

## Quick Hit – Attention pivots back to CNY... déjà vu all over again?

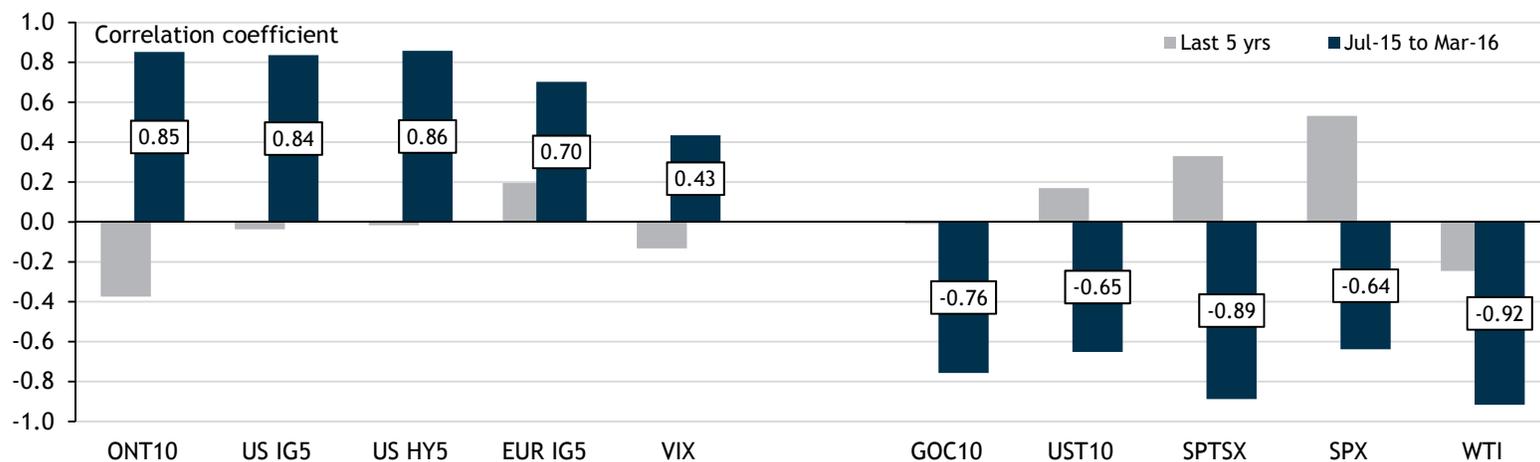
By Warren Lovely

Sadly, it's come to this... given a further escalation of China-US trade tensions, we're back to watching daily settings in the Chinese yuan (CNY). We've been here before. It's maybe been a decade since USD/CNY traded above the psychological level of 7, but there are more current episodes of yuan depreciation to reflect on. Specifically, we caught ourselves thinking back to a mid-2015 to early-2016 episode. You remember the days? At that time, global growth concerns led to a sharp erosion in risk sentiment (across the advanced and emerging worlds alike); financial conditions, equities, commodities and credit all slumped, while vol spiked. It may not have been in response to US tariffs, but China devalued its currency back then too. The resulting collapse in confidence (and related capital flight) ultimately saw China draw meaningfully on its FX reserves. Indeed, the generalized liquidation of official (and related SWF assets we saw back then directly and indirectly infected pricing for a host of related assets—re-pricing exercise that was exacerbated by liquidity constraints. So while you'll have a hard time finding much of a longer-term relationship between CNY and key rates, credit or commodity indicators, those correlations snapped to the extremes during that earlier risk-off period (Chart 1). That certainly applied to Canadian assets, even in cases where idiosyncratic risk profiles was holding steady (Chart 2).

We're not trying to be unduly alarmist here. There are noted differences between what's going on today and mid-2015/early-2016. Moreover, correlation is not causation, as economists are quick to argue. But unless or until calmer heads prevail (politically speaking), you'd do well to keep a close eye on daily moves in CNY... regardless of what your portfolio is comprised of.

### Chart 1: Chinese devaluation led to/coincided with significant re-pricing back in mid-2015/early-2016

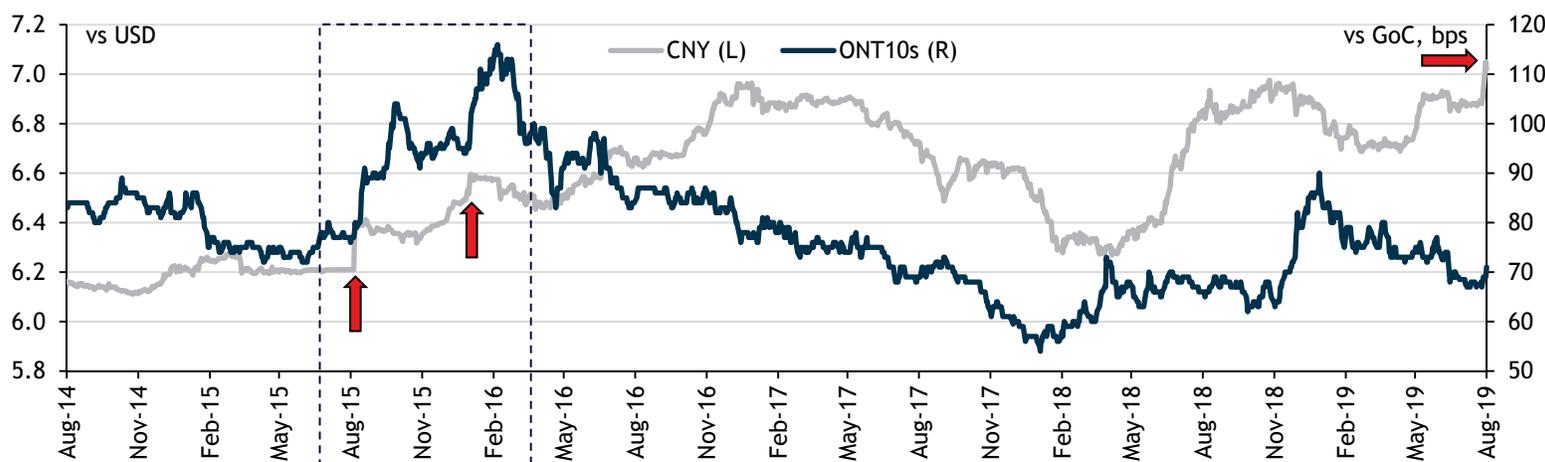
Correlation coefficients between USD/CNY and other select indicators (credit/vol indicators to left; sovereign yields/equities/oil to right)



Source: NBF, Bloomberg | Note: Correlation coefficients with USD/CNY spot exchange rate; based on daily values

### Chart 2: Canadian credit wasn't immune four years ago

Historical relationship between USD/CNY & Ontario benchmark credit spread



Source: NBF, Bloomberg | Note: Daily values; based on USD/CNY spot exchange rate & Ontario 10-year generic benchmark spread generated by NBF

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