<Forex> RMB rallied on USD sell-off, while was largely muted with the US Treasury's FX report

<Interest Rates> Onshore Liquidity condition remained flush despite rising concern over SOEs' bond default

<Equity> Sentiment stabilized as the PBoC would reportedly support the troubled bad asset management SOE

The CNH rallied as much as to its one-month high of 6.4802 before settling at mid-6.49 level. Following the releases of China key data, the USD movement emerged as the main driver of CNH this week. The CNH was also largely muted with the US Treasury’s FX report, which refrained from labelling any economy a currency manipulation. Under the Biden’s presidency, it appears that the China-US trade imbalance and RMB exchange rate are no longer the market focuses and the return of China-US trade war remains unlikely at this stage. In the domestic side, China financial market sentiment stabilized on the rumour that the PBoC would step up its action to support the state-owned bad-asset management company. Meanwhile, Chinese Premier Li planned to normalize the direct financial support mechanism to support the residents as well as corporates at a State Council regular meeting.

The PBoC kept the liquidity injection neutral via the Open Market Operations (OMOs) over the week. Despite the concern over China State-Owned Enterprises (SOEs) bond default risk, onshore RMB liquidity condition remained broadly ample, with 7-day interbank repo rate fluctuating at around 2.1%. As widely expected, the PBoC has left its 1Y and 5Y Loan Prime Rates (LPRs) unchanged for 12 months at 3.85% and 4.65%, respectively. In the offshore RMB market, CNH liquidity condition remained flush and 3Y CNH-CDS fell further to its 6-week low of 2.57% alongside the global yields retracement.

The CNH is expected to range between 6.46 and 6.54 in the coming week. We reckon that the CNH will hold steady with appreciation bias in the rest of this year, as both China and US will likely lead the global recovery. Moreover, the PBoC and Fed will probably keep their monetary easing measures to warrant the recovery in coming months. On the data front, China Industrial Profits for March will likely maintain high growth as the significant base effect remains well in play. China manufacturing PMI for April will likely hold steady above 50 expansionary mark given the robust recovery momentum. Among these criteria (persistent & one

The CNH forward (1Y) fell further to its 6-week low of 2.58% while the CNH Currency Swap (3yr) was retracement.

In its semi-annual FX report, the US Treasury refrained from labelling any economy a currency manipulation, despite Vietnam, Switzerland and Taiwan exceeding all three criteria. Among these criteria (persistent & one-way FX intervention >2% GDP, C/A surplus > 2% GDP, bilateral trade surplus > USD 20bn), China only met one of them with the huge bilateral trade surplus at USD 311bn. Compared with the previous FX report published in Dec 2020, China current account surplus (trailing 4Q) expanded to 1.9% from 1.1% of GDP while the FX intervention and huge bilateral trade surplus were little changed. After all, the RMB exchange rate appears no longer in focus after signing the phase one deal and the post-pandemic RMB appreciation.

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(Source: Bloomberg, Mizuho HK)