

# China Market Monitor

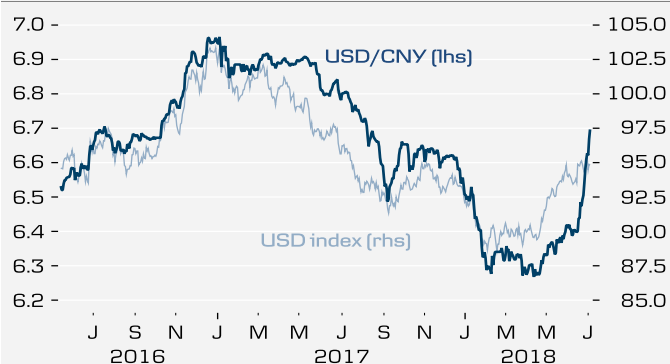
## Stocks and CNY taking a hit

- To help keep track of developments in Chinese financial markets, we publish a brief China Market Monitor covering FX, fixed income, money markets and equities.
- Financial stress has risen sharply since the trade conflict with the US escalated on 15 June. CNY and equities have tumbled and bond yields are lower following monetary easing through reductions of the reserve ratio requirements (RRR) for banks.
- We believe that the People’s Bank of China will soon step up intervention to stem the downward pressure on CNY. However, we see downside risks to CNY in the medium term related to an escalation of the US-China trade war and diverging monetary policy.

**Chief Analyst**  
 Allan von Mehren  
 +45 4512 8055  
 alvo@danskebank.dk

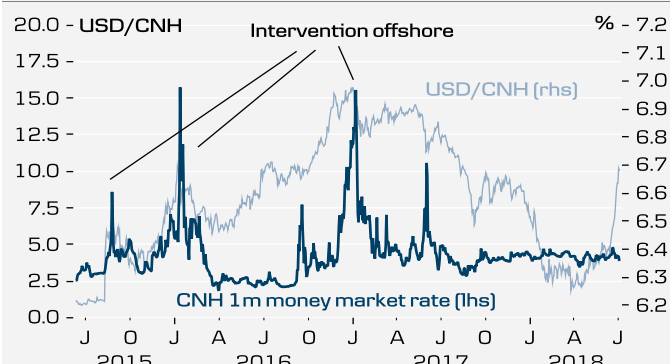
### Market overview

**USD/CNY continues to rise - correlation with USD index has broken down**



Source: Bloomberg, Macrobond Financial, Danske Bank

**Little sign of FX intervention via higher rates in CNH offshore market - could come soon, though**



Source: Bloomberg, Macrobond Financial, Danske Bank

**Stock market rout continues - decoupling from US market**



Source: Bloomberg, Macrobond Financial, Danske Bank

**Bond yields and money market rates turning lower - monetary policy is eased**



Source: Bloomberg, Macrobond Financial, Danske Bank

FX

USD/CNY catching up with relative rates



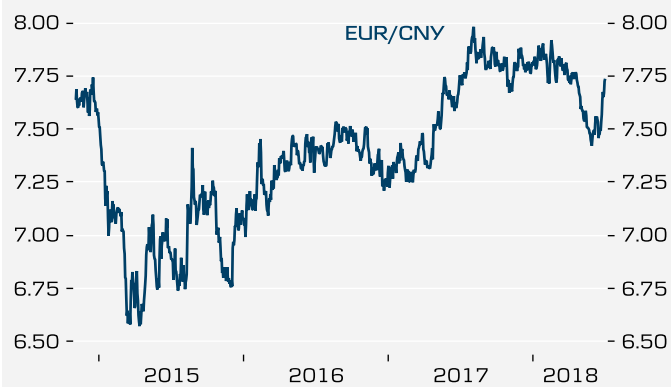
Source: Bloomberg, Macrobond Financial, Danske Bank

Chinese rates now moving lower - US rates going higher



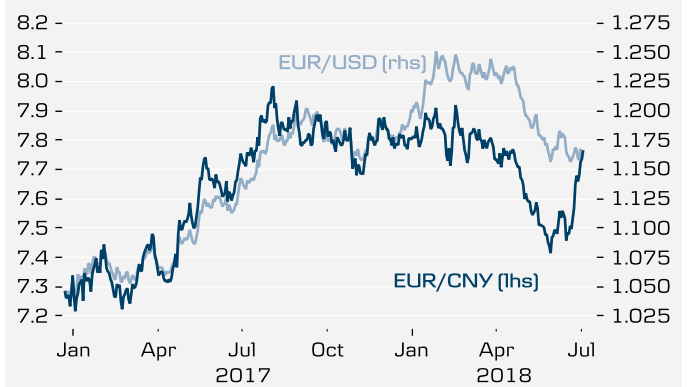
Source: Bloomberg, Macrobond Financial, Danske Bank

EUR/CNY has also moved higher



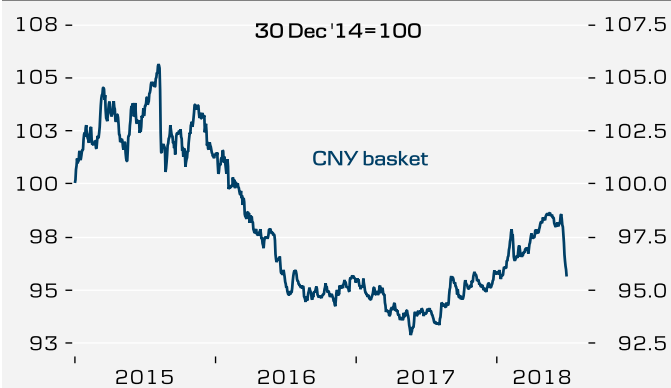
Source: Bloomberg, Macrobond Financial, Danske Bank

Correlation with EUR/USD broken down - CNY weakening not related to weaker USD this time



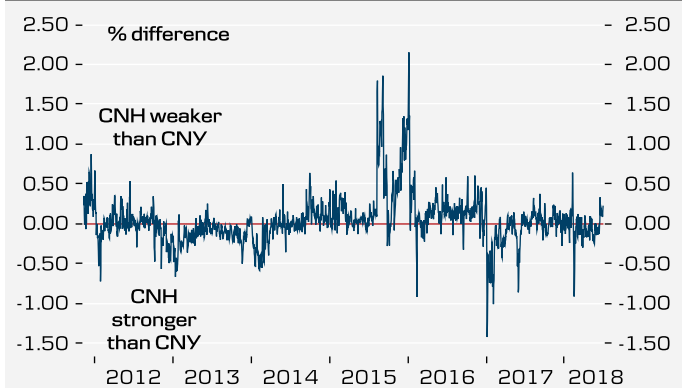
Source: Bloomberg, Macrobond Financial, Danske Bank

Trade weighted CNY sharply lower after period of appreciation



Source: Bloomberg, Macrobond Financial, Danske Bank

CNH trading a bit weaker than CNY - normal at times of depreciation pressure



Source: Bloomberg, Macrobond Financial, Danske Bank

Fixed income and money markets

Chinese bond yields moving lower



Source: Bloomberg, Macrobond Financial, Danske Bank

Swap rates lowest since 2016



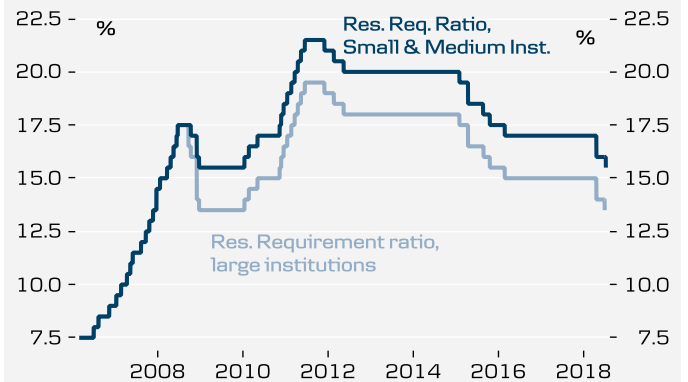
Source: Bloomberg, Macrobond Financial, Danske Bank

Chinese money market rates heading down - reflects turnaround in monetary policy after tightening in 2017



Source: Bloomberg, Macrobond Financial, Danske Bank

Reserve requirement ratio has been cut twice freeing up liquidity - has plenty of room to be lowered further if needed



Source: Bloomberg, Macrobond Financial, Danske Bank

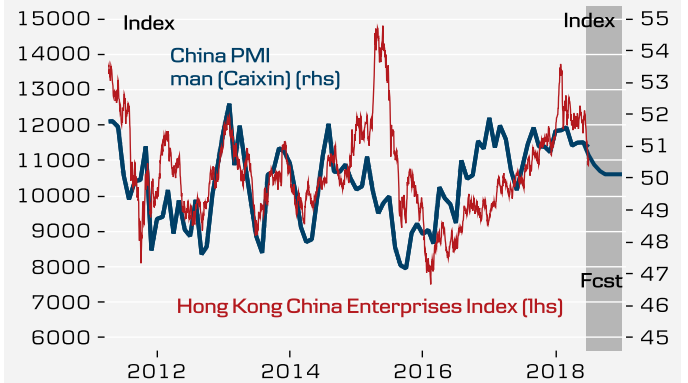
Equities

Onshore and offshore equities - both taking a hit from uncertainty over trade war



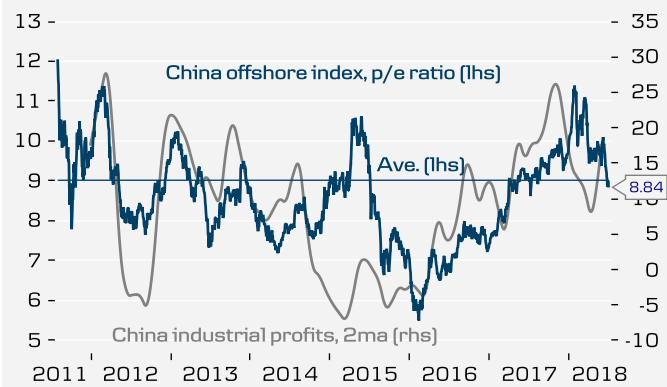
Source: Bloomberg, Macrobond Financial, Danske Bank

Stocks also face headwinds from weaker business cycle



Source: Bloomberg, Macrobond Financial, Danske Bank

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



Source: Bloomberg, Macrobond Financial, Danske Bank

Offshore P/E ratio subdued in a historical perspective



Source: Bloomberg, Macrobond Financial, Danske Bank

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