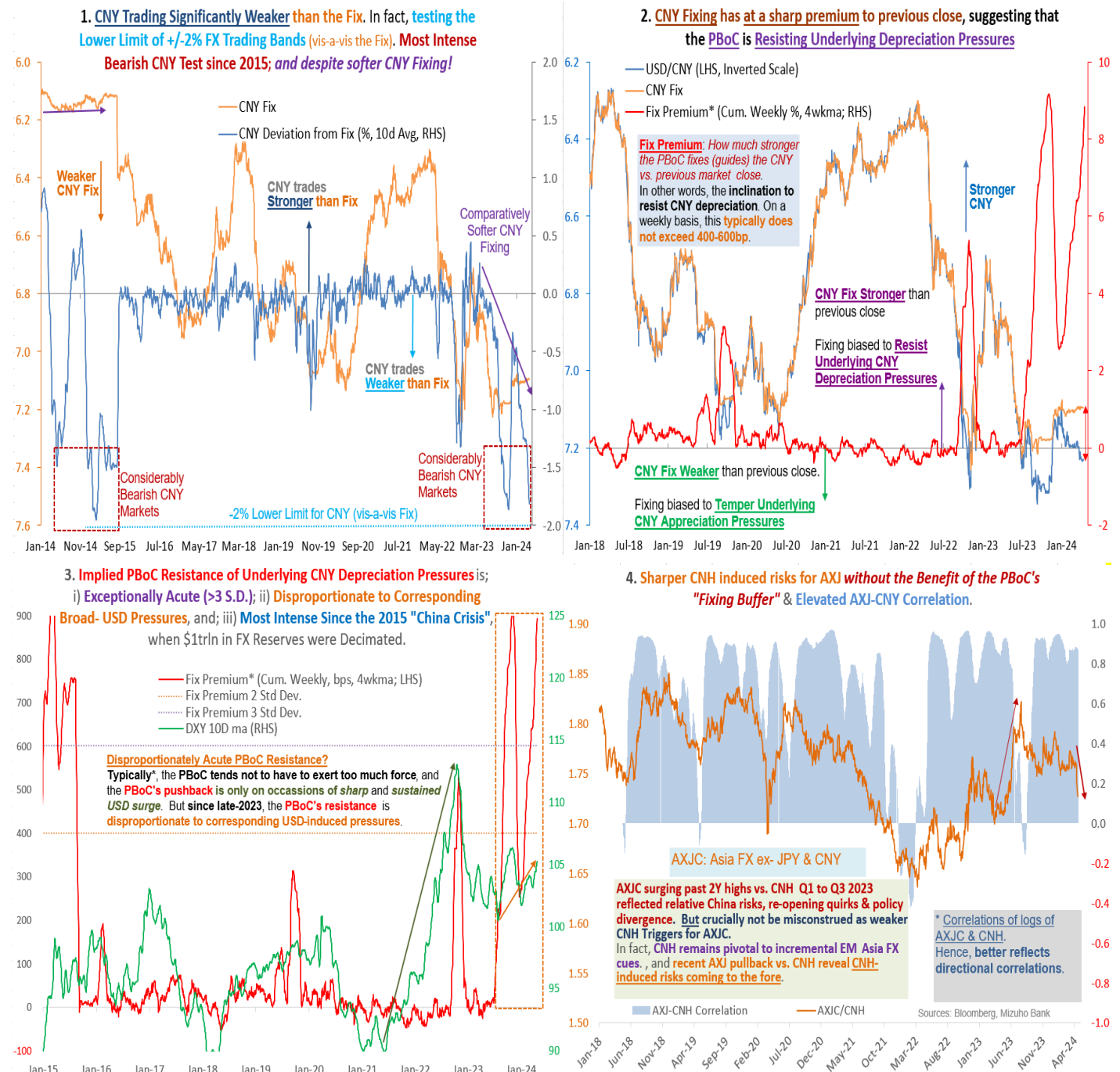


CNY Risks: Addressed, Not Acquitted



Sources: Bloomberg, Mizuho Bank

"I find your lack of faith disturbing." – **Darth Vader, Star Wars: (Ep. IV) A New Hope**

1. (CNY Bears) Challenging the PBoC Fix

- **No surprise that markets were unimpressed with China's Q1 GDP outrun**, despite the 5.3% YoY headline defying the consensus for a deceleration to 4.8% (from 5.2% in Q4). Point being, *demand soft spots under the hood* merely **validate pre-existing cynicism in persistent CNY pressures.**

- In fact, the **degree of China cynicism, expressed via the CNY, is exceptional. Not since the 2015 “China crisis”**, when ~\$1trln of FX reserves was decimated in resisting depreciation pressures, **have CNY bears defiantly tested the** (fix-implied +/-2%) **depreciation limits**.
- What’s more, **unrelenting bearish CNY pressures vis-à-vis the fixing, despite the PBoC relenting** (far more than it did in 2015) **with comparatively softer CNY guidance**, arguably **suggests even more cynicism about CNY** (and China prospects). *A disturbing lack of faith.*

2. PBoC’s Exceptional Resistance (of Underlying CNY Depreciation Pressures)

- Especially given **exceptional and sustained PBoC resistance to underlying CNY pressures; by way of considerably stronger CNY fixing vis-à-vis previous CNY close (fixing premium)**.
- And to be sure, the PBoC’s **fixing premium is unusually forceful, consistent with emphatic CNY backstop**, if not *appreciation guidance*. Notably, *with a cumulative 8-9% per week vs. prev close*, the **current fixing premium entails post-2015 record appreciation bias**.
- The fixing premium is **especially remarkable given the PBoC typically does not assert discernible and sustained bias** via the fixing mechanism (post-2015 and looking through the US-China trade war).

3. Acute & Disproportionate

- In fact, **PBoC’s resistance to CNY depreciation**, while *prone to be mistaken for a passive guidance*, is **in fact closer to disproportionately acute FX activism; albeit via less unconventional mechanism**.
- Fact is, **near-900bp per week of appreciation bias**, puts the **fixing premium well past three standard deviations (3 S.D.)** based on a decade of fixing track record. Such **acutely low statistical probability** (of less than 0.2%) reveals **forceful fixing premium** consistent with **intended and intense CNY support**.
- More so, as the **fixing premium is disproportionate to prevailing USD strength**; especially compared to far more brutal and unrelenting USD surge in 2022). So, **cover from identifiable and inherent CNY pressures, rather than unilateral USD strength** must be the PBoC’s motivation.

4. Of Faith & Fate

- But markets’ **“lack of faith” in the PBoC’s ability to decisively staunch CNY (CNH) pressures**, unimpressed with the central bank’s FX guidance exertions, suggests a **more uncertain and challenged fate for the CNY**, and by extension, other EM Asia FX (**AXJ**).
- Especially as the **promise of CNY and AXJ tailwinds** from *Fed pivot* coinciding with a *more sustained upturn in global manufacturing* is **compromised** by *elevated geo-political risks* (especially targeted at China) stressing CNY conspiring with *‘competitive pivot’* to underpin USD.
- In particular, given the **confluence of tight CNY(-AXJ) correlations** and **“disturbing”** persistence of CNY pressures (without the benefit of the PBoC’s “fixing” mechanism) set AXJ up for more persistent downside risks; even a global central banks are expected to transition to rate cuts.
- Meanwhile, this **ups the ante for EM Asia central banks to keep policy more restrictive** (than earlier intended) as Fed rate cuts are awaited; *to counter FX-/macro-stability risks amid CNY-drag forces*.

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