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FOREIGN EXCHANGE

Regulator Dismisses Worry Over Yua

Exporters holding more of their foreign-currency earnings, he says

The Chinese yuan lost 2.5% against the dollar last year and fell an additional 1% in the first two months of 2015, before clawing back most of this year's losses. *PHOTO: REUTERS*

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BEIJING—A senior Chinese foreign-exchange regulator played down concerns over a weaker yuan and capital flight, saying Thursday that the local currency remained strong and capital was flowing into China, not out.

"We are not seeing capital outflows," said Wang Yungui of the State Administration of Foreign Exchange. "We did see some net capital outflows between August and December last year. But we have net capital inflows now."

The official, who heads the regulator's comprehensive-management department, said at a news briefing that the problem for the currency was that exporters were holding on to more of their foreign-currency earnings. Companies and individuals increased their foreign-exchange deposits at the nation's banks by $63.9 billion in the first two months of the year from a year earlier, he said.

A muscular dollar and China's slower economic growth have changed market perceptions of the yuan, which has long been seen as a sure bet to strengthen against the dollar. The reversal has persuaded many of China's exporters—as well as the public—to hold on to foreign exchange, particularly dollars.

The yuan lost 2.5% against the dollar last year and fell an additional 1% in the first two months of 2015 before clawing back most of this year's losses. The currency now stands just 0.2% lower against the dollar from where it began the year.

Mr. Wang said the yuan was pressured by the dollar but still looking solid against other currencies such as the euro, against which it has gained nearly 11% this year.

China recorded a deficit of $91.2 billion in the last quarter of 2014 under its capital and financial account, which covers investments, showing that money was flowing out of the country in that period. The figure was the largest quarterly deficit since at least 1998.

China had a surplus of $120.7 billion on its merchandise trade in the first two months of the year, while it also attracted $22.5 billion in direct investments in that period, official data showed earlier. Those two figures should mean funds are pouring in.

But China's central bank and financial institutions sold a net 66.1 billion yuan ($10.6 billion) in the first two months of the year, according to The Wall Street Journal's calculation based on central bank data. That points to capital outflows—or at least capital not being swapped into the local currency.

"There are doubts about whether this is the full story," said Oliver Barron, analyst at institutional broker North Square Blue Oak, adding that the strong trade surplus coupled with a steady stream of foreign investment should point to more foreign funds being swapped into local currency.

The problem hasn't reached an alarming stage. China had foreign exchange reserves of $3.84 trillion at the end of December and can afford to see a little shrinkage in that tally, according to analysts.

Regulators are "mindful but not worried about capital outflows now," said Haibin Zhu, economist at J.P. Morgan Chase & Co. "However, if outflows intensify, exceeding the trade surplus and causing foreign reserves to decline significantly, it will become a bigger issue."

—Liyan Qi