

The Yuan Appreciation

- China will continue leading the global economic recovery in the months ahead, with its factory activity expanding for the sixth consecutive month in August
- The US-China relations will remain tense ahead of the first US presidential debate and the November presidential election, with growing risks of US-China military clashes in the South China Sea and Taiwan Strait
- The DXY Index is expected to head for the psychological 90 level after resuming its bearish momentum
- We maintain our long CNH/KRW position targeting 176 at the moment

Asia Overview - Most EM Asian currencies extended their gains versus the dollar during Monday's Asian session. The SGD declined 0.2%, while the JPY dropped 0.5% on hopes for the continuity and stability of Abenomics.

The CNY and CNH gained 0.3% and 0.2% respectively. China will focus on expanding the use of DR rates (repo rates for depository institutions) in setting up benchmark interest rate system, according to a PBoC White Paper. China starts anti-subsidy probe into wines in containers holding two liters or less from Australia. The KRW weakened 0.3%. USD/KRW will likely trade between 1,180 and 1,190 in the near term. South Korea's industrial production rose 1.6% yoy in July, compared to market estimate of 2.5%. The South Korean government is likely to release measures worth KRW 2-3tn early or mid-September to help small businesses including restaurants and coffee shops. The TWD inched up. USD/TWD is expected to fluctuate around the 29.4-29.5 level for now.

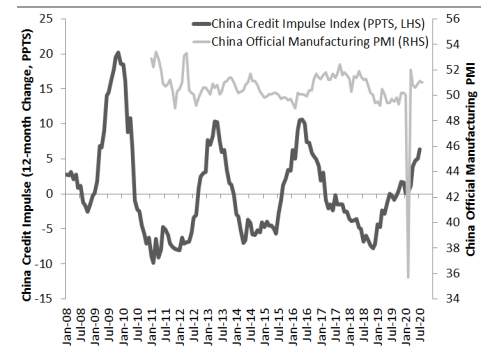
The INR dropped 0.3%. However, USD/INR is expected to reach the 73 level in the weeks ahead. The RBI stepped in on Monday with a number of measures that would boost demand for government bonds, keep yields under check and improve liquidity in the system, including 1) a total of INR 200bn of Operation Twists in two equal tranches on 10 September and 17 September, 2) a total of INR 1tn of term repos at floating rates in mid-September, 3) an option offered to banks to refinance money borrowed through long-term repo operations at a lower rate of 4%, and 4) banks allowed to hold as much as 22% of debt purchases without marking to market, up from 19.5%. India will sell three dated securities for INR 300bn on 4 September. India's economy contracted by the most on record last quarter, with GDP shrinking 23.9% in the three months to June from a year earlier. Indian officials said on Monday that Indian and Chinese troops have locked horns again along their disputed border. The IDR advanced 0.5%. USD/IDR is likely to breach the 14,500 support level and trade lower. Indonesia's M2 money supply grew 10.5% yoy in July to IDR 6,567.7tn compared to a rise of 8.2% in June. USD/MYR is likely to trade lower towards 4.15 gradually, while USD/PHP remains on track to fall below the 48.5 mark and then head for 48.0. The BSP on Monday raised term deposit offer to PHP 310bn on 2 September from PHP 270bn a week ago. The THB gained 0.1%. USD/THB will likely head for the 31.0 level when staying in a range of 31.0-31.5. Thailand's current account balance swung back to a surplus of USD 1.79bn in July from a deficit of USD 247mn the previous month. Thailand's trade surplus widened to USD 4.11bn in July from USD 2.32bn a month ago, with exports and imports dropping 11.9% and 25.4% respectively from a year ago.

Regional equity indices resided in the red on Monday. China's SHCOMP index slid 0.24% amid USD 498.6mn of equity outflows, while India's NIFTY50 index dropped 2.23%. South Korea's KOSPI index slipped 1.17% with foreign investors offloading a net USD 1.17bn of Korean shares. In the meantime, Taiwan's TWSE index fell 1.08% as global funds reduced their holdings in local main board shares by USD 535.0mn on Monday. Malaysia's KLCI index and Indonesia's JCI index closed down 1.90% and 2.02% respectively. Thailand's SET index ended 0.96% lower.

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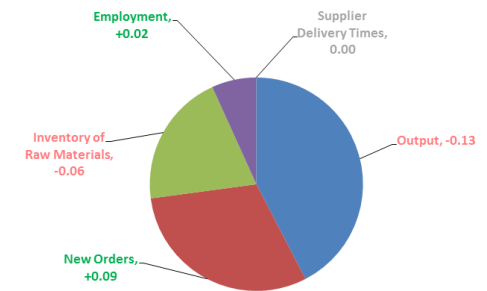
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China Credit Impulse Index (12-month Change) vs. China Official Manufacturing PMI



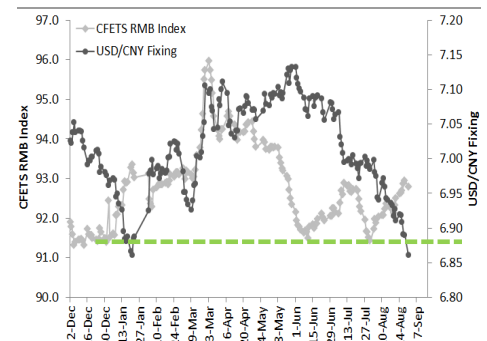
Source: Bloomberg, PBoC & Scotiabank FICC Strategy

Contribution to A 0.1 Points Decline in China's August Official Manufacturing PMI



Source: Bloomberg & Scotiabank FICC Strategy

Scotiabank CFETS RMB Index vs. USD/CNY Fixing — Likely to retreat towards the support



Source: Bloomberg, PBoC & Scotiabank FICC Strategy

China • China's credit impulse index increased further in July, reinforcing our view that the nation will continue leading the global economic recovery in the months ahead. The nation's official manufacturing PMI slid a bit to 51.0 in August from 51.1 in the previous month but expanded for the sixth consecutive month. The *output* sub-index dropped to 53.5 from a four-month high of 54.0 in July, while the *new orders* sub-index climbed to 52.0 from 51.7 in July. More importantly, the reopening of the global economy lifted the *new export orders* sub-index further to 49.1 in August from 48.4 the month before.

In the meantime, Atlanta Fed President Raphael Bostic said on Monday that "we have actually started to see some retrenchment of activity that is significant." Fed Vice Chair Richard Clarida told reporters on Monday that "I imagine we'll be returning to a discussion of potentially refining guidance and our balance-sheet communication." He left open the possibility of employing Treasury yield caps and targets (YCT) at some point in the future, while reiterating the US central bank's rejection of negative interest rates.

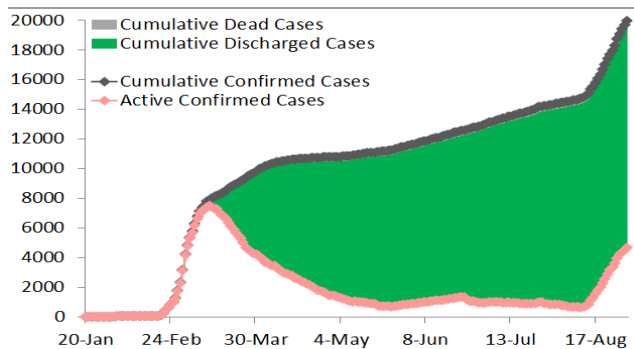
The US-China relations will remain tense ahead of the first US presidential debate set for 29 September and the November 3 presidential election, with growing risks of US-China military clashes in the South China Sea and Taiwan Strait due to miscalculation and escalation. The US on Monday declassified documents that provide more detail on its security assurances to Taiwan, making public the full details of the so-called Six Assurances made by President Ronald Reagan to Taipei in the year of 1982.

The DXY Index is still expected to head for the psychological 90 support level after resuming its bearish momentum, with the dollar losing its yield and growth advantage to the euro and the yuan. USD/CNH will likely slide to 6.80 after falling below the 6.85 mark and the January 20 low, but remains susceptible to the US-China tensions.

In our view, the CNH will likely outperform the KRW in the weeks ahead, considering 1) the phase-one trade deal remaining intact and the US-China tensions staying under control for now; 2) the PBoC vowing to continue with market-oriented exchange rate reform; 3) China leading the global economic recovery; 4) South Korea likely to raise the level of social distancing rules to the highest in the three-tier system or continue extending the Level 2 rules; 5) the BoK lowering its 2020 growth forecast to -1.3% from the May projection of -0.2% and; 6) the delicate geopolitical situation on the Korean Peninsula.

We would like to maintain our long CNH/KRW position built last Friday, as a dramatic resurgence of Covid-19 infections in South Korea would cap the won's rally amid any risk appetite and an escalating risk reversion tends to undermine the won more than the yuan given the former's typical high-beta behavior.

South Korea Covid-19 Situation



Source: South Korea's MOHW & Scotiabank FICC Strategy

CNH/KRW Cross Spot



Source: Bloomberg & Scotiabank FICC Strategy

TODAY'S CALENDAR

Time (HKT)	Economy	Type	Release	Period	Consensus	Actual	Last	Significance
06:45	NZ	DATA	Building Permits MoM	Jul			0.5%	med
07:00	KR	GDP	GDP SA QoQ	Q2 F	-3.3%		-3.3%	high
07:00	KR	GDP	GDP YoY	Q2 F	-2.9%		-2.9%	high
08:00	KR	TRADE	Exports YoY	Aug	-10.3%		-7.1%	med-high
08:00	KR	TRADE	Imports YoY	Aug	-14.9%		-11.6%	med-high
08:00	KR	TRADE	Trade Balance	Aug	\$3,700mn		\$4,134mn	med-high
09:30	AU	DATA	Building Approvals MoM	Sep	-2.0%		-4.9%	med-high
09:30	AU	BOP	Current Account Balance, AUD	Q2	13.0bn		8.4bn	med
09:45	CN	PMI	Caixin China Manufacturing PMI	Aug	52.5		52.8	high
12:00	ID	INFL	CPI YoY	Aug	1.40%		1.54%	high
12:00	ID	INFL	CPI NSA MoM	Aug	0.01%		-0.10%	med-high
12:00	ID	INFL	CPI Core YoY	Aug	2.00%		2.07%	med-high
12:30	AU	RBA	RBA Cash Rate Target	Sep 1	0.25%		0.25%	high
12:30	AU	RBA	RBA 3-Year ACGB Yield Target	Sep 1	0.25%		0.25%	high
15:30	TH	DATA	Business Sentiment Index	Aug			42.9	med
16:30	HK	DATA	Retail Sales Value YoY	Jul	-27.4%		-24.8%	med
16:30	HK	DATA	Retail Sales Volume YoY	Jul	-26.2%		-25.4%	med

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