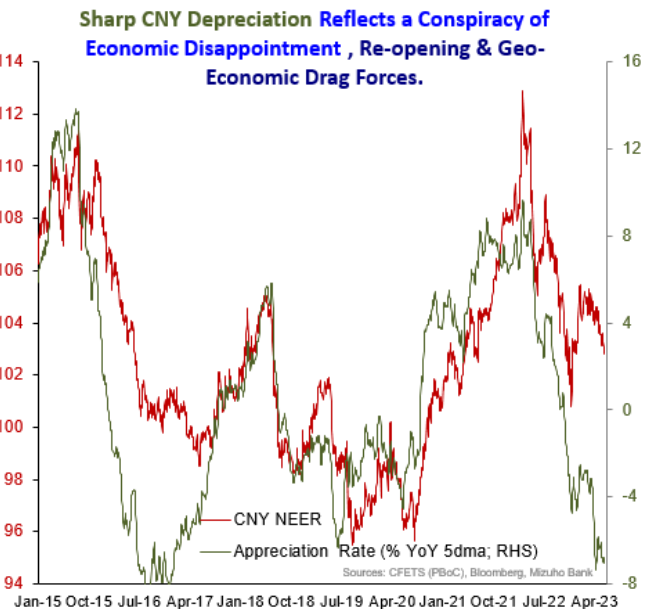
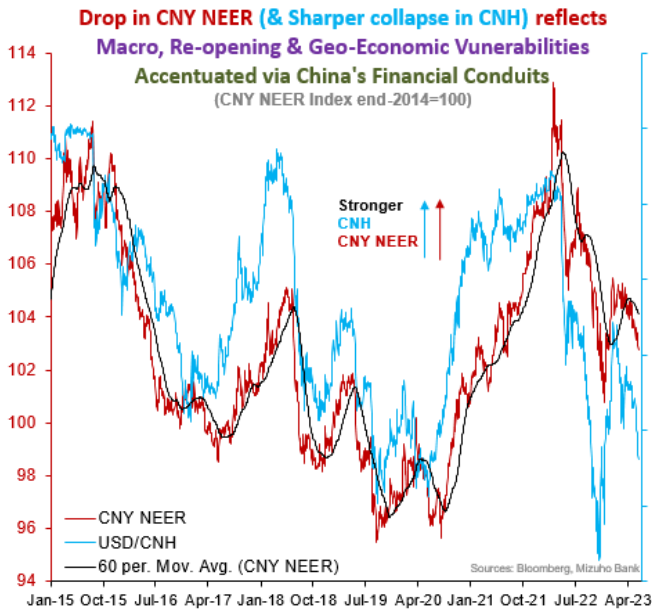
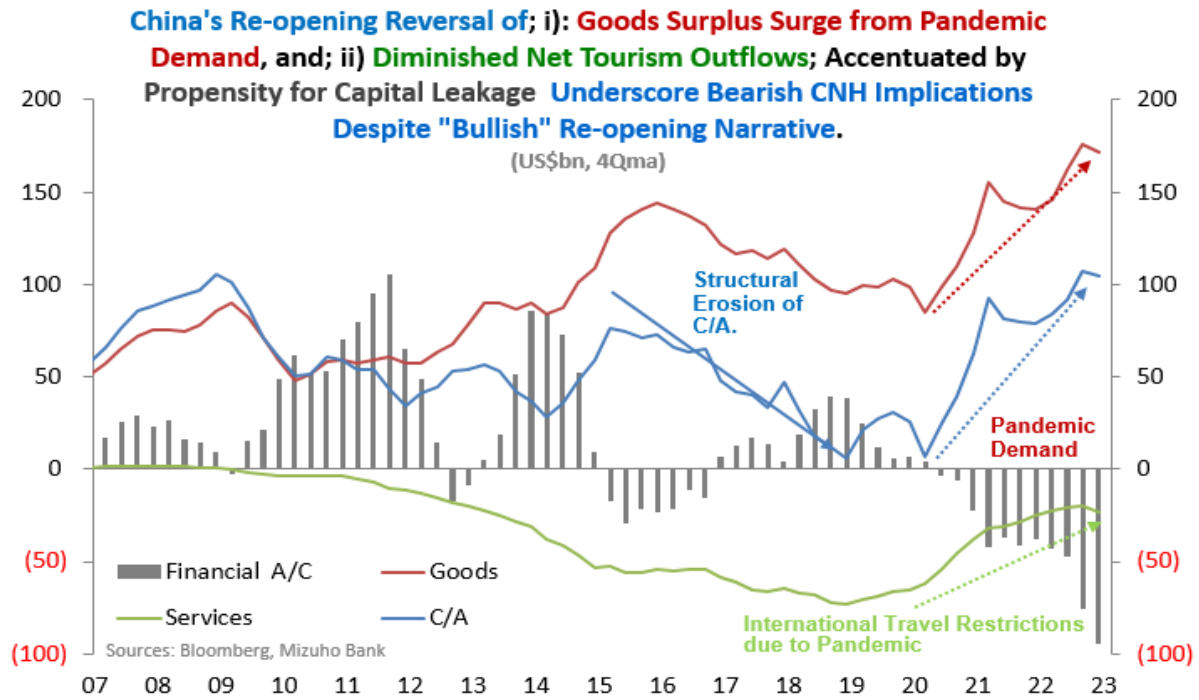


China Bulls & CNH Bears: The Re-opening Paradox



“There is nothing more deceptive than an obvious fact” – Sherlock Holmes

In a Nutshell: From the outset, the **paradox of China’s re-opening** has been *that what is deemed beneficial for the wider economy, is not for the renminbi* (CNY & CNH). And so, CNH wobbles on weak China data/economic disappointments is *not inciting, but merely revealing (perhaps accentuating), pre-existing Current Account pressures alongside propensity for capital leakages*. In other words, **diminished CNH**

buoyancy is not a bug, but a feature of China’s re-opening; accentuated by a conspiracy of *post-COVID consumption shifts, softening global demand, US-China geo-politics* and ‘*Common Prosperity*’ overhang. There is “*nothing more deceptive*” than the “*obvious*” bullish CNY view on China’s re-opening optimism.

CNH wobbles: To be sure, **sharp bouts of CNH weakness** resulting in a breach of the psychological 7-figure for the USD/CNH might feed into, and off, itself to **instigate latent instability fears**. More so as **CNH tumble was not merely a reflection of sweeping USD dominance hopes, but crucially also as by-product of CNH specific concerns** stemming from underwhelming run of China data (from imports to credit to industrial production); consistent with overdone re-opening cheer.

Unintended, But Undeniable Re-opening Drag: We are however not surprised by the bout of CNH weakness. Instead, we are **cleared eyed that the weak data merely unleashed sentiment-driven CNH retrenchment**. Fact is, as counter-intuitive as it might initially appear, *underlying CNH drag was not set off despite, but precisely because, of the re-opening boost*. Particularly **as unintended effects of re-opening** conspire to **significantly diminish China’s Current Account (C/A) surplus**, amid Financial Account drag; both *undermining cash-flow support for CNH*.

Goods Drag amid Post-COVID Demand Rebalancing & Demand Risks: Specifically, **China’s record good surplus run during COVID** (when consumption was predominantly all directed at goods) that has boosted the C/A to records, is in fact **set to be significantly reduced**. Notably *as China’s re-opening further accentuates on-going, post-COVID goods-to-services re-balancing* of consumption patterns. Moreover, *gathering global headwinds suggest flagging goods demand* may be worsened (over and above substitution away from goods to services).

Tourism Drag on Services: What’s more the **concurrent, sharp reduction in China’s services deficit, most of which was owed to closed borders stopping the outflow of tourist spending offshore, is also **set to be reversed** (possibly quite rapidly) as Chinese tourists head back out with the re-opened borders. **Depending on the “vengeance” factor of Chinese tourists, the services deficit can substantially jump** (in 2019 net Chinese tourists spending was 1.7% of China’s GDP), accentuating C/A drag.**

Capital “Leakage” on ‘Common Prosperity’ & Conflict: Finally, **overhang from the uncertainties and wealth preservation anxieties incited by ‘Common Prosperity’ could keep financial/capital outflows elevated**. This propensity to hedge wealth away from (and out) china may be further facilitated by re-opened borders. What’s more, **intensifying US-China tensions could worsen this impetus for capital outflows**. In particular, as geo-economic threats warn of pressures on returns and risks of adverse balance sheet shocks.

Re-opening Bulls & Renminbi Bears: The upshot is that **despite the positive macro sentiment impact of re-opening for China, the irony is that CNH prospects may be compromised**, if not undermined. And so bouts of USD strength, and worse, **episodes of US-China geo-political friction could see CNH pushed further on the back foot despite “peak USD” bets**.

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