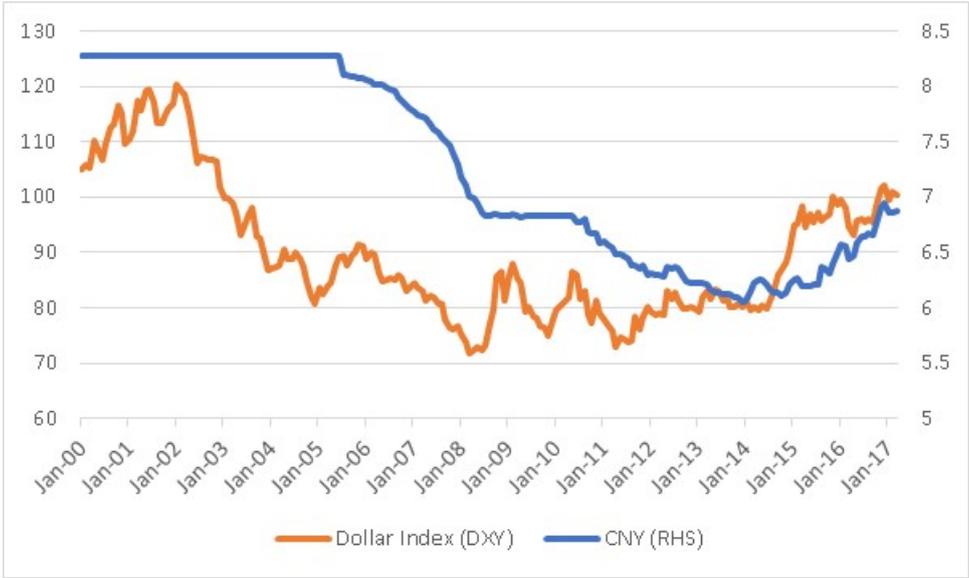


THE END OF CHINESE YUAN BEAR MARKET?



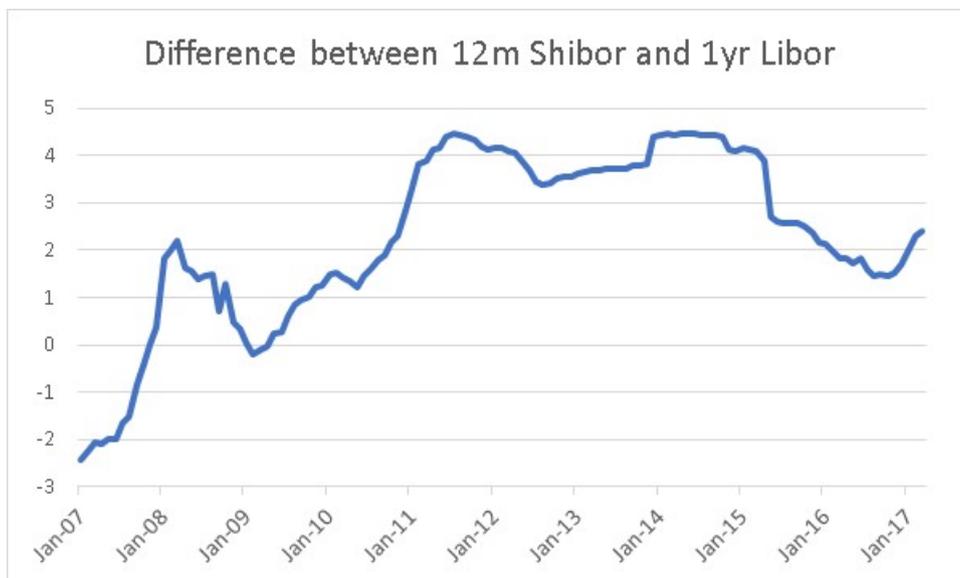
The Chinese Yuan (CNY) was fixed for many years before beginning to appreciate in 2005. Since 2014 it has been in a weakening bias, as the US dollar has been relatively strong.



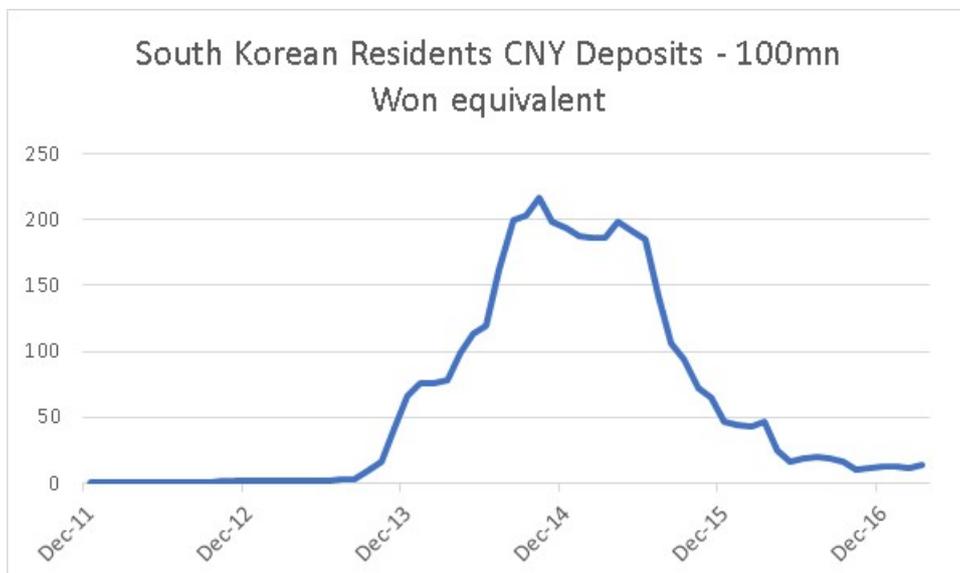
Part of the weakness in the CNY was due to China cutting interest rates from 2015 to help prop up growth. This greatly reduced the relative spread between interest rates between China and the US and put pressure on the currency. (Shanghai Interbank Offer Rate (“Shibor”), London Interbank Offer Rate (“Libor”)).



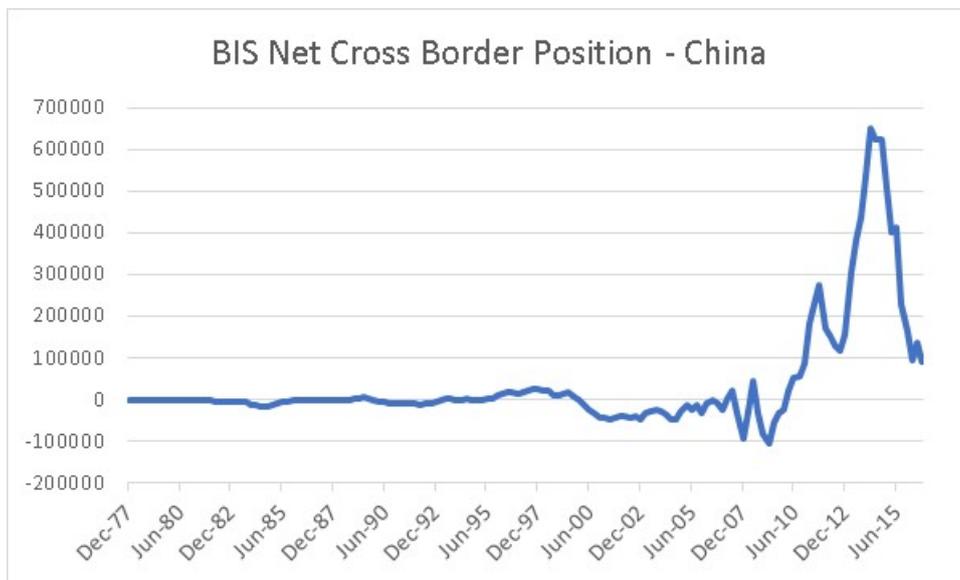
As can be seen the divergence between interest rates is now beginning to move in CNY's favour.



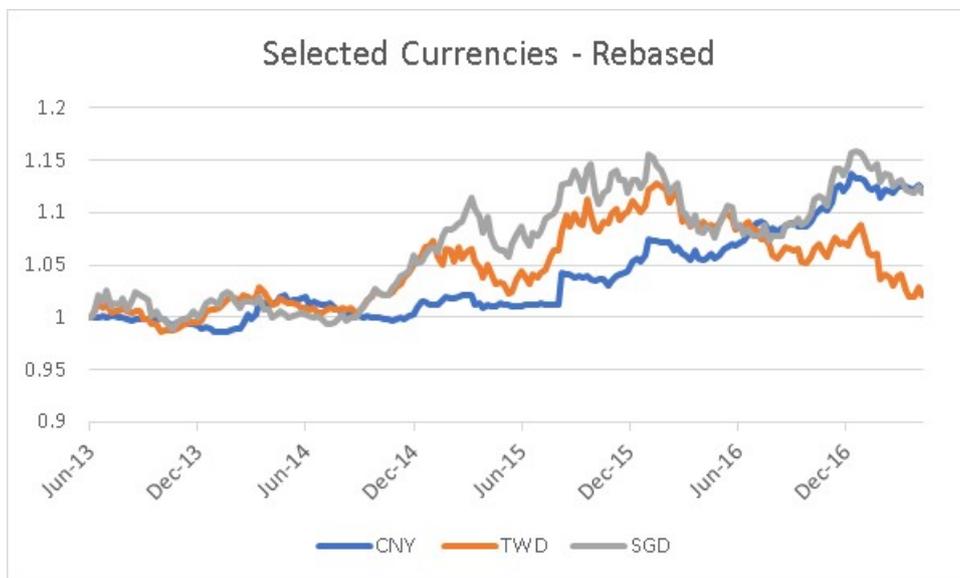
As rates were cut and the CNY weakened, there was a large outflow from both foreigners and locals. One example is the movement out of CNY by Koreans.



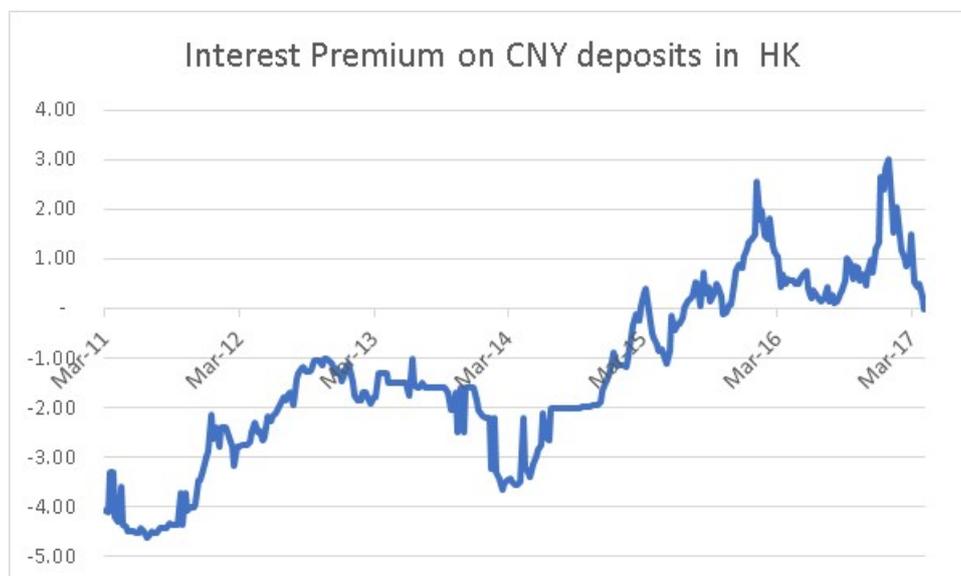
This collapse in foreign exposure to China is confirmed by Bank of International Settlements (“BIS”), although this data is only to q3 2016.



What I find interesting is that the currencies of countries with strong trade links to China, namely Taiwan and Singapore, were good early signals to an imminent Chinese devaluation in 2014. These currencies, and particularly the Taiwanese dollar have strengthened considerably recently.



Intriguingly the interest rate needed for offshore CNY deposits in Hong Kong has fallen below the mainland rate for the first time since 2015.



As can be seen, Hong Kong deposit rates can fall below the mainland rate depending on the locals' view of the CNY exchange rate. Given the reduced positioning of foreigners in CNY, the flattening of the banks' foreign currency positions in Chinese banks, the strengthening of CNY proxy currencies and the implied bullishness of Hong Kong depositors on the CNY, the CNY looks more likely to appreciate than depreciate from here.

INFORMATION

Issue Date: 21st April 2017
 Source: Bloomberg, unless otherwise stated
 Investor Relations: Alain Zakeossian, Carol Brown
 Email: info@russellclarkim.com
 Telephone: +44 (0)20 7838 7580
 Website: www.russellclarkim.com

Business and registered address: Russell Clark Investment Management Limited, 9 Chester Close, London SW1X 7BE, United Kingdom. Registered in England and Wales - Company number: 04034280

DISCLAIMER

This Market View has been prepared and issued by Russell Clark Investment Management Ltd (the "Firm") authorised and regulated by the Financial Conduct Authority. It has been approved as a financial promotion by the Firm and as such is intended **for professional clients and eligible counterparties only and is not intended for retail client use**. It is not intended for distribution to any country where such distribution or use would be contrary to local law or regulation.

This Market View is provided for information purposes only and should not be regarded as an offer to buy or sell any investments or related services that may be referenced herein. No guarantee is made as to the accuracy of the information provided which has been obtained from sources believed to be reliable. The view expressed in this Market View are the views of the portfolio manager at time of publication and may change over time. Nothing in this Market View constitutes investment, legal tax or other advice nor is it to be relied upon in making an investment decision. No recommendation is made positive or otherwise regarding individual securities mentioned herein. Past performance is not indicative of future performance. The price of investments can go up as well as down and can be affected by changes in the rates of exchange. The information contained in this document is strictly confidential and is intended only for the use of the person who has been provided the Market View by the Firm. No part of this Market View may be divulged to any person, distributed, resold and or reproduced without the prior written permission of the Firm.

Where "forward looking" information, including estimates, projections and subjective analysis and judgement are provided no representation as to the accuracy of such projections or estimates or that they may be realised. Certain assumptions used in formulating such "forward looking" information may differ materially from actual events or conditions.