《人民币升值小步走（双语）》

The rise of the renminbi appears inexorable. The Chinese currency hits fresh record highs on a regular basis, making the appeal of the “ redback ” as an investment clear.

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China’s economy is in the ascendancy, and its currency will go with it.

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Hong Kong is where China’s currency meets international investors – permanent residents in the city can open renminbi bank accounts, and buy up to HK$20,000 ($2,565) worth every day. Appetite looks robust – renminbi as a share of Hong Kong’s retail deposit base grew from 0.1 to about 5 per cent during 2010, according to the Monetary Authority, the city’s de facto central bank.

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??2?????2565????????????????????????????(Monetary Authority)????2010????????????????????????0.1%???5%??????????????

Because of the Chinese currency’s lack of convertibility, the main reason to hold it remains for speculation. HSBC offered a payroll facility for clients wanting to pay staff in renminbi, but so far there have been no takers.

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“The average Hong Kong resident views the renminbi itself as a half-decent investment opportunity,” says Mark McCombe, chief executive of HSBC’s Hong Kong operations. “It may not be long before taxi drivers and restaurants start accepting it. But for most people – they are paid in Hong Kong dollars, they buy things with Hong Kong dollars, their lives are in Hong Kong dollars.”

?????????????(Mark McCombe)???“??”

For all the hype about the rise of the redback, those banking on even modest gains may be disappointed.

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At the start of March, Yi Gang, deputy governor at the Chinese central bank, said the renminbi exchange rate was at its closest yet to “equilibrium”. The powerful manufacturing lobby is also worried about further appreciation, putting pressure on the government to keep the redback’s rise in first gear.

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Since the People’s Bank of China announced it was moving to a slightly more flexible exchange-rate regime last June, the renminbi has returned to its path of gradual appreciation. But in that time it has risen just 4.3 per cent, outperforming only a handful of currencies in the region, including the Pakistani rupee and the Vietnamese dong.

??6??4.3%????????????????????????????????????

only four currencies in Asia have moved less in any direction. Meanwhile, the Japanese yen has leapt 13 per cent, the Singapore dollar 10 per cent and the Korean Won 9.5 per cent.

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The action in the forward market suggests continued plodding gains. Non-deliverable forwards – or NDFs – are essentially a derivatives contract pricing future values. Over the next 12 months, the market points to less than 2 per cent of further appreciation.

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While the more bullish forecasts point to a rise of anything up to 6 per cent, consensus is for 4.1 per cent by year end, according to a recent poll of economists by Bloomberg. Many analysts remain doubtful.

??(Bloomberg)????????????????????????????????6%?????????4.1%????????????????????????

“Over the next year or so, investors may be disappointed. It’s not undervalued by as much as some would hope,” says Ashley Davies, senior FX strategist at Commerzbank in Singapore.

??????(Commerzbank)????????????????????(Ashley Davies)???“??”

Inflation is also a factor. China’s prices surged at the end of 2010, prompting a round of monetary tightening from the central bank.

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China has used a stronger currency to help damp the effects of imported inflation – principally caused by rising commodity prices. So long as China is battling inflation, there is potential for faster appreciation. But that may be a temporary phenomenon.

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“once China gets a grip on inflation, there could be a reduced need for appreciation,” says Albert Leung, FX strategist at Citi. “The [renminbi] is no longer as undervalued as a few years ago. It will still appreciate, but it’s not going to be exciting. Over the longer term, we’re likely to see more modest appreciation, and more two-way risk.”

??(Citi)?????Albert Leung???“??”

Some analysts go even further. TJ Bond, chief Asia economist at Bank of America Merrill Lynch – though bullish on the currency – says the renminbi “is not significantly undervalued”, and will even become overvalued during the next few months.

????????????????(Bank of America Merrill Lynch)???????????????????(TJ Bond)?????????????????“???????”???????????????

“On a risk/reward basis, it has exceeded any other currency in the region,” says Daniel Hui, senior FX strategist at HSBC.

??????????(Daniel Hui)???“????????????????????????????”

One thing that might facilitate a more rapid rise of the redback is a faster opening up of the Chinese capital account. Beijing maintains strict controls on money flowing in or out of the mainland for investment. Pilot projects to allow residents in Wenzhou and Shanghai to invest overseas suggest that authorities are looking at new ways to liberalise some of those restrictions.

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“Historically, economies have either had an open or a closed capital account. once you choose to open it, it feeds itself, making it very difficult to open the capital account gradually in practice,” says Mr Davies.

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He believes a rapid opening of the capital account could push the renminbi to strengthen faster. ?????????????????????????????

But the consensus view points to a slow pace of reform. “Gradualism has worked well for the Chinese. We’ve seen some important steps in the opening of the capital account, but it’s a journey of a thousand miles”, says Mr Bond.

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