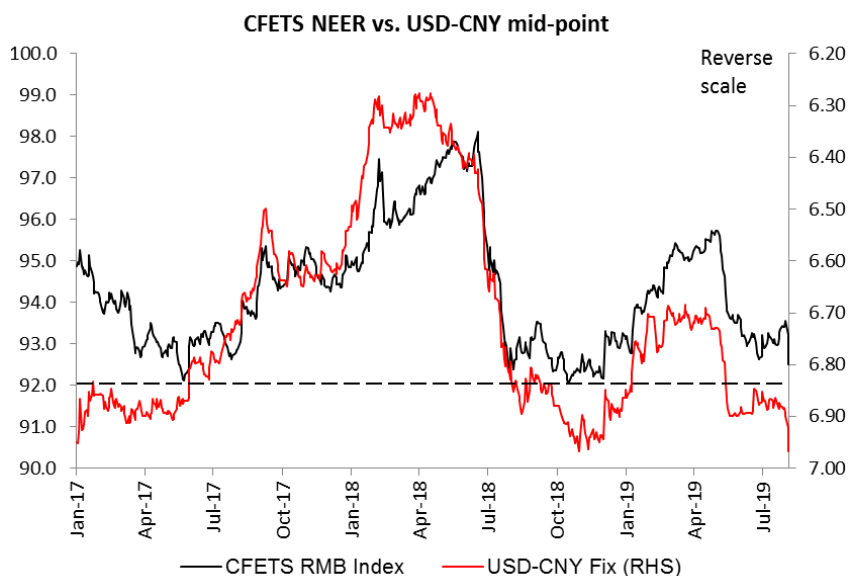


USD-CNY above 7.0000: The morning after

- On Monday (5 August 2019), the PBOC set the **USD-CNY** fix at 6.9225, above the 6.9000 level that was previously perceived as a no-fly zone. The market took that as a signal for official tolerance for a higher USD-CNY, and took the pair above the key 7.0000 barrier. This follows the President Trump's decision to levy tariffs on additional Chinese imports, and the halting of US agricultural purchases by China.
- The morning after:** The Tuesday's (6 August 2019) morning fix came in at 6.9683, underperforming model-driven estimates. A common initial deduction is that the PBOC is restraining excessive USD-CNY movements. **We think this is a hasty conclusion.** For one, it is 0.66% higher than the Monday's fix, just beyond the top end of the typical tolerance band (estimated at +/- 0.60%) for the daily movement in the fix. The PBOC may just be setting the fix near its own limiting parameters, rather than signaling intent to restrain the USD-CNY.
- More importantly, the **CFETS RMB Index** was taken lower to 92.51 at Tuesday's fix, which is an outsized 0.76% lower than Monday. This move is beyond the typical tolerance band (estimated at +/- 0.40%, with +/- 0.60% hit only in rare occasions) for the daily movement in the Index. This may be a signal that the PBOC is implicitly leaving the CFETS RMB Index reactive to the market in view of Sino-US developments.
- In this context, given the expectation that tensions are still in the worsening stage, **we cannot rule out the possibility the door is open for further downside on the CFETS RMB Index. The inference then is that we expect further implicit lift for the USD-CNY.**



Treasury Research

Tel: 6530-8384

Terence Wu

+65 6530 4367

TerenceWu@ocbc.com

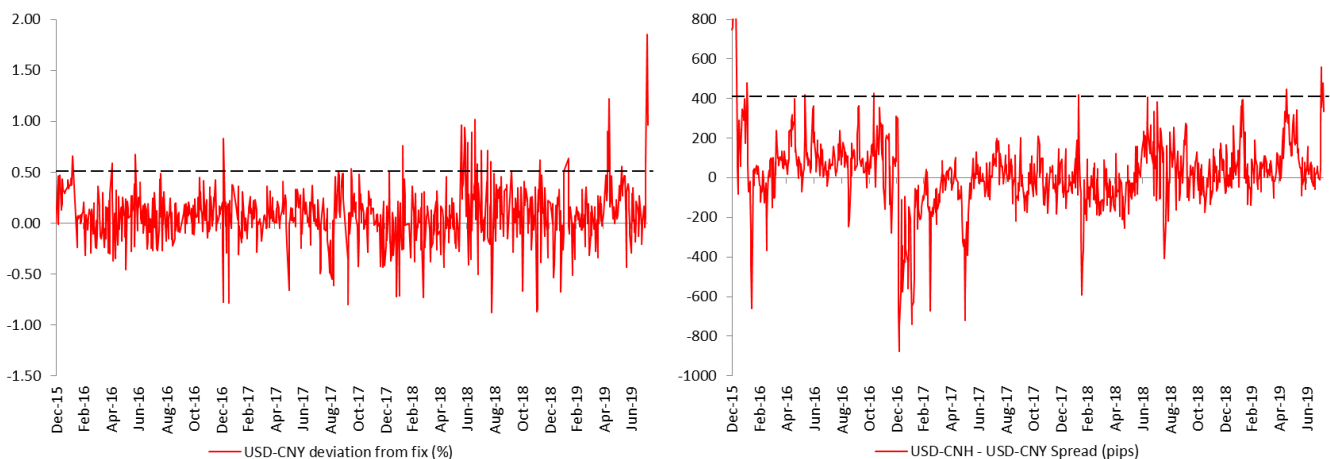
Emmanuel Ng

+65 6530 4037

ngcyemmanuel@ocbc.com

Source: OCBC, Bloomberg

- We think the PBOC's stance is also evident from the following developments on Monday:
 - The PBOC set Monday's USD-CNY fix from a position of strength. The fix is 0.33% higher than the previous fix of 6.8996. This is within the historical limits of the daily fix fluctuations. This suggests that there is no significant departure in terms of the PBOC's fixing mechanism. Indeed, the subsequent statement from the PBOC suggested such fluctuations are normal.
 - However, the USD-CNY spot was permitted to rise to 1.83% above the fix at its high on Monday, pushing close to the extremes of the +/- 2.00% trading band, when it typically populates the +/- 0.50% zone since 2016.
 - The USD-CNH / USD-CNY spread was bid up beyond 500 pips, when it is typically capped at around 400 pips since 2016.



Source: OCBC, Bloomberg

- In conclusion, while Tuesday's fix calmed the market, we think it is insufficient to conclude that the PBOC is explicitly intent on holding back to the USD-CNY. The PBOC may instead allow the CFETS RMB Index to be increasingly endogenous to Sino-US developments. **If there is further worsening on this front, the hitherto floor at 92.00 may not hold ground.** Furthermore, if the CFETS RMB Index realized vol is going to held at a level below the USD-CNY realized vol, the mechanical implication is that the USD-CNY will have to bear the brunt of RMB movements. **In all, we continue to expect the USD-CNY exhibit upside bias from here.**

Treasury Research & Strategy

Macro Research

Selena Ling

Head of Strategy & Research
LingSSSelena@ocbc.com

Emmanuel Ng

Senior FX Strategist
NqCYEmmanuel@ocbc.com

Tommy Xie Dongming

Head of Greater China Research
XieD@ocbc.com

Terence Wu

FX Strategist
TerenceWu@ocbc.com

Howie Lee

Thailand, Korea & Commodities
HowieLee@ocbc.com

Alan Lau

Malaysia & Indonesia
AlanLau@ocbc.com

Carie Li

Hong Kong & Macau
carierli@ocbcwh.com

Dick Yu

Hong Kong & Macau
dicksnyu@ocbc.local

Credit Research

Andrew Wong

Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo

Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei

Credit Research Analyst
WongHongWei@ocbc.com

Seow Zhi Qi

Credit Research Analyst
ZhiQiSeow@ocbc.com

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).