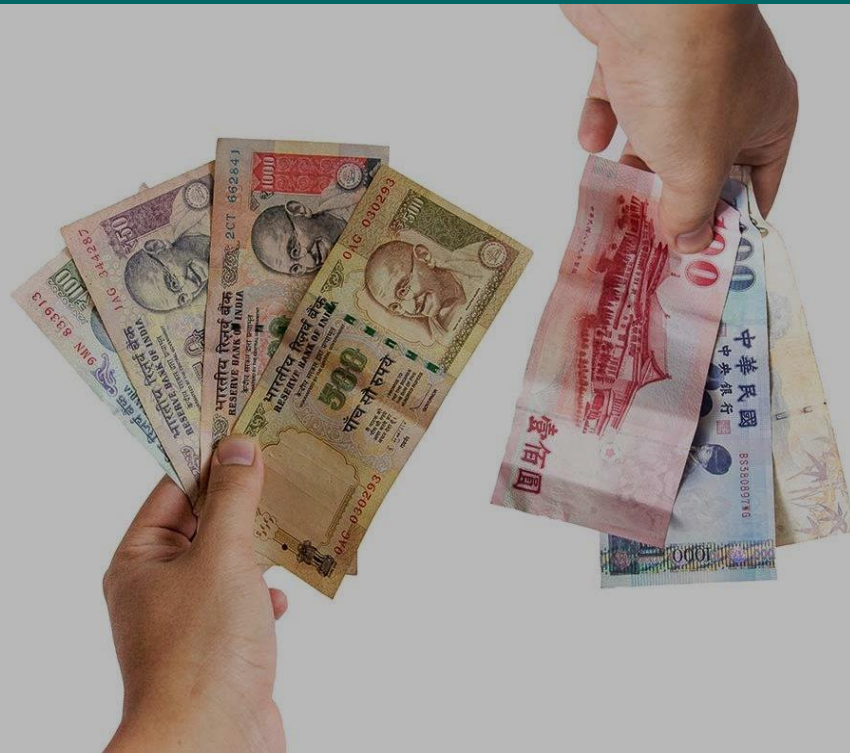


1. US-china trade war: Devaluation of Chinese currency is causing the fall of Indian rupee

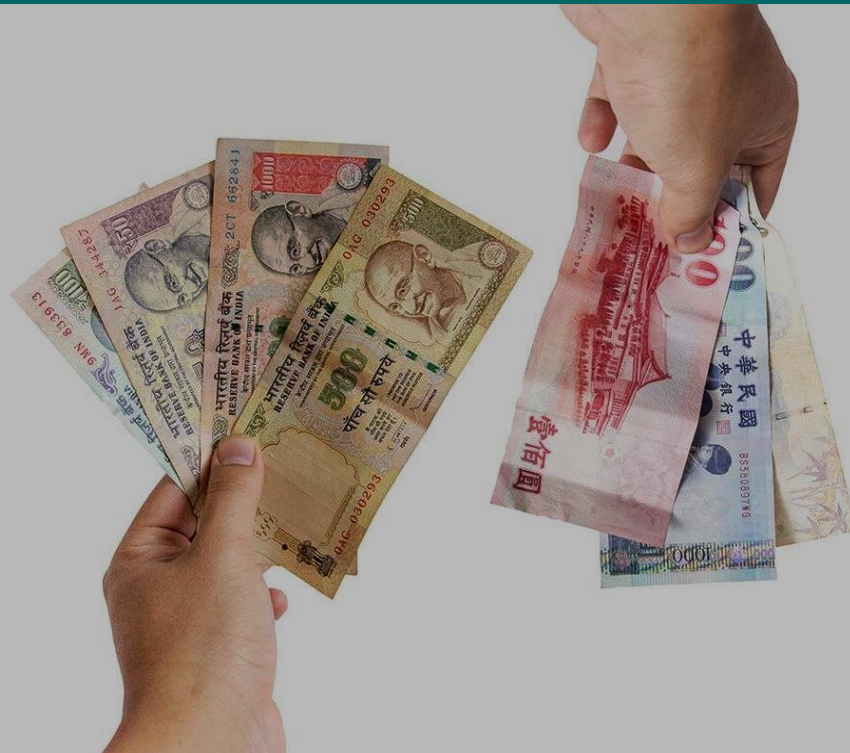
- Why did the rupee fall?
- How are RMB and INR linked to each other?
- What are the implications of weaker Chinese currency on India?



In this video, you can find detailed answers for all the above questions.



Date: 27 August, 2019



The above article has been retrieved from:

Sandeep Singh. (2019, August , 26). Explained: The Chinese connection to the falling rupee. Indian Express. Retrieved from

<https://indianexpress.com/article/explained/explained-the-chinese-connection-to-the-falling-rupee-5938667/>



**Pen drive Courses
for UPSC CSE
preparation**



What is the context about?



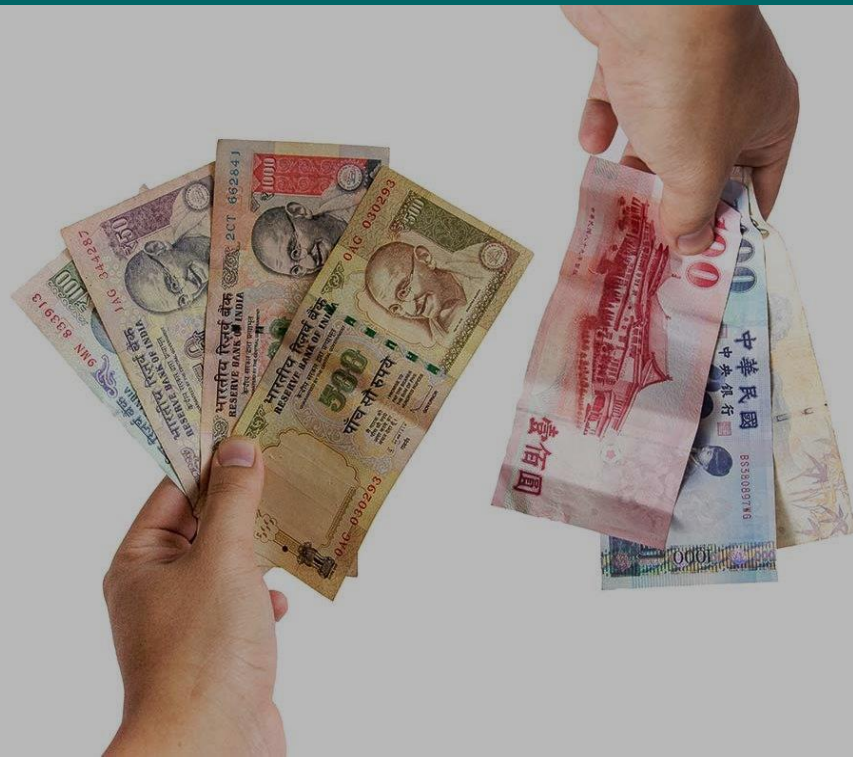
On Monday the rupee reeled under global pressure as markets remained concerned over an escalation of the trade tariff war between the United States and China. The Indian rupee fell sharply by up to 40 paise against the dollar to hit 72.05.



Traditionally, New Delhi's currency follows its rival in Beijing as both countries aim to remain export competitive.



Under similar circumstances last year, the Renminbi lost about 10% between May 11 & October 31, triggering a similar plunge in the rupee's value against the greenback.



Why did the rupee fall?



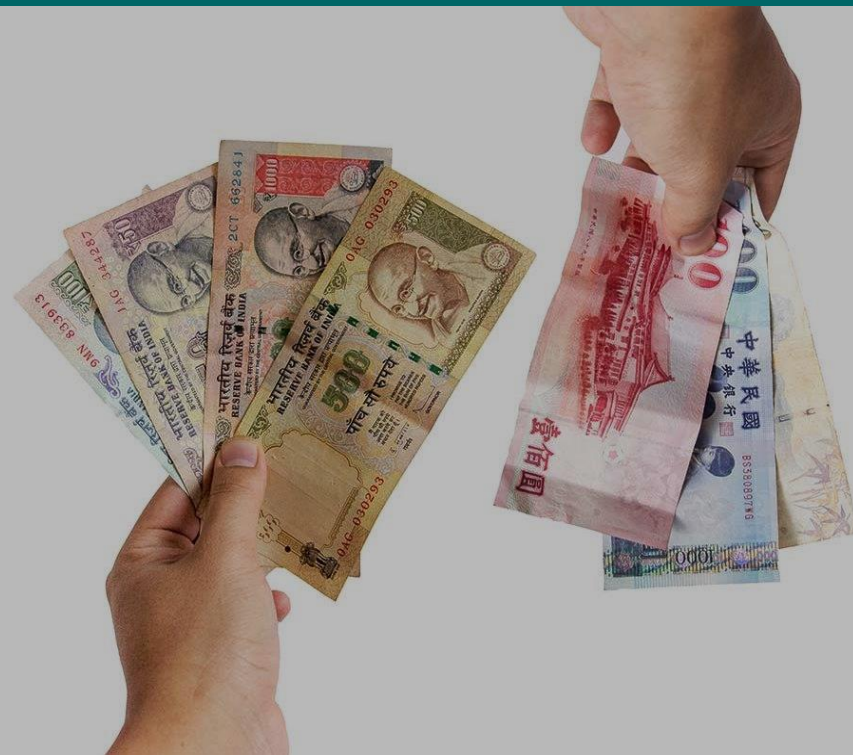
Normally, the rupee moves in line with the movement of the stock market, as a positive development impacts both the currency and the bourses in a similar manner.



On Monday, even though, the Sensex jumped in reaction to the announcements on the domestic stimulus, the rupee reeled under global pressure as markets remained concerned over an escalation of the trade tariff war between the United States and China.



As the Renminbi fell to a new 11-year low of 7.15 against the dollar on Monday on rising concerns over the tariff war, most emerging market currencies, including the Malaysian Ringgit, the Indonesian Rupiah, and the South African Rand, came under pressure. So did the rupee, which fell sharply intra day.



How are RMB and INR linked each other?



A weakness in the renminbi (yuan) increases the competitiveness of Chinese exports, as every dollar can import larger quantities of Chinese goods. At the same time, it puts competing countries under pressure, as their goods become relatively more expensive.



As the Chinese currency has fallen sharply in August by over 3.7 per cent, the rupee has also lost over 4.5 per cent this month.



What are the implications of weaker Chinese currency on India?



Date: 27 August, 2019



As a result of China's decision to let the yuan fall against the dollar, demand for dollars surged around the globe, including in India, where investors bought into the safety of the greenback at the expense of the rupee.



Usually, a declining rupee would aid domestic Indian manufacturers by making their products more affordable for international buyers. However, in the context of a weaker yuan and slowing demand in China, a more competitive rupee is unlikely to offset weaker demand.



A weaker yuan meant more competition and lower margins for Indian exporters; it also meant that Chinese producers could dump goods into the Indian market thereby undercutting domestic manufacturers.



Pen drive Courses
for UPSC CSE
preparation