

Offshore Renminbi Weekly Report

<Forex> CNH weakened after the long holiday
 <Interest Rates > PBoC net drained liquidity from the pre-holiday injection
 <Equity > The NDRC disappointment cooled China stock market frenzy

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (%)
USD/CNH	#N/A	7.1040	7.0464	7.0874	+510
USD/CNY	#N/A	7.0848	7.0099	7.0772	+585
CNY PBoC Fixing	7.0074	7.0742	7.0074	7.0742	+668
Shanghai Composite Index	#N/A	3,674.41	3,153.70	3,301.93	#N/A

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change	HK Close	Weekly Change
CNH Forward (1yr)	-1,560	-128	CNH HIBOR (3mth)	2.29%
CNH Currency Swap (3yr)	2.02%	1.45 ppt	CNH Implied yield (1yr)	1.92%

【Weekly review and forecasts】

The CNH spot depreciated towards 7.1 level amid a USD rally, in couple with a disappointing National Development and Reform Commission (NDRC) press conference after a long holiday. At the briefing, officials refrained from revealing the size of new stimulus package, while merely confirming the issuances of ultra-long CGB in 20225 and front-loading the CNY 200bn budget for next year. Although China stock markets initially reopened higher, they pared back their gains. Afterwards, Chinese authorities' announcement on the press conference hosted by the Ministry of Finance reignited hopes for a follow-up stimulus package. The deployment of PBoC's Securities, Funds and Insurance companies Swap Facility (SFISF) also reminded investors of authorities' commitment to support equities, with the massive monetary easing still underway. On the FX side, the PBoC set the CNY fixing weaker at 7.0709 (vs. 7.0811 estimate) after the long holiday, comparing to previous figures of 7.0074. The PBoC resumed reverse repo operations but overall net drained liquidity from the pre-holiday injection. Onshore interbank rates eased as the China stock market frenzy subsided. In the offshore market, the CNH-CCS curve held relatively steady.

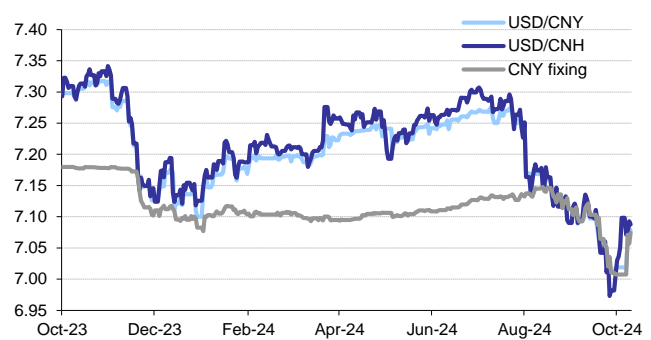
With the shift towards a proactive fiscal policy from the Politburo meeting in late September, investors are patiently waiting for further policy announcements. Indeed, Chinese Premier Li's pledge to achieve the annual socio-economic development targets and advocates for incorporating market voices in policy setting and implementation bode well for maintaining bullish sentiment in China assets. After all, the Fed's substantial 50bps cut has provided PBoC's with an opportunity to make bold moves. It is important for policy makers to sustain optimism towards China growth recovery. An underwhelming stimulus package could swiftly dampen bullish sentiment, giving way to the PBoC's rate cut materializing to weigh on the RMB exchange rate. Actually, the CNH has been returning to the pre-stimulus rally level near 7.1. Further policy disappointment and a USD rally could send the CNH back to 7.15 level, especially amid uncertainties surrounding the upcoming US elections.

<China stock market frenzy cooled off>



(Sources: Bloomberg, Mizuho HK)

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



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