

RMB Watch

Unexpected Turn

Trump Runs Out of Patience

The US-China trade relation is now back in focus after Trump sent out two tweets warning that the 10% tariff on US\$200bn of Chinese goods could head higher to 25% on Fri and the remaining untaxed Chinese goods could also be levied a 25% tariff soon. Trump pin this move to two factors in his tweets - 1) The US economy has been benefitting from the tariffs so far and more should come; 2) The trade-talks with China have been progressing too slowly. In addition, sources cited by Bloomberg reported that China had backpedalled on its commitment with regards to forcing foreign companies to transfer their technology to Chinese entities. The tweets sent USDCNH on a rally from its close last week at 6.73 to levels above the 6.80-figure, reached a high of 6.8218 this morning before tapering off.

The local equity markets had sharp corrections with the Shanghai Comp and CSI 300 down >6% within the session. STI also made a rather sharp correction, down 3% at last sight. China Government Bonds (CGB) seems to have rallied with the 10yr yield down as much as 6bps today.

China's Imports from the US has Been On Steep Declines, Averaging 30%/y since last Nov

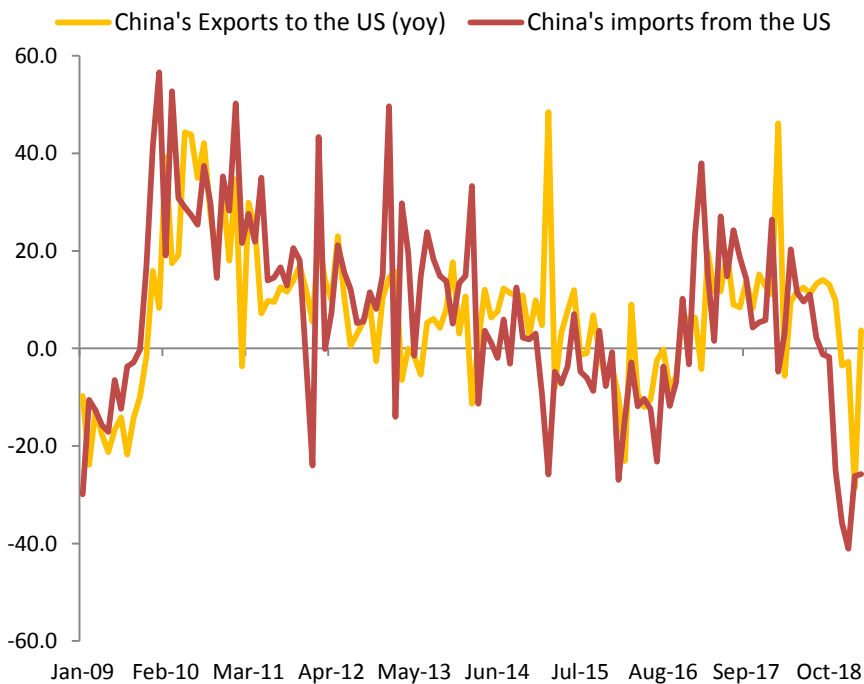
Analysts

Saktiandi Supaat
(65) 6320 1379
saktiandi@maybank.com.sg

Fiona Lim
(65) 6320 1374
fionalim@maybank.com.sg

Christopher Wong
(65) 6320 1347
wongkl@maybank.com.sg

Leslie Tang
(65) 6320 1378
leslietang@maybank.com.sg



Source: Bloomberg, Maybank FX Research & Strategy

Does this mean That Chances of A Deal Have Diminished?

Trump seems to have run out of patience at this point and no wonder, as exporters have seen a decline of 30%/y in earnings every month since last Nov. In his two tweets, he seems to be trying to rally the US stock markets by attributing the economic growth to his tariffs and he also mentioned that the progress of the talks were too slow. This underscores how much he wants that deal and he wants that deal fast. In reaction, China did not seem to want to give in and is said to consider delaying (from Wed to Thu) or cancelling Vice Premier Liu He's trip to Washington this week which could effectively stall the trade talks for now. This latest development underscores the urgency of the deal but it can also give rise to an alternative possibility that Trump may want a "All or Nothing" outcome. We are more biased towards a possibility that the US would prefer to have a positive outcome to ensure that the growth momentum would not deteriorate significantly ahead of 2020 election. We hold our view that a deal is more likely than not within the quarter.

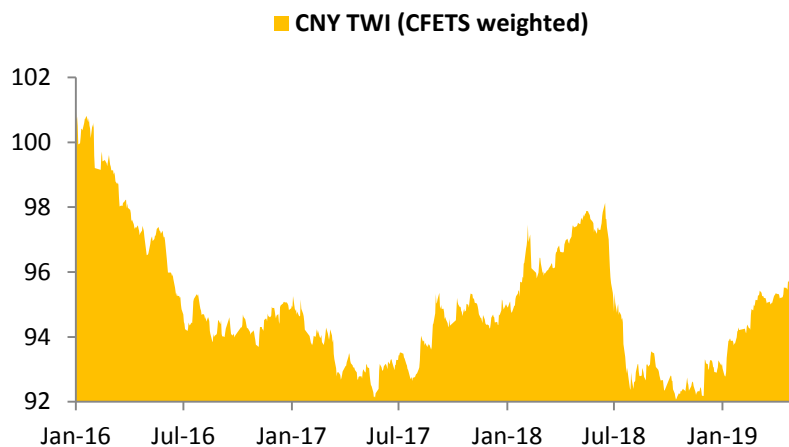
Will The Tariffs Be Raised This Friday?

The possibility is there as trade negotiations have stalled now. Market players are unlikely to have priced in more tariffs at this point and so more barrier tariffs could mean greater USD strength, especially against the CNH and other Asian currencies. We think the tariffs imposed on China (and China on the US) have so far been the key drag on global growth, enhancing the allure of the USD as both a safe-haven currency and a higher-yielding asset. With global growth weighing on both their economies, China and the US should be motivated enough to get a deal and we hold our view that this should happen within the quarter. At this point, Trump has merely utilized whatever leverage he has left in this "trade war" in the hope to get China to accede to their outstanding demands before a deal can be reached. We anticipate that the removal of the tariffs would be part of the deal and thus, this upcoming tranche of tariffs should not last long. However, that could also dim the chances of removal of the currently imposed tariffs.

Tilting the Balance

Is this enough to dampen the US growth prospect such that the Fed would consider lowering rates? The Fed just had its meeting last week and Powell refused to give USD bears more steam by mentioning that the low inflation is likely to be "transient" and the current neutral stance is appropriate. However, more tariffs could weigh on US exports, investment as well as consumption in the economy and eventually affect hiring which could in turn nudge the Fed towards a rate-cutting cycle.

The RMB TWI Has Been Rising Since The Turn of the Year



Source: Bloomberg, Maybank FX Research & Strategy

CNY Weakness

The RMB trade-weighted index has been edging higher recently as USDCNH lag the rise in other USDAXJ but a re-escalation of a trade-war could see a depreciation in the CNY against other major trading peers. This could be a chance for the CNY to claw back some of the trade competitiveness lost since the turn of the year.

Coincidentally or not, PBoC announced this morning to lower the RRR for smaller banks with effect on 15 May and the central bank said that CNY280bn of funds will be released. This comes after the TMLF provided on 24th Apr which amounted to CNY267.4bn of liquidity. The last time PBoC had a targeted RRR cut was in late Jan which injected around CNY250bn. That was in conjunction with the broad 1% RRR cut and TMLF provided then, which amount to a net increase of CNY800bn. Again, we hold our view that monetary policy supports are likely to remain targeted unless economic data suggests broad deterioration. This long term funds (RRR cut) is growth, bonds positive and should cushion RMB against further depreciation.

USDCNH (Daily) - Downside Bias



The USDCNH has retraced quite a bit from its high this morning, last seen around 6.7780. Another attempt at the 6.8250-resistance (200-dma) is likely within the week if Trump allows his threat to materialize. However, stochs show signs of falling from overbought conditions. Barring a re-escalation in trade-war, this pair has a chance of retracing back towards the 6.72-figure. CNYSGD made an attempt to violate the rising trend channel to the downside. MACD suggests that bias is still to the downside. Break of the support around 0.2015 could open the way back towards 0.2009 before the next at 0.2001, 0.1994.

CNYSGD (Daily) - Bullish Risk



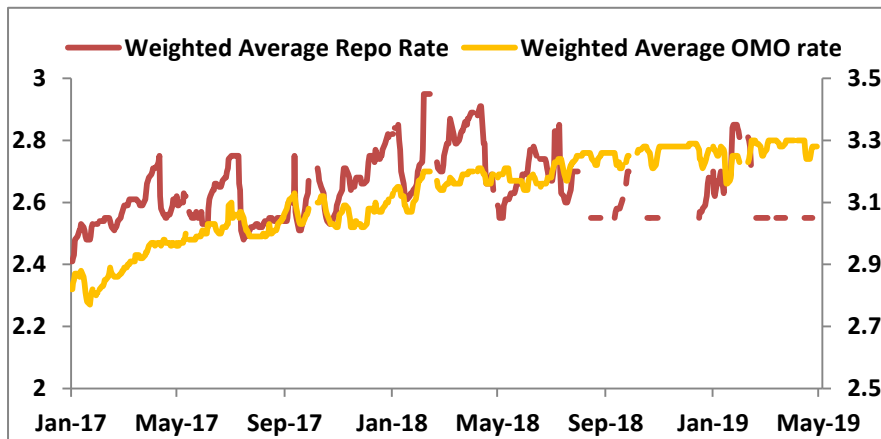
Source: Bloomberg, Maybank FX Research

Upcoming Events to Watch in The Next Two Weeks

- 7 May - Foreign Reserves
- 8 May - Trade for Apr
- 9 May - CPI, PPI for Apr
- 10-15 May - Money Supply M2, New Yuan Loans, Aggregate Financing
- 15 May - Industrial Production, FAI, Retail sales

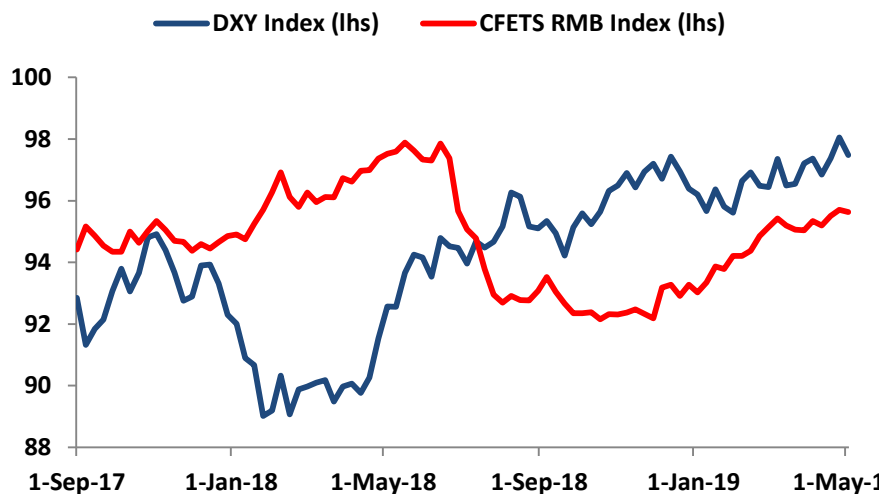
Charts We Monitor

Chart 1: Repo Rates Are Capped



Source: Bloomberg Calculation, Maybank FX Research & Strategy

Chart 2: Yuan Rebounded VS. its Trading Partners



Source: Bloomberg, Maybank FX Research & Strategy

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Saktiandi Supaat Head, FX Research saktiandi@maybank.com.sg (+65) 63201379	Fiona Lim Senior FX Analyst Fionalim@maybank.com.sg (+65) 63201374	Leslie Tang Senior FX Analyst leslietang@maybank.com.sg (+65) 63201378	Christopher Wong Senior FX Analyst Wongkl@maybank.com.sg (+65) 63201377
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