<Forex> CNH fell back on USD rebound and risk-off mode

<Interest Rates> PBoC delayed the MLF operation to mid-June

<Equity> Shanghai Composite fluctuated at around 2900 level

Weekly Price Change

<table>
<thead>
<tr>
<th>Currency Pair</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>7.0693</td>
<td>7.0918</td>
<td>7.0401</td>
<td>7.0716</td>
<td>+11</td>
</tr>
<tr>
<td>USD/CNY</td>
<td>7.0833</td>
<td>7.0908</td>
<td>7.0560</td>
<td>7.0747</td>
<td>-87</td>
</tr>
<tr>
<td>CNH PBoC Fixing</td>
<td>7.0882</td>
<td>7.0882</td>
<td>7.0608</td>
<td>7.0865</td>
<td>-100</td>
</tr>
<tr>
<td>Shanghai Composite</td>
<td>2,941.98</td>
<td>2,957.12</td>
<td>2,872.62</td>
<td>2,919.74</td>
<td>-18</td>
</tr>
</tbody>
</table>

【Last week's review and forecasts】

The CNH rallied to its 2-month fresh high of 7.0401 but fell back to near 7.07 level. Risk sentiment turned around to negative side lately on the re-pricing of second wave of infection risk and the grim US growth outlook after the dovish FOMC meeting. The CNH pulled back alongside the EM Asian FX sell-off and USD rebound. The RMB Index kept its high correlation with the USD Index, sliding to near its year-to-date low amid the USD sell-off. China-US tensions remained elevated, with US Vice President Pence's comment that US would stand strong against China on the trade and virus spread. Yet, his comment was largely muted by the RMB market. On the data front, China CPI inflation moderated to 2.4%YoY (vs. 2.7%YoY expected) from prior 3.3%YoY on falling food prices. PPI deflation deepened to -3.7%YoY (vs. -3.3%YoY expected), highlighting subdued industrial demand after the pandemic hit. The new re-lending facilities and local government bond issuances continued to fuel credit expansion. Money supply M2 growth remained high at +11.1%YoY (vs. +11.3%YoY expected). Aggregate financing increased to CNY 3190bn (vs. +CNY 3100bn expected) while new loan growth eased mildly to +CNY 1480bn (vs. +CNY 1600bn expected).

The PBoC-Fed monetary policy divergence remained in play. While the Fed vowed to maintain its QE at least at the current pace, the PBoC was focusing on the targeted easing. The PBoC skipped the Medium Lending Facility (MLF) rollover while previewed another round of MLF in mid-June. The PBoC also net injected CNY 200bn of liquidity via the reverse repo operations over the week. 7-day interbank repo rate picked up to near 2%. In the offshore RMB market, 1Y CNH forward points climbed to above +1200 points, sending 3Y CNH to 1.9%.

The CNH is expected to range between 7.05 and 7.12 in the coming week. With the CNH falling to break the 7.04 resistance level, the risk is now skewed to downside near 7.1 handle amid the resurfacing risk-off tone and USD rebound. The elevated China-US tensions could spark the RMB sell-off again when the Beijing government pushed forward the legislation of a National Security law for HK, which will probably trigger Trump's strong responses to HK. Yet, Trump will refrain from resuming the trade war given the unsentling mass protest and increasing risk of second wave of infection, in our view. There are several China data to digest in the calendar. Retail sales for May are expected to improve further on the holiday sale and the lift of social distancing measures. Industrial production for May will probably return to normal level before the coronavirus outbreak. Fixed assets investment will likely remain soft as it will take time for the business confidence to recover given mounting uncertainties over the virus spread and China-US tensions. Overall, the recovery of China economy remained on track, while a V-shaped recovery is unlikely in the absence of China's massive stimulus.

【Data & Policy Updates】

Both China CPI and PPI for May surprised to the downside. CPI inflation moderated to 2.4%YoY (vs. 2.7%YoY expected) from prior 3.3%YoY on falling food prices. With the return to work and production on track, demand and supply dynamic for food was normalizing. This highlighted the delivery of 6 protection tasks especially for the protection of basic livelihood, food and energy safety and industry supply chain stability. Overall, the CPI inflation fell below the 3.5% target, offering more policy flexibility to the PBoC’s easing. More worriedly, PPI deflation deepened to -3.7%YoY (vs. -3.3%YoY expected). That says, industrial demand remained subdued after the pandemic hit and it would take longer time for the manufacturing production to return to normal before the coronavirus outbreak.

【Offshore Renminbi Weekly Report】

12-Jun-20

East Asia Treasury Department

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Forex

Interest Rates

Equity

Shanghai Composite Index

CNY PBoC Fixing

CNH IRS (3yr)

CNH HIBOR (3mth)

Weekly Price Change

<table>
<thead>
<tr>
<th>Currency Pair</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>1.224</td>
<td>+24</td>
<td>2.49%</td>
<td>-2.82 ppt</td>
</tr>
<tr>
<td>CNH Currency Swap (3yr)</td>
<td>1.92%</td>
<td>0.20 ppt</td>
<td>3.60%</td>
<td>+0.00 ppt</td>
</tr>
</tbody>
</table>

(※pips in USD/CNY,USD/CNH

China CPI and PPI moderated as virus impact eased

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

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<USD/CNY, USD/CNH vs. USD/CNY fixing>