

Offshore Renminbi Weekly Report

<Forex> CNH hovered around 7.13 level

<Interest Rates> Chinese banks cut 1Y and 5Y LPRs by 25bps

<Equity> A-shares climbed amid discussion on equities stabilization fund

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (※)
USD/CNH	7.1176	7.1467	7.1081	7.1325	-45
USD/CNY	7.1024	7.1338	7.0977	7.1208	-22
CNY PBoC Fixing	7.0982	7.1286	7.0982	7.1090	-130
Shanghai Composite Index	3,276.06	3,331.08	3,239.10	3,299.70	+32

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change	HK Close	Weekly Change
CNH Forward (1yr)	-1,620	-50	CNH HIBOR (3mth)	+0.34 ppt
CNH Currency Swap (3yr)	1.88%	0.05 ppt	CNH Implied yield (1Y)	-0.49 ppt

【Weekly review and forecasts】

The CNH spot was hovering around 7.13 level, showing resilience against the USD strength and soaring UST yields. With the RMB outperformance, the CFETS RMB basket index climbed further to 99.75 level. Notably, the RMB outperformance was no longer driven by the PBoC's CNY fixing support, with the actual CNY fixing aligning with the surveys since September. It appears that the China policy pivot remains in play to support RMB sentiment, despite few updates on the stimulus package given no new press conference scheduled. The 1Y CNH forward points remained stable at -1600 points.

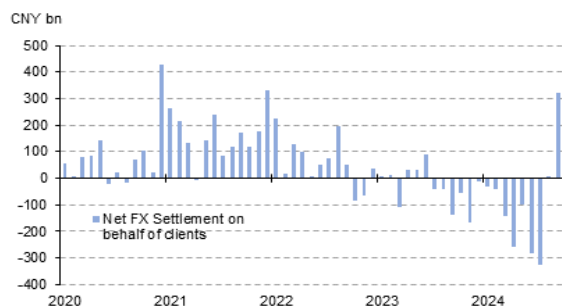
In response to the liquidity withdrawal from the tax payments, the PBoC extended liquidity injections via open market operations, net adding CNY 1280.3bn of liquidity over the week following an injection of CNY 601.1bn. The PBoC also conducted the 1Y Medium Lending Facility (MLF) operation at unchanged 2%, while net withdrawing CNY 89bn of liquidity. The 7-day interbank repo rate climbed by 10bps to 1.7% over the week. The 10Y CGB yield moved higher to 2.16% as China equities sentiment remained supportive, drawing capital from bond market to A-shares market. The symmetric 25bps cuts in 1Y and 5Y Loan Prime Rates (LPRs) reached the upper range of PBoC governor Pan's preview (0.2-0.25%) and exceeded market consensus, fueling upside momentum in the rally.

Despite disappointments in the fiscal policy delivery, the PBoC's strong easing and a shift of Chinese leaders' mindset in fiscal expansion ignited hopes for addressing the property downturn and financial constraints for local government, hereby preventing Chinese economy from falling into a Japanese-style recession in 1990s. Looking ahead, uncertainties over the upcoming US elections will fuel RMB volatilities. With less than 2 weeks before the elections, the CNH volatility curve continued to climb to price in event risk. On the bright side, the recent return of "Trump trade" vs. RMB resilience may indicate investors' confidence on the PBoC's ability to preserve FX stability if necessary.

【Data & Policy Updates】

China FX settlement on behalf of clients jumped to CNY 321.1bn from prior CNY 6.5bn, recording a back-to-back surplus for the first time since June 2024. The expansion in FX settlement surplus came after the Fed's aggressive 50bps rate cut, which provided a relief for the RMB in terms of US-China interest rate spread. With the CNY showing gains for three consecutive months in September, the FX settlement data confirmed the mitigation of RMB depreciation risk and offered flow support for the RMB rebound. The jump in FX settlement ratio to 70% from 62.2% reflected moderating FX hoarding activities. Looking ahead, we expect net FX settlement data to fluctuate amid uncertainties over Fed's rate policy and China's policy shift. In October, the USD rebounded notably as Fed indicated its approach of gradual rate cuts after the robust labour data. In this circumstance, exporters are not rushing to reduce their USD exposure.

<Net FX settlement surplus improved notably>



(Sources: Bloomberg, Mizuho HK)

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



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