

## RMB Watch

# “Very Close” But May Not be “Equal”

### “Very Close” but “Equality” May be Hard to Achieve

*“Contrary to negative media reports, China and the US are very close to the phase one trade deal, and China remains committed to continuing talks for a phase two or even a phase three deal with the US, on equal footing, experts close to the Chinese govt told GT (Global Times)”. - @globaltimesnews*

The above tweet by Global Times can be construed positively as it echoes Trump’s words that the two nations are “very close” to a deal. China also announced that the penalties of intellectual property theft could be raised (by lowering threshold for criminal punishments); stepping up on its commitment to US on one of its core demands of the trade-deal and underscores China’s determination to cut a deal. However, equally important is the fact that Global Times mentioned “equal footing” in its tweet. Last Fri, China President Xi Jinping spoke about getting an agreement on the “basis of mutual respect and equality”. On that, Trump disagreed -

“This can’t be like an even deal, because we’re starting off on the floor and you’re already at the ceiling. So we have to have a much better deal”.

The unwillingness of Trump to grant a “fair” deal for China could mean he prefers a deal without significant rollback of tariffs. While USDCNH has been hovering under the 7.05, 12M USDCNY forward points have been trending higher, underscoring doubts that market players have already begin to set in. This could be reflected in USDCNH and USDCNY spot prices sooner or later.

### 12M USDCNY Forward Points Have Been Trending higher, Underscoring Doubts on the Trade Deal

#### Analysts

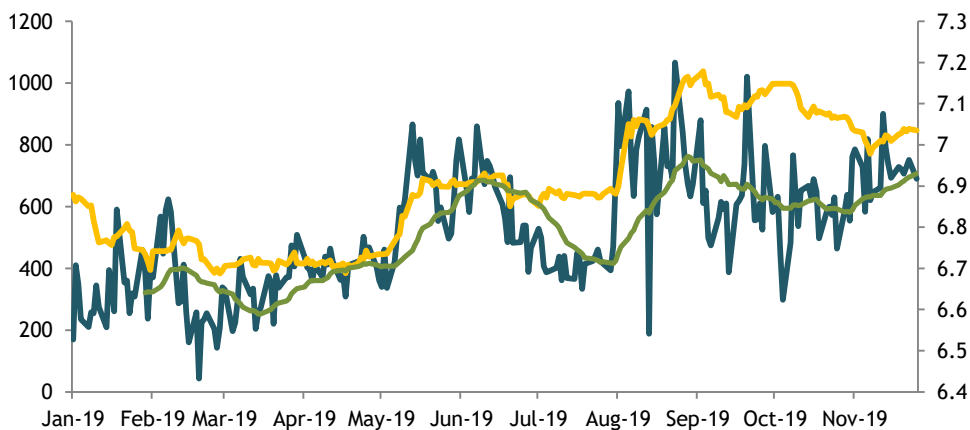
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— CNY 12M Forward Points  
— USDCNY (rhs)  
— 21 per. Mov. Avg. (CNY 12M Forward Points)



Source: Bloomberg, Maybank FX Research & Strategy

### Trump Has Been Polite on the Hong Kong Bill

China has repeatedly urged the US not to "meddle in affairs" and President Xi, at the New Economy Forum last Fri, even spoke of not repeating past "humiliations" and that China "will not shy from retaliation if necessary". Insofar, Trump refused to comment on whether he would sign the bills supporting Hong Kong's protestors. He merely acknowledged that the turmoil there is a "complicating factor". These Acts (in support for Hong Kong protestors) have overwhelming bipartisan support and (as we have mentioned before) Trump could be caught in a rock and a hard place - an approval could incur the wrath of China and hurt the chances of a trade deal while a veto could hurt his re-election bid in 2020.

*The likelihood of a complete derailment in US-China negotiations is still relatively low, given the recognition of the pains it would inflict on both sides. However, a delay of the partial agreement into 2020 cannot be ruled out and would mean that USDCNY could drift higher as more doubts on the US-China trade deal could seep into the markets in the next few weeks.*

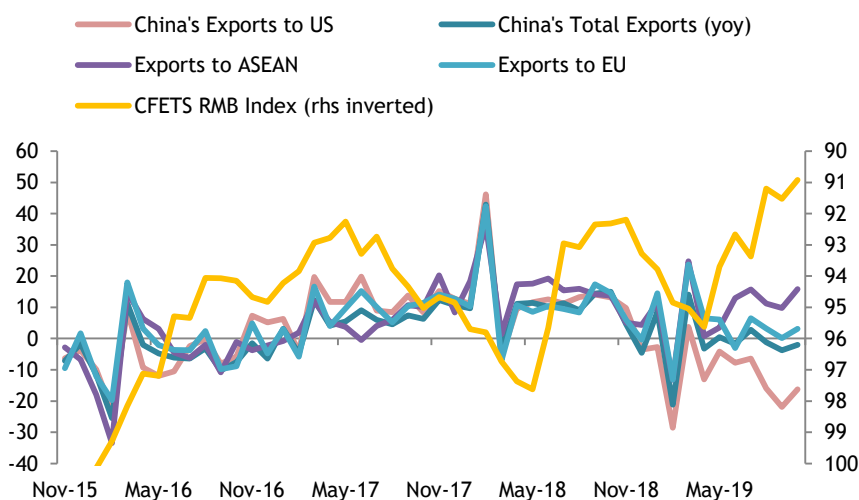
In the absence of cues, there are **a couple of dates that we watch** in the near-term.

**By early Dec** - Trump has to approve/veto the two bills - The Hong Kong Human Rights and Democracy Act and the Protect Hong Kong Act. Trump typically needs to approve/veto within 10 days but Congress is adjourned on Thanksgiving so he has a few more days to decide.

**15<sup>th</sup> Dec** - 15% tariff on est. \$156bn of Chinese goods to come into effect. This could be postponed.

We maintain a view that further RMB gains could be elusive. Apart from the symbolically important action of reducing loan prime rate (1Y and 5Y) by 5 bps last week, we also note that the CNY has been fixed weaker against most trading partners based on weights of the CFETS index. This suggests that apart from some efforts to ease lending rates at home, the CNY is also being guided lower against most trading partners, allowing its exports to maintain some competitiveness as growth becomes more challenging and a trade deal with the US is still uncertain.

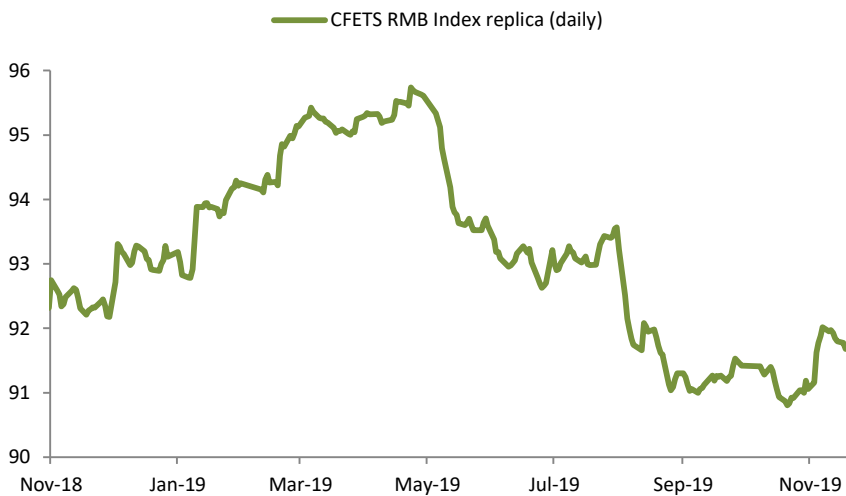
### Weak Exports Growth Suggests that RMB TWI May Need to Weaken Further



Source: China General Administration of Custom, CFETS, Maybank FX Research & Strategy

The CNY daily reference rate has been fixed on a weakening bias (against its trading partners) since early Nov.

**CNY TWI (CFETS Weighted) has been Weakening Since Early Nov**



Note: The above index is based on daily CNY fixes.

Source: Bloomberg, Maybank FX Research & Strategy

USDCNH (last seen at 7.0314) could see near-term retracement back towards 7.00 but on the weekly chart, stochastics show signs of turning higher. A break of the 7.0515 would open the way towards 7.0730 (50-dma) before the next at 7.1070 (23.6% Fibonacci retracement of the Jun-Aug rally). Support at 7.0066 before 6.9620. We continue to look for mild RMB weakness and hold our year-end forecast for USDCNY at 7.10.

**USDCNH (Weekly) - Still on an Uptrend**

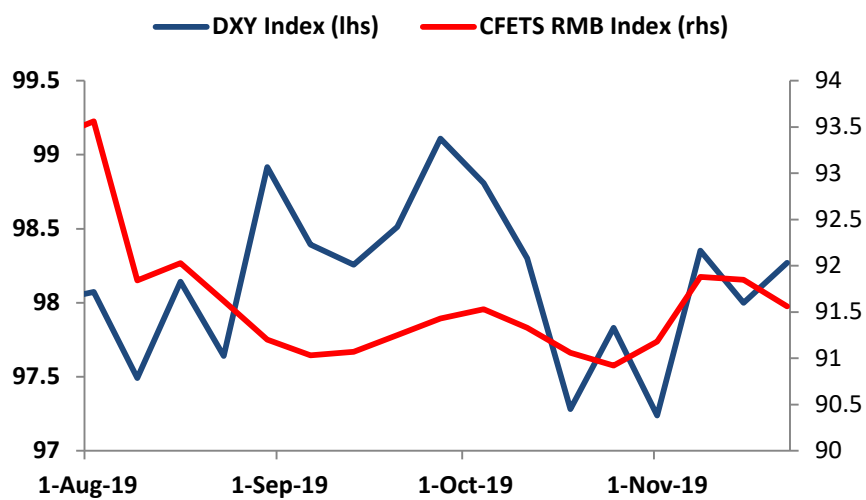


Source: Bloomberg, Maybank FX Research & Strategy

## Upcoming Events to Watch in The Next Two Weeks

Nov-Dec	- US-China Trade Deal Date/Venue to be announced
27 <sup>th</sup> Nov	- Industrial Profits for Oct
30 <sup>th</sup> Nov	- NBS Mfg PMI, Non-Mfg PMI, Composite PMI for Nov
Early Dec	- Trump to Veto/Approve the Hong Kong Acts
2 <sup>nd</sup> Dec	- Caixin PMI Mfg for Nov
7 <sup>th</sup> Dec	- Nov Trade Data

## CNY TWI Softens in Line with DXY



Source: Bloomberg, Maybank FX Research & Strategy

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