

Valuation & Research Specialists (VRS)

VRS Research Team

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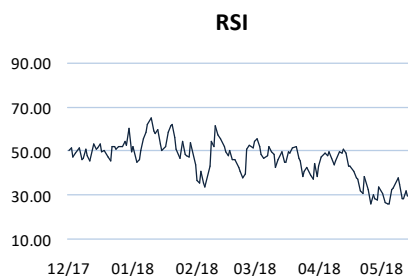
EUR/CNY: 7.5084

[Bloomberg Ticker: EURCNY:CUR] Yuan Renminbi per 1 Euro

Graph Analysis

According to graph 1, it seems that there is no clear sign of a bullish or bearish market. During the examined period, there were three secondary movements. More specifically, the exchange rate followed an upward trend from early June to early August 2017, reaching a peak at 7.98. The second movement was a downward trend which lasted from August to early November 2017, followed by many month-to-month fluctuations of the currency until early March 2018, which could not define any trend. Regarding the resistance and support levels, they seemed to be dynamic as they kept changing during the examined period. However, in the last two months, a sell signal is clearly observed as the price penetrated both the short-term and the mid-term moving average from upside left to downside right, reaching its lowest point at 7.5. The price oscillator's negative prices for the last two months and the decline of RSI below 0.30 in May also boosted the sell signal. Lastly, graph 3 provides information about the daily rate's fluctuation. It can be seen that there were many differences from day-to-day.

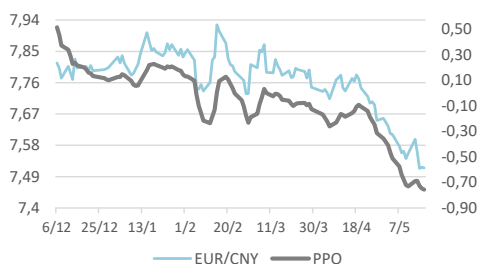
Graph 2: StochRSI-14 (December 2017 – May 2018)



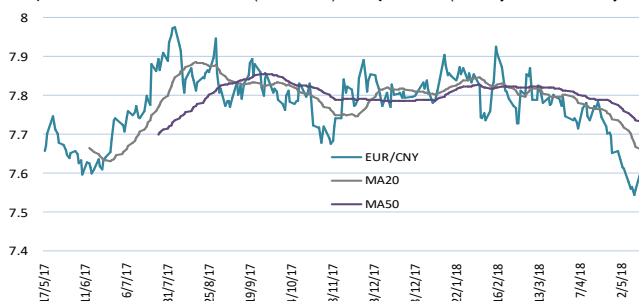
Graph 3: Candle Chart (April – May 2018)



Graph 4: Price Oscillator (December 2017 – May 2018)



Graph 1: Euro / Yuan Renminbi (EUR/CNY) FX Spot Rate (17 May 2017 – 18 May 2018)



Fundamental Analysis

To begin with, the observed downward movement in the end of May 2017 can be attributed to China's credit rating being downgraded by Moody's Investor Services on expectations that the country's financial strength will "erode somewhat" over the coming years as debt rises. In addition, the ECB converted 500 million euro worth of US dollars into Chinese Yuan. Thus, the ongoing downtrend continued up to mid-June. || On July 5th, China signed a \$23 billion deal with the Airbus Industry in Berlin, calling for Europe to sell 140 airplanes to China, leading to an increased EUR/CNY rate up to the beginning of August 2017, where it reached a peak, the highest of the examined period. || Over the following two months, EUR/CNY followed a rather volatile trajectory. Firstly, China had been trying to impose control over the production in tungsten, resulting in both upward and downward movements. Despite that, the BRI spurred \$1 trillion of investment on rail, highways and ports linking Europe and Asia, leading traders to buy Yuan. || On November 14th, the strong German economic growth data drove euro to a three-week high, making for another hit to the area's currency. || On December 20th, the EU introduced new rules to guard against excessively cheap imports and singled out China for special attention in a report spelling out how its economy is distorted by the state, leading to an unstable course of the exchange rate. || In the end of January 2018, euro took a hit by the announcement of China's 6.9% economic growth in 2017. However, a week later, EUR/CNY followed an upward movement triggered by Trump's geopolitical competition with China, as it created a wide spread uncertainty and risk-aversion, leading traders to buy euros. After a week, the pan-European STOXX index slipped over half percent, helping Yuan regain some of the losses. || In the beginning of March 2018, China's latest conglomerate crackdown, including investigations of the chairman of CEFC China Energy, had a negative effect on Yuan currency. Despite that, an announcement that the ECB will not extend big bond purchases after September 2018 had a negative effect on the Euro as well. || Towards the end of March 2018, US President Trump announced that the US would impose tariffs on Chinese imports. As a result, the Euro gained back some of the lost ground but only for a few days, mainly because evidence that economic growth in the Eurozone had declined was becoming apparent. At the same time the Chinese economy increased its industrial production by 7.2%, well above analysts' expectations. Considering the above, the Euro was forced to decline against the Yuan in late March. || Throughout April the EU kept a neutral position in the trade war between China and the US. However, uncertainty over the BRI rose as the EU denounced this project, arguing that it was unfair for Europe. At the same time China announced tariffs in rubber imported from the US and EU as antidumping measures, claiming that rubber was sold at "unfairly low prices" because of these imports. The result was a decline in the exchange rate in favor of the Yuan, a downward movement further supported by the announcement in early May that economic growth in the Eurozone reached its 18-month low. Under those circumstances the Yuan became stronger against the Euro throughout May as the fundamentals remained stable (and in favor of the Yuan) during the examined period.

Important Note:

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