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Offshore Renminbi Weekly Report

East Asia Treasury Department

29-Dec-23

＜Forex＞ Stock Connect inflow and window dressing flow boosted the CNH

＜Interest Rates＞PBoC stepped up liquidity injection at year-end

＜Equity＞ Inflow boosted Chinese stock markets at year-end

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change（※）
USD/CNH	7.1543	7.1607	7.0875	7.0981	-455
USD/CNY	7.1355	7.1499	7.0880	7.0974	-404
CNY PBoC Fixing	7.1010	7.1010	7.0827	7.0827	-185
Shanghai Composite Index	2,909.88	2,971.12	2,890.17	2,964.68	+46

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change		HK Close	Weekly Change
CNH Forward (1yr)	-1,585	+76	CNH HIBOR (3mth)	3.18%	-1.78 ppt
CNH Currency Swap (3yr)	3.18%	-1.78 ppt	CNH Implied yield (1Y	2.47%	+0.65 ppt

【Last week's review and forecasts】

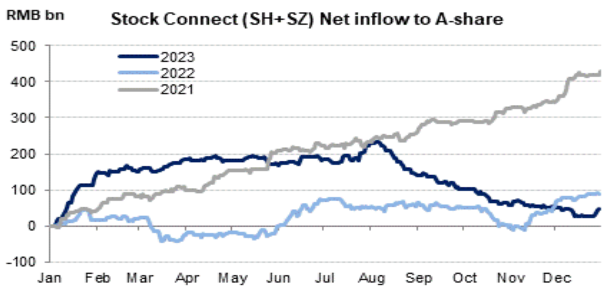
The CNH rallied as much as to 7.0875 level on the final trading day of 2023 as the PBoC stepped its effort to narrow the annual RMB depreciation. The window dressing flow played a role to boost the CNH and CNY, as the PBoC set the CNY fixing below 7.09 level for the first time since late May. In the meantime, the return of foreign capital inflow for bargain hunting lifted the RMB and China equities. Indeed, the Stock Connect channel recorded a single day inflow of CNY 13.6bn, which is largest amount since July. The accumulated Stock Connect inflow to A-shares rebounded to near CNY 50bn but was far off from its year-to-date high of CNY 235bn in early August. After all, the impact of Chinese state-owned banks' saving rates cut offset the support from the USD sell-off. Over the week, the PBoC stepped up its liquidity injection into the market at year-end, net adding CNY 1257bn of liquidity via the Open Market Operations (OMOs). 7-day interbank repo rate hit 2% briefly before settling at 1.9%.

We expect the CNH to stay above 7 handle most of the time next year, given the US-China interest rate spread and concern over China weak growth and property turmoil. As the RMB regains its footing, the PBoC is preparing to resume its rate cut cycle by lowering the saving rates, which will maintain the US-China interest rate differential alongside Fed's easing cycle. In the meantime, foreign investors remain cautious on Chinese investments before Chinese government resolves the property crisis. Despite the escalation of stimulus package, the Chinese data have not yet shown meaningful improvements and bearish expectations for China growth stay intact. On the other hand, the PBoC may start to loosen its grip on the CNY fixing following Fed's pivot, indicating fewer FX policy support from the PBoC.

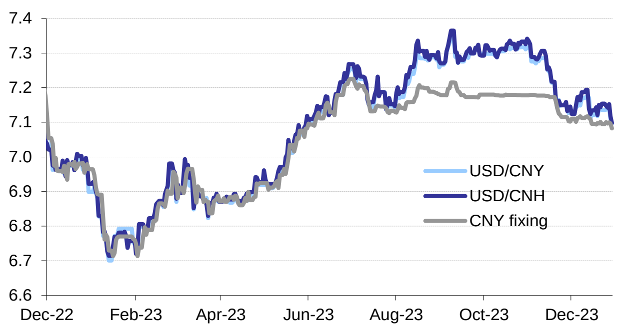
【Data & Policy Updates】

The PBoC's Q4 quarterly monetary meeting statement shed some light on its policy guidance. First, the PBoC vowed to step up its monetary stimulus to push CPI higher. This suggested that the recent deflation might have fueled concern over weak price pressure and reinforced its easing bias in 2024. Following the saving rate cuts among Chinese state-owned banks, the timing of policy rate cut could come as early as in January. Second, the PBoC dropped the principle of "firmly handle the market-order disruptions behaviour" in its FX policy guidance, indicating that the PBoC has become more comfortable with the FX stability for now. That says, the PBoC may intend to reduce its CNY fixing policy support next year while will consider more policy room to lower its policy rate alongside the Fed's pivot.

＜Stock Connect inflow boosted A-share at year-end＞



＜USD/CNY, USD/CNH vs. USD/CNY fixing＞



（Sources: Bloomberg, Mizuho HK）

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