

Top-10 investment strategies for 2019:

#9 Short CNY

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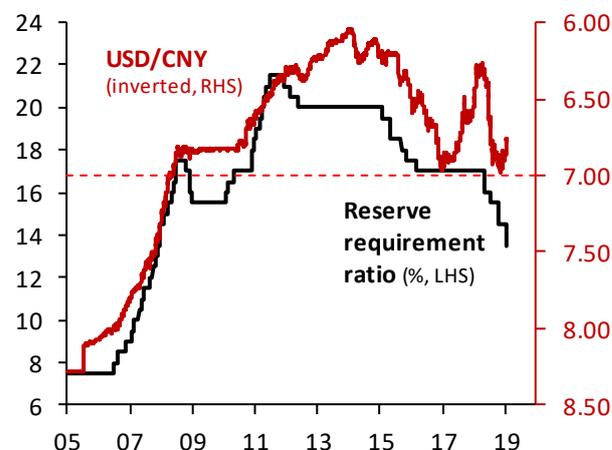
- *The Chinese yuan's appreciation since early December 2018 is viewed as a relief rally that started with the US-China trade truce.*
- *China's slowing economy needs a weaker and not a stronger yuan to accompany the monetary/fiscal measures to cushion growth.*
- *We see CNY depreciating past 7 this year.*

We are looking beyond US-China trade tensions in our call for the Chinese yuan to depreciate past 7 against the US dollar in 2019. The yuan's appreciation since early December is considered a relief rally that started with the 90-day truce in trade tensions between the world's two largest economies.

A stronger yuan will be inconsistent with the slowing economy and the stimulatory measures needed to cushion growth from weakened external and domestic demand. For example, passenger vehicle sales have fallen in 2018 for the first time in 20 years. Factory activities and exports have sputtered on disappointing growth in the world's large economies, especially the Eurozone.

Beijing is scheduled to announce, in early March, a lower 6-6.5% growth target for 2019 vs the 6.5% target set in the previous two years. The National Bureau of Statistics has, last Friday, downgraded 2017 growth to 6.8% from 6.9%. To keep growth within this new range and above 6%, the government is also expected to announce a tax reduction package aimed at supporting SMEs and consumption.

CNY to depreciate past 7 vs USD as China cushions its economy against trade tensions



Sources: DBS Research, Bloomberg data

To ensure ample liquidity this year, the People's Bank of China (PBoC) has announced a two-stage reduction in the reserve requirement ratio (RRR) totalling 100 bps this month. We expect two more rounds of RRR cuts later this year. The central bank has also injected cash via the reverse repo operations and pledged not to rollover medium-term lending facility (MLF) loans maturing in 1Q18. If necessary, the PBoC has kept the door open to reduce its benchmark interest rates.

Regardless of the outcome of the US-China trade talks at end-February, China will need to manage its transition towards a lower growth range this year. With the bilateral US-China trade deficit still widening to record levels, it is premature to expect the US to lower existing tariffs on Chinese goods. The worst-case scenario will be failed talks leading to trade war and US tariffs that pummel the yuan to as low as 8.

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).

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