

# Offshore Renminbi Weekly Report

<Forex> CNH rebounded after hitting its record low

<Interest Rates> PBoC easing expectations intensified to counter tariffs shocks

<Equity> Shanghai Composite found its footing above 3,000 level

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (※)
USD/CNH	7.2983	7.4290	7.2903	7.3249	+445
USD/CNY	7.3050	7.3512	7.3001	7.3238	+415
CNY PBoC Fixing	7.1980	7.2092	7.1980	7.2087	+198
Shanghai Composite Index	3,193.10	3,249.85	3,040.69	3,238.23	+142

※pips in USD/CNY, USD/CNH

Weekly Price Change	HK Close	Weekly Change		HK Close	Weekly Change
CNH Forward (1yr)	-1,770	-123	CNH HIBOR (3mth)	2.14%	-0.88 ppt
CNH Currency Swap (3yr)	1.44%	-2.60 ppt	CNH Implied yield (1Y)	1.33%	-1.81 ppt

## 【Weekly review and forecasts】

It has been an extremely choppy week due to Trump's tariff policies. Amid the escalating China-US trade war, the CNH spot plunged to a record low of 7.429 before rebounding towards the 7.32/7.33 area. During the week, China retaliated with tit-for-tat tariffs, and Trump countered with higher tariffs against China. With financial markets turning extremely volatile, Trump stepped back from his reciprocal tariffs plan by imposing a 90-day pause but raised tariffs on China further. Subsequently, US tariffs on Chinese goods rocketed to a sky-high 145% by the end of the week, while China raised tariffs on all US goods to 125%, coupled with restrictions on rare earth exports and probes into US corporations. Separately, media reported that Chinese leaders will hold a meeting to discuss new stimulus measures to counter tariffs.

Onshore RMB liquidity conditions remained ample as the escalating trade war fueled expectations for sooner PBoC easing, with the 7-day interbank repo rate down towards 1.6% from 1.7% last week. A front-page article in the state media mentioned that China could counter the economic fallout by supporting domestic demand with stimulus measures, including rate cuts. With the prevailing PBoC easing bias, the 10Y CGB yield sank towards the 1.6% handle. Despite deteriorating RMB sentiment, CNH liquidity conditions remained soft, with Overnight CNH HIBOR settling around 2%.

The CNH spot is expected to remain choppy amid mounting trade war uncertainties. However, the PBoC is unlikely to allow a sharp CNY depreciation. So far, the PBoC has kept the CNY fixing weakening at a gradual pace after exceeding the 7.2 threshold. This indicates that the PBoC has not shifted from its policy stance of preserving FX stability, given mounting capital outflow risk. Indeed, the marginal impact of CNY depreciation to counter tariffs' impact should have diminished to a low level when US tariffs hit 145%. Only inelastic trades will stay in place, while manufacturers will seek to divert imports to other countries, especially after the pause in US reciprocal tariffs. Looking ahead, we reckon that the PBoC will keep the USD/CNY fixing steady to anchor RMB sentiment, while weakening the RMB basket index to improve China's export competitiveness against non-US trading partners. Furthermore, the recent steep USD decline should also provide support to the RMB.

## 【Data & Policy Updates】

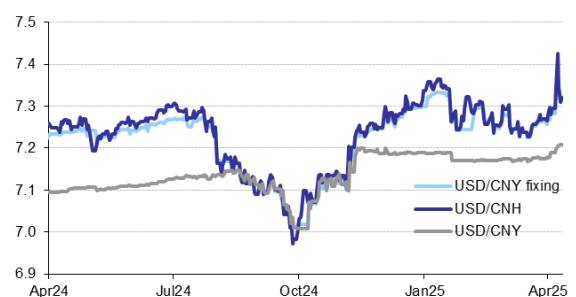
China's CPI for March remained negative, down -0.1% YoY (vs. +0% expected) from the prior -0.7% decline, while the PPI decline deepened to -2.5% YoY (vs. -2.3% YoY expected) from the prior -2.2% YoY. The drop-out of Chinese New Year seasonality drove the rebound in China CPI, but the magnitude was relatively soft. Looking at the breakdown of CPI, the categories of "Others" and "Clothing & Footwear" led the gains, up 6.2% YoY and 1.3%, respectively. Food and tobacco prices saw a narrower decline, down -0.6% YoY from the prior -1.9% YoY. Excluding food prices, core CPI returned to 0.5% YoY from the prior -0.1% YoY. Overall, the consumption stimulus is materializing to support demand-induced inflation, but more measures are needed to bolster sentiment and counter the tariff shocks. The China-US trade war could exacerbate deflation risks. Firstly, the US's sweeping tariffs could directly jeopardize consumer confidence and dampen manufacturing employment, leading to contractionary effect on consumption demand and budget. Secondly, producers might divert unsold export products into domestic markets, causing a supply-side surplus and disinflationary pressure.

<China CPI deflation continued>



(Sources: Bloomberg, Mizuho HK)

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



All information included in this proposal should not be regarded as any legal, accounting or taxation advice from Mizuho. No person should rely on the contents of such information without obtaining prior advice from any qualified professional expert(s) in each relevant sector. If Mizuho's service under this proposal calls for specific professional advice or service, client shall seek independent professional expert(s)' help. Alternatively, if Mizuho's assistance is required for referral of relevant expert(s) there is no extra referral fee for such referral and Mizuho is not liable for the advice or service given by such expert(s). All information included in this proposal is strictly exclusive for Mizuho's clients' internal use only. No disclosure to any third party from clients should be allowed. All rights reserved. No part of content of this proposal may be reproduced or copied in any form or by any means. Mizuho disclaims all and any liability and responsibility to any person upon correctness, reliability and completeness of the whole or any part of the contents of this proposal. No assurance on the acquisition of approval for any permit application is included. The services provided by any member of the Mizuho Financial Group are subject to applicable laws, regulations and supervision of applicable regulatory authorities' in the jurisdictions where the services are provided.

If you have further questions on market information, please call Mizuho Bank East Asia Treasury Department Mr. Komatsu Mr. Yamauchi, or Mr. Cheung. Tel: +852-2306-3352(HK)

Mizuho Bank, Ltd. is incorporated in Japan with limited liability