**MIZUHO**

# Offshore Renminbi Weekly Report

*East Asia Treasury Department*

***5-Apr-24***

**＜Forex＞ USD/CNY spot almost hit its upper trading band**

**＜Interest Rates＞PBoC drained liquidity after quarter-end**

**＜Equity＞Shanghai Composite hovered 3,000 level**

| Weekly Price Change | Week Open | Week High | Week Low | Week Close | Weekly change（※） |
|---|---|---|---|---|---|
| USD/CNH | 7.2573 | 7.2662 | 7.2418 | 7.2467 | -156 |
| USD/CNY | 7.2252 | 7.2363 | 7.2249 | 7.2332 | +65 |
| CNY PBoC Fixing | 7.0938 | 7.0957 | 7.0938 | 7.0949 | +1 |
| Shanghai Composite Index | 3,049.02 | 3,085.54 | 3,049.02 | 3,069.30 | -8 |

※pips in USD/CNY,USD/CNH

| Weekly Price Change | HK Close | Weekly Change | | HK Close | Weekly Change |
|---|---|---|---|---|---|
| CNH Forward (1yr) | -1,630 | -26 | CNH HIBOR (3mth) | 3.90% | +2.78 ppt |
| CNH Currency Swap (3yr) | #N/A | #N/A | CNH Implied yield (1Y | 2.69% | -0.59 ppt |

**【Weekly review and forecasts】**

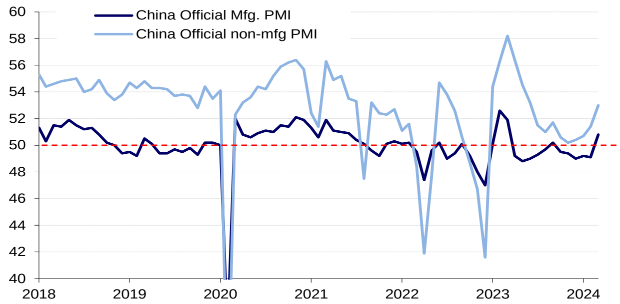
The CNH spot rebounded gradually to below 7.25 level, while the CNY spot weakened further as much as to 7.2363 level before the holidays. With the CNY fixing holding steady near mid-7.09 level, the CNY spot also hit the upper limit of its 2% trading band. The rebound in China PMIs for March showed improvements in business sentiment but did little to reverse bearish RMB sentiment, which has been intensifying after the breakout above 7.2 level. On the policy front, the PBoC dropped a reference of “strengthening cross-cyclical adjustments”, implying a stronger focus on counter-cyclical policy adjustments. Against the backdrop of mounting RMB depreciation pressure, the PBoC reiterated its firm stance to correct the pro-cyclical behaviour in the FX market, prevent the FX overshooting risks as well as the formation and self-reinforcing one-way expectations. After the quarter-end, the PBoC scaled down its reverse repo operations notably, net draining CNY 844bn liquidity via the open market operations. 7-day interbank repo rate pulled back to near 1.8% from 2% in March-end.

Admittedly, RMB depreciation pressure has been intensifying after the CNY spot breakout above 7.2 level, which raised concerns about a potential change in the CNY fixing policy. The improvements in China data are encouraging but not sufficient to boost confidence on China recovery. We reckon that the PBoC holds a firm stance to keep FX market stability but would open the door for some RMB depreciation at an orderly pace by guiding USD/CNY fixing higher if the USD rallied notably. On the data front, China credit expansion data is expected to slow given the status quo of Loan Prime Rates (LPRs). The struggling China new home sales also indicated subdued growth in mortgage loans. CPI inflation will likely retreat alongside the fading Chinese New Year seasonality but remain positive while PPI deflation is set to continue. The strong rebound in the new export order in the manufacturing PMI sub-index indicated improvements in China exports.

**【Data & Policy Updates】**

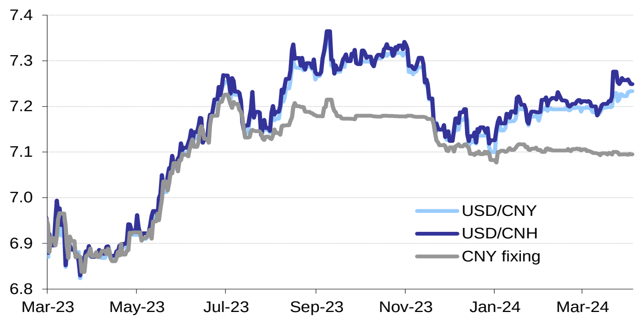
China manufacturing PMI for March rebounded notably to 50.8 from prior 49.1 level, as labour returned to work after the Spring Festival. Despite the seasonality adjustment on the data series, the Chinese New Year holiday continues to have an impact on the PMI data. Looking at the breakdown, the improvement in mfg. PMI is broad-based, with the new export order and output leading gains by 5ppt and 2.4ppt, respectively. Encouragingly, the mfg. PMIs across large, medium and small enterprises all rebounded to PMIs. However, the strong PMIs did not reverse bearish RMB sentiment and more positive data, particularly in the property sector, will be needed to attract capital inflow.

＜China PMIs rebounded after Chinese New Year＞




（Sources: Bloomberg, Mizuho HK）

＜USD/CNY, USD/CNH vs. USD/CNY fixing＞



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