

Chart of the week

The renminbi devaluated versus various currencies in the past months. After strengthening beforehand.

The Chinese renminbi took some beating in the course of 2018. The peak depreciation against the dollar was almost 10% - within four months, after a strong start to the year. This raises two questions: Is this perhaps an indication that China wants to use monetary policy to counter the slowdown in its economy? Or is Beijing deliberately using its currency to send signals to Washington?

The answer is far from clear. For one, the weakening of some economic signals from China coincided with the trade talks between Beijing and Washington. Furthermore, when you look at the price development of only one currency in a currency pair, you can miss which of the two currencies was the driver.

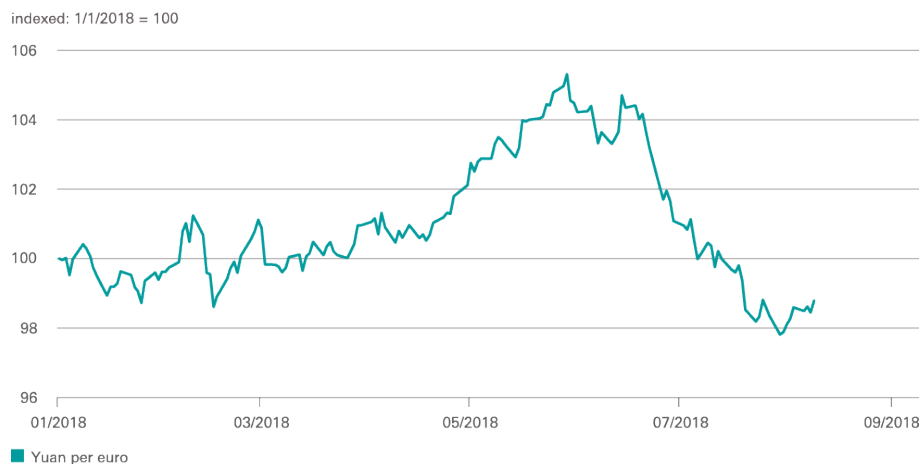
Our "Chart of the week" shows that although the renminbi has recently weakened strongly against the euro, it has only (over)compensated for the previous strong appreciation. Compared to the beginning of the year, the renminbi thus depreciated by less than 2% against the euro. Whether China deliberately weakens its currency remains a question of time perspective anyway. While the renminbi has depreciated against the dollar since 2013, it had gained around 35% against the greenback in the ten years prior to that. However, a glance at the purchasing power parity shows that this is not enough to speak of a "normal" exchange rate. According to OECD calculations, a dollar should not cost 6.8 yuan, but around half, 3.5 yuan.

However, our expectation that the renminbi will not devalue further in the medium term has little to do with purchasing power parity. But it has to do with day-to-day politics instead. Our Chief Currency Strategist, Stefanie Holtze-Jen, says: "The renminbi's descent really picked up speed in mid-June, which we believe was what Beijing wanted. The weaker economic data were certainly a good reason for this. However, we do not consider it a coincidence that the stronger devaluation began at the very moment when the talks with Washington had collapsed and the punitive tariffs were implemented. However, we also believe that Beijing has now given a clear signal that it is not interested in a further devaluation that Washington would see as an escalation of the trade conflict".

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CIO View



Sources: Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH as of 8/9/18

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Glossary

Greenback

Greenback is a commonly used expression for the U.S. dollar.

OECD

The **Organization for Economic Co-operation and Development (OECD)** started in 1948 as the Organization for European Economic Co-operation (OEEC) and changed its name in 1960, now representing 34 countries with democratic governments and market economies.

Purchasing power parity (PPP)

Purchasing power parity (PPP) is a technique used to determine the relative value of currencies, whereas the purchasing power in both currencies is the same.

Renminbi (RMB)

Renminbi (RMB) is the currency of the People's Republic of China.

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