

# Offshore Renminbi Weekly Report

<Forex> PBoC reactivated its CNY fixing policy support

<Interest Rates > CNH liquidity conditions tightened to discourage carry trade flow

<Equity > A-shares markets continued to show resilience against the Trump trade

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change ( % )
USD/CNH	7.1970	7.2665	7.1864	7.2436	+953
USD/CNY	7.1785	7.2470	7.1758	7.2335	+911
CNY PBoC Fixing	7.1786	7.1992	7.1786	7.1992	+333
Shanghai Composite Index	3,432.37	3,489.42	3,358.71	3,367.94	-102

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change	HK Close	Weekly Change
CNH Forward (1yr)	-1,375	+190	CNH HIBOR (3mth)	3.30%
CNH Currency Swap (3yr)	2.14%	1.75 ppt	CNH Implied yield (1yr)	2.35%

**[Weekly review and forecasts]**

The CNH extended its decline to its 3.5 month low of 7.2665 level on the back of tariff threat and USD strength. With the resurgent one-way RMB depreciation, the PBoC stepped in to defend the currency by reactivating the CNY fixing policy support. By capping the CNY fixing below 7.2 level, the PBoC signaled its intension to prevent the currency from breaching its decade low of 7.35 based on the 2% daily trading limit level. Meanwhile, China data for October showed improvements following the policy pivot in late September.

Over the week, the PBoC net injected CNY 1717.1bn of liquidity via the open market operations, compared to the CNY 1315.8bn of liquidity withdrawal in the prior week. The 10Y CGB yields dropped further to below 2.1% on waning China growth optimism. It appears that the Chinese authorities are preserving policy room to counter tariffs shocks next year. In the offshore RMB market, the CNH liquidity conditions tightened as the Chinese banks might pay up front-end rates to discourage long USD/CNH spot carry trade and narrow the CNH-CNY gap. Overnight CNH HIBOR spiked to 4.78% from 1.7% in prior Friday. The 3Y CNH-CCS also jumped to its 3.5 month high of 2.18%.

While the return of CNY fixing support helped anchor RMB expectations, the RMB depreciation pressure is unlikely to dissipate immediately given the prevailing US tariff threat and waning optimism on China growth. We maintain our view that the CNH and CNY will range between 7.2 and 7.3 by the end of this year, while the CNY fixing guidance will likely remain a key policy tool to manage RMB movements. The upcoming Central Economic Work Conference will likely reveal more discussion on the follow-up stimulus and counter measures against the US tariffs threat but the meeting is expected to hold in mid-December, testing investors' patience.

**[Data & Policy Updates]**

China hard data for October showed improvements, refreshing market confidence on the China stimulus package. Retail sales accelerated more than expected to 4.8%YoY (vs. +3.8%YoY expected) from prior 3.2%YoY. Looking at the breakdown, home appliance soared by 39.2%YoY after a jump of 20.5%YoY, reflecting positive impact from the trade-in subsidy scheme. Gains in automobile sales (+3.7%YoY) and catering services (+3.2%YoY) during the long holiday indicated restored consumer confidence. However, industrial production unexpectedly slowed to 5.3%YoY (vs. 5.6%YoY expected) from prior 5.4%YoY, while fixed assets investment YTD remained unchanged at 3.4%YoY (vs. +3.5%YoY expected), alongside the support from manufacturing (+9.3%YoY) and infrastructure (+4.3%YoY). Following the property market stimulus, new home prices declines narrowed to -0.51%MoM from prior -0.71%MoM.

<China retail sales picked up after the stimulus>



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



(Sources: Bloomberg, Mizuho HK)

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