Figure 1.14. China: Equity Markets and Exchange Rates

Margin balances have declined ...

1. China Margin Lending for Equities

- Balance of margin purchase and short sale (renminbi billions; left scale)
- Percent of total market capitalization (right scale)
- 2014 average (percent; right scale)
- 2015 average (percent; right scale)

... but spillovers to and from global markets have increased.

2. Correlation: Shanghai Composite Index and Global Equities
(Six-month rolling correlation, daily returns)

International reserves have declined against periodic devaluations of the renminbi ...

3. Exchange Rate and Reserves

3.2. Correlation: Shanghai Composite Index and Global Equities
(Six-month rolling correlation, daily returns)

... reinforcing pressures from the unwinding of carry trade positions.

4. Renminbi Volatility, Expected Carry, and Sharpe Ratio

International reserves have declined against periodic devaluations of the renminbi ...

First step devaluation
Second step devaluation
Introduction of foreign exchange basket
Reserves (trillions of U.S. dollars, left scale)
CNY exchange rate (right scale, reversed)

Expected carry (percent, left scale)
Volatility (percent, left scale)
Sharpe ratio (right scale)

Sources: People’s Bank of China; and IMF staff calculations.
Note: Expected carry is defined as the difference between Chinese one-year government bond yields and the renminbi 12-month nondeliverable forward implied yield; the Sharpe ratio is defined as the expected carry divided by the US$-CNY one-year implied volatility, derived from at-the-money options.