

Chinese foreign reserves edge lower but there were some inflows

Chinese foreign exchange reserves have fallen slightly, mainly as a result of the strong dollar. But this shouldn't mask the fact that there were some inflows into China's asset market too



Source: iStockphoto

The strong dollar is behind the drop in foreign reserves

According to central bank data, China's foreign exchange reserves fell by \$3.81 billion or 0.12% in April to \$3.095 trillion.

The small drop was mainly driven by the strong dollar that rose 1.17% in the month. The strong dollar has put a lower valuation on non-dollar assets in dollar terms.

Don't ignore the inflows

From the foreign exchange reserves data, it seems there were net outflows from China, but as we've explained, this was masked by the strong dollar.

There were inflows into China's bond market and the stock market in April. For example, offshore institutions increased their holdings in China bonds by CNY 76.25 billion in the month - an increase

of 4% on a monthly basis according to Bond Connect.

Yuan to remain stable

If the trade war escalates, we expect the yuan to remain fairly stable.

We think the Chinese authorities would like to have a stable asset market, so they can concentrate their efforts and [focus on trade renegotiations with the US](#). Otherwise, a continuously depreciating yuan might increase the probability of capital flight, something the authorities would like to avoid.

We argue that a yuan appreciation during trade war renegotiation seems impossible, as that will be considered to be a weakness. The only option that we see remaining is a [slight softening of the yuan versus the dollar](#).

[Renegotiating trade from a China perspective](#)