

RMB Watch

Looking for The Skew

The Hurdle to a Deal/Truce is High

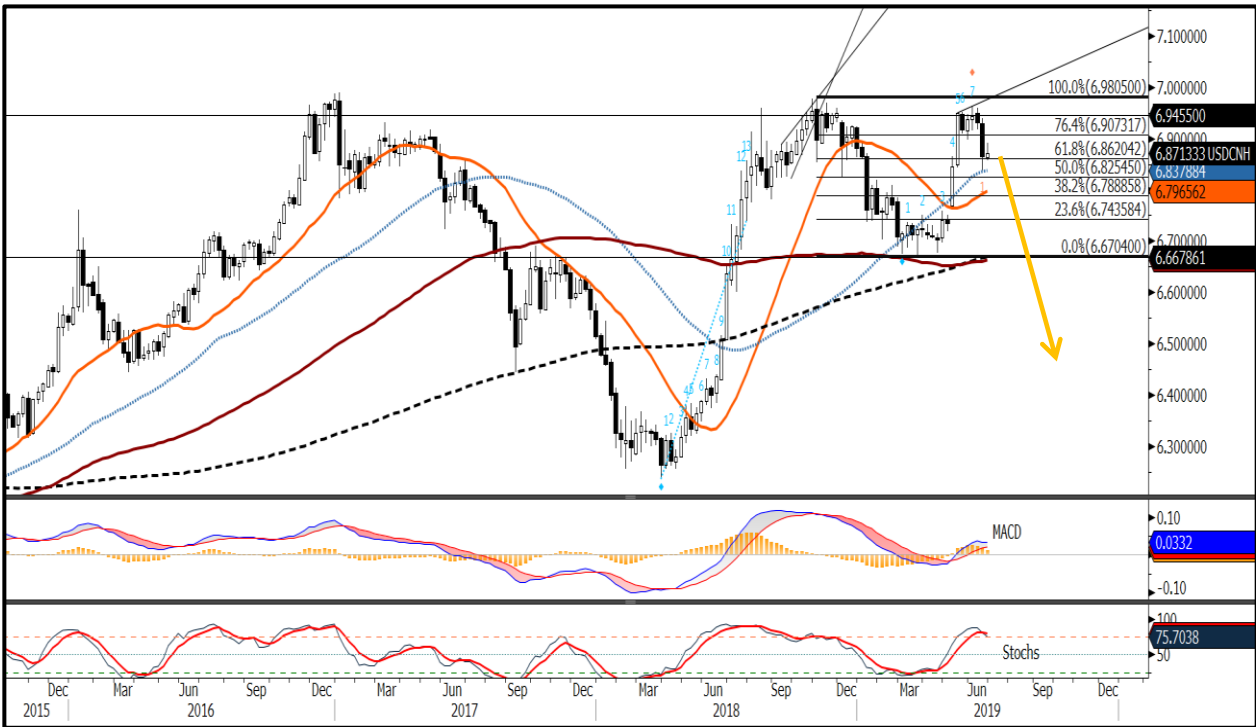
Even as we looked for a stable CNY in the last RMB Watch dated 14 Jun, we (1) positioned for EURCNY to come off towards 7.74 before rebounding higher. That had played out quite well with the EURCNY coming off to a low of 7.72 before rebounding to a high of 7.85. Our (2) call for AUDCNY to rebound also came to fruit, albeit not reaching our target of 4.88 yet, but it has risen from 4.73 (as of the date of the note) to 4.81 as we write now. For (3) MYRCNY, we had looked for this cross to head towards the support around 1.6450 and the cross fell from levels around 1.66 to a low of 1.6447 before rebounding recently.

At this point, we are faced with a fairly uncertain event this weekend - the Trump-Xi meeting at the G20 Summit in Osaka. Putting together Trump's threats of more tariffs (should the meeting not go well tomorrow), a rumoured list of precondition terms that China's Xi is supposed to present for the trade agreement which includes a request to remove the ban on the sale of US technology to Huawei, the rollback of all tariffs as well as to push back efforts by the US to get China to buy more US products, the bar is still rather high for a positive outcome. In addition, PBoC reminded investors yesterday that the central bank will "adopt countercyclical adjustment when appropriate", suggesting that the central bank is now prepared to prevent the RMB from weakening too much against the USD. We thus like to fall back on the technical analysis to give a sense of where the markets are leaning towards.

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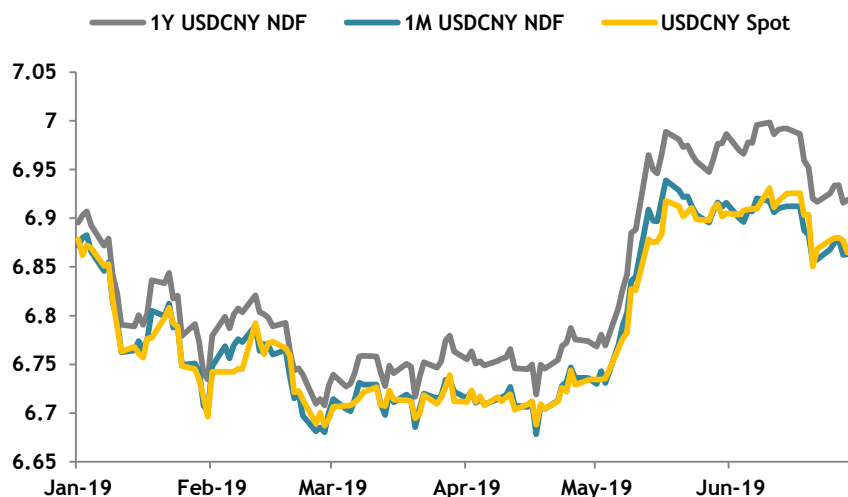
USDCNH (Weekly) - Probable Double Top, Bearish



Source: Bloomberg, Maybank FX Research & Strategy

Even as the outcome of the Trump-Xi meeting can swing the USDCNH in either way, the weekly USDCNH chart on the first page suggests that bias is still to the downside with stochastics in overbought condition and a probable double top already formed around the 6.96-figure. Both momentum indicators show signs of turning lower at this point. Last seen around 6.87. Next support at 6.8250 before the next at 6.79 and then at 6.74. Resistance at 6.91.

Markets Are Gearing for A Truce?



Source: Bloomberg, Maybank FX Research & Strategy

While a deal or even a truce could be difficult to reach, it is still not entirely impossible as signs of strains from the tariffs imposed by the US on China (and vice versa) are showing in economic data and also in global central banks' guidance. Thus, both US and China are likely to have enough motivation to present at least a positive outcome. In addition, since PBoC seems to be ready to slow the upmove in USDCNH with a reminder of the countercyclical adjustment factor and that skews the risk reward ratio in the favour of the CNH. So we still think risk is still skewed to the downside for USDCNH.

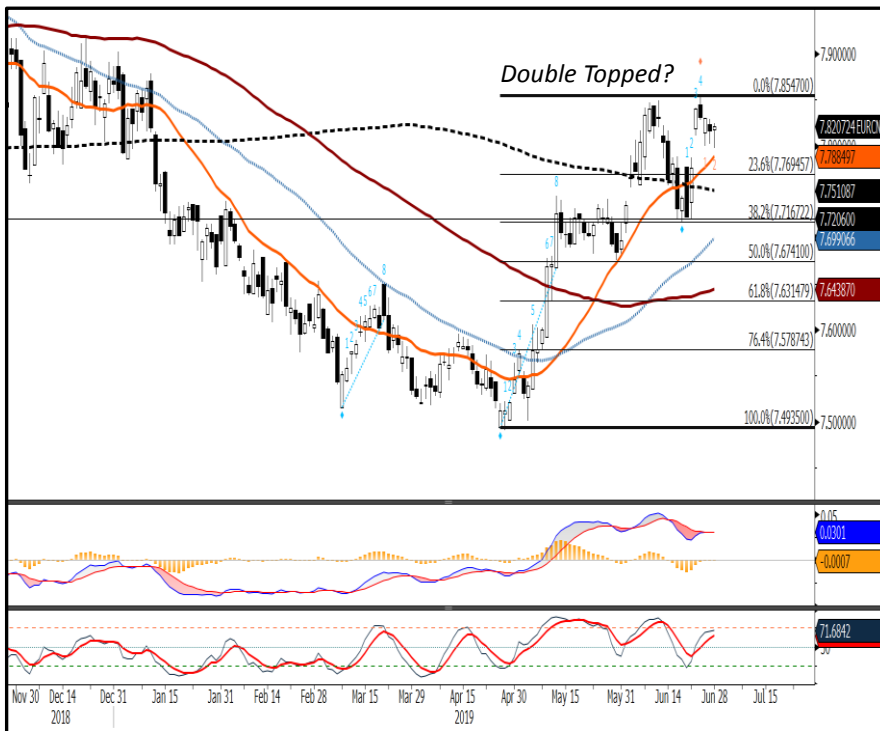
Based on our FX Insight just released today, the move in the USDCNH lower is more likely to be decisive in our optimal scenario. In fact, according to the analyses that we have done [here](#), there are three basket plays we could play by stripping out the USD component and using the historical betas of the currencies below.

A "grey swan" scenario of protracted period of trade tension (with risk of new tariffs being added), alongside softer oil prices, Fed easing bias in response to downside risks to growth favors long JPY, CHF, PHP vs. Short CNH, TWD, KRW and CAD. As a subset of the "grey swan" scenario to position for defensive Relative Value (RV) play within the Asian FX space, our analysis suggests a RV basket FX play on long low-beta FX vs. short high-beta FX: long THB, PHP, JPY vs. Short in KRW, AUD, NZD.

But in the optimal scenario of simultaneous occurrence post G20 meeting in Osaka, of (1) US-China trade truce (i.e. with chance of partial removal of tariffs);

(2) Fed adopting an easing bias as seen from the last FoMC meeting; and an environment of supported oil prices, AUD, NZD, MYR and SGD will outperform. A continued protracted US-China trade/tech war would support the "grey swan" and defensive play related FX strategies mentioned above.

EURCNY - Double Topped?



EURCNY - Double Topped

EURCNY touched a low of 7.72 before making a rebound thereafter, in line with what we had looked for in the last RMB Watch. This cross had a probable double topped when it touched a recent high of 7.85 on its rebound and the failure to move beyond this level leaves this cross vulnerable to further pullback towards 7.72 (first objective) before the next at 7.67 (50% Fibonacci retracement of the recent Apr-Jun rally).

AUDCNY (Weekly) - Forming A Base



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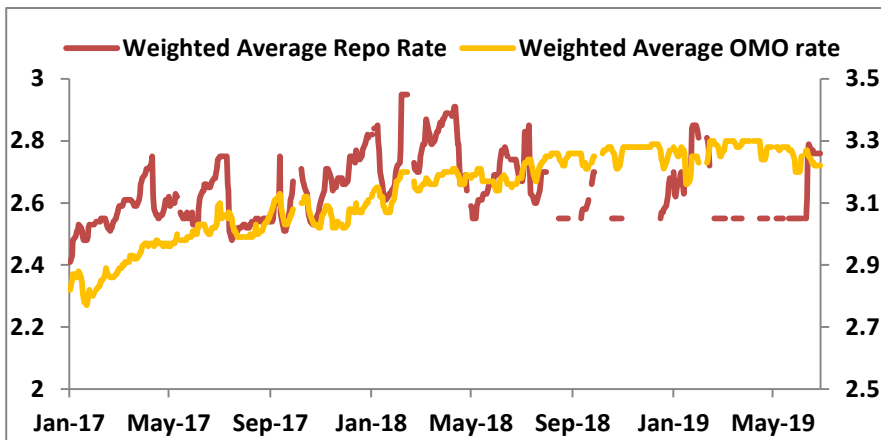
AUDCNY was last seen around 4.8120. This cross continues to show modest upside pressure according to the momentum indicators. We continue to see upside risks to this cross towards the next at 4.8850 (50-wma). We also see a probable triple bottom around the support area (4.70), a bullish reversal price set-up.

Upcoming Events to Watch in The Next Two Weeks

- 28-29 Jun - G20 Summit in Osaka
- 30 Jun - Composite PMI , Mfg and Non-mfg PMI (Jun)
- 1 Jul - Caixin China PMI-mfg
- 7 Jul - Foreign Reserves
- 7-15 Jul - Monetary Data
- 10 Jul - CPI, PPI
- 12 Jul - Trade data

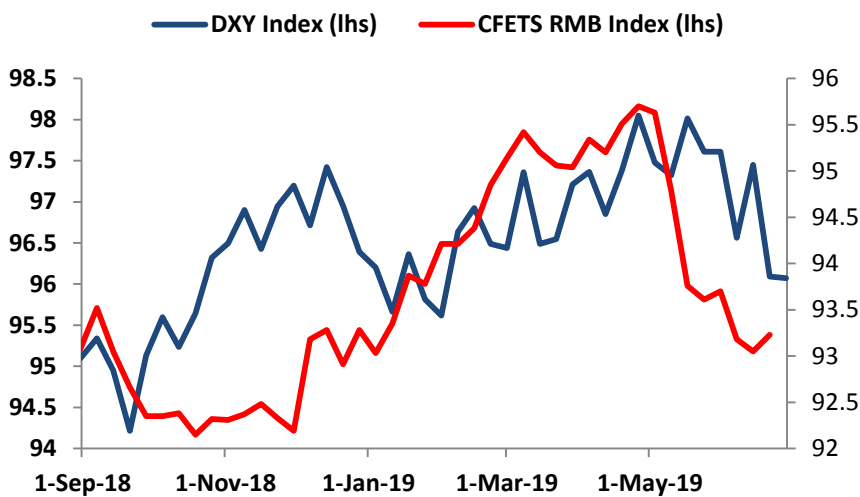
Charts We Monitor

Chart 1: OMO rates and repo rates have been trading in a tight range



Source: Bloomberg Calculation, Maybank FX Research & Strategy

Chart 2: CNY TWI Moves in Tandem with DXY More Recently



Source: Bloomberg, Maybank FX Research & Strategy

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