RMB Watch

Direction Could Be Lacking

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Settling Into Range

Key View:

- CNY has recently started to react to interest rates cuts and we anticipate that PBoC would allow for more weakness as long as it is moderate. In the backdrop of weak external demand, China's push for private consumption to revive could also inevitably thin the current account buffer for the CNY.

- While there are some downside risks for the CNY and CNH, we note that CNY still has haven appeal (being the only country that is well on the road back to normalcy vs. the rest of the world) as well as carry. We see USDCNH being elevated above 7.02 but not making a rally beyond the 7.20. Last seen around 7.08, much of the price action could be within 7.06-7.12 in the next two weeks.

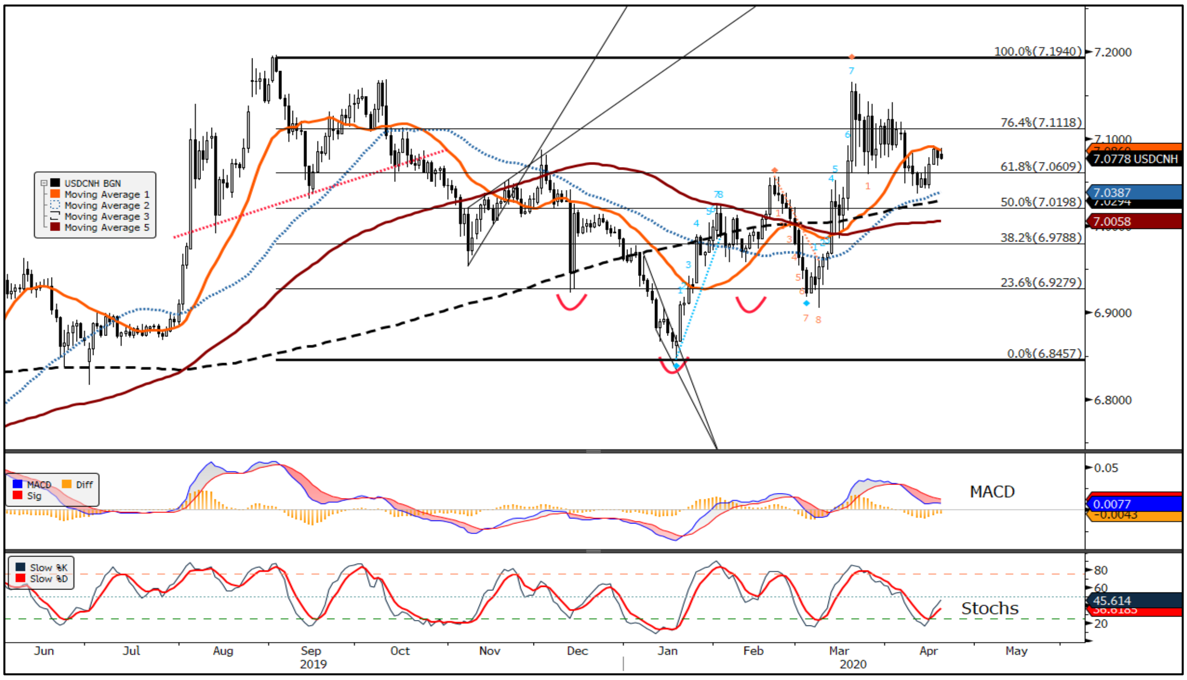
- AUDCNH could see a pullback towards 4.29 before 4.22 from current levels around 4.51.

What We Watch:

- Industrial Profits for Mar on 27th Apr

- NBS Manufacturing PMI and non-Mfg PMI on 30th Apr.

USDCNH (Daily) - May Settle into Elevated Range, Above 7.02.



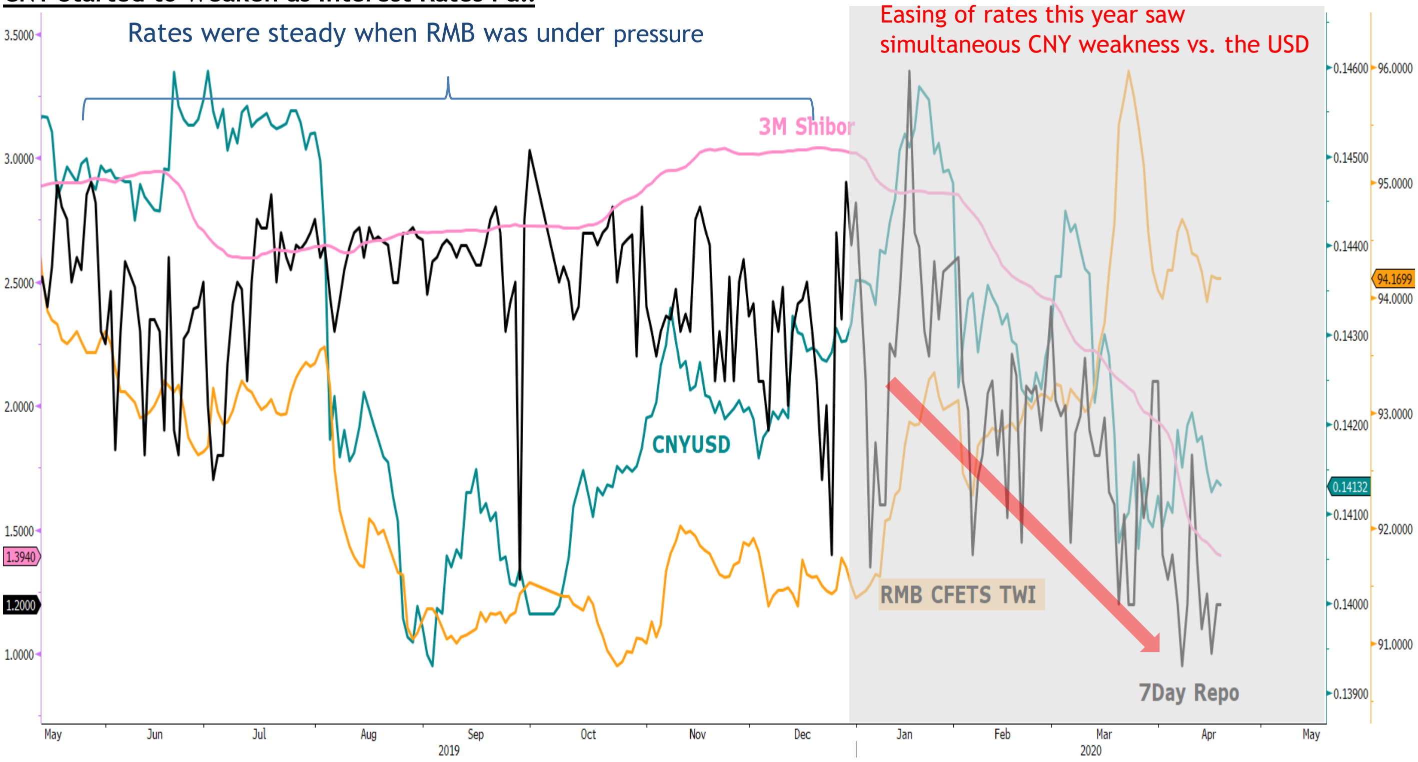
Source: Bloomberg, Maybank FX Research & Strategy

RMB Likely Less Directional Now, Some Downside Risks

The easing signal still holds well beyond the 20bps rate cut for 7-day reverse repo rate on 30 Mar. The 3M SHIBOR fell from 1.9180% to 1.4030% at last sight, more than 50bps while 7 day repo rate fell from around 2.0% to 1.20%, a 80bps plunge. 1Y LPR was guided lower by 20bps as announced today, a sign of full transmission from the rate cuts effected for the OMO rates as well as the 1Y MLF rates. 5Y LPR was lowered by 10bps, as expected. That said, the steep plunge in the 3M Shibor as well as the 7-day repo rate suggests that market expects further policy easing from the central bank in the next few weeks. CNY does not typically react to monetary policy. We have mentioned that during times of rate cuts in the past, PBoC tends to keep the CNY somewhat stable in order to provide some sort of anchor for CNY assets and the financial markets.

However, since the start of the year (grey area of the chart below), the modest slide in the CNY vs. the USD seems to have tracked the interest rates at home (3M Shibor, 7-day repo rates). China's trade weighted index was on the other hand, strengthening. During the month of Mar (which saw an acute rise in volatility), CNY gained quite a bit vs. the other non-USD currencies due to its safe haven appeal. As we look for PBoC to ease policy rates (OMO, MLF) further, the central bank may allow for further moderate weakness in the CNY.

CNY Started to Weaken as Interest Rates Fall



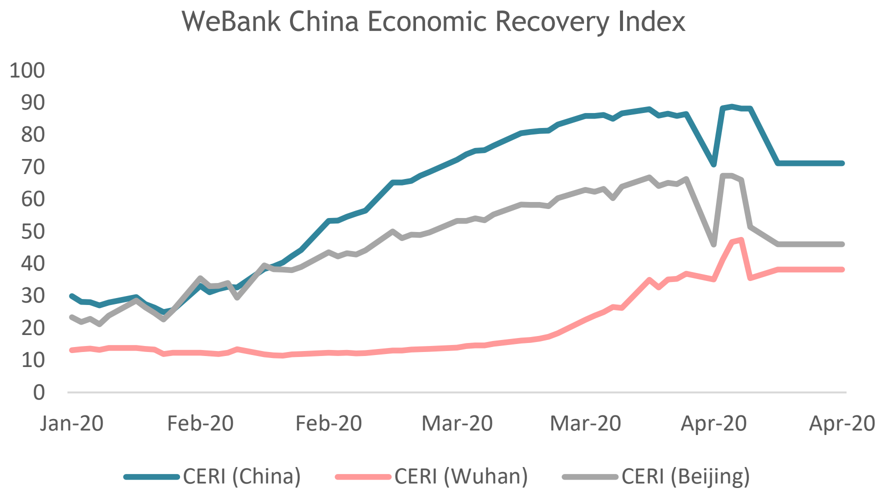
Source: Maybank FX Research & Strategy

Economic Data Validates Higher Frequency Indicators of Resumption

China released the 1Q GDP last Fri along with its activity data for Mar. Growth contracted -6.8%y/y last quarter and was down sequentially by -9.8%. However, markets were less focused on the damage that was well expected (the actual print was not even far off from the consensus of -6.0%y/y). Investors were looking for signs of recovery and it was found in industrial production which improved to -1.1%y/y vs. previous -13.5%. Retail sales on the other hand, lagged considerably at -15.8%y/y vs. previous -

20.5%. There have been reports of how Chinese consumers are still not willing to travel out of their homes even after the lockdown measures have eased as fears of infections remain. That said, there are signs that this could improve as WeBank China Economic Recovery index that gauge resumption of activity suggests that much of China is back to around 70-90% of normal level of activity. Activity level in Beijing is around 46-65% resumed while that of Wuhan is around 38-48% of normal level.

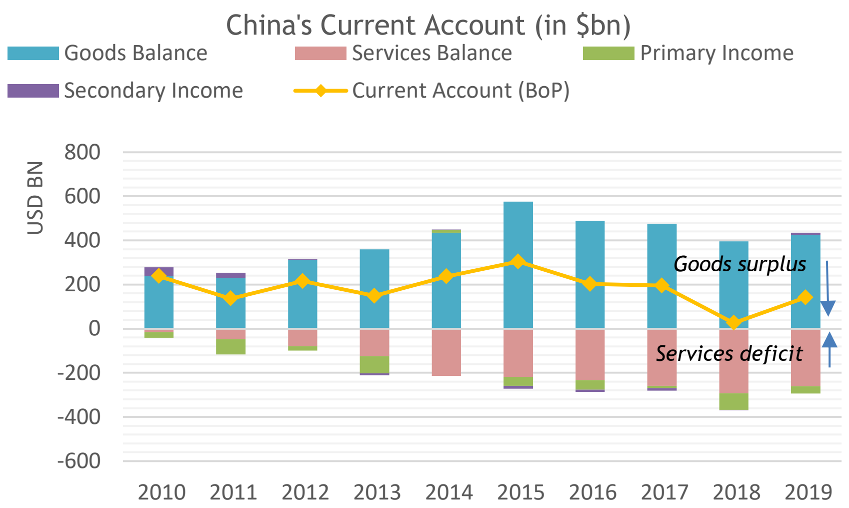
Economic Gauges Indicate Progression to Normalcy, Albeit Slow



Source: Maybank FX Research, Webank, Bloomberg

To address the cautiousness in spending, the NDRC told the press (today, 20 Apr 2020) that the government will strive to boost domestic demand in auto and home appliances amongst an array of other measures including the “new infrastructure” that consists of 5G, IoT, AI, cloud computing, blockchain and big data. Other measures include push for work resumption, raise deficit ratio, issue special sovereign bonds, increase local government special bond quota, keep liquidity ample via RRR and interest rate cuts, relending and guidance lower for loan interest rates (BBG). These are likely meant to boost domestic demand as external demand deteriorate.

Current Account Buffer for RMB Could Thin



Source: SAFE, Maybank FX Research & Strategy

Along with the likely fiscal thrust towards boosting private consumption, we see some downside risks to the CNY as that would also inevitably lift the imports leg, leading to a deterioration in the goods balance. The silver lining is that services imports (via Chinese tourism outflows) are likely to remain subdued as the rest of the world remains in the thick of the COVID-19 pandemic. The improvement in the services leg could provide some offset for the likely deterioration in goods surplus. Nonetheless, current account buffer for the CNY could still thin.

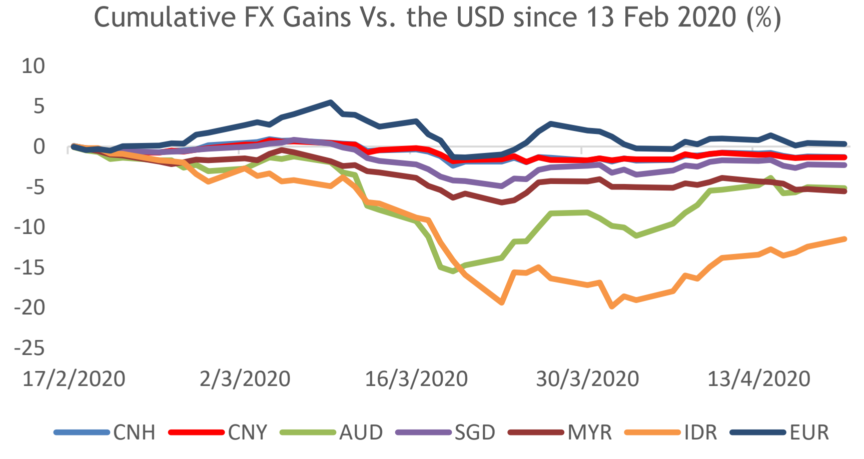
Potential Geopolitical Conflicts with the Western Powers

Into the medium term, China seems to be the target of some Western Powers again as UK Foreign Secretary Raab called for a "very deep, deep dive" and review of lessons including of the outbreak of the virus. He also said no "business as usual" with China. Separately, Trump had also accused China of being potentially "knowingly responsible" for the virus and called for an investigation, adding that there could be "consequences". The US and UK are countries with top fatalities from Covid-19 and are likely hard-pressed to demand an answer from China. Nearer to home, Australia (the traditional ally of the US and UK) who have somewhat shown success in bringing the new infection counts lower, also called for an "independent investigation" with Foreign Minister Marise Payne urging a review to look into China's initial response to the outbreak in Wuhan. These recent comments suggest some potential geopolitical conflict between US, UK and Australia vs. China beyond the pandemic, potentially reviving the trade war.

Crash in the RMB still Unlikely in the Near Term

While we have identified some downside risks to the RMB, China is still the only country that have emerged from the pandemic and en-route to get all parts of production back to normalcy while the rest of the world largely are either still in lockdown or only at the nascent stage of easing up on social distancing measures. That still gives RMB some safe haven appeal in times of risk-off. Barring no re-emergences of outbreaks at home, we may see episodic bouts of CNH strength vs. the non-USD currencies although immunity to USD strength in times of financial market stresses would be less.

CNY was relatively stable Vs. the USD throughout March Madness



Note: Gains/Losses recorded up till 20 Apr 2020

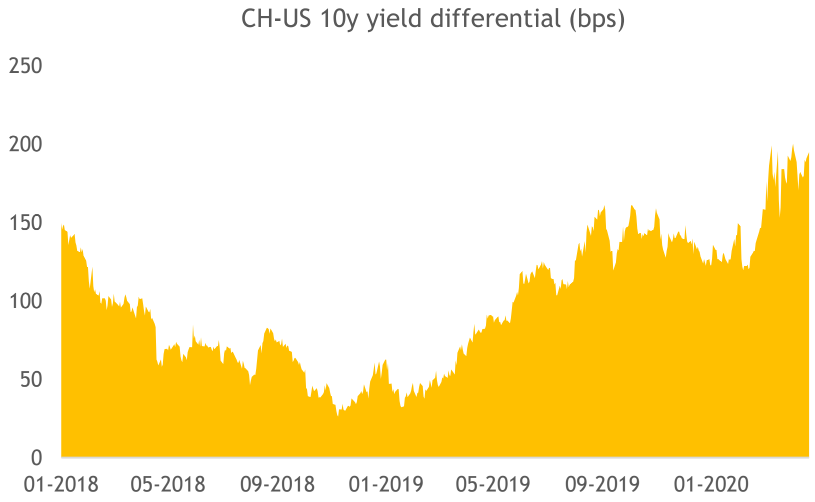
Source: Bloomberg, Maybank FX Research & Strategy

In the chart in the previous page, CNY (red line) has one of the most stable cumulative performance vs. the USD since 13th Feb, underscoring its relatively inert nature as the country that has overcome covid-19.

Carry Appeal in low Rate Environment

In an environment of low rate and still uncertain virus trajectory, institutional investors may also prefer to continue to diversify into RMB-denominated bonds as PBoC continues to ease. Holding CNY is also attractive given the 10y premium over UST 10y yield, last seen almost 200bps.

Plunge in the UST yield has increased the CH-US 10y yield differential



Source: Bloomberg, Maybank FX Research & Strategy

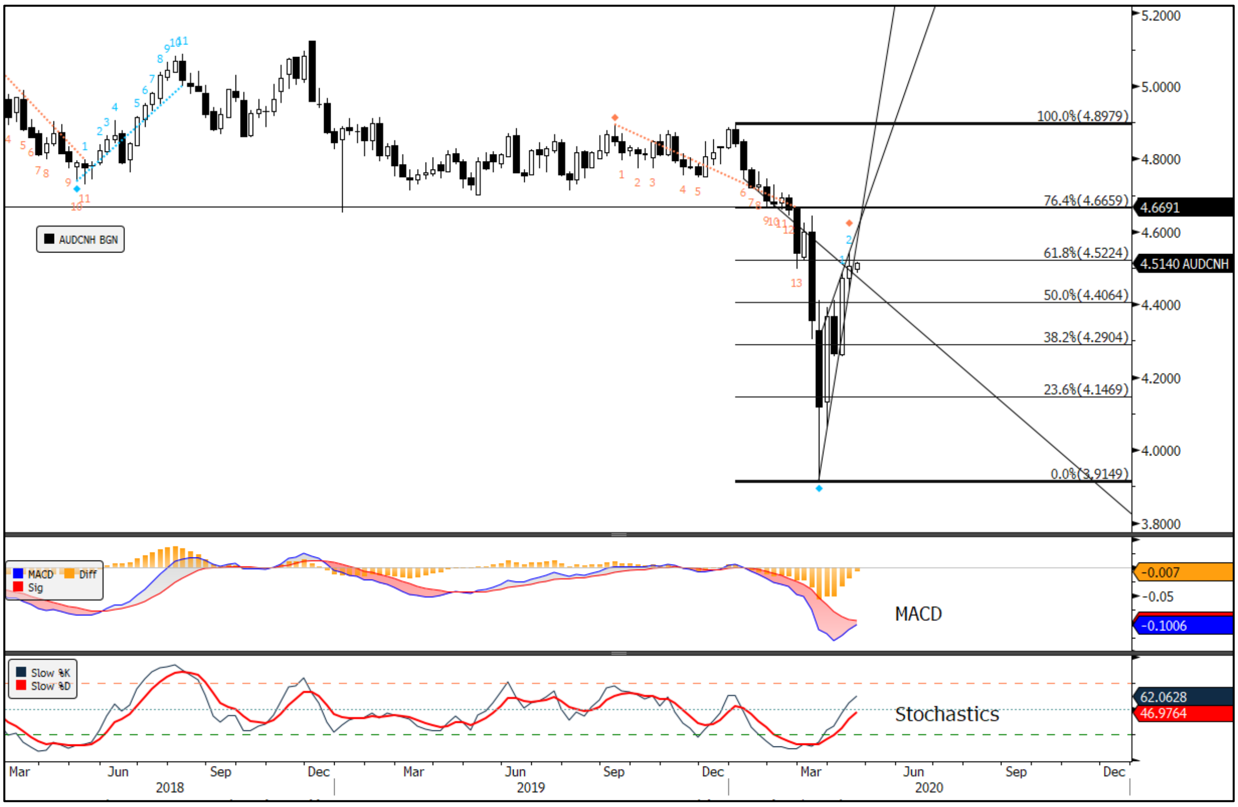
Technical Analysis Perspective

We expect USDCNH to remain elevated with support around 7.06 before the next at 7.02. Resistance at 7.1120 before recent high of 7.1650. We anticipate range-bound trade for much of the USDCNH action with downsides in the USDCNH.

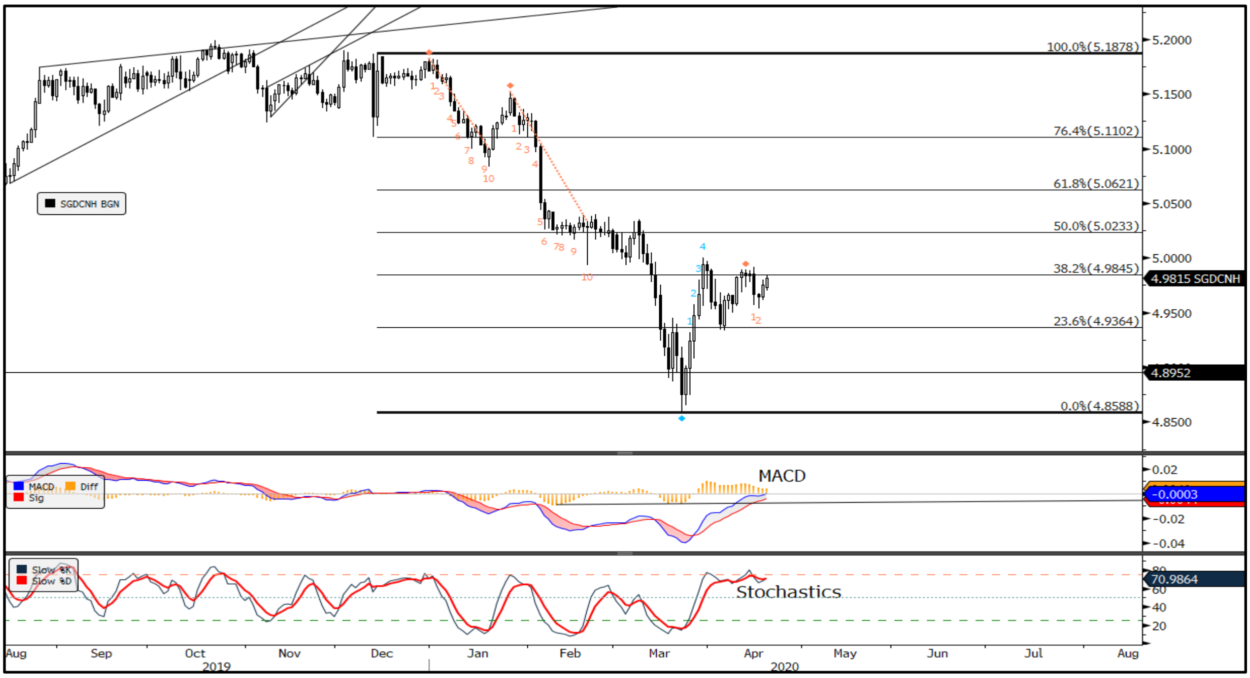
For USDCNY, this pair seems to be forming a rising trend channel. Support at the 7.00-figure. Resistance at 7.1550 before Sep 2019 high of 7.1876.

AUDCNH – Rising Wedge

For AUDCNH, a rising wedge is forming and that typically precedes a bearish reversal. This cross may see a pullback towards 4.29 from current levels around 4.5176. We like a tactical bearish trade at current level towards first objective at 4.2904 before the next at 4.22. Stoploss at 4.63. Risk-reward ratio of 1:2.4.

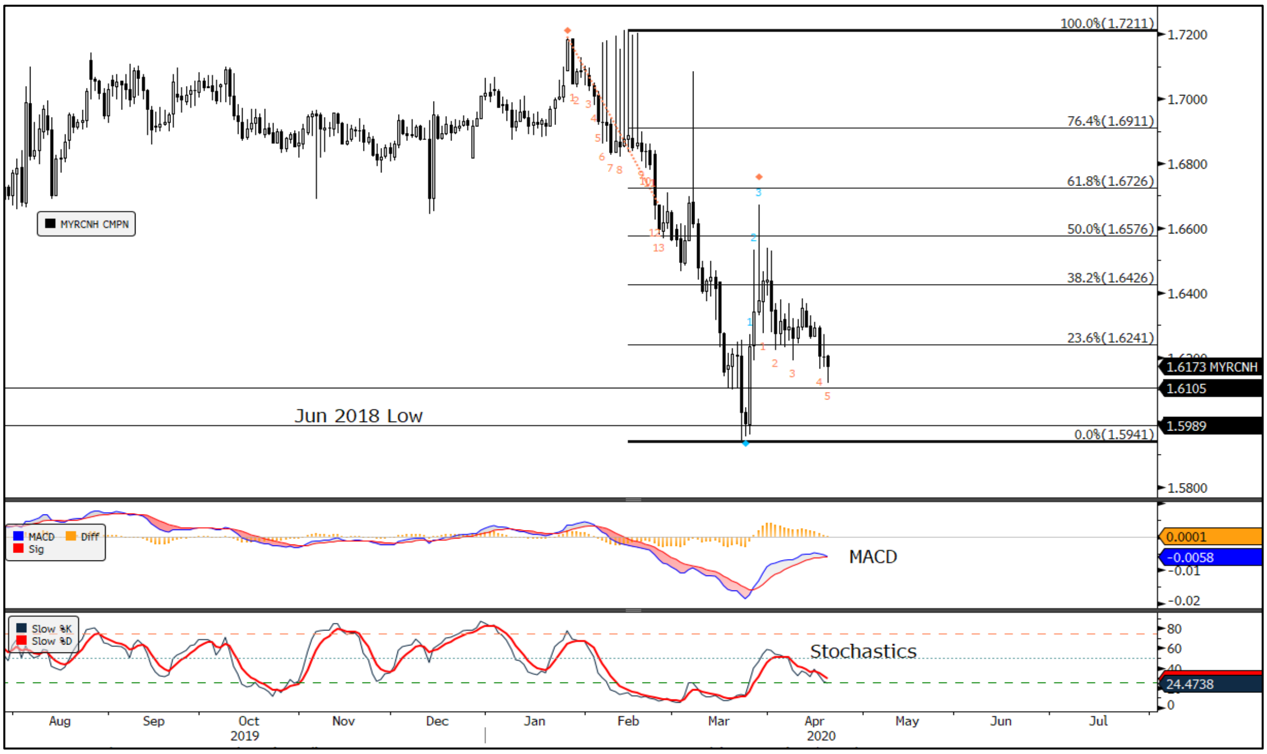


SGDCNH (Daily) – Sideways



For SGDCNH, we see two-way trades within the 4.9360-5.0000 range. Next resistance at 5.0233. Support at 4.9360 before 4.8950. Bullish Momentum is waning.

MYRCNH (Daily) – Downside Bias



MYRCNH retains a downside bias with MACD likely to turn bearish soon. Next support is around 1.6105 before the Jun-2018 low at around 1.5990. Resistance at 1.6240 (23.6% Fibonacci retracement of the Mar-fall).

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