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Macro | FX Research and Strategy

Global

FX Flash

RMB - China Counters

Achieving Maximum Effect

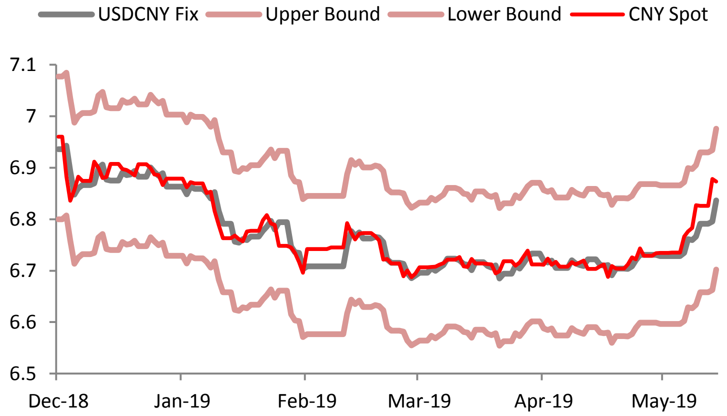
China issued a statement to set import tariffs on U$60bn worth of US imports which would take effect on 1 Jun. The new rate of 25% will apply to 2,493 US products with other goods subject to duties of 5-20%. In total, over 5000 American products affected. While the tariffs seem to pale in comparison to US', the timing of the announcement is likely meant to achieve maximum effect. DJI is down -2.4%, S&P -2.4% and NASDAQ at -3.4%. UST 10y yield came off as much as 8bps before stabilizing around the 2.40% in early Asia trade.

In the meantime, Trump maintained his composure. He said talks with China would be "very successful" and plans to meet China Xi Jinping at G20-summit (28-29 Jun), echoing what his Economic Advisor Larry Kudlow had said earlier. He still has a deadline for China to come to an agreement within a month (around 10 Jun) before he imposes tariffs on the remaining U$300bn of Chinese goods but that decision is supposedly not made yet, according to him.

The deadlines are all within a month, in line with our view that the negotiators look for a deal or at least a compromise of sorts within the quarter. Our base scenario still expects a trade deal within the quarter and that includes undoing the tariff hike that came into effect last Fri as well as the partial removal of 2018-imposed tariffs. That could mean a full reversal of the USDCNY rally that we have seen which should bring the USDCNY towards 6.75 taking into account the potential eventual meeting between the US and China at the G20 summit (28-29 Jun).

USDCNH broke above 6.90 overnight but has come off since, last seen around 6.8970.We still see 6.9070 as a resistance level. In the meantime, USDCNY trades around 6.8710, steady from where it closed yesterday. The USDCNH-USDCNY premium has widened recently, underscoring increasing expectations for yuan depreciation. Upside risks to USDCNH still intact but prefer to lean against strength.

USDCNY Trades Above USDCNY Fix



Source: *Bloomberg, Maybank FX Research & Strategy*

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