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Maybank

FX Flash

RMB - Facilitating FX Settlements

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Improving FX Settlements for Foreign Investors

USDCNH touched a low of 7.0531 this morning, off its week high of 7.0859 reached yesterday. Moves in the past few sessions had tracked the USD. Signs of short covering for the USD had strengthened the support area of 7.05-7.07. Neckline of the head and shoulders pattern that we monitor have been threatened for a while now but without concrete progress such as some signals from US officials for a rollback tariffs on Chinese imports that China had requested for after the high-level meeting in Washington, USDCNH remained supported on dips.

There has been some progress on China's part however in this significant month in which the fourth plenum is held. The state council had a meeting yesterday that witnessed a decision to expand the pilot reform of foreign exchange receipts and payments facilitation in order to improve cross-border trade and investment and stream-line regulatory requirements via 12 measures.

According to Xinhua, the reporting process on forex businesses for trade in goods will improve. Procedures of receipts and payments of funds will be simplified for cross-border SME e-commerce companies. Registration for the list of forex receipts and trade payments will be facilitated for enterprises and their subsidiaries. Project contractors will be allowed to put their overseas funds under unified management. Banks will now be in charge of the registration of "writing-off companies' borrowings from foreign lender". Quota of foreign currency accounts under capital accounts will also be removed to facilitate foreign exchange settlements under certain capital accounts.

Why?

China could be working to grab the lower hanging fruits (those that are aligned with their own objectives of yuan internationalization) ahead of the upcoming US-China phase 1 deal that touched on "financial services" for foreign investors. Details on this aspect of the deal have been scant. As well, some of the measures could also be a way to address investors' concerns for China to gain entry into the FTSE Russell flagship government bond index.

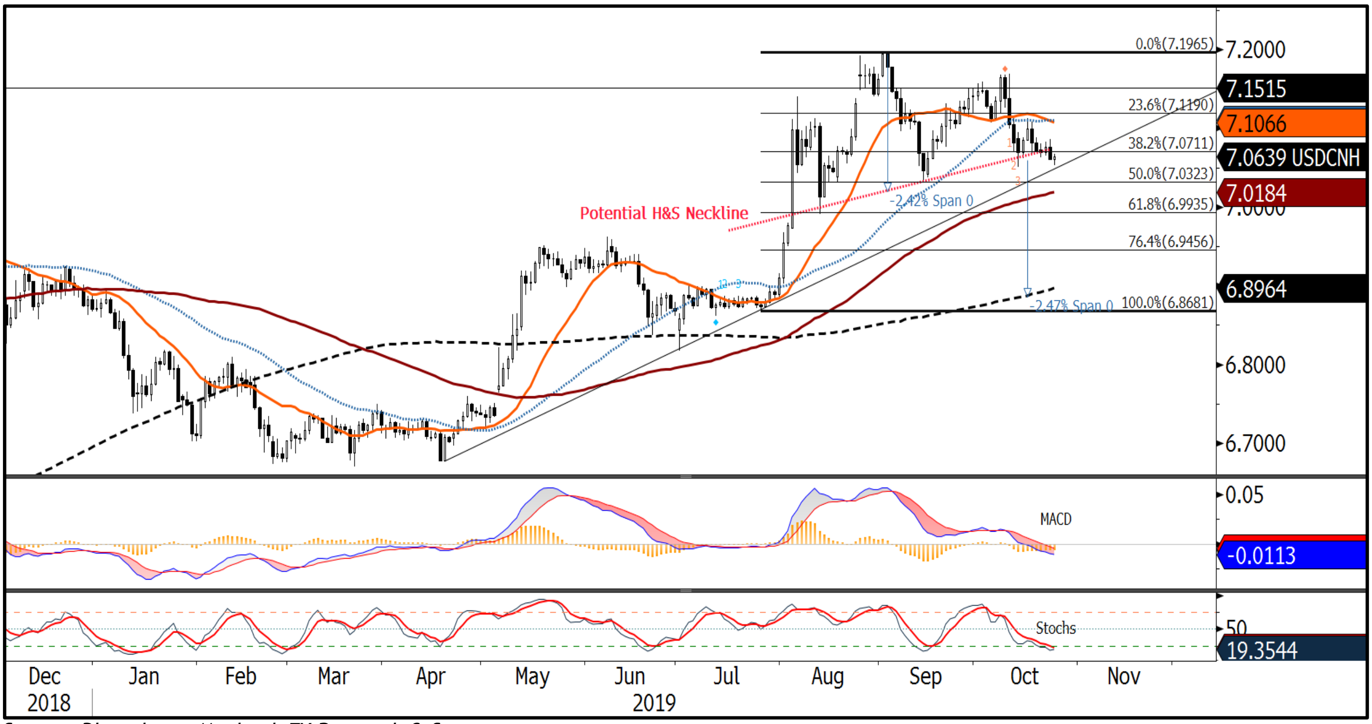
Back in Sep, FTSE Russell held off the inclusion of China into its WGBI, noting that index users wanted better "secondary market liquidity and increased flexibility in [foreign exchange] execution and the settlement of transactions". As a result, China is still in the watch-list for its inclusion, pending its next interim review in Mar 2020. Gaining into the index could trigger substantial inflow that could be supportive for the RMB in the medium-term, notwithstanding the weak growth outlook.

Eye the US Treasury Report

In the nearer term, we eye the FX Report out of the US Treasury. At the time of the announcement that the US-China could ink a phase 1 trade deal, Treasury Secretary Steven Mnuchin is said to consider removing the currency manipulator label from China. The US Treasury typically releases the FX Report twice a year – once in Apr and once in Oct. The exact date of release of this report is unclear and the last report was also delayed to May. Eyes are on whether Mnuchin would remove the currency manipulator designation from China via this report.

In Aug, the Treasury Department had made a move to label China as a currency manipulator after China allowed the RMB to weaken past the 7-figure. Just as the designation by the US Treasury as a currency manipulator is largely symbolic of the deterioration in the US-China relations, the removal of the label is also largely symbolic albeit could have risk-on boosts to the RMB.

USDCNH - Neckline has been tested for a while, Eye Breach of the support line around 7.05.



Source: Bloomberg, Maybank FX Research & Strategy

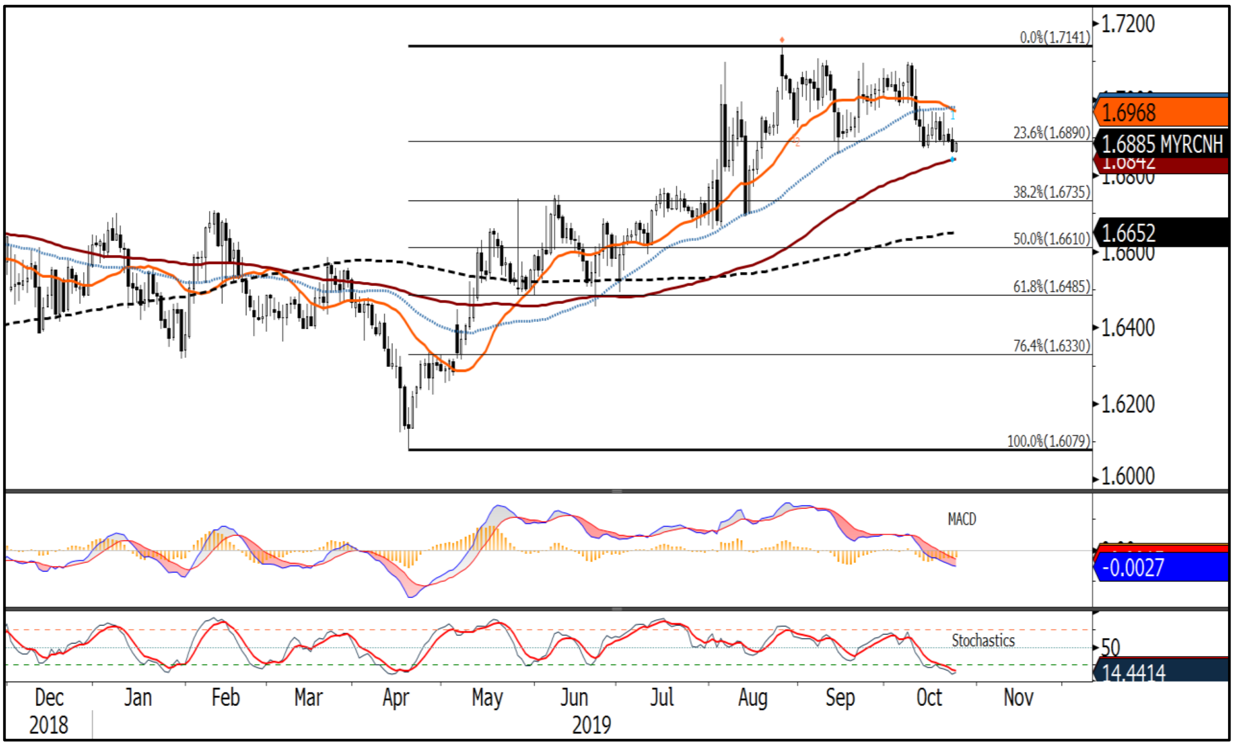
USDCNH drifted lower to levels around 7.0610. The neckline of the H&S is broken and should this follow through, we should see USDCNH heading towards the 7-figure in due time. Pair has been sticky around this area of support without concrete progress on the US-China front. Next support at 7.05, support line that has extended since Apr. Beware of some retracement risks higher given oversold conditions flagged in the stochs. We had taken partial profit on our short USDCNH here at 7.11 (25 Sep) at 7.0760 on Monday (14 Oct). We still maintain the view that the break of the neckline would open the way towards 7.0 and then at 6.95, 6.90. Stoploss at 7.19. Risk reward ratio of 1:2.63.

Daily-Chart: SGDCNH Poised to Fall

Source: Bloomberg, Maybank FX Research & Strategy

We also hold our short SGD against the CNH. SGDCNH touched a high of 5.1991 and has retraced lower to levels around 5.1865. That has formed a gravestone which is another price set up for a retracement (lower). We hold our view that this move up is not likely to last. This cross has a rising wedge, bearish divergence and SGDNEER is simply too elevated at this point. First target at 5.0970 before the next target at 5.0788. Spot reference at 5.1620 (25 Sep). Stoploss at 5.20 with a risk-reward ratio of 1:2.19.

Daily Chart: MYRCNH Biased to the downside



Source: Bloomberg, Maybank FX Research & Strategy

MYRCNH has been on the downside bias and was last seen around 1.6890. This cross is now supported by the 100-dma and stochastics is oversold which could flag some retracement risks to the upside. That said, 21-dma has crossed the 50-dma to the downside and en-route towards 50-dma which are bearish signals. Resistance at 1.6970 (21-dma). Support around 1.6840 (100-dma) before the next at 1.6735 (38.2% fibo retracement level).

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