

# Offshore Renminbi Weekly Report

<Forex> CNH dropped as stimulus expectations dwindled  
 <Interest Rates > PBoC resumed net liquidity injection  
 <Equity > Stock markets recovered after PBoC's supportive comments

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (※)
USD/CNH	7.0712	7.1475	7.0712	7.1217	+368
USD/CNY	7.0776	7.1279	7.0739	7.1111	+346
CNY PBoC Fixing	7.0723	7.1274	7.0723	7.1274	+532
Shanghai Composite Index	3,241.43	3,313.98	3,152.82	3,261.56	-23

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change	HK Close	Weekly Change
CNH Forward (1yr)	-1,557	-31	CNH HIBOR (3mth)	2.35%
CNH Currency Swap (3yr)	1.90%	-1.25 ppt	CNH Implied yield (1yr)	1.89%

**【Weekly review and forecasts】**

The CNH spot weakened as much as to 7.1475 level amid dwindling expectations for further China stimulus measures. The Chinese Ministry of Finance announced some new measures to support property sector and ease local government bond risks. These include allowing special local government bonds purchasing unsold home for affordable housing and boosting capital at state-owned banks by the special government bond issuances. The government will also ramp up its efforts to reduce local governments' hidden debts via debt swap. However, the specific size of fiscal stimulus package was missing. Similarly, the housing minister's press conference was disappointing as it did not unveil the special government bonds issuances size. The white-list property loan amount, which targets to ensure the home completion, will be expanded from CNY 2.23tn to CNY 4tn, alongside the renovation of 1mn homes in the older homes and shantytowns in large cities. Late in the week, RMB sentiment recovered a bit as PBoC governor Pan disclosed more details of its measures to boost capital markets and said that the central bank would consider reflation as an important variable in the new monetary policy framework. The China data for Q3 and September were backward-looking, and their market impact was largely limited.

On the rate side, the PBoC resumed liquidity injections via open market operations, net adding CNY 601.1bn of liquidity over the week. 7-day interbank repo rate held steady near 1.6%. 10Y China Government Bond (CGB) yield fell back towards 2.1% as momentum for China stimulus rally softened. In the offshore RMB market, overnight CNH HIBOR traded sideways around 1.6%. CNH-CCS curve remained stable.

As Chinese leaders seem not in rush to unveil all the stimulus package, it appears that investors will need to wait until the National People Congress (NPC) Standing Committee meeting due late October for the announcement on more concrete measures and stimulus size. We expect the CNH to turn more volatile in coming weeks, with risks skewed to downside. With the Trump trade regaining momentum, market participants may reduce their RMB exposure due to the new tariffs risk. Trump's latest trade comments in his interview just reminded investors of his stance on tariffs hike, recalling his proposal for a 60% tariffs hike on Chinese goods. In addition to the Chinese's fiscal expansion to counter growth risks, the PBoC may consider reactivating the CNY fixing support to defend the currency if necessary. Considering the RMB basket index below its year-to-date high, the PBoC should retain policy flexibility to resume the fixing support.

**【Data & Policy Updates】**

China Q3 GDP growth slowed less than expected to 4.6%YoY (vs. +4.5%YoY expected) from prior 4.7%YoY. The year-to-date GDP growth moderated to 4.8% (vs. 4.9% expected) from prior 5.0%, but the whole year of around 5% growth target seems achievable following the stimulus policy pivot in late September. Hard data for September came in stronger than expected. Retail sales shot up to 3.2%YoY (vs. +2.5%YoY expected) from prior 2.1%YoY, with sales for home appliance soaring 20.5%YoY on the trade-in upgrade scheme. Automobile sales also ended the decline for the first time in 6 months, while catering service growth held steady at around 3%YoY. Despite weakening external demand, industrial production accelerated to 5.4%YoY (vs. 4.6%YoY expected) from prior 4.5%YoY. Fixed assets investment YTD remained unchanged at 3.4%YoY (vs. 3.3%YoY expected) despite the contraction in property investment amid the housing market downturn. Regarding the deflationary risk, the GDP deflator dropped for 6 straight quarters, though the decline narrowed slightly to -0.56% from prior -0.73%.

<GDP growth slowed to 4.6%YoY>



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



(Sources: Bloomberg, Mizuho HK)

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