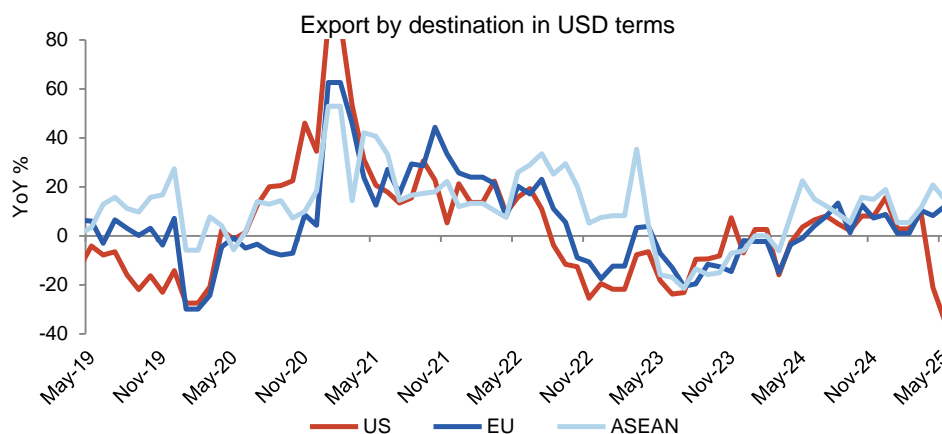


China Weekly Outlook

- China's May CPI fell less than the market had expected, by -0.1% YoY. The decline was entirely driven by food prices, which decreased 0.4% YoY, widening from a 0.2% drop in April. Notably, fresh vegetable prices declined 8.3% YoY, the steepest fall in three months, while pork prices saw a slower increase YoY. In contrast, core inflation continued to climb steadily, reaching a four-month high of 0.6% YoY, supported by faster gains in service and clothing prices.
- **Meanwhile, deflationary pressure worsened again in the factory sector**, with PPI falling 3.3% YoY in May. This decline not only exceeded market expectations but also marked the biggest decline in almost two years. In detail, prices of producer goods led the worsening, with mining and raw materials dropping the most, by 11.9% and 5.4% YoY, respectively, in May. Beyond the impact of declining global oil prices, heightened trade uncertainty also likely weighed on demand for raw materials.
- **Despite a temporary easing in trade tension in mid-May, China's export growth underperformed**, rising 4.8% YoY in May, below the market consensus of 6%. While exports to ASEAN and the EU posted strong double-digit gains, shipments to the US plummeted 34.5% YoY, subtracting 5ppt from overall export growth. This represents the largest recorded decline in China's exports to the US, surpassing drops seen during the onset of the COVID-19 pandemic and the Global Financial Crisis. **However, this May data may fail to reflect the positive signs seen since late May**, including the sharp rise in shipping prices to the US (Fig 5) and Yiwu's commodity price index for exports (Fig 14). Meanwhile, imports fell 3.4% YoY in May, driven largely by a 22.1% decline in oil imports, which alone contributed 3ppt to the overall contraction.
- As a result, China's trade surplus widened to USD103.2b in May. This contrasts with a mild increase of USD3.6b in foreign reserves during the month, suggesting that exporters continued to hold onto US dollar amid ongoing trade uncertainty and relatively wide US-China interest rate spreads (Fig 28).

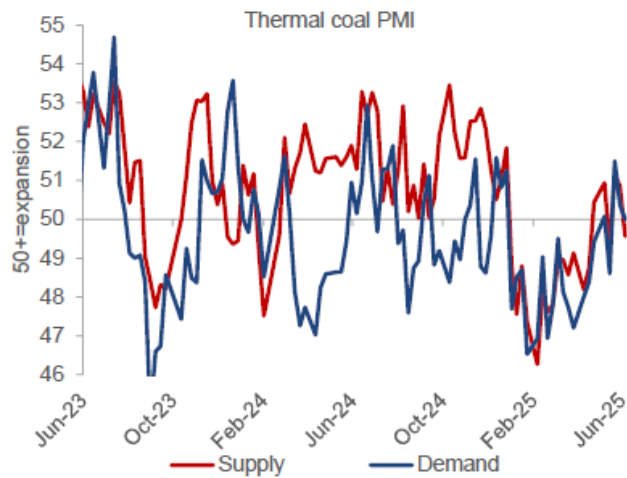
Fig i Exports to the US saw the largest decline on record despite solid gains in exports to the EU and ASEAN



Source: Wind, Mizuho

Activity monitor (1/2)

Fig 1 Thermal coal: supply and demand both softened



Source: Wind, Mizuho

Fig 2 PTA production continued to pick up

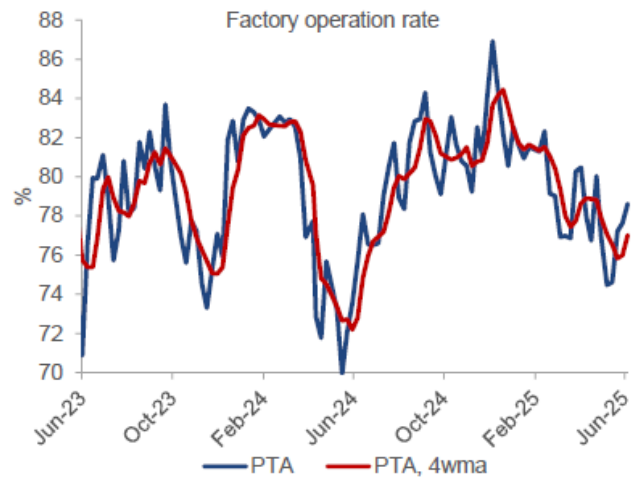
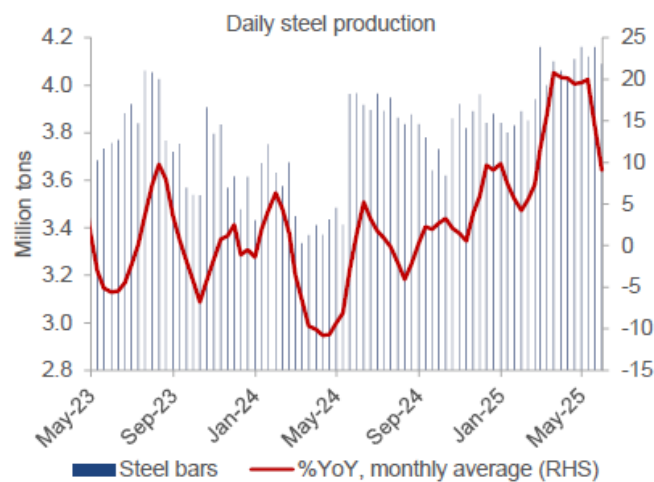


Fig 3 Steel production: the increase slowed toward month-end



Source: Wind, Mizuho

Fig 4 Steel tire production has recovered after the Labor Day

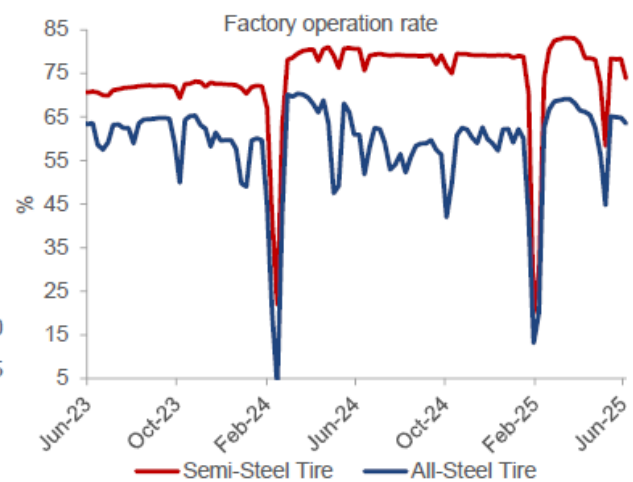
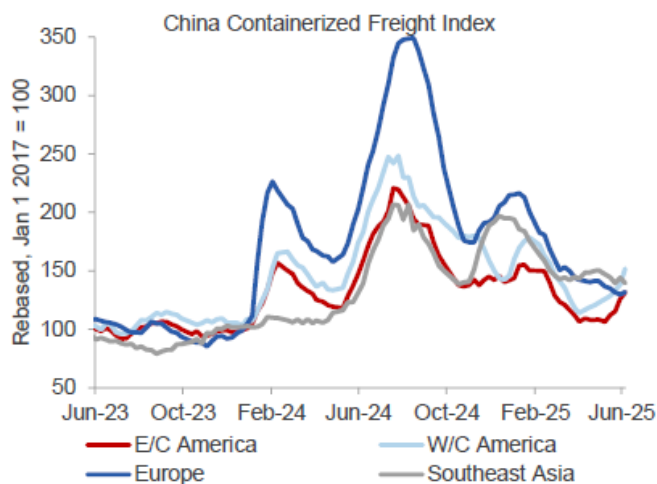
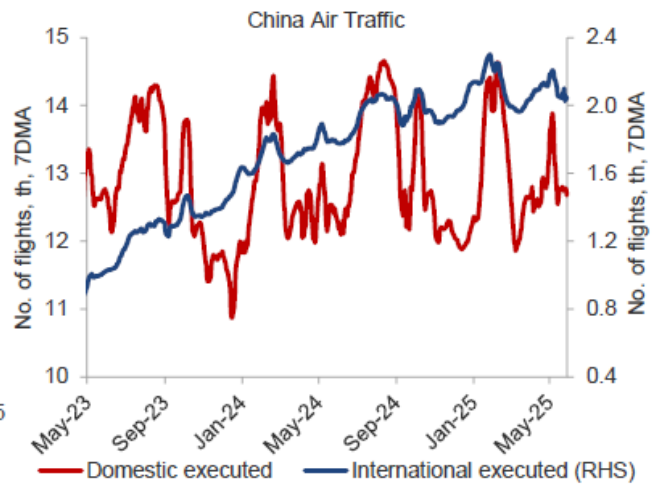


Fig 5 CCFI: shipping prices to the US picked up significantly



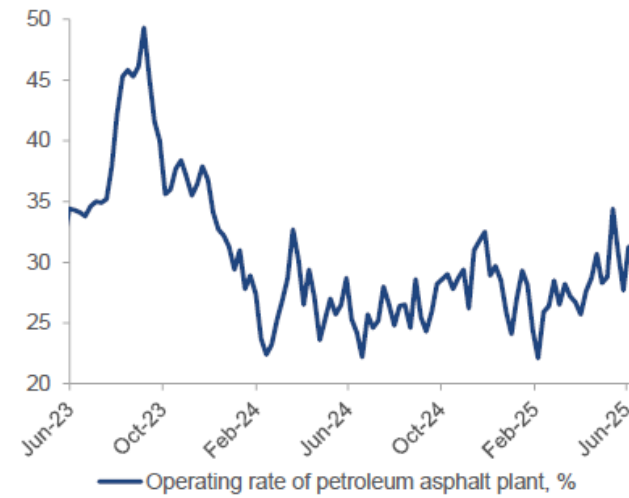
Source: Wind, Mizuho

Fig 6 Air traffic fell notably after the Labor Day holiday



Activity monitor (2/2)

Fig 7 Road construction slightly improved last week



Source: Wind, Mizuho

Fig 8 Construction material prices have been subdued

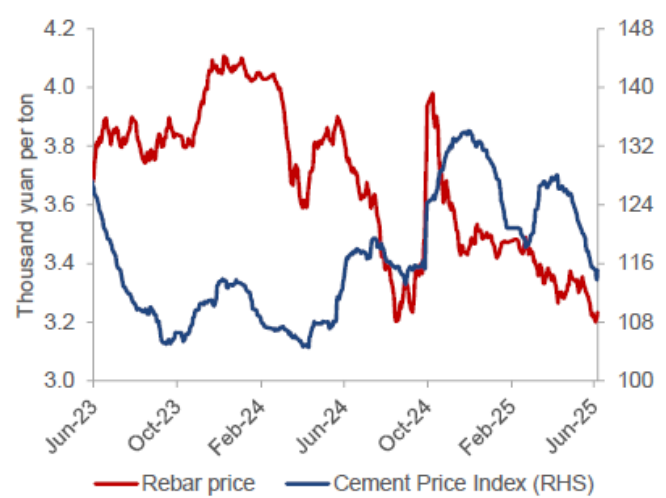
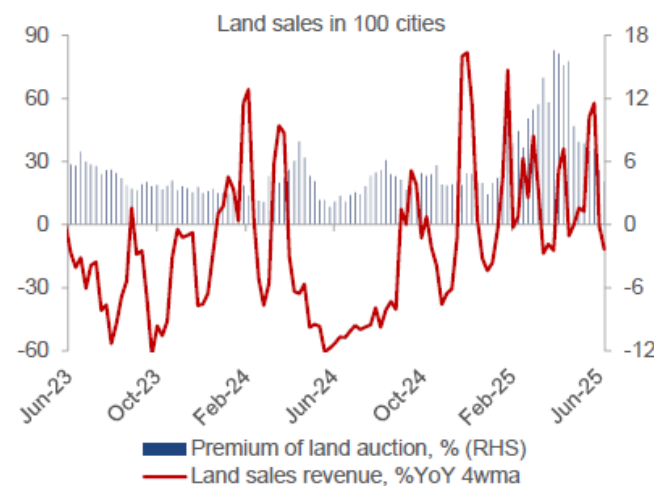


Fig 9 Land sales fell at a faster pace last week



Source: Wind, Mizuho

Fig 10 New home sales continued to pick up YoY

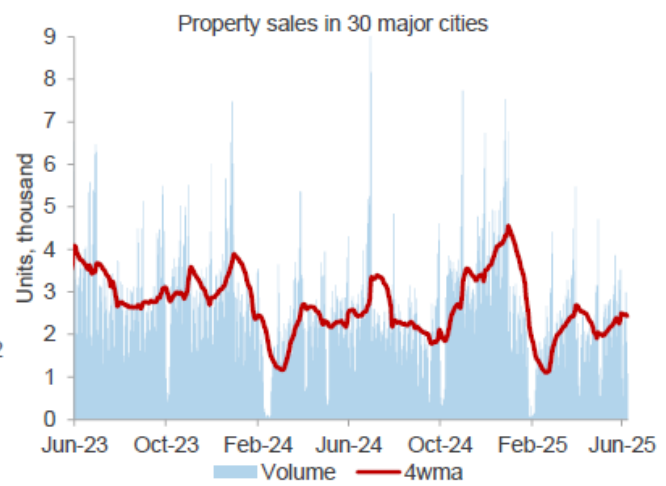
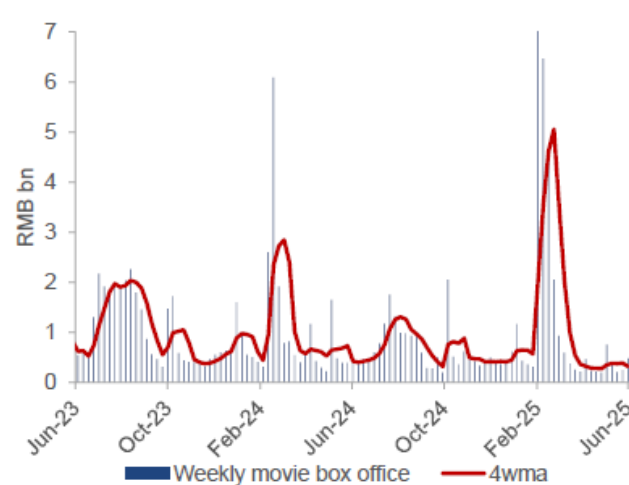
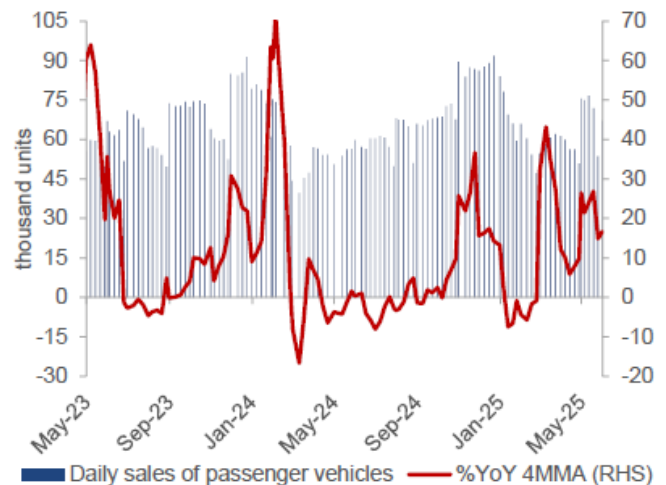


Fig 11 Movie box office revenue stayed subdued



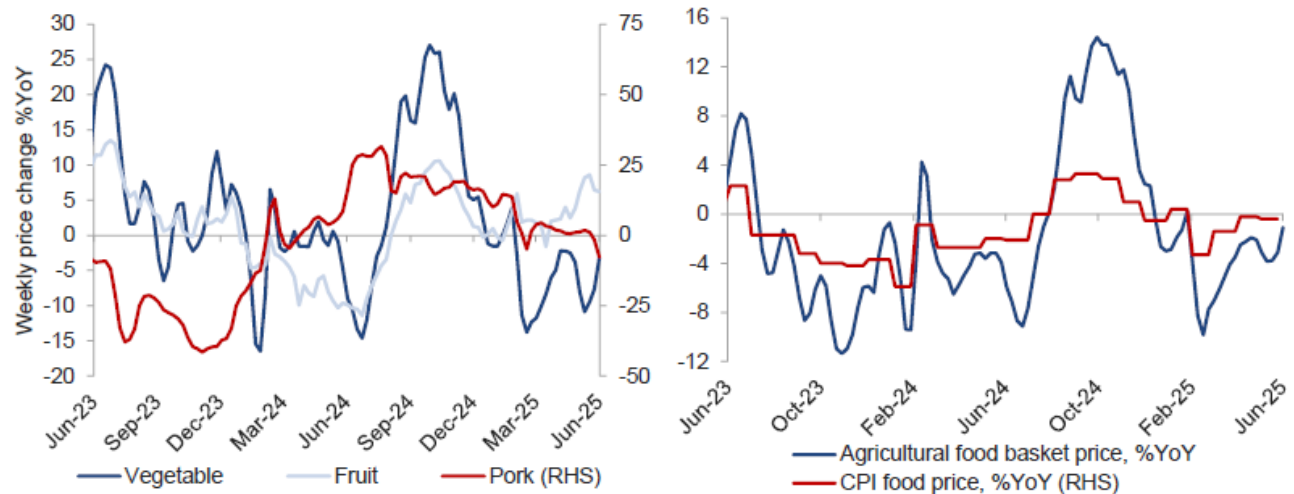
Source: Wind, Mizuho

Fig 12 PV sales: YoY growth remained supported



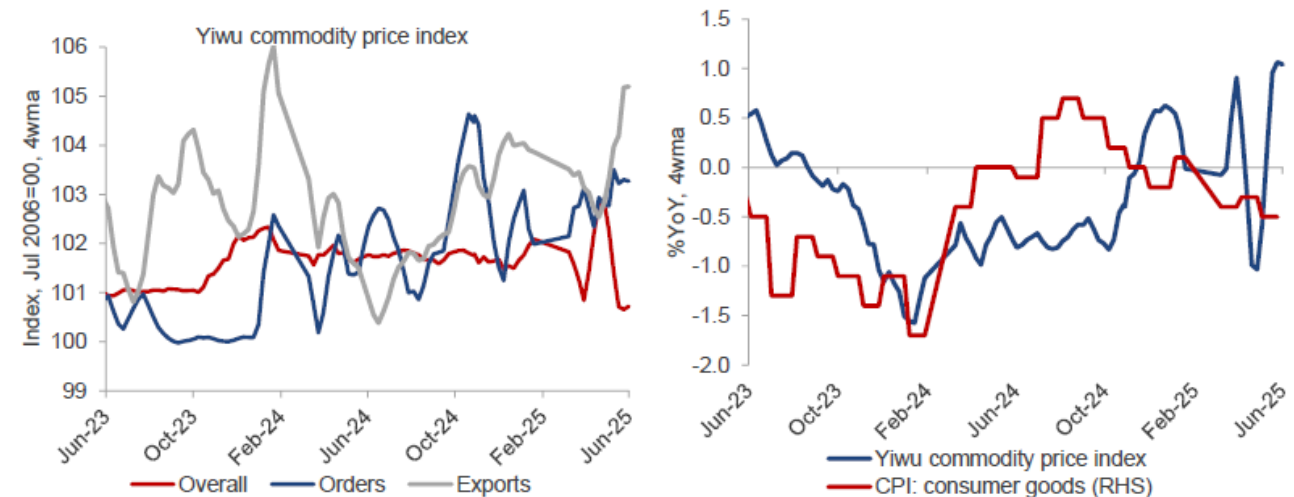
Price monitor

Fig 13 Agricultural prices continued to decline in early June on lower vegetable and pork prices



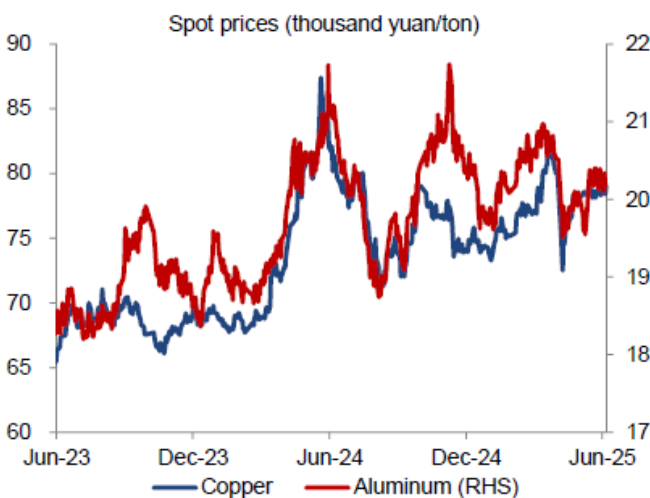
Source: CEIC, Mizuho

Fig 14 Yiwu Commodity Prices: YoY growth turned positive during the past four weeks



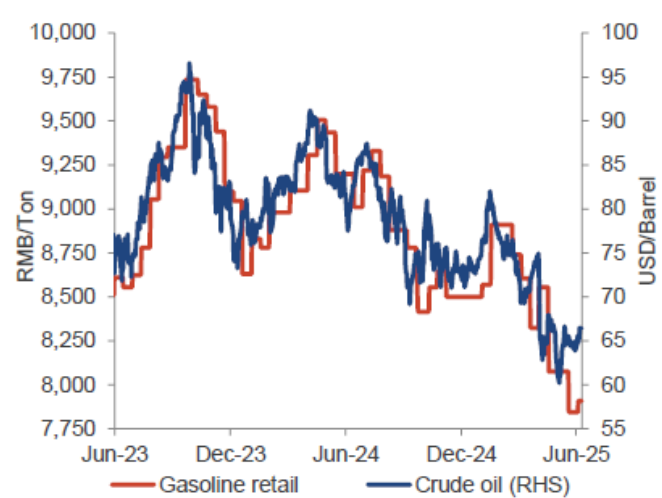
Source: Wind, Mizuho

Fig 15 Non-ferrous metal prices picked up in recent weeks



Source: CEIC, Wind, Mizuho

Fig 16 Oil prices slumped throughout May



Liquidity monitor

Fig 17 OMOs: net withdrawal of RMB672b during 2 - 6 June

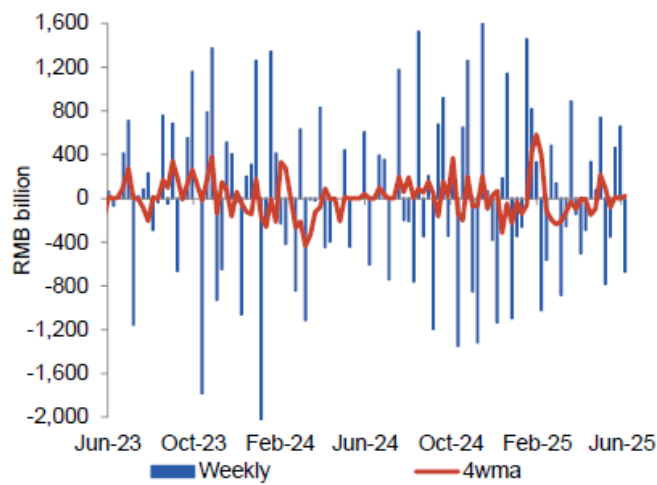


Fig 18 7D repo for FIs moved closer to the benchmark last week

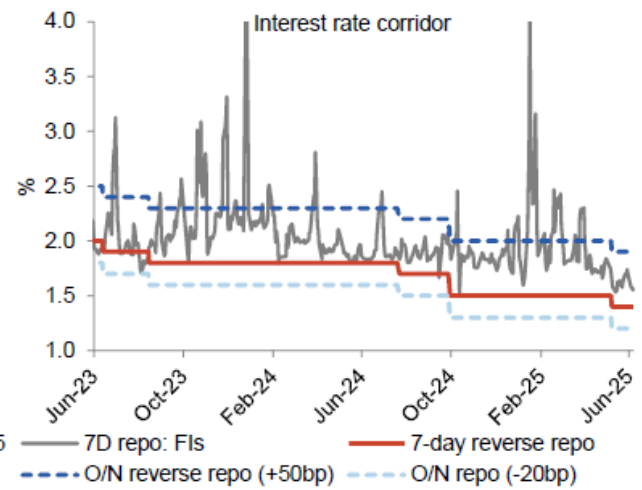


Fig 19 Short-end CGB yields slightly fell last week

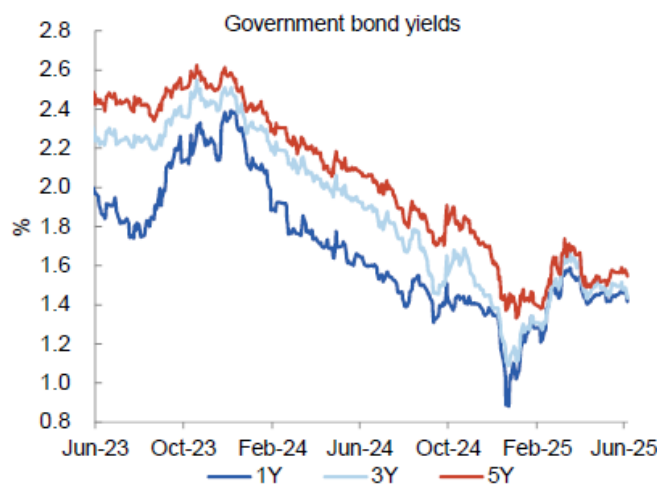


Fig 20 Long-end CGB yields remained relatively stable

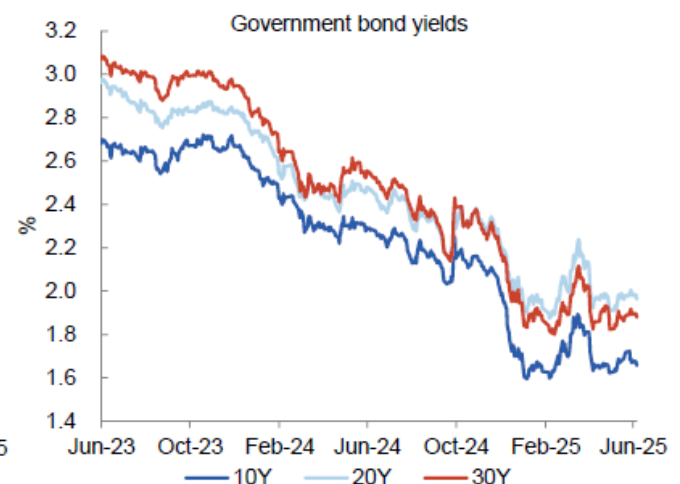
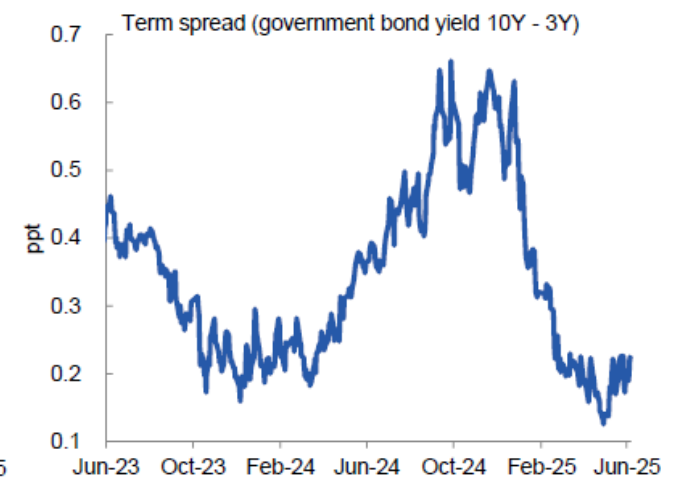
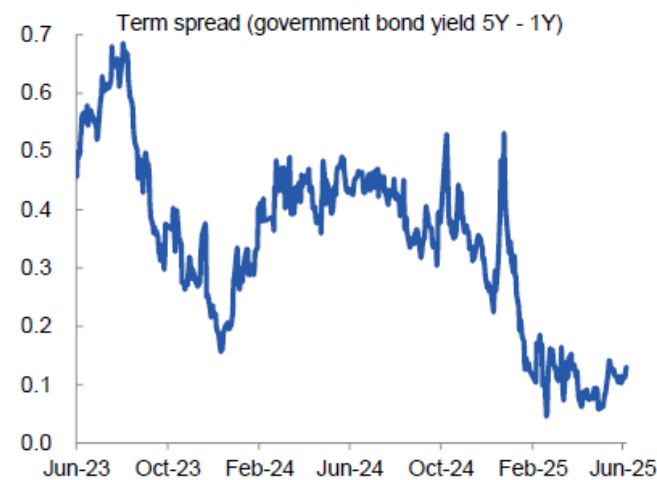
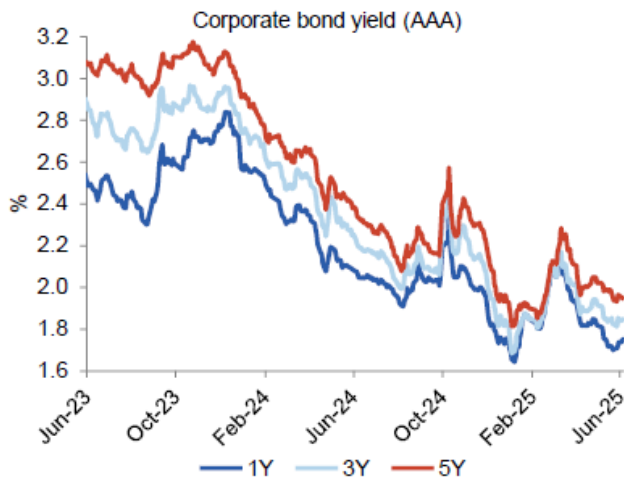


Fig 21 CGB term spreads slightly widened in recent weeks



Credit monitor

Fig 22 IG Corporate bond yields rose at the front end



Source: Wind, Mizuho

Fig 23 IG corporate risk premium gapped further wider

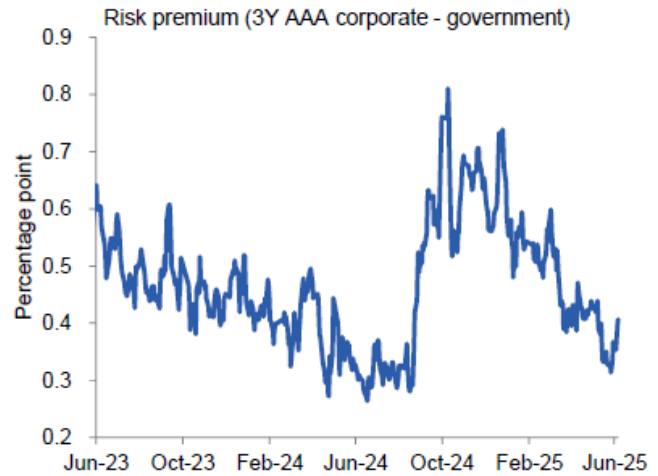
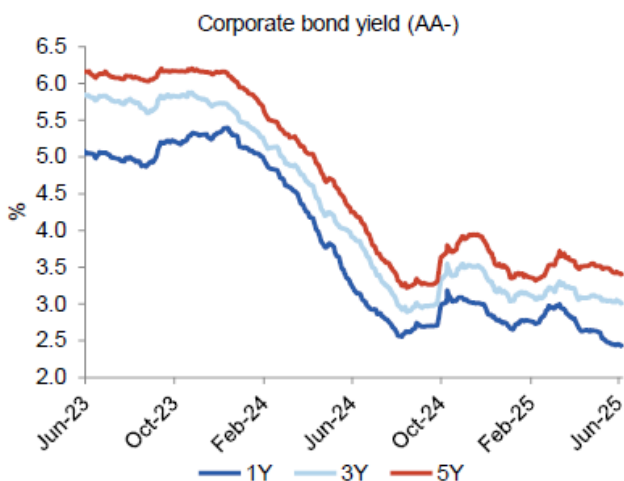


Fig 24 HY Corporate bond yields moved slightly lower



Source: Wind, Mizuho

Fig 25 HY corporate risk premium remained relatively stable

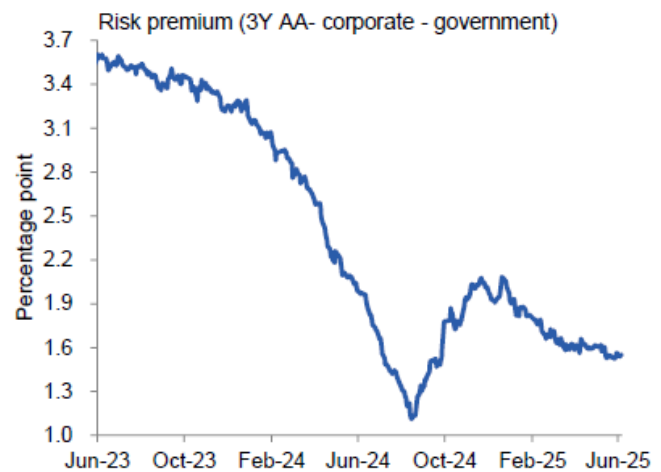


Fig 26 China USD credit spreads moved tighter last week amid optimism over a Trump-Xi call



Source: IHS Markit, Mizuho

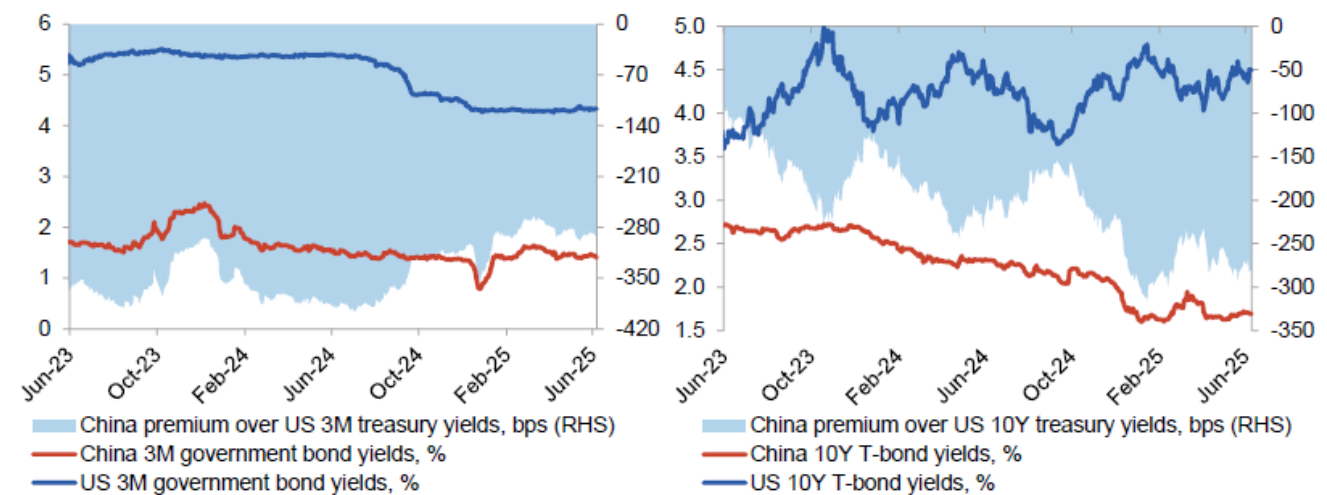
FX monitor

Fig 27 RMB exchange rates slightly depreciated against the US dollar last week



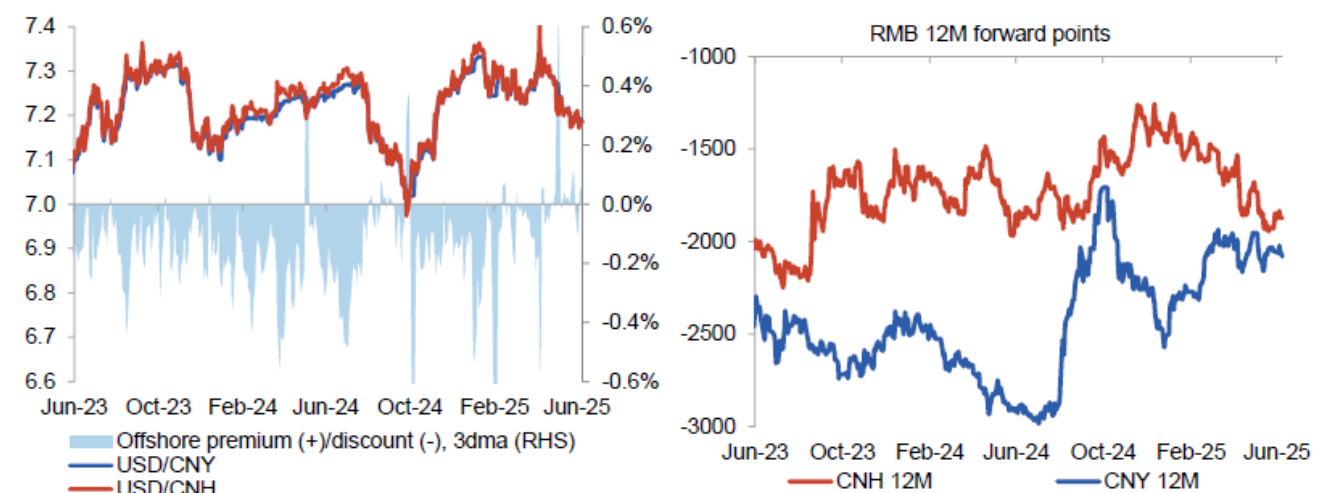
Source: CEIC, Bloomberg, Mizuho

Fig 28 China-US interest rate spreads moved slightly wider at both ends last week



Source: CEIC, Bloomberg, Mizuho

Fig 29 RMB onshore vs. offshore: the gap between CNH and CNY spots remains well contained



Source: Bloomberg, Mizuho

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