Demand, supply, and market: current situation in china

Business

The chief of Beijing’s central bank recently announced that yuan has reached its equilibrium rate and now is mainly determined by the market forces rather than by any kind of governmental interference. Zhou Xiaochuan, being one of the chief executives of the People’s Bank of China, warned that this kind of liberalization, provoked by major economies` example, would bring inflation.

As China tries to increase growth keeping prices under control, inflation wouldn`t make it any better. His remarks appeared to be the consequence of an assumed political race between Barack Obama and Mitt Roomney. Mitt Roomney accused Barack Obama of drawing an important conclusion, that China was manipulating its currency exchange rate in order to increase its foreign trade. The USA had been convincing China to exterminate governmental controls of currency rate on the market as Washington considered yuan below its fair value, causing their export to become less in foreign markets. Zhou claimed that China`s Central Bank did not take actions to regulate yuan exchange rate last year too, and it remained 6.

3 yuan per dollar. “ The rate, te spot rate and future rate, determined by the market supply and demand, basically are very close to the equilibrium rate,” as he mentioned (The Economic Times). He also noted that since 2005 yuan has been appreciated for more than 30% against dollar. Zhou, in his speech, confirmed that Beijing is concerned lately over the inflation caused by liberalization appearing on EU and the USA monetary policies and currency markets. He claimed that fighting inflation will become China`s first priority from now. Zhou’s deputy, Yi Gang said in this questions and answers session

that China planned to counter its economic decline by providing stimulus packages of a fair size.

However, this issue is getting more complex with the appearance of quantitive easing. It may influence liquidity causing speculation processes on commodity and energetic markets. Moreover, China`s price stability reduced to 2. 7% this year while the governmentally approved is 4%. Therefore, the outlook for the future is good (The Economic Times, 2012).

The supply and demand are the main forces on the market. As Adam Smitth stated, they are the “ invisible hands” of the market, setting it free from governmental interference. In the above-mentioned example, currency supply and demand has been shown. On the global markets, such as currency markets, those forces are the main indicators used to predict trends, threads and to picture the current situation adequately (Baye, 2009). It is obvious that higher price for dollars predicts more supply.

As a consequence, China attracts more dollars on export operations and involves fewer dollars on import ones. Therefore, speculations are seen to be taking place in Chinese currency market. However, with the yuan appreciation increase, the dollar price gets lower. Now the USA and EU influences on this area (yuan appreciation rose for 30%) get grounded. The amount received exceeding necessary amount is called a surplus. In the given example, China creates a dollar surplus and wins from it, being able to keep more dollars than spend.

However, on the long term it would cause the inflation, concerns of which are observed now in the Chinese government (The New York Times, 2010).