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The US dollar-China yuan currency divergence trade is in full flow. Unless Beijing gets a grip on the exchange rate soon, the yuan could hit 15-year lows very soon.

It's a dilemma for the government as a weaker yuan might be good news for China's hard-pressed exporters, but it could also open Beijing up to fresh accusations from Washington of currency manipulation. This would be bad timing, especially after US Secretary of State Antony Blinken's visit to China this week for talks to help stabilise the fraught relationship between the two nations.

It's the divergence between rising US interest rates and lower rates in China which is the problem, while the rising spread of US bond yields over China is giving added momentum to the stronger dollar-weaker yuan trade. The worry is there is no end in sight with the US Federal Reserve fretting over inflation while Beijing is more concerned about hitting its 5 per cent growth target for 2023. The dollar-yuan divergence trade could get out of hand quickly without intervention soon.

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