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Offshore Renminbi Weekly Report

East Asia Treasury Department

19-Apr-24

＜Forex＞ PBoC set CNY fixing weaker above 7.1

＜Interest Rates＞ Offshore RMB liquidity conditions tightened notably

＜Equity＞ Shanghai Composite remained supportive above 3,000

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (※)
USD/CNH	7.2670	7.2831	7.2415	7.2518	-40
USD/CNY	7.2370	7.2431	7.2304	7.2403	+33
CNY PBoC Fixing	7.0979	7.1046	7.0979	7.1046	+78
Shanghai Composite Index	3,013.67	3,102.55	2,995.54	3,065.26	+8

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change		HK Close	Weekly Change
CNH Forward (1yr)	-1,500	+155	CNH HIBOR (3mth)	4.49%	+5.23 ppt
CNH Currency Swap (3yr)	2.74%	2.45 ppt	CNH Implied yield (1Y	3.07%	+2.20 ppt

【Weekly review and forecasts】

To unleash RMB depreciation pressure amid the USD rally, the PBoC set the CNY fixing to above 7.1 level for the first time since 22 March. As a result, the CNY spot dropped to its 5-month fresh low of 7.2431, approaching the 2% trading band limit. Meanwhile, the CNH spot remained relatively supportive around 7.25 level due to tighter offshore RMB liquidity conditions, leading to a CNH-CNY gap narrowing to around 100 pips. Despite RMB depreciation against the USD, the RMB basket index hit its 18-month high due to the persistent CNY fixing policy support. The PBoC reiterated its commitment to maintain RMB market basically stable but its impact was largely muted. It was a busy week for China data releases. Q1 GDP growth surprised to upside, growing 5.3%YoY vs. 4.8%YoY expected. However, the uneven recovery and a slowdown in March data raised worries about China growth outlook.

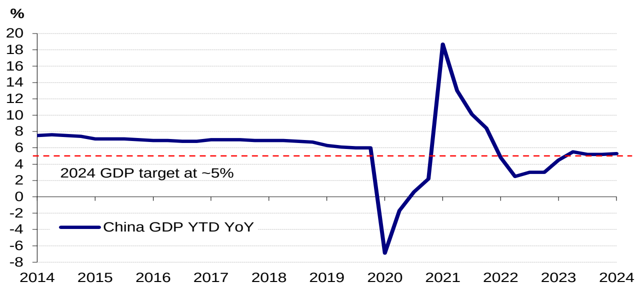
On the monetary policy front, the PBoC kept its 1Y Medium Term Lending Facility (MLF) rate unchanged at 2.5% as expected, while net drained liquidity of CNY 70bn via the MLF roll-overs. Reverse repo operations remained subdued, with a weekly liquidity drainage of -CNY 2bn. Onshore RMB liquidity condition was adequate, with 7-day interbank rate climbing to 1.9%. Conversely, offshore RMB liquidity condition tightened notably. The overnight CNH HIBOR surpassed to above 6% again, while the CNH-CCS curve was being paid up across tenors.

We expect the PBoC to unleash RMB depreciation at an orderly pace by setting the CNY fixing weaker gradually. The CNY fixing will remain the primary tool to control the pace of RMB depreciation as it serves an effective tool to communicate the central bank’s policy guidance. The 2% trading limit band, in couple with state-owned banks’ USD selling, will protect the downside for the CNY spot as well. We do not look for sharp RMB depreciation as the capital outflow risks will further intensify the de-China risks and destroy the fragile domestic confidence on growth. On the policy front, Chinese banks are set to keep 1Y and 5Y Loan Prime Rates (LPRs) unchanged at 3.45% and 3.95%, respectively, given the status quo of MLF rate and narrow net interest margins.

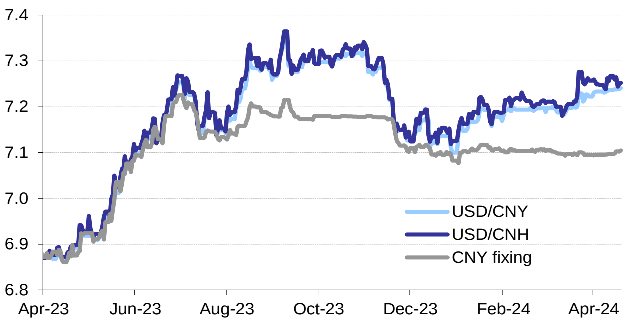
【Data & Policy Updates】

Despite the upside surprise in Q1 GDP growth figures (actual +5.3% YoY vs. expected +4.8% YoY), this did not significantly boost risk appetite for Chinese investments. Uneven growth, characterized by weak consumption and industrial production compared to manufacturing and infrastructure FAIs supported by government measures, combined with the ongoing property market downturn, just maintained bearish expectations for China's growth. Given the drag from the property sector, consumption demand remained weak while investors were lacking in confidence on investment. After all, the slowdowns in March data are worrying and more stimulus measures will be needed to achieve the annual growth target of around 5%.

＜China Q1 GDP expanded by 5.3%YoY＞



＜USD/CNY, USD/CNH vs. USD/CNY fixing＞



(Sources: Bloomberg, Mizuho HK)

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