

Offshore Renminbi Weekly Report

<Forex> CNH pared back gains to above 7.2 handle
 <Interest Rates > PBoC to keep its 1Y MLF rate unchanged
 <Equity > The Stock Connect inflow to A-shares was stalling

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (※)
USD/CNH	7.1962	7.2346	7.1921	7.2292	+229
USD/CNY	7.2100	7.2284	7.2030	7.2251	-159
CNY PBoC Fixing	7.0994	7.1028	7.0994	7.1011	-52
Shanghai Composite Index	3,132.51	3,163.14	3,126.17	3,147.25	+7

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change	HK Close	Weekly Change
CNH Forward (1yr)	-1,727	-45	CNH HIBOR (3mth)	3.33%
CNH Currency Swap (3yr)	2.55%	-0.75 ppt	CNH Implied yield (1Y)	2.66%

【Weekly review and forecasts】

The CNH spot erased its gains quickly and weakened to above 7.20 level when the onshore RMB market reopened after the Golden Week holidays. The PBoC maintained CNY fixing steady at around 7.1 level, providing few new guidance on its FX policy. In any case, onshore RMB depreciation pressure eased slightly, with the actual CNY fixing – estimate gap narrowing to around -1100 pips from -1400 pips in prior week. On the data front, a positive turnaround in China trade figures for April indicated a pick-up in growth momentum. However, the media report that the Biden administration is poised to impose targeted tariffs on China’s Electronic Vehicles (EVs), batteries and solar equipment dampened RMB sentiment and flagged the mounting China-US tensions during the US election year. The Stock Connect inflow to A-shares was stalling over the week.

After the holiday, the PBoC maintained a daily reverse repo operation of CNY 2bn, resulting in a net drained liquidity of CNY 434bn over the week. The onshore 7-day interbank repo rate came off to near 1.8% from prior 2.1%. The offshore RMB market liquidity conditions remained volatile, with overnight CNH HIBOR swinging to 4.1% before settling at near 2%.

The CNH spot is expected to stay above 7.2 handle on persistent China-US rate spread, as high US rates will continue to pose a headwind for EM Asian FX including the RMB. Sentiment towards Chinese investment has improved but the upward momentum will depend on upcoming data and stimulus measures. We expect China CPI inflation to remain soft on falling food prices and moderating services costs due to easing demand for tourism service in April. Hard data for April, including retail sales, industrial production and fixed assets investments are expected to improve further due to the implementation of stimulus measures. However, the figures related to the property market are likely to remain sluggish until housing demand recovers. Meanwhile, the PBoC is set to keep its 1Y Medium Lending Facility (MLF) rate unchanged at 2.5% given its guidance to preserve FX stability.

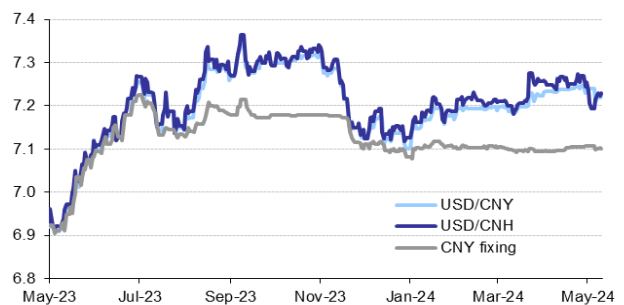
【Data & Policy Updates】

While the China FX reserves dropped to near USD 3200bn, the PBoC’s action to resume gold purchases since Nov 2022 has captured investors’ attention, particularly with the recent gold rallies. Actually, the PBoC has been aggressively buying the gold as its reserves diversifications, with its gold share as FX reserves reaching to a rather significant level of above 5%. Behind the purchase, the rationale for FX reserves diversification looks convincing given the increasing China-US tensions and the de-China risks. Despite the attractive UST yields return at the peak of Fed’s rate hike cycle, China faces increasing threat from trade conflicts from high-tech development. Potential spillovers to the financial sector could not be ruled out and the PBoC is likely to be tempted to diversify its FX reserves by buying more gold before the dust settles from the US election, in our view.

<PBoC continued to add gold reserves>



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



(Sources: Bloomberg, Mizuho HK)

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