FX

Global

RMB Watch

Still A Buy on Dips

Near-Term Jitters; Still A Buy on Dips

Key Points:

- RMB is not immune to USD swings but the currency has shown resilience. Short-term factors such as US political uncertainties and COVID-19 resurgence across the global that have lifted the greenback, also buoyed the USDCNH. With global market sentiments still a tad fragile in the near-term, USDCNH could still face some upside risks.

- As some woes dominate the global settings in the near future, China just had its blueprint for the next 5-15 years released at home. Most of its major objectives captured the essence of the recently discussed "dual circulation" – a long-term strategy to strengthen China's domestic economy, upgrade its technology to improve self-reliance amongst others. More investment in its innovative sectors, agriculture amongst other initiatives to strengthen domestic demand could naturally be positive for the currency. A peaceful China could also be supportive of the currency that has been affected by the US-China trade war in the 2018-19. Hence, medium-term underpinnings could still be supportive and short-term jitters could present opportunities to long the CNH on dips.

- For USDCNH, next key support is seen at 6.60 before 6.55. We prefer to fade rallies. For SGDCNH, the cross remains bearish with next support at 4.8890 before 4.8588. For MYRCNH, directional cues are mixed in the near-term but downtrend is still intact.

What We Watch:

- Caixin Mfg PMI on 2nd Nov
- Caixin composite and services PMI on the 4th Nov
- Trade and foreign reserves on 7th
- PPI and CPI on the 10th;
- Money Supply, new yuan loans, aggregate financing for Oct within 10-15th Nov
- MLF rate for Oct on 13-16th Nov
- Oct retail sales, industrial production, urban FAI on 16th Nov

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Where Has USDCNH Been?

USDCNH bears pressed on to a low of 6.6278, unperturbed by a series of actions by the authorities that were perceived to slow its decline. The last week saw a modest rebound in the pair which lifted this pair back to levels above the 6.70-figure, possibly lifted by COVID-19 resurgence across the globe and to some extent, US election jitters. The conclusion of the plenum seems to have brought the USDCNH back under the key 6.70 figure.

Broad "14th Five" Objectives – Essence of "Dual Circulation"

In the past week, China's 5th plenary session of the 19th CPC Central Committee had adopted the next five-year plan known as the "14th Five" (2021-2025) which encompasses the essence of the frequently mentioned "dual circulation". The 14th Five is also meant as longer-term National Economic and Social Development strategies through the year 2035.

It is thus worth noting some of the key objectives:

- **Sustained, Healthy economic development** on the basis of improvement in quality and efficiency. (GDP target left out)
- **Stronger domestic market,** improved economic structure and strengthened **innovation capacity (specifically in cyberspace and digital technology)**
- Upgrade industrial base and modernized industrial chain
- Full advance **rural vitalization and prioritize agriculture** and rural area development.
- **A Peaceful China** (peaceful ties with Taiwan, Reunification)

Other objectives noted by Xinhua include environmental goals such as reduce emissions, enhance social etiquette and civility, *to increase the influence of the Chinese culture*, ensure personal income growth basically in step with economic growth and marked improvements in distribution structure, more equitable access to basic public serves, enhancing governance capacity, to "perfect" the national administrative system.

Although it was noted that the Communique had made no mention of GDP targets, the NDRC had proposed numerical targets on 30th Oct. This comes in line with Premier Li Keqiang's call to "scientifically construct a system of indices and setting concrete goals" to improve the quality of development.

The term **"dual circulation"** surfaced earlier this year (2020) as China, along with the rest of the world struggle to recover in a world that is still affected by the pandemic. While China has a partial trade deal with the US, US' scrutiny on Chinese tech giants (Huawei, ByteDance, etc) remains aggressive along with plenty other issues (Taiwan, Hong Kong's national security law, South China Sea, etc). US Secretary of State Mike Pompeo has been aggressively gathering allies to counter the Chinese Communist Party. **While China has emerged from the pandemic**

relatively better than other economies, the country is clearly striving to become more self-reliant in terms of technology and agriculture in a potentially more hostile global environment. Hence, what we expect is a China that is still keen to do business with the world but recognizes the urgency to quicken its technological advancement. Hence, **we hold the view that China is neither likely to pursue a strong RMB nor a weak RMB.** In the medium term however, more investment in its innovative sectors, agriculture amongst other initiatives to strengthen domestic demand could naturally be positive for the currency. A peaceful China could also be supportive of the currency that has been affected by the US-China trade war in the 2018-19.

Elsewhere, A speech made by President Xi in Apr this year was also just published over the weekend – outlining a few objectives that were rather in line with broad objectives including the expansion of domestic economy (noting its own 1.4bn population, world's largest and most promising consumer market). By directing the production, distribution, circulation and consumption towards greater reliance on domestic economy, a virtuous circle via supply side reforms can be achieved. He went on to highlight that expanding the domestic economy should not be seen as a contradiction to opening up as a smooth circulation of the domestic economy could provide a gravitational field for key global resources. Other ibjective

Thereafter, PBoC released a statement in support of the 14th Five Year Plan, pledging to ensure a sound and modern financial system, strengthen its macro management that remains prudent and to be highly vigilant on preventing systemic risks in the financial system. Financial reforms would be "all-rounded" and "wide-ranging", along with **greater financial system liberalisation.**

Separately, SAFE also issued a statement, vowing to ensure that the **capital account would be opened up** in an "orderly" manner. The regulator also pledged to facilitate cross-border trade and investments and to push for high-quality growth under the nation's Belt and Road initiative. SAFE will accelerate combining macro-prudential and micro-monitoring.

So opening the financial market, capital markets and attracting foreign investors are still major objectives for both PBoC and SAFE. These are not new objectives though. Liberalization and RMB internationalization took a pause in recent years because RMB was under depreciation pressure. Right, now, the authorities are taking the opportunity of a more benign environment for RMB to move towards its longer-term goals of broader RMB usage. **These objectives would mean that it is not in their interest to strong-arm the RMB into submission as an appreciating RMB, driven by fundamentals and macro environment, could be helpful.**

Fundamentals Continue to Underpin

In the medium-term, we hold on to our view that USDCNY remains a sell-on-rally based on its, macro improvements, carry allure and now that WGBI is officially including China (pending confirmation in Mar and official inclusion in Oct 2021), expectations that China could see significant passive inflows. With PBoC signalling a clear pause in its rates, the RMB has a carry advantage in a world that has plenty of DMs considering negative interest rate policy.

In the last RMB Watch, we had warned of risks from the US elections that could keep the USDCNH on a 2-way action. Some eleventh-hour election jitters along with the resurgence of COVID-19 across the globe and the return of lockdown measures in Canada, UK, France and others also lifted the USD against most other currencies in risk-off trade. That included the RMB. Despite the fact that USDCNH remains well within the falling trend channel, the DXY index has started to show increasing bullish momentum and some of that strength could be reflected in the USDCNH even as CNH is more resilient vs. the rest of DM or EM currencies.

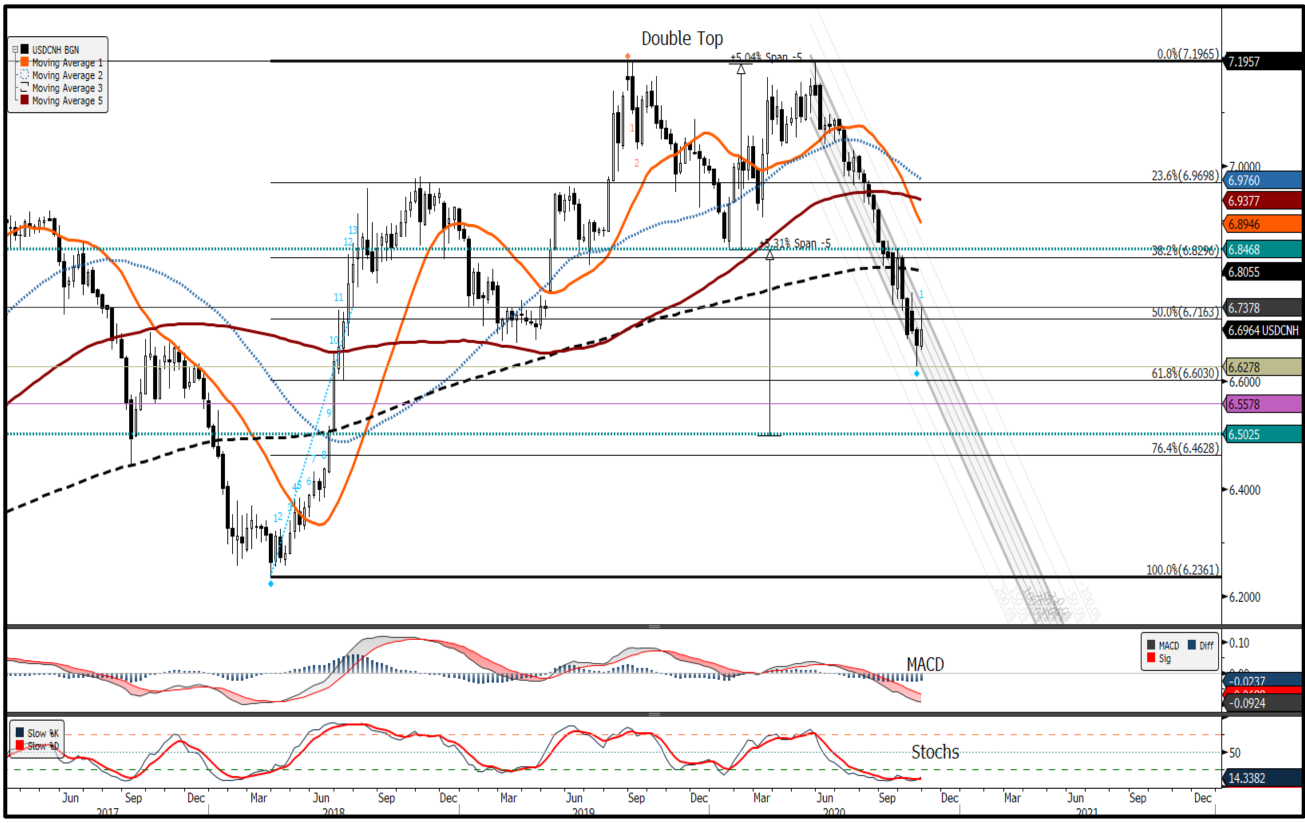
3rd Nov could be the end-all of US elections but we suspect results might not come as fast as previous elections. Postal ballots are expected to reach record numbers because of the pandemic. With Biden's strong lead, his win could be priced to some extent but we are cautious of a contested and delayed election outcome or Trump victory (scenario 1) as that could undermine sentiment and weigh on non-USD FX. Elsewhere Covid resurgence in US, EU and UK matters as growth momentum is at risk of being derailed. Procyclical FX could come under pressure while USD and JPY find support.

As such, near-term jitters could still be opportunities to buy the RMB on dips.

USDCNH - Bearish but OverSold

USDCNH has been confined to a falling trend channel. The break of the 6.85-support level in Sep was particularly significant as it was the neckline of the double top formation. To complete the double top formation, USDCNH has to head towards 6.50. Insofar, even as stochastics show oversold condition on daily, weekly charts, MACD has remained very bearish. The upper bound of the falling trend channel become reliable resistance levels. Support remains at the recent low of 6.6278 before the next at 6.6030, 6.5580 and then at 6.5025. Resistance at 6.7380 before 6.83.

USDCNH (Weekly Chart) - Downtrend Still Firmly Intact

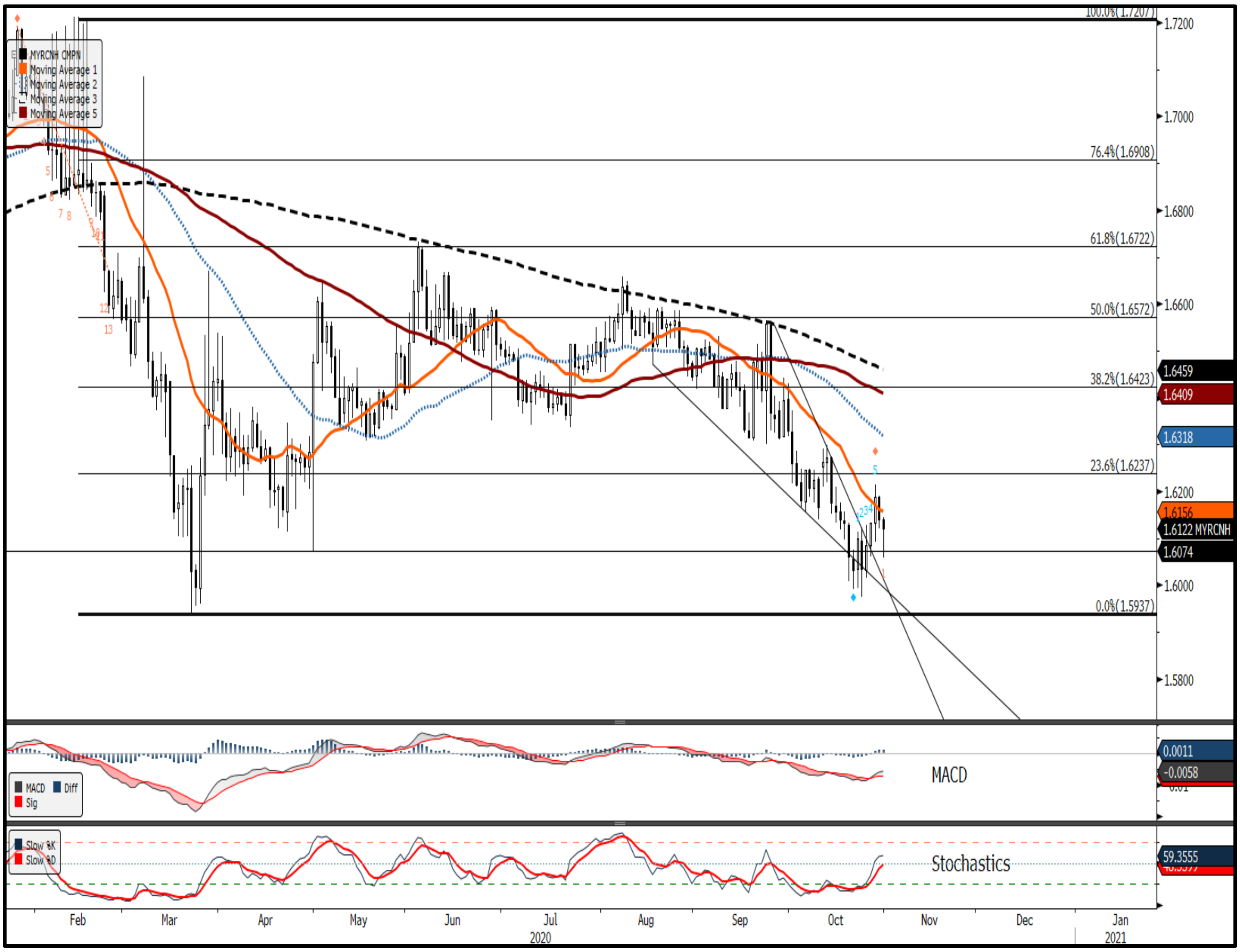


Source: Bloomberg, Maybank FX Research & Strategy

SGDCNH (Daily) – Bearish Bias

Source: Bloomberg

SGDCNH remains firmly on the downmove, last seen around 4.9010. Based on the price action, there does not seem to be any sign of respite for the cross. Next support is seen at recent low of 4.8890 before the Mar low of 4.8588. Unexpected rebounds to meet resistance around 4.9172 (76.2% Fibonacci retracement of the Mar- Jun rally) before the 21-dma at the 4.9325 (near the upper bound of the failing trend channel).



MYRCNH (Daily Chart) - Capped

The break-out of the falling wedge price pattern that we warned in the last issue of RMB Watch on the 19th Oct played out with a rebound towards the 21-dma. The cross touched a high of 1.6214 before easing back to levels around the 1.6120 again. MACD is mild bullish but stochastics show signs of turning lower. Resistance is still marked by the 21-dma at 1.6156 before the next at 1.6237. Directional cues are a tad mixed in the near-term. Support at 1.5940. Downtrend is still intact.

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