RMB extended its depreciation trend above 7 level but recouped some of its loss on reviving optimism over trade talks lately. The CNH spot tumbled as much as to its record low of 7.1926 before paring back to around 7.16. The CNY spot also printed its 11-year fresh low of 7.1736 level before settling at around 7.15 level. The development of China-US trade war remained the key driver of RMB market. Initially China’s retaliatory tariffs and Trump’s counter measure of additional 5ppt tariffs on all USD 550 Chinese goods heightened China-US tensions and sank the CNH to its record low. Afterwards Trump made a U-turn in his stance to China after the G7 Summit and said China made a phone call for resuming trade talks. Despite the denial from Ch inese Foreign Ministry, Chinese Vice Premier Liu He’s remark on solving the problem via calm negotiations and subsequent confirmation from Chinese Commerce M inistry on China-US conversation kept hopes for China-US trade talks in September alive. The steady CNY fixing capped below 7.09 also signaled PBoC’s intent to anchor RMB expectation at current level.

CNH liquidity condition remained tight, with O/N CNH HIBOR spiking to its 10 month high of 4.69%. Market chattered that onshore Chinese bond buying flow drained CNH liquidity, while it showed little sign of FX intervention. In the onshore RMB market, the PBoC net withdrew CNY 1 30bn of liquidity via the reverse repo operations. The PBoC also conducted Medium Lending Facility (MLF) of CNY 150bn (vs. CNY 149bn matured) while left the MLF yield unchanged at 3.3% after the Loan Prime Rate (LPR) reform. 7-day interbank repo rate held steady at around 2.7%.

The CNH is expected to range between 7.05 and 7.19 level in the coming week. The China-US trade talks in September will remain in focus. It appears that both sides have to suspend the tit-for-tat tariffs before resuming the trade talks. With Trump’s abrupt shift in his stance to China after G7 meeting and softer tone from Chinese officials, we held cautious optimism for the trade talks in September. This paves the way for the RMB rebo und after recent depreciation. Moreover, the steady CNY fixing pattern sent out PBoC’s policy signal to stabilize RMB at 7.1-7.2 range. Indeed, the one-way RMB depreciation expectation will do more harm than by disrupting ongoing capital inflow to China and PBoC will likely step up its measures to anchor RMB expectation.

China Industrial Profits for July climbed 2.6% YoY, reversing its prior 3.1% YoY fall. The improving profits in the Oil Processing, Electrical Equipment and Motor Vehicles industries contributed to the positive growth in industrial profits. The accelerating profit growth in consumer goods manufacturing and private enterprises highlighted that the tax cut and pro-consumption stimulus were materializing. Yet, the looming US tariffs escalation are likely to weigh on Industrial Profits going onwards.