

Offshore Renminbi Weekly Report

<Forex> The CNY drifted lower amid the gradual CNY fixing weakening

<Interest Rates > CNH liquidity conditions eased notably

<Equity > Shanghai Composite climbed towards 3100 level

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (%)
USD/CNH	7.2519	7.2739	7.2481	7.2589	+93
USD/CNY	7.2406	7.2474	7.2385	7.2460	+73
CNY PBoC Fixing	7.1043	7.1059	7.1043	7.1056	+36
Shanghai Composite Index	3,059.07	3,092.43	3,016.52	3,088.64	+44

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change	HK Close	Weekly Change
CNH Forward (1yr)	-1,634	-102	CNH HIBOR (3mth)	3.93%
CNH Currency Swap (3yr)	2.69%	-0.10 ppt	CNH Implied yield (1Y)	2.90%

【Weekly review and forecasts】

With the CNY fixing hovering around 7.105 level, market participants perceived PBoC's signal to guide RMB depreciation at a very slow pace and the CNY spot drifted to its 5-month low of 7.2474 level. Admittedly, RMB depreciation pressure remained significant, with the CNY spot trading close to the weak-end of its trading band against the USD. The US-China interest rate widening sent 1Y CNY FX swap to its 17-year low of -2933 points. Apart from the USD strength, the sharp JPY depreciation may further compel the PBoC to keep the CNY weak to preserve China's exports competitiveness. In the offshore RMB market, the CNH spot was in range-trading amid CNH liquidity conditions eased notably. The RMB basket index softened modestly to 100.4 level from its 18-month high of 100.73 level.

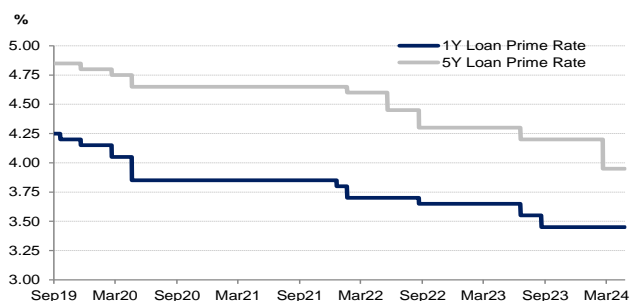
On the policy front, Chinese banks left their 1Y and 5Y Loan Prime Rates (LPRs) unchanged at 3.45% and 3.95% as expected. PBoC's open market operations took the backseat, keeping its liquidity injection neutral over the week. The China Government Bond market displayed a biddish tone, with 10Y CGB yield sinking to its record low of 2.22%. In the offshore RMB market, CNH liquidity conditions eased notably, with Overnight CNH HIBOR down to 1.4% from 6.1% on previous Friday. We reckon that Chinese banks might start to inject CNH liquidity when the CNH-CNY spot gap narrowed.

The PBoC's CNY fixing will likely remain the primary tool to guide RMB market movement. Considering the return of "higher for longer US rates" expectations and PBoC's CNY fixing weakening, we expect the CNY spot to drift towards 7.25 level in the near term. In parallel, the suspected USD selling flow from Chinese banks and CNH liquidity management will help anchor RMB sentiment and guide RMB depreciation at a orderly pace. On the data front, China manufacturing and non-manufacturing PMIs are expected to hold above 50 expansion mark in April, while the slowdown in March data may dampen expectation for Chinese production in Q2.

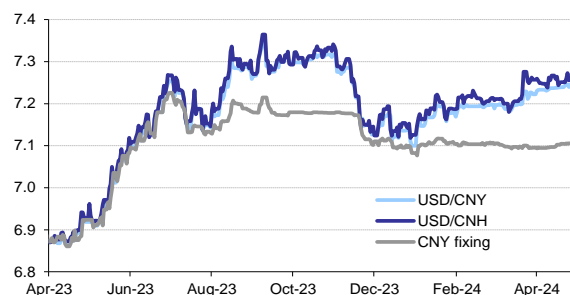
【Data & Policy Updates】

Chinese banks left their 1Y and 5Y Loan Prime Rates (LPRs) unchanged at 3.45% and 3.95% as expected. The notable RMB depreciation pressure and narrow Net Interest Margins are supposed to be the obstacles for monetary easing, despite reported saving rates cuts among Chinese banks earlier this month. Considering uncertainties over China growth recovery and deflation, we reckon that extra monetary easing is needed and the PBoC may need to cut the Required Reserves Ratio (RRR) further to drive the LPRs lower.

< Chinese LPRs cut cycle paused >



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



(Sources: Bloomberg, Mizuho HK)

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