Chinese renminbi

	Spot close 30.04.19	Q2 2019	Q3 2019	Q4 2019	Q1 2020
USD/CNY	6.7366	6.7000	6.7500	6.8100	6.8700
USD/HKD	7.8453	7.8400	7.8300	7.8200	7.8100
		Range	Range	Range	Range
USD/CNY		6.6000-6.8500	6.6500-6.9000	6.7000-6.9500	6.7500-7.0000
USD/HKD		7.8200-7.8500	7.8100-7.8500	7.8000-7.8500	7.7900-7.8400

MARKET UPDATE

A tad weaker; onshore yields rose

Trading seemed reasonably calm and contained in April with renminbi finishing a tad weaker at USD/CNY=6.7366 compared with the March London close of 6.7202. CFETS remained in the high 95s, a level that seemed to us all about clinching a Trade Deal with the Americans. PBOC refrained from a general RRR cut in April but delivered a "targeted" MLF in the fourth week. Onshore money market yields finished softer but offshore CNH rates and, especially, onshore bond yields were higher.

OUTLOOK

Still a rally if a Deal, though less and less of one

We leave room in unchanged spot forecasts for some sort of RMB rally after the announcement of a Trade Deal between Donald Trump and Xi Jinping. Trump has promised the Deal will be "historical," though we don't know if he meant historical the way he thinks Trump Tower is or historical the way Trump had to sell the Plaza Hotel earlier in his career. As we previously wrote, at this stage we think: i) A Deal is probably a half-DINO (Deal In Name Only), not a complete cave by any means but with some obvious Trump compromises to the Chinese; ii) after all the pre-selling, a Deal may be more anti-climax than climax (we correctly asserted last month there wouldn't be a Deal in April; we're not sure about May, either – remember China's new negative FDI list is not due out till end-June); iii) if there is a currency rally we think USD/CNY might be limited to a downside of about 6.65 (foreigners, meanwhile, have been exiting Chinese equities since February); and, iv) we note the same old same old issues keep coming up in press accounts, which means the Chinese have not acquiesced to the degree demanded by the Americans. Hope for an impactful Deal may have receded, so we re-narrow the 2Q19 range.

If No Deal? Well, that *would* be market-moving.

The Big Idea remains an economy prone to slow

When currencies are this quiet it gives us a good chance to catch up on basic knitting for the economy. Recent *Asia Macro Notebook* write-ups delved into some recent macro releases, in particular 1Q19 GDP where we wondered how a plummet in the deflator might have helped growth to "beat;" and about a spurt in March export growth that didn't seem apparent anywhere else in Asia. April PMIs, just out, seemed more consistent with our more cautious view of stabilization only in 1H (rather than happening all at once). Again, the Big Idea is an economy with a tendency to slow because of debt, even though so much stimulus is being thrown at it. *The Nikkei* ran a good story pointing out that an absolutely massive amount of subsidies had been expended on marquee Chinese companies (definitely *not* the riff-raff of listed China) last year, which made us wonder why leading companies should need such massive support? Just as we went to press a listed pharma company in China blamed accounting errors for misstating cash by *USD4.4bn,* or about 70% of its market cap. Again, the watchword is *vitality*.

	Interest Rate Close	Q2 2019	Q3 2019	Q4 2019	Q1 2020
Policy Rate	4.35%	4.10%	3.95%	3.70%	3.35%
7-Day Repo Rate	3.00%	3.00%	3.00%	3.50%	3.25%
5-Year Yield	3.19%	3.00%	3.00%	3.20%	3.10%

** Interest rate assumptions incorporated into MUFG foreign exchange forecasts.*

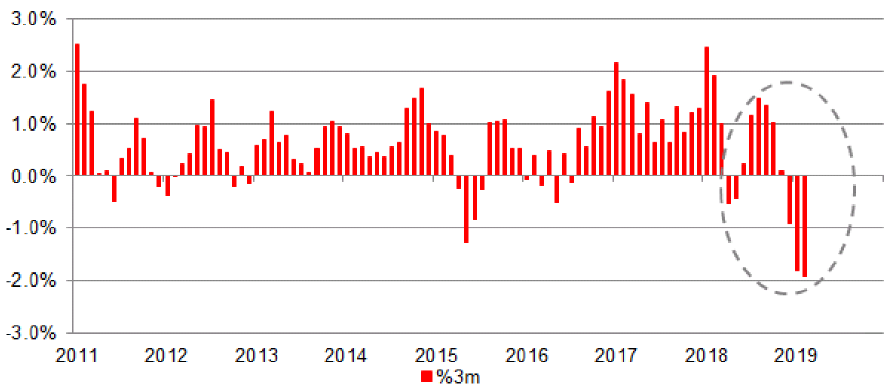
INTEREST RATE OUTLOOK

We underestimated the impact of African swine flu on yields

Onshore Chinese rates/yields reversed higher in April, after a spirited campaign to bring them lower in the last year. Though global bond yields retraced higher in April, the main culprit may have been an African swine flu outbreak onshore. Headline rises in pork prices contributed to the surprising inability for local rates and yields to fall further. We admit we underestimated this factor last Autumn (even though some knowledgeable clients had warned us), by underestimating the deception of local farmers and bureaucrats to keep the truth away from the central government; to the extent that the outbreak has now become a mighty mess. On top of this, officialdom elsewhere continued to encourage provinces to extend tenor in new issues (in what looks like an attempt to kick the can down the road as far as possible), which is helping to boost the long end of the yield curve. With officials now declaring that inflation, under no circumstances, will surge, our expectation is the rise in yields will slow and eventually reverse. April's TMLF was, in fact, intended to drive down longer-tenor yields.

Global real trade momentum looks worrying

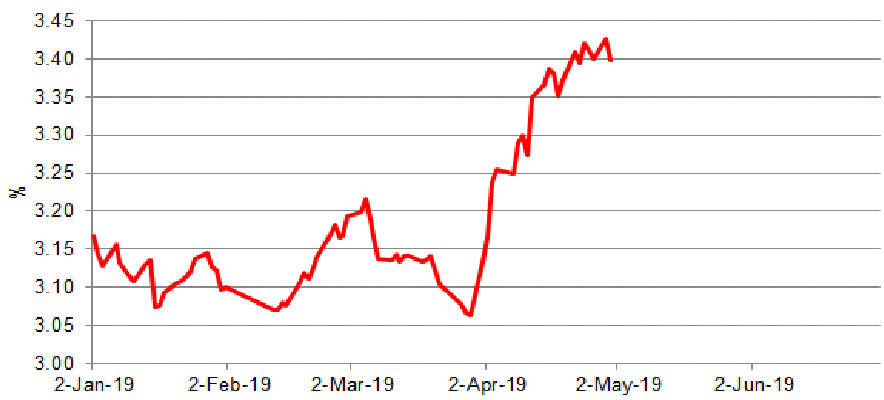
GLOBAL REAL TRADE THROUGH FEBRUARY 2019



Source: Netherlands Bureau for Economic Policy Research

A sharp retracement in April

CHINA'S 10-YEAR GOVERNMENT BOND YIELD



Source: Bloomberg

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