

# RMB Watch

## Steady For Now

### Stable RMB is Desired for Now

USDCNY remains little moved, apart from the brief bout of volatility after PBoC Governor Yi Gang opined that *“I don’t think along this mathematical scale, any number is more important than other numbers”*. In the absence of onshore market players in Hong Kong last Fri, USDCNH touched a high of 6.9625 before coming off rather sharply in the past few sessions after PBoC signals policy bias by fixing USDCNY lower than most estimates again and also announced its plans to issue more offshore yuan bills towards the end of Jun.

Overnight CNH Hibor rate surged to a high of 3.27% on 12 Jun (from just 1.78% on 5 Jun) before tapering off into the end of this week. Spikes in borrowing cost typically indicate some form of intervention in the FX space and the upcoming offshore yuan bill issuances in Jun likely underpinned the rise in borrowing costs (Chart below), similar to the price action in May. The recent high come close to those seen last Nov and sends a strong message to the market not to short the CNH in the near-term, at least ahead of the G20 Summit where Trump is expected to meet President Xi. Even so, the move up in the USDCNH between 7-10 Jun revealed the pent-up demand for the USD against the CNH as USD actually remained soft against most other currencies during the period. The CFETS RMB Index Replica slipped to multi-year lows before recovering more recently.

### Analysts

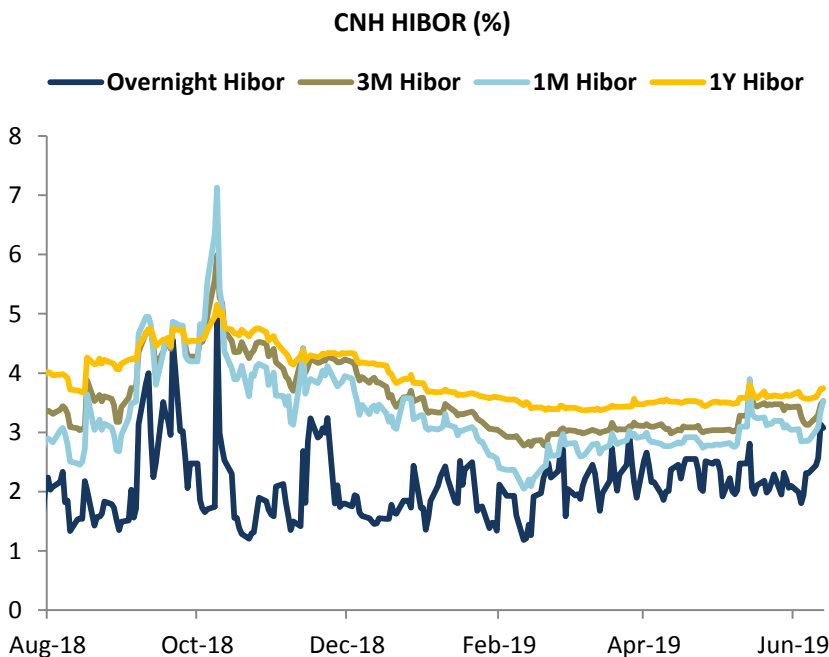
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### The Surge in the Borrowing Cost of CNH Sends A Clear Message



Source: Bloomberg, Maybank FX Research & Strategy

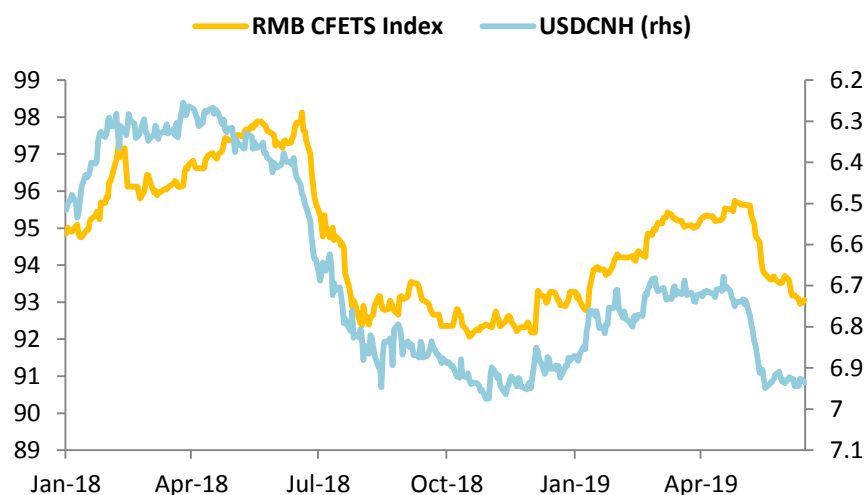
### Still, bias is for more CNY weakness at this point

China has not committed for President Xi to meet Trump at the G20 Summit in Osaka over 28-29 Jun. Trump has threatened to impose tariffs on the rest of China's untaxed exports to the US if Xi does not schedule a meeting with himself.

While USDCNH stabilized between 6.90-7.00, CNY has actually weakened against other trading partners and that could continue to be supportive of external demand (perhaps from other non-US trading partners) for its shipment. This brings to mind the recent comments by former PBoC Governor Zhou Xiaochuan that

*"The trade war could challenge the global consensus on no competitive currency depreciation" and that "the yuan may face depreciation pressure if China suffers from export losses from the trade war with the US".*

### RMB Continues to Weaken Against Other Non-US Currencies

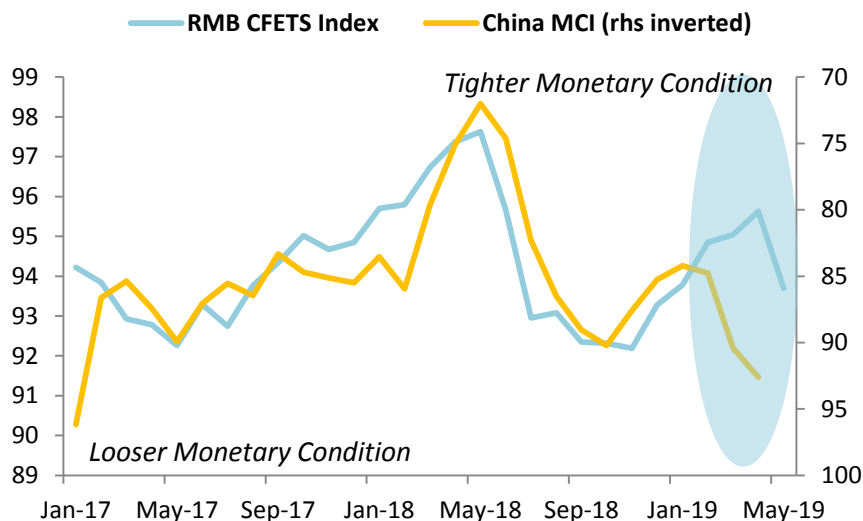


Source: Bloomberg, Maybank FX Research & Strategy

We expect CNY to continue to weaken against other non-US currencies as the US and China trade tensions extend into the next few months. As Trump becomes increasingly desperate for a deal, we also see a possibility that the rest of China's exports to the US could be taxed as well in a way to strong-arm China to accede to their requests. On the other hand, China is not likely to accept a deal that does not include the removal of the tariffs.

We continue to entertain the possibility that another objective for Trump to escalate the trade war in May is to trigger Fed to lower rates in order to lend US stocks a boost as we have discussed briefly [here](#) in section of "tilting the balance". Afterall, the Fed "does not listen to him" but much of the direction of the trade war is still within his grasp.

**The CNY TWI Fell, China's Monetary Condition Index Suggest That There Is More Room to Further Depreciation?**

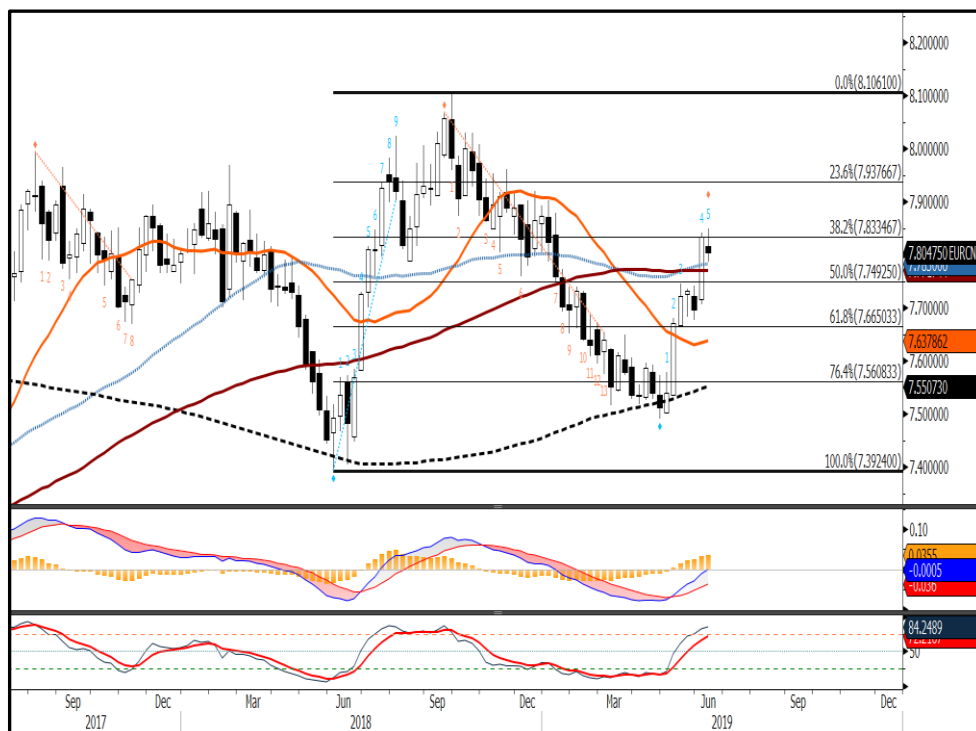


Source: Bloomberg, Maybank FX Research & Strategy

We observed the RMB trade weighted index and the inverse of China's Monetary Condition Index have largely tracked each other in the past. The monetary condition index tracks the policy bias of PBoC by taking into account the real effective exchange rate, loan amount, real interest rate. The gap between the MCI and RMB CFETS Index in the chart above suggests more room for CNY to weaken against its trading partners.

We fall back onto our technical analyses tools to confirm our bias. In the near-term, CNY is likely to retrace higher against most other trading partners but broad trends are still intact for further CNY weakness.

**EURCNY - Retracement First, Bullish Bias intact**



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EURCNY is resisted by the 7.8330-level and we see chance of a near-term retracement towards 7.7490-support. However, bullish bias is still rather strong on the weekly chart and beyond the current retracement, we see potential for this cross to head towards the 7.94-level.

**AUDCNY (Weekly) - Forming A Base**



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AUDCNY seems to be forming a base around 4.70-level. MACD forest shows only mild bullish momentum and stochastics are also rising. We see some upside risks to this cross towards the next at 4.8850 (50-wma). We also see a probable triple bottom around the support area, a bullish reversal price set-up.

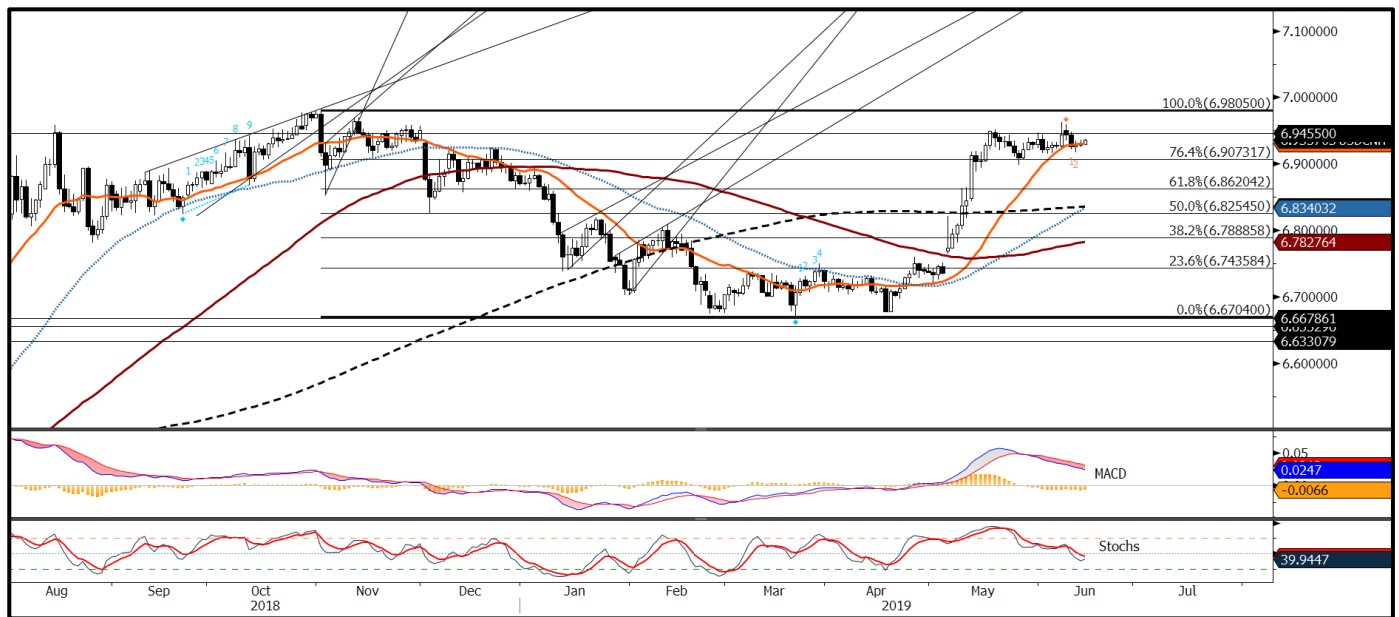
**MYRCNY - Case for Retracement is Compelling**



**MYRCNY - Case for retracement is strong**

MYRCNY retraced from its high of 1.6675 to levels around 1.6610. This cross could remain lower with stochastics falling from overbought conditions. Support is seen at 1.65 before the next at 1.6450. Resistance at 1.6675.

**USDCNH (Daily) - Settling In Range**



The USDCNH crossed above the 6.96-figure and subsequently eased lower back within the 6.90-6.95 range. While MACD is bearish bias, price action seems stuck within the range. Below, CNYSGD found support at around 0.1970. That suggests a double bottom for this cross, along with the bullish divergence. This suggests a rebound towards perhaps 0.1995 vs. 0.2000.

**CNYSGD (Daily) - Stochs Show Signs of Turning**



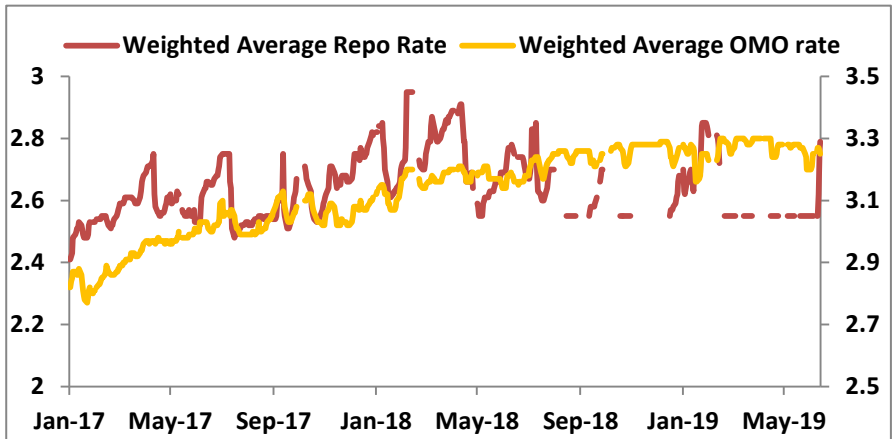
Source: Bloomberg, Maybank FX Research

### Upcoming Events to Watch in The Next Two Weeks

- 20 Jun - FX Net Settlement
- 27 Jun - Industrial Profits (May)
- 28 - 29 Jun - G20 Summit in Osaka (Potential Xi-Trump meeting)
- 30 Jun - Composite PMI , Mfg and Non-mfg PMI (Jun)
- 1 Jul - Caixin China PMI-mfg

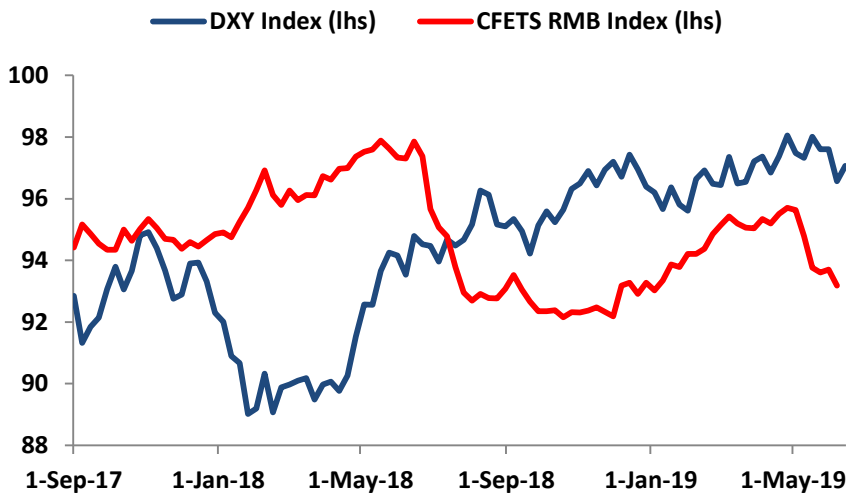
### Charts We Monitor

Chart 1: Repo Rates Have Risen On Seasonality Factors



Source: Bloomberg Calculation, Maybank FX Research & Strategy

Chart 2: CNY TWI Moves in Tandem with DXY More Recently



Source: Bloomberg, Maybank FX Research & Strategy

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