

RMB Watch

More *Caution* Than *Optimism* in The Price

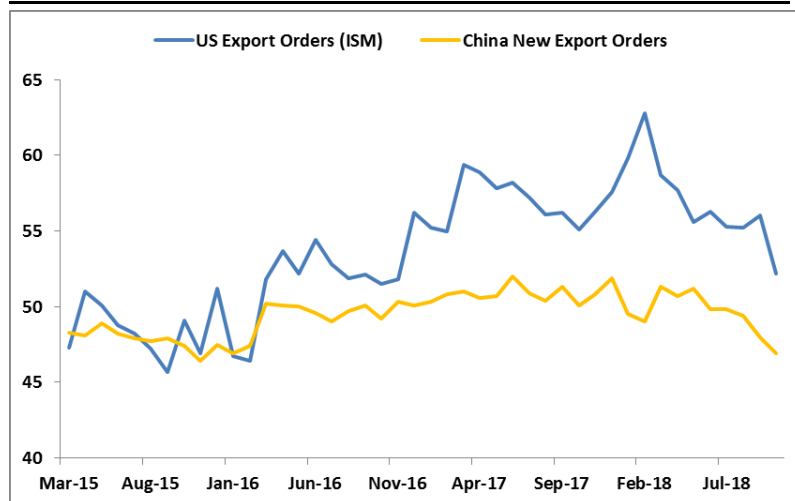
US Sends Mixed Signals on US-China Relation

The Xi-Trump meeting at the G20 Summit is one of the most widely watched events next week. We think there is still a lot more caution on the US-China trade war than optimism in the price and any signs of cooperation between the US and China that comes out from the G20 summit to trigger another slide in the USDCNH beyond the 6.90-figure towards the 6.87.

Ever since Trump first spoke of a deal in late Oct, USDCNH has been trapped within the 6.91-6.98 range. This pair was not able to make a meaningful move below the 6.91-figure as there have been mixed signals from the US. US Vice President Mike Pence has been dishing rather harsh critiques of China at the APEC meeting, including an attack on China's One Belt One Road ideals. The obvious tension between the US and China at the APEC summit even led to a failure to reach a consensus at the communique. At the same time, USTR had recently released a report accusing China of intellectual property theft. Thereafter, China's Ministry of Commerce spokesperson said that the USTR report is "groundless". A few days ago, White House trade adviser Peter Navarro had been kicked off from the entourage to Buenos Aires (the location of the G20-Summit). This is taken positively as he had been one of the China hawks.

In the meantime, contrary to Trump's aggressive attitude towards China for most part of this year, he has turned rather consistently positive on the upcoming meeting in the past few weeks. His Top Economic Adviser Larry Kudlow had mentioned that relations are beginning to "thaw" and that "detailed talks ongoing with China on all levels". Evidence of slowing activity in the US as well as the stock market correction suggest that the combination of expansionary fiscal policy, higher interest rates and trade war have started to crimp on domestic demand as well as his chances of securing a second term in 2020. Trump is thus, more likely, to desire a positive outcome from his meeting with China President Xi Jinping, however hollow as it could be.

Chart 1: Trade War Starts To Hurt Both the US and China



Source: Institute for Supply Management, China Federation of Logistics and Purchasing, Maybank FX Research & Strategy

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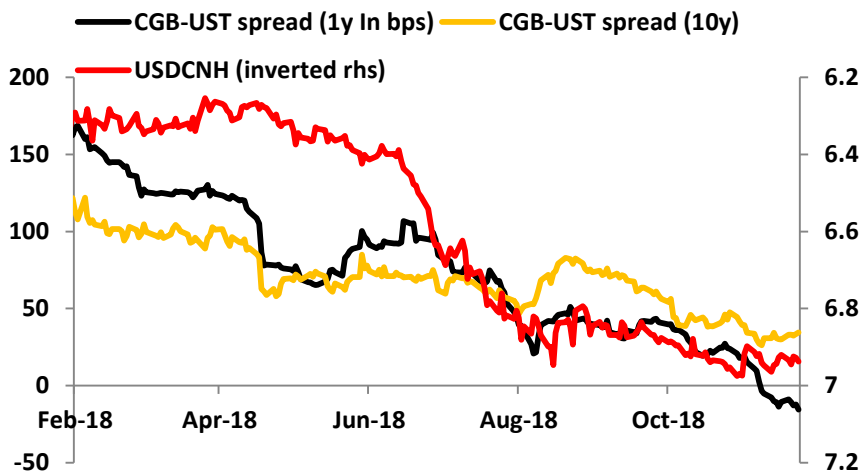
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The US trade representative office has accused China of intellectual property theft, triggering a probe by the WTO. On the other hand, China had also started an investigation into major chip makers by its anti-monopoly regulator. The series of event indicates increasingly apparent that the US is increasingly uncomfortable with China's growing manufacturing hub and influence in the rest of the world via the One Belt One Road. Hence, any signs of warming ties between the two super powers could still be taken positively by market players and an announcement that the 10% tariff on US\$200bn Chinese imports may not be raised to 25% could even be a probable bonus.

Given the mixed signals from the US, there is still much more negativity than positivity in the price of the USDCNH. We anticipate any signs of cooperation between the US and China that comes out from the G20 summit to trigger another slide in the USDCNH beyond the 6.90-figure towards the 6.87. However, weakness of the economic data for China could still persist, not least helped by the upcoming drop in external demand as suggested by new exports order, not yet reflected in the recent exports prints. More credit easing for SMEs which is likely to include RRR cuts next year remains in contrast with the tightening Fed as well as some other central banks in the region and could continue to weigh on the RMB vs. its regional peers.

Chart2: Credit Easing Expectations Drive Down CGB Yields



We anticipate USDCNH to remain supported on dips into the new year. However, the move lower that we expect next week could trigger further gains in other China-sensitive currencies such as SGD, TWD, KRW, AUD and NZD. Beyond the near-term, its fundamental divergence versus regional peers could mean that gains in the CNH to lag the rest of the peers and may keep the CFETS RMB index pressured in the next few months.

RMB On The Technical Charts

(USDCNH daily) - Rangebound for now



USDCNH was last seen around 6.9400. This pair could remain within the 6.91-6.98 range given the lack of momentum. Break of the 6.91 (50-dma) could open the way towards 6.87 before 6.80.

(USDCNH Weekly) - Bullish Momentum Wanes

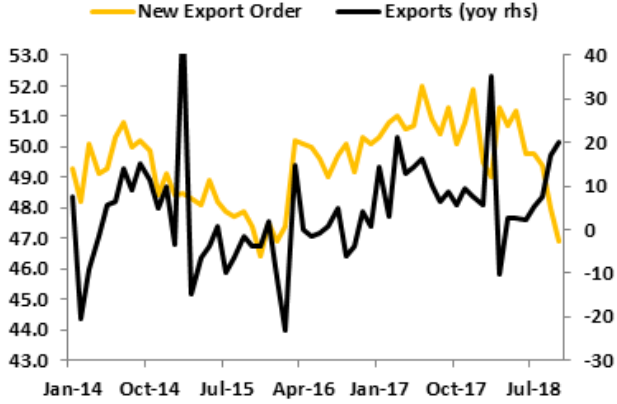


Source: Bloomberg, Maybank FX Research & Strategy

Keeping Track

Date	Events/Data Headlines	More Details, Impact and Views	Relevant Charts (if any)
31 Oct	<p>PMI-mfg came in at 50.2 for Oct vs. the previous at 50.8. (NBS)</p>	<p>Breakdown suggests production, new order and new export order were on sharp decline, underscoring the impact of the tariffs imposed by the US.</p>	<p>The chart displays three data series: Production (blue line), New Order (grey line), and New Export Order (yellow line). The X-axis represents time from July 2013 to March 2018. The Y-axis represents a value index from 46 to 54. Production starts around 52.5, peaks near 54 in early 2014, and then fluctuates between 50 and 54. New Order starts around 51 and generally follows a similar pattern to production. New Export Order starts around 50 and shows a significant decline starting in early 2016, reaching a low of approximately 47 in late 2016 before recovering to around 50 by early 2018.</p>
1 Nov	<p>Caixin Mfg PMI steadied. The headline edged up to 50.1 from previous 50.0.</p>	<p>Markit reported "subdued sales that were partly linked to foreign demand". The report also noted that the business confidence for output dipped to an 11-month low. The amount of new export business fell for the 7th consecutive month.</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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7 Nov	<u>Foreign reserves fell from US\$3.087trn to US\$3.053trn, more than the expected US\$3.058trn.</u>	The strength in the USD cannot account fully for the fall in foreign reserves and is an added sign of capital outflows.	
8 Nov	<u>Trade surplus in Oct widened with exports and imports accelerating to 20.1%y/y (vs. prev. 16.9%) and 26.3%y/y (vs. prev. 17.5%) respectively.</u>	While the PMI-mfg prints continue to falter, exports growth continues to remain robust. The contrasting trend suggests that frontloading could be happening ahead of the turn of the year when the US would increase the 10% tariff on US\$200bn of Chinese imports to 25%. This could suggest a cliff drop in the net exports at the turn of the year, much like what we have seen in the new export order in the recent PMI mfg prints.	

PBoC Quarterly Report

10-Nov

PBoC reiterates that monetary policy will remain prudent and neutral. The central bank left out a phrase that was in its quarterly report for 2Q and that is "to avoid flood-like stimulus".

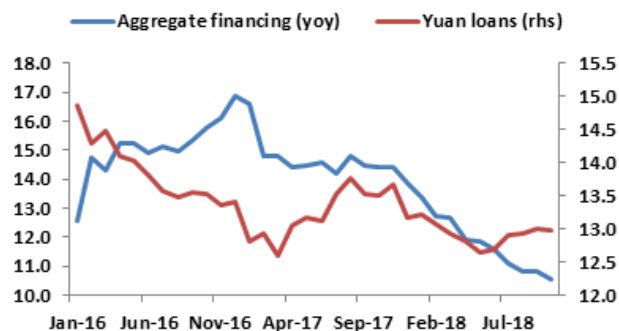
The omission of the phrase suggests that PBoC might resort to more RRR cuts and larger liquidity injections again as the economy remains under downward pressure. That has spurred some calls for lending rate cuts. Other key omission is the "increase of market determination of exchange rate" which could mean more intervention in the FX markets should there be more volatility owing to the trade war.

Credit growth for Oct shocked to the downside.

13 Nov

New yuan loans came off to just CNY697bn vs. the expected CNY900bn. Money supply M2 growth eased to 8.0%/y from 8.3%.

Given Golden week holidays, there was a need to account for seasonal factor but even with the adjustments for the skew, the prints were lower than expected. Credit growth is on the decline. This had thus raised expectations of a RRR cut. In any case, this print was in line with fresh commitments by policymakers to support the private sector as well as the small and medium enterprises.



15 Nov

Municipal bonds in the interbank will be made available to retail investors through banks' counters according to the statement made jointly by PBoC, MoF and CBIRC.

This could increase the demand for the municipal bonds and lower yields and financing costs.

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

20 Nov PBoC Research Bureau Chief Xu flags more active fiscal policy

He added that the efficacy of monetary policy is dependent on the health of financial system and that the demand deficiency is the main issue in China.

20 Nov China NDRC Could Impose Strict Rules for Bond Quota Extension

NDRC has informed market participants that stricter assessments may be introduced for firms who want to extend the validity of their offshore debt issuance quotas to next year.

The regulator was cited to be concerned about supply pressure should there be a large number of bond issuance quotas extended into next year.

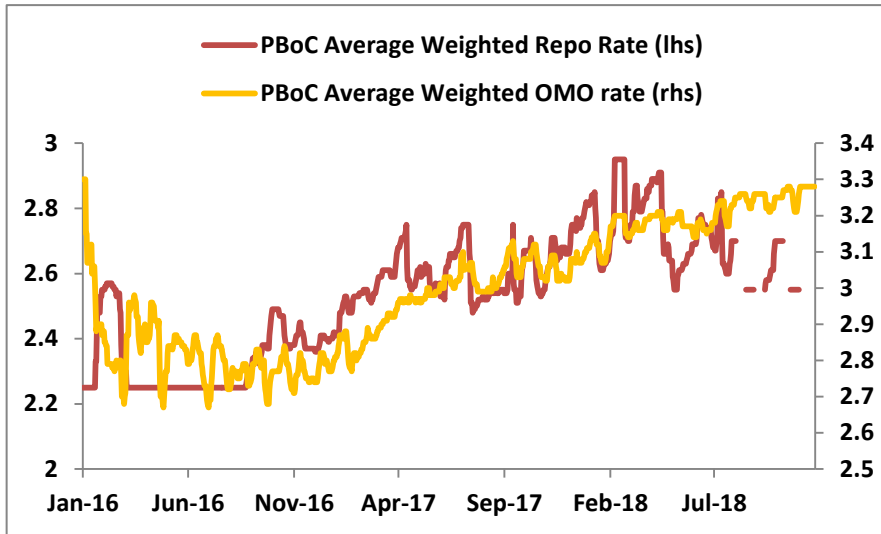
News Sources from Xinhua, Bloomberg, China Daily, China Securities Journal, China Business News, People's Daily; Data from CEIC, Bloomberg, NBS, SAFE, PBoC

Upcoming Events to Watch in The Next Two Weeks

- 27 Nov - Industrial Profits (Oct)
- 30 Nov - PMI-mfg, non-mfg PMI (Nov)
- 1 Dec - Xi-Trump Meeting
- 3 Dec - Caixin PMI Mfg (Nov)
- 7 Dec - Foreign Reserves (Nov)
- 8 Dec - Trade (Nov)
- 9 Dec - CPI, PPI (Nov)

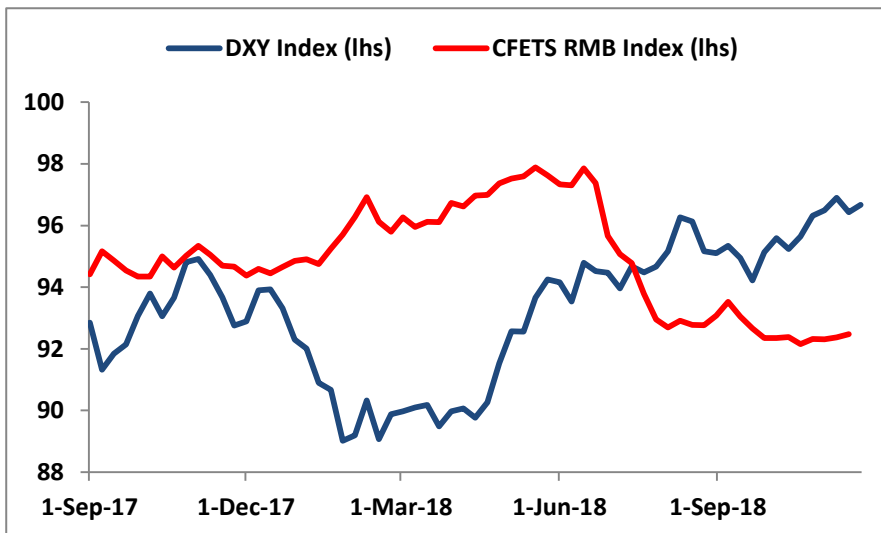
Charts We Monitor

Chart 1: Repo Rates and OMO Rates Came Off



Source: Bloomberg Calculation, Maybank FX Research & Strategy

Chart 2: Yuan Is Depressed Against the Trading Partners



Source: Bloomberg, Maybank FX Research & Strategy

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Published by:



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