Macro | FX Research and Strategy

Global

FX Flash

The Pull-Back To Buy Into?

China Continues to Slow

Since the start of the year, China has been releasing weaker trade and manufacturing PMI (aka PMI-mfg) data. Those are accompanied by weaker PMI-mfg and trade prints out of other north Asian economies. This morning Markit just released a slew of weak prints again. Jan PMI-mfg for Taiwan came in this morning at 47.5 vs. previous 47.7, South Korea at 48.3 vs. previous 49.8 and China's at 48.3 vs. previous 49.7. In fact, South Korea's exports saw deeper contraction in Jan. USDCNH swung higher towards 6.75-figure from lows of 6.70 this morning, underpinned by increasing expectations of a rate cut by PBoC, soon.

Plenty of RMB-sensitive currencies reacted as well including the AUD, NZD, SGD and KRW. While these currencies have certainly reacted negatively today, we see a limit in their bearish moves as more negative risks are in the price compared to positive ones. For one, a PBoC rate cut, if it happens today or over this weekend, would be expected to add further boost to China's economy and that could increase the demand of these currencies whose economies have trade exposure to China's weakening demand. In addition, the possibility of a trade deal, Fed's signal of a potential pause in rate tightening and further economic stimulus has been keeping AUD, SGD and KRW supported on dips and resilient to worsening China data. The divergence between the currency performance and China's Caixin PMI-mfg is not expected to persist and with factors looking more optimistic (growth being a priority for China, US-China both motivated for a trade deal), we anticipate that the AUD, CNY, SGD and KRW could still see some gains beyond the recent pullback.

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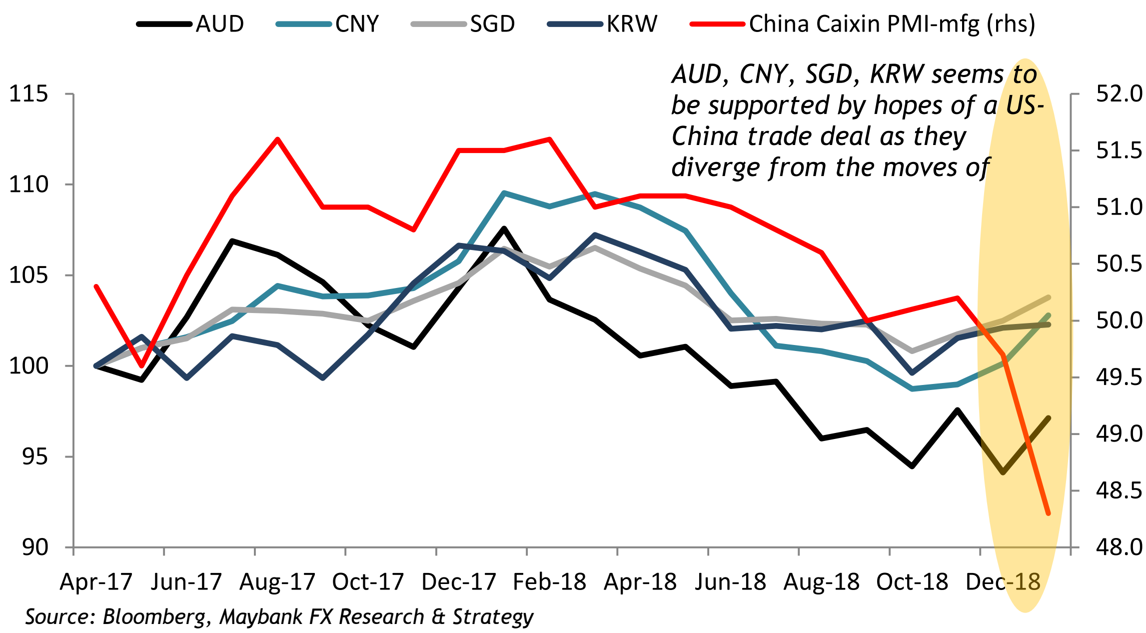
Chart: How Will They Converge?



Source: Bloomberg, Maybank FX Research & Strategy
Note: AUD, CNY, SGD, KRW moves are measured against the USD, indexed to their respective prices as of end Apr 2017.

More Details on US-China Trade Talks in Feb

The US-China trade talk ended last night and there were little details that were let on except for reiterations by China to buy substantially more US agriculture and energy goods. Xinhua reported that “important progress” was made in the trade talks with the US. Market reactions were rather muted to these comments and more concrete details are likely to be necessary for market players to react positively.

Into February, US Trade Representative Lighthizer and Treasury Secretary Steven Mnuchin would head to Beijing to follow up on the trade talks. Trump had also said he would meet China President Xi in the near future, adding that no deal would be announced until the meeting.

More material details from a trade agreement or at least an extension of the trade truce (Which ends on 1 Mar) is expected in Feb. We hold the view that both sides are motivated enough to have a positive outcome from this in the near-term as recent US corporate earnings show impact from a slower China and the lack of achievement at home could mean that Trump is eager to strike a deal with China and call it a win.

The outcome of this trade talk is likely to affect investment decisions and risk appetite. We anticipate that the convergence that would come between the Caixin PMI-mfg numbers and currencies is likely to be due to an improvement in output rather than a move lower in the respective currencies. As such, we remain constructive on these currencies in the next few weeks.

Momentarily Weakness To Buy Into?

AUD

We see current dips in the AUD as opportunities to buy as we look for this pair to head higher towards the 0.74-figure. In fact for AUD, RBA makes its rate decision next week and whilst the central bank is widely expected to sit on its hand, its language is most important. The Statement on Monetary Policy will be released on the Fri right after the decision. We anticipate some acknowledgement that the downside risks that they have cautioned for in private consumption had materialized to some extent and there could even be a revision in the growth and inflation forecasts stated in the last policy statement (4 Dec 2018). The central scenario was for GDP to average around 3½% for 2018 and 2019 before some deceleration in 2020.

We also watch for concomitant tweaks to the line seen in the last SoMP “The Board is expecting further progress in reducing employment and ensuring inflation is consistent with the target. If that progress is made, higher interest rates are likely to be appropriate at some point”. A downgrade in the outlook is partially in the price of the AUD. In fact, the OIS implied a 33.7% probability of a rate cut by Aug this year as of 29 Jan vs. 10% on 1 Jan. A series of weaker data out of China and Australia has dragged on the AUD but should the line above be left intact within the SoMP, we caution for short AUD bets to be unwound.

CNH

On the chart of USDCNH, the death cross is forming with the 50-dma on its way to cut the 200-dma to the downside. Break of the 6.6960 to open the way towards 6.6080. Some attention should also be given to the NFP print for Jan tonight. Given the bad weather and government shutdown, expectations are for a rather weak number. Risks to the actual print are thus skewed to the upside and that could present more opportunities for one to sell the USDCNH into.

Other market-supporting tweaks in China recently

A statement from China Securities Regulatory Commission said that Shanghai and Shenzhen stock exchanges are drafting revisions to rules of margin trading and short selling which may allow brokerages to negotiate levels that trigger forced liquidation with clients, instead of a universal level of 130% (Bloomberg). More types of collaterals will also be accepted in margin trading and short selling. Mainland equity indices are boosted by the regulatory tweaks, bucking the trend in other North Asian equities which were in red as we write.

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Malayan Banking Berhad
(Incorporated in Malaysia)

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