

Offshore Renminbi Weekly Report

<Forex> PBoC managed to defend CNY below 7.2

<Interest Rates > PBoC unexpectedly skipped the MLF yield cut

<Equity > Chinese government was suspected to intervene in the A-shares markets

| Weekly Price Change | Week Open | Week High | Week Low | Week Close | Weekly change (※) |
|--------------------------|-----------|-----------|----------|------------|-------------------|
| USD/CNH | 7.1890 | 7.2322 | 7.1749 | 7.2053 | +302 |
| USD/CNY | 7.1800 | 7.1976 | 7.1662 | 7.1939 | +271 |
| CNY PBoC Fixing | 7.1084 | 7.1174 | 7.1084 | 7.1167 | +80 |
| Shanghai Composite Index | 2,872.56 | 2,904.46 | 2,760.98 | 2,832.28 | -54 |

※pips in USD/CNY,USD/CNH

| Weekly Price Change | HK Close | Weekly Change | HK Close | Weekly Change |
|-------------------------|----------|---------------|------------------------|---------------|
| CNH Forward (1yr) | -1,632 | +113 | CNH HIBOR (3mth) | 3.12% |
| CNH Currency Swap (3yr) | 3.12% | 0.92 ppt | CNH Implied yield (1Y) | 2.46% |

【Weekly review and forecasts】

The CNH weakened as much as to its 2-month low of 7.2322 level before recovering to 7.21 level, as the PBoC ramped up its CNY fixing support to defend the CNY spot below 7.2 level, with the actual CNY fixing – estimate gap widening to near -780 pips for third consecutive day. Investors were disappointed with the sluggish macro and housing data, as well as the conservative fiscal stimulus in China, which is unlikely to resolve the structural problems of the property downturn and weak growth. The Q4 GDP growth came in slightly lower than expected at 5.2%YoY (vs. 5.3%YoY expected). And the feeble consumption recovery, deepening new home prices decline and shrinking population fueled concern over the China economy. Moreover, Chinese Premier Li's remark that the government did not seek short-term growth while accumulating long-term risk disappointed investors looking for a big stimulus this year and the upcoming policy mix is less likely to break the vicious cycle of China weak growth. Foreign investors continued to reduce their exposure to Chinese assets, with the Stock Connect recording outflow for 6th consecutive day. To support the equities, the Chinese government was suspected to intervene in the stock markets to buy A-shares.

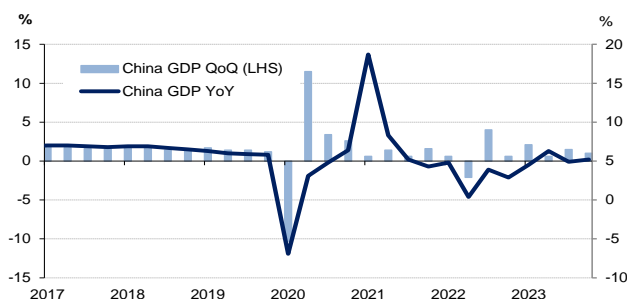
The PBoC surprised the markets by leaving its 1Y Medium Lending Facility (MLF) yield unchanged at 2.5%. despite expectations of an imminent rate cut. The decision to skip the rate cut could be attributed to narrow net interest rate margins among Chinese banks and the renewed RMB depreciation pressure. The status quo also raised expectations for the Required Reserves Ratio (RRR) cut in the near term. Over the week, the PBoC net injected liquidity of CNY 1340bn via the Open Market Operations (OMOs), in comparison to the withdrawal of CNY 189bn. 7-day interbank repo rate spiked towards 2% before settling at near 1.8%.

The latest China data releases painted a picture of mixed growth performance in Q4, while highlighted the challenging China growth outlook ahead. Without a significant rebound in China data or reviving optimism over the stimulus measures, RMB selling pressure is expected to remain heavy and we expect the PBoC to keep its strong hand in defending the CNY spot below 7.2 handle. On the monetary policy front, Chinese banks are expected to leave their 1Y and 5Y Loan Prime Rates (LPRs) unchanged at 3.45% and 4.2%, respectively, after the PBoC surprisingly skipped the MLF yield cut to preserve the net interest margins among Chinese banks.

【Data & Policy Updates】

China GDP expanded by 5.2% in 2023, exceeding its annual growth target of around 5%. While the Q4 GDP growth also accelerated to 5.2%YoY, the hard data for December disappointed investors due to a slow consumption recovery. In addition, the continuous decline in China GDP deflator for the third consecutive quarter reflected the lingering deflationary pressure in the economy. Moreover, the deepening decline in new home prices to -0.45%MoM painted a picture of sluggish property market which will continue to drag on investment and even consumption. The resumption of reporting the youth unemployment rate was positive to market participants, as it helped ease concern over the lack of China data transparency.

<China Q4 GDP grew by 5.2%YoY>



(Sources: Bloomberg, Mizuho HK)

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



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