

# China Market Monitor

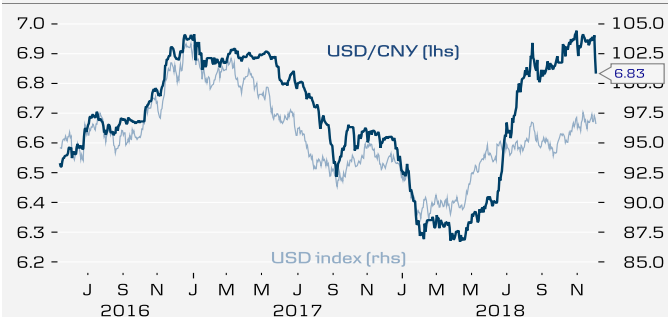
## Biggest two-day drop in USD/CNY since 2005

- **The US-China ceasefire in the trade war has led to the biggest two-day drop in USD/CNY since 2005**, falling to 6.83 from 6.96 on Friday. Two things could be behind this – or a combination of 1) squeeze of short CNY positions after the Xi-Trump meeting and 2) intervention by China as part of the deal with China. US Treasury Secretary Stephen Mnuchin yesterday said that the US got a “strong commitment” from China to deal with currency devaluation.
- **Our current forecast is 7.20 on a 12-month horizon. However, we see downside risk to this forecast**, as China will likely be committed to limit currency valuation as part of a trade deal with the US, which we expect will be done next year, see *US-China trade: Ceasefire paves the way for the real deal in 2019*, 2 December 2019. We will update the USD/CNY forecast with our monthly FX Forecast Update in mid-December.
- Chinese **stocks have rebounded** following the deal, while **bond yields are lower**.

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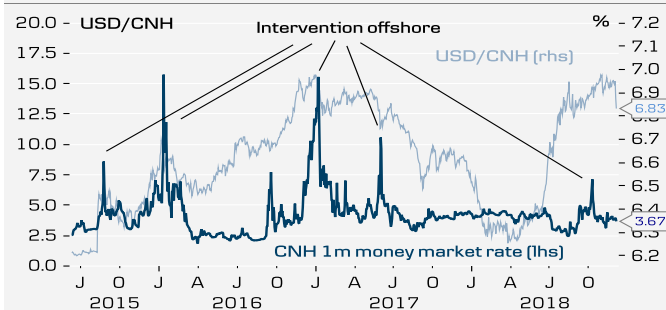
### Market overview

#### Sharp drop in USD/CNY following trade ceasefire



Source: Bloomberg, Macrobond Financial, Danske Bank

#### No sign of intervention in offshore market as CNH money market rates are stable



Source: Bloomberg, Macrobond Financial, Danske Bank

#### Both Chinese as well as US stocks have rebounded



Source: Bloomberg, Macrobond Financial, Danske Bank

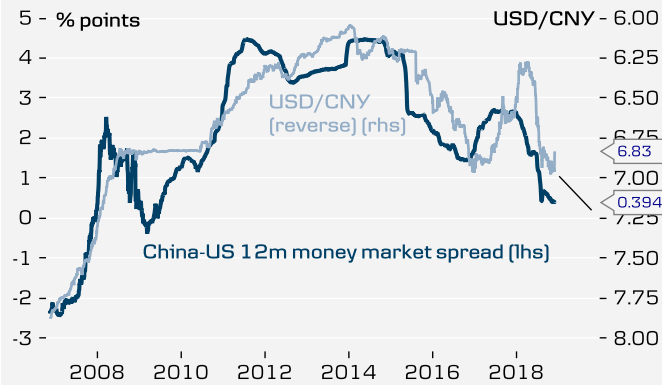
#### US 10-year yield continues lower giving support to economy



Source: Bloomberg, Macrobond Financial, Danske Bank

FX

USD/CNY trend generally reflect relative rates



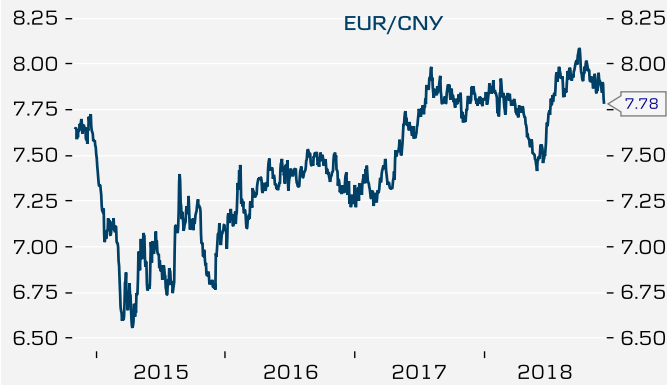
Source: Bloomberg, Macrobond Financial, Danske Bank

China US rate gap is diminishing - lowest since 2009



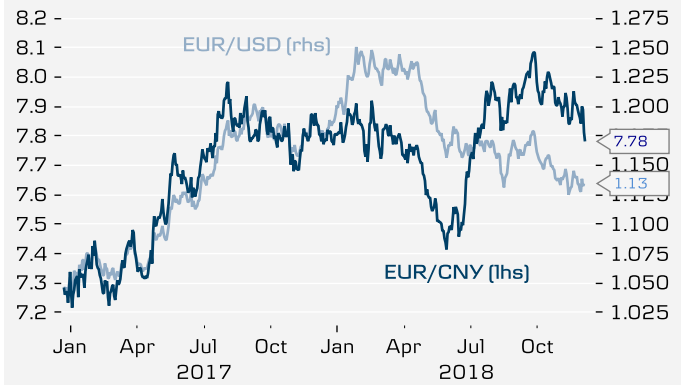
Source: Bloomberg, Macrobond Financial, Danske Bank

Gain in CNY pushing EUR/CNY lower



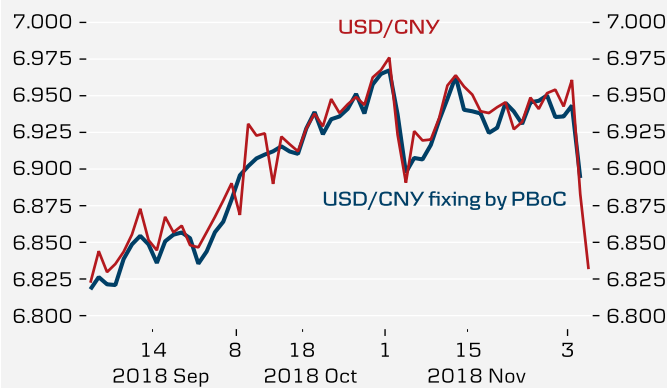
Source: Bloomberg, Macrobond Financial, Danske Bank

EUR/CNY correlation with EUR/USD has broken down



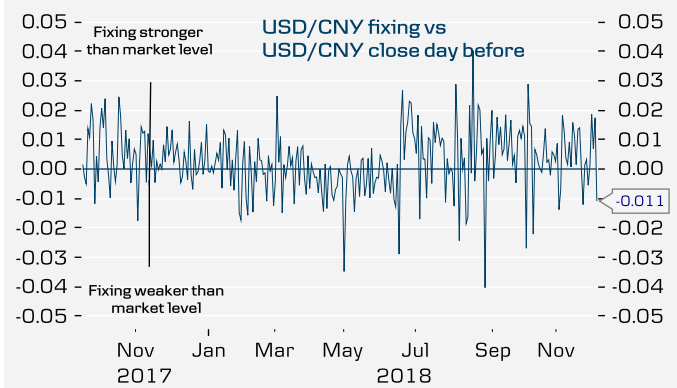
Source: Bloomberg, Macrobond Financial, Danske Bank

PBoC market fixing reflects the market close the day before and a countercyclical factor to dampen volatility



Source: Bloomberg, Macrobond Financial, Danske Bank

USD/CNY fixing close to close of day before



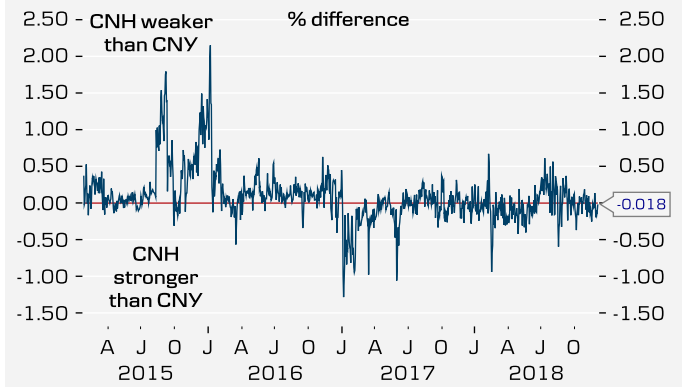
Source: Bloomberg, Macrobond Financial, Danske Bank

CNY basket at new lows



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 still trend lower



Source: Bloomberg, Macrobond Financial, Danske Bank

Same picture in swap market



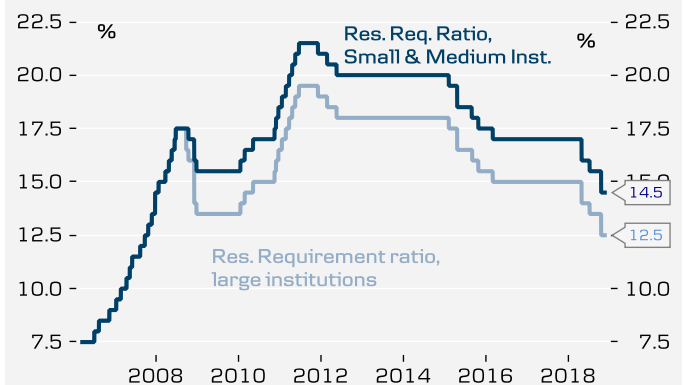
Source: Bloomberg, Macrobond Financial, Danske Bank

3m money market rates higher recently while 12m rate is stable



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

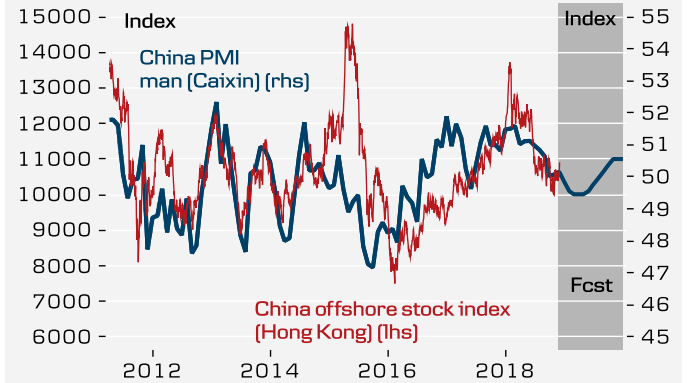
Equities

Stock market has rebounded on prospect of a US-China trade deal in 2019



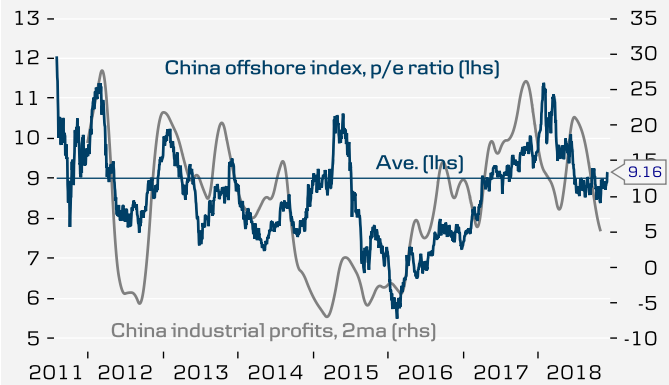
Source: Bloomberg, Macrobond Financial, Danske Bank

Expected economic weakness in Q1 a small headwind – but equities have upside in the medium term



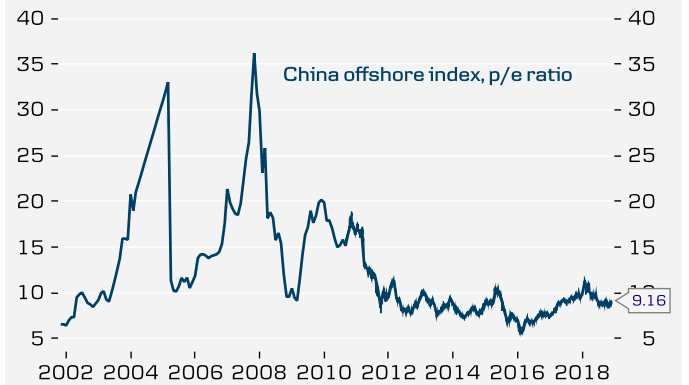
Source: Bloomberg, Macrobond Financial, Danske Bank

P/E ratio in offshore stocks at average since 2011 – profit growth lower recently on slowing growth



Source: Bloomberg, Macrobond Financial, Danske Bank

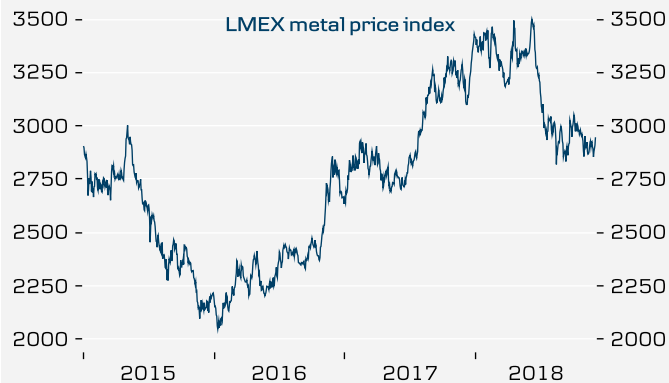
Offshore P/E ratio subdued in a historical perspective



Source: Bloomberg, Macrobond Financial, Danske Bank

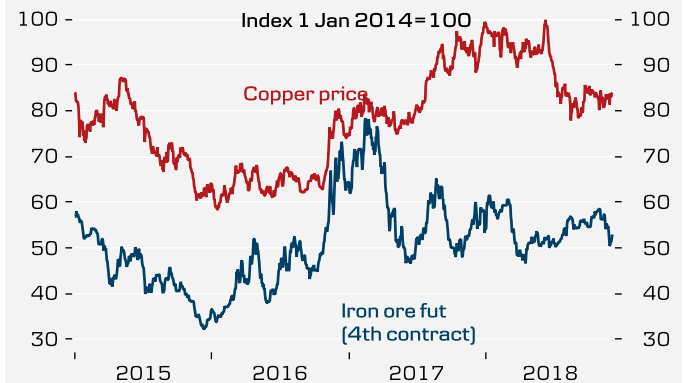
Commodities

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



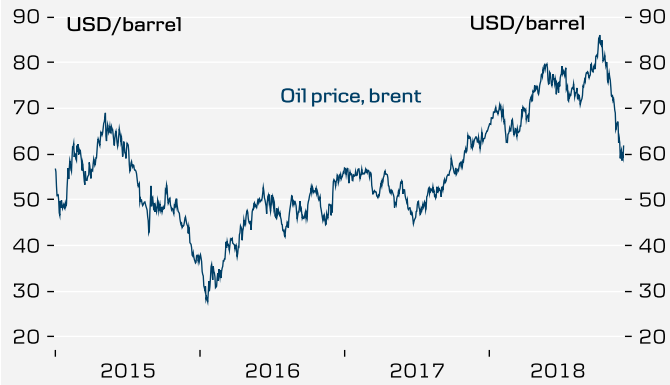
Source: Bloomberg, Macrobond Financial, Danske Bank

Copper prices stable while iron ore prices dropped recently



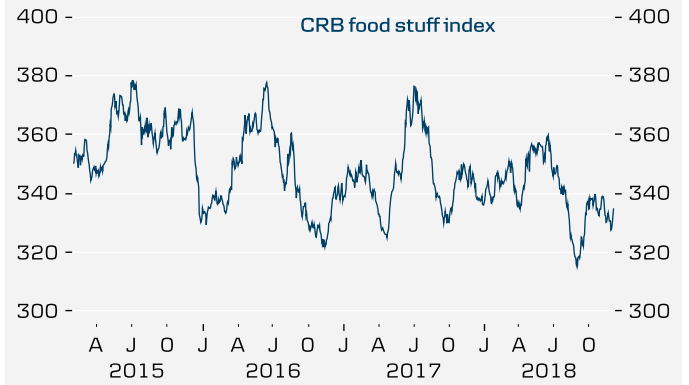
Source: Bloomberg, Macrobond Financial, Danske Bank

**Big drop in oil prices but China only consumes 13% of global oil so not that big a driver**



Source: Bloomberg, Macrobond Financial, Danske Bank

**Global food prices still in a broad range of the 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.

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