

# RMB Watch

## Looking a Tad More Vulnerable

### Not Impervious

#### Key Points:

- While the Jilin province takes the top position for China's omicron infections, it was the lockdown in Shanghai that is the focus at the moment given it is a major contributor of China's GDP at 3.8% for 2021. What was supposed to be a two-phase lockdown in Shanghai (four days each that ends on 5 Apr) turned into a full lockdown for almost the whole city by Mon (4 Apr) as China vows to stick to its zero-Covid strategy. There is a shroud of uncertainty on when this lockdown could end. Leading indicators such as China's purchasing manager indices have fallen into contractionary region for Mar.
- China manages an increasingly challenging juggle of dynamic zero-covid strategy, monetary policy easing and growth. Narrowing US-CH yield differentials do not help the CNY in the least. The yield differentials did not always affect USDCNY but the correlation seems to have strengthened more recently after Russia attacked Ukraine and Fed speakers (including Powell) flags possibly restrictive monetary policy. Taken together, CNY looks a tad more vulnerable at this point.
- Technical Analysis:** USDCNH may continue to trade within the 6.35-6.40 range. EURCNH gains could remain capped at 7.09. MYRCNH needs to break 1.5365 to stronger bullish extension. SGDCNH is supported by 21-dma 4.6840 but technical signals are mixed.

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#### What We Watch (4 - 18 Apr):

Date	Data/Events	Month
6 Apr	Caixin Services, Composite PMI	Mar
7 Apr	Foreign Reserves	Mar
9-15 Apr	New yuan loans, Money Supply, Agg. Financing	Mar
11 Apr	CPI, PPI	Mar
13 Apr	Trade	Mar
13-16 Apr	Medium Term Lending Facility	15 Apr
15 Apr	New Home Prices	Mar
18 Apr	Industrial production, retail sales, FAI ex rural, GDP (1Q)	Mar

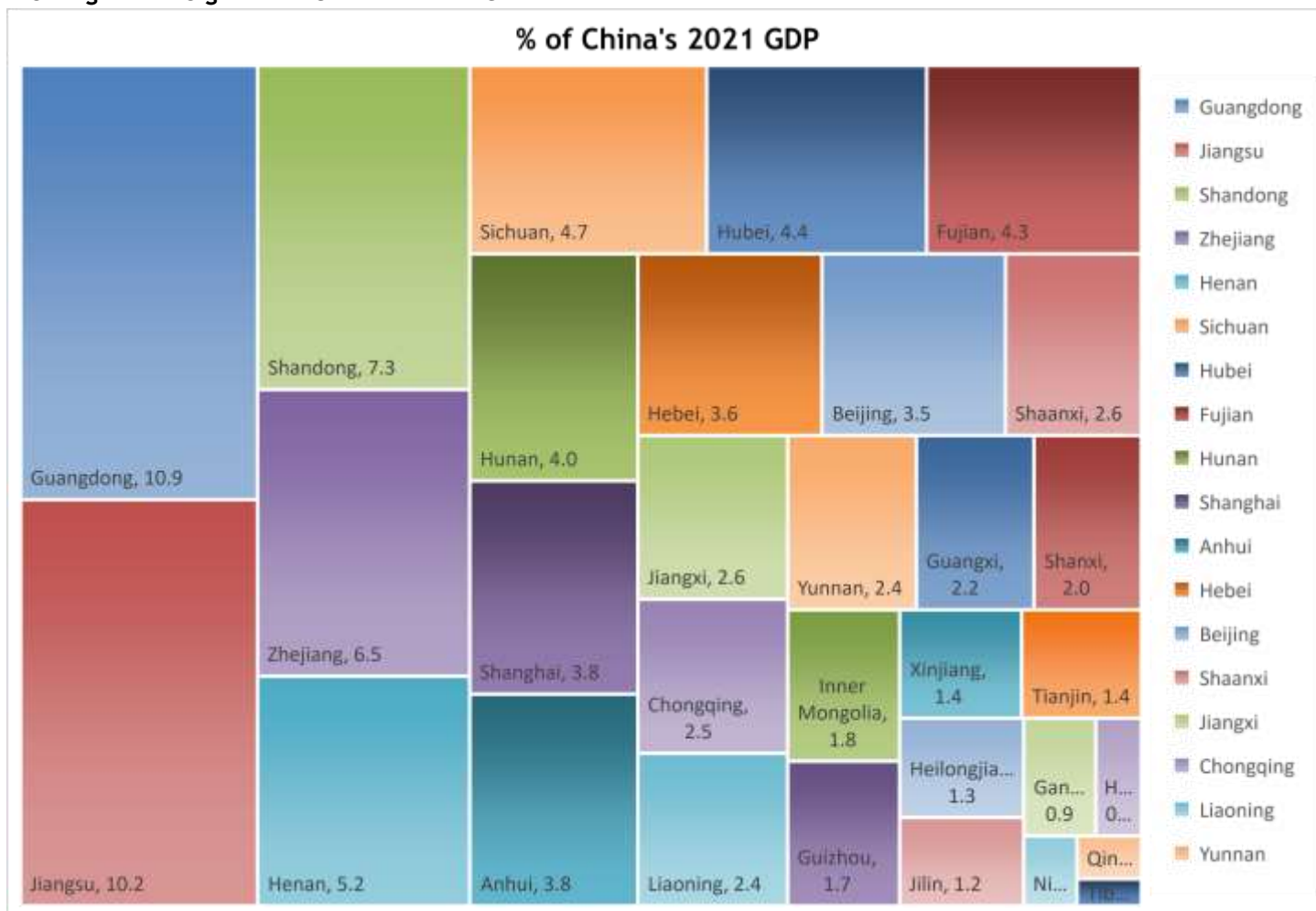
## Where Has RMB Been?

USDCNH hovered within the 6.34-6.41 range for much of Mar and could remain in range-trading for a while.

## Shanghai in Focus - CNY Under Pressure

While the Jilin province takes the top position for China's omicron infections, it was the lockdown in Shanghai that is the focus at the moment as Shanghai is a major contributor of China's GDP at 3.8% for 2021, tied with Anhui for the 8<sup>th</sup> highest GDP amongst China's provincial-level divisions. What was supposed to be a two-phase lockdown in Shanghai (four days each that ends on 5 Apr) turned into a full lockdown for almost the whole city by Mon (4 Apr) as China vows to stick to its zero-Covid strategy. Manufacturing firms such as Tesla, Volkswagen have halted operations with others implementing closed-loop/"bubble" system by ensuring employees are shuttled between offices/factories and dormitories. The drive to quash infections is becoming costly with manufacturing impacted on top of services. Residents are subjected to harsh quarantines (of varying extents 7-14 days in case of Covid detected in the same/near to residential block). Given the style of restrictions imposed in a whack-a-mole approach, there is growing concern on the economic costs of China's Covid management strategy with estimates of 0.4-0.9ppt impact on GDP.

## Shanghai is a Significant Contributor of GDP



Source: NBS, CEIC, Maybank FX Research & Strategy

Apr 5, 2022

Leading indicators such as China's purchasing manager indices have fallen into contractionary region for Mar.

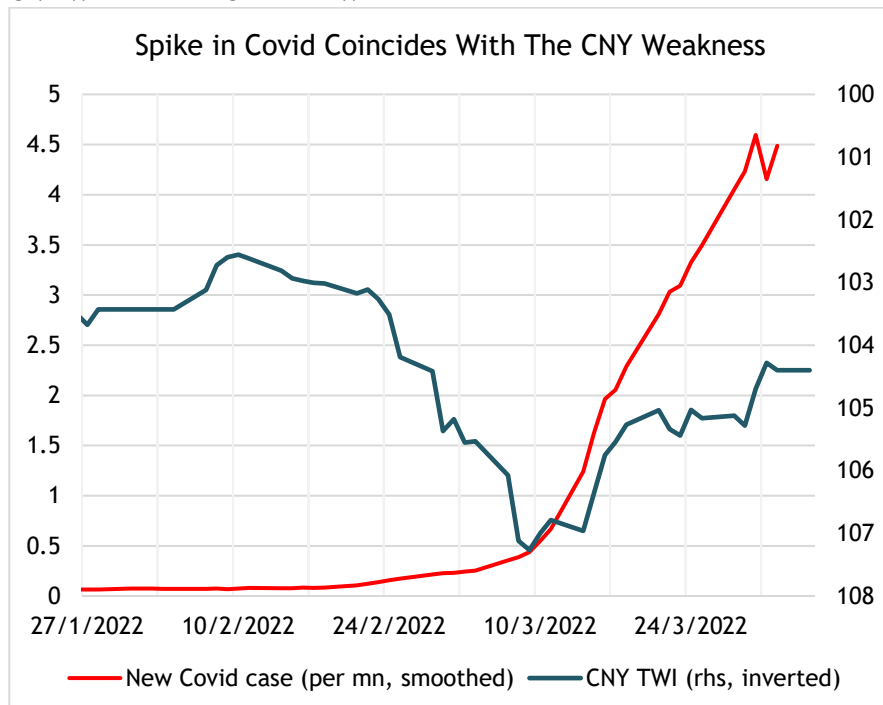
### China's Output Expected to Contract



Source: NBS, Bloomberg, Maybank FX Research & Strategy

The result is quite a bit of trade-weighted weakness for the CNY and the turning point coincides with the rise in fresh Covid infections for China.

### CNY Weakens on Omicron Wave

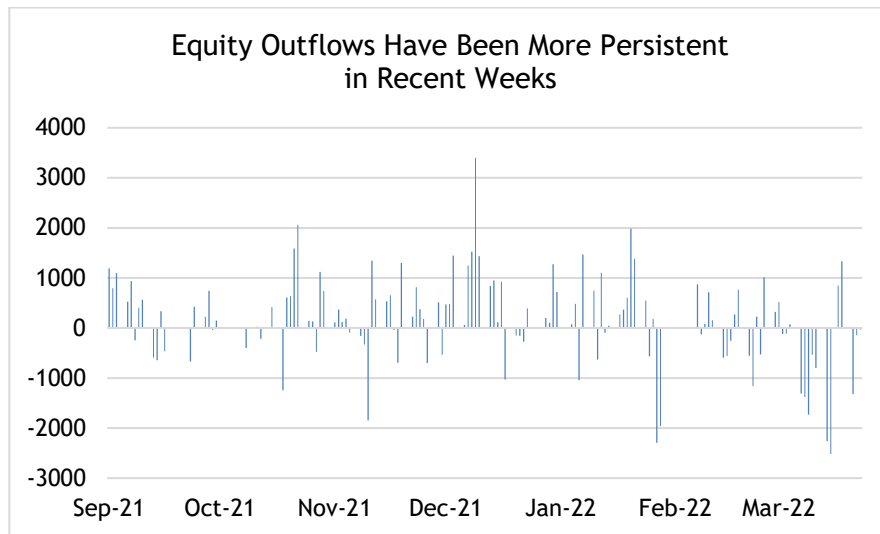


Source: Our World in Data, Bloomberg, Maybank FX Research & Strategy

China manages an increasingly challenging juggle of dynamic zero-covid strategy, monetary policy prudence and keeping the economy afloat. Granted, there had been an array of supportive property measures implemented by local governments but those have not translated to improvement in data. Signs of capital outflows since Feb unnerved investors and the perception of the RMB is no longer that of an impervious

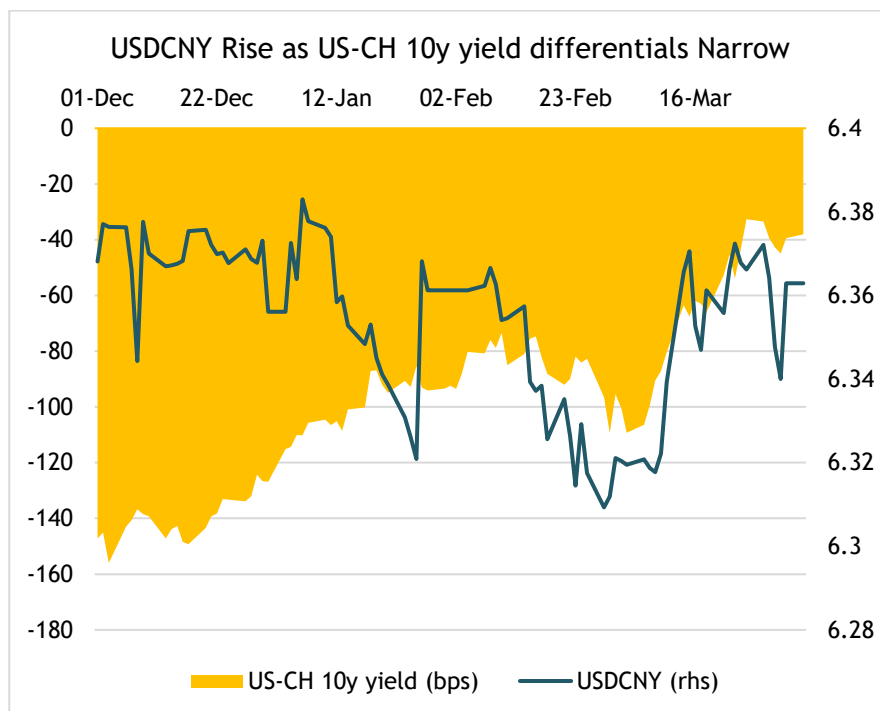
one.

### China Had Seen Equity-related outflows For a While Now



Source: IIF, Maybank FX Research & Strategy

Narrowing US-CH yield differentials do not help in the least. The yield differentials did not always affect USDCNY but the correlation seems to have strengthened more recently after Russia attacked Ukraine and Fed speakers (including Powell) flags possibly restrictive monetary policy.



Source: Bloomberg, Maybank FX Research & Strategy

Taken together, the CNY faces more two-way risks now. However, we still hold a bearish view for the USDCNY given the buffer of its trade surplus, potential for more monetary accommodation alongside infrastructure investment to support growth, measures such as allowing key hurdles for US to audit reports of listed Chinese companies that could boost confidence and reverse the outflows of equities, albeit with offset by potential debt-related outflows.

### USDCNH (Daily) - Little Directional Bias



USDCNH bounced around 6.3-6.40 range for much of the past several sessions. Momentum indicators have no compelling directional bias.

Interim support is seen at 6.3516 (50-dma) before the next at 6.3070. Resistance at 6.4068 (200-dma).

### EURCNH (Daily) - Sideways



EURCNH bulls were resisted by the 50-dma at around 7.0940. This cross has pulled back to levels around 7.0390.

The rising wedge that we had flagged in the last issue was broken out and this cross has since been trading sideways with support at 7.0080 (21-dma). Resistance at 7.0940 before the next at 7.1530 (100-dma). Support at 7.0075 before the next at 6.9700.

Legend: Orange Line = 21-sma; Blue dash = 50-sma, green dash = 200-sma; red solid = 100-sma



## MYRCNH (Weekly) - In Range, Bearish Channel Intact For Now



MYRCNH was last seen around 1.5096. This cross remains within the 1.4980-1.5290 range for the past few weeks as the strengths of CNH and MYR matched each other in recent episodes of volatility.

MACD is mild bullish on the weekly chart but shows little directional bias.

This cross remains within the falling channel that begin in 2020. Needs a break of the 1.5365 (50-sma) as a decisive signal of a rebound.

## SGDCNH (Daily) - Mixed Signals



SGDCNH was last seen around 4.6940, hovering around the 50,100-dma.

Technical indicators are mixed - Bullish momentum indicators are waning and stochastics are falling from overbought conditions. However, 21-dma is about to make a bullish cross-over of the 50,100-dma.

Resistance seen around 4.7320 (200-dma).

Support is seen around 4.6840 (21-dma), before the next at 4.6440 before 4.6280.

Legend: Orange Line = 21-sma; Blue dash = 50-sma, green dash = 200-sma; red solid = 100-sma

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