

RMB Watch

Immunities Don't Usually Last Long

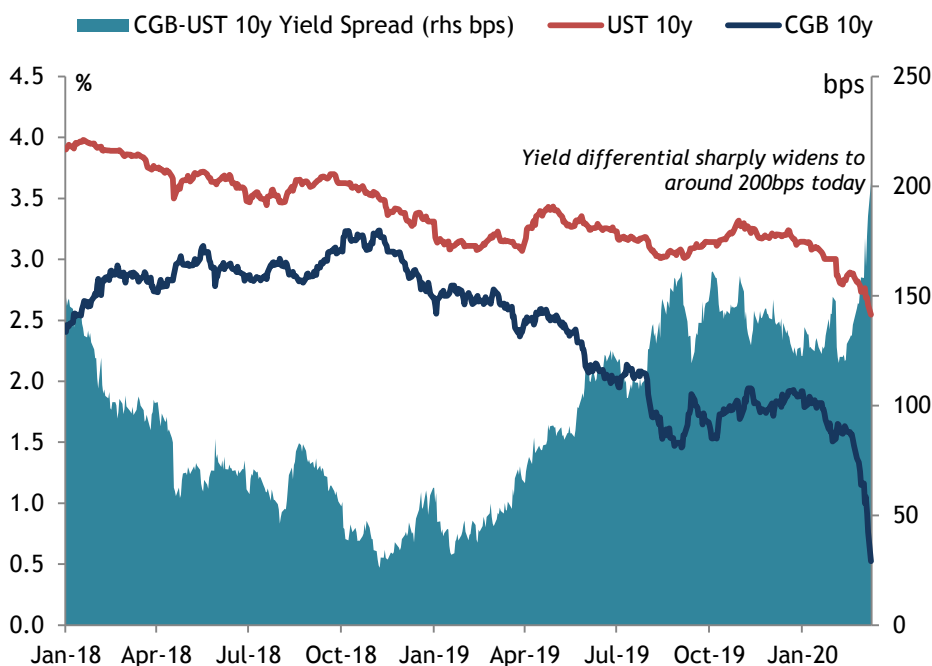
The Allure of the RMB Thus Far...

China has been so aggressive with the containment of COVID-19 that RMB is starting to look like a proxy safe haven and investors are willing to ignore the ugly data for Jan-Feb. However, its performance still lags that of the JPY. Our short CNHJPY initiated on 3rd Feb has hit our target at 15.13, clocking a 3.9% gain since its entry level 15.75. We close the position today. Trade-weighted wise, the CNY has risen to 93.15, up +1.93% since the start of the year. Hope for a V-shape recovery in terms of activity, allure of its bonds as PBoC continues to ease, the carry enhanced by the fall US Treasury yields as well as effective control of COVID-19 situation at home have kept CNY buoyant.

However, we do not expect its immunity to risk aversion to last. USD declines have been in tandem with the crash in the UST yields and these declines could slow at some point. The UST yields may fall low enough for USD to regain its safe haven status. We see potential for a turn in the USDCNH as market players may have become complacent as China strives to normalize from the lockdown of cities and production disruption.

USDCNH show signs of turning higher, last seen around 6.9500. This pair may have finally formed the right shoulder of the inverse H&S formation. Stochastics show signs of rising higher and bearish momentum on the daily MACD forest wanes. Resistance at 6.9788 before the next at 7.02 before 7.06. Support at 6.9280, tested multiple times before the next at 6.8460.

The Carry Allure of the RMB Enhanced with Plunge in US Rates



Source: WHO, Bloomberg, Maybank FX Research & Strategy

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The Allure of RMB Thus Far

The King USD is swiftly dethroned by aggressive bets on Fed easing again on the 18th this month after the emergency 50bps cut. The greenback is also hurt by the continuous spread of COVID-19 to 34 out of the 50 states in the US and news of a lack of test kits does not help the USD in the least. The global spread of COVID-19 in the US, Europe, Middle East and Asia sapped up risk appetite. In contrast, China's death toll and infections continue to taper, increasing the allure of the CNY and CNH that also returns an increasingly positive carry over the USD with the plunge in US rates. The daily USDCNY reference rate has been fixed lower in response to market movements and broad USD decline. PBoC's record of ensuring yuan stability also gave market players added confidence in the currency and thus guided the USDCNY to levels around 6.94 as we write. Investors are willing to look past the ugly data that has surfaced in the past week as China continues to get activity back to pre-COVID levels.

China has been so aggressive with the containment of COVID-19 that RMB is starting to look like a proxy safe haven and investors are willing to ignore the ugly data for Jan-Feb. However, its performance still lags that of the JPY. Our short CNHJPY initiated on 3rd Feb has breached our target and was last seen around 14.81, clocking a 6.0% gain since its entry level 15.75. We close the position today. Trade-weighted wise, the CNY has risen to 93.15, up +1.93% since the start of the year. Hope for a V-shape recovery in terms of activity, allure of its bonds as PBoC continues to ease as well as effective control of COVID-19 situation at home have kept CNY buoyant.

Will PBoC Ease Again? We think Not for March

Insofar, PBoC has been skipping open market operation for more than two weeks now (15th session to date). The fall in 7-day repo rate to around 1.95% also suggest that liquidity seem rather ample and while PBoC could continue to ease, the lack of OMOs suggest that this could be a month to pause after the more aggressive-than-usual 10bps cut to the 7-day, 14-day, MLF rate that has guided the 1Y loan prime rate correspondingly lower. We also do not look for any moves to the 5Y LPR that is linked to mortgage rates as the State Council had been rather clear on discouraging speculation on housing.

A pause in the rate action would probably send a signal of prudence that PBoC has been emphasizing even as the monetary policy is supposed to be more "flexible". This could ensure that market players and corporates would not overleverage in anticipation of deep rate cuts. Focus at this point is perhaps on the deposit rate cuts so that net interest margins for banks at home would not deteriorate too much after the lending rates are guided lower.

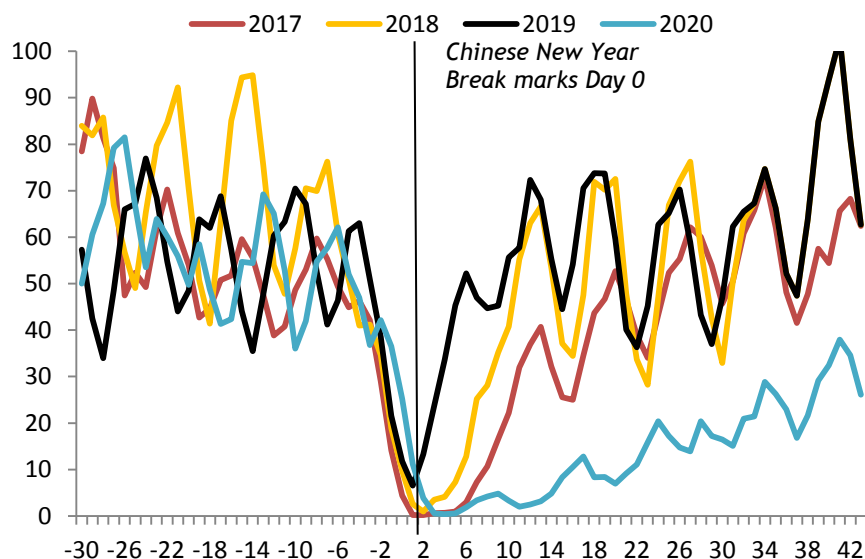
Activity Recovers Slowly

The resumption rate is still below normal levels for most sectors.

NDRC reported that over 60% of logistics companies and around 70% of transport vehicles have been operating as of end Feb. The NDRC also reported that 79% of provincial major projects had resumed construction as of 5 Mar. FX trading volume has rebounded to 80% of the average daily volume pre-Lunar New Year break.

Consumer confidence is still weak as China Passenger Car Association sees a steeper decline of -8% for passenger vehicle sales versus original estimate of -5%. SUV retail sales dropped 78.4%y/y in Feb. Ministry of Industry and Information Technology also reported that only 37% of car dealers are back to work.

Floor Space Sales in Top 10 Cities Still Below Normal levels



Source: CEIC, Maybank FX Research & Strategy

Will RMB continue to Steady?

CNH is not likely to escape from a persistent period of risk aversion entirely. USD declines have been in tandem with the crash in the UST yields and these declines could slow at some point. The UST yields may fall low enough for USD to regain its safe haven status. We see potential for a turn in the USDCNH as market players may have become complacent as China strives to normalize from the lockdown of cities and production disruption. As more companies and factories get back to operation and schools re-open, China is not immune to imported cases of infection like the rest of the world as well as the risk of community spread.

Will PBoC Stop The Decline in the RMB?

Like most other central banks, PBoC usually wants to ensure that there is no excessive depreciation that affects the stability of the currency. However, it is in the central bank's interests to allow room for market forces for the RMB so that the RMB is still aligned with its fundamentals. Allowing room for market forces could also stave off speculations against the RMB. Along with the resumption of activities at home, it may now be even favourable for RMB to claw back some competitiveness against its trading partners and PBoC may not want to stand in the way.

USDCNH - Turning Higher?

Source: Bloomberg

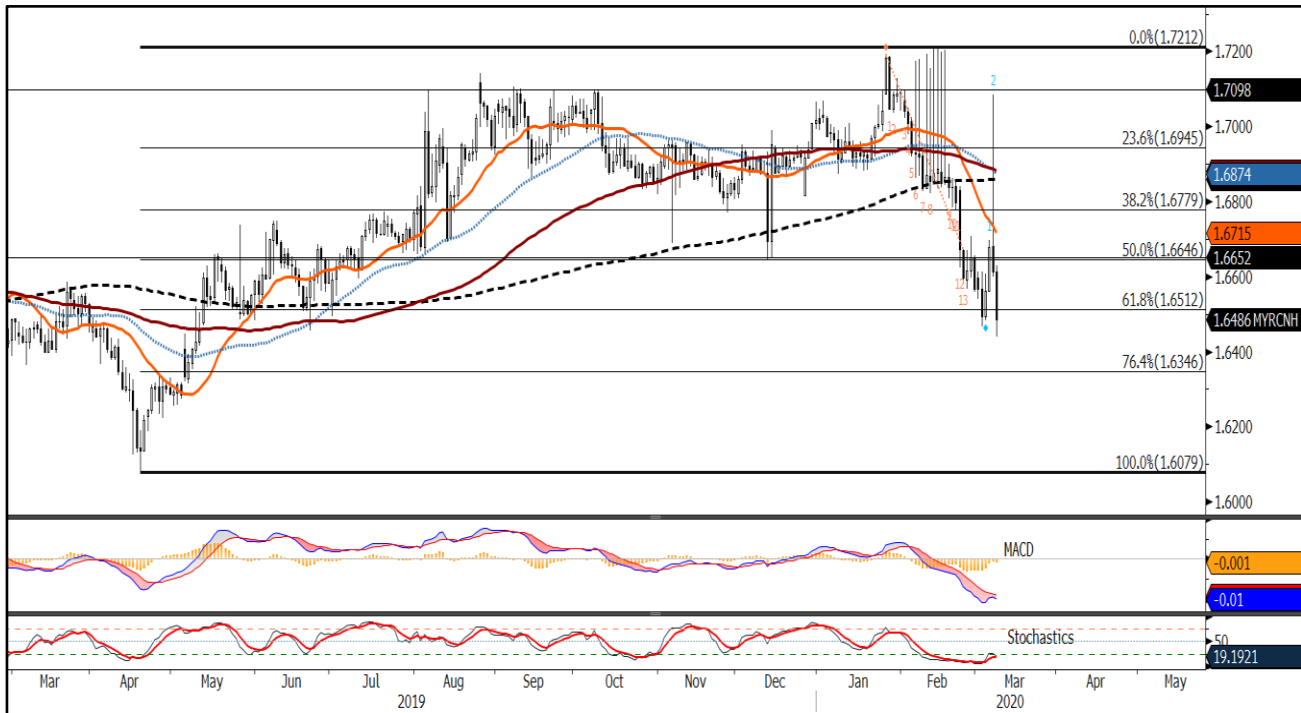
USDCNH show signs of turning higher, last seen around 6.9500. This pair may have finally formed the right shoulder of the inverse H&S formation. Stochastics show signs of rising higher and bearish momentum on the daily MACD forest wanes. Resistance at 6.9788 before the next at 7.02 before 7.06. Support at 6.9280, tested multiple times before the next at 6.8460.

SGDCNH - Some Upside Risks

Source: Bloomberg

We are also positive on the SGDCNH as we assessed that the recent hit to SGD has led it to be more stretched vs. the CNH. We continue to look for it to head towards 5.04 from current levels around 5.0240 before the next resistance at 5.07/08 (50-dma) and then at 5.09, 5.12. Support at 4.9930.

MYRCNH - Still Downside Bias but Decline Could Slow



Source: Bloomberg

MYRCNH was last seen around 1.6480. This cross remains biased to the downside at this point but declines could slow as bearish momentum wanes on the MACD and stochastics. Support at 1.6340. Resistance at 1.6510 before 1.6650.

Upcoming Events to Watch in The Next Fortnight

- 10 - 15th Mar - Aggregate Financing, Money Supply M2, New Yuan Loans (Feb)
- 10th Mar - PPI and CPI (Feb)
- 16th Mar - Industrial production, retail sales, property investment and FAI ex rural (Feb)
- 20th Mar - 1Y LPR and 5Y LPR for Mar
- 27th Mar - Industrial Profits (Feb)

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