June 29, 2020

RMB Watch

Modest Allure

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Key View:

- USDCNH has yet to make a break-out of recently 7.05-7.10 range established in Jun. There has been some upward drift in the past few sessions but the USDCNY reference rate fix today (7.808) vs. the average estimate at 7.858 underscored PBoC's intention to keep the RMB stable within the range.

- While domestic demand remains decidedly weak still for China, relative performance matters for bilateral USD-RMB pair. Relative underperformance of the US in terms of covid management, growth recovery and yield differential continues to add pressure on the USDCNY and concomitantly USDCNH. There are still some market jitters as equities drift in and out of red. So even as it is hard for USDCNH to break out of the 7.05-7.10 range, we look for RMB to outperform other non-USD currencies in times of uncertainty.

- We remain bearish on SGDCNH and MYRCNH.
  - SGDCNH (at 5.08) to pullback towards 5.0480 (23.6% fibonaci retracement of the Mar-Jun rally) before the next support at around 5.01 (38.2% Fibonacci retracement of the Mar-Jun rally).
  - MYRCNH also looks poised for further bearish pullback with a recent violation of the rising wedge (a bearish reversal formation). Last at 1.6507, failure to break the 1.6350-support within this week could mean an extension of the rising wedge higher. We look for an eventual pullback towards 1.6240.

What We Watch:

- 30th Jun - PMI (NBS) for Jun
- 1st Jul - Caixin Mfg PMI (Jun)
- 3rd Jul - Caixin non-Mfg PMI (Jun)
- 7th Jul - Foreign Reserves
- 9th Jul - PPI, CPI (Jun)
- 10-15th Jul - Monetary Data (Jun)

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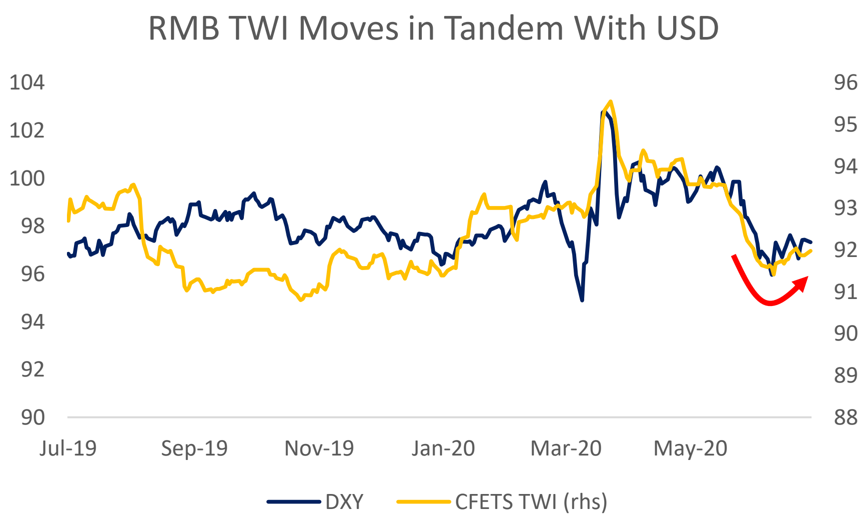
Update on Our Calls from the Last Watch

USDCNH remains firmly within the established range of 7.0450-7.1000. While bearish pressure on RMB did not play out entirely even amid some jitters over second wave of covid-19 infection, our warnings about a rebound in the CFETS TWI came to fruition as RMB tends to behave like a safe haven proxy relative to regional currencies in times of risk-off.

SGDCNH drifted lower but did not break much key support levels and remained in consolidation within 5.05-5.10, sticky around the 200-dma.

MYRCNH also remained mostly sideways with a downward drift, last printed 1.6587.

The Rebound of The DXY Was In Tandem with RMB TWI

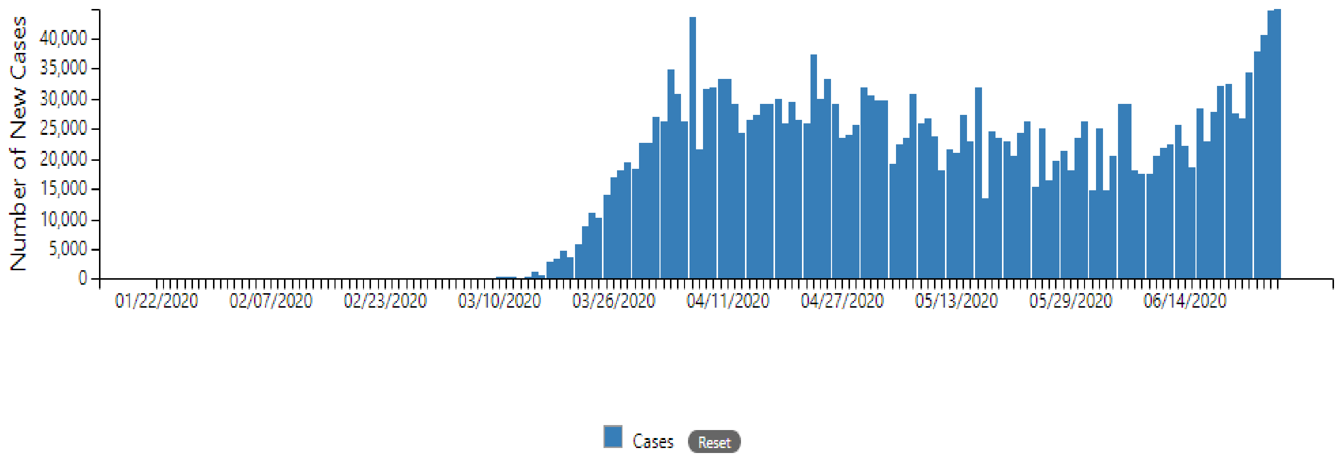


Source: Bloomberg, Maybank FX Research & Strategy

Path of Least Resistance for the USDCNH is Down

USDCNH has yet to make a break-out of recently 7.05-7.10 range established in Jun. There has been some upward drift in the past few sessions but the USDCNY reference rate fix today (7.808) vs. the average estimate at 7.858 underscored PBoC's intention to keep the RMB stable within the range. This month of consolidation underscores both uncertainty and confidence. While investors are likely to be (at the very least) concerned with news of second wave of infections in the US and other parts of the world, governments and central banks have shown strong willingness to mitigate economic pains so the powerful backstops in place for financial markets, can continue to keep risk asset from deep corrections. Hence, USDAsian have been stuck in two-way trades with strong opposing forces in play.

COVID-19 Bounced Back With a Vengeance in the US - Still an Epicentre



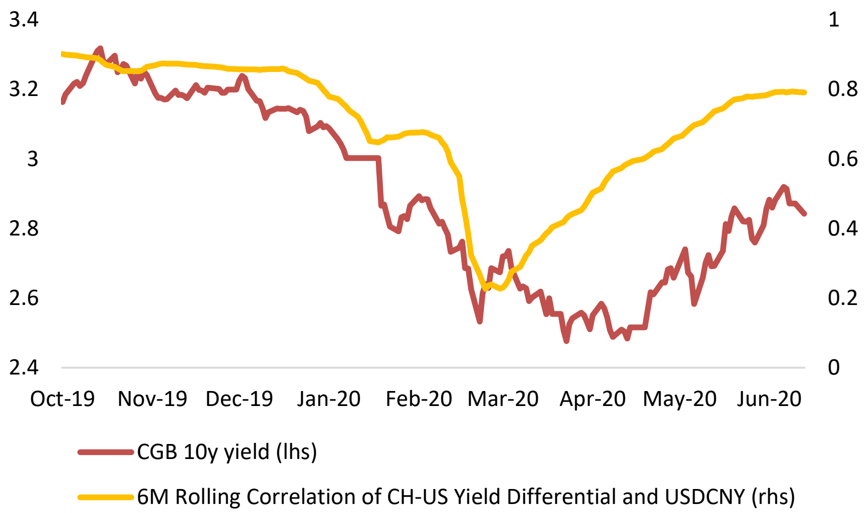
Source: CDC (https://www.cdc.gov/coronavirus/2019-ncov/cases-updates/cases-in-us.html)

With much of the V-shaped recovery already priced in, we are still at a point of inflection as investors continue to reassess second wave risks. The laggard recovery of the retail sales and household consumption in China could once again be at risk amid fears of the second wave of infections emanating out of Beijing. However, relative performance matters for currencies and with the US Covid infections at 40K per day, hampering re-opening phases. The outbreak in the US is a stark contrast to other countries that have battled covid and emerge with small clusters (daily increase of single/double digits). Recovery differentials suggest that the path of least resistance for USDAxJ including USDCNH to be southbound.

PBOC's Easing Hesitance leads to Yield Rise, Widening Spread over UST

For two consecutive months (May-Jun), PBoC has not activated most of its regular interest rates tools (7-Day reverse repo, 1Y MLF rate). Only the 14-day reverse repo was cut to 2.35% from 2.55% on 18th Jun. The 1Y and 5Y loan prime rates were thus left unchanged at 3.85% and 4.65%. The hesitance here is in line with recent PBoC's reiteration that the monetary stance remains within "normal range". The refusal to lower rates further has poured cold water on the demand for local bonds. The 10y yield for China Government bond made a U-turn higher to levels around 2.84% as we write, widening the spread over the UST 10 year yield.

USDCNY To Be Supported by Rising Yield Differential



The US-China yield differential does not always have a strong correlation with the USDCNY but in recent times, the correlation seems to have strengthened after risk aversion of the Mar madness has waned. This has come at a time where the 10y rate CH-US differential yield has risen quite substantially to highs not seen since 2011. With the US still battling COVID-19, the relatively low US rate environment could stay low for longer, concomitantly lowering the demand for the USD.

While yield plays are frequently a reflection of monetary policy and central bank's room for easing, at the end of the day, it is also a reflection of growth differential.

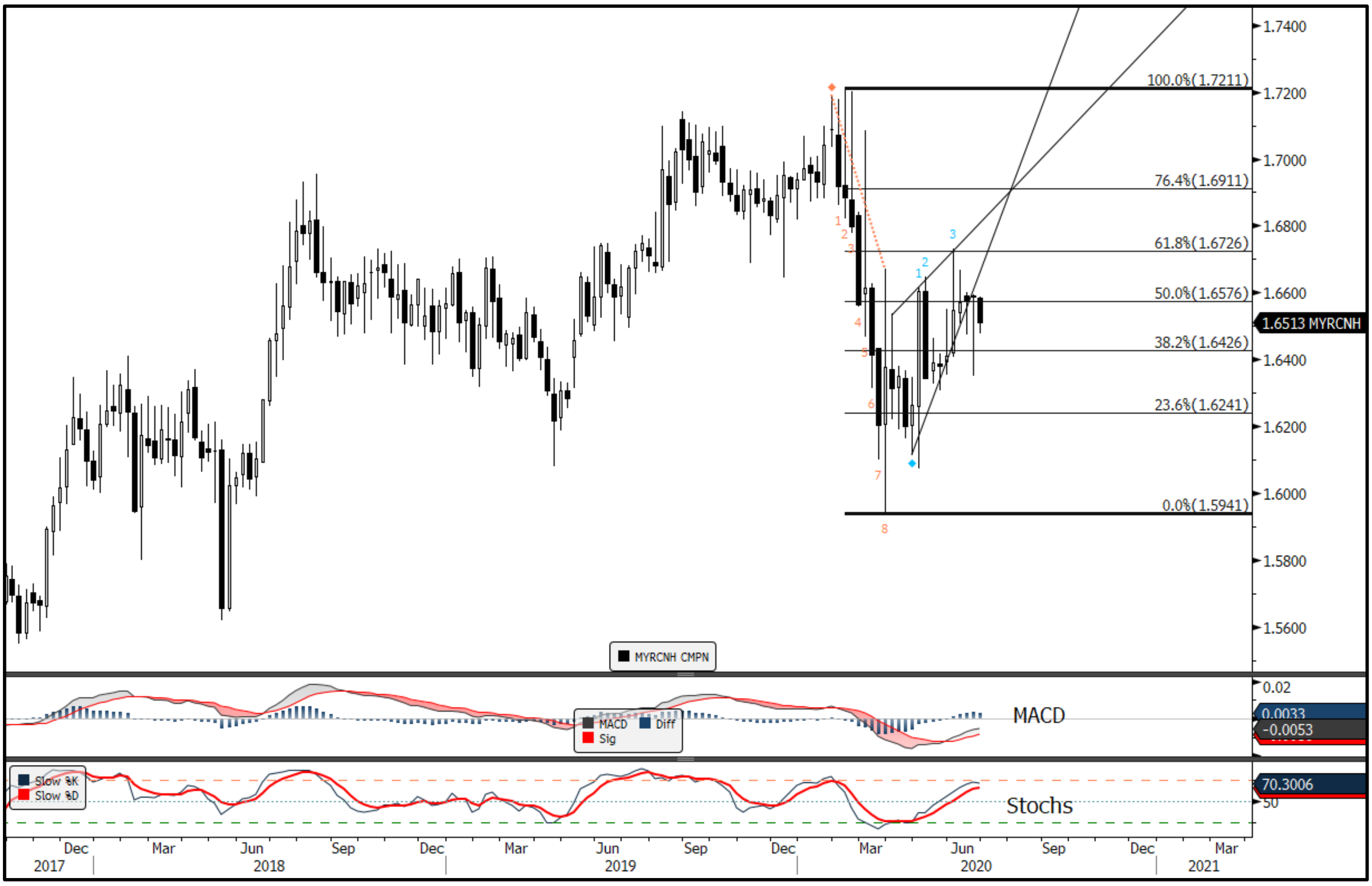
The rebound in the industrial profits for May recorded for China is evidence of nascent strength in the manufacturing sector although the fall in input prices also underscores the weak demand. Over the weekend, Premier Li Keqiang urged to "stabilize the overall performance of foreign trade and investment", noting that they are of great importance to the economy and employment. Given the fact that China has largely moved beyond containment of COVID-19 and back to tackling its economy in light of the pandemic that is still on-going for some parts of the world, the RMB is still likely to retain a safe-haven proxy allure in times of risk-off. That would mean that any risk-off episodes that drive the USD up could also mean strength for the RMB vs. other non-USD peers, resulting in the RMB TWI moving in tandem with the DXY index as shown in on page 2.

As such, we continue to keep a bearish view on SGDCNH and MYRCNH.

SGDCNH (Weekly) – Overbought

SGDCNH was last seen around 5.0810. This cross remains a tad elevated as we write but show signs of breaking out of the rising wedge that has formed in the past several weeks. While bullish momentum is intact, the stochastics on the weekly chart suggests overbought conditions, at risk of a pullback. We continue to remain bearish on this cross and look for this cross to pullback towards 5.0480 (23.6% fibonaci retracement of the Mar-Jun rally) before the next support at around 5.01 (38.2% Fibonacci retracement of the Mar-Jun rally).

MYRCNH (Weekly)– Bearish Reversal



MYRCNH also looks poised for further bearish pullback with a recent violation of the rising wedge (a bearish reversal formation). Momentum is still mild bullish but stochastics shows signs of turning from overbought conditions on weekly chart. Support around 1.6460/30 (50,100-dma as well as close to the 38.2% Fibonacci retracement of the Feb-Mar pullback) before 1.6350. Failure to break the 1.6350-support in within this week could mean an extension of the rising wedge. We look for an eventual pullback towards 1.6240. Unexpected bound to meet resistance around 1.6730.

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