

Offshore Renminbi Weekly Report

<Forex> China to keep its growth target unchanged at around 5%
 <Interest Rates > PBoC add liquidity into the market towards month-end
 <Equity > Shanghai Composite managed to close above 3,000 level

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (※)
USD/CNH	7.2060	7.2203	7.2026	7.2124	+103
USD/CNY	7.1975	7.1997	7.1879	7.1985	+45
CNY PBoC Fixing	7.1080	7.1080	7.1036	7.1059	+41
Shanghai Composite Index	3,002.12	3,032.23	2,943.62	3,027.02	+50

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change	HK Close	Weekly Change
CNH Forward (1yr)	-1,780	+25	CNH HIBOR (3mth)	3.30%
CNH Currency Swap (3yr)	3.30%	0.51 ppt	CNH Implied yield (1Y)	2.49%

【Weekly review and forecasts】

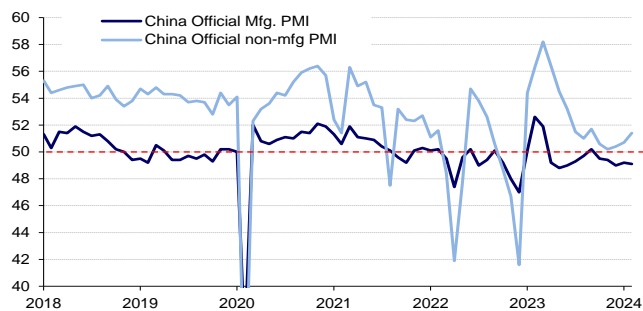
The CNH spot ranged between 7.2023 and 7.2203 over the week, while the CNY spot remained capped below 7.20 handle given the PBoC's solid CNY fixing policy support. As market participants were awaiting the policy announcement at the National People Congress in early March, the RMB market was largely muted with the China PMIs and new homes sales figures for February. Despite the seasonal adjustments, the holiday effect still weighed on manufacturing activities, keeping the index in the contractionary territory for 5 consecutive months at 49.1 (vs. 49.0 expected), while holiday consumption stimulated service sector activities, sending the non-manufacturing PMI higher to 51.4 (vs. 50.7 expected). Separately, new home sales from top 100 developers tumbled by 59.7% to CNY 185bn as the Chinese New Year holiday fell into different month compared to 2023. Combining the Jan-Feb data, the sales figure also plunged by 48.4%, reflecting very weak housing demand despite various property supportive measures in recent months. On the policy front, the Politburo meeting discussed the government work report but offered few new insights into policy guidance. Towards the month-end, the PBoC net injected CNY 632bn liquidity via the Open Market Operations (OMOs) over the week, compared to a reversal from a net liquidity withdrawal of -CNY 693bn in the prior week.

All eyes will be on the upcoming National People Congress due next week, with Chinese Premier Li Qiang to reveal the GDP growth and social development targets in his first government work report. Considering the implementation of stronger fiscal stimulus measures, the GDP growth target is expected to remain at near 5% this year, accompanied by a higher fiscal deficit. Any new stimulus measures or policy guidance related to the struggling property sector will be in focus. On the data front, export figures for first two months are expected to turn positive due to the base effect and the stimulus measures. However, the sluggish exports order sub-index in manufacturing PMI pointed to limited upside. While we do not look for major surprises from the NPC, the CNH will likely stay in range-trading.

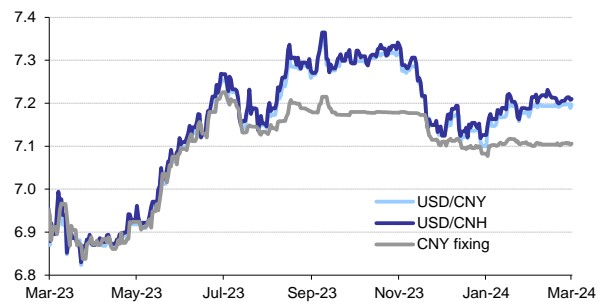
【Data & Policy Updates】

China manufacturing PMI for February eased slightly to 49.1 (vs. 49.0 expected) from prior 49.2. Despite seasonal adjustments, the Chinese New Year holiday effect might still weigh on manufacturing activities when many workers returned to their hometowns. The manufacturing PMI has been struggling in contractionary area for 5 consecutive months, showing subdued business confidence and bearish expectations for China economy. Looking at the breakdown, the sub-index of Output dropped to below 50 expansionary mark for the first time since May 2023. The 0.9ppt decline in New Export Order sub-index reflected weak external demand given the slowdown in major economies except the US and the global diversification from China supply chain.

<China mfg. PMI struggling below 50 mark>



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



(Sources: Bloomberg, Mizuho HK)

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