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Global

RMB Watch

Bias for Strength

Though TWI Outperformance unlikely to Sustain

Key View:

- Bias in the USDCNH was firmly to the downside for much of the past few weeks as the trade review was cancelled and taken to be a "silence means consent" from the Trump administration for the trade pact phase 1. As a result, the sentiment for the CNH and CNY improved and USDCNH tested the 6.90-figure last week, ever closer to the key 6.85-figure, as mentioned here. While the trade pact is intact, US-China tensions have broadened into other areas and the potential for misfire could eventually weaken the CNY against other non-USD peers.

- Economic data for Jul was a tad disappointing. Industrial production and most notably retail sales underwhelmed. That said, data still paints a picture of modest recovery and supports the targeted monetary easing stance that the PBoC has been adopting and the pause in the broad monetary easing would remain.

- USDCNH could continue to remain on the downmove with a break of the 6.89-figure, towards 6.85. SGDCNH can continue to play out the double top formation towards 5.01 while MYRCNH shows little impetus for any direction, could remain within range of 1.64-1.66.

What We Watch:

- 27th Aug - Industrial Profits (Jul)
- 31st Aug - Mfg, Non-Mfg, Composite PMI (Aug)
- 1st Sep - Caixin Mfg PMI (Aug)
- 3rd Sep - Caixin Composite, Services PMI (Aug)

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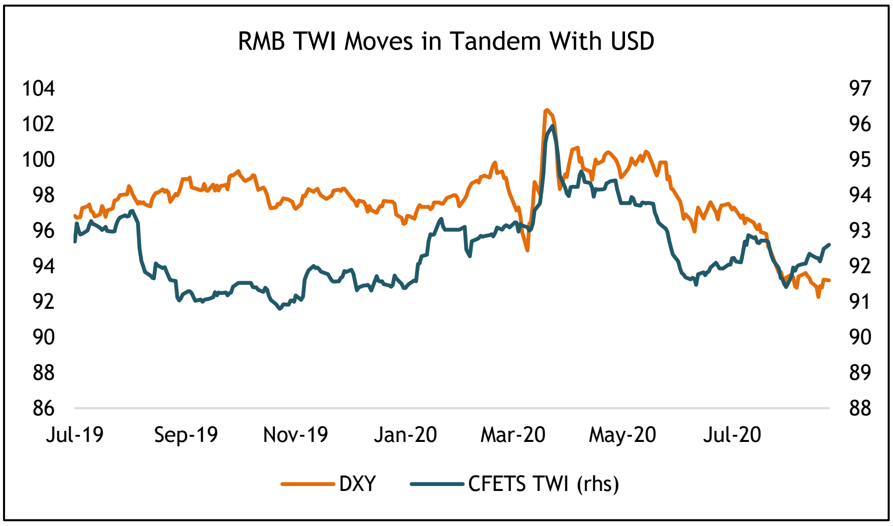
Where Has USDCNH Been? And Where to?

USDCNH remains biased for further downside with the USD resilience more apparent against the peers vs. the CNH (or CNY). As a result, we witnessed the outperformance of the RMB trade weighted index for much of this month. Drivers underpinning the USD weakness are not likely to shift drastically and so, we continue to look for USDCNH to head towards our eventual key level of 6.85, taking the USDCNY along with it.

The Out-performance of the RMB in Aug



Source: Bloomberg, Maybank FX Research & Strategy

We are into the last week of Aug - a normally seasonally bullish month for the USD. The seasonal factor that typically lifts the USD seems to have played out more against other regional peers vs. the RMB. This results in the outperformance of the CNY vs. other trading peers. The USDCNH pair took a peek under the 6.90-figure last week and is a tad closer to our long awaited key level of 6.85 as mentioned here.

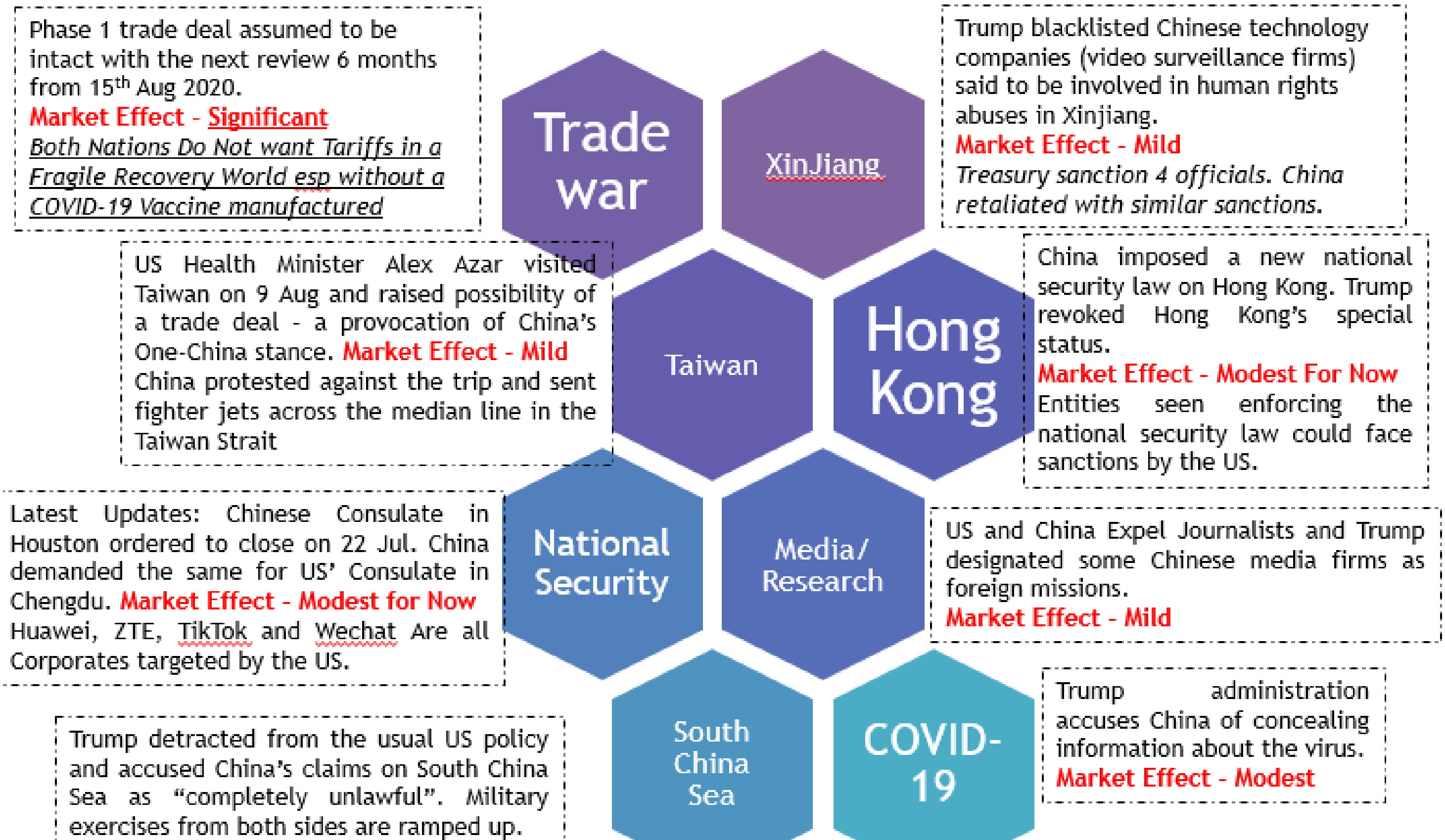
Sentiments Matter - Trade Pact Review Cancelled

For months, we expected trade pact to remain largely intact and we see that as a necessary condition for RMB to continue to strengthen the USD. The month had started with the trade pact review on 15th Aug widely watched but Trump "cancelled" the meeting, saying he does not want to "talk to China right now'. The review has thus been postponed indefinitely. Thereafter, China's Ministry of Commerce (aka MOFCOM) spokesman Gao Feng told the press that a call could be held "in the coming days" but the Trump administration refused to confirm.

Markets took this development positively. True that the Trump administration continues to impose more curbs on Huawei by adding 38 more of its affiliates in 21 countries on its economic blacklist in order and formalized F16 jet sale to Taiwan. US Secretary of State Pompeo has had plenty of inflammatory words for China with regards to Hong Kong, Taiwan but the US officials were also aligned with regards to their stance on the trade pact - China had purchased enough to keep the bargain intact even though that did not come officially through the affirmation of the phase 1 trade pact. This came amid strong reports of China ramping up agricultural and energy purchases from the US. So the cancellation of the trade review could be due to 2 positive possibilities - 1) Trump needs the trade pact to be intact but wants to keep a harsh stance towards China whom he has blamed for the pandemic ahead of the elections. 2) A later review could allow more time for China to ramp up its purchases. CNH is thus still an outperformer in Aug as the certainty of the trade pact becomes clearer.

A key reason for a lack of escalation is also China's decision not to. At this point, the healthcare crisis and fragile growth environment could keep both leaders in check and prevent meaningful escalation that could de-rail recovery. Military conflicts were carefully avoided with some report citing sources that Chinese air and sea forces have been explicitly ordered "not to fire the first shot". These may change in the medium term as tensions between the US and China have broadened into other non-economic aspects, increasing the points of contentions and conflicts. **With such a broad area of conflicts, the probability of a misfire is increased.** The reversal of the USDCNH back to its lows at the start of the year may be more a reflection of where returning to price levels when the US-China trade pact is signed as well as the erosion of the rate advantage of the USD, growth differential, etc. However, moves beyond that could be more gradual and we do not rule out a rebound. **We still expect potential underperformance of the CNY vs. other non-USD peers in the next 6 months in light of US-China tensions that are unlikely to fade away.**

Market Impact of Trade Sanctions Are Most Significant



Source: Various news sources including Bloomberg.
Note: Market effect is defined as the likelihood that any escalation would cause an impact on market. The severity of the impacts based on our observations and analysis.

Economy Matters – Retail Sales Disappoint

China's trade surplus rose for Jul to $62bn vs. prev $46bn as its exports rose more than expected at 7.2%y/y vs. previous at 0.5%. Imports slowed a tad to -1.4%y/y from previous 2.7%. Stronger exports reflect a recovering global demand while the weakness in the imports underscore room for domestic demand to grow. Favourable balance of payment could be supportive of the RMB.

At home, industrial production for Jul steadied at 4.8%y/y, undershooting the consensus at 5.2%. FAI ex rural recorded a narrower decline for the first seven months at -1.6%y/y vs. -3.1% for 1H 2020. The most disappointing print was perhaps the retail sales at -1.1%y/y vs. previous -1.8%, a weak improvement that misses expectations for a small growth. Consensus looked for a +0.1%y/y expansion.

Gradual Recovery Picture Intact, PBoC To Retain the Pause on Broad Easing

The data underscores the fact that despite support from the central bank, the recovery picture is fragile and gradual. This set of data still supports the targeted monetary easing stance that the PBoC has been adopting and the pause in the broad monetary easing would remain.

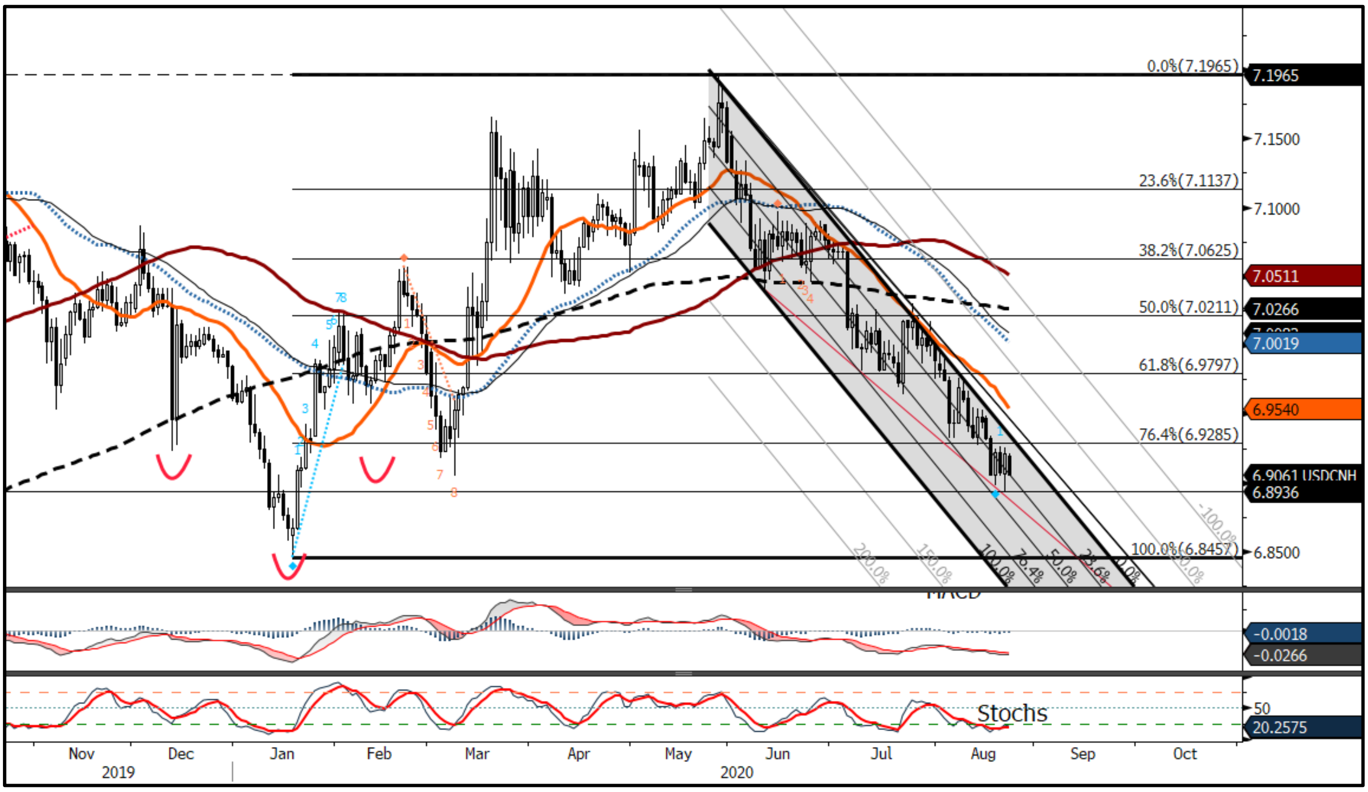
Post the data release, the recent increase in liquidity injection by PBoC had raised hopes that the central bank will revert to more emphasis on easing and to keep growth as priority rather than financial stability. Liquidity injection via open market operations and MLF have been in net positive of around CNY10-340bn for the past week. However, the central bank dashed hopes of broad easing with a statement to the media saying that targeted easing and structural monetary tools will be used to support SMEs. 10y yield has thus been somewhat elevated around 3.00%.

Governor Yi Gang was more concerned about the survival of SMEs, urging banks to support smaller companies via innovation in financial services and products. He warned at a seminar on 23rd Aug that the **economic situation is "complex and severe"**. Earlier last week, the Supreme Court ordered interest rates on private loan agreements between individuals and small businesses to be lowered as much as 10ppt in order to support economic growth. The ruling will render rates exceeding four times the LPR to be usury and invalid.

USDCNH – Bearish Bias Intact

The USDCNH remains on the slide and was last seen around 6.9070. This pair respects the diagonal line of support, at around 6.89 (near recent low of 6.8936). This pair closes in on our long awaited target of 6.85-figure, also near the low in Jan. Price action remains within the falling 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 6.95-resistance marked by 21dma and then at the 7.00-figure (marked by the 50-dma). The 50-dma has crossed the 200-dma to the downside, a bearish signal. 100-dma has turned lower, en-route to do the same. Death crosses suggest bearish bias intact.

USDCNH (Daily Chart) – Falling Wedge or Trend Channel?



Source: Bloomberg

SGDCNH (Daily) – Double Top Plays Out

Source: Bloomberg

SGDCNH spotted a double top formation in the last RMB Watch and was last seen around 5.0440, testing the 100-dma. The double top formation may continue to play out beyond this support level and could head towards the 5.0110. Resistance at 5.0680 (21-dma).

MYRCNH - Directionless

Source: Bloomberg

This cross consolidated within the 50-dma and the 200-dma for the past two weeks and was last seen around 1.6530. Momentum indicators suggest there are not much directional impetus at this point and support remains at 1.65 before the next at 1.6450. Resistance at 1.6610 (200-dma).

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