



sovereign wealth funds this year. We expect these institutions will start investing in 2016. Some argue that the market expectation of RMB depreciation may jeopardize the inflows. We do not think this is the key constraint, as central banks hold Euro and Yen assets despite these currencies also facing depreciation expectations. In our minds, the key constraint is that the domestic market is not ready for foreign reserve managers yet. Infrastructure needs to be established, liquidity condition needs to improve, and rules need to be revised to facilitate trading. This will take time, but we have no doubt it is doable.

We maintain our view that the Chinese government will not allow sharp RMB depreciation in the rest of the year. As the market expectation for a December rate hike heightens, RMB depreciation would cause high volatility in the financial market, which is damaging to China's economy. We believe the PBoC may want to wait for the Fed to hike rate first and see how risks in the emerging markets evolve, before it takes the next move on the exchange rate.

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