

RMB Watch

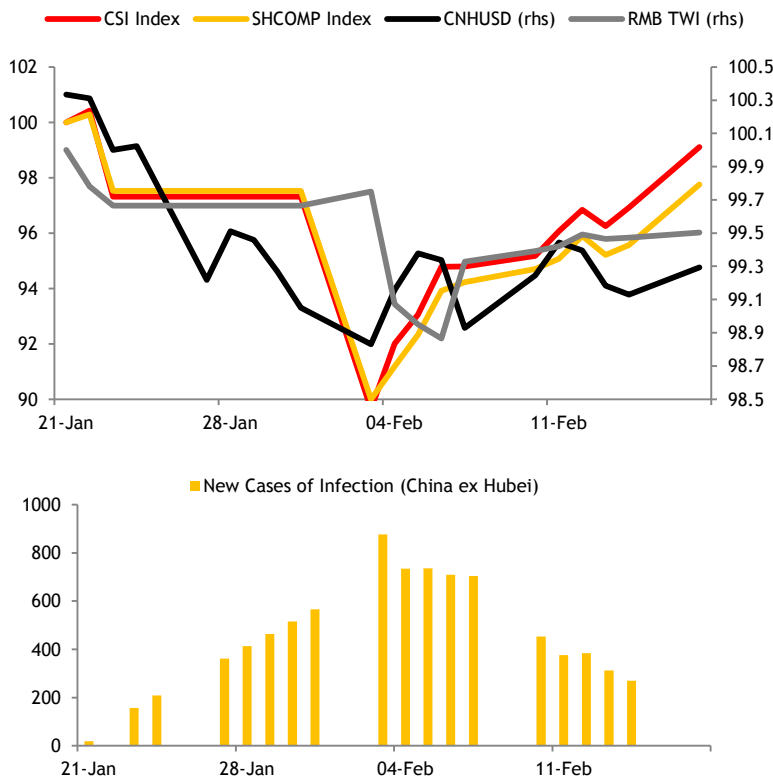
Focus Shifts from Virus Containment to Stimulus

Calm for the RMB for Now

USDCNH has been hovering within the 6.95-7.02 range for much of the past two weeks, not helped the least by the uninspiring quieter onshore market. While the existence of the countercyclical adjustment factor definitely helped when RMB markets re-opened on the 3rd of Feb, the decline in the new cases of infection in China also suggests that the spread of the virus might have peaked. Sentiment-wise, Shanghai Composite index also saw a V-shaped recovery since the 8% plunge as shown in the charts below.

Chinese officials have responded with more growth-supporting measures including upcoming corporate tax cuts (from current 25%), easing of property-related loan quota, allowance to exclude classification of defaults (triggered by COVID-19) as NPL for a period of time as well as deeper rate cuts (10bps as opposed to previous 5bps cuts) on OMO and MLF on top of special re-lending facility amongst others. These measures have helped to support the RMB and domestic equities. In fact, equity indices seemed to have made a full recovery already but the consolidative CNH suggests that investors are still rather uncertain. Data releases in Mar for Jan-Feb would give a better picture of the damage. USDCNH should remain within 6.92-7.02. However, risks are tilted to the upside beyond the near-term.

RMB Stable While Equities Post Full Recovery



Source: WHO, Bloomberg, Maybank FX Research & Strategy

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The Shift From Virus Containment to Economic Stimulus

In the past two weeks, USDCNH has been trapped within the 6.95-7.02 range. While death tolls and infection cases continued to rise, the number of new cases per day has been on the decline (excluding the day that China decided to include the clinically diagnosed in the count of confirmed cases apart from the laboratory-confirmed number). With plenty of equity markets (including China's Shanghai Composite index) already posting a V-shape recovery and manufacturers slowly resuming operations in their respective plants (including Toyota today), investors have shifted focus from virus containment to economic stimulus measures which is positive for RMB for now.

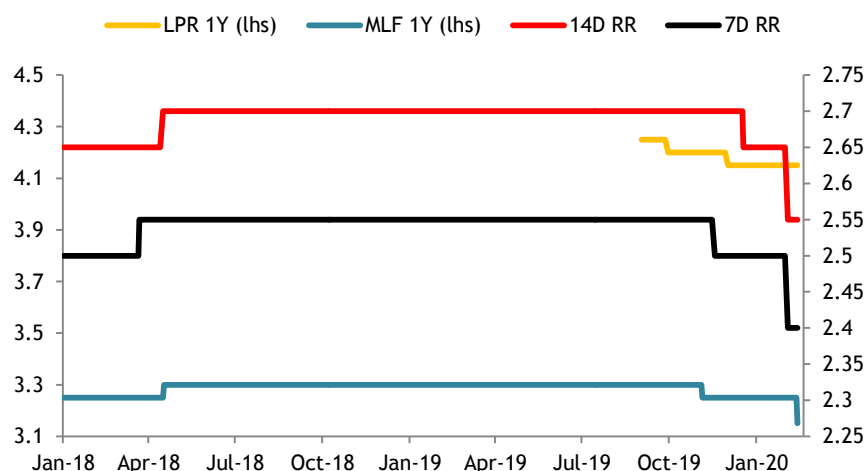
"China will meet its economic targets this year through prudent monetary policy, a boost in domestic consumption and large foreign-capital projects"

Politburo Meeting Chaired by President Xi Jinping 12 Feb 2020

At the Central Economic Work Conference held last Dec, China is said to plan a lower economic growth target of around 6% for this year vs. 6-6.5% for 2019 according to Policy sources cited by Reuters. Focus will be on fiscal policy with some monetary easing. The central bank and State Council did not shift their stance of being "prudent" as deleveraging is still of importance (albeit less urgent than before).

Monetary Easing Has Already Started

Easing Has Begun for OMO, MLF; LPR Should Follow



Source: PBoC, Bloomberg, Maybank FX Research & Strategy

PBoC has already started to ease with the last RMB Watch already reported a 10bps cut for the 7-Day and 14-Day Reverse repo rates to 2.55% and 2.4% respectively. Just today, PBoC also conducted MLF and **lowered the 1Y rates by a corresponding 10bps to 3.15%**. Thus far, it is almost certain that the 1Y loan prime rate (due for announcement this Thu and on the 20th of every month) will be lowered by a 10bps as this rate is supposedly tied closely to the MLF rate and the cut in OMO rates as well as the MLF rate be a clear signal to all banks to lower their prime rates to their best clients accordingly. **We look for the 1Y LPR to be lowered by 10bps to 4.05% (in line with consensus) this Thu (20th Feb).** The 5Y LPR is tied to mortgage rates and we anticipate a more modest 5bps cut to boost consumption but the cuts done for the 5Y and concomitantly mortgage rates should not be too deep lest credit flows disproportionately to the real estate vs. the other sectors of the real economy.

Last week, PBoC also provided the first tranche of special lending funds that amounts of CNY300bn, targeted to lend support for businesses that “combat” CoViD 2019 and a weekly facility will be offered to banks later this month.

Other potential moves include a cut in deposit rate that could pave the way for further rate cuts. This was suggested by PBoC advisor Ma Jun on 10th Feb.

Date PBoC Measures In Reaction to COVID-19	
3 rd Feb	PBoC cut 7-Day Reverse Repo and 14-Day by 10 bps
10 th Feb	PBoC provided CNY300bn in loans via special lending programme to help businesses “combating” the coronavirus epidemic. Weekly facility will be offered to banks later in Feb. 9 major national banks and some local banks in 10 provinces and cities qualify for the special funding. Issuance and fund disbursements will be done within 2 days. FI must offer loans from this special re-lending fund at rates up to 100bps below the 1Y LPR.
17 th Feb	PBoC conducted MLF and 1Y rate was lowered by 10bps

Source: PBoC, Various news Sources

Despite the rate cut for the medium-term lending facility (MLF) today, the amount of liquidity injected was lower than expected as CNY1000bn was due to mature today. In total, PBoC only injected CNY200bn of liquidity via the MLF and only injected CNY100bn via the 7-day reverse repo notes. That results in a net CNY700bn withdrawal due to the large amount of 7-day and 14-day reverse repo notes that matured. 7D repo rate was last seen around 1.6%, underscoring ample liquidity conditions. For an idea of OMO and MLF maturity schedule in the foreseeable future, you can refer to the table at the end of this report. Generally, the central bank only uses 7-day and 14-day reverse repo notes as well as MLF to manage liquidity in recent days.

Expect Price Pressure to Be Transient

Over the weekend, there were quite a number of comments coming out of key government departments. PBoC expressed confidence that the virus should not cause “large scale inflation” although some price pressure is observed due to the delay in production. This does suggest that the easing bias would remain in spite of the recent spike in CPI that was partially driven by the road blockages. The agriculture ministry has urged farmers not to miss the spring planting season as a delay in planting during this key period could lower the harvest for the year.

More recent Fiscal Measures

Finance Ministry issued a statement on 11 Feb, allowing local governments to sell CNY848bn of bonds ahead of Mar including CNY558bn of local government debt and CNY290bn of special debt.

Last Fri (14th Feb), the central bank eased property-loan quota for banks. PBoC will now only enforce an overall property-related loans instead of enforcing separate quotas on both personal mortgage lending and property-development loans - 14 Feb.

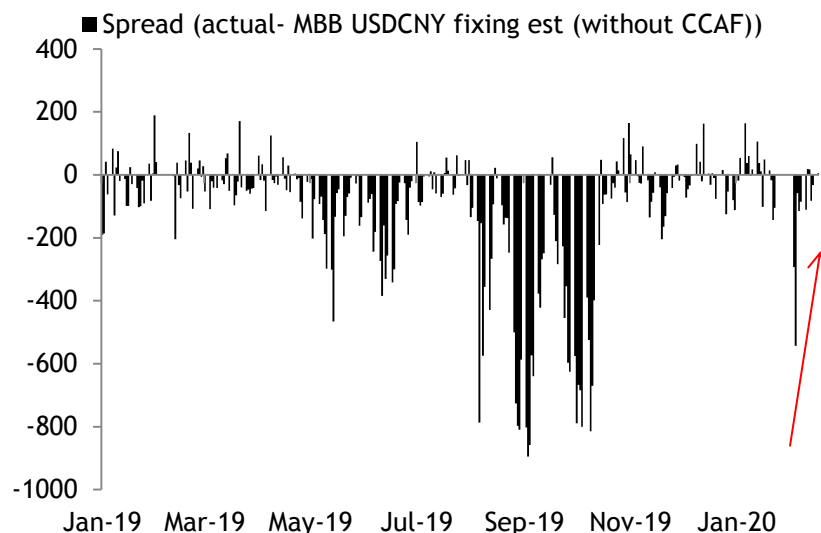
In addition, CIBRC also allow defaults resulting from the outbreak to be excluded from NPL for a period of time.

Over the weekend, the Finance Ministry has also announced the reduction of corporate income tax rate as well as the reduction in “unnecessary government expenses”. The current corporate tax rate for resident and non-resident enterprises is 25%.

Impact on RMB - Calm for Now

The containment of the COVID-19 virus and lessons from SARS had most market players maintaining a cautiously optimistic view in the past few weeks. Along with more calm in the markets and perhaps aided by quieter onshore markets given the lockdown in cities and roadblocks, the countercyclical adjustment factor in the daily USDCNY fixes has also reduced.

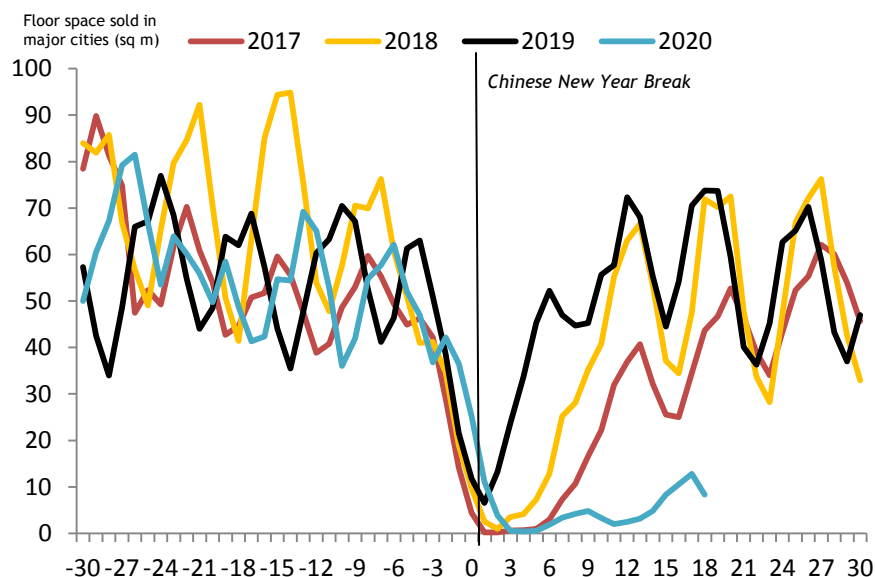
USDCNY Countercyclical Adjustment Factor Is Now Absent



Source: Maybank FX Research & Strategy Estimates, CFETS, Bloomberg

With PBoC showing some caution in terms of monetary easing, the fiscal measures have been keeping the RMB and equities supported. However, certain available data such as the daily property sales of floor space suggests that activity is very much subdued.

Daily Property Transactions Have Not Picked Up

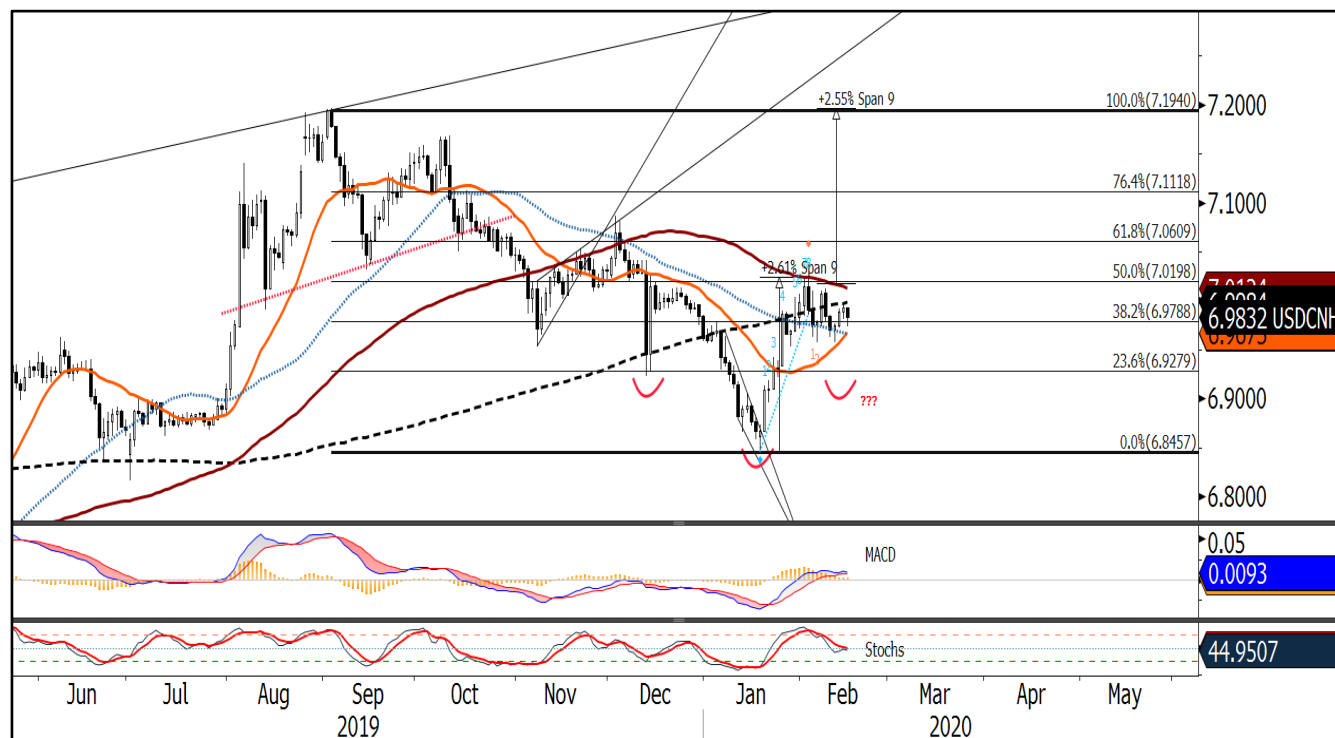


Source: CEIC, Various Municipal Offices for Housing & Urban Development

Investors would brace for weak economic data starting from the PMI prints for Feb due on 29th Feb, Caixin's version is due on 2nd Mar. Trade numbers are likely to be hurt as well and that is due on the 7th (both Jan and Feb numbers are due). Inflation pressure would be widely monitored, due on the 10th Mar and activity numbers for Jan-Feb is due on the 16th of Mar.

A key development is also the potential delay of the annual Two Sessions due to the epidemic. Xinhua announced that the Standing Committee of the NPC will meet on Feb 24th to mull over a potential delay of the full parliament. A ban on wildlife trade and consumption of wild game could be considered during this meeting as well. This meeting is usually held in early Mar for two weeks.

USDCNH - (Daily) - Right Shoulder of the inverted H&S Still Forming



Source: Maybank FX Research & Strategy, Bloomberg

USDCNH has been consolidative since the last RMB Watch. We had cautioned for the formation of the right shoulder of the inverted H&S formation with a move lower towards 6.93. Head and Shoulders typically take time to play out and we see potential consolidation within 6.92-7.02. 7.02 marks the neckline for a move towards 7.20.

16.5053

76.4%(16.2525)

61.8%(15.9270)

16.0000

50.0%(15.6640)

15.7326 CNHJPY

38.2%(15.4010)

15.4897

23.6%(15.0755)

15.0000

0.0%(14.5494)

14.5000

14.0000

0.0004

-0.20

75.7739

Looked for Right Shoulder to Form on 3 Feb

-2.86% Span 1

-4.19% Span 2

Jun 2019 Jul Aug Sep Oct Nov Dec Jan Feb Mar 2020 Apr May

Source: Maybank FX Research & Strategy, Bloomberg

18 th Feb	- Aggregate Financing, Money Supply M2, New Yuan Loans (Jan)
20 th Feb	- 1Y and 5Y LPR
29 th Feb	- Mfg and non-mfg PMI from NBS
2 nd Mar	- Caixin PMI Mfg

OMO and MLF Schedule

Date	Reverse Repo 7 Day	Reverse Repo 14 Day	MLF	TMLF	Reverse Repo 7D Maturity	Reverse Repo 14D Maturity	MLF Maturity	TMLF Maturity	Amount to mature	Total amount injected	Net injection/ withdrawal
10/2/2020	700000	200000			900000				900000	900000	0
11/2/2020	100000				380000				100000	380000	-280000
17/2/2020	100000		200,000		700000	300000			300000	1000000	-700000
18/2/2020					100000	120000			0	220000	
24/2/2020											
16/4/2020											
23/4/2020					100000	200000				300000	
13/5/2020							200000			200000	
5/6/2020							0	267400		267400	
18/6/2020							200000			200000	
14/7/2020							500000			500000	
22/7/2020							240000			240000	
14/8/2020							200000			200000	
25/8/2020							200000	297700		497700	
16/9/2020							400000			400000	
15/10/2020							150000			150000	
4/11/2020							200000			200000	
14/11/2020							200000			200000	
5/12/2020							400000			400000	
15/12/2020							200000			200000	
14/1/2021							300000			300000	
22/1/2021							300000			300000	
16/2/2021							300000			300000	

Note: All values are in RMB mn. Values highlighted are for the OMO and MLF conducted today 17th Feb 2020.

Source: PBoC, CEIC, Maybank FX Research & Strategy

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