

## Yuan vs. US-China Trade Talks

- US Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin will lead a delegation to Beijing for further trade negotiations on 14-15 February
- The March 1 China tariff deadline could change via telephone should there be big progress, according to CNBC
- China's underground bankers trading in large amounts of foreign currencies will face criminal charges, according to a recent judicial explanation
- We see upward pressure on USD/CNH but look to sell the pair on rallies

**Asia Overview** - Most EM Asian currencies rallied versus the dollar during Friday's Asian session. The SGD was little changed, while the JPY edged up amid a 2.3 bp drop in the 10Y UST yield. Onshore financial markets will reopen Monday in mainland China and Taiwan after the weeklong holiday.

The CNH closed flat on Friday. The KRW inched up, with USD/KRW expected to trade in a range of 1,100-1,140 in the near term. US President Donald Trump tweeted on Friday night that he will hold his second summit with North Korean leader Kim Jong Un in the Vietnamese capital of Hanoi on 27-28 February. Taiwan's onshore FX trading will resume on Monday. USD/TWD is likely to fluctuate between 30.5 and 31.0, remaining susceptible to US-China trade talks.

The INR extended its gains, up 0.2% on Friday. The RBI's pro-growth stance is expected to lower funding costs and to prop up local government bonds as well as the INR. Indian newspaper *The Economic Times* cited sources as reporting on Sunday that finance ministry has sought from the RBI INR 273.8bn that was withheld by the central bank towards risks and reserves in the previous years. India's foreign reserves rose to USD 400.24bn in the week ended on 1 February from USD 398.18bn a week ago. The IDR gained somewhat. USD/IDR will likely head for 13,600 going forward with foreign investors chasing higher yields. BI Governor Perry Warjiyo said on Friday that the IDR is still undervalued based on fundamental calculation. Indonesia's current account balance widened to USD 9.15bn (3.57% of GDP) in Q4 from a revised USD 8.63bn the previous three months. President Joko Widodo has widened his electability gap with rival Prabowo Subianto ahead of polls in April, according to a survey conducted by Populi Center. The MYR rose slightly and will likely reach 4.05 in the coming weeks. The PHP rallied 0.3%. USD/PHP will likely trade between 52 and 53 for now and then break below the 52 mark. The THB dropped about 0.7%. USD/THB is likely to reach and rally through the 31.5 resistance on rising concern over the nation's 2019 general election set for 24 March. The Thai Raksa Chart party said in a statement released on Saturday that it accepted King Maha Vajiralongkorn's command that the candidacy of princess Ubolratana Rajakanya Sirivadhana Barnavadi is "gravely inappropriate."

Regional equity indices resided in the red on Friday. India's NIFTY50 index slid 1.14%, while South Korea's KOSPI index dropped 1.20% with foreign investors offloading a net USD 239.0mn of Korean shares. Malaysia's KLCI index and Indonesia's JCI index closed down 0.41% and 0.23% respectively. Meanwhile, Thailand's SET index ended 0.09% lower amid USD 20.5mn of equity outflows.

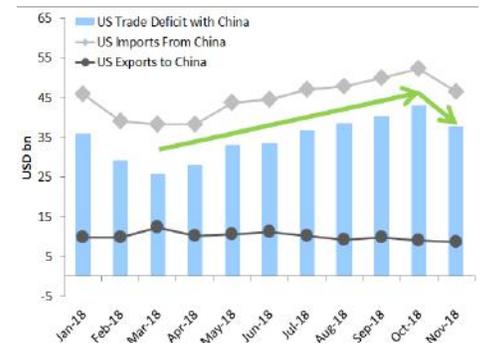
**China** • US Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin will lead a delegation to Beijing for further trade negotiations on 14-15 February. White House National Trade Council Director Peter Navarro was not listed as part of the US team. The two-day meetings will be preceded by deputy-level negotiations that is set to begin on Monday, led by Deputy US Trade Representative Jeffrey Gerrish.

Chinese Ministry of Commerce said in a statement on Saturday that Chinese Vice

 FOLLOW US ON TWITTER @SCOTIABANKFX

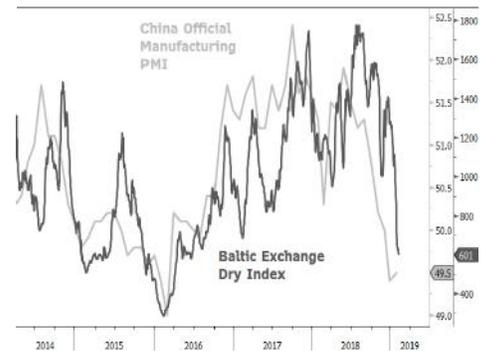
**Qi Gao**  
**FX Strategist (Asia)**  
 +65 6305 8396  
[qi.gao@scotiabank.com](mailto:qi.gao@scotiabank.com)

### US Imports from China, Exports to China & Trade Deficit with China



Source: US Census Bureau & Scotiabank FICC Strategy

### China's Official Manufacturing PMI vs. Baltic Exchange Dry Index



Source: Bloomberg & Scotiabank FICC Strategy

### USD/CNY: 3M ATM Implied Vol vs. 3M 25Delta Risk Reversal



Source: Bloomberg & Scotiabank FICC Strategy

Premier Liu He would join Lighthizer and Mnuchin in the trade talks this week.

Although US President Donald Trump said last Thursday that meeting Chinese President Xi Jinping before the 1 March deadline is "unlikely," CNBC's Eamon Javers reported on Friday that [the China tariff deadline could change via telephone should there be big progress](#), citing a senior administration official.

We think the US and China will likely settle for a partial agreement by March 1 and continue negotiations. In this scenario, it would be supportive of moderate risk-taking and the yuan. In addition, Fed Chairman Jerome Powell is likely to reiterate his dovish stance when testifying before the Senate and the House respectively on 26 February and 27 February.

China has stepped up crackdown on underground banks on growing fears of capital flight. *Xinhua* reported on Saturday that China's underground bankers trading in large amounts of foreign currencies will face criminal charges, citing a recent judicial explanation issued by the Supreme People's Court (SPC) and Supreme People's Procuratorate (SPP).

- *The Supreme People's Court and the Supreme People's Procuratorate issued a notice on 31 January, saying the rule would apply to underground transactions that involved at least CNY 5mn or resulted in a profit of CNY 100,000.*

**We see upward pressure on USD/CNH but look to sell the pair on rallies towards 6.80.**

**TODAY'S CALENDAR**

Time (HKT)	Economy	Type	Release	Period	Consensus	Actual	Last	Significance
12:00	MY	DATA	Industrial Production YoY	Dec	2.7%		2.5%	med
	HK	DATA	Foreign Reserves	Jan			\$424.6bn	med
	CN	DATA	Foreign Reserves	Jan	\$3,080.00bn		\$3,072.71bn	med-high

**CONTACTS - GLOBAL FX STRATEGY**
**Shaun Osborne**

Chief FX Strategist

T +1 416 945 4538

[Shaun.Osborne@scotiabank.com](mailto:Shaun.Osborne@scotiabank.com)
**Qi Gao, FRM**

FX Strategist (Asia), Associate Director

T +65 6305 8396

[qi.gao@scotiabank.com](mailto:qi.gao@scotiabank.com)
**Eric Theoret, CFA, CMT**

FX Strategist (G10), Director

T +1 416 863 7030

[eric.theoret@scotiabank.com](mailto:eric.theoret@scotiabank.com)
**IMPORTANT NOTICE and DISCLAIMER:**

This report is prepared by Scotiabank as a resource for clients of Scotiabank for information and discussion purposes only. This report should be considered a marketing communication and has not been prepared by a member of the research department of Scotiabank, it is solely for the use of sophisticated institutional investors, and this report does not constitute investment advice or any personal recommendation to invest in a financial instrument or "investment research" as defined by the UK Prudential Regulation Authority or UK Financial Conduct Authority. This document has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research and the information contained in this publication is not subject to any prohibition in the EU on dealing ahead of the dissemination of investment research. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from publically available sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness and neither the information nor the forecast shall be taken as a representation for which Scotiabank or any of its employees incur any responsibility. Neither Scotiabank nor its representatives accept any liability whatsoever for any loss arising from any use of this report or its contents. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instruments and has no regard to the specific investment objectives, financial situation or particular needs of any recipient. It is not intended to provide legal, tax, accounting or other advice. Scotiabank and/or its respective officers, directors or employees may from time to time take positions in the products mentioned herein as principal or agent. Directors, officers or employees of Scotiabank may serve as directors of corporations referred to herein. Scotiabank may have acted as financial advisor and/or underwriter for certain of the corporations mentioned herein and may have received and may receive remuneration for same. This report may include forward-looking statements about the objectives and strategies of Scotiabank. Such forward-looking statements are inherently subject to uncertainties beyond the control of Scotiabank including but not limited to economic and financial conditions globally, regulatory development in Canada and elsewhere, technological developments and competition. The reader is cautioned that the member's actual performance could differ materially from such forward-looking statements. Past performance or simulated past performance is not a reliable indicator of future results. Forecasts are not a reliable indicator of future performance. You should note that the manner in which you implement any of strategies set out in this report may expose you to significant risk and you should carefully consider your ability to bear such risks through consultation with your legal, accounting and other advisors. Information in this report regarding services and products of Scotiabank is applicable only in jurisdictions where such services and products may lawfully be offered for sale and is void where prohibited by law. If you access this report from outside of Canada, you are responsible for compliance with local, national and international laws. Not all products and services are available across Canada or in all countries. All Scotiabank products and services are subject to the terms of applicable agreements. This report and all information, opinions and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever nor may the information, opinions and conclusions contained in it be referred to without in each case the prior express consent of Scotiabank. Scotiabank is a Canadian chartered bank.

If you are affected by MIFID II, you must advise us in writing at [trade.supervision@scotiabank.com](mailto:trade.supervision@scotiabank.com).

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable. Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotia Capital Inc. and Scotia Capital (USA) Inc., Scotiabank Europe plc, Scotiabank (Ireland) Limited - all members of the Scotia-bank Group and authorized users of the mark. The Bank of Nova Scotia is incorporated in Canada with limited liability. Scotia Capital Inc. is a member of the Canadian Investor Protection Fund. Scotia Capital (USA) Inc. is a broker-dealer registered with the SEC and is a member of FINRA, NYSE, NFA and SIPC. The Bank of Nova Scotia is authorized and regulated by the Office of the Superintendent of Financial Institutions in Canada. The Bank of Nova Scotia is authorized by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

To unsubscribe from receiving further Commercial Electronic Messages click this link: [www.unsubscribe.gbm.scotiabank.com](http://www.unsubscribe.gbm.scotiabank.com).