

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	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.

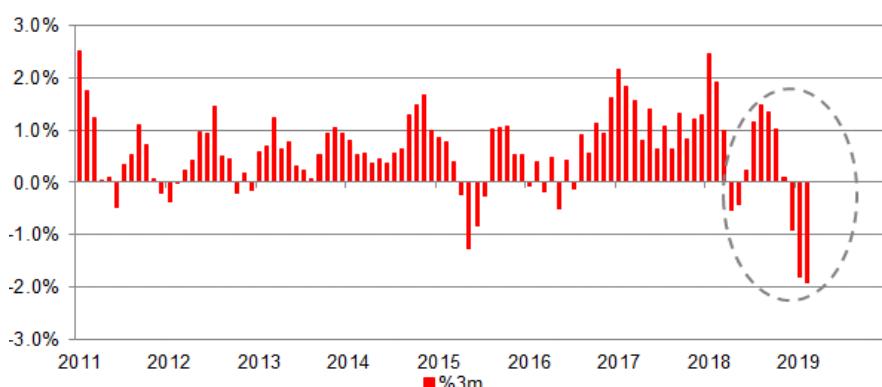
INTEREST RATE OUTLOOK

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

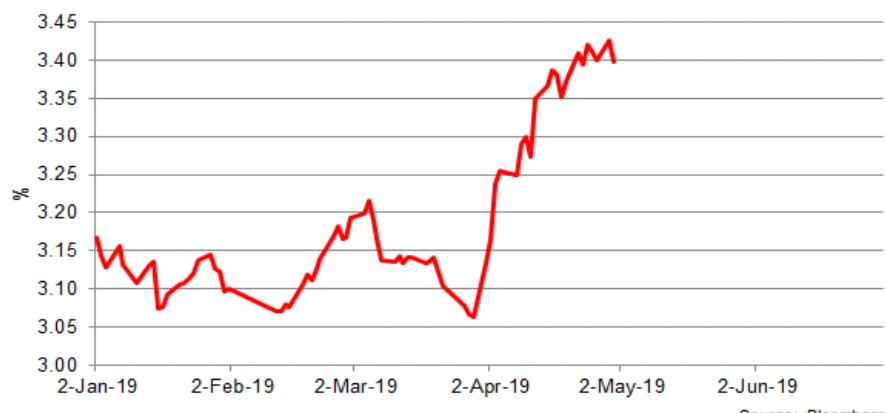
GLOBAL REAL TRADE THROUGH FEBRUARY 2019



Source: Netherlands Bureau for Economic Policy Research

A sharp retraction in April

CHINA'S 10-YEAR GOVERNMENT BOND YIELD



Source: Bloomberg

Research

London:

MR DEREK HALPENNY*European Head of Global Markets Research*

T: +44 (0)20 7577 1887

MR LEE HARDMAN*Currency Analyst*

T: +44 (0)20 7577 1968

MR FRITZ LOUW*Currency Analyst*

T: +44 (0)20 7577 2038

MS MOMOKO MIYACHI*Research Assistant*

T: +44 (0)20 7577 1886

Hong Kong:

MR CLIFF TAN*East Asian Head of Global Markets Research*

T: +852 2862 7005

New York:

MR MASAFUMI INOUE*Analyst*

T: +1-212-782-6726

Dubai:

MR EHSAN KHOMAN*Head of Research and Strategist for MENA*

T: +971 (0)4 387 5033

Tokyo:

MR MINORI UCHIDA*Tokyo Head of Global Markets Research*

T: +81 (0) 3 6214 4147

MR TOSHIYUKI SUZUKI*Senior Market Economist*

T: +81 (0) 3 6214 4148

MR TAKAHIRO SEKIDO*Japan Strategist*

T: +81 (0) 3 6214 4150

MR MASASHI HASHIMOTO*Senior Analyst*

T: +81 (0) 3 6214 4185

MS SUMINO KAMEI*Senior Analyst*

T: +81 (0) 3 6214 4179

MR SHINJI ISHIMARU*Senior Analyst*

T: +81 (0) 3 6214 4151

Singapore:

MS SOOK MEI LEONG*Asean Head of Global Markets Research*

T: +65 6918 5536

MR TEPPEI INO*Senior Analyst*

T: +65 6918 5538

MS SOPHIA NG*Analyst*

T: +65 6918 5537

Sao Paulo:

MR CARLOS PEDROSO*Senior Economist*

T: +55-11-3268-0245

MR MAURICIO NAKAHODO*Economist*

T: +55-11-3268-0420

If you wish to unsubscribe from the distribution list of this research, please contact us by email: mufg_fx_research@uk.mufg.jp

This document has been prepared by MUFG Bank, Ltd. (the "Bank") for general distribution. It is only available for distribution under such circumstances as may be permitted by applicable law and is not intended for use by any person in any jurisdiction which restricts the distribution of this document. The Bank and/or any person connected with it may make use of or may act upon the information contained in this document prior to the publication of this document to its customers.

Neither the information nor the opinions expressed in this document constitute or are to be construed as, an offer, solicitation or recommendation to buy, sell or hold deposits, securities, futures, options or any other derivative products or any other financial products. This document has been prepared solely for informational purposes and does not attempt to address the specific needs, financial situation or investment objectives of any specific recipient. This document is based on information from sources deemed to be reliable but is not guaranteed to be accurate and should not be regarded as a substitute for the exercise of the recipient's own judgment. Historical performance does not guarantee future performance. The Bank may have or has had a relationship with or may provide or has provided financial services to any company mentioned in this document. Our group affiliates, from time to time, may have interests and/or underwriting commitments in the relevant securities mentioned in this document or related instruments and/or may have positions or holdings in such securities or related instruments.

All views in this document (including any statements and forecasts) are subject to change without notice and none of the Bank, its head office, branches, subsidiaries and affiliates is under any obligation to update this document.

The information contained in this document has been obtained from sources the Bank believed to be reliable but the Bank does not make any representation or warranty nor accepts any responsibility or liability as to its accuracy, timeliness, suitability, completeness or correctness. The Bank, its head office, branches, subsidiaries and affiliates and the information providers accept no liability whatsoever for any loss or damage of any kind arising out of the use of or reliance upon all or any part of this document.

The Bank retains copyright to this document and no part of this document may be reproduced or re-distributed without the written permission of the Bank. The Bank expressly prohibits the distribution or re-distribution of this document to private or retail clients, via the Internet or otherwise, and the Bank, its head office, branches, subsidiaries and affiliates accept no liability whatsoever to any third parties resulting from such distribution or re-distribution.

MUFG Bank, Ltd. ("MUFG Bank") is a limited liability stock company incorporated in Japan and registered in the Tokyo Legal Affairs Bureau (company no. 0100-01-008846). MUFG Bank's head office is at 7-1 Marunouchi 2-Chome, Chiyoda-Ku, Tokyo 100-8388, Japan. MUFG Bank's London branch is registered as a UK establishment in the UK register of companies (registered no. BR002013). MUFG Bank is authorised and regulated by the Japanese Financial Services Agency. MUFG Bank's London branch is authorised by the Prudential Regulation Authority (FCA/PRA no. 139189) and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of MUFG Bank London branch's regulation by the Prudential Regulation Authority are available from us on request.