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Flash Note
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China continues to signal a willingness to avoid the conflict

Following yesterday's announcement of a slate of import tariff cuts on 1,449 consumer goods, Beijing announced last night that China's growth in exports to US slowed sharply in H1 (in what sounds to me like an attempt to signal that the trade imbalance is already being corrected). It was an official announcement that the FT has also reported this morning. According to the figures, China's exports to the US grew 5.4% y/y in H1, compared to 19.3% a year earlier. June growth was 3.8% y/y versus 27.6% a year ago.

It strikes me that the June customs trade report was not slated for release until 13-Jul. So its early publication makes me think that it is a signal (that Beijing is trying to send). To tell the truth, I do not think that this is the right way to end an external imbalance that does not stop getting bigger. Instead, the solution points towards the harmonization of tariffs among the WTO members.

In the meantime, I receive contradictory and confusing information from US government in relation to business tensions with some Chinese companies. On the one hand the US government moved to block China Mobile from offering services to the US market, but in the other hand, there are Congressional efforts to defy Trump and reinstate penalties on Chinese ZTE. Sources inform us that these efforts were likely to fail

Meanwhile, the CNY (yuan) was volatile, hitting its lowest against the greenback since August 2017 before recouping losses. The recovery followed verbal intervention from the PBoC's two most senior officials. The PBoC drained a net CNY150B via open market operations to defend the CNY, and major state-owned Chinese banks were seen swapping yuan for dollars in forward contracts to immediately sell the USD into the spot market to prop up the Chinese currency.

The PBoC Deputy Governor stated that "the yuan remains basically stable", noting also that "China's economic fundamentals are good". He added that China's balance of payments is balanced and foreign exchange reserves are sufficient. His comments were echoed by PBOC's Governor Yi Gang, who added that authorities are closely monitoring the FX market and that cross-border flows were basically stable.

In the field of financial assets, Chinese equity markets closed higher last night, with mainland markets swinging back to positive territory. The Shanghai Composite adding +0.41% and the Shenzhen rising +0.76%. State media responded to the recent volatility by urging investors to remain calm and not to overreact.

In the corporate sector, the media discussed the increase in China's corporate bond defaults, as this year's total is already more than three-quarters of the previous high in 2016 even before an expected economic slowdown takes effect. Strains are set to get worse if the trends of credit-rating companies are anything to go by -- agencies including Dagong Global Rating have been downgrading firms by an unprecedented margin.

Outlook & reforms. China has drafted a tax cut that will slash tax for most individuals, as part of the government's efforts to boost consumption and reduce inequality. The new plan raises the tax-free threshold from \$6,300 to \$9,000 in terms of annual salary, and expands the three lowest tax brackets — 3%, 10% and 20% — to cover millions of taxpayers who previously paid higher rates. The maximum threshold for the 20% bracket was nearly tripled from \$16,000 to \$45,000 per year.

Best