

## RMB Watch

# When EM Contagion Seems A Little More Contained...

### RMB May Not See Much Strength Against the Basket

Since PBoC announced that the countercyclical factor had been in play on 24<sup>th</sup> Aug, USDCNH had not tested new highs although uncertainties of the trade war and not-so-fresh threats from Trump to impose tariffs on almost all of China's exports to the US certainly supported the USDCNH on dips. To verify this, we plotted the intra-day and intra-week trading ranges below and established that they have narrowed since 24 Aug 2018, evidence of stability in the RMB vs. the USD.

It is worth noting that the CFETS RMB index has been on the climb since and that has allowed our call in the last issue ([Trading Opportunities with the CCAF in Play dated 3 Sep](#)) for CNH to strengthen against the AUD to play out towards our target of 4.87-figure before the recent retracement. CNHIDR has reached our first buying level at 2149 and CNHMYR is within a downward sloping trend channel, at 1.6550 but we no longer think the macro-environment favours longing the CNY against AXJ FX at this stage. The CCAF helps shield the RMB from excessive depreciation but is unlikely to generate a lot of strength for the currency against other non-USD currencies in a more benign environment. With Turkish central bank surprising with a 625bps rate hike and other EM central banks and governments putting policies in place to stem their respective currency rout, a more benign environment could see other currencies strengthen whilst RMB remains a tad more vulnerable to the trade-war developments.

#### Analysts

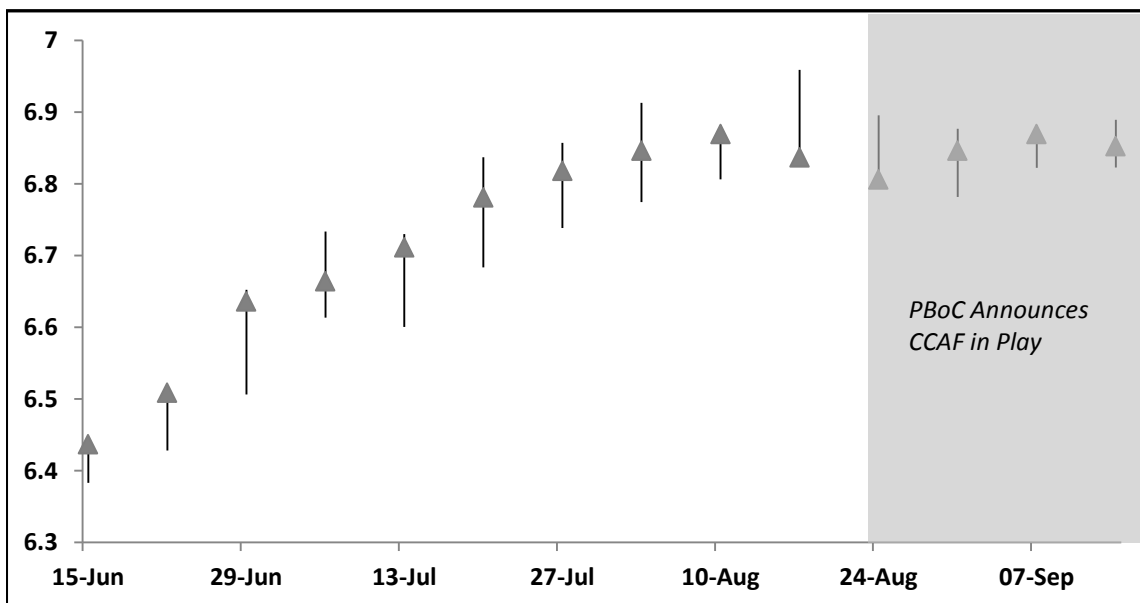
Saktiandi Supaat  
(65) 6320 1379  
saktiandi@maybank.com.sg

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

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

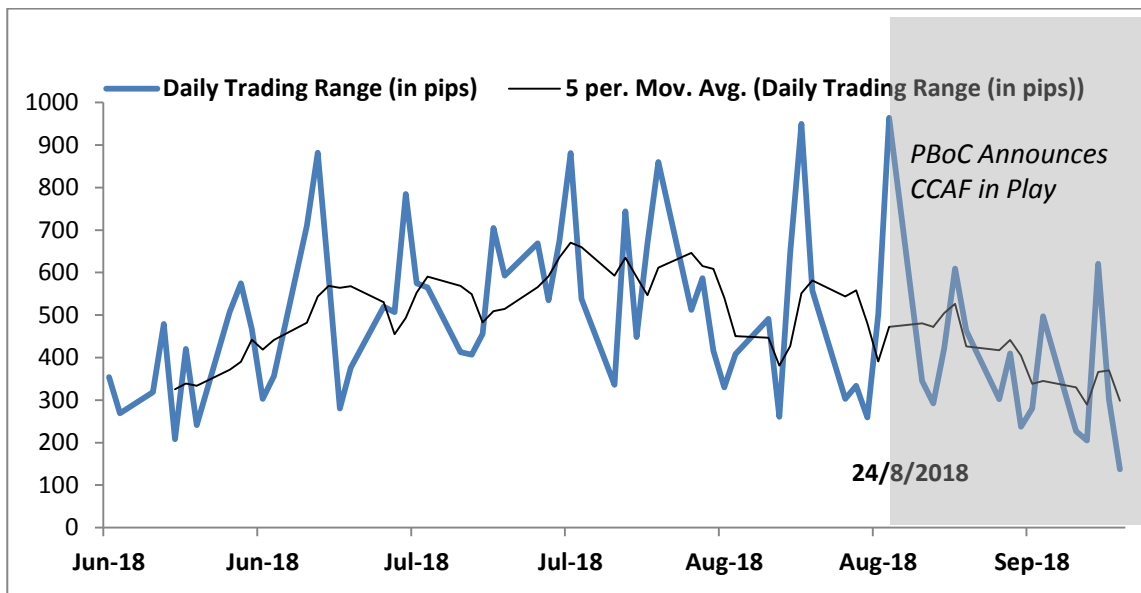
Leslie Tang  
(65) 6320 1378  
leslietang@maybank.com.sg

**Chart 1: Intraweek Trading Ranges Have Narrowed Since the CCAF was announced**



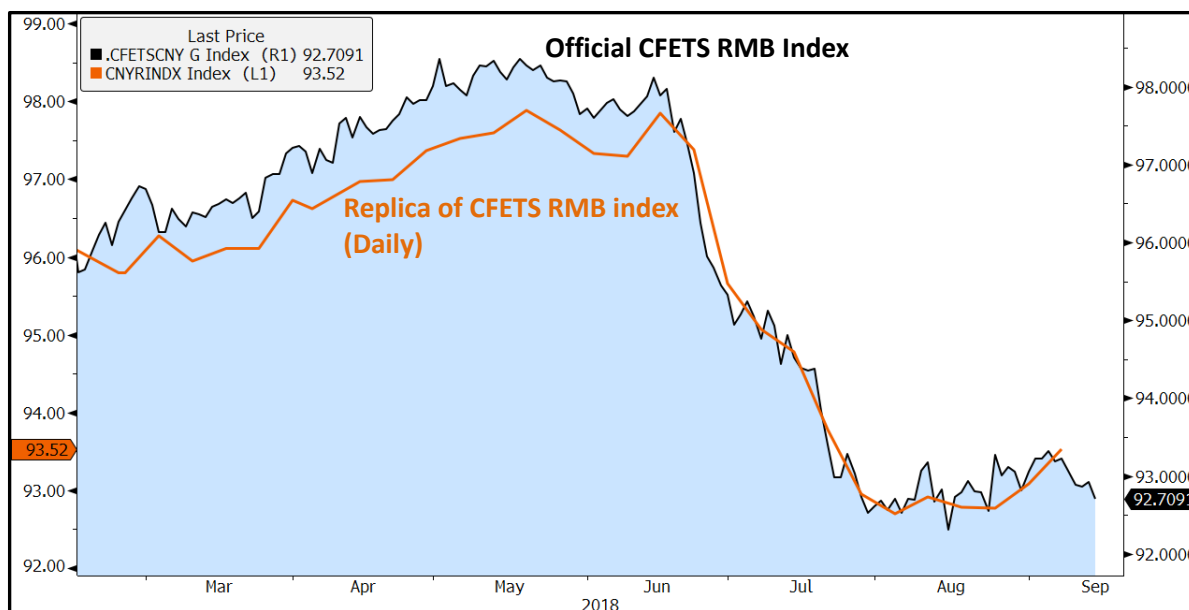
Note: Each line represents the high and lows of the week for USDCNH and the arrow denotes the closing price.  
Source: Bloomberg, Maybank FX Research & Strategy

**Chart 2: Daily Intraday ranges of the USDCNH Decline**



It is more apparent from the above chart that the intra-day trading ranges have narrowed, underscoring the impact of the CCAF on CNH. Given the trade linkages and exposure of Asia to China, the EM AXJ FX also benefitted from a more stable CNY. However, it is also increasingly apparent that RMB could weaken against regional currencies as the RMB remains most exposed to a US-China trade war, albeit shielded to some extent by the CCAF while other regional FX could strengthen further as EM stresses abate in the near term.

**Chart 3: CNY Has Started To Depreciate Against Major Trading Partners In a More Benign Environment**



Source: Bloomberg, Maybank FX Research & Strategy

Those currencies that have been most penalized during the bout of EM stresses could see some recovery. This could be an opportunity to short the CNH against the IDR with spot reference at 2159 towards 2130 (stoploss at 2176). Short CNH against the INR at current 10.48 towards 10.28 (Stoploss at 10.58). We leave PHP out for now as PHP is still vulnerable to an approaching Typhoon and inflation risks.

## RMB On The Technical Charts

(USDCNH daily) - Directionless



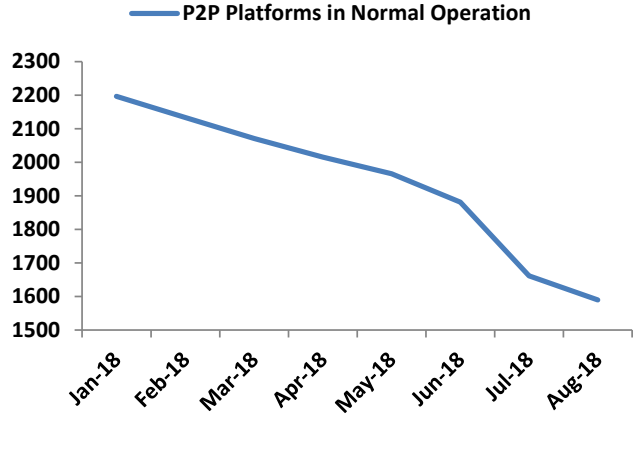
USDCNH has remained within a narrow range of 6.80-6.90 for the past two weeks. Momentum indicators are fading and moves lower do not compel at this point. We prefer to wait for a break out for further confirmation. Next resistance at 6.96 (recent highs) and support is seen at 6.78 (50-dma). That said, the weekly chart shows bullish momentum is waning. Bulls need stronger cues to be invigorated. Price action suggests sideways trades to dominate though.

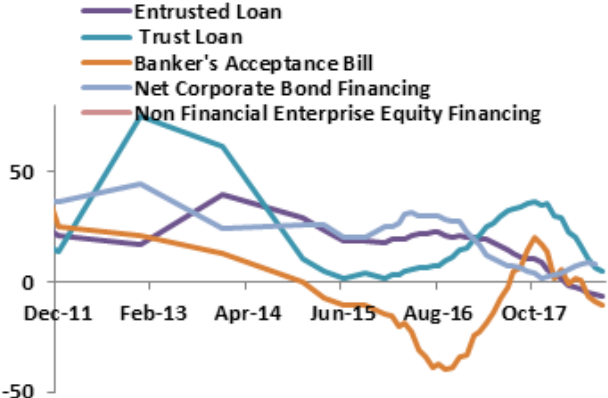
(USDCNH Weekly) - Turning Lower



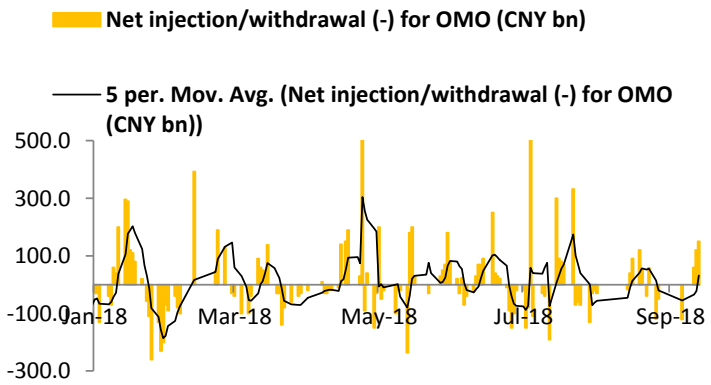
Source: Bloomberg, Maybank FX Research & Strategy

## Keeping Track

<u>Date</u>	<u>Events/Data Headlines</u>	<u>More Details, Impact and Views</u>	<u>Relevant Charts (if any)</u>																		
4 Sep	<p><b><u>Screening Process For P2P</u></b></p> <p>PBoC Researcher said at the Global Fintech Summit that China should establish a screening plan for investors planning to invest in peer-to-peer platforms</p>	<p>This comes after a number of platforms collapsed, leaving many P2P lenders without their principle when China had a couple of rounds of regulatory crackdown earlier this year.</p>	 <table border="1"> <caption>P2P Platforms in Normal Operation</caption> <thead> <tr> <th>Month</th> <th>Number of Platforms</th> </tr> </thead> <tbody> <tr> <td>Jan-18</td> <td>2200</td> </tr> <tr> <td>Feb-18</td> <td>2100</td> </tr> <tr> <td>Mar-18</td> <td>2050</td> </tr> <tr> <td>Apr-18</td> <td>2000</td> </tr> <tr> <td>May-18</td> <td>1950</td> </tr> <tr> <td>Jun-18</td> <td>1900</td> </tr> <tr> <td>Jul-18</td> <td>1650</td> </tr> <tr> <td>Aug-18</td> <td>1600</td> </tr> </tbody> </table>	Month	Number of Platforms	Jan-18	2200	Feb-18	2100	Mar-18	2050	Apr-18	2000	May-18	1950	Jun-18	1900	Jul-18	1650	Aug-18	1600
Month	Number of Platforms																				
Jan-18	2200																				
Feb-18	2100																				
Mar-18	2050																				
Apr-18	2000																				
May-18	1950																				
Jun-18	1900																				
Jul-18	1650																				
Aug-18	1600																				
5 Sep	<p><b><u>Keep Support for SMEs</u></b></p> <p>PBoC Yi Gang promised better policy coordination to support SMEs.</p>	<p>Monetary, fiscal and supervisory policies should be coordinated to raise the willingness of FIs to support small companies. He made special mention of equal treatment in terms of financial policies including lending and bond issuance policies.</p>																			
7 Sep	<p><b><u>Tax Reforms</u></b></p> <p>The new threshold of personal income tax is raised from CNY3500 to CNY5000/mth with effect from 1 Oct according to the State Council.</p>	<p>The State Council will also set a clear scope and standards for six special expense deduction (children's education, continuing education, treatment for serious diseases, housing loan interest and rent, caring for the elderly) to ensure the threshold is significantly higher than CNY5,000. This will take effect on 1 Jan. <i>These could support household consumption.</i></p>																			

<u>Date</u>	<u>Events/Data Headlines</u>	<u>More Details, Impact and Views</u>	<u>Relevant Charts (if any)</u>
12 Sep	<p><b><u>Shadow Financing Remains On the Decline</u></b></p> <p>Money supply M2 growth eased to 8.2%/y in Aug from previous 8.5%. Lending growth contracted from the last month to CNY1.28trn from previous 1.45trn.</p>	<p><i>Breakdown suggests that shadowing financing via trust loan has slowed to 4.4%/y from previous 6.8%, banker's acceptance bill recorded steeper declines in the past few months while entrusted loans continue to contract for the sixth consecutive month.</i></p>	
13 Sep	<p><b><u>More Social Security Collection</u></b></p> <p>The government might ensure a stricter compliance of payroll levies collection from corporates that goes to the social insurance programs.</p>	<p><i>These could affect the corporate profit, weigh on private investment and might even affect hiring sentiments, wage growth and consumption. On a related note, PBoC survey revealed that households expect worse employment.</i></p>	
14 Sep	<p><b><u>Investment Sags A Tad More</u></b></p> <p>FAI eased to 5.3%/y from previous 5.5% while other activity indicators stabilized.</p>	<p><i>Retail sales picked up pace to 9.0%/y from previous 8.8%. Industrial production inched higher to 6.1%/y from 6.0% while FAI eased to 5.3%/y from previous 5.5%. Infrastructure spending seems to take time to kick in though rest of the prints suggest that activity has somewhat stabilized.</i></p>	

\*News Sources from Xinhua, Bloomberg, China Daily, China Securities Journal, China Business News, FT; Data from CEIC, Bloomberg, NBS, SAFE, PBoC

<u>Date</u>	<u>Events/Data Headlines</u>	<u>More Details, Impact and Views</u>	<u>Relevant Charts (if any)</u>
14 Sep	<p><b><u>Liquidity Injection Rises</u></b></p> <p>Total liquidity injection has been rising via the reverse repo agreements.</p>	<p>PBoC adds net CNY150bn liquidity via OMO Friday, using 7-day and 14-day reverse repo agreements.</p>	 <p>■ Net injection/withdrawal (-) for OMO (CNY bn)</p> <p>— 5 per. Mov. Avg. (Net injection/withdrawal (-) for OMO (CNY bn))</p>

\*News Sources from Xinhua, Bloomberg, China Daily, China Securities Journal, China Business News, FT; Data from CEIC, Bloomberg, NBS, SAFE, PBoC

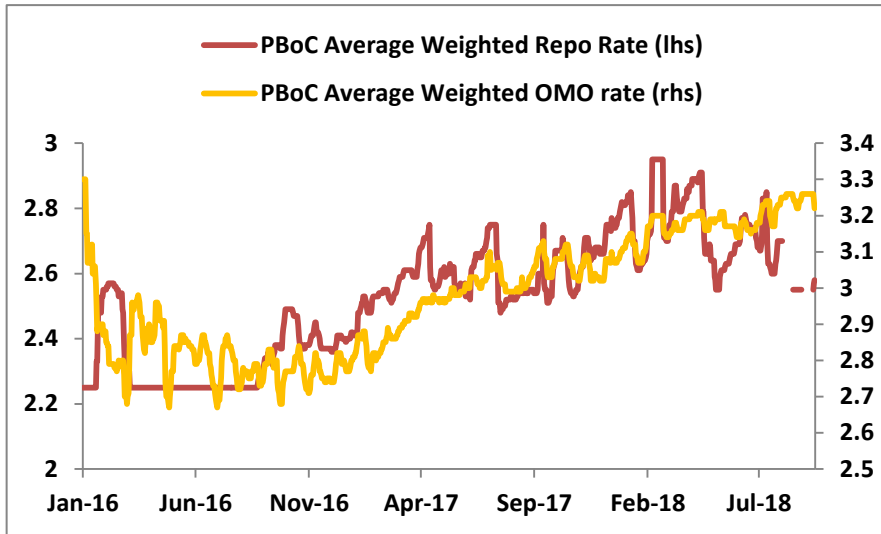
### **Upcoming Events to Watch in The Next Two Weeks**

- 15 Sep - New home prices (Aug)
- 21 Sep - China to support of WTO to impose sanctions on the US at a special meeting
- 27 Sep - Industrial Profits for Aug
- 28 Sep - Caixin China PMI Mfg (Aug)
- 28 Sep - BoP Current Account Balance (2Q F)



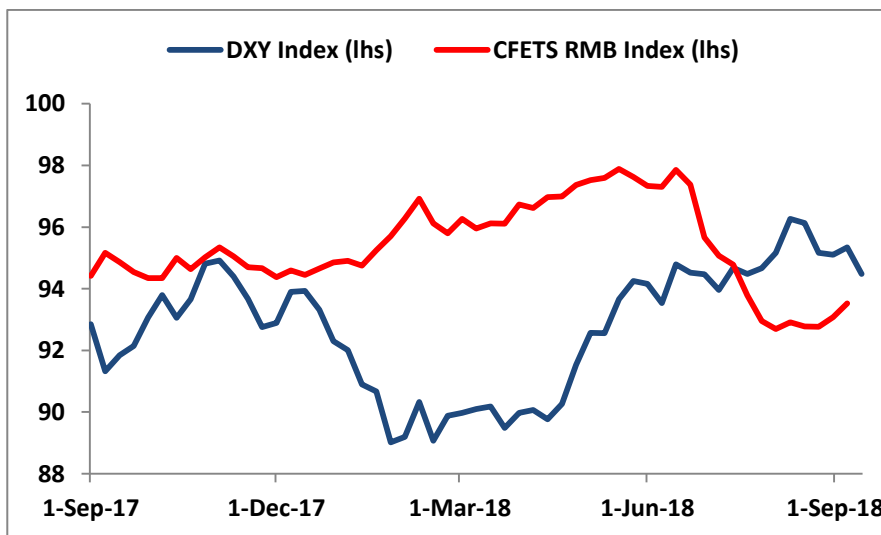
## Charts We Monitor

Chart 1: Repo Rates Dropped while OMO still remain rather Supported



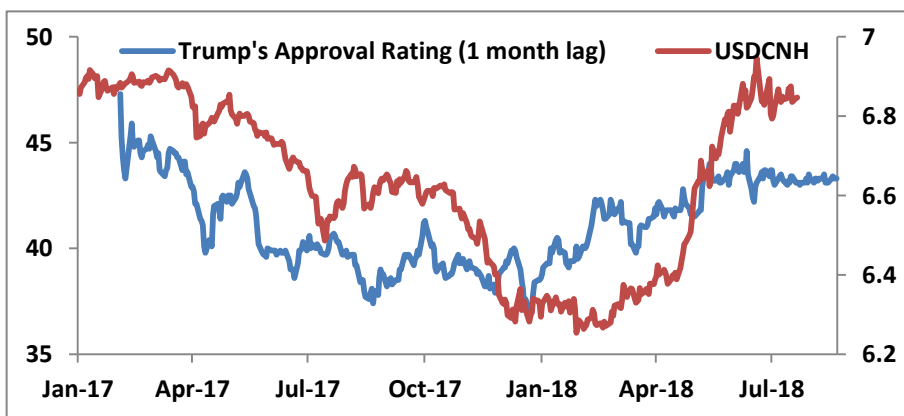
Source: Bloomberg Calculation, Maybank FX Research & Strategy

Chart 2: CFETS RMB Index Converges With the DXY Index



Source: Bloomberg, Maybank FX Research & Strategy

Chart 3: USDCNH Tends to Move With Trump's Rating... With A Lag



Source: Maybank FX Research & Strategy Estimates, Bloomberg

## DISCLAIMER

This report is for information purposes only and under no circumstances is it to be considered or intended as an offer to sell or a solicitation of an offer to buy the securities or financial instruments referred to herein, or an offer or solicitation to any person to enter into any transaction or adopt any investment strategy. Investors should note that income from such securities or financial instruments, if any, may fluctuate and that each security's or financial instrument's price or value may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. This report is not intended to provide personal investment advice and does not take into account the specific investment objectives, the financial situation and the particular needs of persons who may receive or read this report. Investors should therefore seek financial, legal and other advice regarding the appropriateness of investing in any securities and/or financial instruments or the investment strategies discussed or recommended in this report.

The information contained herein has been obtained from sources believed to be reliable but such sources have not been independently verified by Malayan Banking Berhad and/or its affiliates and related corporations (collectively, "Maybank") and consequently no representation is made as to the accuracy or completeness of this report by Maybank and it should not be relied upon as such. Accordingly, no liability can be accepted for any direct, indirect or consequential losses or damages that may arise from the use or reliance of this report. Maybank and its officers, directors, associates, connected parties and/or employees may from time to time have positions or be materially interested in the securities and/or financial instruments referred to herein and may further act as market maker or have assumed an underwriting commitment or deal with such securities and/or financial instruments and may also perform or seek to perform investment banking, advisory and other services for or relating to those companies whose securities are mentioned in this report. Any information or opinions or recommendations contained herein are subject to change at any time, without prior notice.

This report may contain forward looking statements which are often but not always identified by the use of words such as "anticipate", "believe", "estimate", "intend", "plan", "expect", "forecast", "predict" and "project" and statements that an event or result "may", "will", "can", "should", "could" or "might" occur or be achieved and other similar expressions. Such forward looking statements are based on assumptions made and information currently available to us and are subject to certain risks and uncertainties that could cause the actual results to differ materially from those expressed in any forward looking statements. Readers are cautioned not to place undue relevance on these forward looking statements. Maybank expressly disclaims any obligation to update or revise any such forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

This report is prepared for the use of Maybank's clients and may not be reproduced, altered in any way, transmitted to, copied or distributed to any other party in whole or in part in any form or manner without the prior express written consent of Maybank. Maybank accepts no liability whatsoever for the actions of third parties in this respect.

This report is not directed to or intended for distribution to or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

Published by:



Malayan Banking Berhad  
(Incorporated in Malaysia)

Saktiandi Supaat  
Head, FX Research  
saktiandi@maybank.com.sg  
(+65) 63201379

Christopher Wong  
Senior FX Strategist  
wongkl@maybank.com.sg  
(+65) 63201347

Fiona Lim  
Senior FX Strategist  
Fionalim@maybank.com.sg  
(+65) 63201374

Leslie Tang  
Senior FX Strategist  
leslietang@maybank.com.sg  
(+65) 63201378