

# Offshore Renminbi Weekly Report

<Forex> PBoC is determined to maintain FX stability  
 <Interest Rates > Media reported Chinese banks cut deposit rates  
 <Equity > Shanghai Composite stood above 3,000 level

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change ( ※ )
USD/CNH	7.2481	7.2641	7.2358	7.2627	+135
USD/CNY	7.2287	7.2376	7.2280	7.2373	+41
CNY PBoC Fixing	7.0947	7.0968	7.0947	7.0967	+18
Shanghai Composite Index	3,057.33	3,077.35	3,009.90	3,020.33	-27

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change	HK Close	Weekly Change
CNH Forward (1yr)	-1,680	-23	CNH HIBOR (3mth)	3.99%
CNH Currency Swap (3yr)	#N/A	#N/A	CNH Implied yield (1Y)	2.80%

**【Weekly review and forecasts】**

The PBoC ramped up its efforts to defend the CNY against the strong USD after the release of hot US CPI. As the PBoC kept its CNY fixing steady near 7.096, the CNY fixing – estimate gap widened to its record of -1597 pips. Consequently, the PBoC’s FX support pushed the RMB basket index up to 100 level for the first time in a year. The PBoC’s persistent policy support managed to contain RMB depreciation bias, with the \$CNH-\$CNY gap hovering near +200pips. While offshore RMB forward market remained relatively stable, 1Y CNY FX swap slid to -2800 points, the lowest level since 2008. This reflected expectation of PBoC-Fed monetary divergence under the opposite inflation dynamics. Separately, the high-level meeting between US Treasury Secretary Yellen and PBoC Governor Pan Gongsheng did not cover specific discussion on China FX policy, suggesting that the CNY fixing policy mechanism and the debate on a convergence towards the fixed exchange regime are not the major concerns among policy makers. Domestic China data remained weak, with the disinflationary figures and sliding exports growth in March.

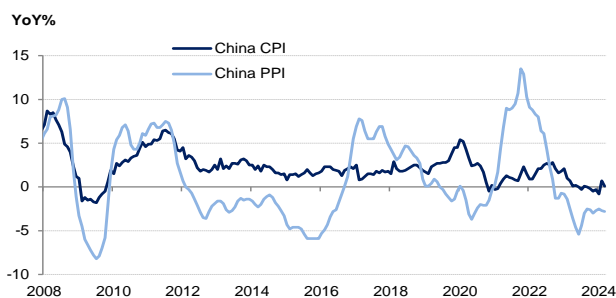
Media reported that some Chinese banks cut deposit rates across tenors, paving the way for further monetary easing in the near term. Onshore RMB liquidity conditions remained adequate. The PBoC net injected CNY 6bn of liquidity via the open market operations, in comparison to CNY 844 liquidity withdrawal in the prior week. The 7-day interbank repo rate held steady around 1.7%.

We reckon that the PBoC will maintain CNY fixing support to defend the currency, as reserving FX stability will remain a top priority. Admittedly, the recent USD rally brought extra RMB depreciation pressure and the possibility that the CNY spot touches its upper trading band could not be ruled out. There are plenty of data to digest in the coming week. In light of data improvement, Q1 GDP growth is expected to stay around 5%YoY. The stimulus measures will likely support retail sales in March. The rebound in manufacturing PMI indicated stabilization in industrial production, while the struggling property sector will continue to drag on Fixed Assets Investments. Consider significant RMB depreciation pressure, the PBoC is set to keep its 1Y Medium Lending Facility (MLF) yield unchanged and will attempt to drive interest rate lower via deposit rate cuts and Required Reserves Ratio (RRR) cut.

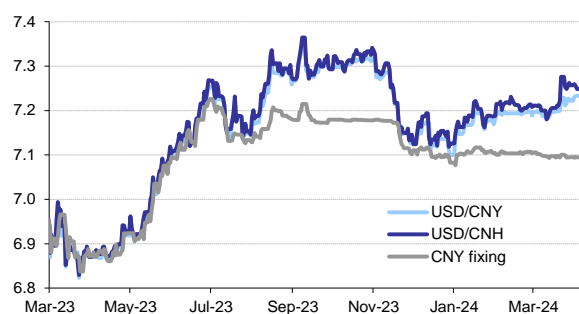
**【Data & Policy Updates】**

China CPI inflation for March moderated more than expected to +0.1%YoY (vs. +0.4%YoY expected) from prior +0.7%YoY. Looking at the breakdown, the decline in food prices dragged on headline CPI inflation, while inflation in other items and education, culture & entertainment keep inflation in the positive territory. On the quarter-on-quarter basis, CPI dropped by 1% due to the seasonality. PPI deflation deepened to -2.8%YoY as expected from prior -2.7%YoY. The soft CPI figures could raise concerns over deflation risk in China, which would fuel PBoC’s easing bias and weigh on the RMB exchange rate, particular with the opposite US-China inflation dynamics.

<China CPI inflation moderated again>



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



(Sources: Bloomberg, Mizuho HK)

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