Offshore Renminbi Weekly Report

East Asia Treasury Department

7-Mar-25

＜Forex＞ CNH gained more resilience against US tariff hikes

＜Interest Rates＞ PBoC pledged to implement a moderately loose policy

＜Equity＞ China and HK stock markets extended their rallies

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (※)
USD/CNH	7.2926	7.3073	7.2333	7.2473	-537
USD/CNY	7.2814	7.2936	7.2348	7.2471	-394
CNY PBoC Fixing	7.1745	7.1745	7.1692	7.1705	-35
Shanghai Composite Index	3,328.40	3,390.94	3,297.53	3,372.55	+56

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change		HK Close	Weekly Change
CNH Forward (1yr)	-1,510	-30	CNH HIBOR (3mth)	2.32%	-0.30 ppt
CNH Currency Swap (3yr)	1.94%	-0.45 ppt	CNH Implied yield (1Y	1.84%	-1.80 ppt

【Weekly review and forecasts】

Despite President Trump's additional 10% tariff hike on Chinese goods, the CNH spot rebounded from 7.30 to 7.23 before settling near the 7.25 level. The notable USD decline was the main driver for the CNH rally, while the PBoC's steady CNY fixing guidance during the National People Congress (NPC) continued to anchor RMB sentiment. In response to Trump's tariffs, China levied 10-15% tariffs on US agricultural goods and the counter measures were regarded as mild. The RMB market was largely muted to the numeric targets of the NPC. As expected, the government maintained the annual growth target of around 5% via a higher budget deficit ratio of 4%. China will also raise CNY 4.4 trillion in new special local government bonds and CNY 1.3 trillion in ultra-long special China Government Bonds (CGBs) to fund stimulus. Regarding FX, the government vows to keep the RMB exchange rate basically stable at a reasonable equilibrium, suggesting no change in the CNY policy amid the escalating trade war.

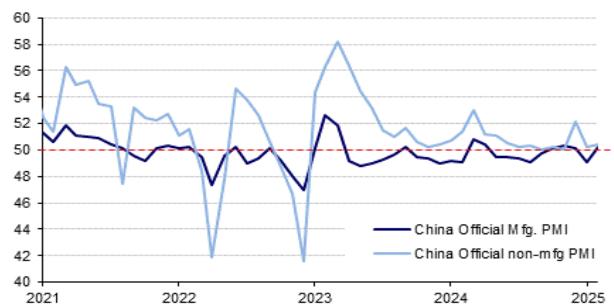
On the policy front, PBoC Governor Pan said that the central bank would implement a moderately loose policy, reiterating plans to cut rates and the Required Reserve Ratio (RRR) at an appropriate time. Over the week, the PBoC injected liquidity into the market via open market operations, net draining CNY 881.3 billion following an injection of CNY 133.1 billion in the prior week. Onshore RMB market conditions eased after the month-end period, with the 7-day interbank repo rate falling back to 1.72%. With the CNH-CNY gap closing to par, offshore RMB liquidity conditions remained ample.

Following two rounds of 10% US tariff hikes on Chinese goods, the CNH spot remained dramatically stable near the 7.25 level. Indeed, the CNH has been gaining more resilience against the US tariffs hike, as the relevant side effects and policy uncertainties started to weigh on the US growth expectations, resulting in the USD decline. Looking ahead, it appears that the Trump administration will ramp up tariffs on Chinese goods, with the comprehensive trade review to be completed by early April. That said, tariff uncertainties are set to keep the RMB on the back foot. On the policy front, market participants will closely monitor the PBoC's CNY fixing guidance, which is subject to change to counter tariff hikes after the NPC. Datawise, CPI inflation for February is expected to fall back into negative territory due to Chinese New Year seasonality and deflationary pressure from PPI. Government support and accommodative monetary policy will provide support to the credit expansion figures in February.

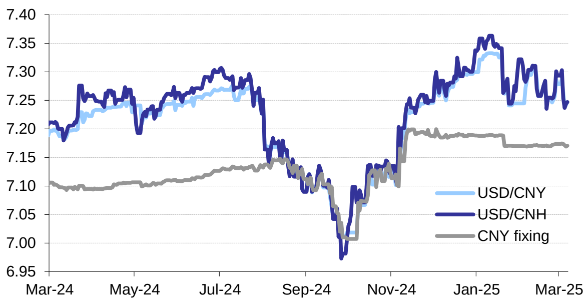
【Data & Policy Updates】

China's manufacturing PMI for February climbed more than expected to 50.2 (vs. 49.9 expected) from the previous 49.1. With the PMI recouping the 50 expansion mark, investors breathed a sigh of relief as the previous decline was driven by Chinese New Year seasonality, when workers returned to their hometowns during the Spring Festival. It also indicated that the tariff impact on manufacturing sentiment in early February was absorbed quickly. Indeed, manufacturers have been working on supply chain redirection to mitigate the impact of US tariffs since the first China-US trade war. The idea of reciprocal tariffs suggests that most of the US's trade partners other than China will be subjected to tariff hikes, and producers are not in a rush to withdraw the remaining production bases in China. Looking at the breakdown, the rise in manufacturing PMI was led by the sub-indices of Output (+2.7ppt) and New Export Orders (+2.2ppt). The decline in the raw material inventory sub-index (-0.7ppt) was attributed to the usage of inventories.

＜China mfg. PMI rebounded to above 50＞



＜USD/CNY, USD/CNH vs. USD/CNY fixing＞



（Sources: Bloomberg, Mizuho HK）

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