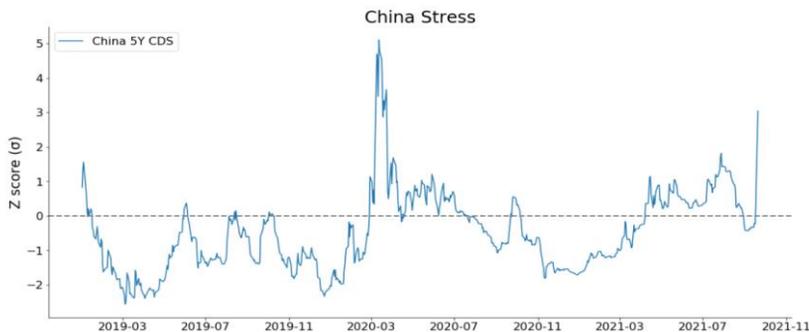




## China

- Yesterday saw some significant moves in several key macro factors. The charts below detail the sharp escalation in China stress (at the national, rather than real estate sector specific level) & the impact that had on broader risk appetite & the credit market.
- The Evergrande story has been in motion for months. Up until yesterday, contagion had been restricted to immediate peers – Chinese real estate / financial names, a few Australian miners.
- **What changed yesterday was the move in sovereign China CDS.** In z-score terms, this was a 3 standard deviation move on Qi. Sovereign CDS liquidity is poor but the signal function is unmistakable – **markets moved this from an idiosyncratic story to one with potentially far broader ramifications.**



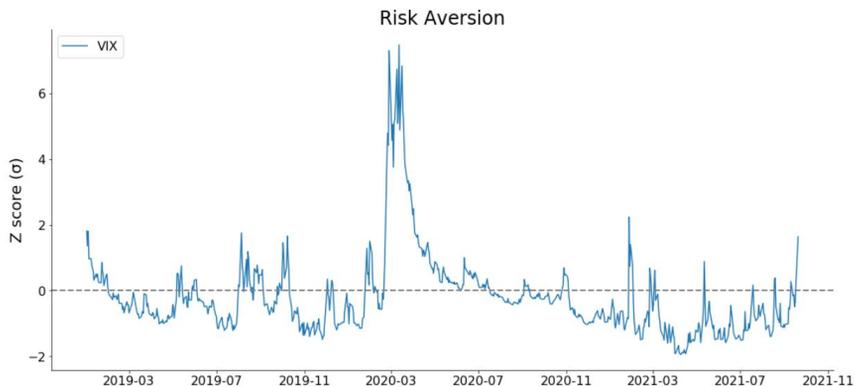
- For the first time in a while the risk off move had a material impact on the credit markets – European financials & high yield especially. Again it was around a 3 standard deviation move.





## China

- The spike in VIX was a 2 standard deviation move on Qi. VXEEM, VDAX & the gold/silver ratio experienced similar moves.



### What next?

- China is the epicentre of current market moves & your view on how the Evergrande story unfolds is critical. China bears will see these factor moves as a genuine re-pricing. If so, Qi can high-light those markets that are lagging versus the new environment.
- For example on current patterns that combination of China stress & broader risk-off spilling into credit has pushed Qi model value for [10y US Treasury yields](#) below 1.00%. There's more of a flight-to-quality move to come for USTs.
- Alternatively, those who see Evergrande as localised, & simply a catalyst for a complacent market overdue a correction, use *Optimise Trade Selection* to screen for single stocks, sectors, ETFs sensitive to Chinese sovereign CDS spreads & with a negative Qi Fair Value Gap.
- In times of stress it is more important than ever to quantify relationships between asset price & the macro environment.

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