Wong predicts that “it will probably drop to between 7.45 and 7.55, which is a line that the central bank must defend.

“The central bank won’t allow it to exceed 7.6,” he said.

Because the yuan is tightly controlled, “the central bank must have a set of preset targets for intervening in exchange rates,” he said.

Xie shares a similar view that the yuan will continue to fall.

“In addition to the deliberate manipulation by the Chinese regime [to offset the tariffs], China’s weak economy and CCP’s excessive money

printing will also increase pressure on the renminbi to depreciate,” he said.

## Pressure on Other Asian Countries

The Thai baht, Indonesian rupiah, Philippine peso, Taiwan dollar, and South Korean won all fell against the dollar this week, as the U.S. dollar bounces back.

Xie said that on the one hand, “it shows the strength of the U.S. economy and exports, the strength of the dollar, and expectations for a booming U.S. economy under the second Trump presidency.”

On the other hand, “the depreciation of the RMB also puts pressure on other Asian countries, forcing them to follow suit because they do not want to be hit by China’s dumping of cheap goods in their markets,” he said.



A Chinese yuan currency sign with two arrows through it, pictured outside a bank branch in Shanghai, China, in a file photo. Johannes Eisele/AFP/Getty Images

Wong said that RMB depreciation could disrupt the regional supply chain “as China is a major trading partner of Southeast Asian countries.”

“RMB depreciation could cause a large influx of imports of Chinese goods into the market in the region, disrupting the trade structure of these countries,” he said.

“At the same time, these countries are also likely to conduct competitive currency devaluations, leading to a vicious cycle.”

*Luo Ya and Reuters contributed to this report.*

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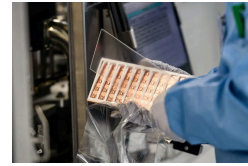
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