

RMB Watch

PBoC Downplays Rate Cuts, But Not Easing

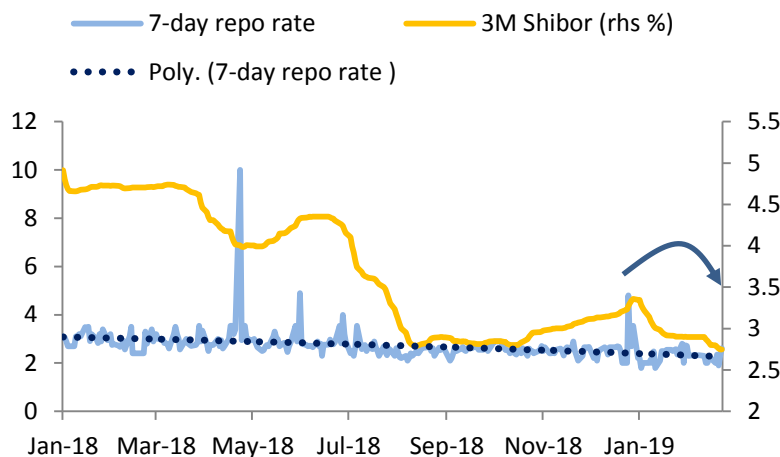
Focus on the Usual Array of Tools

PBoC just released its quarterly monetary policy report, reiterating their desire *to keep yuan stable at equilibrium level* and amidst calls for an interest rate cuts for the past several weeks, highlighted the use of *targeted reserve ratio cuts, targeted medium-term lending facilities* and *tweaking re-lending and re-discounting quotes*. This seems to suggest that a rate cut is not in order in the near future. In fact, our observation is that the recent broad RRR cuts, policy tweaks to the targeted reserve ratio cuts as well as more targeted reserve ratio cut (on 25 Jan) were effective in injecting enough liquidity such that the market rates were brought lower.

For one, 7-day repo has dipped below 2% a number of times since the start of the year, though it has most recently crept to levels around 2.57% as demand for cash increases in tax payment season (end Feb). The 3M SHIBOR also fell to 2.75% at last seen from its recent peak of 3.36% last Dec. Despite the fall in market rates, the amount of local note defaults continue to rise into 2019 with more than CNY12bn already taken place so far this year. This is 10% of the CNY120bn for 2018. That is still a sign of inadequate credit access for smaller companies and also underpins the recent endeavours by the government to encourage lending to these smaller enterprises. What China needs is to improve the transmission mechanism of its monetary policy. Before that happens, a broad “interest rate cut” would be rather meaningless.

As a result of the clarification from PBoC, expectations of the rate cut have come off and the support for local bonds waned. However, this dip could present opportunities for investors later. We anticipate concomitant support for RMB as well

Market Rates Are Guided Lower



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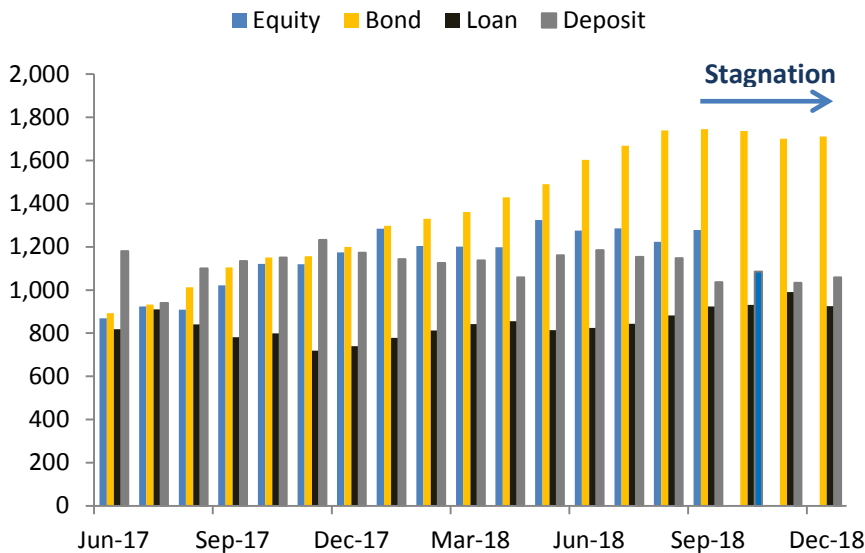
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The recent confirmation by Bloomberg that China’s yuan denominated government and policy bank bonds will be added to the Bloomberg Barclays Global Aggregate Index from Apr on (phased in over 20 months) and some market optimism for China’s economy to stabilize can renew foreign interest in local bonds and we see that as supportive for RMB even more so this year rather than 2018. We anticipate that foreign holding of government bonds could rise after some stagnation towards the end of last year. That could probably provide significant support for the RMB this year rather than the last, as we look for a less threatening USD and US rates environment this year.

The RMB recovery (against the USD) could be especially compelling if the US and China come to an agreement (or rather multiple agreements via the MOUs) and trade war concerns are no longer as acute in 2019 compared to 2018.

Foreign Holding of CNY Bonds Could Rise Again after Recent Stagnation

Foreign Ownership of Bonds (RMB bn)



Source: PBOC, Maybank FX Research & Strategy

USDCNH (Daily) - Death Cross En-Route



USDCNH remains within the 6.70-6.80 range, biased to the downside. A clean break of the 6.6960-level could open the way towards the next support at 6.6080. However, momentum indicators are not particularly compelling at this point so this could come after some consolidation. We base our bearish bias on the upcoming death cross as the 50-dma is en-route to cut the 200-dma to the downside. In the mean-time, we are a few pips away from reaching our target at 0.2022 as mentioned in the [25 Jan issue of RMB Watch](#).

CNYSGD (Daily) - Rising trend channel



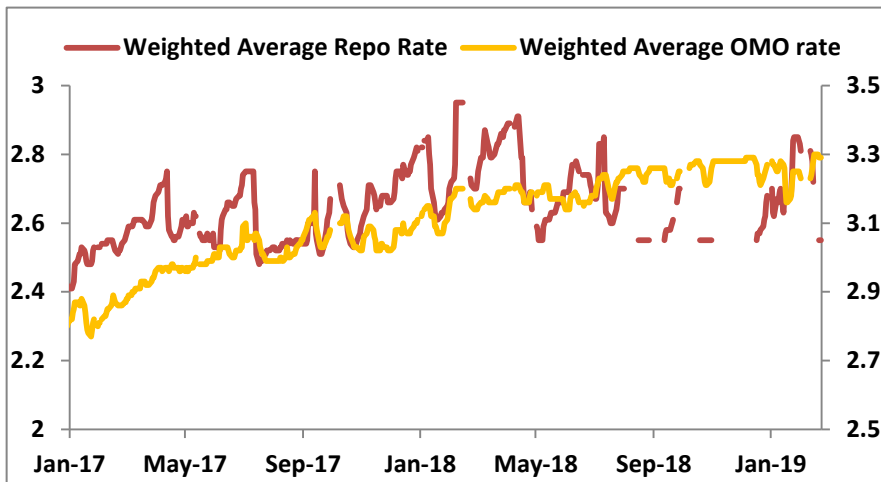
Source: Bloomberg, Maybank FX Research

Upcoming Events to Watch in The Next Two Weeks

- 28 Feb - NBS PMI (Mfg, Non-mfg) for Feb
- 1 Mar - Caixin PMI-mfg for Feb
- 1 Mar - Deadline before more US tariffs on Chinese imports
- 3 Mar - CPPCC starts
- 5 Mar - NPC starts
- 7 Mar - Foreign Reserves for Feb
- 8 Mar - Trade data for Feb
- 9 Mar - CPI, PPI for Feb

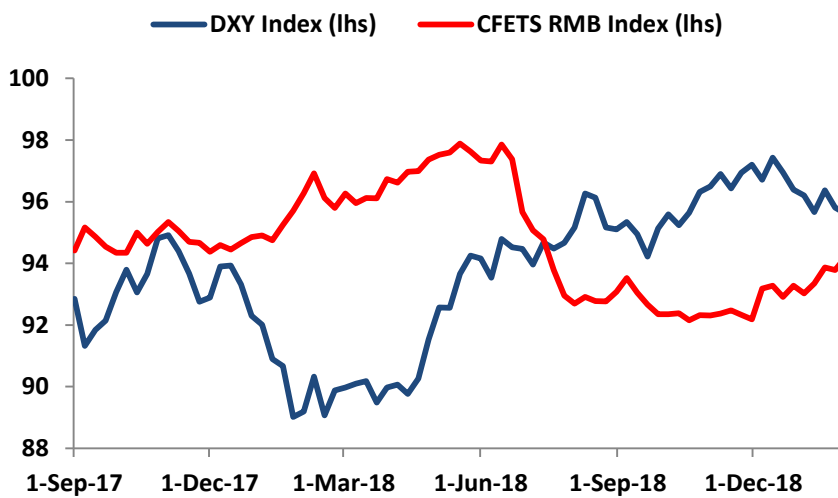
Charts We Monitor

Chart 1: Market Rates Came Off



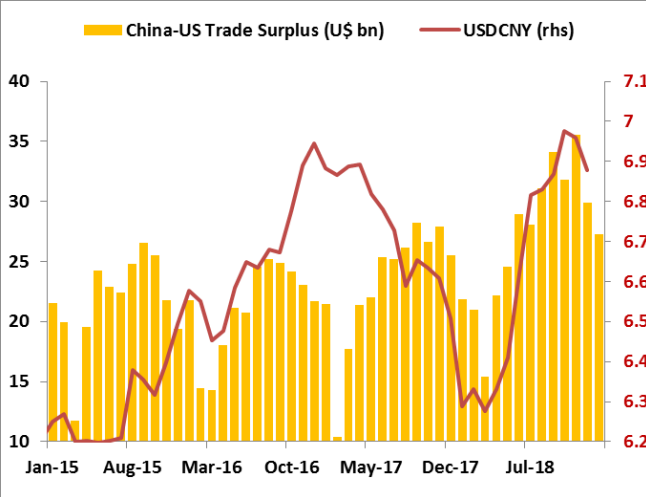
Source: Bloomberg Calculation, Maybank FX Research & Strategy

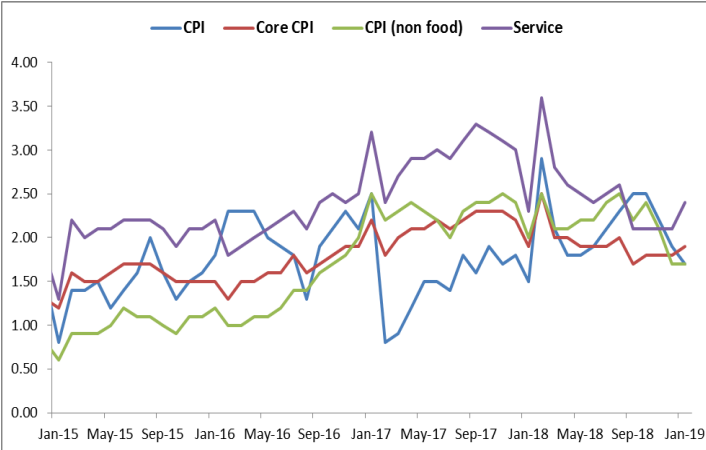
Chart 2: Yuan Strengthens Against Trading Partners Of Late



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>																								
14 Feb	<p><u>Trade Rebounded</u></p> <p>China's exports surged well above expectations to 13.9%/y/y in Jan from previous 0.2%. Imports also made a small rebound to 2.9%/y/y from a decline of -3.1% in the month prior. Trade surplus narrowed to CNY271.16bn from previous CNY395bn.</p>	<p>Details reveal that the latest trade numbers show that the trade surplus with the US has been coming off from U\$29.9bn in Dec to U\$27.3bn in Jan. Exports growth to the US fell -2.8%/y/y while imports growth fell 41%/y/y. High base and possible Lunar New Year distortion contributed to drastic contraction seen in imports print.</p>	 <table border="1"> <caption>Approximate data from the chart</caption> <thead> <tr> <th>Date</th> <th>China-US Trade Surplus (U\$ bn)</th> <th>USDCNY (rhs)</th> </tr> </thead> <tbody> <tr><td>Jan-15</td><td>20</td><td>6.3</td></tr> <tr><td>Aug-15</td><td>25</td><td>6.5</td></tr> <tr><td>Mar-16</td><td>20</td><td>6.6</td></tr> <tr><td>Oct-16</td><td>25</td><td>6.8</td></tr> <tr><td>May-17</td><td>25</td><td>6.9</td></tr> <tr><td>Dec-17</td><td>30</td><td>7.0</td></tr> <tr><td>Jul-18</td><td>28</td><td>7.1</td></tr> </tbody> </table>	Date	China-US Trade Surplus (U\$ bn)	USDCNY (rhs)	Jan-15	20	6.3	Aug-15	25	6.5	Mar-16	20	6.6	Oct-16	25	6.8	May-17	25	6.9	Dec-17	30	7.0	Jul-18	28	7.1
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14 Feb	<p><u>China will encourage lending to SME</u></p>	<p>Fresh guidelines were issued by the government to urge agencies to lend more to SMEs, improve policies on targeted reserve ratio cuts and increasing relending and rediscounting quotas. The government also wants to expedite reviews of private firms' IPOs and refinancing, strengthen support on bill financing by private companies, support unlisted private companies to sell convertible bonds in private placements, encourage FIs to increase investment in private company bonds. This come amidst increasing corporate bond defaults in the first two months</p>																									

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15 Feb	<p><u>Inflation Eases</u> CPI eases to 1.7%/y in Jan from 1.9% while PPI slumps to just 0.1%/y from previous 0.9%.</p>	<p>The release raises concerns on corporate profitability and private investment sentiment. That could increase the expectations of further monetary policy easing especially as softer inflation prints suggest a benign environment to do so. The soft inflation headline was due to weak food inflation (but this trend could be less certain amid reports of swine flu in China). Consumer goods subcomponent fell to 1.3%/y from previous 1.7% (a sign of weakening domestic demand). Core inflation (excluding food and energy) actually saw a mild increase to 1.9%/y from 1.8%.</p>	
15 Feb	<p><u>Aggregate Financing Surges</u> Aggregate financing surpassed expectations for Jan significantly with a print of CNY4640bn vs. expected CNY3307bn, already above CNY1589.8bn in Dec.</p>	<p>A surge was expected but the actual print beat even the solid expectations. That said, we have to take into account the seasonal demand. CNY3.23trn loans were made in Jan, a record high. Looking into the breakdown, while trust loans and entrusted loans continue to see declines in growth, net corporate bond financing picked up pace to 10.7%/y from previous 9.2%. While Premier Li Keqiang and top PBoC officials have reiterated that monetary policy would remain prudent, it is widely expected that China would continue to encourage lending and credit growth.</p>	

*News Sources from Xinhua, Bloomberg, China Daily, China Securities Journal, China Business News, People's Daily; Data from CEIC, Bloomberg, NBS, SAFE, PBoC

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20 Feb	<u>PBoC vows more support for banks' perpetual bonds</u>	<p>He elaborated that the central bank will find ways to increase the investor base for such bonds in order boost credit growth. Earlier in Jan, the central bank had introduced the bill swap mechanism through which FIs can swap commercial bank perpetual debt for central bank bills that can then be used as borrowing collateral. The Bank of China became the first commercial bank to do so.</p>	
21 Feb	<p><u>MOUs in the Works</u></p> <p>The US and China negotiators work on multiple MOUs that would form the basis of the final trade deal.</p>	<p>The multiple MOUs include agriculture, non-tariff barriers, services, technology transfer and intellectual property. Enforcements are likely to be threats of more tariffs to be reimposed if conditions are not met. The source also said that no breakthrough is expected this week but these are efforts in the hope to extend the 1 Mar deadline. The newsbreak of this MOUs that includes 6 pacts drove USDCNH to a low of 6.6879 that day.</p> <p>Trump is said to meet China's Vice Premier Liu He on 22 Feb. This seems almost like a quid pro quo after President Xi Jinping met with the US trade delegations in Beijing last week. Sources cited already downplayed a breakthrough in trade talks this week and there is little more to infer from this meeting</p>	

**News Sources from Xinhua, Bloomberg, China Daily, China Securities Journal, China Business News, People's Daily; Data from CEIC, Bloomberg, NBS, SAFE, PBoC*

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