

Offshore Renminbi Weekly Report

<Forex> PBoC refrained from weakening the CNY fixing further

<Interest Rates> PBoC phased out the MLF from a policy tool

<Equity> Shanghai Composite capped below 3,400 level

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (※)
USD/CNH	7.2573	7.2823	7.2476	7.2725	+203
USD/CNY	7.2583	7.2687	7.2511	7.2646	+152
CNY PBoC Fixing	7.1780	7.1788	7.1752	7.1752	-2
Shanghai Composite Index	3,364.83	3,394.04	3,340.24	3,351.31	-19

※pips in USD/CNY, USD/CNH

Weekly Price Change	HK Close	Weekly Change		HK Close	Weekly Change
CNH Forward (1yr)	-1,660	+2	CNH HIBOR (3mth)	2.16%	+1.23 ppt
CNH Currency Swap (3yr)	1.79%	-0.05 ppt	CNH Implied yield (1Y)	1.71%	+0.28 ppt

【Weekly review and forecasts】

The CNH spot found support near the 7.28 level as the PBoC refrained from setting the CNY fixing weaker than 7.1788. Importantly, the PBoC ramped up its CNY fixing policy support, leading to a widening gap between the actual USD/CNY fixing and estimates to below -900 pips. The announcement of Trump's reciprocal tariffs in early April dampened RMB sentiment, although a 25% tariff on automobiles from the Trump administration had little impact on the RMB market. Media reported that trade officials from South Korea and Japan would meet with their Chinese counterparts in Seoul over the weekend to discuss economic cooperation to counter Trump's tariff impact. Meanwhile, the RMB basket index recovered to the 99 level amid the USD rebound. At the Boao Forum, the Deputy Administrator of the State Administration of Foreign Exchange (SAFE), Li Bin, noted that the RMB market demonstrated flexibility and stability, with significant foreign capital inflow for buying RMB assets.

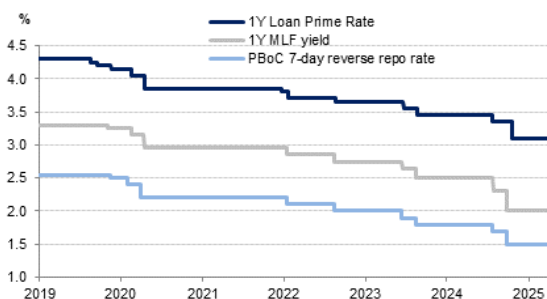
Over the week, the PBoC net drained CNY 146.4 billion of liquidity via open market operations. Approaching month-end, onshore RMB market conditions tightened, with the 7-day interbank repo rate rebounding to above 2%. In the offshore RMB market, liquidity conditions held steady, with the overnight CNH HIBOR trading sideways at near 1.5%.

The global FX market was treading water before the US tariffs announcement on April 2. EM Asian currencies are expected to face setbacks from the US reciprocal tariff policies, but it is challenging to estimate the potential tariff hikes and analyze sensitivity to the reciprocal tariffs for individual currencies by factoring in non-trade barriers such as export subsidies and value-added tax. So far, the RMB market has remained stable since Trump's inauguration, with USD/CNY spot trending lower. Several factors contributed to the RMB's resilience. First, the PBoC refrained from weakening the CNY fixing after the US tariff hikes, while reiterating its commitment to preserve FX stability, in contrast to the policy to drive RMB depreciation to counter tariff impacts in the first trade war. Second, the Chinese government moved towards a more proactive fiscal policy to support domestic consumption, anchoring growth expectations this year. Third, the unwinding of Trump trade flow led to a USD decline, and a less bullish USD outlook provided relief to non-USD currencies. We expect the first two supportive factors for the RMB to remain after the US tariff day and maintain our stable RMB view this year.

【Data & Policy Updates】

The PBoC conducted a CNY 450bn 1Y Medium Lending Facility (MLF) with a new pricing scheme, charging bidders different rates at a fixed auction amount. The new MLF auction with multiple yields will phase out its status as a monetary policy tool, strengthening the policy guidance of the 7-day reverse repo rate as the policy rate. Following the changes, the PBoC aligns the 1Y MLF pricing scheme with the open market outright reverse repo, indicating a shift of MLF from a monetary policy tool to an open market operation to manage liquidity conditions. Considering the maturing CNY 387bn MLF operation, the PBoC net injected CNY 63bn into the market to keep liquidity conditions reasonably ample, capping the rates and issuances of Certificates of Deposits (CDs) among banks.

<PBoC phased out MLF from a policy tool>



(Sources: Bloomberg, Mizuho HK)

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



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