

RMB Watch

Fear of the 7 is Growing

Keeping Monetary Stance Prudent and Neutral

RMB weakness could be forming a vicious circle for PBoC monetary policy. The central bank skipped repo operations for the first time this week after injecting an accumulative net CNY520bn for the past five sessions. The sizeable liquidity injection has brought the average-weighted open market operation rates from 3.28% seen last Thu (18 Oct) to 3.21%. The skip in repo operations resulted in a net drain of CNY30bn this morning and the average-weighted OMO rate steadied at 3.21%. We suspect that the deleveraging efforts may not entirely come to a standstill and the decline in money market rates could slow from here. PBoC had recently reiterated their monetary stance to be prudent and neutral. That could mean that OMO rates may just hover within the range and liquidity injections might be needed to prevent rates from rising.

In fact, the weakness in the RMB could continue to drive the capital outflows and that can contribute to a squeeze on the onshore liquidity and rates to be biased to the upside. This was underscored by the latest release of the FX sales by banks on behalf of clients and the banks have sold USD16.11bn of foreign exchange on behalf of their clients, the most that we have seen since Jun last year. The statement that accompanied the data release from SAFE assured that China will take comprehensive measures to maintain a stable foreign-exchange market including policies to facilitate trade and investment, and continuous crackdown on violations. The impact on cross-border capital flow from the trade conflict is controllable at present and China's capital market is still expected to attract inflows.

Analysts

Saktiandi Supaat
(65) 6320 1379
saktiandi@maybank.com.sg

Fiona Lim
(65) 6320 1374
fionalim@maybank.com.sg

Christopher Wong
(65) 6320 1347
wongkl@maybank.com.sg

Leslie Tang
(65) 6320 1378
leslietang@maybank.com.sg

Chart 1: Signs of Capital Outflow

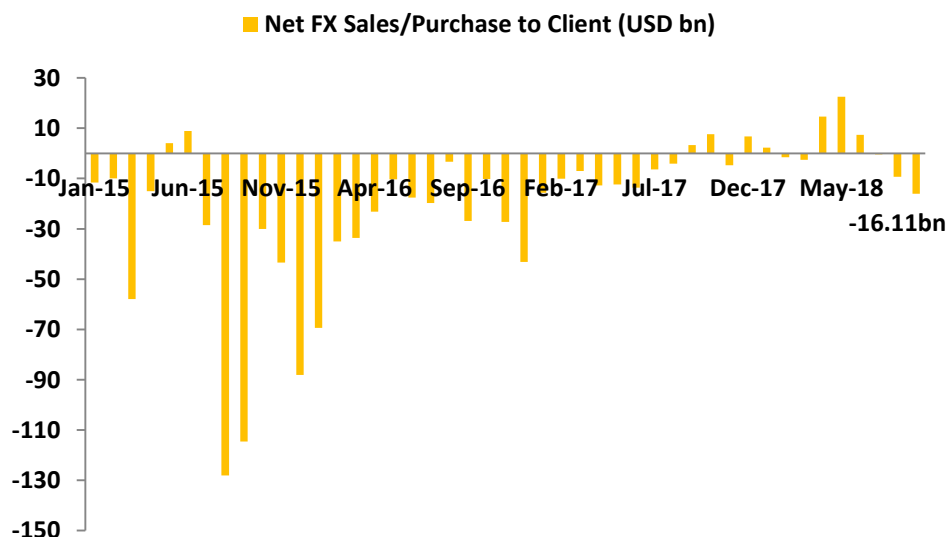
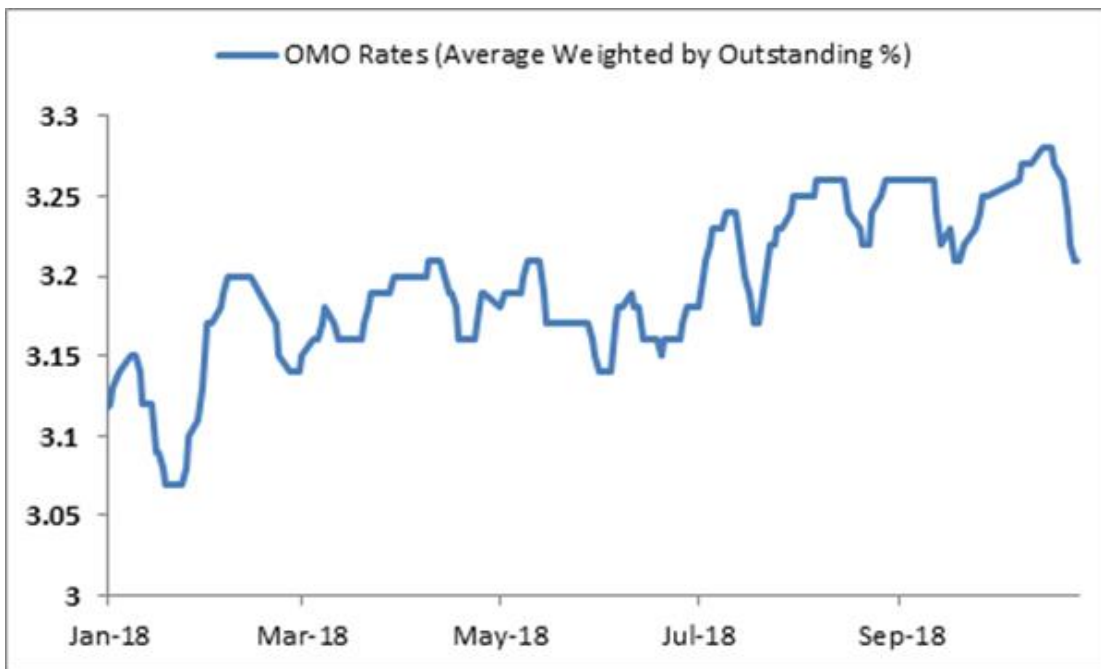
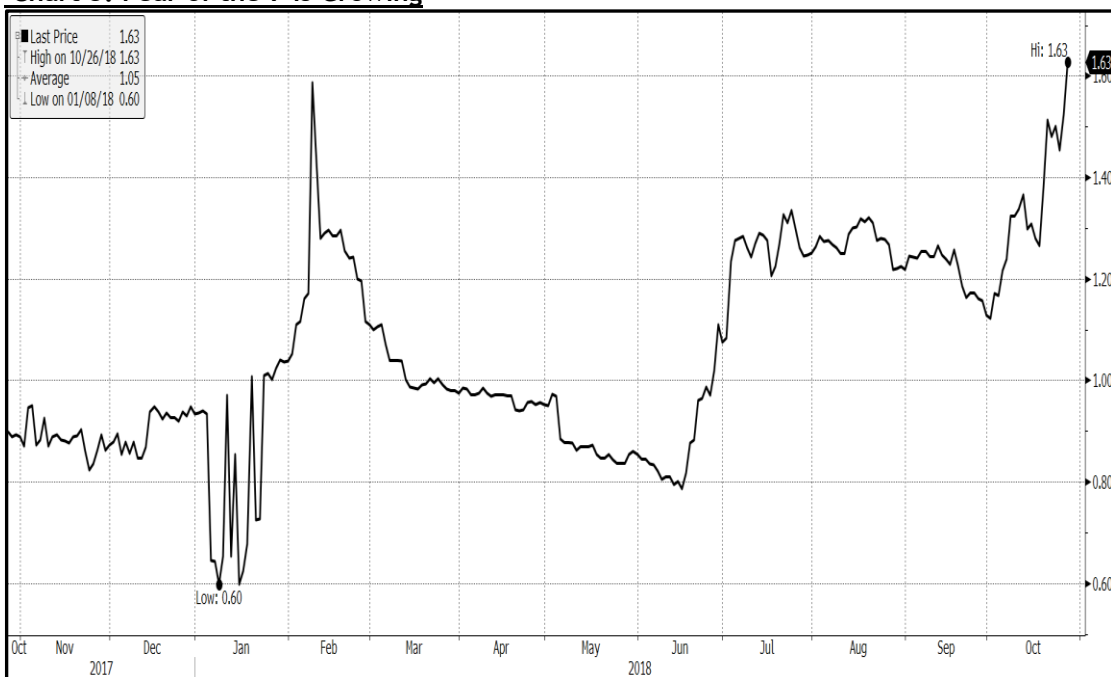


Chart 2: OMO Rates Could Remain in Established Range

The fear of the 7 is all the more underscored by the rise in the 10 delta USD call CNH put.

Chart 3: Fear of the 7 is Growing

Source: Bloomberg

Pressure on the RMB is building and while there could be efforts to prevent USDCNY to hit the 7 before the G20 Summit on 30 Nov, the key psychological level can still be breached within this year given the amount of bets against the RMB. Eyes are on tonight's GDP print and any miss there may provide short-term relief for this pair.

RMB On The Technical Charts

(USDCNH daily) - 7 Could be Coming



USDCNH was last seen around 6.9615 after hitting a high of 6.9769. Bullish momentum is intact. Stochastics as well. Support is seen at 6.9175 (21-dma). Next resistance at 6.9895 (2017 highs) and subsequent support level is seen at 6.81 (23.6% Fibonacci retracement).

(USDCNH Weekly) - Bullish Momentum Wanes



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>
16 Oct	<p><u>Modest Inflationary Pressures</u></p> <p>CPI rose, in line with median forecast, to 2.5%y/y from previous 2.3%. PPI slipped to 3.6%y/y from previous 4.1%.</p>	<p>Inflationary pressure rose in Sep on the back of acceleration in many of the food subcomponents. However, the non-food subcomponent (that includes clothing, healthcare, transportation and communication, education culture and entertainment and residence) slowed to 1.7%. Services also slowed to 2.1%y/y from previous 2.7%, possibly dampened by slower domestic demand.</p>	<p>— CPI — Core CPI — CPI (non food) — Service</p> <p>Jan-15 Jul-15 Jan-16 Jul-16 Jan-17 Jul-17 Jan-18 Jul-18</p>
17 Oct	<p><u>Aggregate Financing beat expectations</u></p> <p>Aggregate financing surprised to the upside with an amount of CNY2.21trn vs. the expected CNY1.553trn with an inclusion of a new item - the net local government special bond financing.</p>	<p>Much of the credit growth in the month was from traditional loans rather than shadow financing components. However, what was included in the credit number this time was the special loan government bond issuance. Money supply M2 growth was steady around 8.3%y/y. Aggregate financing actually moderated to 10.5%y/y from previous 10.8%.</p>	

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

Date	Events/Data Headlines	More Details, Impact and Views	Relevant Charts (if any)
19 Oct	<p><u>GDP shocks to the downside</u></p> <p>GDP came in at 6.5%/y vs. previous 6.7%.</p>	<p>China's growth print came out to be around 6.5%/y for 3Q, retail sales at 9.2%/y vs. the previous 6.0%. Industrial production slipped further to 5.8%/y from previous 6.1% while FAI firmed a tad to 5.4%/y (ytd) from previous 5.3%. <i>Consumption and investment remain the main drivers of growth and to cushion the slowdown that comes when the US' tariffs on US\$200bn of Chinese goods gets bumped up to 25% from 10%.</i></p>	<p>— Retail sales (yoy) — Fixed Assets Inv: ytd: Growth</p>
20 oct	<p><u>Tax Savings Ahead</u></p> <p>China released a detailed draft plan for personal income tax cuts.</p>	<p>Taxpayers can claim deductions for expenses on health care, education, mortgage interest or rent and supporting elderly relatives. The deductible amount under each category ranges from CNY1000-2000/mth according to the plan. This comes after the tax threshold was raised earlier this year and is likely part of the plan to boost private consumption so as to cushion growth amid the imminent impact of the trade tariff on net exports into 2019.</p>	
23-Oct	<p><u>More Corporate Bond Financing</u></p> <p>State Council announced that it would support bond financing by private firms on Mon.</p>	<p>This comes after President Xi had pledged "unwavering" support for the private sector. PBoC also announced a CNY150bn increase in its re-lending and re-discounting quota. The central bank said support is meant for companies "suffering temporary difficulties but which have market share, prospects and technological competitiveness".</p>	

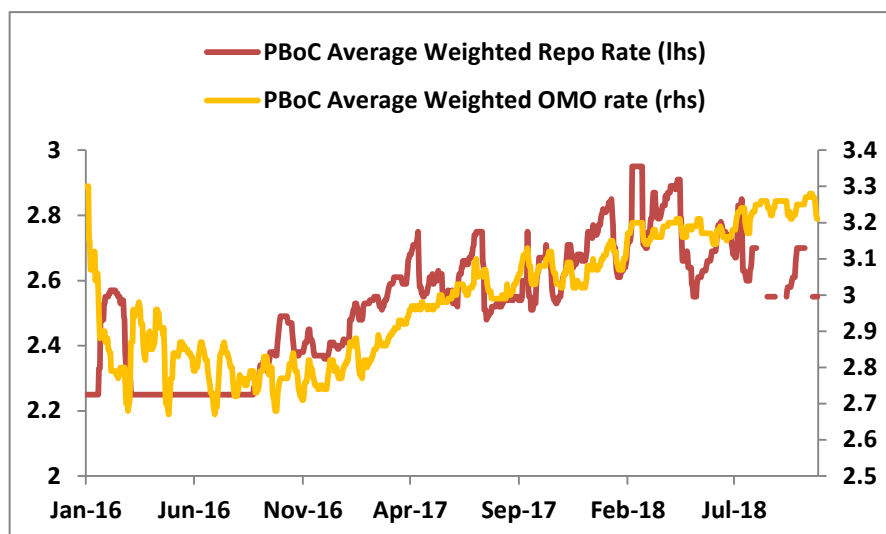
News Sources from Xinhua, Bloomberg, China Daily, China Securities Journal, China Business News, People's Daily; Data from CEIC, Bloomberg, NBS, SAFE, PBoC

Upcoming Events to Watch in The Next Two Weeks

26 Oct	- US GDP
27 Oct	- Industrial Profits
31 Oct	- PMI-mfg, Non-mfg PMI
1 Nov	- Caixin PMI Mfg
5 Nov	- Bop Current Account (3Q)
7 Nov	- Foreign Reserves
8 Nov	- Trade (Oct)
9 Nov	- CPI, PPI (Oct)

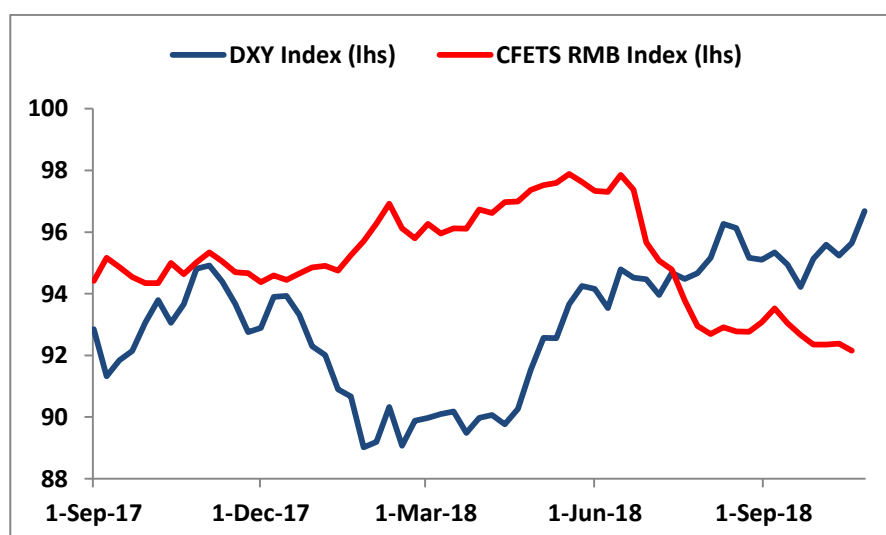
Charts We Monitor

Chart 1: Repo Rates and OMO Rates Came Off



Source: Bloomberg Calculation, Maybank FX Research & Strategy

Chart 2: Yuan Weakens Against the Basket



Source: Bloomberg, Maybank FX Research & Strategy

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Malayan Banking Berhad
(Incorporated in Malaysia)

Saktiandi Supaat
Head, FX Research
saktiandi@maybank.com.sg
(+65) 63201379

Christopher Wong
Senior FX Strategist
wongkl@maybank.com.sg
(+65) 63201347

Fiona Lim
Senior FX Strategist
Fionalim@maybank.com.sg
(+65) 63201374

Leslie Tang
Senior FX Strategist
leslietang@maybank.com.sg
(+65) 63201378