Macro | FX Research & Strategy

Global

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Maybank

# RMB Watch

# Turning Cautious

## USDCNH Rallies to Short?

**Key View:**

- USDCNY rebounded from its recent lows on news that Trump had signed an executive order dated 6 Aug to ban any US transactions with WeChat and its owner Tencent Holdings, citing national emergency with respect to the information and communications technology and services supply chain. This comes together with the ban of transactions with ByteDance. The ban will take effect 45 days from the date of the executive orders.

- Ahead of the trade pact review on 15 Aug, markets may turn a tad more cautious given the potentially inflammatory actions by the US of late and a less congenial Lighthizer. While USDCNY and USDCNH have slipped towards the 6.93-figure on 5 Aug, bears were unable to make further progress. USDCNH has been trading in a falling trend channel as noted in the last RMB Watch but this trend channel could easily become a falling wedge which typically precedes a corrective upmove. 7.0360 caps.

- Given that economic sanctions such as tariffs inflict a lot more pain on growth and could risk derailing the recovery from the pandemic, we still think that there is a good chance for Trump to maintain status quo with regards to the trade pact ahead of the US elections. As such, a potential USDCNH bounce could present opportunities to sell on rallies.

What We Watch:

- 10th Aug - PPI, CPI (Jul)
- 10-15th Aug - Monetary, Credit Data (Jul)
- 15th Aug - Review of Phase 1 US-China Trade pact via Video Conference
- 14th Aug - FAI, Industrial production and retail sales (Jul)
- 20th Aug -1Y, 5Y LPR (likely no change)

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**Update on Our Calls from the Last Watch**

Our call for USDCNY to remain on the downside bias played out with the USDCNY touching a 5-month low of 6.9360 before rebounding in the past two sessions. USD weakness have slowed a tad this month. Aug is a typically seasonally bullish month for the greenback.

## Bans on Chinese Apps Souring Sentiment

USDCNH rallied from its recent lows on news that Trump had signed an executive order dated 6 Aug to ban any US transactions with *WeChat* and its owner Tencent Holdings, citing national emergency with respect to the information and communications technology and services supply chain along with the International Emergency Economics Powers Act (IEEPA). This comes together with the ban of transactions with ByteDanc (the owner of *TikTok*). The bans will take effect 45 days from the date of the orders. The executive orders indicated that the "actions" will be defined by the Secretary of Commerce by the end of the 45 days.

Market sentiments soured on the news with the safe haven USD back in demand. CNH leads Asian FX in weakness, down-0.4% and was last seen around 6.97-figure. The executive order lacks specific on the definition of "transactions" and the example of "billions of WeChat messages" found in a Chinese database that was sent from users in China, the US, Taiwan, South Korea and Australia, cited within the executive order suggests that **a complete ban of the use of WeChat is probable**.

## Do The Bans Increase the Chance of a Negative Outcome of a Pact Review?

US-China tensions have clearly been stepped up as China remains Trump's punching bag for the pandemic ahead of the elections. The announcement of the bans comes before the review of the Phase 1 Trade Pact that is supposed to take place on 15th Aug. Hence, we find this action rather inflammatory. Eyes are on any signs of retaliation from China. Retaliations from China are typically "in kind". In this instance, it is hard to imagine a retaliation of similar nature as US Technology Giants such as "Twitter", "Facebook" and "Google" are already banned in China. So perhaps, China may even simply shrug it off.

The timing of the two bans to take effect is 45 days from 6 Aug (date of the executive orders) which should be around 20 Sep, well after the date of the trade pact review (mid-Aug) as well as the promised date (15 Sep) by Microsoft to complete talks with ByteDance to acquire TikTok.

That said, the move to ban a widely used app such as WeChat is by no means trivial. Such an action is clearly a **step-up in US' technology warfare against China** and **widens the rift between the two nations.** However, **taking actions on specific corporates are still unlikely to be as damaging as tariff actions.** US equity futures are now modestly lower as sentiments soured across the globe, underscoring the sensitivity of the bourses to the US-China developments. **However, when it comes to the trade pact, we are still cautiously optimistic. Given that economic sanctions such as tariffs inflict a lot more pain on growth and could risk derailing the recovery from the pandemic, we still think that there is a good chance for Trump to maintain status quo with regards to the trade pact ahead of the US elections.**

## A Review of the Trade Pact in mid Aug

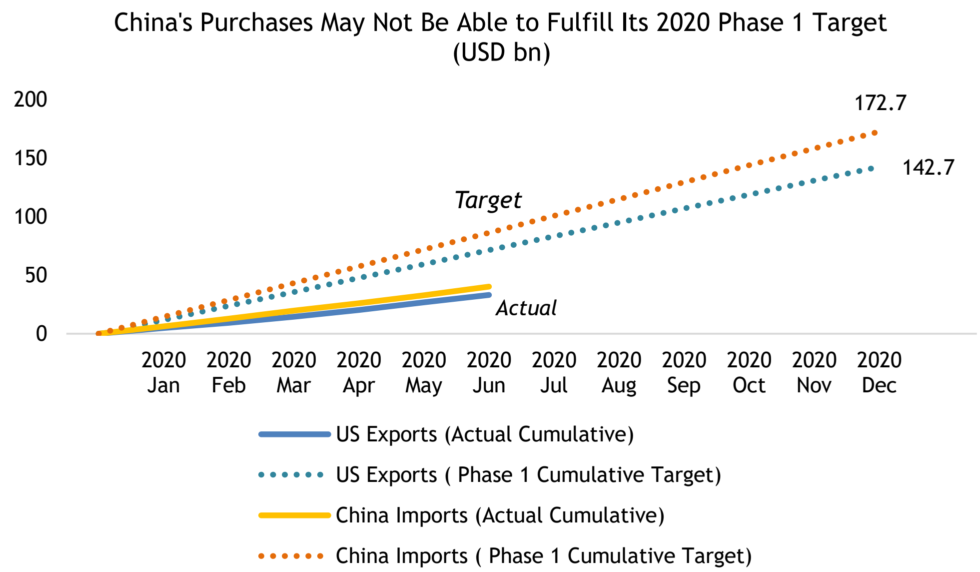
Phase 1 of the Trade Pact actually took effect on 14 Feb 2020 and the 6-month review would be due around mid of August, 15 Aug. According to DJ news, US Trade Representative Lighthizer, China's Vice Premier Liu He will participate in the discussions via video-conference.

US Trade Representative Lighthizer seems to be less inclined to engage in friendly talks recently. In June, he commented that he is "far more in favour of increasing tariffs on the things we need". Overnight (6 Aug), Trump announced that Canada's exemption from the 10% tariff would be removed from 16 Aug. That could be a signal the US may throw caution into the wind and a failure to meet their demands under phase 1 of the agreement could still mean the re-imposition of tariffs for China too.

## Can China Meet its Phase 1 Target?

The terms of the deal are for China to increase the purchases of US goods and services (mainly agriculture, manufactured and energy products) by a total of $200bn over 2020 and 2021 vs. 2017 levels. However, based on the what has been purchased so far, China is unlikely to meet the year-end target for 2020.

**China Is Unlikely to purchase enough to meet phase 1 Deal**




Note: The total target has been pro-rated to show China's progress in purchasing goods. Only a year-end target is set.

*Source: PIIE*

The targeted goods and services for 2020 that the US exports to China should be an additional $76.7bn that should bring the total of exports to USD142.7bn. Base on the cumulative actual value of US exports, China has only fulfilled around 46% of the target as of Jun and the rate of purchase has to be accelerated significantly in order to meet the year-end target of $142.7bn.

## USDCNH Rallies Are Opportunities To Short

Ahead of the trade pact review, market may turn a tad more cautious given recent developments and a less congenial Lighthizer. USDCNY and USDCNH have slipped towards the 6.93-figure on 5 Aug but bears were unable to make further progress. USDCNH has been trading in a falling trend channel as noted in the last RMB Watch but this trend channel could easily become a falling wedge which typically precedes a corrective upmove. A break-out of the falling wedge could mean a revisit towards the 7.02-resistance marked by the 50% fibo retracement of the Jan-May rally and then at 7.0360 (50-dma). Note that the 50-dma is about to cross the 200-dma to the downside which suggests that underlying bias is still to the downside. Rallies could be opportunities to re-enter short position.

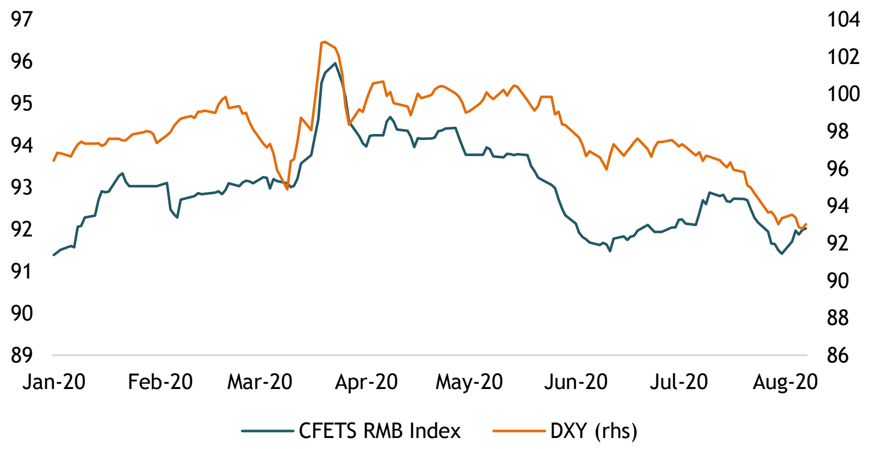
**USDCNH (Daily Chart) – Falling Wedge?**


Source: Bloomberg

USDCNH is still largely guided by the broad USD moves. Risk-off episodes could bring the USDCNH higher. RMB has a safe haven property too with risk-off episodes such as that in Mar witnessing a rise in the RMB against the basket along with the DXY index. This safe-haven proxy nature is due to PBoC's daily fix which tends to dampen some of the volatility of the currency, resulting in less weakness in the CNY relative to peers. That does not happen during the most intense period of trade war in 2018-2019 when the key focus was on the US-China trade war. The RMB TWI fell 6% in 2018. We reckon that CNY weakness could be more apparent vs.

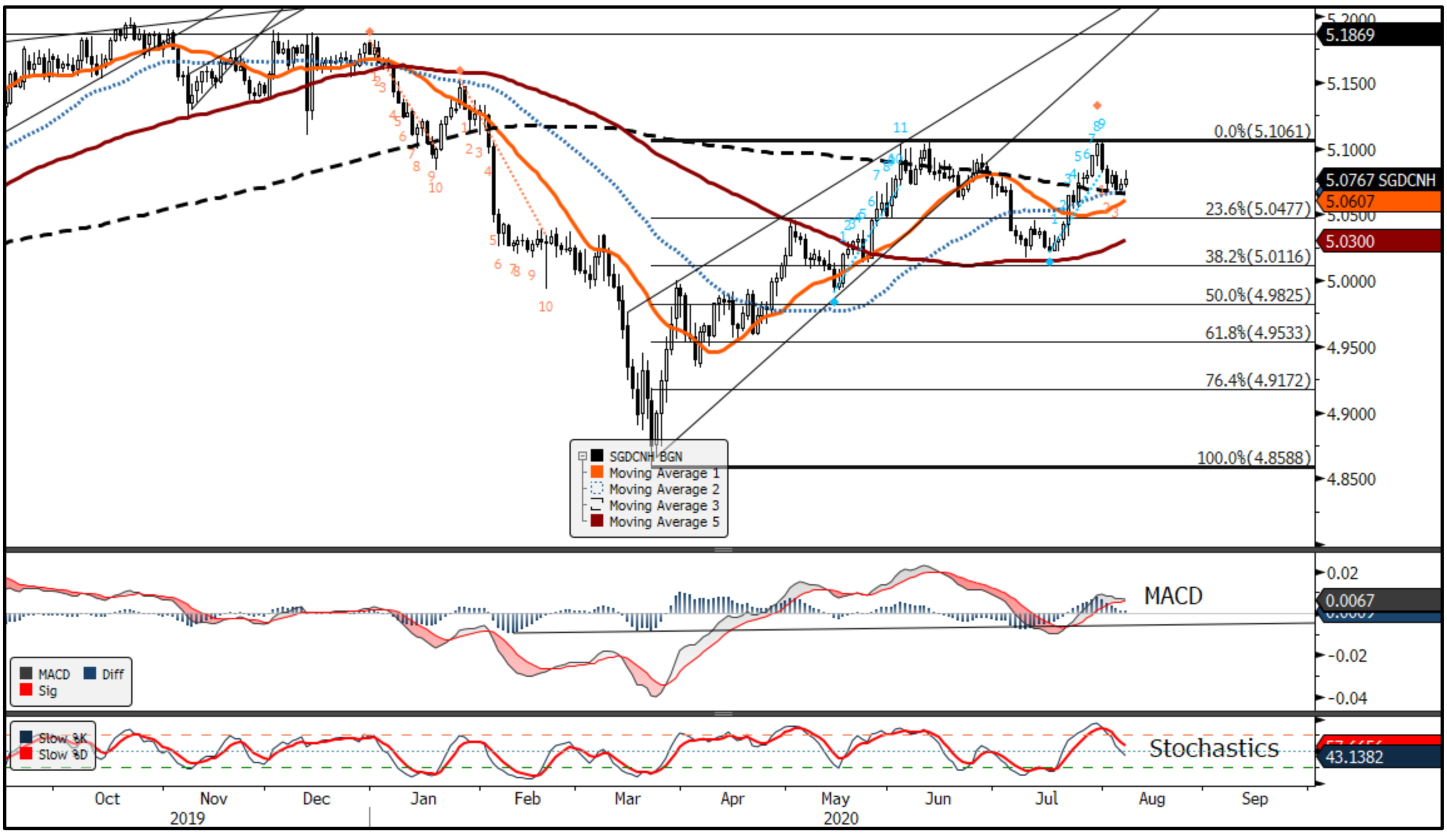
its other non-USD trading partners in an environment of low US rate and a weak USD. Risks are still to the downside for RMB TWI.

**RMB TWI Largely Tracks the USD, RIsks to the Downside**




*Source: Bloomberg, Maybank FX Research & Strategy*

**SGDCNH (Daily) - Double Top But Supported on Dips**




Source: Bloomberg

SGDCNH seems to have double-topped of late but downmove is being supported by the 200-dma at 5.0660. Bias could be to the downside in the near-term but this requires the break of the 200-dma and then the next support at 5.0607 before 5.03. MACD suggests waning bullish momentum.

**M**

**YRCNH – Bullish Bias**


Source: Bloomberg

This cross is increasingly bullish with the break of the 200-dma seemingly inevitable. Last printed 1.6620, this cross could head towards the next resistance at 1.6722 (61.8% Fibonacci retracement of the Feb-Mar fall). Momentum remains fairly bullish.

# DISCLAIMER

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