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Offshore Renminbi Weekly Report

East Asia Treasury Department

8-Mar-24

<Forex> The ambitious 5% GDP growth target has raised skepticism among investors

<Interest Rates> PBoC signaled more room for a RRR cut

<Equity> Shanghai Composite hovering above 3,000 level

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (※)
USD/CNH	7.2103	7.2176	7.1946	7.1987	-91
USD/CNY	7.1971	7.1998	7.1859	7.1890	+4
CNY PBoC Fixing	7.1020	7.1027	7.0978	7.0978	-58
Shanghai Composite Index	3,026.61	3,063.69	3,007.68	3,046.02	+7

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change		HK Close	Weekly Change
CNH Forward (1yr)	-1,765	+0	CNH HIBOR (3mth)	3.14%	-0.71 ppt
CNH Currency Swap (3yr)	3.14%	-0.71 ppt	CNH Implied yield (1Y	2.43%	-0.80 ppt

【Weekly review and forecasts】

The CNH spot remained within its recent trading range as headlines from the China National People Congress (NPC) were largely in line with expectations. At the NPC, Chinese leaders kept the GDP growth target unchanged at around 5% for 2024, along with a 3% budget deficit ratio. The government also plans to issue new special local government bonds of CNY 3.9tn and CNY 1tn of ultra-long special government bonds. However, considering the high base of GDP after the reopening, the ambitious 5% GDP growth target has raised skepticism among investors. On the data front, the solid China trade figures for first two months showed some improvement in China growth outlook and the headwinds from external sector may not be as strong as expected. It appears that the side-effect of PBoC's CNY fixing policy on exports have been limited so far, and the PBoC's CNY fixing tool appears to remain sustainable to preserve FX stability for an extended period.

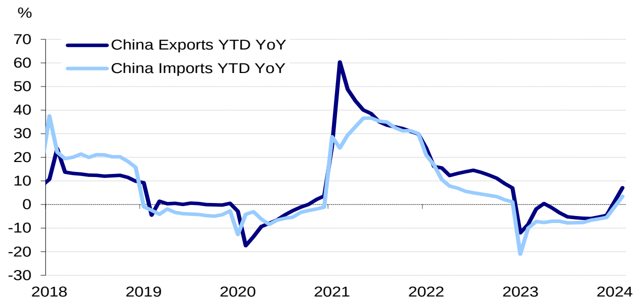
PBoC Governor Pan Gongsheng signaled there is further room for a Required Reserve Ratio (RRR) cut. He said the central bank would implement various monetary policy tools to increase the counter cyclical adjustments and maintain liquidity conditions reasonably ample. Over the week, the PBoC net drained CNY 1114bn liquidity via the Open Market Operations (OMOs), in comparison to CNY 632bn liquidity injection in prior month. The 7-day repo rate remained relatively stable at near 1.8%.

In our view, the policy signal for RRR cut is not likely to trigger a new wave of RMB depreciation. First, the CNH has shown limited impact from RRR cuts since 2023, as the primary aim of such cuts is to inject liquidity into the market while having limited impact on widening interest rate differential. Second, the PBoC shows its preference to implement RRR cut, reducing chance for deep policy rate cuts. The experience of 5Y LPR cut in February indicated that the PBoC could drive the long-term LPR cut via the RRR cut and saving rates cuts, while keeping policy rates unchanged. The incoming data flow will provide more information to assess the China growth outlook in 2024. The credit expansion is expected to slow due to fewer working days in February , but government bond issuances will help limit the downside. CPI inflation is expected to turn positive due to rising food prices but it is too early to conclude the end of deflation trend. The PBoC is expected to keep its 1Y Medium Lending Facility (MLF) rate unchanged and will probably stay pat before the Fed begins its rate cut cycle later this year.

【Data & Policy Updates】

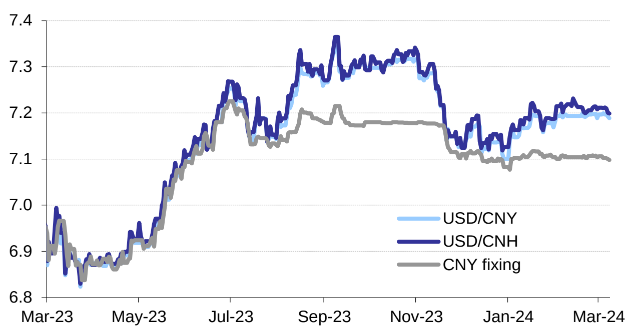
In USD term, exports YTD and imports YTD jumped by 7.1%YoY (+1.9%YoY expected) and 3.5%YoY (vs. +2.0%YoY expected), respectively. The favourable base effect in the new year also contributed to a reversal of the decline trend in 2023. With solid exports growth, trade balance YTD climbed to USD 125.16bn (vs. USD 106.8bn expected). While the first two months data is unlikely to reverse bearish expectations for China recovery, the solid trade figures at least showed some improvement and the headwinds from external sector may not as strong as expected. Moreover, the solid trade figures suggested the side-effect of PBoC's CNY fixing policy on exports was limited so far, and the PBoC's CNY fixing tool appears to remain sustainable to preserve FX stability for a longer period.

<China exports for first two months rebounded notably>



(Sources: Bloomberg, Mizuho HK)

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



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