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Global

FX Flash

RMB - Currency Accord?

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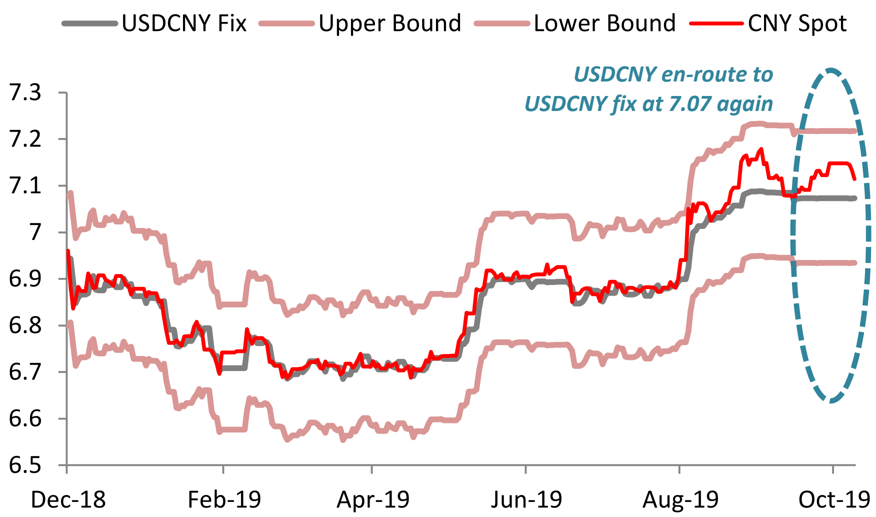
PBoC Fixes USDCNY reference rate at the 7.07-handle for the 13th straight session

PBoC fixes the USDCNY reference rate at 7.0730 today, just 2 pips higher from the previous fix at 7.0728. Along with the USDCNY fix, a potential currency pact in Washington is said to be considered in exchange for no tariff increase on 15th Oct. This could be the first phase of agreement to be followed by further negotiations on intellectual property and forced technology transfers. RMB players have been skittish amid the tit-for-tat exchanges since China returned from Golden Week holidays but the presence of PBoC Yi Gang in the China delegation is a hint to that the RMB would be part of negotiations, giving further affirmation to our short-term bullish RMB view. The behaviour of the USDCNY fix underscores significant policy support for the RMB as well, even as USDCNH was allowed to head to a high of 7.1684 this week.

This would be the 13th session that PBoC has kept the USDCNY fix at the 7.07 handle. In fact, the first time USDCNY reference rate was fixed at the 7.07 handle was a print of 7.0730 on 17th of Sep and since then, the PBoC has kept the daily fixes in tight swivels around this level. On the other hand, USDCNY has been trading around 1% above the fix, an unusual phenomenal and one that does not usually last long. The spread of more than >0.5% between the USDCNY spot and USDCNY fix is unsustainable in an environment of USD strength and US-China trade war escalation. We view the very steady daily USDCNY fixes as a calculated bet by Team China that the US-China talks would not turn awry and trigger more CNY weakness. As such, we continue to expect USDCNY to move lower towards the USDCNY fix, at 7.0730 and possibly beyond. That seems to have started this morning and could gain traction with an official announcement of more progress in Washington. USDCNY is last seen at 7.1129, USDCNH at 7.1146.

USDCNY Spot Moves Lower Towards USDCNY Fix (Again)



Source: Bloomberg, Maybank FX Research & Strategy

Along with news report of a potential currency accord, the NYT also reported that Trump would allow some US companies to supply to Huawei, adding to the "goodwill", "sincerity" and risk-on mood. This is one of the core negotiating terms that China had been firm about in getting a deal and one that increases the odds of a positive outcome by tomorrow.

In addition, China was said to be "open to a partial deal" that includes no additional tariffs (including Oct tariff hike and another round of tariff in mid-Dec) imposed. This is quite a significant compromise vs. its earlier stance that a deal has to include a rollback of tariffs. In return, the official said that China would purchase agricultural products.

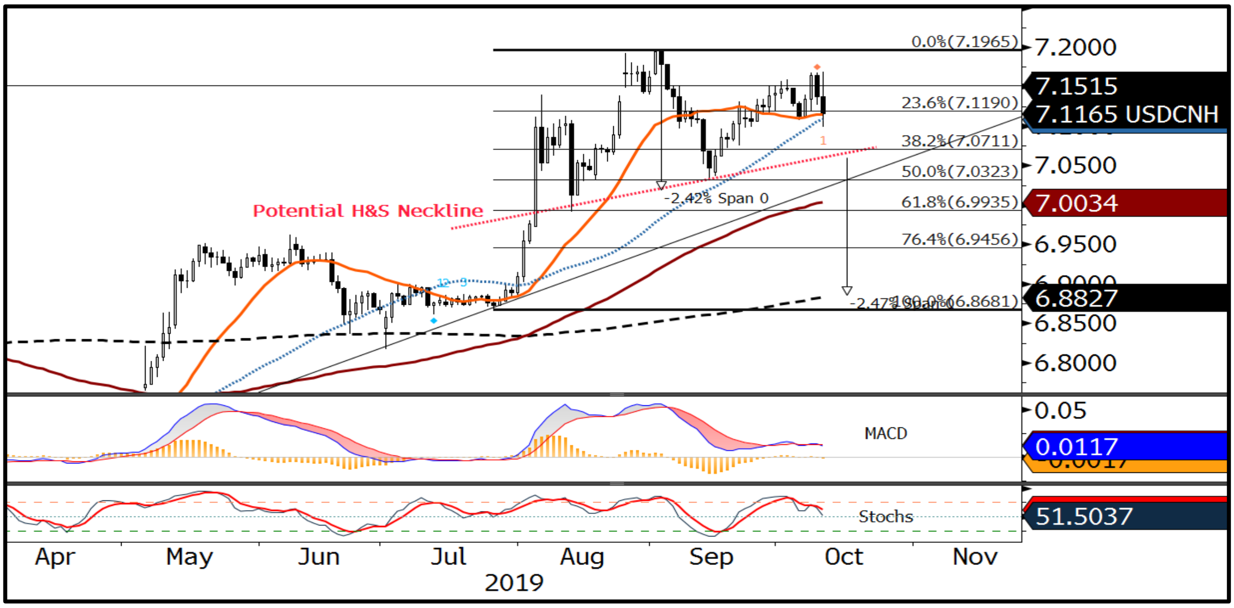
<u>Currency Pact Unlikely to Be A USDCNY Peg</u>

There are no details on the currency agreement apart from headlines that suggest a potential for a currency pact in Washington. We think an agreement to prevent the CNY from depreciating against the USD is unlikely to be a USDCNY peg as a peg that is seen to be temporary will be susceptible to attacks and speculations. Rather, an agreement between the two largest economies and trading partners of the world to prevent USD from excessively appreciating against the CNY may be enough to satisfy the US as the first phase of the agreement and to bring about a near-term unwinding of CNH shorts against the USD even if this does not amount to an accord that was as impactful as the Plaza Accord of 1985. This could also have some impact in the medium term to support our mildly softer USD trajectory into 2020 and into the medium term.

Technical View (1 month) - Positive on CNH against USD, SGD

The series of positive headlines brings us back to the head and shoulders formation that we have been monitoring for the USDCNH pair and were showing some signs of being threatened with recent high of 7.1658. However, even if the right shoulder does not look perfect, the head and shoulders pattern is still intact. Break of the neckline, last seen around 7.07-7.09 could usher in more RMB gains towards the key-7 figure.

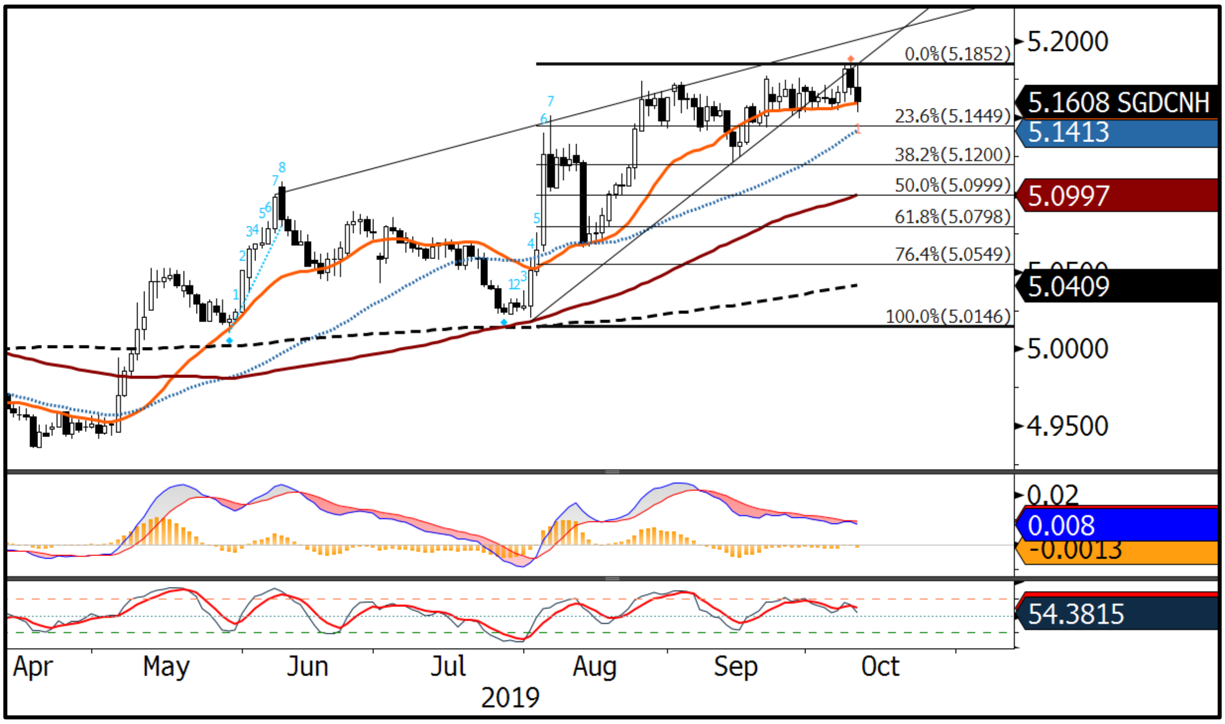
<u>USDCNH (Daily) - Break of the Neckline around 7.07-7.09 Could Open the way beyond 7.0</u>



Source: Bloomberg, Maybank FX Research & Strategy

We hold our short USDCNH here at 7.11 (25 Sep) for first target of 7.03 before 7.0 and then at 6.95, 6.90. Stoploss at 7.19. Risk reward ratio of 1:2.63. In the near-term, support at 7.1150 (21-dma).

SGDCNH (Daily) - Rising Wedge Violated, Eye 21-DMA



We also initiated (25 Sep) a short SGD against the CNH as we saw a rising wedge for this cross. The weekly chart shows a formation of a rising wedge with an apex around Oct. This rising wedge seems to have been violated but an added confirmation would be a break of the 21-dma at 5.1593. Break there can bring about a reversal towards 5.0970 before the next target at 5.0788 from spot which is around 5.1620 (24 Sep). Stoploss at 5.20 with a risk-reward ratio of 1:2.19.

Key dates:

10-11 Oct	US-China 13th Round of Trade Negotiations
15th Oct	US Raises tariff on U$250 bn of Chinese goods by 5%
15th Dec	US Imposes 15% tariff on $160bn of Chinese imports
	China to impose retaliatory tariffs on $75bn of US Goods
Early Nov	WTO Ministerial Meeting in Shanghai
11-17 Nov	APEC Summit in Chile

Recent US-China Tit-for-Tat Exchanges Since National Day

7 Oct China is said to limit the scope for trade deal

7 Oct The US Department of Commerce included 28 Chinese entities into their Blacklist for violation of Human Rights.

8 Oct China's MFA spokesperson Geng Shuang's words to the press to "stay tuned" for retaliation over the blacklist.

8 Oct US placed visa restrictions on Chinese officials involved in the "suppression of Muslims ethnic group" in Xinjiang.

8 Oct The State TV halted the NBA broadcast along with Tencent. In addition, Chinese mobile phone maker Vivo also suspends all of its cooperation with NBA according to a statement on its Weibo account. This came after a tweet from the Houston Rockets' GM Daryl Morey that expressed support for Hong Kong pro-democracy protestors triggered backlash from China.

9 Oct Trump administration is said to consider restricting portfolio flows into China via US government pension funds.

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(Incorporated in Malaysia)

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