Mizuho China Weekly

Economics & Strategy | Asia ex-Japan

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China Weekly Outlook

Stepped-up liquidity support

In line with market expectations, major Chinese banks kept both the 1-year and 5-year Loan Prime Rates unchanged for August. However, the PBoC significantly stepped-up liquidity support, injecting a net RMB1,365b via 7-day OMOs and RMB400b through the 1-year MLF. These moves aimed to ease tightening liquidity conditions and stabilize market sentiment. As a result, CGB yields declined across the curve, reversing last week's upward momentum. The 1-year yield slipped by 2.6bps, while the 30-year saw a more pronounced drop of 5.8bps (Fig 19 & 20). Earlier in the month, the PBoC also injected RMB1,200b through 3- and 6-month outright reverse repos.

Despite these liquidity measures, both onshore and offshore yuan held firm, showing resilience even as the US dollar gained modest ground ahead of Fed Chair Powell's dovish remarks at Jackson Hole.

Cooling industrial activity

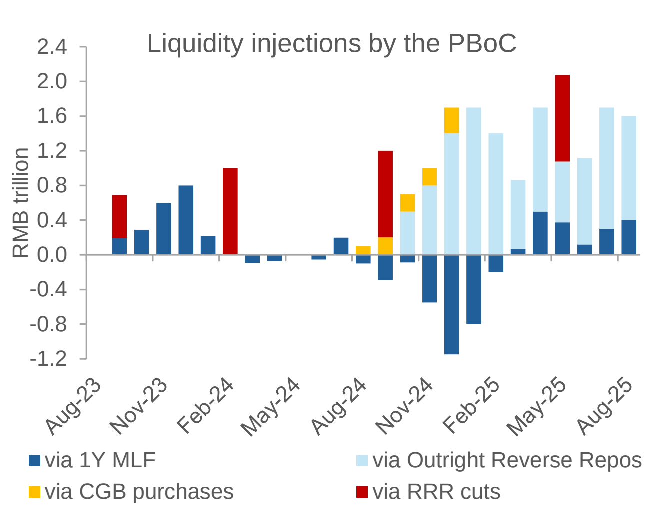
The backdrop to these monetary actions was a noticeable cooling in August industrial activity. The operating rate for PTA, a key chemical used in textile and packaging, averaged 76% in August, down 4.7ppt from July (Fig 2). The operation rate for semi-steel tire production, commonly used in automotive manufacturing, dropped to 72%, marking its lowest level since January 2024 (excluding dips due to holiday disruptions, Fig 4). Although steel output held up better, with a slower YoY decline (Fig 3), prices continued to soften, signaling tepid demand. Prices for shipments to the US and ASEAN also weakened, pointing to fading demand for stockpiling, particularly from the US (Fig 5).

Higher likelihood for a rate cut

Given these signs of moderation, we expect China's official Manufacturing PMI for August to remain subdued, coming in at 49.4 this Sunday (versus July's 49.3).

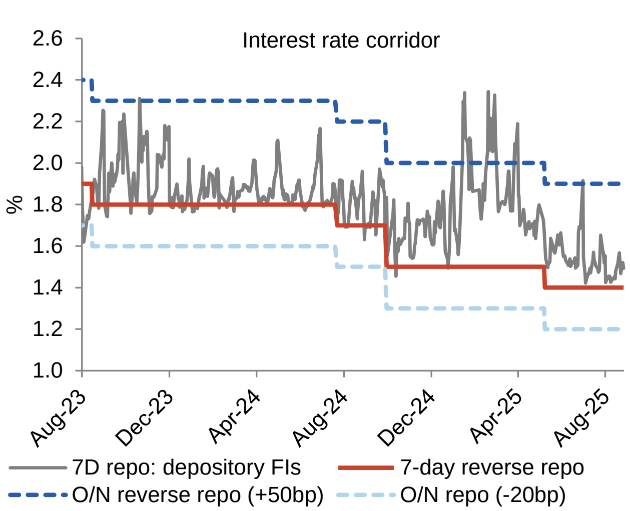
If this trend persists, the probability of a rate cut by the PBoC in September increases, especially if the US Fed proceeds with its anticipated rate cut at the mid-September policy meeting. Meanwhile, the yuan will stay supported with the PBoC's strong grip over its fixing rate (Fig 27).

<The PBoC increased liquidity injections via 1-year MLF>



Source: Wind, CEIC, Mizuho

<7-day repo rates among banks remained relatively contained>



CNH Outlook

Forex – CNH receives support from narrowing yield gaps, outperforming its Asian peers

Rates – Onshore rates declined following the PBoC's stepped-up liquidity support

Equities – Shanghai Composite Index remains at a decade high

Weekly Price Change#	Week Open	Week High	Week Low	Week Close	Weekly Change*
USD/CNH	7.1858	7.1931	7.1666	7.1719	-156
USD/CNY	7.1838	7.1893	7.1788	7.1675	-174
CNY PBoC Fixing	7.1322	7.1384	7.1287	7.1321	-1
Shanghai Composite Index	3712.50	3825.76	3658.38	3825.76	97.73

#Last week, from Monday to Friday
*pips in USD/CNY,USD/CNH row

Weekly Price Change#	HK Close	Weekly Change		HK Close	Weekly Change
CNH Forward (1yr)	-1555	39	CNH HIBOR (3mth)	1.735	-0.005%
CNH Currency Swap (3yr)	1.5350	0.01%	CNH Implied yield (1Y)	1.571	-0.009%

Recap

After the Hong Kong market closed last Friday, Fed Chair Jerome Powell struck a dovish tone during his speech at the Jackson Hole Symposium. He acknowledged a shifting risk landscape, citing evolving trade and immigration policies. Notably, the US labor market slowdown appears more pronounced than the Fed had previously estimated, while rising tariffs are beginning to exert upward pressure on prices in select goods categories.

The USD index tumbled 1.2% immediately following Powell's remarks, though it has since clawed back much of the decline. Futures markets are now pricing in over two rate cuts by year-end and three more by the end of 2026. This shift in rate outlook has further narrowed the US-China yield gap, lending support to the CNH, which has firmed to trade in the 7.15–7.16 range, stronger than last week's 7.18–7.19 levels.

Among Asian currencies, the renminbi led the gains against the USD. CNY rose 0.44% and CNH gained 0.41% between August 18 and 25, outperforming peers like HKD (+0.11%) and JPY (+0.06%). This momentum was partially exaggerated by the yuan's recent weakness on a real effective exchange rate basis (Fig 28).

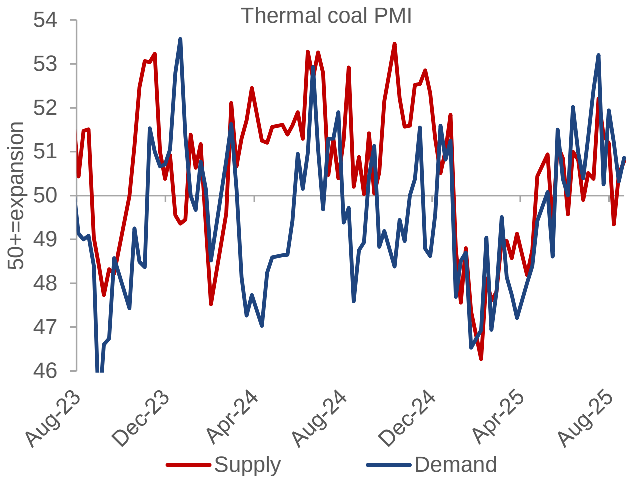
Outlook

Looking ahead, while we expect China's August industrial data to show further cooling and see a rising probability of a rate cut in September, the impact on RMB is likely to remain contained. The PBOC's firm control over the daily fixing continues to anchor expectations. We anticipate CNH to stay resilient, trading within a 7.10–7.20 band in the near term, with relatively muted volatility as it continues to shadow broader USD movements.

< FX Charts on Page 8>

Activity monitor (1/2)

Fig 1 Thermal coal: supported demand and supply



Source: Wind, Mizuho

Fig 2 PTA production dropped notably in Aug

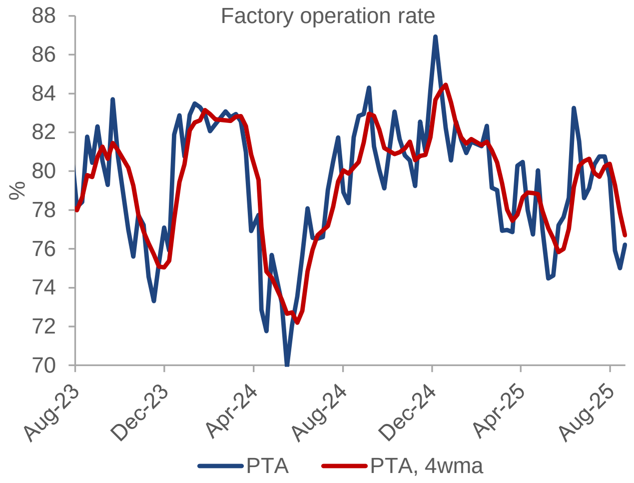
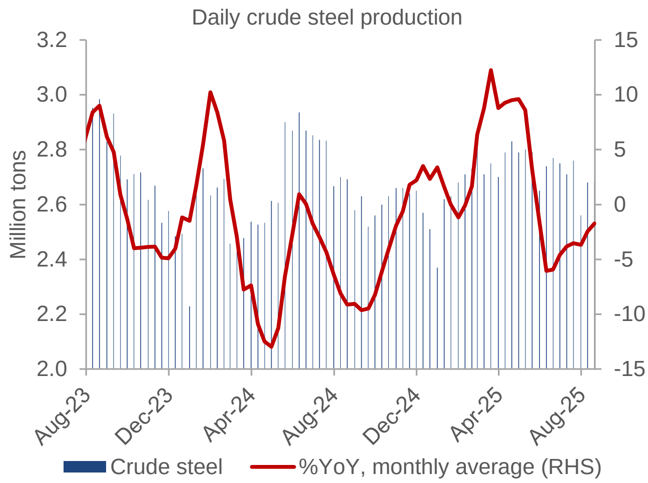


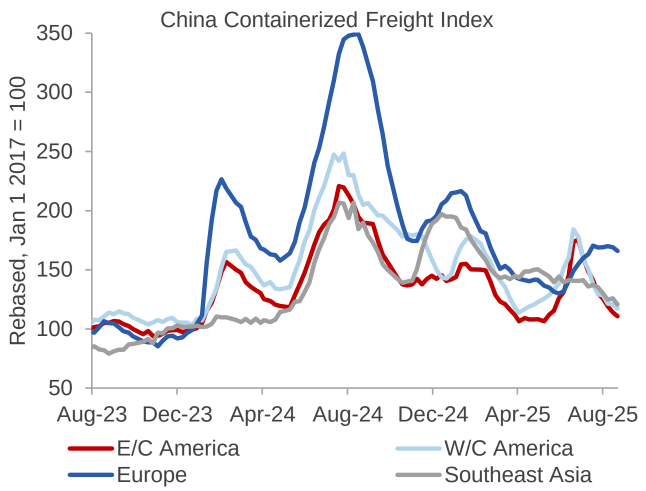
Fig 3 Steel production fell at a slower pace in recent weeks



Source: Wind, Mizuho

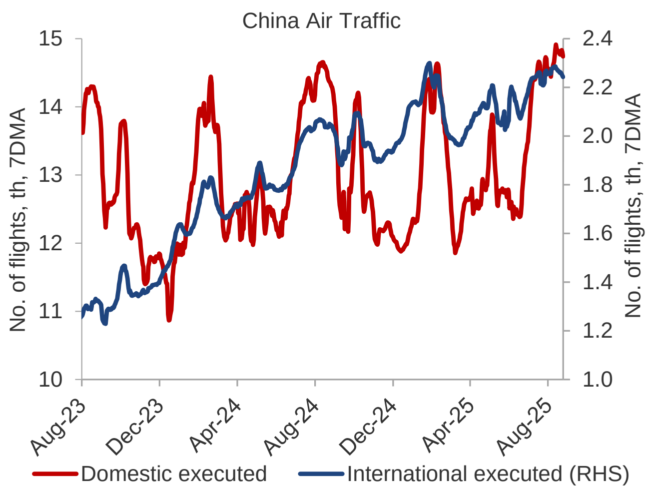
Fig 4 Steel tire production continued to move lower

Fig 5 CCFI: shipping prices to the US significantly normalized



Source: Wind, Mizuho

Fig 6 Air traffic has increased significantly during summer holiday



Activity monitor (2/2)

Fig 7 Road construction continued to improve

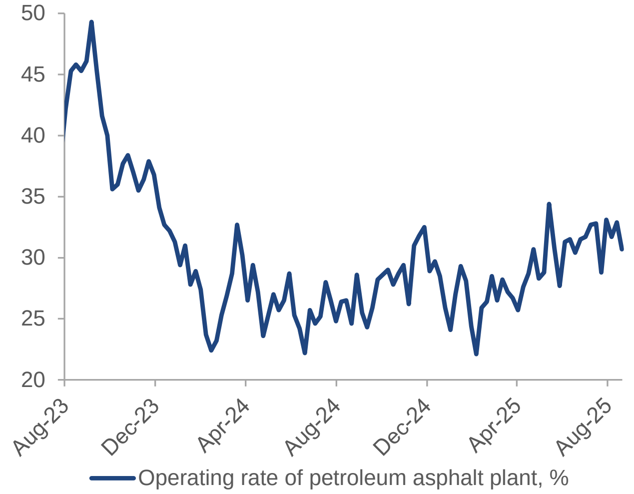
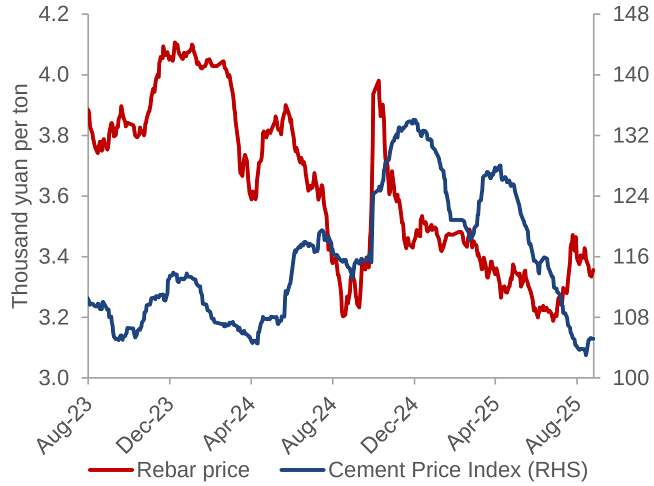


Fig 8 Construction material prices remained relatively low



Source: Wind, Mizuho

Fig 9 Land sales weakened in recent weeks

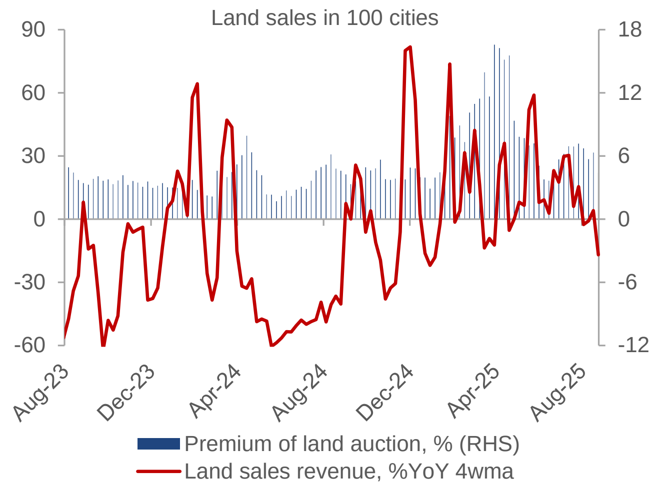
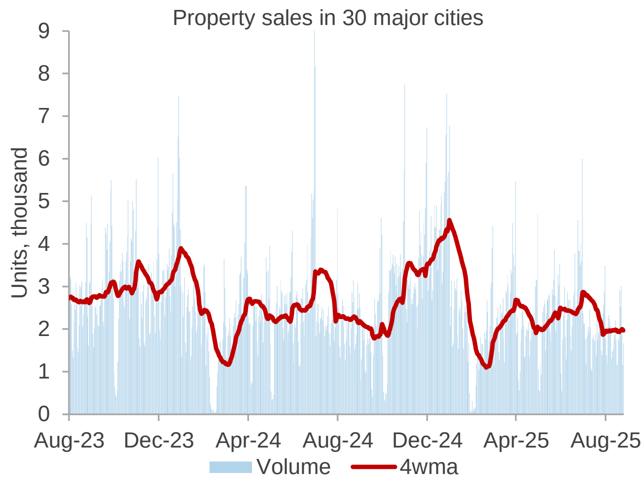


Fig 10 New home sales stayed tepid



Source: Wind, Mizuho

Fig 11 Movie box office revenue improved in summer holiday

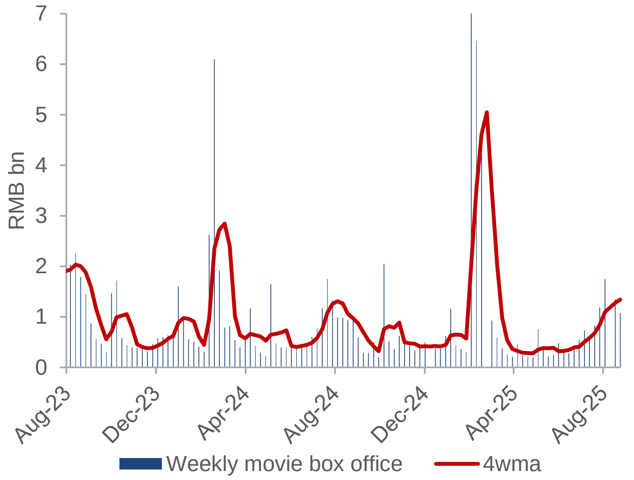
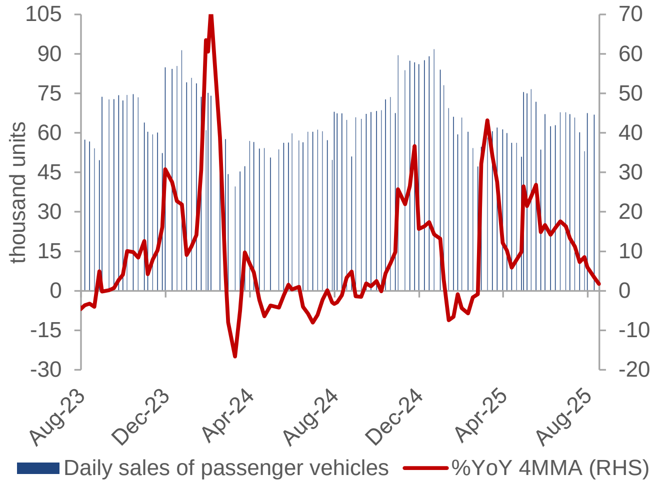


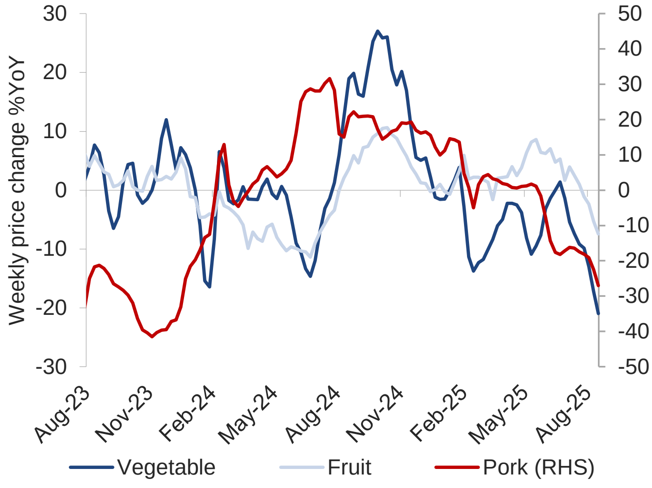
Fig 12 PV sales growth continued to moderate in recent weeks

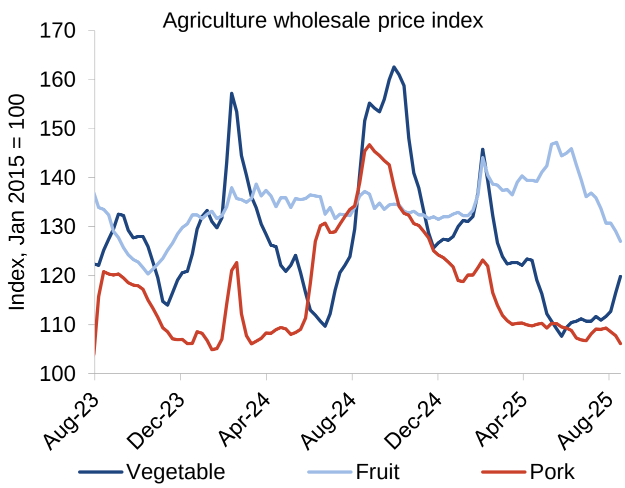


Source: Wind, Mizuho

Price monitor

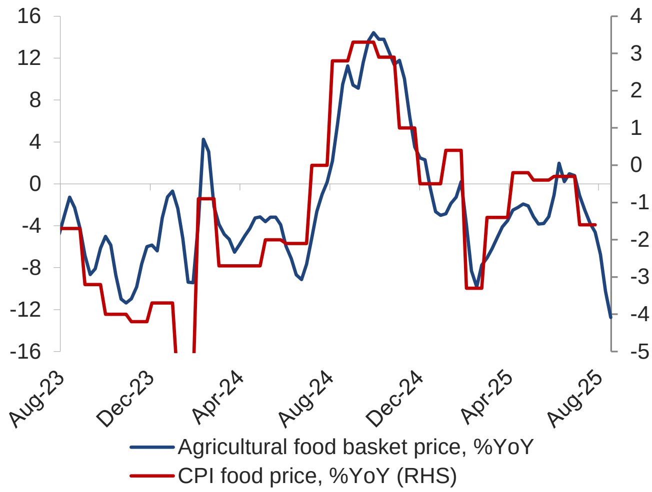
Fig 13 Major food items: price declines worsened across the broad

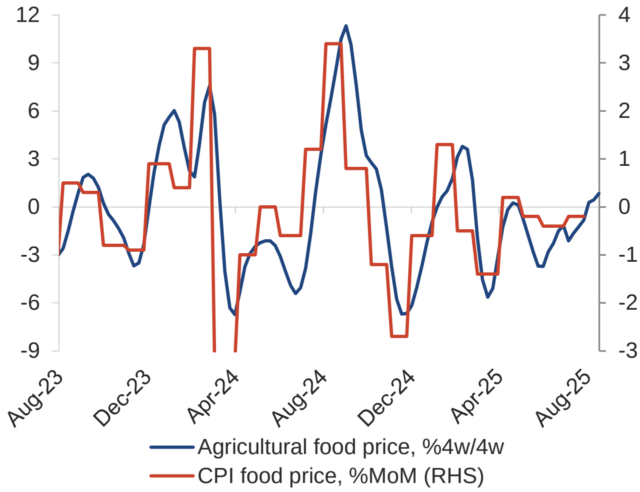




Source: Wind, Mizuho

Fig 14 Wholesale food prices fell at a faster YoY pace on the high base from same period last year





Source: CEIC, Mizuho

Fig 15 Non-ferrous metal prices stayed much unchanged

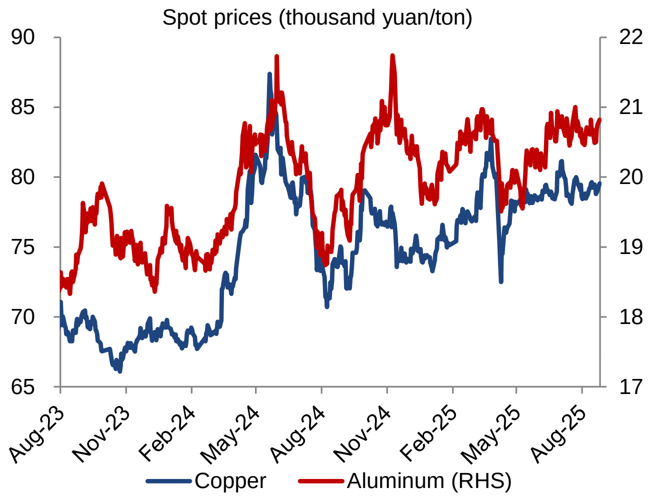
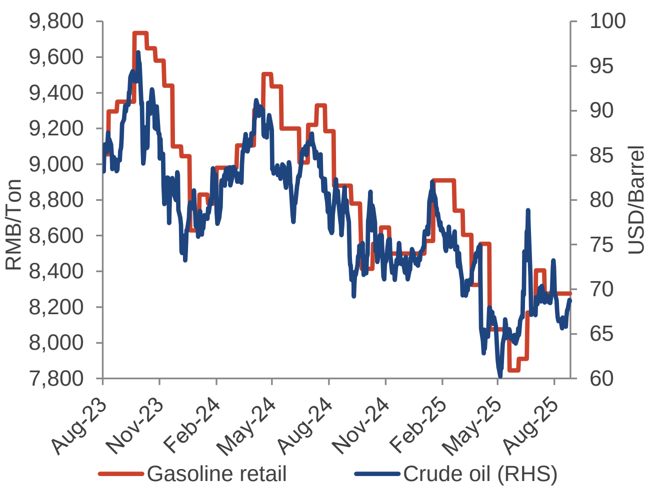


Fig 16 Oil prices rose again on lack of progress in Trump-Putin talks



Source: CEIC, Wind, Mizuho

Liquidity monitor

Fig 17 OMOs: net injection of RMB1365b during 18 - 22 Aug

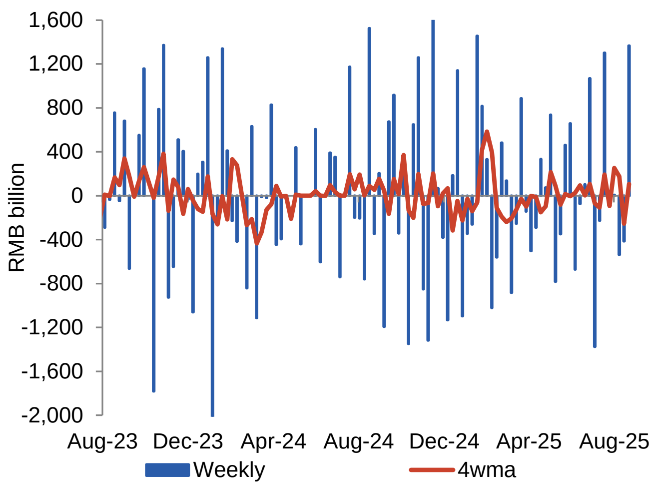
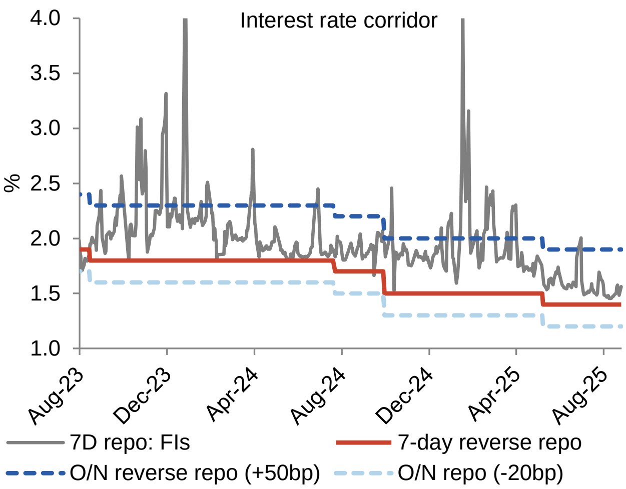


Fig 18 7D repo for FIs moved closer to the target level in Aug



Source: CEIC, Wind, Mizuho

Fig 19 Short-end CGB yields saw a decline in 1Y and 5Y

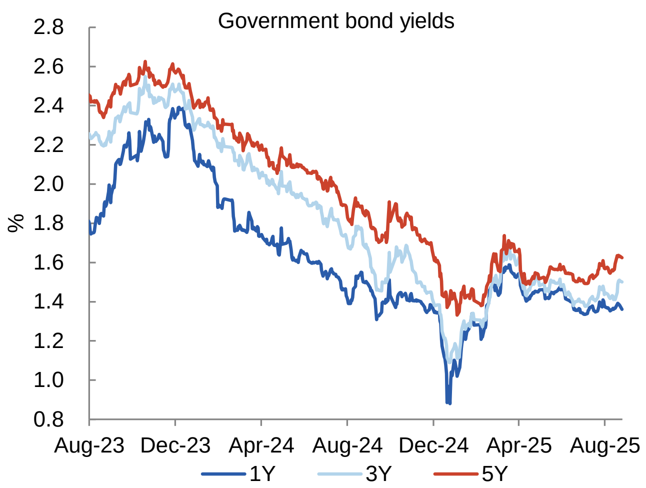
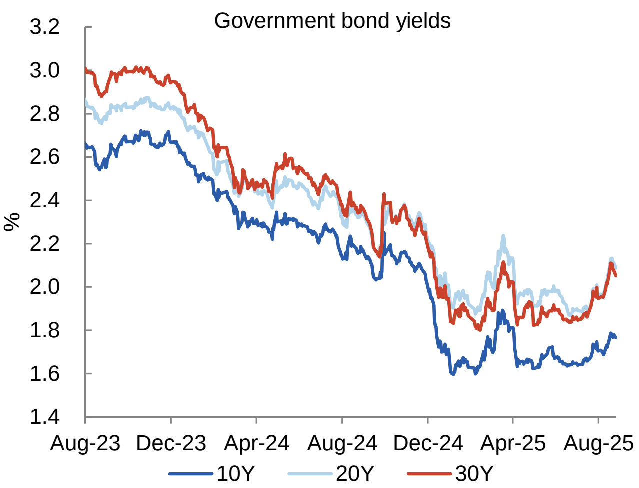
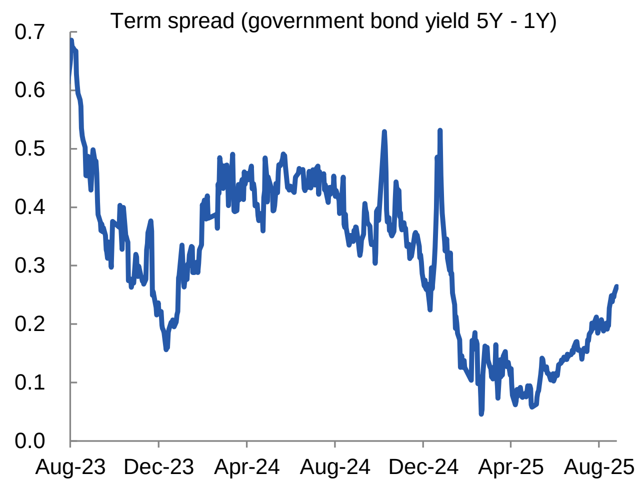


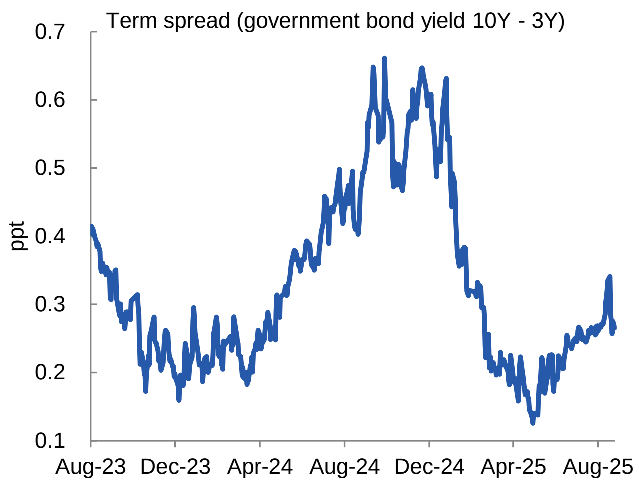
Fig 20 Long-end CGB yields experienced a more significant decline



Source: Wind, CEIC, Mizuho

Fig 21 CGB term spreads gapped wider at the front end





Source: CEIC, Mizuho

Credit monitor

Fig 22 IG Corporate bond yields rose across maturities

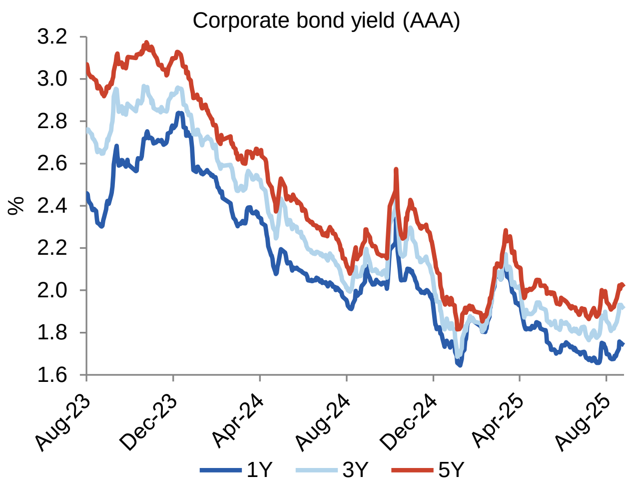
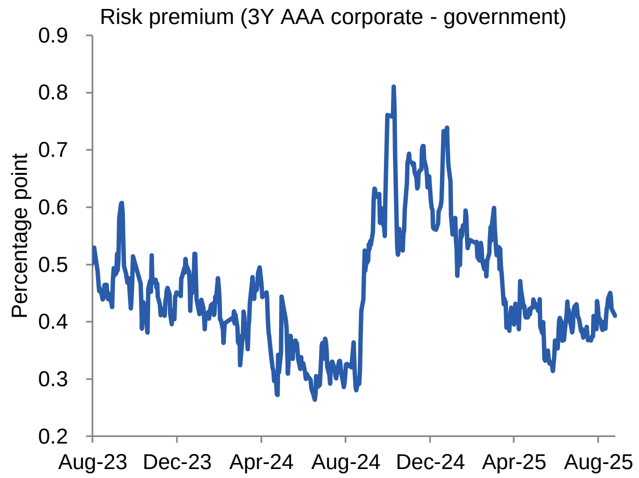


Fig 23 IG corporate risk premium continued its range-bounding



Source: Wind, Mizuho

Fig 24 HY Corporate bond yields slightly picked up

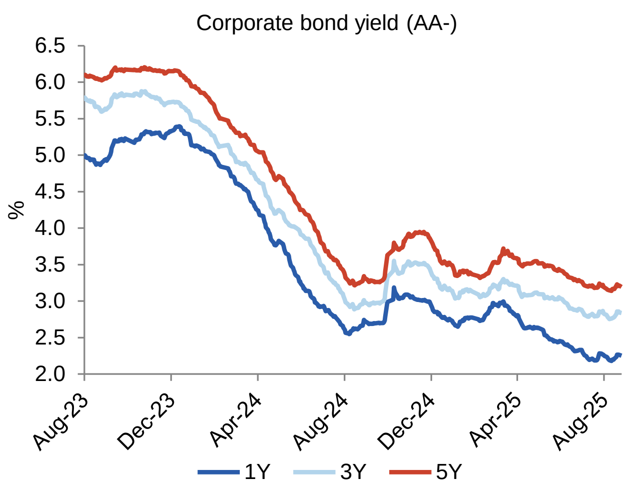
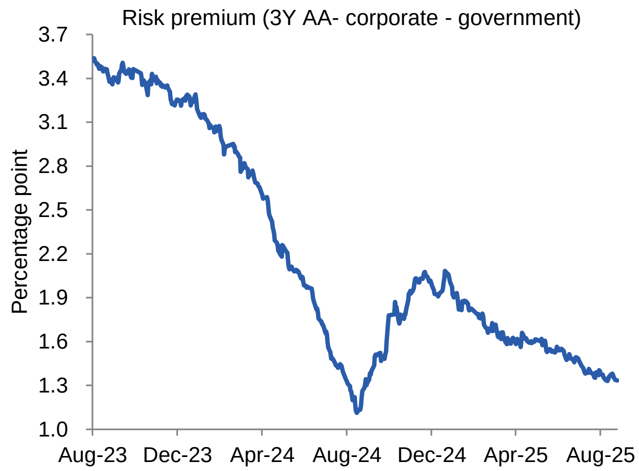
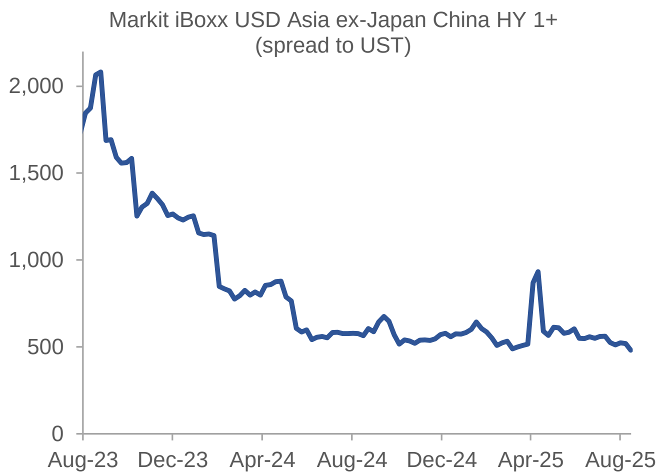


Fig 25 HY corporate risk premium slightly tightened



Source: Wind, Mizuho

Fig 26 China USD credit spreads were mixed last week amid worries over further deterioration in the property sector



Source: IHS Markit, Mizuho

FX monitor

Fig 27 RMB fixing rate: PBoC intervention reinstated in Jul

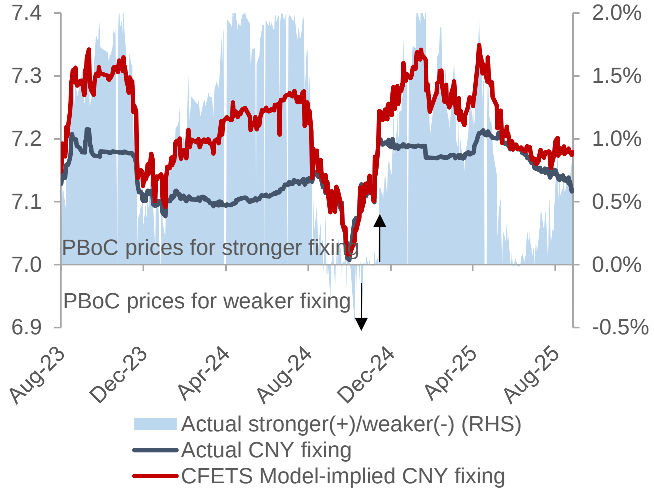
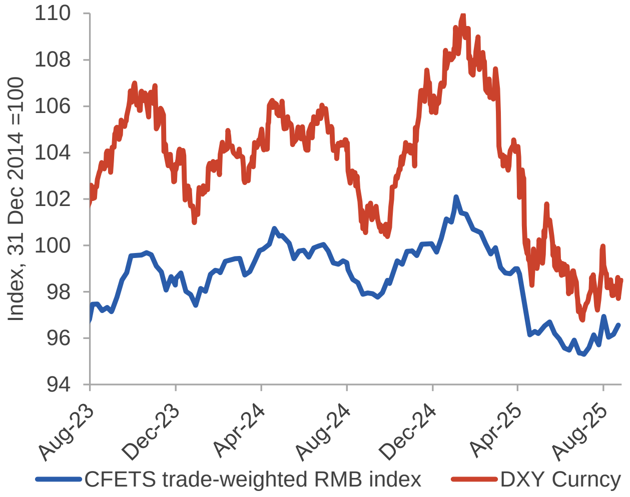
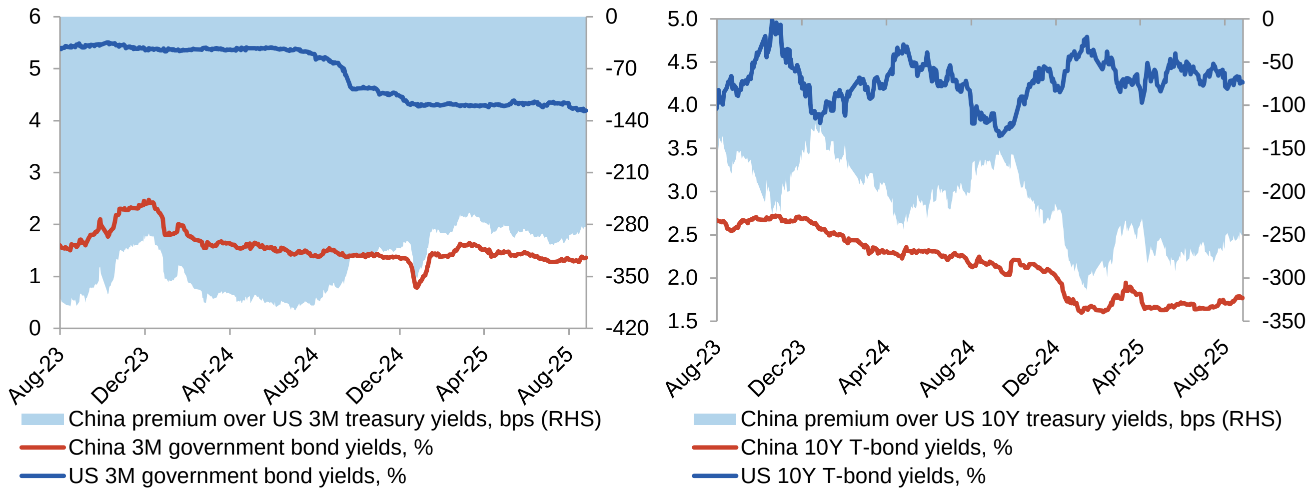


Fig 28 RMB trade-weighted index strengthened last week



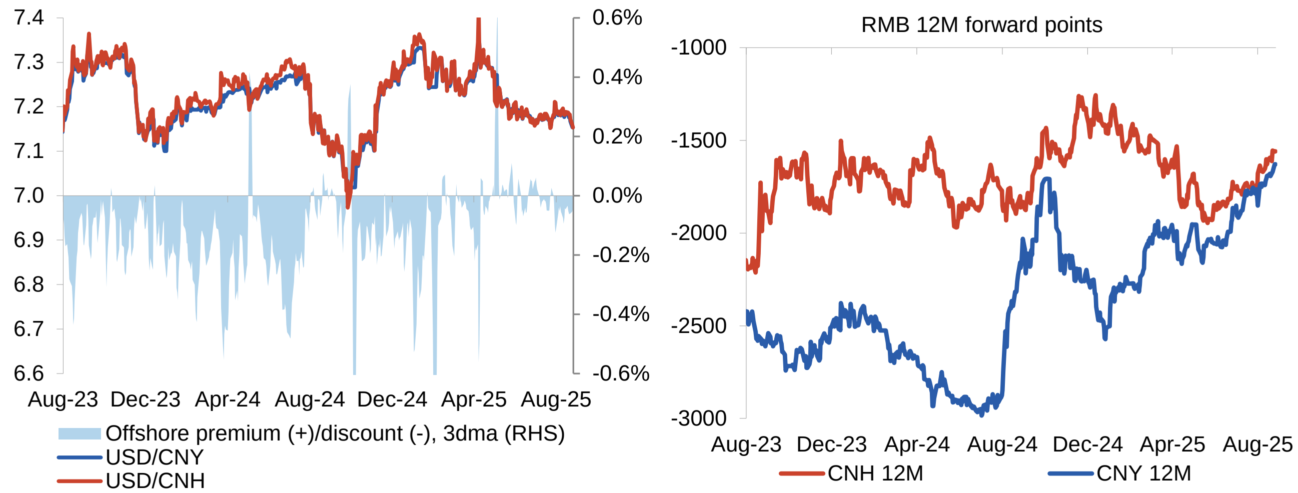
Source: CEIC, Bloomberg, Mizuho

Fig 29 China-US interest rate spreads tightened further at the front end amid higher China rates and lower US rates



Source: CEIC, Bloomberg, Mizuho

Fig 30 Offshore RMB (CNH) is trading almost on par with the CNY, with an almost disappearing gap in forward points



Source: Bloomberg, Mizuho

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