The phone talk between China and US top negotiators helped tame China-US tensions. Trump started the blame game over the coronavirus pandemic outbreak, and said that tariffs would be the ultimate punishment on China. Yet, Trump downplayed the question of virus origin later and shifted the focus to the implementation of phase one deal. Lately Chinese Vice Premier Liu He had a phone talk with US Trade Representative Lighthizer and Treasury Secretary Mnuchin. Both sides vowed to strengthen economic and public health co-operation and create constructive atmosphere and conditions to implement the phase one deal. The CNY market reopen on a resilient tone and the CNY fixing didn’t show PBoC’s RMB depreciation bias. China trade figures for April were surprisingly encouraging. Exports turned positive at +3.5%YoY (vs. -11.0%YoY expected) while imports dropped more than expected by -14.2%YoY (vs. -10.0%YoY expected). China FX reserves for April unexpectedly climbed to USD 3091.5bn (vs. USD 3056bn expected) from prior USD 3060.6bn due to the favourable FX valuation and mark-to-market impact. On the rate side, the PBoC skipped its open market operations after the holiday, leaving the liquidity injection neutral. While the Chinese official media highlighted the possibility of further rate cut this month, the PBoC’s roll-over for the maturing 1Y Medium Lending Facility of CNY 200bn due on 12 May, if any, will give a refreshing signal of PBoC’s monetary easing. In the offshore RMB market, 1Y CNY-CCS held steady at around 1.4%.

We expect the RMB to trade between 7.04 and 7.12 in the coming week. The phone talk between top negotiators should have calmed the market somewhat but the theme of China-US tensions was back to the stage. Such uncertainties before the US President Election in Q4 could keep the RMB rally in check. Meanwhile, optimism over reopening the economies and China’s encouraging data flow should keep RMB sentiment supportive. The rebound in China car sales pointed to a moderating drop in China retail sales for April. Industrial Production for April is expected to turn positive on the back of return to work and production. The decline in fixed asset investment is likely to slow down given the robust housing market and proactive local government bond issuance for infrastructure investment. CPI inflation for April will likely moderate to below 4%YoY as food prices retreated on receding logistic disruptions given the ease of lockdown. After all, speculation about China’s stimulus plan, which is to be revealed at the National People Congress (NPC) on 22 May, will likely propel RMB sentiment as well. In light of the coronavirus pandemic shock, China will probably drop the numeric growth target this year while stabilizing the labour market and keeping the virus spread under control will be the primary goals this year.

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