

RMB Watch

Trading Opportunities With The CCAF in Play

CCAF in Play

Around 1 week ago on 24 Aug, PBoC announced on its website that contributors to the USDCNY daily fixing have adjusted for the countercyclical adjustment factor (CCAF) since Aug based on their own judgement of the market. The central bank added that “conditions are in place for the yuan to keep basically stable at reasonable equilibrium levels”. This triggered speculations that this is an act of goodwill in the hope that Trump will not act to escalate the trade war by imposing tariffs on another US\$200bn of Chinese imports. It is of no coincidence that the RMB has started to strengthen against the CFETS-weighted basket of currencies in the last few weeks. We had highlighted how the CNY seems to be bottoming against the basket in the previous issue. In fact, when the CCAF was first introduced, CNY strengthened around 3% against the basket (May 2017 low to Nov 2017 high).

Analysts

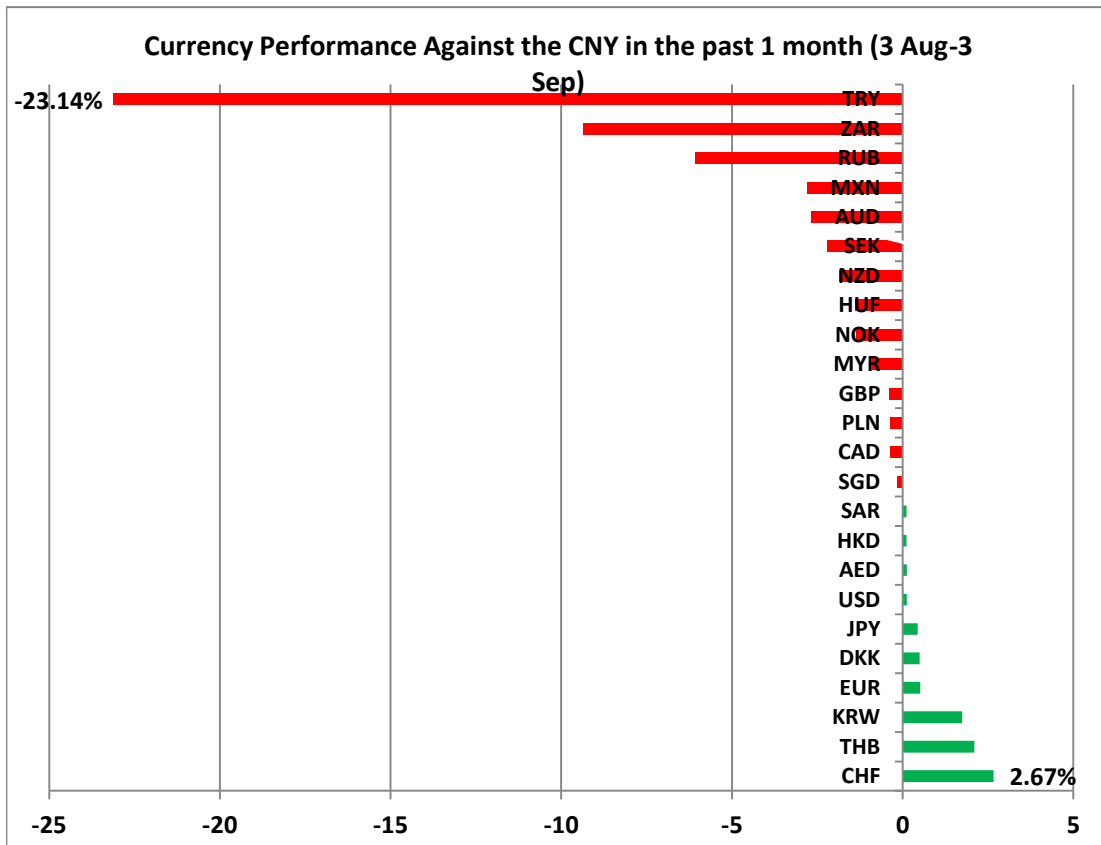
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Within the CFETS basket, CNY strengthened the most against TRY, ZAR In the Past Month



Source: Bloomberg, Maybank FX Research & Strategy

What is the intent of the CCAF?

The latest measure affects the USDCNY fixing directly and sends the message to market players that a more stable RMB is preferred by the Chinese authorities. It is also timely as the decline in the RMB for the past few months has received fresh scrutiny. As we near the semi-annual review by the US Treasury on currency management by other countries which should be released in mid-Oct, Trump accused China of currency manipulation again. The US Secretary of the Treasury Steven Mnuchin also told CNBC that “China letting its currency weaken would be manipulation... supporting its currency would not be manipulation”.

How to Trade the CNY from now?

PBoC is one of the few central banks that are easing to support growth amid external headwinds. As such, downside pressure on the CNH (especially vs the USD) could be especially significant in the face of external headwinds such as the trade war. However, the CCAF makes the risk-reward ratio for buying USD against the CNH unfavourable. However, there are other trades that we prefer with the CCAF in play.

RMB Could Strengthen Against CCYs Not in Hiking Cycle

The CCAF could ensure RMB to remain stable against higher beta currencies and those whose central banks are unlikely to hike in the near-future are particularly vulnerable. We look for CNY to gain against the MYR and the AUD in the next two weeks.

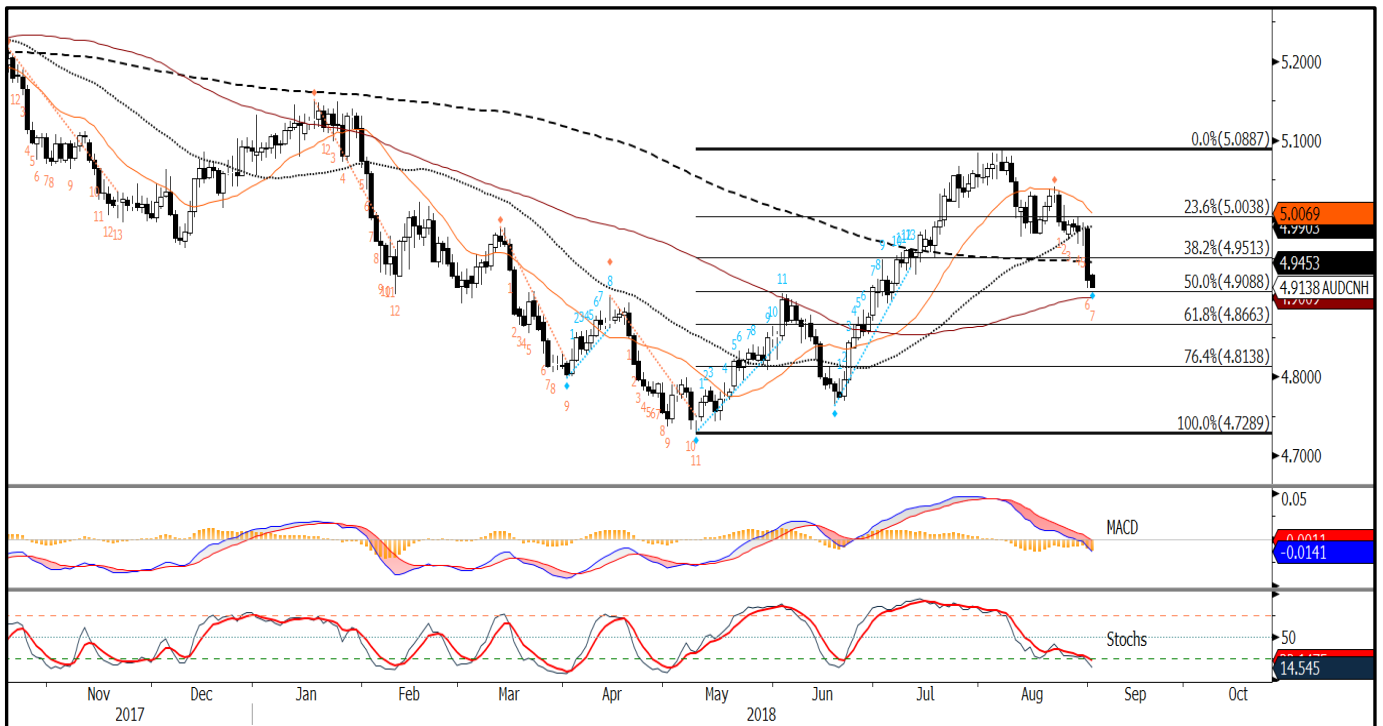
Daily Chart: MYRCNH Could Head Lower Towards 1.63



Source: Bloomberg

Malaysia and Australia have strong trade linkages with China, making them vulnerable to the ongoing trade war developments. However, with both BNM and RBA unlikely to hike this year, the monetary policy divergences also add to the downside pressure on the respective currencies. A look at the technical chart suggests more downside for both currencies against the CNH. The 21-dma (orange line in the chart above) is on the brink of cutting the 50-DMA to the downside and could be en-route to cut the 100 and 200-dma as well. We look for this cross to head towards 1.6450 before the next at 1.6300 (near to 200-dma).

Daily Chart: AUDCNH Bears Could Also Head A Little Further



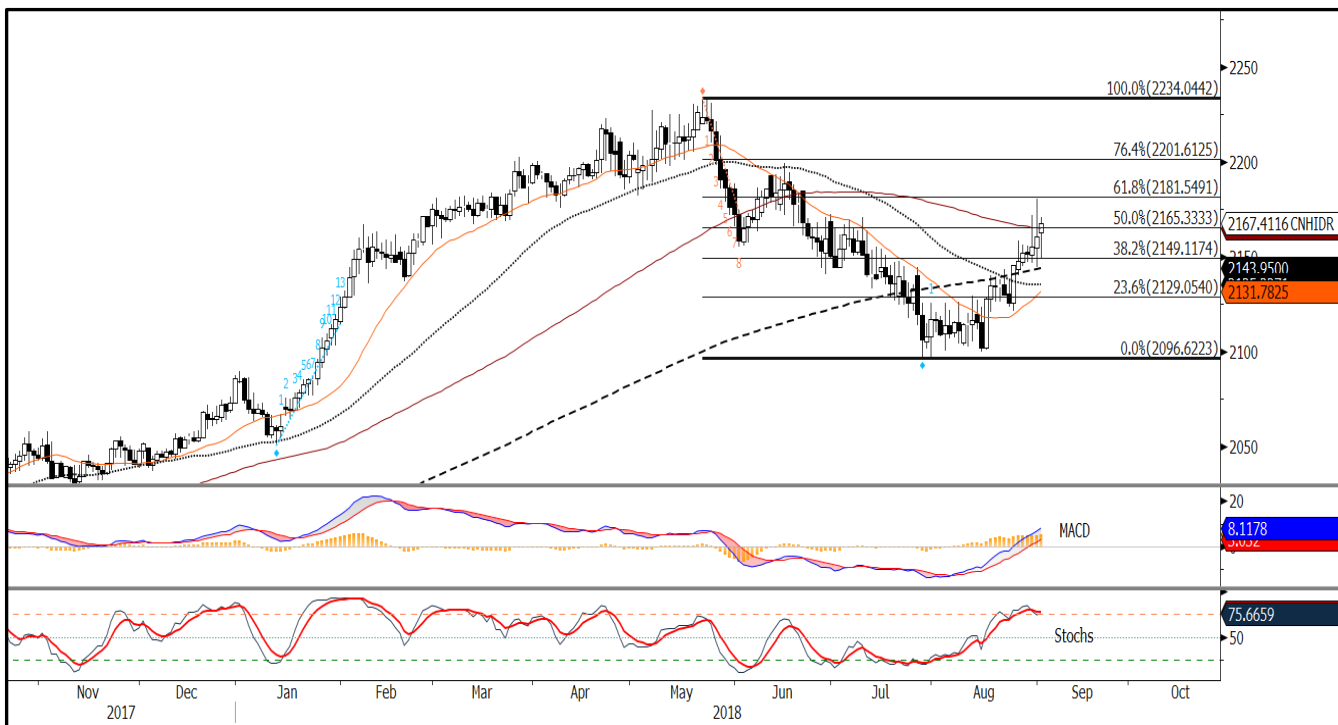
Source: Bloomberg

AUDCNH had already moved a fair bit. However, the momentum indicators are still rather bearish and this suggest more downside for this cross towards the 4.87-figure at 61.8%. Rebounds likely to be resisted by the 200-dma (black dotted) at 4.95.

CNY To Gain Against CCYs with Current Account Deficits

Economies with substantial current account deficit remain more vulnerable than the rest and CNY could gain against the INR and IDR particularly as the outlook for Brent prices continues to firm amid supply concerns. Even as China's current account surplus stands the risk of further erosion, the CCAF could limit the yuan depreciation vs. other currencies that have already used substantial ammunition to support their currencies and could still be vulnerable to EM contagion risks. However, a strong growth print for India released last Friday renders the rupiah as the currency to be least favoured.

Daily Chart: Retracements in the CNHIDR Can Present Buying Opportunities



Source: Bloomberg

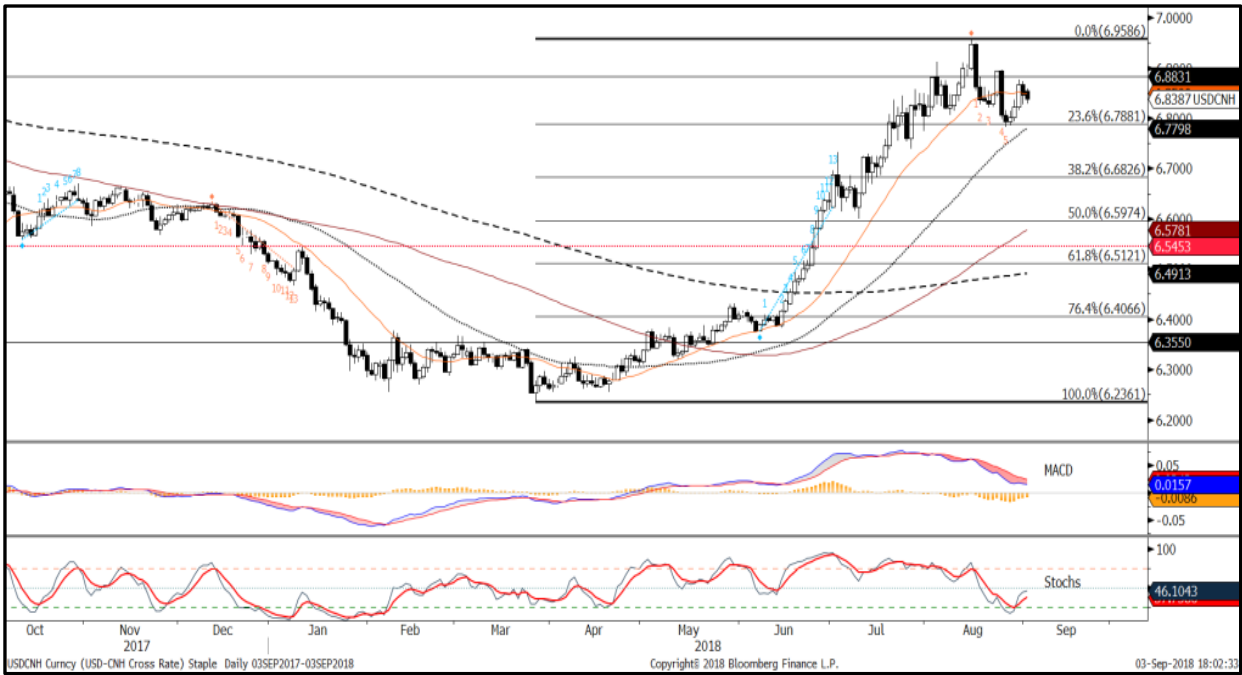
CNHIDR looks rather stretched to the upside as indicated by the stochastics. That said, MACD is clearly very bullish still. Anticipate some retracements to be seen and 2149 and 2130 to be key levels to enter into a long CNHIDR trade.

Watch for Trade War Escalation or De-escalation

We had cautioned before that more bad news than good news is in the price. Net long USD positioning has become substantial and there could be a risk of USD long positions unwinding should trade tensions ease. In that environment and should China's data turn out to be better than expected for Aug, CNY could see an acceleration in gains. If not, downsides against the vulnerable currencies (mentioned above) are protected by the CCAF in the near-term.

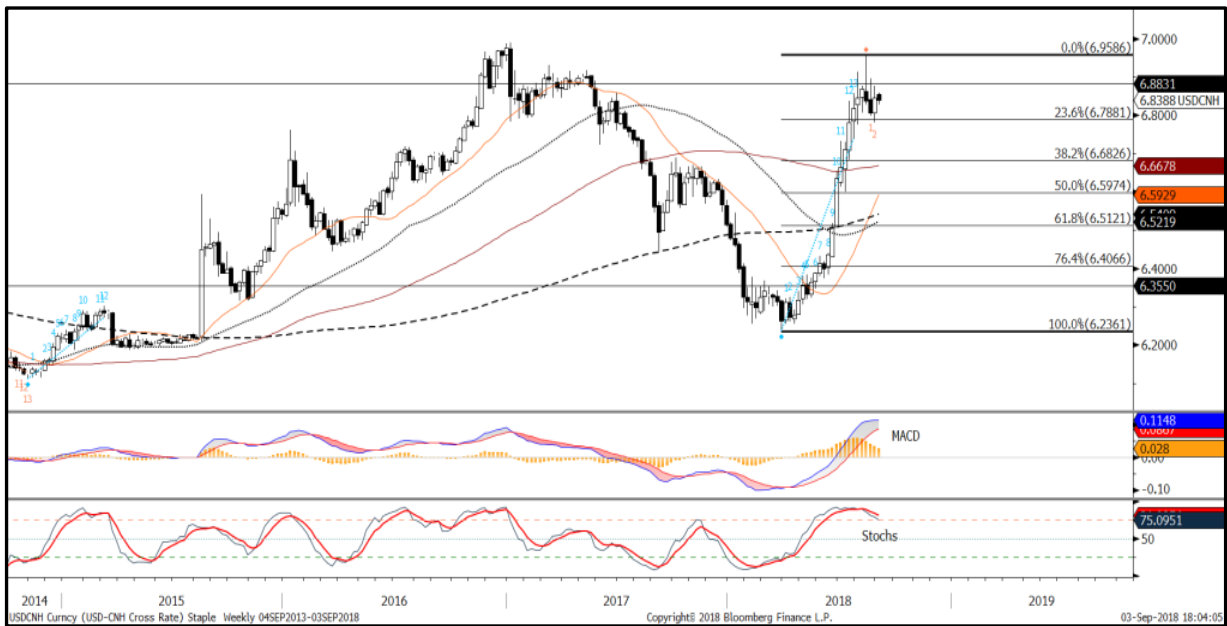
RMB On The Technical Charts

(USDCNH daily) - Moves Lower Do Not Compel



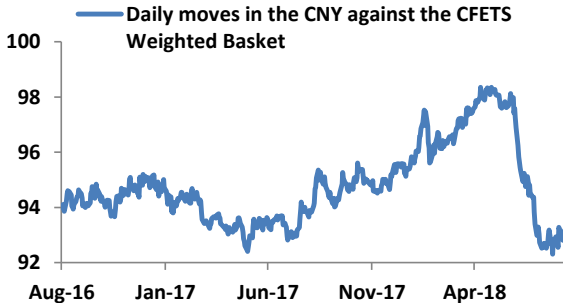
USDCNH has remained within a narrow range of 6.78-6.88 for the past few sessions. Momentum indicators are rising and moves lower do not compel at this point. We prefer to wait for a break out for further confirmation. Next resistance at 6.96 (recent highs) and support is seen at 6.78 (50-dma). That said, the weekly chart shows that the pair could turn lower.

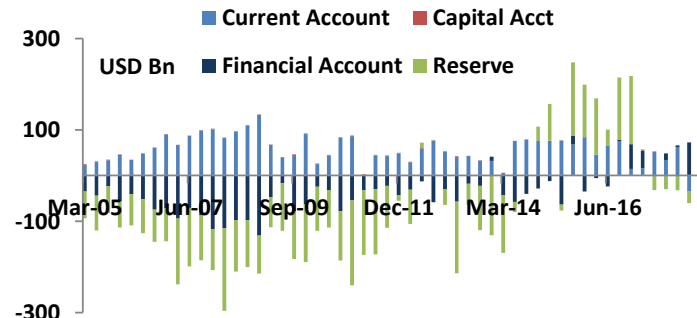
(USDCNH Weekly) - Turning Lower

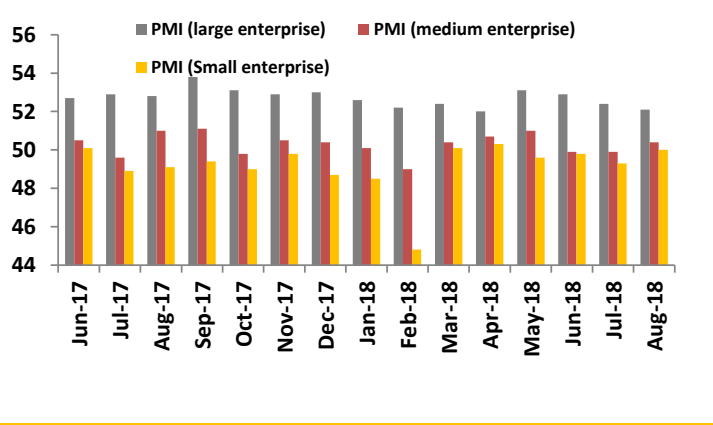


Source: Bloomberg, Maybank FX Research & Strategy

Keeping Track

Date	Events/Data Headlines	More Details, Impact and Views	Relevant Charts (if any)														
23 Aug	<p><u>China Opens Up its Financial Sector</u></p> <p>CBIRC said that overseas financial institutions will now be treated the same as local companies.</p>	<p>Limits on foreign ownership of Chinese banks are now removed. Overseas firms can now take majority stakes in local securities ventures, fund managers and insurers. This is another move to improve access to foreign investors - a condition that the US has been vying for in the trade war.</p>															
24 Aug	<p><u>Trump Wants Level-Playing Field for domestic manufacturers</u></p> <p>Trump issued an order to the US Postmaster General and the secretaries of state, Treasury and Homeland Security to change the international postal rate system.</p>	<p>This was in response to manufacturers who complained that the US Postal Service currently collects below-cost payments to deliver small packages from international shippers. <i>This could be another measure to hurt China's exports to the US.</i></p>															
24 Aug	<p><u>CCAF Reintroduced</u></p> <p>PBoC said contributors to the USDCNY daily fixing have adjusted for the countercyclical adjustment factor (CCAF) since Aug based on their own judgement of the market.</p>	<p>This triggered speculations that this is an act of goodwill in the hope that Trump will not act to escalate the trade war by imposing tariffs on another U\$200bn of Chinese imports. It is of no coincidence that the RMB has started to strengthen against the CFETS-weighted basket of currencies in the last few weeks. <i>More in the main story of this issue...</i></p>	 <p>Daily moves in the CNY against the CFETS Weighted Basket</p> <table border="1"> <caption>Approximate data points from the chart</caption> <thead> <tr> <th>Date</th> <th>Value (Index)</th> </tr> </thead> <tbody> <tr> <td>Aug-16</td> <td>94.5</td> </tr> <tr> <td>Jan-17</td> <td>95.0</td> </tr> <tr> <td>Jun-17</td> <td>93.5</td> </tr> <tr> <td>Nov-17</td> <td>95.5</td> </tr> <tr> <td>Apr-18</td> <td>98.5</td> </tr> <tr> <td>End of Apr-18</td> <td>93.0</td> </tr> </tbody> </table>	Date	Value (Index)	Aug-16	94.5	Jan-17	95.0	Jun-17	93.5	Nov-17	95.5	Apr-18	98.5	End of Apr-18	93.0
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29 Aug	<p><u>Clamp on Property Continues</u></p> <p>The NDRC said that China would stick to deleveraging and curb property price increases.</p>	<p>The clampdown on property suggests that a strong growth rebound is unlikely.</p>	
29 Aug	<p><u>CBIRC to curb internet financing</u></p> <p>The regulator wants to target online lending and to improve credit policy for property market to prevent bubbles.</p>	<p>In addition, the regulator will step up disposal of NPLs and unclog monetary policy transmission, urges early implementation of debt-equity swap work.</p>	
30 Aug	<p><u>Tax exemptions on Foreign investment Gains in Bonds</u></p> <p>China will exempt corporate income tax and VAT for three years for foreign institutions' interest gains in onshore bond market investments</p>	<p>This was reported by the China National Radio, citing the State Council Meeting. <i>This was clearly to encourage more foreign investments in its bond markets. While China's current account surplus remains at risk of further erosion, the government is clearly working to boost inflow via the financial channel.</i></p>	

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30 Aug	<p>Trump is Eager...</p> <p>To impose tariffs on the next U\$200bn of Chinese imports as early as next week.</p>	<p>The tariff can be imposed after 6 Sep, the deadline for all public comments to be submitted. His words weakened the RMB against the USD but USDCNY fixing in the next morning crimped on USDCNH gains.</p>																																																																	
31 Aug	<p>PMI-mfg came in at 51.3 vs. 51.0.</p>	<p>For the first time since Apr this year, the PMI-mfg index for large, small and medium size enterprises are recorded in expansionary zone (>50). This was definitely a surprise and a sign that some parts of the expansionary fiscal policies and moral suasion by the central bank has worked to support the SMEs.</p>	 <table border="1"> <caption>PMI (mfg) Index Data (Estimated)</caption> <thead> <tr> <th>Month</th> <th>PMI (large enterprise)</th> <th>PMI (medium enterprise)</th> <th>PMI (Small enterprise)</th> </tr> </thead> <tbody> <tr><td>Jun-17</td><td>52.8</td><td>50.5</td><td>50.0</td></tr> <tr><td>Jul-17</td><td>53.0</td><td>49.5</td><td>49.0</td></tr> <tr><td>Aug-17</td><td>53.2</td><td>51.0</td><td>49.5</td></tr> <tr><td>Sep-17</td><td>54.0</td><td>51.5</td><td>49.5</td></tr> <tr><td>Oct-17</td><td>53.5</td><td>50.0</td><td>49.0</td></tr> <tr><td>Nov-17</td><td>53.0</td><td>50.5</td><td>49.5</td></tr> <tr><td>Dec-17</td><td>53.5</td><td>50.5</td><td>49.0</td></tr> <tr><td>Jan-18</td><td>52.5</td><td>50.0</td><td>48.5</td></tr> <tr><td>Feb-18</td><td>52.0</td><td>49.0</td><td>44.5</td></tr> <tr><td>Mar-18</td><td>52.5</td><td>50.5</td><td>50.0</td></tr> <tr><td>Apr-18</td><td>52.0</td><td>50.5</td><td>50.5</td></tr> <tr><td>May-18</td><td>53.5</td><td>51.0</td><td>49.5</td></tr> <tr><td>Jun-18</td><td>53.0</td><td>50.0</td><td>49.5</td></tr> <tr><td>Jul-18</td><td>52.5</td><td>50.0</td><td>49.5</td></tr> <tr><td>Aug-18</td><td>52.0</td><td>50.5</td><td>50.0</td></tr> </tbody> </table>	Month	PMI (large enterprise)	PMI (medium enterprise)	PMI (Small enterprise)	Jun-17	52.8	50.5	50.0	Jul-17	53.0	49.5	49.0	Aug-17	53.2	51.0	49.5	Sep-17	54.0	51.5	49.5	Oct-17	53.5	50.0	49.0	Nov-17	53.0	50.5	49.5	Dec-17	53.5	50.5	49.0	Jan-18	52.5	50.0	48.5	Feb-18	52.0	49.0	44.5	Mar-18	52.5	50.5	50.0	Apr-18	52.0	50.5	50.5	May-18	53.5	51.0	49.5	Jun-18	53.0	50.0	49.5	Jul-18	52.5	50.0	49.5	Aug-18	52.0	50.5	50.0
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31 Aug	<p>China stands firm...</p> <p>Against “intimidation, coercion or groundless accusation” according to Chinese Ambassador on China-US relations.</p>	<p>It was also reported by Xinhua that “China s always ready to engage in serious negotiations and consultations. This came after Trump declared on Thursday that China won’t outlast the US in their trade dispute as the US is a “stronger country” (BBG). He also accused China of manipulating the RMB. <i>This is ahead of the 2018 Fall FX report due in mid Oct that typically reviews the currency management of other countries for any that have met the legislative standards for currency manipulation.</i></p>																																																																	

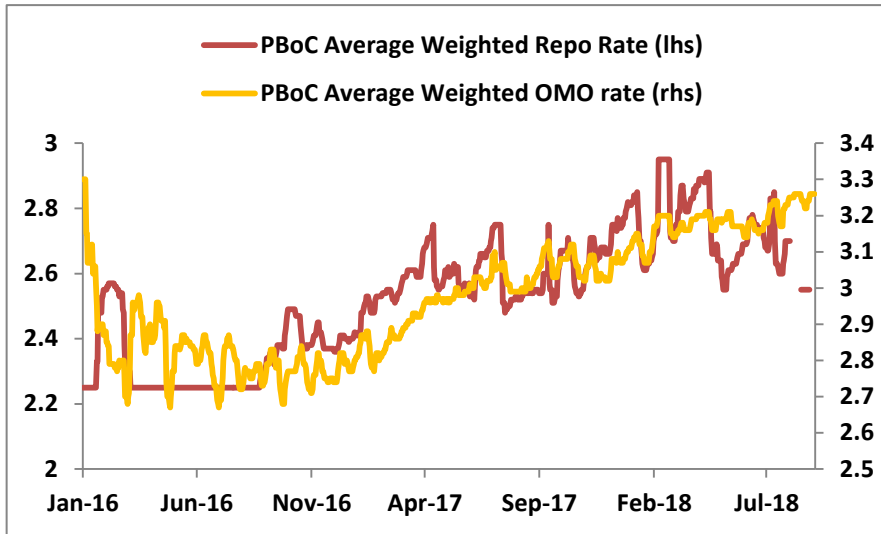
*News Sources from Xinhua, Bloomberg, China Daily, China Securities Journal, China Business News; Data from CEIC, Bloomberg, NBS, SAFE, PBoC

Upcoming Events to Watch in The Next Two Weeks

- 6 - 7 Sep - Deadline for Public Comments on the proposed tariffs to be submitted
- 7 Sep - China Foreign Reserves for Aug
- 8 Sep - China Trade Data for Aug
- 10 Sep - Inflation Data for Aug
- 10 - 15th Sep - Credit and monetary data for Aug
- 14th Sep - Activity data for Aug
- 15th Sep - New Home Prices for Aug)

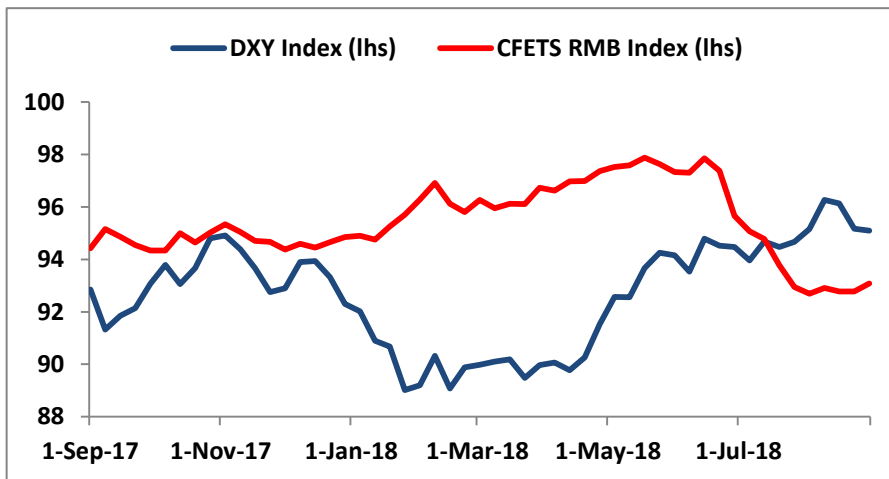
Charts We Monitor

Chart 1: Repo Rates Dropped while OMO still remain rather Supported



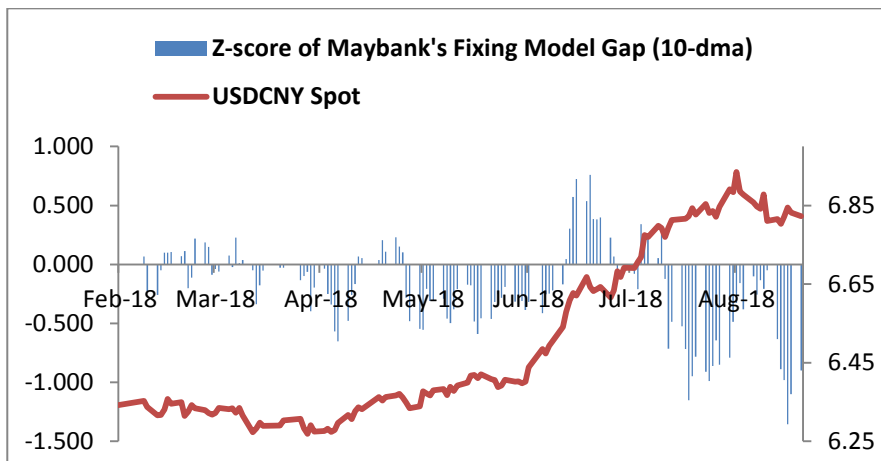
Source: Bloomberg Calculation, Maybank FX Research & Strategy

Chart 2: CFETS RMB Index Seems To Have Bottomed



Source: Bloomberg, Maybank FX Research & Strategy

Chart 3: Deviations between actual USDCNY fixing and our model projections Widens, A Sign of CCAF in Play



Source: Maybank FX Research & Strategy Estimates, Bloomberg

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