

7 November 2018
Snap

China: Foreign reserves show no outflow panic

Foreign exchange reserves dropped by \$34 billion in October, the largest drop in 2018 so far, though still small compared to 2015. This means there was no capital outflow panic even as the yuan approached 7.0 against the dollar. We expect USD/CNY and USD/CNH to cross the 7-handle anytime between now and the end of 2018, moving slowly to 7.30 by the end of 2019

No panic

China foreign exchange reserves fell to \$3.053 trillion from \$3.087 trillion in October. Though the drop was the largest on a monthly basis in 2018, it was still small compared to monthly drops in 2015 (in excess of \$100 billion in a month).

This implies that there is no capital outflow panic in China even as USD/CNY approached 7.0, and depreciated 1.56% in the month. The yuan's weakest closing level against the dollar was 6.9757 on 31 October.

The USD/CNY 7.0 handle is not to be feared

The data confirms our view that the USD/CNY 7.0 handle is a mere round number, not a psychological barrier, as the currency pair has approached this level a number of times.

We expect that USD/CNY and USD/CNH will cross 7.0 anytime between now and the end of 2018. And the chances of such would be high if the sideline meeting of President Xi and President Trump at the G20 shows no progress in delaying the proposed increase in tariffs on \$200 billion of Chinese goods from 10% to 25% on the first day of 2019.

The yuan will depreciate slowly after crossing 7.0

After crossing 7.0, the currency pair could pull back slightly but the yuan would then continue to depreciate further.

We expect USD/CNY and USD/CNH to reach 7.3 by the end of 2019.

Iris Pang

Economist, Greater China

+85 22 848 8071

iris.pang@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group NV and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. The producing legal entity ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is subject to limited regulation by the Financial Conduct Authority (FCA). ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.