### Last week’s review and forecasts

The RMB weakened to beyond 7 handle amid the EM Asia currencies rout, with CNH hitting its 3-week low of 7.0521 level. Global market fell into a crisis mode as US equities experienced the worst day since 1987 due to the disappointing US and Europe governments’ measures to contain virus impact. Alongside the plummeting crude oil prices, the mounting risk aversion sparked USD funding squeeze and USD panic buying, and the USD strength sank the CNH lately. Foreign investors also trimmed their exposure on China stock market, with A-share market recording CNY 41.8bn of capital outflow via Stock Connect over the week. Yet, the epidemic control has been improving in China while the WHO declared the coronavirus spread as the pandemic. Symbolically, Chinese President Xi visited the epic centre of Wuhan city for the first time since the outbreak, reflecting leaders’ confidence that China virus spread has been under control.

While USD funding stress was in concern, onshore RMB liquidity condition remained amply over the week. 7-day interbank repo rate was hovering around 2%. The PBoC skipped the reverse repo operation, keep liquidity injection neutral. In the meantime, the PBoC delivered the targeted Reserve Requirements Ratio (RRR) cut for financial institutions, with 1ppt extra cut for joint-stock banks. The PBoC’s easing was previewed by Premier Li’s remark at the State Council meeting and was widely expected. Offshore RMB liquidity condition was flush as global central banks were ready to ease further. 3Y CNH CCS rate slid to its 6-year low of 1.78%.

The CNH is expected to range between 6.95 and 7.05 in the coming week. Taking account into the development of virus spread and RMB’s favourable yield differential, we expect the RMB to regain its footing around 7 level. Indeed, China is relatively in a good shape for containing the virus spread. New infected cases in China have been declining to below 100 for 7 straight days while the return to work and production is underway. Despite the very likely collapse in Q1 GDP growth, the China growth picture throughout the year should be less uncertain than Europe and US at this stage. There will be more data release for February to assess the virus impact on China. China retail sales for first two months are likely to drop on the slump in auto sales and the collapse in consumption due to the lockdown policy. With the temporary shutdown in factories in most of cities in February, industrial production and fixed asset investment are expected to shrink as well. On the policy front, the PBoC is likely to lower 1Y Loan Prime Rate (LPR) by another 10bps to 3.95% amid the global easing trend. Yet, the pace of easing was lagging behind most of major central banks, which should lead to a turn in the RMB supportive.

### Data & Policy Updates

China aggregate financing and new loan growth decelerated more than expected to CNY 855.4bn (vs. CNY 1585.5bn expected) and CNY 1120bn expected, respectively. This reflected the subdued credit demand even after the PBoC’s rate cut and the launch of re-lending fund to provide cheap credit to small-and-micro enterprises. Most importantly, the primary tasks for PBoC this year will be offering enough liquidity to help virus hit enterprises survive and avoiding massive business shutdown.

### China aggregate financing decelerate sharply

![China aggregate financing decelerate sharply](image1)

(Sources: Bloomberg, Mizuho HK)

### USD/CNY, USD/CNH vs. USD/CNY fixing

![USD/CNY, USD/CNH vs. USD/CNY fixing](image2)