

Offshore Renminbi Weekly Report

<Forex> CNH rebounded 7.25 level as Trump softened his tone on China tariffs

<Interest Rates > PBoC injected extra liquidity before Chinese New Year

<Equity > China regulators encourage long-term capital entry into A-share markets

Weekly Price Change	Week Open	Week High	Week Low	Week Close	Weekly change (※)
USD/CNH	7.3375	7.3387	7.2388	7.2486	-983
USD/CNY	7.3224	7.3239	7.2381	7.2479	-837
CNY PBoC Fixing	7.1886	7.1886	7.1696	7.1705	-176
Shanghai Composite Index	3,256.15	3,273.52	3,203.38	3,252.63	+8

※pips in USD/CNY,USD/CNH

Weekly Price Change	HK Close	Weekly Change	HK Close	Weekly Change
CNH Forward (1yr)	-1,520	-84	CNH HIBOR (3mth)	2.50%
CNH Currency Swap (3yr)	2.00%	0.05 ppt	CNH Implied yield (1yr)	2.01%

Weekly review and forecasts

The CNH spot rate strengthened significantly from 7.35 to around 7.24, its strongest level since late November, as US President Trump moved away from extreme tariff policies. During his inauguration, Trump refrained from announcing a broad and universal tariff plan. He later reiterated a 10% tariff threat on Chinese goods in response to the flow of fentanyl into the US but then stated he would rather not to impose tariffs on China. Overall, Trump's dovish comments suggested an avoidance of immediate tariff implementation on China, fueling optimism about potential China-US negotiations. On the other hand, China's pledge to expand imports hinted at narrowing its trade surplus and supporting domestic consumption, favoring trade talks and the continuation of China's pro-growth policies. New measures to encourage long-term capital entry into A-share markets had little impact on the RMB exchange rate.

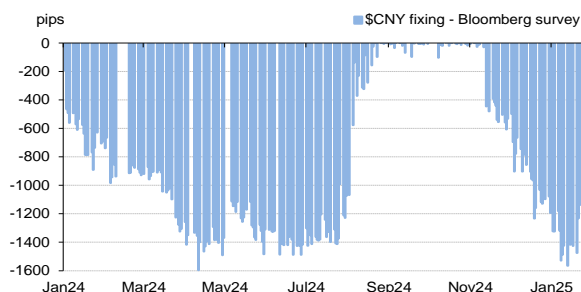
The PBoC injected extra liquidity in response to Chinese New Year demand, adding CNY 815.7 billion into the market. Onshore RMB liquidity conditions remained relatively tight, with the 7-day interbank repo rate staying above 2%. The PBoC also conducted a 1-year Medium Lending Facility (MLF) operation of CNY 200 billion at an unchanged 2%, net withdrawing CNY 795 billion of liquidity in the medium term. In the offshore RMB market, front-end CNH rates sank as CNH liquidity squeeze risks were contained amid a stabilizing RMB outlook. Overnight CNH HIBOR dropped to a 6-week low of 1.39%.

We expect the CNH to hold gains below the 7.3 level due to dwindling risks of extreme US tariff implementations. It appears that US tariff policies are subject to negotiations, with both China and the US leaving the door open for dialogue at this stage. Next week, the onshore CNY market will be closed for a week starting January 28, and CNH trading will likely remain choppy alongside Trump's headlines in the absence of CNY policy guidance. On the data front, China's PMIs for January are expected to remain above the 50 expansionary mark, given firmer growth figures in Q4 2024.

Data & Policy Updates

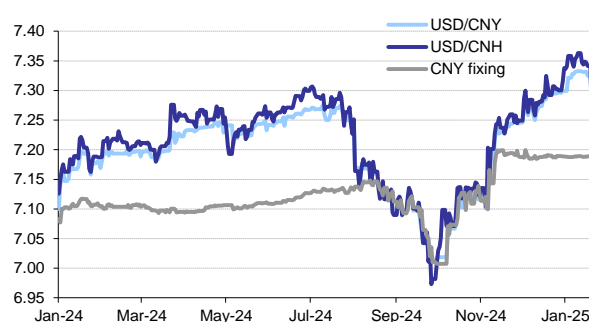
After digesting his fluid comments post-inauguration, Trump may shift his tactic from "tariffs first, negotiation later" to reopening trade negotiations directly. In his press conference, Trump avoided commenting on his tariff plan for China but mentioned upcoming meetings and calls with Chinese President Xi. This suggests that the Trump administration may not intend to start from scratch but may resume negotiations to make a phase two deal in the coming four years. The trade negotiation path and RMB movement could be significantly different from the initial trade war. Considering the unpredictability of Trump's policies, the Chinese government is sticking to its original plan to preserve FX stability and stimulate domestic consumption. The PBoC maintained its CNY fixing policy support. These developments could help alleviate fears of escalating China-US tensions and mitigate RMB depreciation risk in the near term.

<CNY fixing - survey gap narrowed>



(Sources: Bloomberg, Mizuho HK)

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



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