

RMB Watch

This Leg of Rally Almost Done

RMB Rally Almost Done, Look for Consolidation Now

Our short-term bearish call on USDCNY that we made in the previous issue of RMB Watch came to fruition, falling from an impressive high of 7.1876 (3rd Sep high), exceeded our target of 7.09 and rests around 7.07 as we write. This begs the question of what's next?

In this report, we want to briefly run through what has happened in the past two weeks and how do we trade in the next two weeks that will lead into the 70th Anniversary of the People's Republic of China on 1st Oct.

We now look for USDCNY to consolidate within the 7.03-7.12 range for much of the next two weeks into the National Day celebrations. Important events to watch include the FOMC decision and Powell's press conference on Wed Night/Thu Morning (19th Sep 2am SGT) as well as where PBoC would set the second loan prime rate (1Y and 5Y) on Fri (20th Sep). We, along with the consensus, expect a 5bps reduction from 4.25% (set on 20th Aug) to 4.20%. This would be in line with our expectations for PBoC to lower interest rate settings gradually.

Analysts

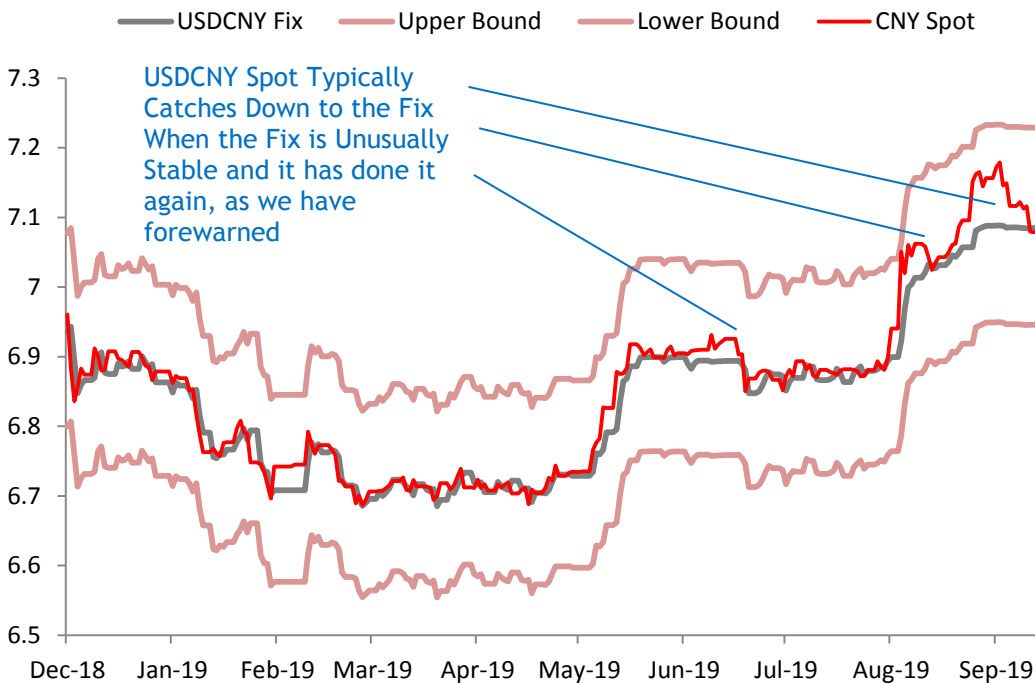
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USDCNY Has Collapsed Towards the Fix, As We Forewarned

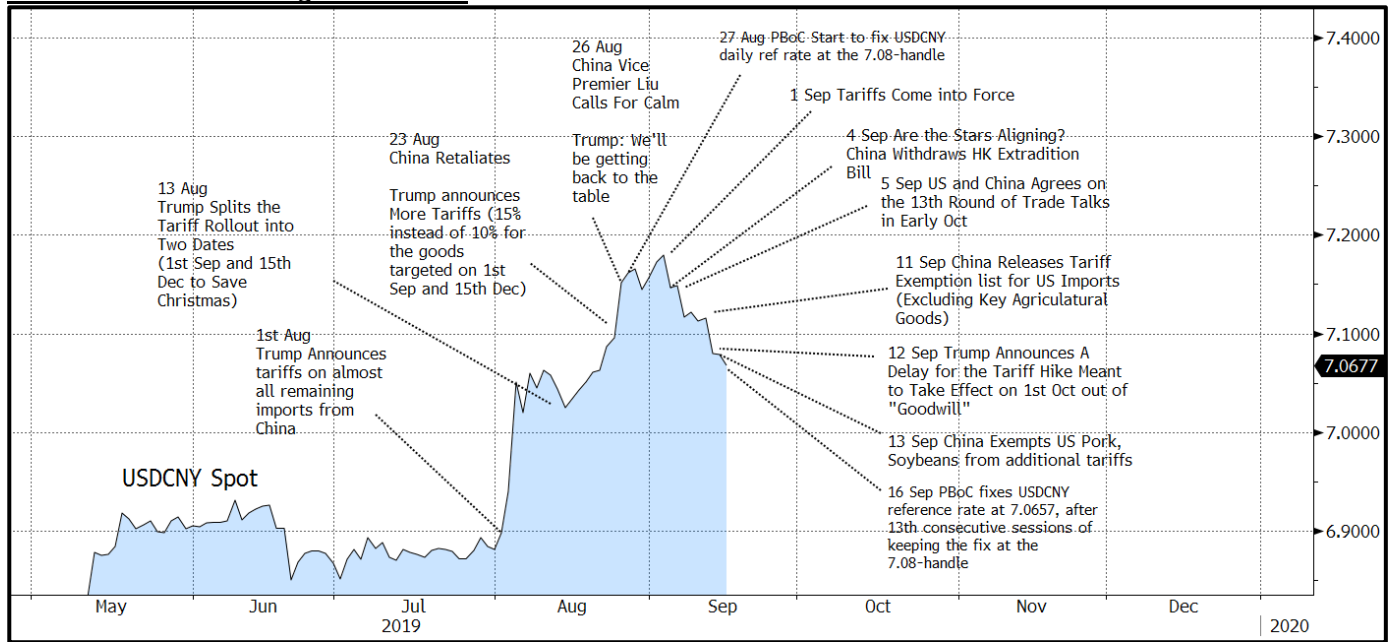


Source: Bloomberg, Maybank FX Research & Strategy

USDCNY fell from a high of 7.1876 on 3rd Sep to levels below the 7.07as we write. RMB strength was spurred by swirling speculation of an interim trade deal as Trump and Xi had increasing frequent exchanges of “goodwill” last week that may have demonstrated enough “sincerity” that China had frequently spoke about. These include

- 1) The postponement of the 1st Oct tariff hike (25% to 30%) on \$250bn of Chinese imports to 15th Oct
- 2) China’s tariff exemptions (valid for 1 year from 17th Sep) for 16 types of US imports on 11 Sep and then on 13th Sep, exempts pork and soybeans from further tariffs.

Events That Have Swung the USDCNY



Source: PIIE, China Briefing, Maybank FX Research & Strategy

An interim trade deal is being speculated and priced into USDCNY and USDCNH. According to sources cited by Bloomberg, the trade deal is rumoured to have US trade negotiators offering to avoid going ahead with the tariff on 15th Dec and further delay the tariff hike on \$250bn of Chinese imports set to take effect on 15th Oct in exchange for China’s commitment to intellectual property and China’s purchases of agricultural goods from the US.

Trump May Want to Avoid A Re-Escalation That Could Damp Equity



Source: Real Clear Politics Trump Job Approval, Bloomberg, Maybank FX Research & Strategy

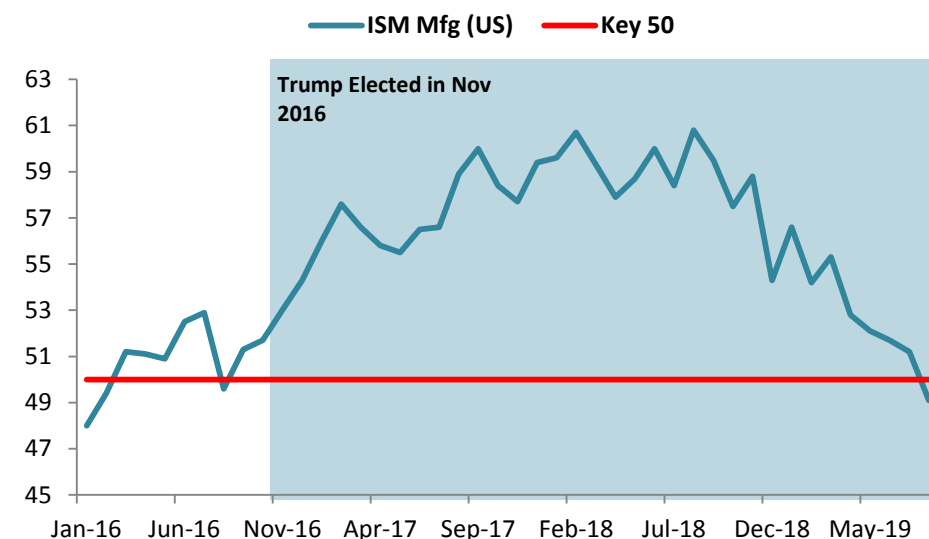
We think that this “interim deal” could be more credible than deals that have been speculated in the past as Trump seems to be more open to it.

A reason for his change in stance probably includes a fall in Trump's approval rating in recent local polls including CNN/SSRS, Washington Post-ABC News. Chart in the previous page shows that sharp falls in approval ratings of Trump match periods in which equity prices fell sharply this year ("coinciding" with trade war escalation) and we anticipate that Trump may want to avoid another sharp equity correction that could come from another re-escalation of trade war.

Another source of pressure could come from the latest presidential primary debate (3rd this year on 12th Sep) held by The Democratic Party which had more prominent candidates including Joe Biden and Kamala Harris speaking about China - an issue that was not mentioned much in the previous two debates (Jun and Jul) by prominent candidates. The fourth primary debate is held on 15-16 Oct.

In addition, we just had a contractionary print for the US ISM-mfg for Aug (the first in three years, the first ever in Trump's term).

ISM Manufacturing Softens To Levels Not Seen Since Trump was Elected in Nov 2016



Source: Institute of Supply Management, Bloomberg, Maybank FX Research

Rising risk of a collision of a softening US economy with Presidential Election 2020 could increase the motivation for Trump to come to a deal that satisfies China. So that could mean that a re-escalation may not happen so easily in the near-term.

7.20 To Cap

There would be more discussions between the working level trade negotiators this week ahead of the high-level face-to-face meet up in Washington in early Oct. Expectations of a mini/interim trade deal with the US and China are likely to cap the USDCNY in the near-term. 7.20 is still a strong resistance in the near-term with the upper bound of the USDCNY fix today at 7.2099, 2% above the reference rate at 7.0657.

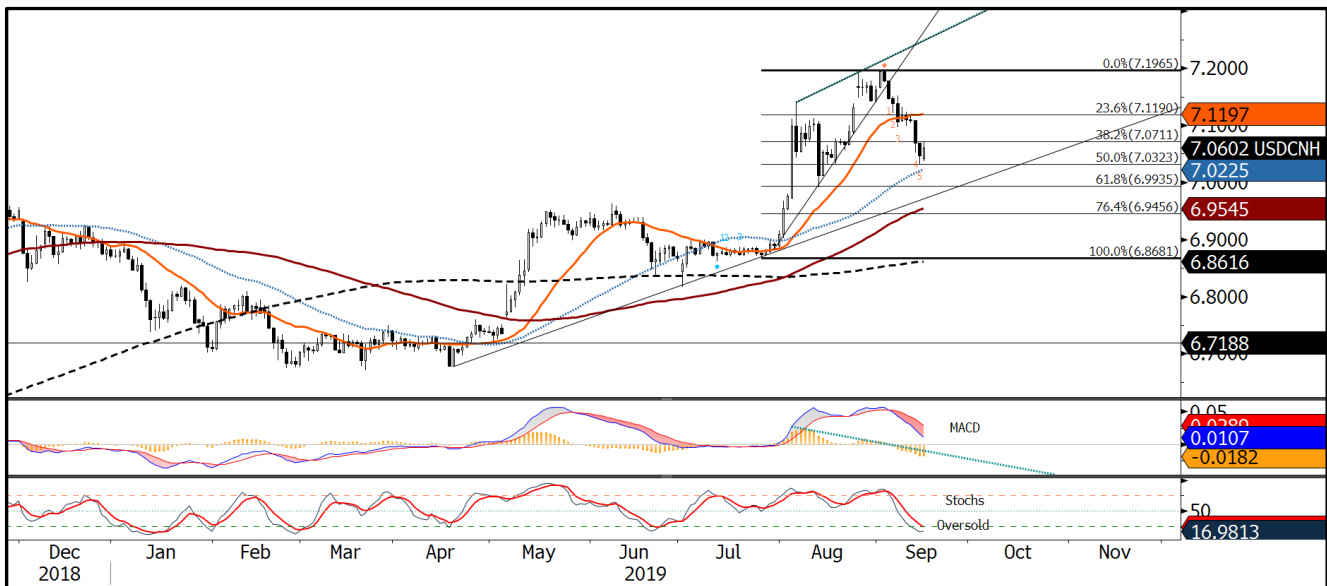
Not Looking for Much More RMB Gains Either

At this point, we do not expect a lot more gains for RMB given the fact that deals are just not typically announced by any other official except from Trump himself and an interim deal is already rather aggressively priced. In addition, Aug activity prints were poor, translating to some weakness in the RMB in the session today. FAI ex rural softened to

5.5%/y/y in Aug from previous 5.7%. Industrial production weakened quite a bit to 4.4%/y/y in Aug from previous 4.8% and retail sales also lost a bit of momentum at 7.5%/y/y from previous 7.6%. 1Y and 5Y LPR will be set on Fri and eyes are for PBoC to ease official policy rates for the first time in years. The last time 1Y LPR was set at 4.25% and we look the next rate to be set at 4.20%, 5 bps lower.

Apart from the US-China headlines which are likely to be more scant, eyes are also on the FOMC meeting on 17-18th Sep. Fed's decision and Powell's press conference will happen on 19th Sep (2am SGT). A 25bps cut is expected. Should Powell sound less dovish than desired, USD could be bought on dips again and that could bring the USDCNH back to test the 7.10-resistance (23.6% Fibonacci retracement of the Jun-Aug rally), close to the 21-dma at 7.1176.

Technical Analyses: USDCNH Daily - Consolidative, Watch for H&S

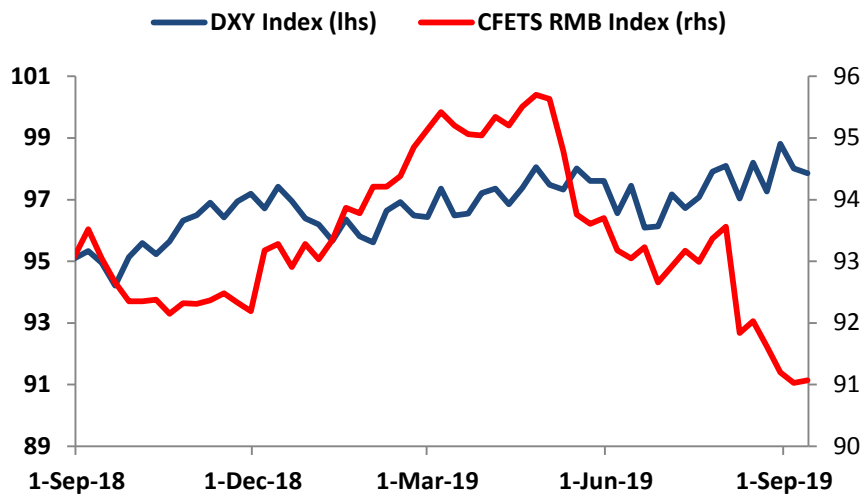


We look to the USDCNH chart for a sense of market sentiment. Momentum indicators are still bearish but stochastics on the daily chart flag oversold conditions. Key levels are marked at 7.0320, a support level that was marked by the 50% Fibonacci retracement of the Jul-Aug rally. 50-dma at 7.0225 is also another support level to watch. We look for this pair to remain within the 7.03-7.12 range. A move higher towards 7.12 could mean the formation of the right shoulder of the head and shoulder formation, a bearish set up for USDCNH.

Upcoming Events to Watch in The Next Two Weeks

- 17th Sep - New Home Prices (Aug)
- 19th Sep - FOMC Decides, Fed Chair Powell's Press Conference
- 19th Sep - FX Net Settlement - Clients
- 20th Sep - PBoC Sets LPR (We expect 4.20%, 5bp cut)
- 27th Sep - Industrial Profits (Aug), Current Account Bal (2Q F)
- 30th Sep - NBS PMI-mfg (Sep)
- 1st - 7th Oct - Market Closure for National Day Holiday

CNY TWI Stabilizes as DXY Looks Increasingly Toppish



Source: Bloomberg, Maybank FX Research & Strategy

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