

# FX Strategy

## Rise in USD/CNY reflects USD strength

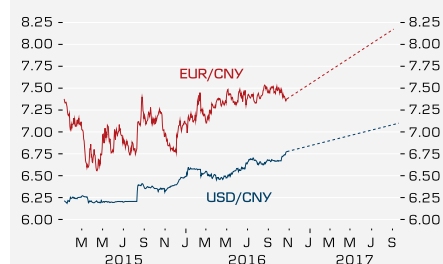
- **USD/CNY has continued higher recently.** However, the recent move is a reflection of a stronger USD, not a weaker CNY (Chart 1). See also *FX Strategy: USD/CNY highest in six years – more to come*, 11 October 2016.
- **The trade-weighted USD has strengthened close to 5% over the past month,** whereas the move in USD/CNY is only around 1.6%. This is also reflected in the CNY being *stronger* versus the EUR compared to a month ago. While capital outflows have picked up in the past months, the main driver of the recent USD/CNY move is thus USD strength. This in contrast with the rise in USD/CNY from August 2015 to July 2016, which was part of a broader CNY weakening.
- **There is no sign that China is intervening to stem the move in USD/CNY.** This would show up in higher CNH money market rates but these are actually lower this week. It partly explains why the rise in USD/CNY is not associated with a risk-off move as was the case in January and over the summer when USD/CNY also moved up.
- **We continue to look for the CNY to weaken over the coming year. However, we expect it to be broader-based CNY weakness** due to fading growth momentum in 2017 and increasing financial risks from a sharp rise in corporate debt and growth in shadow financing. With growth under pressure, China also needs a weaker currency to support the export sector. We look for USD/CNY to move to 7.1 +12m (current 6.77) and EUR/CNY to move to 8.38 +12M (current 7.37). Hence we continue to recommend hedging of receivables and see a short CNH position as a good hedge against financial turmoil in China.

### No sign of intervention in offshore market in past weeks



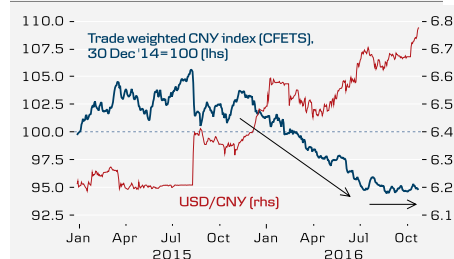
Source: Macrobond Financial, Bloomberg

### CNY forecast



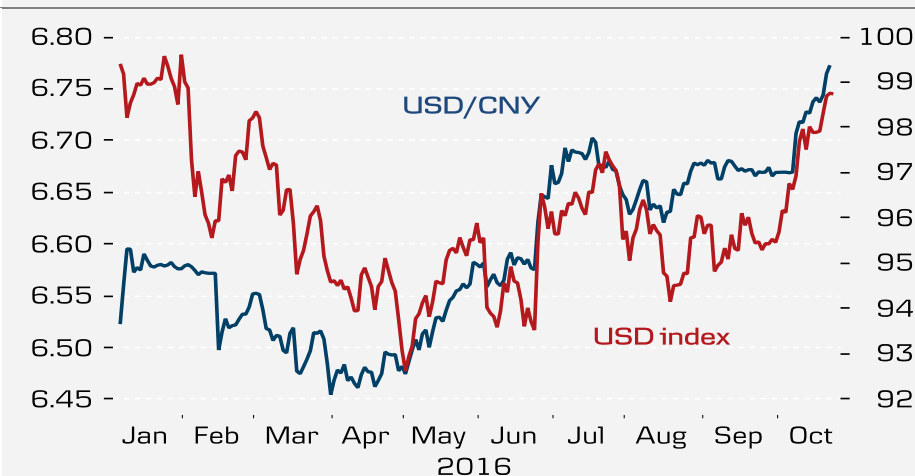
Source: Bloomberg, Danske Bank

### CNY basket been stable since summer



Source: Bloomberg, Danske Bank

Chart 1. USD/CNY increase reflects stronger USD - not weaker CNY

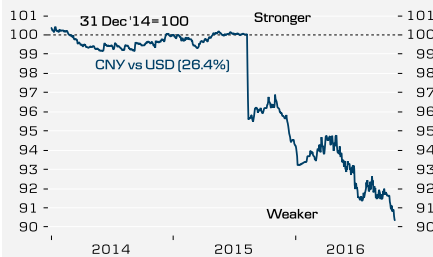


Source: Macrobond Financial, Bloomberg, Danske Bank (basket own calculation)

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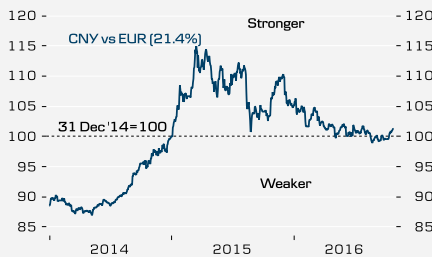
Appendix 1. Individual crosses in CFETS basket (weights in parenthesis)

CNY vs USD



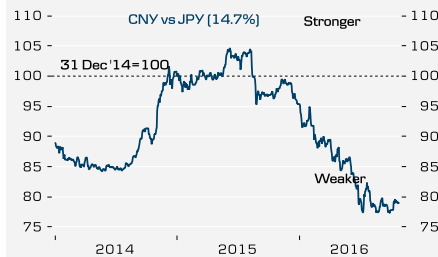
Source: Macrobond Financial

CNY vs EUR



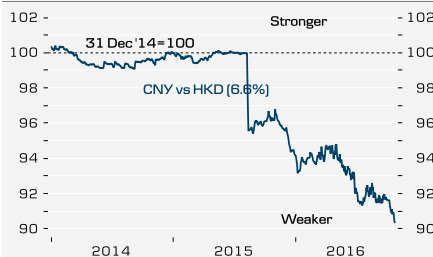
Source: Macrobond Financial

CNY vs JPY



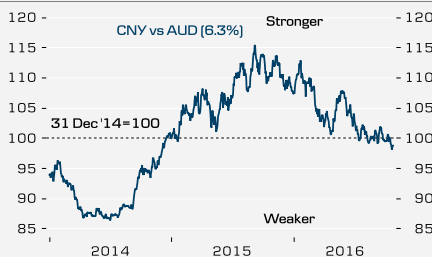
Source: Macrobond Financial

CNY vs HKD



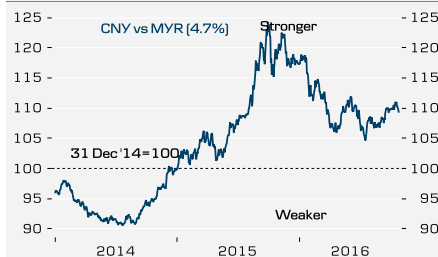
Source: Macrobond Financial

CNY vs AUD



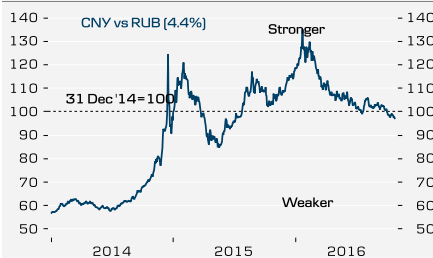
Source: Macrobond Financial

CNY vs MYR



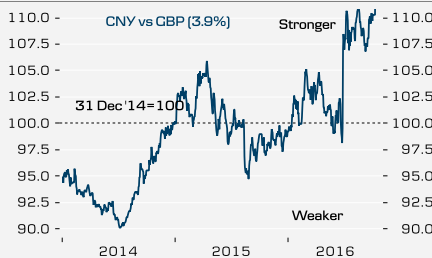
Source: Macrobond Financial

CNY vs RUB



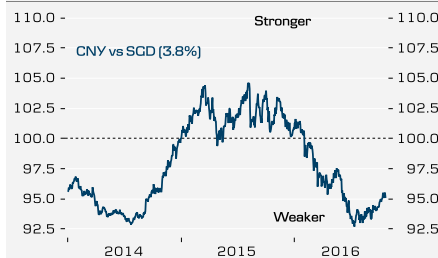
Source: Macrobond Financial

CNY vs GBP



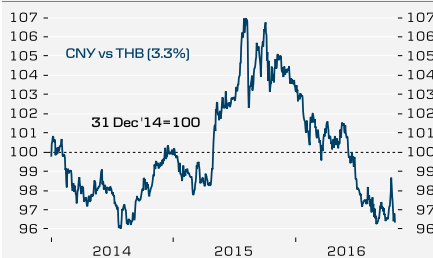
Source: Macrobond Financial

CNY vs SGD



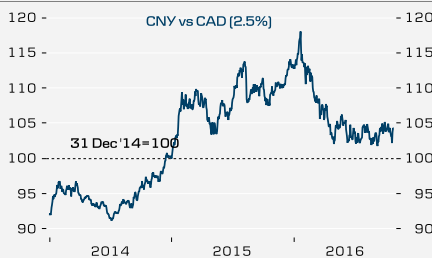
Source: Macrobond Financial

CNY vs THB



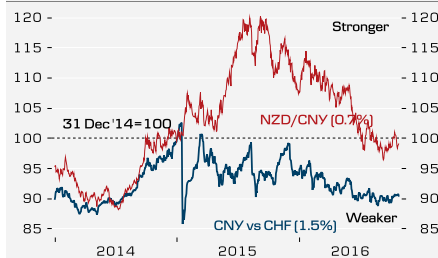
Source: Macrobond Financial

CNY vs CAD



Source: Macrobond Financial

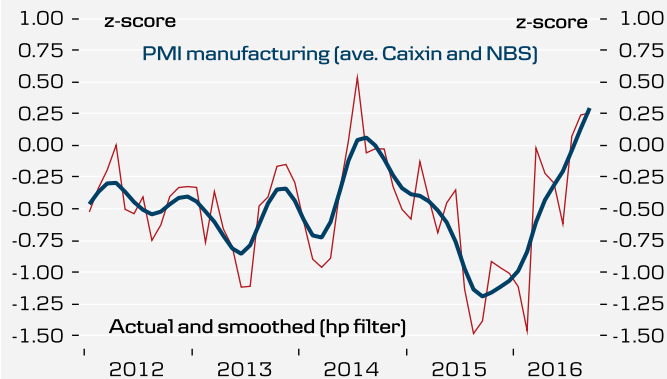
CNY vs NZD and CHF



Source: Macrobond Financial

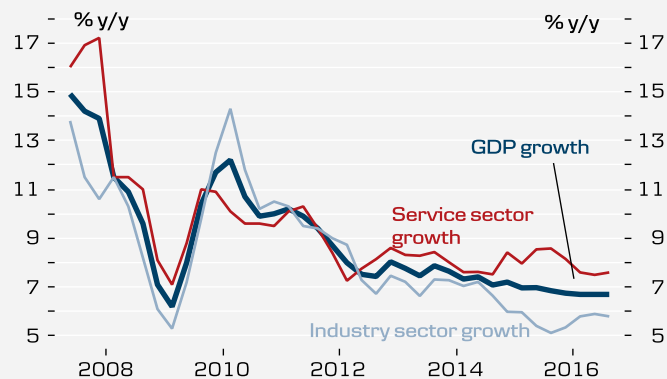
## Appendix 2. Chinese economic overview

### PMI activity



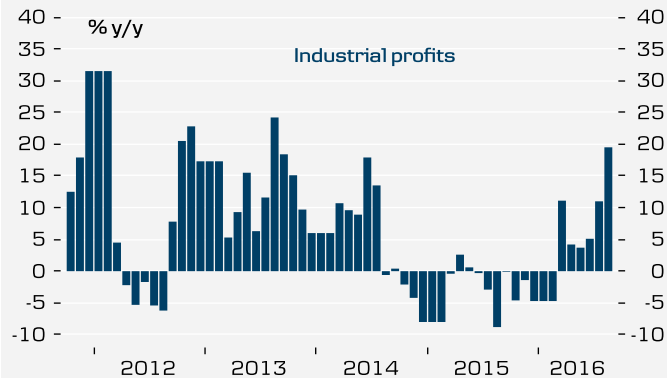
Source: Macrobond Financial

### GDP and sector growth



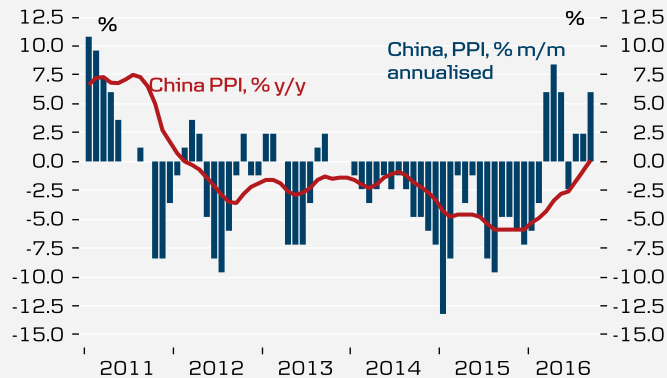
Source: Macrobond Financial

### Industrial profits



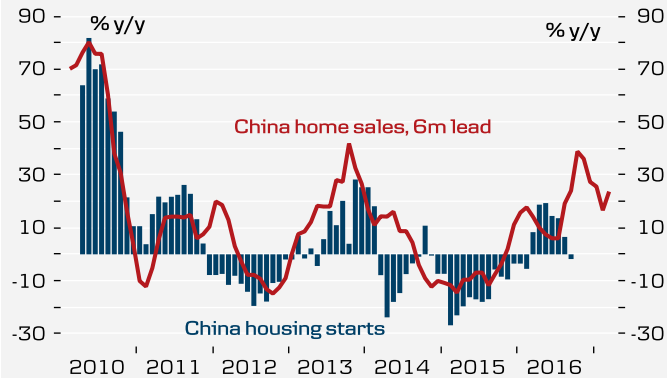
Source: Macrobond Financial

### Producer prices



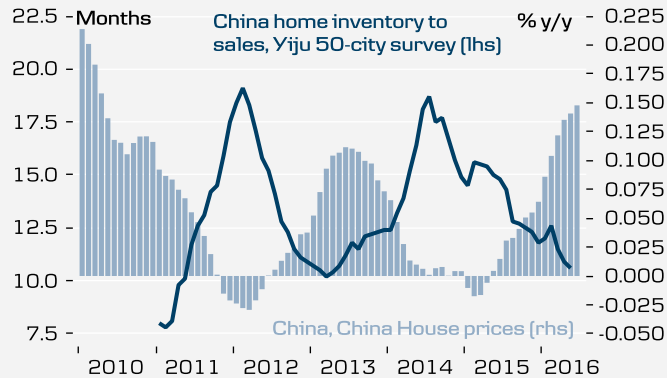
Source: Macrobond Financial

### Housing activity



Source: Macrobond Financial

### House prices and home inventories



Source: Macrobond Financial

Construction investment and metal prices



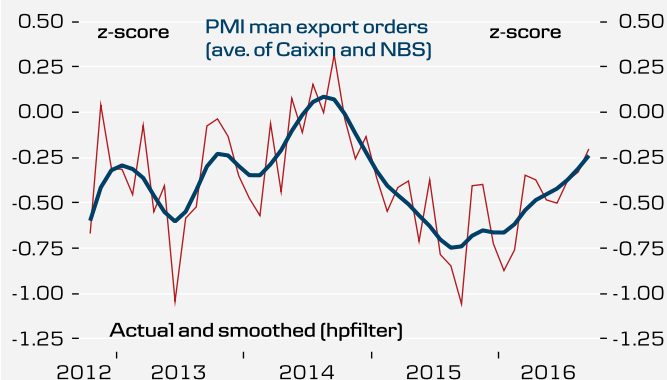
Source: Macrobond Financial

Retail sales



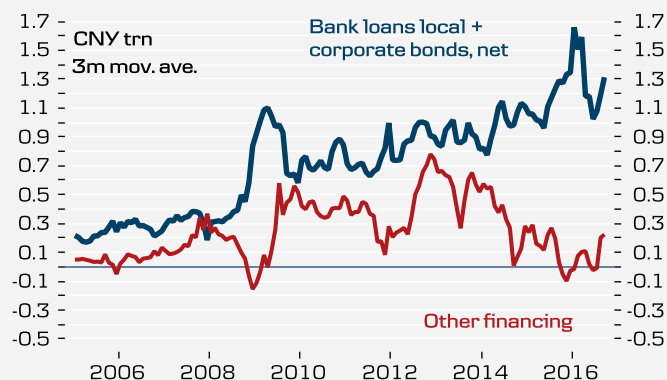
Source: Macrobond Financial

Export indicator



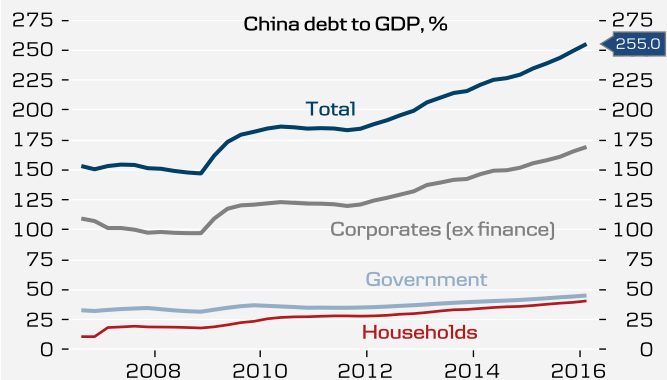
Source: Macrobond Financial

Credit growth



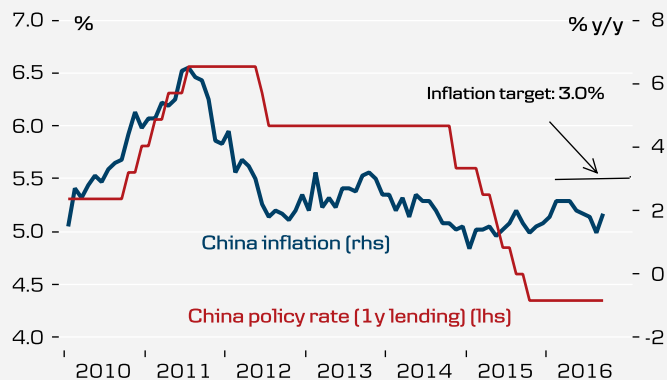
Source: Macrobond Financial

Chinese debt



Source: Macrobond Financial

Inflation and policy rates



Source: Macrobond Financial

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