Nov 2, 2021

Maybank

FX

Global

RMB Watch

Two-Way Actions From Here?

Guarding Against the Appreciation Pressure of the RMB

Key Points:

- Since the last RMB Watch, the USDCNH had plunged to a low of 6.3687 before drifting higher since, back towards the 6.40-figure. Data releases since then are key to monitoring the RMB and we continue to look for the currency to remain stable with PBoC likely to slow gains.

- More recent economic indicators continue to flash red for growth with industrial profitability uneven for upstream and downstream producers. Mfg PMI numbers show varying degrees of weakness with small enterprises under the most pressure. Input and output prices are still projected to rise. That said, these are not enough to generate significant weakness in the RMB as the currency remains underpinned by strong export performance, carry advantage and even some improvement in US-China trade relations. **US Treasury Secretary Yellen has just flagged a potential reduction in tariffs in an interview for a "disinflationary" effect. That could boost sentiment for the RMB in the near-term.**

- **Technical Analysis:** For USDCNH, consolidation within 6.35-6.46. However, EURCNH remains very bearish for now - accumulation on dips preferred. **SGDCNH and MYRCNH could bounce in recently established ranges.**

What We Watch (1 - 14 Nov):

Date	Data	Month
1 Nov	Caixin Manufacturing PMI	Oct
3 Nov	Composite, Services PMI	Oct
5 Nov	Current Account balance	3Q P
7 Nov	Trade	Oct
9-15 Nov	Aggregate financing, new yuan loans, money supply M2	Oct
10 Nov	CPI, PPI	Oct
10-18 Nov	FDI	Oct

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Where Has RMB Been?

USDCNH made sudden dive on 19 Oct, a day after our last RMB Watch was published. The pair fell through the 6.40-figure before rising back above this level. The offshore pairing trades at a discount to the onshore, underscoring some downside pressure on the USDCNH. However, the spread between offshore and onshore has since narrowed.

We had flagged on 18 Oct that a stable RMB would be preferred in an environment of elevated commodity price as past episodes of monetary easing saw significant depreciation pressure on the currency. That in turn could add pressure on the manufacturers that are already facing high input costs. At the same time, a strengthening RMB could hurt China's export competitiveness. We hold our view that PBoC is more likely to provide a RRR cut in 1Q when energy commodity prices and other supply-side constrains may ease into Spring rather than anytime this quarter.

Guarding Against Strong Appreciation Pressure on the RMB

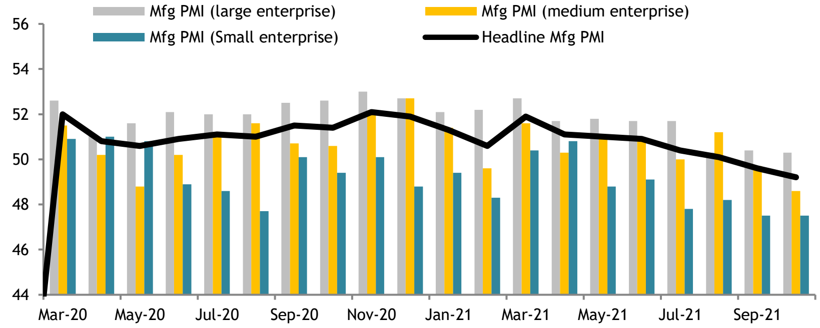
Growth Under Pressure

Since the last RMB Watch, the USDCNH had plunged to a low of 6.3687 before drifting higher since, back towards the 6.40-figure. Data releases since then are key to monitoring the RMB and we continue to look for the currency to remain stable with PBoC likely to slow gains.

Apart from a set of weak activity numbers for Sep and 3Q GDP, more recently released data did not show much improvement. The industrial profits was up 44.7%y/y (Jan-Sep) vs. previous 49.5%, up 18.8% on average in the past two years. We keep in mind that most numbers are amplified by a low base last year. The breakdown reveals the divide between the upstream and the downstream producers. Mining profit was up 161.8%y/y (Jan-Sep) vs. previous 151.1%. Manufacturing profit growth was at a much more moderate 42.9%y/y (Jan-Sep) vs. previous 48.2%. Meanwhile, power, heat, gas and water production and supply industry actually *fell -15.2%.*

NBS highlighted that corporate profits were affected by elevated commodity prices and bottlenecks in supply chains and the "*foundation for the recovery of industrial enterprises' profits still needs to be further consolidated*". Looking forward, talks of price caps for coal prices have knocked thermal coal prices 50% off its peak. That could alleviate input prices for some of the coal-fired power plants.

Official Manufacturing PMI Softens



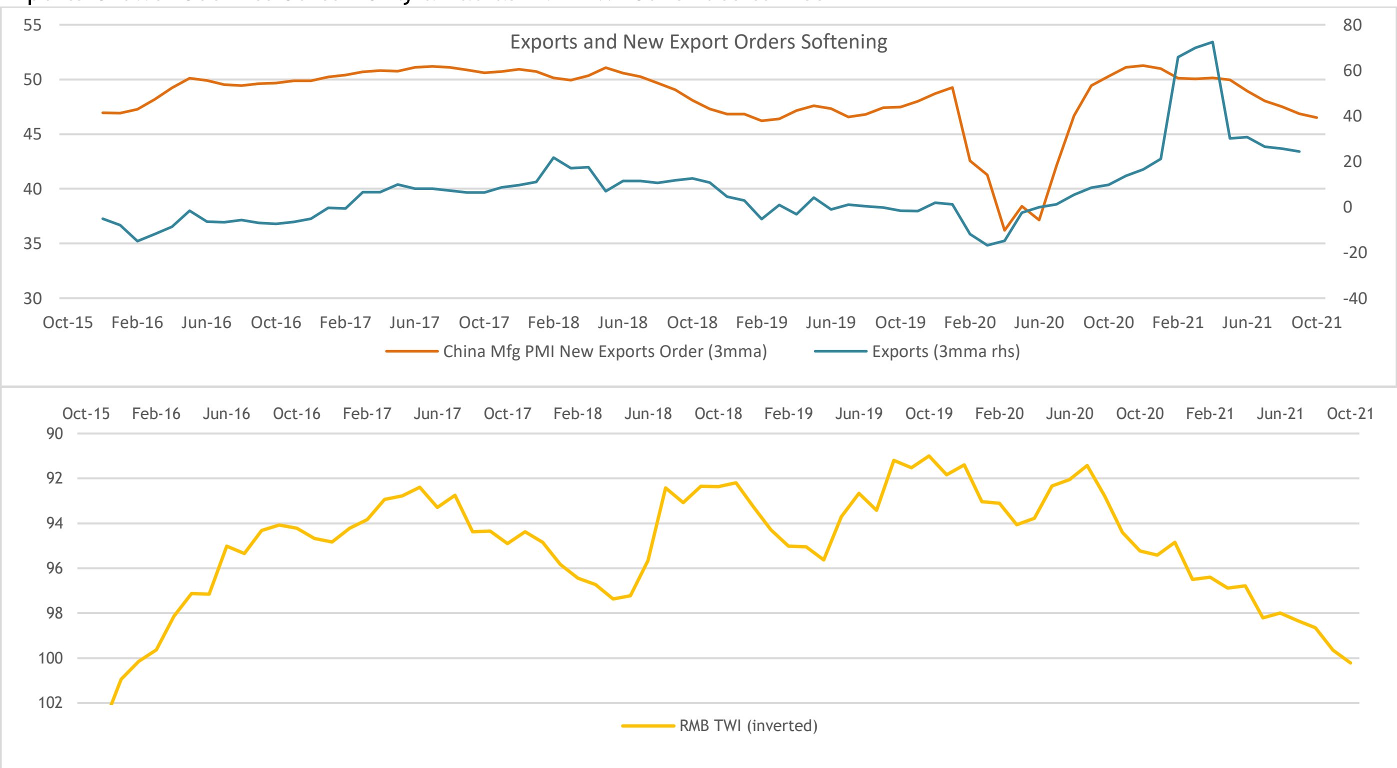
Source: NBS, Maybank FX Research & Strategy

Over the weekend, China released the official PMI numbers. Mfg PMI fell deeper into contractionary region to 49.2 from 49.6 previously. Breakdown suggests that SMEs are hurting more than large enterprises. According to the

Oct survey, more purchasing managers were negative on new orders, inventories of raw material and employment. That said, input prices and output prices are projected to rise. Breakdown by size showed that the mfg PMI for large enterprises only fell a tad to 50.3 from previous 50.4. Mfg PMI for medium enterprises and small enterprises fell to 48.6 and 47.5 respectively. As for non-mfg PMI, services PMI fell to 51.6 from 52.4. Construction also softened to 56.9 from previous 57.5.

While the new export orders for large and medium enterprises improved marginally respectively to 47.3 and 47.1, purchasing managers in small enterprises project deterioration in new export orders. Trend-wise, we see mild softening in exports growth (albeit with base effect) in spite of RMB's trade-weighted strength.

Exports Growth Seem to Soften Only a Tad as RMB TWI Continues to Rise

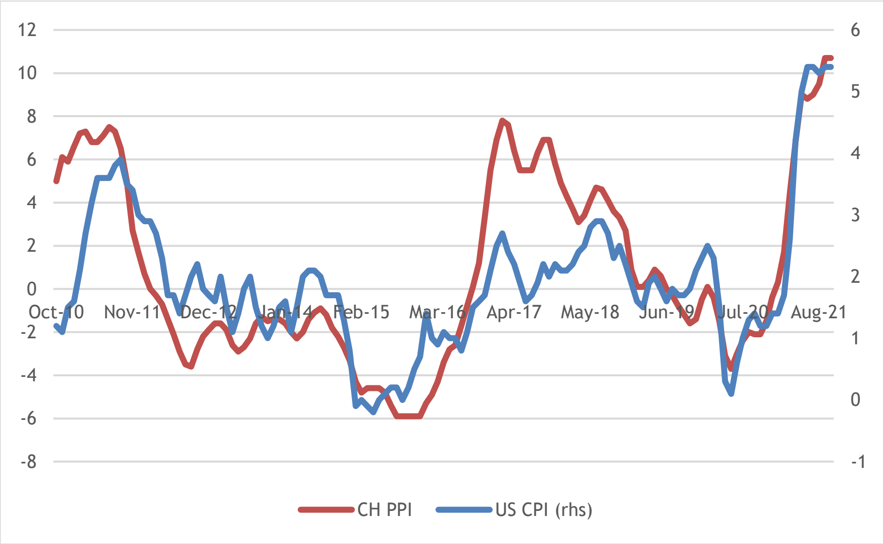


Source: Bloomberg, Maybank FX Research & Strategy

The Liu He-Yellen Virtual Meeting

China's MOFCOM revealed at a regular briefing on 26 Oct that Vice Premier Liu He had a video call with the US Treasury Secretary Yellen on "a wide range of economic and trade issues". According to MOFCOM, there was a concurrence to "strengthen macro policy communication and coordination" as the world economic recovery is at a "critical moment". With China and US on a divergent growth cycles, we opine that that the two countries may see the need for policy shifts to be very gradual to prevent shocks to the financial sectors that could affect global recovery. The key hurdle to that could be the threat of inflation. Yesterday, Treasury Secretary Yellen commented that China is expected to meet its commitments under the Phase 1 of the US-China trade agreement and tariffs could be lowered "in a reciprocal way". This would have a "disinflationary" effect. She said the US Trade Representative would consider additional tariffs reduction. We note that US CPI track the China's PPI.

US CPI Tracks China's PPI Rather Closely



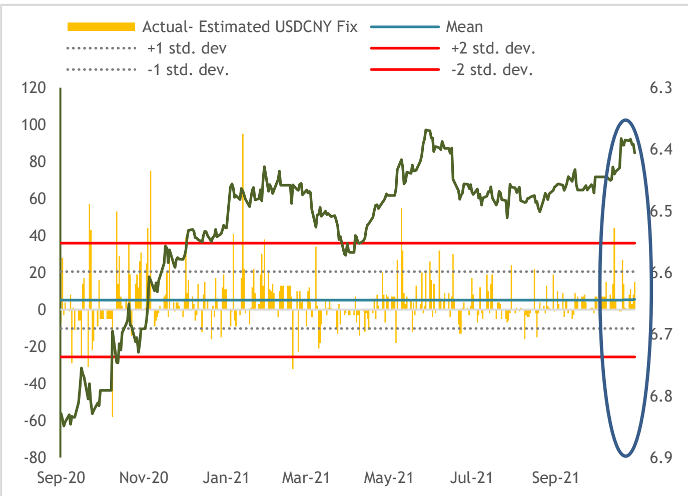
Source: Bloomberg, Maybank FX Research & Strategy

PBoC Could Continue to Slow RMB Gains

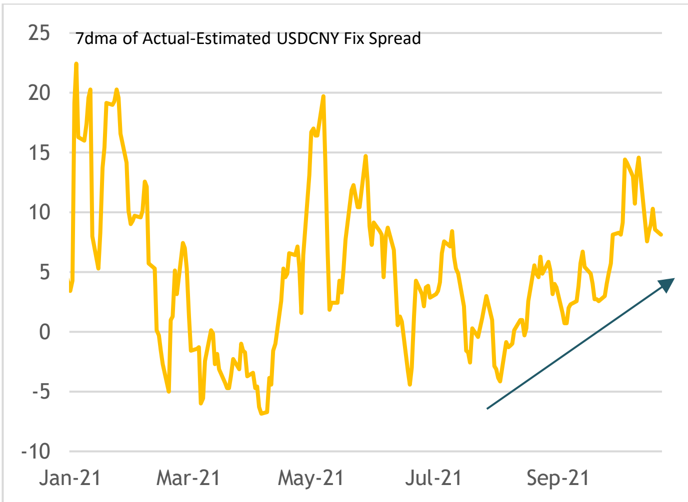
Healthy current account surplus, concomitant accumulation of USD liquidity onshore, carry advantage are still the key underpinnings of the RMB even as the economy faces headwinds. In addition, signs of improvements in US-China trade relations seen over the past several weeks could have contributed to the RMB strength. RMB saw another bout of strength yesterday on news that US may lower tariffs on Chinese imports.

Daily USDCNY reference rates have been fixed persistently higher than estimates. In our last RMB watch, we pointed out that higher USDCNY fixes do not typically result in a change in direction. However, there has been talks of state banks purchasing the USD in late Asian hours last week to lift onshore USDCNY pairing closer towards the 6.40-figure. We continue to hold the view that PBoC wants to guard against appreciation bets from gaining momentum and to keep RMB stable.

The Fall in USDCNY Spot Invites Higher-than-Estimated Fix



PBoC Guides With Persistent but Modestly Higher USDCNY Fix



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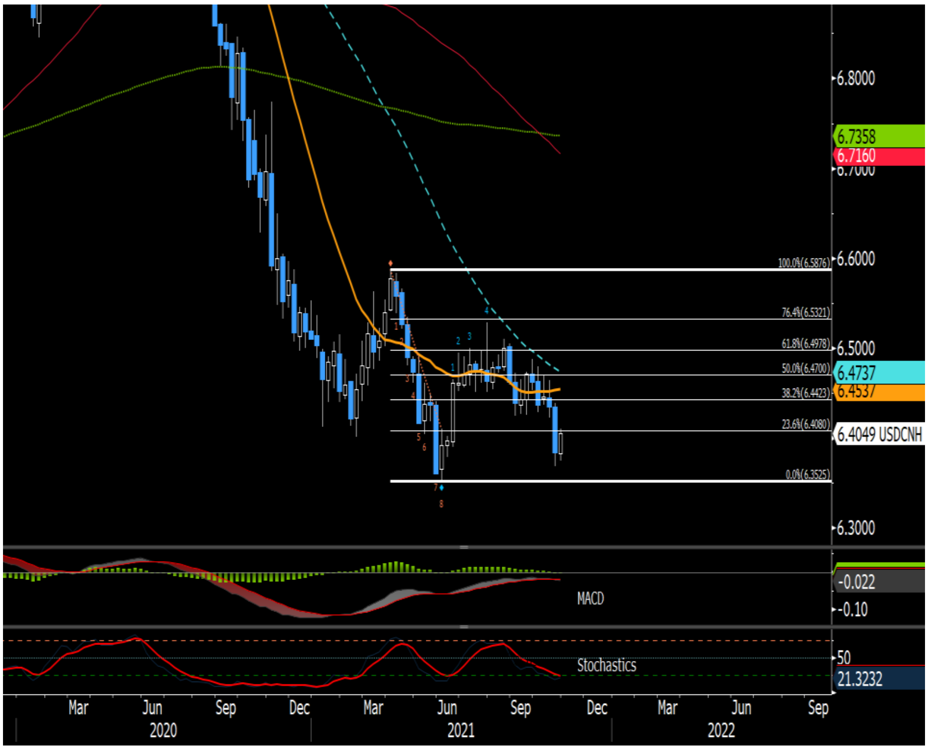
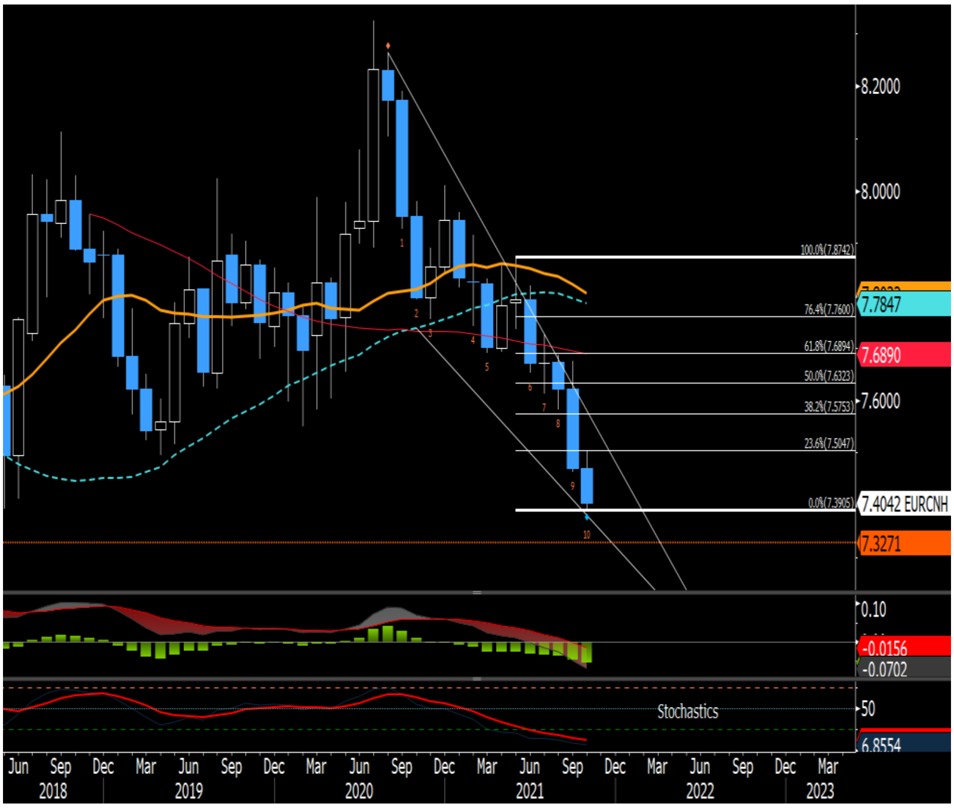
USDCNH (Weekly) - Range Intact



USDCNH was last at 6.4050 after a few successive days of strange bidding action after 4pm (SGT) amid talks of state banks buying dollar to lift the USDCNY.

Bearish momentum has faded and stochastics show signs of rising from oversold conditions. There are signs of this cross rising back towards the 21-dma at 6.42. We see possibility that this pair may revert to two-way trades in a wide range of 6.35-6.46 range.

EURCNH (Monthly) - Still Bearish Bias

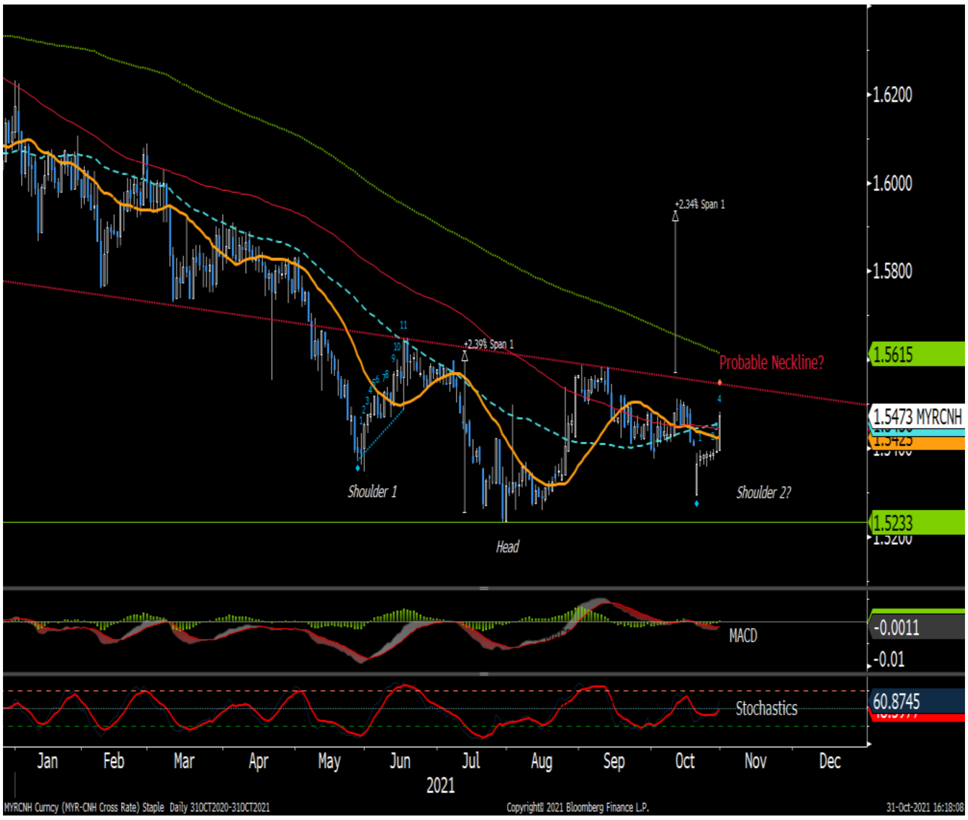


EURCNH waffled around 7.4040 as we write after a precipitous decline through key support levels in the past few weeks. The bearish bias is strong on daily, weekly and monthly chart and we warned about further extensions towards next support at 7.3270 and then at 7.1230.

Resistance remains at 7.5050 (23.6% fibo retracement of the May high to Oct low), before 7.5750 (38.2%). Interim support at 7.3905.

Legend: Orange Line = 21-sma; Blue dash = 50-sma, green dash = 200-sma; red solid = 100-sma

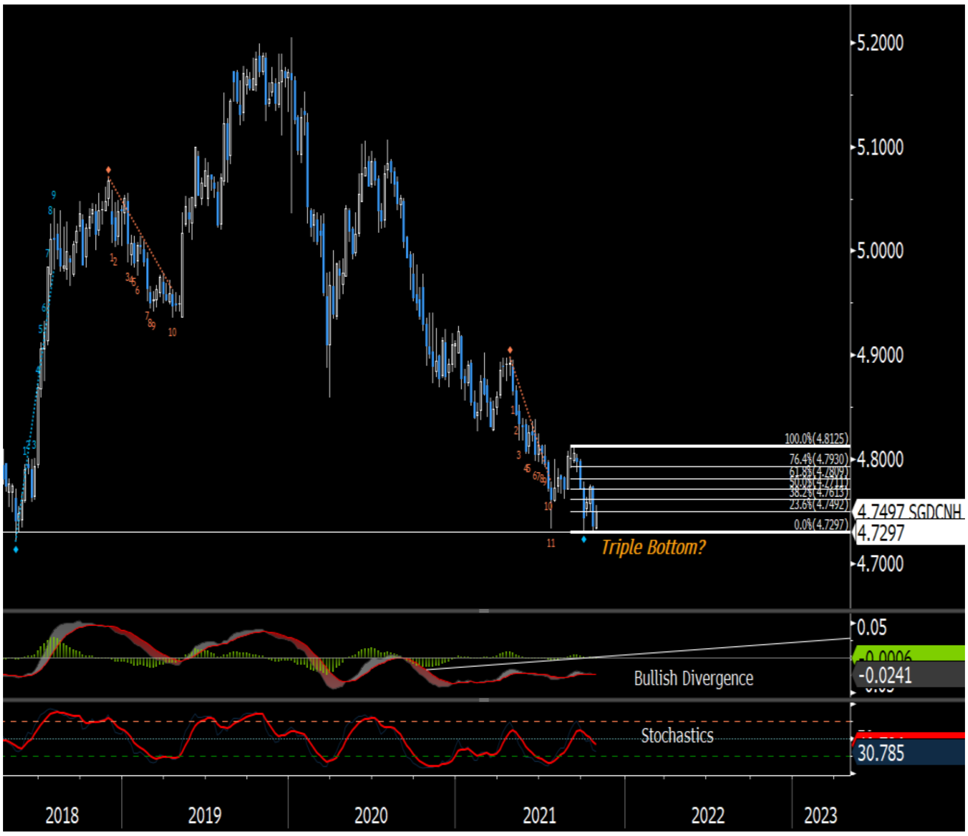
MYRCNH (Weekly) – Arguable Inverted Head and Shoulders



MYRCNH plunged to a low of 1.5290 before making a full recovery and was last at 1.5470.

The inverted arguable head and shoulders still look intact. But the break of the neckline is required for further bullish breakout. This is seen around 1.5480-1.5600. In the meantime, there could be some range-bound trades. A breakout above the 1.5480-1.5600 area could lift this cross above the 1.58-figure.

SGDCNH (Weekly) – Triple Bottom, A Rebound Plausible



SGDCNH hovered around the 4.75-figure. The double bottom formation is still rather intact. Cross is capped by the 21-dma at 4.75 at this point. Stochastics on the daily chart show signs of turning higher.

On the weekly chart, a bullish divergence is spotted on the MACD forest. Buying on dips preferred for SGDCNH.

Next resistance is seen around 4.7610, before 4.7710 and then at 4.7810. Support at 4.73.

Legend: Orange Line = 21-dma; Blue dash = 50-dma, green dash = 200-dma; red solid = 100-dma

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