



Yuan rate 'has more room for maneuver'

Expert: Controlled regime will be good option for further reform

By WANG YANFEI
wangyanfei@chinadaily.com.cn

China has further room to improve the current controlled floating exchange rate regime, as it moves toward the ultimate goal of allowing the yuan to float freely, said a former senior official with the nation's top forex regulator.

Guan Tao, a former senior official with the State Administration of Foreign Exchange, said the central bank has made proper adjustments to the current pricing regime by adding a counter-cyclical factor in May, but it is still a "transitional means".

A controlled but not transparent floating regime will be a good option to further implement reform, because absolute transparency might trigger cyclical behavior in the market, and is not appropriate under current circumstances, according to Guan.

In the long run, using a formula to price the currency will not be the ultimate choice, because exchange rate management cannot make choices on behalf of the market, he said.

Prior to seeing a clean float of yuan's exchange rate, or a free float mechanism, any steps moving forward should



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Guan Tao, a former senior official with the State Administration of Foreign Exchange

be properly evaluated in order to prevent risks, according to Guan.

The central bank implemented a fixing mechanism change on Aug 11, 2015, resulted in the yuan plunging more than 6 percent against the dollar and reaching its lowest point since 2008.

"Based upon the yuan's performance since the reform two years ago, steps can be taken when the circumstances are favorable," he said.

In comparison, the yuan gained against the dollar after

the central bank added a new counter-cyclical factor to the current yuan's pricing regime in May.

While the weak dollar and capital outflow control measures played key roles, introducing the factor helped stabilize market expectations, and diminished expectations that currency was on a weakening trend, according to Guan.

"The improved pricing regime helped beat one-way bets on the currency, guiding the market to pay more attention to changes in economic fundamentals and fluctuations in multilateral exchange rates," he said.

The recent stronger yuan reflected the market's adjustment to better-than-expected economic fundamentals, instead of central bank's intervention, according to Guan.

By the end of Friday, the yuan index stood at 94.03, up by 1.17 points compared to the previous week, latest data from the China Foreign Exchange Trade System showed on Monday.

In the meantime, the government is able to allow more domestic non-banking financial institutions and foreign investors to enter the forex market, because more diversified participation will help avoid similar risks, he said.

He said China also needs to strengthen efforts to implement supply-side reform, because economic fundamentals are vital to implement exchange rate reforms.



Two employees of Kweichow Moutai Co package liquor at the company's production line in Maotai town in Guizhou province. PROVIDED TO CHINA DAILY

Holiday season gives Moutai cheer

By ZHU WENQIAN
in Beijing and
YANG JUN in Guiyang

Kweichow Moutai Co, the best-known high-end Chinese liquor, has witnessed rising demand and a supply shortage in the weeks leading up to Mid-Autumn Lantern Festival and the National Day holiday.

With more people ordering Moutai for family dinners and banquets, retailers said they are experiencing a shortage, and expect a further jump in business with the arrival of the festival.

A 500 ml bottle of Moutai's classic Feitian 53 percent liquor has been selling for as much as 1,299 yuan (\$195) on JD.com, one of China's leading online shopping platforms. Consumers need to click the "rush to purchase" button as the stock is tight, and each account can only purchase one bottle at this price.

Starting from Aug 15, Moutai plans to supply 4,500 tons of liquor to increase the

Change of Kweichow Moutai Co's share price (2016-17)



inventory, meaning there will be 100 tons of Moutai liquor available on the market.

At some supermarkets and liquor stores, a 500 ml bottle of Moutai's classic Feitian 53 percent liquor retails for as much as 1,500 yuan.

In order to control the market price, Moutai appointed 70 sales outlets in Beijing to provide products at 1,299 yuan per bottle, and the company will soon apply similar policies nationwide.

Meanwhile, its share price has been consistently advancing. So far, the share price of Moutai has surged

nearly 50 percent this year. Moutai's market value exceeded 600 billion yuan, which topped that of other global liquor producers.

On Monday, Moutai shares jumped 3.26 percent to close at 499.83 yuan (\$75). Its share price is now the highest among listed Chinese companies.

At one point during trading on Monday, its share price reached a record 500.1 yuan, becoming the first Chinese stock to be traded at more than 500 yuan in the A-share market.

In addition, the perform-

ance of other leading Chinese liquor companies has been outstanding. On Monday, shares of Sichuan-based Wuliangye climbed 2.46 percent to close at 57.38 yuan, and shares of Sichuan-based LuzhouLaojiao Group edged up 0.72 percent.

Shenwan Hongyuan Securities said Chinese liquor has been performing well and exceeding expectations in the second quarter. The price of Moutai is likely to increase in the second half year amid a bullish market.

In the next two to three years, Moutai's imbalance between supply and demand is expected to level off, and its price has the potential to continue to rise, it said.

BOC International said it will maintain a buy rating for Moutai shares. It forecasts that in 2018, the share price of Moutai is expected to reach 600 yuan, higher than its earlier prediction of 550 yuan.

Contact the writers at zhuwenqian@chinadaily.com.cn

Currency expected to be on the higher side in second half

By CAI XIAO
caixiao@chinadaily.com.cn

The yuan is expected to be on the higher side in the second half of 2017 as China's capital outflows reduce and optimism grows over the nation's economic growth, said a senior US economist.

"As Chinese companies have fewer outbound mergers and acquisitions this year, capital outflows are also lower," said Pippa Malmgren, a US economist who served as an advisor to former US President George W. Bush on economic policy and financial markets.

"In the first and the second quarters, China's GDP grew at a respectable rate of 6.9 percent year-on-year, beating expectations."

"So I believe the yuan will become stronger in the second half of this year," she said.

The currency, which at the start of the year traded at its weakest level since 2008, has roared back since the end of May.

Malmgren also said the United States welcomes Chinese companies' investment in infrastructure areas offering mutual benefits.

"The Trump administration has promised to improve infrastructure in the US such as upgrading airports and railways, but they do not have enough money," said Malmgren. "If China prepares to invest in these areas, the US side will be very welcome."

"It is good for the US to have more interaction with China on greenfield investment and mergers and acquisitions," she said.

Malmgren said the central and southern regions of the United States can be the most



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Pippa Malmgren, a US economist

\$6.1 billion

worth of M&A deals by Chinese buyers in US in H1

attractive destinations for Chinese investors seeking mergers and acquisitions in the high-tech and biomedical sectors.

"The US economy is looking stronger than people expected, and the most dynamic parts are no longer the east and west coasts, but the cen-

tral and southern regions," said Malmgren.

She added that the most dynamic state among the regions is Texas because it is growing very fast and has a strong entrepreneurial environment. Texas is the center of biomedical research in the US, and its capital Austin is a new "Silicon Valley" with strong software and hardware industries.

China was the third-largest inbound M&A investor in the US in 2016, with deals worth \$62.6 billion. In the first half of 2017, however, China ranked only ninth, with \$6.1 billion worth of deals, according to a report from international law firm White & Case.

Inbound activity from China, one of the most active M&A investors in the US in recent years, has fallen sharply so far this year due to a combination of growing protectionism in the US and tighter outbound M&A regulation in China, said the report.

Malmgren said regarding US regulations on cross-border mergers and acquisitions, Chinese investment is potentially more complex due to strategic security issues between the two nations.

"China and the US are very aligned on the commercial side, but have different objectives on the strategic security side," she said. "I think the two countries will reach a comprehensive agreement including diplomatic and economic issues."

Jing Ulrich, vice-chairwoman of Asia-Pacific at JPMorgan Chase & Co, said Chinese investors will continue to have active M&As in the second half of this year because there remains a strong demand for industrial upgrading.

Nation on track for 5 maglev lines by 2020

By ZHONG NAN
in Beijing and ZHANG XIAOMIN in Dalian, Liaoning

China will operate more than five magnetic levitation rail lines with maximum speed of 160 kilometers per hour in cities including Chengdu, Wuhan and Guangzhou by 2020, said its manufacturer CRRC Dalian Co Ltd on Monday.

A new generation of Chinese medium-to-low speed magnetically levitated or maglev trains, manufactured by CRRC Dalian, a subsidiary of China Railway Rolling Stock Corp, completed test runs at a test speed of 120 kph in Shanghai earlier this month. The vehicles are expected to enter the market within a year.

"Even though metro trains can meet the demand to transport a large number of passengers from one location to another, it is too costly to build the infrastructure and difficult to control the noise," said Qu Tianwei, chief engineer of CRRC Dalian. "In addition, they cannot run very fast."

The new maglev train's maximum operating speed can reach 160 kph and has advantages including low vibration and noise, a stronger climbing capacity and a shorter turning radius, fol-



A new generation of Chinese medium-to-low speed maglev trains, which can run at a maximum speed of 160 kph. PROVIDED TO CHINA DAILY

lowing eight years of research and development by both CRRC Dalian and Chengdu-based Southwest Jiaotong University.

"The medium-to-low speed maglev trains can better connect cities and suburbs, and can be exported to foreign markets," said Qu.

More than a dozen Chinese cities, including Tianjin, Hangzhou and Shenzhen, are planning to launch maglev services by 2020, especially between their city center and airports, the city and suburban areas, and the city and surrounding counties.

China has already developed the technology to run maglev trains at a speed of

under 100 kph. As the test line in Shanghai was only 1.7 kilometers long, tests at 160 kph could not take place. Qu said that led CRRC to build a new test line at a length of between 5 and 6 kilometers.

"Compared with other types of urban rail transportation, maglev trains are quiet and can achieve high speeds because they don't actually ride on the rails with wheels but hover centimeters above the track through the use of magnets, avoiding the slower speeds caused by friction," said Sun Fuquan, a researcher at the Chinese Academy of Science and Technology for Development in Beijing.

Beijing is building a low-speed maglev urban rail route — the S1 line — which will start in northern Beijing's Haidian district, pass through Shijingshan district and end in Mentougou district in the city's western outskirts. The 11km line will become operational during the fourth quarter of this year.

China's first medium-to-low speed maglev rail line started operation in 2016 in Changsha, the capital of Hunan province, making China one of the first nation's to master such technology.

Contact the writers at zhongnan@chinadaily.com.cn