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CHINESE HEDGE FUNDS DECLINE AS RENMINBI SINKS

HFRI Japan posts narrow decline as Nikkei, Yen steady; Asian hedge fund AUM weakens as EM currencies swoon

CHICAGO, (August 15, 2018) – Chinese hedge funds have posted YTD losses through July, though performance topped the sharp and accelerating declines of the Shanghai Composite Index, as well as the Renminbi as EM currency volatility soared through the second quarter of 2018.

The HFRI China Index has fallen -4.7 percent YTD through July, with a combined loss of -7.2 percent across June and July to offset earlier year gains, as the Shanghai Composite Index dropped -13.0 percent YTD and the Renminbi fell to a low of 6.88 vs the US Dollar, also representing a YTD decline of nearly -13 percent.

Total Asian hedge fund capital declined to $121.1 billion (833 billion RMB, 13.38 trillion Japanese Yen ¥, 8.4 trillion Indian Rupee, 137.3 trillion Korean Won) through 2Q18, a quarterly decline of $1.2 billion, according to the latest release of the *HFR Asian Hedge Fund Industry Report*, released today by HFR®, the established global leader in the indexation, analysis and research of the global hedge fund industry. For the year, total Asian hedge fund capital remains essentially unchanged through the first two quarters following an AUM increase of $1.8 billion in 1Q18.

While the HFRI China Index has declined -4.7 percent YTD, other Asian regional indices have experienced more moderate losses or have partially reversed earlier-year weakness in July.

The HFRI Japan Index fell only -0.16 percent in July, bringing the YTD return to -1.8 percent, narrowly underperforming the Nikkei 225 Index YTD return of -0.93 percent.

The volatile HFRI EM: India Index partially reversed steep losses from the first half of 2018 in July, gaining +3.6 percent for the month, though this only pared the YTD performance decline to -11.8 percent.

The HFRI Fund Weighted Composite Index®, the established broad-based benchmark for hedge performance across all regions and strategies globally, gained +0.6 percent in July, bringing YTD performance to +1.5 percent.

Fixed income-based Relative Value Arbitrage has been the top strategy area of Asian hedge fund performance YTD, with these gaining +2.4 percent through July. Similarly, Asian Macro hedge funds, including CTA and other quantitative, trend-following strategies, have outperformed Macro hedge funds globally, with Asian Macro advancing +0.7 percent YTD, while the HFRI Macro (Total) Index has declined -2.2 percent through July. Losses associated with EM currency volatility were partially offset by gains in credit and blockchain exposures in July, with the HFR Bank Systematic Risk Premia: Credit Index gaining +3.1 percent, while the volatile HFR Cryptocurrency Index jumped +14.3 percent for the month.

"The Asian hedge fund trading environment has become significantly more challenging in recent months, as regional equity market losses have accelerated and EM currency volatility, including not only the Renminbi but other EM currencies, has spiked as a result of fluid trade-tariff polices, falling investor risk tolerance and expectations of continued US interest rate increases," stated Kenneth J. Heinz, President of HFR. "Asian hedge funds, particularly China-focused funds, have tactically adjusted to this shifting market environment, effectively mitigating volatility by emphasizing non-directional Relative Value positions, as well exposures to trend-following CTAs, Asian credit, and limited blockchain exposures. It is likely that this volatile trading environment will contribute to an enhanced opportunity set and drive strong performance for Asian hedge funds in 2H18."

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