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Offshore Renminbi Weekly Report

East Asia Treasury Department

3-Jan-25

＜Forex＞ CNY breached 7.3 level for the fist time since Nov 2023

＜Interest Rates＞ 10Y CGB yield sank to a record low of 1.6%

＜Equity＞ A-shares markets lost upside momentum

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (※)
USD/CNH	7.3013	7.3695	7.2978	7.3536	+506
USD/CNY	7.2975	7.3104	7.2940	7.3092	+113
CNY PBoC Fixing	7.1889	7.1889	7.1878	7.1878	-19
Shanghai Composite Index	3,395.40	3,413.46	3,205.78	3,211.43	-196

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change		HK Close	Weekly Change
CNH Forward (1yr)	-1,365	+54	CNH HIBOR (3mth)	3.45%	+0.76 ppt
CNH Currency Swap (3yr)	2.03%	-0.80 ppt	CNH Implied yield (1Y	2.27%	+0.43 ppt

【Weekly review and forecasts】

The CNH spot kicked off the year on a negative note amid US tariff threats and a cautious China growth outlook. In the new year, the PBoC ramped up its CNY fixing support to defend the currency, leading to a USD/CNY fixing-survey gap widening to below -1300 pips. As a result, the simulated CFETS RMB basket index surged to its 2-year high of 102.08. Yuan depreciation pressure has been building up in the offshore market, with the CNH losing ground to the 7.358 level amid sell-offs in China/HK equities. Late on Friday, the CNY spot weakened past the 7.3 level for the first time since November 2023. This breach may reflect the PBoC's greenlight to allow some yuan depreciation amid US tariff threats and a firmer USD. This signals an increasing risk of the CNY fixing guidance being tweaked to go above the 7.2 level next week.

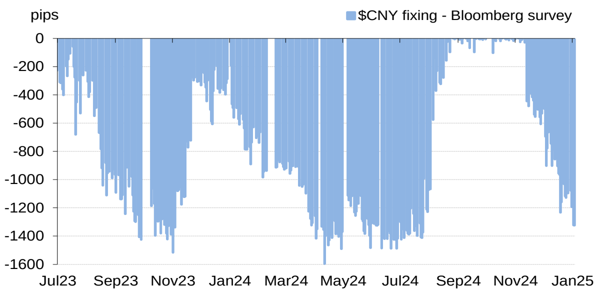
The onshore bond market frenzy intensified after the shift to a moderately loose monetary policy. As the China A-shares rally lost momentum, capital fled to safe-haven assets, sinking the 10Y China Government Bond (CGB) yield to its record low of 1.6%. The PBoC continued to drain liquidity via open market operations after the year-end, net withdrawing CNY 289.2bn over the week. With the liquidity injection via the new outright reverse repo, the PBoC refrained from cutting the required reserves ratio in Q4, missing PBoC Governor Pan's forward guidance. Offshore RMB liquidity conditions eased after fluctuations, with Overnight CNH HIBOR falling back to 2.59% from 4.44% on the prior Friday.

The risks for USD/CNH are skewed to the upside as the CNY was allowed to weaken past the 7.3 level. The PBoC is tempted to set the USD/CNY fixing gradually higher to release RMB depreciation pressure due to the widening US-China interest rate spread and US tariff threats. Our base scenario is that the PBoC will not allow a sharp RMB depreciation given concerns over capital outflow and financial market stability. On the data front, China CPI deflationary pressure is set to continue in December, while credit demand will remain subdued despite the shift to a moderately loose monetary policy.

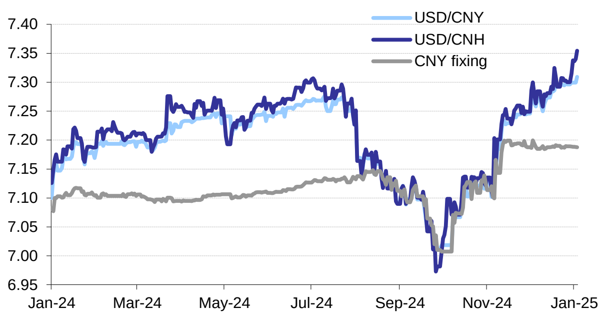
【Data & Policy Updates】

China PMIs for December were mixed following the confirmation of the shift in fiscal and monetary policy mix. While manufacturing PMI edged down more than expected to 50.1 (vs. 50.2 expected) from 50.3, non-manufacturing PMI climbed notably to 52.2 (vs. 50.2 expected) from 50.0. Encouragingly, the seasonal expansion in construction activities before the New Year holidays and stimulus measures on consumption contributed to the improvement in non-manufacturing PMI. Looking at the breakdown of manufacturing PMI, the sub-index of suppliers' delivery jumped 0.7ppt to 50.9, in contrast to a 0.3ppt decline in output to 52.1. The enterprise size breakdown was uneven, with a 0.7ppt increase in medium-sized companies and 0.6ppt and 0.4ppt declines in small and large-sized companies, respectively.

＜PBoC ramped up CNY fixing support＞



＜USD/CNY, USD/CNH vs. USD/CNY fixing＞



(Sources: Bloomberg, Mizuho HK)

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