

FX Viewpoint Flash

Currencies
Global

RMB slides to a one-year low

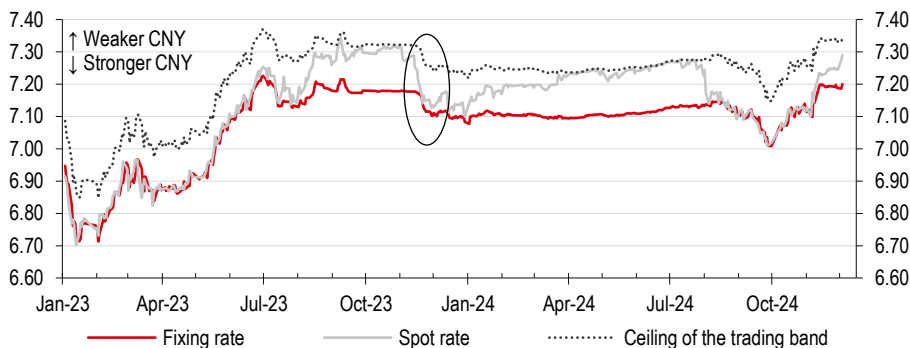
- ◆ The RMB weakened to a one-year low on a higher USD-CNY fixing rate and lower Chinese bond yields
- ◆ It is worth monitoring whether the fixing rate will go beyond 7.20, should broad USD strength continue
- ◆ Markets will also focus on the upcoming Politburo meeting and the Central Economic Work Conference

The RMB slid to a one-year low today (3 December) after the following developments:

- ◆ **Higher USD-CNY fixing rate:** The USD-CNY fixing rate was set at 7.1996, the highest rate since September 2023 (see chart below).
- ◆ **Lower Chinese bond yields:** The Chinese 10-year government bond yield briefly broke the widely watched support level of 2% to hit a record low (*Bloomberg*, 3 December 2024), while the **People's Bank of China (PBoC)** Governor Pan Gongsheng **pledged to increase counter-cyclical regulation to reduce overall financing costs in 2025** (*Bloomberg*, 2 December 2024).

The RMB dropped to a one-year low on a higher USD-CNY fixing rate and lower Chinese bond yields

USD-CNY: Fixing rate vs spot rate



Source: Bloomberg, HSBC

However, we think it is **too early to conclude that the PBoC is ready to tolerate further RMB weakness**. The fixing rate is still below the 7.20 mark, which puts the ceiling of the USD-CNY trading band below 7.35. Back in 2023, the fixing rate was around 7.20 for a sustained period of time, with only brief breakthroughs in June and August and a peak at 7.2258 on 30 June (see chart above). Therefore, **it is worth monitoring whether the USD-CNY fixing rate will go beyond 7.20 in the coming days, should broad USD strength continue**.

Will the USD-CNY fixing rate go beyond 7.20 if broad USD strength continues?

Over the near term, markets will also focus on **potential policy announcements at the Politburo's meeting on economic work and the annual agenda-setting Central Economic Work Conference**. These are expected to be held around mid-December, with the exact dates yet to be announced. Last year, the Politburo meeting was on 8 December, followed by a work conference on 11-12 December.

The upcoming meetings may offer some clues regarding China's stimulus plan

As we approach the end of 2024, we also need to be mindful that **the spread between the spot USD-CNY closing rate (16:30 local time) and the daily fixing date may narrow**. It happened in 2023, with the spread narrowing quickly in December (as highlighted by the oval in the chart above) against the backdrop of the PBoC's policy guidance, a weaker USD, and thin market liquidity during the holidays.

The PBoC's policy guidance and market seasonality could play a role in driving the RMB into the year end

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