<Forex>  RMB extended its decline to 7.05 on concern over virus impact and USD strength

<Interest Rates>  PBoC cut the 1Y LPR by 10bps as expected

<Equity>  Shanghai Composite recovered to above 3,000 level as China stepped its stimulus

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

The CNH spot extended its decline and dropped as much as to its 3-month low of 7.0548 level. The giant US tech consumer corporate’s profit warning fueled concern over virus impact on the global economy. Despite the slower pace of virus contagion in China, the RMB fell in tandem with other EM Asian peers in the midst of USD strength. Meanwhile, the PBoC set the CNY fixing weaker beyond 7 handle for the first time since 25 December, showing that the central bank is comfortable with the recent RMB weakness. The PBoC’s rate cut also kept the RMB on the back foot. As a whole, the simulated CFETS RMB basket index climbed to 93.1, reflecting RMB’s resilience to the USD strength comparing to other currencies.

The PBoC cut the 1Y and 5Y Loan Prime Rate (LPR) by 10bps and 5bps to 4.05% and 4.75%, respectively. The LPRs cut was in line with expectation after the 10bps cut in Medium Lending Facility (MLF) yield earlier this week. To recap, the PBoC conducted the 1Y MLF of CNY 200bn and lowered the MLF yield by 10bps to 3.15%. The PBoC net drained CNY 500bn of liquidity via the reverse repo given the adequate liquidity condition. In the offshore RMB market, Overnight CNH HIBOR climbed to 2.67% from 2.16% last Friday, while 3Y CNH IRS (3yr) by 10bps to 3.15%. The PBoC net drained CNY 500bn of liquidity via the reverse repo given the adequate liquidity condition. In the offshore RMB market, Overnight CNH HIBOR climbed to 2.67% from 2.16% last Friday, while 3Y CNH-CCS extended its decline to 2.34% along with the falling global rates.

The CNH is expected to range between 7.00 and 7.06 in the coming week. RMB risks remain skewed to the downside given in creasing concern over virus impact on China & Asian region and the USD strength. While market attention has been turning to the slow return to work places and the negative impact from the coronavirus spread, the RMB turned insensitive to the decline in new infected case in China. Yet, we reckon that the RMB will find some support at 7.05/7.06 area as China’s proactive fiscal stimulus helped alleviate concern over slowing China growth. The PBoC may start to stabilize RMB sentiment to uphold the currency pact signed in the phase one deal as well.

**[Data & Policy Updates]**

China credit expansion for January accelerated at a faster pace than expected. New loan growth and aggregate finance surged CNY 3340bn (vs. +CNY 3100bn expected) and surged CNY 5070bn (vs. +CNY 4200bn expected), respectively, on the seasonal factor and PBoC’s easing bias. However, China money supply M2 growth unexpectedly moderated to 8.4% YoY (vs. +8.6% YoY expected). China credit expansion accelerated in January at a faster pace than expected. New loan growth and aggregate finance surged CNY 3340bn (vs. +CNY 3100bn expected) and surged CNY 5070bn (vs. +CNY 4200bn expected), respectively, on the seasonal factor and PBoC’s easing bias. However, China money supply M2 growth unexpectedly moderated to 8.4% YoY (vs. +8.6% YoY expected). Looking ahead, the stronger PBoC’s easing bias on coronavirus outbreak (10bps rate cut took place in reverse repo yields, MLF yields and 1Y LPR), loosening credit restrictions and active bond financing (through local government bonds for special projects to boost infrastructural investment) will point to faster credit expansion in coming months.

**<China credit expansion accelerated in January>**

[(Sources: Bloomberg, Mizuho HK)](https://www.bloomberg.com)

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