

Offshore Renminbi Weekly Report

<Forex> RMB showed resilience against Trump's tariff hikes
 <Interest Rates > CNH liquidity conditions eased notably
 <Equity > A-shares markets rebounded on renewed stimulus expectations

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (※)
USD/CNH	7.2550	7.2728	7.2282	7.2349	-201
USD/CNY	7.2388	7.2592	7.2175	7.2304	-89
CNY PBoC Fixing	7.1918	7.1982	7.1877	7.1877	-57
Shanghai Composite Index	3,274.88	3,357.50	3,227.36	3,326.46	+63

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change	HK Close	Weekly Change
CNH Forward (1yr)	-1,395	-82	CNH HIBOR (3mth)	3.34%
CNH Currency Swap (3yr)	2.12%	-0.55 ppt	CNH Implied yield (1Y)	2.26%

【Weekly review and forecasts】

The CNH spot slid to its 4-month low of 7.2728 due to Trump's tariff threats, but subsequently recouped its loss. On his social media platform, US President-elect Trump said the US would impose an additional 10% tariff on Chinese goods on top of all existing levies, and a 25% tariff on all goods from Canada and Mexico. Despite the tariff threats, the CNH showed resilience, as the 10% additional tariffs hike on all Chinese imports, which put the average tariffs up to near 30%, would be lower than 50-60% mentioned in his previous interviews. After all, the US tariff hikes had been partially anticipated post-Trump's election victory (CNY depreciated from 7.10 to 7.25). Alongside PBoC's ongoing CNY fixing support, the CNH spot recovered to near 7.24 level by the end of the week.

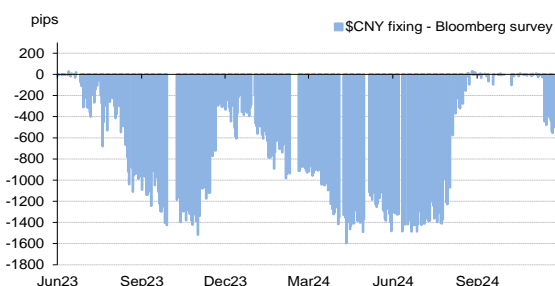
CNH liquidity conditions eased notably till month-end, with the overnight CNH HIBOR tumbling to 1.1%. With narrowing CNH-CNY gap, the PBoC may not feel compelled to curb carry trade flow of long USD/CNH spot via CNH liquidity tightening. On the policy front, the PBoC conducted 1Y Medium Lending Facility (MLF) of CNY 900bn at 2% rate. In the meantime, the PBoC net drained CNY 382bn of liquidity via the open market operations (OMOs) over the week. The 7-day onshore interbank repo rate held steady near 1.63%.

China's policy response will play an important role in determining the CNY outlook. We do not expect China to allow sharp CNY depreciation to counter tariffs due to concerns over capital outflow and a bearish growth outlook. So far, the PBoC has maintained its FX policy support by capping the CNY fixing below 7.2 level. If tariffs prompted policy makers to roll out a sooner and bigger stimulus package, more two-way RMB market movements will be expected heading to year-end. The potential PBoC's required reserves ratio (RRR) cut (either 25bps or 50bps) and discussion on pro-growth policies in Central Economic Work Conference will be in focus. We maintain our view that the CNY will range between 7.2 and 7.3 by the end of this year. Datwise, China PMIs for November are expected to pick up as the basket of stimulus measures materialized to support sentiment and counter shocks from Trump's victory.

【Data & Policy Updates】

As expected, the PBoC set the 1Y Medium Lending Facility (MLF) rate unchanged at 2% and injected CNY 900bn of liquidity into the market. Considering the matured 1Y MLF of CNY 1450bn in mid-Nov, the PBoC net drained CNY 550bn of liquidity this month via MLF operations. With the 7-day reverse repo rate serving as the policy rate, the central bank is unlikely to adjust other market rates before a shift in the policy rate. Heading to December, another round of potential Required Reserves Ratio (RRR) cut is in discussion, given PBoC governor Pan's forward guidance on "finding an appropriate timing to cut RRR by 0.25 to 0.5ppt further by year-end". With the MLF outstanding remaining high at CNY 6239bn, the PBoC should have room to swap the medium-term liquidity with permanent liquidity via the RRR, which better matches with long-term bond issuances.

<PBoC maintained CNY fixing support>



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



(Sources: Bloomberg, Mizuho HK)

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If you have further questions on market information, please call Mizuho Bank East Asia Treasury Department Mr. Komatsu Mr. Ya mauchi, or Mr. Cheung. Tel: +852-2308-3352(HK)
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