**Week High**

- **USD/CNH**: 7.0877
- **USD/CNY**: 7.0880
- **CNY PBoC Fixing**: 7.0902
- **Shanghai Composite Index**: 2,908.28

**Week Close**

- **USD/CNH**: 7.0974
- **USD/CNY**: 7.0982
- **CNY PBoC Fixing**: 7.0913
- **Shanghai Composite Index**: 2,973.32

**Weekly Change**

- **USD/CNH**: +0.00 ppt
- **USD/CNY**: +0.75 ppt
- **CNY PBoC Fixing**: +48
- **Shanghai Composite Index**: +78

---

### Last week’s review and forecasts

The CNH spot ranged between 7.06 and 7.09 most of the time over the week. The CNH halted its recent rally amid growing concern over second wave of infection following the resurgence of infected cases in Beijing. In addition, the elevated China-US tensions kept the CNH under pressure. The China-US meeting led by US Secretary of State Pompeo and Chinese top diplomat Yang Jiechi in Hawaii ended with a constructive dialogue but no breakthrough was made. In the wake of the meeting, Trump said that a complete decoupling from China remained an option, while media reported that China planned to accelerate its US agricultural purchase to honor the phase one deal. The stabilizing USD from the steep decline also weighed on the RMB. China hard data for May came in softer than expected, pouring cold water on expectation for a fast recovery after the pandemic hit. Declines for retail sales and fixed asset investment YTD narrowed to -2.8%YoY (vs. -2.3%YoY expected) and -6.3%YoY (vs. -6.0%YoY expected), respectively. Industrial production improved to +4.4%YoY (vs. +5.0%YoY expected).

The PBoC’s resumption of 14-day reverse repo operation and China State Council meeting revived the easing expectation somewhat. The PBoC conducted the 14-day reverse repo operation for the first time since mid-February and lowered the yield by 20bps to 2.35% as a catch-up cut for the 7-day reverse repo yield in late March. Interestingly, the 14-day reverse repo might aim to cover the liquidity drainage due to the issuance of China special government bond (the first CNY 100bn issuance will be listed and traded on 23 June). Over the week, the PBoC net drained CNY 120bn of liquidity via the open market operations, and 1-day interbank repo rate climbed to above 2.1%. In the meantime, the State Council meeting stressed to drive loan rate and bond yield lower as well as keep market liquidity condition reasonably ample via the Required Reserves Ratio (RRR) cut and re-lending facility. Notably, the guidance to transfer CNY 1.5tn profit from the finance system to corporate reopened the door for the Loan Prime Rate (LPR) cut on 22 despite the status quo in MLF yield. In the offshore RMB market, Overnight CNH Hibor was fluctuating at around 2% while 3Y CNH-CCS pared back its earlier gains to around 1.9%.

The CNH is expected to range between 7.04 and 7.10 in the coming week. The China-US meeting in Hawaii was rather mixed while the rumour of China’s plan to accelerate US farm purchase bodies well on the implementation of phase one deal. However, China is unlikely to roll back the legislation of a national security law for HK, with details on the law legislation and Trump’s responses in focus. The PBoC had opened the door for a LPR cut on Monday. The guidance to transfer banks’ profitability to corporate will pressure banks to lower LPRs when the MLF remained unchanged. The broadly PBoC’s prudent monetary policy vs. Fed’s dovish stance should keep the RMB exchange rate supportive. After all, the stabilizing USD Index will leave the RMB largely ranged-bounded.

### Data & Policy Updates

Decline for retail sales narrowed to -2.8%YoY (vs. -2.3%YoY expected) from prior -7.5%YoY. The favourable policy measures and improving property sector drove automobile (+3.5%YoY) and home appliance (+4.3%YoY) higher and the outstanding size of commodity sales (excluding dining services) had been picking up to the pre-pandemic level. Fixed assets investment year-to-date improved further to -6.3%YoY (vs. -6.0%YoY expected) from prior -10.3%YoY but remained subdued comparing to around +5.0%YoY in 2019. This suggested more policy stimuli were needed to boost business confidence to counter uncertainties over the pandemic and China-US tensions. Industrial production climbed +4.4%YoY (vs. +5.0%YoY expected) from prior +3.9%YoY.

---

### Auto boosted China retail sales

<Automobile boosted China retail sales>

(Companies: Bloomberg, Mizuho HK)

---

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

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

(Companies: Bloomberg, Mizuho HK)