Maybank

FX Flash

AUD: Outlook Sours on China Dalian Coal Ban

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

Leslie Tang
(65) 6320 1378
leslietang@maybank.com.sg

China Dalian Bans Australian Coals at its Harbours

AUDSGD slipped through the 0.71-figure after Reuters reported that China's Dalian customs banned Australian coal imports and set a quota of 12mn tonnes for 2019. The indefinite ban (that takes effect this month) was just supposedly announced today. It came after Chinese traders reportedly reduced their coal purchases amid inexplicable delays in Custom clearance a couple of days ago. This ban does not apply to other major suppliers from Russia and Indonesia. China absorbs roughly 15% of Australia's total coal exports as of 1Q of 2018.

While this is still aligned with China's pollution-reduction efforts that include curbs on coal consumption, the targeted ban on Australia-only coal is a sign of escalation in the tension between China and Australia. A few days ago, PM Scott Morrison delivered a statement saying that there was a "malicious intrusion" on computer networks belonging to the Liberal Party, the Labor Party, the National Party and the parliament. He went on to add that the attack was executed by a "sophisticated state actor". Since then, Geng Shuang (spokesperson for China's Ministry of Foreign Affairs) commented allegations against China were "irresponsible". In the past months, Australia has prevented a takeover bid by a China-linked company, banned Huawei from building their 5G networks on national security grounds and seemingly strengthened its alliance with the US to develop a naval base in Papua New Guinea.

The news brought AUDUSD lower within the 0.70-0.7260 range that it has been trading within. AUD has been a beneficiary of US-China trade negotiation progressions. With a Memorandum of Understanding between the two super powers (US-China) underway, the boosts to AUD from further trade talk progression could lag regional peers such as the SGD and the KRW. We do think it is also not entirely coincidental that China chose to effect the ban now that they are at the brink of an agreement with the US. It almost serves as a warning to Australia for recent actions in the past few months.

We see downside risks to our 1Q forecast at 0.71 should the relation between China and Australia continue to deteriorate. This is in addition to the increasing concerns on the protracted decline of home prices that weigh on the outlook of Australia's growth momentum as well as election risks.

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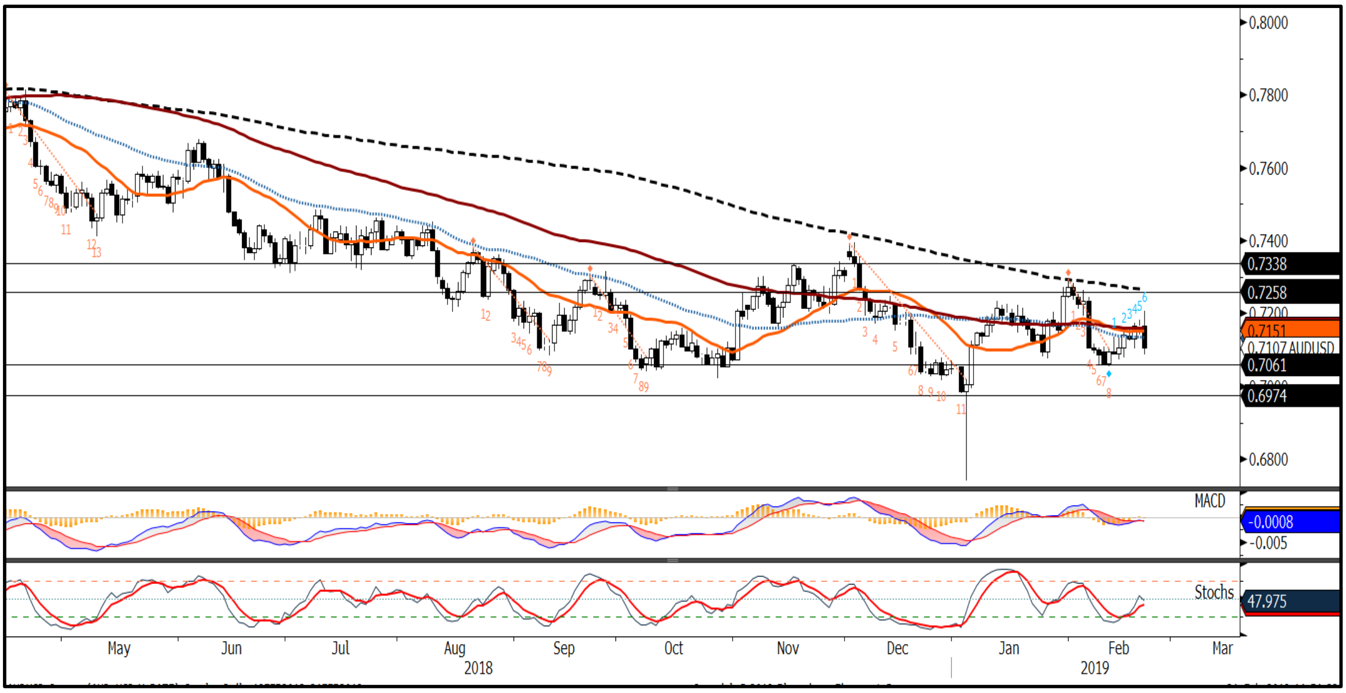
AUDUSD (Daily) – Back Within The Range



This AUDUSD is back within the 0.70-0.7260 range that it has established for the past two months. Momentum indicators are not giving much directional bias. With the recent ban at Dalian port and if that is extended to other ports, AUDUSD could break out of the range to the downside. Next support beyond the 0.70-figure is seen at 0.6920 ahead of the 0.6830. The compression of the moving averages around 0.7130-0.7160 suggests a breakout coming either way. However, this recent fundamental/geopolitical development has skewed the bias to the downside at this point.

AUDSGD (Weekly) – Underlying Bearish Bias

Source: Bloomberg

AUDSGD is still within the falling trend channel, last seen around 0.9611. This cross could find support around the 0.9480, lower bound of the trend channel. Rebounds to meet resistance at 0.9760.

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Malayan Banking Berhad
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Saktiandi Supaat	Christopher Wong	Fiona Lim	Leslie Tang
Head, FX Research	Senior FX Strategist	Senior FX Strategist	Senior FX Strategist
saktiandi@maybank.com.sg	wongkl@maybank.com.sg	Fionalim@maybank.com.sg	leslietang@maybank.com.sg
(+65) 63201379	(+65) 63201347	(+65) 63201374	(+65) 63201378