

Offshore Renminbi Weekly Report

<Forex> CNH strengthened to below 7.2 amid EM Asia FX rally

<Interest Rates > CNH liquidity conditions eased notably

<Equity > Chinese investments gained traction due to low valuations

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (%)
USD/CNH	7.2664	7.2694	7.1854	7.2028	-525
USD/CNY	7.2460	7.2470	7.2275	7.2410	+11
CNY PBoC Fixing	7.1066	7.1066	7.1063	7.1063	+5
Shanghai Composite Index	3,086.68	3,123.29	3,080.59	3,104.82	-8

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change	HK Close	Weekly Change
CNH Forward (1yr)	-1,700	-140	CNH HIBOR (3mth)	3.71%
CNH Currency Swap (3yr)	2.59%	-1.25 ppt	CNH Implied yield (1yr)	2.75%

【Weekly review and forecasts】

The CNH spot recovered to below 7.2 handle for the first time since mid-March. Spillovers from the unwinding flow of long USD/JPY due to suspected FX interventions and a less hawkish FOMC meeting contributed to the EM Asian currency rally. Moreover, sentiment towards Chinese investments improved, with the notable rebounds in China/HK equities, as Chinese investments gained tractions lately due to the low valuations. The Politburo meeting held at April-end also provided positive policy signals to investors. During the meeting, leaders said they would study the policies regarding the digestion of unsold property inventories and optimization of existing housing policies, raising hopes for more property stimulus measures. The meeting also flagged the flexible use of rate cuts and Required Reserve Ratio (RRR) cuts. Finally, the leaders announced that the delayed Third Plenum meeting would take place in July to study comprehensive reforms deepening and promote China modernization. The CNY spot closed at 7.241 before the Golden Week holidays as the PBoC set the CNY fixing broadly steady near 7.106 level. In the shortened week, the PBoC net injected liquidity of CNY 438bn via the open market operations. Offshore RMB liquidity conditions eased notably, with overnight CNH HIBOR sliding to its 17-month low of 0.9%.

Following the strong rebound in the CNH, the CNY is expected to reopen higher after the holidays. The PBoC may take this opportunity to set the CNY fixing stronger, potentially towards 7.1 level. However, due to strong FX purchase demand in the onshore market, it is uncertain if the CNY will be able to catch up with the CNH rally below 7.2 level in the coming week. On the data front, China exports and imports are expected to turn positive given the robust manufacturing PMI. The credit expansion growth for April will likely remain modest given soft loan demand in the absence of monetary easing measures during that period.

【Data & Policy Updates】

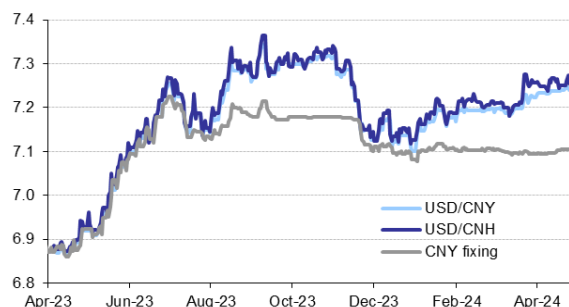
China manufacturing PMI moderated less than expected to 50.4 (vs. 50.3 expected) from prior 50.8. Encouragingly, the mfg. PMI has stayed above 50 expansionary mark for two consecutive months, which was the first time since March 2023. The breakdown of mfg. PMI figure was promising, with Output sub-index up to its 3-year high of 52.9 level. Although the forward-looking indicators, such as new-order and new export order sub-indices, fell by 1.9ppt and 0.7ppt, respectively, the figures remained above 50 expansionary mark. However, the non-manufacturing PMI slipped more than expected to 51.2 (vs. 51.0 expected) from prior 51.1 level, reflecting a slower pace of expansion in the service sector activities. Business sentiment in catering, capital market service and property sectors were below 50 expansionary mark.

<China mfg. PMI stayed above 50 mark>



(Sources: Bloomberg, Mizuho HK)

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



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If you have further questions on market information, please call Mizuho Bank East Asia Treasury Department Mr. Komatsu Mr. Ya mauchi, or Mr. Cheung. Tel: +852-2308-3352(HK)

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