China FX/Rates Monitor: Measured Easing, Resilient CNY and Low Rates

Xinquan Chen
+852-2978-2418 |
xinquan.chen@gs.com
Goldman Sachs (Asia) L.L.C.

Danny Suwanapruti
+65-6889-1987 |
danny.suwanapruti@gs.com
Goldman Sachs (Singapore) Pte

Our monitor tracks the latest developments and identifies key indicators for China FX and rates, including valuations/policy stance, technicals, flows, and fundamentals. Below we summarize our key takeaways on the China FX and rates markets.

- **Pressure to meet the full-year growth target has prompted measured easing.** Despite resilient industrial production and exports, domestic demand has continued to weaken, with retail sales growth slowing to 0.4% yoy in August and year-to-date fixed asset investment declining 7.2% yoy. Although September PMIs improved across the board, our GDP nowcasting model tracks Q3 real GDP growth at 4.2% yoy, below our 4.4% forecast. The prospect of a second consecutive quarter of growth below 4.5% yoy has increased pressure on policymakers to achieve the full-year growth target of 4.5–5.0%, as reflected in the late-September State Council meeting. Against this backdrop, policymakers announced a new round of measured easing, including a 25bp PSL rate cut, RMB700bn in additional targeted relending quotas and mortgage interest subsidies. On October 9, the MOF announced the use of RMB550bn in unused local government debt quotas, compared with RMB500bn in 2025 and RMB400bn in 2024. While these measures should help the government reach its full-year growth target, local government financing constraints and weak investment incentives could continue to weigh on policy implementation. Investors also have low expectations for the scale and effectiveness of further easing, particularly in boosting consumption, given policymakers' continued focus on high-tech industries and investment. Looking ahead, we expect faster fiscal implementation to support a modest sequential growth pickup in Q4, while targeted credit easing is likely to remain the preferred monetary policy tool rather than policy rate or RRR cuts. We maintain our full-year GDP growth forecast at 4.5%, the lower bound of the government's target range.
- **CNY appreciation continues despite renewed Dollar strength, while the PBOC seeks to moderate its pace.** USD/CNY declined from around 6.79 at end-June to 6.70 at end-September, representing a 1.2% appreciation in Q3, while the CFETS RMB index rose 0.6%. The RMB remained resilient despite a 2% rebound in DXY in September and a 50bp widening in the 2y US-China IRS differential in Q3. In our view, sizeable FX inflows have continued to support RMB appreciation despite unfavorable interest rate differentials, as strong export receipts and increased exporter FX conversions have outweighed portfolio outflows. Our estimated FX conversion ratio rose to 63% in August, compared with around 45% in normal years, likely reflecting a shift in market expectations

Investors should consider this report as only a single factor in making their investment decision. For Reg AC certification and other important disclosures, see the Disclosure Appendix, or go to www.gs.com/research/hedge.html.

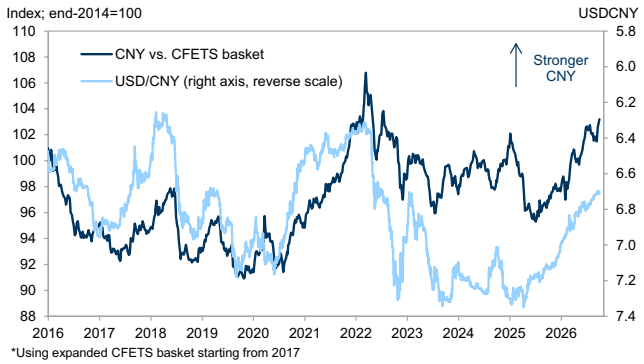
from RMB depreciation to appreciation. Meanwhile, the PBOC appears to favor gradual appreciation while seeking to prevent one-way expectations, as reflected in its Q3 MPC statement and recent daily fixings. On October 8, the PBOC defended its FX policy amid growing international criticism over RMB undervaluation and China's large trade surplus. Looking ahead, potential US-China meetings around the APEC and G20 summits, alongside seasonal year-end exporter conversions, could increase appreciation pressure and lead to faster RMB gains than policymakers would prefer.

- **Stable funding rates and declining long-end yields have flattened the CGB curve.** Despite weaker domestic growth and recent policy easing measures, we continue to expect no policy rate cuts for the remainder of this year, partly reflecting narrow bank net interest margins. Instead, the PBOC has maintained ample interbank liquidity through various tools, including outright reverse repos and overnight open market operations. DR001 and DR007 remained remarkably stable throughout Q3, generally trading slightly below the 1.40% policy rate. Even quarter-end liquidity demand caused little disruption, helping anchor front-end bond yields and IRS rates. Further out the curve, 10-year and 30-year CGB yields declined from 1.73% and 2.24% at end-June to 1.68% and 2.10% at end-September, respectively, flattening the 10s30s slope from 51bp to 42bp. Slowing growth momentum, weak underlying inflation pressures and decelerating credit growth have continued to support long-end bonds. Looking ahead, we expect funding rates to remain stable and see further room for long-end yields to decline, given limited prospects for a meaningful recovery in domestic demand and demand-driven reflation. While overall government bond supply is likely to remain sizeable in Q4, ultra-long CGB issuance is expected to moderate from Q3 levels. The 2027 ultra-long CGB issuance outlook could be more important for the 10s30s curve, given strong investor interest in further declines in 30y yields.

Foreign Exchange

1. Valuations and policy stance

Exhibit 1: CNY continued to appreciate against both USD and the CFETS basket in Q3



Source: Bloomberg, Wind

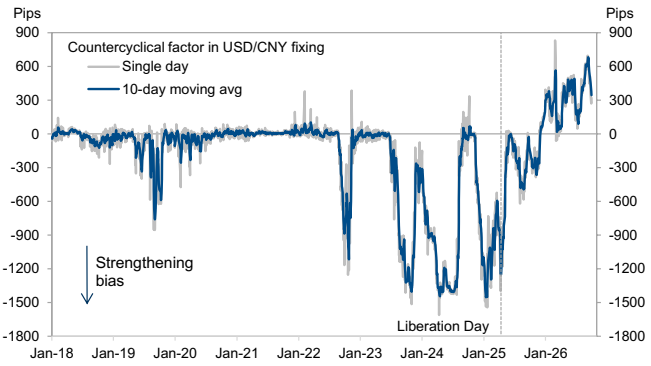
Exhibit 2: USD/CNH spot hovered around 6.70 in September despite a stronger Dollar



DXY: US Dollar Index, which measures the value of the US Dollar vs. a basket of currencies.

Source: Bloomberg

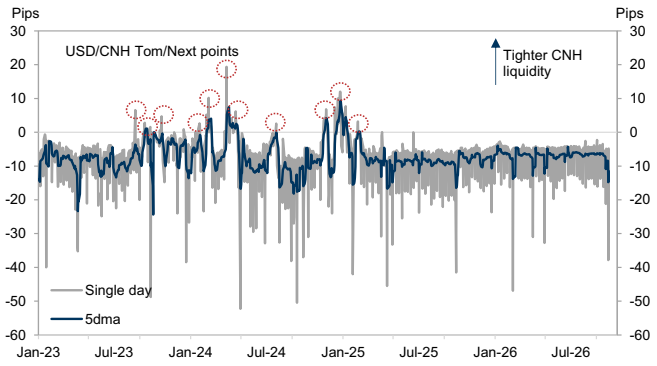
Exhibit 3: Countercyclical factor narrowed to around +300pips in late September



We measure the countercyclical factor by calculating the difference between the official daily CNY fixing and our estimation of the fixing based on official documents of CNY fixing mechanism.

Source: Bloomberg, Data compiled by Goldman Sachs Global Investment Research

Exhibit 4: USD/CNH Tom/Next points declined on Golden Week calendar effect

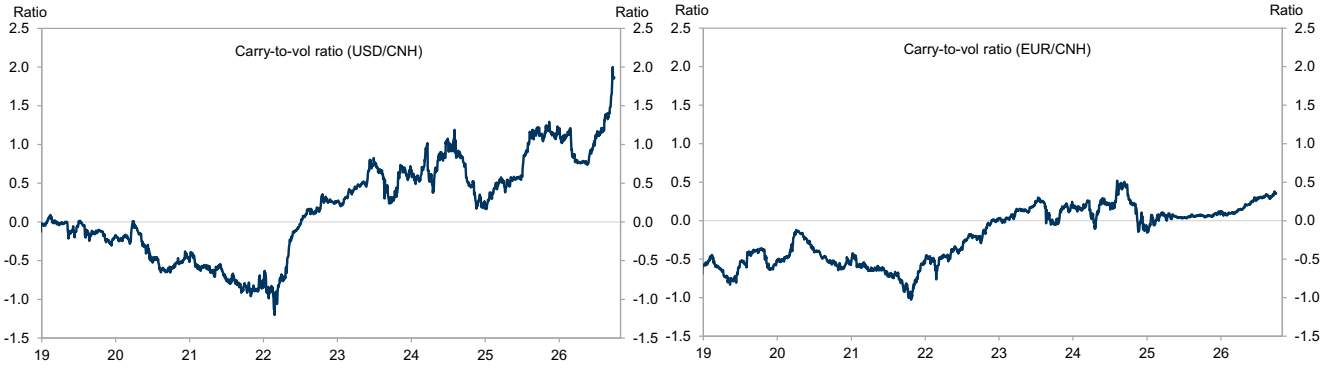


Tom/Next (Tomorrow next) is a short-term FX swap allowing investors to roll over their spot position. Positive (negative) Tom/Next points mean negative (positive) carry returns of long USD short CNH. Red circles indicate the timing of front-end CNH liquidity shortage (potential CNH liquidity management by the authorities).

Source: Bloomberg, Data compiled by Goldman Sachs Global Investment Research

2. Technicals

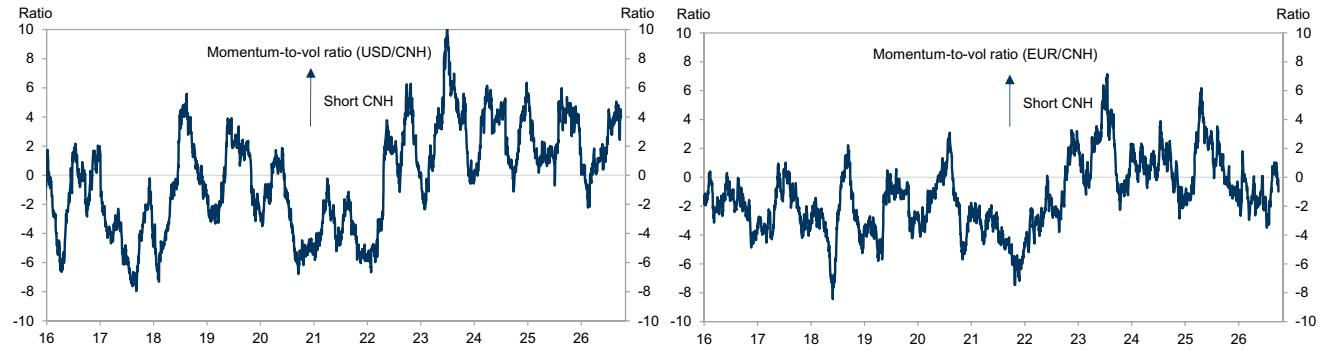
Exhibit 5: Carry-to-vol ratio for USD/CNH rose notably in Q3



Carry is defined as annualized carry returns of 3m USD/CNH / EUR/CNH forward, and volatility refers to 3-month rolling realized volatility of FX total returns.

Source: Bloomberg, Goldman Sachs Global Investment Research

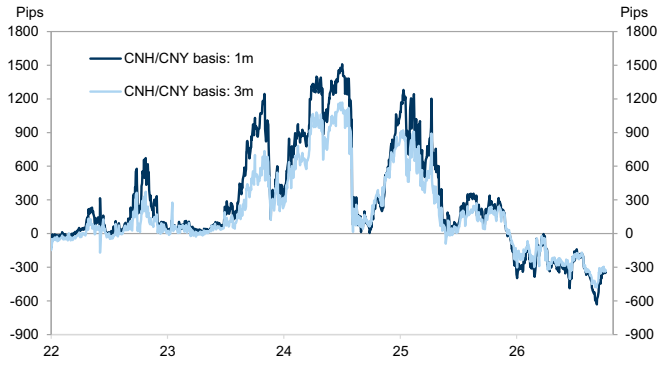
Exhibit 6: Momentum to buy USD and sell CNH rose in Q3



Momentum is defined as 3-month cumulative FX total returns, and volatility refers to 3-month rolling realized volatility of FX total returns.

Source: Bloomberg, Goldman Sachs Global Investment Research

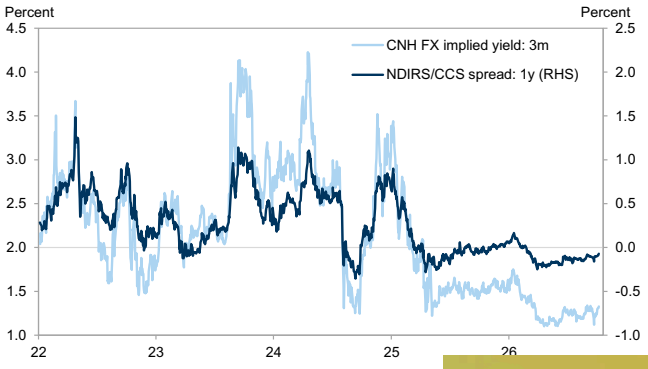
Exhibit 7: CNH/CNY basis narrowed to around -300pips in late September



CNH/CNY basis is defined as the difference between deliverable forward of USD/CNH and non-deliverable forward of USD/CNY.

Source: Bloomberg, Goldman Sachs Global Investment Research

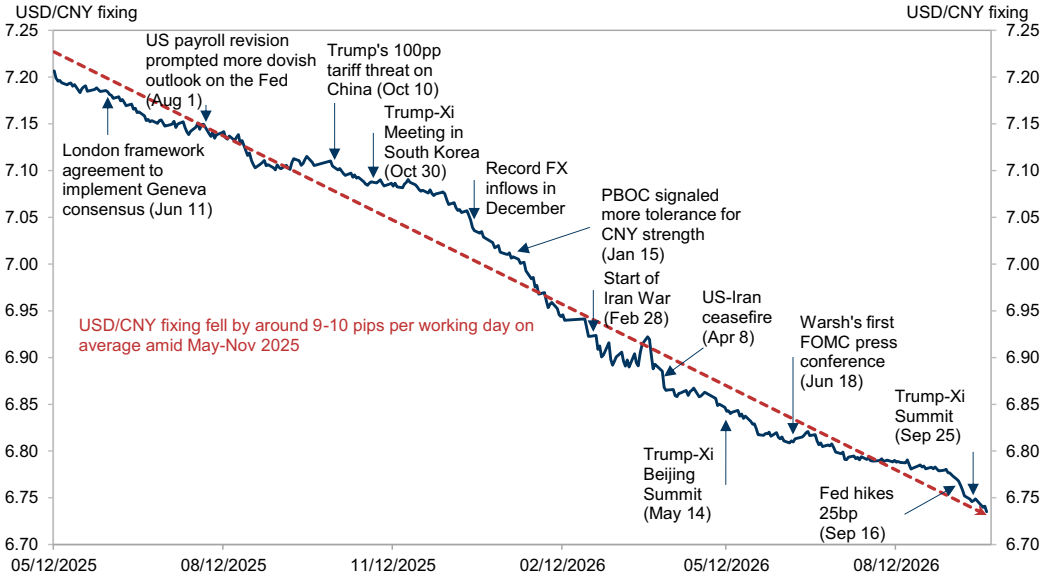
Exhibit 8: Cross-currency swap rate remained below NDIRS rate in Q3



NDIRS/CCS spread: CNH cross-currency swap rate minu
interest rate swap rate.

Source: Bloomberg, Goldman Sachs Global Investment

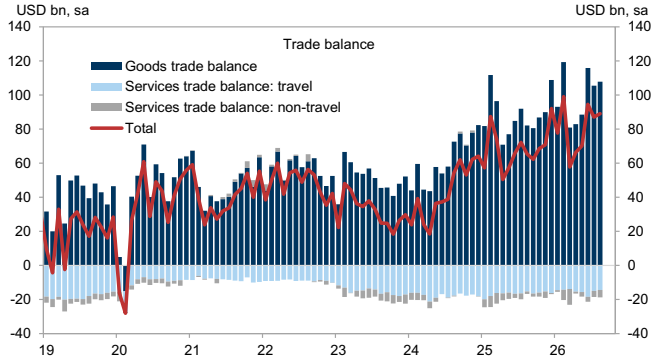
Exhibit 9: USD/CNY fixing continued to decline in Q3



Source: PBOC, Data compiled by Goldman Sachs Global Investment Research

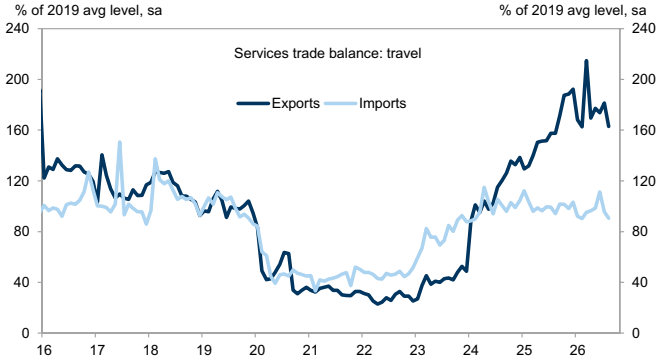
3. Fundamentals

Exhibit 10: China's trade balance remained large over the past few months, as goods trade balance widened



Source: Haver Analytics, Goldman Sachs Global Investment Research

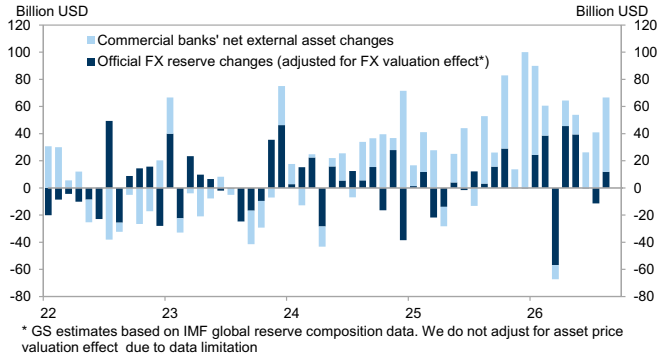
Exhibit 11: China's travel exports stood at about 163% of 2019 levels in August 2026, and travel imports were around 91% of 2019 levels



Travel imports are defined as the overseas spending of China's residents for tourism, education and medical services; travel exports are defined as non-residents' spending in China. Both include tourism spending.

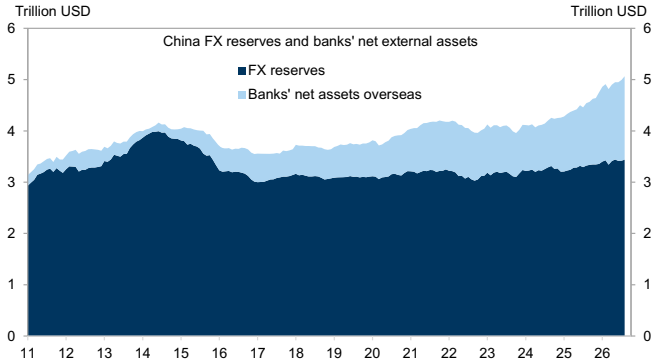
Source: Haver Analytics, Goldman Sachs Global Investment Research

Exhibit 12: Banks' net external assets continued to rose in July and August



Source: PBOC, CEIC, Data compiled by Goldman Sachs Global Investment Research

Exhibit 13: As of August 2026, China's official FX reserves stood at USD 3438bn, while commercial banks held USD 1627bn net external assets

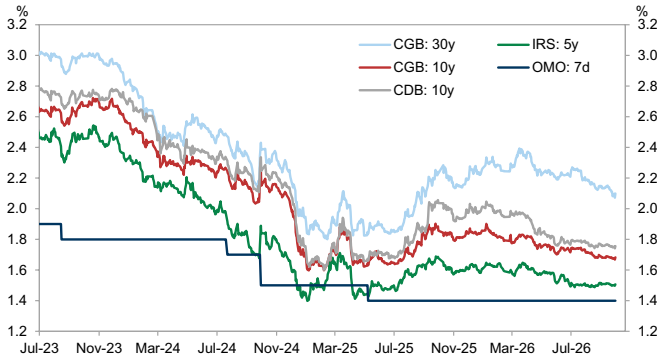


Source: PBOC, CEIC, Data compiled by Goldman Sachs Global Investment Research

Rates

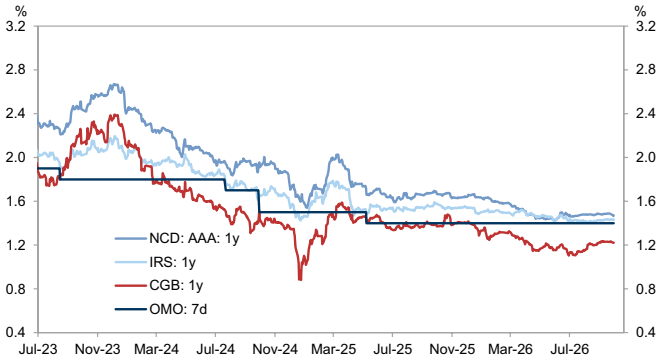
1. Levels and term structure

Exhibit 14: 30y CGB yields lowered in Q3 while other long-term rates remained broadly stable



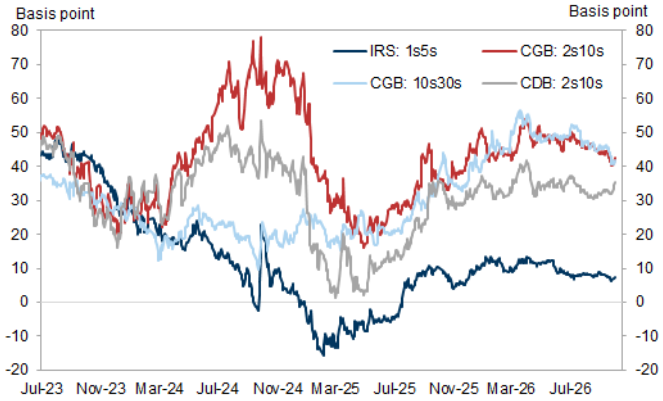
Source: CEIC, Goldman Sachs Global Investment Research

Exhibit 15: Front-end yields moved sideways in Q3, anchored by stable repo fixing



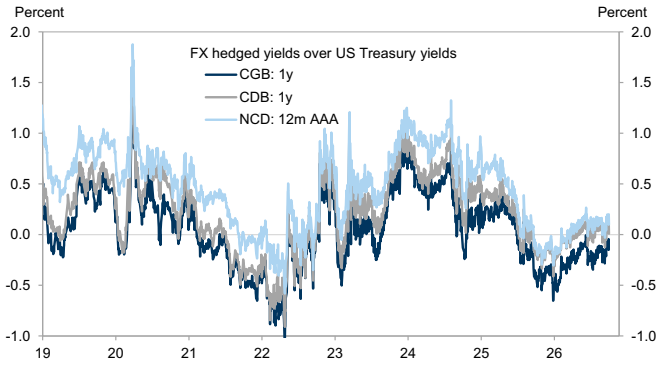
Source: Wind

Exhibit 16: CGB curve flattened in Q3 while IRS curve remained broadly unchanged



Source: Wind, Goldman Sachs Global Investment Research

Exhibit 17: FX hedged yields of short-term bonds moved sideways relative to UST yields in Q3

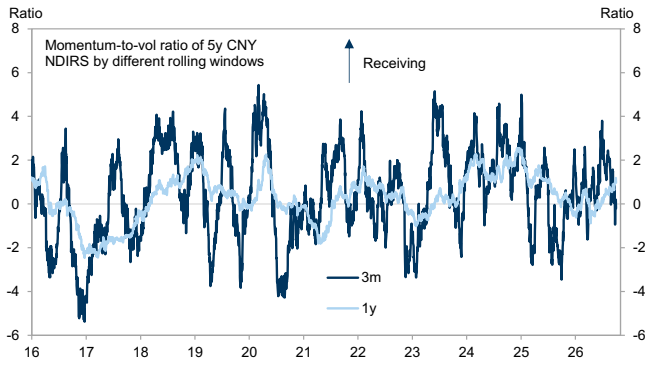


CGB: Central government bonds, CDB bond: bonds issued by China Development Bank, NCD: Negotiable certificates of deposit.

Source: Bloomberg, Wind, Goldman Sachs Global Investment Research

2. Technicals

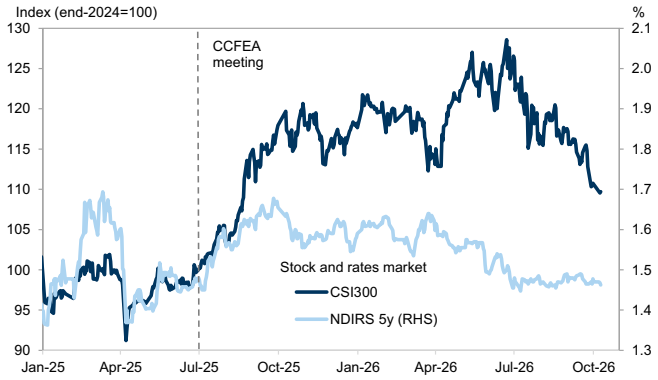
Exhibit 18: Short-term momentum to receive CNY rates dropped in Q3



Momentum is defined as annualized rolling spot returns for a period, and volatility refers to realized volatility of spot returns for a period.

Source: Bloomberg, Goldman Sachs Global Investment Research

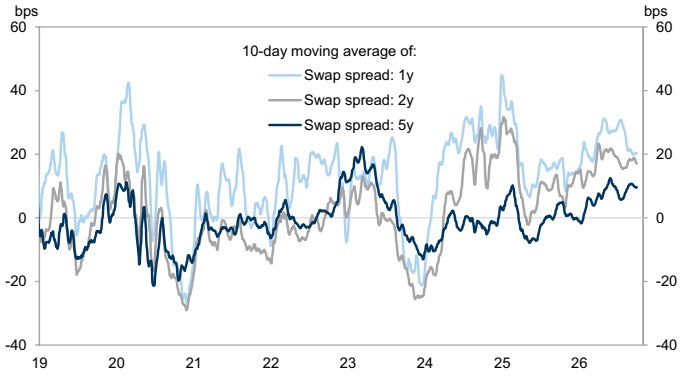
Exhibit 19: Equities moved lower while IRS rates moved sideways in Q3



The Central Commission for Financial and Economic Affairs (CCFEA) meeting chaired by President Xi on 1 July called for regulating disorderly price-cutting and excessive competition among producers.

Source: Bloomberg, Wind

Exhibit 20: Longer-tenor swap spreads tightened in Q3

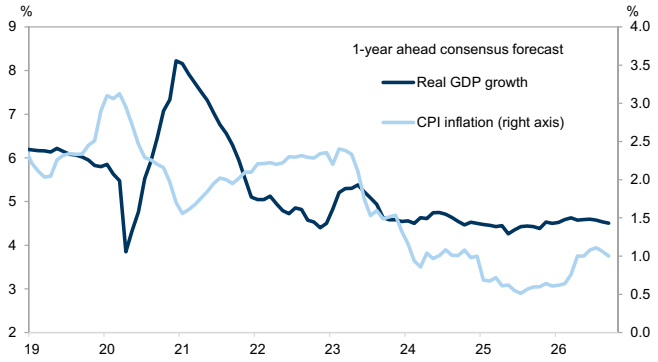


Swap spread: onshore IRS rates minus CGB yields.

Source: Wind, Goldman Sachs Global Investment Research

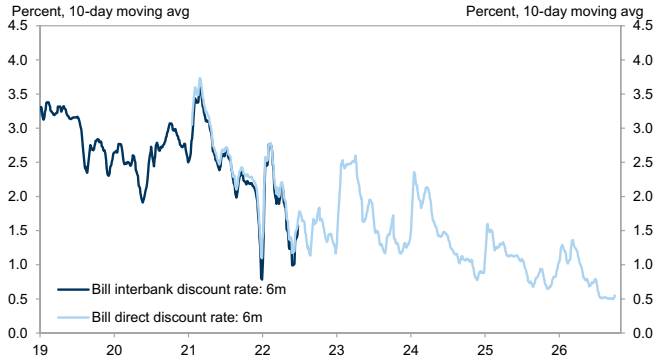
3. Fundamentals

Exhibit 21: 1-year ahead consensus forecast of real GDP growth and CPI inflation edged down in Q3



Source: Consensus Economics, Goldman Sachs Global Investment Research

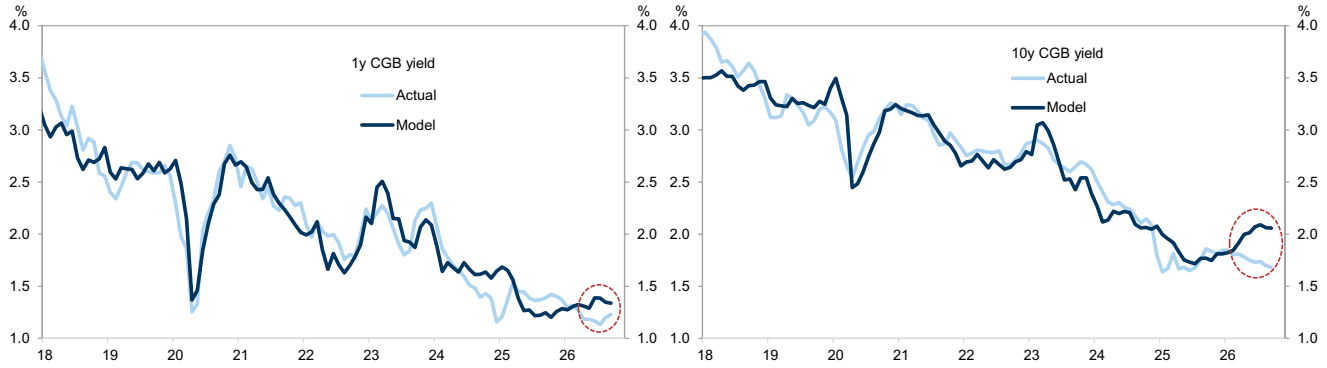
Exhibit 22: Bill discount rate fell to new low in Q3



Bill interbank discount rates discontinued since June 2022. As interbank discount rates co-move with direct discount rates closely, we use direct discount rate as a proxy thereafter.

Source: Wind, Goldman Sachs Global Investment Research

Exhibit 23: Both 1y and 10y CGB yields fell below model implied "fair value" since March 2026

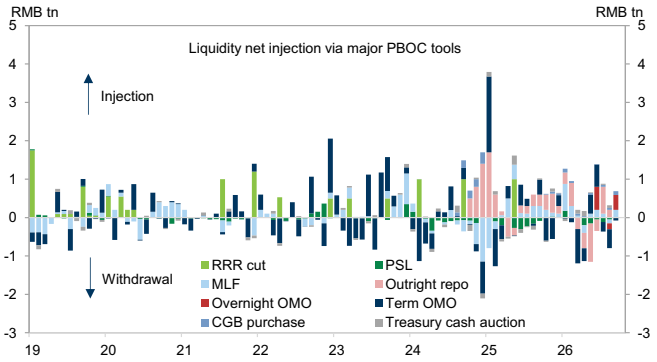


We calibrate a simple OLS model to examine the drivers of CGB yields, including 1-year ahead growth/inflation forecast, 1y/10y UST yields, and the spread between OMO target and 7d repo fixing. We adjust the model output from August 2025 to reflect the removal of the VAT exemption on interest income.

Source: Wind, Goldman Sachs Global Investment Research

4. Liquidity and leverage

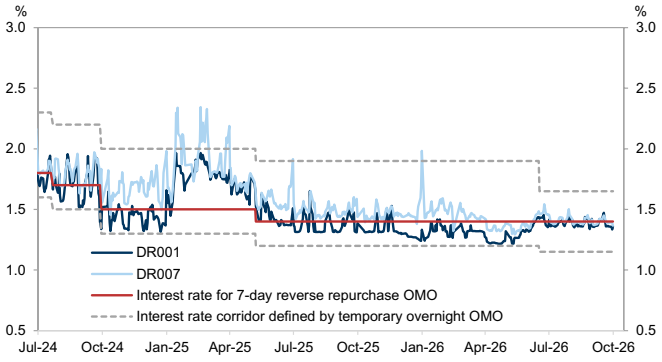
Exhibit 24: The PBOC conducted liquidity injection mainly through overnight OMOs in September



Term OMO: open market operation with a maturity longer than overnight (i.e., 7d/14d/1m pledged reverse repos); MLF: medium term lending facilities; PSL: pledged supplementary lending.

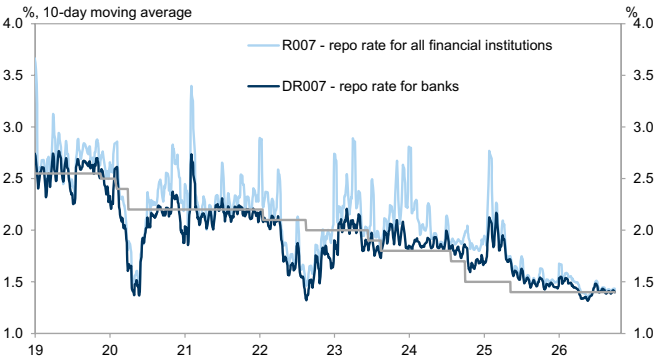
Source: CEIC, Goldman Sachs Global Investment Research

Exhibit 25: The overnight repo rate for banks remained slightly below the policy rate



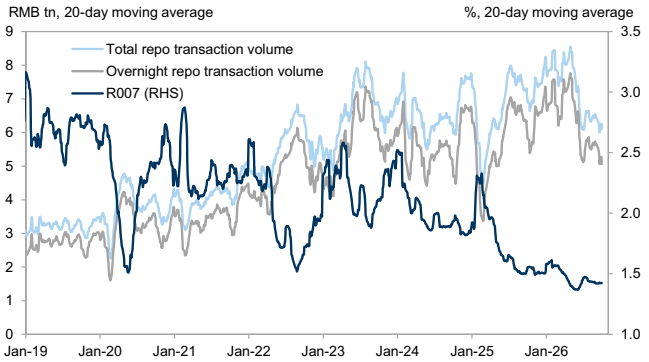
Source: CEIC, Goldman Sachs Global Investment Research

Exhibit 26: 7-day interbank repo rates stayed close to the OMO target



Source: Wind, Goldman Sachs Global Investment Research

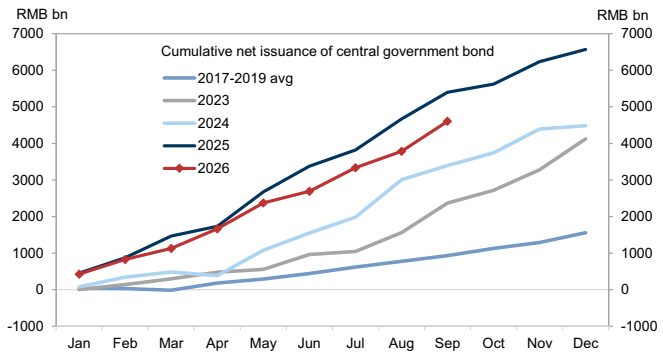
Exhibit 27: Financial leverage in the bond market remained broadly stable in Q3



Source: Wind, Goldman Sachs Global Investment Research

5. Bond supply and demand

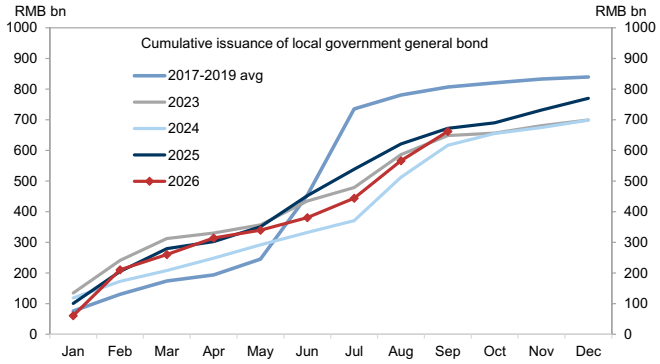
Exhibit 28: Net issuance of central government bonds was around RMB 1.9tn in Q3, up from around RMB 1.6tn in Q2



As of September 2026, the central government has utilized 69% of the annual CGB issuance quota. Central government bonds include both central government general bonds and central government special bonds.

Source: Wind, Goldman Sachs Global Investment Research

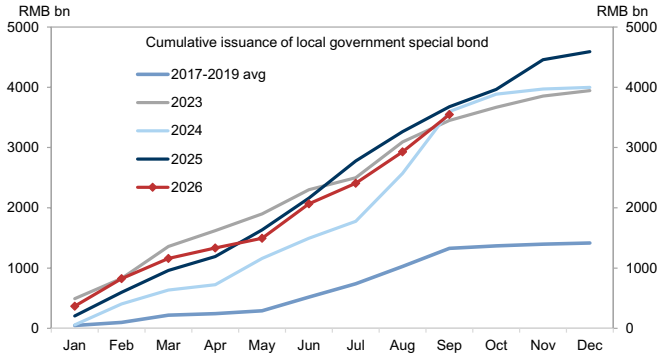
Exhibit 29: Net issuance of local government general bonds was around RMB281bn in Q3



As of September 2026, local governments have utilized 83% of their general bond issuance quota. Here we refer to local government general purpose new bonds. We do not include those for refinancing and debt swaps.

Source: Wind, Goldman Sachs Global Investment Research

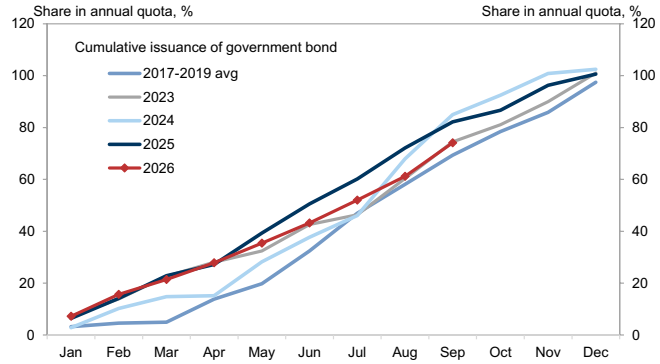
Exhibit 30: Issuance of local government special bonds was around RMB1480bn in Q3, up from around RMB907bn in Q2



As of June 2026, local governments have utilized 81% of their special bond issuance quota. The central government approved additional RMB500bn quota for LGB issuance in Q4 2025, with RMB200bn earmarked for LGSB issuance. Here we refer to local government special purpose new bonds. We do not include those for refinancing and debt swaps. In 2022, the government approved around RMB500bn additional quota for LGSB issuance.

Source: Wind, Goldman Sachs Global Investment Research

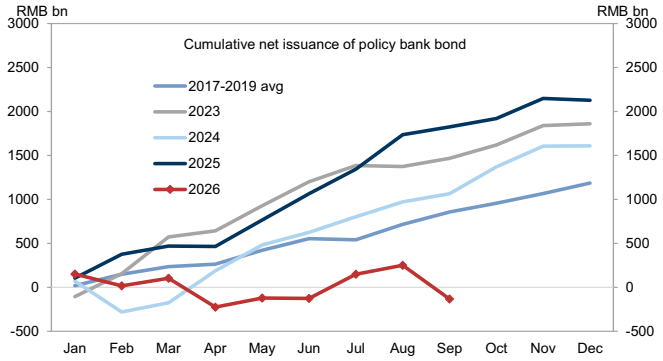
Exhibit 31: Government bond quota usage at 74% as of September, lagging last year's pace, mainly due to slower CGB issuance



Government bond issuance quota includes those approved during the Two Sessions for general and special bonds issued by both central and local governments, but excludes refinancing bonds issued by local governments. Year-end figure may exceed 100%, as the MOF occasionally approves additional quotas for local government bonds late in the year.

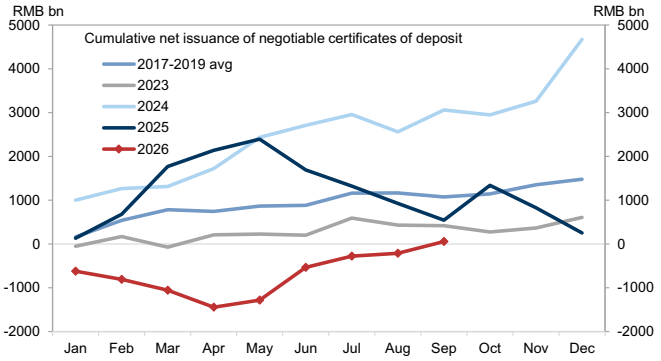
Source: Wind, Goldman Sachs Global Investment Research

Exhibit 32: The outstanding policy bank bonds changed little in Q3



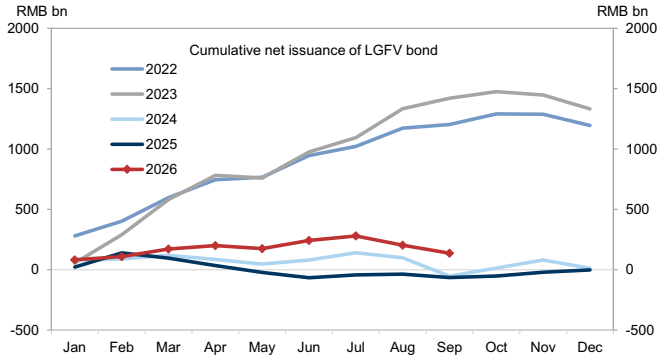
Source: Wind, Goldman Sachs Global Investment Research

Exhibit 33: The outstanding amount of NCD increased by RMB 592bn in Q3



Source: Wind, Goldman Sachs Global Investment Research

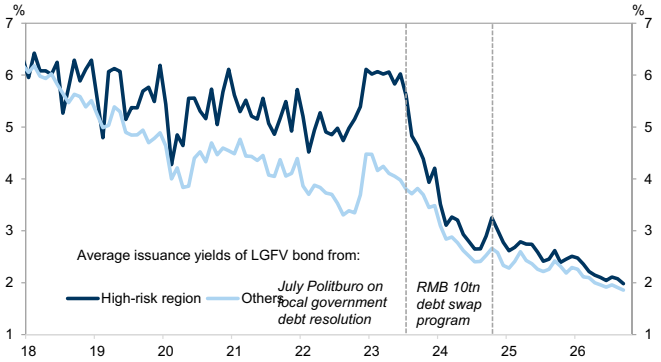
Exhibit 34: Year-to-date LGFV bond net issuance was RMB137bn as of September



We revamp our LGFV bond issuance tracker based on the list of LGFVs from YY rating.

Source: Wind, Goldman Sachs Global Investment Research

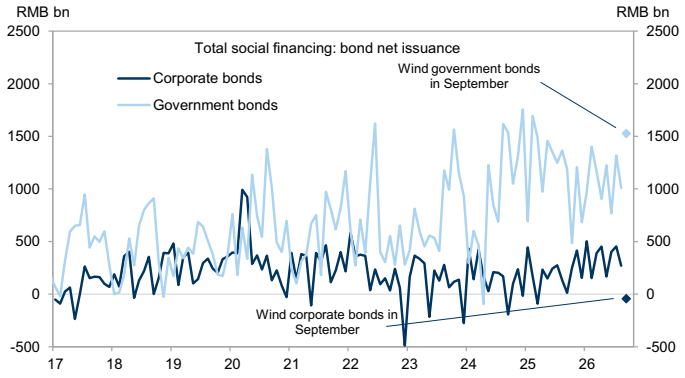
Exhibit 35: LGFV bond issuance yields edged down in Q3



We calculate size-weighted average of issuance yields. High-risk region includes Tianjin, Inner Mongolia, Liaoning, Jilin, Heilongjiang, Guangxi, Chongqing, Guizhou, Yunnan, Gansu, Qinghai, and Ningxia.

Source: Wind, Goldman Sachs Global Investment Research

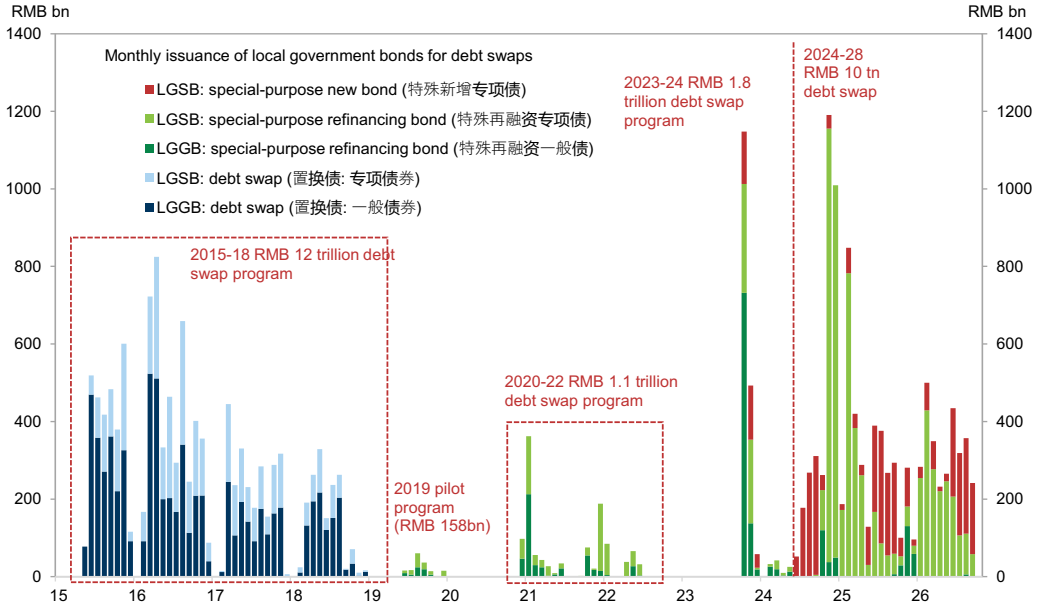
Exhibit 36: Government bond net issuance under Total Social Financing (TSF) rose from August to September (around RMB 1529bn), while outstanding corporate bonds declined



Here we adjust government bond issuance data for the statistical discrepancies between Wind and TSF.

Source: Wind, Goldman Sachs Global Investment Research

Exhibit 37: Special-purpose refinancing bond issuance was around RMB 1.9 trillion year-to-date in Q3 2026 (around 95% of the 2026 quota), while LGSB special-purpose new bond issuance was around RMB 1 trillion (134% of the 2026 quota)



LGGB stands for local government general bond, and LGSB stands for local government special bond. General bonds finance non-revenue public works (e.g., fire stations) and are repaid by general public budget revenues, such as taxes. Special bonds fund revenue-generating projects (e.g., toll highways) and are repaid via designated project income. The latest debt swap program includes 1) RMB 800bn of special-purpose new bond annually in 2024-28, and 2) RMB 2 trillion of refinancing bond per year in 2024-26. Unused local government bond quota was deployed for debt resolution in both Q4 2024 and Q4 2025, amounting to RMB 400bn and RMB 300bn, respectively.

Source: Wind, Goldman Sachs Global Investment Research