China: PBOC reiterated its measured easing stance at Q2 MPC meeting; Governor Pan unveiled package to support CNH market in Hong Kong

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Bottom line:

The PBOC held its Q2 MPC meeting on July 4th and the statement was released on July 8th. Compared with the Q1 MPC meeting minutes, the central bank appears to have acknowledged softer economic momentum, especially weak domestic demand and more bifurcated growth. That said, the statement points to limited appetite for near-term broad-based monetary easing, and we maintain our baseline of no policy rate or RRR cuts in 2026. In our view, near-term policy support is more likely to more likely to come through faster fiscal policy implementation, ample interbank liquidity and targeted credit easing. Separately, Governor Pan Gongsheng announced a package of measures to support Hong Kong's CNH market. In our view, the package aims to improve CNH liquidity and strengthen the market infrastructure, which should help provide more stable and lower-cost CNH funding over time, while improving the market depth of CNH fixed income and FX products.

Main points:

1. At the Q2 Monetary Policy Committee (MPC) meeting, the PBOC reiterated a measured easing stance. Compared with the Q1 MPC meeting minutes, the central bank appears to have acknowledged softer economic momentum. The statement changed the description of domestic growth from "*overall stable and improving*" (总体平稳、稳中有进) to "*overall stable, moving toward new and high-quality growth drivers*" (总体平稳、向新向优). In addition, the newly added reference to "*structural divergence*" among domestic challenges suggests clearer recognition of more bifurcated growth with weakening domestic demand. That said, the statement did not hint at an imminent easing push. The removal of the phrase "*using various tools to strengthen monetary policy support*" (综合运用多种工具，加强货币政策调控) suggests limited appetite for broad-based monetary policy easing in the near term. In our view, the near-term policy response is more likely to come through faster fiscal policy implementation, ample interbank liquidity and targeted credit easing. We maintain our baseline of no policy rate or RRR cuts in 2026.

2. Separately, Governor Pan announced a package of measures to support Hong Kong's CNH market on July 7th. We group the measures into two categories.

- Liquidity-enhancing measures include the expansion of Southbound Bond Connect (e.g., an increase in the annual quota from RMB500bn to RMB800bn) and the upgrade of the HKMA's RMB Business Facility for trade credit financing (e.g., an increase in the size from RMB200bn to RMB500bn). The HKMA also plans to explore new tools, including a 7-day offshore RMB liquidity tender facility to support banks' short-term RMB funding needs and CNH short-term

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debt instruments to build out a more liquid CNH yield curve.

- Market-infrastructure measures include efforts to develop a fixed-income and currency trading platform in Hong Kong[1], roll out offshore CGB futures, broaden the use of RMB bonds as eligible collateral, extend Northbound Bond Connect settlement hours, and add FDR007-linked contracts under Swap Connect. The package also seeks to deepen and broaden the CNH product universe through continued issuance of offshore PBOC bills and larger offshore CGB issuance, while signaling future policy support for more RMB-denominated commodity products, the development of Hong Kong gold market, and mainland-HK gold market connectivity.

Together with the earlier launch of cross-boundary bond repo, the new measures could support more stable and lower-cost CNH funding over time, and improve the liquidity of CNH products. This reinforces our earlier view that the next phase of RMB internationalization is likely to be offshore-led and Hong Kong-centered, with deeper CNH liquidity and stronger market infrastructure helping RMB usage expand from trade settlement toward investment and financing.

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[1] The proposed platform could help introduce central-counterparty, shifting parts of CNH trading toward more centralized and standardized structure.

