

Citibank Wealth Management Weekly FX Insight

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Important Disclosure on the last part



May 8, 2017
with data as of May 5, 2017

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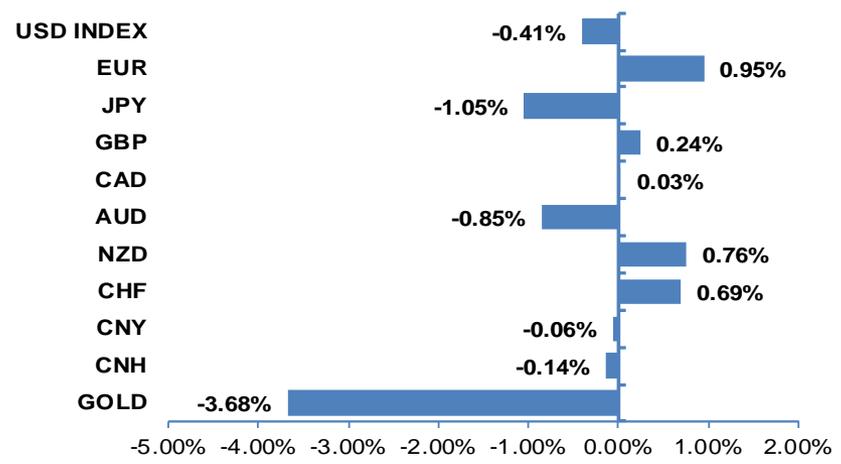
Weekly FX Recap

Major Currencies Weekly Performance

CCY	LAST WEEK PERFORMANCE			52 week high	52 week low	1 year % change	Year-To-Date Change
	Close Price	Day High	Day Low				
USD	98.65	99.46	98.54	103.82	93.02	5.2%	-3.5%
EUR/USD	1.0998	1.1000	1.0875	1.1447	1.0341	-3.6%	4.6%
USD/JPY	112.71	113.05	111.18	118.66	99.02	5.1%	-3.7%
GBP/USD	1.2982	1.2984	1.2831	1.5018	1.1841	-10.4%	5.2%
USD/CAD	1.3652	1.3793	1.3637	1.3793	1.2655	6.2%	1.6%
AUD/USD	0.7424	0.7556	0.7368	0.7778	0.7145	-0.5%	3.0%
NZD/USD	0.6918	0.6969	0.6840	0.7486	0.6676	0.5%	-0.2%
USD/CHF	0.9877	0.9967	0.9859	1.0344	0.9522	2.0%	-3.1%
USD/CNY	6.9031	6.9046	6.8905	6.9649	6.4960	5.8%	-0.8%
USD/CNH	6.9002	6.9070	6.8862	6.9895	6.5104	5.9%	-1.0%
GOLD	1221.60	1271.33	1221.60	1375.45	1121.03	-4.4%	6.0%

Source: Bloomberg L.P., as of May 5, 2017

Weekly changes versus US dollar



Source: Bloomberg L.P., as of May 5, 2017

USD ↔

- **(+/-) US job data:** NFP grew 211K, topped expectation of 190K. However, average hourly earnings growth yoy fell from 2.7% to 2.5%.
- **(+) FOMC minutes:** FOMC minutes showed Q1 economic weakness is temporary and fundamentals is still support rising consumption.
- **(+/-) USD may range trade:** We continue to expect the Fed to hike rates in Jun. However, USD may range trade as it is unlikely to accelerate rate hikes.

EUR ↑

- **(+) French presidential election:** Centrist Macron beat Marine Le Pen to become the next French President as expected.
- **(+) Upbeat European economic data:** Euro Area composite PMI rose from 56.4 to 56.8 in April, the highest in 6 years.
- **(+) EUR may find support:** EUR may find support in the short term. However, investors may take profit at highs, which may limit EUR upside.

AUD ↓

- **(-) RBA policy statement:** The policy statement showed the RBA expects earnings growth to remain low, increasing consumption growth uncertainty.
- **(-) Falling iron ore price:** Iron ore price fell more than 10% last week, raising concern on Australia's export income.
- **(-) AUD may be pressured in the short term:** The RBA is unlikely to hike rates this year. AUD may range trade with short-term downside pressure.

Weekly FX Focus:



Given upbeat US job data, we keep our expectation of two hikes this year

- Despite worse than expected average hourly earnings growth in April, unemployment rate fell to pre-financial crisis level, reflecting full employment may be reached in the US.
- Thus, we keep our expectation that the Fed may hike the interest rate by 25bps in both Jun and Sep. However, USD may remain range trading as it is unlikely to accelerate rate hikes.

USD may range trade as the Fed may hike rates twice in 2017

- With strong job data, we keep our expectation that the Fed may hike the interest rate by 25bps in both Jun and Sep and announce to reduce its balance sheet in Dec.
- However, with uncertainty of Trump's fiscal stimulus plan and signs of a slowdown in rising inflation driven by commodity prices, the Fed is unlikely to accelerate rate hikes.
- Since markets have priced in two rate hikes by the Fed this year, the job data has limited impact on USD and USD may range trade.
- Technically, the dollar index may range trade between 97.87-99.63 in the short term

US job data in April

NFP: Grew 211K, higher than expectation of 190K, with private job growth reaching 173K.

Unemployment rate: Dropped from 4.5% to 4.4%, reaching pre-financial crisis level.

Average hourly earnings: Rose 0.3% mom, in line with expectation. Yearly growth slowed down from 2.7% to 2.5%.

Source: Bloomberg L.P., as of May 5, 2017

With strong US job market, full employment may be reached

- Despite a slowdown in hourly earnings yearly growth, 3-month average growth has recovery signs. In fact, increasing employment cost in Q1 may reflect gradually rising earnings.
- Current unemployment rate has been lower than the Fed's forecast for 2019 of 4.5% and long-term forecast of 4.7%. Moreover, underemployment rate dropped to 8.6%, close to pre-crisis level, reflecting full employment may be reached in the US.

Dollar Index – Daily Chart



Source: Bloomberg L.P., as of May 5, 2017



Weekly FX Strategies

- EUR may find support in the short term on eliminated political uncertainty in Europe. However, a divergence in the RSI may limit EUR upside.
- The ruling Conservative Party won the local elections. GBP may gain amid expectation that the Conservative Party may win the general election in June.
- The RBNZ may raise inflation forecasts this week, which may raise expectation of an earlier rate hike by the RBNZ.

1. Neutral with upside bias - EUR

- EUR may find support in the short term on eliminated political uncertainty in Europe
- EUR/USD may range trade between 1.0828-1.1129 (8.43-8.66) in the short term, with upside bias

2. Neutral with upside bias - GBP

- GBP may find support in the short term amid falling political uncertainty in the UK
- GBP/USD may range trade between 1.2757-1.3097 (9.93-10.19), with upside bias

3. Neutral - NZD

- NZD may find support as the RBNZ may raise inflation forecasts
- NZD/USD may range trade between 0.6840-0.7090 (5.32-5.52)

EUR/USD may range trade between 1.0828-1.1129 (8.43-8.66) with upside bias

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The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7838 exchange rate for reference

Last Price	Last wk High	Last wk Low	2nd Support	1st Support	1st Resistance	2nd Resistance	0-3 month	6-12 month
1.0998 (8.56)	1.1000 (8.56)	1.0875 (8.46)	1.0778 (8.39)	1.0828 (8.43)	1.1129 (8.66)	1.1315 (8.81)	1.10 (8.56)	1.04 (8.10)

Upcoming economic data
No Important Economic Data Release

Outlook:

(+) Cooling political uncertainty: Centrist Macron beat far-right Marine Le Pen to become the next French President. This election result eased political uncertainty in Europe, which may underpin EUR in the short term.

(+/-) French legislative election in Jun: If Macron-led Forward! wins the majority, the political situation may be further stabilized. We expect Forward! to win the most seats but it may need to form a coalition government with other parties.

Technical Analysis:

- The pair may range trade between 1.0828-1.1129 (8.43-8.66), with upside bias.
- Due to the divergence in the RSI, EUR upside may be limited.



GBP/USD

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7838 exchange rate for reference



Last Price	Last wk High	Last wk Low	2nd Support	1st Support	1st Resistance	2nd Resistance	0-3m	6-12m
1.2982 (10.10)	1.2984 (10.11)	1.2831 (9.99)	1.2757 (9.93)	1.2831 (9.99)	1.3097 (10.19)	1.3440 (10.46)	1.35 (10.51)	1.22 (9.50)

GBP may find support as the ruling Conservative Party won local elections

Weekly recap: GBP was supported last week as UK manufacturing PMI rose from 54.2 to 57.3 in April, the highest in 3 years, easing concern on UK economy.

Outlook analysis: The ruling Conservative Party won local elections, with seats increasing to 563, while the opposition Labour Party's seats reduced to 382. GBP may find support amid expectation that the Conservative Party may win more seats in the general election.

Technical analysis: GBP/USD gains after a breach of 1.2775, a high seen in Dec 2016. The pair may range trade between 1.2757-1.3097 (9.93-10.19), with upside bias.



Source: Bloomberg L.P., as of May 5, 2017

NZD/USD

Last Price	Last wk High	Last wk Low	2nd Support	1st Support	1st Resistance	2nd Resistance	0-3m	6-12m
0.6918 (5.38)	0.6969 (5.42)	0.6840 (5.32)	0.6714 (5.23)	0.6840 (5.32)	0.7090 (5.52)	0.7191 (5.60)	0.71 (5.53)	0.68 (5.29)

NZD may find support as the RBNZ may raise inflation forecasts

Weekly recap: NZD was supported as unemployment rate dropped from 5.2% to 4.9%, although NZ average hourly earnings rose 0.3% in Q1, worse than expectation of 0.7%.

Outlook analysis: The RBNZ will announce its rate decision on Thursday. Since inflation rose to 2.2% in Q1, the highest since Q3 2011, the RBNZ may raise inflation forecasts and push the rate hike forecast forward to Q3 2018.

Technical analysis: Since RSI rebounded from lows, the pair may range trade between 0.6840-0.7090 (5.32-5.52).



Source: Bloomberg L.P., as of May 5, 2017

Source: Bloomberg L.P., as of May 5, 2017

The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.7838 exchange rate for reference



Other FX strategies

AUD/USD: AUD may be restrained as the RBA is unlikely to hike rates this year

Last Price	Last wk High	Last wk Low	2nd Support	1st Support	1st Resist.	2nd Resist.	0-3M	6-12M
0.7424 (5.78)	0.7556 (5.88)	0.7368 (5.74)	0.7308 (5.69)	0.7368 (5.74)	0.7556 (5.88)	0.7611 (5.92)	0.75 (5.84)	0.76 (5.92)

(-) Falling iron ore price: Iron ore price plunged more than 10% last week, accumulating a loss of 35% from a high in Feb, raising concern on Australia's export income.

(-) The RBA is unlikely to hike rates earlier: Slow earnings growth and high household debts may undermine consumption and inflation. Thus, the RBA is unlikely to hike rates this year.



USD/CAD: CAD may be undermined amid uncertainty of US trade policy

Last Price	Last wk High	Last wk Low	2nd Support	1st Support	1st Resist.	2nd Resist.	0-3M	6-12M
1.3652 (5.70)	1.3793 (5.64)	1.3637 (5.71)	1.3411 (5.80)	1.3530 (5.75)	1.3793 (5.64)	1.3839 (5.62)	1.34 (5.81)	1.35 (5.77)

(-) Oil prices rebounded from lows last Friday: Saudi Arabia's Energy Minister said he is confident that the OPEC would extend the product cut deal. Oil prices rebounded from lows, easing CAD short-term downside pressure.

(+) US trade policy uncertainty: The US will announce the omnibus report on trade deficit on Jun 29, which assesses trade agreements and announces a list of trade manipulators.



USD/JPY: Weak inflation in Japan may dampen JPY

Last Price	Last wk High	Last wk Low	2nd Support	1st Support	1st Resist.	2nd Resist.	0-3M	6-12M
112.71 (69.06)	113.05 (68.85)	111.18 (70.01)	108.13 (71.99)	108.84 (71.52)	113.05 (68.85)	114.03 (68.26)	108 (72.07)	118 (65.96)

(-) BOJ Governor's hawkish comments: Governor Kuroda said the Japan's economy rebounded apparently in the last two quarters and he is confident that inflation may accelerate.

(+) JPY may weaken in the medium and long term: Japan's inflation may need more time to rebound to the target level of 2%. The BOJ may keep its accommodative monetary policy for a while. US-Japan monetary policy difference may widen.



USD/CNH: CNH may consolidate in the short term

Last Price	Last wk High	Last wk Low	2nd Support	1st Support	1st Resist.	2nd Resist.
6.9002 (1.1281)	6.907 (1.1269)	6.8862 (1.1303)	6.7812 (1.1478)	6.8459 (1.1370)	6.9319 (1.1229)	6.9895 (1.1136)

(-) China's FX reserves: China's FX reserve rose from \$3.009 trillion to 3.029 trillion. Stabilized FX reserves may imply effective control of capital outflows.

(+) PBoC may lower RRR: Regulatory tightening and enforcement will lead to higher and more volatile money market rates than before. To ensure economic targets are met this year, we expect the PBOC may cut RRR in the near future.





Upcoming Economic Figures and Events

RBNZ policy decision may become market focus

<p>US</p>	<p>April CPI</p> <ul style="list-style-type: none"> ➤ We expect the March month-on-month declines in total and core CPI to reverse in April as the one-off drop in telecom prices in March is unlikely to be repeated. <p>April retail sales</p> <ul style="list-style-type: none"> ➤ Nominal retail sales probably rose by 0.8 percentage point month-on-month in April, driven by a rebound in auto sales. Although data weakened in Q1, current fundamentals underpinning consumption remain solid, in the Fed's view. Upbeat data may confirm the Fed's view. 	<p>May 12 (Fri): CPI (MoM)</p> <table border="0"> <tr> <td><u>Citi Forecast</u></td> <td><u>Previous</u></td> </tr> <tr> <td>0.2%</td> <td>-0.3%</td> </tr> </table> <p>May 12 (Fri): Retail Sales (MoM)</p> <table border="0"> <tr> <td><u>Citi Forecast</u></td> <td><u>Previous</u></td> </tr> <tr> <td>0.8%</td> <td>-0.2%</td> </tr> </table>	<u>Citi Forecast</u>	<u>Previous</u>	0.2%	-0.3%	<u>Citi Forecast</u>	<u>Previous</u>	0.8%	-0.2%
<u>Citi Forecast</u>	<u>Previous</u>									
0.2%	-0.3%									
<u>Citi Forecast</u>	<u>Previous</u>									
0.8%	-0.2%									
<p>UK</p>	<p>BOE policy decision and inflation report</p> <ul style="list-style-type: none"> ➤ Following weaker GDP growth data for 1Q – the 0.3% QQ increase published by the ONS is only half what the BoE expected – and ahead of the 8 June general election, we expect the MPC to remain on hold, with individual members keeping their votes unchanged at this meeting. There is a risk of hawkish surprises though. Governor Carney may signal that markets are wrong to discount any Bank Rate move before Brexit in March 2019. ➤ At the same time, growth will likely be revised down in the Inflation Report. 	<p>May 11 (Thu): BOE Policy Decision & Inflation Report</p>								
<p>Australia</p>	<p>March Retail sales</p> <ul style="list-style-type: none"> ➤ We expect rising employment may support retail sales to grow 0.4% MoM. Given rising mortgage rate, a significant rebound of retail sales is unlikely. 	<p>May 9 (Tue): Retail Sales (MoM)</p> <table border="0"> <tr> <td><u>Citi Forecast</u></td> <td><u>Previous</u></td> </tr> <tr> <td>0.4%</td> <td>-0.1%</td> </tr> </table>	<u>Citi Forecast</u>	<u>Previous</u>	0.4%	-0.1%				
<u>Citi Forecast</u>	<u>Previous</u>									
0.4%	-0.1%									
<p>NZ</p>	<p>RBNZ policy decision</p> <ul style="list-style-type: none"> ➤ The RBNZ should revise up the CPI forecasts to the mid-point of the target band and bring forward the timing of the first projected OCR hike to Q3 2018, in our view. The risk is that the Governor takes a softer approach out of concern for the potential impact on the currency and reiterates “monetary policy will remain accommodative for a considerable period”. 	<p>May 11 (Thu): RBNZ Policy Decision</p>								

Appendix 1: Citi interest rate and FX Forecast for 2017



Citi FX Outlook Forecast

Citi FX interest rate Forecast

	0-3 month	6-12 month	5/5/17	2Q '17	3Q '17	4Q '17
Dollar Index	97.22	103.33	1.00	1.25	1.50	1.50
EUR/USD	1.10	1.04	0.00	0.00	0.00	0.00
GBP/USD	1.35	1.22	0.25	0.25	0.25	0.25
USD/JPY	108	118	-0.10	-0.10	-0.10	-0.10
USD/CHF	0.97	1.03	-0.75	-0.75	-0.75	-0.75
AUD/USD	0.75	0.76	1.50	1.50	1.50	1.50
NZD/USD	0.71	0.68	1.75	1.75	1.75	1.75
USD/CAD	1.34	1.35	0.50	0.50	0.50	0.50
USD/CNY	6.87	7.09	3.30	3.50	3.70	3.70

Source: Citi, forecast as of Apr 21, 2017

 Rate cut expectations  Rate hike expectations

AUD → AUD may be restrained on weak earnings growth and core inflation and RBA's concern on high household debts, despite strong economic growth. The pair may range trade between 0.75-0.76.

EUR → If Macron is finally elected as next French president, eliminated uncertainty may support EUR in the short term. However, in the medium and long term, the US may announce tax reform and fiscal stimulus plan later this year. A rebound of USD may undermine EUR in the medium term. The pair may fall to 1.04 for the coming 6-12 months.

GBP → GBP may be supported in the short term as the ruling Conservative Party may win more seats in the snap election, which may smooth the Brexit negotiations. GBP/USD may rise to 1.35 for the coming 0-3 months. However, in the medium and long term, the pair may fall to 1.22 for the coming 6-12 months on weakening UK fundamentals.

JPY → US treasury yields may rebound as the US may announce fiscal stimulus plan later this year, which may raise expectation of accelerated rate hikes by the Fed. Widening US-Japan yield spread may undermine JPY. USD/JPY may rise to 118 for the coming 6-12 months.

Appendix 2:

Last week's Economic Figures

Time		Importance	Event	Period	Actual	Survey	Prior
Monday							
05/01/17 22:00	US	!	ISM Manufacturing	Apr	54.8	56.5	57.2
Tuesday							
05/02/17 09:45	CH	!!	Caixin China PMI Mfg	Apr	50.3	51.3	51.2
05/02/17 12:30	AU	!!!	RBA Cash Rate Target	2-May	1.50%	1.50%	1.50%
05/02/17 16:00	EC	!!	Markit Eurozone Manufacturing PMI	Apr F	56.7	56.8	56.8
05/02/17 16:30	UK	!!	Markit UK PMI Manufacturing SA	Apr	57.3	54	54.2
05/02/17 17:00	EC	!	Unemployment Rate	Mar	9.50	9.40%	9.50%
Wednesday							
05/03/17 06:45	NZ	!!!	Unemployment Rate	1Q	4.90%	5.10%	5.20%
05/03/17 06:45	NZ	!!	Average Hourly Earnings QoQ	1Q	0.30%	0.70%	-0.30%
05/03/17 17:00	EC	!!	GDP SA YoY	1Q A	1.70%	1.70%	1.80%
05/03/17 20:15	US	!!	ADP Employment Change	Apr	177k	175k	263k
Thursday							
05/04/17 02:00	US	!!!	FOMC Rate Decision (Upper Bound)	3-May	1.00%	1.00%	1.00%
05/04/17 09:30	AU	!!	Trade Balance	Mar	A\$3107m	A\$3250m	A\$3657m
05/04/17 16:00	EC	!!	Markit Eurozone Services PMI	Apr F	56.4	56.2	56.2
05/04/17 16:30	UK	!!	Markit/CIPS UK Services PMI	Apr	55.8	54.5	55
05/04/17 17:00	EC	!	Retail Sales YoY	Mar	2.30%	2.10%	1.70%
05/04/17 20:30	US	!	Trade Balance	Mar	-\$43.7b	-\$44.5b	-\$43.8b
05/04/17 20:30	US	!	Initial Jobless Claims	29-Apr	238k	248k	257k
05/04/17 22:00	US	!	Factory Orders	Mar	0.20%	0.40%	1.20%
05/04/17 22:00	US	!!	Durable Goods Orders	Mar F	0.90%	0.70%	0.70%
Friday							
05/05/17 20:30	US	!!!	Change in Nonfarm Payrolls	Apr	211k	190k	79k
05/05/17 20:30	CA	!!!	Unemployment Rate	Apr	6.50%	6.70%	6.70%
05/05/17 20:30	US	!!!	Unemployment Rate	Apr	4.40%	4.60%	4.50%
05/05/17 20:30	US	!!	Average Hourly Earnings YoY	Apr	2.50%	2.70%	2.60%

Appendix 3:

Upcoming Economic Figures (May 8, 2017 – May 12, 2017)



Time		Importance	Event	Period	Actual	Survey	Prior
Monday							
05/08/17 16:30	EC	!	Sentix Investor Confidence	May	--	24.7	23.9
05/08/17 20:15	CA	!	Housing Starts	Apr	--	220.0k	253.7k
05/08/17	CH	!!	Exports YoY	Apr	--	11.30%	16.40%
05/08/17	CH	!!	Trade Balance	Apr	--	\$35.20b	\$23.93b
Tuesday							
05/09/17 09:30	AU	!!	Retail Sales MoM	Mar	--	0.30%	-0.10%
05/09/17 20:30	CA	!	Building Permits MoM	Mar	--	--	-2.50%
Wednesday							
05/10/17 09:30	CH	!!	CPI YoY	Apr	--	1.10%	0.90%
Thursday							
05/11/17 05:00	NZ	!!!	RBNZ Official Cash Rate	11-May	--	1.75%	1.75%
05/11/17 07:50	JN	!	BoP Current Account Balance	Mar	--	¥2593.0b	¥2813.6b
05/11/17 16:00	EC	!	ECB Publishes Economic Bulletin				
05/11/17 16:30	UK	!!	Industrial Production YoY	Mar	--	--	2.80%
05/11/17 16:30	UK	!!	Manufacturing Production YoY	Mar	--	--	3.30%
05/11/17 16:30	UK	!!	Trade Balance	Mar	--	--	-£3663
05/11/17 19:00	UK	!!	Bank of England Bank Rate	11-May	--	--	0.25%
05/11/17 19:00	UK	!!!	Bank of England Inflation Report				
05/11/17 20:30	US	!	Initial Jobless Claims	6-May	--	--	238k
05/11/17 20:30	US	!	PPI Ex Food and Energy YoY	Apr	--	1.70%	1.60%
Friday							
05/12/17 20:30	US	!!!	CPI YoY	Apr	--	2.30%	2.40%
05/12/17 20:30	US	!!	Retail Sales Advance MoM	Apr	--	0.60%	-0.20%
05/12/17 22:00	US	!!	U. of Mich. Sentiment	May P	--	97	97

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Unrated or non investment grade Debt Securities typically offer a higher yield than investment grade Debt Securities, but also present greater risks with respect to liquidity, volatility, and non-payment of principal and interest. As a result of being classified as non investment grade Debt Securities, these Debt Securities present a greater degree of credit risk relative to many other fixed income Debt Securities.

Higher Credit Risk – Unrated or non investment grade Debt Securities generally have predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. There is greater risk of non-payment of interest and loss of principal. Many issuers of these Debt Securities have experienced substantial difficulties in servicing their debt obligations, which has led to default and restructurings. The issuers of these Debt Securities generally have to pay a higher rate of interest than investment grade Debt Securities.

Higher Liquidity and Secondary Market Risk – The markets in which unrated or non investment grade Debt Securities are traded are generally more limited than those in which investment grade Debt Securities are traded. This lack of liquidity may make it more difficult to resell these Debt Securities and obtain market quotations.

Downgrade Risk – Downgrades in the credit rating of unrated or non investment grade Debt Securities by rating agencies are generally accompanied by declines in the market value of these Debt Securities. In some circumstances, investors in the unrated or non investment grade Debt Securities market may anticipate such downgrades as a result of these credits being placed on "credit watch" by rating agencies, causing volatility and speculation of further credit deterioration.

Higher Vulnerability to economic cycles - During economic downturns, unrated or non investment grade Debt Securities are typically more susceptible to price volatility and fall more in value than investment grade Debt Securities as i) investors may reevaluate holdings in lower-quality bonds in favor of investment-grade corporate Debt Securities; ii) investors become more risk averse; and iii) default risk rises. This is often referred to a "flight to quality".

Event Risk – This includes any of a variety of events that can adversely affect the issuer of unrated or non investment grade Debt Securities, and therefore the issuer's ability to meet debt service obligations to repay principal and interest to Debt Securities holders. Event risk may pertain to the issuer specifically, the industry or business sector of the issuer, or generally upon the overall economy. It could have a direct or indirect impact on the issuer and their outstanding debts.

Risk relating to RMB – If you choose RMB as the base currency or the alternate currency, you should also note the following:

RMB is currently not freely convertible through banks in Hong Kong. Due to exchange controls and/or restrictions imposed on the convertibility, utilisation or transferability of RMB (if any) which in turn is affected by, amongst other things, the PRC government's control, there is no guarantee that disruption in the transferability, convertibility or liquidity of RMB will not occur. There is thus a likelihood that you may not be able to convert RMB received into other freely convertible currencies.

CNH exchange rates and CNY exchange rates are currently quoted in different markets with different exchange rates, whereby their exchange rate movements may not be in the same direction or magnitude. Therefore, the CNH exchange rate may be different from the CNY exchange rate.