MIZUHO

Offshore Renminbi Weekly Report

East Asia Treasury Department

17-Jan-25

＜Forex＞ China achieved its annual growth target of 5%

＜Interest Rates＞ CNH liquidity conditions eased following a CNH 60 billion 6-month bill issuance at 3.4%

＜Equity＞ Shanghai Composite flutuated near 3,200 level

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (※)
USD/CNH	7.3613	7.3632	7.3342	7.3477	-84
USD/CNY	7.3309	7.3321	7.3238	7.3280	-41
CNY PBoC Fixing	7.1885	7.1889	7.1878	7.1889	+3
Shanghai Composite Index	3,148.83	3,265.28	3,140.98	3,241.82	+81

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change		HK Close	Weekly Change
CNH Forward (1yr)	-1,430	-61	CNH HIBOR (3mth)	3.20%	-4.31 ppt
CNH Currency Swap (3yr)	1.98%	0.10 ppt	CNH Implied yield (1Y	2.18%	-0.89 ppt

【Weekly review and forecasts】

The CNH rebounded modestly from 7.36 to near 7.34, driven by USD retracement and stabilizing Chinese data. Early this week, the PBoC demonstrated a stronger stance on preserving FX stability by raising the Macro-prudential Assessment (MPA) parameter for cross-border financing from 1.5 to 1.75. Additionally, the China FX Committee, composed of regulators and market participants, pledged to keep the RMB exchange rate stable at its reasonable equilibrium. Meanwhile, the PBoC maintained the CNY fixing steady below the 7.19 level to limit further CNY spot depreciation under the 2% daily trading band rule. On Friday, stronger-than-expected Q4 GDP and hard data for December indicated the positive impact of the stimulus package, alleviating concerns over weakening Chinese growth.

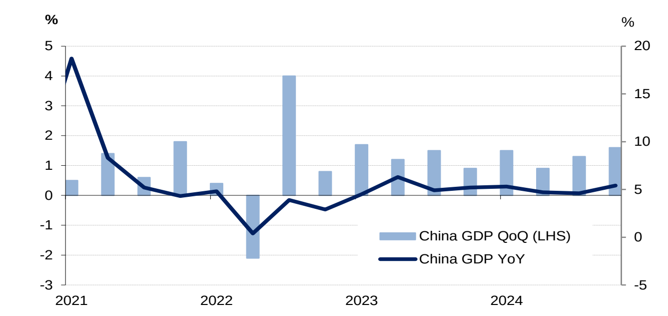
Onshore RMB liquidity conditions tightened as Chinese New Year demand approached. To counter the matured Medium Lending Facility (MLF) operation, the PBoC scaled up open market operations, net injecting CNY 1,453.9 billion into the market over the week, contrasting with a CNY 260 billion liquidity withdrawal. In the offshore RMB market, CNH liquidity conditions eased following a CNH 60 billion 6-month bill issuance at 3.4% in Hong Kong. The new RMB 100 billion liquidity facility for trade finance aims to mitigate the adverse impact of the recent CNH liquidity squeeze on trading and other financing activities, following the expansion of the PBoC's CNH bill issuances amid mounting RMB depreciation pressure.

The CNH is set to remain under pressure as Trump is likely to reveal his tariff plan after his inauguration on January 20. As the FX market has been pricing in an aggressive tariff hike plan, gradual tariff hikes could lead to a rebound in the RMB. In any case, RMB sentiment is set to turn choppy, and the PBoC will likely maintain its FX stabilizing measures. Considering the mounting RMB depreciation pressure, the PBoC is unlikely to cut rates at this moment, pointing to the status quo of Loan Prime Rates (LPRs).

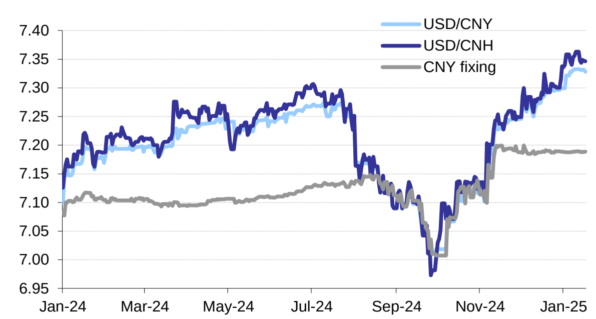
【Data & Policy Updates】

China's Q4 GDP growth exceeded expectations, accelerating to 5.4%YoY (vs. 5.0% YoY expected) from prior 4.6% YoY. This improvement followed the introduction of a series of stimulus measures in late Q3 2024. The robust Q4 GDP figure brought the annual growth rate to 5%, slightly above the expected 4.9%, thus achieving the annual growth target of around 5%. With the policy focus shifting towards supporting consumption, retail sales for December increased to 3.7%YoY, (vs. 3.6%YoY expected). Looking at the breakdown, home appliance sales led the gains, surging by 39.3% YoY from the previous 22.2% YoY, driven by a trade-in scheme., while automobile sales moderated to 0.5% YoY from the prior 6.6% YoY. Meanwhile, export-driven production ahead of tariff implementation may have bolstered industrial production, which grew by 6.2%YoY (vs. 5.4%YoY expected). However, fixed asset investment year-to-date (YTD) remained subdued at 3.2%YoY (vs. 3.3%YoY expected), amid a property market downturn. While the Q4 GDP growth and December data were broadly encouraging for China's growth picture, the backward-looking data did not significantly improve the growth outlook for 2025, which remains clouded by US tariff threats. Consequently, the impact on the RMB market was largely limited.

＜China GDP growth momentum picked up＞



＜USD/CNY, USD/CNH vs. USD/CNY fixing＞



（Sources: Bloomberg, Mizuho HK）

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