FX Flash

RMB - PBoC is OK with sub-7

Analysts

Saktiandi Supaat
(65) 6320 1379
saktiandi@maybank.com.sg

Fiona Lim
(65) 6320 1374
fionalim@maybank.com.sg

Christopher Wong
(65) 6320 1347
wongkl@maybank.com.sg

Tan Yanxi
(65) 6320 1378
tanyx@maybank.com.sg

Break of the 7 is finally here

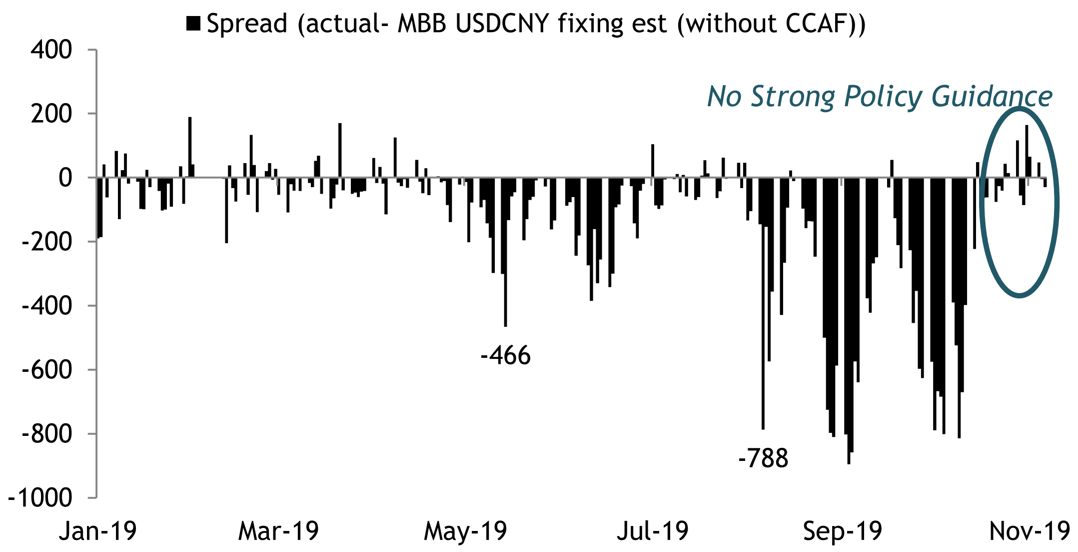
USDCNH and USDCNY broke below 7 again today after its first breach yesterday – a view that we have been holding since Sep. It is of course no coincidence that this came after FT reported that the US may consider removing tariffs already levied and the 15% levy on estimated $112bn of Chinese imports that took effect on 1st Sep was specified. PBoC also took the opportunity to lower the medium term lending facility 1-y rate by 5bps to 3.25% from 3.30% yesterday, taking comfort from a stronger RMB environment to do so. This comes after the US lowered their FFTR by 25bps last week and could mean that the 1Y loan prime rate can also be lowered later on the 20th of this month.

We have expected (here and here) that the break of the 7 may require a roll-back of the tariffs as China may only accept a deal with some tariff removal and we also believe that the US is more eager to remove the last tranche of tariff that took effect on 1st Sep as the bulk of goods affected by that tranche of tariffs were final consumer goods.

That said, officials such as US Secretary of Commerce Wilbur Ross have warned of potential slippages (amongst his other very optimistic comments) and the mention of tariff removal has not been confirmed by any authority. So, any confirmation there along with a currency pact (presumably an agreement to ensure no excessive RMB weakness against the USD) could also bring the USDCNH lower towards our eventual target of 6.90. (That said, we still hold our year-end forecast at 7.10 as we expect subsequent phases of agreement to be harder to achieve and initial euphoria to fade.)

This morning, USDCNY reference rate was fixed at 7.0080, below Bloomberg's consensus forecast of 7.0121 and also below our own estimate at 7.0109. This had triggered more selling pressures on the USDCNH and USDCNY to slip under the 7-level again. We view this reference rate (aka fixing rate) as a signal that PBoC is comfortable with the current level of USDCNY and USDCNH (last seen with difference of around 20pips) and that ***they are comfortable with more RMB strength***.

PBoC Has Not Been Giving Strong Guidance for the Yuan, Suggesting some Comfort level with the current level



Source: *Maybank FX Research & Strategy Estimates, Bloomberg*

Our view on the partial trade deal (stated on 14th Oct)

	US' Tariff Action on China	China's Tariff Action on US	Phase 1 of Trade Deal
6 Jul 2018	US imposes 25% tariffs on $34bn of Chinese products.	China also levies 25% on 545 US-origin products, valued at $34bn.	
23 Aug 2018	US imposes 25% tariffs on $16bn of Chinese products.	China imposes 25% of tax on US products	
24 Sep 2018	US imposes 10% tariff on $200bn of Chinese products.	China imposes tariffs on U$60bn of US products.	
10 May 2019	US raises 10% Tariff on $200bn of Chinese imports to 25%		
1 Jun 2019		China raises tariffs on $60bn of US products.	
1 Sep 2019	US imposes 15% tariff on est. $112bn of Chinese imports	China imposes tariffs on $75bn of US products	*We see risk of a rollback of this set of tariffs as goods targeted here are final consumer goods.*
15 Oct 2019	US to Raise Tariff on $200bn of Chinese products from 25% to 30%		*Deferred officially on 11 Oct in anticipation of a trade deal that can be signed in mid-Nov Chile.*
15th Dec 2019	US to impose 15% tariff on est. U$160 bn of Chinese products.		*No mention.*

Source: Bloomberg, PIIE, Maybank FX Research & Strategy

What we did not expect

Yesterday, China President Xi also gave a speech at the Shanghai expo, stressing on improving market access for foreigners and boosts to the imports. This definitely added to positive headlines on trade optimism. What we did not expect is the sudden cooperation on the opioid crisis in the US after previous accusations by the US that much of the fentanyl-related substances originate from China. A joint briefing with the media will be conducted by durg law enforcement officers from China and the US on Thu. "Detailed information" is expected to be revealed at Xingtai city about a fentanyl smuggling case. This continues to bode well for the US-China trade deal that is expected within this month.

Beyond the Trade Euphoria that Dominates Nov

We hold the view that the break of the 7 could usher in further gains towards 6.90 as the month of Nov may see trade-optimism eclipsing weak domestic data. However, this does not mean that USDCNY would stay under the 7-level for a sustained period of time. A shift of focus back to reality (of weakening growth momentum) after the deal as well as the realization that subsequent phases of the deal could be harder to achieve may check RMB gains and see a return back to trades above the 7.

DISCLAIMER

This report is for information purposes only and under no circumstances is it to be considered or intended as an offer to sell or a solicitation of an offer to buy the securities or financial instruments referred to herein, or an offer or solicitation to any person to enter into any transaction or adopt any investment strategy. Investors should note that income from such securities or financial instruments, if any, may fluctuate and that each security's or financial instrument's price or value may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. This report is not intended to provide personal investment advice and does not take into account the specific investment objectives, the financial situation or the particular needs of persons who may receive or read this report. Investors should therefore seek financial, legal and other advice regarding the appropriateness of investing in any securities and/or financial instruments or the investment strategies discussed or recommended in this report.

The information contained herein has been obtained from sources believed to be reliable but such sources have not been independently verified by Malayan Banking Berhad and/or its affiliates and related corporations (collectively, "Maybank Group") and consequently no representation is made as to the accuracy or completeness of this report by Maybank Group and it should not be relied upon as such. Maybank Group and any individual connected to the Maybank Group accept no liability for any direct, indirect or consequential losses or damages that may arise from the use or reliance of this report. Maybank Group and its officers, directors, associates, connected parties and/or employees may from time to time have positions or be materially interested in the securities and/or financial instruments referred to herein and may further act as market maker or have assumed an underwriting commitment or deal with such securities and/or financial instruments and may also perform or seek to perform investment banking, advisory and other services for or relating to those entities whose securities are mentioned in this report. Any information, estimate, opinions or recommendations contained herein are subject to change at any time, without prior notice.

This report may contain forward looking statements which are often but not always identified by the use of words such as "anticipate", "believe", "estimate", "intend", "plan", "expect", "forecast", "predict" and "project" and statements that an event or result "may", "will", "can", "should", "could" or "might" occur or be achieved and other similar expressions. Such forward looking statements are based on assumptions and analysis made and information currently available to us as of the date of the publication and are subject to certain risks and uncertainties that could cause the actual results to differ materially from those expressed in any forward looking statements. Readers are cautioned not to place undue relevance on these forward looking statements. Maybank Group expressly disclaims any obligation to update or revise any such forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

This report is prepared for the sole use of Maybank Group's clients and may not be altered in any way, published, circulated, reproduced, transmitted to, copied or distributed to any other party in whole or in part in any form or manner without the prior express written consent of the Maybank Group. Maybank Group accepts no liability whatsoever for the actions of third parties in this respect.

This report is not directed to or intended for distribution to or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

Published by:

Maybank

Malayan Banking Berhad
(Incorporated in Malaysia)

Saktiandi Supaat
Head, FX Research
saktiandi@maybank.com.sg
(+65) 63201379

Christopher Wong
Senior FX Strategist
wongkl@maybank.com.sg
(+65) 63201347

Fiona Lim
Senior FX Strategist
Fionalim@maybank.com.sg
(+65) 63201374

Yanxi Tan
FX Strategist
tanyx@maybank.com.sg
(+65) 63201378