

Offshore Renminbi Weekly Report

<Forex> CNH remained range-bound amid escalating global trade war

<Interest Rates> CNH liquidity conditions stayed ample

<Equity> Shanghai Composite recovered to the 3,400 level

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (※)
USD/CNH	7.2429	7.2696	7.2157	7.2356	-85
USD/CNY	7.2415	7.2655	7.2164	7.2339	-84
CNY PBoC Fixing	7.1733	7.1741	7.1696	7.1738	+46
Shanghai Composite Index	3,373.26	3,421.23	3,334.83	3,419.56	+53

※pips in USD/CNY, USD/CNH

Weekly Price Change	HK Close	Weekly Change		HK Close	Weekly Change
CNH Forward (1yr)	-1,634	-134	CNH HIBOR (3mth)	2.00%	-3.19 ppt
CNH Currency Swap (3yr)	1.83%	-1.20 ppt	CNH Implied yield (1Y)	1.70%	-1.69 ppt

【Weekly review and forecasts】

The CNH spot hovered near the 7.25 level as the PBoC maintained the CNY fixing steady around 7.17. Following Trump's 25% tariff hikes on steel and aluminum, China refrained from retaliating against the US. The PBoC also showed little intention to tweak its policy guidance to preserve FX stability. In a meeting, the PBoC reiterated its commitment to keeping the RMB exchange rate basically stable at a reasonable equilibrium. With the USD declining, the PBoC dialed back some CNY fixing policy support, narrowing the actual USD/CNY fixing-estimate gap to as much as -573 pips during the week. Equity inflows provided support to the RMB, with the Shanghai Composite climbing above the 3,400 level.

Over the week, the PBoC continued to soak up liquidity, net draining CNY 251.7 billion following a withdrawal of CNY 881.3 billion in the prior week. Onshore RMB market conditions remained adequate, with the 7-day interbank repo rate hovering near 1.8%. Rising rates in onshore negotiable certificate deposits (NCDs) attracted foreign capital inflows to the CNY market. In the offshore RMB market, liquidity conditions remained ample, with the overnight CNH HIBOR capped below 2% for almost three weeks. With stabilizing RMB sentiment, Chinese authorities may have little interest in tightening liquidity to squeeze out long USD/CNH spot carry positions. Indeed, the CNH-CNY spot rate has been narrowing to near par, reflecting more neutral RMB sentiment in the offshore market.

The CNH is expected to remain in range trading. Importantly, the PBoC is likely to stick to its steady CNY fixing policy despite the US tariff hikes. Preserving FX stability has become the primary objective as the Chinese government aims to restore confidence in China's growth outlook. A stable FX market is also constructive for attracting foreign capital inflows to Chinese investments. In the face of Trump's aggressive tariff hikes, the effect of countering the tariff impact with a modest RMB depreciation should prove limited. On the data front, China's hard data releases for the first two months will show the impact of US tariff hikes and the improving sentiment on the Chinese economy. Retail sales are expected to improve amid the implementation of a stimulus package. The US tariff hikes could slow industrial production, while the increase in new home sales bodes well for the property sector and fixed asset investments.

【Data & Policy Updates】

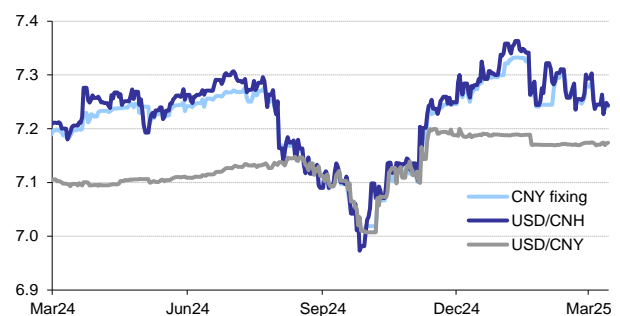
China's CPI inflation dropped more than expected by -0.7% YoY (vs. -0.4% YoY expected) from 0.5% YoY, bringing back deflation for the first time in a year. Notably, China's core CPI fell by -0.1% YoY, marking the first decline in four years. The PPI dropped by -2.2% YoY (vs. -2.1% YoY expected), extending the deflation trend for 29 months. The Chinese New Year seasonality was cited as the main reason behind the deflation, while underlying weak consumption demand could continue to dampen inflationary pressure. Looking at the CPI breakdown, the decline in food & tobacco (-0.7% YoY) and communication (-2.5% YoY) drove prices lower as the Spring Festival holiday fell into a different month in 2025. The return of China deflation figures reminded investors of the challenging China growth outlook this year. Indeed, the deflationary mindset, if formed, will continue to delay consumption and suppress growth.

<China CPI deflation returned>



(Sources: Bloomberg, Mizuho HK)

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



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