

# Offshore Renminbi Weekly Report

<Forex> The PBoC set the CNY fixing steady below 7.19 level

<Interest Rates > The PBoC confirmed a significant scale-up of its 6-month CNH bill issuance

<Equity > Shanghai Composite struggled near 3,200 level

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (※)
USD/CNH	7.3617	7.3647	7.3132	7.3491	+88
USD/CNY	7.3175	7.3322	7.3119	7.3319	+325
CNY PBoC Fixing	7.1876	7.1891	7.1876	7.1891	+12
Shanghai Composite Index	3,209.78	3,246.29	3,175.73	3,198.83	-8

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change	HK Close	Weekly Change
CNH Forward (1yr)	-1,412	+10	CNH HIBOR (3mth)	3.50%
CNH Currency Swap (3yr)	1.97%	0.10 ppt	CNH Implied yield (1Y)	2.21%

## 【Weekly review and forecasts】

The CNH weakened further towards 7.36 level amid looming Trump's tariff threats. Media reported that Trump is considering declaring a national economic emergency to provide legal grounds for his universal tariff program. This headline reignited fears of immediate tariff implementation following Trump's inauguration on January 20. The firm USD also kept EM Asian currencies under pressure. To counter RMB depreciation pressure, the PBoC set the CNY fixing steady below 7.19 level, capping the CNY spot at the top of 2% trading band at 7.332 level. The CFETS RMB Index rallied to 102.1, the highest level since September 2022.

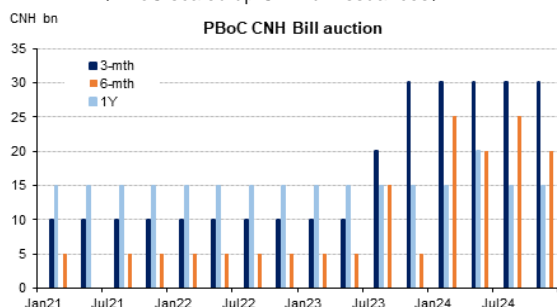
The PBoC confirmed a significant scale-up of its 6-month CNH bill issuance to CNH 60bn to tighten CNH liquidity conditions, compared with the prior issuance of CNH 20bn of 6-month bills on December 20. During the week, O/N CNH HIBOR hit its 3.5 year high of 8.1% before paring back to around 4%. Onshore China rates remained soft as subdued China CPI data reinforced expectations for PBoC's easing under the moderately loose policy. The 10Y CGB yield sank to its record low of 1.597%, leading to a UST-CGB yield widening. As a result, the PBoC announced that it would temporarily halt its buying of government bonds. This signaled that the government bond yields may be hitting PBoC's tolerance level. For open market operations, the PBoC net drained CNY 260 bn of liquidity throughout the week.

The RMB depreciation pressure is set to remain elevated before Trump provides clarity of tariff policies in his inauguration. In response, the PBoC will likely maintain its efforts to preserve FX stability. That says, the CNY fixing will hold steady to cap the CNY spot at the 2% upper trading band. On the interest rate side, the PBoC will refrain from implementing easing to support CGB yields, while keeping CNH liquidity condition tight via the CNH bill issuance. Datawise, Q4 GDP is expected to hit 5%, achieving the annual growth target in 2024. Retail sales for December will climb due to stimulus measures, but fixed assets investments will likely remain subdued before property market stabilizes.

## 【Data & Policy Updates】

China's CPI for December softened to 0.1% YoY as expected, down from the prior 0.2% YoY, while PPI deflation narrowed to -2.3% YoY (vs. -2.4% YoY expected) from the prior -2.5% YoY. In the breakdown of CPI, the category of "other items and services" continued to support inflation (+4.9% YoY), offsetting the decline in "transport and communication" (-2.2% YoY). Food prices reversed gains to losses, falling by 0.5% YoY. Despite the policy pivot on stimulus measures since September, inflation pressure remained low. Against this backdrop, the PBoC is set to ease further and keep onshore liquidity conditions reasonably ample.

<PBoC scaled up CNH bill issuances>



(Sources: Bloomberg, Mizuho HK)

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



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