

# Offshore Renminbi Weekly Report

<Forex> CNH held steady around 7.20 level

<Interest Rates> Chinese banks lowered LPRs by 10bps

<Equity> Shanghai Composite pulled back to near 3,350 level

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (※)
USD/CNH	7.2103	7.2263	7.1822	7.1869	-180
USD/CNY	7.2106	7.2254	7.1872	7.1902	-171
CNY PBoC Fixing	7.1916	7.1937	7.1903	7.1919	-44
Shanghai Composite Index	3,365.88	3,394.75	3,348.37	3,348.37	-19

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change		HK Close	Weekly Change
CNH Forward (1yr)	-1,942	-10	CNH HIBOR (3mth)	1.74%	+0.19 ppt
CNH Currency Swap (3yr)	1.45%	-0.50 ppt	CNH Implied yield (1Y)	1.30%	+0.08 ppt

## 【Weekly review and forecasts】

The CNH spot reverted to near 7.20 handle, as RMB sentiment stabilized after the China-US tariffs truce reached in the prior week. Early in the week, the softening China data releases for April reflected the adverse effects of US tariff hikes, pressuring the CNH to near 7.22 level. On the bright side, China FX net settlement for April recorded a larger surplus of CNY 42.5bn in comparison to prior CNY 0.7bn. That says, corporate tended to adopt FX-neutral stance in their treasury operations amid the tariffs rout but not look for one-way RMB depreciation. The USD's continued decline, driven by growing concerns over U.S. debt sustainability, further supported the CNH rally. Meanwhile, the PBoC maintained the CNY fixing between 7.19 and 7.20 for nine consecutive sessions, keeping RMB trading within a narrow range. The RMB basket index retreated to a two-week low of 96.2.

On the interest rate side, Chinese banks lower the Loan Prime Rates (LPRs) by 10bps following an equivalent cut in policy rate in early May. Major onshore Chinese banks also lowered their deposit rates accordingly to maintain their net interest rate margins. Over the week, the PBoC net injected CNY 460bn via the open market operations. In the offshore market, CNH rates were moving sideways. Overnight CNH HIBOR stayed around 1.6%.

Looking ahead, we expect the CNH to gyrate around 7.2 handle in the coming week. With no imminent deadline for resuming U.S.-China trade negotiations, both sides appear content to wait. The Chinese government and the PBoC are also likely to hold off on new stimulus measures until more economic data becomes available. Externally, the resurgence of the "Sell America" trade theme amid a prolonged U.S. bond market rout could lend further support to the RMB. In the meantime, the PBoC is expected to maintain the CNY fixing near the 7.20 level to anchor market expectations.

## 【Data & Policy Updates】

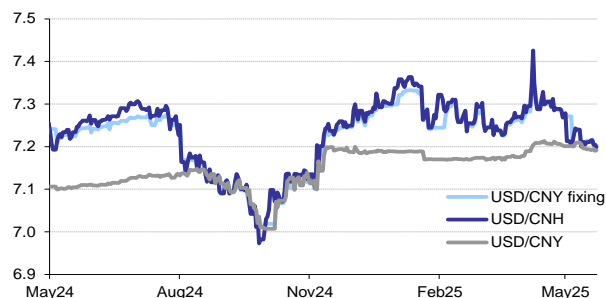
Despite the stimulus from the trade-in schemes, retail sales for April decelerated more than expected to 5.1%YoY (vs. +5.8%YoY expected) due to the drag from slowing automobile sales. Considering the challenging employment market and external shocks, consumer confidence was struggling at near decade lows. The negative wealth effect from the property market downturn also remained in place to suppress consumption, especially on the big-ticket items. Fixed assets investment YTD surprised to the downside, falling further to -10.3%YoY (vs. -10.0%YoY expected) from prior -9.9%YoY. Industrial production showed resilience, up 6.1%YoY (vs. +5.7%YoY expected), comparing to prior 7.7%YoY.

< Stimulus boosted China retail sales >



(Sources: Bloomberg, Mizuho HK)

< USD/CNY, USD/CNH vs. USD/CNY fixing >



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