

Offshore Renminbi Weekly Report

<Forex> The USD rebound and intensifying rate cut expectation sank the CNH

<Interest Rates> PBoC injected liquidity via PSL to support growth

<Equity> Foreign investors keep away from China A-shares

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (※)
USD/CNH	7.1240	7.1803	7.1102	7.1717	+534
USD/CNY	7.1018	7.1709	7.0880	7.1644	+539
CNY PBoC Fixing	7.0827	7.1029	7.0770	7.1029	+55
Shanghai Composite Index	2,950.84	2,976.27	2,916.72	2,929.18	-46

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change	HK Close	Weekly Change
CNH Forward (1yr)	-1,727	-122	CNH HIBOR (3mth)	3.08%
CNH Currency Swap (3yr)	3.08%	0.87 ppt	CNH Implied yield (1Y)	2.38%

【Last week's review and forecasts】

The RMB depreciation pressure returned at the year start on the USD rebound and intensifying PBoC's rate cut expectations. The CNH dropped as much as to 7.18 level, prompting the PBoC to restore the CNY fixing policy support. The actual CNY fixing – estimate gap widened to -560pips, the largest since 13 December. Despite a stronger stimulus package, China manufacturing PMI for December unexpectedly worsened to 49 (vs. 49.6 expected) from prior 50.4 level, indicating bearish sentiment in the manufacturing sector. In addition, new home sales from top 100 developers showed a further decline compared to a year ago. Separately, the PBoC revised the weight of the RMB basket, increasing the share of RUB and some EM currencies while reducing the share of major currencies.

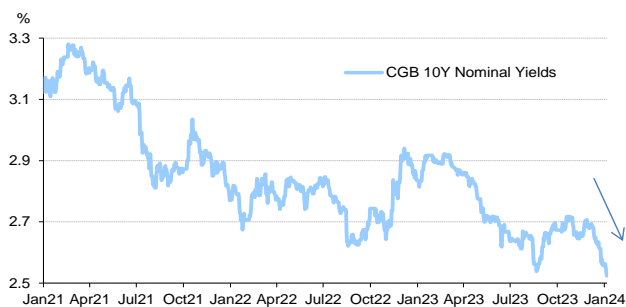
Over the week, the PBoC withdrew liquidity from the market at year-end, net draining CNY 2423bn of liquidity via the Open Market Operations (OMOs). The 7-day interbank repo eased to near 1.8%. The sooner PBoC's rate cut expectation have been heightening. The 10Y China Government Bond (CGB) yield dropped further to 2.53%, the lowest since April 2020. Additionally, data showed that the PBoC injected CNY 350bn liquidity into the banking system via the Pledged Supplementary Lending (PSL) program in December, which is regarded as a tool to promote the three major projects including the construction of public housing and the urban village revamp campaign.

While the USD rebound and sluggish data pose headwinds on the RMB, the policy mix is becoming more positive for China growth outlook. The liquidity injection via the PSL and looming PBoC's rate cuts will provide more funding to support real economic activities. Moreover, the Chinese regulators appears to soften their stance on industry regulations, with the rumour of a top official being removed from the post after the mobile gaming rules backlash. These actions will help repair investors' confidence gradually, but this will take time for foreign capital inflow to return. We look for a range trading in the CNH at near 7.15, while the PBoC's CNY fixing support and the RMB-buying flow before Chinese New Year will provide support to the RMB in the near term. On the data front, the PBoC's easing bias will likely drive an acceleration in China credit growth while the weak loan demand will offset the support from bond issuances. The deflation is expected to persist due to falling food and energy prices. Exports should pick up modestly given the base effect of Covid infection.

【Data & Policy Updates】

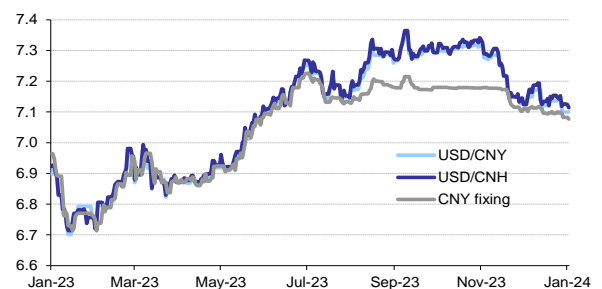
The China manufacturing PMI for December dropped for 3 straight months to 49 from prior 49.4 level. The decline was broad-based, with a 0.7ppt in the new-order sub-index and 0.5ppt fall in output and new-export order sub-indices. Looking at the enterprise size breakdown, the reading for large and small firms dropped by 0.5ppt and medium-size firm fell by 0.1ppt. Overall, the bold stimulus package did little to reverse bearish expectation for China growth and manufacturing activities, previewing weak data flow for the last month of 2023.

<10Y CGB yield sank to lowest since Apr 2020>



(Sources: Bloomberg, Mizuho HK)

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



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