The CNH entered a range trading between 6.8252 and 6.8610 over the week. The RMB upside momentum has been stalling as Trump warned on the China-US decoupling. He reiterated his hardline stance against China, saying that he intends to curb the US economic relationship with China and punish corporate for shipping out jobs to China by imposing tariffs and prohibiting the corporate from bidding federal contracts. The pause of USD decline and refreshing US equities sell-off also posed headwinds for the RMB appreciation. China data figure for August continued to fuel optimism over the recovery but did little to offer much upside surprise. China exports for August jumped more than expected by 9.5% YoY (vs. +7.5% YoY expected) while imports surprisingly dropped by -2.1% YoY (vs. -0.2% YoY expected), reflecting feeble demand in domestic consumption and production. Meanwhile, China FX reserves for August climbed less than expected to USD 3164.61bn (vs. USD 3170.5bn expected) from prior USD 3154.39bn. The FX valuation impact amid the USD decline and capital inflow to China bonds were the drivers for the FX reserves increment. China credit expansion for August accelerated as PBoC resumed liquidity injection. New loan growth jumped CNY 1280bn (vs. CNY 1250bn expected) and aggregate financing soared more than expected by CNY 3580bn (vs. CNY 2585bn expected). Y2M growth edged down to 10.4% YoY (vs. +10.7% YoY expected).

The PBoC resumed liquidity injection via the open market operations, adding net CNY 230bn of liquidity over the week. Offshore RMB liquidity condition stayed adequate, with 7-day interbank repo rate being capped below 2.2%. In the offshore RMB market, O/N CNH Hibor picked up to near 2.5% while 3Y CNH-CCS eased back to around 2.5% from its 8-month high of 2.64%.

The CNH is expected to range between 6.80 and 6.86 in the coming week. The bullish RMB sentiment has been cooling down, sending the RMB into a consolidation mode. Following the re-pricing of some RMB fundamentals, the upcoming US elections could cause jitters on the RMB market, with the pick-up in CNH option volatilities. Trump may also intend to step up its hardline stance against China and talk up the China-US decoupling for his re-election campaign. On the calendar, the release of China hard data for August will likely indicate robust growth momentum while the uneven recovery will remain in concern. Industrial production should have returned to normal and room for further improvement should prove to be limited. Retail sales are expected to return to par on strong online consumption and soaring auto sales for passenger cars. The infrastructural investment supported by the local govt bond issuance should propel fixed asset investment but the tightening measures in property sector will cloud the outlook.

China CPI inflation for August eased to 2.4% YoY as expected from prior 2.7% YoY and food CPI inflation was attributable to +11.2% YoY food prices while non-food inflation remained subdued. Meanwhile, PPI decline narrowed to -2.0% YoY (vs. -1.9% YoY expected) from prior -2.4% YoY, reflecting the recovery in production demand after the pandemic hit. On a month-on-month basis, PPI has been pulling back to the positive territory for 3 straight months. Overall, China CPI inflation has been normalizing to below 3% while the year-to-date CPI inflation returned to 3.5%, matching the yearly target of around 3.5%. The narrowing PPI deflation also pointed to the steady recovery in industrial production. With CPI falling back to the target range, the PBoC should have more policy room to support demand as long as credit creation staying at a controllable pace.