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Global

RMB Watch

Beyond an Unsatisfying Deal

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Official Signing in Jan

The partial deal reached between the US and China last Fri (but only to be formally signed in Jan), is said to include

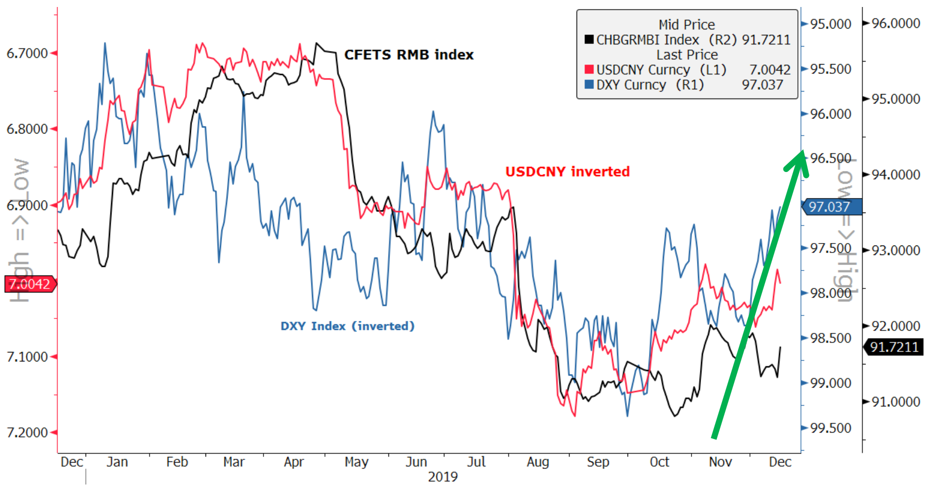
- US will halve its 15% tariff (to 7.5%) on estimated $120bn of Chinese imports.
- The 15% tariff on estimated $160bn of Chinese goods scheduled to take effect on 15th Dec is suspended.
- China promised to increase its total purchases of US goods and services by at least $200bn over the next two years including $40-50bn more agricultural products
- "China will end its long-standing practice of forcing or pressuring foreign companies to transfer their technology to Chinese companies as a condition for obtaining market access, administrative approvals or receiving advantages from government."
- "China further commits to refrain from directing or supporting outbound investments aimed at acquiring foreign technology pursuant to industrial plans that create distortion."

Factsheet issued by the Office of the United States Trade Representative is here where the rest of the details can be found.

The text of the agreement is being reviewed by lawyers.

Ahead of the press briefing by the Chinese officials last Fri, there were plenty of conflicting headlines and CNH gained sharply on the back of the news that a deal has been reached that includes US dismantling up to 50% of the existing tariffs imposed on China. However, the official announcement has debunked that. 25% tariff on est. $250bn of Chinese imports are still fully in place. USDCNH spiked above the 7-figure last Fri before drifting lower again this morning.

De-escalation results in Softer USD, Stronger CNY Recently



Source: Bloomberg, Maybank FX Research & Strategy

An Agreement is Better Than None

The intraday rebound in USDCNH underscores the disappointment amongst investors on the outcome of the trade deal and the fact that there is a lack of details. However, Trump was quick to announce that negotiations for the next phase would start immediately, keeping market sentiments from deteriorating further in New York session last Fri. Even though the official terms of the deal were less dramatic than speculated, market players took heart from the fact that continued discussion between the two negotiating trade teams may mean that risks of a re-escalation is low and can bring some certainty for corporate and investment decisions.

Over the weekend, China also announced the suspension of additional tariffs on certain US goods.

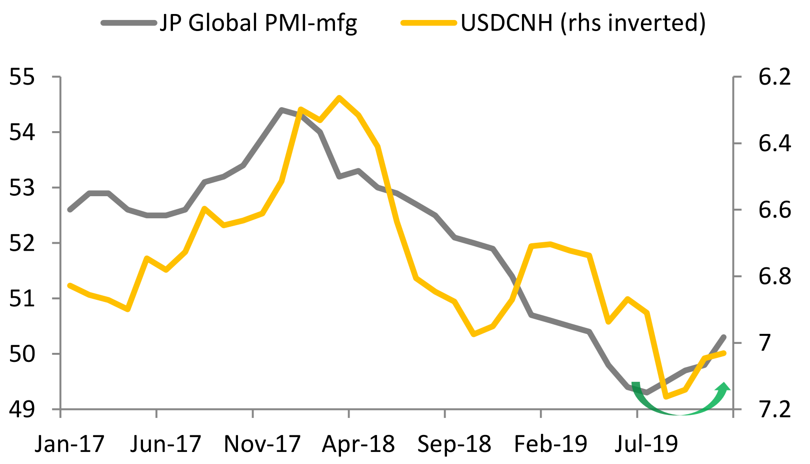
November Data Beats Expectations

November activity data for China was released along with some comments from NBS. Industrial production came in well above the consensus (5.0%) at 6.2%y/y vs. previous 4.7%. Retail sales sped to 8.0%y/y from previous 7.2% while fixed assets ex rural steadied at 5.2%y/y for first 11 months of the year, vs. the first 10 months. This came after a report from Reuters that leaders at the Central Economic Work Conference annually held in Dec have agreed to target economic growth of around 6% in 2020. The contrast of this target which is a tad vague relative to the range target of 6-6.5% for 2019 underscores the growth downshift that the Chinese government is signaling along with their persistent endeavors on deleveraging. Headlines of the data released this morning suggest that activity seems to have stabilized but one point hardly makes a trend.

Tariff roll-back may be Mini but alleviating Re-escalation Fears is Key

The achievement of the partial trade deal that includes a mini-rollback of tariffs along with Trump's assurance that negotiations could continue serve to assure investors and corporates that US and China will work to bridge the divide and keep fears of trade war escalation at bay. As result, investment and consumption could be encouraged in a more constructive trade environment. We look for some traction for manufacturing recovery as hinted by the recent PMI numbers.

A Quick Phase 2 is Ambitious but Absence of War Could Mean Softer USDCNY



Source: Bloomberg, Maybank FX Research & Strategy

Given that it has taken the two nations 18 months for a mini-deal, a quick resolution for subsequent phases could be ambitious. However, in a year of Election for Trump, we anticipate that a re-escalation of a US-

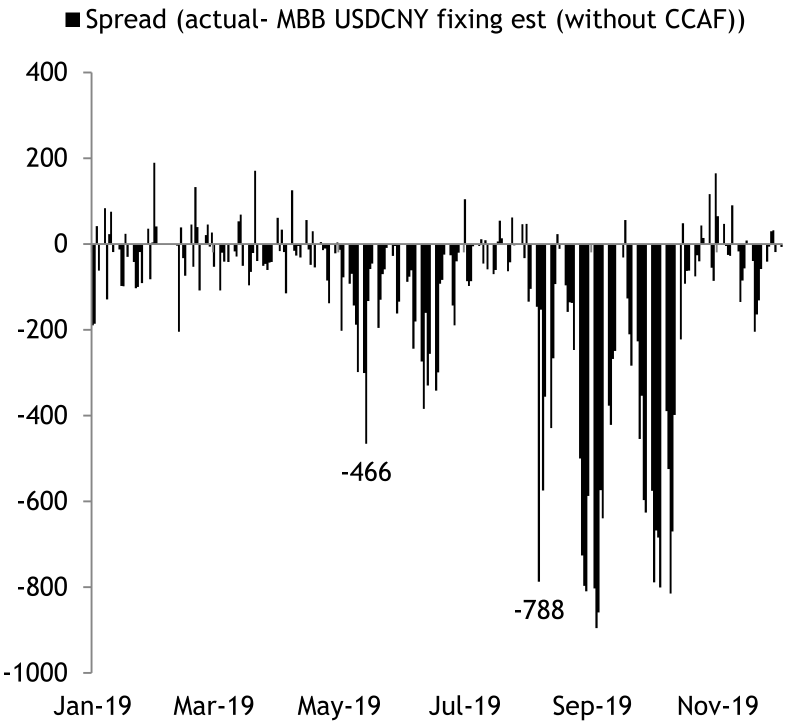
China trade war may risk alienating his Farm Belt base that has taken the brunt of his trade policies insofar. A year with a lower likelihood of trade war version 3.0 between the US and China is more likely to have less dramatic swings for the RMB. This is especially so if the cyclical recovery gains traction globally and sends the USD broadly lower. Hence, we actually anticipate some gains for the CNY against the USD due more to broad USD weakness rather than RMB strength.

We see room for more depreciation in the CNY trade-weighted index. We also anticipate gradual monetary easing to cushion growth as China reverts back to easing credit growth towards nominal GDP. The stability in the CNY vs. the USD as well as the asymmetric Fed that is more likely to ease rather than hike could allow PBoC more room to unleash more monetary stimulus.

Upcoming Events to Watch in The Next Two Weeks

20th Dec	- Announcement of the new LPR
20th Dec	- FX Net Settlement
27th Dec	- Industrial profits
31st Dec	- NBS Manufacturing PMI, Composite, Non-mfg
2nd Jan	- Caixin PMI-mfg
6th Jan	- Caixin non-mfg PMI,Composite for Dec
7th Jan	- Foreign Reserves

RMB Policy Guidance from PBoC Has Not Been Strong



Source: Maybank FX Research & Strategy Estimates; Bloomberg

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