

Yuan to keep weakening despite forex RRR cut

The People's Bank of China cut the required reserve ratio of foreign currency deposits that banks need to keep at the central bank. In theory, this should stem the yuan's weakening trend. In practice, it should have little impact



Cutting FX RRR won't strengthen yuan

The PBoC cut the forex RRR again this year - this time to 6% from 8% effective 15 September 2022. The policy comes as the yuan has weakened to around 6.95 for USD/CNY and USD/CNH.

We believe that this RRR cut will not change the yuan weakening trend. This is because this round of yuan weakness comes from a strong US dollar and the expectation of more Federal Reserve hikes at the coming meetings. Moreover, the previous FX RRR cut did not have any long-lasting impact at all. Our USD/CNY forecast is 7.05 by the end of 3Q22.

Less aggressive rate hike talk in the market nearer the end of the year might help the yuan to strengthen slightly. As such, we expect USD/CNY to fall to 6.85 by the end of the year. If the Fed maintains its very hawkish tone for policy in 2023 then we may need to revise the USD/CNY forecast to a weaker yuan.