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Offshore Renminbi Weekly Report

East Asia Treasury Department

3-Apr-25

＜Forex＞ PBoC kept CNY fixing steady after Trump's tariff day

＜Interest Rates＞ PBoC drained liquidity after the month-end

＜Equity＞ Shanghai Composite slipped amid mounting trade war

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (※)
USD/CNH	7.2702	7.3484	7.2531	7.3125	+445
USD/CNY	7.2626	7.3047	7.2475	7.2976	+353
CNY PBoC Fixing	7.1782	7.1889	7.1752	7.1889	+126
Shanghai Composite Index	3,343.34	3,375.05	3,317.74	3,333.10	-3

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change		HK Close	Weekly Change
CNH Forward (1yr)	-1,635	+12	CNH HIBOR (3mth)	2.23%	+1.39 ppt
CNH Currency Swap (3yr)	1.68%	-1.15 ppt	CNH Implied yield (1Y	1.62%	-1.14 ppt

【Weekly review and forecasts】

Trump's tariffs plan, which includes a combination of a 10% universal tariff and reciprocal tariffs, seems to approach the worst scenario among market participants. The 10% baseline tariff will take effect on April 5, while the reciprocal tariffs will be effective on April 9. Considering the 34% reciprocal tariffs on Chinese goods, total new tariffs under Trump 2.0 will rise to 54%. In response to the new US tariffs on Chinese goods and heightened RMB depreciation pressure, the PBoC set the CNY fixing 96 pips weaker to the 7.1889 level, the lowest level since 19 January. Meanwhile, the USD/CNY fixing and estimate gap narrowed to -735 pips from -885 pips. With the fresh rounds of US tariffs kicking in at a more aggressive and faster pace under Trump 2.0, the PBoC refrains from driving CNY depreciation against the USD to counter the tariffs' impact. By sticking to the policy stance to preserve FX stability, a stable RMB helped anchor EM Asian FX sentiment.

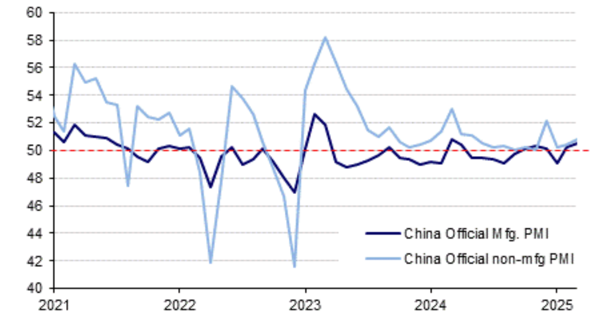
As CNY liquidity conditions eased after month-end, the PBoC net drained CNY 580.4 billion of liquidity via open market operations over the week. 7-day interbank repo rate slid to 1.68% from the intra-week high of 2.19%. In the offshore RMB market, liquidity conditions remained ample, with the overnight CNH HIBOR sliding to 1.37%

Looking ahead, we reckon that the PBoC will allow gradual CNY fixing weakening to introduce more two-way market flexibility to adjust to choppy market conditions after the US tariff day. We maintain our view that the PBoC will not allow a sharp RMB depreciation given capital outflow risks and the government's objective to restore confidence in the Chinese economy. The USD decline following the tariff announcement should provide the PBoC with a tailwind to stabilize the FX market. Regarding the tariff headlines, the marginal impact of further US tariff hikes on Chinese goods will continue to diminish as the 54% tariff hike under Trump 2.0 should have significantly suspended China's exports to the US. China's domestic stimulus updates, upcoming data performance, China-US trade negotiations, as well as the PBoC's FX policy, will play a more important role in driving the RMB market.

【Data & Policy Updates】

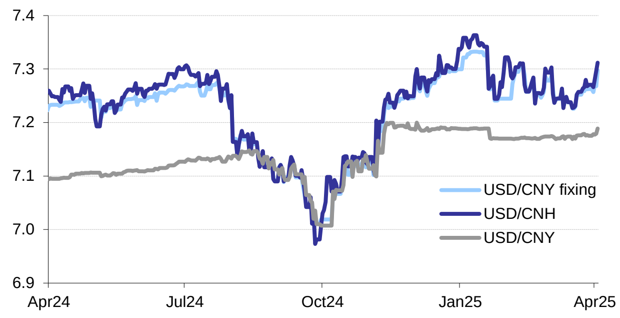
China's manufacturing and non-manufacturing PMIs for March picked up following the announcement of pro-growth policy measures at the National People's Congress, despite rising external uncertainties. The Manufacturing PMI climbed more than expected to a one-year high of 50.5 (vs. 50.4 expected) from the prior 50.2. Looking at the breakdown, the sub-indices for New Orders and New Export Orders led gains, up 0.7ppt and 0.4ppt, respectively. These readings showed improvement after the Chinese New Year seasonality and announcements of higher budget deficits, despite the implementation of Trump's tariffs. The enterprise size breakdown indicated a jump of 3.3ppt for small enterprises, while large enterprises saw a 1.3ppt retracement. Meanwhile, the non-manufacturing PMI improved for a second consecutive month to 50.8 (vs. 50.6 expected) from the prior 50.4. Overall, the improving PMIs indicated that China's pro-growth stimuli were materializing to support sentiment and counter US tariff uncertainties. Following supply chain redirection and rebalancing trade shares after the first trade war and COVID disruptions, China's manufacturing sector showed stronger resilience against the implementation of US tariffs and the tariffs-induced RMB depreciation pressure might prove to be less heavy.

＜China mfg. PMI climbed to its 1-year high＞



（Sources: Bloomberg, Mizuho HK）

＜USD/CNY, USD/CNH vs. USD/CNY fixing＞



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