MIZUHO

Offshore Renminbi Weekly Report

East Asia Treasury Department

23-Feb-24

＜Forex＞ PBoC maintained its CNY fixing policy support after the long holiday

＜Interest Rates＞Chinese banks cut the 5Y LPR by a record 25bps to 3.95%

＜Equity＞Shanghai Composite recouped 3,000 level

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (※)
USD/CNH	7.2127	7.2185	7.1811	7.2081	-95
USD/CNY	7.1940	7.1988	7.1781	7.1976	+40
CNY PBoC Fixing	7.1032	7.1068	7.1018	7.1064	+28
Shanghai Composite Index	2,886.59	3,009.14	2,867.71	3,004.88	+94

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change		HK Close	Weekly Change
CNH Forward (1yr)	-1,837	-150	CNH HIBOR (3mth)	3.12%	-2.48 ppt
CNH Currency Swap (3yr)	3.12%	-2.48 ppt	CNH Implied yield (1Y	2.45%	-1.27 ppt

【Weekly review and forecasts】

The CNH spot reverted to 7.2 level after hitting its 3-month low of 7.2337 in the prior week, as the PBoC maintained its CNY fixing policy support after the long holiday. Notably, the PBoC has been leaving the CNY fixing largely unchanged within a narrow range of 7.10-7.11 since 24 January, indicating the continuity of PBoC's policy to preserve FX stability. Meanwhile, the China travel and spending data during the Chinese New Year holiday were encouraging, with number of tourist trips and tourism spending up 19% and 8% from the comparable period of 2019, respectively. Encouragingly, the CNY's share in global payment for January climbed to 4.51% from prior 4.14%. The property supportive measures have been implemented, with Chinese banks granting CNY 29.4bn in loans to 162 projects on the white-list across 57 cities. The injection of loan support should help stabilize the property sector and ensure the delivery of housing projects. However, housing demand remained sluggish, with new home prices figures falling -0.37%MoM in January after a loss of -0.45%MoM. In the meantime, the Chinese securities regulator under the new leadership has imposed stricter restrictions on equities selling, leading to a rally in the Shanghai Composite Index towards 3,000 level.

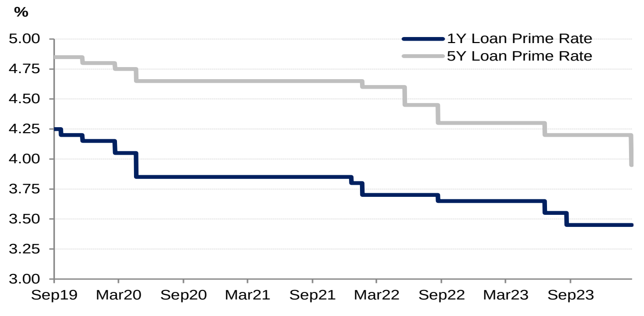
Despite the absence of Medium Lending Facility (MLF) yield cut this month, the Chinese banks cut the 5Y Loan Prime Rate (LPR) by a record 25bps to 3.95% (vs. 4.1% expected) from prior 4.20%, while 1Y LPR remained unchanged at 3.45% (vs. 3.40% expected). We believe that the asymmetric 5Y LPR is mildly positive to the RMB. First, the deep 5Y LPR cut indicated that Chinese government's policy guidance to support the property sector is taking effect by lowering mortgage rates, boding well for housing market data recovery later this year. Moreover, the asymmetric 5Y LPR cut indicated that the stimulus is more targeted, alleviating concern over the Fed-PBoC monetary divergence. Over the week, the PBoC net drained liquidity of CNY 693bn via the Open Market Operations (OMOs), while the 0.5% Required Reserves Ratio (RRR) cut effective in early February was estimated to inject CNY 1tn of long-term liquidity into the market.

We expect the CNH to hold steady within its familiar trading range, as the PBoC anchors the CNY fixing around the 7.10/7.11 area to mitigate the impact from the USD strength. With improving data and the implementation of stimulus measures in the property sector, the China growth outlook should turn less bearish. Hopes for further stimulus measures at the National People Congress in early March, as well as the pick-up in China equities are expected to keep RMB sentiment supportive. Against this background, the manufacturing and non-manufacturing PMIs for February are expected to show slight improvements.

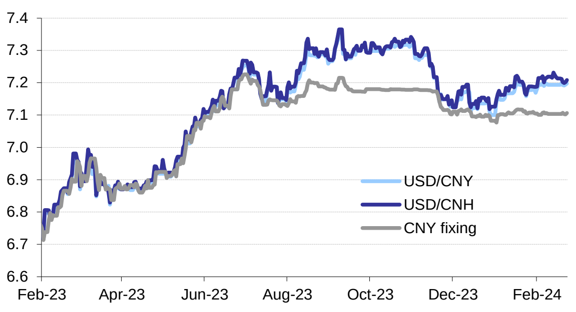
【Data & Policy Updates】

While the redirection of global supply chain after Covid has undermined the manufacturing and export sector in China, the CNY has been playing a more important role in the global payment share. The SWIFT data showed that the CNY's share in global payment surpassed 4% for the first time in November 2023 and held up its gains since then. The increment could be attributed to the signing of bilateral trade agreements in local currency. The growing threat of financial sanctions based on the USD system might also prompt some countries to explore the trade and financial settlement in other currencies, bolstering the role of the RMB as a medium of exchange.

＜Chinese banks cut 5Y LPR by a record 25bps＞



＜USD/CNY, USD/CNH vs. USD/CNY fixing＞



(Sources: Bloomberg, Mizuho HK)