

Offshore Renminbi Weekly Report

<Forex> Hopes for China-US trade talks boosted the CNH

<Interest Rates> PBoC increased liquidity injection before the holiday

<Equity> Shanghai Composite was capped below 3,300

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (%)
USD/CNH	7.2896	7.3026	7.2510	7.2523	-377
USD/CNY	7.2880	7.3011	7.2598	7.2713	-176
CNY PBoC Fixing	7.2043	7.2043	7.2014	7.2014	-84
Shanghai Composite Index	3,292.06	3,296.93	3,277.55	3,279.03	-9

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change		HK Close	Weekly Change
CNH Forward (1yr)	-1,702	+41	CNH HIBOR (3mth)	1.87%	+0.98 ppt
CNH Currency Swap (3yr)	1.55%	0.65 ppt	CNH Implied yield (1Y)	1.41%	-0.11 ppt

【Weekly review and forecasts】

The CNH spot is set to record gains for a second consecutive week amid hopes for China-US trade talks. Although both Chinese and US officials maintained hardline rhetoric, the Chinese Ministry of Commerce said it was evaluating the possibility of trade talks with the US after receiving a message from senior US officials requesting negotiations. This may mark a potential breakthrough in the China-US trade war. Meanwhile, FX settlement flows from Chinese exporters before the holiday were suspected to propel both the CNH and CNY. As a result, the CNH extended its rally towards the 7.25 level, while the CNY closed near the 7.27 level before the long holiday. RMB sentiment stabilized as the CNY fixing returned to near the 7.20 handle. The RMB basket index found its footing near the 96.2 level.

The PBoC increased liquidity injection via Open Market Operations before the holiday, net injecting CNY 358.3 billion of liquidity over the week. The 7-day onshore CNY interbank repo rate stood around 1.8%. In the offshore RMB market, overnight CNH HIBOR eased to near 1.2% after the month-end period. The CNH-CCS curve was paid up amid stabilizing RMB sentiment.

The CNH is expected to remain supportive below the 7.3 handle amid hopes for China-US trade talks. It appears that both China and the US intend to lower tariffs to a sustainable level before inventory depletion triggers a collapse in the supply chain. Some further tariff exemptions could come faster than reaching an agreement on tariff de-escalations. On the data front, China trade figures for April will reveal the impact of tariffs on trade, with both exports and imports expected to suffer contractions.

【Data & Policy Updates】

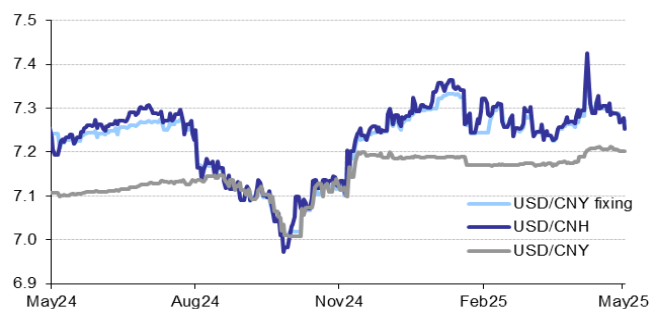
China's official manufacturing PMI for April fell more than expected from the prior 50.5 to 49 (vs. 49.7 expected), breaking below the 50 expansionary mark for the first time in two months. Non-manufacturing PMI slipped to 50.4 (vs. 50.6 expected) from the prior 50.8, reflecting resilience against the trade war given the consumption stimulus measures. The breakdown of manufacturing PMI showed that the sub-components of New Export Orders and Output led the losses, down 4.3ppt and 2.8ppt to 44.7 and 49.8, respectively. The size breakdown showed that the PMI for large enterprises dropped more heavily by 2ppt to 49.2, compared to a -0.9ppt decline for small enterprises. As expected, the declines in PMIs showed souring sentiment among manufacturers following the US tariff hikes. Without any signs of de-escalation, the US sky-high 145% tariffs on Chinese goods are posing a severe demand shock to China's economy.

<China mfg. PMI fell back to 50 expansionary mark>



(Sources: Bloomberg, Mizuho HK)

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



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