

# Offshore Renminbi Weekly Report

<Forex> The CNY fixing weakened to its 2-month low of 7.1760

<Interest Rates> The PBoC resumed liquidity injection after two weeks of withdrawal

<Equity> Shanghai Composite dropped below 3,400 level

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (※)
USD/CNH	7.2400	7.2601	7.2215	7.2521	+41
USD/CNY	7.2280	7.2537	7.2220	7.2479	+47
CNY PBoC Fixing	7.1688	7.1760	7.1688	7.1760	+32
Shanghai Composite Index	3,430.81	3,439.05	3,355.84	3,364.83	-61

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change		HK Close	Weekly Change
CNH Forward (1yr)	-1,630	-7	CNH HIBOR (3mth)	2.11%	+0.74 ppt
CNH Currency Swap (3yr)	1.84%	0.00 ppt	CNH Implied yield (1Y)	1.73%	+0.23 ppt

## 【Weekly review and forecasts】

The CNH spot weakened to above the 7.25 level as the PBoC set the CNY fixing to its 2-month low of 7.1760. This fixing is the weakest since Trump's inauguration on January 20, when it was 7.1886. Considering the CNY fixing has stayed in the familiar range near the 7.16/7.17 area and the CNY fixing-estimate gap is between -500 and -600 pips, it appears the PBoC has not deviated from its policy stance to preserve FX stability, especially before Trump's trade review in early April. However, the USD decline and the Fed's easing bias should provide relief to the RMB market, giving the PBoC some flexibility to dial back CNY fixing support. Hence, the PBoC might test the waters on the potential withdrawal of CNY fixing policy support.

On the rate side, the timing of "cut rates and RRR at an appropriate time" guidance is under debate. Media reported that Chinese banks cut rates on consumer loans to record lows under regulators' guidance to spur consumer demand. This move may substitute the need for immediate rate cuts as Trump's tariff uncertainties keep the RMB on the back foot. Meanwhile, Chinese banks left the 1Y and 5Y Loan Prime Rates (LPRs) unchanged at 3.1% and 3.6%, respectively. Over the week, the PBoC resumed liquidity injection, net injecting CNY 885.5 billion following a withdrawal of CNY 251.7 billion in the prior week. Onshore RMB market conditions eased, with the 7-day interbank repo rate falling to below 1.8% from its intra-week high of 1.96%. In the offshore RMB market, liquidity conditions held steady, with the overnight CNH HIBOR climbing to near 2%.

The CNH is expected to remain in range trading, and we do not expect the PBoC to tweak its policy to preserve FX stability. Admittedly, the RMB market is still facing heightened uncertainties from Trump's tariffs, with another round of potential tariff hikes after the trade review in early April. It appears that a further decline in the USD Index or receding tariff uncertainties (such as the beginning of China-US trade talks) are needed to prompt the PBoC to modify the CNY fixing level. Meanwhile, the recent retracement in the RMB basket index amid the USD decline could support China's export sector. With the CNY fixing support functioning as the FX stabilizer, the CNY spot could not catch up with the strong non-USD rebound during this period, while the falling RMB basket index indicated shrinking pressure on the PBoC's CNY fixing policy withdrawal.

## 【Data & Policy Updates】

Robust hard data from China for the first two months kept RMB sentiment supportive. Although the CNH and CNY spot rates slipped to the 7.23/7.24 area after the data releases, a soft USD and hopes for a stimulus package held the RMB within its recent trading range. Both consumption and industrial production for the first two months surprised to the upside, accelerating to 4% YoY (vs. +3.8% YoY expected) and 5.9% YoY (vs. +5.3% YoY expected), respectively. The improving figures reflected that consumption stimulus, including the trade-in scheme, continued to materialize during the Spring Festival holiday, and production showed resilience against US tariff uncertainties. However, the sluggish property market continued to weigh on growth, with a decline in property investment dragging on fixed assets investment amid falling property prices. The survey jobless rate climbed to 5.4% (vs. 5.1% expected) from 5.1%.

<Automobile sales remained weak>



(Sources: Bloomberg, Mizuho HK)

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



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