

China Market Monitor

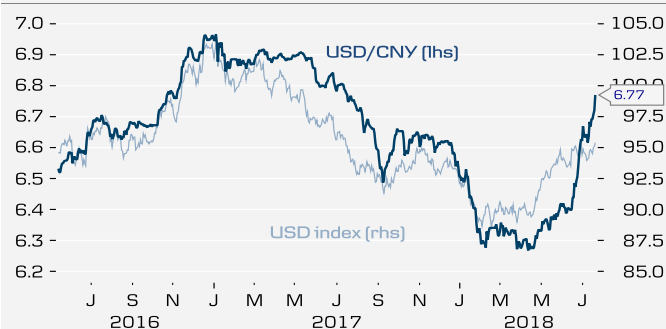
Unabated weakening of the CNY

- **The CNY continues to weaken against the USD.** We see a clear risk of further depreciation and continue to recommend a hedging of receivables.
- **USD/CNY fixing by PBoC also creeping higher.** However, this is mostly a reflection of market moves rather than a deliberate attempt to weaken the currency. Indeed, the USD/CNY is fixed stronger than yesterday's closing level, which suggests the People's Bank of China (PBoC) aims to dampen the depreciation as part of the 'countercyclical factor' of the fixing. **CNH money market rates have been stable**, however, which indicates the PBoC is not making any strong attempt to stop the CNY weakening, as it is increasingly allowing the markets to determine the currency as long as it does not risk causing instability. CNY weakness is a natural response to monetary policy easing.
- **Chinese stocks, bond yields and metal prices continue to decline.**

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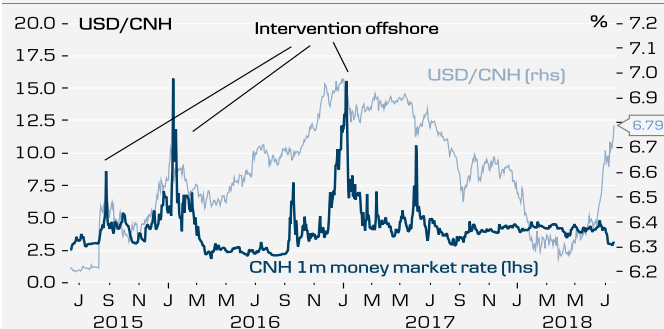
Market overview

Upward pressure on USD/CNY continues



Source: Bloomberg, Macrobond Financial, Danske Bank

Still little sign of intervention via higher rates in CNH market



Source: Bloomberg, Macrobond Financial, Danske Bank

Chinese stocks have stabilised - still significant decoupling to US stock market



Source: Bloomberg, Macrobond Financial, Danske Bank

Money market rates keep pushing lower - a de facto easing of monetary policy



Source: Bloomberg, Macrobond Financial, Danske Bank

FX

USD/CNY higher on diverging monetary policy...



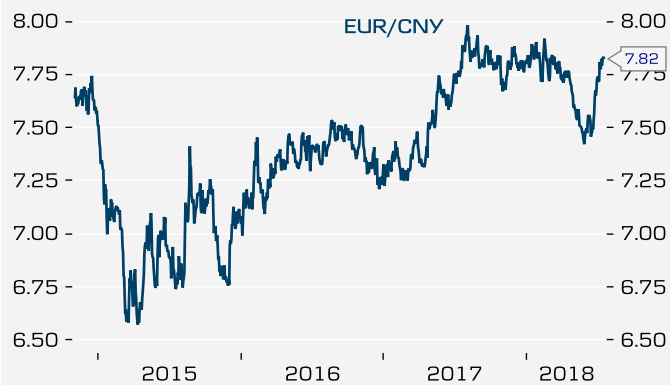
Source: Bloomberg, Macrobond Financial, Danske Bank

... as Chinese rates move lower and US rates trend higher



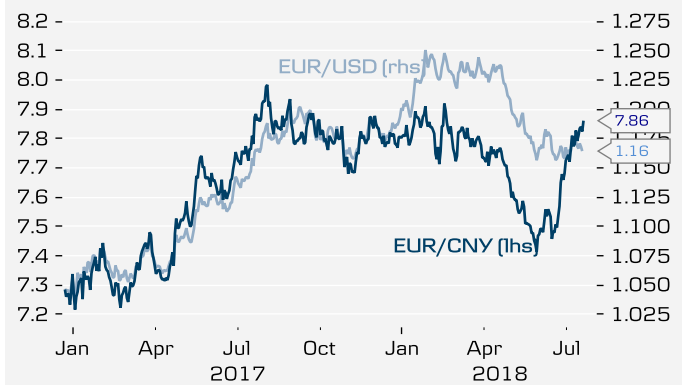
Source: Bloomberg, Macrobond Financial, Danske Bank

CNY also weakening against EUR



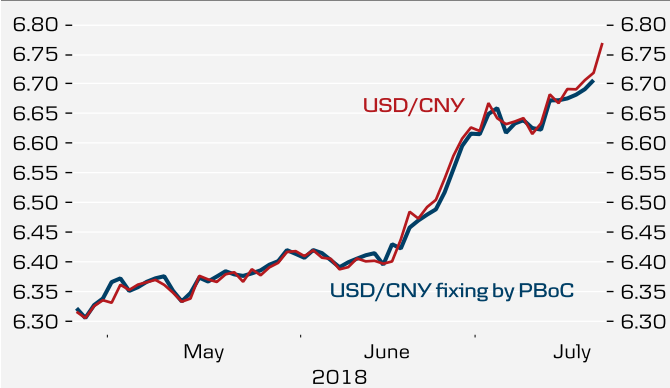
Source: Bloomberg, Macrobond Financial, Danske Bank

EUR/CNY Correlation with EUR/USD has broken down



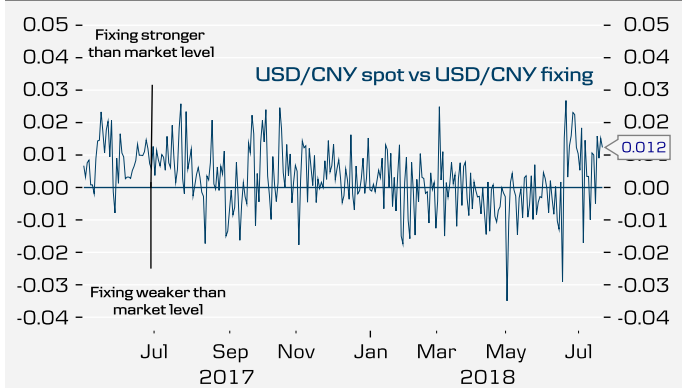
Source: Bloomberg, Macrobond Financial, Danske Bank

PBoC market fixing is kept stronger than the spot rate. The weaker fixing is a response to the market move rather than a deliberate depreciation by PBoC



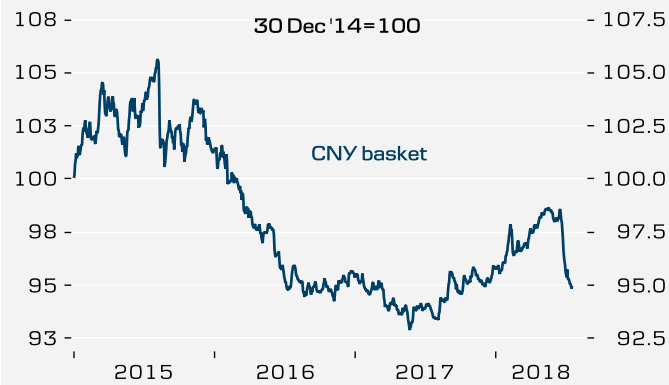
Source: Bloomberg, Macrobond Financial, Danske Bank

Spread between fixing and spot rate on the high side (fixing stronger than spot rate from yesterday's close)



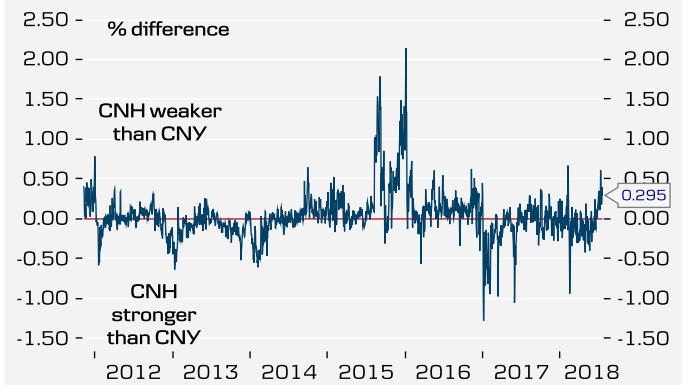
Source: Bloomberg, Macrobond Financial, Danske Bank

Trade-weighted CNY continues lower



Source: Bloomberg, Macrobond Financial, Danske Bank

CNH trading weaker than CNY - a clear sign of depreciation pressure



Source: Bloomberg, Macrobond Financial, Danske Bank

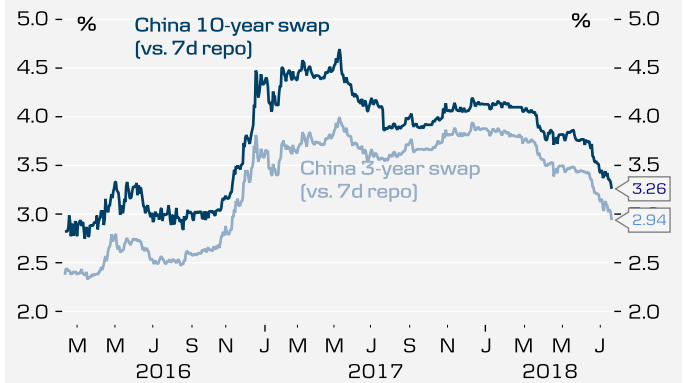
Fixed income and money markets

Downward pressure on bond yields continues



Source: Bloomberg, Macrobond Financial, Danske Bank

Swap rates also declining - lowest level in two years



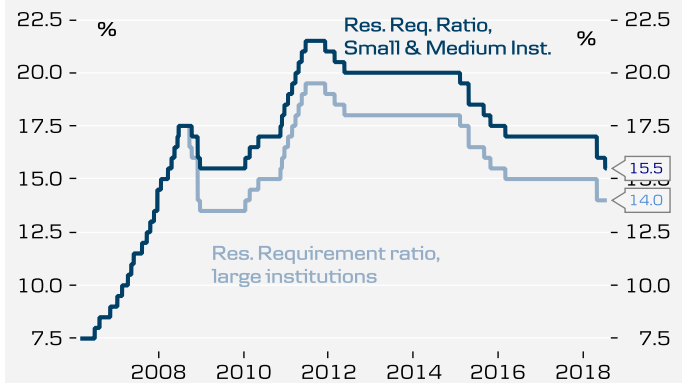
Source: Bloomberg, Macrobond Financial, Danske Bank

Chinese money market rates keeps falling - will give support to housing, which has picked up again recently



Source: Bloomberg, Macrobond Financial, Danske Bank

Reserve requirement ratio has been cut twice, freeing up liquidity - plenty of room for further easing



Source: Bloomberg, Macrobond Financial, Danske Bank

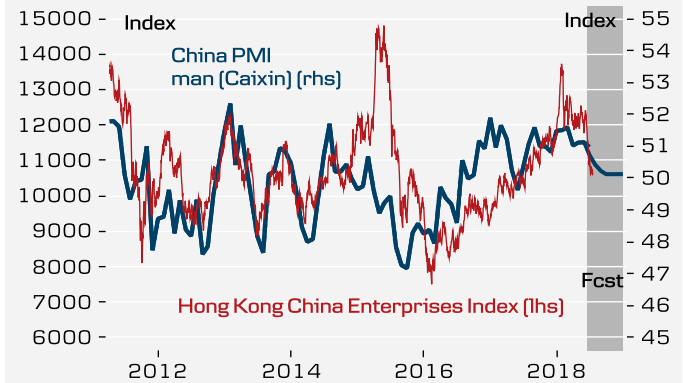
Equities

Some stabilisation in equities following the sharp sell-off



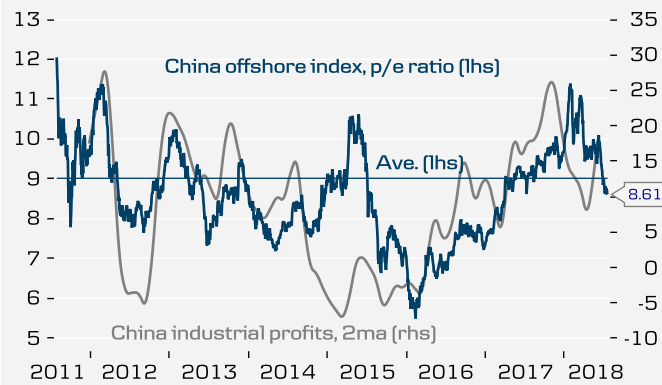
Source: Bloomberg, Macrobond Financial, Danske Bank

Stocks also face headwinds from weaker business cycle on top of trade war uncertainty



Source: Bloomberg, Macrobond Financial, Danske Bank

P/E ratio in offshore stocks now below average since 2011--profit growth underpinning equities (in contrast to 2015)



Source: Bloomberg, Macrobond Financial, Danske Bank

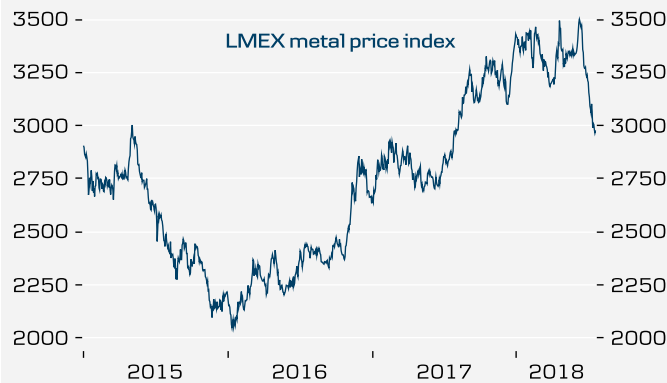
Offshore P/E ratio subdued in a historical perspective



Source: Bloomberg, Macrobond Financial, Danske Bank

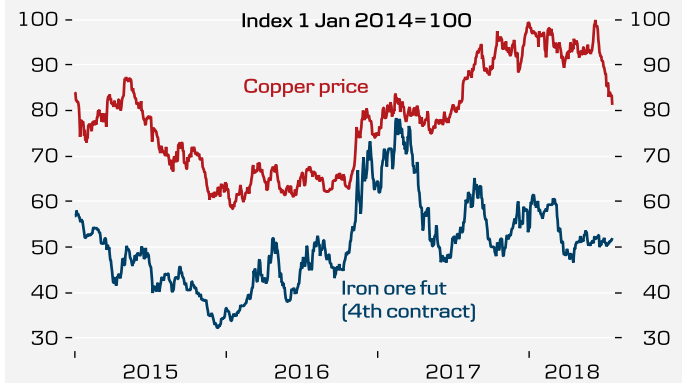
Commodities

Industrial metals sharply lower (China consumes around 50% of global metals)



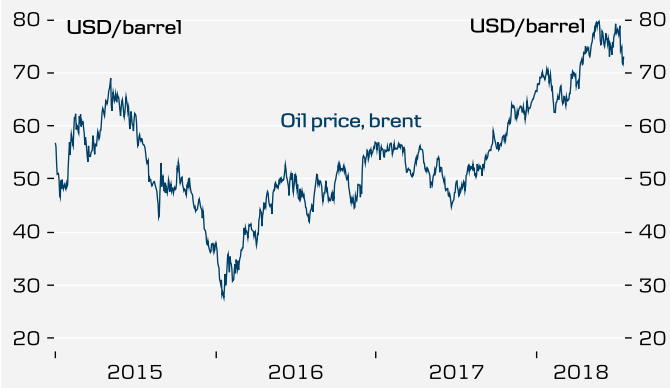
Source: Bloomberg, Macrobond Financial, Danske Bank

Copper taking a hit - iron ore prices stable



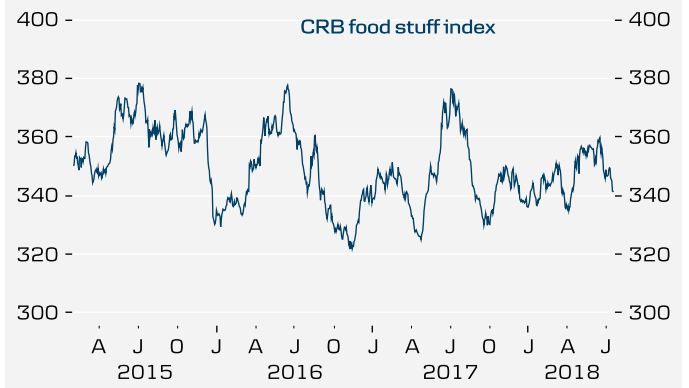
Source: Bloomberg, Macrobond Financial, Danske Bank

Limited impact on oil prices (China consumes only 13% of global oil)



Source: Bloomberg, Macrobond Financial, Danske Bank

Food prices staying in a broad range



Source: Bloomberg, Macrobond Financial, Danske Bank

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of this research report is Allan von Mehren, Chief Analyst.

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