

Offshore Renminbi Weekly Report

<Forex> PBoC cut the FX RRR by 2ppt to inject FX liquidity
 <Interest Rates> PBoC is expected to pause the rate cut cycle
 <Equity> Shanghai Composite climbed to around 3250 level

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (※)
USD/CNH	6.9168	6.9971	6.9168	6.9193	+36
USD/CNY	6.9237	6.9798	6.9172	6.9186	+116
CNY PBoC Fixing	6.8998	6.9160	6.8998	6.9098	+277
Shanghai Composite Index	3,183.95	3,266.20	3,172.04	3,262.05	+62

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change	HK Close	Weekly Change
CNH Forward (1yr)	-770	+62	CNH HIBOR (3mth)	2.64%
CNH Currency Swap (3yr)	2.64%	0.84 ppt	CNH Implied yield (1Y)	2.57%

【Last week's review and forecasts】

The USD strength and darkening China growth outlook put the RMB on the verge of 7 psychological level. The CNH spot tumbled as much as to its 2-year low of 6.9971 before settling at near 6.95 level. China domestic growth momentum was deteriorating. The Chinese government extended the lockdown in Chengdu and asked residents to mitigate travel during holidays. Before the 20th Party Congress, the Chinese government is set to stick to zero covid policy, which is to weigh on consumption and production continuously. China trade figures for August were disappointing, with exports growth decelerating sharply. The shrinking trade surplus pointed to weakening fundamentals support on the RMB. Meanwhile, the slowing CPI and PPI eased concern over structural inflation and hinted more room for PBoC's easing.

The PBoC stepped up its measures to defend the RMB from falling to 7 psychological level quickly. In addition to imposing stronger CNY fixing, the PBoC cut its FX deposit RRR to defend the currency for the second time this year. Compared to previous cut of 1ppt in April, the PBoC took a bolder action by lowering the FX RRR by 2ppt to 6% to highlight its stance to support the RMB. Considering the FX deposit amount of CNY 953.7bn in onshore China in July, the 2ppt cut is expected to inject CNY 19.1bn FX liquidity into the market, which is larger than CNY 10bn injection in April. However, the PBoC's FX RRR cut will help smooth out RMB depreciation pace only but is not going to change the course of RMB depreciation trend.

The CNH is expected to range between 6.90 and 7.00 level in the coming week. Despite the PBoC's efforts to support the RMB, the RMB sentiment remains bearish on the lockdowns in China and Fed's hawkish stance. The hard data for August will indicate the mixed impact of lockdowns, electricity shortage amid the drought and government stimulus. While retail sales, industrial production and fixed assets investment are expected to hold steady, the risks are skewed to the downside. Meanwhile, the PBoC is expected to hold its 1Y Medium Lending Facility (MLF) yield unchanged after the previous 10bps cut given ample liquidity condition and growing RMB depreciation pressure.

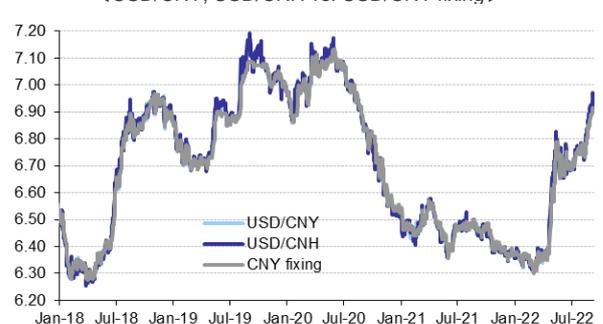
【Data & Policy Updates】

China trade figures for August were disappointing, adding more downside risk on the RMB. The global recession risk has been rising. Exports for August decelerated sharply to +7.1%YoY (vs. +13.0%YoY expected) from prior 18.0%YoY. Imports also moderated to +0.3%YoY (vs. +1.1%YoY expected) from +2.3%YoY, reflecting softening demand for domestic manufacturing activities. Trade surplus shrank to USD 79.39bn (vs. USD 92.7bn expected) from USD 101.26bn. Fundamentals support for the RMB has been weakening and market participants increased their long USD/CNH position to hedge the China macro risk.

<China exports growth decelerated notably>



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



(Sources: Bloomberg, Mizuho HK)

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