

# RMB Watch

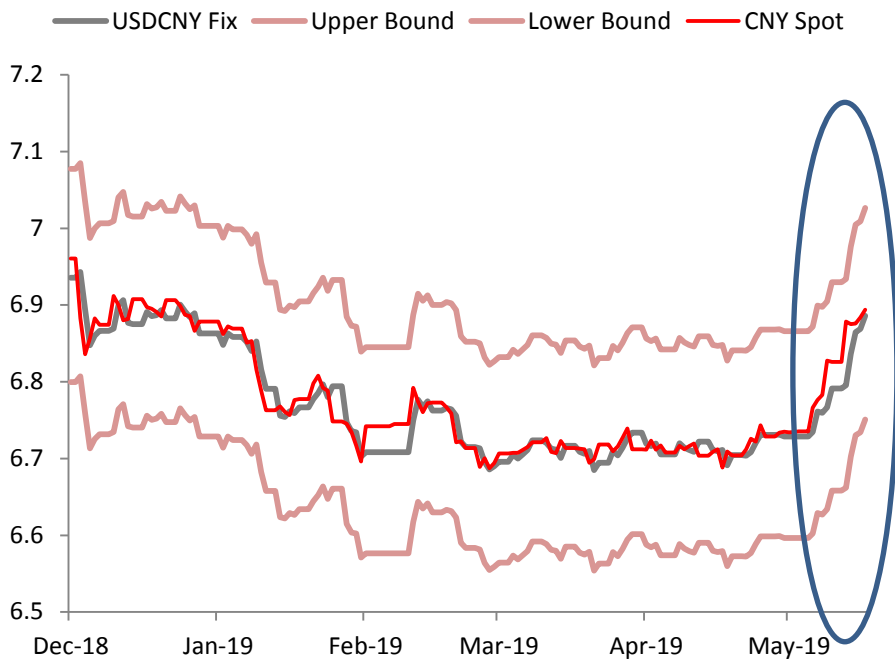
## Non-Trade Escalation Matters

### USDCNH Hits New High for the Year

CNH and CNY were one of the worst hit in overnight trade, weighed not just by the broad USD strength that was spurred by stronger-than-expected housing and Philly Fed numbers but also by the start of the restrictions on Huawei by the US to purchase necessary components. USDCNH rose to a high of 6.9362 before coming off this morning. China equities are hit by the latest non-trade escalation although other equity bourses were somewhat supported by the positive risk appetite overnight.

The 0.4% depreciation in the CNH (vs. the USD) since yesterday underscores that non-trade escalation matters to the Chinese economy but the ripples are less felt in the other parts of the world. The gap between the fix and spot narrowed recently in the absence of further rhetoric on the trade war as shown in the chart below. We lay out a few scenarios in our last report and now in a table form for better clarity and non-trade escalation poses upside risk to what we have detailed for the USDCNY.

### USDCNY Spot Was Trading Increasingly Above the Fix before Narrowing Recently



Source: Bloomberg, Maybank FX Research & Strategy

### 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

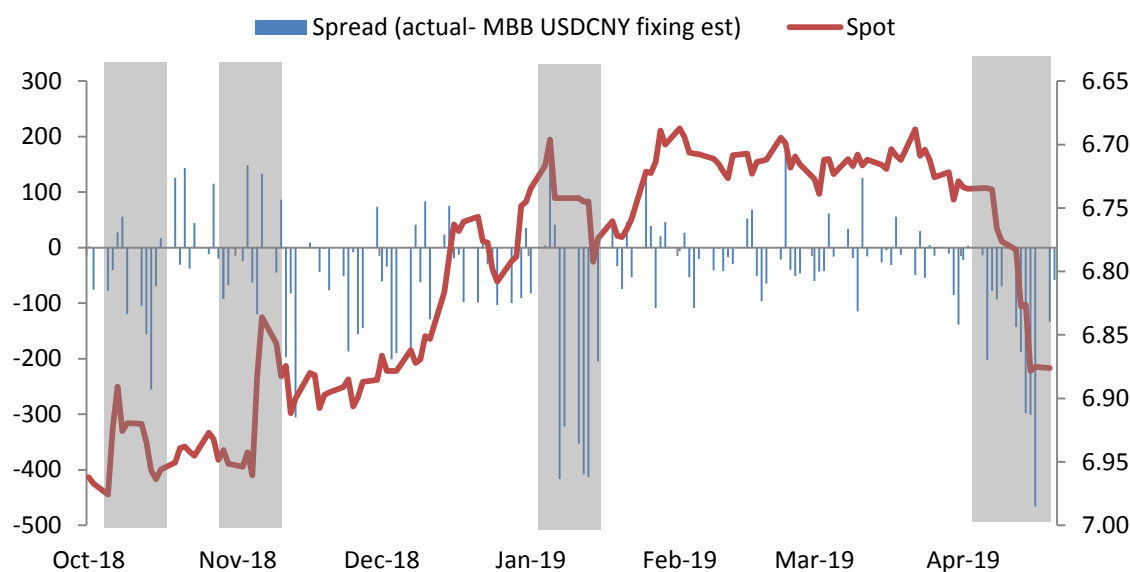
A quick recap of our scenario presented in our recently published report on 13th May - [FX Insight - The Art of Getting a Quick Deal?](#)

	Scenario for 2019	Implication for USDCNY
<b>Scenario 1 (Base Case)</b>	A trade deal within the quarter and that includes undoing the Tariff That came into effect on 10 May as well as partial removal of 2018-imposed tariffs	<b>We look for USDCNY to head towards 6.65 in the 3Q 2019.</b>
<b>Scenario 1B</b>	A preliminary deal with the Trump administration undoing this latest tariff hike (10 May) but leaving other 2018-imposed tariffs intact. Both sides will pledge to have further rounds of negotiation	<b>Partial Retracement of the USDCNY towards 6.75.</b>
<b>Scenario 2</b>	25% tariff on the rest of the US\$325bn of untaxed Chinese goods that could come in June (although Trump had said he is undecided on it). The probability of this happening would become more apparent into June. A deal is delayed and we assume that it still happens within 6 months.	<b>A more gradual and delayed recovery in the USDCNY towards 6.80</b>
<b>Scenario 3 (Worst Case)</b>	An outright no deal. A full-blown trade war that will also see escalation into the non-trade aspects. Global recession risk would rise.	<b>Trajectory of USDCNY forecast could be swung higher towards 7.15 into 2020.</b>

Note: These express our forecast numbers rather than point projections of highs and lows attainable by the USDCNY in the different scenarios.

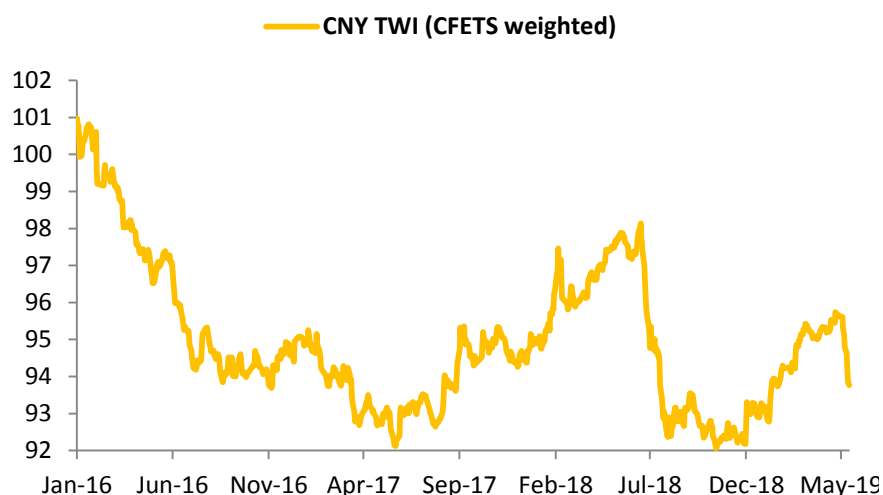
In the past two weeks, we have witnessed the rise in the spread between our USDCNY fixing estimate and the actual USDCNY fixing, suggesting that the counter cyclical adjustment factor (CCAF) has been in play and the central bank tried to slow the depreciation in the yuan.

#### Spread between the actual fixing and our estimate typically widens when CCAF in Play



Source: Maybank FX Research & Strategy Estimates, Bloomberg, CFETS

## The RMB TWI



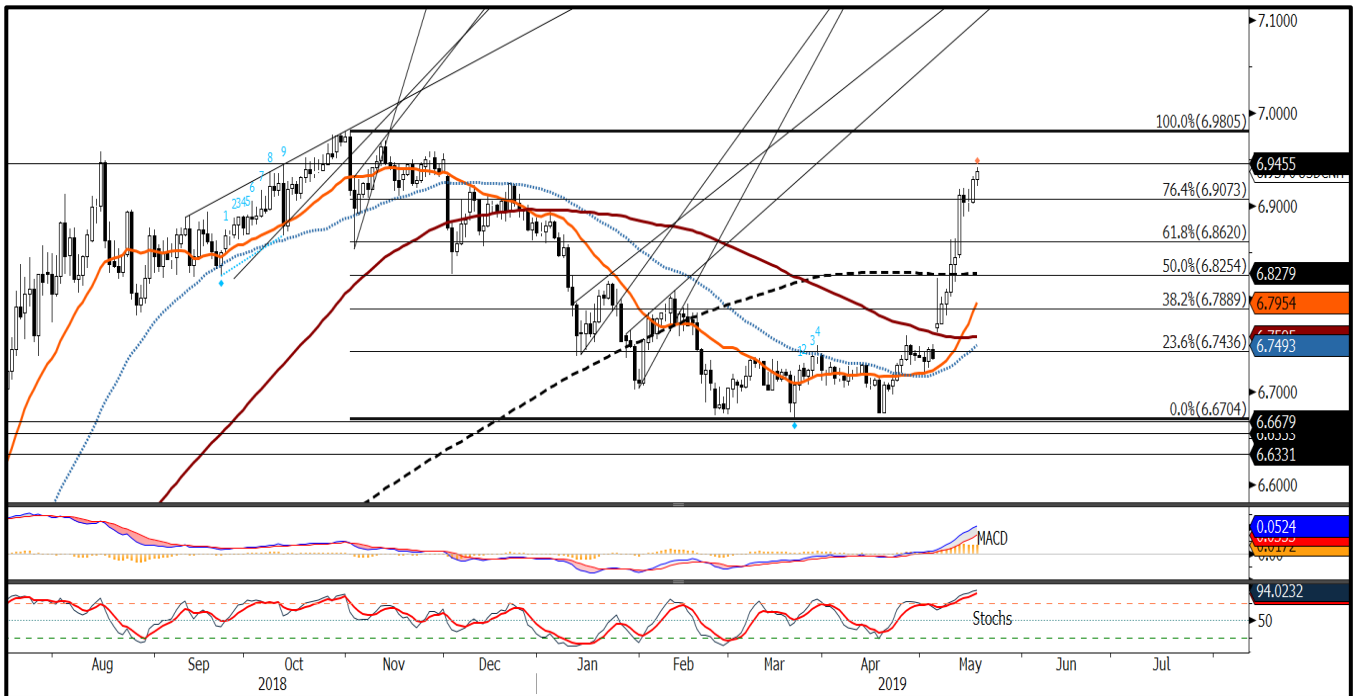
Source: Bloomberg, Maybank FX Research & Strategy

**Just as we had expected**, the RMB has clawed back some of its export competitiveness given CNH's sensitivity to the trade war escalation and recent attack on Huawei by the US.

More targeted stimulus expected such as RRR cuts for small, medium enterprises as well as TMLF (targeted medium term lending facility) expected to be provided. These are all to cushion the impact for the local manufacturers. The NDRC said at a briefing this morning that China would roll out policies to support growth when necessary as well as to ensure sufficient liquidity. This comes after NDRC modestly lowered capital ratio requirement on infrastructure projects. Urban FAI came in a lot weaker than expected earlier this week for Jan-Apr at 6.1%y/y vs. 6.3% in 1Q. The government agency also said it will also roll out equity financing support tool at proper time.

Based on our base case, we still prefer to lean against USDCNH strength and to find opportunities to load up on the AUD. Also eyes on the FX report from the US treasury that is typically out in mid Apr but this time delayed as they lowered the threshold of current account surplus to be 3% of GDP to 2% that effectively included more countries in their watch list including Vietnam.

**USDCNH (Daily) - Bullish**



The USDCNH moved higher towards the next resistance at around 6.9455, last seen around 69390. Next key resistance lies at last Oct high at 6.98. Momentum indicators are bullish with stochs and MACD rising. Support at 6.9073. Against the SGD however, CNYSGD show signs of turning with stochs indicating some signs that this cross could rise from oversold conditions.

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



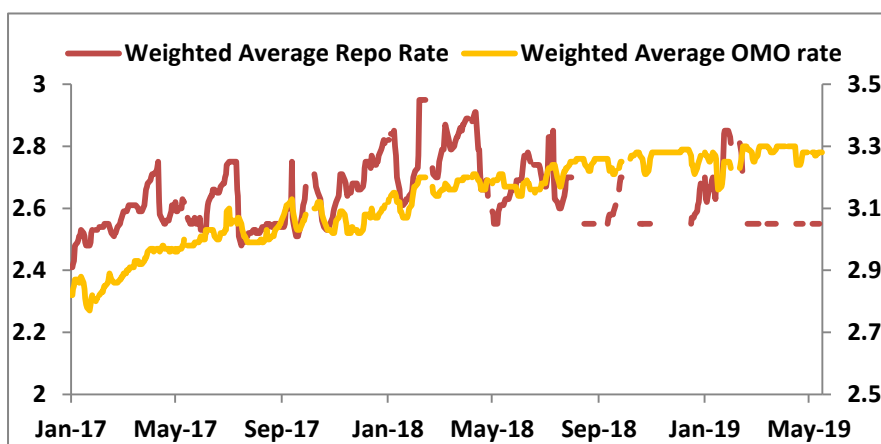
Source: Bloomberg, Maybank FX Research

## Upcoming Events to Watch in The Next Two Weeks

- 20 May - FX Net Settlement - Clients
- 27 May - Industrial Profits for Apr
- 30 May - SWFIT Global Payments for Apr
- 31 May - Mfg PMI (NBS)
- 1 Jun - Newest Tariffs from China on US imports to take effect
- 3 Jun - Caixin PMI Mfg

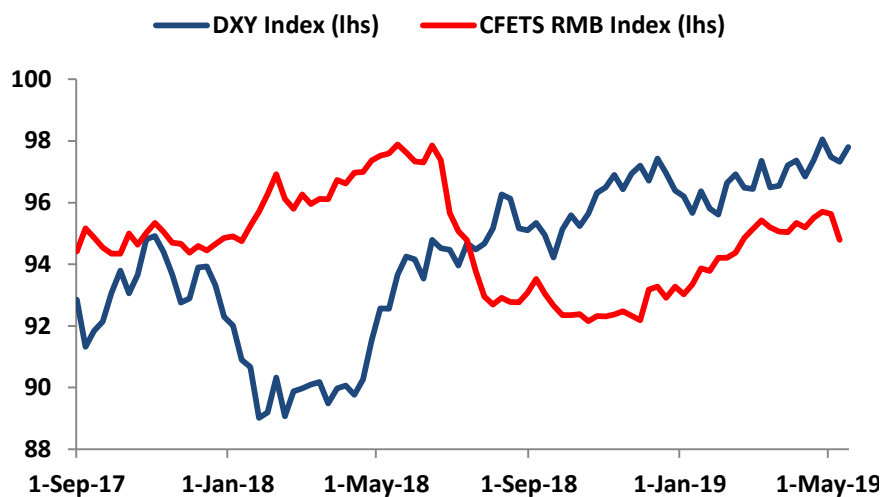
## Charts We Monitor

Chart 1: Repo Rates Are Capped



Source: Bloomberg Calculation, Maybank FX Research & Strategy

Chart 2: Yuan Weakens TWI-wise While DXY Strengthens



Source: Bloomberg, Maybank FX Research & Strategy

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Saktiandi Supaat Head, FX Research saktiandi@maybank.com.sg (+65) 63201379	Fiona Lim Senior FX Analyst Fionalim@maybank.com.sg (+65) 63201374	Leslie Tang Senior FX Analyst leslietang@maybank.com.sg (+65) 63201378	Christopher Wong Senior FX Analyst Wongkl@maybank.com.sg (+65) 63201377
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