# Offshore Renminbi Weekly Report

East Asia Treasury Department

**2-Feb-24**

**＜Forex＞ Optimism on China stimulus package diminished**

**＜Interest Rates＞10Y CGB yield sank to its record low of 2.43%**

**＜Equity＞China equities lost ground, despite moderating outflow pressure**

| Weekly Price Change | Week Open | Week High | Week Low | Week Close | Weekly change (※) |
|---|---|---|---|---|---|
| USD/CNH | 7.1869 | 7.1975 | 7.1728 | 7.1901 | +102 |
| USD/CNY | 7.1792 | 7.1845 | 7.1675 | 7.1795 | +56 |
| CNY PBoC Fixing | 7.1097 | 7.1097 | 7.1006 | 7.1006 | -38 |
| Shanghai Composite Index | 2,910.61 | 2,923.90 | 2,666.33 | 2,730.15 | -153 |

※pips in USD/CNY,USD/CNH

| Weekly Price Change | HK Close | Weekly Change | | HK Close | Weekly Change |
|---|---|---|---|---|---|
| CNH Forward (1yr) | -1,637 | +13 | CNH HIBOR (3mth) | 3.10% | -0.70 ppt |
| CNH Currency Swap (3yr) | 3.10% | -0.70 ppt | CNH Implied yield (1Y | 2.38% | -0.19 ppt |

**【Weekly review and forecasts】**

The optimism on China stimulus package diminished as the expected market rescue plan and forceful stabilizing measures did not materialize over the week. Additionally, disappointment arose among investors as the Politburo meeting skipped setting the date for the third plenum meeting, which was intended to discuss China's long-term economic plans. The sluggish China home sales figure and China PMIs for January reminded investors of the ongoing China economic downturn. Despite tighter short-selling rules in the A-shares markets, China equities pared back their gains in the prior week. On a positive note, the Stock Connect capital outflow pressure from A-shares eased. Several Chinese cities including Suzhou, Shanghai and Guangzhou announced plans to ease home buying restrictions. Alongside PBoC's persistent CNY fixing policy support, the CNH was hovering in 7.18/7.19 area throughout the week.

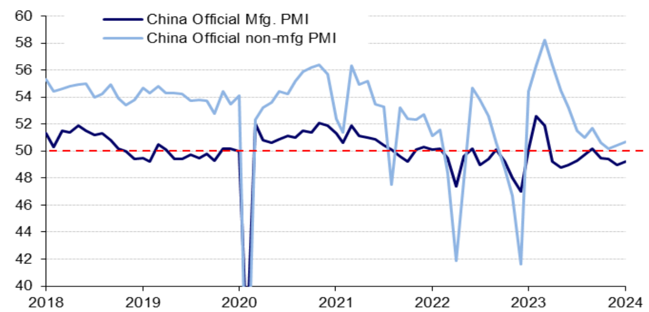
The PBoC's previous 50bps Required Reserves Ratio (RRR) cut ramped up expectations for further easing. Speculations about further rate cuts intensified, sending 10Y China Government Bond (CGB) yield to its record low of 2.43%. Moreover, the PBoC's data showed that the central bank provided CNY 150bn of low-cost funding from the Pledged Supplemental Lending (PSL) program for lending to housing and infrastructure projects. After the month-end, the PBoC shifted to drain liquidity via the Open Market Operations (OMOs), net withdrawing CNY 230bn of liquidity over the week.

We expect the CNH to trade within a narrow range near 7.18/7.19 level. While the Fed's clearer signal for kicking out its rate cut cycle this year may offer some relief to the RMB, its positive impact from the less stark monetary divergence should prove to be limited, given PBoC's signal to ease further during Fed's rate cut cycle. With the long Chinese New Year break approaching, many market participants will take a break and trading activities will likely diminish, while optimism on the stimulus package will likely continue to wane. On the data front, China CPI for January is expected to extend decline due to falling food and energy prices. The deflationary pressure has been pushing real interest rates higher, justifying PBoC's further rate cut. The new loan growth for January will likely jump significantly due to the reset of loan quotas at the beginning of the year. The aggregate financing figure will continue to receive support from bond issuances.

**【Data & Policy Updates】**

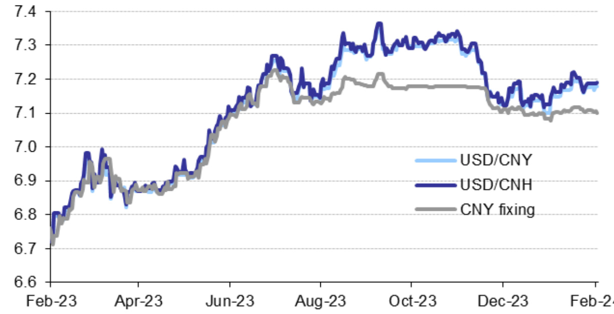
China Manufacturing PMI edged up less than expected to 49.2 (vs. 49.3 expected), while non-mfg. PMI climbed to 50.7 (vs. 50.6 expected) from prior 50.4. Despite the recent stimulus measures and monetary easing, the manufacturing PMI has been remaining below 50 expansionary mark for 4 straight months. Except the spike to 50.2 last September, the manufacturing PMI has been falling below 50 since last April. This suggested that the China reopening recovery was proved to be short-lived and the longer-term economic concern as well as the de-globalization trend, including weak business confidence and the redirection of global supply chain continued to dampen manufacturing sentiment and counter the impact from the stimulus measures. Looking at the breakdown, the sub-components of New Export Order and Output in the mfg. PMI led the gains by rising 1.4ppt and 1.1ppt, reflecting the less worrying external conditions. Overall, we reckon that more stimuli are still needed to bolster sentiment in both manufacturing and non-manufacturing sectors and break bearish expectations for China growth outlook.

＜China mfg. PMI stayed below 50 mark for 4 months＞




(Sources: Bloomberg, Mizuho HK)

＜USD/CNY, USD/CNH vs. USD/CNY fixing＞






*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 : +852-2306-3352(HK)*