

## Macro Comment China

# CNY should weaken soon as USD gains strength again

As the USD regains strength generally, we expect the CNY to weaken versus the USD, as we stick to our forecast of a stable effective Chinese exchange rate. From late 2018, we expect a stronger CNY, amid renewed USD weakness.

The USD/CNY exchange rate continued to fall markedly at the beginning of 2018 (stronger CNY), in contrast to our expectations of a rise. The main reason for this was the USD's general weakness in January, which took us by surprise. The effective, or trade-weighted, Chinese exchange rate has also strengthened somewhat, as the authorities have allowed the CNY to strengthen more versus the USD than the USD has weakened versus most other currencies. We had expected a fairly flat effective exchange rate.

Available data suggest that the central bank has not intervened much, if at all, in the currency market recently. The FX reserves, measured in USD, have increased, but this can be explained by valuation effects, as the USD value of the part of the reserves that are denominated in other currencies than USD has increased amid the USD weakening.

## Even the effective index is stronger



Source: Macrobond

Our house view remains that the USD weakness should reverse soon, leaving room for the CNY to weaken against the USD in the short term. In the second half of 2018 and into 2019, we forecast renewed CNY strength amid USD weakness. We expect USD/CNY to increase toward 6.6 in mid-2018 and decrease toward 6.3 in late 2019.

## CNY forecasts

### Handelsbanken Capital Market FX forecast

	09/02/2018	Q1 2018	Q2 2018	Q3 2018	End 2018	End 2019
USD/CNY	6.32	6.50	6.60	6.60	6.50	6.30
EUR/USD	1.23	1.15	1.15	1.15	1.20	1.25
EUR/CNY	7.75	7.48	7.59	7.59	7.80	7.88
EUR/SEK	9.94	9.70	9.60	9.30	9.20	9.30
CNY/SEK	1.28	1.30	1.26	1.23	1.18	1.18
EUR/NOK	9.70	9.50	9.40	9.30	9.20	9.10
CNY/NOK	1.25	1.27	1.24	1.23	1.18	1.16
EUR/DKK	7.44	7.45	7.45	7.46	7.46	7.46
CNY/DKK	0.96	1.00	0.98	0.98	0.96	0.95
EUR/GBP	0.88	0.92	0.94	0.95	0.95	0.95
GBP/CNY	8.86	8.13	8.07	7.99	8.21	8.29

Source: Handelsbanken Capital Markets

In early January, the authorities reportedly scrapped the so-called counter-cyclical adjustment factor in the daily USD/CNY fixing mechanism. The mechanism was introduced in May 2017 to avoid market moves having too large an impact on the fixing (or reference rate), although neither the formula nor functionality of the mechanism was ever publicly disclosed. At that time, the mechanism was viewed by market participants as a measure to halt the (market-driven) CNY weakening, and was thus seen as a reflection of the central bank's desire to keep the CNY stronger than before. Thus, the scrapping of the adjustment factor can be seen as an indication that the authorities are more comfortable now and less worried about renewed CNY depreciation pressure.

In early February, comments by the head of the state administration of foreign exchange and vice president of the People's Bank of China further suggested that the tighter capital controls implemented amid the strong capital outflows in 2015 and 2016 are due to be rolled back. This also suggests a weaker CNY ahead.

Since China's authorities are able to control the exchange rate via interventions and changes to capital controls, the interest rate differential to the US matters much less for USD/CNY than elsewhere. Still, the interest rate differential is increasing as the US central bank raises its Fed funds target rate. In isolation, this suggests a weaker CNY. Despite the limited importance of the interest rate differential, the People's Bank of China has twice hiked some of its policy rates immediately after a Fed hike. However, the Chinese hikes have been rather symbolic only, as they have been smaller than in the US and have only affected less relevant policy interest rates.

Bjarke Roed-Frederiksen, +45 46791229, bjro03@handelsbanken.dk

# Research disclaimer

## Risk warning

All investments involve risks and investors are encouraged to make their own decision as to the appropriateness of an investment in any securities referred to in this report, based on their specific investment objectives, financial status and risk tolerance. The historical return of a financial instrument is not a guarantee of future return. The value of financial instruments can rise or fall, and it is not certain that you will get back all the capital you have invested.

## Research disclaimers

Handelsbanken Capital Markets, a division of Svenska Handelsbanken AB (publ) (collectively referred to herein as 'SHB'), is responsible for the preparation of research reports. SHB is regulated in Sweden by the Swedish Financial Supervisory Authority, in Norway by the Financial Supervisory Authority of Norway, in Finland by the Financial Supervisory Authority and in Denmark by the Danish Financial Supervisory Authority. All research reports are prepared from trade and statistical services and other information that SHB considers to be reliable. SHB has not independently verified such information and does not represent that such information is true, accurate or complete. Accordingly, to the extent permitted by law, neither SHB, nor any of its directors, officers or employees, nor any other person, accept any liability whatsoever for any loss, however it arises, from any use of such research reports or its contents or otherwise arising in connection therewith.

In no event will SHB or any of its affiliates, their officers, directors or employees be liable to any person for any direct, indirect, special or consequential damages arising out of any use of the information contained in the research reports, including without limitation any lost profits even if SHB is expressly advised of the possibility or likelihood of such damages.

The views contained in SHB research reports are the opinions of employees of SHB and its affiliates and accurately reflect the personal views of the respective analysts at this date and are subject to change. There can be no assurance that future events will be consistent with any such opinions. Each analyst identified in this research report also certifies that the opinions expressed herein and attributed to such analyst accurately reflect his or her individual views about the companies or securities discussed in the research report.

Research reports are prepared by SHB for information purposes only. The information in the research reports does not constitute a personal recommendation or personalised investment advice and such reports or opinions should not be the basis for making investment or strategic decisions. This document does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for any securities nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever. Past performance may not be repeated and should not be seen as an indication of future performance. The value of investments and the income from them may go down as well as up and investors may forfeit all principal originally invested. Investors are not guaranteed to make profits on investments and may lose money. Exchange rates may cause the value of overseas investments and the income arising from them to rise or fall. This research product will be updated on a regular basis.

No part of SHB research reports may be reproduced or distributed to any other person without the prior written consent of SHB. The distribution of this document in certain jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions.

The report does not cover any legal or tax-related aspects pertaining to any of the issuer's planned or existing debt issuances.

## Please be advised of the following important research disclosure statements:

SHB employees, including analysts, receive compensation that is generated by overall firm profitability. Analyst compensation is not based on specific corporate finance or debt capital markets services. No part of analysts' compensation has been, is or will be directly or indirectly related to specific recommendations or views expressed within research reports.

From time to time, SHB and/or its affiliates may provide investment banking and other services, including corporate banking services and securities advice, to any of the companies mentioned in our research.

We may act as adviser and/or broker to any of the companies mentioned in our research. SHB may also seek corporate finance assignments with such companies.

We buy and sell securities mentioned in our research from customers on a principal basis. Accordingly, we may at any time have a long or short position in any such securities. We may also make a market in the securities of all the companies mentioned in this report. [Further information and relevant disclosures are contained within our research reports.]

SHB, its affiliates, their clients, officers, directors or employees may own or have positions in securities mentioned in research reports.

The Bank has adopted Guidelines concerning Research which are intended to ensure the integrity and independence of research analysts and the research department, as well as to identify actual or potential conflicts of interests relating to analysts or the Bank and to resolve any such conflicts by eliminating or mitigating them and/or making such disclosures as may be appropriate. As part of its control of conflicts of interests, the Bank has introduced restrictions ("Information barriers") on communications between the Research department and other departments of the Bank. In addition, in the Bank's organisational structure, the Research department is kept separate from the Corporate Finance department and other departments with similar remits. The Guidelines concerning Research also include regulations for how payments, bonuses and salaries may be paid out to analysts, what marketing activities an analyst may participate in, how analysts are to handle their own securities transactions and those of closely related persons, etc. In addition, there are restrictions in communications between analysts and the subject company. According to the Bank's Ethical Guidelines for the Handelsbanken Group, the board and all employees of the Bank must observe high standards of ethics in carrying out their responsibilities at the Bank, as well as other assignments. For full information on the Bank's ethical guidelines please see the Bank's website [www.handelsbanken.com](http://www.handelsbanken.com) and click through to About the bank – Sustainability at Handelsbanken – Sustainability – Policy documents and guidelines – Policy documents – Policy for

ethical standards in the Handelsbanken Group. Handelsbanken has a ZERO tolerance of bribery and corruption. This is established in the Bank's Group Policy on Bribery and Corruption. The prohibition against bribery also includes the soliciting, arranging or accepting bribes intended for the employee's family, friends, associates or acquaintances. For full information on the Bank's Policy against corruption please see the Bank's website [www.handelsbanken.com](http://www.handelsbanken.com) and click through to About the bank – Sustainability at Handelsbanken – Sustainability – Policy documents and guidelines – Policy documents – Policy against corruption in the Handelsbanken Group.

### **When distributed in the UK**

Research reports are distributed in the UK by SHB.

SHB is authorised by the Swedish Financial Supervisory Authority (Finansinspektionen) and the Prudential Regulation Authority and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority, and regulation by the Financial Conduct Authority are available from us on request.

UK customers should note that neither the UK Financial Services Compensation Scheme for investment business nor the rules of the Financial Conduct Authority made under the UK Financial Services and Markets Act 2000 (as amended) for the protection of private customers apply to this research report and accordingly UK customers will not be protected by that scheme.

This document may be distributed in the United Kingdom only to persons who are authorised or exempted persons within the meaning of the Financial Services and Markets Act 2000 (as amended) (or any order made thereunder) or (i) to persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"), (ii) to high net worth entities falling within Article 49(2)(a) to (d) of the Order or (iii) to persons who are professional clients under Chapter 3 of the Financial Conduct Authority Conduct of Business Sourcebook (all such persons together being referred to as "Relevant Persons").

### **When distributed in the United States**

#### **Important Third-Party Research Disclosures:**

SHB and its employees are not subject to FINRA's research analyst rules which are intended to prevent conflicts of interest by, among other things, prohibiting certain compensation practices, restricting trading by analysts and restricting communications with the companies that are the subject of the research report.

SHB research reports are intended for distribution in the United States solely to "major U.S. institutional investors," as defined in Rule 15a-6 under the Securities Exchange Act of 1934. Each major U.S. institutional investor that receives a copy of research report by its acceptance hereof represents and agrees that it shall not distribute or provide research reports to any other person. Reports regarding fixed-income products are prepared by SHB and distributed by SHB to major U.S. institutional investors under Rule 15a-6(a)(2). Reports regarding equity products are prepared by SHB and distributed in the United States by Handelsbanken Markets Securities Inc. ("HMSI") under Rule 15a-6(a)(3). When distributed by HMSI, HMSI takes responsibility for the report. Any U.S. person receiving these research reports that desires to effect transactions in any equity product discussed within the research reports should call or write HMSI. HMSI is a FINRA Member, telephone number (+1-212-326-5153).

# Macro Research and Trading Strategy

## Macro Research and Trading Strategy

### Head of Macro Research and Trading Strategy & Chief Economist

Ann Öberg		+46 8 701 28 37
Lena Fahlen	Deputy Head	+46 8 701 83 29
Christina Nyman	Head of Forecasting	+46 8 701 51 58

### Web Editor

Terese Loon	Chief Editor	+46 8 701 28 72
-------------	--------------	-----------------

### Sweden

Helena Bornevall	Scenario Analysis and Senior Economist	+46 8 701 18 59
Johan Löf	Senior Economist, Sweden	+46 8 701 5093

### Finland

Tiina Helenius	Head, Macro Research	+358 10 444 2404
Janne Ronkanen	Senior Economist, Finland	+358 10 444 2403

### Denmark

Jes Asmussen	Head, Macro Research, Denmark and Netherlands	+45 46 79 12 03
Rasmus Gudum-Sessingø	Senior Economist, Denmark and Eurozone	+45 46 79 16 19
Bjarke Roed-Frederiksen	Senior Economist, China and Latin America	+45 46 79 12 29

### Norway

Kari Due-Andresen	Head, Macro Research, Norway, UK	+47 22 39 70 07
Nils Kristian Knudsen	Senior Strategist FX/FI	+47 22 82 30 10
Marius Gønholt Hov	Senior Economist, Norway	+47 22 39 73 40
Halfdan Grangård	Senior Economist, Norway	+47 22 39 71 81

### Trading Strategy

Claes Mählén	Chief Strategist	+46 8 463 45 35
Martin Jansson	Senior Commodity Strategist	+46 8 461 23 43
Nils Kristian Knudsen	Senior Strategist FX/FI	+47 22 82 30 10
Lars Henriksson	Strategist FX	+46 8 463 45 18

## Debt Capital Markets

Tony Lindlöf	Head of Debt Capital Markets	+46 8 701 25 10
Per Eldestrand	Head of Debt Capital Markets Sweden	+46 8 701 22 03
Måns Niklasson	Head of Corporate Loans and Acquisition Finance	+46 8 701 52 84
Ulf Stejmar	Head of Corporate Bonds	+46 8 463 45 79

## Sales

### Fixed Income Sales

Henrik Franzén	+46 8 701 11 41
----------------	-----------------

### Corporate Sales

Bo Fredriksson	+46 8 701 345 31
----------------	------------------

### FX Sales

Håkan Larsson	+46 8 701 345 19
---------------	------------------

### Syndication

Thomas Grandin	+46 8 701 345 83
----------------	------------------

## Regional sales

### Copenhagen

Kristian Nielsen	+45 46 79 12 69
------------------	-----------------

### Gothenburg

Jaan Kivilo	+46 31 774 83 39
-------------	------------------

### Gävle

Petter Holm	+46 26 172 103
-------------	----------------

### Helsinki

Mika Rämänen	+358 10 444 62 20
--------------	-------------------

### Linköping

Fredrik Lundgren	+46 13 28 91 10
------------------	-----------------

### London

Tolga Kulahcigil	+44 207 578 86 12
------------------	-------------------

### Luleå/Umeå

Ove Larsson	+46 90 154 719
-------------	----------------

### Luxembourg

Snorre Tysland	+352 274 868 251
----------------	------------------

### Malmö

Fredrik Lundgren	+46 40 243 900
------------------	----------------

### Oslo

Petter Fjellheim	+47 22 82 30 29
------------------	-----------------

### Stockholm

Malin Nilén	+46 8 701 27 70
-------------	-----------------

### Toll-free numbers

From Sweden to  
N.Y. & Singapore  
020-58 64 46

From Norway to  
N.Y. & Singapore  
800 40 333

From Denmark to  
N.Y. & Singapore  
8001 72 02

From Finland to  
N.Y. & Singapore  
0800 91 11 00

Within the US  
1-800 396-2758

### Svenska Handelsbanken AB (publ)

**Stockholm**  
Blasieholmstorg 11  
SE-106 70 Stockholm  
Tel. +46 8 701 10 00  
Fax. +46 8 611 11 80

**Copenhagen**  
Havneholmen 29  
DK-1561 Copenhagen V  
Tel. +45 46 79 12 00  
Fax. +45 46 79 15 52

**Helsinki**  
Itämerenkatu 11-13  
FI-00180 Helsinki  
Tel. +358 10 444 11  
Fax. +358 10 444 2578

**Oslo**  
Tjuvholmen allé 11  
Postboks 1249 Vika  
NO-0110 Oslo  
Tel. +47 22 39 70 00  
Fax. +47 22 39 71 60

**London**  
3 Thomas More Square  
London GB-E1W 1WY  
Tel. +44 207 578 8668  
Fax. +44 207 578 8090

**New York**  
Handelsbanken Markets  
Securities, Inc.  
875 Third Avenue, 4<sup>th</sup> Floor  
New York, NY 10022-7218  
Tel. +1 212 326 5153  
Fax. +1 212 326 2730  
FINRA, SIPC