Maybank

Macro | FX Research & Strategy

Global

RMB Watch

Can The Rally Last?

We Think It Could..

Key View:

- USDCNY broke out of the 7.05-7.10 range and slid under the 7-figure a few times before hovering around it as we write. The break-out was triggered by the strong equity performance at home and bourses have risen >15% since the start of the month. Eyes are especially on the economic data for Jun that could underpin local stocks and the currency. Furthermore, we anticipate sustained moves below the 7-figure to be brought about by the broader USD weakness.

- Apart from potential domestic demand recovery and the bearish USD trajectory, we continue to monitor global risk sentiment as well as US-China tensions for cues on the USDCNY. While risk appetite has held up rather well, there have been rumours of the US potentially undermining the HKD peg to the USD by restricting Hong Kong banks' ability to access the USD. While tensions are clearly not likely to fade away, the US-China trade pact remains intact and that could also help to anchor the CNY.

- We remain bearish on MYRCNH.
  - MYRCNH slipped but failed to make much progress towards the support at 1.6240. Momentum indicators are still bearish and we look for gradual move towards this level.
  - SGDCNH slipped towards 5.01 (38.2% Fibonacci retracement of the Mar-Jun rally) last week (in line with our view) and could settled into range-bound trades in the near-term

What We Watch:

- 14th Jul - Trade (Jun)
- 16th Jul - New home prices, Activity (Jun), 2Q GDP
- 20th Jul - 1Y, 5Y LPR (Jun)
- 27th Jul - Industrial Profits (Jun)

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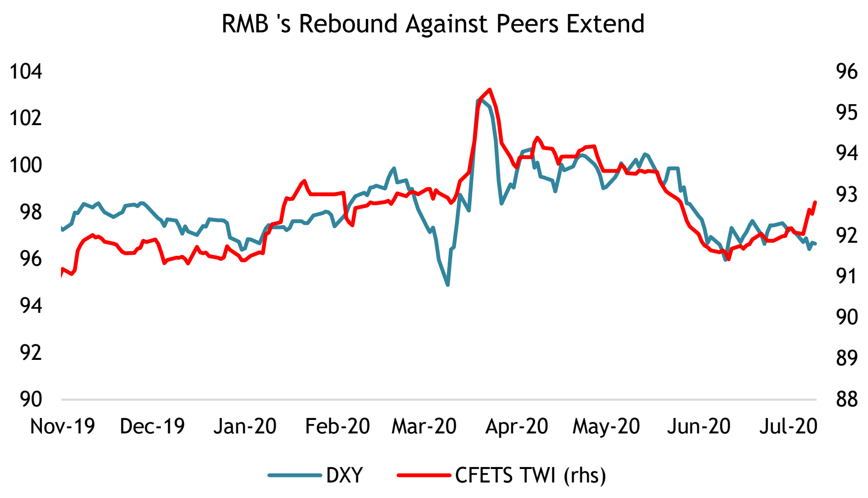
Update on Our Calls from the Last Watch

USDCNY broke out of the 7.0450-7.1000 range on 6 Jul, spurred by the equity rally. The pair touched a low of 6.9824 before reversing back to levels just above the 7-figure as we write. Apart from the catalyst on 6 Jul, this pair remains largely guided by broad USD movements.

As a result, our bearish SGDCNH call played out rather well with SGDCNH was down to 5.01 (a target level that we looked for in the previous issue of RMB Watch) before some retracements. As for MYRCNH, the pair remains a tad supported at 1.6350 but bearish momentum is still intact.

<u>RMB TWI's Rebound Extends, Departing From USD Moves</u>



Source: Bloomberg, Maybank FX Research & Strategy

Note:

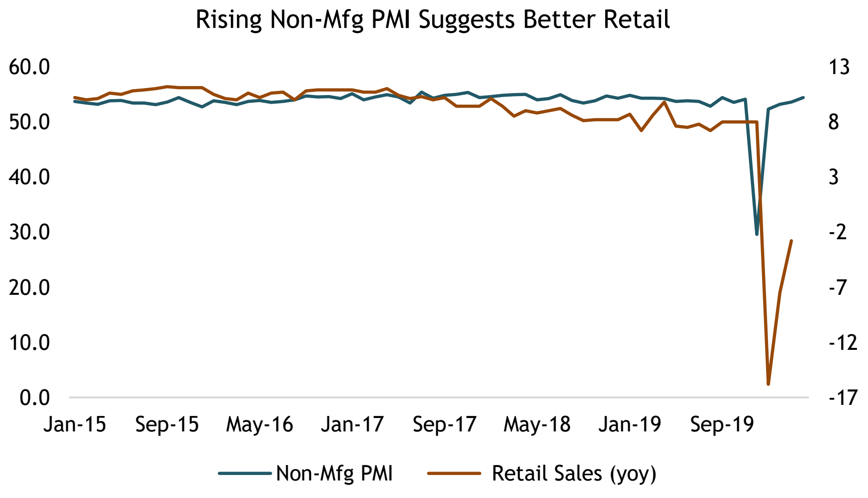
The RMB TWI also rose further 92.88 last week, no longer moving in tandem with the DXY index. The latest catalyst for RMB's strength was domestic as investors were encouraged by an editorial featured on the Securities Times that urged for a fostering of a "healthy bull market" after the pandemic is now more important to the economy than ever. Equities surge as a result. Mtd, Shanghai Composite and Shenzhen Comp have risen >15%. Before this, stocks have been gradually rising on stimulus as well as rotation away from its debt market. Perhaps the Chinese government is eager generate a positive wealth effect that can further boost household consumption. Given the idiosyncratic nature of this trigger, it is no wonder that the RMB strengthened against its peers even as the DXY index softened, no longer in locked steps with the greenback. That said, in times of jitters or stronger global market cues, RMB TWI could fall back in locked steps with the DXY index.

At this point, there are a few drivers that can swing the USDCNH including 1) Risk Sentiment; **<u>2) China's Economic Recovery;</u>** 3) USD Moves; 4) Fate of the US-China Trade Pact.

Risk sentiment has been resilient not just at home but also globally. Equity indices regionally and in the West did not show signs of significant correction as central banks and governments are still unwilling to taper stimulus. While Covid cases have accelerated in a number of countries but these countries (US, India) have pushed ahead with economic re-opening plans and that seems to suggest the worst of the economic pains could be behind us. **Factor number 2 (Economic Recovery) is pretty much the focus for this week as we have trade data as well as domestic activity numbers scheduled for release.**

Data in Focus Especially This Week

The monetary data for Jun suggests some demand recovery as aggregate financing continue to rise to CNY3.43trn from previous CNY3.19trn. New yuan loans rose to CNY1.81trn from previous CNY1.48trn of which both short term and medium term loans rose from the month prior. Household borrowing rose 28.5%y/y and almost 39% from May, underscoring strong credit support for consumption as well as potentially improving consumer confidence. Comparatively, corporate loans rose at a much milder pace at around 7.2%. These figures bode well for the next tranche of activity data that would be out on Thu. Eyes are especially on retail sales for a possible single digit growth (non mfg PMI rose for Jun) after a few consecutive months of contraction. Also, rising mfg PMI prints and improving PPI for Jun suggests potential improvement in the industrial activity.



Source: National Bureau of Statistics (China), Maybank FX Research & Strategy

Economic data is not usually a major driver of the RMB but in a pandemic environment where many parts of the world are still struggling to get the virus infections under control and China has proven to be capable of stamping out the outbreaks at home with decisive actions, the recovery of consumer and investor sentiment is key to sustain the recent surge in domestic equities. Strong equity inflows in turn, could continue to spur greater RMB gains.

There were hints of better data from the central bank as well. PBoC Yi Gang had mentioned about exiting from “ultra-loose” accommodative conditions. In line, we do not think that policy rates would be tweaked for now and LPR should be left unchanged at 3.85% for 1Y and 4.65% for 5Y on the 20th.

The combination of resilient risk appetite and stronger economic recovery in China vs. the US should already be negative for the USDCNH. However, there are also other factors that weigh on the greenback apart from its countercyclical nature and relative economic growth trajectory vs. the rest of the world. These include the fact that its rate advantage has been eroded, massive and increasing Fed's balance sheet amid QE and deteriorating twin deficits and potential political risk in the lead up to US Presidential elections in Nov 2020. **The fact is that USDCNY (along with USDCNH) broke out of 7.05-7.10 range that has held for several weeks because of a domestic catalyst and our bearish view for the greenback could guide the pair more sustainably below the 7-figure.**

We have been repeatedly written about risk sentiment being resilient but there is still uncertainty in a pandemic without a vaccine available. Any signs of weakness in the risk sentiment could see a flight back to USD safety. The dry-up of USD liquidity at the worst of Mar Equity sell-off is a reminder that USD is still far from dethroned and debased. Hence, in an environment of lingering uncertainty, the downmove of the USDCNY could still have intermittent rallies.

US-China Trade Pact Keeps the USDCNH Anchored

The last factor that we monitor is the US-China trade pact. The US officials including Trump have mentioned that phase 1 is intact but he also mentioned about "severely damaged" ties that would make phase 2 "unlikely". It could be naïve to dream about more progress on the trade pact as the US White House Advisor Nevarro recently warned about "strong actions" on Chinese apps TikTok and WeChat that had already been banned by India. Just today, China had also announced sanctions against US official including Senators Marco Rubio and Ted Cruz as a retaliation over US' moves to sanction Chinese officials over alleged human rights abuses in Xinjiang.

Last week, there were whispers of potential plans to undermine the HKD's peg to the USD and to do so by restricting the ability of Hong Kong banks to buy USD. However, the rippling effects on financial markets that could also have repercussions on the US mean that it is not the most likely threat. Such drastic considerations could still spur China on its yuan internationalization plan more than before. One of the current projects that the central bank has embarked on (in recent years) is its digital currency known as Digital Currency, Electronic Payment (DCEP) which has been in trial with multiple firms since Apr 2020. Didi Chuxing (China's version of Grab/Uber) is the latest to test the digital currency. **That said, it could still be years before China allow cross-border transactions with its digital currency. These developments only serve to remind that the US-China tensions will not fade away.**

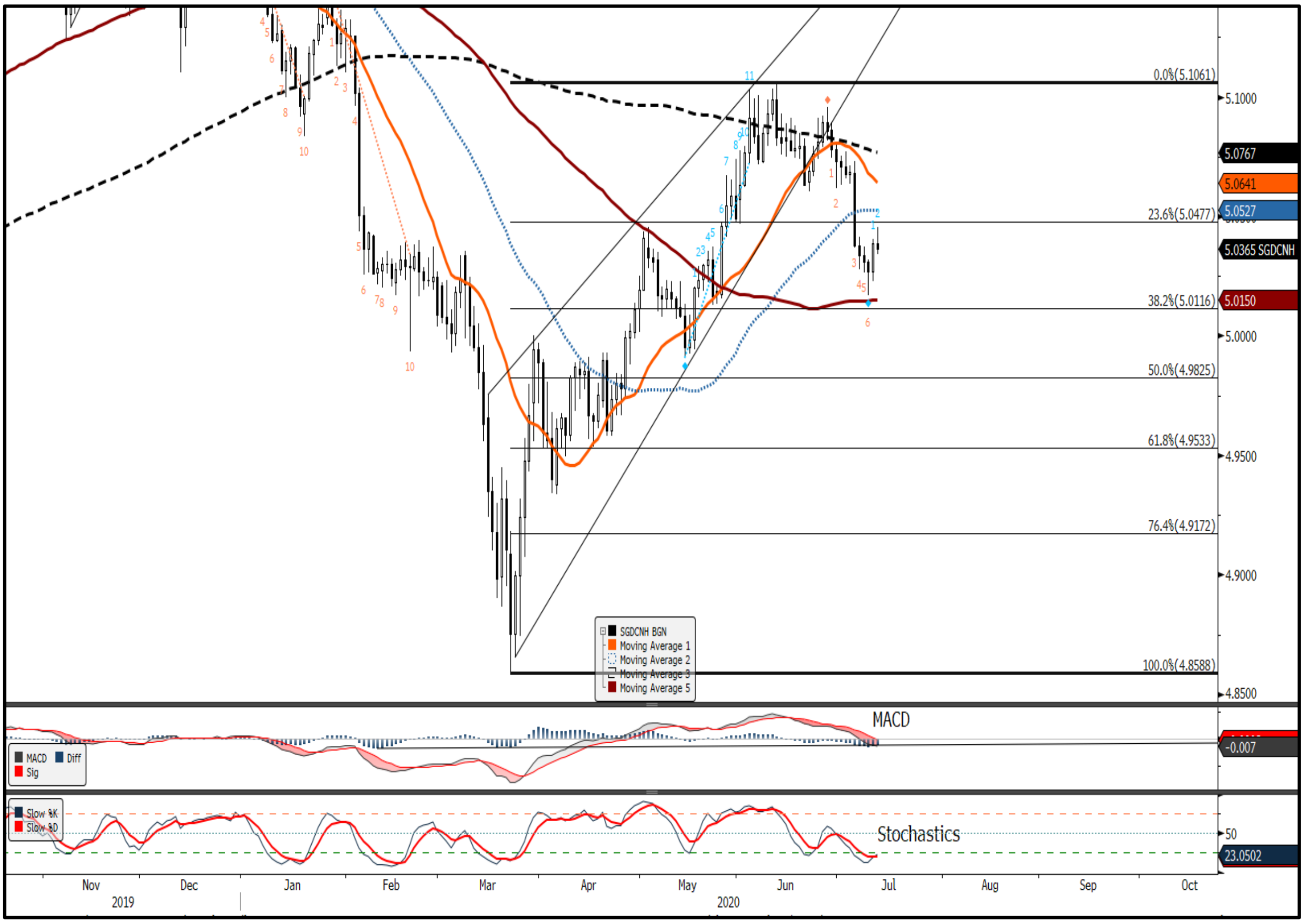
In the present Covid-battled world, both nations still want to keep the economic recovery on course. Ensuring a trade pact that stays intact and keeping tariffs out of discussions could mean some certainty for consumers and investors. Economic Adviser Larry Kudlow had said that "we are still very much engaged in the phase 1 China trade deal". Taking the trade war risk out of the near-term is the removal of a significant downside risks for the RMB. **With the trade pact intact, RMB may be able to withstand the blows of China bashing that could come with the US Presidential Elections in Nov.**

All in all, risks are still very much skewed to the downside for the USDCNH with some intermittent rallies that we should be wary of in times of jitters. **China's economic recovery, rate advantage (vs. the USD and even other peers) could continue to keep the RMB assets attractive.**

__USDCNH (Daily)- Death Crosses__

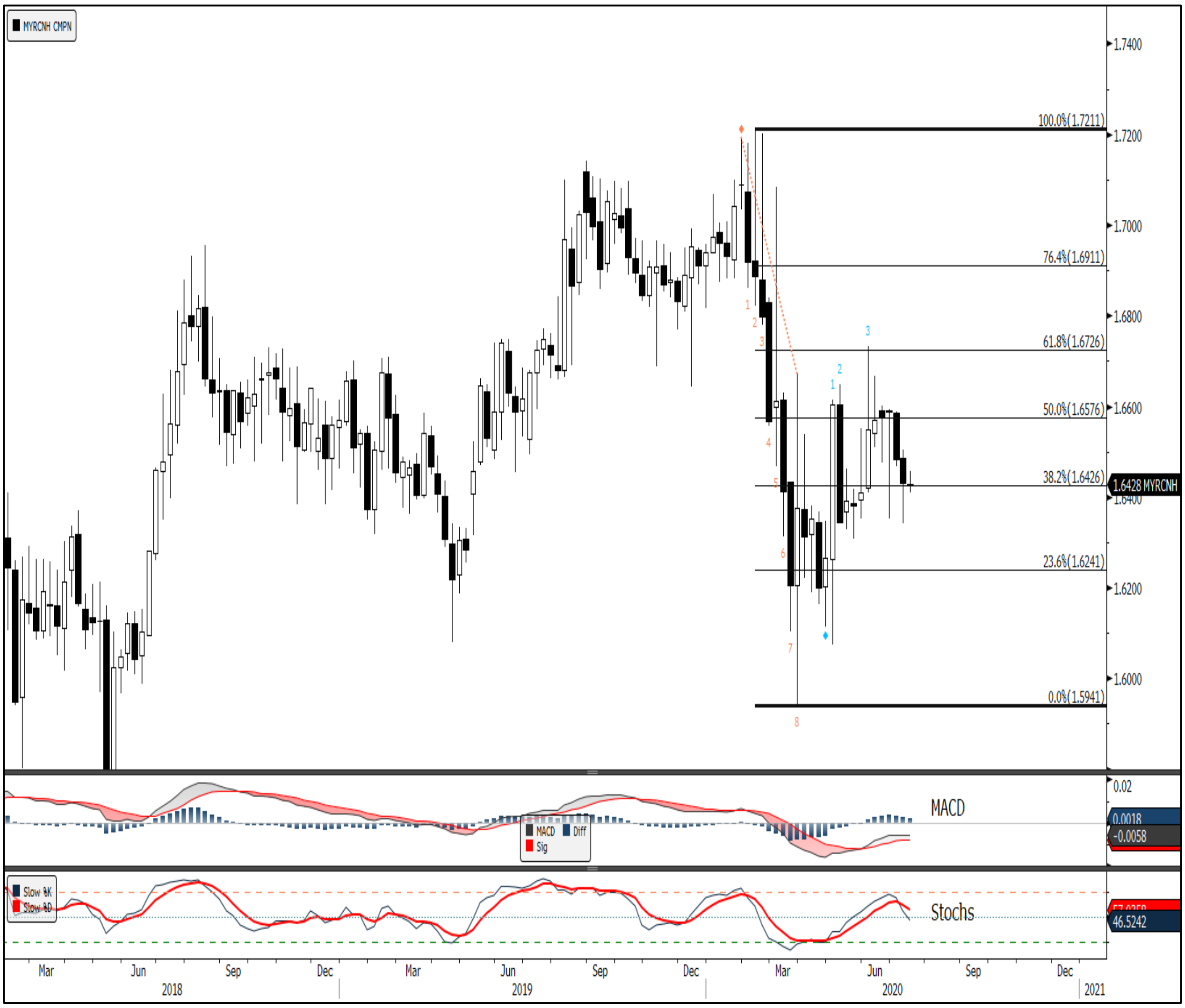
USDCNH broke out of the 7.05-7.10 range to the downside and moving averages are forming death crosses. 21-dma (orange line) has crossed the 50-dma (blue dotted line), 100-dma (red line) and en-route towards the 200-dma (black dashed line). The 50-dma (blue dotted) is also turning lower to meet the 100-dma. Last seen around 7.0030, this pair may consolidate above the 6.98-support as stochastics enter oversold conditions. 200-dma act as a resistance at 7.04. On the weekly chart however(not shown), momentum is increasingly bearish. Break of the 6.98-support to open the way towards 6.93 (61.8% fibo retracement of the Jan-May rally) before the key 6.85 (turn of the year low).

SGDCNH (Daily) – Consolidative



SGDCNH was last seen around 5.0365 after touching a low of 5.0168 last week. Our call for this cross to head down towards 5.01 has played out and we now look for some consolidation in the near-term. Momentum indicators suggest waning bearish bias and stochastics show signs of turning higher from oversold conditions. This cross could meet resistance at 5.0530 (50-dma, blue dotted) before the next at 5.0641 (5.0640). Support at 5.0110 (38.2% Fibonacci retracement of the Mar-Jun rally) before the next at 4.9825.

MYRCNH (Weekly)- Some Downside Bias Still



Source: Bloomberg, Maybank FX Research & Strategy

MYRCNH slipped to a low of 1.6341 last week before retracing higher. Bias remains to the downside and our call for this cross to head towards 1.6240 may take some time to play out. MACD shows waning bullish momentum while stochastics are falling. Unexpected rebound to meet resistance at 1.6576 (50% fibo).

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