Maybank

Macro | FX Research & Strategy

Global

RMB Watch

RMB Bulls Assert

Strong Macro, FTSE Russell WGBI Review Underpin

Key View:

- Strength in the RMB has become more apparent in Aug, decoupling away from the DXY index. The affirmation of the US-China trade pact cleared the way for more RMB strength (sentiment-wise) while the picture of recovery remains intact to provide the fundamental underpinnings of the currency. In addition, FTSE Russell is due to give its verdict on 24th Sep and the action in the lead up to the event could be more appreciation in the onshore and offshore yuan.

- USDCNH has breached our 6.85-target. The break of the double-topped neck-line formation at 6.85 could mean greater CNH gains with next support for the USDCNH at 6.76.

- SGDCNH played out the double top formation and momentum remains bearish. This cross has broken the 5.01 support and is en-route towards the next at 4.98 before 4.95. Resistance at 5.01 (previous support) before 5.04 (21-dma). The MYRCNH was last seen around 1.64 and bullish bias is waning on the weekly chart. Support at 1.64 is likely to be tested and broken. 50-WMA is en-route to cut the 100-Wma to the downside, a bearish signal too. Ahead of the FTSE Russell review, a potential exclusion of Malaysian Government Bonds and a potential inclusion of China's) could mean that this cross could be bias to the downside in the next two weeks. Support at 1.6240. Resistance at 1.6570.

- What We Watch:
  - 9th Sep - CPI, PPI (Aug)
  - 10-15th Sep - Money Supply M2, New Yuan loans, Aggregate financing (Aug)
  - 15th Sep - Industrial production, retail sales, FAI (Aug)
  - 21st Sep - Loan Prime Rate (Likely Unchanged)
  - 24th Sep - FTSE Russell WGBI Review Decision

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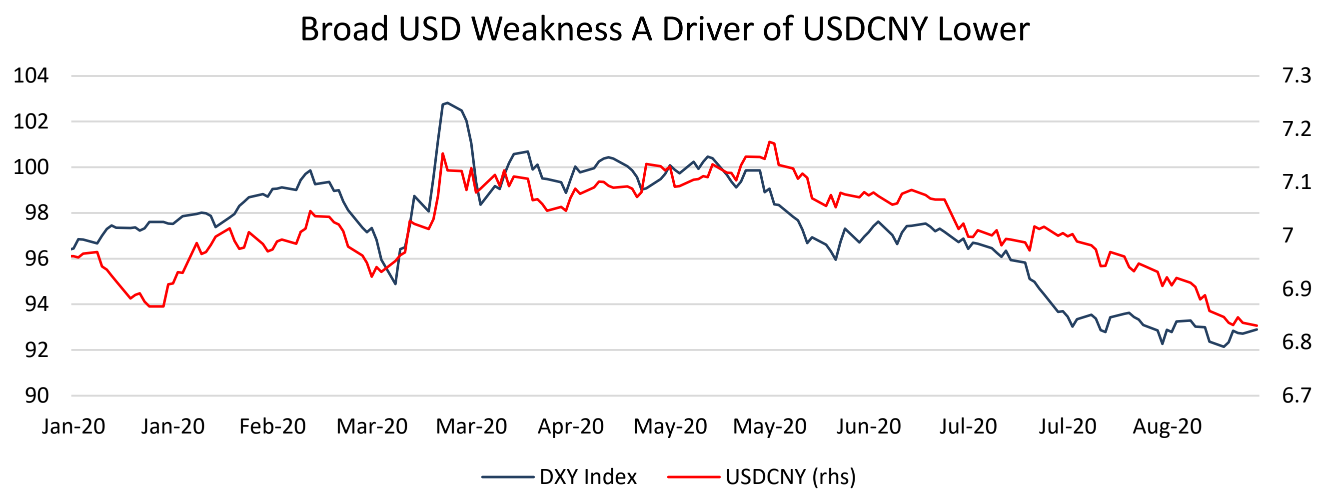
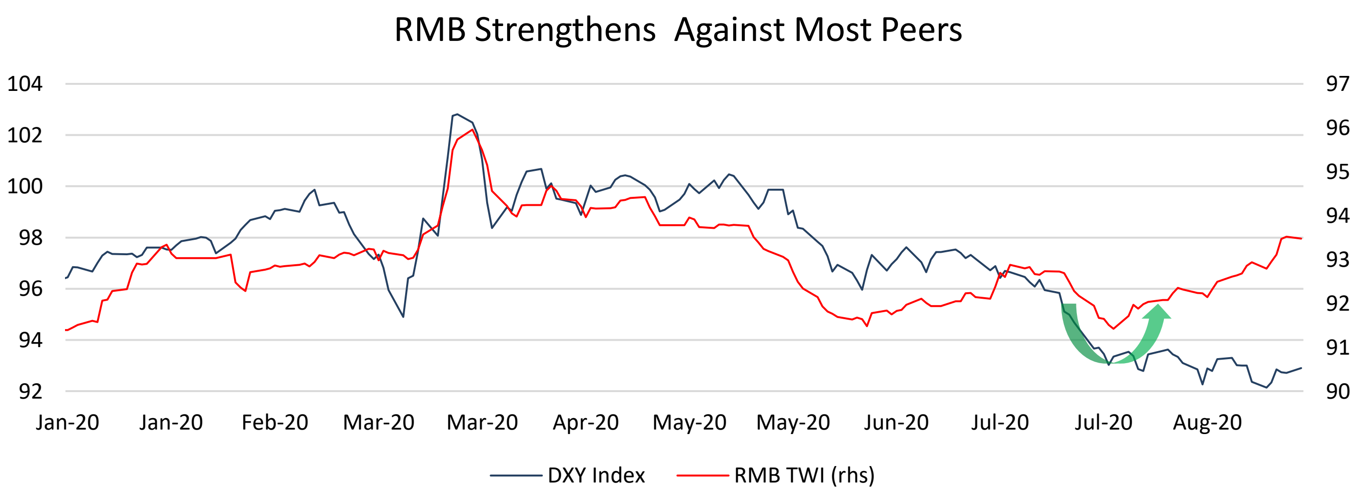
Where Has USDCNH Been?

USDCNH has finally breached our target of 6.85 and the strength of the RMB seems to have persisted against the USD as well as the rest of non-USD peers despite the persistent softness in the DXY index. It seems like the decoupling of the US-China has also been triggered in the RMB TWI and the DXY index which used to move in tandem.

The RMB Bulls Asserts More Recently





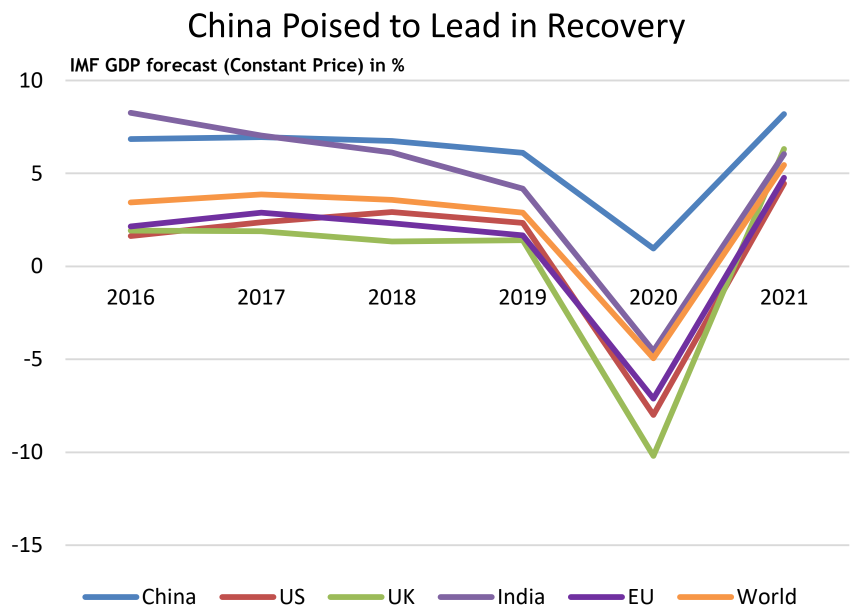
For much of 2020, a large part of the USDCNY's decline was guided by the broad USD weakness. The CNY trade weighted index (CFETS weighted, TWI) had also been on the downmove along with the DXY index in an environment of risk-rally and US-China tensions. However, that seems to have changed in the month of Aug as the US and China reaffirmed their commitment towards phase 1 of the trade pact. With the uncertainty of the trade pact out of the way, RMB bulls seem to have awaken against its peers. Both CNY and CNH strengthened against most other peers.

Trade Pact Intact Suggests Other Measures Are Likely to Be Restrained

The affirmation of their commitment to the trade pact underscores 2 effects – 1) The world is free from potential supply chains disruptions that comes with tariffs imposed by the US on China (and vice versa) for the time being. 2) Leaders of the two nations are conscious of the fact that global growth is weak and recovery is a priority for all. That is a signal that even as the US threatens with more sanctions on Chinese corporates or ramps up military exercises in South China Seas, Covid-19 has ensured measures undertaken would be restrained and are unlikely to have significant repercussions on the world economy.

China's Growth Leads the Way to RMB Strength

In addition to the absence of any trade deterioration with the US, Jul data continues to paint a picture of gradual recovery for China although actual prints continue to miss estimates. More importantly, as we close in on the 4th quarter of the year, China is the only major country that IMF expects a growth for and is poised for a stronger rebound in 2021. The growth acceleration in China underpins the RMB strength.



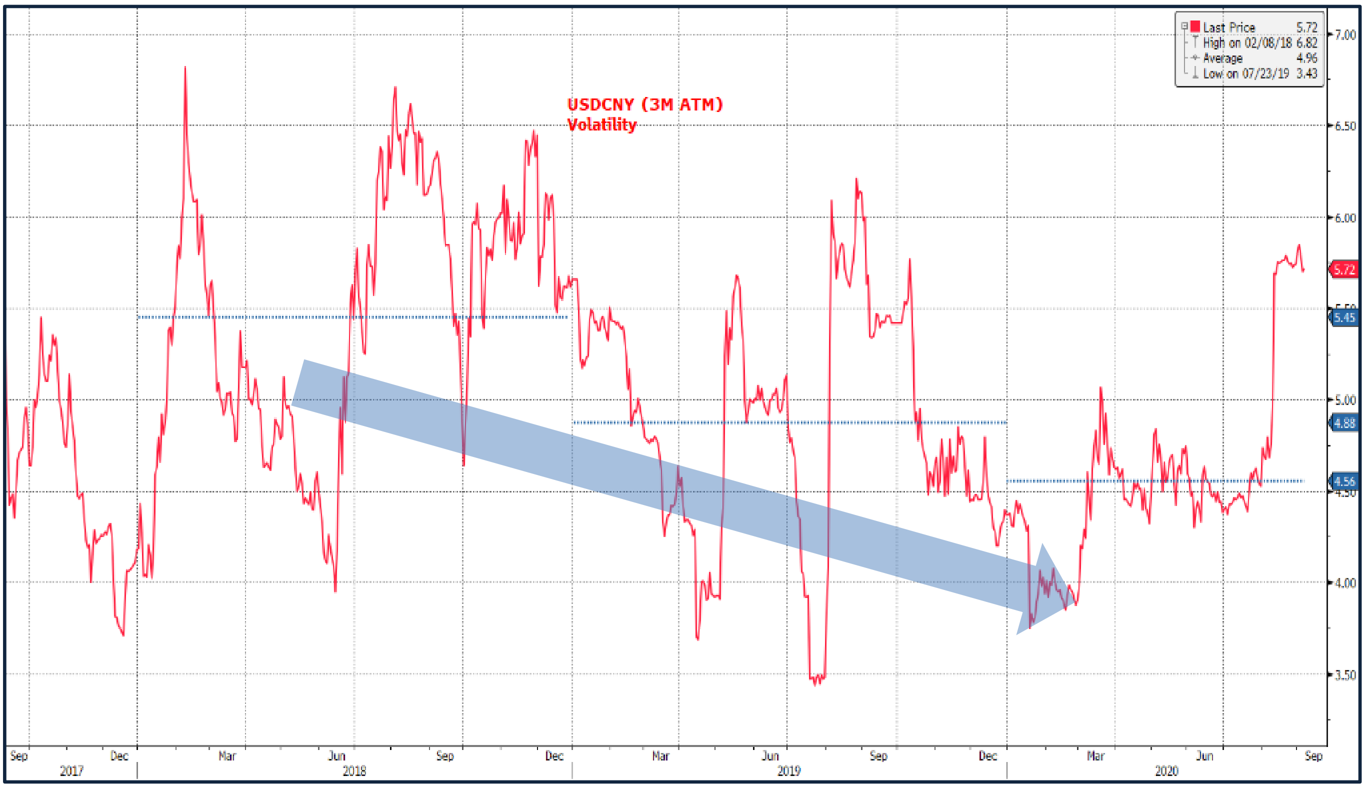
Source: IMF Growth Estimates, Maybank FX Research & Strategy

Eyes are especially on the Chinese consumers as retail sales had remained the laggard vs. other activity indicators. The Chinese consumer had displayed a sense of inertia since China emerged from the lockdown that dominated much of 1Q. However, there have been some sporadic signs of recovery. The Shanghai Administration of Culture and Tourism had reported that the average hotel occupancy rate of hotels reached 65.7% between 9-15 Aug as cross-province tourism started on 14 Jul. Hence, retail sales may see a pick-up in pace for August as well. It is also worth noting that China's rebound comes amid re-emergence of Covid-19 outbreaks in some parts of the world including Germany, Australia, South Korea, Malaysia, Vietnam. Movement restrictions/ Social distancing measures were reinstated because of the virus re-emergence. In contrast, China's firm approach towards the virus has given the country an edge in keeping its recovery on an even keel and that is somewhat reflected in the strength of the RMB.

FTSE Russell To Potentially Include CGB in its WGBI

FTSE Russell's potential inclusion of China Government Bond into its World Government Bond Index would be keenly watched (again). When China failed to gain entry in previous reviews, FTSE Russell had pointed out in Sep 2019 that poor secondary market liquidity and FX hedging as reasons to keep China government bonds on the Watchlist. The strong RMB sentiment recently could be due to expectations for CGBs to be included this time after SAFE stepped up to improve on those specific aspects by providing more foreign exchange hedging channels for overseas bond investors right at the start of the year (Jan) and more market reforms executed since then to allay investors' concern conveyed at the interim review.

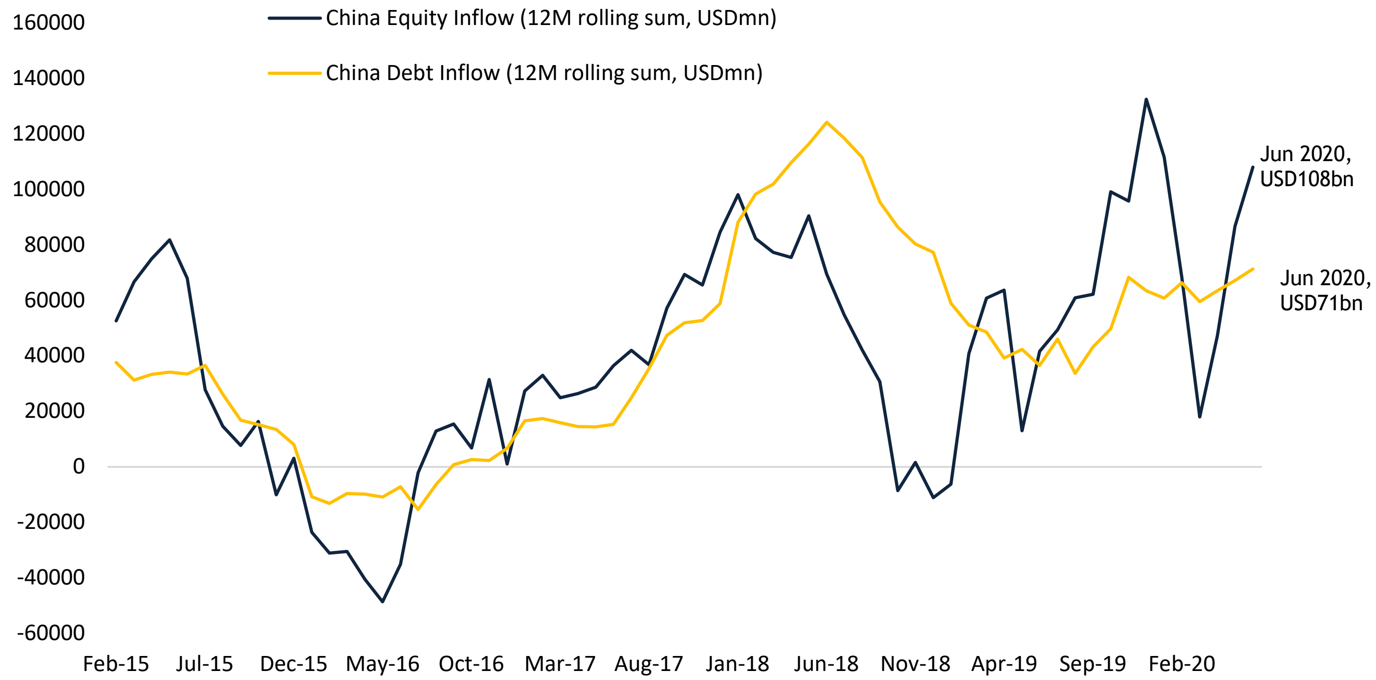
USDCNY Volatility Low Compared to 2018/19 (Recent Rise Due to CNY Appreciation)



Note: Blue Lines are Annual Average lines for 2018, 2019 and 2020ytd
Source: Bloomberg, Maybank FX Research & Strategy

In addition, while 2018-2019 have been marred by the trade war and significant RMB volatility, 2020 had been a more benign year for the RMB and its volatility has dropped. PBoC did not have to intervene or guide the FX markets as much (daily USDCNY fix). As the central bank allows market forces to drive RMB a tad more this year, greater transparency of the FX markets along with the reforms such as allowing foreign investors within the China Interbank Bond Market scheme to have more counterparties for their FX hedging purposes may see more positive feedback from investors gathered by the FTSE Russell review committee for an inclusion on 24th Sep. Along with its rather solid macro underpinnings, net debt and equity inflow into China have already been rising on a 12-month rolling sum basis. Despite the mild pullback in the earlier part of the year, net foreign flows for both equity and debt market have been mostly positive, reversing out the trend from 2018-2019.

Net foreign flow for debt and equity have been on the Rise



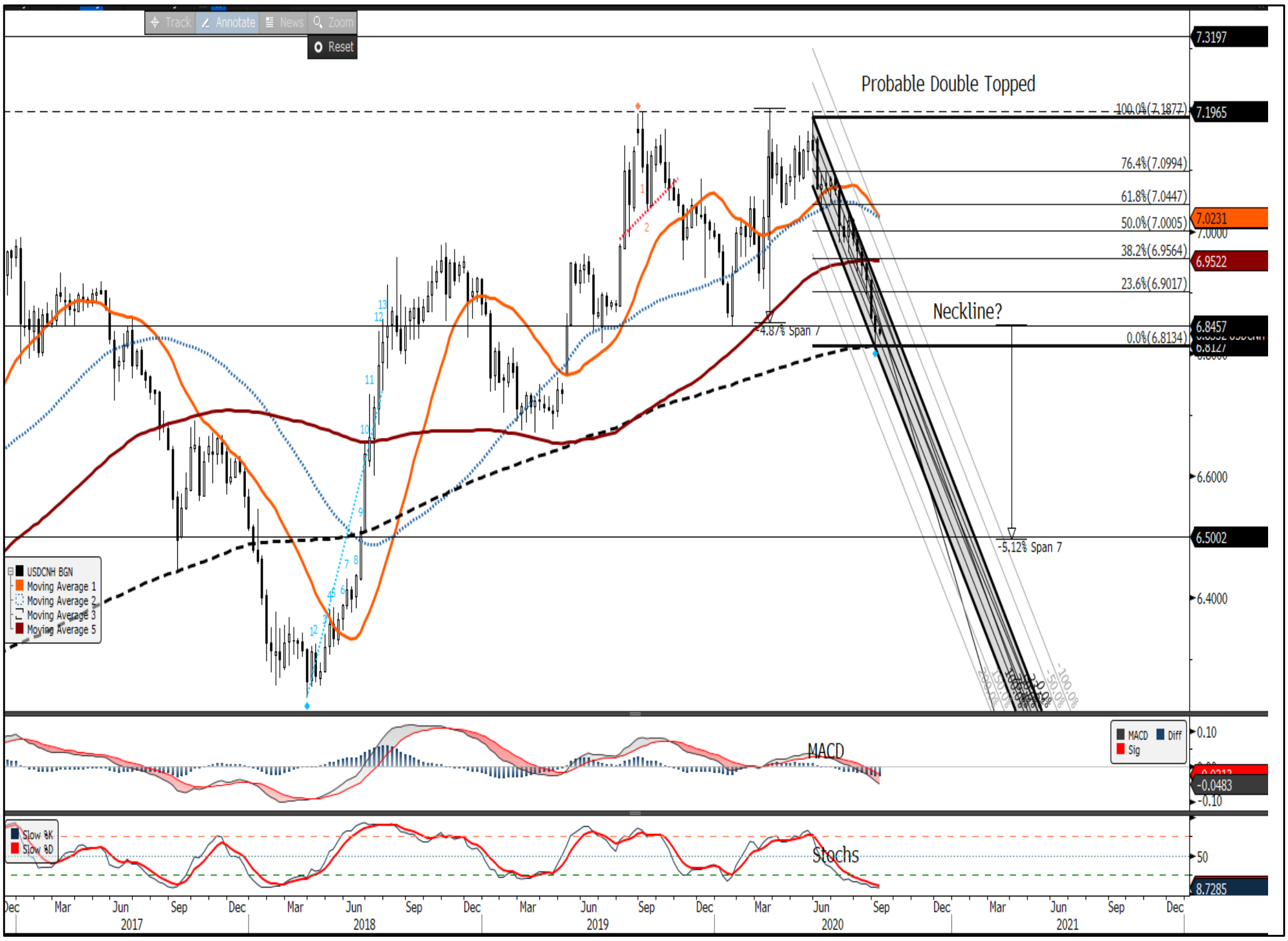
Source: Bloomberg, Maybank FX Research & Strategy

Regardless of the outcome of the review, CNY and CNH would be on a strengthening bias in the lead up to 24th Sep as investors start to price in a positive outcome. A successful inclusion of the China Government Bond (also known as an upgrade by FTSE Russell from market accessibility level 1 to level 2) would also mean steady inflows into China's debt market. Some market annual estimates of inflows range around CNY1trn for this year and the next. This is just one additional but no less significant event to keep the RMB on a strengthening bias.

USDCNH – Bearish Bias Intact

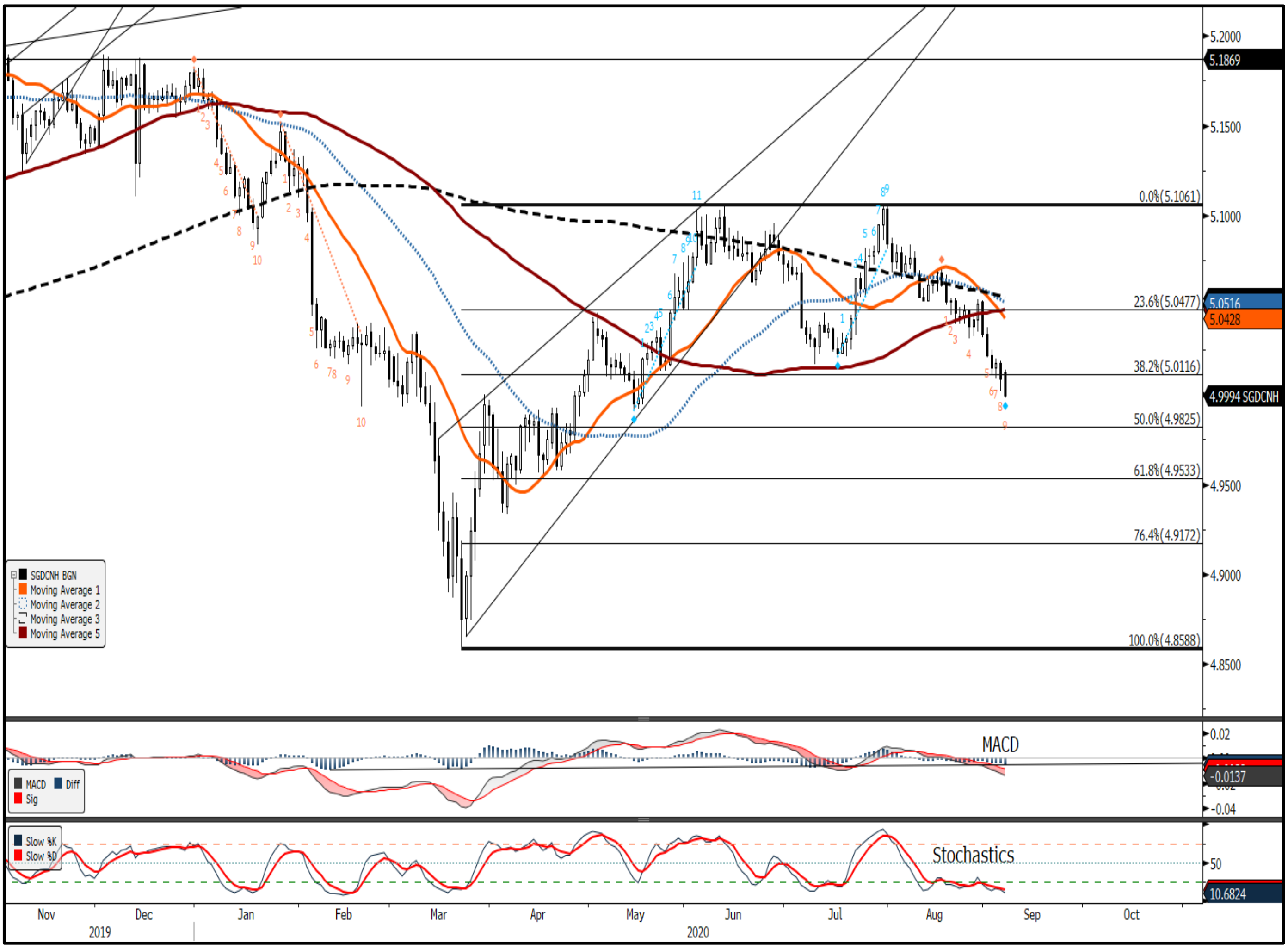
The USDCNH remains on the slide and was last seen around 6.83. We will not rule out a rebound in the USDCNH towards 6.90 but that would still be within the falling trend channel, keeping the downtrend intact. Also, the 100-dma is seen to be en-route to cut the 200-dma to the downside, underscoring the inherent bearish bias of the USDCNH. We see risks of more bearish moves in the longer term. The neckline of the double top has been broken at 6.85, and we would not rule out further bearish moves beyond 6.80 towards next support at 6.6770 and textbook support of 6.50.

USDCNH (Weekly Chart) – Falling Trend Channel Intact



Source: Bloomberg, Maybank FX Research & Strategy

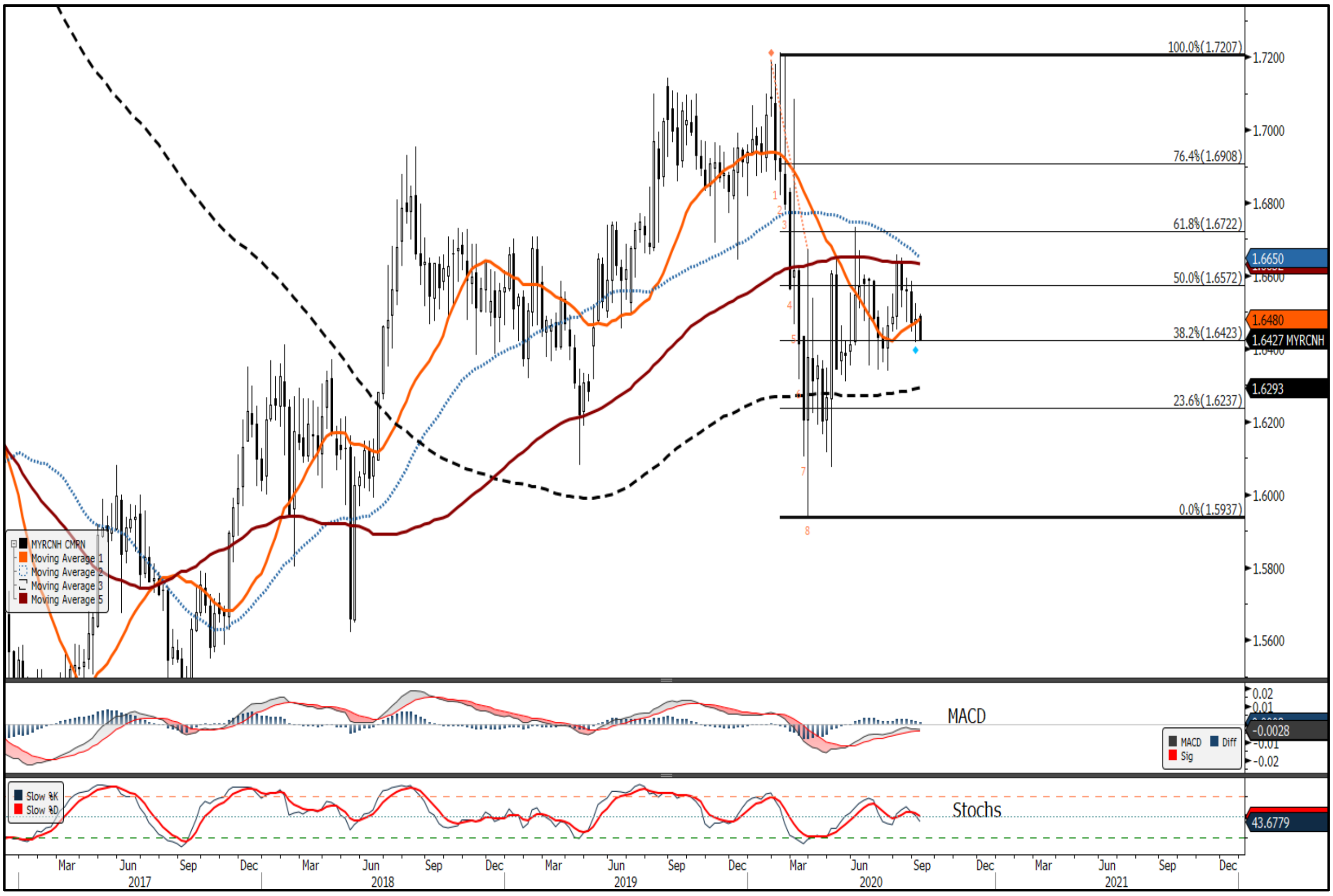
SGDCNH (Daily) – Double Top Plays Out



Source: Bloomberg

SGDCNH played out the double top formation and momentum remains bearish. This cross has broken the 5.01 support and is en-route towards the next at 4.98 before 4.95. Resistance at 5.01 (previous support) before 5.04 (21-dma).

MYRCNH - Directionless



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