Apr 19, 2021

FX

Global

RMB Watch

Modest Bullish Risks

Key Points:

- USDCNH peaked at around 6.5876 before slipping towards the 6.50-figure today (19 Apr). The USDCNY also fell from a high of 6.5793 (in early Apr) to levels around 6.50 today. Broader positive risk sentiment remain the key driver for USD's performance against RMB but recently released activity numbers might have contributed to the RMB strength. Whilst headlines were expectedly astronomical, a slightly deeper look revealed a more moderate growth momentum and thus little need for policy tightening. This could bring tentative relief to domestic assets.

- Recent CH-US 10y yield differential has risen, providing an additional lift to the CNY vs. the USD. We see potential for UST yields to continue to drift lower should Fed speakers remain consistent in their message of patience and gradual steps, potentially pressuring the USDCNY lower. We also see the potential for other countries to catch-up in growth once vaccine production gains traction and that could mean further underperformance in the RMB TWI.

- **Technical Analysis:** USDCNH is about to test key area of support at 6.5080. A break there brings this pair to 6.4750-support. For the EURCNH, bullish divergence has played out but now it seems capped by the 100-dma. SGDCNH bulls show signs of fatigue, may consolidate but MYRCNH on the other hands form a probable falling wedge which suggests rebound risk.

What We Watch (20 Apr - 4 May):

Date	Data	Month
20 Apr	LPR (1Y, 5Y)	Apr
20 Apr	President Xi Gives Speech at BoAo Forum	
22 Apr	SWIFT Global Payments	Mar
23 Apr	FX Net Settlement - Clients CNY	Mar
27 Apr	Industrial profits	Mar
30 Apr	NBS Non-mfg, Mfg PMI	Apr
4 May	Caixin Mfg PMI	Apr

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Where Has RMB Been?
USDCNH peaked at around 6.5876 and slipped to a low of 6.5208 last Fri. The pair has made further progress lower towards the 6.50-figure, guided by broader USD weakness.

Macro Fundamentals Underpin a Stable and Resilient RMB
But Broader Outperformance Unlikely

Last Fri, China released its activity for Mar along with 1Q GDP. The headlines were expectedly astronomical but modest growth belies. Real GDP rose 18.3%y/y, up from previous 6.5%. This headline was boosted by the widely acknowledged COVID base effects and it is more important to look at the momentum from preceding quarters. Growth actually rose at a more moderate **0.6%q/q** (s. adj) for 1Q vs. previous 3.2% (revised higher). Higher frequency activity numbers gave a more complete picture of China's macro fundamentals.

Industrial production softens to 24.5%y/y for 1Q from previous 35.1% (Jan-Feb 2021). Mar industrial production rose less than expected to 14.1%y/y (consensus at 18.0%) from 7.3%y/y in Dec.

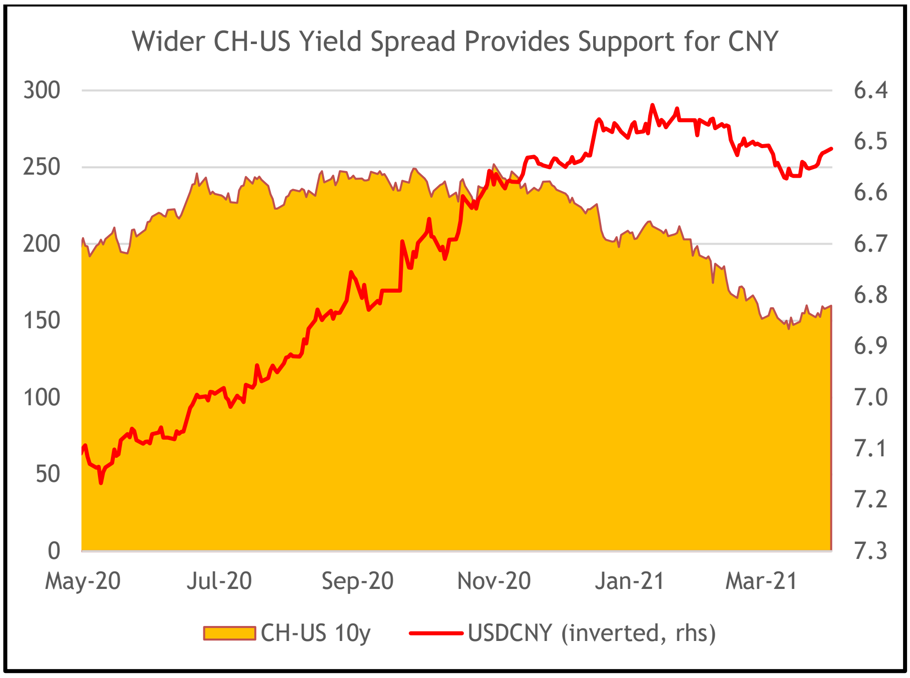
Similarly, urban FAI softens with a headline of 25.6%y/y from previous 35% (Jan-Feb ytd). The weaker headline was due largely to fading base effects. Month-on-month, urban FAI actually steadied at around 1.51% (s.adj) vs Feb 1.5%. On the consumption side, retail sales posted a significant upside surprise with an official print of 34.2%y/y vs. expected 28.0%.

While 2021 remains a year that prioritizes deleveraging and regulations for Big Tech companies, the latest activity data suggests that the growth pace thus far does not require a tighter monetary stance. As such, we do not expect any policy rate tweaks in a while and that should leave loan prime rates unchanged for much of this year. That could mean a rather benign environment for domestic bonds.

Our interpretation for the RMB comes in twofold – First, the economy is neither too hot for policy tightening nor too cold for investors to fear. That should be at the very least, a benign environment for domestic bond markets for now and so lowers likelihood of bond outflows. Without the threat of tightening in the near-term, equities could also find some support.

At the same time, CH-US yield differential remain more affected by moves in the UST yields. Recently, Fed's assurance of patience and gradual steps spurred some demand for UST and widened the CH-US yield differential. That has coincided with lower USDCNY as shown in the chart below amid a backdrop of better risk sentiment and concomitant carry plays. We see potential for UST yields to continue to drift lower should Fed speakers remain consistent in their message of patience and gradual steps.

Widening CH-US 10y yield differential Supports CNY vs. the USD

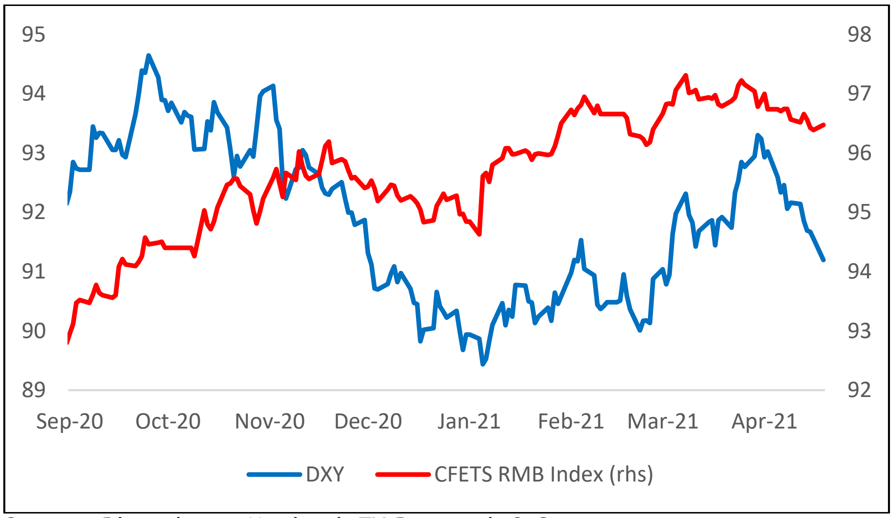


Source: Bloomberg, Maybank FX Research & Strategy

Second, China is unlikely to be a leader in mass vaccination and any signs of acceleration in growth is seen as more room for tightening and deleveraging. Should broader vaccine production pick up pace, global recovery should see other economies play catch-up. We expect some trade-weighted underperformance for the CNY as other non-USD currencies strengthen more, especially in a sanguine risk environment.

In the chart below, while the CFETS RMB index has soften with the DXY index as sentiment becomes more positive in the absence of UST volatility. We note that the pace of decline is much more gradual because of CNY's carry and China's stable macro-fundamentals. Any catch-up in the growth of other non-US countries could mean further weakness in the CNY TWI. The CFETS RMB Index is based on reference rates set by PBoC but CNY reference rates are largely driven by market forces of late.

CNY TWI Falls Alongside DXY Index on Global Recovery, Positive Sentiment

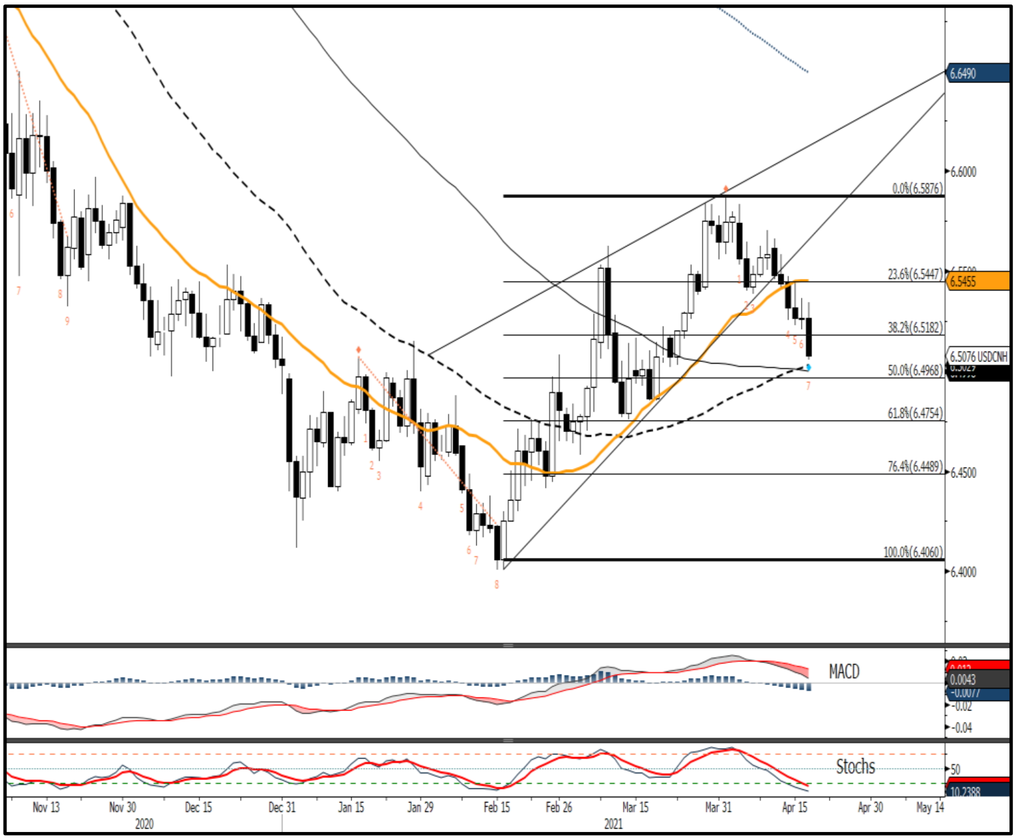


Source: Bloomberg, Maybank FX Research & Strategy

USDCNY remains a barometer for US-China relations to some extent and we remain cautiously optimistic. The US Treasury published its first FX Report under the leadership of Treasury Secretary Janet Yellen. True to the whispers circulated ahead of the release, the Treasury did not label China as a currency manipulator but left the country on its watch list, because of a failure to publish foreign exchange intervention and a lack of transparency on its exchange rate mechanism along with activities of state-owned banks. **We do think that this is not peacemaking in the process but rather, a reversion to objectivity based on its established parameters.**

Separately, PBoC Deputy Governor Li Bo assured that the DC/EP (Digital Currency/Electronic Payment) also known as the e-RMB is not an attempt to “replace the USD”. Rather, “I think our goal is to allow the market to choose, to facilitate international trade and investment”. He elaborated at the BoAo forum that “motivation for the e-yuan, for now at least, is focusing primarily on domestic use”. His words seem to be an attempt to defuse any tension that arise from its use of e-RMB after Biden’s administration is reportedly increasing its scrutiny on the digital currency amid concerns that the move would topple the dollar as the world’s dominant reserve currency. While the intent is certainly not to affect USD’s position as the key reserve currency and preferred choice of payment, its eventual impact on the USD could still be a side effect.

USDCNH (Daily)- Breaks Out Rising Wedge

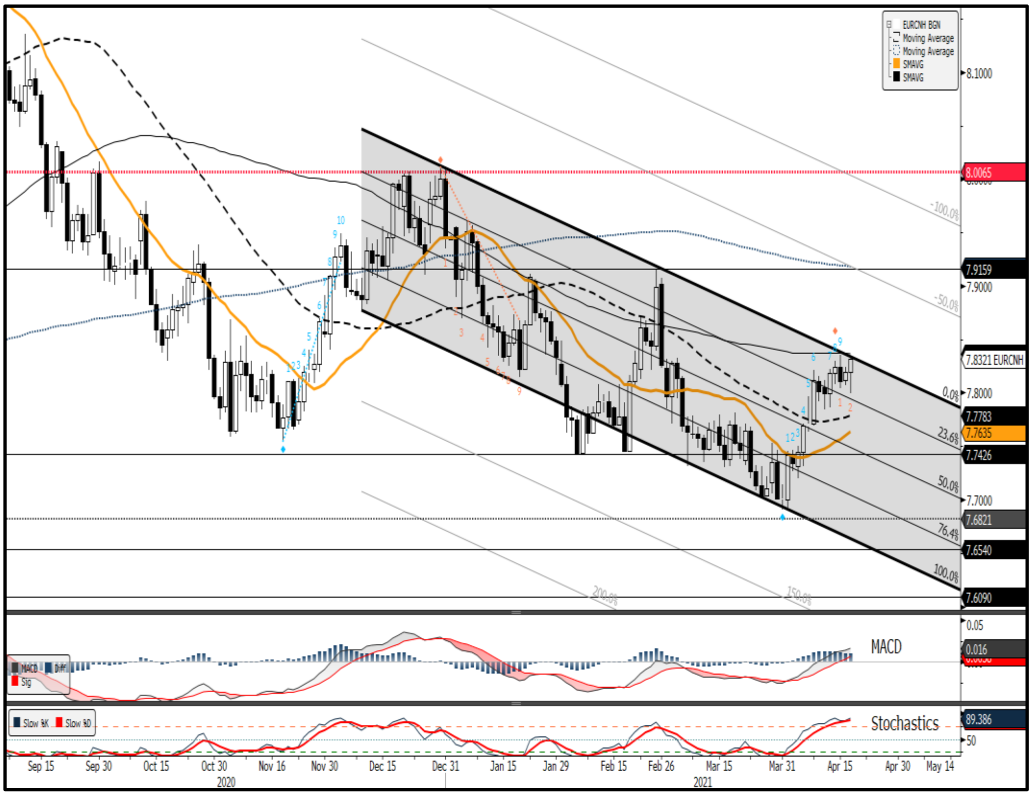


USDCNH broke out of the rising wedge last week and the downmove is still going strong.

Stochastics show signs of falling from overbought condition. 6.5080 marks support (50,100-dma) on the daily chart.

Retracement to bring this pair towards the 6.5455(21-dma). A break of the key support area of 6.5080 could see an extension towards the next support at 6.4750, 6.4490 before Feb low of 6.4060.

EURCNH (Daily) - Bullish Divergence Played Out, Now Capped



EURCNH was last at 7.8265. The bullish divergence played out but this cross seems to be capped by the 100-dma at 7.8368.

This pair needs to break above the 100-dma for further bullish extension. A failure to do so could mean an extension of falling trend channel. Support at 7.7783 (50-dma) before 7.7632 (21-dma). Resistance at 7.8368 (100-dma) before the next at 7.9159 (200-dma, 25 Feb high).

MYRCNH (daily) – Falling Wedge Beckons the Bulls

MYRCNH was last seen around 1.5780. Our bearish bias had played out nicely vs. a fortnight ago but we caution chasing this trend.

A falling wedge has formed recently and recently lows in the price action has formed a bullish divergence with the MACD forest.

Support remains at 1.5736 (76.4% fibo retracement of 2017-2019 rally) but falling wedge is near its apex and could precede a rebound. Resistance at 1.6018.

SGDCNH (Weekly) – Bulls Fail, May Consolidate Instead

SGDCNH has been seen around the 4.8895 as we write, unable to breach the 4.9033 resistance.

A failure to make a definitive move above that level could mean a reversion to consolidative trades within 4.8330-4.9030. While MACD forest is still rather bullish, stochastics signal a turn from overbought conditions.

Support at 4.8330.

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