<Forex> China and US left door opened for reaching a deal despite passing HK Democracy and Human Rights Act
<Interest Rates> PBoC lowered 1Y and 5Y LPR, confirming its easing bias
<Equity> Shanghai Composite remained capped below 3000 despite the weight increase in MSCI

## Weekly Price Change

<table>
<thead>
<tr>
<th></th>
<th>Week Open</th>
<th>Week High</th>
<th>Week Low</th>
<th>Week Close</th>
<th>Weekly change(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD/CNH</td>
<td>7.0633</td>
<td>7.0535</td>
<td>7.0056</td>
<td>7.0435</td>
<td>+371</td>
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<tr>
<td>USD/CNY</td>
<td>7.0119</td>
<td>7.0478</td>
<td>7.0075</td>
<td>7.0391</td>
<td>+297</td>
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<td>PBOC Fixing</td>
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<td>7.0306</td>
<td>7.0030</td>
<td>7.0306</td>
<td>+215</td>
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<tr>
<td>Shanghai Composite Index</td>
<td>2.8895</td>
<td>2.9339</td>
<td>2.8739</td>
<td>2.8852</td>
<td>-24</td>
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</tbody>
</table>

CNH spot drifted lower to above 7.04 level as the passing of HK Democracy and Human Rights Acts in the US Congress fueled uncertainties over reaching the trade deal. The bill would force the Trump administration review HK special status annually and the Chinese government condemned the move as the US’s interference in China’s internal affairs. Yet, comments from China and US leaders kept the trade deal hopes alive. Chinese Vice Premier Liu He said he was cautious optimistic on the trade talks, and President Xi said China wanted to make a deal with the US. In addition to the comments, China’s government stepped up its measures to protect intellectual property over the weekend. Meanwhile, Trump noted that they have a ‘very good chance to make a deal. CNH spot pared back part of its loss to mid-7.03 level.

The PBoC lowered the 1Y Loan Prime Rate (LPR) by 5bps as expected after the previous 1Y Medium Lending Facility (MLF) yield cut. The 5bps cut in 5Y LPR to 4.80% was a bit surprising given the property market tightening bias. The PBoC also net injected CNY 300bn of liquidity via the reverse repo operations over the week. In the offshore RMB market, front-end CNH rates spiked on the implementation of A-share weight increase in the MSCI.

The CNH is expected to range between 6.98 and 7.06 level in the coming week. Investors continued to gauge the possibility of Xi-Trump meeting to sign the phase one deal based on the recent trade talks headlines. While Chinese and US leaders are leaving the door opened for the deal, both sides have not made up their mind to seal the deal. According to the media reports, the obstacles to the phase one deal are among the issues on cancellation of existing tariffs, China’s agricultural purchase target, China’s intellectual property rights protections and forced technology transfer. It seems that China has been pushing forward the reforms on the IP rights protections proactively to strike the deal, while the bargain in the tariffs can be made via exchange for the numerical China’s agricultural purchase target remains in progress. After all, deteriorating US and China growth momentum are pushing both sides to make a trade deal, in our view. Trump also came under political pressure to consolidate his support from US farming states for re-election campaign amid the impeachment inquiry. Despite uncertainties over the Hong Kong Democracy and Human Rights Act, we still reckon that both sides will make an agreement to avert the full-blown trade war.

### [Last week’s review and forecasts]

The PBoC’s Q3 Monetary Policy Report shed light on the central bank’s monetary policy stance. Notably, the PBoC replaced the phrase “controlling the gate of money supply” into “adjusting the gate”. In the preview of next step monetary policy, the PBoC also noted that it would enhance the counter-cyclical adjustment (vs. ‘appropriately’ previously) and keep the liquidity condition reasonably ample and maintain the reasonable growth of social financing, while dropping out the phrase of “reasonably stabilizing the market interest rate”. While the PBoC said it would keep the monetary policy prudent based on China’s macro dynamics, the report marked its tone of marginal easing bias. Moreover, the PBoC explained that the surging CPI inflation to 3.8% YoY in October was structurally driven by soaring food prices. While the food price driven CPI inflation should not restrain the monetary easing substantially, the PBoC said it would stay vigilant in the diffusion of inflation expectation.

### [Data & Policy Updates]

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### <PBoC lowered LPRs after cut in MLF yields>

(Sources: Bloomberg, Mizuho HK)

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