Maybank

FX

Global

RMB Watch

Showing Mild Weakness

Mild Upside Risks to the USDCNH

Key Points:

- For much of the past week, RMB has been under pressure. While this may not be that obvious from the USDCNH pairing because of the broader USD softness, the fall in the CFETS RMB index from its high of 96.95 was rather apparent. Even as we continue to hold a bullish view on the RMB for the year, we see risk of more room for weakness in the near-term.

- One reason for mild RMB weakness is the recent surge in US rates that narrowed the CH-US rate differential. Another more important reason could be some US-China tensions. We see potential for markets to re-price of the risk premium in the RMB if US-China bilateral relations worsen. However, Biden's strategy to counter China is likely to be executed with more stealth than Trump's. As such, some lingering uncertainties may only be reflected in the RMB and less in other AxJ FX, unlike the trade war period. That could translate to some room for trade-weighted underperformance of the RMB. With the Two Sessions due to start in Mar, we do not expect excessive volatility.

- **Technical Analysis:** USDCNH has been showing some potential for upside on the weekly chart for a while now. A break of 6.4760 (50-dma) is required for meaningful correction and a clearer violation of the falling trend channel. EURCNH has formed a double bottom on the weekly chart and looks poised to head towards 7.8890. We spot a rising wedge on the MYRCNH but correction is limited at 1.5860. SGDCNH has two-way risks.

What We Watch (9-22 Feb):

Date	Data	Month
20 - 22 Feb	Loan Prime Rate	Feb
20 Feb	FX Net Settlement - Clients CNY	Feb
23 Feb	New Home Prices	Jan
28 Feb	Non-Mfg PMI, Mfg PMI	Feb
1 Mar	Caixin PMI mfg	Feb
3 Mar	Caixin PMI Composite, Services	Feb
7 Mar	Foreign Reserves, Trade	Feb
8-18 Mar	FDI	Feb
4/5 Mar	2021 CPPCC, NPC	N/A

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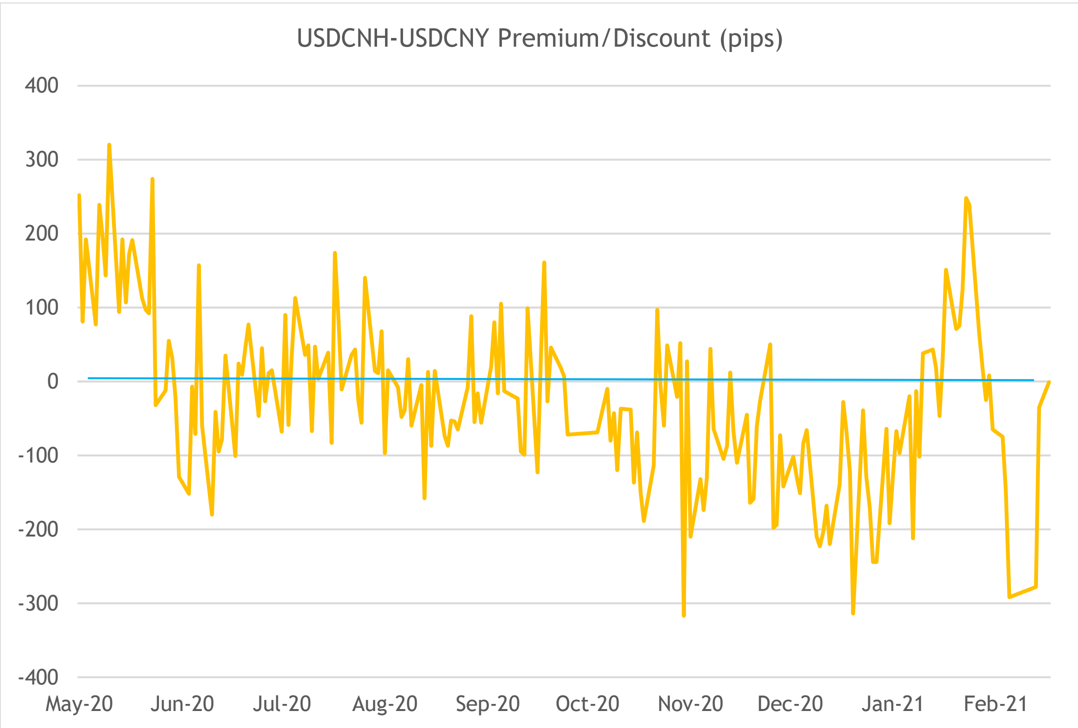
Where Has RMB Been?
For much of the past week, RMB has been under pressure. While this may not be that obvious from the USDCNH pairing due to the broader USD softness, the fall in the CFETS RMB index from its high of 96.95 was rather apparent. With regards to the USDCNH, the 6.40-6.50 range survived the Spring Festival and pair has been trading with an upside bias since its return from the break, last at 6.4740. The violation of the falling trend channel could be more decisive with the clearance of the 50-dma at 6.4760.

RMB Softens

Onshore markets returned from Spring Festival break at a time where the global environment was in a more cautious mode. As a result, the appreciation pressure on the RMB that was seen since the start of the year seems to have dissipated for now. That was evident in the USDCNH-USDCNY discount that was erased recently. The USDCNH-USDCNY discount (measuring the extent of which the USDCNH trades below USDCNY) typically gives a gauge of appreciation pressure on the RMB - the greater the discount, the greater the appreciation pressure. One can observe from the chart below that USDCNH spent much of the past several months trading at a discount to the onshore pairing. There was quite a bit of expectation for the RMB to regain back some of its bullish momentum after the Spring Festival but onshore rejoined the rest of global markets on the backfoot as sentiments were dampened by the rise in global rates.

USDCNH-USDCNY Discount Erased, Signs of Easing Appreciation

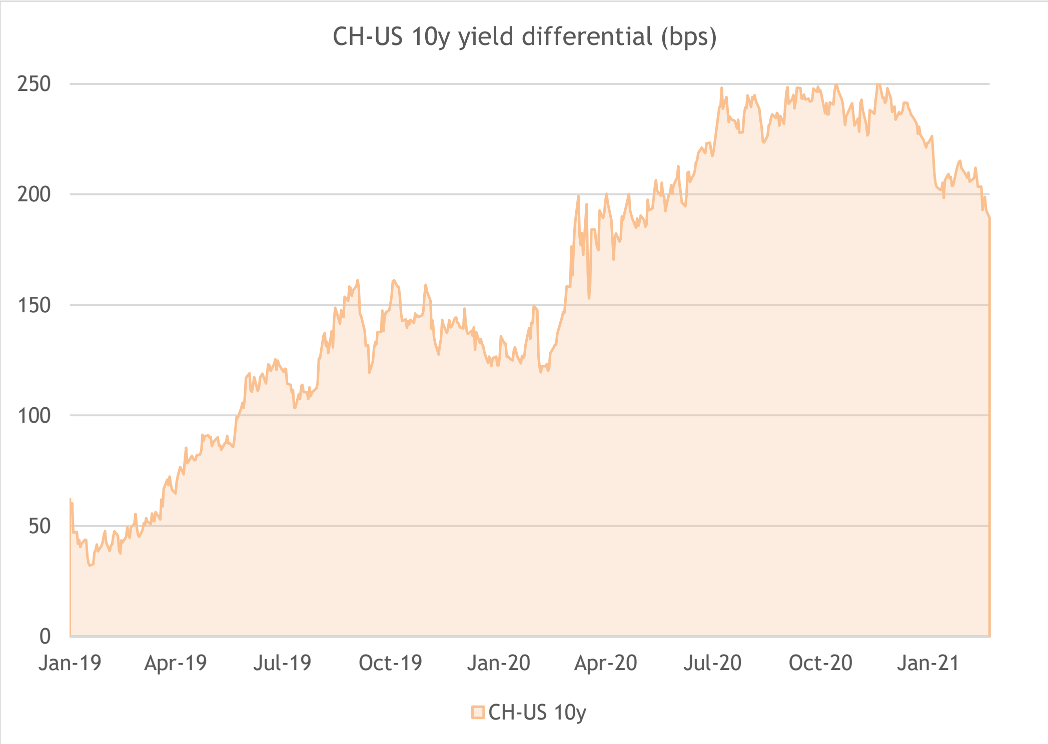


Source: Bloomberg, Maybank FX Research & Strategy

Note: Trading days of CNH and CNY could be different. For better comparison, prices/ data on major holidays such as Labour Day break, National Day break and Spring Festival have been omitted.

Reflation Theme Saw US Rates Surging, Narrowing CH-US Rate Differential

The reflation theme has been played up quite significantly. Afterall, the vaccination roll-outs in major countries picked up pace. Global demand is thus widely expected to pick up. As a result, UST 10y yield has surged past the 1.2% in the past two weeks and en-route towards the 1.40% as we write. That has also resulted in a rather substantial narrowing of the CH-US 10y yield differential and possibly contributed to the pause in the CNY's rise more recently as its carry advantage gets a tad eroded.



Source: Bloomberg, Maybank FX Research & Strategy

Old Feuds Keep RMB on the Backfoot

If one were to ask for the most significant reason for RMB's underperformance however, we would allude its tentative weakness to some caution surrounding the US-China bilateral relationship.

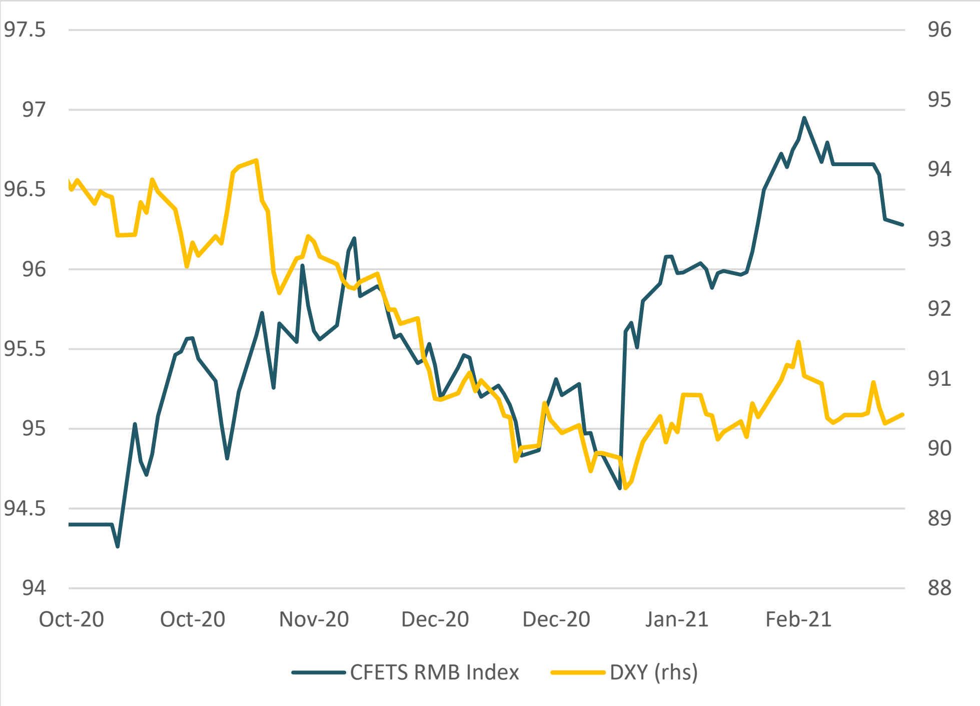
Just this morning, Senior Chinese Diplomat Wang Yi opined that US and China can collaborate on issues such as climate change and coronavirus if their bilateral relationship is healed. He said that China is ready to have a "candid" and constructive communication with the US, urging the US to lift trade barriers and halt its interference in China's domestic affairs (reference to Taiwan, Hong Kong, Xinjiang and Tibet). With that, he has touched on points of contention that concerns the core interests of either side that are hard to reconcile. It is highly unlikely that the US would show any compromise on human rights issues or any other that runs counter to their democratic values.

In fact, at the start of last week, ahead of the G7 virtual meeting that was held last Fri, the White House had stated that President Biden would focus on the COVID-19 vaccine production, distribution, "continuous efforts" in working against the threat of emerging infectious diseases along with the need to "make investments to strengthen our collective competitiveness and the importance of updating global rules to tackle economic challenges such as those posed by China". In the joint statement released after the G7 meeting, members vow to "engage with others, especially G20 countries including large economies such as China". Thereafter, President Biden gave a virtual speech to the Munich Security Conference, seeking to strengthen the transatlantic relationship and urged allies to "stand firm against the challenges posed by China, Iran and Russia".

These recent comments simply underscore the unfading animosity between the US and China. For one, the President took his time to make that first phone call with China. His new Secretary of State Antony Blinken described China as the "most significant challenge of any nation-state in the world to the United States". Melanie Hart was also hired as a Senior Fellow and Director of China Policy, Centre for American Progress, to review Trump's administration policies that barred Huawei from their 5G networks. She had co-written a report in 2019 that flagged out state subsidies in China supporting the rise of their chip technology that could replace US and other foreign firms in global semiconductor value chains.

Sometime last week, FT reported that China could potentially be curbing the export of its rare earth minerals to the US that are crucial to the manufacture of its defence equipment, citing sources. This could be seen as a potential retaliation in case Biden turns out to be more hostile than expected.

Biden's strategy of countering China is clearly different from Trump. Instead of trumpeting "America First", Biden is keen to strengthen alliances and partnerships with other nations. Unlike Trump who seems to prefer announcements with maximum impact on markets, Biden's style of negotiations is likely to proceed with more stealth. Lingering US-China tensions, albeit more subdued, could still see RMB reprice the risk premium. Any action is also likely to be non-trade related as tariffs typically have a boomerang effect on the US. Taken together, AxJ FX may not see that proxy-RMB plays witnessed at the peak of US-China trade war. That also means that CNY may have room to underperform on a trade-weighted basis.



RMB Starting to Show Signs of Moving in Line with DXY

Source: Bloomberg, Maybank FX Research & Strategy

As for the USDCNH pairing, we see some upside risks towards the 6.50 and 6.54 in the near-term. However, excessive volatility is not expected, especially with the Two Sessions due to start on 4 Mar 2021.

Policy-wise, there are also talks that China may ease capital controls to allow its residents to use its U$50K/year forex quota to invest in overseas stocks and insurance products. SAFE is said to consider the feasibility of allowing individuals at home to invest in foreign capital markets according to the Director of Capital Account Management Department, Ye Haisheng. If SAFE were to increase the quota and allow residents to invest in overseas capital markets, this could increase more two-way flows in China's financial accounts and dampen the medium-term appreciation bias of the currency.

USDCNH (Weekly)- Bears Retreat but Bulls Not Gaining Traction Yet

USDCNH bears turned tail after the Chinese New Year break and last at 6.4510. Price action remains stable with upticks capped by the 50-dma at 6.4760. Momentum is increasingly bullish. The pair runs the risk of violating the falling trend channel formed since mid of 2020. Next resistance at 6.50 before 6.5480.

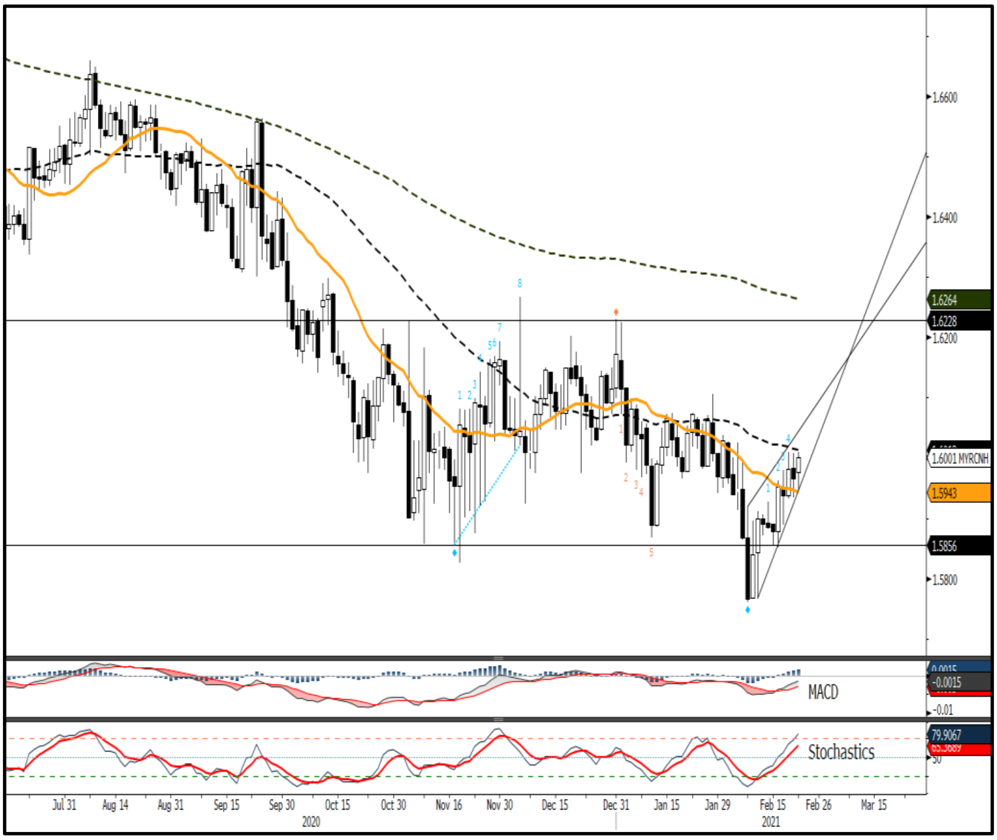
Momentum indicators show risks tilted to the upside. MACD forest is still mild bullish on the weekly chart and stochastics show signs of rising from oversold condition.

EURCNH (Weekly) – Double Bottom

EURCNH did not move much until breaking out higher in the past two days, last at 7.8130. The weekly chart shows a probable double bottom formed and this cross could extend higher towards 7.8890 (38.2% Fibonacci retracement of the Jul-Nov 2020 decline)

Momentum indicators are mild bearish. We also spot a bullish divergence of the two troughs with the MACD forest. Stochastics also show signs of rising from oversold conditions. Firm support at 7.7540 (Nov low).

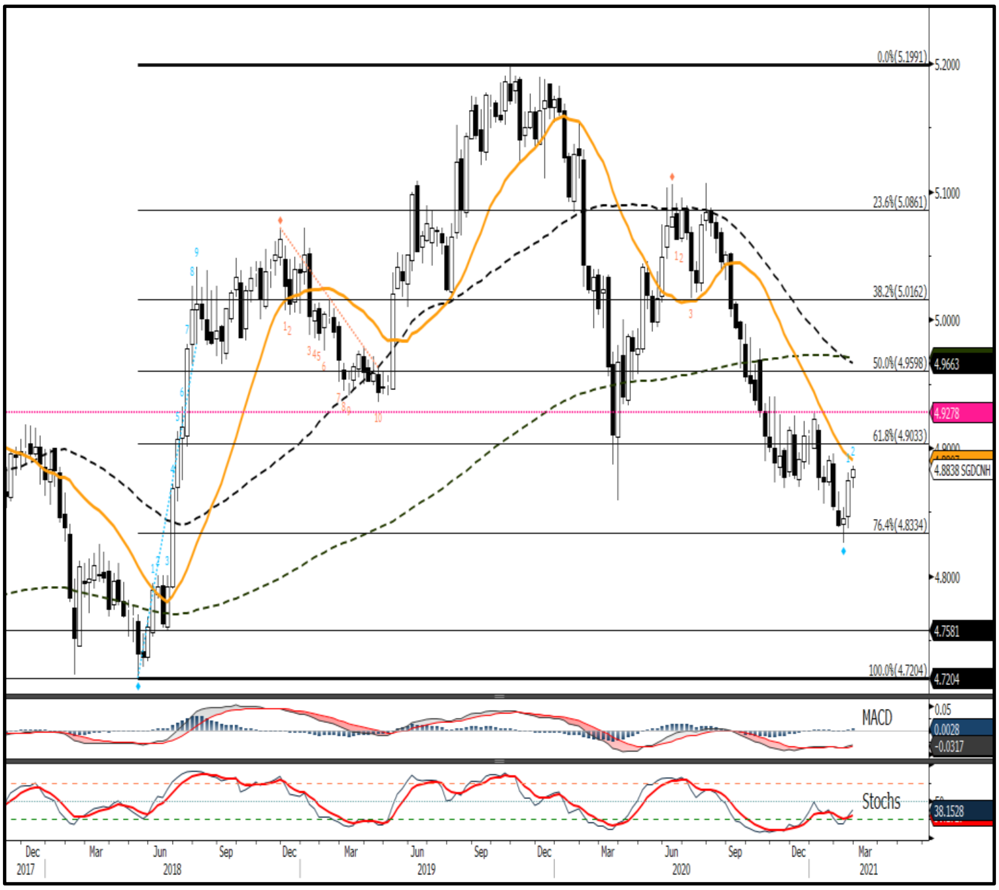
MYRCNH (Daily) – Rising Wedge, Bearish



MYRCNH touched a low of 1.5761 before reversing higher and was last seen around 1.60. Topsides capped by the 50-dma at 1.6012. Recent price action has formed a rising wedge. That could mean some room for correction to recent support at 1.5860 and could be limited there.

MACD is still bullish but stochastics had just entered overbought condition.

SGDCNH (Weekly) – Two-Way Risks



SGDCNH was last at 4.8810. Two-way risks seen in this cross within 4.8330-4.9280. Technical siganls are mixed with MACD and stochastics showing bullish bias while a death cross has occurred for weekly moving averages.

Hence, we cannot rule out further upside in the interim but that may not negate the downtrend formed recently. Key resistance at 4.9280 before 4.9600. Support beyond the 4.8330 is seen at 4.7580.

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