The CNH retested the 6.50 resistance amid the heavy USD sell-off. The USD was very weak. The FOMC strengthened its forward guidance to extend its bond purchase until substantial further progress towards the employment and inflation goal, and the USD Index tumbled to below 90 for the first time since April 18. Yet, the CNH fell back to 6.52 level while the CNY remained soft at near 6.54 level. China hard data for November were unsurprising. Industrial production climbed to 7.0%YoY, retail sales accelerated to 5.0%YoY, and fixed assets investment YTD also rose 2.6%YoY. The robust data reflected China recovery was on track but upside surprises were missing. Meanwhile, the US Treasury surprisingly labelled Switzerland and Vietnam as the currency manipulators while left China on the monitoring list.

The PBoC’s massive liquidity injection dragged onshore RMB rates lower, with 7-day interbank repo rate down as much as to 1.63%. Earlier this week, the PBoC conducted 1Y CNY 950bn of Medium Lending Facility operation at 2.95%, exceeding the maturing MLF of CNY 600bn in November. Meanwhile, the PBoC net drained CNY 90bn of liquidity via the open market operations over the week. Offshore RMB rates remained soft as well, with overnight CNH Hibor down to 1.7%. 3Y CNH-CCS rate found its footing at around 2.45%.

The CNH is expected to range between 6.49 and 6.59 in the coming week. It appears that the RMB upside momentum was stalling as most of RMB positive news was being priced in while the year-end USD buying flow emerged at near 6.50 handle. The recent Chinese State-Owned Enterprises (SOEs) bond defaults and PBoC’s easing bias following the aggressive liquidity injection also dampened RMB sentiment. On the policy front, the PBoC is set to leave its 1Y and 5Y Loan Prime Rates (LPRs) unchanged at 3.85% and 4.65%, respectively, given the status quo of 1Y MLF yield at 2.95%. Indeed, the PBoC has little incentive to change its policy, and a pre-mature tightening will risk derailing the growth given the uneven recovery.

China industrial production growth had exceeded the pre-pandemic level and further upside should prove to be limited. The production figure climbed further to 7.0%YoY as expected from prior 6.3%YoY. Other hard data also met the consensus. Retail sales were playing a catch-up, accelerating to 5.0%YoY as expected, compared with the prior 4.3%YoY. Online retail sales YTD climbed further to 11.5%YoY from prior 10.9%YoY, and auto sales was hovering at 11.8%YoY vs. prior 12.0%YoY. Fixed Assets Investment YTD improved to 2.6%YoY from prior 1.8%YoY. Real estate investment remained strong at 4.4%YoY given the heated property market, while manufacturing capital expenditure was still in negative territory of -3.5%YoY vs. prior -5.3%YoY. Overall, China recovery was on track but it would have to be hard to deliver further upside surprises to boost the RMB exchange rate.