

RMB Watch

Bulls Recharged for Further Extension?

RMB Extend its Rising Streak

Key View:

- RMB bulls seemed to have recharged since the last issue of RMB Watch and have pressed on. USDCNH has broken below the 6.73-figure. A clean break there should usher more downsides towards the 6.70-figure and then towards 6.67.
- The recent bout of offshore RMB appreciation coincided with the release of the Sep PMI numbers that suggest broadening recovery, the 1st round of US Presidential debate that widened Biden's lead. We continue to hold on to our view that factors underpinning RMB are unlikely to fade away including its relatively less dovish monetary policy stance, a relatively benign trade environment (phase 1 trade deal with US intact), carry advantage of the RMB as well as the likely faster economic growth vs. the US but some of it could have priced aggressively in recent sessions. We also watch the actions of US on China given the unresolved issues of TikTok, Wechat whose bans are temporarily barred by local federal judges as well as the Quad dialogue attended by Pompeo and some of regional US allies along with any unexpected turn of events at the US elections.
- SGDCNH and MYRCNH are retaining a bearish bias but risk reward ratio suggests that it is better to enter into short trade upon potential rebounds towards 4.9760 and 1.6420 respectively.
- What We Watch:
 - 6th Oct - Quadrilateral Security Dialogue
 - 7th Oct - Foreign Reserves (Sep)
 - 8th Oct - Caixin PMI Services (Sep)
 - 10-15th Oct - Credit/Monetary Data (Sep)
 - 13th Oct - Trade (Sep)
 - 13-16th Oct - 1Y MLF rate
 - 15th Oct - CPI, PPI (Sep)
 - 19th Oct - 3Q GDP, IP, retail sales, FAI ex rural (Sep)

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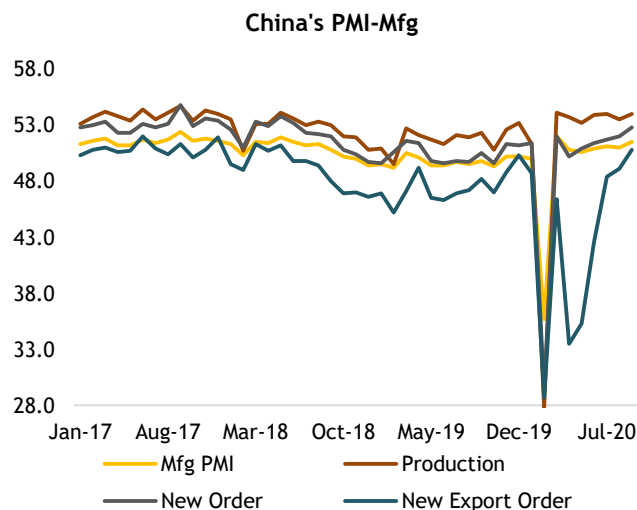
Where Has USDCNH Been?

USDCNH rebounded right after our last RMB Watch warned of risks that RMB bulls would pause for a recharge. The rebound brought the pair towards the 6.85-figure (also in line with potential resistance levels that we flagged) before the recent slide....

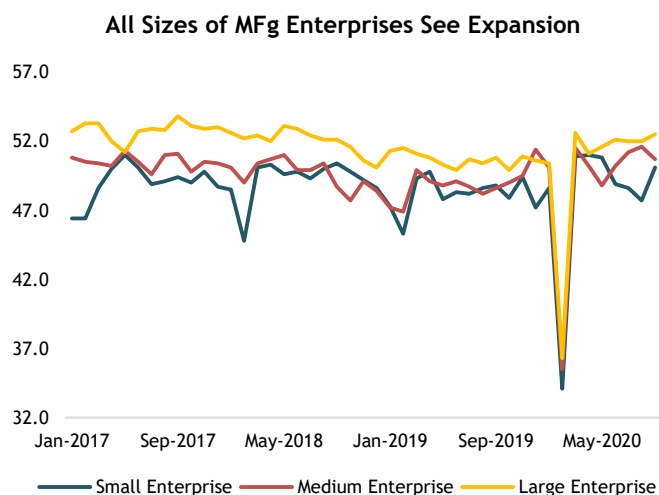
USDCNH witnessed a rather steep and unexpected slide to test the recent low of 6.7433 last week. This sudden bout of strength in the RMB came on 30th Sep and coincided with a few events which we thought collectively contributed to appreciation, apart from the chatters of month-end/quarter-end flows that weighed on the USD.

30 Sep saw the first of the data releases for Sep - the PMI prints released by the National Bureau of Statistics and Caixin Mfg PMI suggest recovery is broadening and sustained. The set of survey for Sep bodes well for the activity prints due after mid of Oct. First detail to note is that net export order has started to catch up after waffling in contractionary region in the past few months and only printed 50.8 for Sep 2020. Second, PMI-mfg of large, medium and small enterprises are all in expansionary region.

New Export Order Has Started To Catch Up

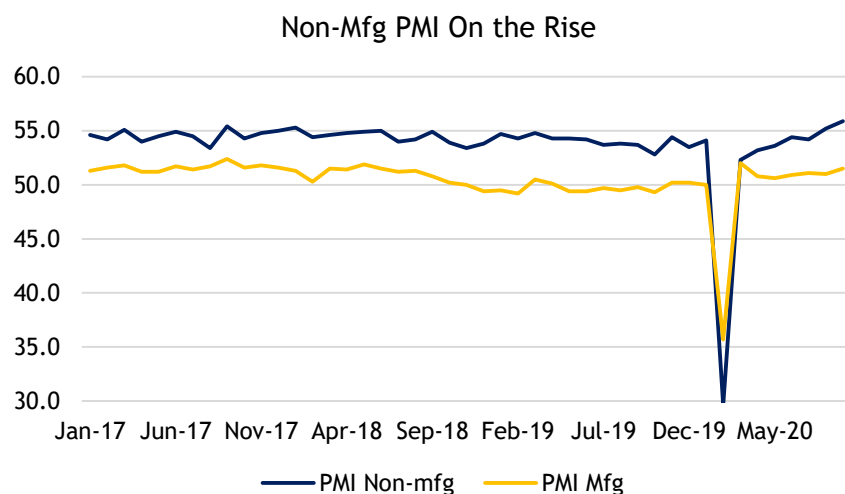


Small Enterprises See Expansion, along with Large and Medium Enterprises



Source: NBS, Maybank FX Research & Strategy

Non-Mfg Sectors Are Also on the Mend



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

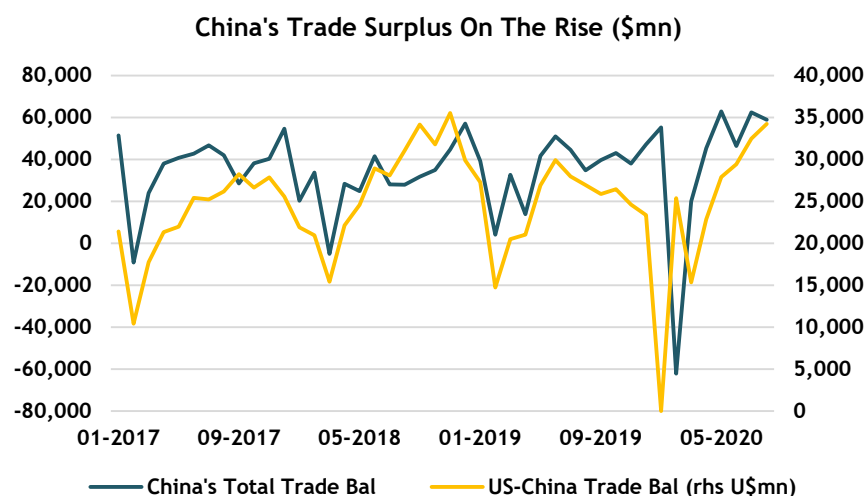
Encouragingly, non-mfg PMI rose more than expected to 55.9 from previous 55.2 ahead of the Golden Week holidays. **Over the weekend, China's Ministry of Culture and Tourism said that tourist spending from the first half of Golden Week was down by a third from last year at CNY312bn, but still on the mend from pandemic levels. That could still mean a year-on-year drop from last year, not a good signal for retail sales.**

While macro improvement has been underpinning RMB's strength for much of the past few months and also likely contributed to the recent spurt of appreciation, the decisive move lower of the USDCNH could be due to an external event - The US Election.

To be clear, the first Presidential Debate on 29th/30th Sep (depending on your time zone) only had a brief mention of US' conflict with China. Biden's posture on China was not further elaborated, much, during the event. But the debate itself saw Biden's lead widening (amplified by Trump's Covid infection) and we have noted [here](#) that a Biden win is more broadly positive for the RMB as he is seen to be less confrontational than Trump. Biden's trade and foreign policies are also perceived to be likely more constructive and pragmatic, similar to Obama-era approach whom he served alongside as Vice President. Biden is also more able to focus on current domestic issues (pandemic, economic recovery and racial issues) vs. Trump who had been resorting to China-bashing to defend his management of the pandemic that left >200K dead. Hence, a US that is able to focus more on its own recovery and refrain from confrontational and unpredictable foreign and trade policy could boost global economic, positive for the RMB vs. the USD along with other EM currencies.

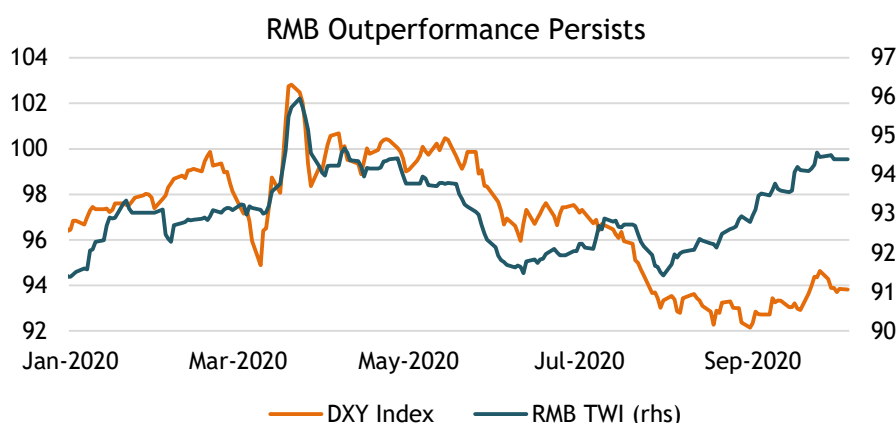
At this point, the CNH has not made a full recovery towards the pre-trade war at 2018 levels and understandably so as the average US tariffs on imports from China remains elevated at 19.3% (PiiE), more than 6 times higher than pre-trade war levels. However, China's trade surplus with the US in Aug 2020 is near Nov-2018 record high at \$34.2bn. China's total trade surplus is also elevated at \$58.9bn, off its Jan 2016 record of \$63bn (chart in next page). Sep expansionary new export orders suggest that goods surplus could continue to widen and support the RMB index.

China's Trade Surplus May Continue to Rise



Source: General Administration of Customs, Maybank FX Research & Strategy

RMB Remains an Outperformer - Carry allure?



Source: Maybank FX Research & Strategy

Quad Dialogue Still Eyed

In the near-term, we eye the Quad dialogue (Quadrilateral Security Dialogue) today (6th Oct) as a near term risk for the USDCNH. The Quadrilateral Security Dialogue is a forum held between the US, Australia, Japan and India which includes summits, intelligence exchanges and military drills between member countries. The alliance is perceived to counter Chinese influence. US Secretary of State Mike Pompeo is said to persist with his trip to Tokyo as a show of commitment to allies in the region. However, he is said to cancel his trip to South Korea and Mongolia after President Trump was tested positive for COVID-19. Mike Pompeo, in recent months, had pledged to seek the support from traditional allies and partners (including Asian nations) to counter China.

As we have mentioned, **factors that underpin the RMB are not likely to fade away soon** - relatively less dovish monetary policy stance and a benign trade environment given that the phase 1 trade deal with US is still intact. **Carry advantage of the RMB as well as the likely faster economic growth vs. the US also underpin but some of it could have priced aggressively in recent sessions**. We also watch the actions of US on China given the unresolved issues of TikTok, Wechat whose bans are

temporarily barred by local federal judges and any unexpected turn of events at the US elections.

USDCNH - Pressured, But Eye Critical Support Region 6.73/74

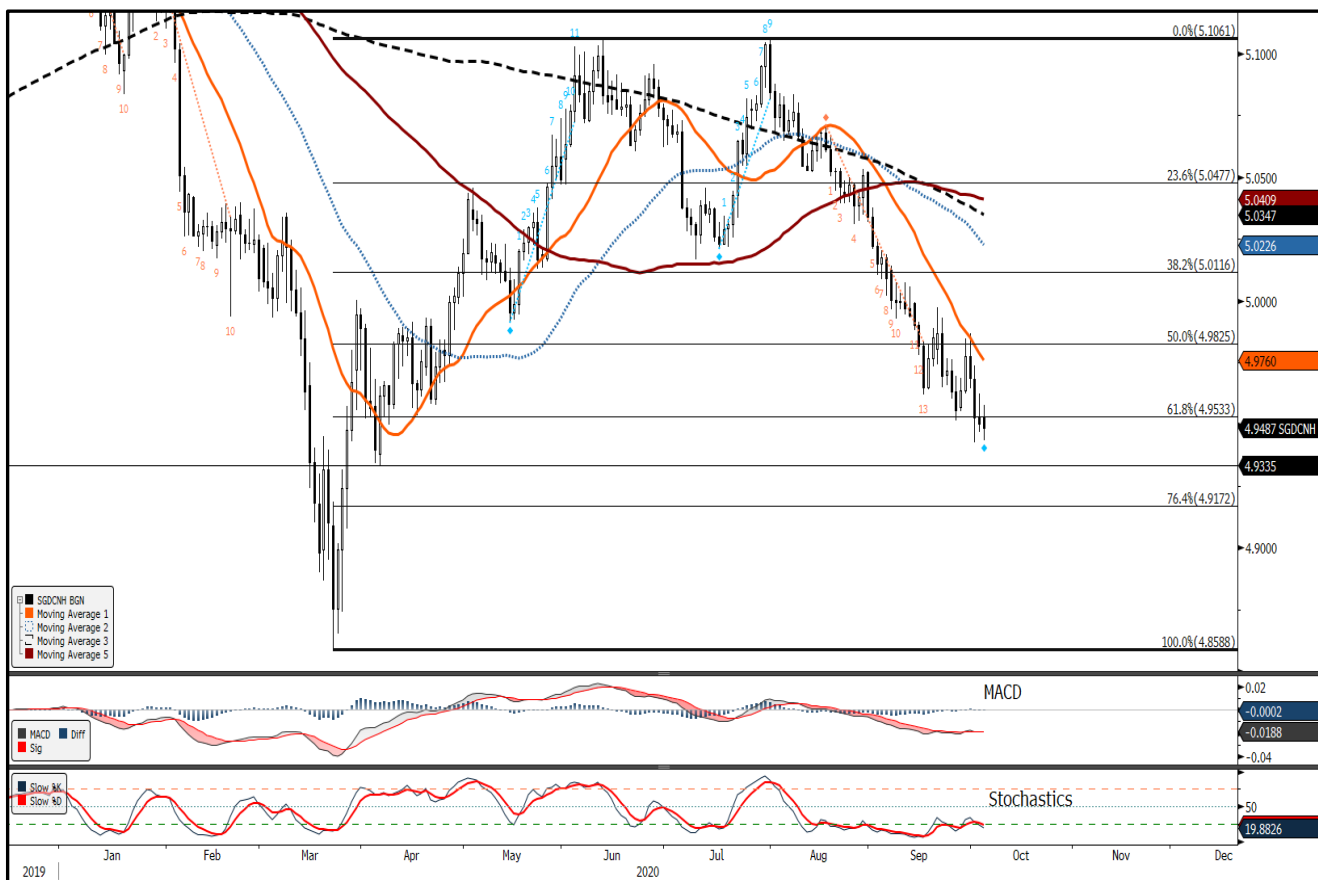
The USDCNH has been on a rather steep, breaking past the key area of support around 6.73-6.74. Pairing could see bearish extension towards 6.67-levels. We would be wary of shorting at this level as we head into a month of uncertainties ahead of US elections and prefer to watch and see.

Due to its fundamental underpinnings, we like to sell the pair on rallies as the recent swings seem to have formed a continuation of a falling trend channel, underscoring its inherent bearish bias. Resistance at 6.7990 (21-dma) before the next at 6.82 and the at 6.85. Support at 6.70 before the next at 6.67.

As noted in past issues of RMB Watch, we have been eyeing the break of the 6.85-figure as the neckline of the probable double top that could bring further downsides towards the 6.50-figure.

USDCNH (Daily Chart) - Possible Interim Double Bottom?

Source: Bloomberg, Maybank FX Research & Strategy

SGDCNH (Daily) - Bearish Bias

Source: Bloomberg

SGDCNH pressed lower by the pure strength of the CNH and was last seen around 4.9490. Downtrend is intact although MACD suggest waning bearish momentum. Stochastics also in oversold conditions. On the weekly chart however, bearish momentum is still increasing. Rebounds towards 4.9760 (21-dma) could be opportunities to short the cross. Next support is seen at 4.9335 and then at 4.9172 (the 76.4% fibo retracement of the Mar-Jun rally).

MYRCNH - Falling Wedge



Source: Bloomberg

This cross slipped past the 1.6240-support level and remained under pressure. MYRCNH last printed 1.6212 and could decline further towards 1.6110 and next support at the year low of 1.5937. MACD is increasingly bearish and stochastics also point south, albeit in oversold condition. Rebounds are likely given a falling wedge formation. Resistance is seen around 1.6310 before the 1.6380 (21-dma) and 1.6420. We prefer to sell on rallies as risk-reward ratio cannot justify shorting at this level.

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