

RMB Watch

Seasonality Beckons, We Retain Medium term Bullish Bias

Key Points:

- USDCNH has been on the decline for much of Apr, in line with broader USD weakness and was last around 6.4780 as we write on 3 May Asian session vs. 1st Apr high of 6.5876. Official Apr PMI data was weaker than expected while Caixin's version outperform. We continue to hold the view that such lukewarm data provides a more benign environment for domestic securities as tightening monetary policy fears fade. Concomitantly, demand for RMB can also find modest support. Even so, risks are still rather balanced.
- While fading fears of monetary policy tightening may be supportive of risk assets at home, whispers of more regulations on technology firms in the name of ensuring financial stability weigh on broader sentiments. In addition, USDCNY seems to be exhibiting more seasonality gains in Mays over the recent years. We maintain our view for USDCNY to head lower towards 6.35 in the next 12 months as seasonality fades and as global recovery gains traction.
- **Technical Analysis:** USDCNH shows signs of retracing higher towards the 6.4970 before the next at 6.5130. On the other hand, the EURCNH cross may gain momentum to the downside as signaled by its falling stochastics on the daily chart. Support at 7.7660 before the next at 7.6906. SGDCNH should consolidate within 4.83-4.90. MYRCNH is poised to break-out higher from its falling wedge. We eye 1.6020.

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What We Watch (3 - 17 May):

Date	Data	Month
3-5 May	Onshore Markets in China are closed	
7 May	Trade	Apr
7 May	Current Account Balance	1Q P
8-18 May	FDI	Apr
9-15 May	Agg. Financing, Money Supply, New Yuan Loans	Apr
11 May	CPI, PPI	Apr
13-16 May	MLF	May
17 May	New home prices, IP, FAI, retail sales	Apr

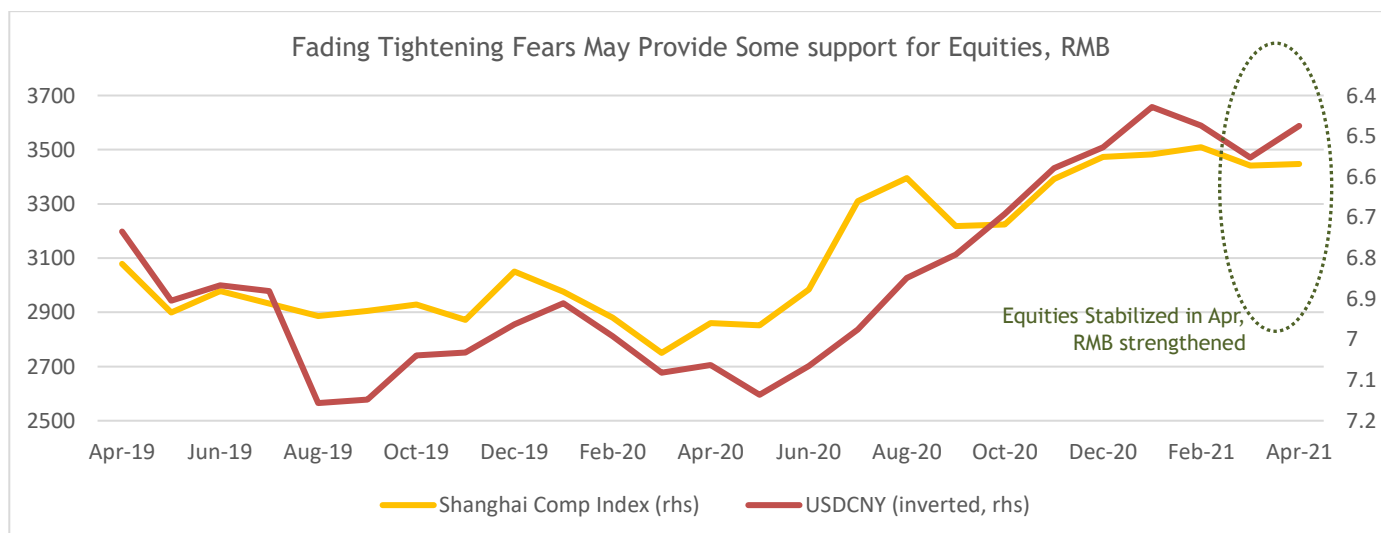
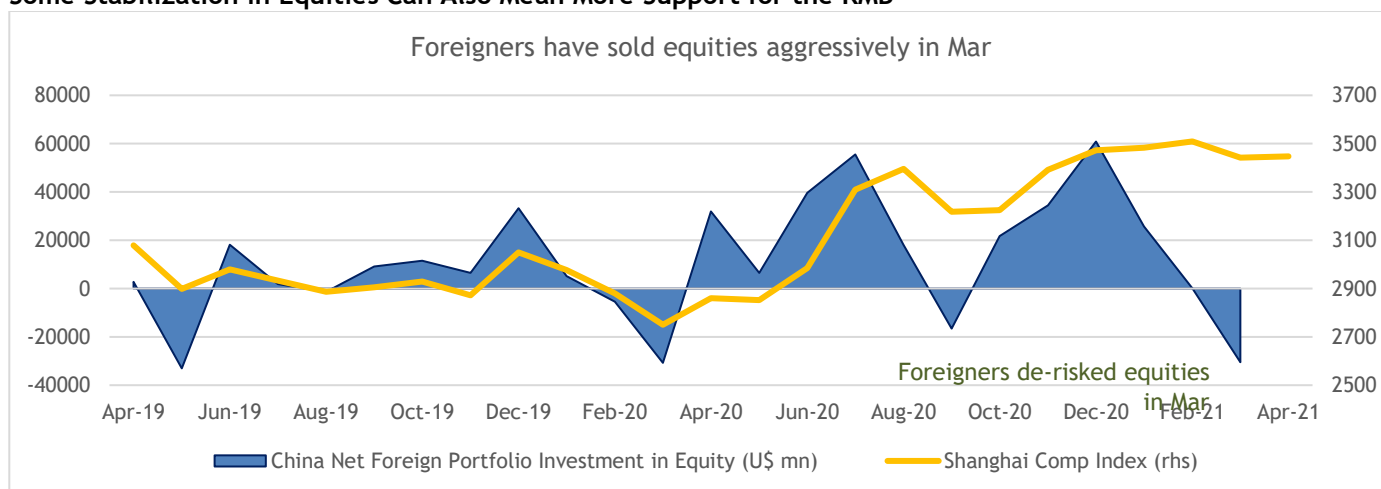
Where Has RMB Been?

USDCNH has been on the decline for much of Apr, in line with broader USD weakness and was last around 6.4780 as we write on 3 May Asian session vs. 1st Apr high of 6.5876. Onshore markets are out until 5 May.

RMB To Find Modest Support

Ahead of the 5-day Labour Day break, the National Bureau of Statistics released PMI numbers last week. Apr non-mfg PMI came in at 54.9, well under the expected 56.1 and also softening from previous 56.3. Manufacturing PMI also missed at 51.1 vs. previous 51.9. To be clear, just as Mar has a seasonal boost, official PMI prints in Apr tend to moderate from the month prior. Manufacturing PMI for small enterprises rose to 50.8 from previous 50.4 while that of large and medium enterprises softened but remained expansionary. Caixin Mfg PMI on the other hand, rose to 51.9 from 50.6. Manufacturing output remains by and large healthy. According to Markit, raw material costs have been rising and the increase in input prices had accelerated but demand conditions were strong enough for producers to pass the costs to clients. We continue to hold the view that such lukewarm data provides a more benign environment for domestic securities as tightening monetary policy fears fade. Concomitantly, demand for RMB can also strengthen. That said, risks to the RMB remain rather balanced at this point.

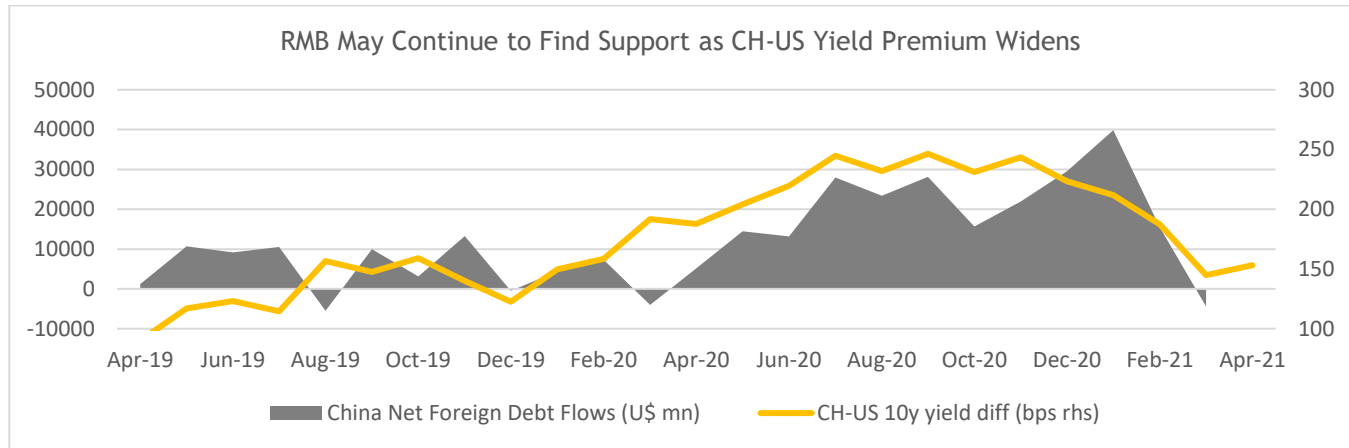
Some Stabilization in Equities Can Also Mean More Support for the RMB



Source: Bloomberg, Maybank FX Research & Strategy

Within the domestic debt market, the Chinese government bond yields have been rather stable while UST yields came off a fair bit in Apr, resulting in a wider CH-US yield differential. That could also in turn support the RMB.

Some Stabilization of CH-US Yield Differential Should Support RMB



Source: Bloomberg, Maybank FX Research & Strategy

Note: All flow estimates (debt or equities) are available as of Mar 2021.

Yet, domestic investors have other woes. Sources cited by Bloomberg warned that PBoC along with other regulatory agencies ordered local technology companies not to provide financial services on their apps other than payment as the credit-flow through these one-stop platforms are typically masked by the bundling feature and that could undermine the broader financial stability. We continue to monitor other regulatory updates that could crimp on investors' risk appetite.

USDCNY is seasonally bullish in May, in tandem with broad USD seasonality



Source: Bloomberg

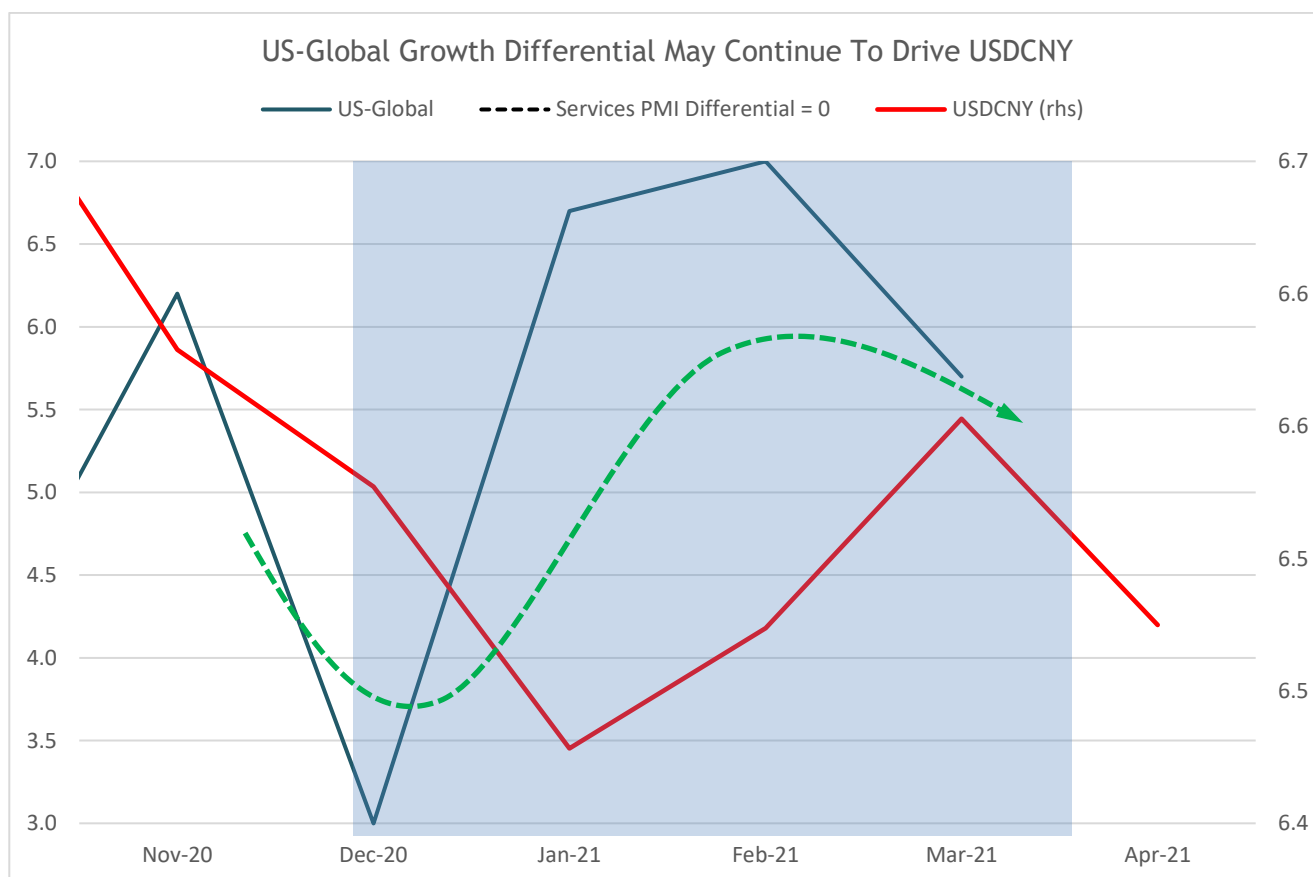
May 3, 2021

Looking at the USDCNY performance in the last 10 years, May seems to be the most bullish month for the pairing. The pair rose an average of 0.48% in the past 11 years over 2010-2020. While that is the highest gain vs. the other months in the year, it is still considerably mild. USDCNY strengthened in 6 out of the 11 past Mays, not a particularly compelling probability as well. However, USDCNY has undergone significant market reform since 2015 and the seasonality becomes more apparent for the USDCNY in recent years as the pair becomes more driven by market forces. Hence, we do think that there is a chance for USDCNY to see some upside in May along with other USD pairings.

In the medium term, we still look for an eventual pick-up in vaccination progress to enable global recovery to gain traction. The countercyclical nature of the USD would be more amplified as recovery momentum becomes more synchronized. We continue to expect the USDCNY to head towards 6.35.

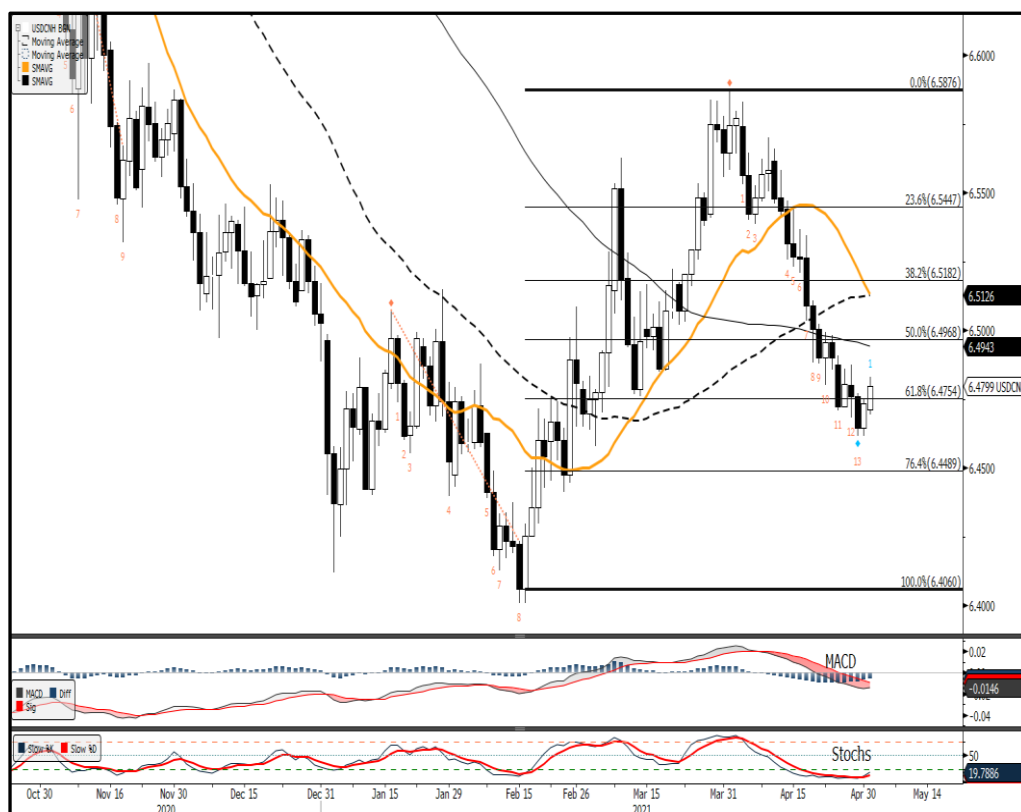
When it comes to the COVID-19 pandemic, services PMI prints tend to lag the manufacturing PMI in the past several months as social distancing measures had a greater impact on services sector. Hence, we prefer to focus on the services PMI for a better sense of recovery in sovereigns. We noticed that the US-Global Services PMI differential had rebounded into premium and risen substantially for much of 1Q in 2021. The differential has risen since Dec 2020 as the successful mass vaccination in the US had improved the outlook for the services sector in the US relative to the rest of the world. That premium have eased recently and so has the USDCNY pairing.

US-Global Growth Differential Can Drive the USDCNY Pair



Source: Markit, FX Research & Strategy

USDCNH (Daily)- Signs of Retracement Higher



USDCNH showed signs of reversal in the past two sessions and was last at 6.4796.

Stochastics show signs of rising from oversold conditions and MACD is weakening on bearish momentum.

Retracement to bring this pair towards the 6.4970 (50% fibo retracement of the 1Q rally) before the next at 6.5130 (21,50-dma). Support at 6.4490. 21-dma crosses over the 50-dma, a bearish signal. Rebounds may be capped.

EURCNH (Daily) - Bearish Risks



EURCNH was last at 7.8086. We had warned in the last issue that EURCNH gains could be capped and since then, this cross has slipped.

Resistance remains at 7.8510 (50% fibo retracement of the 1Q decline). This cross may gain momentum to the downside as signaled by its falling stochastics on the daily chart. Support at 7.7660 before the next at 7.6906.

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



MYRCNH was last seen around 1.5785, not showing much momentum at this point.

The falling wedge is intact 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) - Consolidation



SGDCNH was last seen around the 4.8659, softening from its highs seen two weeks ago.

We had warned a failure to make a definitive move above 4.90 could mean a reversion to consolidative trades within 4.8330-4.9030 and that has played out. While MACD forest is still rather bullish, stochastics signal a turn from overbought conditions.

Support at 4.8330.

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