

RMB Watch

Watch The Head and Shoulders

Head and Shoulders Watched

The last issue of the RMB Watch published on 16th Sep was (again) spot-on about the retracement of the RMB as we looked for “this leg of the (RMB) rally to be almost done”. We had also expected consolidation to be within 7.03-7.12. As we head into the 70th Anniversary of the People’s Republic of China celebrations, USDCNH has risen to levels around 7.12 (which coincides with our 3Q forecast) at last check and we now monitor a probable head and shoulders formation for the USDCNH that could usher in the next (and larger) leg of the RMB rally.

To be sure, this probable head and shoulders formation was briefly mentioned in the last issue, as we had looked for a (USDCNH) retracement to potentially form the right shoulder. However, even as we write at this point, the dominant driver of the RMB is still trade-talks progression and visibility remains poor and getting worse with the US impeachment proceedings against Trump. The recent move to approve a bill by the US Congress to check the autonomy of Hong Kong may even complicate upcoming high-level trade talks scheduled to take place 10-11 Oct. As we move into a probable black out period without the USDCNH fixing as onshore markets closed from 1-7 Oct, it could be useful to check the usual indicators that served us well.

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
- Tan Yanxi
(65) 6320 1378
tanyx@maybank.com.sg

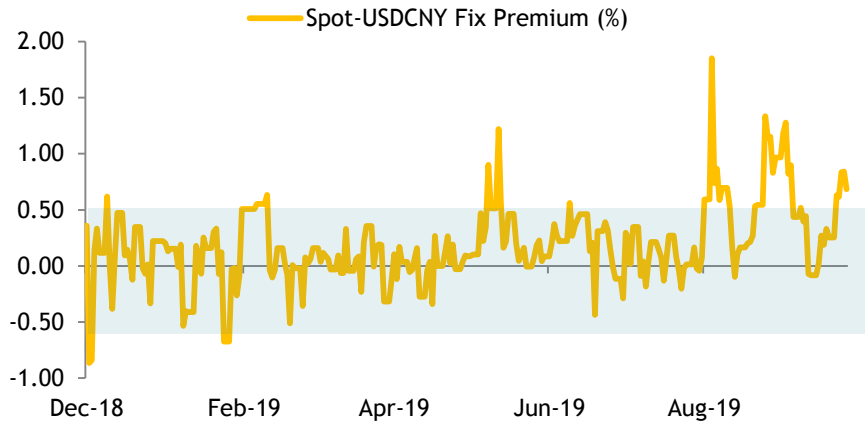
Head and Shoulders Seen for USDCNH Daily Chart



Source: Bloomberg, Maybank FX Research & Strategy
Every yellow label denotes a report and our MBB (Maybank) View stated within the note.

The USDCNY has drifted quite a bit higher to levels around 7.12 but PBoC has kept the daily USDCNY reference rate suspiciously stable at around 7.07. This can be due to the 70th Anniversary of the People’s Republic of China and investors also believe that the support by the central bank could be undone after the hugely symbolic event. We note that the USDCNY now trades around 0.8% above the USDCNY fix. Deviation of this magnitude does not last long and we had used this observation to argue for the USDCNY fix to beckon the spot on 30th Aug.

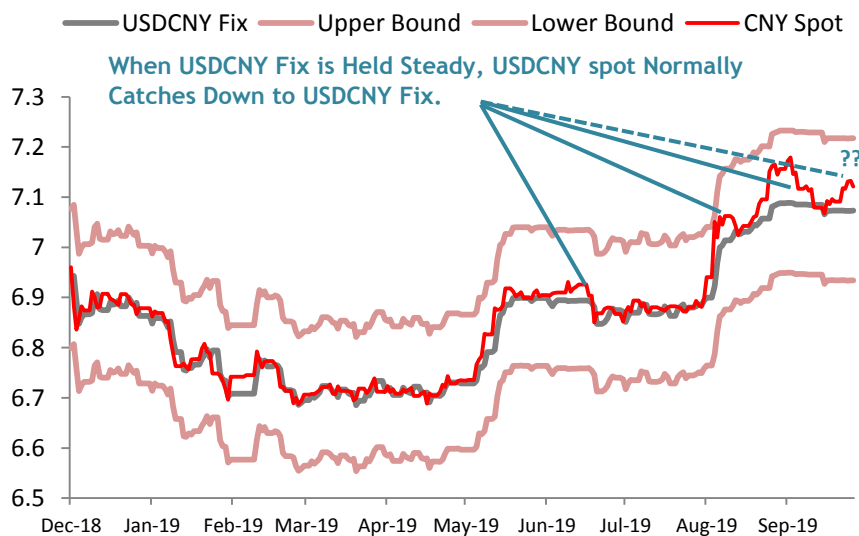
USDCNY Spot- Fix Spread Typically do not exceed than 0.5%



Source: Maybank FX Research & Strategy, Bloomberg

However, this signalling becomes unclear as onshore markets will soon be on a week long hiatus for National Day Celebrations and back only on the 8th Oct (Tue). This also means no daily USDCNY fix from 1-7th Oct. The fix on the 8th Oct will be key for FX policy guidance from the central bank and in our view, China’s confidence/optimism of trade talks progression to be held 10-11 Oct. For more clues, we watch any policies formed at the 4th Plenary Session of the CPC. Despite the potential opacity, the past three similar episodes suggest that risks could still be to the downside.

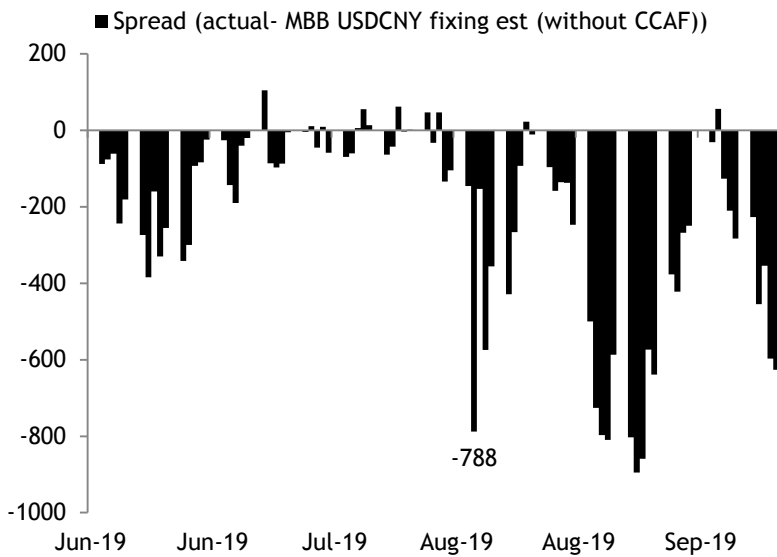
USDCNY Spot Usually Catches Down to an Unusually Stable USDCNY Fix



Source: Maybank FX Research & Strategy, Bloomberg

We also like to refer to the projections from our own USDCNY fix model to have a gauge of policy guidance from PBoC. To no one's surprise, the deviation between our estimates and the ever-stable USDCNY fix (this time at the 7.07 handle) has been widening. As we have noted before, keeping the USDCNY fix stable is unsustainable in a strong USD environment.

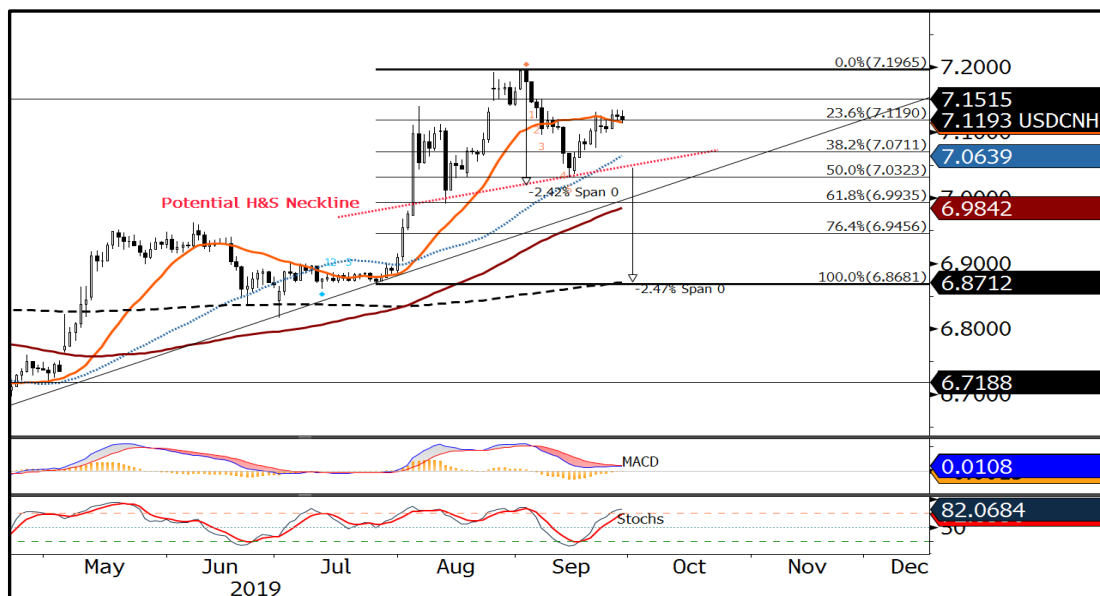
PBoC has been keeping the CNY stable with the USDCNY Fix



Source: Maybank FX Research & Strategy Estimates, Bloomberg, BIS, CFETS

Allowing the USDCNY fix to capitulate towards the USDCNY spot could mean a period of FX volatility and may require a subsequent intervention to stem a downward spiral of the CNY unless USD softens substantially from here. That situation cannot be ruled out but it is an unlikelier situation in our view. Onshore markets in Hong Kong will be out only on 1st Oct and 7th Oct so USDCNH could be more reflective of market forces.

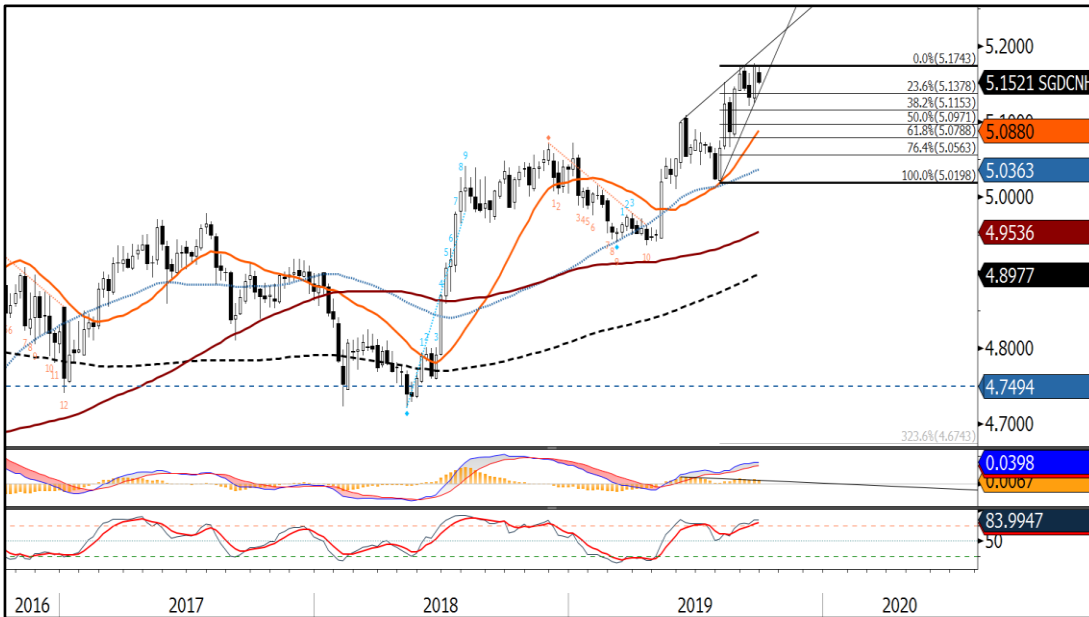
USDCNH (Daily) - Head and Shoulders



Source: Maybank FX Research & Strategy, Bloomberg

Base on the USDCNH daily chart, we continue to watch the head and shoulders formation, a bearish formation with a slanted neckline (marked by 13-Aug low of 6.9908 and 7.0312) that needs to be broken at around 7.05, depending on the formation of the right shoulder. The right shoulder could peak between 7.12-7.15. This leg of the RMB rally could bring the USDCNH below the 7-figure towards 6.9. We hold our short USDCNH here at 7.11 (25 Sep) for then first target of 7.03 before 7.0 and then at 6.95, 6.90. Stoploss at 7.19. Risk reward ratio of 1:2.63. Breach of the 7.20 would negate this H&S formation and extend uptrend.

SGDCNH (Weekly) - Bearish Divergence, Rising Wedge



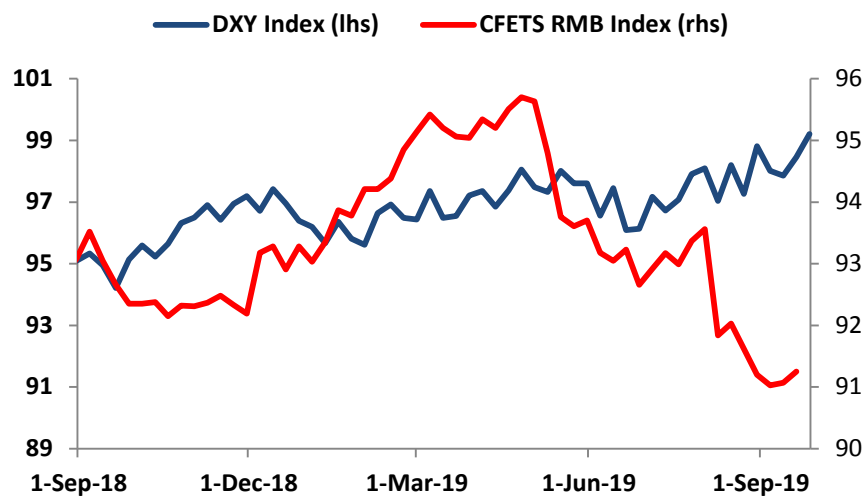
Source: Maybank FX Research & Strategy, Bloomberg

We also like to hold our short SGD against the CNH position mentioned in our GM daily (24 Sep) as we see a rising wedge for this cross. The weekly chart shows a formation of a rising wedge with an apex around Oct. We can anticipate a reversal towards 5.0970 before the next target at 5.0788 from spot which is around 5.1620 (24 Sep). Stoploss at 5.20 with a risk-reward ratio of 1:2.19. This is a one-month view. Failure to break above the recent high of 5.1750 could mean a double top in the making (clearer on the daily chart), also a bearish set up for the SGDCNH.

Upcoming Events to Watch in The Next Two Weeks

- 30th Sep - NBS PMI-mfg; Caixin PMI (Sep)
- Oct - Fourth Plenum of the CPC
- 1st - 7th Oct - Market Closure for National Day Holiday
- 8th Oct - Caixin Services, Composite PMI (Sep)
- 9-15th Oct - Money Supply M2 Growth, New Yuan Loans, Aggregate Financing

CNY TWI Stabilizes as DXY Looks Increasingly Toppish



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

Yanxi Tan
FX Strategist
tanyx@maybank.com.sg
(+65) 63201378