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RMB Watch

Bulls To Pause for Recharge?

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RMB Outperformance Could Slow From Here

- The break of the 6.85 had spurred a precipitous slide for the USDCNH in the past fortnight until the ban on transactions for TikTok and Wechat soured sentiments and USDCNH was bid above 6.77 last Fri. The RMB appreciation had accelerated on a confluence of benign factors including the affirmation that the US and China had given to phase 1 of the trade deal, the announcement of the annual FTSE Russell review decision that could see the inclusion of China's bonds into the WGBI on 24th Sep, the picture of economic recovery, stronger-than-model estimates USDCNY fixing and the positive carry advantage of the RMB. Much of these factors could still continue to keep the RMB on an appreciation bias in the medium term.

- At this point, we see potential for USDCNH to consolidate with strong support around the 6.75-figure as the approach of the US Elections could see more China bashing and actions by the US government could slow the RMB appreciation. In addition, excitement over the WGBI inclusion could also be baked in. Despite the upside surprise in Aug activity prints out of China, we are also wary that the recent macro improvement may not gain traction from here and that could also be reflected in the moves of the USDCNH in the next few weeks.

- While USDCNH retains a downside bias, the consolidative move is seen even more likely against non-DM peers such as the SGD or the MYR. SGDCNH to trade within 4.95-5.01 while MYRCNH could consolidate between 1.6240-1.6570. Note that this does not detract from our medium-term bullish view for the RMB.

What We Watch:

- 24th Sep – FTSE Russell WGBI Review Decision
- 27th Sep - Industrial profits (Aug)
- 30th Sep – NBS PMI, Caixin PMI (Sep)

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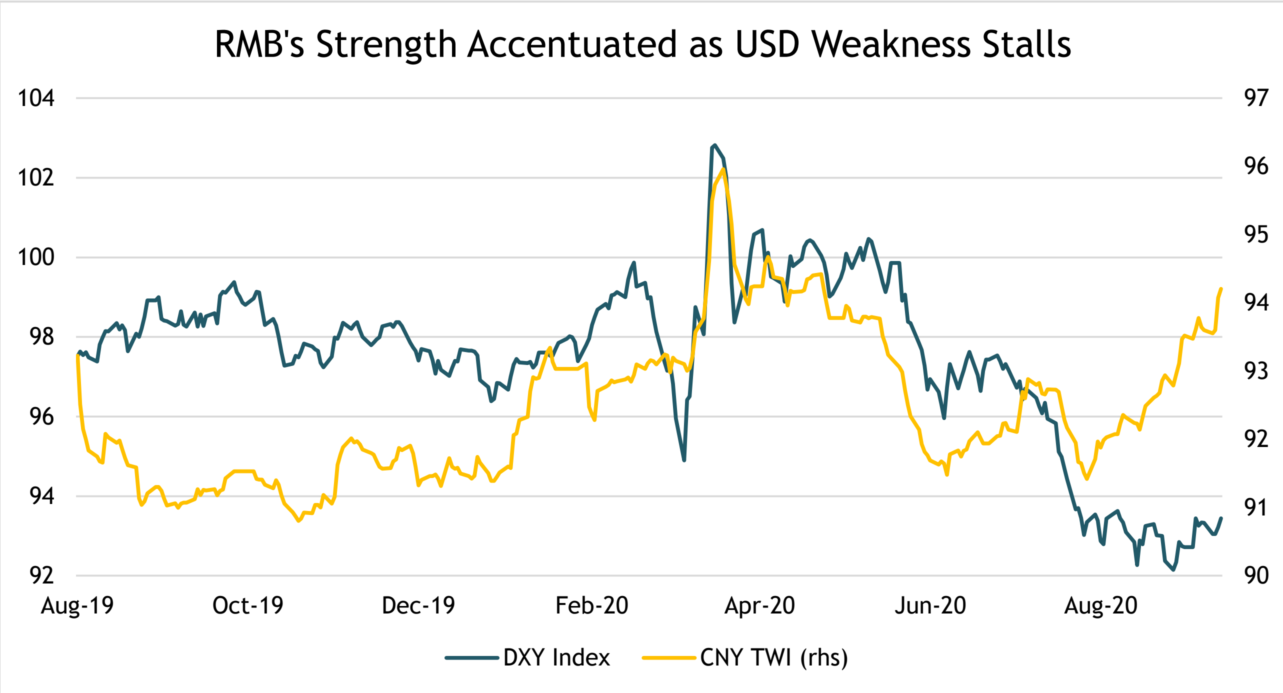
Where Has USDCNH Been?

USDCNH was on a precipitous slide after it was clear that PBoC would not be in the way of the RMB bulls. The signal was given when deviations between model estimates and actual USDCNY fix was widening to the downside. More recently however, the positive gap between USDCNY fix and USDCNY model estimates dissipated and accordingly, we too take that as a sign that CNY appreciation would slow. USDCNH was last seen at 6.7760. USDCNY at 6.7750.

The RMB Bulls Asserts More Recently



Source: Bloomberg, Maybank FX Research & Strategy

For much of this year, we had stressed that RMB strength had been mostly due to the USD weakness but more recently (in the last publication of the RMB Watch), we noted that RMB bulls have started to meaningfully assert themselves with RMB trade-weighted index rising even as the DXY index remains rather sluggish. As seen in the chart above, the RMB TWI actually fell alongside the DXY index since Mar even as the USDCNY and that suggests that the USDCNY is driven more by the USD rather than the CNY side of the equation. That changed in Aug as the RMB index started to rise. This strength coincided with the halt in the USD decline. So as the USD started to consolidate and had more mixed performance with other DM and EM peers, the RMB bulls also started to gain traction. This suggests that the next leg of USD weakness could bring the USDCNH materially lower.

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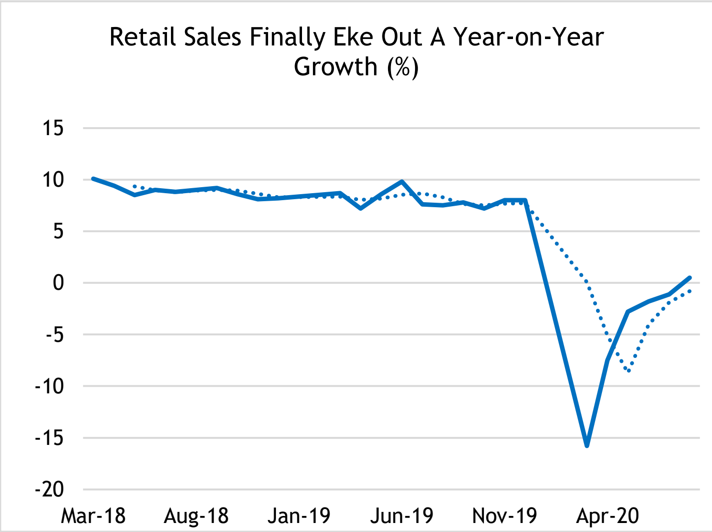
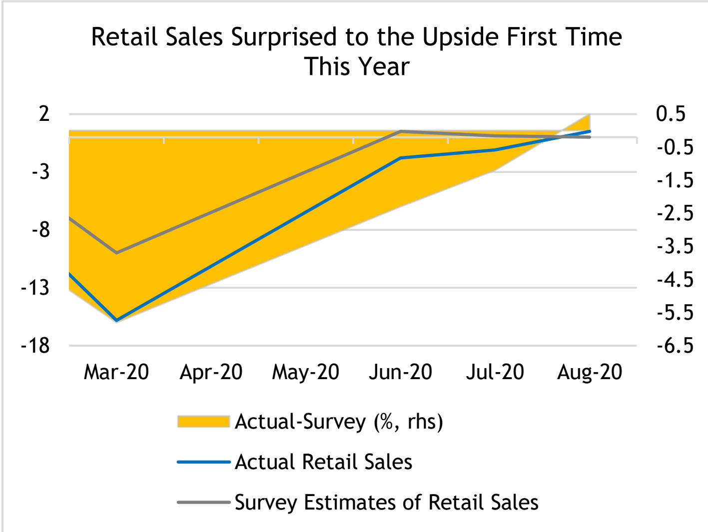
24th Sep, the picture of economic recovery, stronger-than-model estimates USDCNY fixing and the positive carry advantage of the CNY.

One of the most encouraging data that was released for August was the retail sales which posted a year on year growth for the first time this year according to data released by the National Bureau of Statistics. This was especially significant as the Chinese consumers had been displaying a sense of inertia since the lockdown ease earlier this year and retail sales have been repeatedly undershooting growth estimates (right chart below).

Retail Sales Finally Grew Year on Year in Aug…

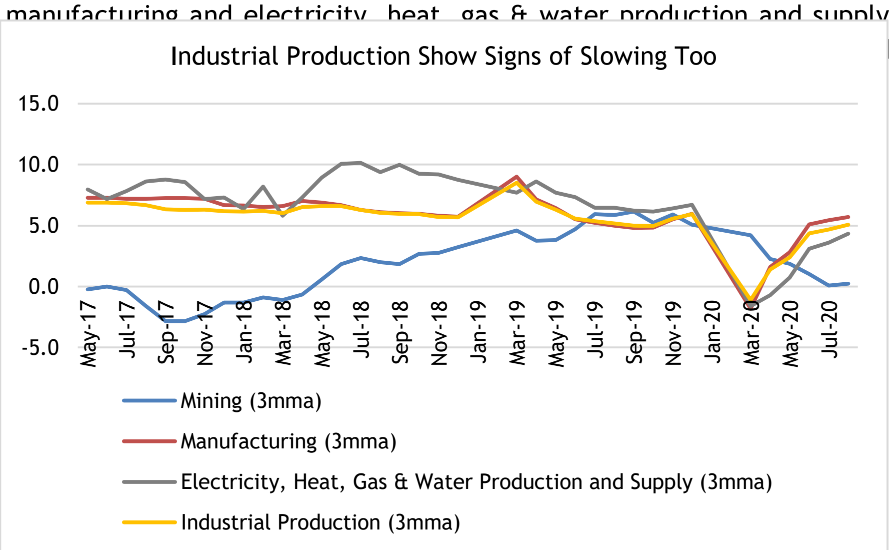


…And With an Upside Surprise Too…



Source: NBS, Bloomberg, Maybank FX Research & Strategy

However, at this point, **we see a risk that macro improvements could start to slow.** The 3-mma of the retail sales growth show signs of plateauing despite the positive growth, suggesting that momentum may be slowing. A look at industrial production also suggests that output growth could stabilize from here and not gain more speed. Output from manufacturing and electricity, heat, gas & water production and supply

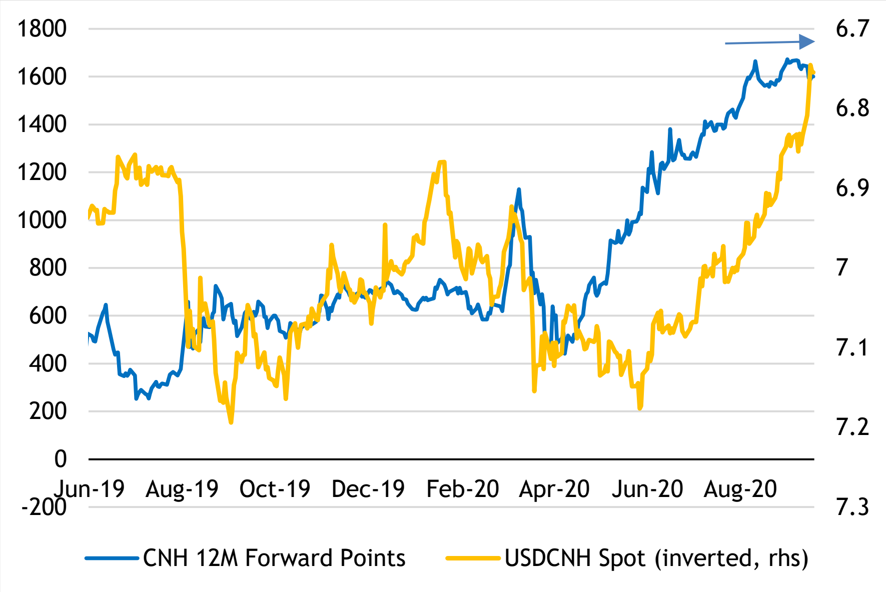


Source: NBS, Maybank FX Research & Strategy

To be clear, we have not become negative on China or RMB. Just that we see a chance for a consolidation for the RMB as macro improvement show signs of slowing and the excitement of the potential WGBI inclusion could be baked in ahead of decision on 24th Sep.

The recent appreciation in the CNH saw the USDCNH 12M forward point to rise but it seems to have stabilized around 1600pts. While we are not inclined to call for a turn, the stabilization of the US-CH interest rate differentials could also mean that we have seen the strongest spurt of RMB appreciation in the near-term and the appreciation pressure of the RMB could slow from here.

12M USDCNH Forward Points Have Stabilized



Source: Maybank FX Research & Strategy

This comes amid stronger US and China data. Whilst the Fed had shifted its longer run goals and monetary policy strategy to allow the US economy to achieve inflation moderately higher than 2% and hopefully maximum employment, there was no further active commitment to embark on new policy tools to achieve these mandates. 10y yields have thus been anchored but not lowered at around 0.6-0.7% while PBoC's refusal to raise the degree of monetary accommodation also kept yields rather elevated and differential stable.

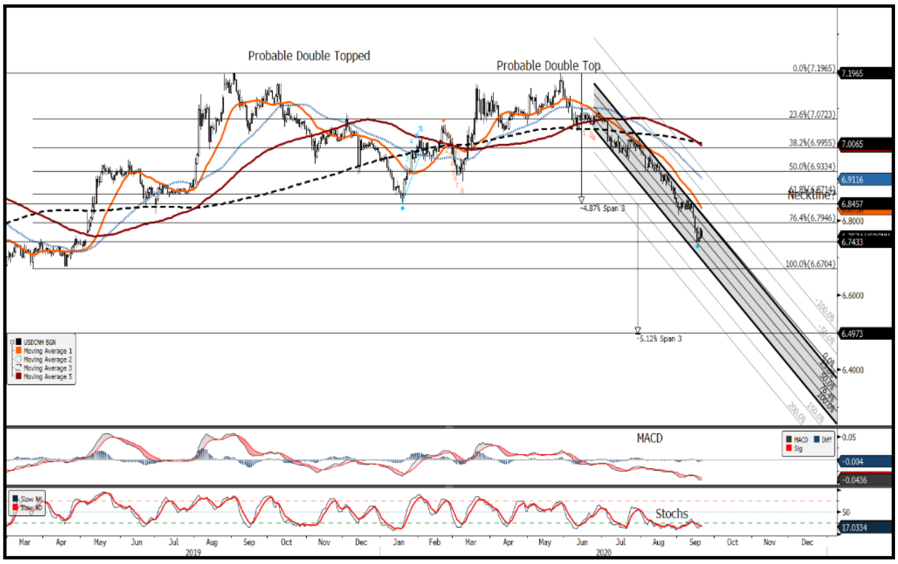
The Ban on TikTok and WeChat Face Hurdles in the US

We see potential for USDCNH to stabilize at around 6.75-support in the next two weeks. USDCNH rose from 6.75 to levels around 6.77 upon the declaration by the US Department of Commerce had officially ban transactions relating to Wechat amd TikTok with effect from 20 Sep 2020. For WeChat, the shutdown is official on the same date but TikTok has up till 12 Nov (beyond the US Elections on 3rd Nov) to strike a deal to avert a complete shutdown according to Commerce Secretary Wilbur Ross. Updates are supposedly denied to both applications but Trump's subsequent approval on the TikTok deal "in concept" prompted another announcement by the Department of Commerce that the prohibition of the transactions that would have been effective on 20 Sep for TikTok is delayed until 27 Sep 11:59pm. This came amid rumoured warnings to Trump that shutting down the popular app could disappoint millions of voters. The deal still needs the approval by China. Separately, the prohibitions on Wechat is also put on hold by a judge in the US who saw a violation of free-speech rights of Chinese speaking Americans and did not find enough evidence that its ban of Wechat for all users address concerns of national security. An inquiry has already been launched into Tencent more recently with the government requesting gaming companies to furnish information about their data-security protocols and their relationship with Tencent. The renewed focus on Chinese conglomerates as national security threats and the potential ratcheting up of China bashing ahead of the US elections could mean some consolidation for the USDCNH in the near-term. However, we still keep our bearish bias for this pair beyond the near-term and look for any material rebounds as opportunities to sell into.

USDCNH – Bearish Bias Intact Beyond Potential Near-term Consolidation

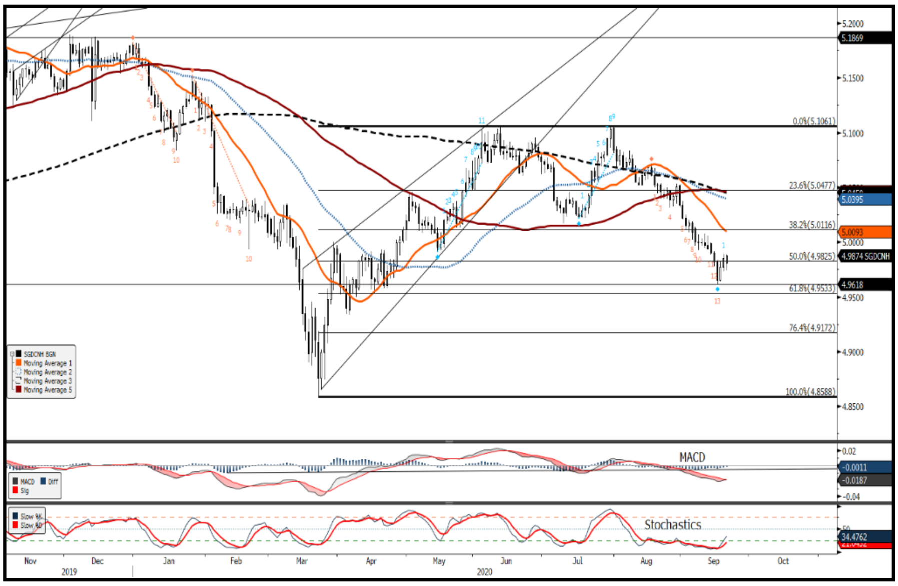
The USDCNH slipped below the 6.80-figure and was last seen around 6.75. Downtrend is intact for this pair. The 100-dma has crossed the 200-dma to the downside, underscoring the inherent bearish bias of the USDCNH but we do not rule out some mild rebounds given oversold condition. Key resistance remains around 6.8450 beyond 6.8320 (21-dma) and rebounds are likely to be capped. We see risks of more bearish moves in the longer term—the neckline of the double top has been broken at 6.85, and the clearance of the 6.75-figure could open the way towards 6.67 and then towards the textbook support of 6.50.

USDCNH (Daily Chart) – Falling Trend Channel Intact



Source: Bloomberg, Maybank FX Research & Strategy

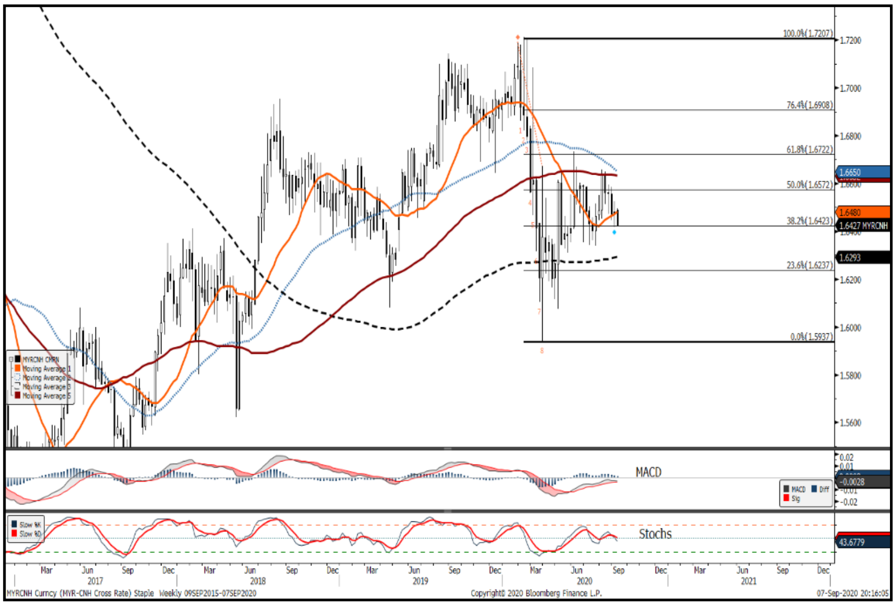
SGDCNH (Daily) - Double Top Plays Out



Source: Bloomberg

SGDCNH reversed higher and was last seen around 4.9880 after touching a low of 4.9618 last week. This cross could continue to keep the consolidative moves in the near-term. Resistance at 5.0090 (21-dma) before 5.04 (50-dma). Support at 4.9530 (61.8% Fibonacci retracement of the Mar-Jun rally).

MYRCNH – Wide Range Trading



Source: Bloomberg

This cross maintained a downside bias for much of the past two weeks before the combination of higher crude oil prices and potential banning of Chinese Apps WeChat and TikTok drove this cross higher last Fri, last seen around 1.6430. This cross may continue to consolidate within the wider range of 1.6240-1.6570. Interim resistance seen at 100,50-dma around 1.6480.

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