China is relaxing its currency peg to the US Dollar. How could you be impacted by (or even benefit from) it?

Asian economies and currencies

With a stronger Yuan (also known as the Renminbi or RMB), other Asian currencies are also expected to rise against the US Dollar though probably not to the same extent. In the short-term, this could be attributed by expectation (and fueled by speculators) that other Asian countries may also be forced to revalue their currencies.

However, in the medium to long term, there would be more shifts in manufacturing activities out of China to neighboring countries where costs are relatively cheaper. This indirectly increases the exports of these countries and gives a lift to their currencies.

Singapore stocks

The Singapore Exchange is home to many companies which are either based in China or derive substantial revenues from China. Worst hit by any increase in the value of the Yuan would be companies whose sale contracts are fixed in US dollars while costs are denominated in Yuan. Shipbuilders such as COSCO Corp and Yangzijiang Shipbuilding are especially directly vulnerable.

Conversely, companies which rely on Chinese domestic consumption and report their earnings in US or Singapore dollars would probably see one-off jumps in financial performance.

Cost of Chinese goods

China, as one of the biggest world's largest manufacturers, exports foodstuffs, toys, apparels and vehicles to Singapore. Such products would normally become more costly with the Yuan's revaluation. However, prices are expected to remain stable in Singapore, as the Monetary Authority of Singapore pursues an " Exchange Rate Policy ", which means that the Singapore Dollar is allowed to appreciate to mitigate the increase in prices of imports.

What you can do

The Yuan is not a fully convertible currency. As such, other than buying assets which would benefit from a stronger Yuan, there are very limited financial instruments which can be used to hedge against its impending rise.

Two S-Chips previously featured, Changtian and China SunSine , are examples of those which are heavily dependent on domestic consumption and are natural hedges against the Yuan's rise.

Moreover, it is a very little known fact that individuals living in Singapore can actually get exposure to the Yuan via a RMB time-deposit placed at the Bank of China branch at 4 Battery Road. This is said to be the first such RMB account in Singapore.

Alternatively, it is not difficult to open a Yuan savings account when one travels to China. As

early as 2005, China UnionPay credit and debit cards are accepted in NETS ATMs , meaning that Yuan funds in China are easily accessible in Singapore.
China UnionPay (CUP)
is the Chinese-equivalent of NETS in Singapore.

Conclusion

The Yuan revaluation would adverse impact export-driven Chinese companies by directly eroding their margins. The Singapore Dollar is likely track the Yuan’s increase and as such consumer goods imported from China would probably not see much rise in prices. Investors in Singapore also have avenues to take advantage of the Yuan revaluation, by buying into selected stocks and placing Yuan-deposits.