

Offshore Renminbi Weekly Report

<Forex> Stock Connect recorded net inflow to A-shares for 6 straight days

<Interest Rates > PBoC net drained liquidity via MLF operation

<Equity > Shanghai Composite edged up to 3,055 level

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (※)
USD/CNH	7.2010	7.2052	7.1719	7.2038	+35
USD/CNY	7.1864	7.1969	7.1715	7.1965	+39
CNY PBoC Fixing	7.0969	7.0975	7.0930	7.0975	-27
Shanghai Composite Index	3,042.62	3,075.13	3,020.64	3,054.64	-14

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change	HK Close	Weekly Change
CNH Forward (1yr)	-1,835	-44	CNH HIBOR (3mth)	3.01%
CNH Currency Swap (3yr)	3.01%	-1.50 ppt	CNH Implied yield (1Y)	2.43%

【Weekly review and forecasts】

The CNH spot pared back its gains to 7.20 handle as the USD rebounded following the release of sticky inflation data. Domestically RMB sentiment stabilized as China CPI data for February marked a positive turnaround, ending its 5-month deflation trend. The money supply M2 growth remained unchanged at 8.7%YoY. While housing data remained sluggish, market participants are patiently waiting for the effects of the previous 25bps 5Y Loan Prime Rate (LPR) cut to materialize and support housing demand. The National People Congress (NPC) concluded without a big stimulus plan but the policy guidance of “new quality productive force” and announcement of the ultra-long special China Government Bond (CGB) issuances provided initiatives to stimulate China growth prospects. Moreover, the return of Stock Connect inflow to A-shares and recovery in China/HK equities eased concern over Chinese investments.

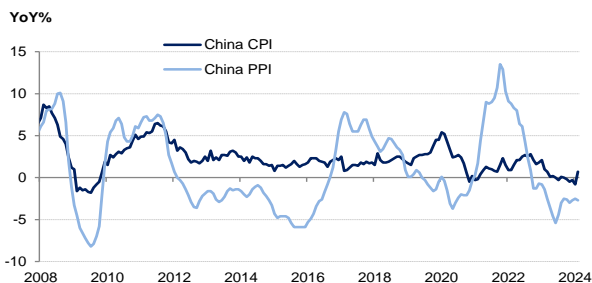
The PBoC kept its 1Y MLF yield unchanged at 2.5% as expected, while surprisingly net drained liquidity of CNY 94bn via the MLF operation, making the first time in almost two years. The flush market liquidity conditions, indicated by the elevated MLF outstanding, could be a reason for the liquidity withdrawal. Apart from that, the status quo of 1Y MLF yield showed PBoC's concern over FX stability and US-China rate spread before the expected Fed's rate cut later this year. Over the week, the PBoC net drained CNY 11bn liquidity via the Open Market Operations (OMOs), in comparison to CNY 1114bn liquidity withdrawal in prior week. The 7-day repo rate was hovering around 1.9%.

The return of capital inflows to Chinese investments and the easing concerns over China risks bode well on the RMB outlook. The PBoC's persistent CNY fixing support also protected the topside of the USD/CNH. In the coming week, investors will closely monitor the hard data for first two months to assess China growth momentum. Encouraging travel and consumption data during the Chinese New Year suggested solid retail sales data. While industrial production is expected to hold steady, the struggling property market is likely to drag on the fixed asset investments. Considering the status quo of 1Y MLF yield, Chinese banks are expected to keep 1Y and 5Y Loan Prime Rates (LPRs) unchanged at 3.95% and 3.45%, respectively.

【Data & Policy Updates】

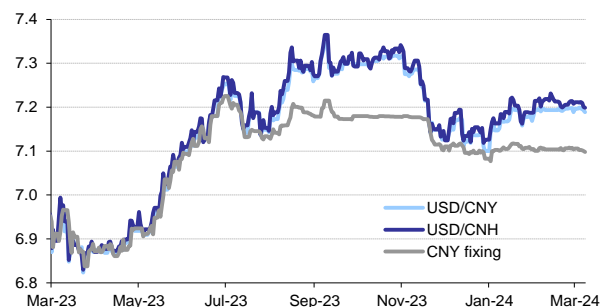
China CPI inflation turned positive at +0.7%YoY (vs. +0.3%YoY expected) due to the Chinese New Year base effect, increasing holiday travel related demand and the tighter food supply under cold weather. PPI dropped by -2.7%YoY (vs. -2.5%YoY expected), extending its decline trend for 1.5 years. Admittedly, it is too early to conclude the end of China deflation, but a stabilizing CPI should help alleviate concern over China deflation and the upward pressure in real interest rates. We expect the PBoC to introduce more monetary easing to restore consumer demand and stabilize consumer prices, with a preference of Required Reserve Ratio (RRR) cut to preserve FX stability and facilitate bond issuances.

<China deflation trend paused>



(Sources: Bloomberg, Mizuho HK)

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



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