US retreats from attack on renminbi

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The US Treasury has again declined to label China a currency manipulator, saying the renminbi's real exchange rate is rising at an annualised pace of 10 per cent.

In a **politically sensitive report** slipped out on Friday afternoon, the Treasury said high inflation in China meant its true exchange rate had risen rapidly since it was allowed to appreciate last June.

The report is further evidence that the **issue of renminbi undervaluation has slipped down the agenda** after China let its currency rise again, the Republicans regained control of the House of Representatives and Hu Jintao, China's president, **visited the US** in January.

"The report studiously avoids bringing things to a boil by calling China a currency manipulator," said Eswar Prasad, professor of trade policy at Cornell University. "Exercising that nuclear option at this stage is certainly in nobody's interest."

But the Treasury continued to say in its report the speed of renminbi appreciation "is insufficient and that more rapid progress is needed".

By law, the Treasury must produce semi-annual reports that declare whether important trading partners manipulate their currencies to gain trade advantages against the US. Officials say that China has made enough progress – including changes to its language during Mr Hu's state visit – that such a declaration is not warranted.

In a joint statement at the end of the state visit, Mr Hu and **Barack Obama**, US president, said: "China will continue to promote RMB exchange rate reform and enhance RMB exchange rate flexibility, and promote the transformation of its economic development model."

Treasury officials believe allowing the renminbi to rise is in China's self interest – to control inflation, prevent bubbles in stock and property markets, and shift growth towards more sustainable domestic demand. They therefore see little merit in provoking a confrontation.

China has also been taking steps to allow the renminbi to circulate more abroad. In the long-run that will erode China's ability to prevent speculative buying of the renminbi – and hence keep the currency down.

Max Baucus, a Democrat who chairs the Senate finance committee, said he was disappointed by the report. "China has been given a free pass on its currency practices for far too long," he said.