

Offshore Renminbi Weekly Report

<Forex> RMB rallied towards 7.1 after Fed's pivot
 <Interest Rates > PBoC injected a record amount of liquidity via the MLF
 <Equity > China equities remained struggling despite the global risk rally

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (※)
USD/CNH	7.1807	7.2000	7.1030	7.1032	-600
USD/CNY	7.1764	7.1882	7.1024	7.1038	-449
CNY PBoC Fixing	7.1163	7.1174	7.0957	7.0957	-219
Shanghai Composite Index	2,956.29	3,003.75	2,930.42	2,968.49	-23

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change	HK Close	Weekly Change
CNH Forward (1yr)	-1,547	+138	CNH HIBOR (3mth)	3.49%
CNH Currency Swap (3yr)	3.49%	2.05 ppt	CNH Implied yield (1Y)	2.67%

【Last week's review and forecasts】

The CNH extended its rally to near 7.1 handle following the Fed's surprising signal for a policy pivot. Alongside the RMB appreciation, the PBoC reduced its CNY fixing policy support, resulting in a narrowing CNY fixing – estimate gap. China hard data for November were mixed. Industrial production came in higher than expected at +6.6%YoY (vs. +5.7%YoY expected), while retail sales accelerated less than expected to 10.1%YoY (vs. +12.5%YoY expected). The lingering property downturn dragged fixed asset investments YTD at +2.9%YoY (vs. 3.0%YoY expected). To support the housing markets, Beijing and Shanghai announced more relaxations on home buying restrictions by lowering the downpayments ratio for first and second homes.

The PBoC left its 1Y Medium Lending Facility (MLF) yield unchanged at 2.5% as expected while net injected a record amount of CNY 800bn liquidity, reflecting the PBoC's easing bias to keep liquidity condition reasonably ample. Over the week, the PBoC net injected CNY 199bn of liquidity via the Open Market Operations (OMOs). 7-day interbank repo rate was hovering at around 1.8%.

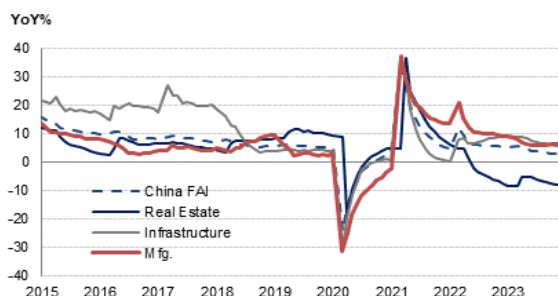
We look for some further gains for the RMB by year-end. Apart from the Fed's pivot, the PBoC's CNY fixing support and its low-profile monetary easing contribute to a positive RMB near-term outlook. Following the USD sell-off, the PBoC set the CNY fixing below 7.10 level for the first time since early June, indicating its intension to boost the CNY further before the year-end. It appears that the PBoC remains committed to preserve FX stability to encourage the return of capital inflow and gain more policy flexibility to implement monetary easing. In the meantime, the PBoC conducted a low-profile monetary easing by injecting a record amount of CNY 800bn liquidity via the MLF operations. Such approach helped the PBoC avoid drawing excessive market attention and mitigate the RMB depreciation pressure induced by conventional easing tools such as rate cuts or Require Reserves Ratio (RRR) cut. Separately, the Chinese government continued to step up fiscal stimulus and provide supportive measures to the property sector. We believe that these policy stimuli will eventually support China data in the medium term.

【Data & Policy Updates】

China hard data for November were mixed. Industrial production were picking up at a healthy pace at +6.6%YoY (vs. 5.7%YoY expected). Retail sales accelerated to 10.1%YoY but missed consensus of 12.5%YoY. Looking at the breakdown, the growth in automobile and catering services contributed the gains while the property related consumption was soft. It appears that the property downturn was the primary drag on the recovery, leading to slow growth in Fixed Assets Investments YTD at 2.9%YoY (vs. 3.0%YoY expected). The infrastructure investments continued to provide steady support to the FAI.

Both aggregate financing and new loan growth for November fell short of market expectations at CNY 2450bn (vs. CNY 2595bn expected) and CNY 1090bn (vs. CNY 1300bn expected), respectively. While M2 growth eased slightly to 10%YoY as expected, M1 growth decelerated further to almost 2-year low 1.3%YoY (vs. 2.0%YoY expected). The breakdown showed that the government bond issuance continued to make significant contribution in aggregate financing, but it might crowd out private lending. Considering the lockdowns and massive infection in last year and the recent property market stimulus, a small gain of CNY 22.8bn in long-term household new loan, as a gauge of mortgage loan, was disappointing.

<Real estate as a drag on FAIs>



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



(Sources: Bloomberg, Mizuho HK)

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