Maybank

# FX Insight

# RMB Watch - A Combative Devaluation or A Deal for Strong Yuan?

FX

Global

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## A Retaliatory Devaluation or A Deal in Store?

After months of keeping USDCNY reference rate steady around 7.17, **the fixing behavior has finally shifted**. Right after Liberation Day (2 Apr) and Trump's declaration of a 34% "reciprocal" tariffs on China along with varying level of tariffs on selected countries, PBoC started to raise the USDCNY reference rate almost every day from 3 Apr. **Is there a devaluation coming for the CNY?**

Based on the daily fixes, PBoC is still maintaining significant control on the pace of depreciation, compared to the first trade war. Countercyclical adjustment factor remains very much in play. **A moderate yuan depreciation would help cushion exporters without the risk of destabilizing financial markets or exacerbate capital outflow that a massive yuan devaluation can bring.**

**Moreover, a sharp yuan devaluation would bring about shocks to regional currencies and it could also raise alarms for neighbours already wary of dumping activities by China as a result of US' tariffs.** China would likely prefer the yuan to be seen as an anchor for the region and it could serve to reinforce trust in China as Xi steps up diplomacy efforts with South-East Asia this week. **<u>As such, a sharp devaluation is very unlikely to happen.</u>**

## Is A Mar-A Lago Agreement or a Yuan Deal Possible?

**It is hard to imagine that China would agree to a 20% appreciation of the CNY against the USD, especially with its current battle with deflationary forces.** A 20% appreciation (over two years) has never happened since the de-peg of 2005, even during the years of double-digit growth. In addition, the central government was firm on avoiding a bazooka-style fiscal stimulus despite the hardship of recent years due to the lessons learnt during the Great Financial Crisis. A bilateral agreement between the US and China on such a significant yuan appreciation could be quite surprising to us, especially if it leads to a significant appreciation on a NEER basis.

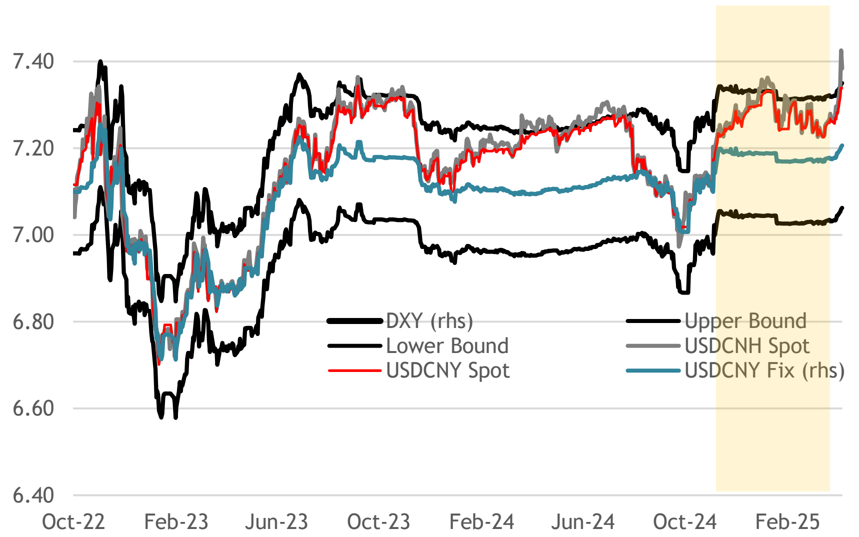
**However, if Trump were to ask for a 5-10% appreciation in the CNY over 2-3 years for a trade truce in exchange for lower tariffs on China's shipment to the US (current 145%), the current environment may allow for that already. Most of the constituents of the CNY CFETS index (aka China's trading partners) have seen significant gains vs. the USD, well ahead of CNY. The risk of a serious loss in export competitiveness is thus low.**

**House View: We look for USDCNH and USDCNY to remain supported in 2Q albeit at risk of undershooting our USDCNY forecast at 7.50 amid signs of dedollarization and dissipating US exceptionalism. We continue to look for CNH to underperform SGD, MYR and JPY.**

## PBoC Changes USDCNY Fixing After Liberation Day

Since the Nov last year, USDCNY spot has been trading above the daily USDCNY central parity. USDCNY fix has also been flat-lining for several weeks with most fixes around the 7.17-7.18 handle. As USDCNY spot is only able to trade within 2% above and below the fix, that has also kept the spot USDCNY prices effectively below the 7.32-figure.

**Chart 1: USDCNY reference rate has been stable since Nov 2024 until Liberation Day**

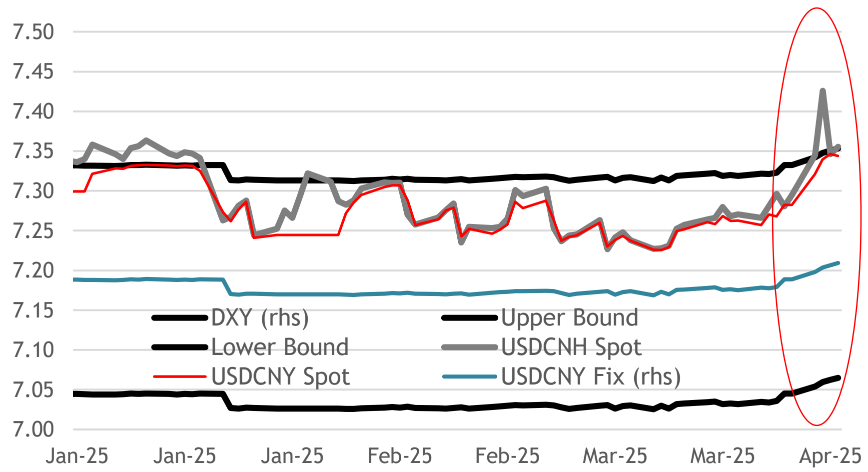



Note: Yellow zone denotes period of steady daily fixes of USDCNY central parity

*Source: Bloomberg, Maybank FX Research & Strategy*

**That has changed recently.** Right after Liberation Day (2 Apr) and Trump's declaration of a 34% "reciprocal" tariffs on China along with varying level of tariffs on selected countries, PBoC started to raise the USDCNY reference rate almost every day from 3 Apr.

**Chart 2: PBoC has started to allow more headroom for USDCNY to rise**




*Source: Bloomberg, Maybank FX Research & Strategy*

## 2025 Trade War Tactic is Different from 2018 Playbook

**Does this mean that the 2018 playbook is used again? It seems that PBoC is still maintaining significant control on the pace of depreciation, compared to the first trade war. Countercyclical adjustment factor remains very much in play.**

Back in 2018, USDCNY was hardly testing the upper bound of the +/-2% band in the first trade war. Within the first yellow zone, the deviation of spot USDCNY and daily USDCNY fix scarcely spent time in the 2% region. **Clearly, USDCNY was allowed more room to rise back in 2018**

**Chart 3: USDCNY Was Allowed to Rise Back in Trade War 1.0**

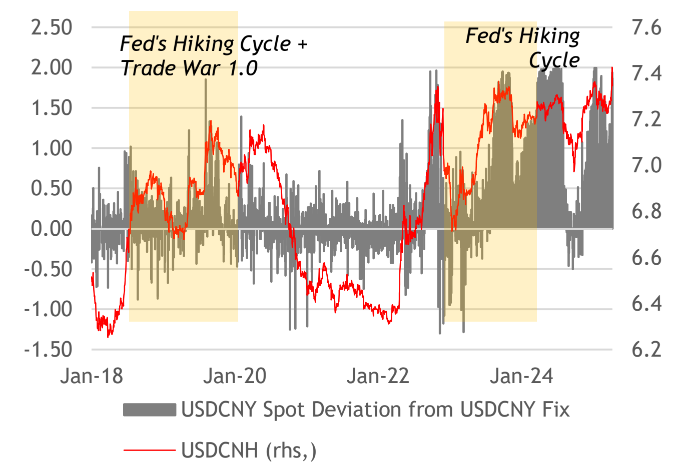
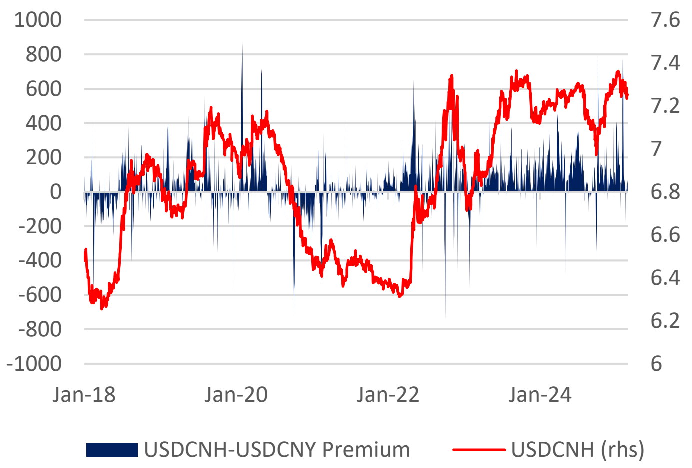



**Chart 4: The Gap Between USDCNH-USDCNY Remains Rather Stable**




*Source: Bloomberg, Maybank FX Research & Strategy*

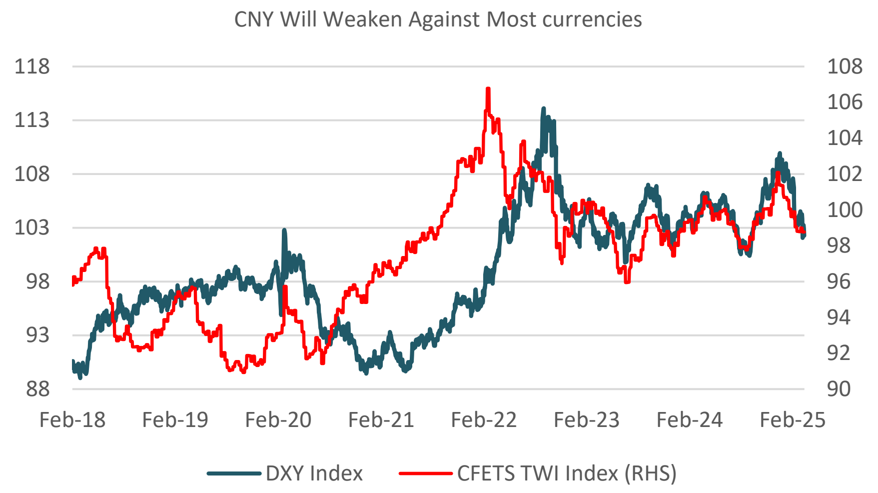
**Since Liberation Day, the deviation has widened to around 2% (before easing recently).** The PBoC has certainly used the fix to dampen the USDCNY rise this time, unlike in 2018. Still, we note that the central bank has changed tack in its fixing signals since Liberation Day, allowing modest room for USDCNY to rise. As the USD slides on growth concerns and Fed easing bets, PBoC is in a rather comfortable position now to allow spot and fix to merge by raising the USDCNY fix gradually (towards spot).

Even as the **USDCNY fix was raised in majority of the past few sessions, the USDCNY still fell during some of the sessions, in line with the broader USD direction.** There were also reports of PBoC asking state lenders to halt USD purchases. As such, we do not see a high likelihood of a yuan devaluation which could be counterproductive to the current efforts of the central bank's moral suasion approach. A moderate yuan depreciation would help cushion exporters without risk of destabilizing financial markets or exacerbate capital outflow.

**In chart 4, we note that the USDCNH-USDCNY premium (positive gap) has remained rather stable thus far,** likely due to the broader weakness of the USD, China's ramp-up of stimulus measures to support growth and effective actions by PBoC to guide the yuan (e.g via its influence over offshore CNH liquidity, the daily USDCNY fix, direct orders for state banks to sell USD).

Since Liberation Day (2 Apr), the USDCNY has been raised an average of 0.07% per day, a sum of 0.44% (1-10 Apr). USDCNY rose 1.0% over the same period. USDCNH too has risen 1.0% over the same period. **Meanwhile, the DXY index has fallen 1.8%.**

**Chart 5: CNY has Weakened Against Most Currencies**

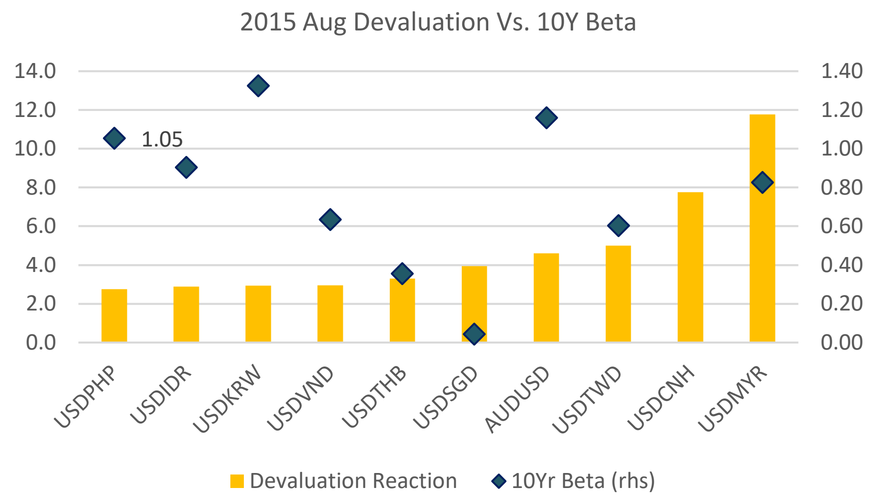



*Source: Bloomberg, Maybank FX Research & Strategy*

The CNY continues to be sold against most currencies and as result, the CNY weakened on a trade-weighted basket basis. The yuan underperformance is amplified by the broader weakness of the USD. The greenback is being pressured by the growing possibility of a US recession, the flight to safe haven and persistent rotation away from US assets. A moderately weaker CNY would be sufficient to help cushion exporters in such a weak USD environment.

**Base case:** We look for USDCNY and USDCNH to remain supported in 2Q amid negotiations and tit-for-tat actions. **Devaluation scenario is very unlikely** as impact on its financial markets as well as regional currencies would be significant

**Chart 6: Yuan weakness typically sends ripples across regional FX**



Note: Reactions to yuan devaluation is taken from closing prices of 10 Aug (just before the devaluation) and the peak of USDCNH within the next 150 days. Beta study is taken from 1 Aug 2015 to 14 Apr 2025. E.g 1.0% change in CNH against the USD could probably see around 1.05% swing in PHP against the USD.

*Source: Bloomberg, Maybank FX Research & Strategy*

**Maintaining Moral High Ground, Fostering Stronger Ties**

China has become the prime target in this trade war as the tit-for-tat with the US intensifies. Right now, the White House has declared 145% tariff on China and China has 125% retaliatory tariff on the US, adding that there would not be attention paid to further retaliation. Trump had also paused tariffs on almost all countries at 10% for 90 days (up till 8 Jul).

On 10 Apr, China Ministry of Commerce spokesperson He Yongqian reiterated that it is open to talks with the US but it must be based on mutual respect and conducted on equal footing. He added that foreign trade firms would be given help to expand domestic sales channels. On Wed, Premier Li Qiang had also assured the private sector that the central government would boost domestic demand at a meeting.

More importantly, President Xi is making a trip to South East Asian countries in the coming week – namely Vietnam, Malaysia and Cambodia from 14-18 Apr. There is a possibility for the Trump to urge countries to raise tariffs on China in exchange for his offer to keep tariff at the minimum level of 10% for them. Peter Navarro had only recently accused Vietnam of being the platform for Chinese exporters to evade tariffs. We see Xi's upcoming trip as an urgent effort to step up diplomacy and strengthen ties with key ASEAN countries.

And for this reason, **China is also less likely to devalue its currency massively. It could bring about shocks to regional currencies and it could also raise alarm for neighbours already wary of dumping activities by China as a result of US' tariffs. China would still prefer yuan to be seen as an anchor for the region and it could serve to reinforce trust in China.**

## What about the Mar A Lago Accord?

The scenario of a Mar A Lago Accord takes inspiration from the Plaza Accord where France, Western Germany, Japan, the UK and the US inked a joint agreement on 22 Sep 1985 to depreciate the USD. That required coordinated intervention and adjustments made in their respective domestic economies. A Louvre Accord was signed by the G6 Finance Ministers and Central Bank Governors on 22 Feb 1987 to stabilize international currency markets and halt the decline of the US dollar.

Between those two dates, the DXY index fell 29%, the JPY and GBP were up 36% and 12% respectively against the USD. The significant JPY appreciation *was arguably* a contributing factor for Japan's lost decades. Regardless, it required the large scale expansionary monetary and fiscal policies thereafter to offset the impact of the strong JPY.

The Mar A Lago Accord may have a few similar features. It requires key players (most likely China) to come to an agreement to sink the USD by selling their USD reserves and also to term out the USTs to (rumoured to be) century bonds.

**Objectives are to achieve weaker USD, lower US trade deficits, anchor longer term interest rates and bring back manufacturing. All these with the promise of the "US Defence Umbrella".**

Table 1 shows the trade-offs with and without a currency agreement.

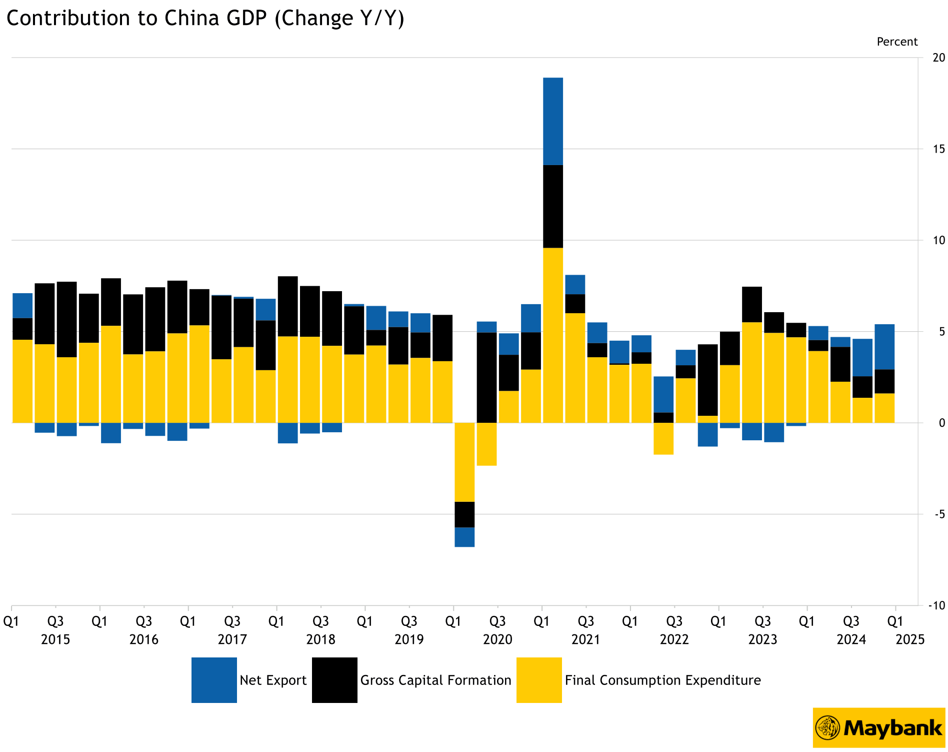
**Table 1: Trade-Offs According to Stephen Miran (Former Hudson Bay Senior Strategist, Current Chairman of Council of Economic Advisers)**

| | Perfect Currency Offset | No Currency Offset |
|---|---|---|
| Inflation | Noninflationary (after-tariff USD price unchanged) | Inflation (tariff pass through) |
| Incidence | Paid for by tariffed nation via reduced purchasing power from weaker currency | Result in more expensive consumer goods |
| Trade Flows | Little effect on trade flows, as effective import prices dont | Rebalancing over time as imports are more expensive relative to domestic production |
| Revenue | Treasury raises revenue | As trade rebalancing away from the tariffed goods occur, Treasury raises less reevnue |

*Source: A User's Guide to Restructuring the Global Trading System, Hudson Bay Capital (November 2024)*

**It is hard to imagine that China would agree to a 20% appreciation of the CNY against the USD, especially with its current battle with deflationary forces.** A 20% appreciation (over two years) has never happened since the de-peg of 2005, even during the years of double-digit growth. In addition, the central government was firm on avoiding a bazooka-style fiscal stimulus despite the hardship of recent years due to the lessons learnt during the Great Financial Crisis. A bilateral agreement between the US and China on such a significant yuan appreciation could be quite surprising to us, especially if it leads to a significant appreciation on a NEER basis.

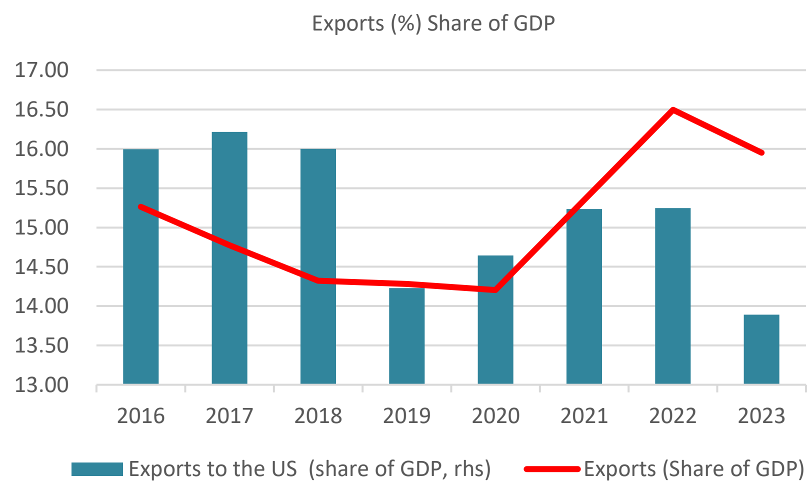
**Chart 7: Contribution to China's GDP (Expenditure Approach)**




*Source: Macrobond, NBS, Maybank FX Research & Strategy*

Net exports have contributed around half of the GDP growth in recent quarters. The shift in CNY fixing is meant to provide an offset to the tariffs. This also underscores how important net exports is to China's economy as it continues to undergo a structural transition. While exports to the US is just 3% of GDP, China's exports amount to around 15% of GDP.

**Chart 8: China's exports to the US amounts to only 3% of GDP**

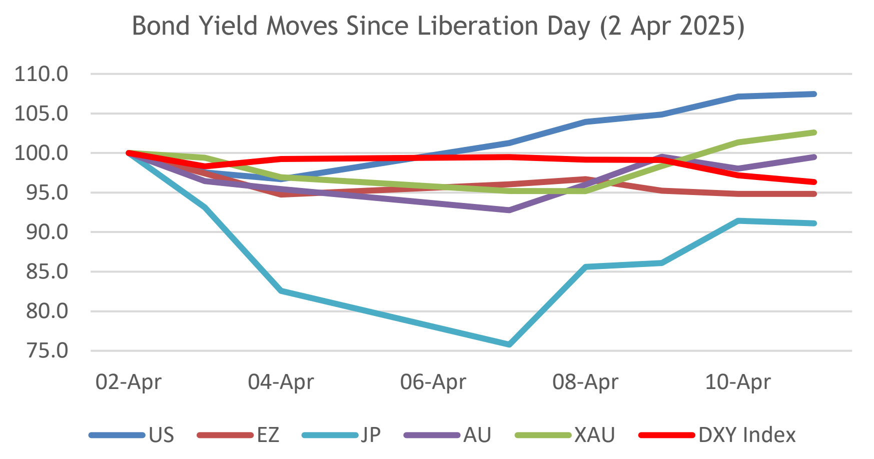



*Source: Macrobond, Maybank FX Research & Strategy*

**However, if Trump were to ask for a 5-10% appreciation in the CNY over 2-3 years for a trade truce in exchange for lower tariffs on China's shipment to the US (current 145%), the current environment may allow for that already.**

Ironically, the speculated Mar-A Lago policy is already causing a flight from the US assets (equities and treasuries). The demand by the Trump administration for other countries to strengthen their currencies by coordinated interventions would require the selling of US dollars by reserve managers and that would primarily comprise of US treasuries. Since liberation day, we observed that the sell-off of the US treasuries seem to be harder than the rest of major sovereign bonds. Gold has also benefitted as markets start to diversify away from the sovereign bonds.

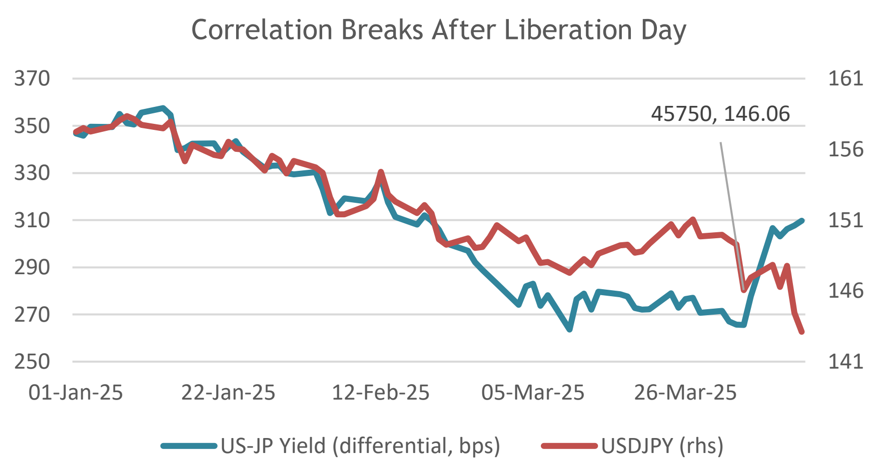
**Chart 9: US Treasury Yields Have Risen More than Those of Other Sovereign Bonds**




*Source: Bloomberg, Maybank FX Research & Strategy*

As UST yields continue to rise fast, the widening yield differential should have lifted the USD. That did not happen as the USDJPY plunged amid flight to safe havens.

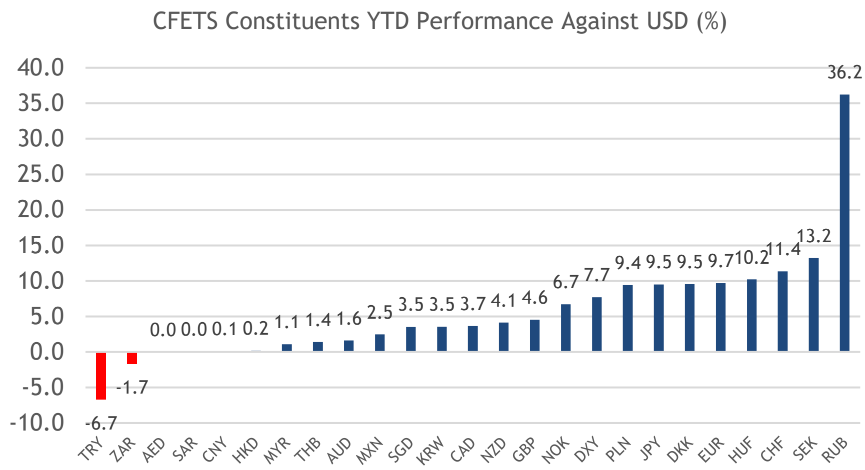
**Chart 10: USDJPY fell Even as US-JP Yield Gap Widens**




*Source: Bloomberg, Maybank FX Research & Strategy*

The USD has already depreciated massively against most currencies. DXY fell 7.7% ytd (10 Apr) with most constituents of the CNY CFETS index surging against the USD. A depreciation of 5-10% of the CNY against the USD will not result in serious loss in export competitiveness, especially if the other currencies continue to strengthen against the USD. The CNY NEER could continue to fall.

Chart 10: Yuan Has Lagged in Gains Compared to Trading Partners




Note: Year-to-date (YTD) Gains and Losses are recorded as of 11 Apr 2025.

*Source: Maybank FX Research & Strategy*

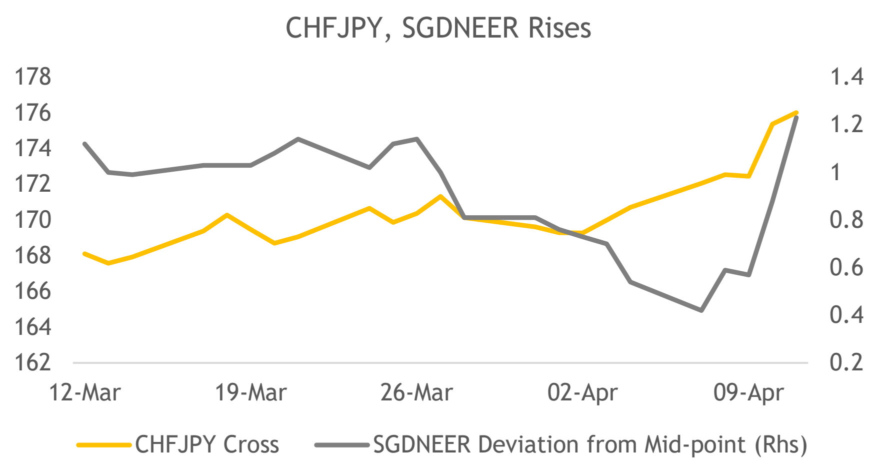
**A Mar-A Lago Accord would be Hard to Enforce**

At the end of the day, it would be an accord that is hard to enforce in an environment that has many more key players compared to the world in 1985. Whether it can reduce US' trade deficit with China is also arguable. The US trade deficit with Japan widened by the time the Louvre accord was signed in 1987 even though countries successfully brought down the value of the greenback. **It is thus not in our base case for yuan to become significantly stronger in the case of a US-China trade deal/truce.**

We continue to look for yuan underperformance on a basket basis. **CNH should continue to underperform JPY, SGD and MYR. We see possibility of an intervention by SNB on CHF and that is why we are not including CHF in this.**

Even as MAS eased this morning, SGD is likely to remain strong due to the current flight to quality as shown by the rise in CHFJPY in chart 11 (next page).

<u>**Chart 11: Flight to Quality is Strong**</u>




*Source: Bloomberg, Maybank FX Research & Strategy*

### Peak at 7.50 is At Risk

We continue to see two-way risks for the USDCNH at this point as PBoC continues to allow room for yuan weakness but broad USD weakness is likely to provide an offset. Our forecast for USDCNY to head towards 7.50 within this quarter faces some downside risks as

(1) de-dollarization narrative gains traction. Investors start to doubt US treasuries' dominance as a safe haven and a preferred currency for payment. The perception that the US institutions are weakening likely spurred investors, reserve managers to diversify away from US assets.

(2) US exceptionalism continues to sour. Pro-longed tariff waffles and tit-for-tat continue to dampen consumer and business sentiment in the US. The knock-on effects on US growth could continue to weigh on the USD.

**In our FX Insight - Strategies in the Wake of Reciprocal Tariffs dated 7 Apr, we had outlined our view that CNY should continue to underperform SGD, MYR and JPY.**

**Since then (7 Apr), SGD has strengthened 2.3% against the CNH, MYR is 0.9% and JPY is up 2.9%. We expect another 2-3% decline of the CNH against SGD (5.70), MYR (1.70) and JPY (5.30), notwithstanding some interim gyrations.**

We are keeping most of our G10 and Asian forecasts unchanged for now (Table 2, next page), not ruling out potential for USD rebound should US data surprise to the upside in the weeks ahead but given the potential for structural shift, the extent of bounce could be limited.

## Table 2: FX Forecast Table

| | End Q2-25 | End Q3-25 | End Q4-25 | End Q1-26 |
|---|---|---|---|---|
| USD/JPY | 145.00 | 142.00 | 140.00 | 138.00 |
| EUR/USD | 1.0700 | 1.0900 | 1.1000 | 1.1000 |
| GBP/USD | 1.2900 | 1.3000 | 1.3050 | 1.3100 |
| AUD/USD | 0.6000 | 0.6100 | 0.6200 | 0.6300 |
| NZD/USD | 0.5500 | 0.5700 | 0.5800 | 0.5900 |
| USD/CAD | 1.4600 | 1.4500 | 1.4300 | 1.4000 |
| USD/CHF | 0.8850 | 0.8850 | 0.8850 | 0.8875 |
| USD/SGD | 1.3750 | 1.3600 | 1.3450 | 1.3400 |
| USD/MYR | 4.6000 | 4.4500 | 4.3500 | 4.3000 |
| USD/IDR | 17000 | 16500 | 16500 | 16400 |
| USD/THB | 36.00 | 35.30 | 35.30 | 35.00 |
| USD/PHP | 59.00 | 58.00 | 58.00 | 57.50 |
| USD/CNY | 7.50 | 7.45 | 7.40 | 7.35 |
| USD/CNH | 7.50 | 7.45 | 7.40 | 7.35 |
| USD/HKD | 7.77 | 7.78 | 7.79 | 7.80 |
| USD/TWD | 32.70 | 32.80 | 33.00 | 32.50 |
| USD/KRW | 1470 | 1410 | 1400 | 1390 |
| USD/INR | 87.75 | 88.00 | 88.25 | 88.00 |
| USD/VND | 25800 | 25800 | 25600 | 25500 |
| DXY Index | 105.03 | 103.40 | 102.48 | 102.05 |
| | End Q2-25 | End Q3-25 | End Q4-25 | End Q1-26 |
| SGD/MYR | 3.35 | 3.27 | 3.23 | 3.21 |
| JPY/SGD | 0.95 | 0.96 | 0.96 | 0.97 |
| EUR/SGD | 1.47 | 1.48 | 1.48 | 1.47 |
| GBP/SGD | 1.77 | 1.77 | 1.76 | 1.76 |
| AUD/SGD | 0.83 | 0.83 | 0.83 | 0.84 |
| NZD/SGD | 0.76 | 0.78 | 0.78 | 0.79 |
| CAD/SGD | 0.94 | 0.94 | 0.94 | 0.96 |
| CHF/SGD | 1.55 | 1.54 | 1.52 | 1.51 |
| SGD/IDR | 12364 | 12132 | 12268 | 12239 |
| SGD/THB | 26.18 | 25.96 | 26.25 | 26.12 |
| SGD/PHP | 42.91 | 42.65 | 43.12 | 42.91 |
| SGD/CNY | 5.45 | 5.48 | 5.50 | 5.49 |
| SGD/HKD | 5.65 | 5.72 | 5.79 | 5.82 |
| SGD/TWD | 23.78 | 24.12 | 24.54 | 24.25 |
| SGD/KRW | 1069 | 1037 | 1041 | 1037 |
| SGD/INR | 63.82 | 64.71 | 65.61 | 65.67 |
| SGD/VND | 18764 | 18971 | 19033 | 19030 |
| | End Q2-25 | End Q3-25 | End Q4-25 | End Q1-26 |
| JPY/MYR | 3.17 | 3.13 | 3.11 | 3.12 |
| EUR/MYR | 4.92 | 4.85 | 4.79 | 4.73 |
| GBP/MYR | 5.93 | 5.79 | 5.68 | 5.63 |
| AUD/MYR | 2.76 | 2.71 | 2.70 | 2.71 |
| NZD/MYR | 2.53 | 2.54 | 2.52 | 2.54 |
| CAD/MYR | 3.15 | 3.07 | 3.04 | 3.07 |
| CHF/MYR | 5.20 | 5.03 | 4.92 | 4.85 |
| MYR/IDR | 3696 | 3708 | 3793 | 3814 |
| MYR/THB | 7.83 | 7.93 | 8.11 | 8.14 |
| MYR/PHP | 12.83 | 13.03 | 13.33 | 13.37 |
| MYR/CNY | 1.63 | 1.67 | 1.70 | 1.71 |
| MYR/HKD | 1.69 | 1.75 | 1.79 | 1.81 |
| MYR/TWD | 7.11 | 7.37 | 7.59 | 7.56 |
| MYR/KRW | 320 | 317 | 322 | 323 |
| MYR/INR | 19.08 | 19.78 | 20.29 | 20.47 |
| MYR/VND | 5609 | 5798 | 5885 | 5930 |

*Source: Maybank FX Research as of 28 Mar 2025. *These forecasts are meant to be indicative of FX trends and not meant to be point forecasts.*

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