

Offshore Renminbi Weekly Report

<Forex> China data for late 2022 came in more resilient than expected
 <Interest Rates > PBoC kept its policy rates unchanged
 <Equity > Shanghai Composite rallied to 3250 level amid China reopening

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (※)
USD/CNH	6.7137	6.7944	6.6975	6.7767	+501
USD/CNY	6.6971	6.7894	6.6910	6.7742	+447
CNY PBoC Fixing	6.7135	6.7702	6.7135	6.7702	+22
Shanghai Composite Index	3,198.52	3,267.06	3,197.32	3,264.81	+37

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change	HK Close	Weekly Change
CNH Forward (1yr)	-1,391	-21	CNH HIBOR (3mth)	2.71%
CNH Currency Swap (3yr)	2.71%	1.13 ppt	CNH Implied yield (1Y)	2.70%

【Last week's review and forecasts】

CNH spot rallied to below 6.70 handle briefly for the first time since July 2022 and then fell back to near 6.78 level before the long Chinese New Year break. The pre-Chinese New Year RMB purchase flow was pretty strong but subsequently faded out. China data including Q4 GDP and hard data for December came in less worse than expected but the RMB market was largely muted to the back-ward looking data, with attention shifting to the economy recovery in 2023. Yet, the shrinking China population in 2022 for the first time since 1961 reminded investors of the structural growth drag and cooled optimism on China growth for the year ahead. Separately, Chinese officials attempted to boost foreign investors' confidence on China recovery in 2023 and alleviate concern over China policy risk. Speaking in the World Economic Forum, Chinese Vice Premier Liu He said that he is confident China's growth would mostly likely return to its normal trend in 2023 and he expected a notable increase in imports, more investment and normalizing consumption for residents.

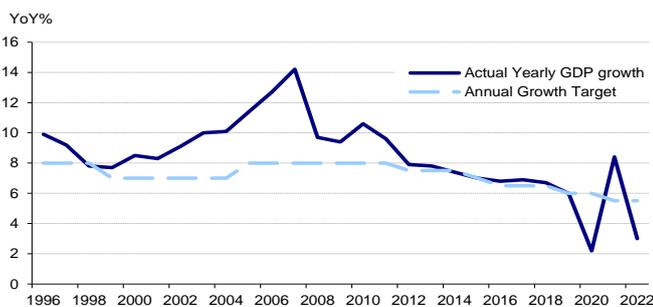
The PBoC scaled up liquidity injection in response to Chinese New Year funding demand. Over the week, the central bank net added CNY 1966bn of liquidity into the market via the Open Market Operations (OMOs). Onshore RMB liquidity condition remained stable, with 7-day interbank repo rate returning to 2%. With the status quo of 1Y Medium Lending Facility (MLF) yield, Chinese banks left the 1Y and 5Y LPRs unchanged at 3.65% and 4.30% as expected, respectively. The status quo of LPRs was in line with expectation as the previous Required Reserves Ratio (RRR) cut reduced expectation for further easing.

The CNH is expected to range between 6.72 and 6.82 level in the coming week. Onshore CNY market will be closed for a whole week amid the Chinese New Year holiday. We see the risk of CNH retracement to 6.8 level, as the seasonality of pre-Chinese New Year CNY purchase had passed. The potential USD rebound on the safe-haven bid to hedge recession risk and the pause of capital inflow for Chinese investment during the holiday will also pose headwinds on the CNH. Moreover, we are concerned with data disappointment after the Chinese New Year break, if the V-shaped growth does not take place.

【Data & Policy Updates】

China data came in more resilient than expected across the board, reflecting less severe disruptions from the lockdown and massive infection. Q4 GDP decelerated less than expected, growing by +2.9%YoY (vs. +1.6%YoY expected). The annual GDP expanded by +3.0% (vs. +2.7% expected). Hard data for December all surprised to the upside. Despite the massive infection, retail sales dropped by merely -1.8%YoY (vs. -9.0%YoY expected), given the rebound in automobile sales (+4.6%YoY vs. prior -4.2%YoY). The end of Covid restrictions might fuel demand for travel and thus the automobile. Industrial production rose by +1.3%YoY (vs. +0.1%YoY expected) as the mobility restrictions were largely removed. Fixed assets investment YTD slowed slightly to +5.1%YoY (vs. +5.0%YoY expected) from prior +5.3%YoY, while real estate investment remained weak. The poor residential property sales YTD at -28.3%YoY in December pointed to subdued confidence on new development in housing market. Labour market was solid, with surveyed jobless rate down to 5.5% (vs. 5.8% expected) from 5.7%. The youth jobless rate dropped further 16.7% from 17.1%.

<China annual GDP expanded by 3% in 2022>



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



(Sources: Bloomberg, Mizuho HK)

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