

RMB Watch

Tactical Plays

RMB TWI's Decline to Slow

Key Points:

- RMB weakness has started to play out against a basket of currencies, especially in a weak USD environment where other currencies strengthen much more than the CNY against the USD. This comes in the backdrop of softer China PMI numbers which flags further deterioration in activity for Aug. With local media and recent official statements already flagging macro (fiscal and monetary) support, we continue to hold the view that the pressure on the RMB could be limited.
- Near-term, USDCNH is likely to remain driven by external factors such as concerns surrounding the Fed tapering schedule, US data-triggered volatility that could come as soon as tonight with NFP and possibly lingering concerns that the mu variant of interest bring. We think that there is opportunity for a tactical long CNHKRW trade towards 182 with stoploss at 177.0 for a risk reward ratio of 1:2.2. EURCNH could also retrace from its recent rally.
- **Technical Analysis:** For USDCNH, 6.44-support has to go for bears to extend. EURCNH rally could see some retracement towards 7.6440. Nearer-to-home, we look for consolidation for MYRCNH and SGDCNH

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What We Watch (6 - 20 Sep):

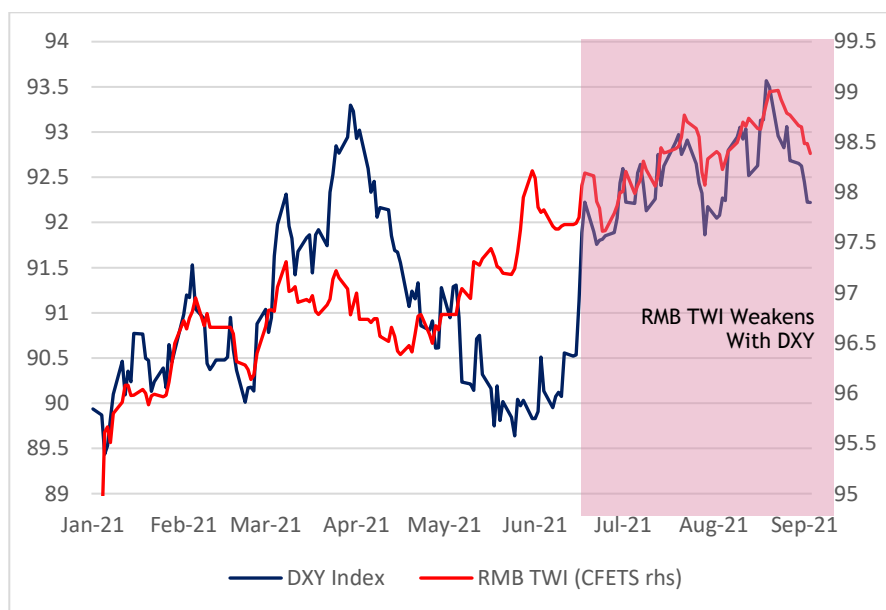
Date	Data	Month
7 Sep	Trade	Aug
9 Sep	CPI, PPI	Aug
9 Sep	Aggregate Financing, Money Supply, New Yuan Loans	Aug
10-18 Sep	FDI	Aug
13-16 Sep	1Y MLF	Aug
15 Sep	Retail sales, industrial production, FAI	Aug

Where Has RMB Been?

USDCNY remained rather languid within the 6.45-6.53 range for the most part of the last week. USD weakness have brought this pair to the lower bound but we cannot rule out some rebound as we close in on Sep FOMC.

RMB's Trade-Weighted Weakness

In the last RMB Watch, we warned of some downside risks to the CNY. This has started to play out against a basket of currencies, especially in a weak USD environment where other currencies strengthen much faster than the CNY against the USD.



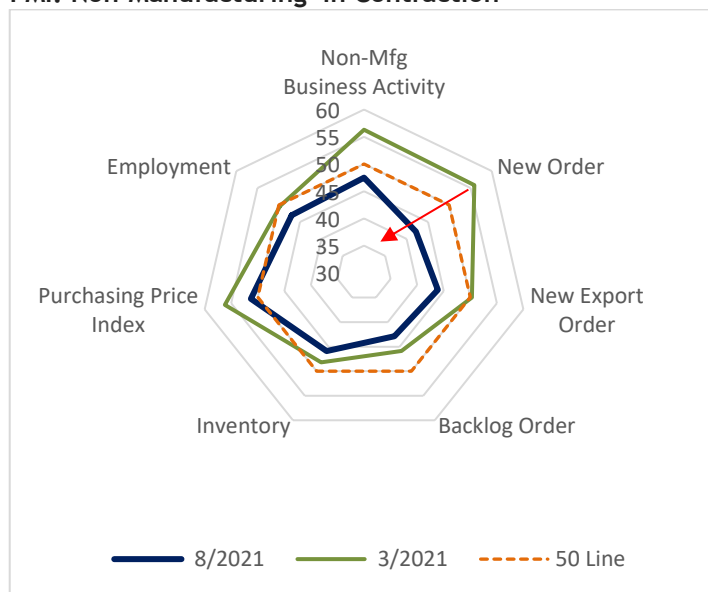
Source: Bloomberg, Maybank FX Research & Strategy

This comes in the backdrop of weaker PMI numbers which suggest further deterioration in activity for Aug.

PMI: Manufacturing is Barely Expanding



PMI: Non-Manufacturing In Contraction

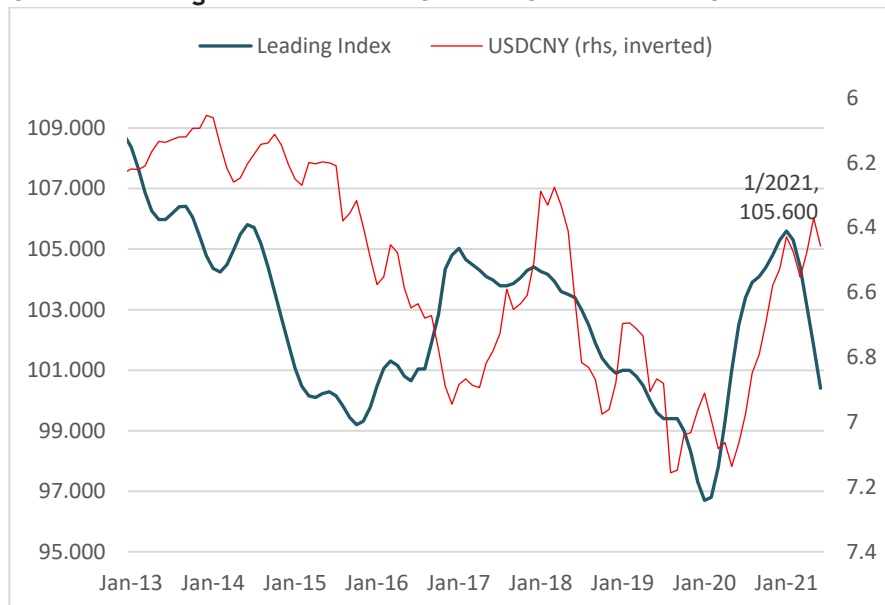


Note: PMI is a survey of purchasing managers. The 50-line denotes a survey response of no change. >50 is expansionary and <50 is contractionary.

Source: Maybank FX Research & Strategy, National Bureau of Statistics

Even as we blame this on the delta variant and concomitant lockdowns that China had imposed in late Jul-Aug, China was already facing some downside pressure cyclically as flagged by its leading indicator in the first half of this year. However, local media and recent statements by the authorities suggest that there would be macro support coming.

China's Leading Index Peaked in Jan And Softened Ever Since



Note: The leading index consists of Hang Seng Mainland Freefloat Index, industrial product sales, M2 money supply, new fixed-asset investment, logistics index, FDI contract value, consumer expectation index, and spread over treasury. Last available data is Jun 2021.

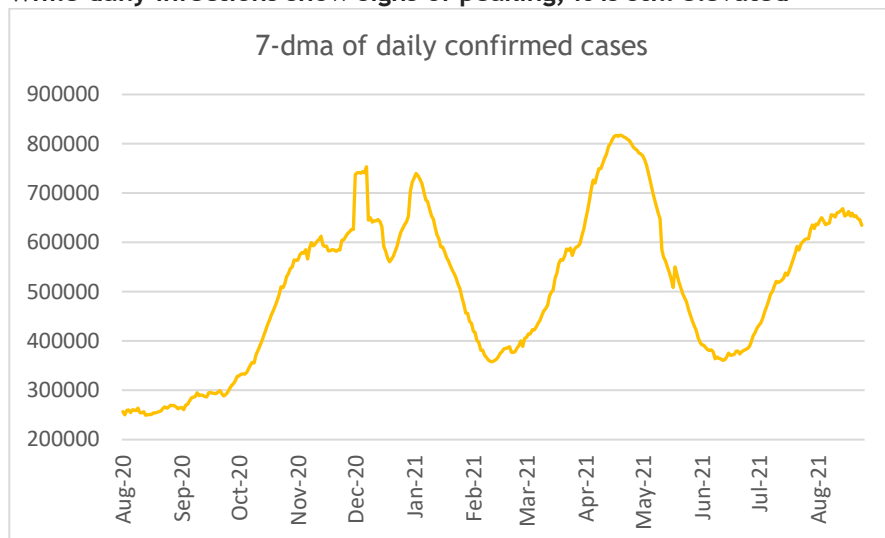
Source: NBS, Maybank FX Research & Strategy, Bloomberg

PBoC has already flagged the use of targeted RRR, rediscounting and relending facilities to support rural finance, in line with President Xi's stress on common prosperity. And as we have stated before, cross-cycle policy design would comprise of fiscal and monetary policy to cushion cyclical risks and impact from regulatory tightening alongside achieving longer-term goals. **We keep our view that downside pressure on the RMB should be milder than what we have seen in other easing cycles.**

We think the major driver of RMB is external for now as we eye FOMC decision on 22 Sep which could inject some volatility from the USD once again in the days leading up to the event. RMB tends to depreciate less vs. other non-USD FX on Fed concerns and that has resulted in the trade-weighted appreciation of the currency as seen in the past weeks. Before there is greater clarity from the Fed, RMB TWI decline is unlikely to make further progress.

In fact, the volatility could come as soon as tonight when US releases its Aug non-Farm Payrolls and a strong number is likely stop the USD bears in their tracks.

While daily infections show signs of peaking, it is still elevated



Source: John Hopkins, Bloomberg, Maybank FX Research & Strategy

Afterall, global infection rate is arguably still high and the arrival of the mu variant as a variant of interest could once again raise concerns on the pandemic. RMB typically strengthen against other non-USD currencies in such an environment. **We think there are tactical opportunities for CNH to regain its foothold against other non-USD currencies such as the KRW and EUR.**

CNHKRW seems poised for a rebound, last at 179.16 with 21-dma at 179.60 an interim resistance for the pair. Stochastics show signs of turning higher from oversold condition. Target 182 with stoploss at 177.0 for a risk reward ratio of 1:2.2.

CNHKRW (daily) - Room for Rebound



Source: Bloomberg

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

We note that beyond Sep, important political events are approaching for China including the regular Politburo meeting in end Oct, the Sixth Plenum (closed doors in Nov). Come Dec, the politburo meeting will be watched and there is also the Central Economic Work Conference that will set the economic targets for announcement at the regular Two Sessions in Mar 2022.

USDCNH (Daily)- Support at 6.44 Needs to Go Decisively



USDCNH was last at 6.4540, resting above the 6.4423-support. Break of the that level could open the way towards

A failure to do so could mean that this consolidation within 6.45-6.53 could continue. Stochastics have entered oversold condition which precedes a potential rebound. An area of resistance seen around 6.47-6.48 where moving averages converge.

EURCNH (Daily) - Rebound Plays Out, Possible Retracement Ahead



EURCNH rebounded to levels around 7.6660, a fruition of the rebound that we flagged in the last issue of RMB Watch. Momentum is bullish for this cross but stochastics have entered overbought condition. As such, some retracement cannot be ruled out from here.

Resistance at 7.6942 (38.2% Fibonacci retracement of the Jun-Aug decline) before the 100-dma at 7.7168. Support at 7.6440 (50-dma) and 21-dma at 7.6181.

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

MYRCNH (Daily) - Trend channel Violated, To Consolidate from here



MYRCNH rallied to levels around 1.5550 as we write. At this point, directional cues are mixed. Bullish momentum seems to have waned but only a tad. Stochastics is a tad overbought. 21-dma is on the brink of a golden cross-over, a bullish signal.

We anticipate some consolidation within the 1.54-1.56 range in the near-term.

SGDCNH (Daily) -Consolidation Likely, Some Bullish Signals



SGDCNH rose and was last at 4.8070. Golden cross is seen with the 21-dma rising above the 50-dma, likely en-route towards the next at 4.8120.

Stochastics in overbought conditions but MACD remains very bullish. As such this cross is likely to be supported and a break of the 100-dma at 4.8120 is required for a decisive extension towards the 200-dma.

Some consolidation is likely to continue within 4.75-4.80.

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

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