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Offshore Renminbi Weekly Report

East Asia Treasury Department

22-Nov-24

＜Forex＞ PBoC ramped up CNY fixing support

＜Interest Rates＞ CNH liquidity conditions remained tight

＜Equity＞ A-shares markets stayed supportive amid the Trump trade

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (※)
USD/CNH	7.2406	7.2598	7.2253	7.2538	+0
USD/CNY	7.2282	7.2490	7.2282	7.2459	+188
CNY PBoC Fixing	7.1907	7.1942	7.1907	7.1942	-24
Shanghai Composite Index	3,344.69	3,386.90	3,267.19	3,267.19	-57

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change		HK Close	Weekly Change
CNH Forward (1yr)	-1,319	+42	CNH HIBOR (3mth)	3.57%	+3.93 ppt
CNH Currency Swap (3yr)	2.21%	0.80 ppt	CNH Implied yield (1Y	2.45%	+0.74 ppt

【Weekly review and forecasts】

As the CNH and CNY spot deprecated to near 7.25 level, the PBoC ramped up its CNY fixing support, leading a widening gap between actual CNY fixing and estimates to above 500 pips. Additionally, CNH liquidity conditions remained tight to discouraged market participants from building long USD/CNH carry trade position, with the CNH T/N forward points hovering 2-3 points per day. With the return of CNY fixing policy support to counter USD strength, the RMB basket index climbed to its 5-momth high of 100 level. On the data front, the swift global payment in CNY fell further from 3.61% to 2.93%, the lowest level since June 2023.

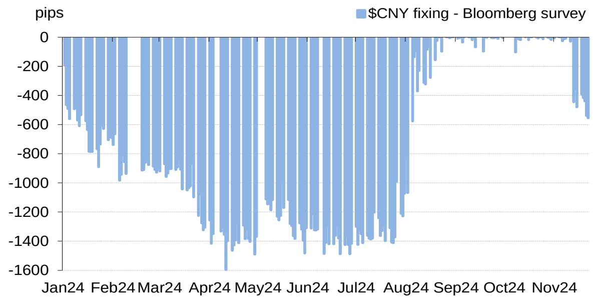
CNH liquidity condition eased a bit after the PBoC’s CNH bill issuance, with the overnight CNH HIBOR falling back to near 4% from an intra-week high of 6%. In this week, the PBoC sold RMB 30bn and RMB 15bn of 3-month and 1Y CNH bills at 3.2% and 2.6%, respectively. Notably, the 3-month CNH bill yield at 3.2% reached the highest level since August 2023. The inverted CNH bill yield curve returned after a period of mildly upward slope in August. This clearly indicated renewed RMB depreciation pressure, in couple with the possible reactivation of CNH liquidity management to support RMB. Following the roll-over of the maturing Medium Lending Facility (MLF), the PBoC reduced net liquidity injection from prior CNY 1717.1bn to CNY 66.8bn over the week. The 7-day CNY interbank repo rate fell from 1.7% to 1.6%.

We reckon that RMB depreciation pressure will remain manageable given PBoC’s commitment to defending the currency. In our view, the US tariffs implementation could come lower actually as the maximum of 50-60% tariffs could serve as a tactic to bring China to the negotiation table. Second, the PBoC is unlikely to engineer RMB depreciation to counter impact from tariffs hikes under current circumstance. Indeed, a sharp RMB depreciation to counter tariffs impact could hinder RMB internationalization and exacerbate capital outflow. Additionally, Chinese leaders are prepared to ramp up fiscal stimulus and monetary easing to counter external shocks, following the policy pivot in late September. Anticipated larger budget deficits for next year and the local government debt swap program will enable local government to increase expenditures, bolstering domestic consumption amid potential setbacks in trade sector.

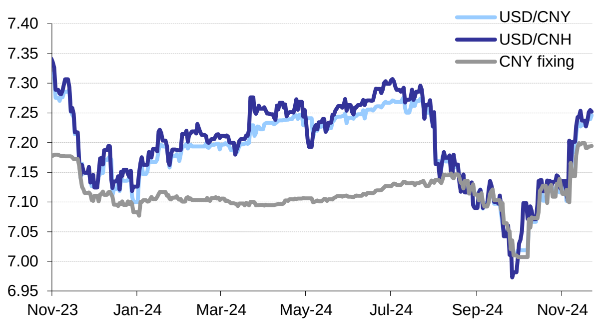
【Data & Policy Updates】

The Chinese authorities made several policy adjustments in response to looming US tariff threats. On the FX side, the PBoC stepped in to defend the CNY by reactivating the counter cyclical factor in the CNY fixing. Meanwhile, offshore RMB liquidity conditions tightened to discouraged traders from building long USD/CNH spot carry trade position. Moreover, the Chinese Ministry of Finance and State Taxation Administration announced the end of export tax rebates for aluminum and copper products, effective 1st December. The cancellation of export tac rebates could help alleviate criticism that China was hurting its trading partners’ economy. Domestically, reducing production subsidies could ease the problem of excessive capacity and intensive competition in certain industries, redirecting resources to other sectors, especially consumption.

＜PBoC ramped up CNY fixing support＞



＜USD/CNY, USD/CNH vs. USD/CNY fixing＞



（Sources: Bloomberg, Mizuho HK）

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:+852-2306-3352(HK)