

RMB Watch

The Year-end Pressure

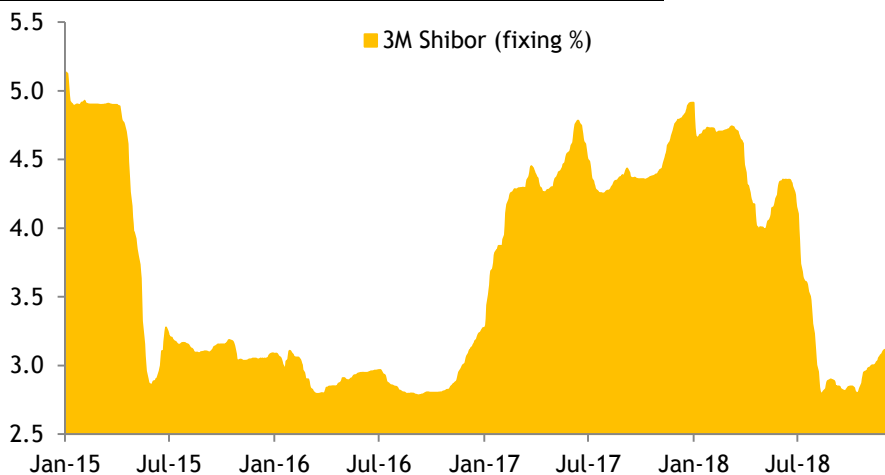
Keeping Calm In the Face of Headwinds

A combination of trade slowdown, uncertainties that shroud the US-China relation and possibly China's determination to persist with its deleveraging efforts could weigh on China's growth momentum and yuan recovery. We see that determination especially evident in the local interbank market where the central bank did not conduct much liquidity injection, seemingly unfazed by the current headwinds to the Chinese economy. While our FX Annual 2019 looks for EM Asia to shine, the recovery of the RMB vs. the USD could lag some of its regional peers unless a trade deal with the US is detailed and concrete enough. Our base case assumes that there could be some positivity that arises from the ongoing trade talks but tensions with the US, especially with the rise of its technological prowess, could continue to come and fade.

Since 25 Oct, there has been no liquidity injection via the open market operation, save for the medium term lending facility to meet the demands of those that were maturing for this period. On the other hand, local government bonds have been bid with treasury yields coming off rather steeply, also dragged by the decline in UST yields. Market players increasingly prefer to hold CGBs rather than other riskier assets like equities in light of increasing evidence that growth momentum may slow and that PBoC may cut policy rates. On the other hand, liquidity pressure is building in the interbank markets with 3-month SHIBOR rising from lows of 2.80% to levels around 3.14% as we write. This suggests that despite the downside risks to the economy, PBoC still desires to ensure minimal excess in the liquidity conditions. However, that also suggests that credit will be expensive for those that need it most and that include the small and medium enterprises.

Last Fri, PBoC injected liquidity into commercial banks via a 28-day treasury deposits. The deposits were auctioned off last Fri with rates of 4.02%, quite a jump from the last 3-month deposits auctioned rates at 3.71% in Sep. This further underscores the year-end liquidity demands. In fact, 3-month SHIBOR gained in 8 out of 10 Dec for the past ten years.

Chart 1: 3-month Shibor Rebounds Into Year-end



Source: China Foreign Exchange Trade System, Bloomberg, Maybank FX Research & Strategy

Analysts

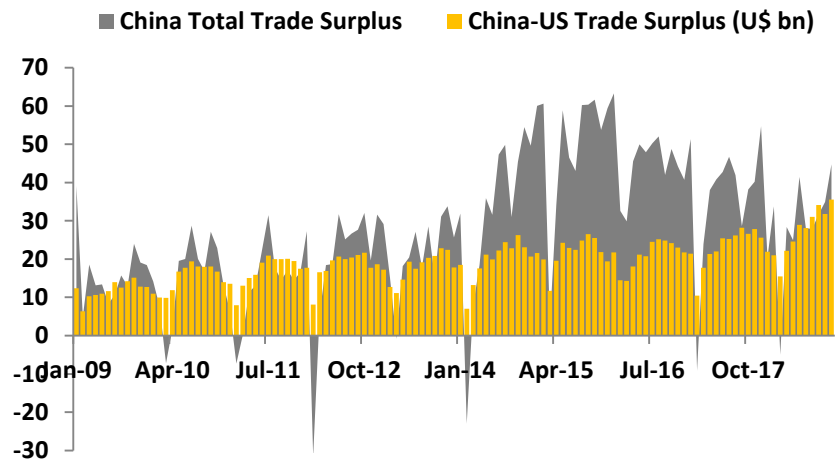
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Chart 2: Trade Surplus with the US Widens



Source: General Administration of Customs, CEIC, Maybank FX Research & Strategy

The liquidity management by PBoC is in line with our expectations for China to persist with its deleveraging efforts. That crimps on the recovery on the RMB vs. the USD in the year of 2019. We still look for PBoC to deliver another round of targeted RRR cut early next year as net exports growth is set to weaken after the frontloading of shipment is done. Already, exports for Nov towards the US slowed according to the recently released data although trade surplus widened to record high as imports from the US shrunk considerably by -25%/y. That could cause further deterioration in its current account that has been rather flat.

RMB On The Technical Charts

(USDCNH daily) - Upside Bias For Now, Bearish Signals ahead



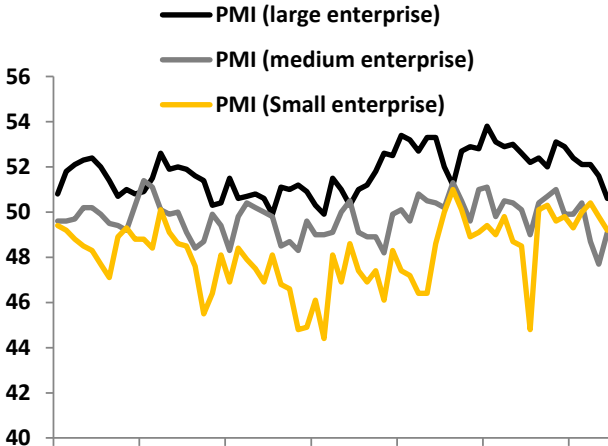
USDCNH broke above the 100-dma and was last seen around 6.9120. Momentum indicators are increasingly bearish. However, we do not want to discount the bearish signal of the 21-dma crossing the 50-dma to the downside. That could usher in further moves lower for the USDCNH. Support at 6.8870 (100-dma). Firm resistance seen at 6.9220.

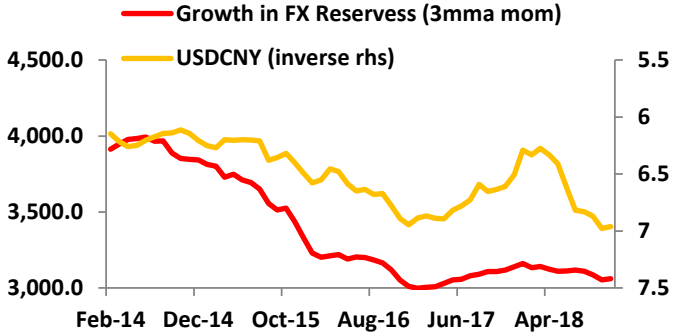

(USDCNH Weekly) - Still Bearish Momentum



Source: Bloomberg, Maybank FX Research & Strategy

Keeping Track

<u>Date</u>	<u>Events/Data Headlines</u>	<u>More Details, Impact and Views</u>	<u>Relevant Charts (if any)</u>
30 Nov - 3 Dec	<p><u>PMI-Mfg (Official) weakened mildly towards 50.0 from previous 50.2.</u></p> <p>However, the details suggest that demand is improving for medium sized companies. The Caixin PMI-mfg came in firmer at 50.2.</p>	<p>PMI-mfg for medium-sized companies stabilized while those of small and large enterprises. This is reflected in its new order as well as the new export order. This improvement in the Caixin version for PMI-mfg also underscores some kind of stability for smaller enterprises</p>	 <p>Legend: — PMI (large enterprise) — PMI (medium enterprise) — PMI (Small enterprise)</p> <p>X-axis: Jul-13, May-14, Mar-15, Jan-16, Nov-16, Sep-17, Jul-18</p>
1 Dec	<p>Xi and Trump agreed to a 90-day Trade Truce to work out a more concrete deal. No additional tariffs expected on 1 Jan.</p>	<p><i>Whatever the 90-days trade truce may bring, the outcome of the G20 Summit suggests that Trump is eager for the trade war to at least pause in its escalation and also for the fact that he wants some relief for his agricultural and energy sector as China had diverted its demand for them. A lot of the impact on FX is driven by threats of trade war, headlines on media and tweets from Trump himself. This “truce” however hollow some may make it to be is still a shift in Trump’s stance and a sign that trade war is unlikely to be the dominant theme for 2019 like what it has been in 2018.</i></p>	

Date	Events/Data Headlines	More Details, Impact and Views	Relevant Charts (if any)
7 Dec	<p><u>Foreign Reserves Rebounded</u></p> <p>Foreign reserves beat median estimates with a rise to U\$3.062trn from previous U\$3.053trn.</p>	<p>The rally of the USTs boosted the foreign reserves holdings and the turn of the RMB at the announcement of a potential trade deal likely stemmed capital outflow pressure. <i>Should there be a deal with China, that could be positive for CNY and we can expect foreign reserves to remain above the U\$3trn mark.</i></p>	
8 Dec	<p><u>Exports growth Slowed</u></p> <p>Exports growth slowed 10.2%/y from previous 20.0%. Imports weakened as well to 7.8%/y from previous 25.7%. Trade surplus widened to CNY306bn from CNY239bn.</p>	<p>China's trade surplus with the US widened to record levels with exports to the US slowing a tad while imports from the US contracted significantly by -25%/y. <i>At the turn of the year, when exports are expected to slow more significantly as frontloading is done, the net exports contribution to GDP could weaken.</i></p>	

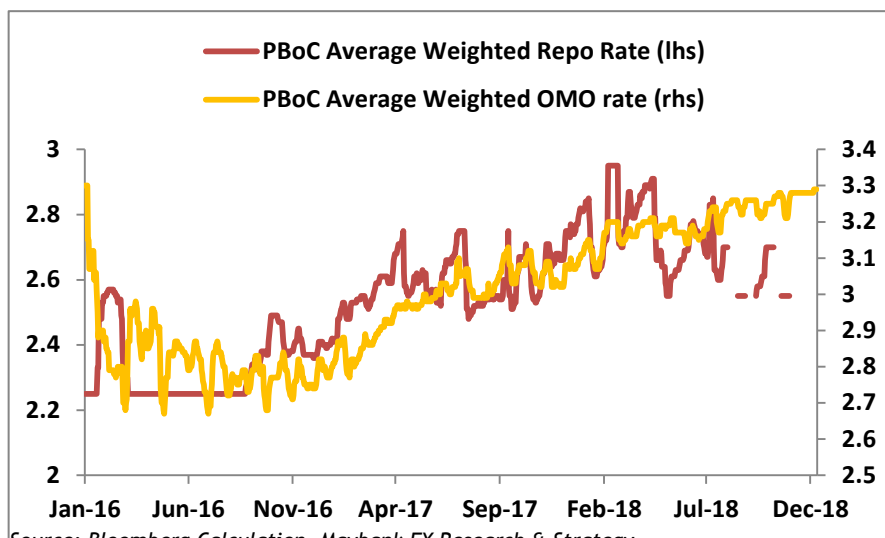
*News Sources from Xinhua, Bloomberg, China Daily, China Securities Journal, China Business News, People's Daily; Data from CEIC, Bloomberg, NBS, SAFE, PBoC

Upcoming Events to Watch in The Next Two Weeks

- 10 - 15 Dec - Money Supply M2, Aggregate financing, new yuan loans (Nov)
- 14 Dec - Retail Sales, Industrial production, FAI-urban (Nov)
- 15 Dec - New home price (Nov)
- 20 Dec - FX Net Settlement

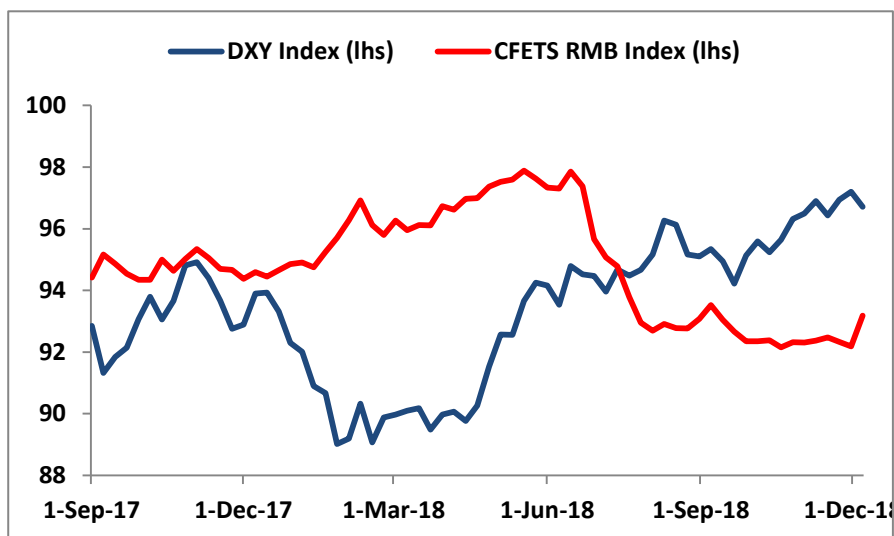
Charts We Monitor

Chart 1: PBoC Suspends OMO rates but repo rates remained elevated



Source: Bloomberg Calculation, Maybank FX Research & Strategy

Chart 2: Yuan Rebounded Rather Strongly When the US-China trade truce was announced



Source: Bloomberg, Maybank FX Research & Strategy

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