

RMB Watch

Yuan Swings Could Continue

Recovery Prospects Take A Hit with Lockdowns

Key Points:

- Fed officials' consistently hawkish rhetoric and the latest NFP print for Sep had markets almost fully pricing in a 75bps hike at the Nov FOMC meeting and lifted the USD against most currencies (EM or DM) including the yuan. While PBoC could continue with its strong fixing bias, USDCNY and USDCNH are likely to take the cue from broader USD swings with most action likely to happen within 7.00-7.25 for both pairs.0020
- At home, the effects of sporadic lockdowns in China became more evident with reports of a sharp drop in congestion levels based on Baidu data, 26%y/y drop in tourism revenue for Golden Week (Ministry of Culture and Tourism), 36%y/y drop in trips taken via railways, roads, water and plane over the same period as well as a plunge of cinema ticket sales. China's quest for zero-Covid could hamper the recovery in domestic demand. The recent deterioration in the Caixin Services PMI to a contractionary 49.3 vs. previous 55.0 is a sign of lockdowns taking its toll on the services sector.
- We remain cautiously optimistic and believe the lockdowns of late are meant to ensure a picture-perfect narrative (no rampant outbreaks) for President Xi Jinping to begin his unprecedented third term after the upcoming Party Congress. He may shift the narrative and begin his third term on a more upbeat tone by providing some conditions to exit the current framework of Covid management. This would be most impactful in terms of reviving animal spirits, mitigate growth fears and yuan losses.

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What We Watch (10 - 24 Oct):

Date	Data/Events	
10-15 Oct	Aggregate financing, New Yuan Loans, Money Supply	Sep
13- 15 Oct	1Y MLF	Oct
14 Oct	CPI, PPI	Sep
14 Oct	Trade	Sep
18 Oct	IP, 3Q GDP, retail sales, FAI ex rural	Sep
20 Oct	Loan Prime Rates	Oct
21 Oct	FX Net Settlement	Sep

Where Has RMB Been?

In the absence of onshore, USDCNH drifted to a low of 7.0127 before retracing back to levels around 7.15 as we write again. Pair continues to track the broader USD movement.

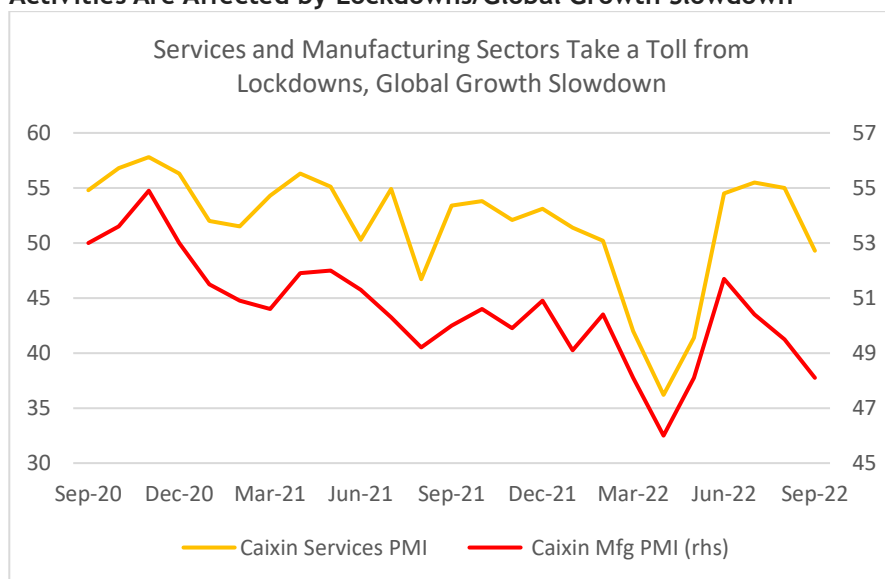
USD Remains Broadly Buoyant on Hawkish Fed and Strong Data

While onshore markets in mainland China are out for a week-long break, the FX market had a period of relative calm. RBA's decision to hike its cash target rate by a smaller-than-expected 25bps on 4 Oct inspired markets to trade on the peak-hawkishness narrative for the Fed, egged on by the sharp 1.1mn (10%) fall in job openings to 10.05mn for Aug. UK Chancellor Kwarteng's u-turn on the abolishment of top income tax rate and BoE's support for its gilts market also provided some anchor for broader sentiment. That breather did not last long. Towards the end of last week, Fed officials' consistently hawkish rhetoric and the latest NFP print for Sep had markets almost fully pricing in a 75bps hike at the Nov FOMC meeting and lifted the USD against most currencies (EM or DM) including the yuan.

Ramp-Up of Lockdowns To Limit Recovery

At home, the effects of sporadic lockdowns in China became more evident with reports of a sharp drop in congestion levels, 26% drop in tourism revenue vs. Golden Week last year reported by the Ministry of Culture and Tourism, 36%y/y drop in trips taken via railways, roads, water and plane over the same period as well as a plunge in cinema ticket sales (Bloomberg). China's quest for zero-Covid could hamper the recovery in domestic demand. The recent deterioration in the Caixin Services PMI to a contractionary 49.3 vs. previous 55.0 is a sign of lockdowns taking its toll on the services sector.

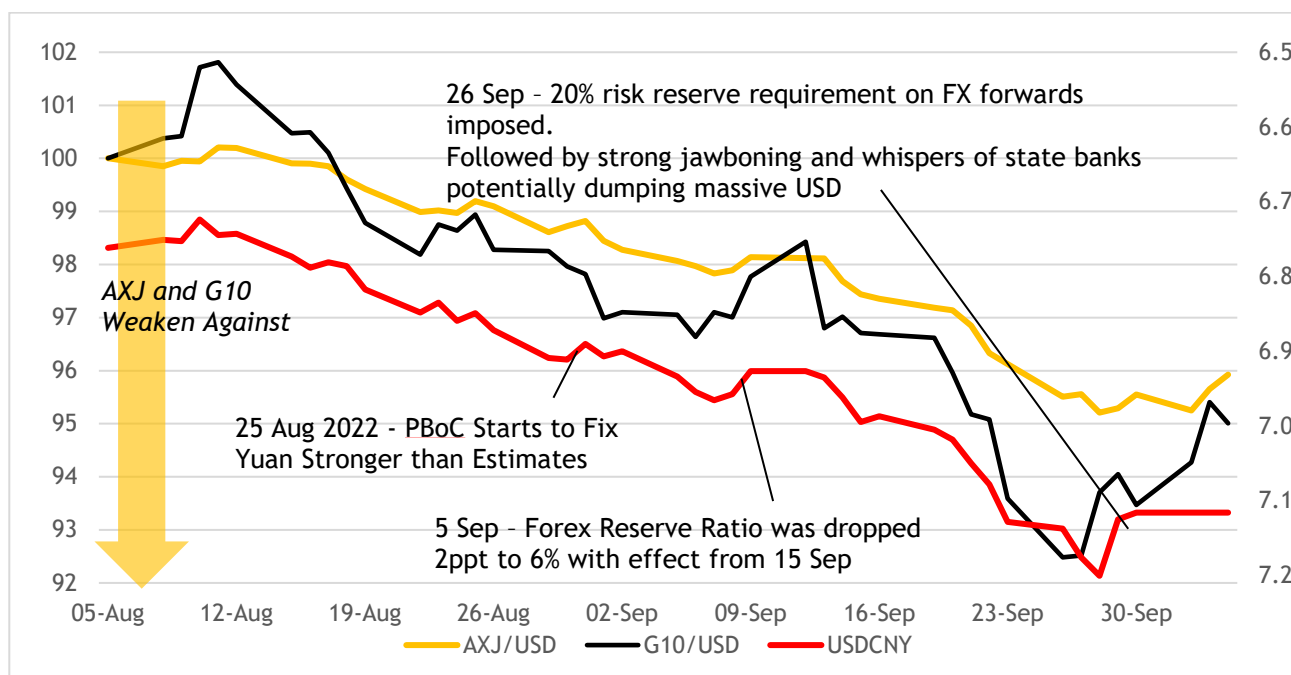
Activities Are Affected by Lockdowns/Global Growth Slowdown



Source: Bloomberg, S&P Global

Apart from mass-testing and lockdowns, China also saw a need to maintain a picture of relative calm by pushing back against USD strength with the use of multiple tools before the Golden Week break as we have covered in the last note. PBoC's efforts to support the yuan also limited the dollar's advance against most other currencies.

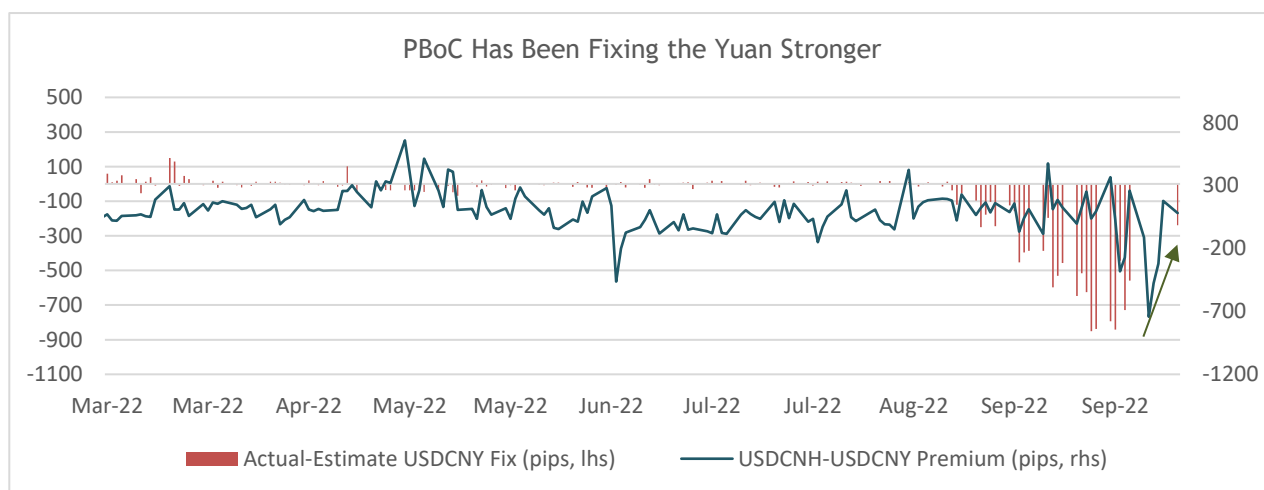
PBoC Has Been Limiting the Advance of the USD



Source: Bloomberg, Maybank FX Research & Strategy

This morning, PBoC fixed USDCNY reference rate -239pips lower than median estimate, extending its strong fixing bias for the 28th session. Interestingly, the Golden week break as well as partial USD retracement allowed a reset on the extent of the fixing bias. As a result, the fixing bias is considerably smaller than what was observed before the Golden Week (around 400-800pips).

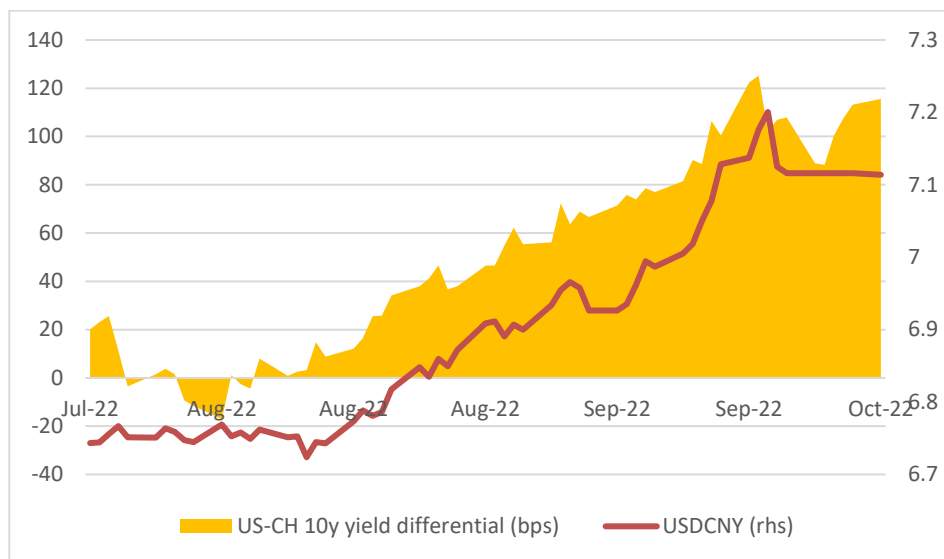
Strong fixing bias continues but to a Smaller Extent



Source: Bloomberg, Maybank FX Research & Strategy

Regardless, USDCNH may continue to remain buoyant, taking the cue of the broader USD direction and potential for wider growth differential. On the growth front, PBoC reported a net CNY108.2bn of liquidity provided via the Pledged Supplementary Lending for Sep.

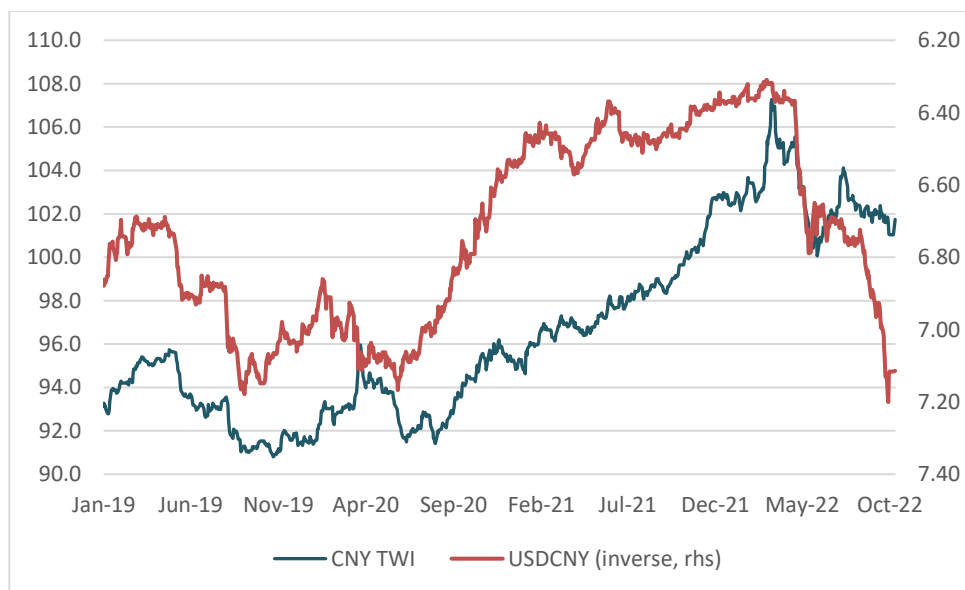
US-CH 10y yield differential Remains Wide, Underpinning the USDCNY



Source: Bloomberg, Maybank FX Research & Strategy

Against the basket, yuan may continue to display more resilience.

CNY TWI is relatively more stable Vs. USDCNY



Source: Bloomberg, Maybank FX Research & Strategy

While many argued that there is no sign of a change to the dynamic Covid-zero strategy given the recent ramp-up in lockdowns, we reckon the step-up in lockdowns of late could also be meant to ensure a picture-perfect narrative (no rampant outbreaks) for President Xi Jinping to begin his unprecedented third term after the upcoming Party Congress. He may want to shift the narrative and begin his third term on a more upbeat tone by providing some conditions/timeline to exit the current framework of Covid management. This would be the most impactful in terms of reviving animal spirits and mitigate growth fears. **As such we remain wary of chasing the yuan bears and look for further two-way swings for USDCNH as well as USDCNY with most action likely to happen within the broader 7.00-7.25 range.**

The Chinese government could probably start with the approval of clinical trials of Sinopharm's Omicron-specific mRNA Covid-19 vaccine. Application for clinical trials were submitted in mid-Aug and should the government provide a signal of greater confidence in the vaccine. **Any confirmation of a roll-out in the mRNA vaccine would probably be nearer the turn of the year.**

Right now, the tolerance for Covid cases is rather low. The aim is still to stop the spread of Covid and to stamp it out completely. Threshold to trigger a major lockdown could be shifted stealthily and gradually. **A shift of focus from Covid cases to hospitalization rate would mark the next milestone. We expect this to occur sometime in 1H 2023.**

We envisage a scenario where conditions supporting an eventual Covid-zero exit becomes clearer over time (potential hints at the Party Congress) in our outlook for the yuan but significant challenges on unwinding Covid-zero (e.g., low elderly vaccination rate) would imply a **slow process**. As such, initial positivity could even fizzle out at some point in 4Q before regaining traction as markets gain better visibility of policies thereafter.

USDCNH (Daily) - Two-Way Swings



USDCNH was last at 7.1535.

There are mixed technical signals at this point. MACD shows waning bearish momentum while stochastics remained on the decline.

We see two-way action likely with resistance seen around 7.1750 before the next at 7.2160 and then at 7.2670.

Support seen around 7.1140 before the next at 7.0740 and then at 7.0190.

EURCNH (Daily) - Bearish Risks



EURCNH was last seen around 6.9360, finding support at the 50-dma thereabouts.

MACD remains a tad bearish for this cross and stochastics show signs of turning lower as well.

Next support is seen around 6.8610 before 6.8360. Resistance at 7.0735 before 7.1550.

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

MYRCNH (Daily) - Bullish Bias

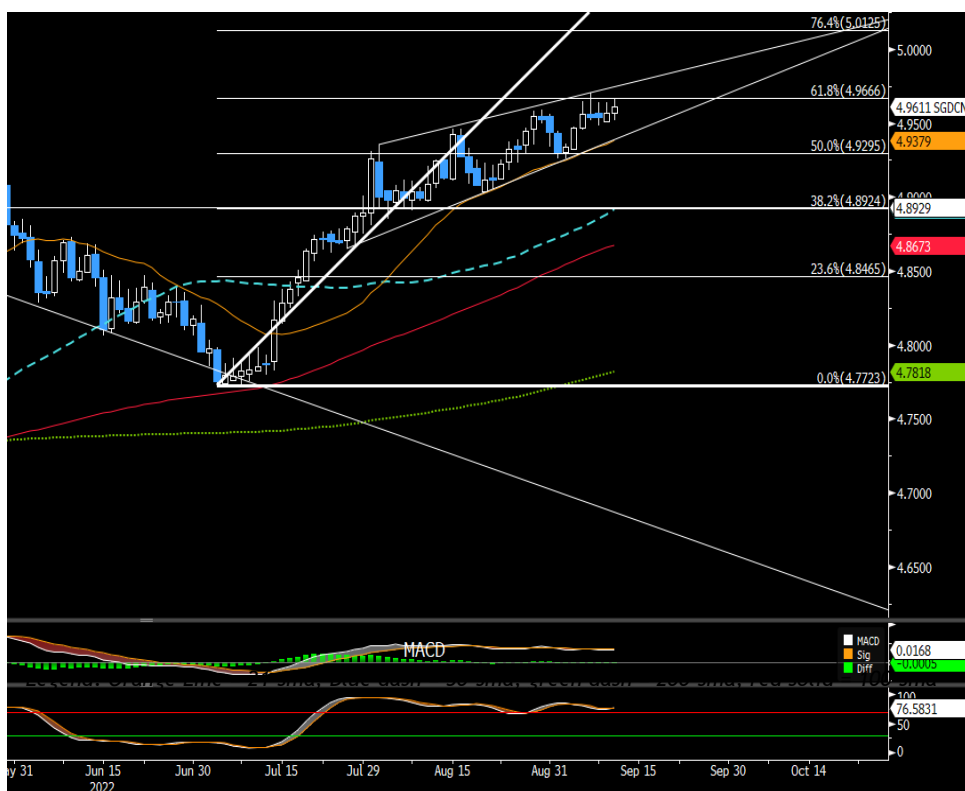


MYRCNH slipped to a low of 1.5140 before rebounding back to levels around 1.5380 as we write.

This cross could remain in volatile swings with bearish momentum on the MACD waning and stochastics approaching oversold conditions at this point.

This cross may need to clear the 1.5390-resistance before making its way towards the next at 1.5460. Support at 1.5310 before 1.5220.

SGDCNH (Daily) - Risks to the Upside



SGDCNH hovered around 4.9760. This cross could remain in two-way trades within the 4.93-5.02 range although risk is to the upside ahead of the MAS policy decision where tightening is widely expected.

Next resistance is seen around 5.0430.

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