Everything's a Sell in China After $660 Billion Equity Wipeout

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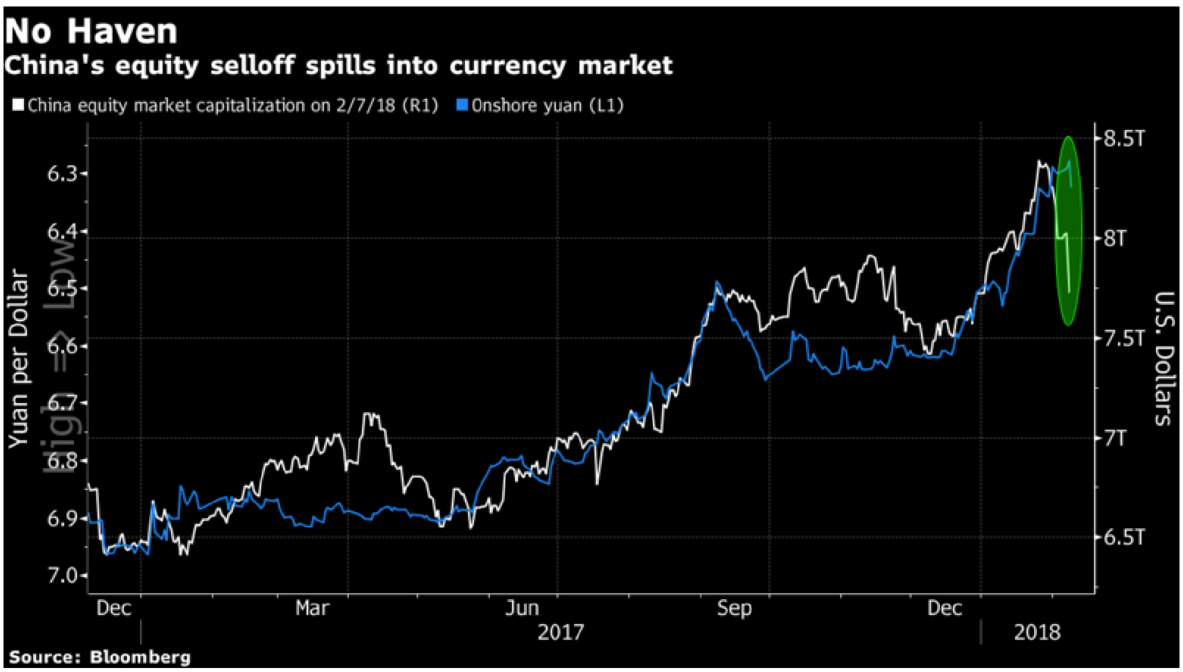
Investors got a stark reminder of how fast their bets can turn in China, where the most bullish trades are falling apart.

The country's currency was their latest favorite to succumb to a rout that has roiled financial markets around the world this week, losing as much as 1.2 percent on Thursday for the biggest decline since the aftermath of its 2015 shock devaluation. That follows a selloff in large caps and banks that has wiped out about $660 billion from the value of Chinese equities.

Traders are running out of places to hide in a nation where market declines have a habit of snowballing. Government bonds are offering little in the way of comfort, and even commodities are feeling the squeeze. Making matters worse is the prospect of seasonally tighter liquidity ahead of the Lunar New Year holiday, according to Oanda Corp.'s Stephen Innes.

"People are aggressively taking profit," said Innes, Asia Pacific head of trading at Oanda in Singapore. "They just want to unwind risk and take cash. The slide of Chinese equities in the past few days has definitely had an impact on the currency."



China's markets started off the year strong, with the onshore yuan gaining more than any other currency in Asia, and the Shanghai Composite Index rising almost every session in January. **Signs of overheating quickly popped up everywhere, as gauges tracking the country's energy stocks, financial firms and consumer staples all hit overbought levels last month.** They've been among the hardest hit in the past three days.

Investors are continuing to flee risk around the world despite calls to buy the dip. The selloff is testing the resolve of China's "national team," as state-backed funds are called, to

step in to keep markets stable. But signs of buying have been few and far between, with the Shanghai index nearing its first so-called correction in 742 days, the longest such streak in history.

Worse-than-expected trade surplus data finally broke the resilience of the yuan, which appeared to take on the surprising role of a haven asset this week. It was the world's worst-performing major currency on Thursday.

"It's a combination of factors including stronger dollar, the nervousness in the equity market and the heavy positioning accumulated earlier that's caused the decline," said Sim Moh Siong, a currency strategist at Bank of Singapore Ltd.