

## QDII Quota, Forward Points & Yuan

- China encourages more domestic investment abroad and is set to raise the QDII quota by USD 10bn in the near term according to *Caixin*
- A persistent yuan appreciation will finally impose downward pressure on dollar/yuan forward points, flattening the FX forward and NDF curve
- We maintain our short USD/CNH position

**Asia Overview** - Most EM Asian currencies weakened versus the dollar during Thursday's Asian session. The SGD declined 0.2%, while the JPY dropped 0.3% amid a 4 bp rise in the 10Y UST yield.

The CNY and CNH dropped 0.5% and 0.4% respectively. However, USD/CNH will likely trade lower to the 6.6 level before long. China's plan to allow investments for private wealth across the border between Hong Kong and its increasingly affluent southern region will be capped at CNY 150bn in each direction. The KRW fell 0.1%. However, USD/KRW will likely reach 1,120 after breaching the 1,140 support level. The BoK said on Thursday that South Korea and China signed a deal to extend their bilateral currency swap agreement by five years and expand the size to KRW 70tn/CNY 400bn from KRW 64tn/CNY 360bn. The TWD pared all of its early gains and closed flat. USD/TWD is likely to trade between 28.5 and 29.0 in the near term.

The INR advanced about 0.1%. USD/INR is likely to trade in a range of 73-74 in the coming weeks. The RBI revised rules for housing finance companies, requiring them to have at least 60% of total assets towards housing finance by 31 March 2024. The RBI said on Thursday that it will purchase INR 200bn of government bonds via OMO on 29 October. The RBI conducted the first OMO in state development loans (SDLs) on Thursday, buying INR 100bn of securities under the scheme from the bonds worth INR 154.75bn offered by SDL holders. The IDR weakened 0.2%. USD/IDR is likely to trade between 14,500 and 14,750 at the moment. BI Governor Perry Warjiyo said at a press briefing on Thursday that Indonesia's inflation is still expected to fall below 2% this year, then settle within the 2%-4% target range in 2021 as demand firms up. The Indonesian government raised IDR 22.87tn (USD 1.56bn) from direct sale of four series of bonds to the BI at the Thursday private placement, marking the fifth transaction under the burden-sharing scheme between the government and the central bank. The MYR edged down. USD/MYR will likely hover around 4.15 at this stage, susceptible to domestic political climate. Malaysia's foreign reserves rose to USD 105.2bn as of 15 October from USD 105.0bn a fortnight ago, sufficient to finance 8.4 months of retained imports or 110% of short-term external debt. The PHP was little changed. USD/PHP will likely fluctuate around the 48.5 level at this stage. The THB dipped 0.1%. USD/THB could trade between 31.0 and 31.5 for now, with an upside potential. Thai Prime Minister Prayut Chan-o-cha ordered the withdrawal of the week-old state of emergency in the nation's capital. Thailand's customs trade surplus narrowed to USD 2.23bn in September from USD 4.35bn in August, with exports and imports dropping 3.86% and 9.08% respectively from a year ago.

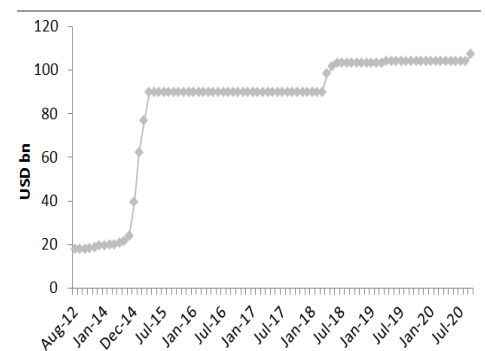
Most regional equity indices resided in the red on Thursday. China's SHCOMP index slid 0.38% amid USD 115.4mn of equity outflows, while India's NIFTY50 index declined 0.35%. South Korea's KOSPI index slipped 0.67% with foreign investors offloading a net USD 98.9mn of Korean shares. In the meantime, Taiwan's TWSE index advanced 0.31% as global funds added to their holdings in local main board shares by USD 234.2mn on Thursday. Thailand's SET index and Indonesia's JCI index closed down 0.24% and 0.09% respectively. However, Malaysia's KLCI index ended 0.43% higher.

**China** • China encourages more domestic investment abroad and is set to raise the QDII quota by USD 10bn in the near term according to *Caixin*. China's FX regulator SAFE issued USD 3.36bn of new QDII quota in September, the first in a year and a

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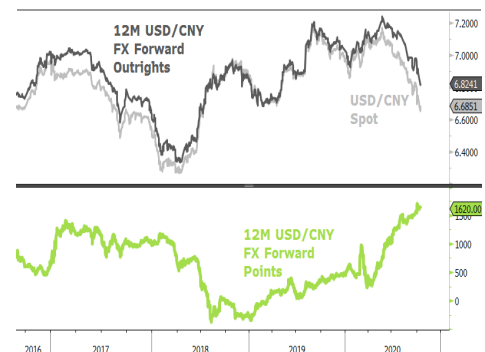
**Qi Gao**  
**FX Strategist (Asia)**  
 +65 6305 8396  
[qi.gao@scotiabank.com](mailto:qi.gao@scotiabank.com)

### China QDII Quota Approved



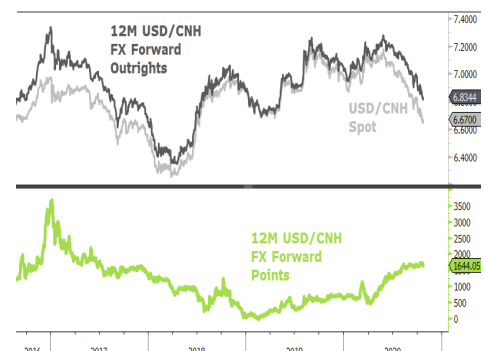
Source: Bloomberg, SAFE & Scotiabank FICC Strategy

### USD/CNY FX Spot and Forward



Source: Bloomberg & Scotiabank FICC Strategy

### USD/CNH FX Spot and Forward



Source: Bloomberg & Scotiabank FICC Strategy

half. It raised the nation's total QDII quota to USD 107.34bn as of 23 September from USD 103.98bn as at end-August.

While investing overseas could help domestic investors diversify their portfolios, the QDII quota increase may aim to ease appreciation pressure on the yuan that has been rallying in the past five months. Earlier, the PBoC has lowered the ratio of FX risk reserves paid by banks for their sales of FX forwards (including FX options and FX swaps) to clients to 0% with effect from 12 October 2020, in order to curb the yuan's longtime one-way appreciation initiated from late May this year.

Typically, the Chinese central bank could slow the appreciation of the yuan via 1) lowering the FX risk reserve ratio; 2) reducing or removing the influence of counter-cyclical factor for USD/CNY fixing calculation; 3) constricting capital inflows or encouraging orderly capital outflows; 4) providing window guidance or purchasing dollars in spot and forward markets and; 5) narrowing the yuan's yield advantage over the dollar.

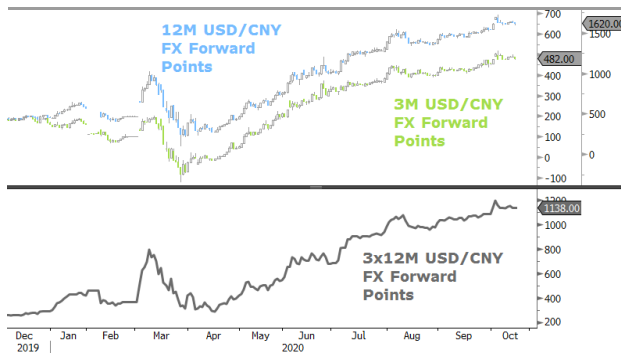
However, PBoC Governor Yi Gang said in a speech at the 2020 Financial Street Forum in Beijing on Wednesday that "the FX market is operating stably and the yuan exchange rate against the US dollar has appreciated somewhat." Remarks from Governor Yi indicate that the Chinese central bank is not too worried about the recent rapid appreciation of the yuan in our view.

Since mid-April this year, dollar/yuan forward points have been rising on widening the yield advantage of the yuan over the dollar and remain elevated amid uncertainties surrounding the US-China tensions, the coronavirus pandemic and the US presidential election. **However, a persistent yuan appreciation will finally impose downward pressure on dollar/yuan forward points, flattening the FX forward and NDF curve like what we saw in 2017.**

Falling USD/CNH forward points in the past sessions may suggest the market has reached a consensus on the yuan to extend its blistering rally further. A Democratic sweep would prop up the yuan and other export-driven currencies on expectations for easing US-China trade tensions.

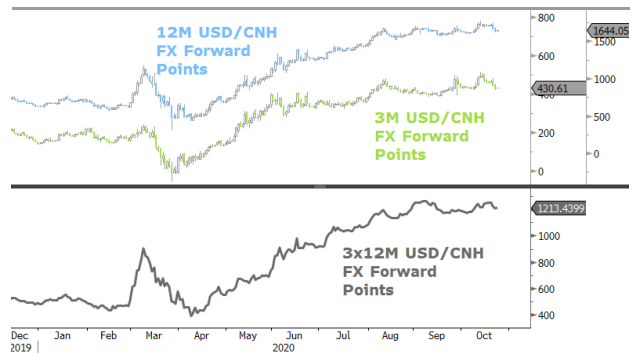
**We maintain our short USD/CNH position with a target of 6.50.**

USD/CNY FX Forward Points: 3M vs. 12M



Source: Bloomberg & Scotiabank FICC Strategy

USD/CNH FX Forward Points: 3M vs. 12M



Source: Bloomberg & Scotiabank FICC Strategy

**TODAY'S CALENDAR**

Time (HKT)	Economy	Type	Release	Period	Consensus	Actual	Last	Significance
05:45	NZ	INFL	CPI QoQ	Q3	0.9%	0.7%	-0.5%	med
05:45	NZ	INFL	CPI YoY	Q3	1.7%	1.4%	1.5%	med
06:00	AU	PMI	CBA Australia PMI Manufacturing	Oct P			55.4	med
06:00	AU	PMI	CBA Australia PMI Services	Oct P			50.8	med
06:00	AU	PMI	CBA Australia PMI Composite	Oct P			51.1	med
13:00	SG	INFL	CPI NSA MoM	Sep	0.1%		0.6%	med-high
13:00	SG	INFL	CPI YoY	Sep	-0.3%		-0.4%	med-high
13:00	SG	INFL	MAS Core CPI YoY	Sep	-0.3%		-0.3%	high
16:00	TW	DATA	Industrial Production YoY	Sep	6.45%		7.40%	med
16:20	TW	MONEY	Money Supply M1B Daily Avg YoY	Sep			10.96%	med
16:20	TW	MONEY	Money Supply M2 Daily Avg YoY	Sep			6.69%	med
	CN	DATA	FX Net Settlement on Behalf of Clients, CNY	Sep			-16.7bn	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)  
 T +65 6305 8396  
[qi.gao@scotiabank.com](mailto:qi.gao@scotiabank.com)

**Juan Manuel Herrera**  
 FX Strategist (G10)  
 T +1 416 866 6781  
[juanmanuel.herrera@scotiabank.com](mailto:juanmanuel.herrera@scotiabank.com)

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