China springs surprise with relaxed rate

By **Sam Fleming**

MARKETS surged after China announced a marginal relaxation of its exchange rate regime and permitted the yuan to record its biggest one-day jump in five years.

Beijing's central bank wrong-footed the markets by announcing it would allow greater 'flexibility' for the yuan just days ahead of a G20 leaders summit in Canada.

Yesterday it allowed the currency to gain 0.4pc to 6.7976 per dollar – the largest leap since a major overhaul of the Chinese currency regime in 2005.

The move triggered a burst of optimism in financial markets, amid hopes the move will add fuel to the global recovery. America has been pushing Beijing to allow the yuan to strengthen against the greenback in order to bolster Chinese domestic demand and give US exporters a lift.

If China is willing to ease its hold on the value of the currency it could also point to confidence in Beijing about the strength of its recovery, as well as a willingness to curb domestic inflationary pressures.

The move may also damp tensions with the US Congress, where sabre-rattling politicians have been demanding tougher trade barriers in retaliation to China's artificially low exchange rate. However the limited concession received mixed reviews on a sceptical Capitol Hill.

Gerard Lyons, chief economist at Standard Chartered, said: 'It makes a lot of sense for them to allow greater flexibility. It is a signal that they [the Chinese] are more satisfied with the state of the economy at home.'

The FTSE 100 Index rose 39.22 to 5,290.06, while sterling jumped 0.8pc against the dollar to $1.49 before retreating. Shares recorded gains across world markets, as did oil, which breached $78 a barrel.

MARKET GAINS

- Sterling jumps 0.8pc to $1.49 before retreating
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- Oil breaches $78 a barrel and copper rises
- Gold hits new record over $1265 an ounce