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Flash Note
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China markets lower on Monday but relevant news emerged during the weekend

China markets lower:

- Greater China markets closed sharply lower Monday, with Shanghai down 1.49%, Shenzhen down 1.18%, and Hang Seng down 1.38%.
- PBOC yuan fixing was again marginally softer against the dollar at 6.9154, pushing further into weakest levels in over a year.
- Renewed focus on US-China tensions and concerns about yuan depreciation were among the factors that pushed markets down.

Trade war: Relevant information has happened throughout the last week

- Maybe the most relevant information last week was a paper in South China Morning Post reporting that Beijing is looking into joining the TPP. China has not publicly expressed any interest in joining the pact, but attitudes have been quietly shifting in China, with officials exploring the possibility over the past few months.
- Just remember that this TPP was the formula that Obama wanted to use to isolate China and force Beijing to comply with global standards in industrial policies and operations. A formula, no doubt, less aggressive than the one used by Trump.
- If China agrees to enter the TPP, and the US accepts this measure as a sign that Beijing adapts and submits to international trade rules, this could lead to a significant de-stressing of the relationship, opening the way to a new era of commercial tranquility and financial markets.
- Also significant were the news last week that Trump and Xi are expected to meet at G20 summit in November (The WSJ reported): "Washington has informed Beijing of its decision to go ahead with the meeting in recent days, while China has been hoping such a meeting could provide an opportunity for both sides to de-escalate tensions. Just recall that the US Treasury Secretary Steven Mnuchin and National Economic Council Director Larry Kudlow have been pushing for the meeting and trying to get negotiations on track for months.
- Also significant was the fact that China won't be labeled a currency manipulator in upcoming Treasury report. Politico reported that the Treasury Department's semiannual report on foreign exchange practices will not label China a currency manipulator, although the report will continue to place China on a monitoring list.
- On the negative side, South China Morning Post cited Chinese foreign minister Wang YI who called on Canada to promote free trade and suggested Canada not to join US' protectionist measures. Just recall that China-Canada free trade talks collapsed last year after the Chinese rejected certain elements in Canada's trade agenda, which included gender and labor rights. Also, an unpleasant information came from ambassador Cui Tiankai, saying that China does not want a trade war but if someone start one against China it will have to respond and defend its own interests.

Trade data remains strong:

- September Exports +14.5% y/y (vs consensus +9.3% and +9.8% in prior month)
- Imports +14.3% y/y (vs consensus +15.3% and +20.0% in prior month)

PBOC has plenty to tools to counter effects of trade war

- PBOC Governor Yi Gang said that the central bank still has plenty of tools to counter the detrimental effects of a trade war, of which include monetary instruments in terms of interest rate policy and RRR: "There is plenty of room for adjustment in case the country needs it".
- Yi Gang also said that the central bank is considering a range of measures in its currency policy, including a worst-case scenario, though did not disclose specifics.
- Does this mean further depreciation? I think it does (which in turn will continue to put pressure on Chinese risky assets). However, in order to calm market participants, Yi maintained that "the yuan is at a reasonable and equilibrium level", and also noted that "On monetary policy the stance is prudent and neutral."

Corporate: SOEs continued to see strong revenue growth:

- Xinhua cited data from the State-owned Assets Supervision and Administration Commission which showed that aggregate revenues of SOEs rose 11% year-on-year in the Jan-Sep period
- Growth in the Jan-Jun period was +10.1% (vs the same period last year).
- Industrial companies contributed to more than 80% to the total profit growth.

Best regards

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