

China Market Monitor

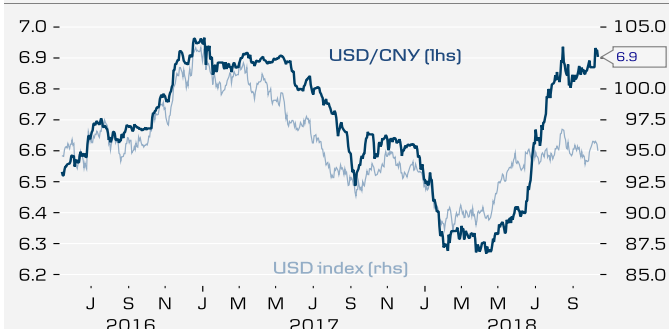
Stocks take a big hit but not alone this time

- After some stabilisation, **Chinese stocks took a big hit** overnight, falling 5% to the lowest level in more than two years. However, in contrast with the declines earlier this year, this was part of a global sell-off that included the US market. The sharp market fall was driven by the tech sector and centred on tech. The share price of China's biggest tech company Tencent is down more than 40% from the peak in January.
- **The downward pressure on the CNY continued** after China cut the Reserve Requirement Ratio for the third time this year. We expect the trend of a weaker CNY to continue and USD/CNY to hit 7.20 in 12 months. However, we doubt the US will label China as a currency manipulator in its report next week (see *Flash Comment – Will the US label China a currency manipulator? Not likely*, 10 October).
- **Bond yields and rates have been broadly stable lately.**

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Market overview

Still upward pressure on USD/CNY as China eases policy further and the Fed keeps hiking – more to come



Source: Bloomberg, Macrobond Financial, Danske Bank

CNH money-market rates up slightly in sign of offshore intervention to stem CNH decline



Source: Bloomberg, Macrobond Financial, Danske Bank

China stocks taking another beating – this time in tandem with the US



Source: Bloomberg, Macrobond Financial, Danske Bank

Monetary policy easing has pushed rates and yields lower



Source: Bloomberg, Macrobond Financial, Danske Bank

FX

USD/CNY trend reflects relative rates



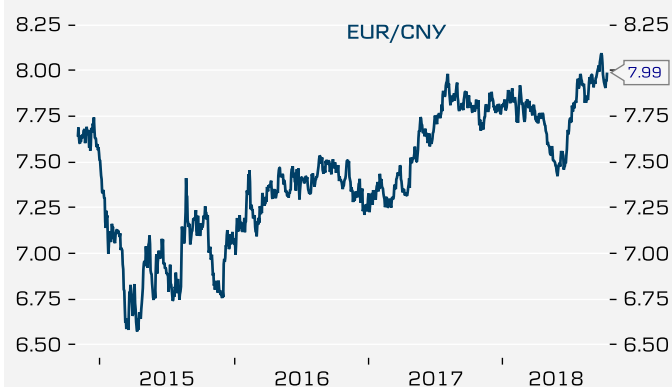
Source: Bloomberg, Macrobond Financial, Danske Bank

China US rate gap is diminishing - lowest since 2009



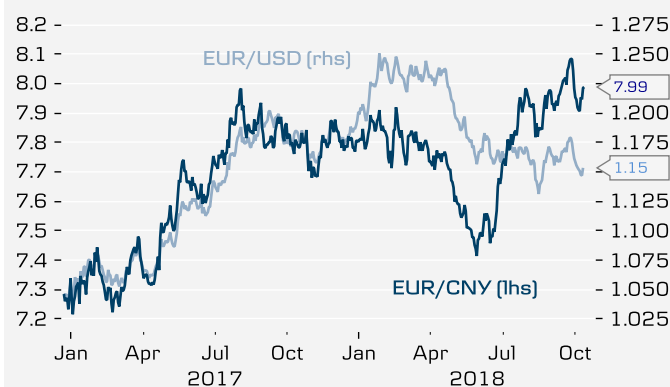
Source: Bloomberg, Macrobond Financial, Danske Bank

EUR/CNY close to high again



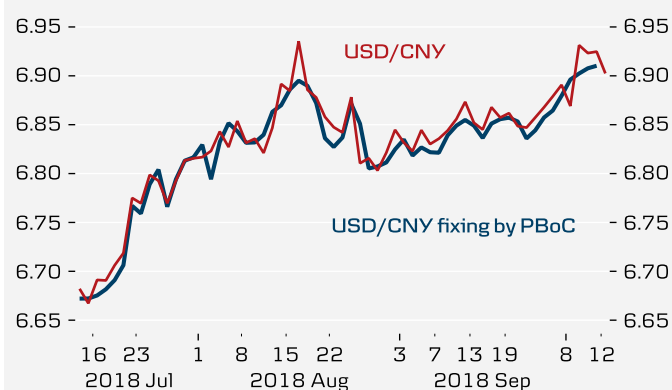
Source: Bloomberg, Macrobond Financial, Danske Bank

EUR/CNY correlation with EUR/USD has broken down



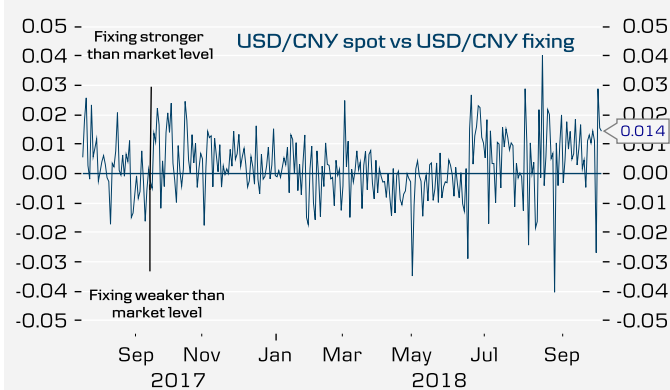
Source: Bloomberg, Macrobond Financial, Danske Bank

People's Bank of China market fixing reflects market close the day before and a countercyclical factor to dampen volatility



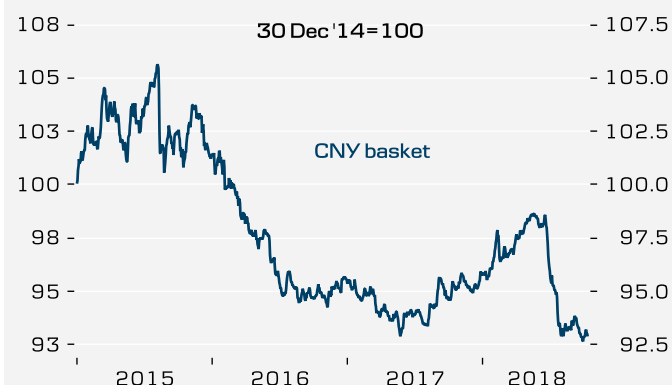
Source: Bloomberg, Macrobond Financial, Danske Bank

CNY fixing stronger than market close the previous day - another sign of countering the CNY weakness by PBoC



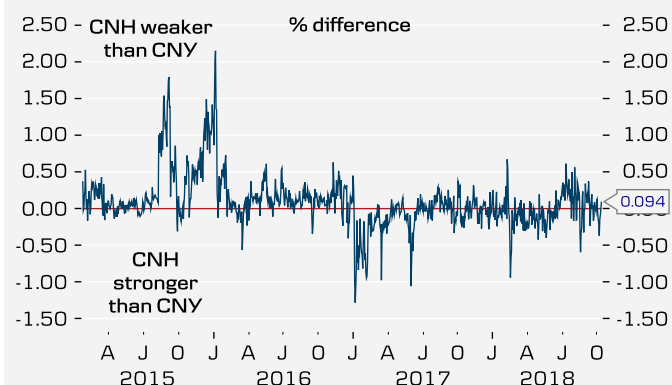
Source: Bloomberg, Macrobond Financial, Danske Bank

CNY basket at new lows – but decline has moderated



Source: Bloomberg, Macrobond Financial, Danske Bank

Small difference between CNY and CNH rate



Source: Bloomberg, Macrobond Financial, Danske Bank

Fixed income and money markets

Bond yields range trading lately



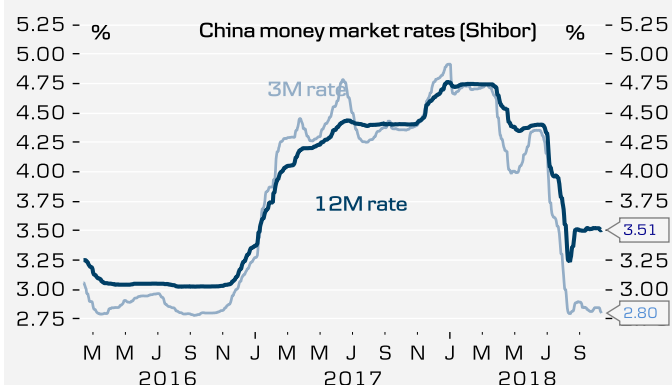
Source: Bloomberg, Macrobond Financial, Danske Bank

Same picture in swap market



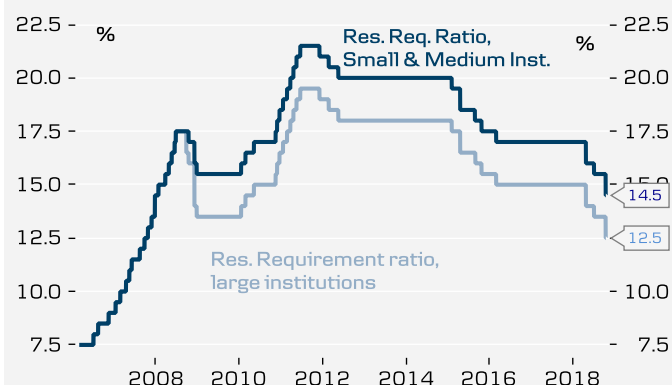
Source: Bloomberg, Macrobond Financial, Danske Bank

Chinese money-market rates have fallen a lot on policy easing (added liquidity) but there are signs of stabilisation



Source: Bloomberg, Macrobond Financial, Danske Bank

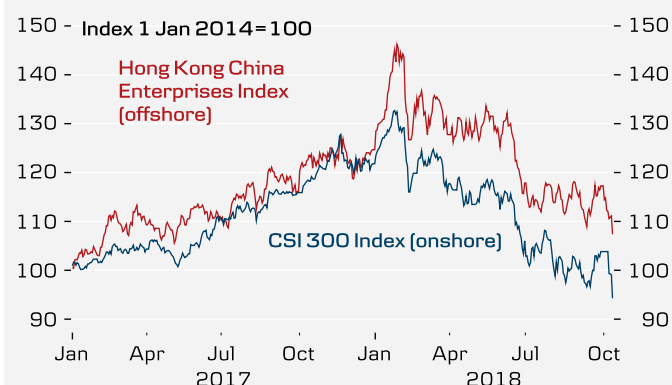
Reserve requirement ratio has been cut three times, freeing up liquidity – plenty of room for further easing



Source: Bloomberg, Macrobond Financial, Danske Bank

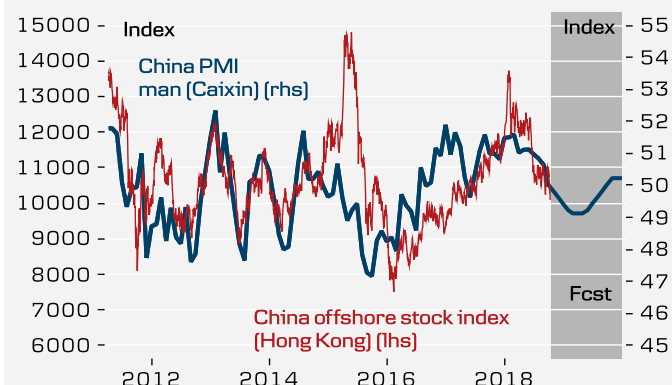
Equities

Chinese stocks have taken another hit as tech stocks in particular have suffered from global tech rout



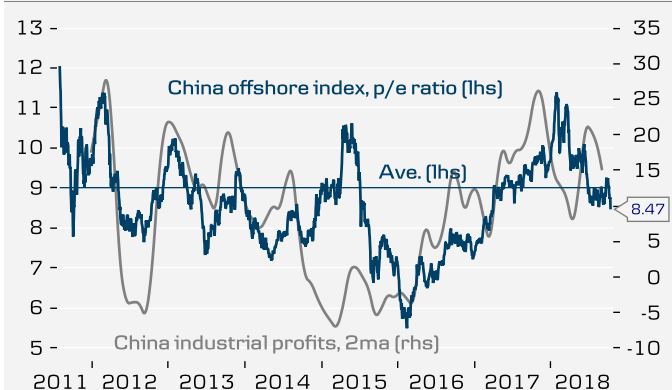
Source: Bloomberg, Macrobond Financial, Danske Bank

Also headwind from weaker cycle – likely to be a bit worse before it gets better



Source: Bloomberg, Macrobond Financial, Danske Bank

P/E ratio of offshore stocks below average since 2011 – profit growth still underpinning equities (in contrast with 2015)



Source: Bloomberg, Macrobond Financial, Danske Bank

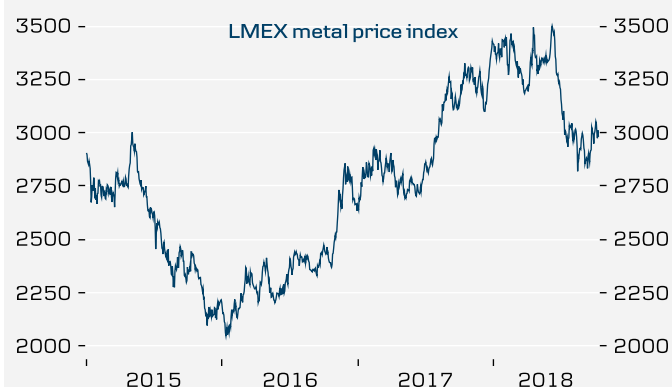
Offshore P/E ratio subdued in an historical perspective



Source: Bloomberg, Macrobond Financial, Danske Bank

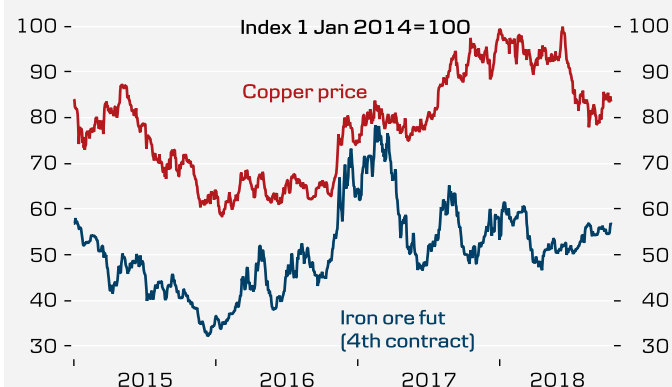
Commodities

Industrial metals have stabilised (China consumes around 50% of global metals)



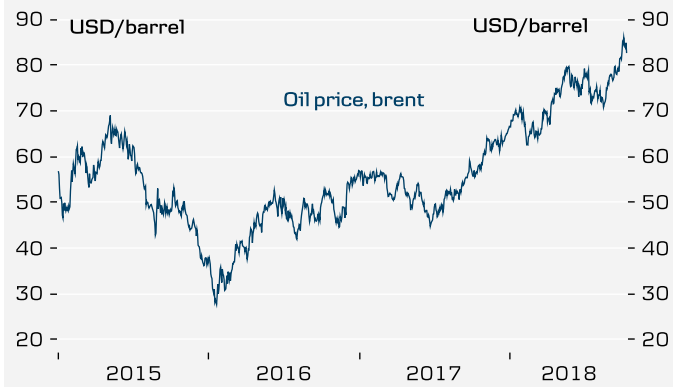
Source: Bloomberg, Macrobond Financial, Danske Bank

Copper and iron ore moving sideways lately



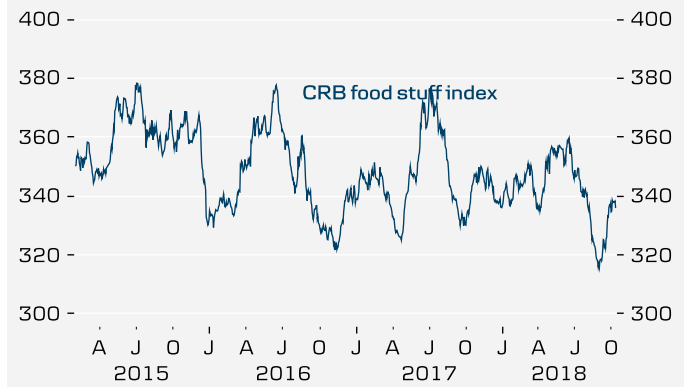
Source: Bloomberg, Macrobond Financial, Danske Bank

Limited impact on oil prices – they have kept rising on supply issues – also China consumes only 13% of global oil



Source: Bloomberg, Macrobond Financial, Danske Bank

Global food prices still in the broad range of past years



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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None.

Date of first publication

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