

CNY: Second-guessing the PBOC proves a challenge

Friday's move in USD/CNY raised speculation that the PBOC was preparing to allow a new period of weakness for the renminbi. Today's market activity suggests otherwise



Friday's CNY move gets partially unwound

Last Friday saw significant movement in the USD/CNH pair after the People's Bank of China raised its USD/CNY fixing by the largest amount since the start of the year, allowing for the USD/CNY onshore pair to trade through 7.20 for the first time since November. Markets speculated that this was a key moment indicating that the PBOC was finally willing to let the RMB weaken after ramping up the use of the counter-cyclical factor (the level to which they push back against depreciation) since the start of the year.

Factors supporting the idea of the PBOC tolerating a weaker renminbi included an overall weakening of Asian currencies and speculation that China's priority on market stabilisation around the Two Sessions period was over. As the CNY has recently been mostly trading on the weak-side limit of the USD/CNY fixing, less PBOC pushback would translate to a weaker RMB, given the current macroeconomic backdrop and capital flow situation. As a result, the CNH on Friday moved to the weakest level since November 2023 as investors positioned for this.

However, it appeared that offshore markets may have jumped the gun a little, as the PBOC pushed back against depreciation on Monday with a lower USD/CNY fixing. USD/CNH dropped sharply from around 7.28 before the fixing to just below 7.24 - but is starting to creep higher again. We believe that though short-term factors do favour a slightly weaker RMB, any depreciation that we get will be gradual and controlled. The Two Sessions indicated a priority to “stabilise the RMB at a reasonable and balanced level.” Barring a shift in policy priorities, we believe the 7.34 level for the USD/CNY from 2023 is unlikely to be breached this year.

Dollar bears dodge a bullet

Speculation on Friday that the PBOC was allowing another discrete leg lower in the renminbi undermined emerging currencies across the board and reversed the dollar sell-off caused by Chair Powell's dovish testimony last Wednesday evening. Asian currencies have typically underperformed this year, and the fear was that a new leg lower in this bloc would see the dollar bid across the board. Today's activity from the PBOC has put that CNY depreciation genie partially back in the bottle - although investors will want to see whether the USDS/CNY fixings now continue to come in below 7.10 and whether USD/CNY can return below 7.20 again.

Should fears of a softer renminbi re-emerge for whatever reason over the coming weeks, in the G10 space year-to-date correlations suggest the Australian and New Zealand dollars would be most vulnerable. In the emerging currency space, the Singapore dollar is mechanically at risk by the nature of its basket arrangement, while South Africa's rand would typically be an under-performer too.

Authors

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom

this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.