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RMB: Riding the Tailwinds

Since the outbreak of the US-Iran conflict, expectations of renminbi appreciation have become increasingly self-reinforcing. This momentum has persisted despite slowing domestic growth and, more recently, rising expectations of US Fed rate hikes. Meanwhile, Beijing appears increasing tolerant of paced renminbi appreciation, given its push to advancing renminbi internationalization.

Looking ahead, the renminbi is likely to receive further support from the Trump-Xi summit expected next week. In addition to an extension of the current trade truce, there is a strong possibility that the US and China will reach a framework to reduce bilateral tariffs.

Reflecting this self-reinforcing momentum and potential near-term support, we now expect CNH to remain firm through the remainder of the third quarter, ending September at around 6.70 per US dollar. We maintain our year-end USD/CNH forecast at 6.65, despite growing consensus of at least one more Fed rate hike to contain inflationary pressures stemming from geopolitical energy shocks.

Our Forecasts	Latest	Q3 2026	Q4 2026	Q1 2027	Q2 2027	Q3 2027	Q4 2027
USD/CNH	6.71	6.70	6.65	6.65	6.62	6.55	6.45
GDP (% YoY)	4.3 (2Q26)	4.4	4.6	4.6	4.9	4.9	4.9
CPI (% YoY)	1.1 (2Q26)	0.8	1.0	0.9	0.8	1.2	1.1
Policy Rate (%)	1.4	1.4	1.3	1.3	1.3	1.3	1.3

A Self-fulfilling Rally

Sentiment towards the renminbi has improved significantly since the outbreak of the US-Iran conflict. The currency has increasingly been viewed as a safe haven, supported by China's resilience to oil-driven inflation. In addition, relatively contained US-China tensions since last year's trade truce and the currency's exceptionally low volatility (Fig. 1) have provided further tailwinds. The offshore renminbi, or CNH, has appreciated by nearly 4% against the US dollar year to date, following a 4.3% gain in 2025.

More importantly, **expectations of renminbi appreciation are becoming self-reinforcing.** Despite a front-end US-China interest-rate disadvantage of around 260bp (Fig. 2), the renminbi's YTD gains have attracted sustained capital inflows, underpinned by expectations of further appreciation and China's large trade surplus.

Notably, the currency has strengthened even as domestic growth has slowed in recent months. This contrasts with previous cycles, when the renminbi benefited from an improving economic outlook. At a recent joint press conference, a senior PBoC official warned against "herding behavior" and the self-reinforcing effects of irrational market expectations.

Fig 1 Exceptionally low volatility in the CNH versus its Asian peers

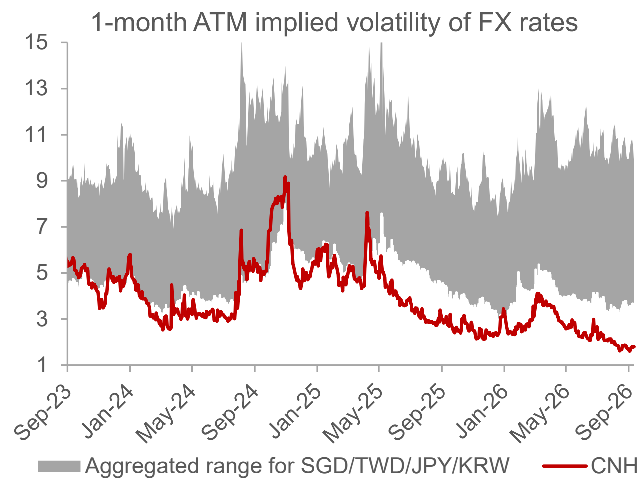
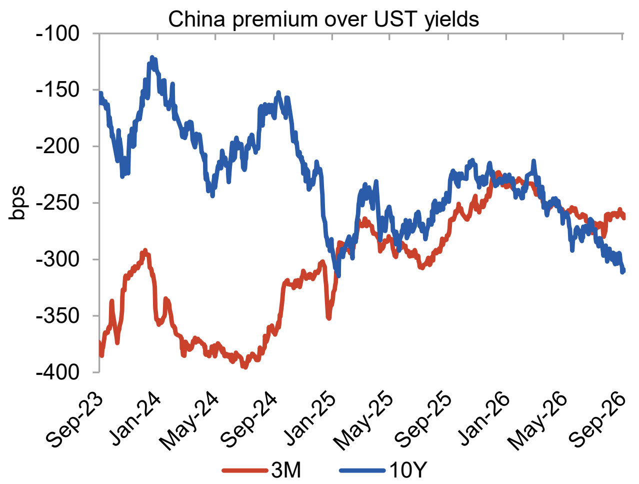


Fig 2 Front-end rate differentials at around 260bp in recent months

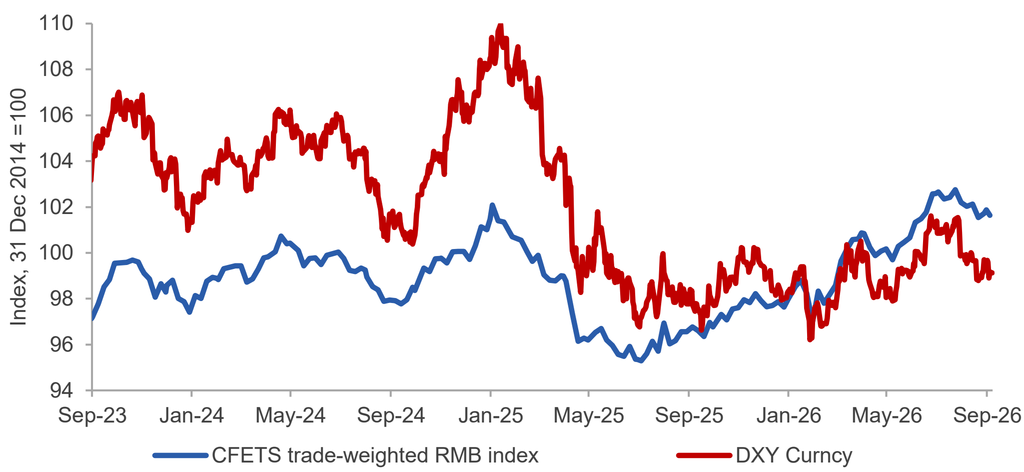


Source: Bloomberg, Mizuho

Little Headwinds for Exports

While many cite support for exports as the main argument against renminbi appreciation, this has rarely been the fact in China. On the contrary, the currency has risen by 5.5% against those of China's major trading partners over the past 12 months, while exports increased by 18.5% year on year over the same period. Export growth even exceeded 20% in both June and July, as the RMB index reached a four-year high (Fig. 3).

Fig 3 The notable rise in the renminbi index since mid-2025,



Source: CEIC, Bloomberg, Mizuho

In fact, China's export performance is driven by a range of factors beyond exchange-rate competitiveness, including robust external demand, strong cost competitiveness, supply-chain strength, and a diverse product range. Echoing this view, PBoC Governor Pan Gongsheng rejected the notion at the G20 that China would pursue currency depreciation to strengthen its trade competitiveness. His comments also indicated **Beijing's increased tolerance for paced renminbi appreciation as it helps advance the currency's internationalization**.

Near-term Support

Looking towards quarter-end, **the renminbi is likely to receive further support from the expected Trump-Xi summit** on 24 September. While the two sides may find limited common ground on AI regulation and national security, they are expected to extend the current trade truce for at least another year.

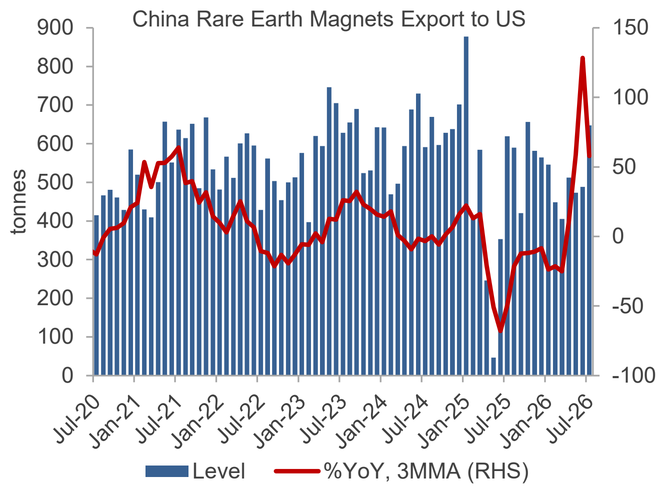
Moreover, while there is little chance that the US will secure a specific commitment from China on renminbi appreciation at the upcoming summit, the currency historically tended to remain firm in the run-up to such high-level meetings.

Separately, there is a high possibility of a reduction in bilateral tariffs. China's Ministry of Commerce has confirmed that bilateral negotiations are under way on a US$30 billion reciprocal tariff-reduction package. Vice Premier He Lifeng will reportedly meet US Treasury Secretary Bessent and US Trade Representative Greer this coming Saturday to finalise the details, along with other issues, ahead of the Trump-Xi summit.

Note that US-China trade relations have significantly stabilized in recent months. Bilateral trade growth has returned to double-digit rates since April, marking a sharp turnaround from the contraction recorded a year earlier (Fig. 4). China's exports of rare-earth minerals to the US have largely recovered to the volumes recorded before "Liberation Day", despite significantly higher prices (Fig. 5). Meanwhile, Chinese soybean orders from the US have exceeded five million tonnes YTD, representing the strongest pace in four years.

Fig 4 Double-digit increases in China-US trade lately

Fig 5 China's exports of rare-earth minerals has partially recovered



Source: CEIC, Bloomberg, Mizuho

FX Outlook

We now expect CNH to remain firm through the remainder of the third quarter, ending September at around 6.70 per US dollar, compared with our previous forecast of 6.75. This revision reflects the currency's self-reinforcing momentum and the potential near-term support. The renminbi has been little affected by renewed dollar strength. Although the DXY index has risen above 100, gaining nearly 1.5% from last week's low, USD/CNH has barely moved and continues to trade firmly around 6.71.

While market concerns about the Fed's policy independence eased following the hawkish rate increase at the September FOMC meeting, long-end US Treasury yields have barely declined amid elevated US inflation expectations and debt levels.

Further ahead, **we maintain our year-end USD/CNH forecast at 6.65, despite growing consensus of further Fed rate hikes**. A consensus has emerged among market participants and Fed officials that at least one more Fed rate increase may be required to contain US inflation expectations arising from geopolitical energy shocks. In turn, this has reduced the likelihood of our baseline forecast of a 10bp policy rate cut and a 25bp RRR cut by the PBoC in 4Q26. However, with or without such cuts, we maintain our GDP growth forecasts of 4.4% for 3Q26 and 4.6% for 2026, as accelerated fiscal support should readily close the stimulus gap.

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