April 22, 2019

RMB Watch

No Easing For Now

Unwinding Stimulus Bets

Just as a targeted RRR cut is likely positive for the CNH, unwinding expectations of further monetary stimulus saw USDCNH head towards the 6.72 this morning. Equities in mainland China fell >1% as investors came to terms with the possibility that PBoC may not be as trigger-friendly as what the markets had expected. This came after China posted stronger-than-expected Mar activity data as well as 1Q GDP. Industrial production for Mar surpassed consensus with a print of 8.5% y/y vs. expected 5.9%. Retail sales also came in firmer at 8.7%y/y vs. the median estimate of 8.4%. FAI came in at 6.3%y/y for 1Q vs. 5.9% in quarter prior.

The stronger data brought comfort not just to investors but also to policy makers so much so that the Politburo shifted focus from economic stabilizing back to deleveraging. In addition, the phrase "houses are meant for living in, not for speculation" seem to hint tightening in the property sector. USDCNH hit the upper bound of the falling trend channel and may retrace lower. This is in line with our view that yuan weakness seen today is not likely to continue.

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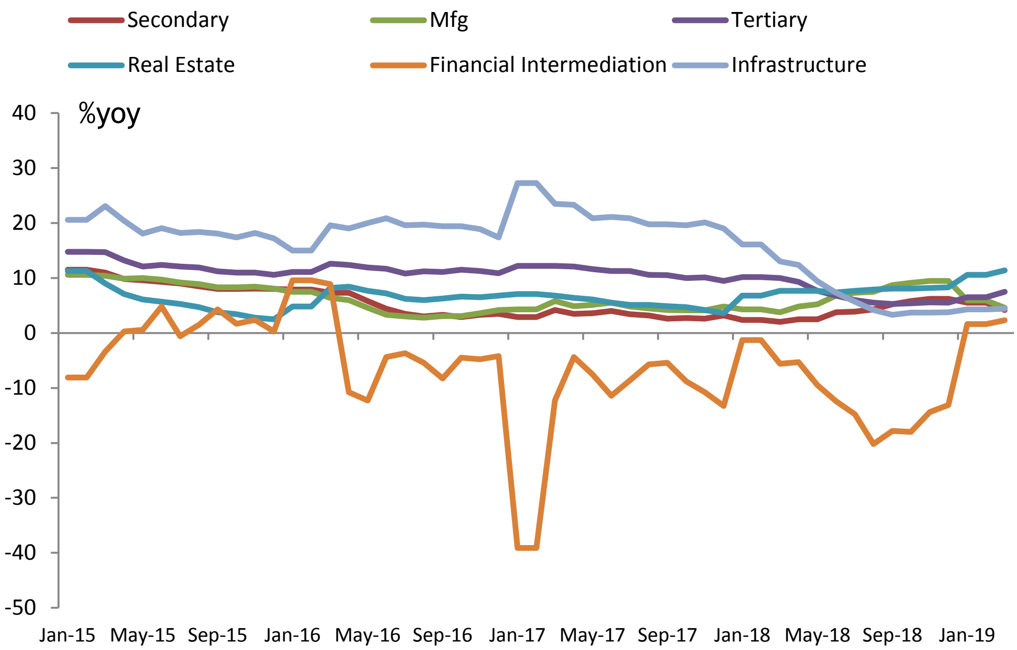
Fixed Asset Investment Seem To Have Risen



Source: Bloomberg, Maybank FX Research & Strategy

Politburo Sees Stronger Confidence in the Markets

The Politburo did a regular economic review and released a statement last Fri. Equities, bonds and RMB weakened this morning. Risk appetite was crimped because top policy-makers seem to be satisfied with the “better-than-expected” economic performance in the first quarter and that stronger data also boosted market confidence. This seems to be one of the most upbeat assessments on the economy in the past six months.

No Longer Emphasizing on Economic, Employment Stability

In addition, the omission of the “six stability” that the authorities have outlined as policy signals for economic work since Aug 2018 which includes stable employment, stable finance, stable foreign trade, stable foreign investment, stable investment and stable expectations suggest that the authorities have some level of comfort with the data.

Reforms and Deleveraging

Instead, the authorities now look for more supply-side reforms and deleveraging. The reversion to deleveraging efforts suggests that there is a high bar for PBoC to provide further monetary stimulus.

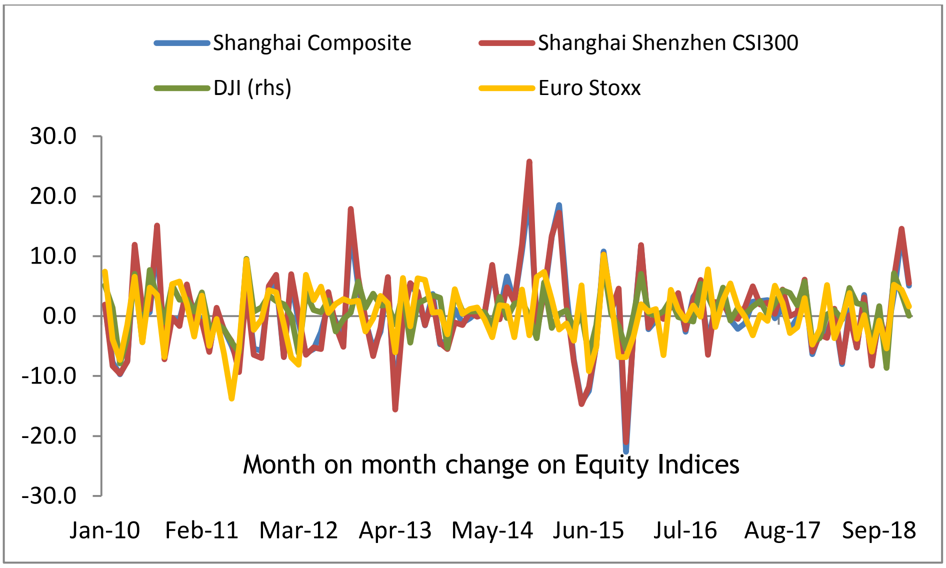
Homes Are Not For Speculation

The policymakers also put the phrase “homes are meant for living in, not for speculation” (mentioned by President Xi at his 19th Party Congress back in 2017) in the politburo statement which has not been mentioned in the past few statements. That raised expectations of tightening in the property sector and weighed on Chinese developers today.

Monetary Policy Should Not be Overly Accommodative

The statement suggests that China is serious about ensuring that the monetary policy is not overly accommodative and also to send a signal that the debt level must be kept in check. We also think this is meant to rein in the euphoria in the Chinese stock markets as sharp rallies in the past have frequently been followed by sharp reversals. As China strives to gain inclusion into global bond and equity indices, the authorities may not want to risk having another stock market crash that could dampen foreign investors’ appetite for RMB-denominated securities.

<u>The Rises and Falls of Chinese Equities Are Sharper Than those in DMs</u>



Source: Bloomberg, Maybank FX Research & Strategy

The next RRR cut may not come as soon as we had expected. While we had looked for the next targeted RRR cut to be positive for the CNH, the comfort that the policy makers seem to have taken in the recent tranche of data should mean that the weakness in the CNH seen this morning should be temporary and a result of the unwinding of stimulus bets rather than a loss of confidence in the economy. That said, the Politburo noted that the economy still faces pressure due to cyclical factors and even more so from systemic and structural issues. That suggests that further policy stimulus should not be ruled out. In fact, officials are said to work on fiscal stimulus to raise the sales of cars and electronics. So, fiscal stimulus is still in the works and recent data underscored their efficacy. We continue to look for USDCNH to head towards 6.65, keeping within the falling trend channel.

USDCNH (Daily) – Downside Bias

USDCNH continues to test the upper bound of the trend channel, last seen around 6.7150. The upper bound has been tested and respected in the past few sessions. Momentum indicators are not showing much directional bias. Support is seen at 6.67 before 6.65. For CNYSGD, momentum is bullish and a clean break of the 0.2024 would open the way towards 0.2040.

CNYSGD (Daily) – Bullish Risk

Source: Bloomberg, Maybank FX Research

Upcoming Events to Watch in The Next Two Weeks

25 Apr - SWIFT Global Payment in CNY

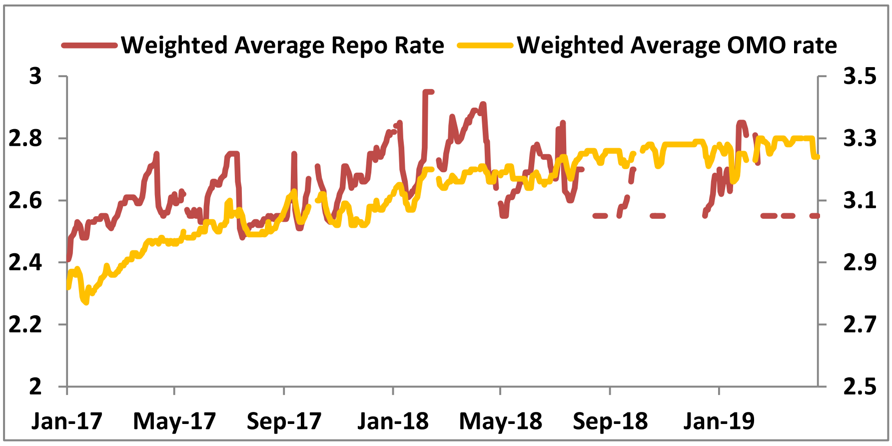
2 Apr - Industrial Profits for Mar

30 Apr - PMI-mfg for Apr

2 May - Caixin PMI-mfg for Apr

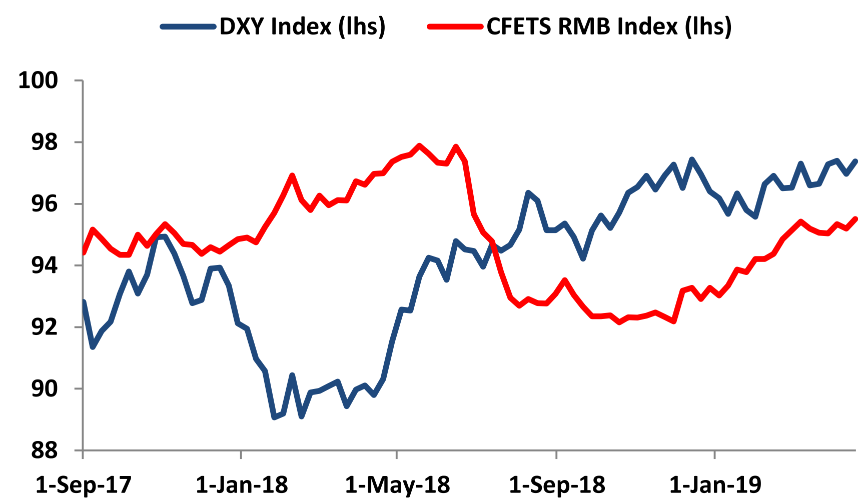
Charts We Monitor

Chart 1: Repo Rates Are Capped



Source: Bloomberg Calculation, Maybank FX Research & Strategy

Chart 2: Yuan Rebounded VS. its Trading Partners



Source: Bloomberg, Maybank FX Research & Strategy

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