

RMB Watch

Signs of Weakness Surfacing

Upside Risks to the USDCNH in the Near-term

Key Points:

- USDCNH has been consolidating in the narrow 6.40-6.50 range for much of the past fortnight. The recent divergence of the UST and CGB have resulted in a narrower US-CH yield differential and crimped on the RMB bulls. Should there be further signs of growth slowdown in the backdrop of lockdowns in several regions of the world along with any adverse vaccine news, risk-off trades could lift the USDCNH above the 6.50-figure towards the 6.54 and then at 6.62.
- Any potential upmove is likely to be corrective as China continues to outperform in terms of carry, growth, vaccination administration vs. EM and DM peers. High carry of the RMB provides a strong buffer should US rate become more volatile. In addition, recent data suggests strong RMB inflows that prompted SAFE to assure that abnormal cross-border flows would be prevented.
- **Technical Analysis:** Upside momentum gathering for this pair and we do not rule out a clean break of the 6.50-resistance to open the way towards 6.54 and then at 6.62. For SGDCNH and MYRCNH, moves are likely to remain in recently established range with bias tilted to the upside in the near-term.

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What We Watch (25th Jan - 8th Feb):

Date	Data	Month
26 Jan	Industrial Profits	Dec
29 Jan	FOMC Policy Decision	Jan
31 Jan	Official PMI (Comp, Mfg, Non-Mfg)	Jan
1 Feb	Caixin Mfg PMI	Jan
3 Feb	Caixin PMI Services	Jan
7 Feb	Foreign Reserves	Jan
8-18 Feb	Foreign Direct Investment	Jan

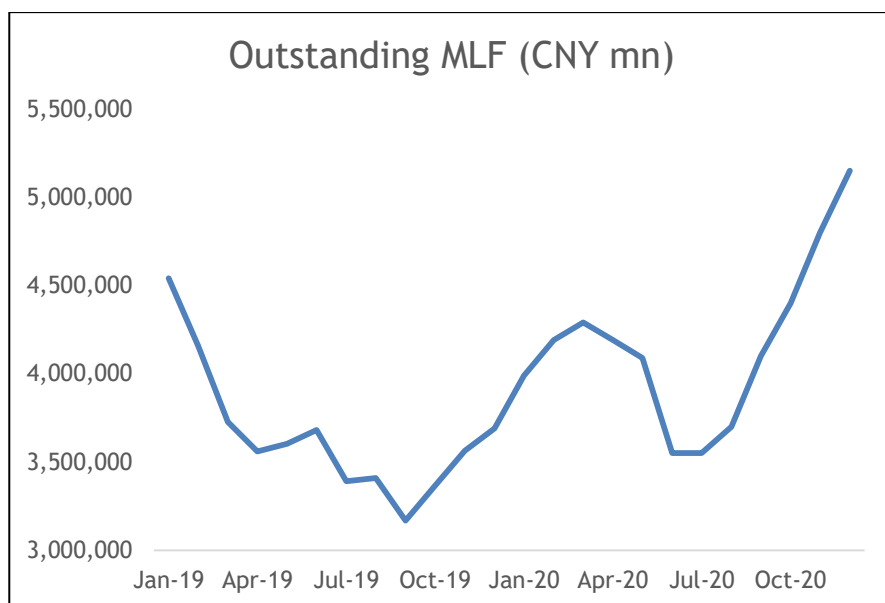
Where Has RMB Been?

Moves of the RMB have been largely consolidative. The CFETS TWI seems to have met a strong resistance level around the 96-figure and plateaued thereabouts in the past several sessions. USDCNH was also trapped in range but moves are still within the falling trend channel, last at 6.4880. Moves in the past were largely tracking regional USD pairing. EURCNH had drifted lower but declines were stalled around the 7.80-figure and the cross had rebounded to levels around 7.8860 of late.

Sovereign Curve Shifts Lower

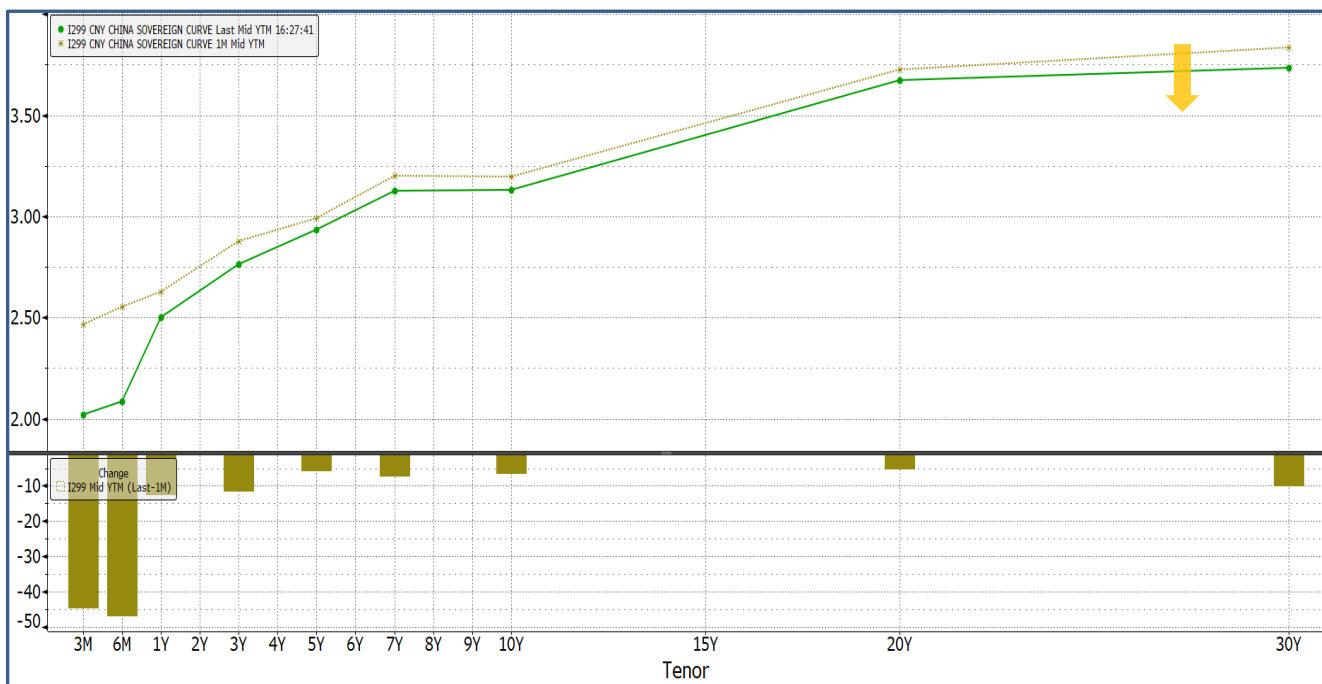
The start of the year for China has always been met with a flurry of liquidity action from the central bank to meet the seasonal demands ahead of the Chinese New Year break. In the past, required reserve ratios were often lowered but that is hardly expected now. In fact, there were warnings aplenty of monetary policy normalization in late 2020. On 15 Jan, liquidity injected via the medium term lending facility (MLF) was CNY500bn, still short of the CNY300bn MLF and the CNY240.5bn TMLF (targeted MLF) set to mature this month. We observed that the sovereign 10y yield rose a tad towards the 3.18% before sliding back to levels around 3.13%. PBoC has been stepping up on liquidity injections in the past few sessions to address the seasonal liquidity concerns. The use of OMOs to meet these seasonal liquidity demands underscore the prudence and neutral stance of the central bank with regards to monetary policy as well as their determination to control the debt levels of the nation after a year of monetary support for the economy.

Chart 1: COVID-19 Has Resulted in A Large Accumulation of MLF



Source: PBoC, Maybank FX Research & Strategy

Chart 2: China sovereign curve has shifted lower since a month ago

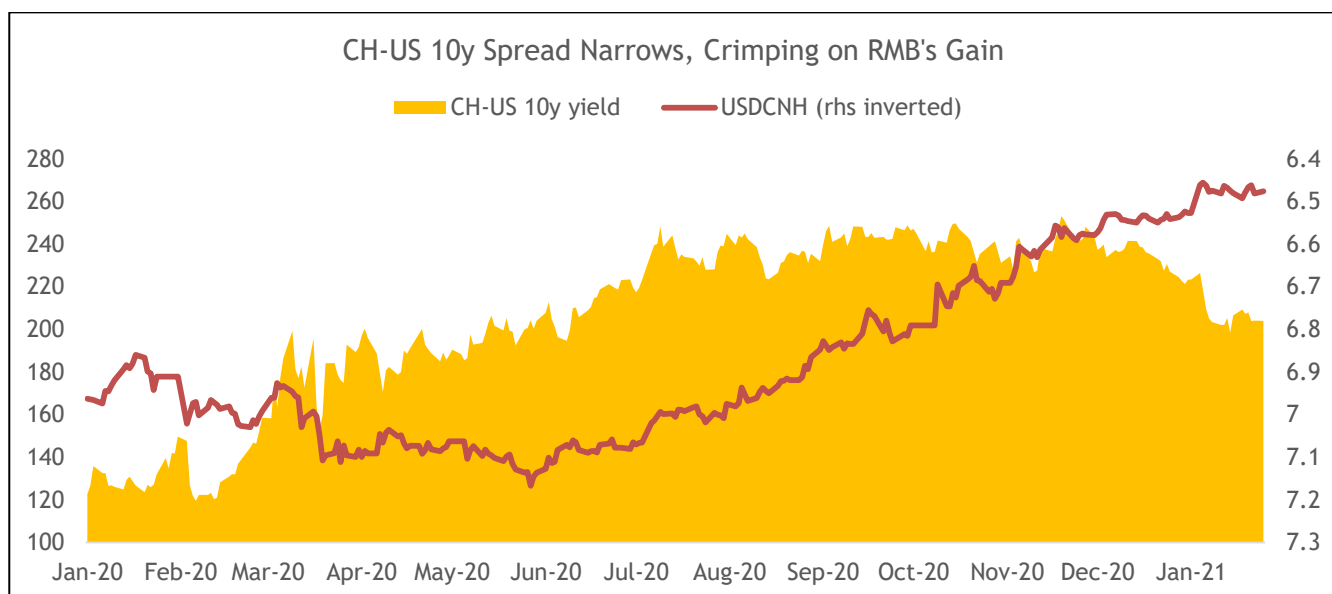


Source: Bloomberg

Note: The bright green line denotes the current yield curve as of 25 Jan while the olive (yellow, green) curve was the yield curve a month back.

Coincidentally, the moves in local rates were a contrast to the US rates when Democrat candidates won Senate elections in Georgia, effectively taking control of the Congress along with the Presidency. Expectations for a bigger stimulus package and concomitantly larger borrowing requirements lifted the US rates. That results in a narrower CH-US 10y yield from around 240bps to 200bps. RMB bulls are also showing some signs of fatigue.

Chart 3: CH-US 10y spread narrows, halting RMB bulls



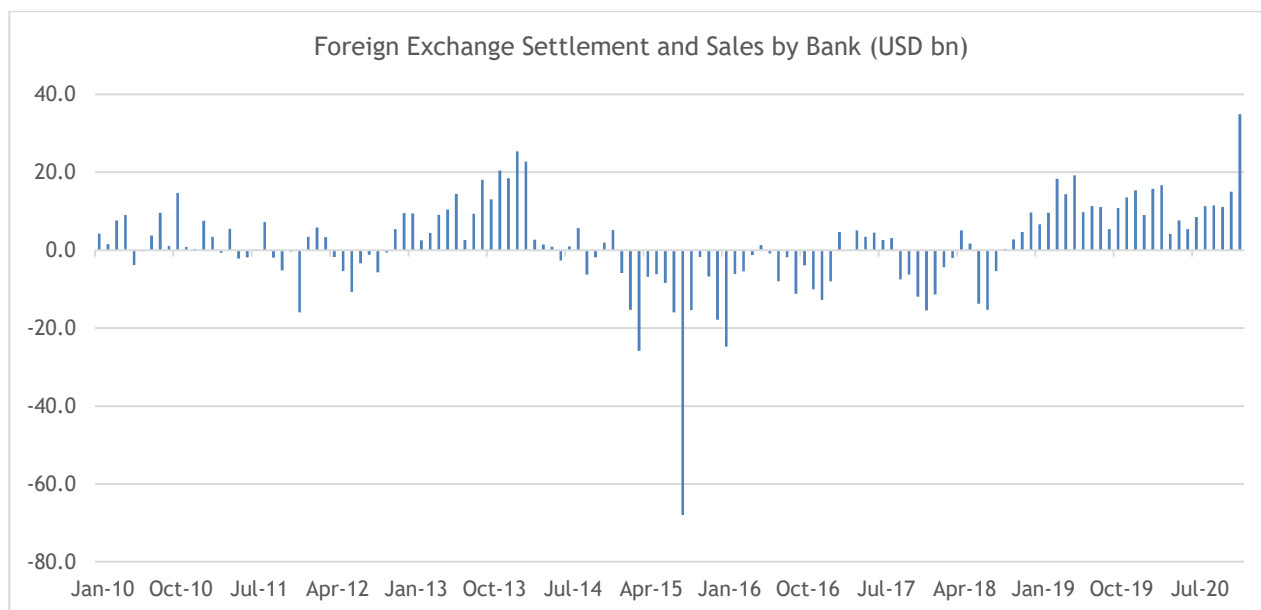
Source: Bloomberg, Maybank FX Research & Strategy

Moreover, PBoC had clarified that there will be “no major U-turn on its policy stance this year”. The central bank assured that there would be monetary support for economic recovery. The narrower yield differential might have chipped some support for the RMB but we do not want to rule out the possibility for USDCNH to make a clean break of the 6.50-resistance should global growth threatens to slow further. A break of the 6.50 could see the USDCNH head towards 6.54 and then at 6.62. The ongoing lockdowns that were re-imposed in several regions of the world coupled with any adverse news on the vaccine front could trigger corrective moves in risk assets. A more prolonged risk-off mood might keep the USD on the upmove vs. the CNH but we think USDCNH bulls would not head very far.

Afterall, PBoC is unlikely to veer too far away from their objective of controlling debt level of the country. China sovereign rates are thus, unlikely to correct too much beyond the near-term and the yield differential of China’s government bonds vs. that of the USTs is still very much wide enough to attract foreign investors. Eyes are on FOMC this week as well. Fed’s forward guidance will be closely watched. To highlight, Fed Chair Powell had earlier said that “now is not the time” to discuss tapering QE and that the economy is “far from our goals”. He promised that there would be ample warning if conditions were getting ready to consider an exit. We believe Fed will reaffirm its dovish commitment - that there is no hurry to exit QE or raise rates unless Fed sees troubling signs of inflation or imbalances.

Data released last Fri suggest that there is strong impetus for RMB with \$54.8bn forward contracts settled for Dec vs. an average of \$22bn recorded for the first 11 months of the year. Net forex settlements of forward contracts rose to \$34.85bn. Demand for RMB is unlikely to cease given China’s outperformance in economy and likely smooth vaccine administration. SAFE has pledged to “prevent abnormal cross-border flows” on 22 Jan 2021.

Net foreign exchange settlement of forward contracts Surged Last Dec



Source: Bloomberg, Maybank FX Research & Strategy

Momentum forest has turned bullish and stochastics are rising from oversold condition on weekly chart. Resistance remains at 6.50 before 6.5170 (50-dma). Clearance of the latter could bring this pair towards 6.5480 before 6.62 (100-dma).

Momentum indicators are bullish with the bearish forest on MACD almost completely waned. Stochastics are also rising. Next resistance is seen around 7.9720 before the Dec high around the 8.01-figure. While there could be some room for upsides, wider range of 7.75-8.00 could hold. Weekly momentum indicators lack directional bias at this point.

MYRCNH (Daily) - Probable Double Bottom, Still Within Range



MYRCNH hovered around 1.6025 as we write. A probable double bottom could be formed around 1.58 (Nov low, Jan low) and we see more room for upsides at this point. 100-dma could cap topsides at 1.6140. Wider 1.58-1.62 range could remain. Nearby support is seen around 1.5920 before the next at 1.5830.

Resistance is seen around 1.6060 before the next at 1.6140 and then at the upper bound of the current range at 1.6230.

SGDCNH (Daily) - Consolidation



Price action of the SGDCNH has been on an updrift, contrary to our expectations last week. This cross last printed 4.8930 and can remain on the consolidative mode within 4.85-4.93. Immediate resistance is seen around 4.8900 (21,50-dma) before the next at 4.9170.

Support at 4.8590. MACD is mildly bullish so bias remains tilted to the upside within the range.

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