Maybank

FX

Global

RMB Watch

Risks Still Skewed to the Downside

Look for Support To Wane

Key Points:

- Over the weekend, China released a set of stronger-than-expected trade data. Exports growth unexpectedly picked up pace to 18.0%y/y from previous 17.9%. Imports on the other hand, remained rather tepid at around 2.3%y/y vs. previous 1.0%. Trade surplus, as a result, widened to a record of $101.3bn from previous $97.9bn. However, there have been signs of stabilization for imports. While exports growth might have displayed resilience thus far, the Jul Mfg PMI report indicated an accelerating decline in new export orders. Taken together, yuan support from its strong trade surplus could wane and this is especially concerning given that net capital outflow increased in Jul.

- In addition, we have geopolitical tensions that could continue to be a risk to the yuan (recall the US-China trade war). China has extended its military drill around Taiwan beyond the scheduled 4-7 Aug. As long as the war games continue, there is always a risk of wider conflict. At the same time, we keep an eye on the technology competition between the US and China as the former seeks alliance with major chip-producing nations. One silver lining we noticed is the weakening correlation between US-CH 10y yield differential and USDCNY of late. That could grant the CNH and CNY some immunity to swings of the UST yields as US data come into focus.

What We Watch (8- 22 Aug):

Date	Data/Events	
9-15 Aug	Aggregate financing, New Yuan Loans, Money Supply	Jul
10 Aug	CPI, PPI	Jul
11-18 Aug	FDI	Jul
13-16 Aug	Medium Term Lending Facility	--
15 Aug	New Home Prices, Industrial Production, Retail sales, Fixed Assets Ex Rural, Surveyed Jobless Rate, Property Investment	Jul
19 Aug	FX Net Settlement	
22 Aug	Loan Prime Rate	Aug

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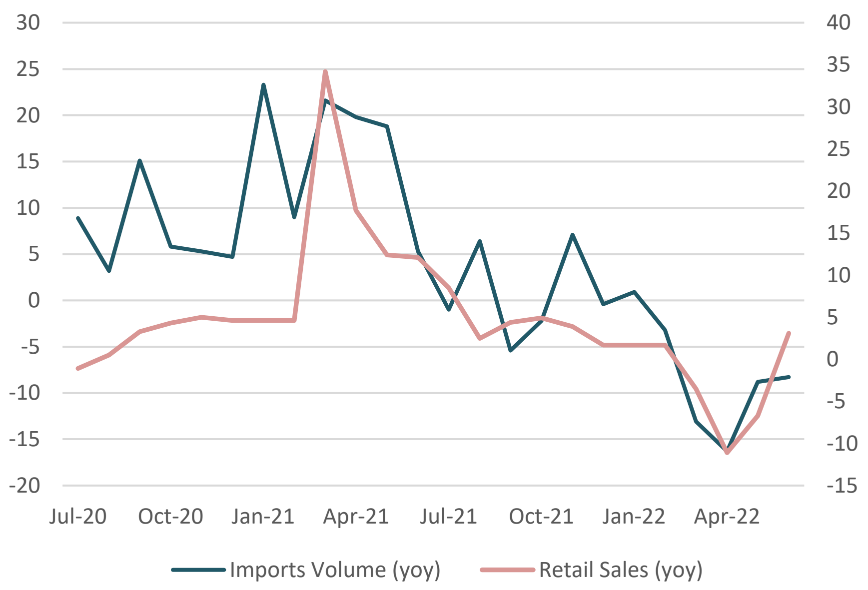
Where Has RMB Been?

USDCNH remains stuck within the 6.70-6.80 range.

The Last Good Trade Data to Boost the Yuan

Over the weekend, China released a set of stronger-than-expected trade data. Exports growth unexpectedly picked up pace to 18.0%y/y from previous 17.9%. Imports on the other hand, remained rather tepid at around 2.3%y/y vs. previous 1.0%. Trade surplus, as a result, widened to a record of $101.3bn from previous $97.9bn. China's imports bill is a reflection of weak domestic demand at home where domestic consumption and investment have been affected by the property sector malaise at home as well as the threat of lockdowns under the zero-Covid policy. <u>However, import trends suggest that there are signs of stabilization.</u>

<u>Imports Volume Has Been Falling Due to Weak Demand But Shows Signs of Stabilization Recently</u>



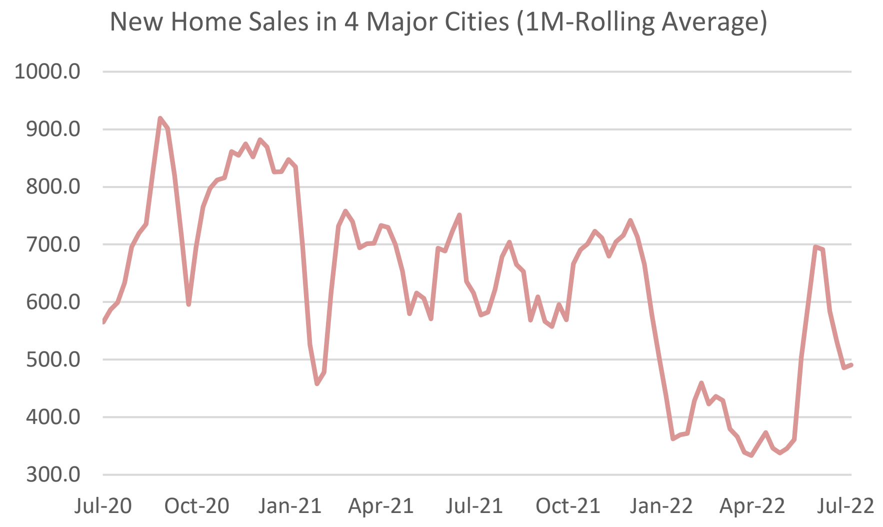
Source: NBS, Customs General Administration PRC

Property developers have been caught in a vicious cycle of not being able to finish the construction of projects at home which leads to poor home sales (as well as mortgage boycotts), worsening the developers' access to financing.

The authorities are now trying to stem the vicious cycle in the property sector by providing a backstop for the developers. Recently, Greenland Holdings had obtained loans worth CNY3bn from two SOEs while China Huarong Asset Management is set to restructure Yango Longking Group's debt (SCMP). There has been a step-up in direct measures to help support developers and could support sentiment.

At this point, latest data from China Real Estate Information Corp. indicated a rise in new home sales volume for Shenzhen and Shanghai in the past week while declines were observed in Beijing and Guangzhou. New home sales volume fell by an approximate 44k sqm that week but 1-month rolling average indicate very tentative sign of stabilization too.

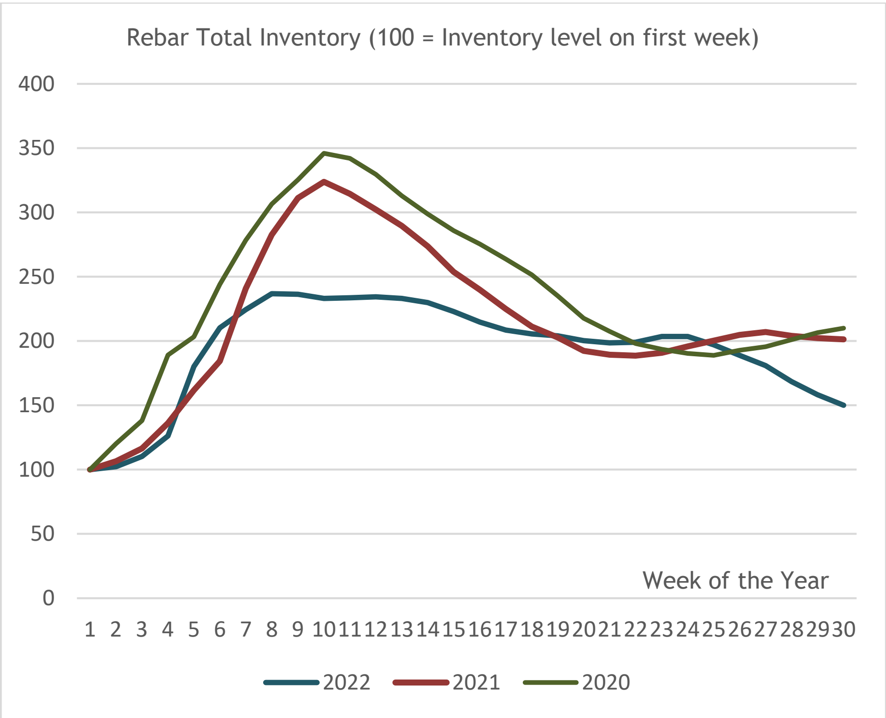
New Home Sales Slumped Recently but Note the Recent Uptick



Note: The four cities refer to Beijing, Shanghai, Shenzhen and Guangzhou.

Source: China Real Estate information Corp., Maybank FX Research & Strategy

<u>The policy supports for real estate seem to be boosting steel activity with rebar inventories falling more rapidly recently, even compared to this time last two years.</u>



Source: Steelhome China Rebar Total Inventory, Maybank FX Research & Strategy

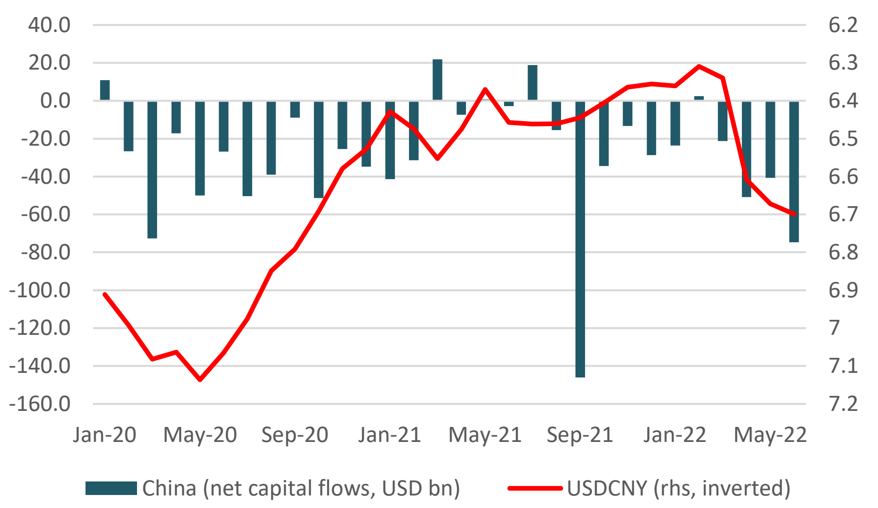
A long-awaited recovery in domestic demand could potentially increase the import bill and narrow China's trade surplus from its current record high.

Exports Growth May Start To Slow

China's export receipts for Jul have been supported by the resumption of activity and the smoothening of logistics kink after major lockdowns were eased in Jun. However, external demand conditions could be weakening. If we look at the breakdown of the Jul official Mfg PMI, new export orders have deteriorated from 49.5 to 47.4, indicating weaker external conditions.

Taken together, trade surplus might have widened to a record for Jul, there is a strong likelihood for this to be its peak and support for yuan from its external surplus to start to wane in the face of rising capital outflows.

Capital Outflows Accelerates



Source: IIF estimates, Bloomberg, Maybank FX Research & Strategy

Geopolitical Risks to Support USDCNH As Well

In addition, geopolitical tensions are still a risk to the yuan (recall US-China trade war). Ever since US House Speaker Nancy Pelosi visited Taiwan last week, China has lashed out in protest,

- Extended military drill around Taiwan from the scheduled 4-7 Aug.
- Announcing sanctions on US Nancy Pelosi
- Cancelled a meeting between Foreign Minister Wang Yi and Japanese Counterpart Yoshimasa Hayashi
- Ended defense and climate talks with the US (including working levels)
- Trade sanctions on Taiwan (Stop sand exports to Taiwan, Fruit imports)

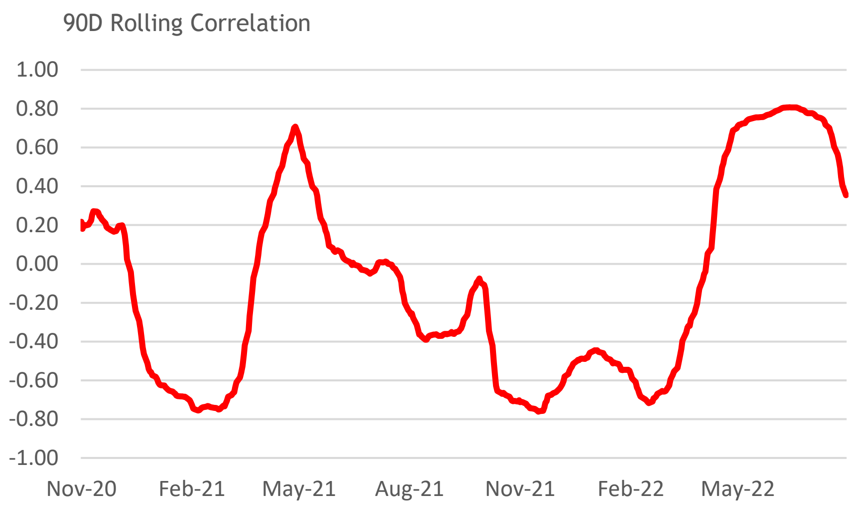
There are also efforts by the US to forge a new alliance for major chip-making nations (US, South Korea, Japan and Taiwan). South Korea has indicated interest to participate in the preliminary meeting that could take place early Sep but stopped short of announcing any decision to join it.

Thus far, yuan has not reacted too adversely to the escalation in geopolitical tensions. We cannot rule out some support from Russia. Russia Foreign Minister Anton Siluanov had flagged that his ministry may start to purchase currencies of "friendly countries" to keep ruble from strengthening at the end of Jun. CNYRUB has been kept stable within the 7.50-10.20 range for the past several weeks, after falling >60% from its Mar high.

USDCNY's Correlation With US-CH 10y yield gap Weakens

One silver lining is the weakening correlation of USDCNY and US-CH 10y yield differential. This could mean that USDCNY and USDCNH may not be as sensitive to any upswing in the UST yields triggered by strong surprise in data such as the US CPI (due on 10 Aug). The CFETS RMB index was last seen around 102.39 and we cannot rule out a further decline under the 102-figure. *Prefer to long AUDCNH towards the target of 4.8270. Entry price at 4.6990. Stoploss at 4.6510. Risk reward ratio of 1:2.67.*

Correlation between US-CH 10y yield differential and USDCNY weakens recently



Source: Bloomberg, Maybank FX Research

USDCNH (Daily) – Upside Pressure Persist

USDCNH was last at 6.7660. Momentum indicators are not very telling in terms of directional bias. Pennant formation not nullified. More recent price formation is arguably an ascending triangle and that typically precedes a bullish break-out, underscoring persistent upside pressure.

Interim support is seen at 6.7530 (21-dma) before the next at 6.7204 (50-dma).

Strong resistance at 6.79 before the next at 6.8380 (May high).

EURCNH (Daily) – Two-Way Risks

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

EURCNH hovered around 6.89. This cross has been hovering within the 6.8360-6.9720 range in the past few weeks.

Technical indicators are mixed. Bullish momentum is waning and stochastics tilt south. That said, 21-dma show signs of turning higher, towards the 50-dma.

Given the lack of directional cues, continue to watch the 6.8360-support and the 6.9720-resistance for a stronger sign of a break-out.

MYRCNH (Daily) – Locked in Range

MYRCNH slipped to levels around 1.5170.

This cross continues to remain within the long established range of 1.5120-1.5270.

Momentum indicators on the daily chart do not show any sign of a break-out. However, on the monthly chart, there are signs of momentum indicators turning bullish. Stochastics are also seen rising from oversold conditions.

Taken together, in the short-term, price is locked in the 1.5120-1.5270 range. But there are slight bullish risks ahead.

SGDCNH (Daily) – Double Topped.

SGDCNH is last seen around 4.90 after touching a high of 4.9355. This cross failed to reach our entry price that we marked and proceeded higher. The recent pullback suggest that upside momentum has wane. MACD indicates so and stochastics are also turning lower.

An arguable double top has been reached around with the second high of 4.9355, closely matched to the May high of 4.9420. This price formation is a bearish reversal and could portend further bearish extension towards the 4.8680.

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