

RMB Watch

A Confluence of Supports

RMB TWI To Be Supported Only in the Near-Term

Key Points:

- CNY rose steadily since Spring Festival break and was last at 6.3340 as we write, underpinned by a confluence of factors - pause in monetary easing, data that suggest rising usage of the currency (reinforcing broadly positive CNY view) and signs of resilience to hawkish Fed and Ukraine tensions. In addition, PBoC set USDCNY reference rate below median estimate for four consecutive sessions (15-18 Feb 2022) - the longest streak of stronger-than-estimated CNY fixings seen since Aug 2021. This had likely vitalized USDCNY bears recently.
- The recent rise in the CNY TWI has coincided with geopolitical tensions over Ukraine. To be clear, CNY tends to have smaller sensitivity to exogenous risk events compared to peers. That results in the recent trade-weighted outperformance of the currency. **The geopolitical tensions could continue to lend support to the CNY against other trading partners in the near-term.** However, we hold a glass half-full assumption on the situation, expecting the cost of invasion to be too dear for Russia. Once tensions fade, so is USD likely to weaken, possibly taking the USDCNY a tad lower. In a more positive risk environment, CNY could unwind recent gains vs. other non-USD FX, most notably, EUR.
- **Technical Analysis:** USDCNH is bearish bias and we cannot rule out a move towards 6.30. EURCNH could hover within 7.08-7.30 for now. SGDCNH is back within bearish trend channel while MYRCNH has formed a symmetrical triangle with two-way risks seen for this cross in the near-term.

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What We Watch (21 Feb - 7 Mar):

Date	Data/Events	Month
1 Mar	NBS Mfg, Non-Mfg PMI	Feb
1 Mar	Caixin Mfg PMI	Feb
3 Mar	Caixin Services and Composite PMI	Feb
4 Mar	CPPCC	
5 Mar	NPC	
7 Mar	Foreign Reserves, Trade,	Feb

Where Has RMB Been?

USDCNH broke below the area of support around 6.3250-6.3350 to waffle around the 6.32-figure by the end of last week as CNY sentiment was boosted by a series of growth supports and resilience to geopolitical tensions.

As mentioned in the last RMB watch, we had maintained a bearish view on CNYTHB, looking for the cross to head towards 5.10. The cross had made a precipitous slide beyond both our targeted levels (5.15 and 5.10) and is last at 5.07.

CNY Has Multiple Boosters

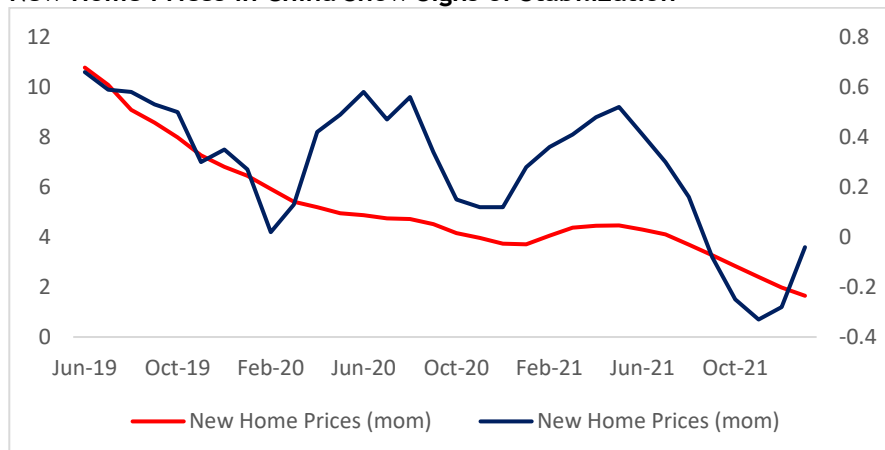
CNY rose steadily since Spring Festival break and was last at 6.3340 as we write, underpinned by a confluence of factors - pause in monetary easing, data that suggest rising usage of the currency and signs of resilience to hawkish Fed and Ukraine tensions. In addition, PBoC set USDCNY reference rate below median estimate for four consecutive sessions (15-18 Feb 2022) - the longest streak of stronger-than-estimated CNY fixings seen since Aug 2021. This had likely vitalized USDCNY bears recently.

PBoC Chooses To Hit the Pause on Easing

The 1Y and 5Y loan prime rates were left unchanged at 3.70% and 4.60% respectively today, taking the guidance from the 1Y MLF that was kept steady at 2.85% last Tue. Latest statement from Governor Yi Gang at the G20 Finance Ministers summit includes a reiteration on “strengthening cross-cyclical adjustment” and he pledged to keep the monetary policy stance flexible, prudent and appropriate. This comes in the backdrop of a pause in monetary policy easing (MLF, OMO and LPR) as well as certain more supportive measures for property. PBoC provided a net injection of CNY100bn via the MLF to support the economy. The mention of cross-cyclical adjustment underscores the element of prudence in monetary policy and the use of other targeted measures such as the easing of macro-prudential measures in order to support property demand.

Data just released this morning indicate some signs of stabilization for new home prices for Jan. Decline slowed to -0.04%/m from -0.28% previously. Year-on-year, new home prices still decelerated but this could be affected by the seasonal impact of Chinese New Year (present in Jan for 2022 but Feb 2021).

New Home Prices in China Show Signs of Stabilization



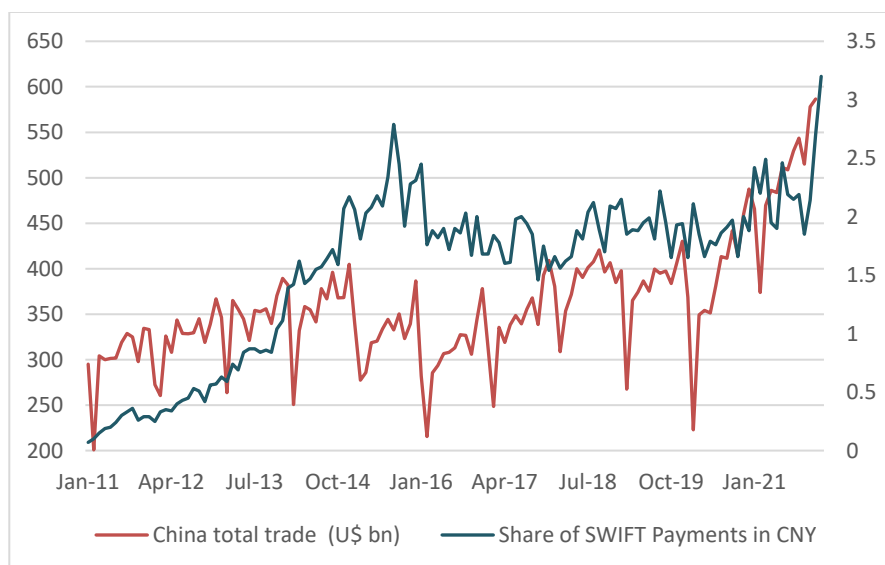
Source: NBS, Maybank FX Research & Strategy

That said, the fall in new home prices underscores tepid market conditions for property. This could be why more measures were implemented to shore up support for the sector - earlier this month, CBIRC and PBoC have sought to ease up lending requirements for affordable rental housing loans by excluding such loans under the overall quota on real estate lending on 8 Feb. Thereafter on 17 Feb, some major banks in Heze (east China) have reduced mortgage down-payment ratio (from 30% to 20%) for first time homebuyers. Such incremental measures could support growth and supportive of the currency.

Share of RMB in SWIFT Global Payment Rise

Recently released data underscores rising usage of RMB for payments with SWIFT showing a sudden spike in the share of RMB payments from 2.7% to a six-year high of 3.2% for Jan. That has come in the backdrop of a freshly renewed bilateral currency swap deal between China and Indonesia, the trend of rising trade between China and the rest of the world as well as the steady demand for China government bonds after its inclusion into the FTSE's World Government Bond index since last Oct. In addition, IMF is due to review and adjust the SDR basket in mid-2022. The weight of the RMB as of the last review in 2015 is at 10.92% and the risk is for the RMB's weight in the SDR basket to be revised higher. As long as the government is able to keep the economy from heading into a hard landing, the RMB sentiment could continue to be positively reinforcing.

Share of SWIFT Payments in CNY Shot to a Six-Year High



Source: SWIFT, Maybank FX Research & Strategy

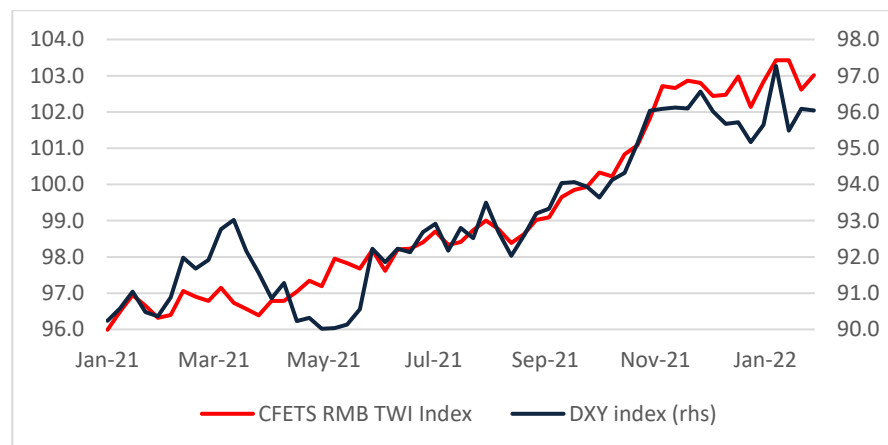
RMB Unfazed by Geopolitical Tensions

The possibility of a Ukraine invasion by Russian troops had been drummed up recently, especially by US leaders. USD appreciated on recent episodes of risk aversion amid fears of war, amplified also by the swings in the EUR as Europe is caught between a rock and hard place given its gas reliance on Russia. Asian FX have displayed better resilience compared to G7 peers, also anchored by steady CNY.

To be clear, CNY tends to have smaller sensitivity to exogenous risk events compared to peers. That results in the recent trade-weighted outperformance of the currency. The geopolitical tensions could continue to lend support to the CNY against other trading partners in the near-term. We hold a glass half-full assumption on the situation, expecting the cost of invasion to be too dear for Russia. Once tensions fade, so is USD likely

to weaken, possibly taking the USDCNY a tad lower towards 6.30 in the near-term. However, we also look for CNY to mildly weaken against other non-USD FX, most notably, EUR.

CNY TWI Still Show Signs of Peaking, Supported as it May Be For Now



Source: Bloomberg, Maybank FX Research & Strategy

USDCNH (Weekly) - Heavy, Falling Wedge



USDCNH was last at 6.3220, breaking through key area of support at 6.3250-6.3350 in the past few sessions. This pair remains heavy with momentum indicators still bearish.

Interim support is seen at 6.3180 before 6.30 and then at 6.2820. Resistance at 6.3850.

Weekly chart shows a falling wedge formed which suggests that a bottom is close.

EURCNH (Daily) - Settling into range



EURCNH pulled back from the 7.3040 resistance penciled in and was last seen around 7.1910.

This cross may continue to hover within the 7.08-7.30 range for now with momentum indicators not showing any strong bias for direction.

Legend: Orange Line = 21-sma; Blue dash = 50-sma, green dash = 200-sma; red solid = 100-sma

MYRCNH (Daily) - Symmetrical Triangle



MYRCNH was last at 1.5140, extending consolidative moves within the 1.50-1.52 range.

Momentum and stochastics are bearish bias but turning higher. Resistance is seen around the 1.5210 before the next at 1.5285.

A symmetrical triangle has formed on the daily chart. We see two-way risks to this cross with support penciled in at 1.5060 before the next at Dec low at 1.4980. Resistance at 1.5180, marked by 21,50-dma.

SGDCNH (Daily) - Back In the Falling Channel?



SGDCNH was last seen around 4.7040, softening from its Feb high of 4.7471.

This cross could enter into a phase of consolidation. However, momentum indicators are a tad more bearish now.

Resistance is seen around 4.7175 (21-dma) before the next at 4.7470 (Feb high). Support at 4.6950 before the next at 4.6830.

Legend: Orange Line = 21-sma; Blue dash = 50-sma, green dash = 200-sma; red solid = 100-sma

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