

## A Senior US Official to Visit Tianjin

- US Deputy Secretary of State Wendy Sherman will be meeting Chinese officials including Foreign Minister Wang Yi in Tianjin on July 25-26
- The PBoC is expected to keep the yuan exchange rate basically stable at a reasonable and balanced level in the foreseeable future
- We maintain our long CNH/TWD cross spot position with a target of 4.38 and a stop of 4.30

**Asia Overview** - Most EM Asian currencies weakened versus the dollar on Wednesday. The SGD rallied slightly, while the JPY dropped 0.4% amid a 7bp jump in the 10Y UST yield.

The CNY and CNH advanced about 0.3% and 0.4% respectively. USD/CNH will likely trade between 6.4 and 6.5 at the moment. The KRW dropped 0.3%. USD/KRW will likely trade between 1,140 and 1,160 at this stage. South Korea's exports rose 32.8% yoy to USD 32.6bn in the first 20 days of July on the back of robust demand for chips, autos and petroleum products, while imports increased 46.1% yoy to USD 36.5bn in the period. The TWD slid around 0.1% amid large equity outflows. USD/TWD will likely trade around the 28.0 level at the moment.

India's onshore markets will reopen Thursday after a public holiday. USD/INR will likely fluctuate around the 74.5 level for now. The IDR declined about 0.2%. USD/IDR will likely trade between 14,400 and 14,600 at present. Indonesia's finance ministry sold IDR 34tn of T-bills and bonds at the Wednesday auction with incoming bids of IDR 95.55tn, exceeding the IDR 33tn indicative target. Foreign investors accounted for 7.57% of incoming bids and 6.35% of awarded bids. The MYR fell 0.2%. USD/MYR will likely trade in a range of 4.20-4.25 in the near term. The PHP edged down, with USD/PHP likely to trade between 50.0 and 50.5. The BSP awarded all of PHP 560bn term deposits offered at its weekly auction on Wednesday. The BSP said in its H1 Banking Sector Outlook Survey on Wednesday that the majority of Philippine banks see non-performing loan (NPL) ratio exceeding 5% in next two years, with big lenders expecting the ratio settling between 3.0% and 6.5%. Finance Secretary Carlos Dominguez said on Wednesday that the Philippines has room to cut banks' reserve requirement ratio (RRR) as the economy recovers from the effects of the pandemic. The THB weakened 0.1%. USD/THB will likely trade between 32.5 and 33.0 for now. Thailand's economic growth forecast this year is revised down to 1.3% from 2.5% earlier to factor in worsening impact from the nation's latest round of Covid-19 outbreak, according to the BoT's analyst survey.

Regional equity indices diverged on Wednesday. China's SHCOMP index rallied 0.73% amid USD 92.6mn of equity inflows, while South Korea's KOSPI index slipped 0.52% with foreign investors offloading a net USD 519.1mn of Korean shares. In the meantime, Taiwan's TWSE index declined 0.40% as global funds reduced their holdings in local main board shares by USD 578.2mn on Wednesday. Malaysia's KLCI index ended 0.23% lower. Thailand's SET index and Indonesia's JCI index closed up 0.13% and 0.21% respectively.

**China** • The US Department of State announced in a [statement](#) dated July 21 that Deputy Secretary of State Wendy Sherman will be meeting Chinese officials including Foreign Minister Wang Yi in Tianjin on July 25-26.

- *The Department said that these discussions are part of ongoing US efforts to hold candid exchanges with Chinese officials to advance US interests and values and to responsibly manage the relationship, adding that the Deputy Secretary will discuss areas where the US have serious concerns about China's actions, as well as areas where US interests align.*

Later, China confirmed that US Deputy Secretary of State Wendy Sherman will visit the city of Tianjin on July 25-26.

- *A Chinese foreign ministry spokesperson told Xinhua news agency that the US side proposed the visit and that Sherman would first hold talks with a vice foreign minister, Xie Feng, and later meet Wang. According to the news report, China will expound to*

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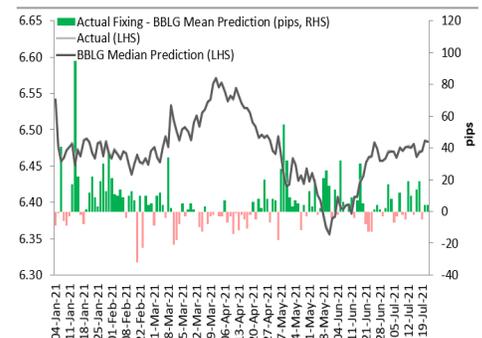
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USD/CNY Spot vs. USD/CNH Spot



Source: Bloomberg & Scotiabank FICC Strategy

USD/CNY Fixing: Actual vs. Bloomberg Median Prediction



Source: Bloomberg & Scotiabank FICC Strategy

USD/CNH 3M ATM Implied Vol vs. 3M 25Delta Risk Reversal



Source: Bloomberg & Scotiabank FICC Strategy

*the US its position on developing bilateral relations and a firm attitude in safeguarding its own sovereignty, security, and development interests. In addition, the unnamed spokesperson said that "China will demand that the US side should stop interfering in China's internal affairs and harming China's interests."*

Tianjin (天津) is one of China's four autonomous municipalities, about 120 kilometers southeast of Beijing. In history, the metropolis is the important gateway to the nation's capital. While the two nations did not disclose what Sherman and Wang would discuss, **Sharman's trip to Tianjin has been seen in foreign policy circles as an essential step towards a potential Biden-Xi Summit during the October G20 meeting in Rome.**

Earlier on June 23 this year, Bloomberg cited the Financial Times as reporting that US President Joe Biden pushes for high-level meetings with Beijing officials. According to the articles, 1) the Biden administration has told Beijing it would like to send Deputy Secretary of State Wendy Sherman to China over the summer; 2) US President Joe Biden is considering a second call with Chinese President Xi Jinping; 3) the White House has also held preliminary internal discussions about sending Antony Blinken or National Security Adviser Jake Sullivan to China before the 2021 G20 Rome Summit set for October 30-31 and; 4) US President Joe Biden and Chinese President Xi Jinping may hold a bilateral summit on the margins of the G20 leaders meeting.

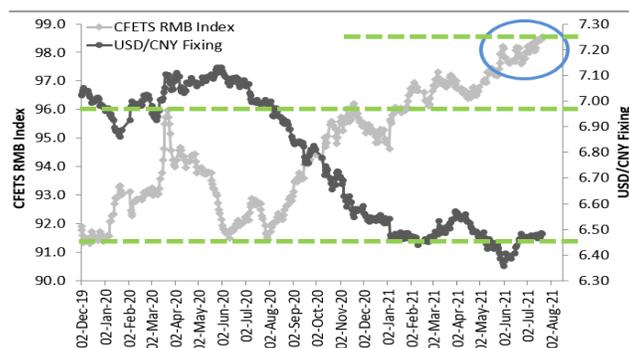
**The US and China are likely to improve their bilateral trade relations to some extent in the future, but a strategic competition between the world's two largest economies will continue and may intensify in the next decades. If the US and China agree to remove some tariffs late this year or next, it will certainly improve risk sentiment while helping ease US inflationary pressure.** US Treasury Secretary Janet Yellen said in an interview with the New York Times published on July 16 that "Tariffs are taxes on consumers. In some cases it seems to me what we did hurt American consumers, and the type of deal that the prior administration negotiated really didn't address in many ways the fundamental problems we have with China."

**The PBoC is expected to keep the yuan exchange rate basically stable at a reasonable and balanced level in the foreseeable future, considering uncertainties surrounding the Fed's tapering and the US-China bilateral relations. Meanwhile, we expect more foreign portfolio inflows chasing Chinese stocks and bonds that have been exhibiting a low correlation to global markets in order to diversify and optimize their capital allocation.** The Institute of International Finance (IIF) said in a report on Tuesday (July 20) that global central banks' reserve accumulation in the Chinese yuan accounted for a third of inflows into China government bonds last year and 60% of the flows in the first quarter. It also estimated that if global yuan reserves rose from 1.8% to 3.0% of China's GDP over the next decade, "annual flows to the local bond market would consistently exceed USD 400bn."

**In our view, market expectations for the yuan exchange rate are neutral at this stage. Meanwhile, the CFETS RMB Index is likely to climb further towards the 99 level once concerns over the Fed's tapering revive ahead of the July 27-28 FOMC meeting and/or the August 26-28 Jackson Hole Economic Symposium.**

**We maintain our long CNH/TWD cross spot position entered at 4.33 on Wednesday, with a target of 4.38 and a stop of 4.30.** Taiwan's listed companies are set to pay large dividends intensively in the July-September period as usual, which could impose upward pressure on USD/TWD spot considering foreign institutional investors owned 41.49% of local shares as of June 2021.

Scotiabank CFETS RMB Index vs. USD/CNY Fixing



Source: Bloomberg & Scotiabank FICC Strategy

Taiwan Dividend Payment Schedule in 2021

Date 2021	Company	Cash Dividend Payouts (TWD bn)	Date 2021	Company	Cash Dividend Payouts (TWD bn)
Jul 15	TSMC (台积电, Q4 2020 Dividend)	64.826	Aug 26	Asus (华硕)	19.312
Jul 21	Yuanta Financial Holdings (元大金)	14.565	Aug 27	Formosa Plastics Group (台塑)	15.278
Jul 29	Pegatron (和硕)	11.983	Sep 6	Asia Cement Corporation (亚泥)	11.930
Jul 29	MediaTek (联发科)	58.845	Sep 10	Taiwan Cement (台泥)	20.590
Aug 6	EMIS (环球晶)	4.352	Sep 11	Taiwan Mobile (台湾大哥大)	12.100
Aug 12	Delta Electronics (台达电)	14.286	Oct 14	TSMC (台积电, Q1 2021 Dividend)	71.309
Aug 13	UMC (联电)	19.876	TBA	Chunghwa Telecom (中华电)	33.400
Aug 19	Quanta (广达)	20.086	TBA	Mega Financial Holdings (兆丰金)	21.490
Aug 19	FarEasTone (远传)	10.590	TBA	CTBC Financial Holdings (中信金)	20.470
Aug 20	Hon Hai Precision Industry (鸿海)	55.452	TBA	ASE Technology Holding (日月光)	18.390
Aug 20	Formosa Petrochemical Corp. (台塑化)	5.620	TBA	Uni-President Enterprises Corporation (统一)	15.340
Aug 23	Cathay Financial Holdings (国泰金)	32.923	TBA	Evergreen Marine Corp (长荣海运)	13.160
Aug 24	Fubon Financial Holdings (富邦金)	30.701	TBA	Largan (大立光)	12.270
Aug 24	Formosa Chemicals & Fibre Corp. (台化)	14.653	TBA	First Financial Holdings (第一金)	11.550
Aug 25	Nanya Plastics (南亚塑胶)	19.034	TBA	Taiwan Cooperative Bank (台库金)	11.330

Source: Bloomberg, Reuters & Scotiabank FICC Strategy

**TODAY'S CALENDAR**

Time (HKT)	Economy	Type	Release	Period	Consensus	Actual	Last	Significance
09:00	CN	DATA	Share of Payments via SWIFT in CNY (%)	Jun			1.90%	med
09:30	AU	DATA	NAB Business Conditions	Q2			17	med
15:20	ID	BI	BI 7-day Reverse Repo Rate	Jul 22	3.50%		3.50%	high
16:00	TW	JOB	Unemployment Rate SA	Jun	4.25%		4.15%	med
16:00	SG	DATA	Automobile COE Quota Premium for Category A	Jul 21			45,001	med
16:00	SG	DATA	Automobile COE Quota Premium for Category B	Jul 21			56,100	med
16:00	SG	DATA	Automobile COE Quota Premium for Category E	Jul 21			57,700	med
16:30	HK	INFL.	CPI Composite YoY	Jun	1.2%		1.0%	med

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