CNY FX: PBoC joins the debate around CNY valuation

Lower 2026YE USD/CNY target to 6.60; Remain OW CNY FX in GBI-EM and long CNH vs USD and EUR

Emerging Markets Strategy

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- **PBoC has formally entered the debate on CNY valuation.** In a rare move, the PBoC published a bilingual commentary, outlining its framework on the RMB exchange rate and pushing back against the prevailing narrative around CNY undervaluation. While we broadly agree with most of its arguments, there are aspects of the discussion on which we hold some reservations.
- **Exchange rate regime and FX market management**: While the PBoC is correct that market forces now play a much larger role in CNY FX than in the past of China's own history, the currency market remains tightly managed. China's capital account is still largely closed, and authorities continue to influence the exchange rate through various policy tools. CNY volatility remains structurally lower than that of most G10 and EM currencies.
- **No well-established framework for evaluating exchange rates**: We broadly agree with the PBoC that REER alone provides an incomplete measure of CNY valuation. The pronounced divergence between CNY NEER and REER since 2022 means that much of the REER decline reflects China's weak inflation relative to RoW. Treating it solely as evidence of currency undervaluation risks conflating FX movements with broader macroeconomic developments.
- **Trade competitiveness + current account surplus ≠ an undervalued currency**: We agree with the PBOC that China's external surplus increasingly reflects structural competitiveness, not currency undervaluation. Deep cost advantages and leadership in AI and new-energy sectors have sustained export resilience, while greater use of CNY in trade settlements has also weakened the traditional link between trade income and currency performance.
- **Global imbalances mirror that at home, CNY not first to blame:** We also agree that global imbalances reflect domestic imbalances more than currency misalignment. Yet domestic policies to address China's own imbalances have been insufficient, with policy support still tilting towards advanced manufacturing rather than consumption.
- **Mind your own business, and we'll take care of ours**. While the PBoC has pushed back against calls for a sharply stronger CNY to address global imbalances, a gradual and managed appreciation isn't necessarily inconsistent with PBoC's own policy objectives. A firmer yuan enhances returns on Chinese assets and attracts foreign inflows, supports RMB tion and encourages FX conversion by corporates.
- **Market strategy**: The PBoC's persistent strengthening bias in the fixing continues to signal a lower USD/CNY, even as downward momentum has moderated. USD/CNH has increasingly decoupled from global FX peers, while CNY outperformance has lifted the TWI to post-2022 highs without appearing excessive. Supportive 4Q seasonality, stronger corporate USD conversion, and the upcoming Trump-Xi meeting reinforce our constructive view. **We revise our 2026YE USD/CNY forecast to 6.60 from 6.70, remain OW CNY FX in GBI-EM, and maintain CNH longs vs EUR and USD (marked at +2.07%), raising our target return to +3.0% with a trailing stop at +1.5%.**

See page 9 for analyst certification and important disclosures.

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The PBoC has officially entered the debate on CNY valuation. In a rare move, China's central bank published a lengthy commentary on its website yesterday, in both Chinese and English, outlining its views on the RMB exchange rate. The commentary comes as international scrutiny of CNY valuation has intensified in recent months, with accusations of significant CNY undervaluation becoming more prevalent (see here and here), likely prompting a response from the PBoC, just ahead of the IMF/World Bank Annual meeting next week. In its commentary, the PBoC sets out a range of arguments to push back against the prevailing narrative on CNY undervaluation. We agree with most of the points raised, although there are still aspects of the discussion on which we hold reservations.

- **Exchange rate regime and FX market management**: The PBoC claims that China adopts a managed floating exchange rate regime with market forces playing a decisive role in determining the exchange rates, and CNY FX has experienced several cycles of appreciation and depreciation since 2010, with more pronounced two-way floating and greater flexibility. While we agree with the broad thrust of this , some elements deserve a more nuanced interpretation. Of note, China's capital account remains largely closed, despite gradual liberalization in recent years. The opening-up has also been largely asymmetric, with policy efforts generally focused on attracting inflows while maintaining tight control over outflows. It is true that the PBoC has exited direct spot intervention since 2015 and has gradually relaxed its control over the FX market over time, and this has contributed to a wider trading range for CNY FX (Figure 1). However, authorities continue to influence the currency market through a range of policy tools, including the daily fixing, state-bank operations, and various macroprudential measures such as adjustments to the FX forward risk reserve ratio. As a result, while market forces are playing a greater role in determining the exchange rate than in the past, CNY volatility remains structurally lower than that of most major G10 and EM currencies (Figure 2), reflecting a still tightly managed market.

Figure 1: CNY's trading range has expanded amid a gradual relaxation of FX controls from the PBoC ...

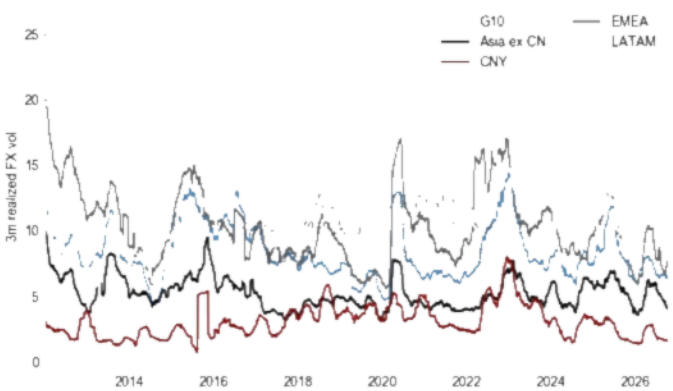
annual trading range of USD/CNH, pips



Source: Bloomberg Finance L.P., J.P. Morgan

Figure 2: ... though its overall volatility is still structurally lower compared to global peers

median of the group of G10 and EM currencies



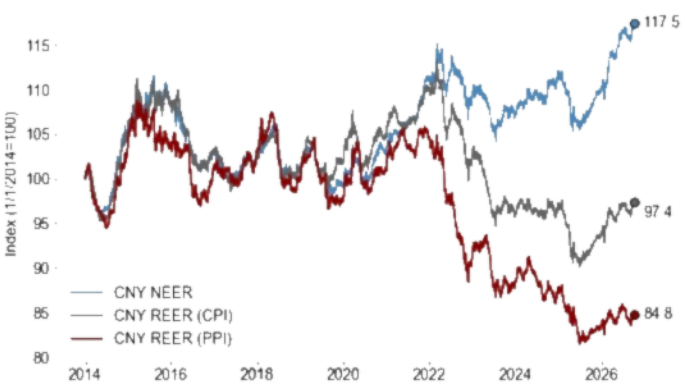
Source: Bloomberg Finance L.P., J.P. Morgan

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- **No well-established framework for evaluating exchange rates**. The PBoC argues that REER-based measures provide an incomplete framework for assessing CNY valuation, an assessment with which we generally concur. Much of the recent debate around CNY's valuation has centered around the sharp decline in China's real effective exchange rate (REER) since 2022, with the CPI-adjusted and PPI-adjusted CNY REER having fallen roughly 15-20% from their 2022 peaks. While the decline in the CNY REER itself is an undeniable fact, viewing it solely through a currency valuation lens overlooks a key structural shift since 2022, namely the sharp divergence between the CNY's NEER and REER (Figure 3). Alongside the sharp decline in CNY REER, the CNY NEER has in fact appreciated by more than 7% since 2022, implying broad-based nominal RMB strength rather than weakness. This divergence suggests that the decline in the REER primarily reflects China's unusually weak inflation dynamics relative to the rest of the world, a structural feature that has persisted throughout the post-Covid period. As such, interpreting the entire REER decline as evidence of a deliberately undervalued currency risks conflating exchange-rate dynamics with broader macroeconomic developments, a point the PBoC has raised in the commentary. This distinction is particularly important in Asia, where the RMB has generally appreciated against regional peers in nominal effective terms and, in some cases, even in real terms despite sizeable inflation differentials (Figure 4). Such trends sit uneasily with the prevailing narrative that China has relied on a weaker currency to enhance its trade competitiveness at the expense of its neighbors.

Figure 3: The pronounced divergence between the CNY NEER and REER since 2022 complicates conventional assessments of RMB valuation and warrants a more nuanced interpretation of REER-based metrics

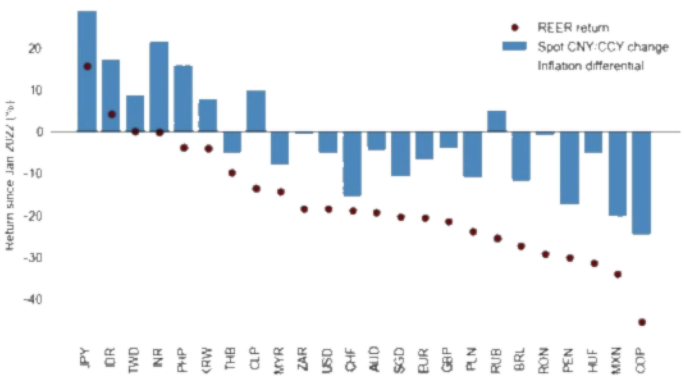
Jan 2014 = 100



Source: Bloomberg Finance L.P., J.P. Morgan

Figure 4: Much of the CNY REER weakness is driven by inflation differentials rather than currency mis-match

decomposition of the bilateral REER of CNY/ccy, deflated using CPI



Source: Bloomberg Finance L.P., J.P. Morgan

- **Trade competitiveness + current account surplus ≠ an undervalued currency.** The PBOC made two related arguments on this topic, which we broadly agree with. First, the PBoC argues that China's external surplus primarily reflects stronger industrial competitiveness, supply-chain depth, technological upgrading, and rising export quality, rather than exchange-rate policy. Second, the PBOC pointed out that currencies are increasingly driven by capital flows, monetary policy, risk sentiment, and market expectations rather than trade flows alone. Our analysis of nearly 14,000 products shows that around 70% of US imports from China were priced below competing suppliers (Figure 5), with particularly strong cost advantages in machinery, electronics, chemicals, and consumer goods. Much of this advantage

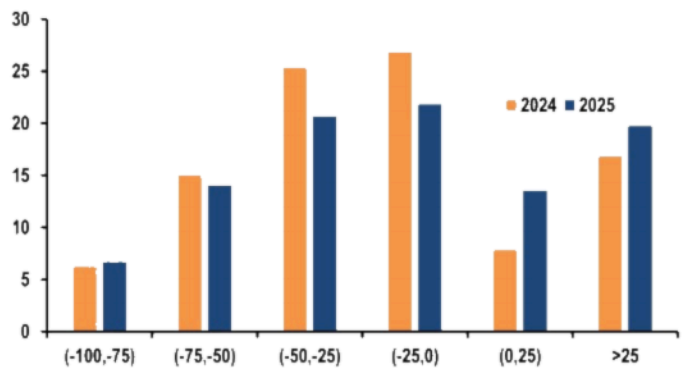
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remained intact even after the 2025 US tariff hikes and likely extends well beyond the US market. China also remains the dominant supplier across many product categories, underpinned by deep industrial clustering, production scale, and highly integrated supply chains. These advantages have persisted through multiple RMB appreciation cycles, while China's global export share has remained elevated (Figure 6). More recently, AI-related tech products and the "three new" sectors (EVs, solar panels, and batteries) have become key drivers of export growth. Demand for these products is increasingly supported by structural factors, including global AI supply constraints, China's dominant position across new-energy supply chains, and stronger demand for energy-transition products amid recent energy market disruptions. As a result, export demand in these sectors appears to be less sensitive to exchange-rate movements than traditional manufacturing exports. The traditional link between a trade surplus and currency strength has also weakened. Despite the broad increase in FX settlement (Figure 7), exporters still retained a large share of FX proceeds offshore or in USD assets, while the rising use of CNY in trade settlement has reduced the need for immediate FX conversion into CNY. Meanwhile, despite a record trade surplus exceeding 5.0% of GDP (Figure 8), China has simultaneously seen rising capital outflows, helping to partially recycle the external surplus.

Figure 5: Chinese goods have a significant cost advantage

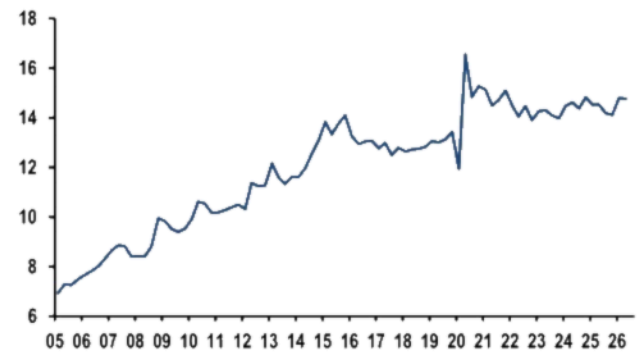
% of total US imports from CN



Source: Source: USITC, J.P. Morgan

Figure 6: China's share in global exports remained elevated

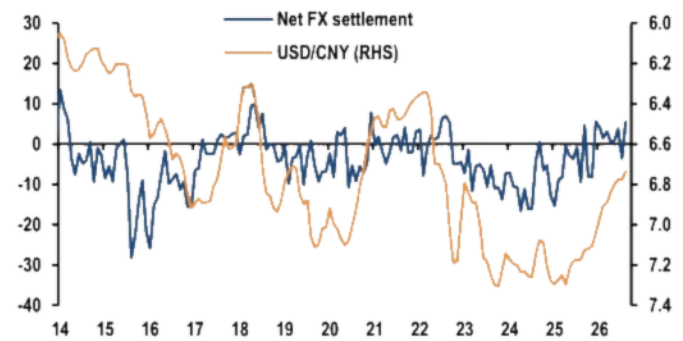
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Source: WTO, J.P. Morgan

Figure 7: Corporates' FX settlement has been trending up

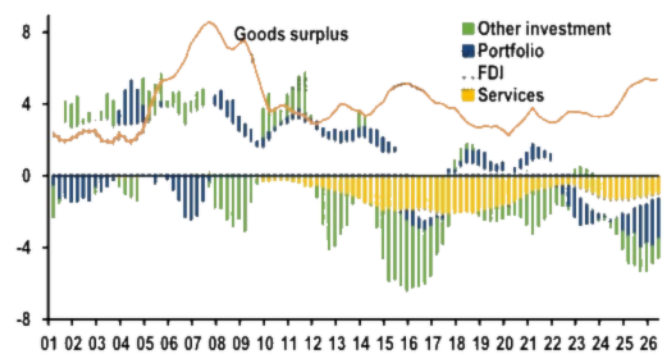
LHS: %pts. RHS: USD/CNY



Source: SAFE, J.P. Morgan

Figure 8: Trade surplus elevated, along with capital outflows

% of GDP, 4Q rolling



Source: China Customs, SAFE, J.P. Morgan

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- **Global imbalances mirror those at home, CNY not first to blame.** The PBOC made two related arguments. We broadly agree with the first (*global imbalances reflect industrial specialization, savings-investment gaps, and the international monetary system, requiring adjustment by both deficit and surplus economies*), but are more cautious on the second (*China is accelerating its economic rebalancing, shifting from primarily a global production hub toward a larger source of global demand*). There are important caveats around how global imbalances are measured. Current-account norms and exchange-rate misalignment estimates are highly model-dependent and often rest on debatable assumptions. More fundamentally, global imbalances largely mirror domestic imbalances. Exchange rates matter, but they are unlikely to be the primary culprit. China's large external surplus increasingly reflects manufacturing competitiveness, supply-chain depth and industrial ecosystems, while a stronger CNY alone would do little to resolve excess capacity or materially narrow external imbalances. That said, China's overcapacity and deflation challenge is ultimately rooted in its domestic growth model and institutional incentives. While the PBOC highlights ongoing rebalancing and stronger consumption, the 15th FYP continues to prioritize technological self-sufficiency, advanced manufacturing as China enters version 3.5, with household support remaining incremental rather than transformative. Investment-led supply expansion is likely to continue outpacing domestic demand growth, keeping excess capacity and external surpluses elevated. This suggests trade frictions with partners such as the US, Germany and parts of Europe are likely to persist, driven more by concerns over industrial competitiveness.

Mind your own business, and we will take care of ours. While the PBoC has used the commentary to push back against the undervaluation narrative and international calls for a sharp appreciation of the CNY as a remedy for global imbalances, this does not necessarily mean that a gradual, managed strengthening of the yuan would be inconsistent with its own policy objectives. On the contrary, a firmer currency could help advance several of the PBoC's domestic goals, reinforcing its preference for guiding the yuan stronger, not as a favor to the rest of the world, but in service of China's own economic and policy priorities.

- **For one, a stronger currency enhances the total return proposition of Chinese assets for global investors at a time when foreign participation remains relatively subdued**. While Chinese bonds are often viewed as less attractive assets given their low nominal yields, FX appreciation has provided a meaningful boost to returns. Chinese bonds have delivered total returns of around 7% year-to-date, with FX gains accounting for more than half of that performance (Figure 2). Although this still trails some of the higher-yielding EM stars such as COP and BRL bonds, it still ranks among the strongest performers globally and has likely contributed to the improvement in FPI bond inflows to China in recent months (Figure 10).
- **Also, a stronger yuan helps lay the foundation for PBoC to advance its RMB tion agenda, which has gained increasing traction of late**. China has made steady progress in expanding the use of RMB in cross-border trade settlement, with the latest PBoC data showing that the yuan-denominated settlement now accounts for 29.1% of China's goods trade transactions. Beyond trade, the PBoC has also taken advantage of a stronger currency environment to further refine its framework governing cross-border capital flows. At the same time, a growing number of international issuers have tapped both the offshore CNH Dim Sum bond market and the onshore Panda bond market, contributing to the broader development of the RMB ecosystem and reinforcing the currency's international role.

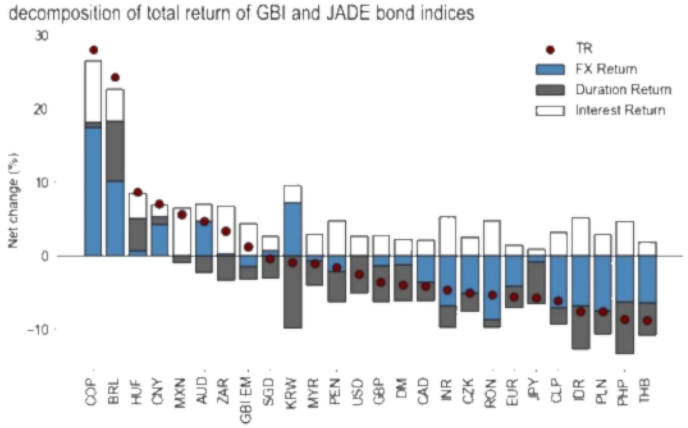
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- **Last but not least, a steadily appreciating yuan encourages domestic corporates and exporters to convert their dollar holdings and reduce currency mismatches.** Chinese corporates have net sold $398bn of dollars ytd or $587bn over the past 12 months, exceeding the peaks seen during the 2021 appreciation cycle. While part of the elevated pace of USD selling reflects larger trade-surplus inflows in the current cycle, corporates have yet to meaningfully draw down the substantial stock of dollar savings accumulated in previous years. By our estimates, excess corporate dollar holdings remain sizable at around US$580-940bn. Against the backdrop of wide US-China rate differentials, corporate FX conversion has become increasingly sensitive to the total return profile of the yuan (Figure 12). A steadily appreciating currency helps preserve positive RMB total returns despite the carry disadvantage relative to the dollar, thereby strengthening incentives for corporates to convert their USD income and reduce currency mismatches.

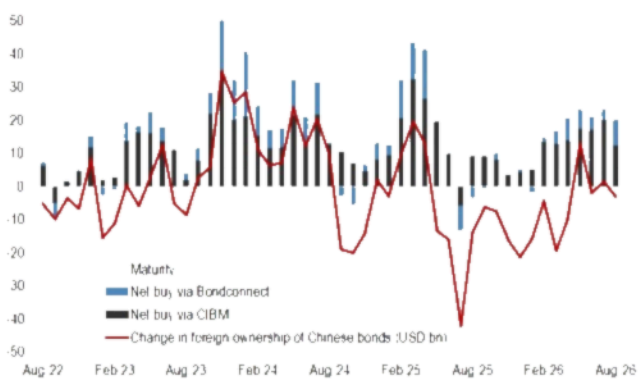
Figure 9: FX gains have helped to enhance the total return proposition of Chinese bonds, making them among the strongest performers ytd

decomposition of total return of GBI and JADE bond indices



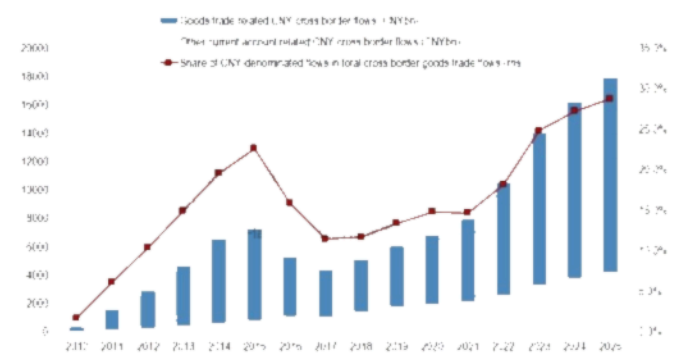
Source: Bloomberg Finance L.P., J.P. Morgan

Figure 10: FPI bond inflows into China have improved in recent months



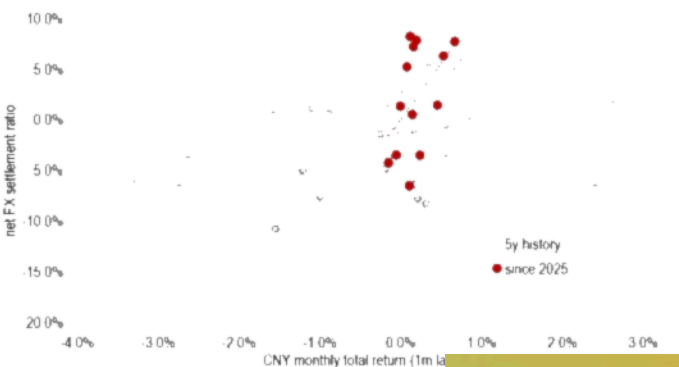
Source: CFETS, J.P. Morgan

Figure 11: China has made steady progress in expanding the use of RMB in cross-border trade settlement



Source: PBoC, J.P. Morgan

Figure 12: Corporate FX conversion in China has become increasingly sensitive to the total return profile of the yuan



Source: Bloomberg Finance L.P., J.P. Morgan

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Market Strategy: Revising 2026YE USD/CNY target lower to 6.60. Remain long CNH vs EUR and USD and OW CNY FX in GBI-EM.

The CNY fixing has broken through several key levels in recent months and is now firmly in the sub-6.74 range, marking the sharpest 20-day decline since 1Q26. While the pace of appreciation has moderated in recent sessions, the PBoC's strengthening bias relative to our model estimates (including the CCF) remains broadly intact. The fixing signal continues to point toward official guidance for a lower USD/CNY.The increasingly firm fixing anchor has also allowed USD/CNH to trade more to its own rhythm, with its correlation to global FX peers falling to recent multi-month lows (Figure 13). CNY stability amid the recent rebound in the broad dollar has further bolstered its relative performance against major currencies. Since the September lows, the CNY TWI has risen by around 2%, with outperformance against the EUR, JPY and AUD accounting for much of the recent month gain. Although the CNY TWI is now at its highest level since 2022, its 5.3% deviation from its multi-year trend remains well short of previous cycle extremes, suggesting the PBoC is unlikely to view the recent yuan appreciation as excessive (Figure 14).

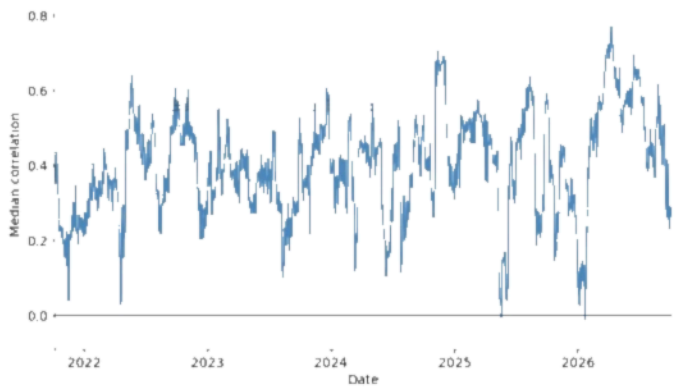
Looking ahead to 4Q, seasonality remains supportive of a stronger export performance and increased corporate dollar conversion, both of which are structurally bullish for the CNY. In addition, this year's third engagement between Presidents Trump and Xi at the upcoming APEC summit in China could provide a further tailwind for the currency into year-end, as the PBoC has historically exhibited a preference for a stronger exchange rate around major political events. **Against this backdrop, we are revising our 2026 year-end USD/CNY forecast lower to 6.60, from 6.70 previously** (Figure 16), **reflecting our expectation that CNY appreciation will accelerate into year-end**. We also revise our outer-quarter forecast profile lower, while retaining a modest upward trajectory from 2Q27 onward that broadly tracks JPM's EUR and JPY assumptions. That said, conviction around the 2027 outlook remains low at this stage, and we continue to see downside risks to our 2027 forecast profile. **We remain OW CNY FX in GBI-EM. In outright trades, we continue to hold CNH longs versus both EUR and USD (entry: 100, current: 102.07, spot return 2.07%, total return: +1.94%). The trade has already reached our initial spot target of +2.0%. Given the lowered USD/CNY forecast and our continued conviction in further CNY strength, we maintain the position, while raising our target spot return to +3.0% while setting a trailing take-profit stop at +1.5%.**

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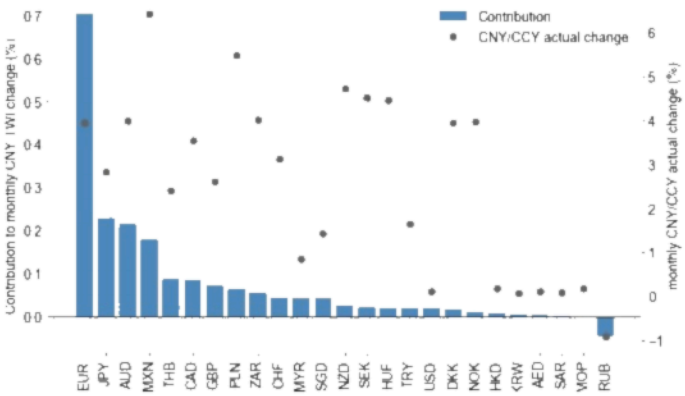
Figure 13: USD/CNH has been trading more to its own rhythm recently, with its correlation to global FX peers falling to recent multi-month lows

median correlation of USD/CNH change vs major G10 and EM currencies



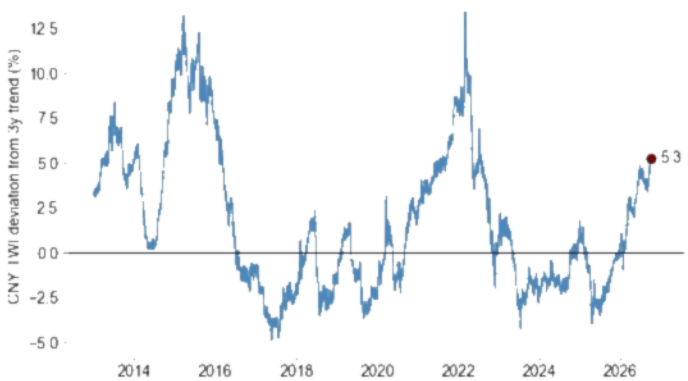
Source: Bloomberg Finance L.P., J.P. Morgan

Figure 14: CNY TWI is approaching four-year highs, with CNY's outperformance vs EUR, JPY and AUD contributing the most of recent month gains



Source: Bloomberg Finance L.P., J.P. Morgan

Figure 15: CNY TWI's deviation from its multi-year trend looks still well short of previous cycle extremes



Source: J.P. Morgan

Figure 16: Revising USD/CNY target lower

	USD/CNY		EUR/USD	USD/JPY
spot	6.6930		1.1229	158
JPM forecast	[illegible]	old		
4Q26	[illegible]	6.70	1.13	164
1Q27	[illegible]	6.75	1.12	164
2Q27	[illegible]	6.80	1.10	164
3Q27	[illegible]	6.80	1.10	164

Source: J.P. Morgan