

China – RMB Outlook

- CNY fixing rate would be a signal if set weaker than 7.2
- Devaluation is not an option with lessons learnt in 2015
- Expect PBoC to guide RMB weaker as tariffs take shape

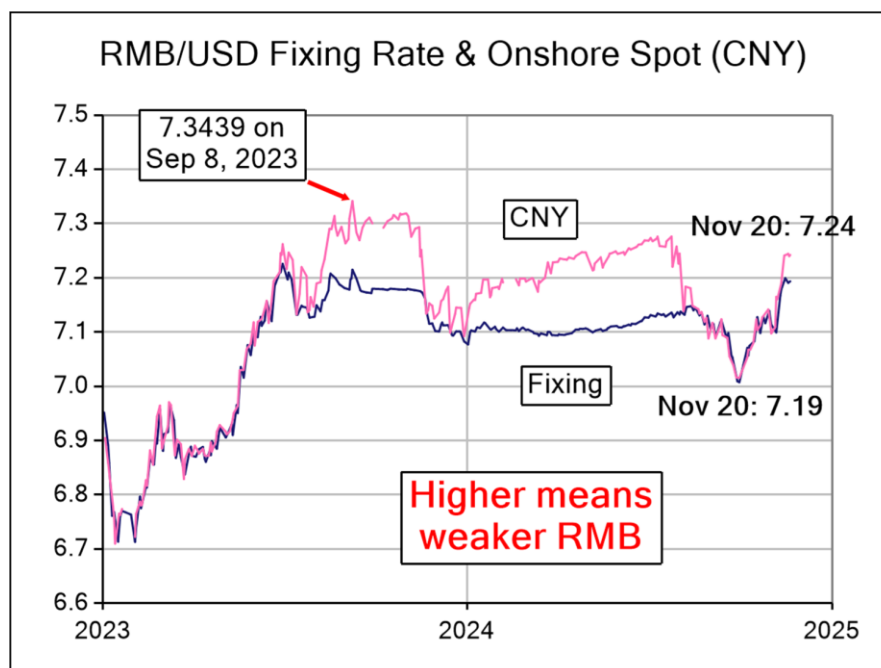
Beijing kept setting the fixing rate of RMB vs. USD on the strong side of 7.2/USD despite strength of the dollar index.

With the trading band for onshore rate (CNY) limited to 2% on each side of fixing rate, above indicates 7.3440/USD in theory is the limit of Beijing's comfort zone for now.

Interestingly, the 16-year low of CNY was 7.3439/USD on Sep 8, 2023, only 1 pip away from 7.3440, when fixing rate was set at 7.2150/USD.

Coincidence or not aside, if PBoC sets the fixing rate of RMB weaker than 7.2/USD, we would take it as a signal that Beijing is OK with RMB weakening further onshore and even past its 16-year low.

This would be the key to watch in the coming weeks, especially if the dollar index continue to rise.



We expect Beijing to guide RMB weaker vs. the USD as Trump's tariffs take shape. By "guide," we also expect Beijing to not tolerate too fast depreciation which could be self-reinforcing.

Options to smooth the path include tweaking the fixing rate, intervention via state-owned banks, RMB liquidity squeeze in Hong Kong, etc.

We don't expect an abrupt RMB devaluation like the one in Aug 2015. Costs far exceed the benefits based on that hard lesson, and it would give Washington a reason to label China as a currency manipulator.

For Beijing, given its track record, the only way to restore confidence or raise predictability is to refrain from doing silly things in the eyes of market.

Assuming Trump raises average tariff rate on all imports from China to 30% starting Mar or Apr next year, we expect RMB to weaken to about 7.5/USD by end of 2Q25.

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