Today’s USDCNY Fixing Rate is set at 7.1376, up 53 pips from yesterday. USDCNY Spot opened at 7.2445, almost unchanged from the 16:30 PM close of last day, after a stable night session. However, after the open, the USDCNY was in a downtrend for almost the entire day. It fell at a faster pace during midday, dropping about 370 pips between 12:00 am and 14:00 am, before rebounding slightly to around 7.2170. Today’s close at 16:30 was 7.2150, down almost 300 pips yesterday.

In swaps, excluding the effect of accrual periods, the swap points for less than 1 week increased, influenced by yesterday's sharp reduction in the SOFR OIS rate. The points evenly amortized to single day increased by 0.59 pips for ON, 0.33 pips for TN, and 0.27 pips for SN. While for 1M, it decreased slightly by 0.19 pips. Longer maturity swap points were little changed.

We believe today's CNY appreciation was mainly driven by the massive unwinding of CNY short positions in the offshore market. Due to the release of the US July non-farm payrolls data tonight, the market is concerned that the jobs data MISS and could lead to a significant weakening of the DXY. After yesterday's USDCNY drop, we noticed that some trade has started to buy the dip. However, concerns over the NFP data still caused a large number of short positions to take profit and leave the market early. We think it makes sense to tactically reduce long USDCNY positions or hedge by selling the USD basket. We think that if tonight's non-farm NFP data is missing, then the market could see an greater overpricing of lower SOFR OIS rates.

The CGB and CDB markets experienced some twists and turns today, but ultimately ended on a bullish move. CGB yields declined across all maturities, with the 30-year yield declining the most and 10y yield declining the least. Specifically, the 30y CGB 200023 yield dropped 1.25 bp to 2.3400, the 10y CGB 240004 yield dropped 0.10 bp to 2.1190, and the 7y CGB 240006 yield dropped 0.50 bp to 1.9475. The long-term yields declined rapidly during the early trading session. The yields of 10y CGB 240004 and 30y CGB 230023 hit low of 2.1100 and 2.3325 respectively around 11:30 am. influenced by market rumors, the yields then rallied and turned sharply upwards, with the 10y rallying more than the 30y, erasing all of the early morning decline. Around 14:30 pm, the market reversed again and the yield curve shifted back down.

Today's midday rally in CGB yields was largely influenced by some market rumors, including 1) higher fiscal deficit and additional issuance of special bonds, and 2) the possibility of the PBoC intervening in long-term rates by selling bonds next week. For the former, we find it less credible. For the latter, we have learnt that three agent bank of PBoC (ICBC, PSBC, CITIC Bank) and one joint stock bank (Minsheng Bank) have been selling long-term bonds this week, which could be related to the PBoC’s guidance. The main buyers of these sellers are insurance institutions. In addition, we think the market has been very cautious about the PBoC's intervention as evidenced by the market's midday reaction. The yield curve has moved down faster than we expected this week and we think it is now on the edge of danger.

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