**Offshore Renminbi Weekly Report**

**28-Feb-20**

**<Forex>** RMB recovered to near 7 handle as market was re-pricing the risk of pandemic  
**<Interest Rates>** PBoC pledged to cut RRR in appropriate time  
**<Equity>** Shanghai Composite dipped to 2880 along with global equities sell-off

<table>
<thead>
<tr>
<th>Weekly Price Change</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>7.0376</td>
<td>7.0565</td>
<td>6.9907</td>
<td>6.9910</td>
<td>-456</td>
</tr>
<tr>
<td>USD/CNY</td>
<td>7.0396</td>
<td>7.0414</td>
<td>6.9875</td>
<td>6.9875</td>
<td>-396</td>
</tr>
<tr>
<td>PBOC Fixing</td>
<td>7.0246</td>
<td>7.0246</td>
<td>7.0066</td>
<td>7.0066</td>
<td>-144</td>
</tr>
<tr>
<td>Shanghai Composite Index</td>
<td>3.027.89</td>
<td>3.042.18</td>
<td>2.878.54</td>
<td>2.880.30</td>
<td>-151</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Weekly Price Change</th>
<th>HK Close</th>
<th>Weekly Change</th>
<th>HK Close</th>
<th>Weekly Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>CNH Forward (1yr)</td>
<td>675</td>
<td>+27</td>
<td>CNH HIBOR (3mth)</td>
<td>2.96%</td>
</tr>
<tr>
<td>CNH Currency Swap (3yr)</td>
<td>2.07%</td>
<td>-2.75 ppt</td>
<td>CNH IRS (3yr)</td>
<td>3.60%</td>
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</table>

### Last week's review and forecasts

The CNH spot recovered to 7.00 over the week as the pace of coronavirus spread was slowing down in China in contrast to the rapid contagion outside China. Indeed, the new infected cases in China have been falling to below 1000 since 19 February and the new cases outside China surpassed new cases in China most of the time this week. With mounting fears of pandemic, investors saw no rush to repatriate their capital out of China market. The RMB was actually outperforming its trading partners across the board, with the simulated CFETS RMB basket index picking up to the high heat since 21 January. China's stimulus program also fueled optimism over China recovery after Q1 as well. The State Council meeting pledged that it would offer a fiercer funding to support agricultural sector and small-and-micro enterprises, while lowered the valued-added taxes in different provinces, especially Hubei province. Yet, China stock markets fell along with global equities sell-off, with Shanghai Composite down to 2880 level. There was net capital outflow from A-share market via Stock Connect.

Offshore RMB rates slid amid mounting expectation for global easing. Overnight CNH HIBOR sank to 2.12% and 3Y CNH-CCS tumbled to its 5.5 year low of 2.19%. As CNY liquidity conditions remained largely ample, the PBoC skipped the opened market operations, net draining CNY 11 20bn of liquidity over the week. 7-day CNY interbank repo rate dropped to 2% before picking up to 2.3%. On the policy front, PBoC Deputy Governor Liu said the central bank would ensure liquidity through targeted reserve requirement ratio (RRR) cuts in appropriate time. He also added that China would keep the macro leverage ratio and prices stable.

The CNH is expected to range between 6.96 and 7.05 in the coming week. It appears that the heavy-handed disease control measures in China had been yielding fruits in containing the coronavirus spread. Given the decline on the new infected cases in China and resumption of public transport in low infection risk areas, the return to work is expected to remain on track. Conversely, the coronavirus spread had been just accelerating in the rest of the world. Given the decline on the new inflected cases in China and resumption of public transport in low infection risk areas, the return to work is expected to remain on track. Conversely, the coronavirus spread had been just accelerating in the rest of the world.

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### Data & Policy Updates

According to the State Council meeting, the PBoC will offer CNY 500bn of lending to support small and micro enterprises and lower the interest rate of the funding to support agricultural sector and small enterprises by 25bps to 2.5%. The central bank also encouraged banks to offer a tender of liquidity over theweek. 7-day CNY interbank repo rate dropped to 2% before picking up to 2.3%. On the policy front, PBoC Deputy Governor Liu said the central bank would ensure liquidity through targeted reserve requirement ratio (RRR) cuts in appropriate time. He also added that China would keep the macro leverage ratio and prices stable.

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### Financial Markets

- **Equity:** Shanghai Composite Index dropped to 2880 level. There was net capital outflow from A-share market via Stock Connect.
- **FX:** Offshore RMB rates slid amid mounting expectation for global easing. Overnight CNH HIBOR sank to 2.12% and 3Y CNH-CCS tumbled to its 5.5 year low of 2.19%.

### Last Week's Review

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### Next Week's Outlook

- **Equity:** Shanghai Composite is expected to range between 6.96 and 7.05 in the coming week.
- **FX:** The CNH is expected to range between 6.96 and 7.05 in the coming week.

### Sources

- Bloomberg
- Mizuho HK

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