Today’s USDCNY Fixing Rate is set at 7.1323, down 23 pips from yesterday. USDCNY Spot opened at 7.2128, lower than the 16:30 PM close of last day. Yesterday, the DXY dropped sharply lower due to the FOMC meeting, causing the USDCNY to move lower during the overnight session. Today's early session opened lower, but was followed by a quick rise of about 200 pips over the next half hour. thereafter the USDCNY remained flat until after 14:00 PM, when the USDCNY went into another quick upward swing. As of 16:30 PM, it was up about 150 pips in the afternoon and closed at 7.2446, up 185 pips from yesterday.

In swaps, excluding the effect of accrual periods, the largest increase from yesterday's ave-daily pts was ON, but this was mainly due to yesterday’s tight dollar funding as it was the last day of July. Ave-daily pts for TN/SN/1W all rose, indicating that dollar funding is no longer tight, but ave-daily pts for 1M were down. The change in swap points for other maturities was small.

Today's appreciation of the CNY was influenced by the rebound in the DXY after yesterday's plunge, but also by today's foreign exchange purchases by PetroChina and the recent dividend payout by CCB. Both the DXY and dollar yield fell sharply after yesterday's FOMC meeting, which also had an impact on the Yen and CNH during the overnight session. The market is currently pricing in 86.5% probability of a 25bp rate cut in September and over 50% probability of more than 5 rate cuts (25bp each) by the end of January next year. With respect to yesterday's FOMC meeting, we think Powell was generally neutral rather than dovish, but it is clear that the market reacted optimistically to it. We believe there is now a possibility that the market is over-trading rate cuts and is currently underpricing 6M USD rates. Strategically, therefore, we may choose to trade swaps at around 6M tenors. In addition, we have not changed our fundamental view on RMB depreciation in the medium to long term, but may appropriately reduce our short RMB position to hedge our risk ahead of important data or events that may impact the USD (e.g., tomorrow night's non-farm payrolls).

The CGB and CDB markets saw bullishness today. Yields fell across all maturities, with the larger reductions mainly in the 5-10 year. Specifically, as of 17:30 pm, the 30y CGB 240004 yield was down 2.75bp to 2.1200, the 10y CGB 240004 yield was down 2.75bp to 2.1200, the 7y CGB 240013 was down 3.25bp to 1.9575, and the 5y CGB yield was down 3.50 to 1.8200. Except for a brief bounce in yields between 2:30 PM and 3:30 PM, the rest of the session was very smooth on the downside. The yield of 10y CDB 240210 broke below 2.20% for the first time downwards, touching 2.2150%. the spread between 10Y CDB and CGB bonds was -7.25BP, widening from yesterday's spread.

The Chian CAIXIN Manufacturing PMI for July was released at 9:45am today, lowering to 49.8, the first time since November 2023 that it has been below the glory line. Over the past few months, there has been a divergence between the official PMI and the CAIXIN PMI, with the latter showing a more optimistic picture of Chinese economic.