

## RMB Watch

# Steady Into the Centennial Celebrations

### Strength To Return?

#### Key Points:

- The Fed surprised with a hawkish shift and the USD strengthened against almost all currencies, including the RMB. The USDCNH started to turn lower in the latter half of last week as the centennial anniversary of the Chinese Communist Party approaches on 1st Jul. PBoC had been injecting more liquidity via the OMOs. Overnight repo rate fell around 30bps towards 1.52% last Fri before rising a tad today. PBoC clearly wishes to ensure ample liquidity ahead of the event as well as seasonal demands. Domestic equity indices (such as Shanghai Composite in the chart below) also rose.
- To support the RMB, PBoC has set the USDCNY reference rate below the daily estimates (released ahead of the actual fix) for a few consecutive days, a most apparent shift. This resulted in the USDCNH making a more decisive turn lower. We also noted that the US-CH daily vaccination spread seems to be somewhat correlated with the USDCNY in recent weeks and as the US vaccination pace starts to peak. With the most willing arms already vaccinated in the US, the US-CH vaccination differential has started to narrow and that could beckon some RMB strength especially if the Fed Powell keeps dovish language, US data (lower inflation prints especially) and upcoming China's data (activity, monetary) start to alleviate investors' concerns over further slowdown.
- **Technical Analysis:** USDCNH looks enroute to fall further but requires a break of the 6.40-figure for further bearish extension. EURCNH should still see two-way swings within 7.65-7.75. Meanwhile, MYRCNH can decline further but supports may hinder. SGDCNH is bias for more downside but bullish divergence flags rebound risk.

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#### What We Watch (28 Jun - 11 Jul):

Date	Data	Month
27 Jun	Industrial Profits	May
30 Jun	Non-Mfg, Mfg PMI	Jun
1 Jul	Caixin PMI Mfg	Jun
1 Jul	Caixin PMI Services, Composite	Jun
7 Jul	Foreign Reserves	Jun
9 Jul	CPI, PPI	Jun
9-15 Jul	Agg. Finance, Money Supply, New Yuan Loans	Jun
10-15	FDI	Jun

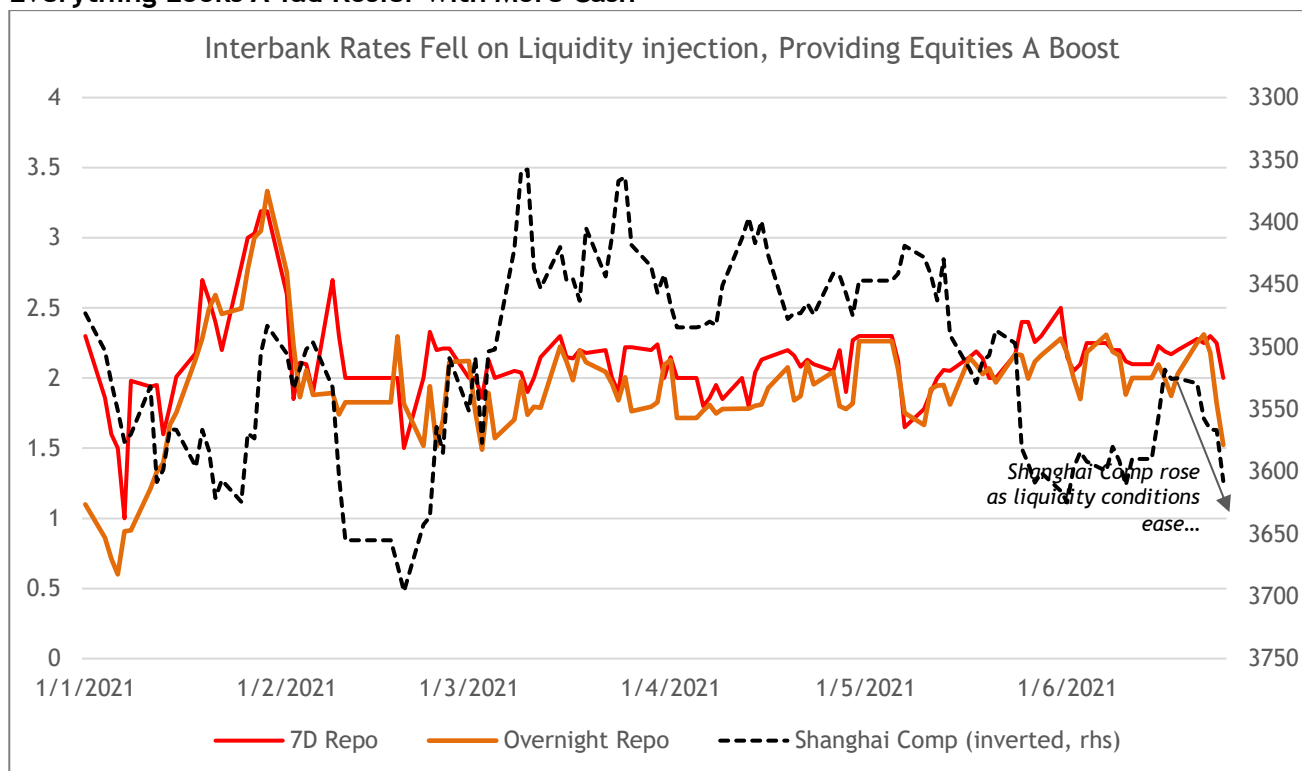
### Where Has RMB Been?

USDCNH reached towards 6.50-figure as the FOMC surprised with hawkish shift but has turned lower as the 100<sup>th</sup> Chinese Communist Party approaches. Last at 6.4590.

### Some Stability Ahead of the 100<sup>th</sup> CCP Anniversary

The Fed surprised with a hawkish shift and the USD strengthened against almost all currencies, including the RMB. The USDCNH started to turn lower in the latter half of last week as the centennial anniversary of the Chinese Communist Party approaches on 1<sup>st</sup> Jul. Fun Fact: The original founding date was supposed to be 23<sup>rd</sup> Jul 1921 but according to history, the founding date was shifted because of Mao Zedong's mistaken memory. 7-day repo rate slipped to 2.02% by the end of Fri after PBoC increased the size of OMO injections for the past few days. The 7D repo rate had been swiveling around the 2.20% since the start of the month. Overnight repo rate fell 30bps to levels around 1.52% last Fri before rising a tad today. PBoC clearly wishes to ensure ample liquidity ahead of the event as well as seasonal demands. Domestic equity indices (such as Shanghai Composite in the chart below) also rose.

### Everything Looks A Tad Rosier with More Cash



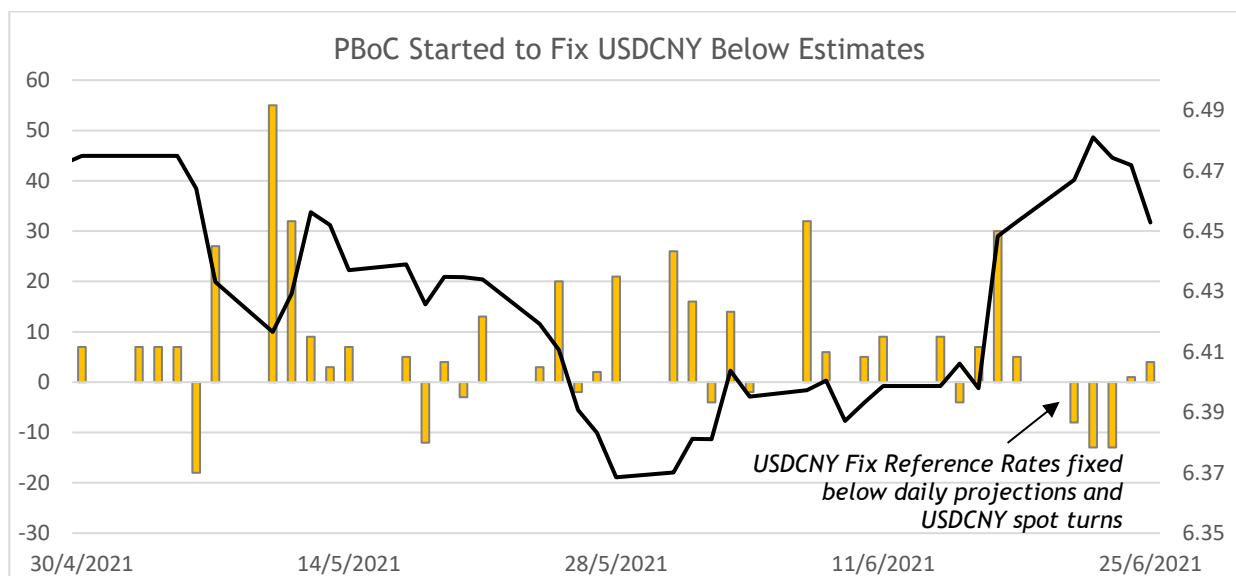
Source: Bloomberg, Maybank FX Research & Strategy

### Shifts in the USDCNY Fix Too, An Apparent Message

On the side of RMB, PBoC has set the USDCNY reference rate below the daily estimates (released ahead of the actual fix) for a few consecutive days, a most apparent shift. The actual USDCNY reference rate has been mostly fixed above the USDCNY estimates for the past few weeks. The shift in signal suggests that PBoC is now more comfortable with two-way action for the USDCNY and would possibly even prefer more stability (or rather strength for the CNY) in anticipation of the Centennial Anniversary of the Communist Party of China. So we are likely to move into a near-term

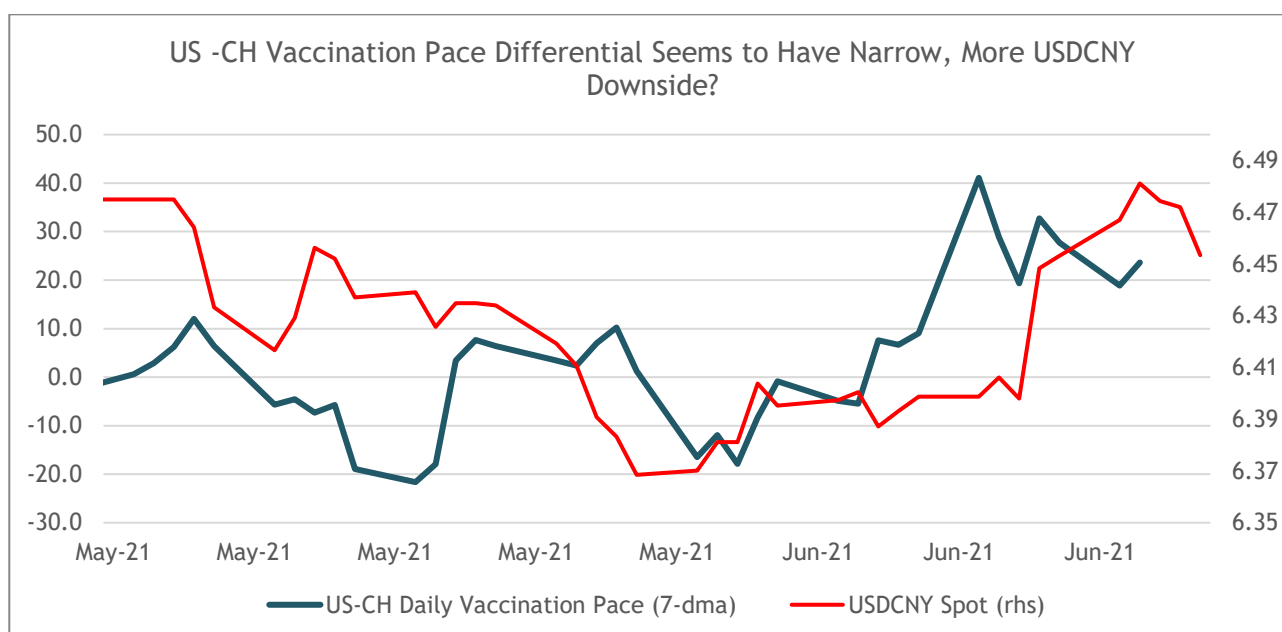
period of fewer anxiety in terms of liquidity market conditions and RMB.

### PBoC More Comfortable With Two-Way Trades Now



Source: Bloomberg, Maybank FX Research & Strategy

It is not just PBoC's guidance that can swing the USDCNY, there is evidence that in spite of China's first-in-first-out pandemic status, its vaccination pace relative to the US could still matter. After all, household spending has yet to recover fully and this could gain traction once residents feel less threatened by potential outbreaks and concomitant targeted lockdowns. The US-CH daily vaccination spread seems to be somewhat correlated with the USDCNY in recent weeks and as the US vaccination pace starts to peak. With the most willing arms already vaccinated in the US, the US-CH vaccination differential has started to narrow and that could beckon some RMB strength especially if the Fed Powell keeps dovish language, US data (lower inflation prints especially) and upcoming China's data (activity, monetary) start to alleviate investors' concerns of further slowdown.



Source: Bloomberg, Maybank FX Research & Strategy

### USDCNH (Daily)- Retracement, Eyes 6.4080



USDCNH fell to levels around 6.4560 by Fri after reaching a high of 6.4948 last week. Momentum indicators on the daily chart suggest that retracement is in order. Stochastics turn from overbought condition.

Support is seen at 6.4380 (50-dma) before 6.4180 (21-dma) and then at 6.4080.

Pair needs to break the 6.4080. Failing which, an inverted head and shoulders would form, significantly bullish for the USDCNH.

### EURCNH (Daily) - Two-Way Swings



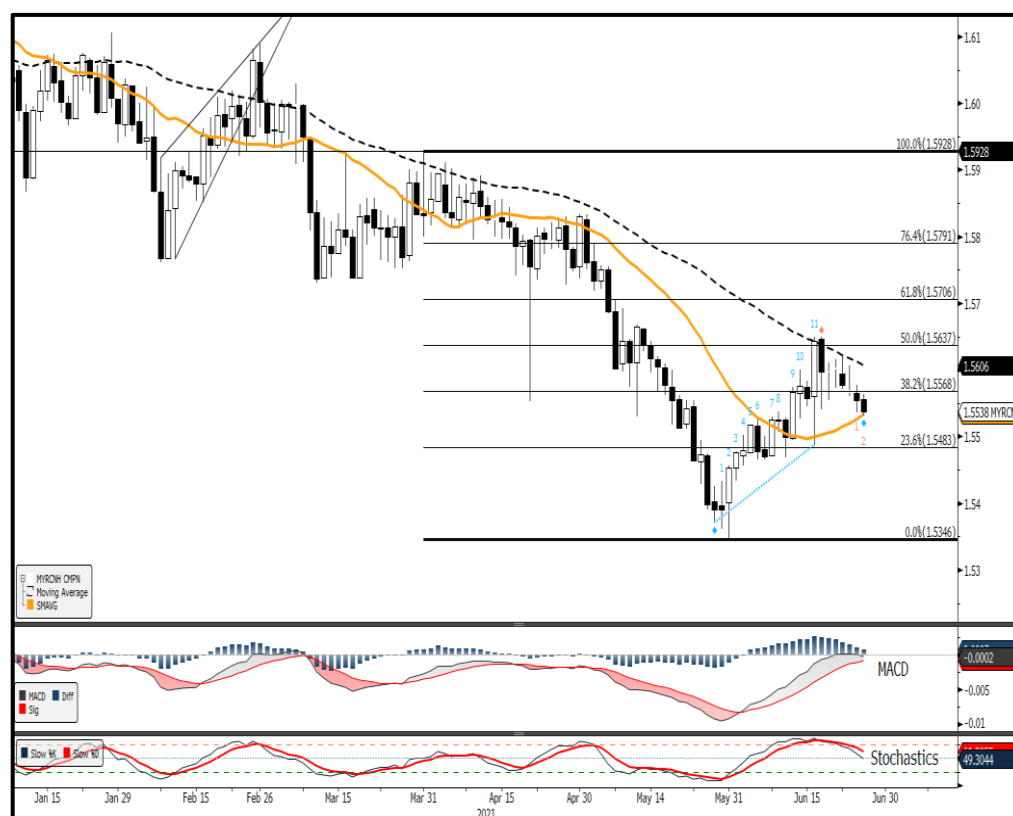
EURCNH slipped to a low of 7.6521 before making a strong rebound, last at around 7.7106. This brings to fruition our bearish view in the last RMB Watch, as well as our warnings that price action could still see two-way swings.

Momentum indicators are still a tad bearish, but less so. Risks are skewed slightly to the downside but MACD forest on the weekly flags bullish divergence. This two-way action could continue.

Resistance at 7.7488 (21-dma), 7.7871 (50-dma). Support at 7.6597, 7.6090.

Legend: Orange Line denotes 21-dma; Black dash denotes 50-dma

## MYRCNH (daily) - Supported on Dips



Our bullish view on the MYRCNH played out a tad further with this cross having reached target at 1.5637 on 16 Jun. Since then, CNH has re-exert itself because of the Fed's shift and the resilience of the RMB to volatilities in the USTs. Last at 1.5538.

Stochastics fall from overbought condition. This cross may continue to slip past 1.5533-support (21-dma), towards the next at 1.5483. 21-dma en-route to cross 50-dma, bullish. Further dips from here may thus be shallow. Resistance at 1.5606, 1.5640, 1.5706.

## SGDCNH (Weekly) - Slow Grind Higher



SGDCNH did not manage to rise as much as we thought. Last at 4.8117.

Momentum indicators are neutral on the daily chart and the weekly chart. However, it is also obvious that price is biased for further declines. We do see bullish momentum for this cross though

Support at 4.8252 (21-dma, marked by yellow line) before the next at 4.8045.

Legend: Orange Line denotes 21-dma; Black dash denotes 50-dma

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