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China: PBoC warned against "herding behaviour" in FX markets

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The PBoC's monetary policy committee (MPC) recently met and released its Q3 MPC statement yesterday. The statement dropped the "cross-cyclical adjustment" phrase, while calling for "strengthening counter-cyclical adjustment", echoing the *July Politburo meeting*, which had also dropped the "cross-cyclical" phrase and first signaled a shift in Beijing's policy stance. This delicate removal points to a more determined effort to provide growth support amid worsening data on domestic capex and retail sales. Despite this change, we maintain our view that neither a policy rate nor an RRR cut are likely to be delivered before end-2026. In the near term, we expect policy banks to play a larger role in deploying the planned RMB800bn in "new policy financing tool" to provide seed capital for infrastructure investment. Faced with a sustained weakness in domestic demand, the PBoC, in its Q3 MPC statement, warned against a too fast RMB appreciation due to "herding behaviour".

We maintain our view of no policy rate or RRR cut by end-2026

The statement made no new characterisation of its interest rate and RRR policies. Instead, it replaced the Q2 language on strengthening policy-rate guidance with a broader commitment to advancing operational framework reform, while the objective for overall financing costs remains that "they operate at low levels" rather than decline further.

We maintain our view that neither a policy rate nor an RRR cut are likely to be delivered by end-2026. In addition to domestic constraints – including bank's thin net interest margins and the need to strengthen banks' capital (the latest special CGB issuance for re-capitalisation of state-own financial institutions) – recent rate hikes across major developed economies, including the US, are shrinking the space for PBoC rate cuts.

"Six networks" programme and the policy-based financing tool

Compared with the Q2 statement, the "six networks" programme newly enters the priority areas for structural monetary policy support, consistent with the recent policy actions from other ministries of the State Council, including the NDRC. The RMB800bn new policy-based financing instruments, initially approved by the NPC in March, finally started to gain some momentum in early September, with the China Development Bank and the Export-Import Bank of China approving more than RMB60bn and RMB22bn, respectively, of quota so far. We believe the "six networks" programme is one of the key areas for the distribution of these fund quotas. Should the funds be spent in a timely manner, we could see some rebound in credit and FAI growth in Q4.

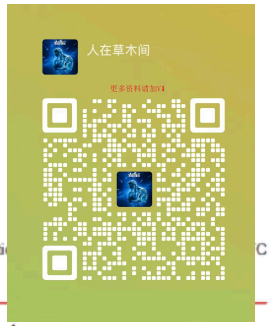
The risk of "herding behaviour" in FX markets was raised

Compared to Q2, the Q3 MPC statement warned against "herding behaviour" and the self-reinforcement of irrational expectations in the market. Similar comments were also made by Deputy Governor Lu Lei at the PBoC press conference on 10 September. At that press conference, Lu repeated that China has no necessity or intention to seek a competitive trade advantage via currency devaluation. Interestingly, Lu also highlighted that the sensitivity of trade to FX movements has decreased significantly in recent years, due to the upgrade of export product structure, greater pricing power, wider use of hedging tools and a higher share of RMB in trade settlement.

The path of RMB in the past year and a half

At the height of trade war in early April 2025, USD/CNY surged and briefly touched 7.4. That peak was short-lived, however. By May 2025, as the conflict began to de-escalate, USD/CNY quickly retreated to 7.2 and remained confined to a relatively narrow band of 7.1-7.2 for the following six months to November.

The yuan's appreciation against the dollar accelerated in late November 2025, as the release of October trade data pointed to an annual trade surplus of more than USD1trn, marking the first time in history a nation has achieved such a large surplus, and the US



and China agreed to a one-year truce. Over a three-month span, USD/CNY dropped markedly from around 7.1 at end-November to 6.8 by end-February.

This swift appreciation soon raised official concerns. On 27 February 2026, the PBoC announced a *cut* to the risk reserve requirement on financial institutions' FX forward sales to 0% from 20%. With the US-Iran war starting soon thereafter and a few more policy efforts to slow RMB appreciation (in *March* and *April*), USD/CNY was pushed back up to 6.9 for a time.

Then, following President Trump's state visit to China in mid-May, USD/CNY once again settled near 6.8. Most recently, with President Xi Jinping's reciprocal state visit to the US, USD/CNY has fallen further to around 6.7.

So far this year, the onshore yuan has appreciated 4.1% against the U.S. dollar, following a 4.4% gain last year. RMB's value against its trade-weighted basket has risen by 4.6% thus far this year, following a 3.4% decline last year.

Fig. 1: RMB against the USD and the basket



Source: Wind, Nomura Global Economics.

Fig. 2: NEER vs REER



Source: BIS, Wind, Nomura Global Economics.