

FX Dots & Plots

18 June 2020

RMB: Parsing the impact of Sino-US issues

- Developments on the Sino-US front have taken a back seat in the past weeks, overshadowed first by the optimism of re-opening economies and then by the re-emergence of the COVID-19 concerns. Fundamentally, we expect that:

- It will not fade too far into the background.** Instead, it will rear its head periodically, especially towards the US election season.
- Neither side is keen to be seen as wanting to negate the Phase 1 trade deal.** Therefore, the exchanges will be limited to heated rhetoric and low-impact policy tweaks, with no outright escalation of conflict.

- Translated to the FX space, so long as these two expectations hold, we see:

- The tail-end risk of the USD-CNY breaching the 7.2000 level as limited,** especially in the context of near term USD sogginess.
- Persistent, lingering negativity from the issue to weigh down on the RMB complex,** but leave the rest of USD-Asia relatively unscathed.

- Taken together, **we expect the underperformance of the RMB relative to the rest of the Asian currencies to persist in the 1-3m horizon, especially if the rhetoric heats up again.** This underperformance has been reflected in the lock-step decline in the CFETS RMB Index alongside the DXY Index, with a correlation of more than 0.90 at this stage. Furthermore, the sentiment surrounding China is not completely positive, even in a period of growing risk positive sentiment. This could be seen in through the persistent implied equity outflow momentum, which failed to moderate in-line with the rest of EM Asia.

- This narrative between the RMB and the other Asian currencies is applicable to the SGD as well. Thus, we continue to expect the **SGD-CNY** to show an upward bias beyond the immediate horizon.

Terence Wu

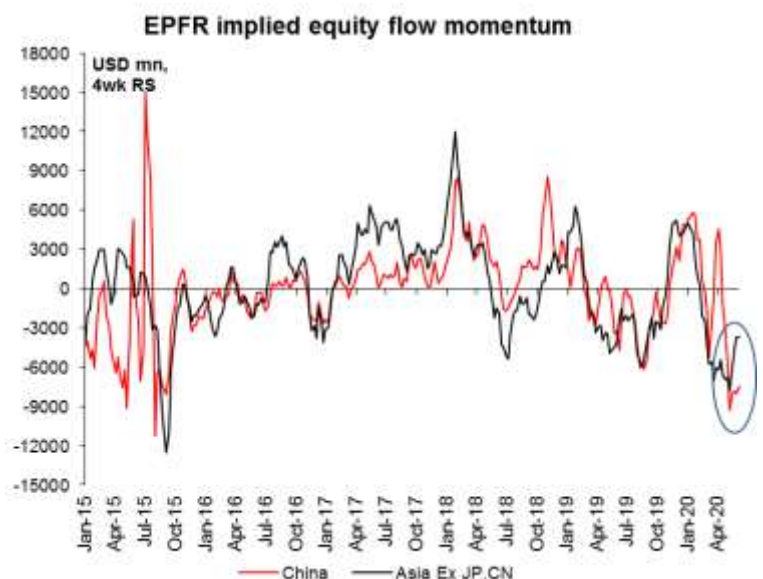
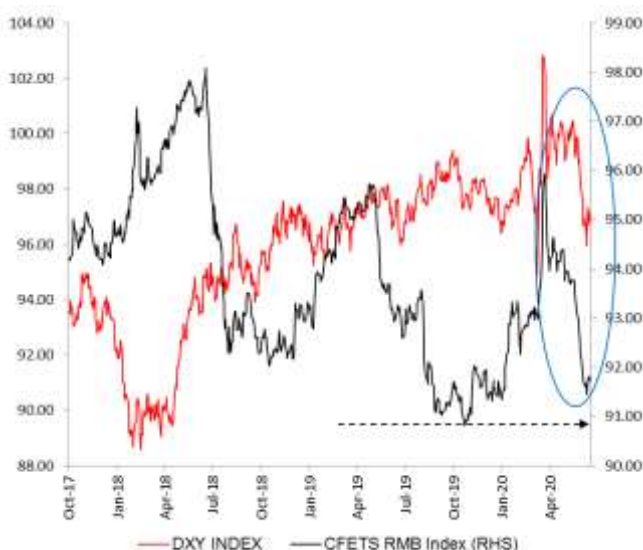
FX Strategist

+65 6530 4367

TerenceWu@ocbc.com

Treasury Research

Tel: 6530-8384



Treasury Research & Strategy

Macro Research

Selena Ling

Head of Research & Strategy
LingSSSelena@ocbc.com

Tommy Xie Dongming

Head of Greater China
Research
XieD@ocbc.com

Wellian Wiranto

Malaysia & Indonesia
WellianWiranto@ocbc.com

Terence Wu

FX Strategist
TerenceWu@ocbc.com

Howie Lee

Thailand, Korea &
Commodities
HowieLee@ocbc.com

Carie Li

Hong Kong & Macau
carierli@ocbcwh.com

Dick Yu

Hong Kong & Macau
dicksnyu@ocbcwh.com

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

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