

## Can RMB benefit from President Trump?

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### Highlights:

- RMB outperformed most EM currencies today benefiting from the falling expectation of Fed rate hike and correction of DXY.
- Uncertainty remains on whether RMB is able to sail through the uncharted water smoothly under President Trump should he deliver his campaign pledge to impose trade tariff on import of Chinese goods.
- From flow perspective, a 20% loss of China's trade surplus against the US under President Trump is still manageable in our view for RMB.
- From expectation perspective, we think the current mess in the global political system may help adjust if not correct RMB's self-fulfilling depreciation expectation.
- In the world of ugly contest, the problem behind RMB seems less ugly in our view. As such, RMB may benefit from President Trump in the medium term.

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China and Mexico are two countries blamed by Trump repeatedly during his campaign for stealing jobs from American people. The "love" notes China has received from Trump so far including currency manipulation and possible 45% trade tariff. Whether President Trump will deliver his pledge next year remains unclear after his more mature and gracious victory speech today. It seems that we do have reasons to worry about the fate of RMB under President Trump.

Unsurprisingly, Mexican Peso becomes the first victim of President Trump today losing 13% against the USD at one stage. However, RMB became one of the only few EM currencies gaining against the dollar while most EM currencies weakened due to risk aversion.

We think RMB's rebound today was mainly attributable to two factors. *First*, the odds of Fed rate hike in December fell dramatically to below 50% from 84% during the day, which temporarily eased depreciation pressure. *Second*, the intraday rally of EUR, JPY and GBP against the USD also indirectly lent the support to RMB as the current RMB fixing system will largely depend on the change of RMB currency basket, where EUR and JPY account for a big chunk. Based on our estimation using 5pm Singapore time exchange rate, assuming market remains stable tonight, the USDCNY fixing tomorrow is likely to fall to about 6.7600 tomorrow from 6.7832.

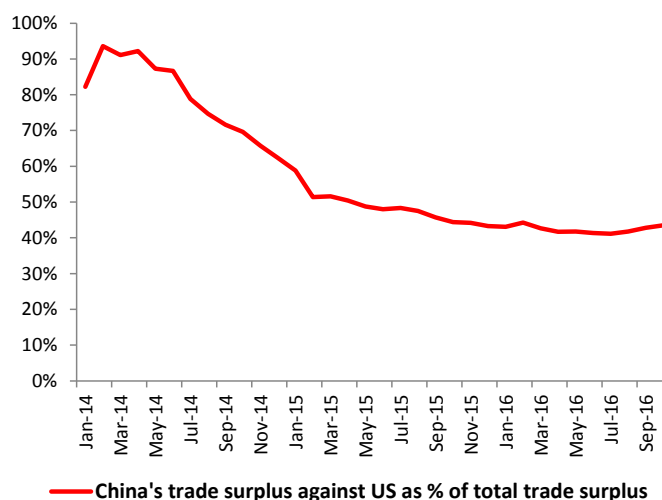
Looking ahead, uncertainty is probably the only certain thing under President Trump. How will RMB sail through this uncharted water? Before we discuss this topic, I think it is important to understand the drivers behind recent RMB depreciation. My understanding is that the recent RMB weakness is not the result of unbalanced balance of payment as China is still running a sizable current account surplus. Instead, it is mainly driven by self-fulfilling depreciation expectation.

**From flow perspective,** the impact of Trump’s protectionism policy on RMB is worrying but still manageable in our view. China’s trade surplus against US accounting for more than 40% of China’s total trade surplus based on the past year’s data. Assuming China lost its 20% of surplus against the US should President Trump imposed tariff on Chinese goods, this may translate to the loss of about US\$50 billion goods trade surplus (China recorded US\$567 billion goods trade surplus in 2015 under its current account). This number is still manageable in our view if we look at the balance of payment as a whole.

**Table:** China’s flow picture in the first half of 2016

<b>Inflows</b>	
Goods trade surplus	US\$229 billion
FDI	US\$76.8 billion
Portfolio inflow	Small but expected to rise
Foreign debt	Net inflow is small
<b>Outflows</b>	
Service trade deficit	US\$113.5 billion
ODI	US\$121.4 billion
Portfolio outflow	US\$37.7 billion

**Chart 1:** China’s trade surplus against the US accounts for more than 40% of total trade surplus



Source: SAFE, CEIC, OCBC

**From expectation perspective,** we think the current mess in the global political system may help adjust if not correct RMB’s self-fulfilling depreciation expectation in the medium term. The Trump victory today is likely to further fuel the populism sentiment globally. We are going to face multiple event risks in next one year including Italian referendum in December, French election in April 2017 and German election in September or October 2017. The populism storm has moved from the UK to the US and the chance of landing in Euroland cannot be ruled out.

In the world of ugly contest, the problem behind RMB seems less ugly in our view. For those Chinese who are rushing to bring the money out of the country may also have a second thought on where they should park the money in such uncertain and low-yielding environment.

To conclude, RMB shined today benefiting from the falling Fed rate hike expectation and dollar index. Uncertainty remains in the medium term given President Trump's trade protectionism tone. However, we think RMB may benefit from President Trump as the current political mess globally may help adjust RMB's self-fulfilling depreciation expectation.

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