

## China Musings

## The Renaissance of the Renminbi

- Unlike in US-China Trade War 1.0 from Mar 2018 to Jan 2020, during which USDCNY rose from the low of 6.26 to the high of 7.18 (i.e. 13% depreciation), **the Rmb has strengthened 1% vis-a-vis the USD since “Liberation Day”**.
- **Commonly-cited explanations for the currency stability/strength** include the intervention from the PBoC, improved competitiveness and diversification of the Chinese exports sector compared to 2017, likely undervaluation of the Rmb (especially on a real effective basis), and the broad Dollar weakness and the resulting diversification demand away from Dollar assets.
- **GS economists now expect USDCNY to reach 7.20, 7.10 and 7.00 on a 3M, 6M and 12M horizon**, implying 3% FX gains over the next 12 months.
- Empirically, **Chinese stocks tend to perform well when the currency rises** (vs. the USD and a basket of currency), consistent with the trading patterns for most Asian EMs.
- Conceptually, Rmb appreciation could benefit Chinese stocks via the accounting, fundamental, risk premium, and portfolio flow channels: **We estimate every 1% of Rmb increase versus the USD could boost Chinese equities by 3%, including translation gains, everything else being equal.**
- Sectorally, **Consumer Discretionary, Property, and Diversified Financials (Brokers) typically outperform** when the Rmb appreciates, and vice versa for Defensives.
- The potential FX resilience lends support to our **Overweight stance on Chinese stocks**, thematic bias for domestic, Rmb-denominated assets, moderately improved corporate earnings outlook, stronger foreign flows to China equity, but possibly moderating pace of Southbound net buying in the months ahead.
- We refresh our **Rmb Appreciation Winners and Losers Lists**, 20 stocks in each, for investors to express their FX views in the equity market. The performance spreads between the two lists have exhibited a monthly correlation/beta of 60%/3.0x with USDCNY in the past 3 years.

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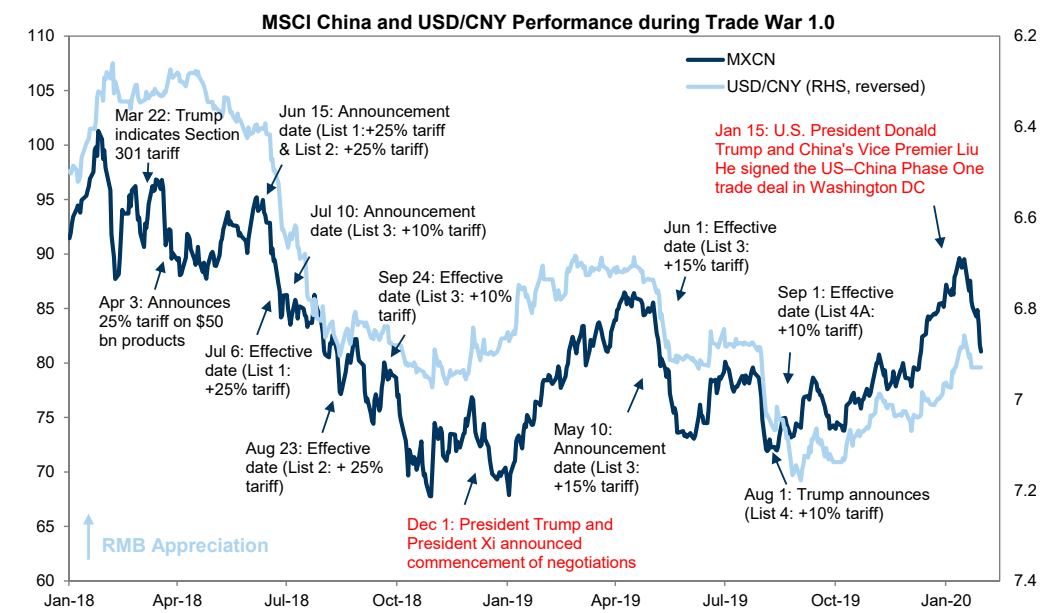
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1. During US-China Trade War 1.0 from March 2018 when President Trump launched Section 301 trade investigation on US\$50bn of Chinese goods to January 2020 when the two sides signed the Phase-one trade deal, Chinese equities had fallen 8% while the Rmb had weakened against the USD by 9%. In contrast, in the latest episode in which both countries had imposed more than 100% effective tariff rates on each other at one point before agreeing on a 90-day trade truce that will expire mid-August, **the Rmb, to the surprise of many market participants, has been resilient against the USD, gaining 1% since Liberation Day**. That said, on a basket (CFETS) basis, the Rmb has weakened by 5% ytd and 2% since Liberation Day.

**Exhibit 1: The Rmb fell more than 10% during US-China Trade War 1.0**



Source: MSCI, Goldman Sachs Global Investment Research

2. **Commonly-cited explanations for the currency stability/strength include:** a) the currency management from the PBOC, where USD/CNY fixing has been set broadly stable despite the swing of Dollar index according to our economists' estimates; b) improved competitiveness and increasing diversification of the Chinese export sector compared to 2017, with the US market directly representing 15% of Chinese exports and 1.2% of listed companies' revenues in 2024, versus 19% and 1.6% in 2017 respectively; c) potentially undervaluation of the Rmb, especially on a real effective basis at which the currency is close to its 12-year lows and has fallen 15% since its peak in 2021; and, d) the likely extension of the broad Dollar weakness, with the DXY already dropping from 109 in mid-January to 99 at present, and the resulting diversification demand away from Dollar assets from investors globally.

**Exhibit 2: The Rmb looks competitive on a real effective exchange rate basis**

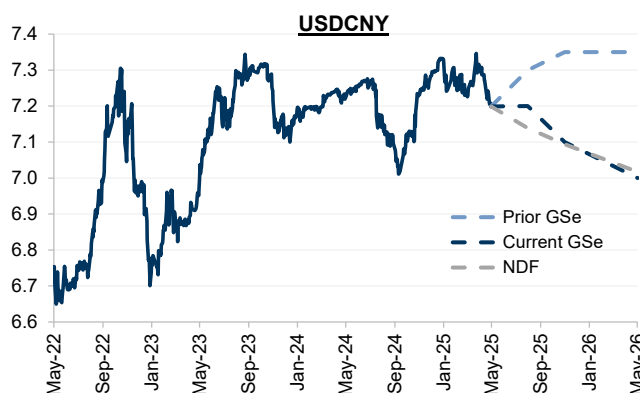
Source: Haver, Goldman Sachs Global Investment Research

**Exhibit 3: China's direct trade and revenue exposures to the US have fallen over the past decade**

Source: Wind, FactSet, Goldman Sachs Global Investment Research

**3. GS FX team has recently lowered their USDCNY forecasts (appreciation),**

expecting the exchange rate to reach 7.20, 7.10 and 7.00 on a 3M, 6M and 12M horizon from 7.30, 7.35 and 7.35 previously. While a weaker currency may moderately boost export competitiveness as external demand uncertainty rises, the scale of the currency depreciation required to offset US tariff rates, in particular at such competitive valuation, would most likely hurt Chinese domestic investor sentiment and pose the risk of increased capital outflow pressures. Rather, our economists expect the Chinese authorities to rely on alternative policy tools to soften the trade-induced growth drags, notably **exports diversification to non-US DMs and EMs and more forceful fiscal easing to stimulate domestic demand**.

**Exhibit 4: GS economists expect the Rmb to rise against the USD over the next 12 months**

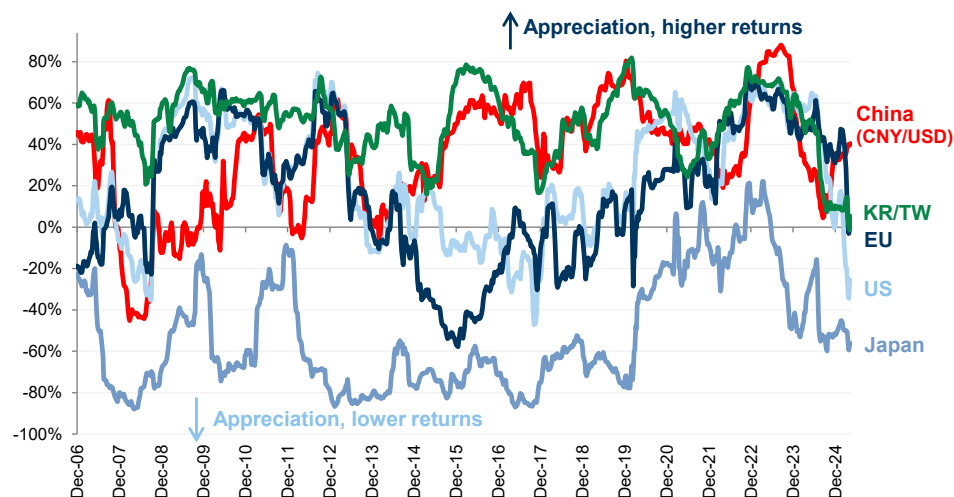
Source: Bloomberg, Goldman Sachs Global Investment Research

4. Empirically, **Chinese stocks tend to trade well when the currency rises**, with equity returns exhibiting positive directional correlation and beta (i.e., sensitivity) with Rmb exchange rates (in both bilateral and basket terms). Specifically, the average FX/equity correlation and beta has been 35% and 1.9 since 2012 (in CNY), suggesting that equities traded positively 66% of the time when the Rmb strengthened. This FX/equity profile is similar to that of Korea and Taiwan where a stronger FX (vs. USD) has been positively linked with equity returns in local currency terms, suggesting **higher demand for non-USD, local assets usually outweigh the potentially adverse**

**impact of an incrementally less competitive currency** for these export-oriented markets. At the other extreme, Japan has shown persistently negative FX/equity correlations, implying that FX competitiveness could be a key determinant for its exports dynamics.

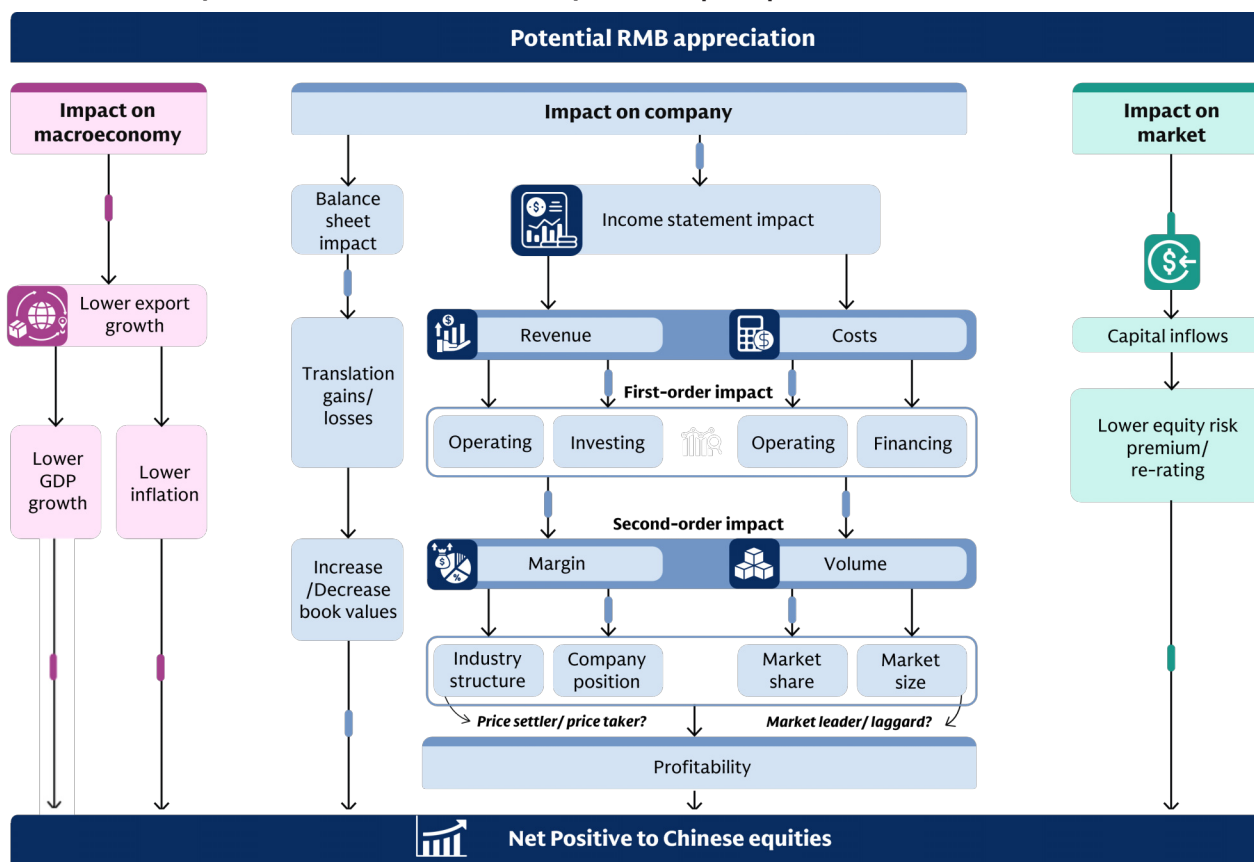
#### Exhibit 5: FX appreciation tends to correlate positively with equity market returns for China

Rolling 52W correlation between monthly equity returns (MSCI country index, local ccy) and fx change  
(+ means stock goes up when the currency strengthens)



Source: MSCI, FactSet, Goldman Sachs Global Investment Research

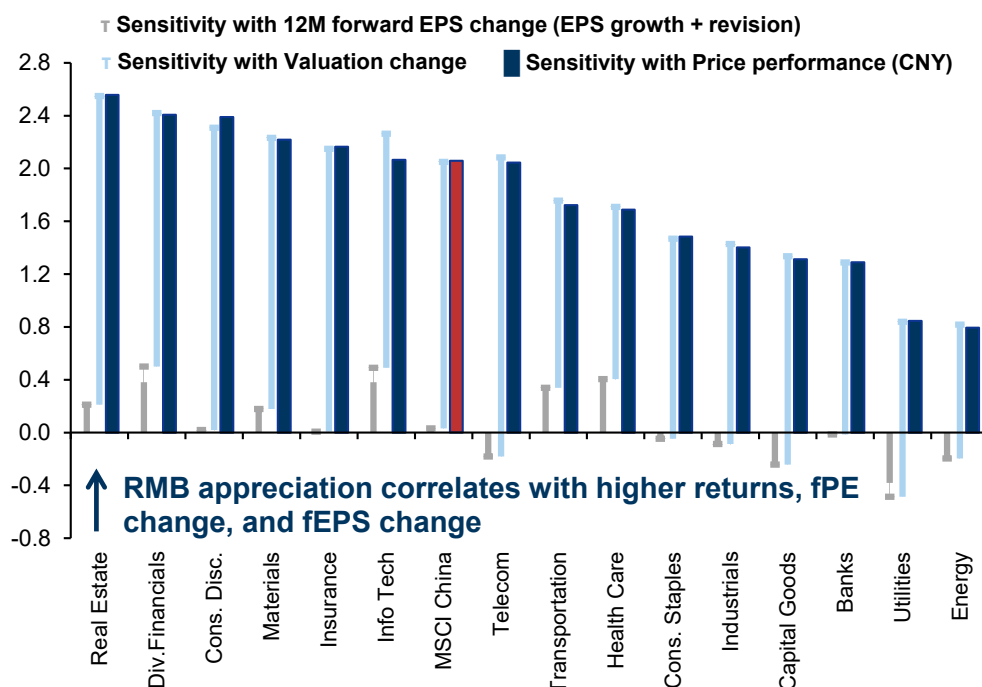
5. The positive FX/equity relationships can also be explained by fundamental and valuation reasons. First, earnings and book value for offshore-listed Chinese stocks, which are quoted in HKD or USD but with a functional currency in Rmb, should go up when the Rmb appreciates, resulting in **translation gains and more attractive equity valuations**. Second, Chinese companies that are long USD obligations (or subject to USD cost base) or short USD assets operationally should see **FX transaction gains** when the Dollar weakens. Third, FX appreciation usually reflects and coincides with relatively stronger **cyclical fundamental conditions** of the economy vis-a-vis its trading partners, boding well for growth and equity return expectations. Lastly, moderate Rmb appreciation should help ease concerns over capital outflows, therefore **conductive to equity risk premium (ERP) and portfolio flows**. In sum, our work suggests that **every 1% of Rmb appreciation against the Dollar would boost returns for Chinese equities by around 3% (cum translation gains), ceteris paribus**.

**Exhibit 6: We see many direct and indirect channels whereby FX could impact equities in China**

Source: Goldman Sachs Global Investment Research

6. Underneath the index surface, **H-share Consumer Discretionary, Real Estate, and Diversified Financials (Brokers)** and **onshore Materials and Tech** tended to **outperform** their respective local benchmarks when the Rmb appreciated against the USD, likely due to their fundamental proximity to domestic consumption, stronger demand for Rmb-denominated real and financial assets, more robust macro and market liquidity conditions, and other operational and transactional channels. Conversely, **Defensives, spanning Utilities, Energy, Staples, and SOEs, generally lagged** during Rmb strengthening episodes, largely reflecting risk-on stylistic/sectoral rotations, in our view.

Exhibit 7: Real Estate, Brokers, and Consumer Discretionary typically outperform when the Rmb rises

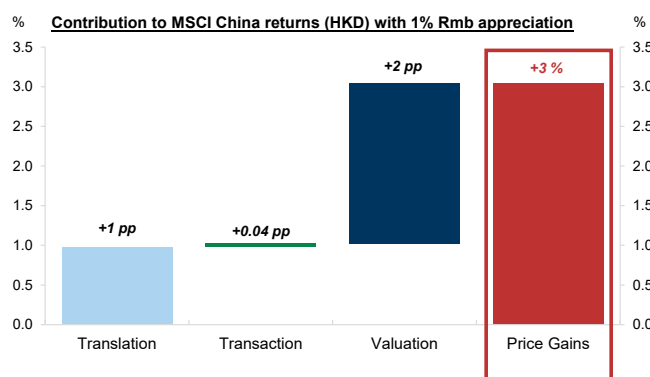


Note: Calculation is based on monthly regression of MXCN sectors vs. CNYUSD; Returns quoted in CNY; Monthly data since 2015

Source: MSCI, Bloomberg, FactSet, Goldman Sachs Global Investment Research

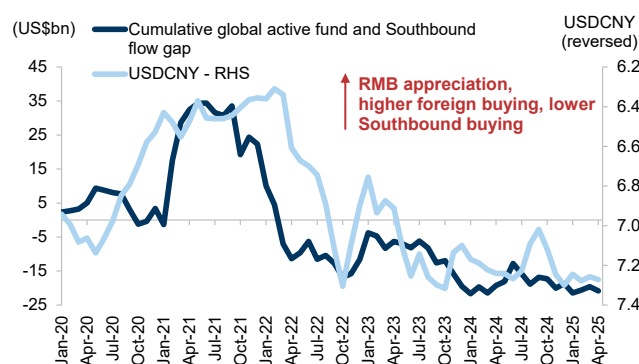
7. The potential for the Rmb to trade well against the USD **is additive to our continued constructive stance on Chinese stocks**, considering the historically positive FX/equity correlations, incremental earnings upside (translation gains), and its pro-cyclicality to foreign portfolio flows to Chinese assets, although the pace of Southbound inflows may decelerate somewhat from their record-breaking pace ytd on less pronounced FX hedging demand. It's also consistent with our **domestically-oriented sector allocation bias** where we feature Consumer Tech, Consumer Services, Banks, and Property as Overweights. A stronger FX also seems supportive of many of our preferred thematic strategies within the Chinese equity universe, notably **China AI, Domestic Stimulus Beneficiaries, EM exporters**.

**Exhibit 8: Every 1% of Rmb appreciation against the USD could boost China equity prices by 3%**



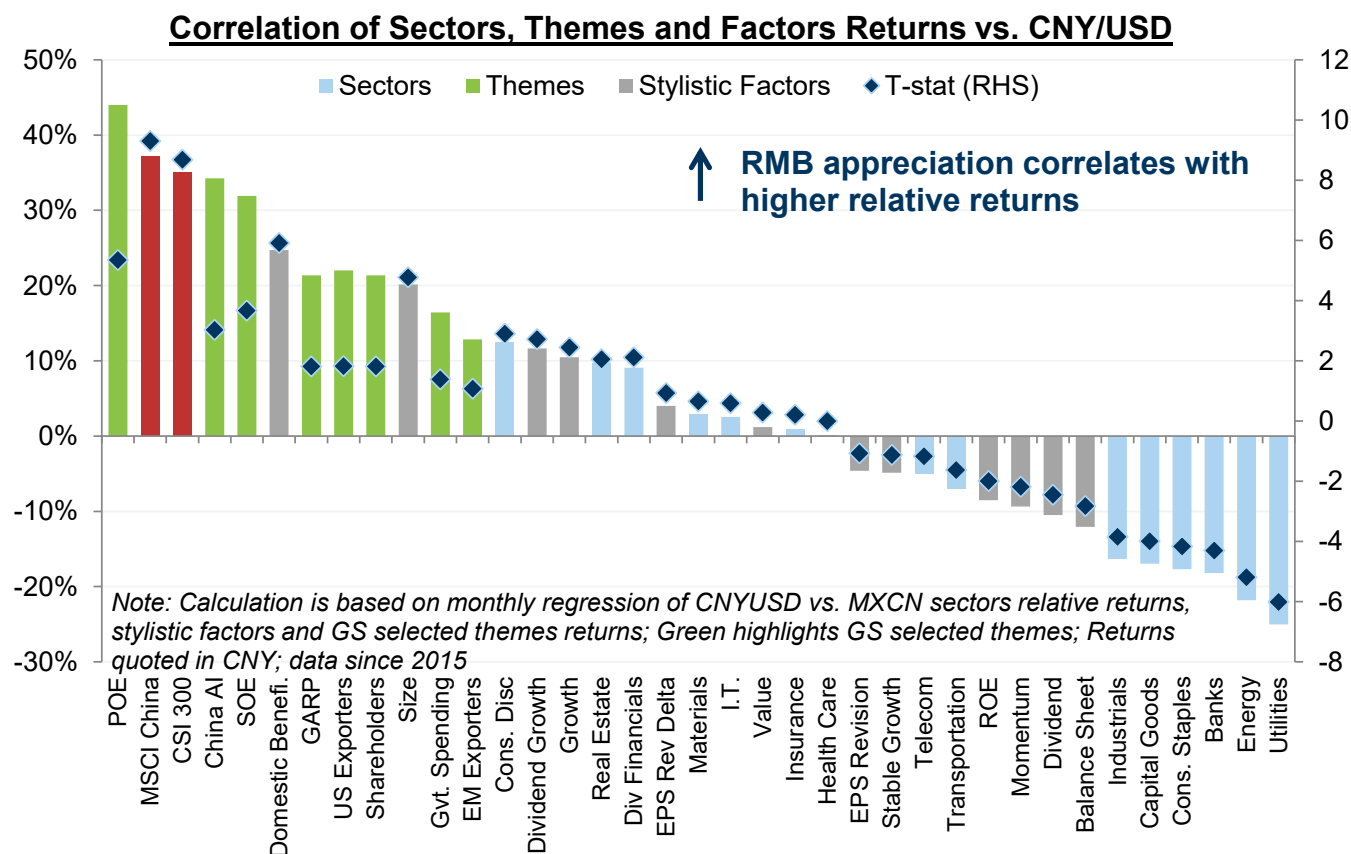
Source: MSCI, Bloomberg, FactSet, Goldman Sachs Global Investment Research

**Exhibit 9: RMB appreciation tends to drive stronger foreign buying and weaker Southbound flows**



Source: EPFR, Bloomberg, Goldman Sachs Global Investment Research

**Exhibit 10: Our preferred themes generally link well with a stronger Rmb**



Source: FactSet, MSCI, Goldman Sachs Global Investment Research

8. At the stock level, we refresh our **Rmb Appreciation Winners and Losers**, for which relative performance has been tracking USDCNY fairly closely, for macro investors who may express their FX views in equities. For stocks in the Appreciation Winners list, they typically are positively correlated with Rmb strength in price terms, and are exposed to USD-denominated input costs (e.g. PetroChemicals, Construction, and Staples), long

USD obligations (e.g. Airline), or with relatively low overseas revenue exposures fundamentally, and vice versa for the Appreciation Losers list. Overall, the **relative return profile of the two lists has shown a 60% monthly directional correlation and 3.0X beta with USDCNY in the past 3 years based on our back-test.**

### Exhibit 11: A list of HK/China listed companies that may outperform when the Rmb strengthens

Criteria for RMB appreciation winners: Top 10 China onshore and offshore stocks (1) with listed market cap > US\$2bn and ADVT > US\$5mn; (2) in USD import cost-based industries, including airlines, (petro)chemicals, construction, or food staples, and travel-related industries; OR with high USD debt/equity ratio (>20%); (3) with low overseas revenue exposure (< 30%); (4) without FX gains in 2024 as RMB depreciated; and (5) ranked at the bottom on return correlation with FX changes.

BBG Ticker	Company Name	GICS Sub-industry	Quoted Price	Highlight sub-industries that tend to outperform when RMB appreciates		>US\$2bn		>US\$5mn		<30%		< 50%		Highlight >20%		<=0	
				Size and Liquidity		Growth and Valuations								FX Sensitivity			
				Listed Market Cap (US\$m)	6M ADVT (US\$m)	2025E P/E (X)	2025E P/B (X)	2025E EPS Growth (%)	2026E EPS Growth (%)	Overseas Sales Exposure (%)	Return correlation with FX change (%ile ranking)	USD Debt / Total Debt (%)	USD Debt / Equity (%)	2024 FX gain/ (loss) /sales			
Potential RMB appreciation winners (depreciation losers)																	
9698 HK	GDS Holdings	Internet Services & Infrastructure	HKD 28	5,404	29	-	1.7	-	-	0%	0%	>75%	38%	-			
002271 CS	Beijing Oriental Yuhong Waterpr	Construction Materials	CNY 11.27	3,736	52	17	1.1	1,423	29	2%	1%	-	-	0.0%			
ATAT UW	Atour Lifestyle	Hotels Resorts & Cruise Lines	USD 30.18	3,429	34	19	7.4	25	27	0%	2%	-	-	-			
601636 CG	Zhuzhou Kibing	Building Products	CNY 5.39	2,007	15	15	1.0	150	19	12%	2%	<5%	0%	-0.1%			
000786 CS	Beijing New Building Materials	Building Products	CNY 29.36	6,855	50	10	1.9	24	12	0%	2%	<5%	0%	-			
601111 CG	Air China	Passenger Airlines	CNY 7.91	14,144	74	34	2.8	-	89	20%	6%	<5%	0%	-0.5%			
605296 CG	Shennong Agricultural	Packaged Foods & Meats	CNY 28.53	2,078	15	25	2.6	-12	34	0%	7%	-	-	-			
600884 CG	Ningbo Shanshan	Specialty Chemicals	CNY 7.56	2,364	44	23	0.8	-	81	9%	8%	-	-	0.0%			
688116 CG	Cnano Technology	Specialty Chemicals	CNY 45	2,288	63	35	4.7	74	37	0%	12%	-	-	-0.1%			
002372 CS	Weixing New Building Materials	Building Products	CNY 11.77	2,600	13	18	3.6	8	9	6%	13%	-	-	0.0%			
002466 CS	Tianqi Lithium	Specialty Chemicals	CNY 29.53	6,043	83	39	1.1	-	75	9%	17%	-	-	-4.2%			
2899 HK	Zijin Mining	Gold	HKD 17.6	13,559	107	10	2.9	27	14	0%	18%	25-50%	12%	-			
002460 CS	Ganfeng Lithium	Specialty Chemicals	CNY 31.53	5,289	102	85	1.5	-	147	23%	23%	<5%	0%	-0.3%			
817 HK	Jinmao Holdings	Real Estate Development	HKD 1.11	1,929	6	9	0.4	119	9	0%	25%	25-50%	30%	-			
189 HK	Dongyue Group	Specialty Chemicals	HKD 8.97	1,985	13	8	1.0	125	20	15%	27%	-	-	-			
1055 HK	China Southern Airlines	Passenger Airlines	HKD 3.4	2,031	7	12	1.6	-	110	0%	28%	<5%	0%	-0.5%			
9888 HK	Baidu	Interactive Media & Services	HKD 85	24,936	131	8	0.8	-5	9	0%	31%	>75%	22%	-			
6186 HK	China Feihe	Packaged Foods & Meats	HKD 6.04	6,993	23	13	1.8	-5	9	1%	33%	-	-	-			
700 HK	Tencent	Interactive Media & Services	HKD 520.5	610,748	1,792	18	3.8	12	15	10%	48%	>75%	20%	-			
HTHT UW	H World	Hotels Resorts & Cruise Lines	USD 36.81	11,817	70	17	6.6	26	18	0%	49%	50-75%	30%	-			
Median				4,512	47	17	1.8	25	20	1%	15%	-	12%	-0.1%			

Note (1): USD Debt Exposure is based on public debt and loan data, compiled by Bloomberg.

Note (2): Valuations and EPS growth forecasts are based on FactSet estimates. Pricing as of May 21, 2025.

Source: FactSet, IBES, Goldman Sachs Global Investment Research

### Exhibit 12: A list of HK/China listed companies that may underperform when the Rmb rises

Criteria for RMB appreciation losers: Top 10 China onshore and offshore stocks (1) with listed market cap > US\$2bn and ADVT > US\$5mn; (2) with significant overseas revenue (>30%); (3) with limited USD debt (< 5% of equities); (4) without FX losses in 2024 as RMB depreciated; and (5) ranked at the top on return correlation with FX changes.

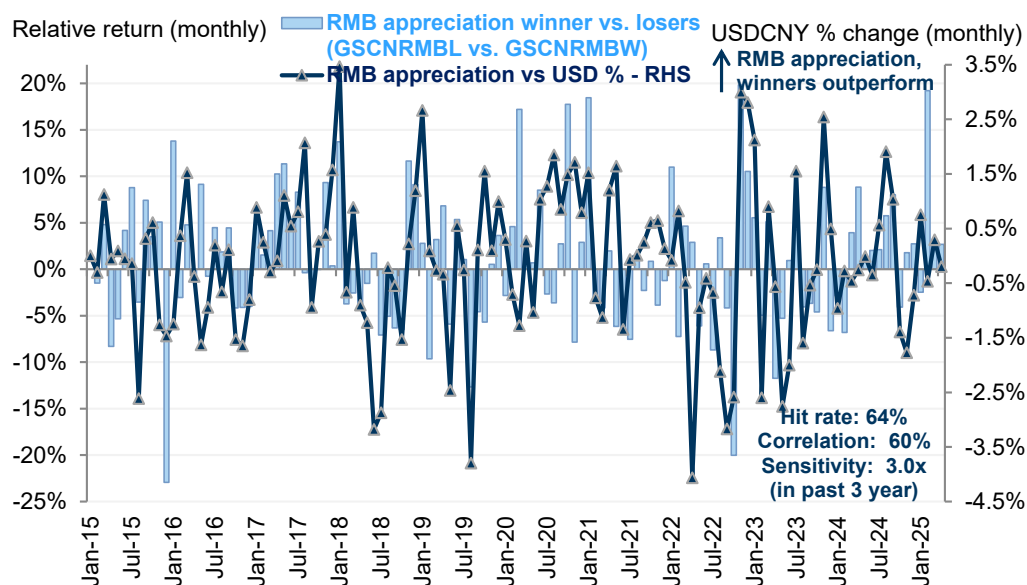
BBG Ticker	Company Name	GICS Sub-Industry	Quoted Price	>US\$2bn >US\$5mn						>30%	>70%	<5%	>=0		
				Size and Liquidity		Growth and Valuations				Overseas Sales Exposure (%)	FX Sensitivity				
				Listed Market Cap (US\$m)	6M ADVT (US\$m)	2025E P/E (X)	2025E P/B (X)	2025E EPS Growth (%)	2026E EPS Growth (%)		Return correlation with FX change (%ile ranking)	USD Debt / Total Debt (%)	USD Debt / Equity (%)	2024 FX gain/ (loss) /sales	
Potential RMB appreciation losers (depreciation winners)															
6690 HK	Haier Smart Home	Household Appliances	HKD 23.95	8,738	56	10	1.7	11	12	50%	98%	<5%	0%	-	
LEGN UW	Legend Biotech	Biotechnology	USD 28.33	5,203	45	-	7.3	-	-	100%	97%	-	-	-	
857 HK	PetroChina	Integrated Oil & Gas	HKD 6.45	17,377	98	7	0.7	-9	6	33%	97%	<5%	0%	0.0%	
600026 CG	COSCO Shipping Energy	Oil & Gas Storage & Transport.	CNY 10.37	5,000	54	9	1.3	31	12	74%	96%	-	-	0.6%	
1070 HK	TCL Electronics	Consumer Electronics	HKD 11	3,541	13	13	1.4	18	17	58%	94%	-	-	-	
3933 HK	United Laboratories Int'l	Pharmaceuticals	HKD 13.68	3,174	15	7	1.2	15	-4	46%	94%	<5%	0%	-	
522 HK	ASMP	Semiconductor Materials & Equip.	HKD 54	2,872	17	26	1.4	100	76	62%	92%	<5%	0%	-	
688777 CG	SUPCON Technology	Electronic Equip. & Instruments	CNY 46.17	5,065	104	29	3.3	13	18	100%	91%	-	-	0.2%	
002156 CS	TongFu Microelectronics	Semiconductors	CNY 24.27	5,111	207	33	2.4	64	32	63%	91%	-	-	0.1%	
551 HK	Yue Yuen Industrial	Footwear	HKD 11.96	2,450	8	6	0.5	5	6	56%	88%	-	-	-	
3808 HK	Sinotruk	Construction Machinery & Heavy Transport.	HKD 19.74	6,959	9	7	1.1	16	18	40%	84%	-	-	-	
601872 CG	China Merchants Energy	Oil & Gas Storage & Transport.	CNY 6.09	6,882	49	8	1.1	16	10	100%	82%	-	-	0.3%	
2313 HK	Shenzhen Int'l	Apparel Accessories	HKD 57.3	10,999	50	12	2.0	5	15	34%	82%	-	-	-	
601598 CG	Sinotrans	Air Freight & Logistics	CNY 4.9	3,574	17	9	0.9	2	4	100%	81%	<5%	0%	0.1%	
425 HK	Mint Group	Automotive Parts & Equipment	HKD 21.1	3,131	19	8	1.0	17	20	49%	81%	-	-	-	
000021 CS	Kaifu Technology	Electronic Manufacturing Services	CNY 17.9	3,875	118	-	-	-	-	62%	81%	-	-	0.7%	
600745 CG	Wingtech Technology	Electronic Manufacturing Services	CNY 34.63	5,981	103	18	1.2	-	30	72%	81%	<5%	0%	0.2%	
603920 CG	Olympic Circuit Technology	Electronic Components	CNY 26.55	2,654	101	22	2.8	10	26	79%	76%	-	-	1.1%	
300136 CS	Sunway Communication	Communications Equipment	CNY 20.9	2,806	79	28	2.5	10	13	73%	74%	-	-	0.7%	
600685 CG	CSSC Offshore&Marine Engineering	Construction Machinery & Heavy Transport.	CNY 24.52	2,795	33	33	1.9	178	64	66%	73%	-	-	0.3%	
Median				4,438	49	11	1.4	15	16	63%	86%	-	0%	0.3%	

Note (1): USD Debt Exposure is based on public debt and loan data, compiled by Bloomberg.

Note (2): Valuations and EPS growth forecasts are based on FactSet estimates. Pricing as of May 21, 2025.

Source: FactSet, IBES, Goldman Sachs Global Investment Research

**Exhibit 13: On a monthly basis, the relative return profile of our winners and losers lists has moved together with USDCNY 64% of the time in the past 3 years**



Source: FactSet, Goldman Sachs Global Investment Research

## Appendix

**Exhibit 14: Sectorally, Consumer Discretionary, Property, and Diversified Financials (Brokers) typically perform well when Rmb strengthens against the Dollar**

**Sector returns correlation with CNY movement (CNY/USD)**

(Monthly returns, weekly data since 2015, +: positive relative returns on CNY appreciation)

Index	MXCN (corr. with CNYUSD)	CSI300 (corr. with CNYUSD)	MXCN (corr. with CNYUSD)	CSI300 (corr. with CNYUSD)
	Relative Returns	Absolute Returns	Relative Returns	Absolute Returns
Cons Disc	13%	7%	33%	33%
Cons Stap	-18%	-3%	26%	28%
Banks	-18%	-10%	28%	37%
Insurance	1%	1%	30%	29%
Div Fin	9%	-29%	32%	9%
Real Estate	9%	-6%	30%	25%
Energy	-22%	-18%	13%	18%
Capital Goods	-17%	4%	23%	25%
Transportation	-7%	-6%	34%	32%
Materials	3%	10%	34%	32%
IT	3%	6%	31%	24%
Health Care	0%	-3%	29%	26%
Telecom	-5%	-8%	29%	16%
Utilities	-25%	-31%	17%	10%

Note: Green highlights potential RMB appreciation winners, and red highlights potential RMB depreciation losers.

**Sensitivity of sector returns to CNY movement (CNY/USD)**

(Monthly returns, weekly data since 2015, +: positive relative returns on CNY appreciation)

Index	MXCN (vs. CNYUSD)	CSI300 (vs. CNYUSD)	MXCN (vs. CNYUSD)	CSI300 (vs. CNYUSD)
	Relative Returns	Absolute Returns	Relative Returns	Absolute Returns
Cons Disc	0.37	0.16	2.32	1.77
Cons Stap	-0.66	-0.11	1.27	1.69
Banks	-0.68	-0.36	1.24	1.53
Insurance	0.04	0.04	1.99	1.84
Div Fin	0.41	-1.22	2.33	0.41
Real Estate	0.45	-0.31	2.28	1.77
Energy	-1.20	-0.85	0.72	0.93
Capital Goods	-0.66	0.13	1.26	1.59
Transportation	-0.24	-0.18	1.66	1.63
Materials	0.11	0.31	2.03	1.94
IT	0.10	0.29	2.02	1.79
Health Care	-0.01	-0.09	1.92	1.53
Telecom	-0.17	-0.39	1.78	1.12
Utilities	-1.13	-1.34	0.77	0.44

Source: MSCI, FactSet, Goldman Sachs Global Investment Research

# Disclosure Appendix

## Reg AC

We, Kinger Lau, CFA, Timothy Moe, CFA, Si Fu, Ph.D. and Kevin Wang, CFA, hereby certify that all of the views expressed in this report accurately reflect our personal views, which have not been influenced by considerations of the firm's business or client relationships.

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