

Offshore Renminbi Weekly Report

<Forex> PBoC's deep 0.5ppt RRR cut bolstered RMB sentiment
 <Interest Rates > The RRR cut is expected to inject CNY1tn liquidity
 <Equity > The rumour of the stabilization fund establishment lifted A-shares

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (%)
USD/CNH	7.2070	7.2103	7.1415	7.1901	-259
USD/CNY	7.1922	7.1976	7.1440	7.1799	-164
CNY PBoC Fixing	7.1105	7.1117	7.1044	7.1074	-100
Shanghai Composite Index	2,826.50	2,924.31	2,724.16	2,910.22	+154

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change	HK Close	Weekly Change
CNH Forward (1yr)	-1,650	+6	CNH HIBOR (3mth)	3.10%
CNH Currency Swap (3yr)	3.10%	-0.33 ppt	CNH Implied yield (1yr)	2.41%

【Weekly review and forecasts】

The reviving optimism on China's stimulus package drove the CNH stronger as much as to 7.1415. To fight against bearish expectations for China economy, Chinese Premier Li Qiang pledged to take more forceful measures to stabilize stock markets. Afterwards, media report that China is considering establishing a CNY 2tn stabilization fund to buy A-shares from offshore accounts of state-owned enterprises (SoEs) via the Stock Connect, which is expected to generate significant CNH buying flow. The PBoC's deep 50bps Required Reserves Ratio (RRR) cut reinforced expectations for further stimulus. The optimism waned towards the end of the week, leading to a CNH spot pullback to around 7.18 level.

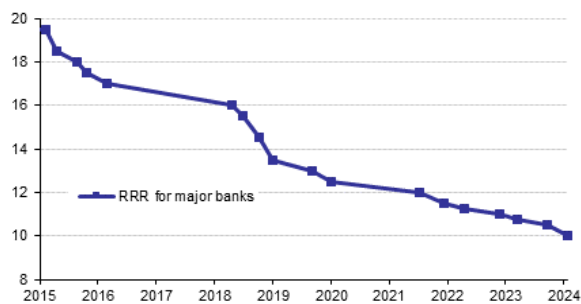
The PBoC's deep 50bps RRR cut aimed to support risk sentiment. While the RRR cut itself was not a major surprise to investors, the bigger size of 50bps cut was the first of its kind since Dec 2021, compared to the regular size of 25bps cut seen over past two years. More important, the RRR cut, which is expected to inject CNY 1tn long-term liquidity in the market on the effective date of 5 Feb, echoed Chinese Premier Li Qiang's pledge to support financial markets. Over the week, the PBoC net injected liquidity of CNY 410bn via the Open Market Operations (OMOs). 7-day interbank repo rate edged higher to above 1.9%.

We expect the CNH to rebound 7.15 level in the near term, as the renewed optimism on stimulus package is likely to bolster RMB sentiment, outweighing the negative FX impact from the monetary easing. Taking into account the PBoC's persistent CNY fixing policy support, the CNH is less vulnerable to the under-delivery risk of the stimulus package in comparison to A-shares market. The upside of USD/CNH will be protected by the CNY fixing guidance. Overall, the CNH near-term outlook will hinge on the China's stimulus delivery while we reckon that the Chinese government has strong incentive to boost sentiment before the Chinese New Year as the bearish sentiment in financial market has been dampening confidence on China outlook and impede the recovery of the real economy. On the data front, manufacturing PMI should remain downbeat due to sluggish domestic and external demand, while the weak consumer confidence will hinder the recovery in the non-manufacturing sector.

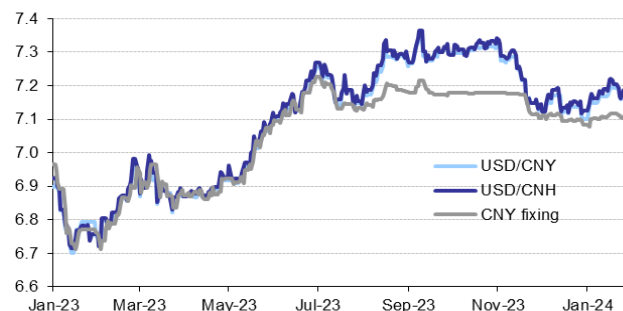
【Data & Policy Updates】

The PBoC's announcement on a deep 50bps RRR cut, alongside the property supportive measure and cuts in relending and rediscount rates, bolstered sentiment. By lowering the re-lending and re-discount rates to small enterprises and agriculture sector, PBoC governor Pan indicated the potential to cut the Loan Prime Rate (LPRs) amid a possible Fed's rate cut cycle. In the meantime, the PBoC does not overly concerned with RMB stability. At his press conference, PBoC Governor Pan refrained from reiterating a firm stance to correct the market pro-cyclical behavior, handle the market order disruption activities and prevent FX overshooting risks. With the current strong CNY fixing guidance and the end of Fed's rate hike cycle, the PBoC shows confidence on preserving FX stability and persist with its policy of allowing the exchange rate to be primarily driven by market forces, suggesting that the exit of the CNY fixing support is possible later this year.

<PBoC announced a 50bps RRR cut>



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



(Sources: Bloomberg, Mizuho HK)

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If you have further questions on market information, please call Mizuho Bank East Asia Treasury Department Mr. Komatsu Mr. Ya mauchi, or Mr. Cheung. Tel: +852-2308-3352(HK)
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