China Economic Perspectives

PBOC raised FX RRR to maintain steady appreciation

Economics

China

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PBoC raised FX RRR to control the pace of RMB appreciation

The PBoC announced on November 3 that it would raise the Reserve Requirement Ratio for FX deposits from 4% to 6%, effective November 15, after USDCNY strengthened by nearly 1% since late September, including almost 100bp on Nov 2nd (Figure 1). The move is aimed at curbing the pace of RMB appreciation as a higher FX reserve requirement would absorb FX liquidity and reduces commercial banks' capacity to sell FX, thereby easing appreciation pressure on the RMB. Historically, the PBoC raised the FX RRR during 2004-07 and again in 2021 amid RMB appreciation pressure, while cutting it in 2022-23 as the RMB weakened.

Appreciation trend remains intact

Today's move follows earlier PBoC efforts in February/April to slow RMB appreciation when the pace was deemed too rapid. The PBoC has also maintained a bias toward a weaker fixing rate throughout 2026 (Figure 2). These measures have helped moderate the pace of appreciation in the short term, but have not reversed the underlying trend. While the RMB's gains over the past week were partly supported by a softer dollar, we see this as a secondary factor as the change was not drastic. The broader appreciation trend has been in place since 1H 2025 and, in our view, has been driven a combination of factors including large trade surplus, easing geopolitical tensions and reduced capital outflow pressure. Importantly, the shift in expectations from RMB depreciation to appreciation is itself reducing incentives for capital outflows (Figure 4), creating self-fulfilling appreciation momentum. Some policy changes this year, including tighter oversight of outbound investment and overseas trusts, have also effectively constrained capital outflows at the margin, reinforcing this dynamic. We therefore believe the appreciation cycle still has room to run and expect further RMB gains ahead. The PBoC is likely to continue using the daily fixing and other policy tools to manage the pace of appreciation, even as external pressure for faster RMB appreciation may increase.

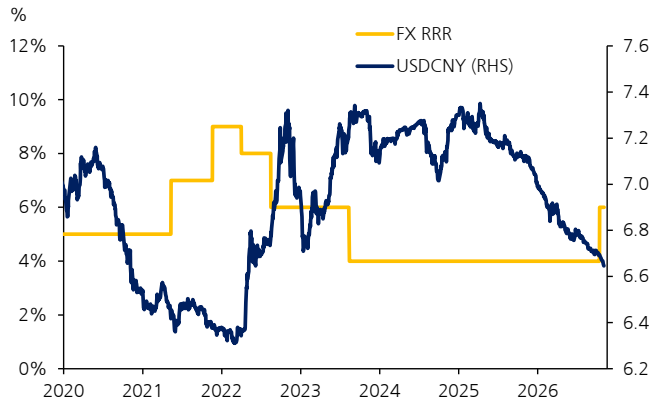
Export impact remains limited, but corporate FX risk warrant attention

The impact of RMB appreciation on exports has so far been limited. Exports have remained robust, rising 21% YoY YTD and 36% YoY in September despite the stronger RMB exchange rate against the dollar. This is likely because: **1)** despite the RMB's headline appreciation, China's real effective exchange rate, when deflated by PPI, has not strengthened meaningfully (Figure 3). We expect China's PPI to soften in 2027 following an elevated Q426, and the widening gap between overseas and domestic PPI will likely keep REER low. **2)** YTD export strength has been driven disproportionately by AI-related products and energy-transition goods following the Middle East crisis, rather than traditional consumer goods. Prices of many technology products have risen sharply amid tight supply, making export prices and volumes less sensitive to exchange rate movements than in previous cycles. Nevertheless, continued RMB appreciation through 2026 and into 2027 could lead to FX losses for exporters, increasing the need for FX hedging and other risk-management tools.

Some trading partners may have put some pressure on Beijing to appreciate the currency at a faster pace because they think the RMB was undervalued. Last month the PBOC made its position clear in a written comment that they had no intention to do this. The PBOC's view was "no one knows where the equilibrium rate is. We are allowing market forces to work, as long as the pace is not too drastic which can cause instabilities". Today's move may help reinforce the PBoC's policy signal to the market..

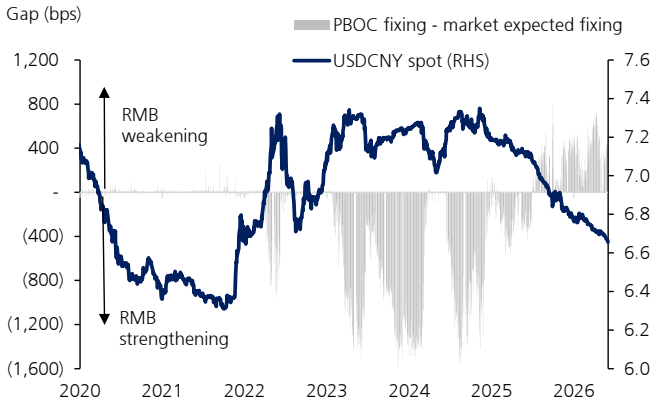
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Figure 1: PBoC raised FX RRR by from 4% to 6%



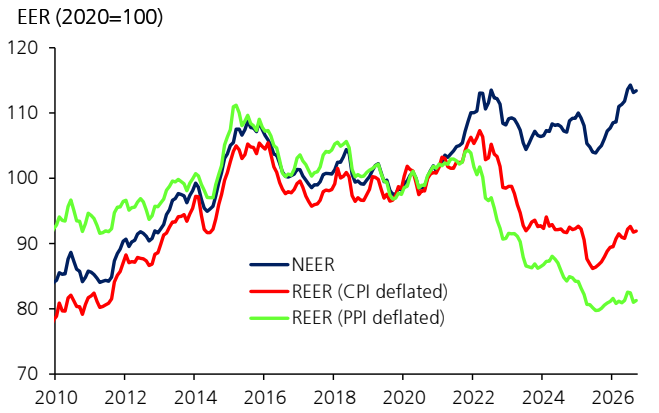
Source: Wind, UBS estimates

Figure 2: Fixing rate has been kept at the strong side



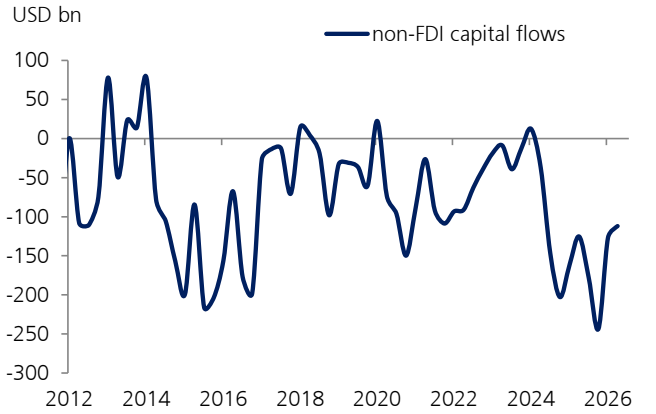
Source: Wind, Bloomberg, UBS estimates

Figure 3: PPI-deflated REER has not appreciated meaningfully



Source: Haver, UBS estimates

Figure 4: Non-FDI capital outflow eased amid stronger currency expectation



Source: CEIC, UBS estimates

Valuation Method and Risk Statement

N/A

