Disappointing China PMIs pointed to slowing growth momentum
Both offshore and onshore RMB liquidity condition soaked up before holiday
Shanghai Composite was fluctuating at around 3,400 level

<table>
<thead>
<tr>
<th>Weekly Price Change</th>
<th>Week Open</th>
<th>Week High</th>
<th>Week Low</th>
<th>Week Close</th>
<th>Weekly change (▲▲)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD/CNY</td>
<td>6.4859</td>
<td>6.4921</td>
<td>6.4657</td>
<td>6.4743</td>
<td>-158</td>
</tr>
<tr>
<td>CNH PBoC Fixing</td>
<td>6.4913</td>
<td>6.4924</td>
<td>6.4672</td>
<td>6.4672</td>
<td>-230</td>
</tr>
<tr>
<td>Shanghai Composite Index</td>
<td>3,484.11</td>
<td>3,497.12</td>
<td>3,417.27</td>
<td>3,446.86</td>
<td>+6</td>
</tr>
</tbody>
</table>

HK Close 3,417.27 hit -0.64 ppt each

CNH Forward (1yr) HK Close Weekly Change CNH HIBOR (3mth) HK Close Weekly Change
- 1.680 +36 2.86% -0.64 ppt
- 2.64% 0.60 ppt 3.60% +0.00 ppt

CNH Currency Swap (3yr) CNH IRS (3yr)

Last week’s review and forecasts
The CNH extended its rally to its two-month high of 6.4614 amid the USD retracement. The Fed kept its dovish tone at its April meeting and EM Asian currencies continued to recover from the tapering tantrum in late Q1. Market participants also took a respite from the credit issue related to China state-owned enterprise (SOE) bad-asset management firm, Huairong, after its repayment of matured offshore bond. The disappointing China PMIs for April reflected the stalling growth momentum in coming months but its negative impact on the CNH market was largely muted.

Once again, the PBoC kept the liquidity injection neutral via the Open Market Operations (OMOs) over the week. Onshore RMB liquidity condition tightened somewhat before the golden week holiday, with 7-day interbank repo rate spiking to 2.34%. Offshore RMB liquidity condition soaked up as well, with overnight CNH HIBOR climbing to 2.36%. As the reflation trade remained in play, the mounting global yields lifted 3Y CNH-CCS by 7bps to 2.65%.

The CNH is expected to range between 6.44 and 6.51 in the coming week. The onshore RMB market will remain closed for Labour holiday until 5th May, and the CNH market is set to be more driven by the USD movement in the absence of CNY fixing guidance. In our view, the stalling China growth momentum is not that worrying and not surprising after the V-shaped recovery. We project that both China and US will lead global recovery this year, leaving the USD/CNH pair rather steady. So far, the virus contagion remains under control in China while the reviving travel activities during the long holiday will pose a stress test on the epidemic control system.

Data & Policy Updates
China manufacturing and non-mfg. PMIs for April surprised to downside, falling to 51.1 (vs. 51.8 expected) and 54.9 (vs. 56.1 expected) from prior 51.9 and 56.3, respectively. The figures pointed to moderating China recovery growth momentum, following the slowdown in Q1 growth indicated by decelerating quarter-on-quarter growth to merely 0.6%. Looking at the mfg. PMI breakdown, the sub-indices of output and new order dropped 1.7ppt and 1.8ppt to 52.2 and 52.0 level, respectively. The firm size breakdown showed that both large and medium enterprise PMI fell by 1ppt and 1.3ppt, respectively, while small company climbed for three consecutive months, up 0.4ppt.

Both China mfg. and non-mfg. PMIs dipped >

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

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