

# Offshore Renminbi Weekly Report

<Forex> Consumption and travel data during the holidays showed significant improvement

<Interest Rates > Investors hold split vies on the MLF yield decision

<Equity > HSI and NASDAQ Golden Dragon China Index rallied during holidays

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (※)
USD/CNH	7.2187	7.2337	7.2126	7.2209	+57
USD/CNY	7.1946	7.1975	7.1919	7.1936	-32
CNY PBoC Fixing	7.1036	7.1036	7.1036	7.1036	-27
Shanghai Composite Index	2,832.49	2,867.47	2,827.90	2,865.90	+0

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change	HK Close	Weekly Change
CNH Forward (1yr)	-1,710	-52	CNH HIBOR (3mth)	3.31%
CNH Currency Swap (3yr)	3.31%	1.40 ppt	CNH Implied yield (1Y)	2.58%

## 【Weekly review and forecasts】

While the onshore China markets remained closed for the holiday until next Monday, the CNH spot softened to the 7.22/7.23 area due to the USD strength. Specifically, the hot US CPI data suppressed expectations for a Fed's rate cut in March and highlighted the persistent Fed-PBoC monetary divergence throughout the year. Meanwhile, risk sentiment towards Chinese investments turned more supportive, with Hang Seng Index and NASDAQ Golden Dragon China Index climbing at the beginning of the Chinese New Year. Domestically, consumption and travel data showed significant sales growth during the holiday. According to media reports, the average daily consumer spending on the leading online platforms during the holidays jumped more than 155% from the same period of 2019, while overseas hotel reservations on the platforms hit a record high.

We reckon that the CNH trading remains at a tolerable level and the risk of offshore RMB market liquidity management is low. Looking ahead, the Medium Lending Rate (MLF) yield decision and the CNY fixing guidance adjusted for recent USD strength will be crucial for the CNY direction after the holiday. We look for the status quo of CNY fixing guidance due to the priority of FX market stability, which is important for supporting China stock markets and regaining confidence from both domestic and foreign investors. Meanwhile, market participants hold split views on the MLF yield decision, with ¼ survey respondents looking for a 10bps cut this month. While the rate cut chance is not ruled out, the recent USD rally and the stabilizing China credit expansion data might reduce chance for an imminent rate cut. If the MLF yield remains unchanged, the narrow net interest margins among Chinese banks will limit the downside on the Loan Prime Rates (LPRs).

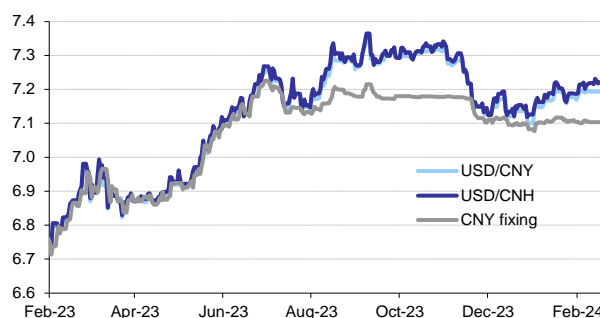
## 【Data & Policy Updates】

Despite deepening deflation, the credit expansion for January looks encouraging, with upside surprises in M1 growth and new loan growth. The jump in M1 growth by +5.9%YoY (vs. +2.9%YoY expected) and the narrowing M1-M2 growth gap pointed to diminishing share of time deposit, boding well for consumption. The structure of aggregate financing showed some improvement. The year-on-year decline in CNY loan moderated while bond financing increased. The government bond issuance also played a less important role in credit expansion, indicating a gradual recovery in domestic credit demand.

<China M1-M2 growth gap narrowed>



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



(Sources: Bloomberg, Mizuho HK)

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