

RMB Watch

Lukewarm Data

Key Points:

- The activity data for Apr was lukewarm - domestic equities closed higher as industrial production, fixed-asset investments and retail sales paint a picture of recovery in varying extents. At the same time, investors took comfort in the weaker-than-expected consumer spending as the risk of monetary policy tightening is lowered in the near-term. USDCNY was at day high after the release but reversed out its gains soon after. With China seemingly impervious to recent COVID-19 variants that triggered fresh infections elsewhere in the region, CNY may remain an outperformer given the increasing uncertainties of the COVID-19 pandemic situations in the region.
- The daily USDCNY reference rate has always been perceived as one of the major policy tools that PBoC uses to influence the CNY. We too have been asked about the likely near-term directions that the CNY would take whenever the USDCNY fix deviates significantly from expectations. We found that in the past 6 months, USDCNY remains on the broad downtrend even after the actual USDCNY reference rate is fixed significantly higher than the consensus. However, PBoC is able to slow the decline in the USDCNY.
- **Technical Analysis:** On the charts, we are wary of the double bottom formation of the USDCNH and see potential for a rebound towards 6.4750 or even 6.50-figure. On the other hand, EURCNH gains could be capped at 7.85. MYRCNH is poised to break-out higher from its falling wedge. Support remains at 1.5490 (11 Aug 2017 low) while SGDCNH remains bearish towards 4.7580.

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What We Watch (18-31 May):

Date	Data	Month
20 May	1Y, 5Y LPR	Apr
21 May	FX Net Settlement on Behalf Of Clients	Apr
27 May	Industrial Profits	Apr
31 May	NBS/Official Mfg, Non-Mfg, Composite PMI	May

Where Has RMB Been?

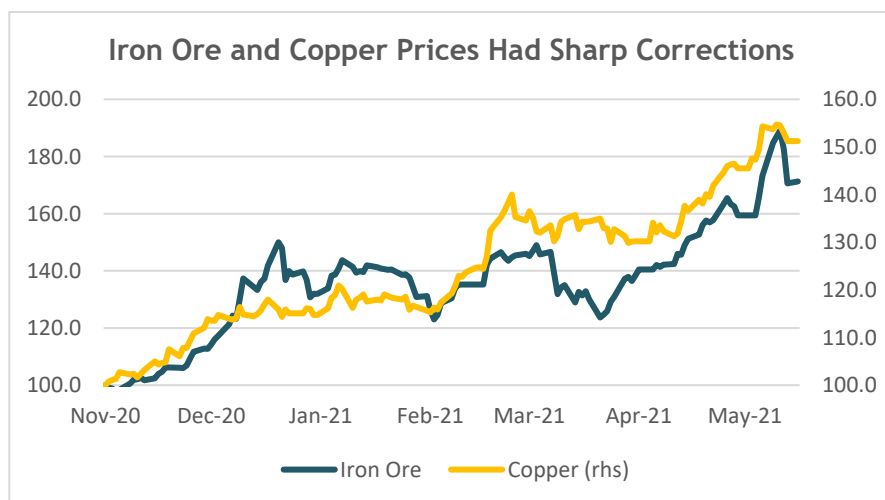
USDCNH returned from Golden Week with a dramatic drop towards the year low at around 6.40-figure before making a significant rebound. It is interesting to note that the deviations between the USDCNY fix and Bloomberg surveyed projections widened around the time of the rebound, signalling a sense of discomfort by the central bank with regards to the pace of RMB appreciation in the earlier part of May. Thereafter, USD had since rebounded and taken the USDCNY and USDCNH along with it. The pair was last seen around 6.44.

Lukewarm Data Remains Welcoming for Investors

China released its activity numbers for Apr today. All the economic data undershot consensus but retail sales was the most disappointing, coming in at 17.7%y/y vs. expected 25%. FAI-ex rural came in slightly under expectations with a print of 19.9%y/y growth for the first four months of this year, slowing a tad from 25.6% recorded for Jan-Mar. Industrial production also printed 20.3%y/y for the same period, softening from 24.5% (Jan-Mar). The read of the data broadly suggests that household spending still experiences some inertia from the pandemic and that there is a lack of impetus for PBoC to make any policy adjustment in the near-term, especially given President Xi's broader ambition for dual circulation which emphasizes on strengthening domestic demand. Domestic equities took comfort in the lukewarm data - Shanghai Comp closed 0.8% higher, Shenzhen Comp at 1.15%.

The National Bureau of Statistics spokesperson Fu Linghui warned that rising raw materials prices could put pressure on downstream firms but China would be able to keep CPI steady this year. This comes after calls by Premier Li Keqiang last Wed (12 May) to deal with the commodity price surge. Not long after the warning was sounded, steel producers, notably those in steelmaking hub Tangshan, were forbidden to "fabricate or spread price-hike information" or face having their license revoked.

Iron Ore and Copper Prices Had Sharp Pullbacks

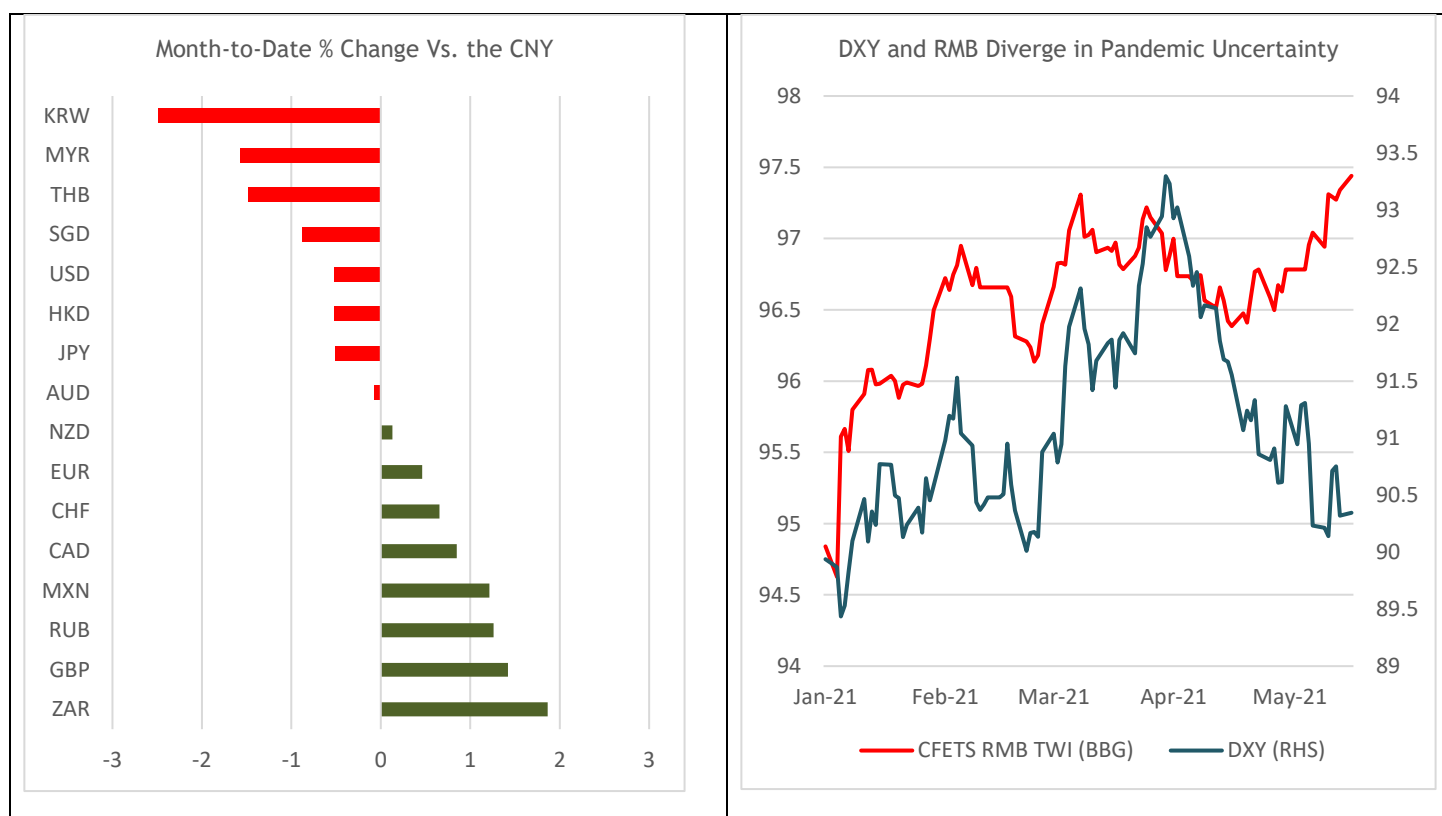


Source: Bloomberg, Maybank FX Research & Strategy

Note: Iron Ore and Copper Prices were indexed with respective prices on 1st Nov 2020 taken to be 100.

While the USDCNY and USDCNH rose to day high after the release, price moves were nullified soon after as equities reacted favourably. With China seemingly impervious to recent COVID-19 variants that triggered fresh infections elsewhere in the region, CNY may remain an outperformer given the increasing uncertainties of the COVID-19 pandemic situations in the region. Singapore, Taiwan and Vietnam were known to be more resilient and virus infections have started to spike in these respective countries, triggering tightened safe distancing measures. Elsewhere, infections are also rising in South Korea, Malaysia and Thailand. As a result, while the RMB TWI remains on the rise, effectiveness of COVID-19 management in countries still determine their currency performance.

COVID-19 Management Still Determines Winners and Losers



Source: Bloomberg, Maybank FX Research & Strategy

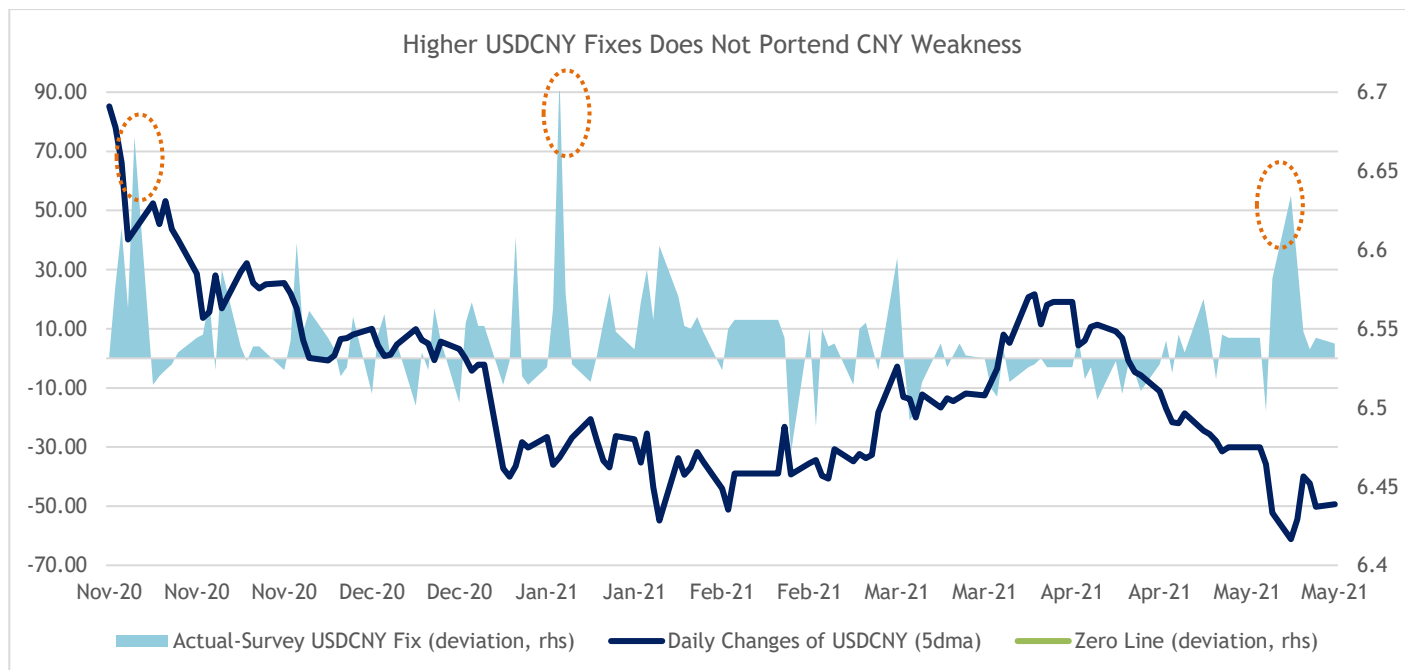
Note: Currency Performance Snapshot for LHS chart is taken as of 17 May 2021.

Understanding PBoC's Use of the USDCNY Fix

The daily USDCNY reference rate has always been perceived as one of the major policy tools that PBoC uses to influence the CNY. We too have been asked about the likely near-term directions that the CNY would take whenever the USDCNY fix deviates significantly from expectations. In order to get a clearer picture of whether PBoC changes the direction of the USDCNY with the use of the daily reference rate at around 9.15am (SGT,HKT, CST), we plot the USDCNY spot along with the spread between actual and expected USDCNY fix. We found that in the past 6 months, USDCNY remains on the broad downtrend even after the actual USDCNY reference rate is fixed significantly higher than the consensus (as highlighted in the chart in the next page by the dotted orange circles). In other words, the USDCNY (marked by the dark blue line) remained on the

downtrend or at the very least, depressed even after the actual USDCNY reference rate is fixed higher than what was expected. This suggests that PBoC has limited influence in the USDCNY direction via the daily reference rates but the higher fixing does help to slow the decline in the USDCNY.

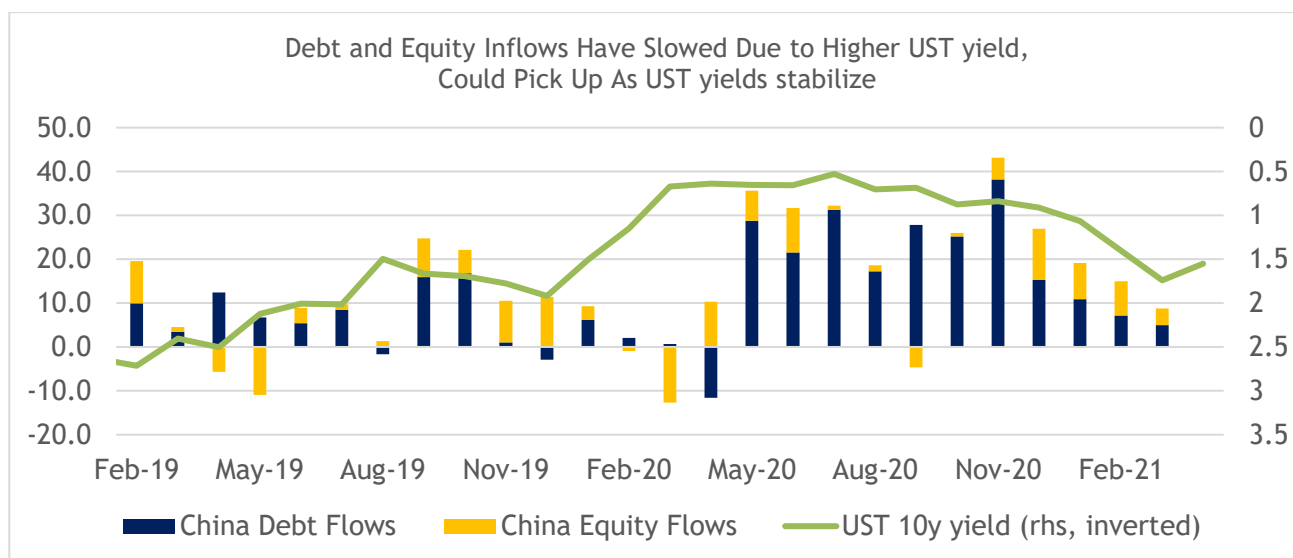
PBoC Can Slow the Appreciation of the CNY but Can Hardly Reverse it



Source: Bloomberg, Maybank FX Research & Strategy

Note: Deviation is the difference between Actual USDCNY reference rate and Bloomberg's survey.

USDCNY still largely takes the cue from market forces. Risk-off trades could still swing the USDCNY higher. As mentioned in the earlier parts of the report, we prefer to monitor the pandemic situation of the region (infections and inoculations). China's recovery and effective Covid-19 management continue to keep RMB attractive. We also like to monitor the UST movements that can have an impact on flows.



Source: Bloomberg, IIF, Maybank FX Research & Strategy

USDCNH (Weekly)- Double Bottomed



USDCNH was last at 6.4433. Stochastics does not show much directional cue at this point but double bottom has formed and we see potential for rebound on the weekly chart.

Retracement to bring this pair towards 6.4750 (61.8% fibo retracement) before 6.4970 (50%) and then at 6.5450. Support at 6.4060 (recent low).

EURCNH (Weekly) - Bullish Attempts to be Capped



EURCNH was last at 7.8260. Moves have been sideways and in the near-term, EURCNH seems a tad skewed for further upside based on the rising stochastics and MACD on the daily and weekly chart.

Resistance remains at 7.8510 (50% fibo retracement of the 1Q decline). We think gains could be capped there as stochastics are near overbought condition too. Support at 7.7660 before the next at 7.6906.

MYRCNH (Weekly) - Falling Wedge intact, Beckons the Bulls



MYRCNH was last seen around 1.5596 and MCAD remains bearish.

The falling wedge is intact and recent lows in the price action continues to form a bullish divergence with the MAC forest.

Support remains at 1.5490 (11 Aug 2017 low) before the next at 1.5280 but falling wedge is near its apex and could precede a rebound. Resistance at 1.5740 before the next at 1.5930 and then at 1.6018.

SGDCNH (Weekly) - Bearish



SGDCNH was last seen around the 4.8222, making a significant breach of the 4.8330 support.

This could mean a bearish breakout of recent range trades in the past few weeks and this cross is at risk of further moves towards 4.7580 before 2018 low of 4.7204.

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