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Offshore Renminbi Weekly Report

East Asia Treasury Department

7-Feb-25

<Forex> CNH settled below 7.3 despite Trump's 10% tariff implementations

<Interest Rates> PBoC drained liquidity after the holiday

<Equity> China AI tech boosted Shanghai Composite to 3,300 level

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (※)
USD/CNH	7.3489	7.3734	7.2691	7.2891	-43
USD/CNY	7.2560	7.2936	7.2444	7.2874	+428
CNY PBoC Fixing	7.1698	7.1699	7.1691	7.1699	+1
Shanghai Composite Index	3,256.61	3,324.43	3,220.28	3,303.67	+53

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change		HK Close	Weekly Change
CNH Forward (1yr)	-1,488	+3	CNH HIBOR (3mth)	2.96%	+4.64 ppt
CNH Currency Swap (3yr)	2.00%	0.35 ppt	CNH Implied yield (1Y	2.10%	+0.31 ppt

【Weekly review and forecasts】

Despite Trump's 10% tariffs on Chinese goods coming into effect, the CNH and CNY spot hovered near the 7.28 level. So far, RMB sentiment has remained stable after the kick-off of Trade War 2.0. First, the 10% US tariffs implementation, rather than the extreme 60%, on Chinese goods has been largely priced in following Trump's warnings, while investors retain optimism over the trade talks. The pause of the US's 25% tariffs on Canada and Mexico sets an example that Trump could quickly change his mind on tariff decisions after conversations. In the meantime, China's gentle tit-for-tat tariffs should help avoid further escalation in China-US tensions. Second, the PBoC plays an important role in anchoring RMB expectations. By holding the CNY fixing steady near the 7.17 level, the PBoC manages to preserve its policy consistency to support the RMB exchange rate.

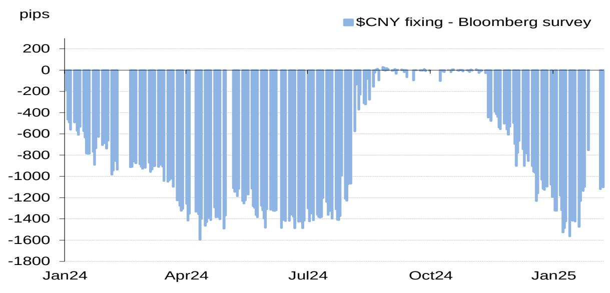
The PBoC withdrew liquidity after the Spring Festival holiday, net draining CNY 1,021.3 billion over the week. Onshore RMB liquidity conditions eased slightly, with the 7-day interbank repo rate falling back to below 1.8%. In the offshore RMB market, front-end CNH rates fluctuated, with Overnight CNH HIBOR soaring as much as 4.4% before falling back to 2.7% during the week.

We expect the CNH to enter range trading as market participants continue to assess the China-US negotiations. The result of the US 10% tariffs on Chinese goods seems to be acceptable to investors, without triggering panic in the markets, as Trump stays away from his extreme 60% tariff plan. Considering China's modest retaliatory actions, investors preserve optimism on the China-US trade talks. On the data front, China CPI for January is expected to remain subdued given lackluster labor market conditions, while PPI deflation is set to continue. Despite the shift to a moderately loose monetary policy, China credit expansion will likely remain slow. The PBoC will revise the definition of M1 in January, probably moderating the M1 decline trend.

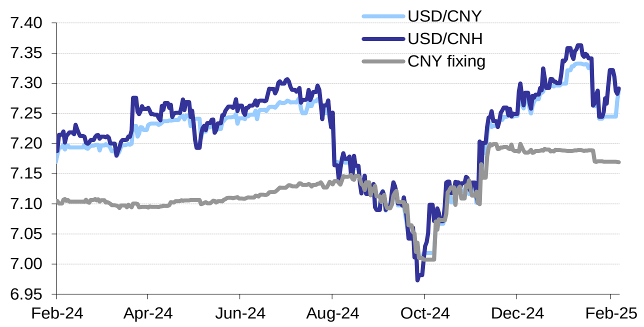
【Data & Policy Updates】

China has adopted a different approach to tariff retaliation and FX policy. Initially, in 2018, China imposed equivalent tit-for-tat 25% tariffs on USD 34bn of US goods but scaled down the tariff coverage later due to significant US-China trade deficits. Currently, China has only imposed tariffs on USD 14bn of the total USD 164bn US imports in response to Trump's 10% broad tariffs on all USD 525bn Chinese goods, indicating China's cautious approach to handling China-US tensions. Additionally, the PBoC did not let the RMB depreciate to counter the tariff impact by holding the CNY fixing steady. This honors the commitment to refrain from FX devaluation for competitive purposes, as mentioned in the G20 meeting and the phase one deal. Admittedly, the outlook for China-US negotiations remains challenging, and both sides need time to explore demands and concessions, but China has not yet shut the door after the new tariff implementation.

<PBoC kept its CNY fixing support after holiday>



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



(Sources: Bloomberg, Mizuho HK)

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