

## RMB Watch

### Bias to the Downside

#### Decisive Support Right At the Open

PBoC started the Year of the Metal Rat by injecting a net CNY150bn of liquidity via OMO and deepening the easing cycle. The central bank surprised market players by lowering the 7-day and 14-day reverse repo rates by 10bps in a show of broad credit support for banks and enterprises. USDCNY was fixed 373 pips higher this morning at 6.9249 vs. previous 6.8876 (on 23<sup>rd</sup> Jan, before the break for Chinese New Year) and well under estimates including our own. Apart from some support for the CNY and credit conditions, CSRC is said to order brokerages to halt short sales of equities by traders. Only sales to meet redemptions by investors are allowed.

Chinese equity indices returned from an extended Lunar New Year break with a gap down of >8% at open. USDCNY also leapt to meet USDCNH levels around 6.99 at open (vs. its close around 6.93 on 23<sup>rd</sup> Jan). The USDCNY now trades at a slight premium (of around 20 pips) to USDCNH. With no peak (of the virus impact) in sight yet, USDCNY and USDCNH could still continue to climb as the outbreak continues to evolve. USDCNH is last seen around 7.0153, retreating from nearby resistance at 7.02. Next resistance is seen at 7.06. Support at 6.9788.

#### Analysts

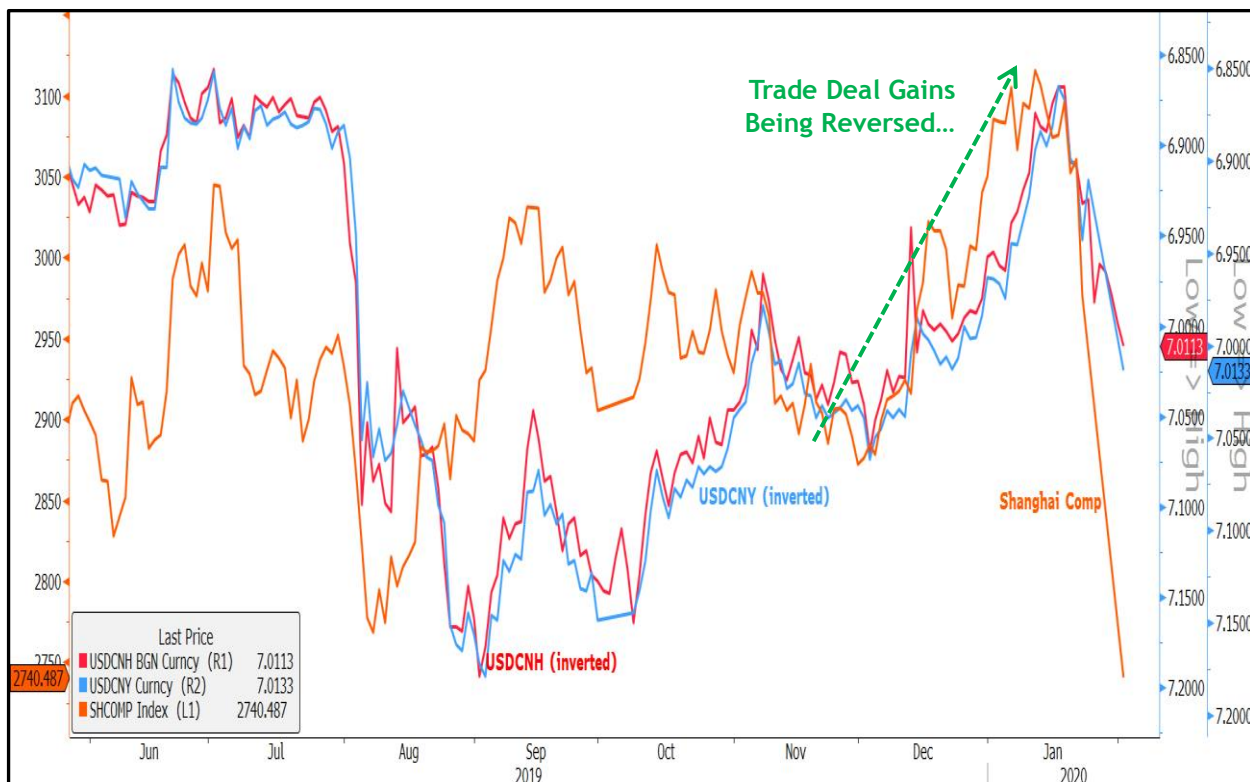
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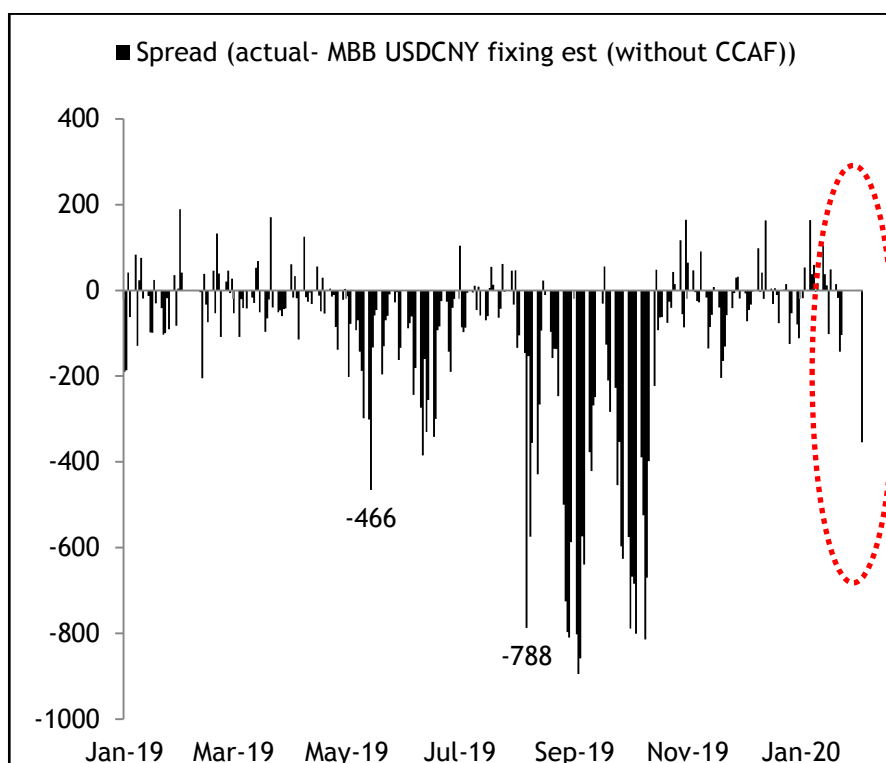
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#### RMB Assets Shaken by the New Coronavirus



Source: Bloomberg, Maybank FX Research & Strategy

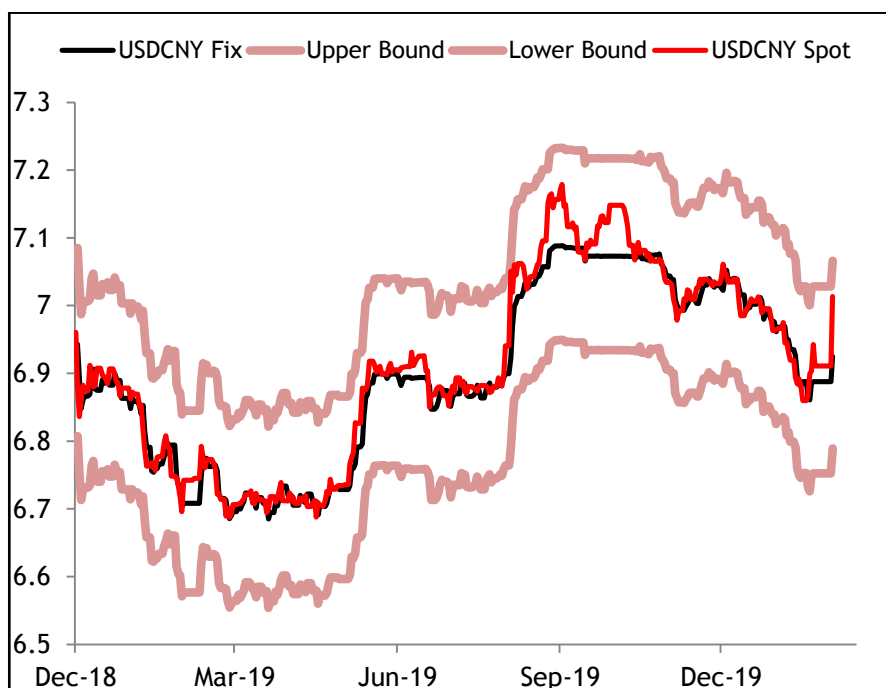
### Countercyclical Adjustment Estimates Increased For The Fix Today



Source: Maybank FX Research & Strategy Estimates; Bloomberg

USDCNY was fixed at 6.9249 vs. previous 6.8876 (on 23<sup>rd</sup> Jan). This was lower than most estimates including our own, indicating preference for less CNY weakness than what market forces suggest. USDCNY last traded at 7.0153, 1.28% above the USDCNY reference rate fixed at 6.9249 - the highest premium seen since exactly 5 months ago on 3<sup>rd</sup> Sep (USDCNY spot closed 1.28% above the reference that day), right after the last tranche of tariffs being imposed by the US on Chinese imports.

### USDCNY Now Trades 1.28% above the USDCNY Fix



Source: Bloomberg; Maybank FX Research & Strategy

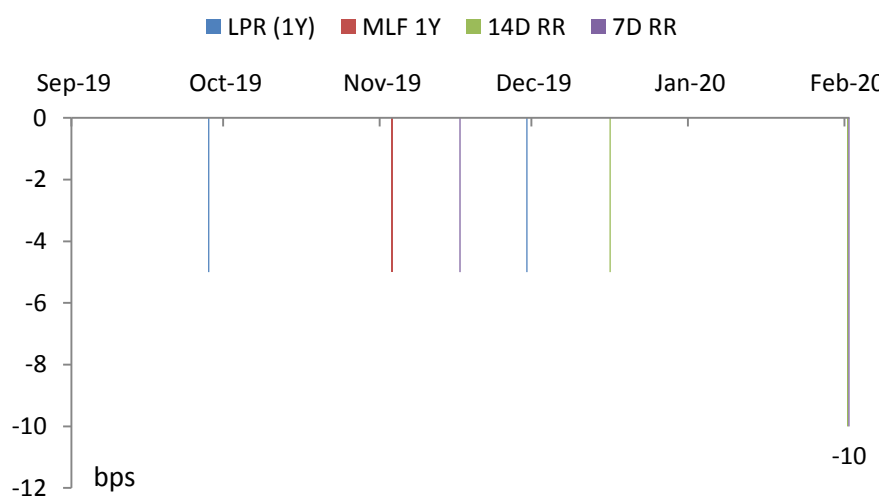
### Update on the Novel Coronavirus (nCoV) Thus Far

- **Death Toll: >360**
- **Confirmed Cases in China: >17200**
- The 1000-bed “Fire God Mountain” hospital, constructed within 10 days, started to receive patients today. Second hospital is scheduled to be ready by Wednesday.
- First death reported out of China in Philippines.
- Thailand Health Ministry reported success with its treatment of a Chinese woman infected with the coronavirus. She tested negative for the virus 48 hours after doctors gave her a combination of anti-virals used to treat flu & HIV.
- Countries that barred travel to and from China (in varying extent) include Australia, Hong Kong, Indonesia, India, Israel, Italy, Mongolia, Myanmar, New Zealand, North Korea, Oman, Pakistan, Philippines, Russia, Singapore, South Korea, Taiwan, the US, Vietnam. *China Ministry of Foreign Affairs spokesperson tweeted that “certain country has turned a blind eye to WHO recommendations and imposed sweeping travel restrictions against China. This kind of overreaction could only make things even worse. It’s not the right way to deal with the pandemic.”*
- WHO declared PHEIC (Public Health Emergency of International Concern) but stopped short of recommending travel restrictions.

### RMB Should Weaken but PBoC To Support

The lock-down of 16 cities in China and the restrictions of travel to and from China are likely to hurt the real economy. PMI-mfg show signs of softening for Jan at 51.1 vs. previous 51.5. The services version is due tomorrow. Before the rest of the Jan data is out however, the fear of the real economic damage is already well reflected in the steep tumble of the equities markets today. The authorities seemed to be pulling out all stops to keep sentiments from a vicious cycle by providing a net \$22bn liquidity injection via the OMO, making a deeper than expected rate cut to both reverse repo rates (7-day and 14-day) and providing a stronger-than-expected fix. We anticipate a corresponding cut for MLF and lower 1Y LPR.

### Past Rate Cuts Have Been Done in 5bps



Source: Bloomberg, PBoC

As we have noted in our piece [Lessons From SARS](#), SARS-like events, if contained effectively and in time, could see their negative impact unwind relatively fast. The fact that outbreaks typically do not last for more than 1-2 quarters suggests that PBoC may prefer to provide more support for the CNY in this period. This should not come as a surprise as we have seen other central banks intervene in the markets while China was away for Lunar New Year. That said, the price action of the USDCNH over the past months suggest that more CNH weakness may be inevitable even with some support from the authorities.

#### USDCNH (Daily) - Probable Inverse Head and Shoulders in the Making?



Source: Bloomberg

USDCNH seems to be resisted by the area of resistance around 7.02 (marked by a 50% Fibonacci retracement of the 2019-2020 decline) which is also near to the 100-dma at 7.0250. Failure to break this level at this point could mean a neckline formed thereabouts. Support is seen around 6.9788 and then at 6.9279. A move towards 6.93 could mean the formation of the right shoulder that could propel the USDCNH higher. Resistance at 7.02, 7.06, 7.11 and then at 7.1940. Momentum indicators are bullish although stochastics show mild tentative signs of turning from overbought conditions.

With China as the epicenter of the novel coronavirus, the pressure on RMB is definitely more than the rest. In contrast, market players are likely to find refuge in traditional safe haven such as the JPY.

The CNHJPY has come off from its peak in Jan and was last seen around 15.46. The 100-dma is about to cross the 200-dma to the upside, a bullish signal but momentum indicators are still bearish. Failure to make a clean break of the 100-dma at 15.48 today could mean a potential for this cross to head higher towards 15.77 (21-dma) before coming off again (another head and shoulders). We like selling this cross CNHJPY on rally towards 15.75 for a target of 15.13. Stoploss at 15.92 and risk reward ratio of 1:3.64%.

**CNHJPY (Daily) – Bearish Bias?**

Source: Maybank FX Research & Strategy, Bloomberg

**Upcoming Events to Watch in The Next Fortnight**

- 5<sup>th</sup> Feb - Caixin China PMI Composite, Services (Jan);
- 7<sup>th</sup> Feb - Trade (Jan);
- 10<sup>th</sup> Feb - PPI, CPI (Jan)
- 10-15<sup>th</sup> Feb - Aggregate financing, Money Supply, New yuan loans (Jan);

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