China's Monetary, RMB and Market Architecture Takes Shape

Financial Street Forum 2026: A progress report

- Monetary policy is moving toward an overnight, price-based framework, with DR001 as the operating anchor.
- Changing the operation from seven-day to overnight is a framework change, not a rate cut.
- RMB tion is broadening from payments into assets, collateral, liquidity and hedging.
- The exchange-rate framework is unchanged, but the near-term policy bias favors orderly RMB strength.
- Financial regulation is shifting from rule-setting to execution, with earlier intervention and tighter conduct oversight.
- The market benefit is better pricing and lower tail risk—not broad stimulus.

Emerging Markets Asia, Economic and Policy Research

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Speeches by People's Bank of China (PBOC) Governor Pan Gongsheng, National Financial Regulatory Administration (NFRA) head Ding Xiangqun, China Securities Regulatory Commission (CSRC) Chairman Wu Qing and PBOC Deputy Governor and State Administration of Foreign Exchange (SAFE) Administrator Zhu Hexin at the 19 October Financial Street Forum provide a progress check against the 17 June Lujiazui Forum policy messages. The main progress is institutional. The PBOC is moving toward an overnight, price-based operating framework; RMB tion is expanding from settlement into assets, collateral, hedging and liquidity; and regulators are moving from broad principles to concrete market and conduct measures. The exchange-rate message is clearer: The structural framework remains managed flexibility without a level target or competitive depreciation, while the near-term cycle favors orderly RMB strength.

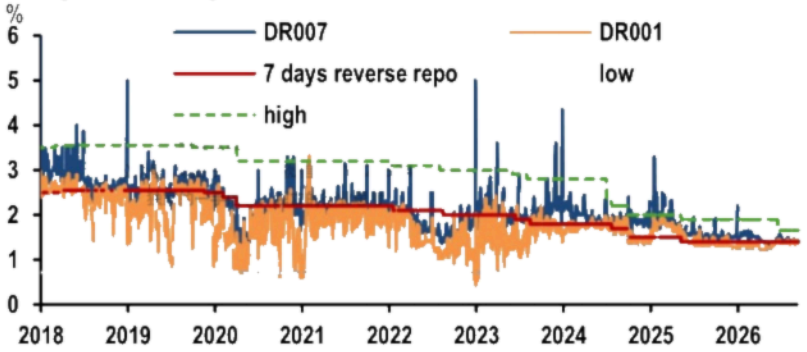
Monetary policy: Refining the operating framework

PBOC Governor Pan's 19 October speech clarifies how the 17 June framework will operate. In June, the PBOC narrowed the temporary overnight corridor, proposed additional overnight operations and emphasized the benchmark role of the government-bond yield curve. In October, it distinguished more clearly between the market rate it seeks to steer and the policy rate used to steer it.

The PBOC said the interbank overnight repo rate, commonly known as DR001, has effectively become the operating target of monetary policy. It is considering shifting its main open-market operation from seven-day to overnight maturity, in which case the overnight open-market operation rate would become the main policy rate. The distinction is important: DR001 is the market rate the PBOC seeks to steer, while the overnight operation rate would be the policy rate used to steer it. This would bring the framework closer to an overnight corridor regime, provide a cleaner anchor for the front end of the curve, and reduce avoidable volatility.

See page 6 for analyst certification and important disclosures.

Policy rate and major market interest rate

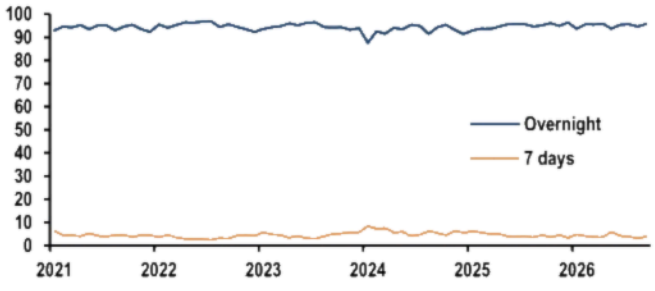


Source: PBOC, J.P. Morgan. Note: China's interest-rate corridor was bounded by the SLF and IOER rates historically. Since July 2024, the corridor has been defined around the 7-day reverse repo rate, initially at +50bp/-20bp and then narrowed to ±25bp in June 2026.

The tenor shift is not an automatic rate cut. Moving the main policy operation from seven-day to overnight removes the term premium from the policy signal, but does not, by itself, lower the stance. The new overnight policy rate could therefore be numerically below the former seven-day rate without delivering equivalent easing. The relevant test is whether it is set below prevailing DR001 and pulls the corridor, liquidity conditions and expected path of short rates lower. Otherwise, the reform re-anchors the curve and improves transmission, while leaving the policy stance broadly unchanged.

Depository institution collateral repo usage

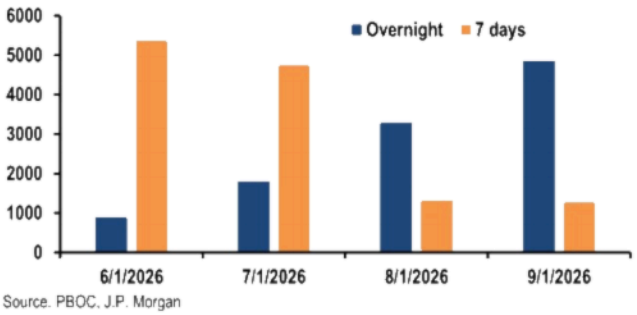
% of total turnover



Source: National Interbank Funding Center, J.P. Morgan

PBOC reverse repo turnover since June

CNY bn



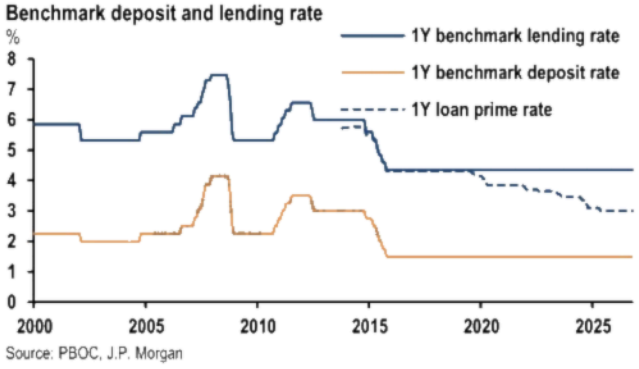
Source: PBOC, J.P. Morgan

Loan pricing is also broadening beyond the loan prime rate (LPR). Larger corporates may increasingly use DR001-linked floating-rate loans, while the LPR remains the main reference for smaller firms and households. Extending DR001 into loans, bonds and derivatives should strengthen cross-market transmission and hedging, although bank margins could narrow unless deposit pricing becomes equally flexible.

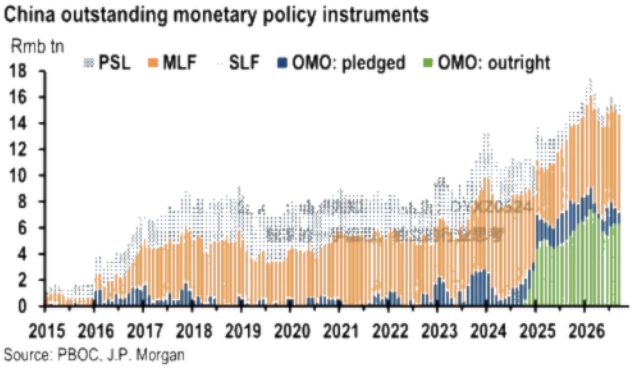
Exiting legacy deposit and lending benchmark rates would remove the final elements of the old framework. Broader standing lending facility (SLF) access strengthens the corridor ceiling, while the proposed non-bank liquidity backstop provides a circuit breaker for redemption-driven bond-market stress. The operating architecture has advanced since June, but weak credit demand still favors liquidity management, targeted balance sheet support and fiscal coordination over aggressive rate cuts.

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Source: PBOC, J.P. Morgan



Source: PBOC, J.P. Morgan

RMB tion: Building a usable ecosystem

RMB tion remains pragmatic and transaction-led: Make the currency easier to use, hold, invest, hedge and recycle without rapid capital-account liberalization. Governor Pan estimated on 19 October that the RMB accounts for 6-7% of international payments once the Cross-Border Interbank Payment System (CIPS) and bank-internal settlement are included, ranking around third globally. Its role is larger than SWIFT data suggest, but remains concentrated in China-linked transactions.

The October measures broaden the RMB market infrastructure. Eight offshore RMB clearing banks will be allowed to trade for their own accounts in the onshore interbank FX market; SAFE will widen securities firms' FX business pilots; and the PBOC plans to extend repo support to foreign RMB clearing banks. Relative to the 17 June announcement of an offshore RMB FX trading pilot in the Shanghai Free Trade Zone and the establishment of the foreign-central-bank repo facility, these steps broaden participation and strengthen the liquidity backstop.

The second priority is to make RMB assets easier to hold and hedge. Plans to improve Bond Connect and Swap Connect, explore multi-tier custody, promote RMB bonds as global collateral, and deepen offshore repo, futures and swap markets address the main constraint on tion: Investors need liquid assets, reliable hedges and a usable yield curve, not only payment channels. These measures should support offshore liquidity, Dim Sum and Panda issuance and foreign demand for Chinese bonds, although low yields, capital controls and policy predictability remain constraints. The strategy is moving beyond channel-building toward wider RMB usability under existing capital controls. The likely outcome is broader RMB use, not near-term displacement of the US dollar.

Other regulators reinforce this direction. Wu Qing committed on 19 October to improving qualified foreign institutional investor (QFII) operations, expanding China-asset products and advancing RMB trading counters and REIT inclusion in Stock Connect, while Ding Xiangqun emphasized institutional opening and cross-border services. These measures widen the investable RMB asset pool, but their impact will depend on market depth and investor confidence, rather than access alone.

CNY exchange rate: Clarifying the policy framework

The PBOC's 8 October exchange-rate statement, reinforced by Governor Pan on 19 October, is unusually direct, but does not change the regime. China retains a managed float based on market supply and demand with reference to a currency basket. It has no announced level target: the PBOC has phased out regular FX market intervention since 2017; and macroprudential tools or direct intervention are reserved for herd behavior and disruptive overshooting. The statement makes three positions explicit: no competitive depreciation, no

mechanical inference of undervaluation from current-account or REER models, and no direct link between export strength and a weak currency.

The framework is direction-neutral, but the current cycle is not. Export resilience, corporate dollar conversion, stronger fixing guidance, improved portfolio inflows and the policy value of RMB tion favor orderly appreciation. Weak domestic demand, low inflation and a wide US-China rate differential nevertheless limit tolerance for rapid NEER or REER gains. The likely response is to allow gradual strength while resisting disorderly one-way moves.

The new element is the PBOC's explicit entry into the valuation debate and its linkage of the exchange rate to domestic rebalancing and global imbalances. It rejects the undervaluation argument while leaving room for gradual appreciation: A firmer RMB improves foreign-currency returns on Chinese assets, encourages exporters to convert retained FX proceeds, lowers imported inflation and supports international use. Near-term risks therefore favor a lower USD/CNY exchange rate, but the move should be managed, rather than linear; basket performance and real appreciation matter more for policy than the bilateral rate alone.



Source: Bloomberg Finance L.P., J.P. Morgan

Financial regulation: Moving from rules to execution

The 19 October speeches by Ding Xiangqun and Wu Qing move the 17 June regulatory agenda into implementation. At Lujiazui, the NFRA emphasized full-coverage supervision, early correction, smaller-bank resolution, legal reform and strict enforcement; the CSRC focused on the new capital-market framework, market stability, technology financing and patient capital. The October speeches set out more concrete measures.

On prudential regulation, compulsory early correction, differentiated supervision, look-through oversight, digital monitoring and market-based resolution through mergers or exit shift the emphasis from defining the perimeter to enforcing it. This is refinement, rather than relaxation: earlier intervention, less reliance on implicit support, and faster consolidation. Credit differentiation among smaller institutions should increase, with stronger franchises gaining share, while weaker balance sheets face higher funding and compliance costs.

On capital markets, policy is shifting from adding functions to improving investability and resilience. The first 18 active ETFs received registration approval on 19 October; long-term capital and long-horizon assessment remain priorities; and planned fund monitoring, AI compliance rules, penalties for illegal share reductions and advance compensation should strengthen discipline. Bond market connectivity, QFII access and closer Hong Kong links should improve liquidity and cross-border allocation. Product innovation is advancing under tighter supervision; the near-term effect should be stronger market resilience, rather than a broad financing boost.

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Market mechanisms are gaining weight, while policy control remains firm. For investors, the implications are clearer pricing, deeper RMB markets and lower tail risk, rather than broad stimulus. DR001 should gain influence at the front end of the curve, while broader asset access and hedging support RMB bonds and select cross-border products. High-quality banks should benefit from consolidation, but weak credit demand, low yields and tighter supervision will limit the broader market impulse.