

Offshore Renminbi Weekly Report

<Forex> Chinese leaders vowed to implement moderately loose monetary policy

<Interest Rates > CNH liquidity conditions tightened

<Equity > The major stimulus policy shift bolstered A-shares

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (%)
USD/CNH	7.2838	7.2927	7.2421	7.2706	+71
USD/CNY	7.2735	7.2805	7.2386	7.2659	+78
CNY PBoC Fixing	7.1870	7.1896	7.1843	7.1854	-25
Shanghai Composite Index	3,402.63	3,494.87	3,364.21	3,436.50	+34

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change	HK Close	Weekly Change
CNH Forward (1yr)	-1,245	+205	CNH HIBOR (3mth)	2.99%
CNH Currency Swap (3yr)	2.16%	1.25 ppt	CNH Implied yield (1Y)	2.38%

[Weekly review and forecasts]

CNH tumbled to 7.2921 after media reports suggested that Chinese policymakers are considering yuan depreciation next year in response to potential tariff threats. It would not be surprising to see some RMB depreciation to counter tariff impacts. While the direction of yuan depreciation is widely expected, the magnitude and pace will be key. We believe these parameters will depend on Trump's tariff implementation plan. A depreciation to around 7.5 would be politically and economically acceptable, offering relief to the export sector while balancing capital outflow risks. Currently, the PBoC has not shown any change in its CNY fixing guidance, capping CNY fixing below 7.2.

The China Politburo meeting reignited optimism about China's growth and bolstered RMB sentiment. Notably, Chinese leaders pledged to implement a "moderately loose" monetary policy in 2025, marking a major policy shift since 2011. The last implementation of such a policy was during the Global Financial Crisis from November 2008 to 2010, signaling a commitment to support domestic growth and counter external shocks under Trump's presidency.

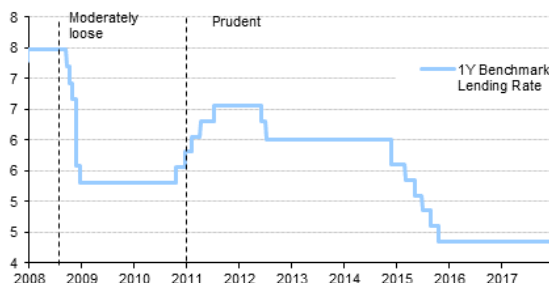
CNH liquidity conditions tightened, with the CNH T/N turning positive without specific reasons. It is likely that Chinese authorities intend to compress the CNH-CNY spread during key political and economic meetings and squeeze out some long USD/CNH spot carry trade positions. Onshore rates softened following the major shift to a moderately loose monetary policy.

The PBoC's monetary easing is a double-edged sword for the RMB. On one hand, the major shift in the PBoC's policy stance indicates leaders' commitment to tackling economic problems next year, reviving optimism about China's growth. On the other hand, more aggressive PBoC rate cuts will widen the US-China interest rate differential, exerting capital outflow pressure and encouraging FX hoarding behavior. We believe the policy shift is overall positive for RMB sentiment, while the PBoC has enough tools to stabilize the RMB market if necessary and counter the largest external shocks since the Global Financial Crisis. Considering the risk of capital outflow and fragile confidence in China's growth, we maintain our view that a sharp RMB depreciation will not be allowed.

[Data & Policy Updates]

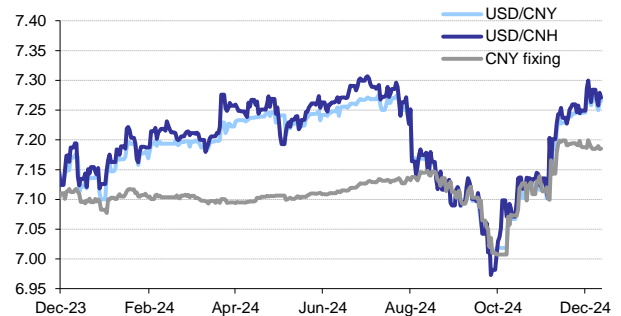
Despite front-loading trade orders before US tariff hikes, China's exports for November moderated more than expected to 6.7% YoY (vs. +8.7% YoY expected), while imports unexpectedly dropped by -3.9% YoY (vs. +0.9% YoY expected). The country breakdown showed robust export growth to the US, EU, and Japan, while exports to ASEAN continued to record double-digit growth. The solid trade surplus should help China achieve its GDP growth target this year.

<PBoC cut rates notably when adopting monetary loosen policy



(Sources: Bloomberg, Mizuho HK)

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



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