Maybank

Macro | FX Research and Strategy

Global

RMB Watch

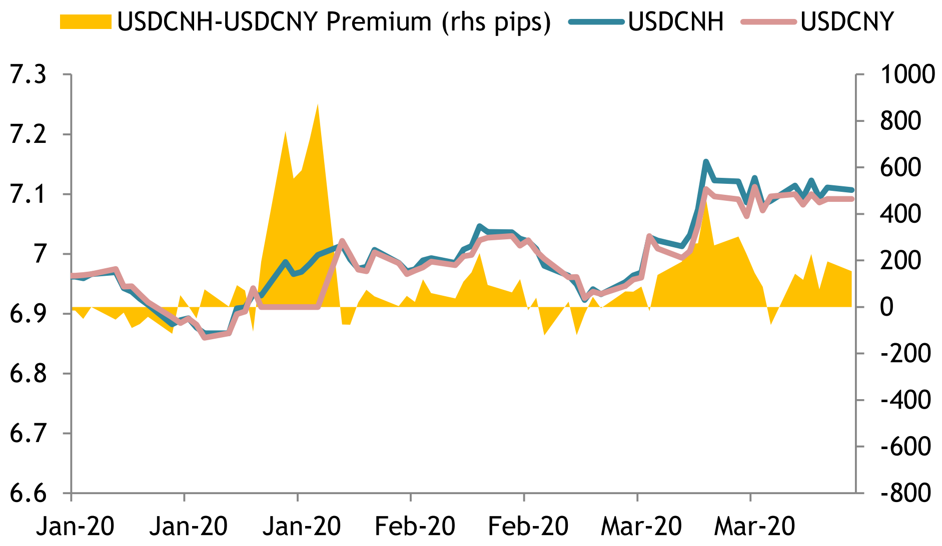
RMB Bulls To Assert

RMB To Strengthen Further

Key View:

- **CNY TWI has stabilized in an environment of USD recovery and stronger guidance from PBoC to keep the RMB from excessive weakness.** USDCNY and USDCNH should continue to be biased to the downside because
  - PBoC will continue to be there to limit the CNY downsides, also providing downside protection for CNH. This is especially so as PBoC tends to keep the currency stable as an anchor for the financial markets in periods of monetary easing. PBoC just cut targeted RRR by another ppt and dropped 7-day reverse repo by a larger 20bps.
  - China is getting its production back up while the cities US are still under lockdown with jobless rising at an unprecedented rate. CNH's haven appeal might be enhanced at the expense of the USD.
  - Balance of payment position for China could be strengthened as the shrinkage of outbound tourism reduces import of services drastically. That should provide more cushion for the CNY and concomitantly, the offshore CNH.
- **What We Watch:**
  1) PBoC is likely to reduce MLF rate by 20bps in tandem with the OMO rates, likely around the mid of Apr.
  2) 1Y LPR to be guided lower by 20bps on 20th Apr
  3) Data Releases such as inflation on 10th Apr, monetary and credit data, trade on 14th and GDP along with other activity data on 17th Apr.

Some Depreciation Pressure, Evidence by USDCNH-USDCNY premium But Fading



Source: Bloomberg, Maybank FX Research & Strategy

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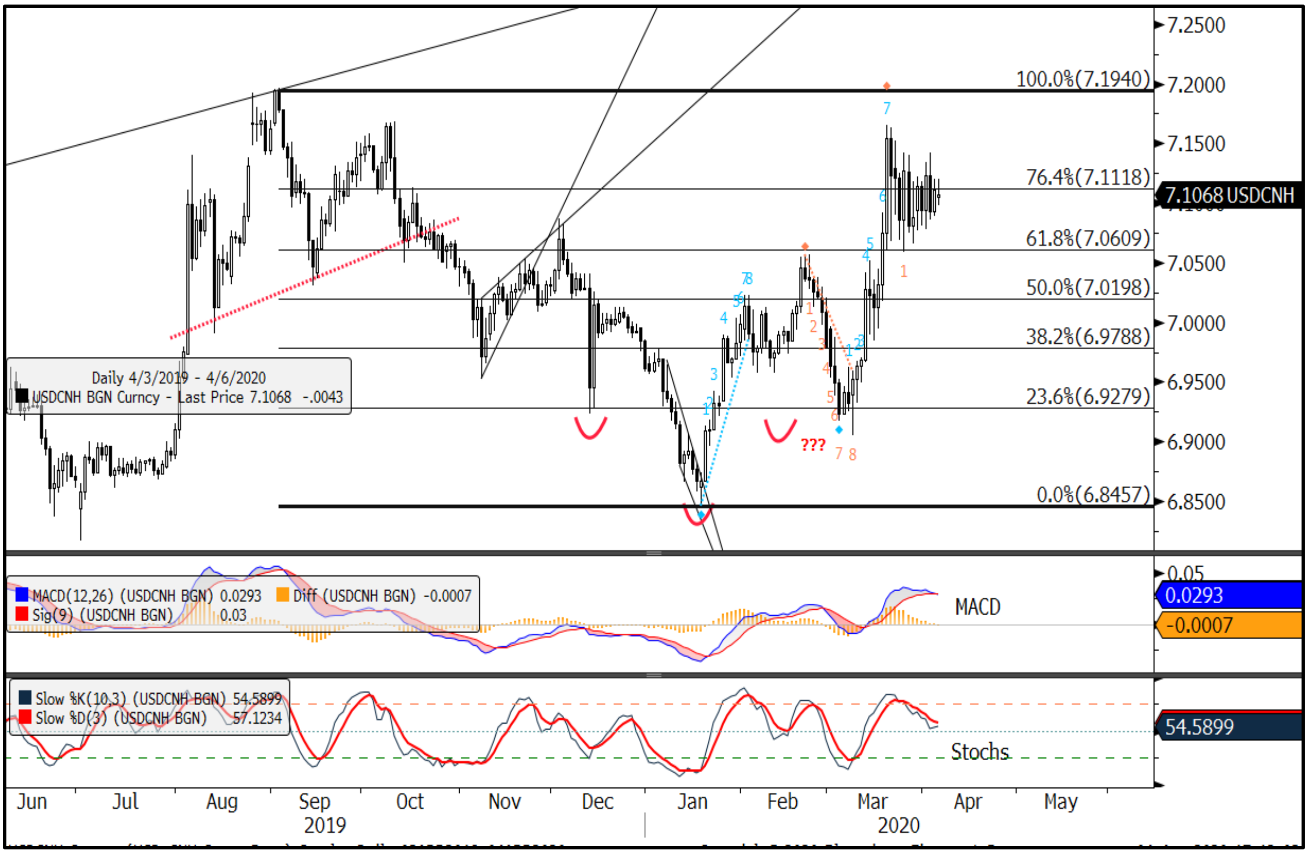
Prefer to Sell USDCNH on Rallies…

Onshore markets in mainland China are closed for Mon-Wed while offshore in Hong Kong will close for only today. Past two weeks saw USDCNH consolidate in a wide range of 7.05-7.15. Onshore, USDCNY hovered within 7.05-7.13 with USDCNH trading at around 100pips premium to the USDCNY for much of the fortnight. In the last issue of RMB Watch, we had looked for weakness against the USD to fade and while it is arguable that the CNH has not gained much strength since the 23rd of Mar, both CNH and CNY certainly did not weaken further.

Weakness is still inherent, underscored by the USDCNH-USDCNY premium as shown in the chart on the first page. However, this premium seems to show early signs of fading. The depreciation pressure in the RMB is likely only partially explained by the modest recovery in the USD. Another key reason was the news that the Jia County of Henan was ordered to lockdown once again after the local transmission of the coronavirus was discovered. However, the number of new cases in China (including asymptomatic ones) has been around 100, a far cry from the other nations such as the US, Italy, Spain and many other European countries which record daily cases in thousands. Given China's experience in dealing with COVID-19 and its swift top-down management system, the situation in China is far from "getting out of control" in mainland China and we see any weakness in the RMB as a chance to fade into.

USDCNH - Consolidative with a Downside Bias, Bias to Sell on Rally



We continue to expect CNY bulls to reassert as

1. PBoC shows greater guidance in the daily USDCNY fix to prevent excessive weakness in the CNY. That also serves to limit aggressive USDCNH bids. The central bank also tends to keep the CNY anchored in times of monetary easing to ensure some stability in the domestic financial markets.

2. In addition, with the US as the latest epicenter, the USD's haven appeal of the USD could weaken along with its carry advantage (that could be eroded by aggressive QE) and broad USD moves lower could also see the USDCNY and USDCNH slide. China remains one of the countries that flattened the COVID-19 curve and production is normalizing, well ahead of the rest of the world. In times of volatility, its safe haven appeal could ensure the RMB's resilience.

3. Broad travel bans and a more cautious Chinese consumer group could mean less import of services and stronger balance of payment position for the RMB.

PBoC wants to limit RMB Weakness

RMB selling pressure was not likely to get USDCNH bulls much further with PBoC signaling for less depreciation in the RMB. In the past week especially, the central bank seems to have enhanced the countercyclical adjustment factor and kept the USDCNY fix a tad lower than consensus. That has kept the USDCNY and USDCNH bulls on the leash and prevented the RMB trade weighted index from declining too much.

The pullback in the RMB trade weighted index was noticeable, off 2% from its highs before steadying around 94.20 as of 3rd Apr. Weakened RMB could boost exports from now but excessive volatility is not conducive for the financial markets and PBoC tends to prefer to some stability in the currency whenever the central banks ease monetary policy and there has been relatively more easing of late.

Monetary Policy to counter effects of the Coronavirus:

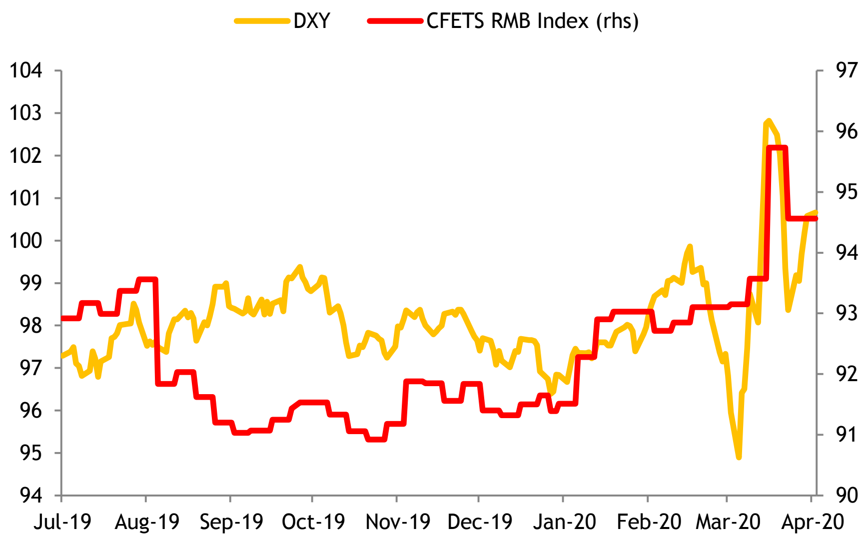
- Last week, PBoC had dropped targeted RRR for smaller banks (more specifically rural banks and small city commercial banks) by 1ppt. More RRR cuts were widely expected by market players including ourselves in the last issue of the RMB Watch. The latest 1ppt cut will take effect with a 0.5ppt drop on 15 Apr and then another 0.5ppt on 15 May, effectively injecting CNY400bn of funds.

- Interest rate for banks' excess reserves will also be lowered to 0.35% from previous 0.72% with effect from 7 Apr.

- This comes after PBoC dropped 7-day reverse repo rate to 2.2% from 2.4% on 30th Mar, a larger 20bps vs. previous 10bps cut. This would likely be followed by another 20bps cut for MLF 1y rate that could come around the mid of Apr – when the next MLF tranche is due, and guide the 1Y LPR 20bps lower from current 4.05%. PBoC has also decided to quell speculation of cuts for the deposit rate for now. Deputy Governor Liu commented that adjustments to the deposit rate needs further evaluation as the rate serves as an "anchor" for the interest rate system.

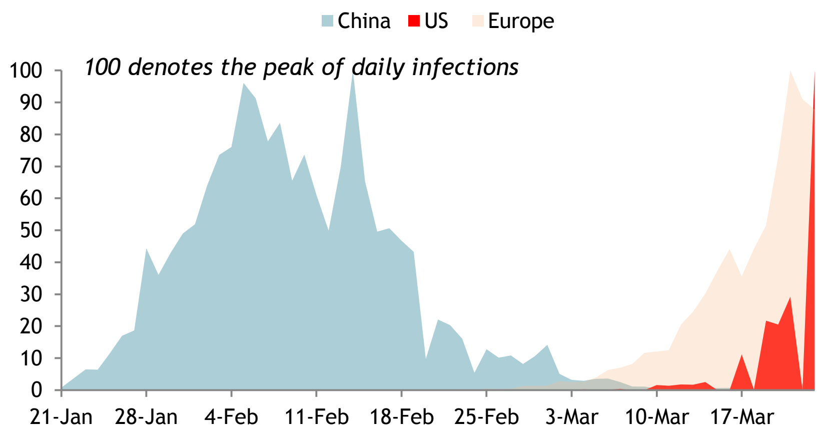
So it is clear that PBoC wants to ensure that the financing costs for firms to remain cheap and that has continued to underpin demand for China government bonds as well.

RMB started to act a like a Haven



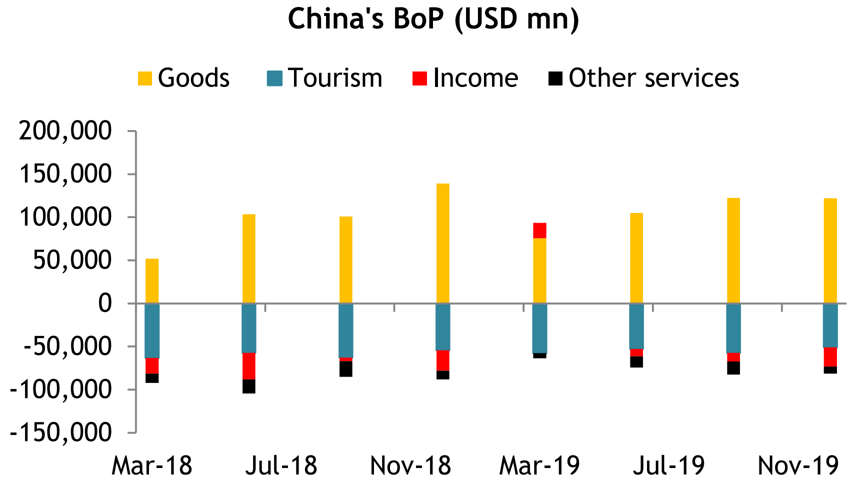
The CNY has started to act like a safe haven alternative. The CNY TWI strengthened in times of volatility along with the DXY index. Apart from the fact that PBoC is likely there to protect the downsides in the CNY, the CNY also has a haven appeal based on the fact that the epicenter has long shifted to the rest of the world. This has been mentioned in our reports a number of times and it could still hold. In times of volatility, this should continue to grant CNY some resilience.

Epi-centre of COVID-19 Shifting to US



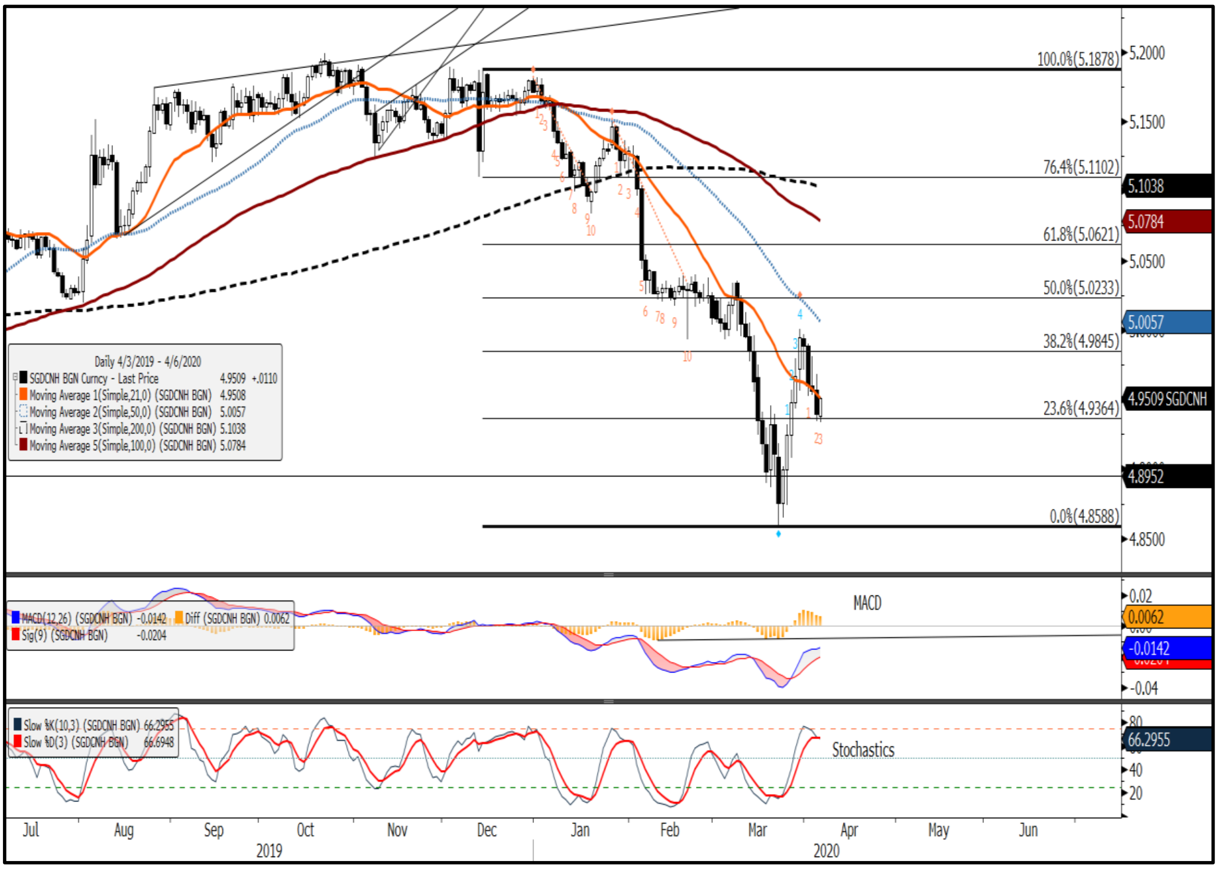
Source: WHO situational reports updated 24 Mar, Maybank FX Research & Strategy

BoP position could improve as outbound tourism decreases



Every quarter, China records around a debit of USD50-60bn of tourism imports in 2019. The Covid pandemic and concomitant lockdown should improve its position substantially as outbound tourism slows drastically. That should provide CNY greater resilience in a year where external demand should be weak, especially for its exports.

SGDCNH - Bearish Bias Stays



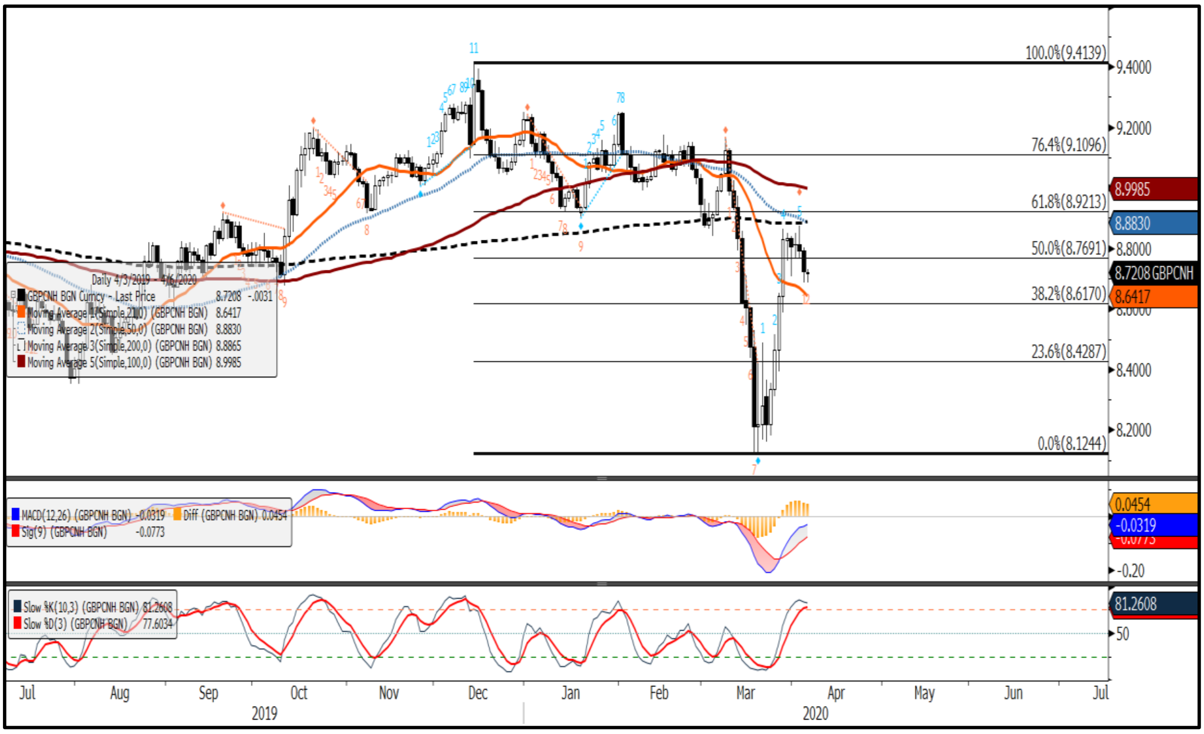
SGDCNH has been on the decline with bears riding on the sudden acceleration in daily cases in Singapore that spurred the country to impose a "Circuit Breaker" period of one-month that requires the halt of non-essential businesses and school closures for the period. The stronger

CNY fix also gives the currency more resilience vs. the SGD. Last seen around 4.95, this cross was supported by the 4.9360-support (23.6% Fibonacci retracement of the Jan-Mar sell-off) and then another at 4.8950 before 4.8588. Retracements of the USDCNH to meet resistance at 4.9845 before the next, at the 5.00-figure. Momentum indicators suggest that bias could still be to the downside, guided by the 21-dma (orange).

MYRCNH – Consolidative, Biased for Lower Action

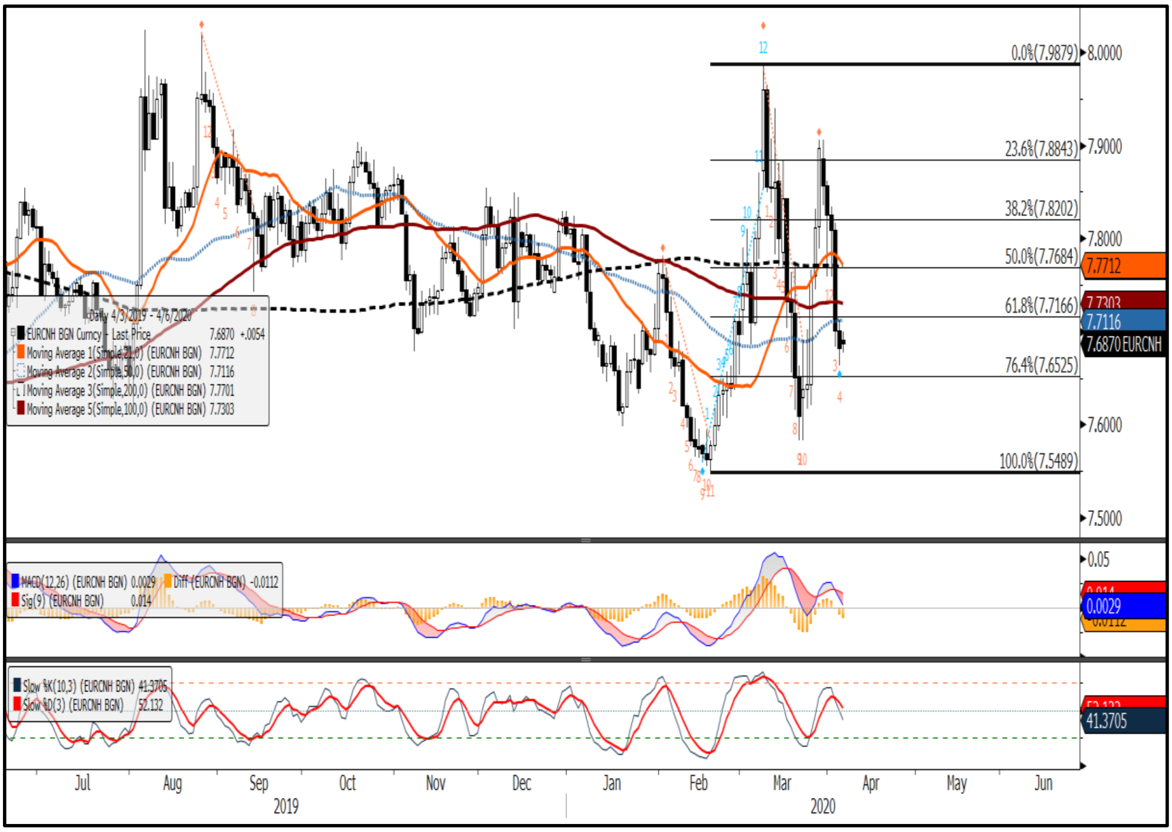
MYRCNH resumes decline in the past few sessions as the RMB has been resilient vs. the MYR in an environment of volatile oil prices. MYRCNH has found support around 1.6240 (23.6% Fibonacci retracement of the Jan-Mar fall). Momentum indicators still suggest downside bias and beyond this level of support, the next is seen around 1.6100. Resistance at 1.6420 before 1.6570/6600 (marked by the 50% fibo and 50-dma). Much of the price action could still be consolidative within the wide range of 1.5990-1.6420.

GBPCNH - Overbought, Downside Bias



GBPCNH seems a tad overbought at this point and was last seen around 8.7210. Stochastics suggest overbought condition and bias is to sell this cross on the uptick. Support at 8.64/62 (38.2% Fibonacci retracement of the Jan-Mar) before the next at 8.43 and then at 8.12. 50-DMA is crossing the 200-dma to the downside, a death cross – a bearish signal. We like to sell this cross towards target of 8.4200 before the next at 8.2120. Stoploss at 8.8840 and risk reward ratio of (1: 3.7). Spot reference at 8.7330 for today (6 Apr).

EURCNH - Two-Way Risks



Source: Maybank FX Research & Strategy, Bloomberg

EURCNH has come off rather considerably and was last seen around 7.6890. This cross could remain whippy within this very wide range. Bias is to the downside, as implied by the MACD. Support is seen around 7.6525 before the next at 7.60. Retracements to meet resistance at 7.7170 (61.8% fibo retracement of the Feb-Mar rally) before the next at 7.7684.

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