RMB Watch

More Obvious Gains Vs. Net Oil Importers

CNH Should Gain More Vs. INR, IDR, PHP

USDCNH slipped below the 7-figure into the turn of the year and remained thereabouts, last seen at 6.9730. USDCNY last prints 6.9753. The strength in the RMB was flattered by broad USD weakness into the end of the year and the declaration by the US President Trump that the official signing of phase 1 of the US-China deal is scheduled on 15th Jan also buoyed the CNY. As a result, CNH and CNY remain rather impervious to the risk-off sentiment that has affected other regional peers.

The timing of the US-Iran tension coincides with the upcoming US-China trade deal (only phase 1 but nonetheless!). This opens up a short-term opportunity for CNH to gain against other Asian FX, in particular currencies that are net oil importers (IDR, INR, PHP) and risks further current account deficit deterioration. In particular, we look for CNHPHP to head towards **7.4850 (1st target) before 7.5830 (2nd target).**

On the technical chart, USDCNH tests the 200-dma as well as a Fibonacci retracement level at 6.9620 (61.8% of the Jul-Sep rally). The 21-dma and 50-dma are at the brink of crossing the 200-dma to the downside – death cross, a bearish signal for the USDCNH. Next support is seen at 6.9060. Resistance is seen at 7.0070 and at 7.0515. However, the break of the 200-dma may not be so easy given the current risk-off climate.

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A Deathcross for USDCNH?

Source: Bloomberg, Maybank FX Research & Strategy

RMB buoyed by US Deal, Better Data, Monetary Stimulus

CNY has been relatively stable in the face of the risk-off sentiment. The USDCNH deviated from its usual negative correlation with the copper-gold ratio (shown in chart below). This was probably due to the shift in the market focus from the US-China trade deal towards the sudden escalation in the US-Iran tensions recently. The CNY is buoyed by expectation that the phase 1 of the US-China trade deal is now scheduled to be inked on 15th Jan and Trump had promised that talks on subsequent phases will commence swiftly thereafter. His pre-occupation with Iran may also mean a lower likelihood of a US-China escalation and that should cap upticks in the USDCNY even more in the near-term.

In the medium term, an agreement not to manipulate currency for export advantage is a term in the deal (as flagged by the statement from the USTR in Dec) and we look for USDCNY and USDCNH to take the cue from the general direction of the USD and we see potential weakness should US activity momentum continue to ease.

The PBoC's 50bps RRR cuts (that just took effect today- 6 Jan) and signal of further monetary easing (more RRR cuts, cuts to the 1Y-MLF rate, 7-day reverse repo rate and 1Y loan prime rate) along with recent interest rate reforms (official abandonment of the benchmark lending rate for the Loan Prime Rate) could improve growth prospect and support the CNY. In fact, PMI-mfg prints already suggest some stabilization in industrial activity could be already taking place. As a result, China's TWI has been rising modestly since the start of Jan.

RMB has been resilient to the risk-off Sentiment proxied by Copper-Gold Ratio

Source: Bloomberg, Maybank FX Research & Strategy

Note: Copper-Gold Ratio is one proxy the flight to safety tendency.

USDCNY in a Tug of War between Opposing Forces

Prolonged tensions and escalation between the US and Iran could inevitably bring the USDCNY higher but the presence of the upcoming deal on 15th Jan could keep the USDCNY anchored for now. Beyond that, we anticipate significant escalation of Middle-East tensions to bring the USDCNY a tad higher. The USDCNY moves may thus be less volatile for the time being.

TWI to rise with more CNH outperformance vs. IDR, INR and PHP

What is more obvious is its outperformance vs. INR, IDR and PHP which have twin deficit concerns and the oil surge that could worsen their current account deficit.

CNHIDR

We take a closer look at the CNHIDR daily chart. This cross has already reacted higher, last seen around 2000.Stochastics have turned higher, underscoring the shift in momentum in favour of CNHIDR bulls. Resistance at 2030 (38.2% Fibonacci retracement of the 2019 fall) which also coincides with the 200-dma. That said, BI has declared that “it is intervening in the markets”.

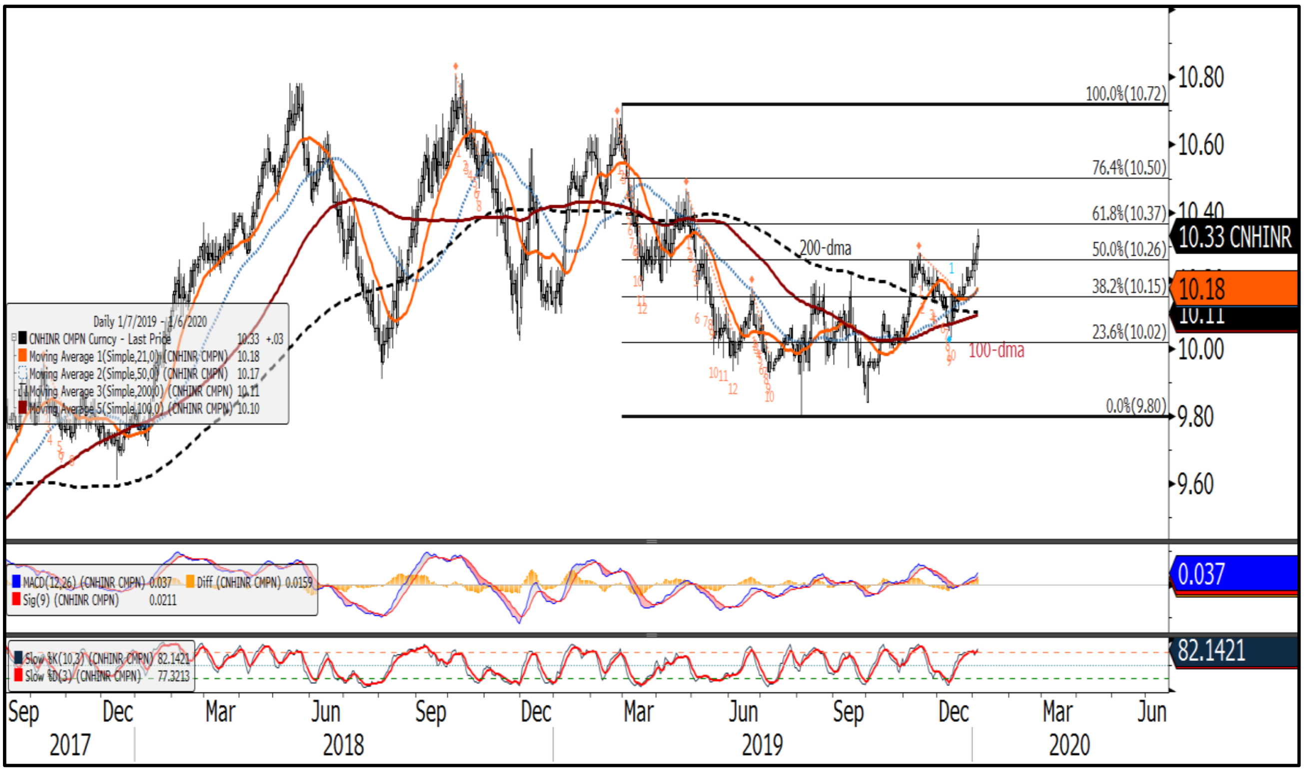
CNHIDR (Daily Chart) - Momentum Turning Higher?

Source: Bloomberg, Maybank FX Research & Strategy

CNHINR

The CNHINR has been rising throughout Dec as CNH gains on US-China trade deal while INR weakens on a multitude of domestic factors including protests at home, growth concerns and risks of fiscal deterioration after corporate tax cuts. The oil price rise in Dec that was driven by some expectations for global demand recovery did not help the INR in the least. At this point, the daily chart show signs of this cross being stretched to the upside with resistance at 10.40. Momentum is still bullish. Next resistance is seen at 10.50. Retracement to meet support at 10.25. 100-dma is at the brink of crossing the 200-dma to the upside with. Barring a potential for some retracement, we anticipate the uptrend in the CNHINR to harden.

CNHINR (Daily Chart) – Uptrend



Source: Bloomberg, Maybank FX Research & Strategy

CNHPHP (Daily Chart) – The Most Compelling Buy Amongst the Three

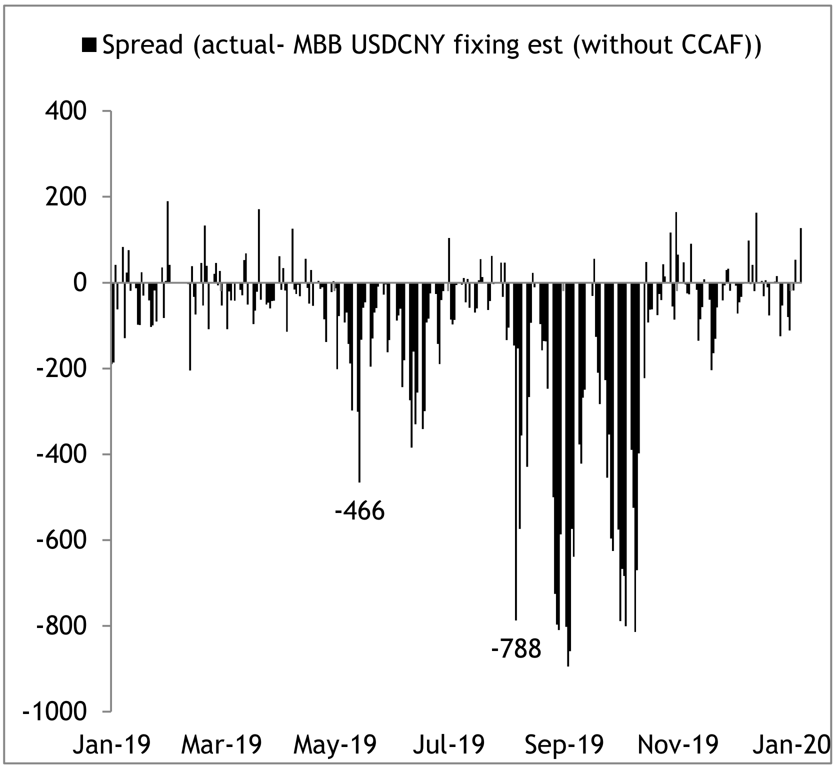
Source: Bloomberg, Maybank FX Research & Strategy

We notice that CNHPHP could be the most compelling buy amongst the three crosses covered in this report. The 21,50,100-dma have converged for much of Dec and only started to move higher in light of the recent risk-off. Moves higher towards the 200-dma could mean an upcoming golden cross for this pair. Last seen around 7.3075. Momentum is bullish on the MACD and Stochastic have risen. Beyond the current resistance at 7.3636 (23.6% Fibonacci retracement of the 2019 decline) that caps the price action today (we are not ruling out intervention to prop up the PHP after its underperformance last Fri), we see **room for this cross to move towards 7.4850 (38.2% fib, 1st target) before 7.5830 (50%, 2nd target). Spot reference at 7.3075. Stoploss at 7.20 (just below 50-dma). Risk-reward ratio is 1:2.56.**

Upcoming Events to Watch in The Next Two Weeks

7th Jan	- Foreign Reserves
9th Jan	- PPI, CPI
10-15th Jan	- Aggregate Financing, Money Supply and New Yuan Loans
14th Jan	- Trade data
16th Jan	- New Home Prices
17th Jan	-Retail sales, property investment, industrial production, urban FAI, GDP
20th Jan	- LPR announcement for Jan

RMB Policy Guidance from PBoC Has Not Been Strong



Source: Maybank FX Research & Strategy Estimates; Bloomberg

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Published by:

Maybank

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(Incorporated in Malaysia)

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