Mizuho China Weekly

Economics & Strategy | Asia ex-Japan

1 September 2025

Serena Zhou | Senior China Economist

China Weekly Outlook

Tepid recovery in manufacturing

China's official manufacturing PMI edged up to 49.4 in August, narrowly missing market expectations. Although this marks a marginal improvement from July's 49.3, it remains on par with the average August readings during 2022-24.

Drilling into the details, supply-side conditions showed signs of recovery, with the production subindex rising to 50.8. Meanwhile, demand remained tepid. The new orders subindex lingered below the expansion threshold at 49.5, reflecting ongoing softness, particularly in external demand. The new export orders index slipped to 47.2, below the average of 47.3 in 1H25. Large manufacturing enterprises continued to outperform, with their PMI climbing to 50.8 from July's 50.3. Sector-wise, hi-tech and equipment manufacturing led the gains, while consumer goods dragged.

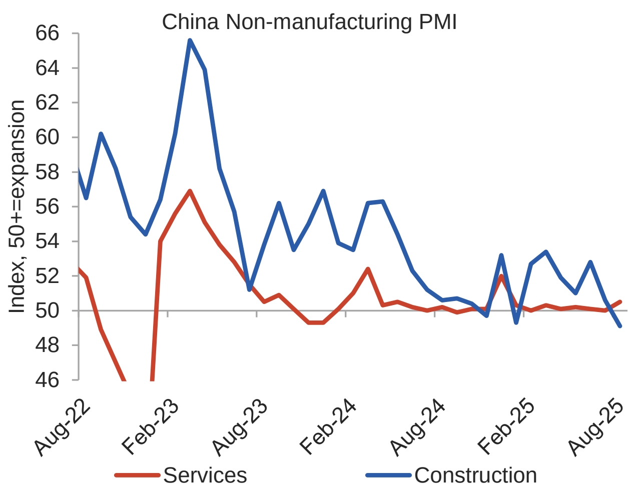
Upbeat service sentiment as stock market outperforms

In the non-manufacturing sector, the official PMI surprised to the upside, rising to 50.3 in August on the back of improved sentiment in services. The Service PMI reached a year-to-date high of 50.5, buoyed by strong performance in capital market services, which posted a PMI above 70 for the second consecutive month. Reflecting this optimism, the Shanghai Composite Index surged 8% in August and 15% YTD, touching levels last seen a decade ago. Conversely, construction activity weakened, with its PMI falling to a seven-month low of 49.1, signaling continued softness in domestic investment.

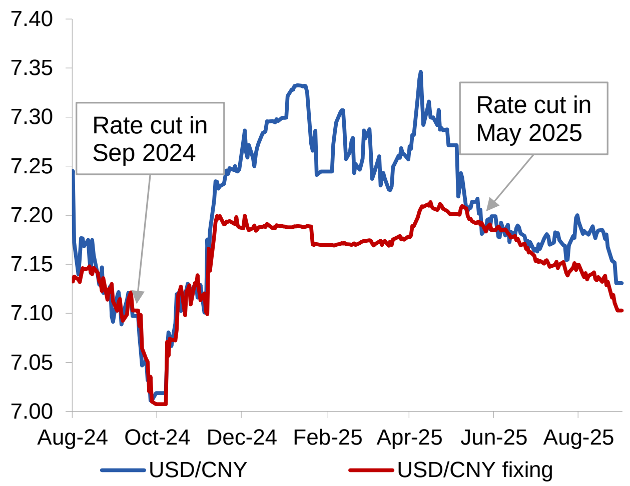
PBoC preparing for a rate cut?

Given the broad-based weakness in fixed asset investment and cooling industrial momentum, the likelihood of an interest rate cut by the PBoC in September has increased. A potential rate cut by the US Federal Reserve mid-month could further support this move. Interestingly, the PBoC guided a stronger yuan fixing last week, despite the USD showing little change. The yuan reference rate appreciated by 0.4%, while the DXY index remained largely flat. In our view, this could reflect the PBoC's strategy to narrow the gap between the CNY spot and fixing rate—building a buffer ahead of a possible rate cut. Additionally, higher onshore rates (Fig 19 & 20) amid stock market optimism may have also contributed to the yuan's strength.

<Improved service sentiment vs. worsened construction>



<The PBoC squeezing the gap between CNY spot and fixing rate>



Source: CEIC, Bloomberg, Mizuho

CNH Outlook

Forex – CNH outperformed its Asian peers for the second consecutive week

Rates – Onshore rates buoyed by optimism in the stock market

Equities – Shanghai Composite Index rose 8% in August, staying at a decade high

Weekly Price Change#	Week Open	Week High	Week Low	Week Close	Weekly Change*
USD/CNH	7.1737	7.1897	7.1159	7.1223	-361
USD/CNY	7.1649	7.1865	7.1635	7.1308	-228
CNY PBoC Fixing	7.1161	7.1321	7.1030	7.1030	-131
Shanghai Composite Index	3848.16	3888.60	3761.42	3857.93	-25.63

#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)	-1523	37	CNH HIBOR (3mth)	1.743	0.007%
CNH Currency Swap (3yr)	1.5550	0.03%	CNH Implied yield (1Y)	1.566	-0.019%

Recap

The USD struggled to find clear direction last week following Fed Chair Powell's dovish remarks, leaving the DXY index largely unchanged. In addition to resilient consumer expenditure (real personal spending rose 0.3% MoM), the core PCE price index, a key gauge for Fed rate decisions, climbed 2.9% YoY in July. This marked its fastest pace since February, underscoring persistent inflationary pressure exerted by robust domestic demand.

Meanwhile, the CNH strengthened 0.7% against the USD, outperforming its regional peers for the second consecutive week. The HKD edged up 0.25%, while the JPY and KRW slipped by 0.07% and 0.5%, respectively. The yuan's gains were supported by a firmer daily reference rate set by the PBoC and narrowing interest rate differentials between the US and China. The THB stood out with a 0.78% rise last week, likely benefiting from its strong correlation with gold prices.

Outlook

Looking ahead, we expect the PBoC to continue compressing the spread between the CNY spot and its fixing rate, laying the groundwork for a potential second rate cut this year. The CNH is likely to follow this trajectory. Continued optimism in China's equity markets could also lift onshore CGB yields, providing further support for the yuan. In the near term, we anticipate the CNH to remain resilient, trading within a 7.10–7.15 range.

< FX Charts on Page 8>

Serena Zhou | Senior China Economist
serena.zhou@mizuho-cb.com

Activity monitor (1/2)

Fig 1 Thermal coal: demand and supply softened last week

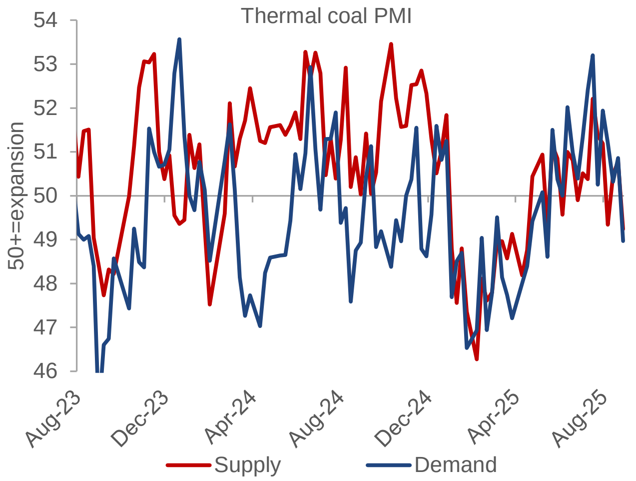
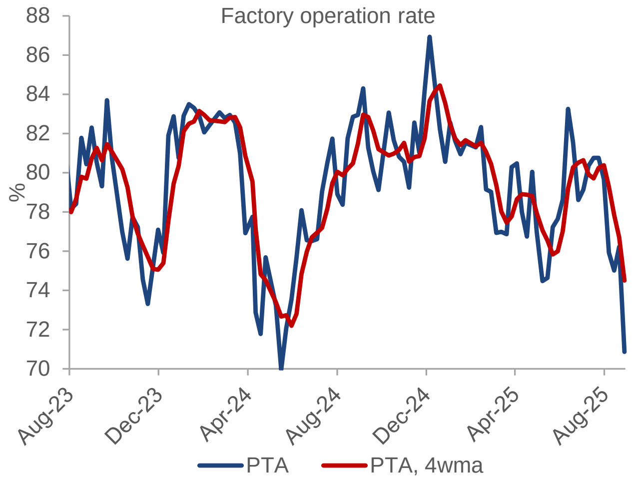


Fig 2 PTA production dropped notably in Aug



Source: Wind, Mizuho

Fig 3 Steel production fell at a slower pace

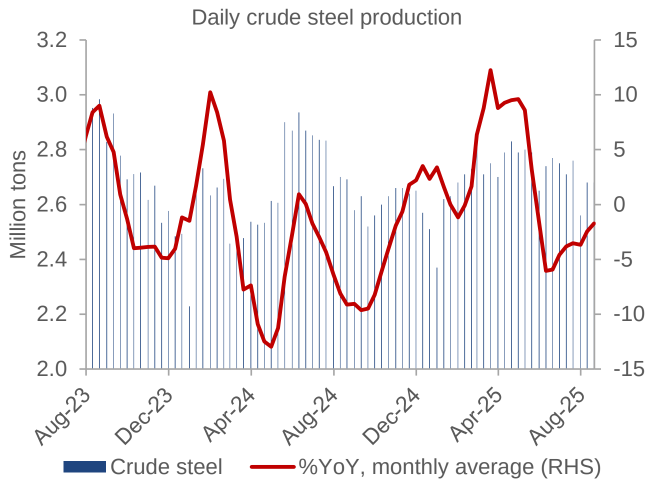


Fig 4 Steel tire production continued to edge lower

Source: Wind, Mizuho

Fig 5 CCFI: shipping prices to the US significantly normalized

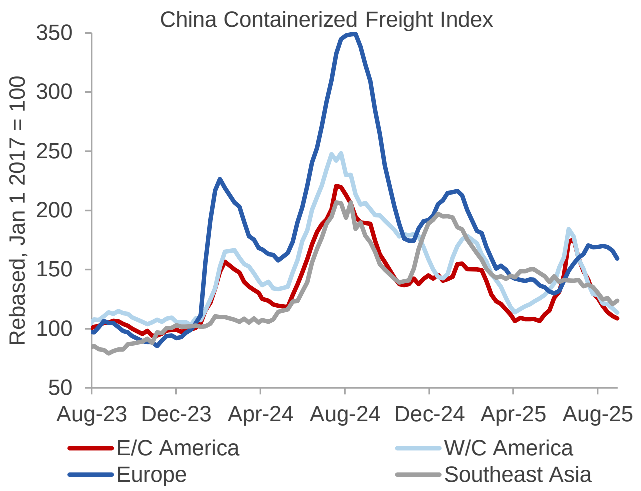
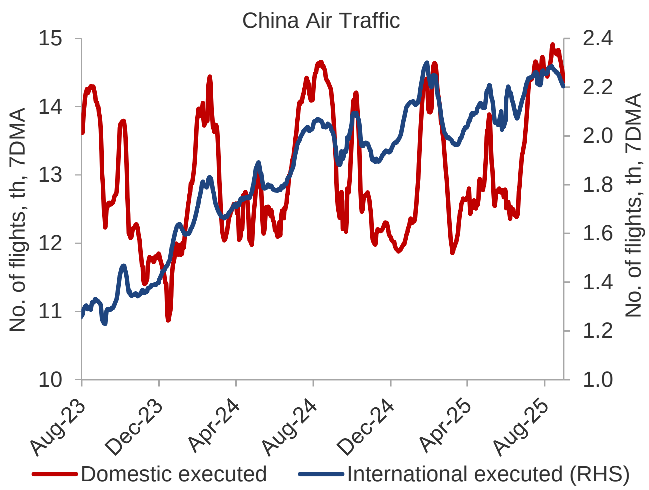


Fig 6 Air traffic has increased significantly during summer holiday



Source: Wind, Mizuho

Activity monitor (2/2)

Fig 7 Road construction activity slowed last week

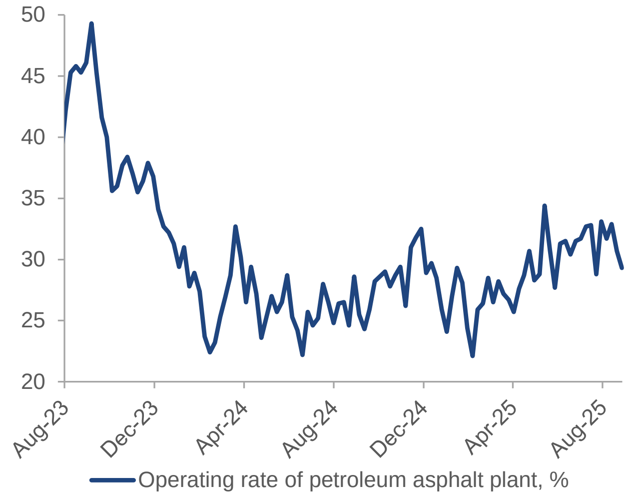


Fig 8 Construction material prices remained relatively low

Source: Wind, Mizuho

Fig 9 Land sales weakened in recent weeks

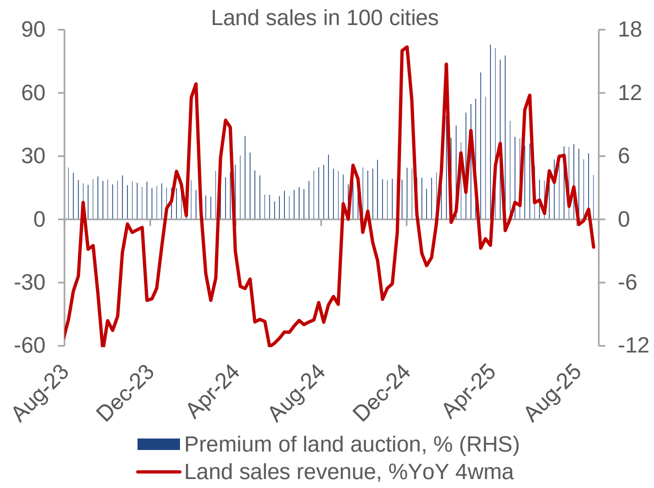
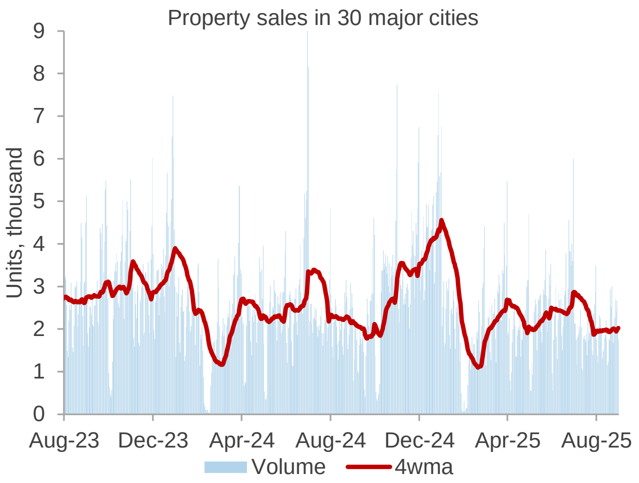


Fig 10 New home sales stayed tepid



Source: Wind, Mizuho

Fig 11 Movie box office revenue improved in summer holiday

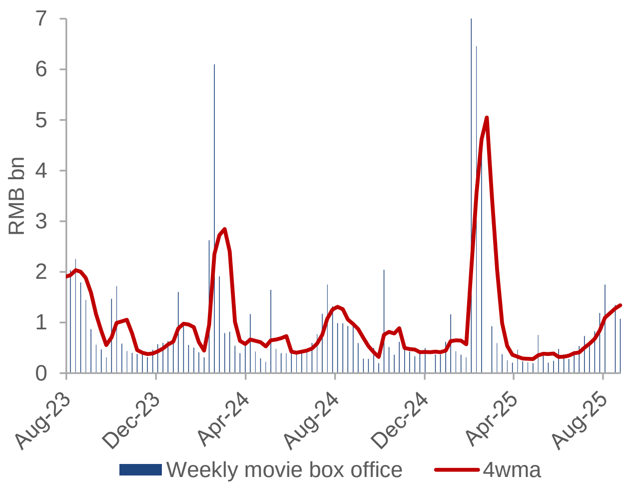
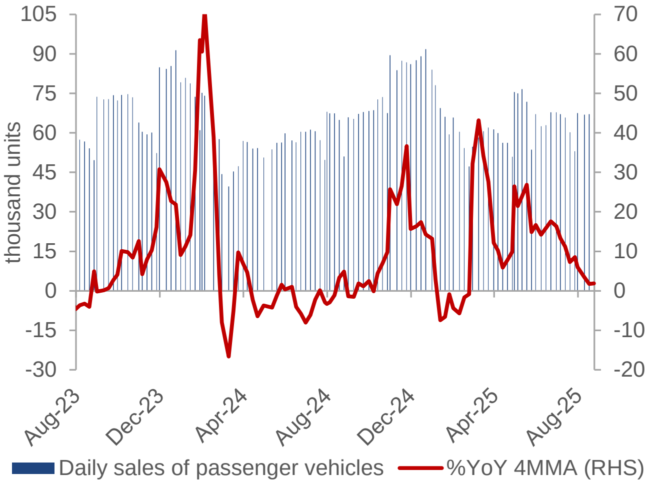


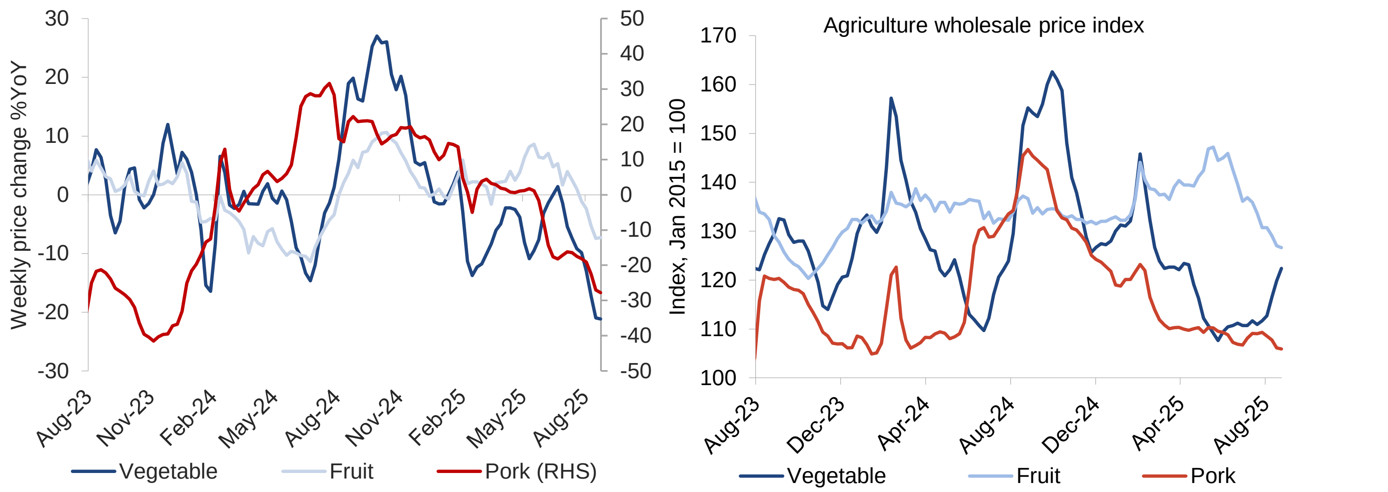
Fig 12 PV sales growth continued to moderate in recent weeks



Source: Wind, Mizuho

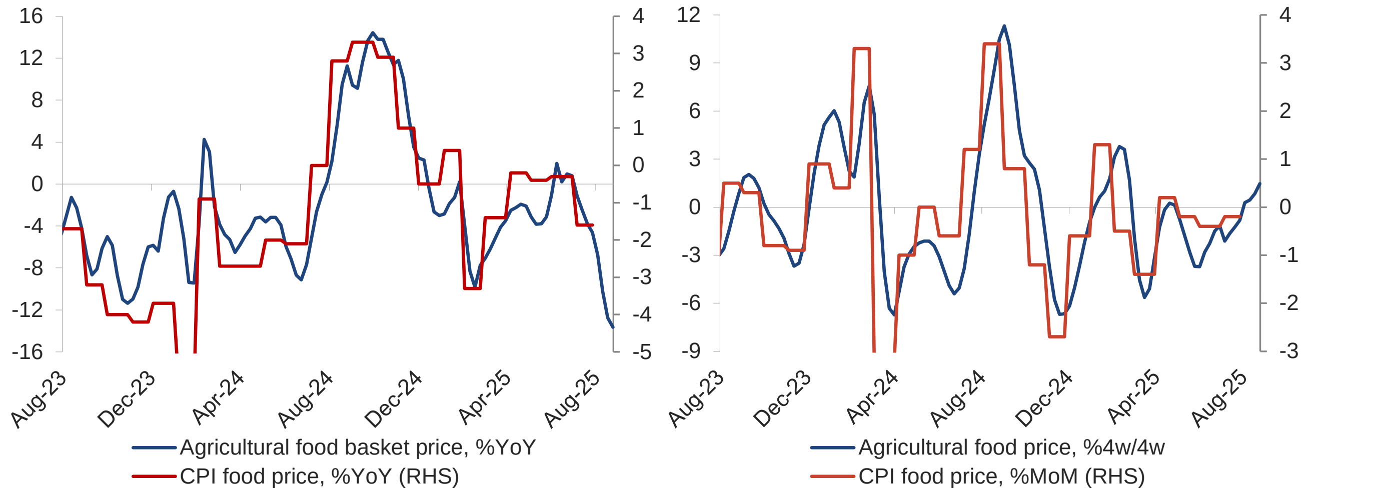
Price monitor

Fig 13 Major food items: price declines worsened in August



Source: Wind, Mizuho

Fig 14 Wholesale food prices fell at a faster YoY pace on high-base effects



Source: CEIC, Mizuho

Fig 15 Non-ferrous metal prices stayed much unchanged

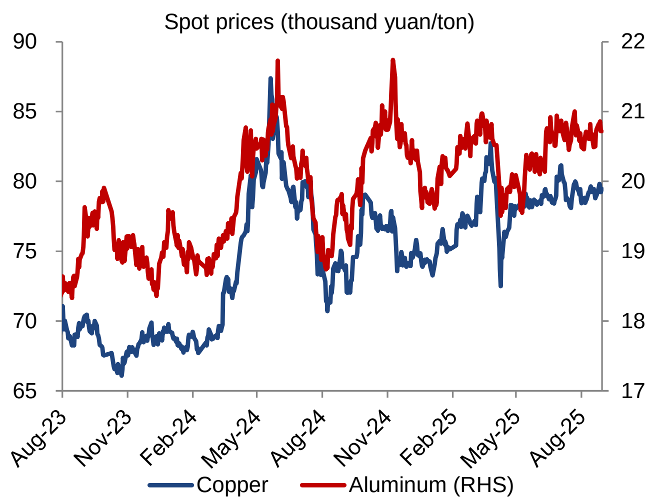
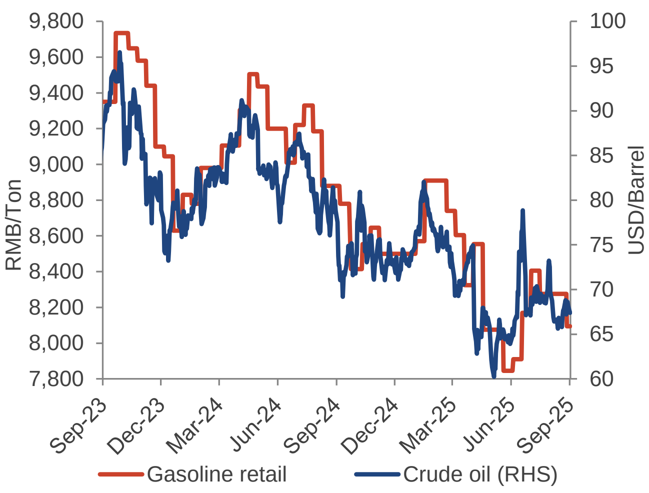


Fig 16 Oil prices rose again on lack of progress in Trump-Putin talks



Source: CEIC, Wind, Mizuho

Liquidity monitor

Fig 17 OMOs: net injection of RMB196b during 25 - 29 Aug

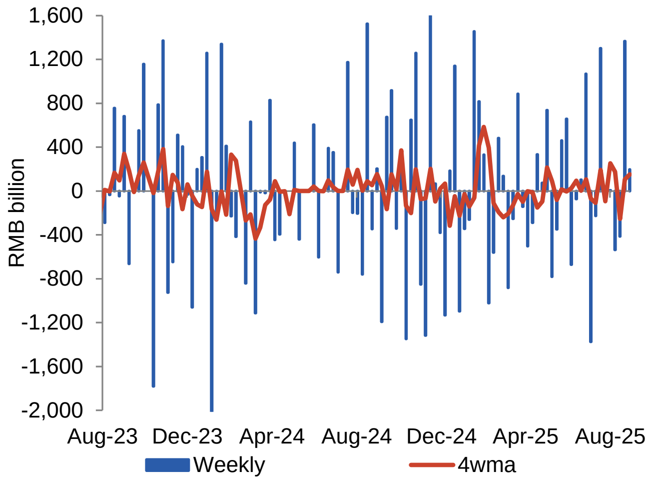
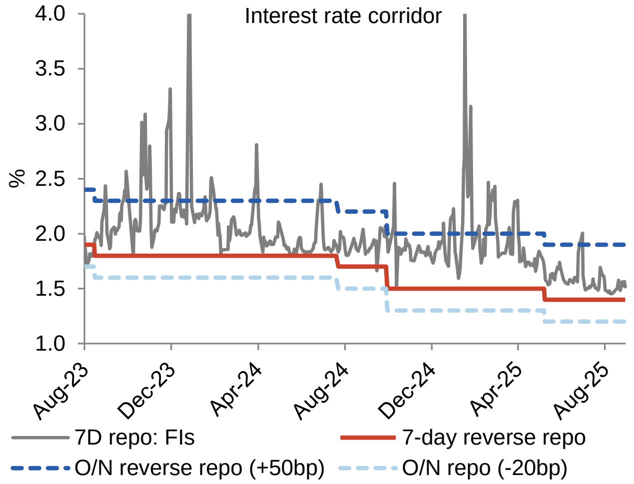


Fig 18 7D repo for FIs moved closer to the target level in Aug



Source: CEIC, Wind, Mizuho

Fig 19 Short-end CGB yields edged lower

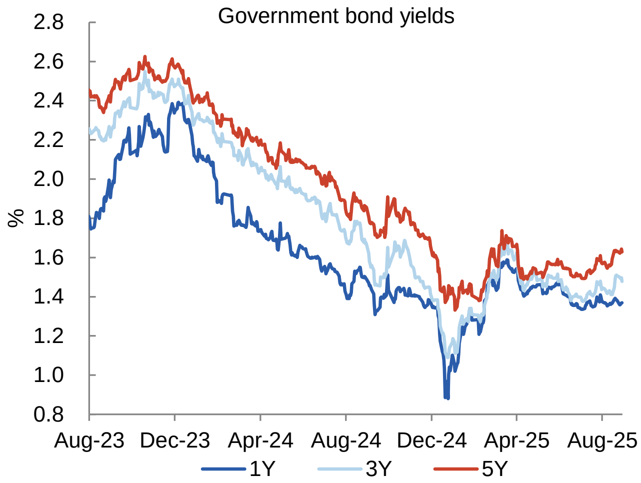
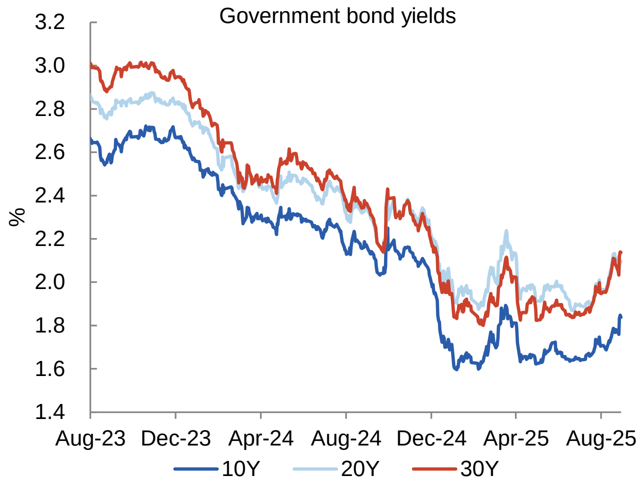
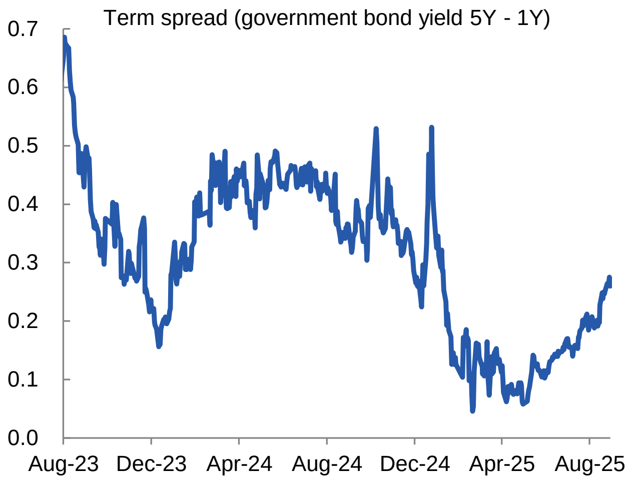


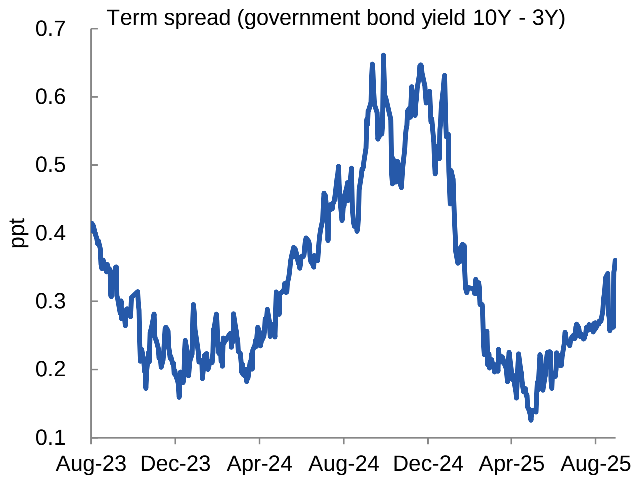
Fig 20 Long-end CGB yields saw a notable increase



Source: Wind, CEIC, Mizuho

Fig 21 CGB term spreads gapped wider at both the front and back parts





Source: CEIC, Mizuho

Credit monitor

Fig 22 IG Corporate bond yields declined in general last week

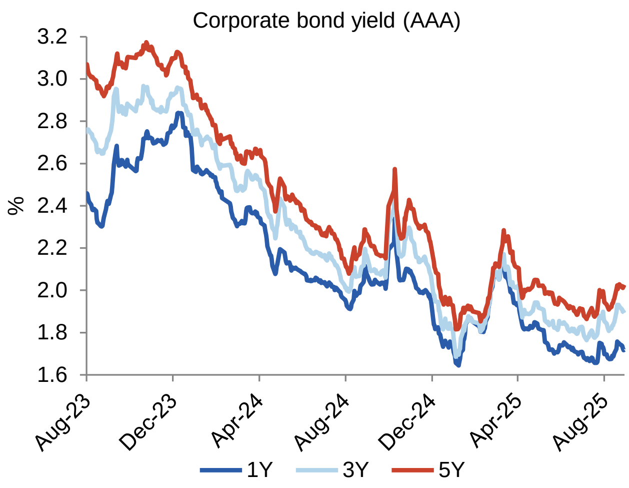
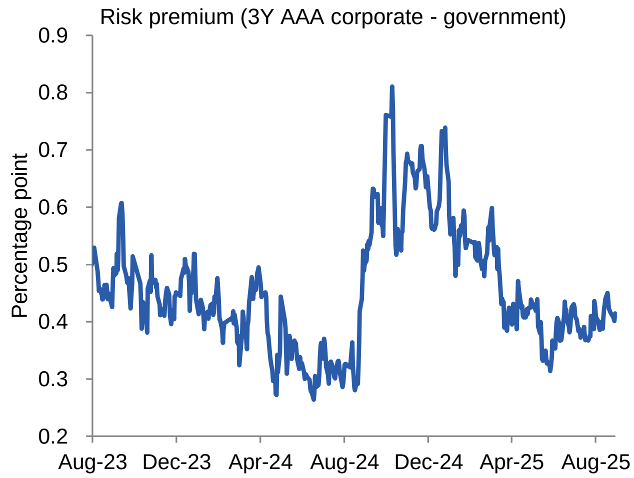


Fig 23 IG corporate risk premium continued its range-bounding



Source: Wind, Mizuho

Fig 24 HY Corporate bond yields continued to edge lower

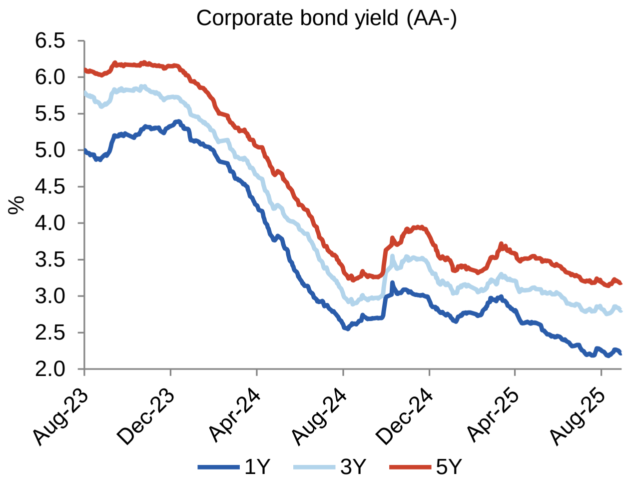
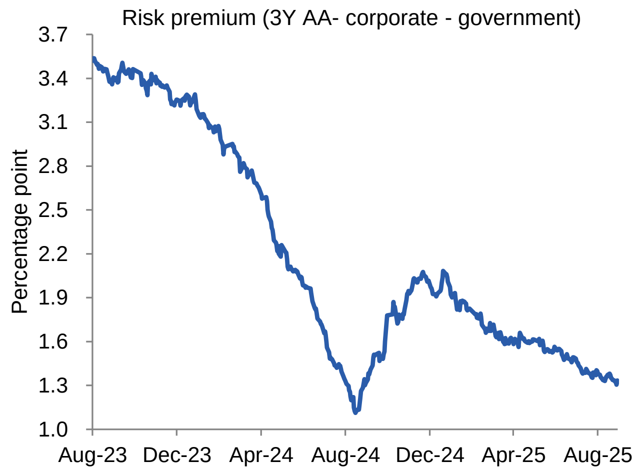
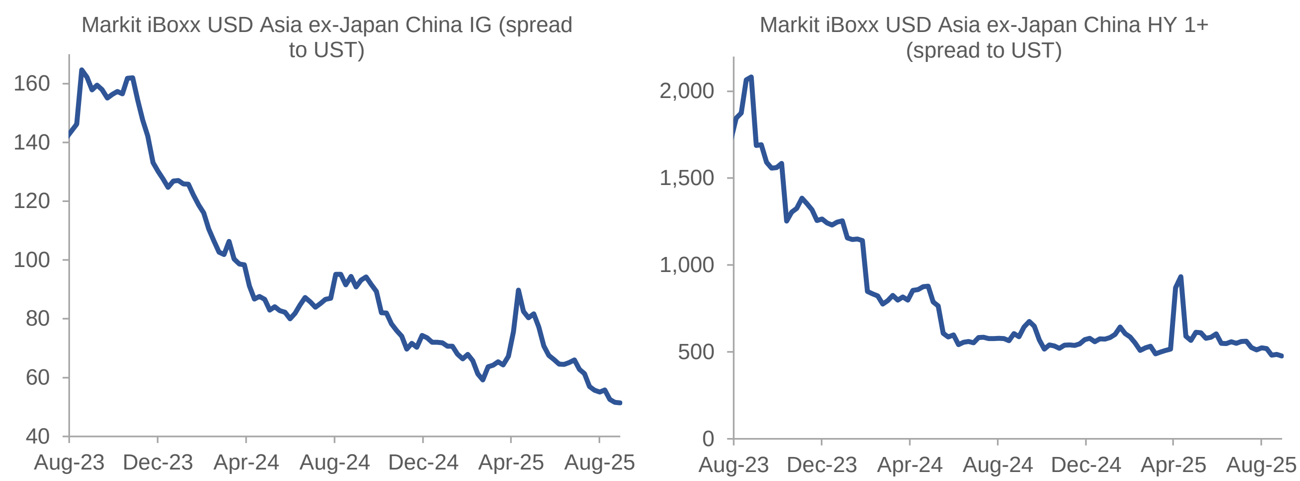


Fig 25 HY corporate risk premium tightened further



Source: Wind, Mizuho

Fig 26 China USD credit spreads remained firm last week following Powell's dovish comments and mixed tech earnings



Source: IHS Markit, Mizuho

FX monitor

Fig 27 RMB fixing rate: PBoC intervention reinstated in Jul

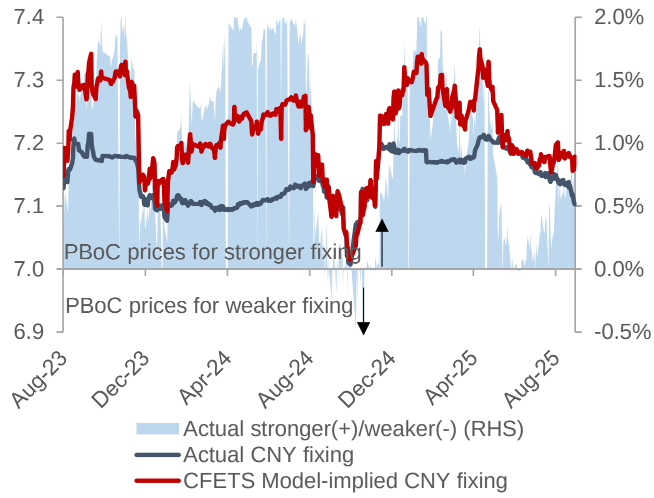
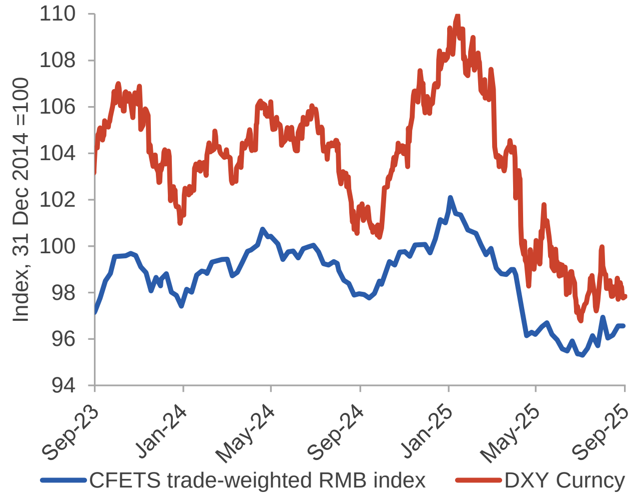
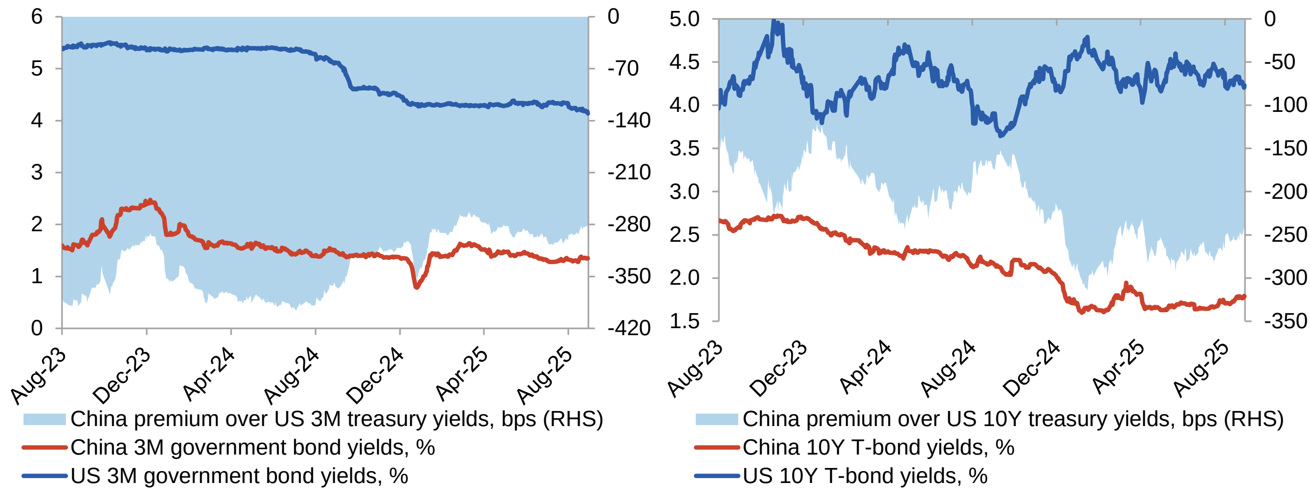


Fig 28 RMB trade-weighted index strengthened further



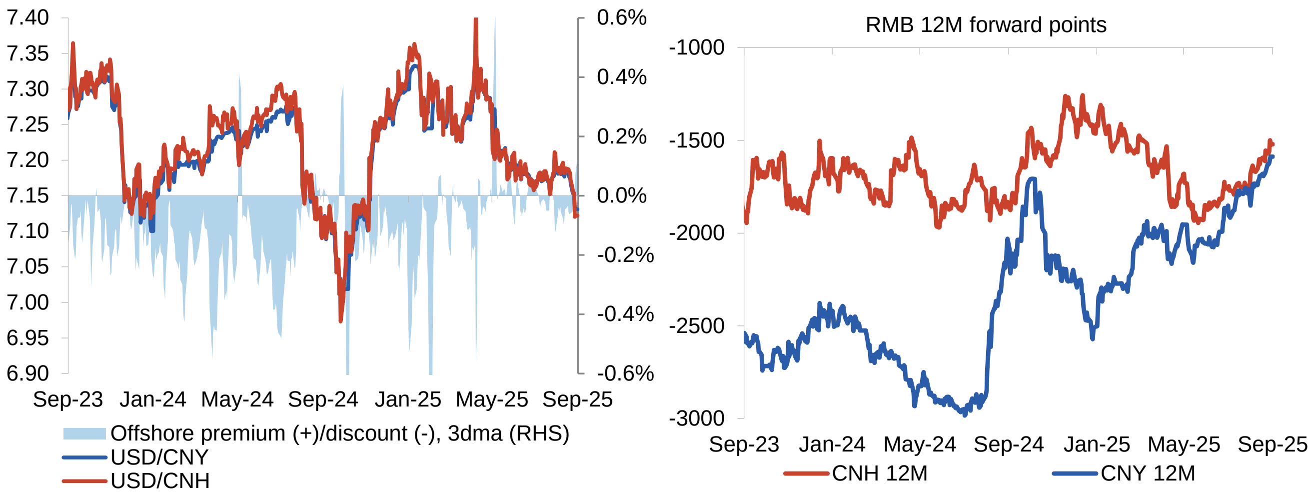
Source: CEIC, Bloomberg, Mizuho

Fig 29 China-US interest rate spreads tightened further at both the front and back end



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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