Macro | FX Research and Strategy

Global

RMB Watch

Favourable Conditions for Now

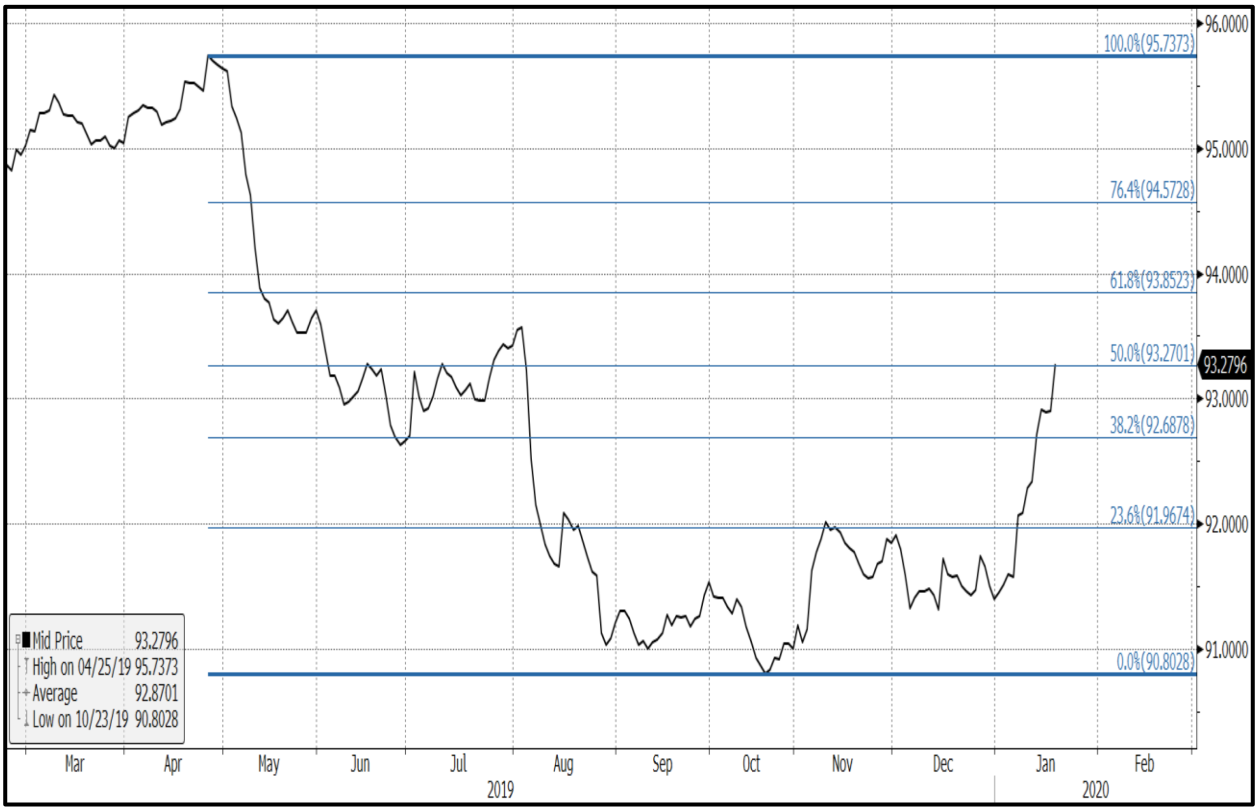
RMB in Favourable Conditions

The first few weeks of Jan saw the CNY post 2% gains vs. its other major trading partners (based on the CFETS TWI). That is a substantial recovery from its 5% fall from its peak in 2019 after the US-China trade war re-escalated in May. More benign trade environment as well as signs of growth stabilization seen from recent data releases lifted the CNY. While its strength has exceeded our expectations, *we anticipate that the RMB should give up some of its recent gains gradually once it becomes clear that the data rebound is unlikely to be strong.*

Notwithstanding our medium-term view of the RMB, we had taken advantage of the current constructive environment to favour a long CNHPHP position (on 6th Jan) as we look for this cross to head towards **7.4850 (1st target) before 7.5830 (2nd target).** Price action has been playing out in line with our expectations. Our entry was 7.3075 and this cross has risen to 7.4260 as we write. Stoploss at 7.20.

In the near-term, USDCNH is like a falling knife and next support is seen around 6.8100. Momentum on the weekly chart suggests that USDCNH bears could be relentless. This comes after the death cross that occurred when the 21-dma crosses the 200-dma to the downside and the 50-dma could be next.

RMB TWI Has Recovered 50% From the 2019 Trade War Damage



Source: Bloomberg, Maybank FX Research & Strategy

Analysts

Saktiandi Supaat
(65) 6320 1379
saktiandi@maybank.com.sg

Fiona Lim
(65) 6320 1374
fionalim@maybank.com.sg

Tan Yanxi
(65) 6320 1378
tanyx@maybank.com.sg

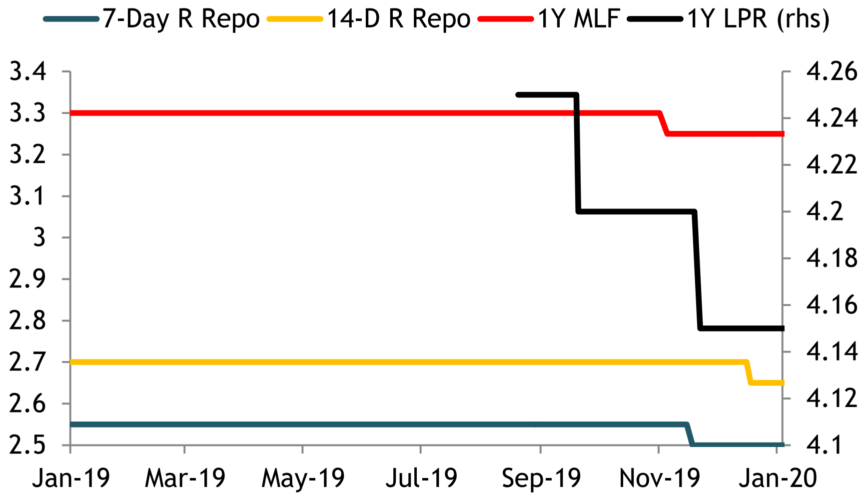
Christopher Wong
(65) 6320 1347
wongkl@maybank.com.sg

LPR was Unchanged as Guided by MLF

The 1Y loan prime rate (LPR) was unchanged at 4.15%. While this was contrary to consensus, it was not unexpected by ourselves. PBoC had conducted medium-term lending facility (MLF) on the 15th of this month and without a change in its 1Y rate, we do not see much likelihood for the LPR to move.

Right at the introduction of the loan prime rate, the authorities have sought to keep the LPR linked to the MLF so as to improve monetary policy transmission. The last time that the LPR was moved was in Nov after the MLF was provided at a lower rate of 3.25% on 5 Nov. During that month, the 7-day reverse repo rate was also dropped to 2.50% from previous 2.55%. Thereafter, a 14-day reverse repo was also conducted on the 18th of Dec and the rate was correspondingly dropped by 2.65% from previous 2.70%. Just for clarity, there was no 14-day reverse repo provided last Nov. Technically, the LPR reflects the reported loan rates from 18 representative banks' best clients and these loans rates should take reference from the MLF rates with a spread.

Linking the MLF and LPR together



Source: PBoC, Maybank FX Research & Strategy

Bear in mind the recent official abandonment of the 1Y benchmark lending rate at the turn of the year as PBoC ordered financial institutions to gradually convert existing loans to a new base that takes reference from the 1Y-LPR (from Mar to Aug). The central bank may prefer to move MLF when the LPR was more representative of the market lending rates. The data improvement in the near-term also provides some room for PBoC to allow the structural changes to take place.

As for the 5Y LPR, these are references for longer term loans such as housing mortgages and the central bank is determined that cheaper funding will not flow to the real estate. As a result, 5Y LPR is likely to remain steady at 4.85% and is likely to remain so until the rest the year.

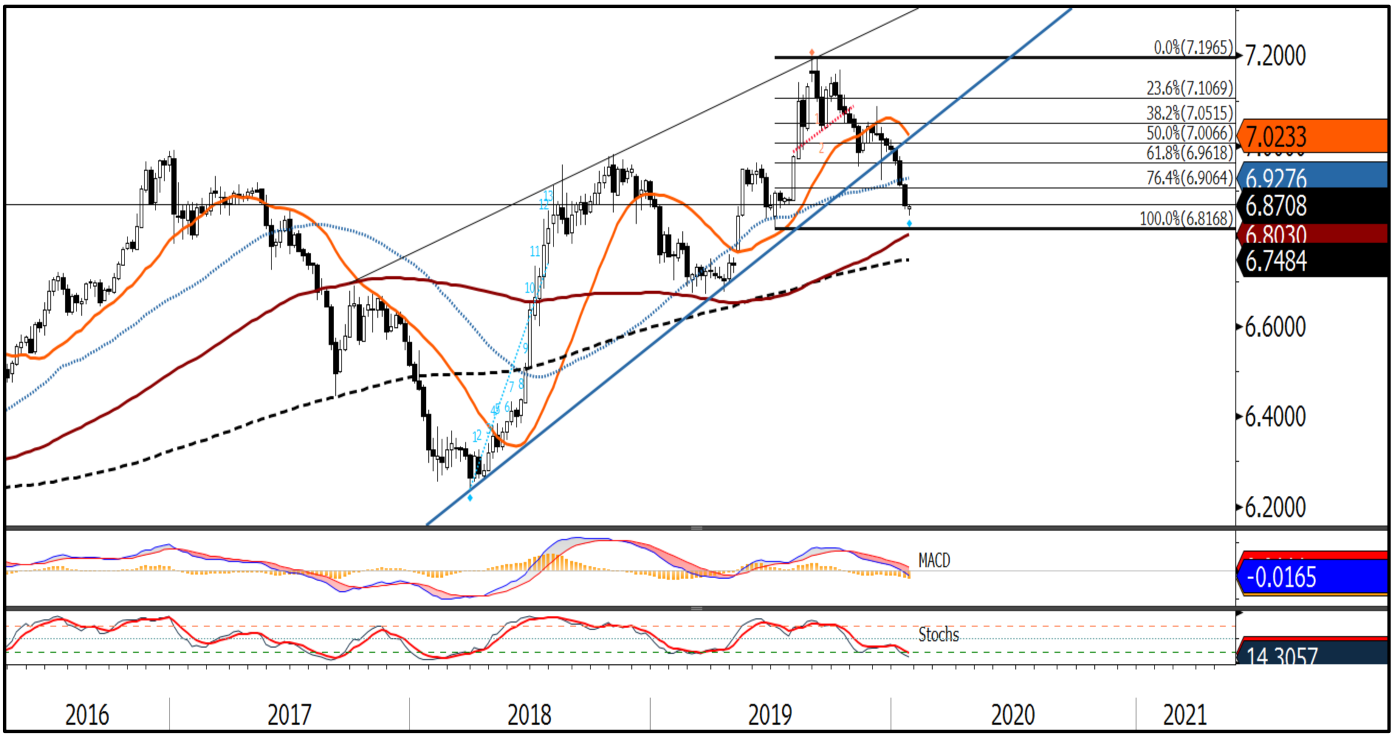
Data Improves, Good for CNY but Risks of Correction Linger

Insofar this month, released data suggests signs of credit growth stabilization. Total increase in aggregate social financing was CNY2.1trn but this data includes a broader range of statistics including treasury bonds and local general bonds instead of only special government bonds. Outstanding aggregate social financing steadied at 10.7%y/y for Dec, little change since Aug 2019. This suggests signs of stabilization in credit growth. Money supply M2 actually picked up pace to 8.7%y/y from previous 8.2%.

While growth for the full year had slowed to the lowest in three decades to 6.1%, a tad lower than the expected 6.2%, higher frequency data show signs of bottoming. Industrial production jumped 6.9%y/y vs. previous 6.2% and well above the 5.9%. Retail sales also steadied at 8.0%y/y while FAI ex rural exceeded consensus at 5.4%y/y vs. previous 5.2%.

Barring benign trade environment, stronger data should bode well for CNY but we do not foresee a V-shape recovery as China is likely to pursue sustainability rather than growth targets. Market players may risk running ahead of themselves and there could be some corrections later in this quarter. As our Chief Economist had mentioned here, there are potential upsides to growth as targeted monetary and fiscal stimulus are expected in an environment of less US-China trade tension but rising inflation, corporate debt defaults as well as virus outbreak may also hurt growth prospect.

USDCNH (Weekly) Momentum is Bearish but Stochastics Do Not Show Signs of Turning



Source: Bloomberg, Maybank FX Research & Strategy

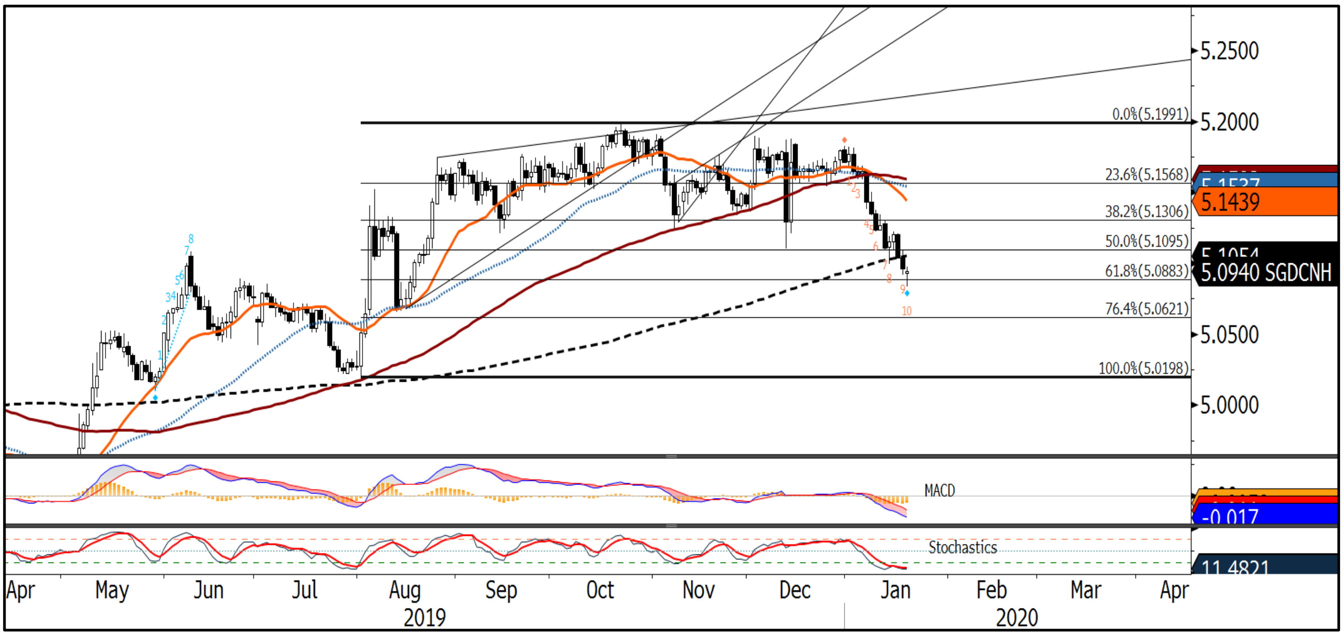
Weekly chart suggests that USDCNH is still like a falling knife and would be dangerous to catch. Bearish momentum is still increasing while stochastics do not show signs of turning higher. Strong support is seen at 6.81.

CNHPHP (Daily) : Bullish Bias Plays Out towards our first target at 7.4850.

We thought that CNHPHP was a compelling buy and this cross continues to move towards our first target at 7.4850. Stoploss at 7.20 with spot reference at 7.3075 and the cross last printed 7.4260.

Source: Bloomberg, Maybank FX Research & Strategy

SGDCNH (Daily) breaks below 200-dma



Source: Bloomberg, Maybank FX Research & Strategy

SGDCNH has fallen through the 200-dma and remains rather biased to the downside. Bearish momentum is still intact. Support is seen around 5.0883, tested today. Break there exposes this cross to further slippage towards 5.0620. Resistance at 5.1050 (200-dma.

MYRCNH (Daily) Stable within Range

Source: Bloomberg, Maybank FX Research & Strategy

MYRCNH has been trapped within a rather established range within 1.6650-1.7100. Bias is to the downside for now but support is seen around 1.6890 which has been limiting slides in the past month. Beyond that, 200-dma lurks at 1.6785. Rebounds to meet resistance at 1.70.

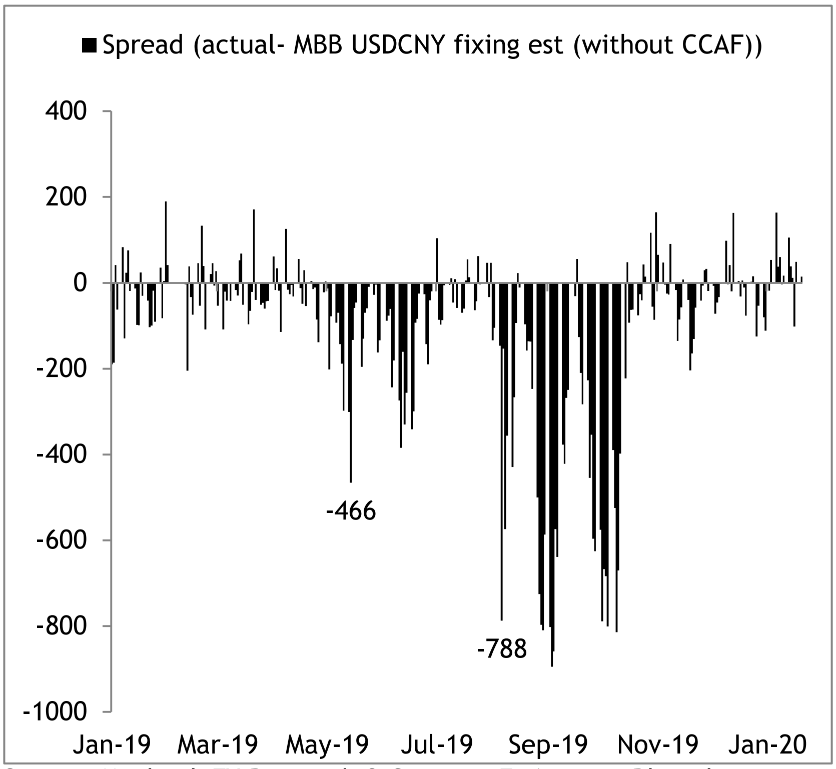
Upcoming Events to Watch in The Next Fortnight

24th - 30th Jan - Onshore markets are closed for Lunar New Year

31st Jan - NBS Mfg PMI, non-mfg PMI (Jan)

3rd Feb - Caixin Mfg PMI (Jan)

RMB Policy Guidance from PBoC Has Not Been Strong



Source: Maybank FX Research & Strategy Estimates; Bloomberg

DISCLAIMER

Published by:

Malayan Banking Berhad
(Incorporated in Malaysia)

Saktiandi Supaat	Christopher Wong	Fiona Lim	Yanxi Tan
Head, FX Research	Senior FX Strategist	Senior FX Strategist	FX Strategist
saktiandi@maybank.com.sg	wongkl@maybank.com.sg	Fionalim@maybank.com.sg	tanyx@maybank.com.sg
(+65) 63201379	(+65) 63201347	(+65) 63201374	(+65) 63201378