The CNH ranged between 7.08 and 7.10 most of the time in the week. The RMB market lacked clear direction in the absence of key data releases and updates on the National People Congress (NPC). The USD consolidation above 100 level also offered few new catalysts in the RMB market. While the historic crude oil price crash to the negative territory kept sentiment on edge, the oil shock to the RMB market was largely limited. On the policy front, the Politburo Standing Committee meeting called for a stronger macro policy adjustment to counter virus impact, with more proactive fiscal policy, higher budget deficit and issuance of counter-virus special government bond, while stabilizing employment will remain the primary task.

As expected, the PBoC cut the 1Y and 5Y Loan Prime Rate (LPR) by 20bps and 10bps to 4.65% and 3.85%, respectively, following the cut in Medium Lending Facility (MLF) yield. The renewed rate cut cycle indicated that the PBoC had stepped up its easing bias to support growth. Additionally the PBoC conducted the 1Y Targeted MLF (TMLF) of CNY 56.1bn, while the roll-over was partial to the matured TMLF of CNY 267.4bn given flush CNY liquidity condition in the onshore RMB market. Interestingly, the 1Y MLF yield had been dropping equivalent to the 1Y TMLF yield of 2.95% amid the PBoC’s easing cycle. This suggested that the relending and rediscounting program established after the coronavirus outbreak helped shared the burden of targeted lending support to small and micro enterprises, and the TMLF operation is likely to turn less frequent going onwards. Offshore RMB liquidity condition tightened slightly, with 1Y CNH-CCS picking up to near 1.5%.

The CNH is expected to range between 7.04 and 7.12 in the coming week. China PMIs for April will be of interest in the calendar to assess the recovery in Q2. The return to work in China has been making progress while the global lockdown pointed to the extremely tough external sector in April. Along with the delayed fiscal stimulus, the U-shaped recovery is more likely than the V-shaped recovery for China economy throughout this year. With the domestic trading turning quiet before Labour Day holiday, USD will be the key FX driver in the near term and any upside breakthrough of USD index could push the CNH to retest the year-to-date low of 7.1272 level.

【Last week’s review and forecasts】

The Politburo Standing Committee meeting for 17 April called for stronger stimulus to propel growth and signaled stronger stimulus compared to the previous meeting due on 27 March. First, the meeting stressed on the stronger macro policy adjustment (vs. “increase macro policy adjustment” in March) to counter virus impact and raising budget deficit (vs. “appropriately raise budget deficit” in March). The meeting also added more specific features on the stimulus tools, with the issuance of “counter-virus” special government bond and highlighted the monetary easing tools of “Required Reserves Ratio (RRR) cut, rate cut, re-lending facility”. Second, the meeting emphasized the priority of stabilizing employment. In addition to the 6 stability tasks (stabilizing employment, finance, foreign trade, foreign investment, investment, expectation), the meeting introduced the tasks of 6 protections: protecting the resident employment, basic livings, market mechanism, food and energy safety, supply-chain stability and lower class operations. In our interpretation, stabilizing and protecting employment is the primary concern on the task list and the government will embolden its effort to support labour market.